

**2023-2024  
PELI Advanced Course  
Session 5**

**Friday Session**

**April 25 - 27 2024**



# Thursday, Friday, and Saturday Agenda

## Friday – Carole Carlson

7:00 – 8:00	<i>Breakfast</i>
8:00 – 10:15	Strategy basics, Mayo case discussion
10:15 – 10:30	<i>Break</i>
10:30 – 12:00	Strategy in dynamic markets
12:00 – 1:30	<i>Lunch ** don't forget to sign up for your dinner reservation **</i>
1:30 – 2:30	Netflix case discussion
2:30 – 3:30	Strategy execution / organization alignment
3:30 – 3:45	<i>Break</i>
3:45 – 5:00	Effective decision making / Zola Clinic case discussion
5:00 – 5:30	Poster and project discussion

## Saturday – Al Swallow, Carole Carlson

7:00 – 7:30	<i>Breakfast</i>
7:30 – 9:30	Finance discussion with Guest Speaker Al Swallow
9:30 - 9:45	<i>Break</i>
9:45 – 11:00	Customer Centricity and Cleveland Clinic case discussion
11:00 – 11:15	Reflections and Take Aways
11:15 – 11:30	Course Assessment

## Recap from yesterday

*What did you find most interesting about yesterday evening's discussion with Dr. Mike Albaum and Dr. Erik Steele?*

*How might it connect to today's class on strategy development and strategy execution?*



# What is strategy?



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# Strategy fundamentals

What is strategy?

What are some organizations with great strategies? Why?

# Strategy – a definition

A strategy is an **integrated set of choices**  
that positions a firm **in an industry**  
so as to generate superior financial returns  
**over the long run**

# Strategy components

A strategy is an integrated set of choices that positions a firm in an industry so as to generate superior financial returns over the long run

**Configure the organization by making internal choices to secure competitive advantage**

Size up the external environment

Sustain a firm's competitive advantage over time



# Strategy fundamentals

Strategy  $\neq$  Operational effectiveness

Therefore, strategy involves tradeoffs:

Strategy requires you to decide what to do and what NOT to do, that is, it sets the boundaries of where and how you will operate

WHERE and HOW will we win?

...and what does “winning” mean for a mission-driven organization?

# Some key questions

According to Martin and Lafley strategy is the answer to five interrelated questions:

- What is your winning aspiration?
- Where will you play?
- How will you win?
- What capabilities must be in place?
- What management systems are required?



*Strategy*

*Strategic management*

# Strategy is about tradeoffs

**Sign in a Waltham print shop:**

We will deliver your order fast,  
accurate and cheaply

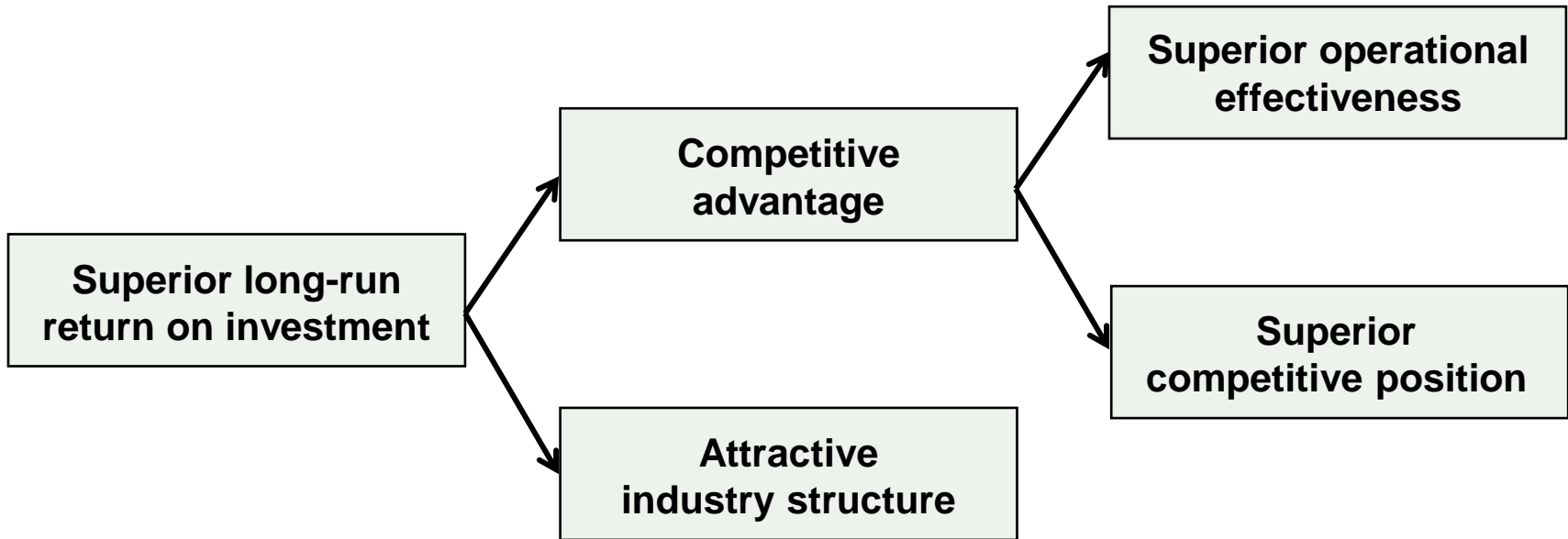
# What really happens

**Sign in a Waltham print shop:**

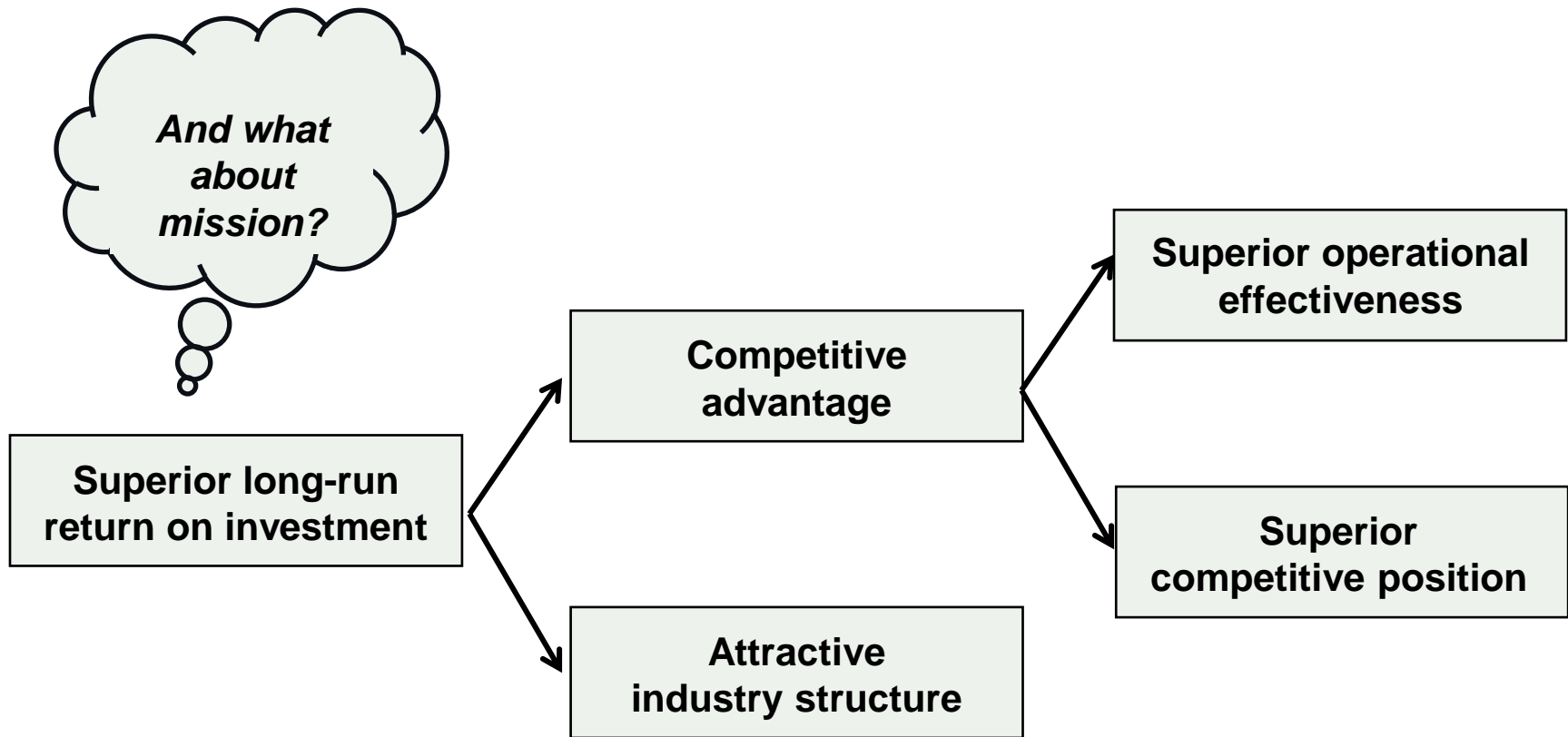
We will deliver your order fast,  
accurate and cheaply

(choose any two)

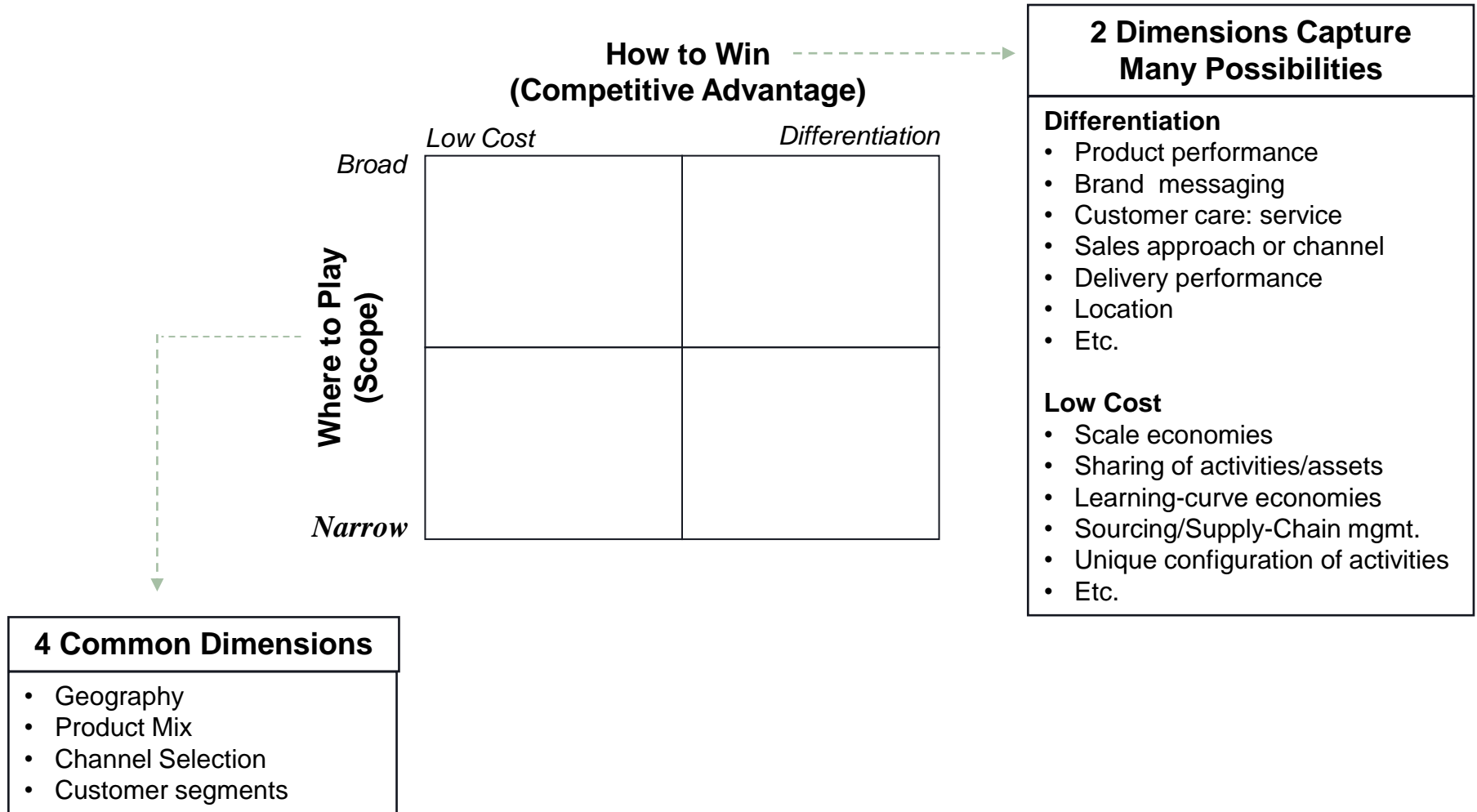
# Paths to an effective strategy



# Paths to an effective strategy



# Core choices



## Example: Where do you shop for commodities?



380 stores  
(of ~65,000)



