

Strategic Thinking

A Discussion Paper

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Table of Contents

¹ The views expressed in this document are those of the author and do not necessarily reflect those of the Public Service Commission of Canada

1. Executive Summary
2. What is Strategic Thinking?
3. The Liedtka Model of the Elements of Strategic Thinking
4. Is Strategic Thinking Compatible With Strategic Planning?
5. Conclusion
6. References

“Without achieving the kind of detailed understanding of strategic thinking that we have today of strategic planning, we risk introducing yet another appealing concept to the strategy lexicon that has little relevance to practising managers”
(Liedtka, 1998).

Executive Summary

The purpose of this paper is to clarify some of the salient issues surrounding the concept of strategic thinking. For example, what is strategic thinking? How do we recognize it? Is it different from strategic planning? If so, is it a replacement for strategic planning? Can strategic thinking and strategic planning be accommodated within the same strategic management regime?

Current research suggests that strategic planning and strategic thinking are different sides of the same coin and each one on its own is necessary, but not sufficient for an efficient strategic management framework. Therefore, strategic thinking and planning must work hand-in-hand in order to reap maximum benefit.

What is Strategic Thinking?

There is a lack of clear understanding of just what is meant by the term strategic thinking and this, in turn, has led to considerable confusion in the strategic management arena. Thus there exists a clear need to precisely define strategic thinking so that this management paradigm can be objectively embraced and appropriately situated within the strategic management context (Liedtka, 1998).

Some authors, Ian Wilson (1994) for one, have suggested that strategic thinking is merely *thinking about* strategy. According to him, “The need for strategic thinking has never been greater . . . This means continuing improvement (in strategic planning) has profoundly changed the character of strategic planning so that it is now more appropriate to refer to it as strategic management or strategic thinking.” This attempt to define strategic thinking as some kind of new and improved version of strategic planning leads to considerable confusion in attempting to elucidate the full implications of strategic thinking in its purest sense.

Henry Mintzberg (1994), one of the leading authorities in the area of strategic management, by contrast, clearly emphasizes that strategic thinking is not merely “alternative nomenclature for everything falling under the umbrella of strategic management”. It is a particular way of thinking with specific and clearly discernible characteristics. In explaining the difference between strategic planning and strategic thinking, Mintzberg argues that strategic planning is the systematic programming of pre-identified strategies from which an action plan is developed. Strategic thinking, on the other hand, is a synthesizing process utilizing intuition and creativity whose outcome is “an integrated perspective of the enterprise.” The problem, as he sees it, is that traditional planning approaches tend to undermine, rather than appropriately

integrate, strategic thinking and this tends to impair successful organizational adaptation.

These sentiments are echoed by two other leading theorists in the field, Prahalad and Hamel (1989), who describe traditional approaches to planning as “form filling.” They refer to strategic thinking as “crafting strategic architecture” but emphasize Mintzberg’s general themes of creativity, exploration, and understanding discontinuities.

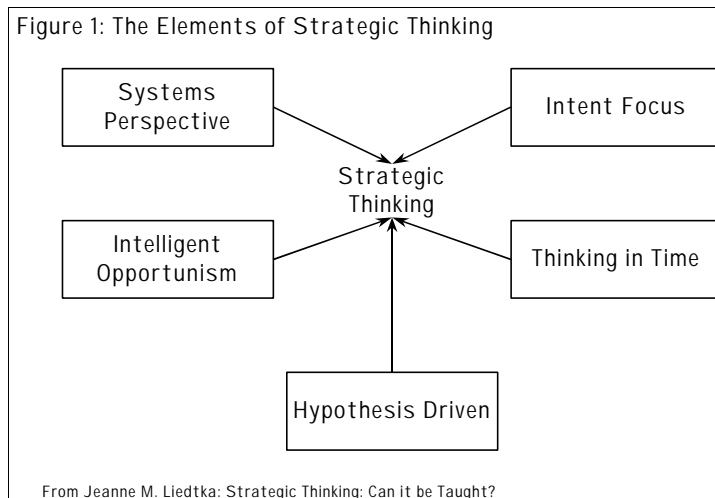
For Ralph Stacey (1992), strategic thinking is “. . . using analogies and qualitative similarities to develop creative new ideas . . . (and) designing actions on the basis of new learning.” This differs from strategic planning which focuses on following pre-programmed rules. Raimond (1996) follows a similar line of reasoning by dividing strategic thinking into two modes: “strategy as intelligent machine” (a data-driven, information processing approach) and “strategy as creative imagination.” The former would be what we would generally consider strategic planning, while the latter would be strategic thinking. This dichotomy between the creative versus the analytic is pervasive in the discussions on the subject of strategic thinking and strategic planning.

