

Strategic Management Centre

Members Meeting

17th March 2022

Minutes of Meeting

In attendance

Paul Barratt	Babcock
Jiri Beca	D S Smith
Carl Bourne	Rolls Royce
Wouter de Klein	Shell
Gavin Jackson	Babcock
Florien Klein	Helvetia
Aditi Mitra	BP
Patrick Scherrer	Helvetia
Aly Tarek	LBS
Paul Titcomb	Atkins

From the Strategic Management Centre

Stephen Bungay
Rebecca Homkes

Rebecca Homkes: From Reset to Thrive – Leading High Growth through Uncertainty

Since the last introductory meeting on this topic Rebecca has continued to expand her client work on her **Survive Reset Thrive** (SRT) model, which she is currently turning into a book (published by Kogan Page in early 2023). The principles of the model have continued to be vindicated, but she has refined the methodologies and developed a set of tools and techniques which now form a coherent package. The main subject of this meeting was therefore the practical issue of how to embed the model in an organization, focusing on the Reset and Thrive steps.

Rebecca began by giving a short recap of the principles.

The business environment remains highly uncertain, and uncertainty continues to be framed by most people as something negative. She argues periods of uncertainty are a great time to grow if approached in the right way. The fundamental challenge is to make good decisions when you cannot make good predictions. This involves a shift from planning to preparing. When the past is a

poor guide to the future, there is no data, so decisions have to be based on beliefs. High growth companies embrace this because once something becomes a fact, everyone knows about it, and the opportunity to gain advantage recedes. Competitive advantage comes from gaining superior insights about the future based on underlying trends and formulating the insights as a set of beliefs. When high growth companies take decisions based on their beliefs, they do not optimize for efficiency but for robustness.

This marks a significant shift away from the way in which strategy has traditionally been developed. However, the nature of strategy itself has not changed. Its aim remains the creation of economic value by increasing the gap between the business' cost to serve and customers' willingness to pay.

Rebecca's recent client work has confirmed that 'survive', 'reset' and 'thrive' are not phases in a linear process, but instead form an iterative loop analogous to the OODA loop. Some find working through the loop frustrating because it feels like going back to the beginning and starting all over again. However, without iteration companies can get stuck in the 'survive' phase of managing the crisis period and stay there, or ignore the necessary reset and miss the growth opportunities that are emerging. The pace at which businesses need to go round the loop varies and should be driven by the rate at which the environment is changing.

The basics of the Survive phase remain an important foundation. Having put in place low fixed costs and a strong balance sheet, the key elements are repurposing people and capabilities, taking communications and engagement to a new level, speeding up the rate of learning and making tough choices. What will likely be the case study in making tough decisions is seen in the letter written by Brian Cheskey at Airbnb in March 2020 which offered substantial support to the departing employees¹. Among the elements of 'survive', the biggest differentiator is the rate of learning, something large companies tend to switch off. Rebecca has developed a checklist for proactively Surviving consisting of a self-assessment of the starting position and the specification of what more needs to be done for all of the variables. She also suggests assigning a member of the leadership team to 'own' Survive so the remaining leadership can allocate mindshare to the Reset.

However, companies that are now thriving did not stay in 'survive' mode, but moved quickly through to 'reset', and are now going through the whole cycle again.

Although in Reset you need to revisit everything, you do not need to change everything, and different part of the business often move at different speeds. What matters is to conduct review meetings to re-orient. She uses her growth strategy story (six questions) to guide this Reset.

Strategy reviews usually open with the question 'Are we on track?'. This assumes that the plan got everything right, that there is only one track, and that no new information has become available, assumptions which are usually wrong.

¹ <https://news.airbnb.com/a-message-from-co-founder-and-ceo-brian-chesky/>

Reviews that start in this way become backward looking and focus on numbers. Reviews should be forward looking and focus on actions. The critical issue they have to resolve is 'What are we going to do now?'

So the first question that should be asked is not 'Are we on track?', but: 'Has the situation changed?'

If the situation has changed, being on track may or may not be a good thing. The far more important question is: 'Given the changed situation, what should we be doing that is different from what was in the plan?'

Working that out involves re-examining trends, beliefs, and assumptions.

Trends are visible changes in the outside world, for example 'employee experience demands are changing'. For each trend, there needs to be a debate about what beliefs the management have about the implications. A *belief* is a best guess on what this means going forward, and for it to be meaningful, it must be possible for it to be wrong. For example, a belief might be 'the next generation will prioritise experiences, not promotions, and are not looking for long-term employment'. From beliefs, explicit *assumptions* are extrapolated which are embodied into the strategy. An assumption must be testable and needs to be monitored. Accordingly, Rebecca has created a 'belief tracker' to monitor the most important of them.

The tracker is updated as more information comes in and each new piece of information is given the status of either underpinning or questioning the belief. This should typically be done quarterly with a small team and half-yearly with an extended team.