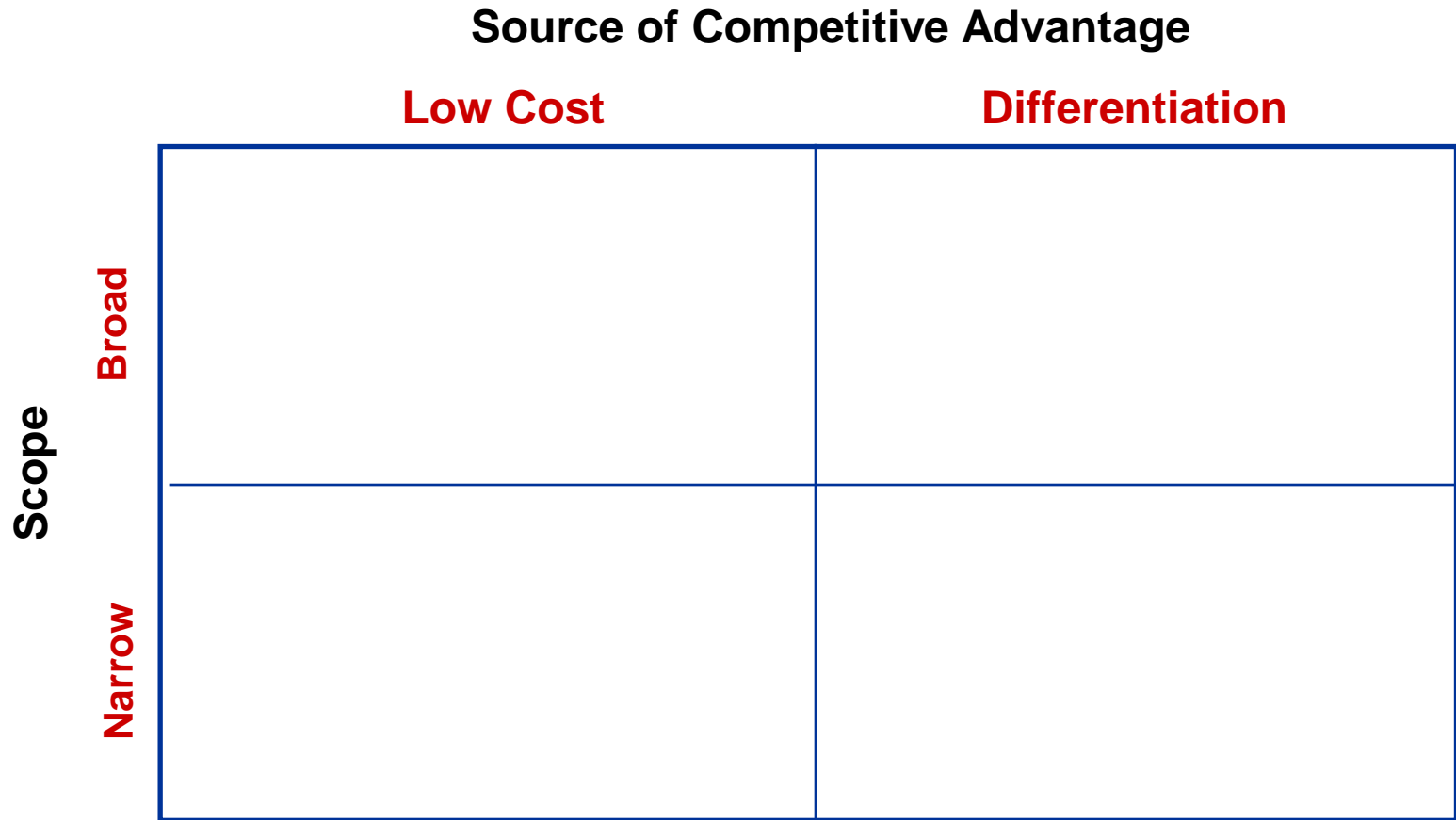
6,800 stores  
(of ~60,000)



1,000 in US  
(of ~3,000)



# Establishing a strategic position – grocery industry example



# Establishing a strategic position – grocery industry example



# Establishing a strategic position – grocery industry example

## Source of Competitive Advantage

Low Cost

Differentiation

Scope  
Broad  
Narrow

 <p><b>FAMILY DOLLAR</b> my family. my family dollar.®</p>	 <p><b>Stop &amp; Shop</b></p>
 <p><b>ALDI</b></p>	 <p><b>WHOLE FOODS</b> MARKET SELLING THE HIGHEST QUALITY NATURAL &amp; ORGANIC PRODUCTS</p>

# Establishing a strategic position – grocery industry example

## Source of Competitive Advantage

Low Cost

Differentiation

Scope

Broad

**FAMILY DOLLAR**  
my family. my family dollar.®



Narrow



Where is the worst place to be on this map?

# Establishing a strategic position – hotel industry example

## Source of Competitive Advantage

**Low Cost**

**Differentiation**

**Scope**

**Broad**

**Narrow**


# Establishing a strategic position – hotel industry example

**Source of Competitive Advantage**

		<b>Low Cost</b>	<b>Differentiation</b>
<b>Scope</b>	<b>Broad</b>	Holiday Inn	Hilton Hotels
	<b>Narrow</b>	Motel 6	Four Seasons

# Establishing a strategic position – hotel industry example

## Source of Competitive Advantage

		Low Cost	Differentiation
Scope	Broad	Courtyard	Marriott Hotel
	Narrow	Residence Inn	Ritz Carlton

## Table group discussion – core choices

In your table groups:

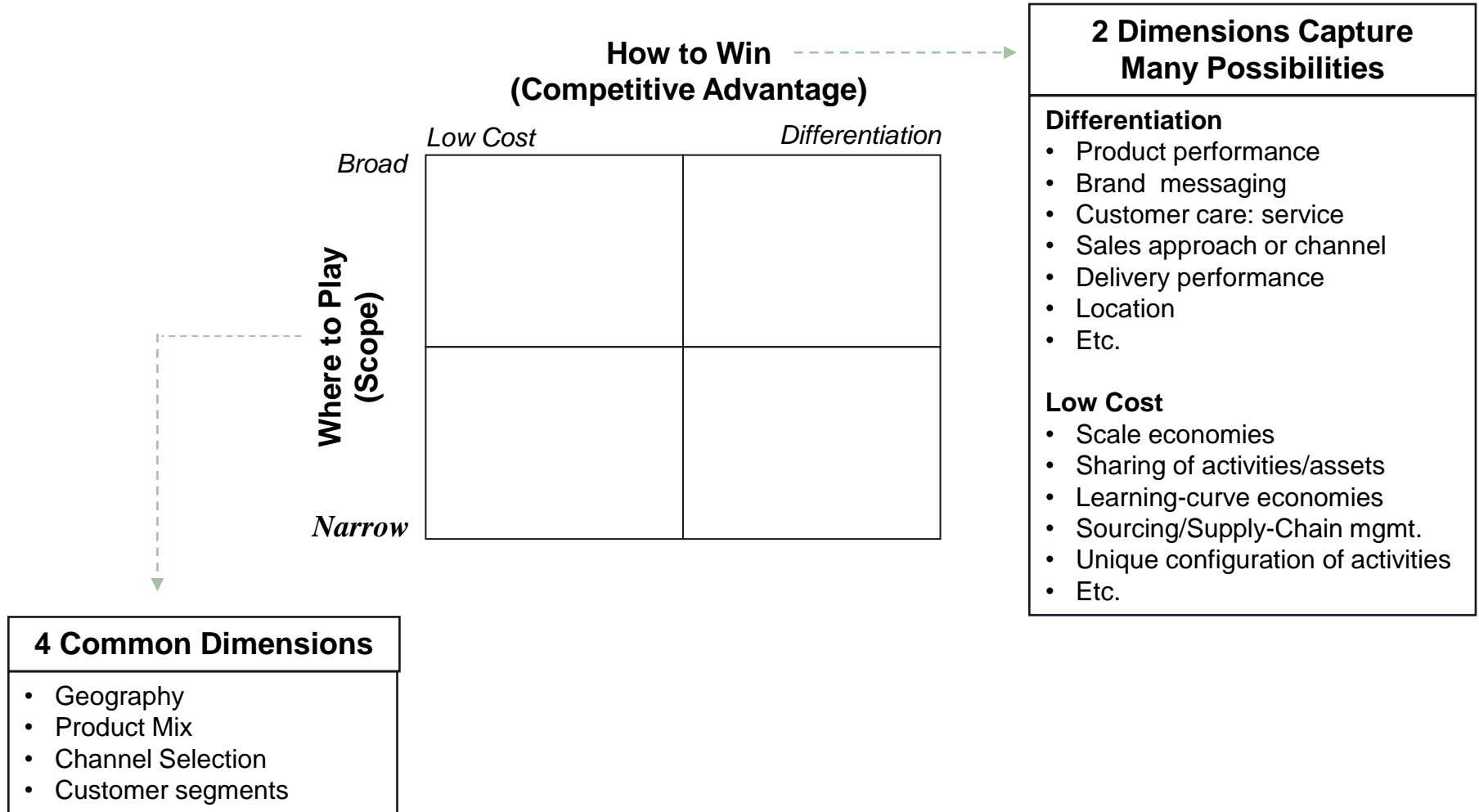


Please place your current organization or your touchstone on the core choices map and discuss the implications with your group.

*Please appoint a spokesperson to summarize when we return to class.*



# Core choices



# Table groups report out

## Core choices



### 2 Dimensions Capture Many Possibilities

#### Differentiation

- Product performance
- Brand messaging
- Customer care: service
- Sales approach or channel
- Delivery performance
- Location
- Etc.

#### Low Cost

- Scale economies
- Sharing of activities/assets
- Learning-curve economies
- Sourcing/Supply-Chain mgmt.
- Unique configuration of activities
- Etc.