In general then, it can be argued that strategic thinking involves thinking and acting within a certain set of assumptions and potential action alternatives as well as challenging existing assumptions and action alternatives, potentially leading to new and more appropriate ones.

The Liedtka Model of the Elements of Strategic Thinking

Following the Mintzberg model, Liedtka (1998) developed a model which defines strategic thinking as a particular way of thinking, with very specific and clearly identifiable characteristics. Figure 1 illustrates the five elements of strategic thinking.

The first element is a **systems perspective**. A strategic thinker has a mental model of the complete system of value creation from beginning to end, and understands the interdependencies within the chain. Peter Senge (1990) also stresses the significance of mental models in influencing our behaviour. According to him:



New insights fail to get put into practice because they conflict with deeply held internal images of how the world works, images that limit us to familiar ways of thinking and acting. That is why the discipline of managing mental models - surfacing, testing, and improving our internal pictures of how the world works - promises to be a major breakthrough . . .

The mental model of how the world works must incorporate an understanding of both the external and internal context of the organization. According to James Moore (1993) these mental models must lead to the perception of a business in a context larger than that of the industry in order to facilitate innovation. As he puts it:

I suggest that a company be viewed not as a member of a single industry but as part of a *business ecosystem* that crosses a variety of industries. In a business ecosystem, companies co-evolve capabilities around a new innovation: they work co-operatively and competitively to support new products, satisfy customer needs, and eventually incorporate the next round of innovations.

Thus the ability to manage in these converging arenas requires that we think strategically about the alliances we make within these competing networks and how we position ourselves within this ecosystem.

In addition to understanding the external business ecosystem in which a firm operates, strategic thinkers must also appreciate the inter-relationships among the individual internal parts that, together, constitute the whole, as well as the fact that the whole is greater than the sum of its parts.

Senge (1990) uses the term *systems thinking* to describe the same phenomenon, and suggests that it is arguably the most critical of the five disciplines of the learning organization. He advocates that systems thinking is what makes all other types of learning work in harmony and points out that a fundamental problem for business organizations is the failure to see problems as elements of systems failures because "*most of an organization's problems are not unique errors but systems issues.*"

The systems perspective enables individuals to clarify their role within the larger system and the impact of their behaviour on other parts of the system, as well as on the final outcome. This approach addresses, therefore, not only the fit between the corporate, business, and functional levels of strategy, but very importantly, the person level. According to Liedtka (1998):

It is impossible to optimize the outcome of the system for the end customer, without such understanding. The potential for damage wrought by well-intentioned but parochial managers optimizing their part of the system at the expense of the whole is substantial.

Thus, from a vertical perspective, strategic thinkers see the linkages in the system from multiple perspectives and understand the relationship among the corporate,

business, and functional levels of strategies to the external context, as well as to the personal daily choices they make. From a horizontal perspective, they also understand the connections across departments and functions, and between suppliers and buyers.