There was some discussion of how far down the organisation to take the tracker and how frequently reviews should be held. In small companies Rebecca just reviews it with the leadership team but in larger ones takes it to the top of BU's as well. Twice a year might be too much in some companies but it is a good default. In FinTech's, for example, it is the minimum and may not be frequent enough. Half year reviews enable teams to carry out course-correction and self-educate themselves on their biases. Actions should follow logically. A disagreement about what action to take often has its roots in a disagreement about beliefs.

The next element of Reset is to define success in terms of the compass heading, the intent, and the boundary conditions.

The intent expresses your right to win, the key to competitive advantage. That will be based on capabilities that are rare, valuable and inimitable - in other words, things you have that others don't; things you can do that others can't; and things that are hard to copy because you build a fence round them. Some resources can be further exploited by turning them into a capability, for example, by transitioning table stakes in your industry into another industry where they will be an advantage. Some combinations of valuable and rare capabilities can be combined into bundles that are hard to copy. So there is a progression from protecting what is already there to leveraging it over the

coming year, to strengthening it over three years, to building it over a couple of strategy cycles. High growth companies focus on addressing the few things that could stop them and accept tensions elsewhere. In this way, the strategy is built around 'must-win battles'. Growth is fundamentally unbalanced and so the main effort will shift over time.

After the break, Rebecca turned to the Thrive phase which is about growing through and out of the downturn, not in order to rebuild old businesses but to re-assess each old assumption. If we no longer believe something, we need to act differently and to get our actions right before scaling. Organisations that thrive employ disciplined flexibility and combine strong balance sheets (from survive), strategic insights (from reset), and operational agility (from thrive).

Pulling together experiences from different companies and a decade of work with high-growth companies, Rebecca has codified the methodology of Thrive with her key characteristics of what sets high growth companies apart, summarised in the acronym BLAST:

- **B** - Beliefs about the world
- **L** - Learning velocity
- **A** - Agility in decision-making; alignment vs agreement
- **S** - Shared context; strategic intent and success definition
- **T** - Trusted network (high reliability)

Of these elements, the one that makes the biggest difference between high growth companies and the pack is learning velocity. High growth companies gear up their organisation to learning, including their approach to people and customers. For example, they re-deploy people across the organisation in order to share learning and use customers as learning partners. They increase learning velocity by experimenting more than others do. Rather than trying to work things out, they conduct cheap experiments to test every possibility. Success is not about being right but about being the first to find out what is wrong. To do so, experiments must be conducted scientifically by testing one assumption at a time. Traditional pilots combine multiple assumptions, making it impossible to find out what needs to be changed. High growth companies never waste time arguing about ideas. The only thing that matters is the market's reaction to them, so they simply ask 'what would have to be the case for this to work?', and test it.

Agility is the ability to make quick decisions that are aligned with the strategy. Agility without strategy is chaos. In order to make quick decisions, high growth companies are rigorous in clarifying decision-rights and also define what makes a good decision.

As she had already covered beliefs and shared context, Rebecca then turned to the final element of BLAST - trust.

The essence of trust is reliability – whether people actually do what they say they will do. A survey she conducted between 2011 and 2016 covering almost

12,000 senior leaders and managers across 450 companies showed that people can generally rely on their boss and their direct reports, but the numbers are significantly lower for colleagues, particularly if they are from other departments, where commitments are often interfered with by differences in priorities. Aware that organisations are nothing other than networks of commitments that extend right across them, high-growth companies work hard on creating internal reliability. The foundation is a common intent and definition of success.

The meeting closed with a series of questions and comments from Members.

One asked what you do when you discover that you have made false assumptions. Rebecca replied that writing them down focusses attention on them, and once people accept that they can get them wrong, changing them is less difficult. Sometimes contradictory beliefs appear in the tracker, in which case they can be separated from the extremes. People may not align on them, but they can then be tested.

Another Member asked how this changes risk management. The answer is that the content of the tracker does not change all the boundaries. There are some non-negotiables that remain.

Other Members commented that it had been a very practical session, with methods that could be applied even when there is little uncertainty. One added that they are stuck in an annual strategy cycle with lots of data and the approach to beliefs offers a way out of that, and two others said that they could use a lot of these practices and will build some of them in to the strategy process this year.

Future meetings

The next Members' Meeting will be held face-to-face from 14.00 – 17.30 on **Wednesday 29th June 2022**. At No.11 Cavendish Square, London W1G 0AN. A buffet lunch will be available from 13:00. Note that this date is a change from the original one (9th June).

The topic will be based on a final wrap up of Neil Monnery's work on value management focussing on the nature of the value manager. Neil will be joined by Stephen Bungay and they will develop the topic into some more general observations about effective corporate leadership.

Our next Seminar will be held virtually on **19th May**, when the subject will be Mergers and Acquisitions and will be led by Andrew Campbell.

Members are also reminded about our **Strategy Bootcamp**. We are currently planning to run it face-to-face from **26th – 30th September**. In order to allow us to assess likely numbers, please contact Angela to register interest.