### 4 Common Dimensions

- Geography
- Product Mix
- Channel Selection
- Customer segments



# Strategy and growth

# A short list of strategies for existing organizations...

## Expand boundaries of the firm

- Vertical integration
- Horizontal integration
- Conglomerate diversification
- Concentric diversification
- Joint venture or strategic alliance

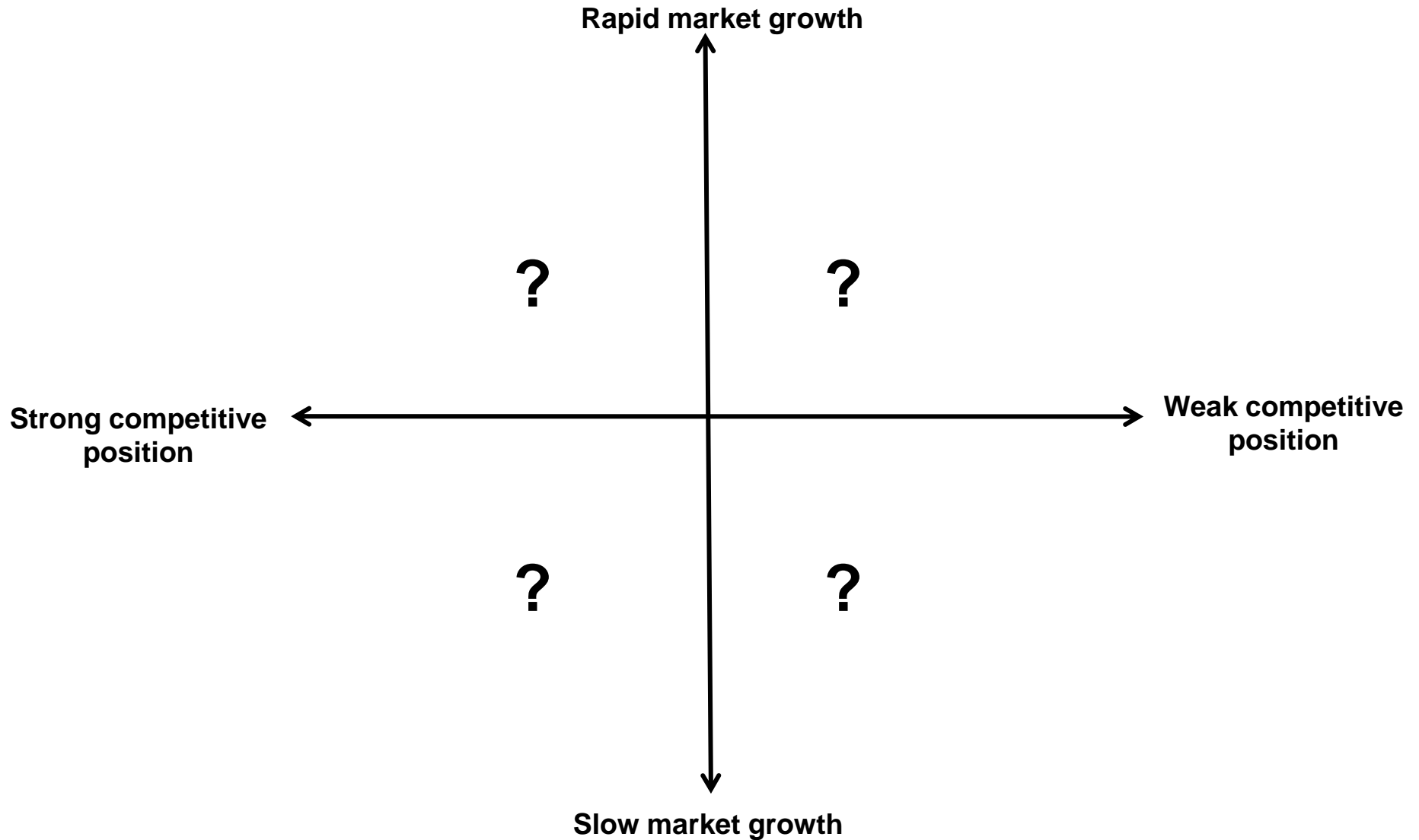
## Grow market via internal capabilities

- Market penetration (deeper in same markets)
- Market development (adding markets or channels)
- Product development/innovation

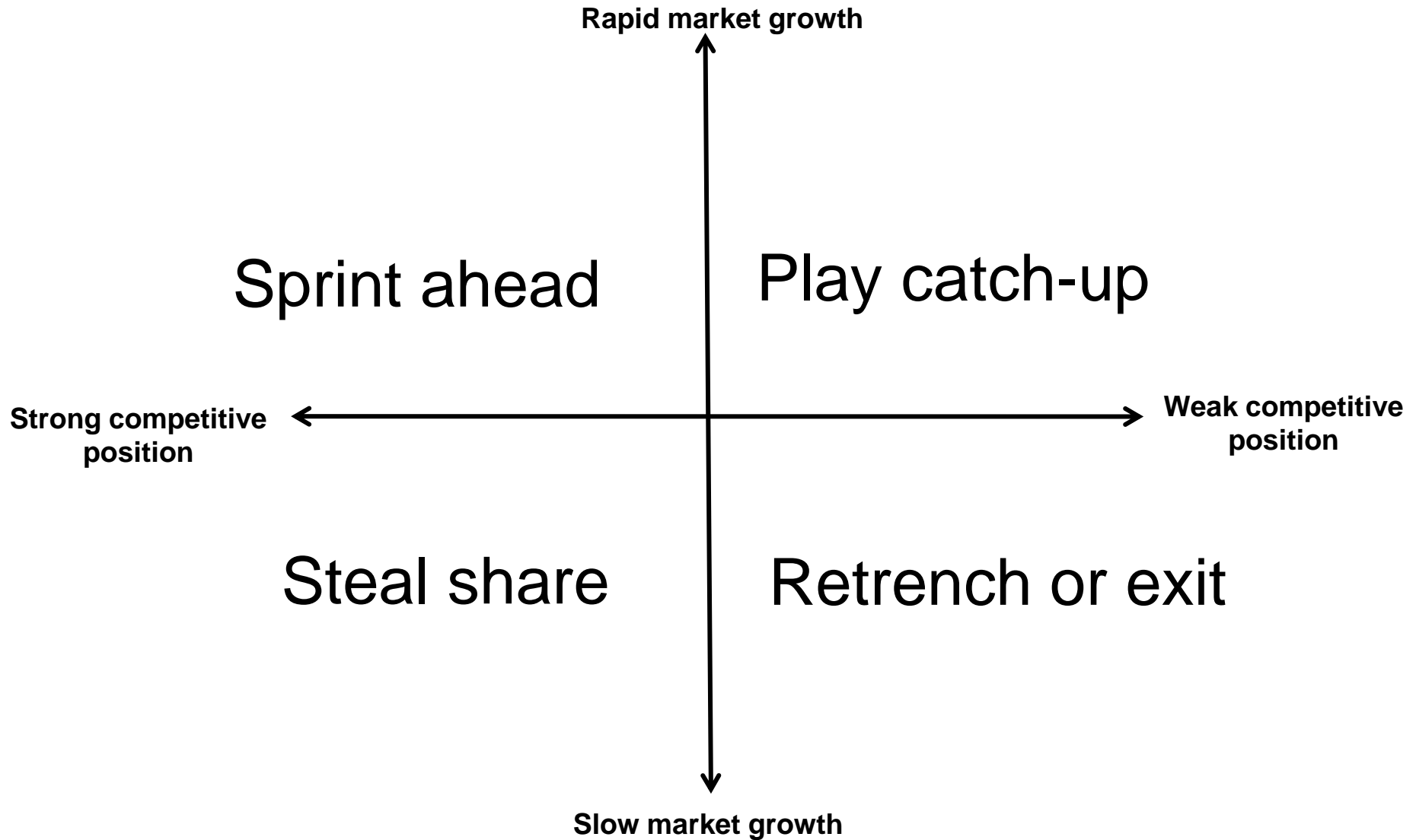
## Get smaller

- Turnaround/retrenchment
- Divestiture
- Liquidation

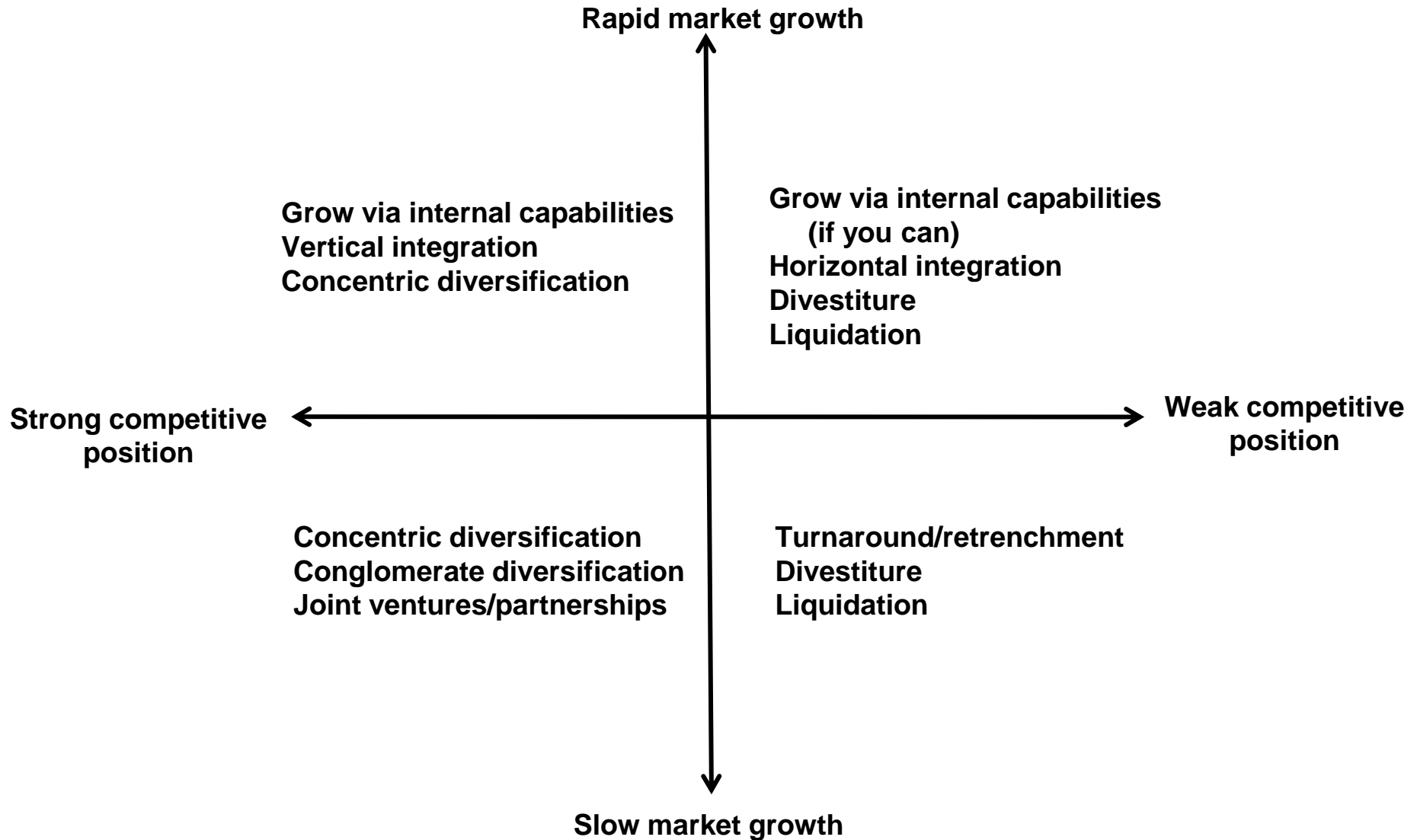
# What would we call these spaces?