The second element of strategic thinking is that it is ***intent-focussed*** and intent-driven. Hamel and Prahalad (1994):

Strategic intent is our term (that) implies a particular point of view about the long-term market or competitive position that a firm hopes to build over the coming decade or so. Hence, it conveys a *sense of direction*. A strategic intent is differentiated; it implies a competitively unique point of view about the future. It holds out to employees the promise of exploring new competitive territory. Hence, it conveys a *sense of discovery*. Strategic intent has an emotional edge to it; it is a goal that employees perceive as inherently worthwhile. Hence, it implies a *sense of destiny*. Direction, discovery, and destiny. These are the attributes of strategic intent.

Liedtka (1998) puts it this way:

Strategic intent provides the focus that allows individuals within an organization to marshal and leverage their energy, to focus attention, to resist distraction, and to concentrate for as long as it takes to achieve a goal. In the disorienting swirl of change, such psychic energy may well be the most scarce resource an organization has, and only those who utilize it will succeed.

Therefore, strategic thinking is fundamentally concerned with, and driven by, the continuous shaping and re-shaping of intent.

The third element of strategic thinking is ***intelligent opportunism***. The essence of this notion is the idea of openness to new experience which allows one to take advantage of alternative strategies that may emerge as more relevant to a rapidly changing business environment. Mintzberg (1999) sees this approach as underscoring the difference between *emergent strategy* and *deliberate strategy*.

In practising intelligent opportunism, it is important that organizations seriously consider the input from lower level employees or more innovative employees who may be instrumental in embracing or identifying alternative strategies that may be more appropriate for the environment. For example, Intel's predominant role in the microprocessor industry was largely the result of a renegade band of scientists acting in defiance of senior management's stated strategic objectives. Given this, one can well imagine the loss to industry if the focus is only on rigidly defined and mandated top-down strategies to the exclusion of other emerging strategies and voices of dissent!

According to Hamel (1997):

If you want to create a point of view about the future, if you want to create a meaningful strategy, you have to create in your company a hierarchy of imagination. And that means giving a disproportionate share of voice to the people who have until now been disenfranchised from the strategy making process. It means giving a disproportionate share of voice to the young people . . . (and) . . . to the geographic periphery of your organization - because, typically, the farther away you are from headquarters, the more creative people are: they don't have the dead hand of bureaucracy and orthodoxy on them. And it means giving a disproportionate share of voice to newcomers.

As well, Mintzberg (1999) feels it is very hard for a CEO or prospective CEO to say to a board, "Well, we are evolving our strategy. It's emerging." The board wants the strategy to be "nice and clear" as do the stock-market analysts, who are part of the same problem. But "nice and clear" often means:

You've precluded 99 percent of the people in the organization from having an impact on strategy. . . And so a healthy strategy system in any company is one in which there's a tremendous amount of communication and interaction around ideas and possibilities - from the ground, from middle management, from senior management - weaving back and forth, in and out.

The fourth element of strategic thinking is referred to as ***thinking in time***. According to Hamel and Prahalad (1994), strategy is not solely driven by the future, but by the gap between the current reality and the intent for the future. According to them:

Strategic intent implies a sizeable stretch for an organization. Current capabilities and resources will not suffice. This forces the organization to be more inventive, to make the most of limited resources. Whereas the traditional view of strategy focuses on the degree of fit between existing resources and current opportunities, strategic intent creates an extreme misfit between resources and ambitions.

Thus, by connecting the past with the present and linking this to the future, strategic thinking is always "thinking in time."

Neustadt (1986) states that:

Thinking in time (has) three components. One is recognition that the future has no place to come from but the past, hence the past has predictive value. Another is recognition that what matters for the

future in the present is departures from the past, alterations, changes, which prospectively or actually divert familiar flows from accustomed channels . . . A third component is continuous comparison, an almost constant oscillation from the present to future to past and back, heedful of prospective change, concerned to expedite, limit, guide, counter, or accept it as the fruits of such comparison suggest.

In a nutshell, strategic thinking connects the past, present, and future and in this way uses both an institution's memory and its broad historical context as critical inputs into the creation of its future. This oscillation between the past, present, and future is essential for both strategy formulation and execution. Charles Handy (1994) feels we need both a sense of continuity with our past and a sense of direction for our future to maintain a feeling of control in the midst of change. From his perspective then, the real question is not what does the future we are trying to create look like, rather it is "having seen the future that we want to create, what must we keep from that past, lose from the past, and create in our present, to get there."

