CHAPTER 5

Encouraging Strategic Thinking

I insist on a lot of time being spent, almost every day,
to just sit and think.

—*Warren Buffett*

Leadership is not just about doing things,
it is also about thinking. Make time for it.

—*Freek Vermeulen*

WHAT IS STRATEGIC THINKING?

This question is puzzling to most, if not all, healthcare executives and even strategic planning professionals. This question has been addressed most frequently and successfully outside the context of healthcare, but the hypotheses and definitions proposed in response are nonetheless relevant to healthcare executives. This chapter presents a review of writings on the topic, many of them from the late twentieth century, when the roles of strategic planning and strategic thinking were being hotly debated. These early insights may be useful for healthcare leaders seeking to clarify—or refresh—their approach to the topic. Henry Mintzberg (1994, 107), in his devastating landmark critique of strategic planning, says, "Strategic planning isn't strategic thinking. One is analysis and the other is synthesis . . . [strategic thinking] involves intuition and creativity. The outcome of strategic thinking is an integrated perspective of the enterprise, a not-too precisely articulated vision of direction."

Bob Garratt (1995, 8) argues that

> strategic thinking is essentially a process . . . to see, hear and use ingeniously the . . . signals which can give competitive advantage. It requires the ability to create a 'holistic' view of the interconnections between apparently contradictory trends in [the] environment and reframe the current mindsets which you and your competitors hold.

Garratt (1995, 2) further asserts that "'strategic thinking' is the process by which an organization's direction-givers can rise above the daily managerial processes and crises to gain different perspectives of the internal and external dynamics causing change in their environment and thereby give more effective direction to their organization."

Other writers have also contributed to the thinking on the topic. Michael E. Porter (1987, 18) notes that "strategic thinking rarely occurs spontaneously. Without formal planning systems, day-to-day concerns prevail. The future is forgotten. Formal planning provides the discipline to pause occasionally to think about strategic issues." Phil Hanford (1995) adds that "'strategic thinking' in essence amounts to a richer and more creative way of thinking about and managing key issues and opportunities facing your organization. Strategic thinking underscores both the formulation and implementation of your organization's effective strategy."

While executives and board members may have a thorough understanding of and strong skills in operational thinking, Hanford argues that strong strategic thinking skills are essential (see exhibit 5.1), but little has been done to develop these skills. Richard Rumelt (2011, 2) comments that "the core of strategy work is always the same: discovering the critical factors in a situation and designing a way of coordinating and focusing actions to deal with those factors. A leader's most important responsibility is identifying the biggest challenges to forward progress and devising a coherent approach

Exhibit 5.1: Distinguishing Between Strategic and Operational Thinking

Strategic Thinking	Operational Thinking
• Longer term	• Immediate term
• Conceptual	• Concrete
• Reflective or learning	• Action or doing
• Identification of key issues and opportunities	• Resolution of existing performance problems
• Breaking new ground	• Routine and ongoing
• Effectiveness	• Efficiency
• "Hands off" approach	• "Hands on" approach
• "Helicopter" perspective	• "On the ground" perspective

Source: Hanford (1995) in Garratt (1995). Reproduced with permission of The McGraw-Hill Companies.

to overcoming them." Or, as Peter M. Ginter, W. Jack Duncan, and Linda E. Swayne (2018, 17) say it, "Strategic thinkers are always questioning: What are we doing now that we should stop doing? What are we not doing now, but should start doing? And what are we doing now that we should continue to do but perhaps in a fundamentally different way?"

Mintzberg's thoughts have application here as well. He concludes that if strategic planning is to become truly effective and provoke serious organizational change, it needs to move beyond "preservation and rearrangement of established categories . . . and invent new ones. Formal planning has promoted strategies that are extrapolated from the past or copied from others. Strategy making needs to function beyond the boxes, to encourage the informal learning that produces new perspectives and new combinations" (Mintzberg 1994, 109).

How does an organization break out of the box and insert creativity, intuition, a future orientation, new perspectives, and new categories into its process for and results of strategic planning? How can strategic planning rise to Mintzberg's challenge and be a catalyst for critical organizational change?