# Naming the core strategies



# Some options in each space



# Growth options – diversification

## Wholesale bakery





# Growth options – diversification

Wholesale bakery



Forward integration



# Growth options – diversification

Backwards integration



Wholesale bakery



Forward integration



This is called **vertical diversification** (even though I have presented it horizontally...)

# Key concepts – diversification

Vertical diversification



Vertical diversification



Concentric diversification



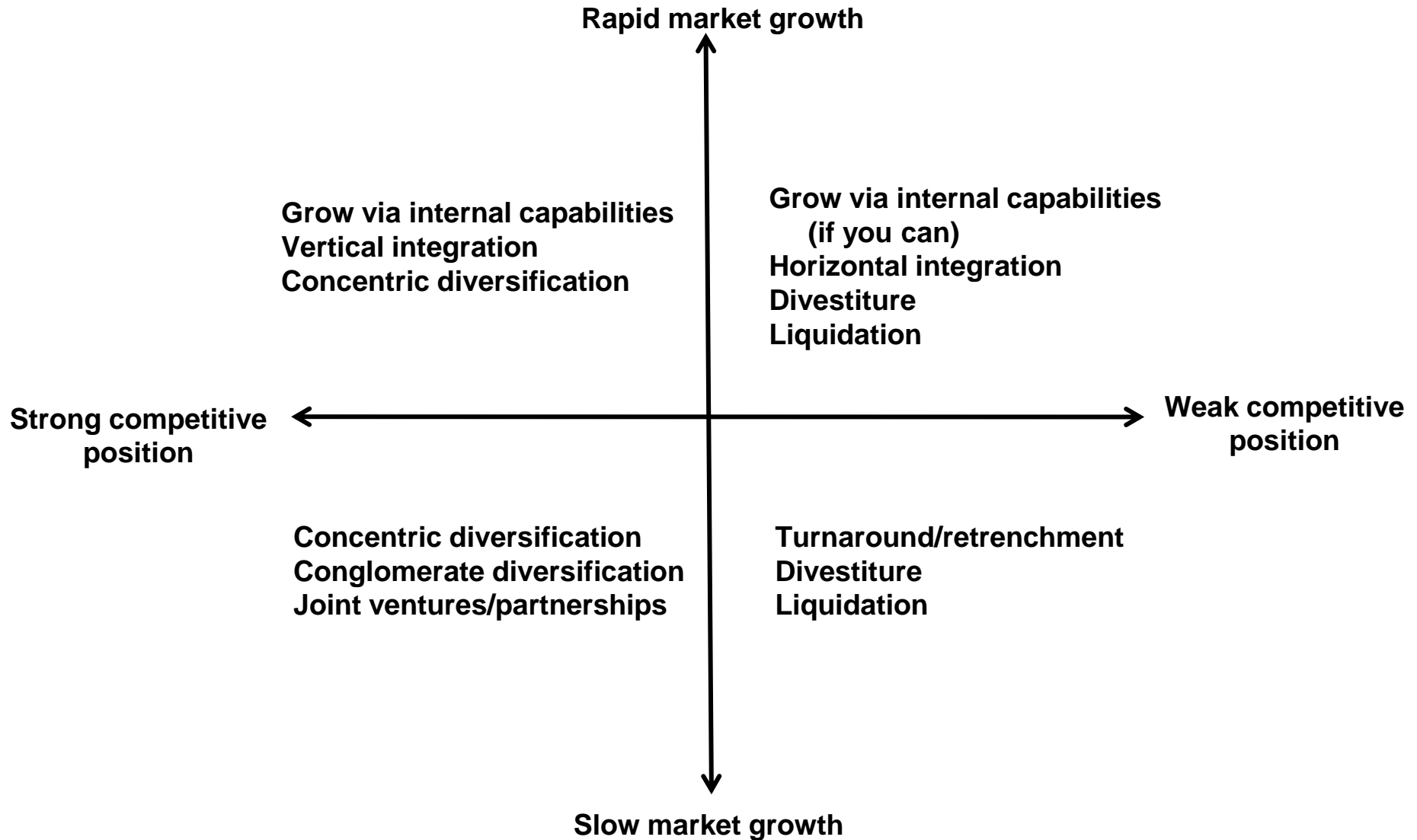
Horizontal diversification



Conglomerate diversification



# Growth options recap



## Table group discussion – growth options



Please identify which quadrant your organization or touchstone falls in

Which strategies are being pursued?

What do you think your organization should do next?

*Please appoint a spokesperson to summarize the discussion when we return in 5 minutes*

# Table groups report out

## A short list of strategies...and when to use them



Adapted from Pearce and Robinson

47



# Mayo Clinic case discussion

Set in 2013, this case describes the challenges facing Dr. John Noseworthy, President and CEO, in implementing a long-term strategy for the growth of the Mayo Clinic—a leading academic medical center with a reputation for excellence in tertiary and quaternary health care.

The case highlights the concurrent forces of regional and national competition and federal health care reform as factors complicating the plans of Mayo Clinic to grow through several channels.

The Mayo team must decide whether Mayo Clinic should focus its future growth on its current areas of expertise (regional provision of integrated medical care and international provision of tertiary and quaternary care), new opportunities in a broader range of services and treatment channels (e.g., telemedicine, mobile health, enterprise learning and training for other health care systems), or some combination of these opportunities.



# Mayo Clinic case discussion

Do any of the dilemmas faced by Mayo resonate with you?

How do you grade Mayo's strategy and to-date implementation?  
A B C? Why?





# Mayo Clinic case discussion

What have been the foundational factors underlying TMC' success so far?



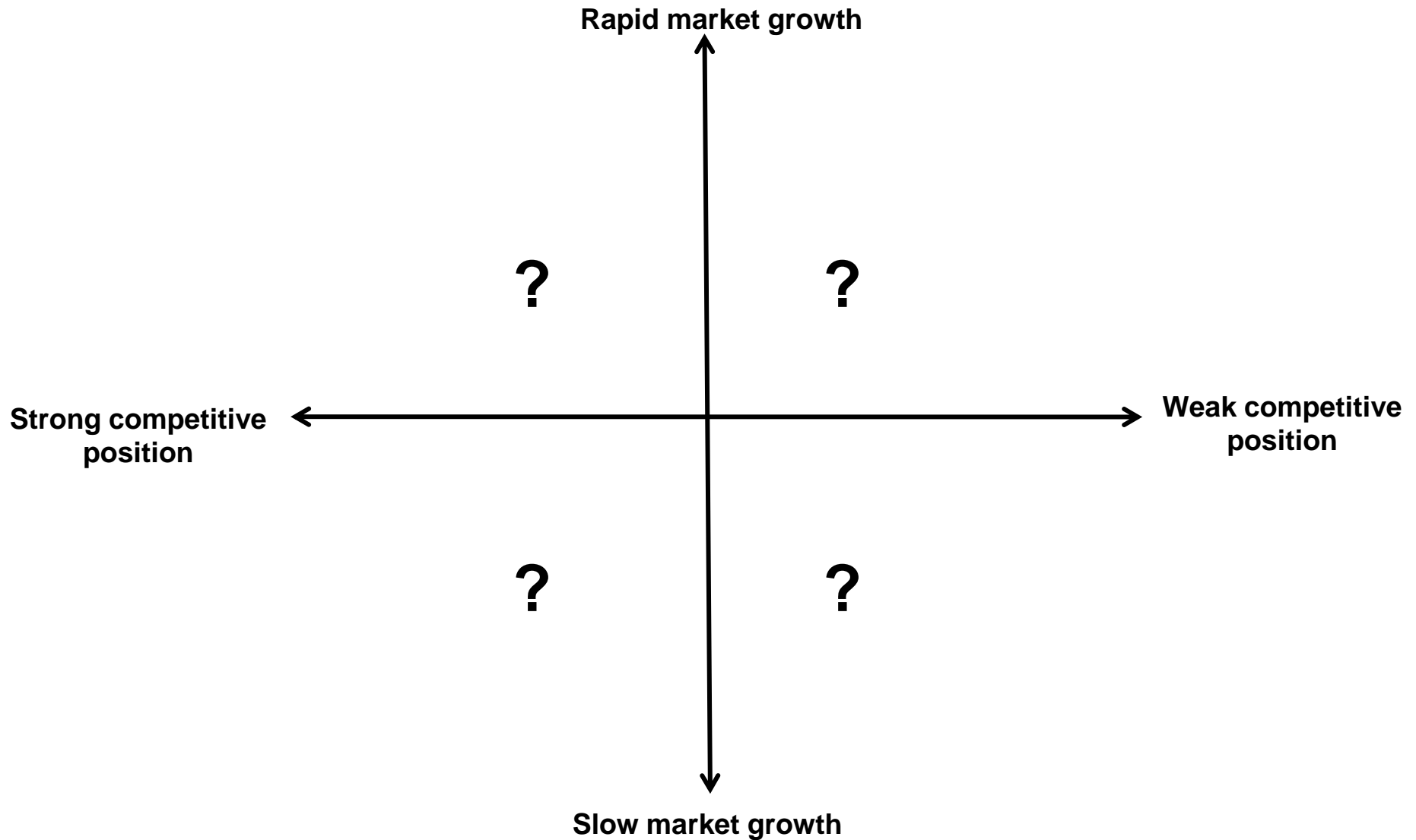
# Mayo Clinic case discussion

What factors are compelling change at TMC in 2014?