The fifth element of the strategic thinking recognizes the process as one that is ***hypothesis-driven***. Like the "scientific method" it embraces hypothesis generation and testing as core activities. According to Liedtka (1998) this approach is somewhat foreign to most managers:

Yet in an environment of ever-increasing information availability and decreasing time to think, the ability to develop good hypotheses and test them efficiently is critical . . . the ability to work well with hypotheses is the core competence of the best strategy consulting firms.

Because strategic thinking is hypothesis-driven, it circumvents the analytical-intuitive dichotomy that has dominated much of the debate on the value of formal planning. Strategic thinking is both creative and critical, although accomplishing both types of thinking simultaneously is difficult, because of the requirement to suspend critical judgement in order to think more creatively.

Nonetheless, the scientific method is able to accommodate both creative and analytical thinking sequentially through its use of iterative cycles of hypothesis generating and testing. Hypothesis generation poses the creative question, "What if . . .?" Hypothesis testing follows up with the critical question, "If . . . then." and evaluates the data relevant to the analysis. Taken together and repeated longitudinally this process allows an organization to pose a variety of hypotheses, without sacrificing the ability to explore novel ideas and approaches. The effect is an organization that can transcend simplistic notions of cause and effect and pursue life-long learning.

Liedtka (1998) states that, "Taken together, these five elements describe a strategic thinker with a broad field view that sees the whole and the connections between its pieces, both across the four vertical levels of strategy and the horizontal elements of the end-to-end value system."

In summary, Leidtka (1998) states:

The strategic thinker remains ever open to emerging opportunities, both in service to the defined intent and also in question as to the continuing appropriateness of that intent . . . Firms who succeed at embedding a capability for strategic thinking throughout their organizations will have created a new source of competitive advantage. Their whole (holistic) system perspective should allow them to redesign their processes for greater efficiency and effectiveness. Their intent-focus will make them more determined and less distracted than their rivals. Their ability to think in time will improve the quality of their decision-making and speed of implementation. A capacity for hypothesis generation and testing will incorporate both creative and critical thinking into their processes. Intelligent opportunism will make them more responsive to local opportunities.

The combined effects of these is the creation of a capacity for strategic thinking that meets what Day (1994) refers to as the three fundamental tests for a strategically valuable capability:

1. they create superior value for customers,
2. they are hard for competitors to imitate, and
3. they make the organization more adaptable to change.

Liedtka (1998) suggests that these three discrete, but inter-related elements, when taken together can lead to significant positive outcomes in organizations, provided there is the accompanying supportive strategic planning context to encourage and enable the implementation of the fruits of this type of thinking.

Is Strategic Thinking Compatible With Strategic Planning?

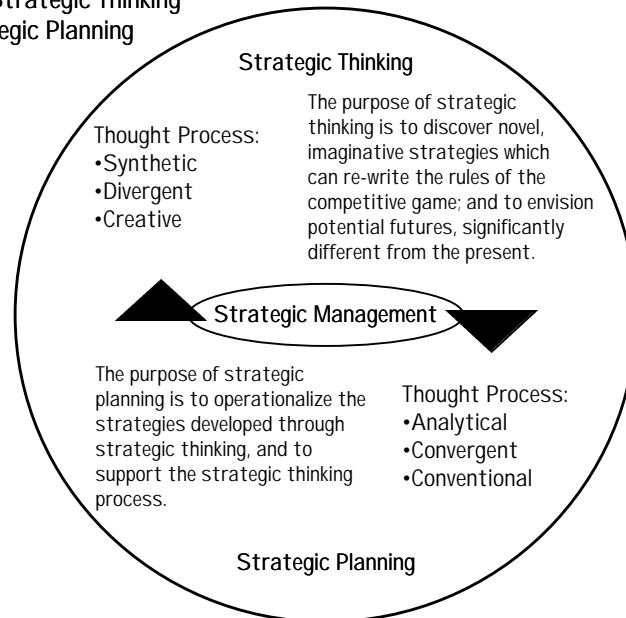
“It all comes down to the ability to go up and down the ladder of abstraction, and being able to see both the big picture and the operational implications, which are signs of outstanding leaders and strategists” (Heracleos, 1998)