STRATEGIC THINKING VERSUS STRATEGIC PLANNING

Michel Robert (1998, 30) remarks that "the strategic thinking process can be described as the type of thinking that attempts to determine what an organization should look like in the future." Historically, strategic planning has been primarily concerned with how to get there; operations is all about "how." Robert (1998, 30) comments further: "Strategic thinking identifies the key factors that dictate the direction of an organization, and it is a process that the organization's management uses to set direction and articulate their vision."

Robert identifies four types of companies, as represented by the matrix in exhibit 5.2:

1. Companies in the upper-left quadrant exhibit strong strategic thinking and manage their operations well.
2. Companies in the upper-right quadrant have been successful through good operational management, but they cannot articulate where they are going.
3. Companies in the lower-left quadrant are excellent strategic thinkers, but they cannot implement their vision and generally are weak operationally.
4. Companies in the lower-right quadrant exhibit the worst of both dimensions and usually do not survive very long.

Robert suggests that strategic thinking skills are underdeveloped because most managers and board members have risen to the top ranks based on their skills in operations. In the course of their career development, these individuals did not naturally develop the strategic skills necessary to help lead their companies, and minimal training or support in those areas was provided to them.

Exhibit 5.2: The Strategic Thinking Matrix

		STRATEGY (What)	
		+	–
OPERATIONS (How)	+	EXPLICIT STRATEGIC VISION Operationally Competent	UNCERTAIN STRATEGIC VISION Operationally Competent
	–	EXPLICIT STRATEGIC VISION Operationally Incompetent	UNCERTAIN STRATEGIC VISION Operationally Incompetent

Source: Robert (1998). Reproduced with permission of The McGraw-Hill Companies.

THINKING DIFFERENTLY

Gary Hamel and C. K. Prahalad (1995) state that "to have a share in the future, a company must learn to think differently about three things: 1. the meaning of competitiveness, 2. the measuring of strategy, and 3. the meaning of organization. In many companies, strategic planning is essentially incremental tactical planning punctuated by heroic, and usually ill-conceived, investments. To avoid this situation, we need a concept of strategy that goes beyond form filling and blank check writing."

Hamel and Prahalad argue that strategic planning, as practiced in nearly all organizations, leads to incremental change at best, small gains in market share, and pursuit of modestly profitable niches. Strategic planning is far too focused on *what is*, rather than *what could be.* Deep debates or serious consideration of radical expansion of the boundaries of existing businesses rarely occur, and strategic planning fails to stretch far enough or question fundamental assumptions of the company and its senior staff. Given the rapid rate of change in most industries, strategic planning as described in the previous section is of marginal benefit. Hamel and Prahalad call for a more exploratory and less ritualistic planning process.

In a later publication, Hamel (1998) contends that there are five ways in which more insightful strategy might be brought forth:

1. Involve new voices in the conversation about strategy, including younger employees, new employees, and others outside the inner circle of senior leadership.
2. Create new conversations about strategy, involving diverse perspectives that cut across the usual organizational boundaries.
3. Ignite new passions among individuals involved in the change process that relate to their desires to grow professionally, share in the rewards of success, and play an instrumental role in creating a unique and exciting future.
4. Develop new perspectives about the company, its businesses, its competitors, and its customers that encourage new opportunities to emerge.
5. Encourage new experiments, particularly small-scale forays into new markets and businesses, to gain insights and learning about what strategies might work and which will not.

Above all, Hamel (1998, 8) believes that senior staff must spend less time developing the perfect strategy and more time creating the conditions that could lead to strategy innovation: "In a discontinuous world, strategy innovation is the key to wealth creation. Strategy innovation is the capacity to reconceive the existing industry model in ways that create new value for customers, wrongfoot competitors, and produce new wealth for shareholders." The companies that have grown most successfully in the twenty-first century have either invented new industries (e.g., Google) or dramatically reinvented existing ones (e.g., Amazon). Their strategy is nonlinear.

In an earlier article, Hamel (1996) characterizes linear strategy as ritualistic, reductionist, extrapolative, positioning, elitist, and easy. In exceptional (and unusual) companies, the strategy is inquisitive, expansive, prescient, inventive, inclusive, and demanding. Hamel suggests that strategy making must become subversive and lead to revolution, not evolution, if it is to be an effective mechanism for leading change.