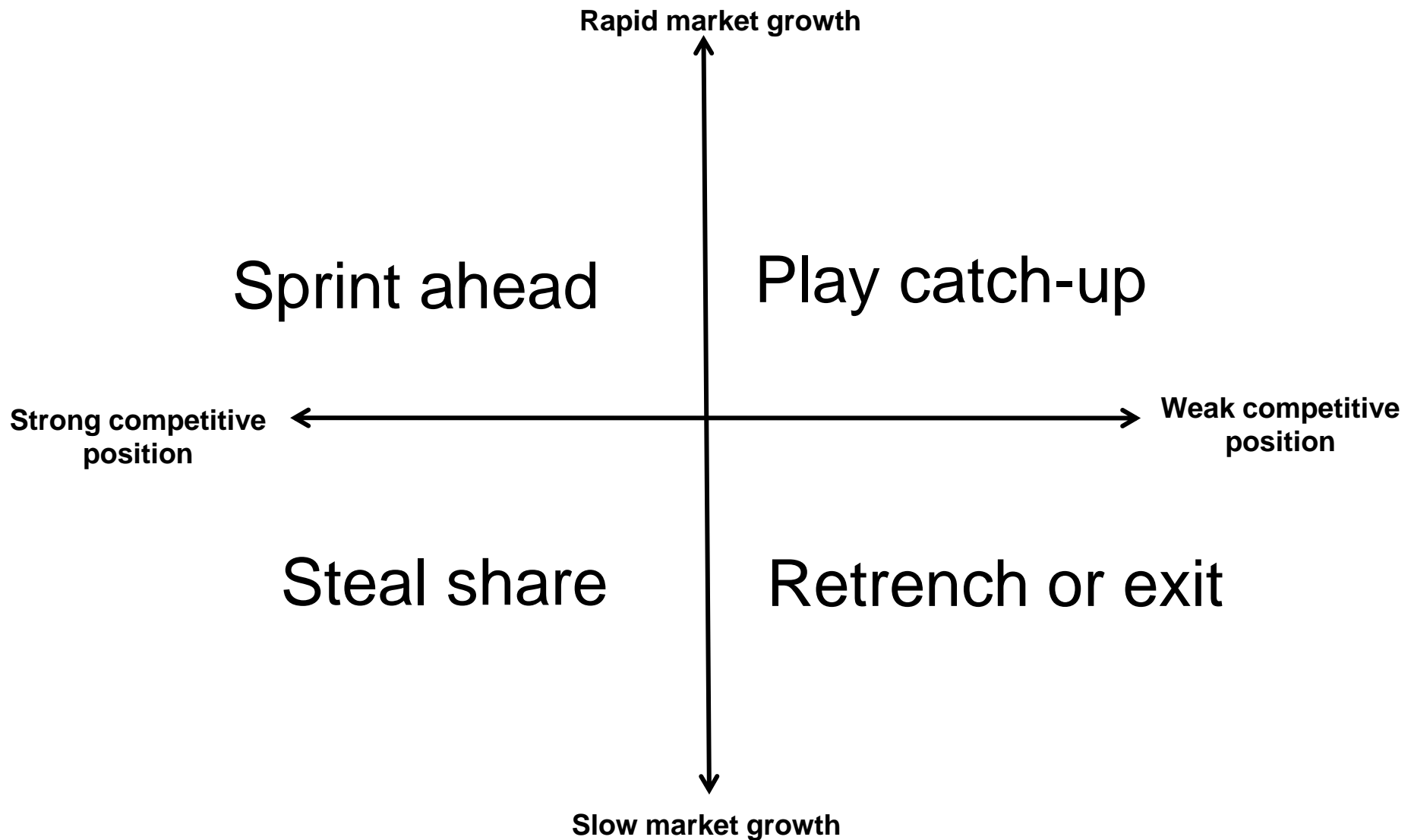
- Additional economic pressure
- Pressure to scale
- Competitive environment
- Others?



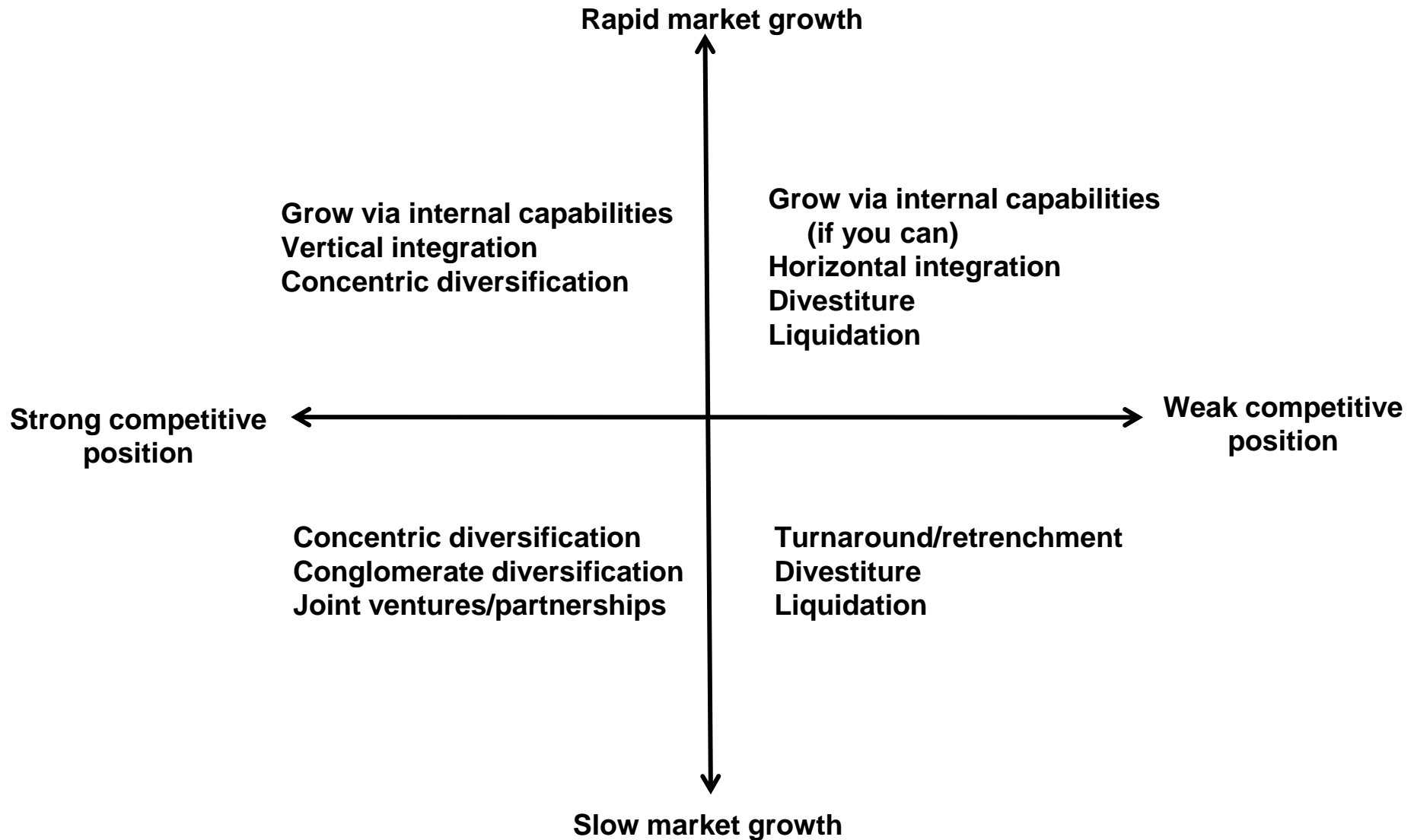
# How do you assess Mayo's situation?



# What strategy should Mayo pursue?



# Which ones are they proposing?



# Mayo Clinic – case discussion

Mayo proposed three core options

Which one do you favor?

## Option

Status quo

Deeper focus on  
tertiary and  
quaternary care

Alternative business  
models

# Mayo Clinic – case discussion

Let's assess pros and cons of each

Option	Pros	Cons
Status quo		
Deeper focus on tertiary and quaternary care		
Alternative business models		

## Table group breakout – 5 mins



*What do you have to believe to want to  
Support each of these strategies?*

Option	What do you need to believe to prefer this?
Status quo	
Deeper focus on tertiary and quaternary care	
Alternative business models	



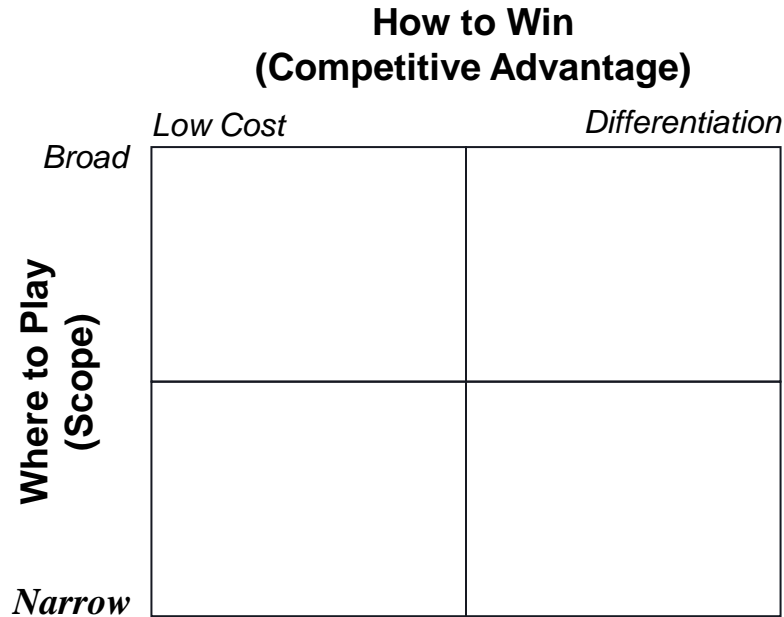
# Table group report out



*What do you have to believe to want to  
Support each of these strategies?*

Option	What do you need to believe to prefer this?
Status quo	
Deeper focus on tertiary and quaternary care	
Alternative business models	

# Where would we place these choices on the core choices map?



## 4 Common Dimensions

- Geography
- Product Mix
- Channel Selection
- Customer segments

## 2 Dimensions Capture Many Possibilities

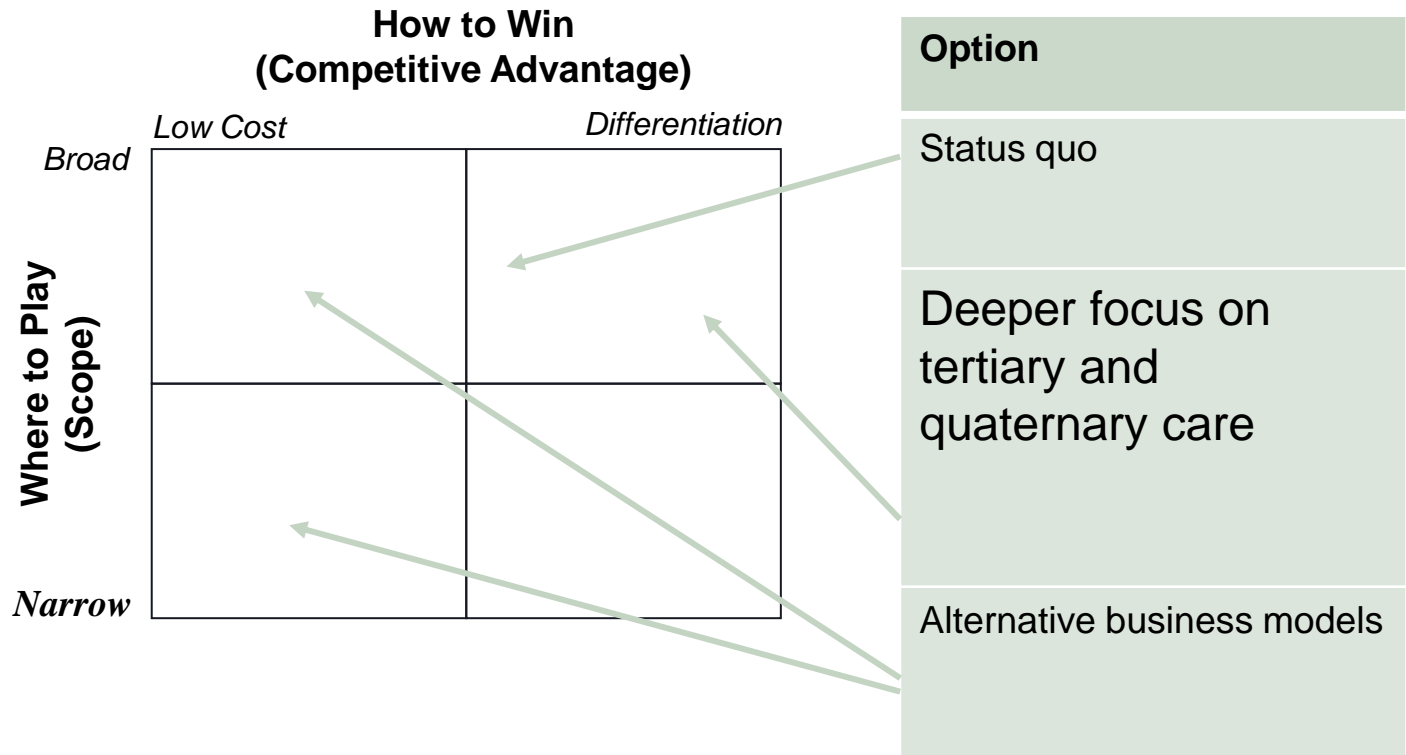
### Differentiation

- Product performance
- Brand messaging
- Customer care: service
- Sales approach or channel
- Delivery performance
- Location
- Etc.