Traditional notions of strategic planning have come under severe attack by many in the business community. Strategic planning often takes an already agreed upon strategic direction and helps strategists decide how the organization is to be

configured and resources allocated to realize that direction. Because of this, one of the most common critiques of strategic planning is that it is overly concerned with extrapolation of the present and the past as opposed to focussing on how to reinvent the future

(also referred to as “strategic intent” or “strategy as revolution” (Hamel and Prahalad, 1994). Fahey and Prusak (1998) for example, have identified this predisposition to focus on the past and the present rather than on the future as

Figure 2: Strategic Thinking and Strategic Planning



Loizos Heracleous: Strategic Thinking or Strategic Planning

one of the eleven deadliest sins of knowledge management. Also by being too over-focussed on analysis and extrapolation rather than creativity and invention, strategic planning tends to create the illusion of certainty in a world where certainty is anything but guaranteed. Strategic planning is normally used to denote a programmatic, analytical thought process carried out within the parameters of what is to be achieved, but does not explicitly question those parameters, and is therefore, analogous to *single-loop learning*.

Strategic thinking, by contrast, refers to a creative, divergent thought process. It is a mode of strategy-making which is associated with re-inventing of the future, the creation of new competitive space as opposed to struggling over slow growth or shrinking markets, for example. A significant deviation from strategic planning, strategic thinking questions the strategic parameters themselves, and thus is analogous to *double-loop learning*. The elements of each strategic approach are summarized in Figure 2. According to Heracleos (1998):

Discovering and committing to novel strategies which can re-write the rules of the competitive arena, necessitates relaxing or suspending at least part of the conventional wisdom and assumptions about the industry, the industry recipes, as well as one’s psychological frames in which these recipes are represented, envisioning a number of possible futures, and challenging the existing operating assumptions in which current strategies are built.

This sharp dichotomy frequently established between the analytic aspects of strategy-making (strategic planning) and the creative aspects (strategic thinking) in the

literature leaves one with the impression that these two strategy-making approaches are incompatible with each other. However, to many of the leading theorists and practitioners, both are required in any thoughtful strategy-making process. For example, in as much as thinking about the future may be important, there can be little doubt that processes have to be put in place to enable managers to attend to strategic issues amidst the day-to-day crises. Therefore, we cannot merely abandon all attention to the process of strategy formulation. After all, the creative, ground-breaking strategies emerging from strategic thinking still have to be operationalized through convergent and analytical thought (strategic planning). At the same time, planning is vital but cannot, by itself, produce unique strategies that will challenge the industrial boundaries and redefine industries, unless it stimulates the creative mind set in the process, as is the case of using alternative scenarios for the future.

Thus, the essential point here is that strategic thinking and strategic planning are both necessary and none is adequate without the other, in an effective strategy-making regime. The real challenge is how to transform today's planning process in a way that incorporates, rather than undermines, strategy thinking.

According to Heracleos (1998):

. . . strategic thinking and strategic planning are interrelated in a dialectical process, where both are necessary for effective strategic management, and each on its own is necessary but not sufficient. The tools that one uses at each stage of the strategic management process are not important in themselves but as the means of encouraging the creative and analytical mind set. There ideally needs to be a dialectical thought process of being able to diverge and then converge, being creative and then seeing the real-world implications, and being synthetic but also analytical.

