

Do you need a Strategy Function?

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Nearly 44% of the 200 companies we analysed from BS1000 have a separate strategy function. Having a separate strategy function can be impactful, but when is it right to invest in one? In this first part of a two-part series, we explore how you should approach this issue.

Context

44% of the firms we analysed have a separate strategy function, while another 15% have embedded the responsibility for driving strategy within other functions (e.g., CFO). Larger the firm, more likely that there exists a separate strategy function. It is pertinent to note that 40% of the firms have not yet felt the need, or, have felt the need but not acted on it yet.

Our conversations with CEOs and Promoters indicate interest and doubts in equal measure, about how useful a strategy function could be and importantly, *when* to invest in a separate function. After all, our estimates show that a separate strategy function could add an incremental cost of 0.1-0.2% of turnover.

Why have a Strategy function?

Rapidly evolving technology, regulatory and business landscape have increased the demand for CEO and senior management attention, multi-fold. A firm has to constantly assess horizon 1 (next 1 year or immediate), horizon 2 (medium term or next 2-4 years) and horizon 3 (long term or years 5-10), to be able to successfully capture the opportunities and mitigate the risks that they come with.

At the same time, growth and competitive pressures have made firms larger and

internally more complex, increasing the attention required to manage the organization. Thus, overall, the bandwidth demanded from top management has increased significantly. No matter how capable the CEO or the Promoter is, it is unlikely that adequate attention is being paid to all the three horizons.

In our opinion, a separate strategy function adds two key benefits, as follows:

- Strategy function significantly *enhances the bandwidth* devoted to the three horizons and balances the way this bandwidth is used across the three horizons. A 2007 HBR study pointed out that CSOs typically devote 25% of their time on Horizon 1, 39% on Horizon 2 and 36% on Horizon 3
- Having a strategy is one thing, executing it successfully is another. The latter calls for a sustained focus and drive, a kind of strong *organizational glue* - strategy function is that glue

When to have a strategy function?

Not every firm needs a separate strategy function. The need is driven by size, aspiration around growth and profitability, rate of change of industry dynamics, the internal complexity and the bandwidth of CEO/CXO team.

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In our view, answers to the following questions could help assess the need:

Internal Performance

1. Is there a persistent and material gap in the market position vs competitors, or, relative to internal growth aspirations?
2. Is there a persistent and material gap in the cost structures vs the industry?
3. Has the internal organization become complex? Examples of flags could be: a) annual plans, after the initial few months, lose relevance; b) actions agreed upon in performance review meetings do not get the necessary follow through; c) any issue requiring inter-functional coordination fails
4. Are the internal decisions driven by intuition and personality, rather than by data-led insights and convergence of thoughts?

It could be useful to reflect and rate your organization on 1-5 on each question, with 5 for an intense and stubborn gap, and, 1 for very tolerable gap.

External Orientation

5. Has the organization been effective in scouting for and sealing partnerships, alliances and inorganic opportunities?
6. Has the organization been effective in scanning the external environment for key events, policy changes etc to incorporate robust and adequate changes to its plans and strategies?
7. Is there a cohesive, interlinked and shared plan for the next 1, 2-4 and 5-10 years?

As before, please rate each on 1-5 on gap.

About Resource Bridge

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