### Low Cost

- Scale economies
- Sharing of activities/assets
- Learning-curve economies
- Sourcing/Supply-Chain mgmt.
- Unique configuration of activities
- Etc.

# Making choices



**Can they do all of this at once? Or do they need to make choices?**

# Recap

So, how confident are we that Mayo can do two things well at once?



# Mayo Clinic – long term plans

- How do you react to the nine box longer term investment options? (Exhibit 12)
- Which do you see as likely to be most successful?
  - Financially?
  - Mission?

	Here	There	Everywhere
Transform			
Grow			
Run			

# Applying frameworks

Extending the boundaries of an organization

<i>Leverages existing products/ capabilities</i>	<i>High</i>	<i>Requires effective marketing and strong value prop</i>	<i>Safe extensions from base e.g. campus expansion</i>
	<i>Low</i>	<i>Very risky</i>	<i>Requires new capabilities</i>
		<i>Low</i>	<i>High</i>

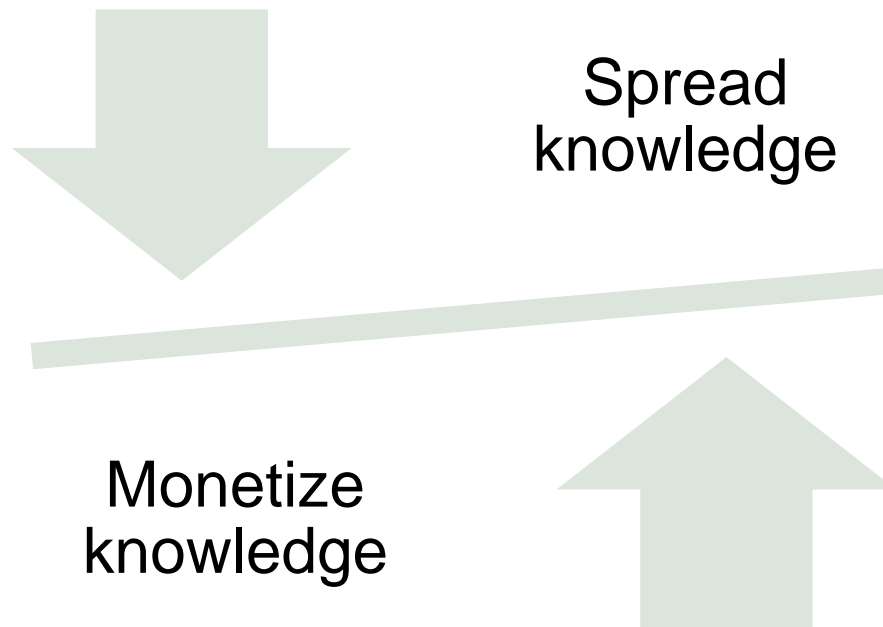
*Leverages existing customer base*

# And what about mission?

Is there a tension?

How can Mayo reconcile it?

*“From a business perspective we’re trying to monetize our knowledge but from a health care perspective we’re also trying to push that knowledge out as broadly across the world as we can...”*  
- Jeff Bolton



# Mayo – strategy implementation

What do you see as key implementation barriers?

How should Mayo's leadership team work to overcome them?





## Mayo Clinic – case discussion

Do you think it was a mistake for Mayo not to be a pioneer ACO



# Break

Please be back at 10:30



# Strategy components

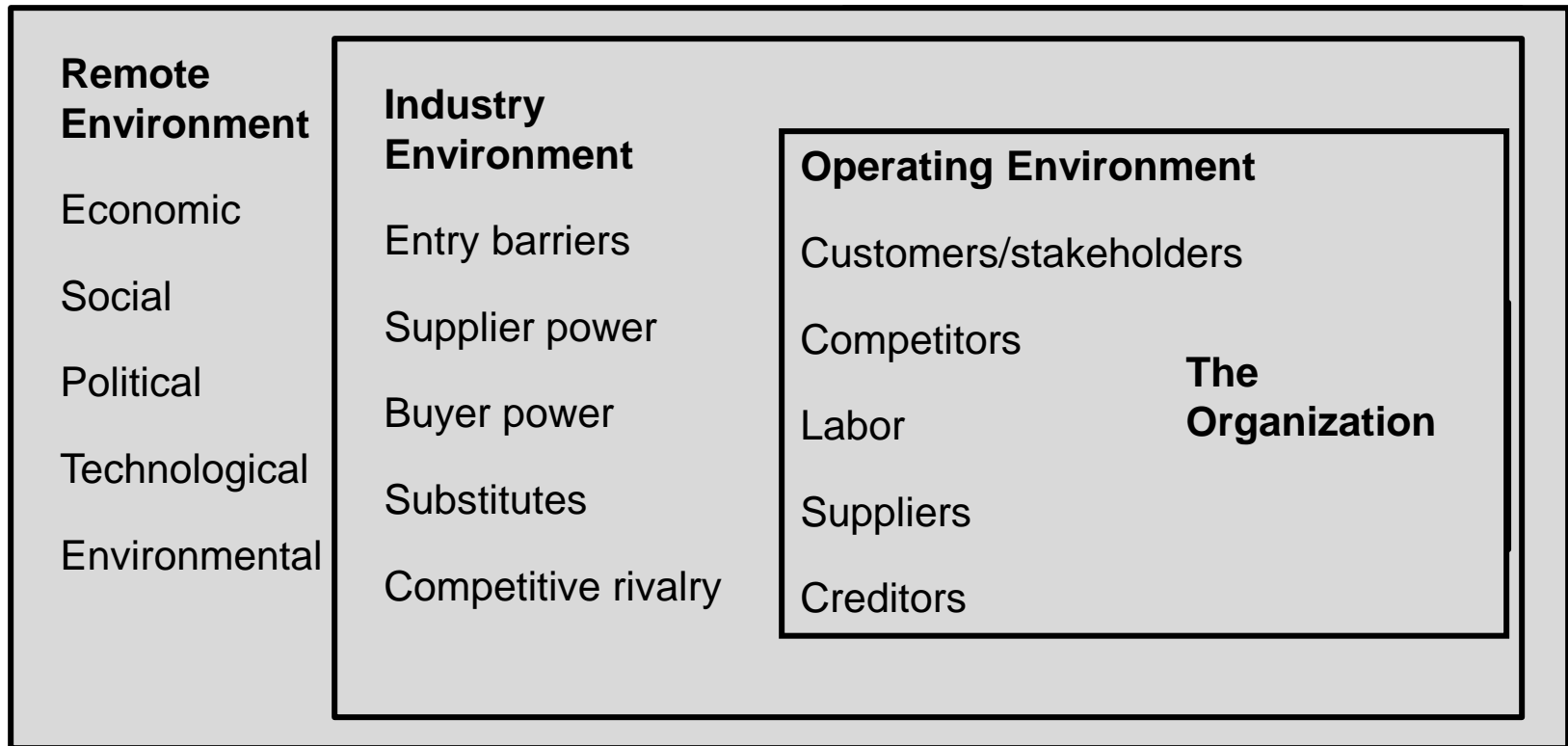
A strategy is an integrated set of choices  
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Configure the firm by making internal choices to secure competitive advantage