Leidtka (1998) strongly supports this position and uses a model (shown in Figure 3) based on the disruption and creation of alignment to illustrate her point. According to her:

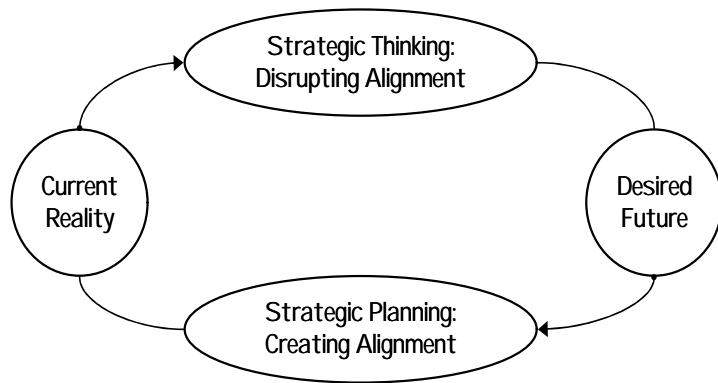
A broadened view of the strategy-making process then, would incorporate both strategic thinking and strategic programming as related activities, each valuable in its own right in an ongoing process of creating and disrupting the alignment between an organization's present and its future.

In addition, Leidtka (1998) suggests that alignment, in this view, is both necessary and limiting. She points out that both academics and practitioners have embraced the McKinsey "7S Model" that aligns strategy, structure, systems, superordinate goals, staff, skills, and shared values, because it is well-recognized that purposeful, efficient organizational action cannot be taken if these factors work at cross-purposes with each other. Ironically, however, once aligned, these factors become a powerful impediment to change. If we then accept the growing warning that the "only sustainable source of competitive advantage is the ability to learn faster than your competition" the desire to develop a capacity for learning, for continuous

change, for flexibility and opportunism, begins to collide head-on with our desire to align the 7S's. The dilemma is that unaligned, these factors work at cross-purposes; aligned they drive out potentially needed change.

Therefore, according to Liedtka, an appropriately reconstituted strategy-making framework would build in the possibility of institutionalizing a process that continually examines the tension between the creation of the alignment necessary to support efficiency and effectiveness and the disruption of alignment necessary to foster change and adaptability. Strategic thinking, at its best, disrupts alignment by creating a gap in the minds of managers between today's reality and a more desirable future. This, in turn, opens the gap that is the driving force behind strategy-making aimed at change. Translating the strategic intent into new institutional behaviours, however, necessitates strategic programming (i.e., the realignment of structures, systems, processes, and skills around the new intent in a way that begins to close the gap that strategic thinking opened. Once closed, a new gap is opened in an iterative and ongoing cycle of strategic thinking and strategic programming. This broadened view of the strategy-making process is captured in Figure 3.

Figure 3: Strategic-Making as Creating and Disrupting Alignment



From Jeanne M. Liedtka: Linking Strategic Thinking with Strategic Planning

This notion is admirably summarized by Heracleos (1998):

It all comes down to the ability to go up and down the ladder of abstraction, and being able to see both the big picture and the operational implications, which are signs of outstanding leaders and strategists.

Conclusion

Strategic thinking has been gaining increasing popularity in the literature on organizational planning. However, the lack of clear articulation as to the nature and implications of this concept has led to considerable confusion. For example, strategic thinking has been presented as a somewhat higher order of strategic planning; as an alternative to strategic planning; and as an approach that is downright incompatible with strategic planning. Inadequate delineation of the precise characteristics of this concept has also impeded its implementation by practitioners and its further development by educators.

Careful review of the emerging body of thought on this subject, however, is that strategic thinking, properly defined, is not only critical to the survival of the organization in these times of rapid and accelerating change, but more importantly, can be effectively accommodated within a progressive strategy-making regime to support strategic planning. Therefore, what is being proposed in large measure in this paper is a dialectical framework within which strategic planning and strategic work in tandem, rather than one in which strategic planning impedes the flourishing of strategic thinking. Two different models have been presented to illustrate the feasibility of this proposition, with a view to assisting both the practising strategists as well as academics.

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