Eric Beinhocker and Sarah Kaplan (2002) make a similar attack on conventional strategic planning and call for new ways to reinvigorate strategic planning through improved strategic thinking processes. In an article whose title, "Tired of Strategic Planning," resonates with many senior executives, they note that "many CEOs complain that their strategic-planning process yields few new ideas and is often fraught with politics" (Beinhocker and Kaplan 2002, 1). They assert that, consistent with Hamel's (1996) observations, a new process to make strategy is required. This process should have two primary goals:

1. *To build prepared minds.* If senior leaders gain a strong understanding of the business, the current and possible future environment, and the rationale for the organizational direction agreed on through the strategic planning process, they are more likely to be able to respond swiftly and effectively to challenges and opportunities that emerge.
2. *To build creative minds.* Beinhocker and Kaplan (2002) agree with Hamel (1996) that strategic experimentation is appropriate and allows for controlled testing of potential future opportunities. They also agree that many of the issues that companies face today are best addressed in multidisciplinary, crosscutting forums that demand new voices, discussions, and perspectives.

Two other articles provide concrete, practical advice on how to insert strategic thinking into the management routines of an organization. Freek Vermeulen (2015) recognizes five big questions that organizational leaders need to ask regularly:

1. *What does not fit?* Are there business units that are peripheral and don't add (or even may detract from) significant value to the organization?
2. *What would an outsider do?* If new external people were in charge, would they jettison legacy products, projects, or beliefs?
3. *Is my organization consistent with my strategy?* Is the company structured to execute the strategy effectively?
4. *Do I understand why we do it this way?* Are practices, habits, operations, processes, and systems appropriate for successful strategy execution?
5. *What might be the long-term consequences?* Have we evaluated the possible substantive effects of this strategy in the long run?

Michael Birshan and Jayanti Kar (2012) suggest a few other basic devices to become more strategic. With the pace of change accelerating in all industries, being on the lookout for potential disrupters must become a regular part of strategic leadership. Technology and new competitors are the most frequent and obvious sources of disruption. Good strategic thinking involves developing an early warning system to identify emerging disruptors. In terms of translating strategic insights into effective action, time spent devising innovative ways to communicate strategy—ways that will break through the postmillennial information glut—is critical.

NEW APPROACHES TO PROMOTING STRATEGIC THINKING

Businesses outside healthcare are years ahead of the healthcare sector in promoting strategic thinking in their organizations. Many companies use the following approaches:

- Contingency planning to address a single uncertainty in a given situation
- Sensitivity analysis to examine the effect of a change in one variable while all other variables remain constant
- Simulation to analyze the effects of simultaneous change in multiple variables

Scenario Planning

Healthcare increasingly employs an even more robust approach: scenario planning. In contrast with contingency planning and sensitivity analysis, scenario planning allows for multiple changes in variables, incorporating both objective analysis (which characterizes simulation) and subjective considerations (which are commonly found in two narrower approaches, contingency planning and sensitivity analysis).

According to Paul J. H. Schoemaker (1995, 27), "Scenario planning attempts to capture the richness and range of possibilities, stimulating decision makers to consider changes they would otherwise ignore. At the same time, it organizes those possibilities into narratives that are easier to grasp and use than great volumes of data." Schoemaker indicates that scenario planning is particularly beneficial for organizations facing the following conditions:

- Uncertainty is high relative to managers' ability to predict or adjust.
- Many costly surprises have occurred in the past.
- The company does not perceive or generate new opportunities.
- The quality of strategic thinking is low (i.e., too routine, too bureaucratic).
- The industry has experienced significant change or is about to.

- The company wants a common language and framework that doesn't stifle diverse thinking.
- There are strong differences of opinion, with multiple opinions having merit.
- The company's competitors are using scenario planning.

Schoemaker observes that because scenarios are designed to construct possible futures, but not specific strategies for dealing with them, some organizations find it beneficial to involve outsiders, such as major customers, key suppliers, regulators, consultants, and academics, in the scenario development process. The objective is "to build a shared framework for strategic thinking that encourages diversity and sharper perceptions about external changes and opportunities" (Schoemaker 1995, 28). Moreover, Schoemaker believes that good scenarios meet four tests: they are relevant, internally consistent, long-term in perspective, and describe clearly different futures.