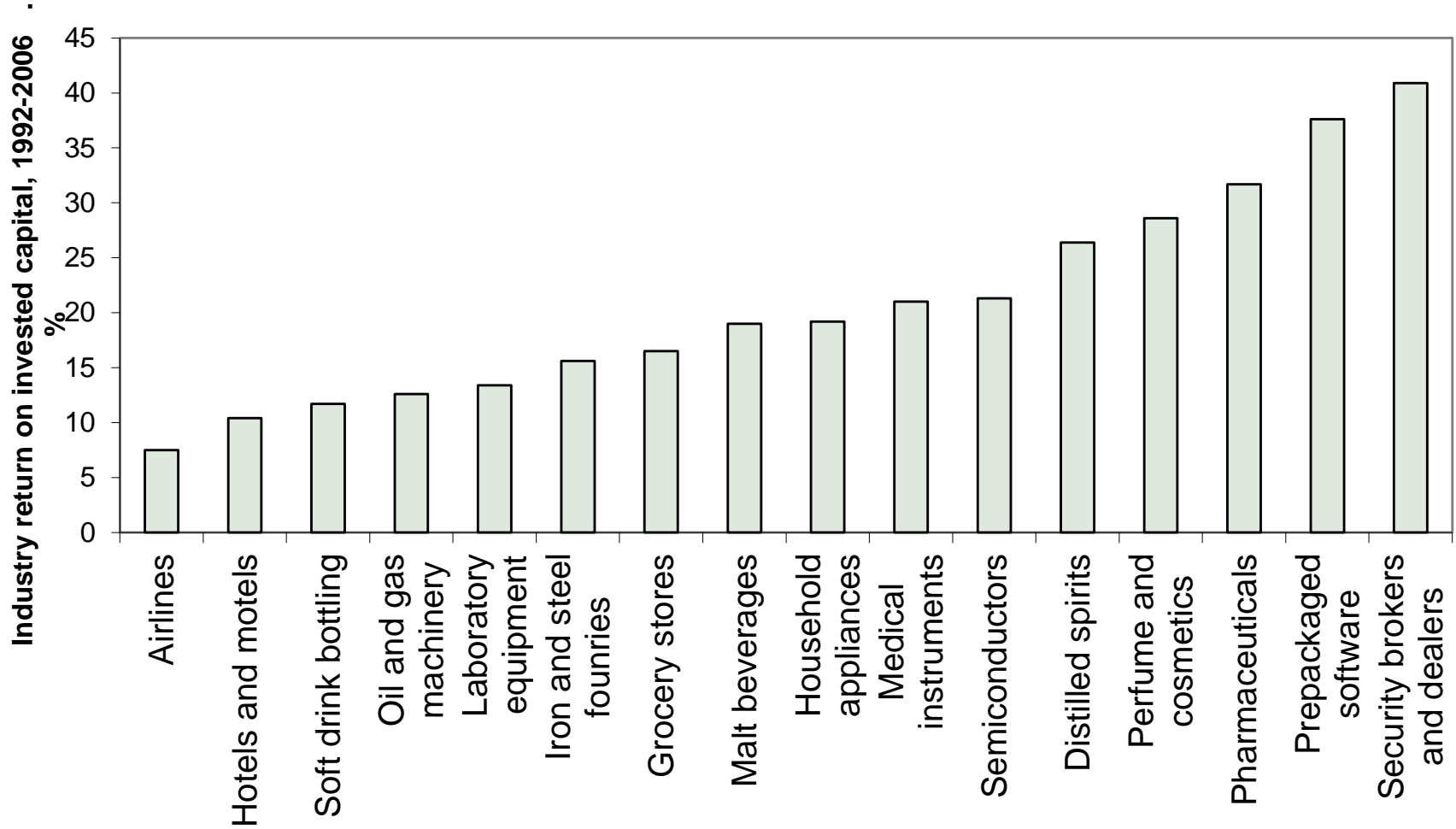
**Size up the external environment**

Sustain a firm's competitive advantage over time

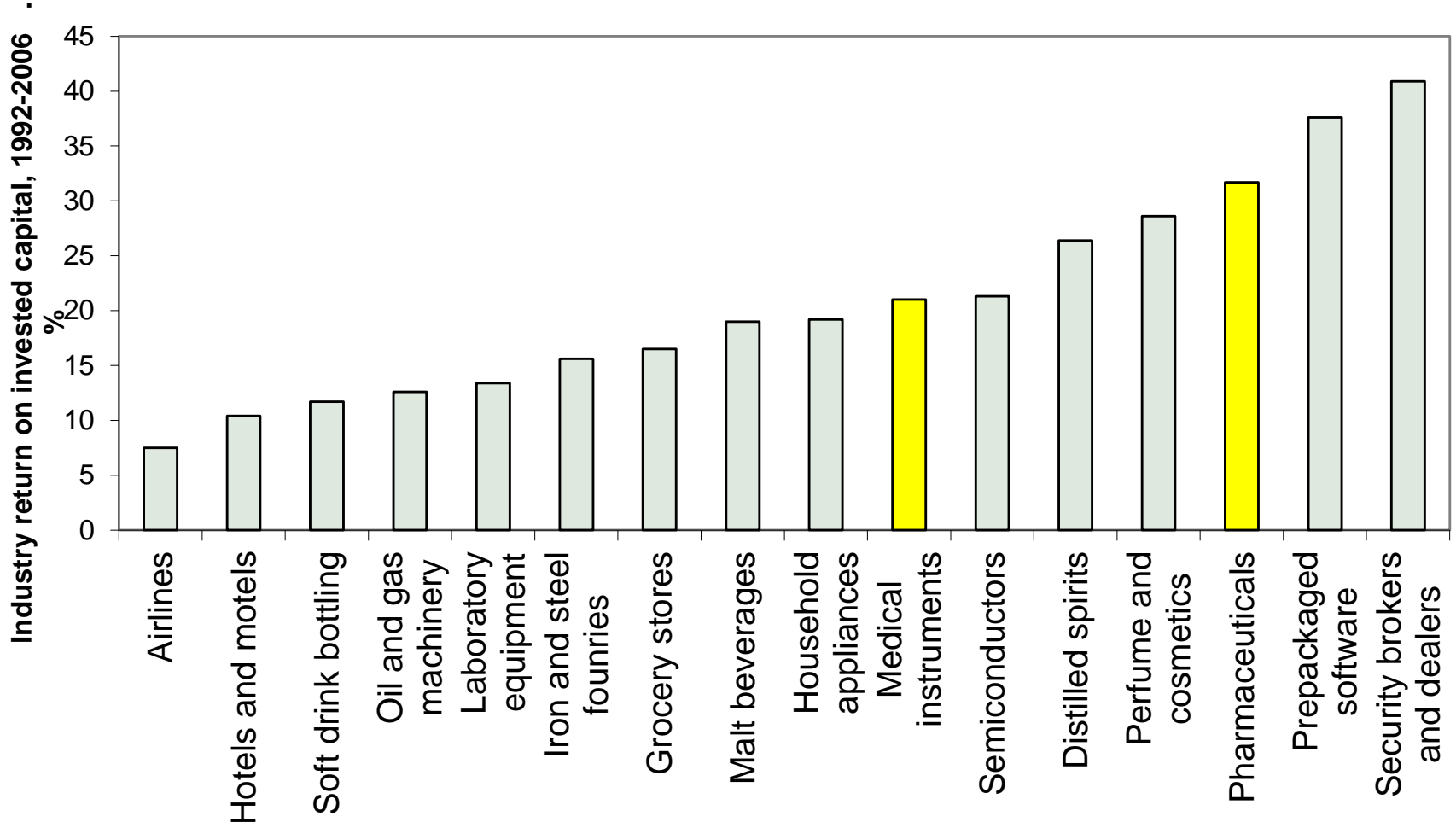
# Sizing up the External Environment



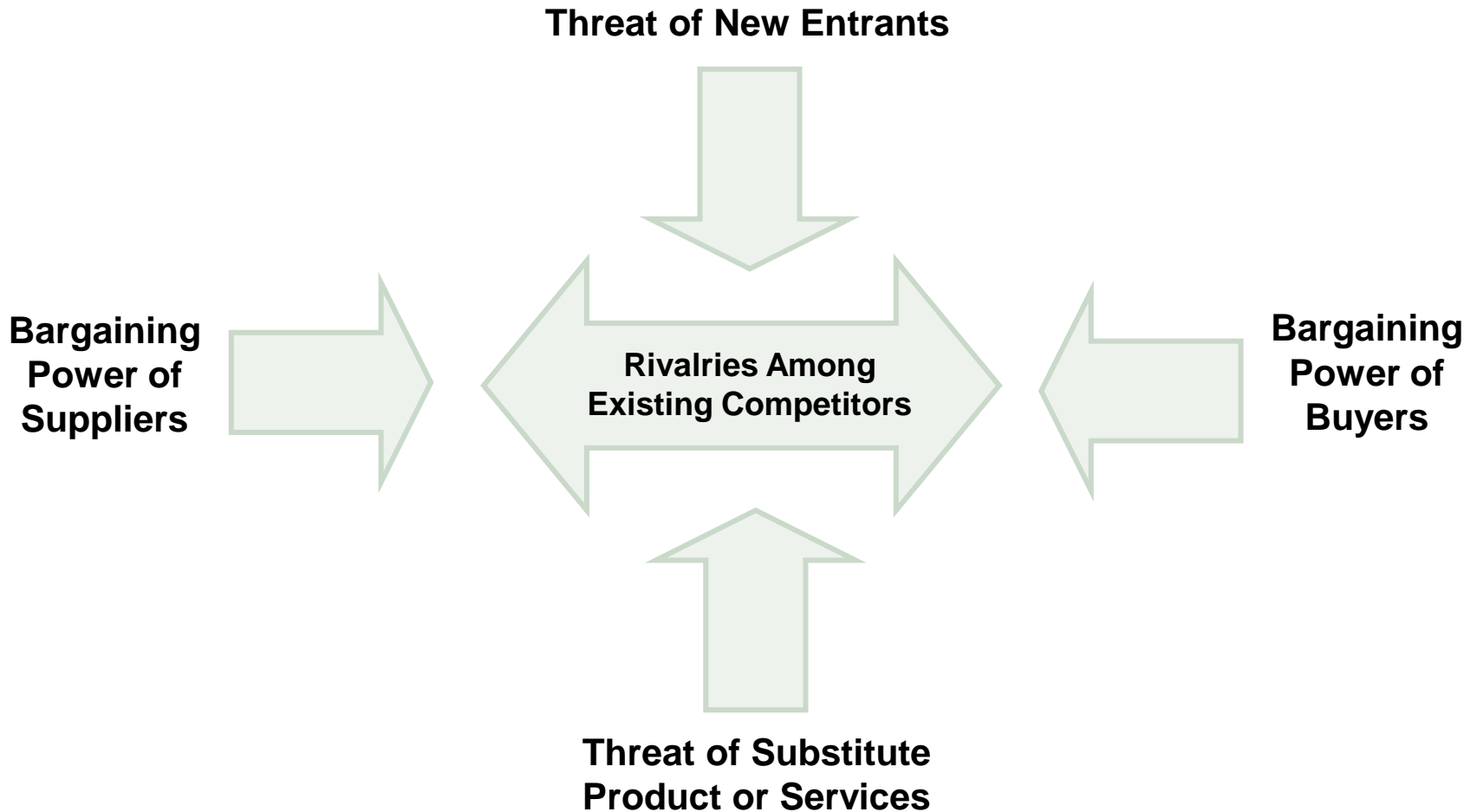
# Why are some industries consistently profitable? Why are some unprofitable?



# Why are some industries consistently profitable? Why are some unprofitable?

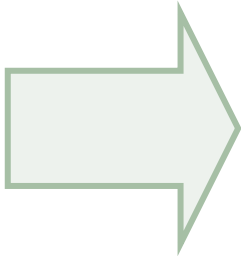


# Five forces model of industry analysis



# Five forces model for industry analysis

**Bargaining  
Power of  
Suppliers**



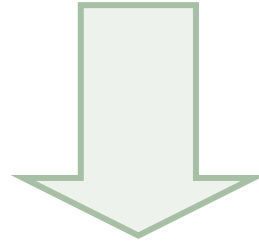
## **Main determinants of supplier power:**

- Switching costs
- Presence of substitutes
- Supplier concentration
- Impact of inputs on cost or differentiation
- Credible threat of forward integration



# Five forces model for industry analysis

## Threat of New Entrants



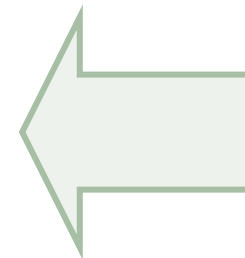
### Main determinants of entry threat:

- Economies of scale
- Brand identity
- Switching costs
- Capital requirements
- Access to distribution
- Government policy

# Five forces model for industry analysis

## Main determinants of buyer power:

- Buyer concentration
- Buyer information
- Ability to backwards integrate
- Availability of substitutes

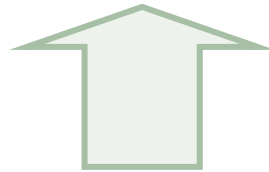


**Bargaining  
Power of  
Buyers**

# Five forces model for industry analysis

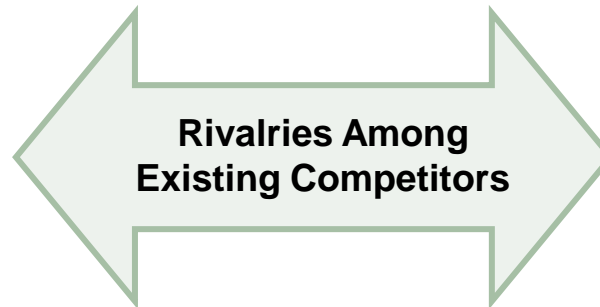
## Main determinants of substitution threat:

- Relative price/performance of substitutes
- Switching cost
- Buyer propensity to substitute



