DISRUPTIVE STRATEGY WITH CLAY CHRISTENSEN:

# Managing the Strategy Development Process

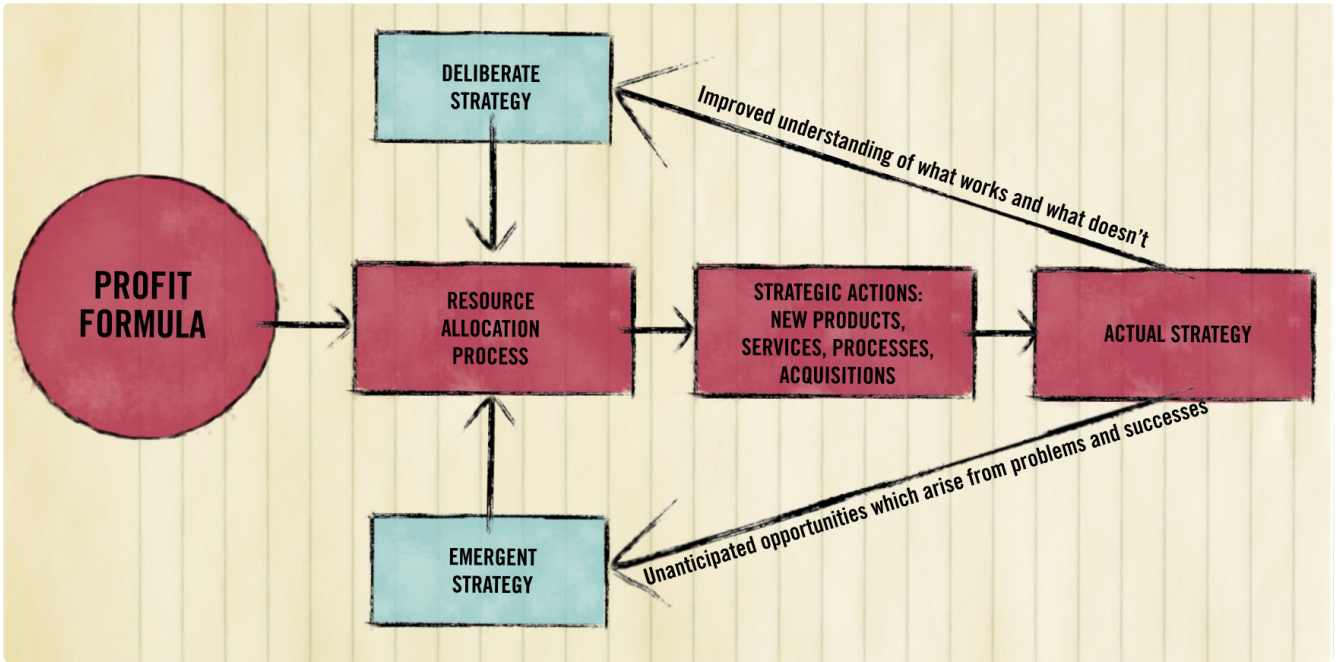
HBX

## KEY TAKEAWAYS

- There are two simultaneous but fundamentally different strategy development processes: deliberate strategy process and emergent strategy process
- It is the profit formula (not senior managers) that controls the resource allocation process. There are two main factors in most companies' profit formulas that dictate resource allocation
  - The company's cost structure determines the gross profit margin that it must earn to cover overhead costs and make a profit
  - The size threshold that new opportunities must meet in order to be considered interesting to the company
- There are three main phases of business growth and each phase requires a unique approach to strategy development
  - Market-creating Phase: When a profitable strategy is not yet known, an emergent strategy needs to be cultivated to allow the right ideas to surface
  - Sustaining Phase: Once a profitable strategy is clear it must become the deliberate strategy, because in those circumstances effective execution often spells the difference between success and failure
  - Efficiency Phase: The mainstream business must be allowed to thrive through a deliberate strategy while new waves of disruptive growth are discovered through an emergent strategy
- The type of funding a new initiative receives can greatly influence its success
  - In the nascent stages of a business "good" money will be patient to allow the company to find a profitable strategy
  - Once a winning strategy is discovered "good" money will push the company to grow quickly

## CASE STUDY

General Motors (GM) was widely known as the preeminent vehicle manufacturer by volume from the 1950's – 2000's. With revenues of approximately $200 billion, GM was continually searching for opportunities to grow. In the 1990's GM sees an opportunity to install a technology called OnStar into the car that allows them to develop an on-going relationship with car owners. OnStar CEO Chet Huber must delicately balance deliberate and emergent strategy processes to help a very innovative idea to thrive inside a large organization. Chet Huber wrestles with questions like, what should OnStar actually do for customers? What is the right distribution channel? Which new initiatives should be pursued and which should be left behind? How should the OnStar brand be built?



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| | **DEFINITION**<br>WHAT IT MEANS? | **SITUATION**<br>WHEN IS IT APPROPRIATE? | **STRATEGY EXECUTION**<br>HOW TO EXECUTE THE STRATEGY? |
|---|---|---|---|
| **DELIBERATE STRATEGY** | Conscious and thoughtful organized action. Generated from rigorous analysis of data on market growth, segment size, customer needs, competitors' strengths and weaknesses, and technology trajectories. Implemented "top-down" | A winning strategy has become clear, because in those circumstances effective execution often spells the difference between success and failure. | The strategy must make as much sense to all employees as they view the world from their own context as it does to top management, so that they will all act appropriately and consistently. |
| **EMERGENT STRATEGY** | Unplanned actions from initiatives that bubble up from within the organization. The product of spontaneous innovation and day-to-day prioritization and investment decisions made by middle managers, engineers, salespeople, and financial staff (decisions made by people who aren't typically in a visionary, futuristic, or strategic state of mind) | When the future is hard to read and it is not clear what the right strategy should be. This is typically during the early phases of a company's or product's life or when the competitive landscape is changing. | Ensure that employees are empowered to surface and elevate new ideas. |





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