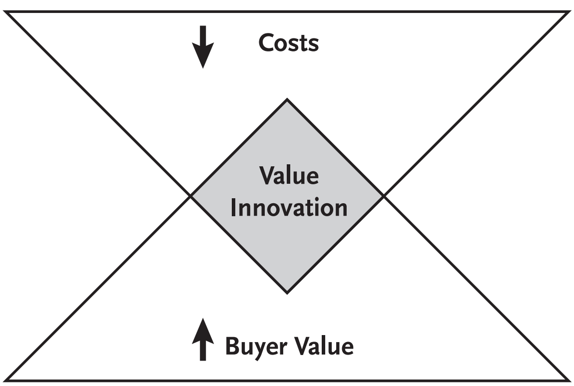
Decision Analysis and Game Theory

Marion C. Jennings, Scott B. Clay, and Erin P. Carr (2000) advocate decision analysis and game theory as two additional techniques that have been used in business for many years to address future uncertainties creatively. While scenario planning is an excellent approach to addressing a large number of uncertainties, decision analysis works well when a limited number of possible alternatives exist. Game theory allows understanding of interdependencies among affected parties as a result of strategic initiatives, especially the reactions of competitors, strategic alliance partners, customers, and suppliers. These approaches are appropriate in many situations routinely encountered in strategic analysis and should become basic tools in the near future.

Blue Ocean Strategy

W. Chan Kim and Renée Mauborgne's (2005) research led to the coining of the term *blue ocean strategy* to describe the creation of uncontested market space. They argue that most companies pursue incremental improvements by attempting to outcompete their competitors and, in a zero-sum game, increase their share of a crowded market. The more successful approach is to expand the boundaries of their market or invent entirely new market space (the blue ocean). These innovators do not use the competition as a reference point, but instead follow a different strategic logic they term *value innovation.* Value innovation, which defies the conventional competitive paradigm of having to choose between differentiation and cost, combines these two options to find new and uncontested market space (see exhibits 5.3 and 5.4). Value innovation is created in the market space where a company's actions favorably affect both its cost structure and its value proposition to buyers. Cost savings are realized by eliminating

Exhibit 5.3: Value Innovation: The Cornerstone of Blue Ocean Strategy



Source: Kim and Mauborgne (2005).

or reducing the factors on which an industry competes. Buyer value is lifted by raising or creating elements that the industry has never offered. Over time, costs are reduced further as scale economies kick in because of the high sales volumes that superior value generates.

This new space creates opportunities for rapid and profitable growth, unlike the *red ocean*, in which nearly all companies operate and compete. Kim and Mauborgne cite many examples of companies applying this kind of strategic thinking to the problem of crowded markets—Uber is one example.

Kim and Mauborgne advise that blue ocean strategy contrasts with traditional strategic planning in the following ways:

- It draws on collective wisdom, unlike top-down or bottom-up planning.
- It focuses on building the big picture more than on number crunching.
- It should be conversational rather than documentation driven.
- It must be creative, rather than largely analytical.
- It should be motivational (resulting in "willing commitment"), instead of bargaining driven (resulting in "negotiated commitment").

Exhibit 5.4: Red Ocean Versus Blue Ocean Strategy

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value–cost trade-off.	Break the value–cost trade-off.
Align the whole system of a firm's activities with its strategic choice of differentiation or low cost.	Align the whole system of a firm's activities in pursuit of differentiation and low cost.

Source: Kim and Mauborgne (2005).

The bottom line, in their view, is to focus on how to break away from the competition and create blue ocean space, then layer on the details of how to implement the strategy.

CONCLUSION

The material presented in this chapter presents new approaches and behaviors, as well as some long-standing techniques, to enhance strategic planning in healthcare organizations. It should be considered for adoption, especially given the increasing rate and pace of change in the field. In conclusion, this comment from the CEO of a large, global bank captures the essence of the shift in perspective expressed in this chapter: "It is very easy for someone in my position to be very busy all the time. There is always another meeting you really have to attend, and you can fly somewhere else pretty much every other day. However, I feel that that is not what I am paid to do. It is my job to carefully think about our strategy" (Vermeulen 2015, 1).

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