**Threat of Substitution**

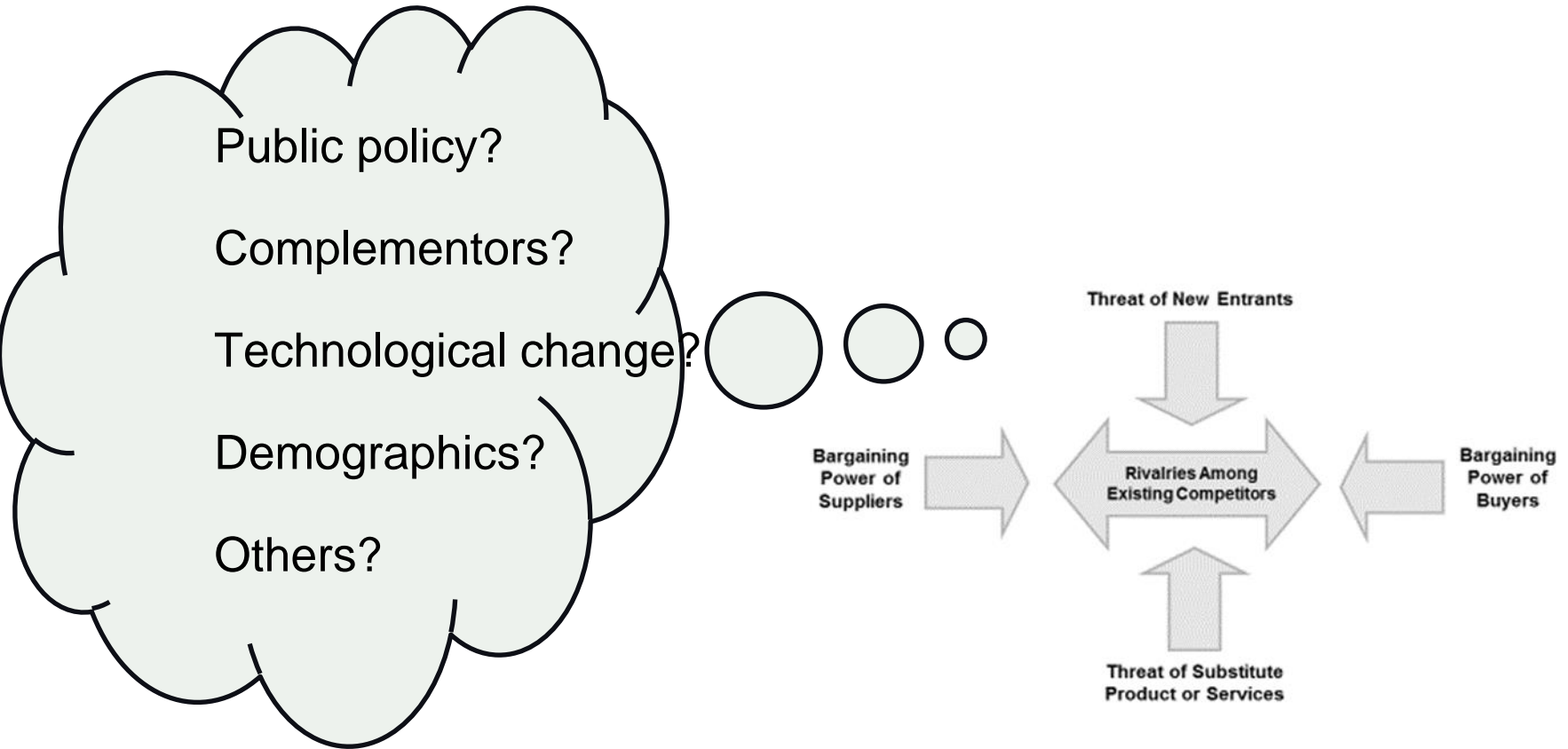
# Five forces model for industry analysis



## Main determinants of industry rivalry:

- Industry growth
- Fixed vs. variable costs
- Concentration
- Product differences
- Brand identity
- Overcapacity
- Exit barriers

# ...and is there a sixth force?



# Are these attractive businesses (according to the five forces)?

## For profits

- US small scale construction industry
- Automotive manufacturing
- Movie theatres
- Hotels

## Non profits

- International development
- Arts organizations
- Ecotourism

# Are these attractive businesses (according to the five forces)?

## For profits

- US small scale construction industry (easy entry)
- Automotive manufacturing (supplier power -unions)
- Movie theaters (substitutes)
- Hotels (customer power)

## Non profits

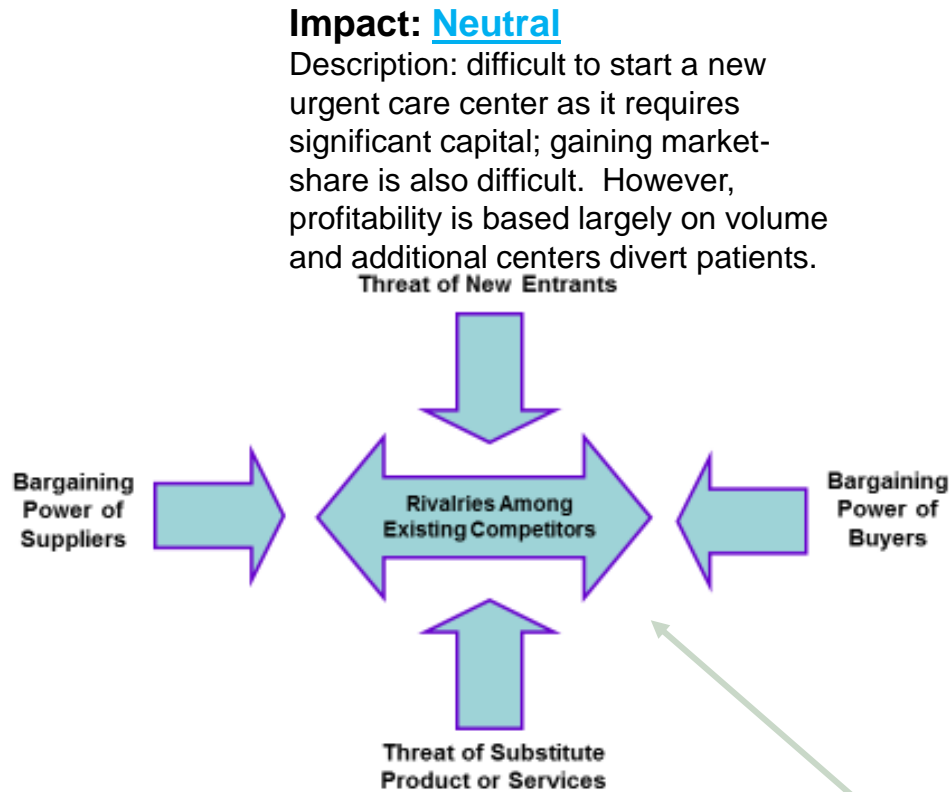
- International development (supplier power – funders)
- Arts organizations (substitutes)
- Ecotourism (customer power)

# Five forces analysis - Pediatric urgent care private practice

## Impact: **Favorable**

### Description:

Contracts with insurance are negotiated, generally favorably because of decreased costs to insurance by preventing ED visits – transfer rate of less than 1%. Also minimize testing due to pediatric experience, again decreasing overall cost.



## Impact: **Neutral**

Description: difficult to start a new urgent care center as it requires significant capital; gaining market-share is also difficult. However, profitability is based largely on volume and additional centers divert patients.

### Threat of New Entrants

## Impact: **Neutral/Favorable**

### Description:

In the areas where centers are opened, most patients pay with insurance and there is a favorable payer mix. Buyers come to these sites due to the differentiation of being pediatric and because of the kid-friendly experience provided. They are more willing to self-pay, as well.

## Impact: **Unfavorable**

### Description:

Urgent care has become a popular model, and there is one on every corner. Differentiation is critical (pediatric)

## Impact: **Neutral**

Description: lots of rivalry but well-positioned players will win



# Five forces analysis – Hospital transplant center

Impact: **Favorable**

Description:

- Barrier to entry high

Impact: **Unfavorable**

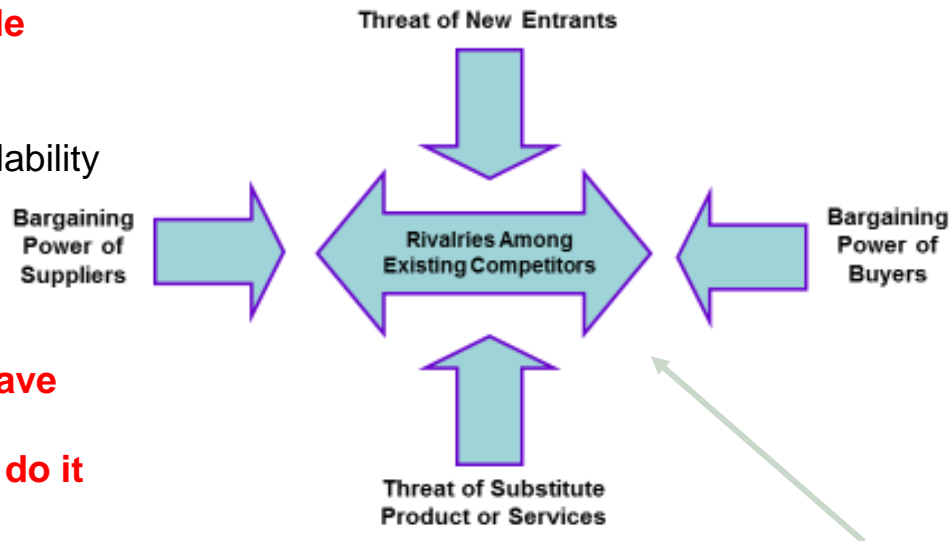
Description:

- = Insurance companies
- Price competition is nationwide, will send anywhere in US for lower cost (price)
- Medicare is buyer, so high regulatory requirements
- Can get Center of Excellence (top 5%) per organ

Impact: **Unfavorable**

Description:

- \* Limited organ availability



- \* **Good industry if have nerves of steel**
- \* **Growth industry if do it well, since highly segmented, only 250 centers nationally for kidneys. If do a poor job, get out of the market**

Impact: **Favorable**

Description: No substitutes yet

Impact: **Unfavorable**

Description:

- Great rivalry
- Different by organ & region (Duke, Georgetown, Hopkins, UVA, UMD)

# Five forces analysis: Aesthetic plastic surgery

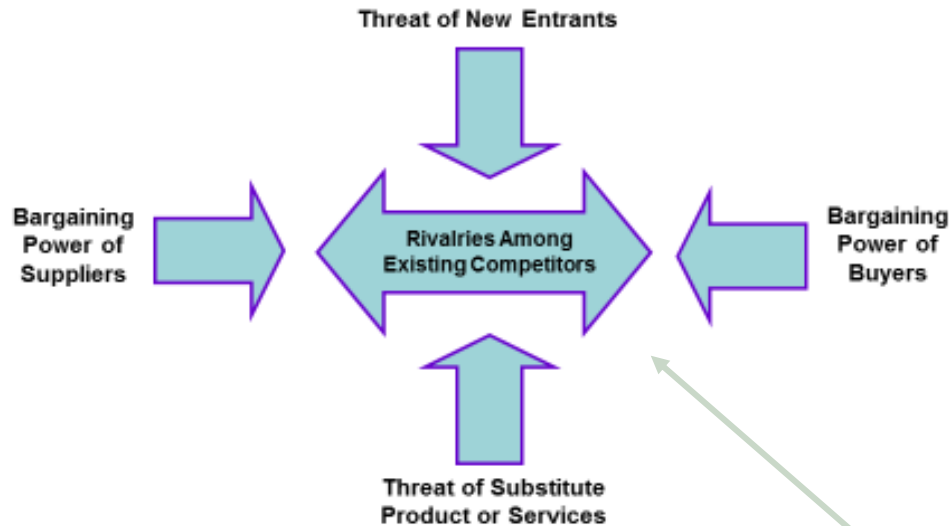
## Impact: **Unfavorable**

Description: No shortage of non-plastic surgeon and corporate medi-spa entrants; Highly competitive space with more entrants each quarter.

## Impact: **Favorable**

Because of our volume, we take advantage of volume based discounts with preferred vendors.

They get their products aligned with a reputable brand



## Impact: **Neutral-unfavorable**

Description: Price transparency (ie. Internet) leads to a more educated patient.

We feel this is a neutral impact for surgical patients. However, we find this is unfavorable for non-surgical treatments as it facilitate price-commoditization.

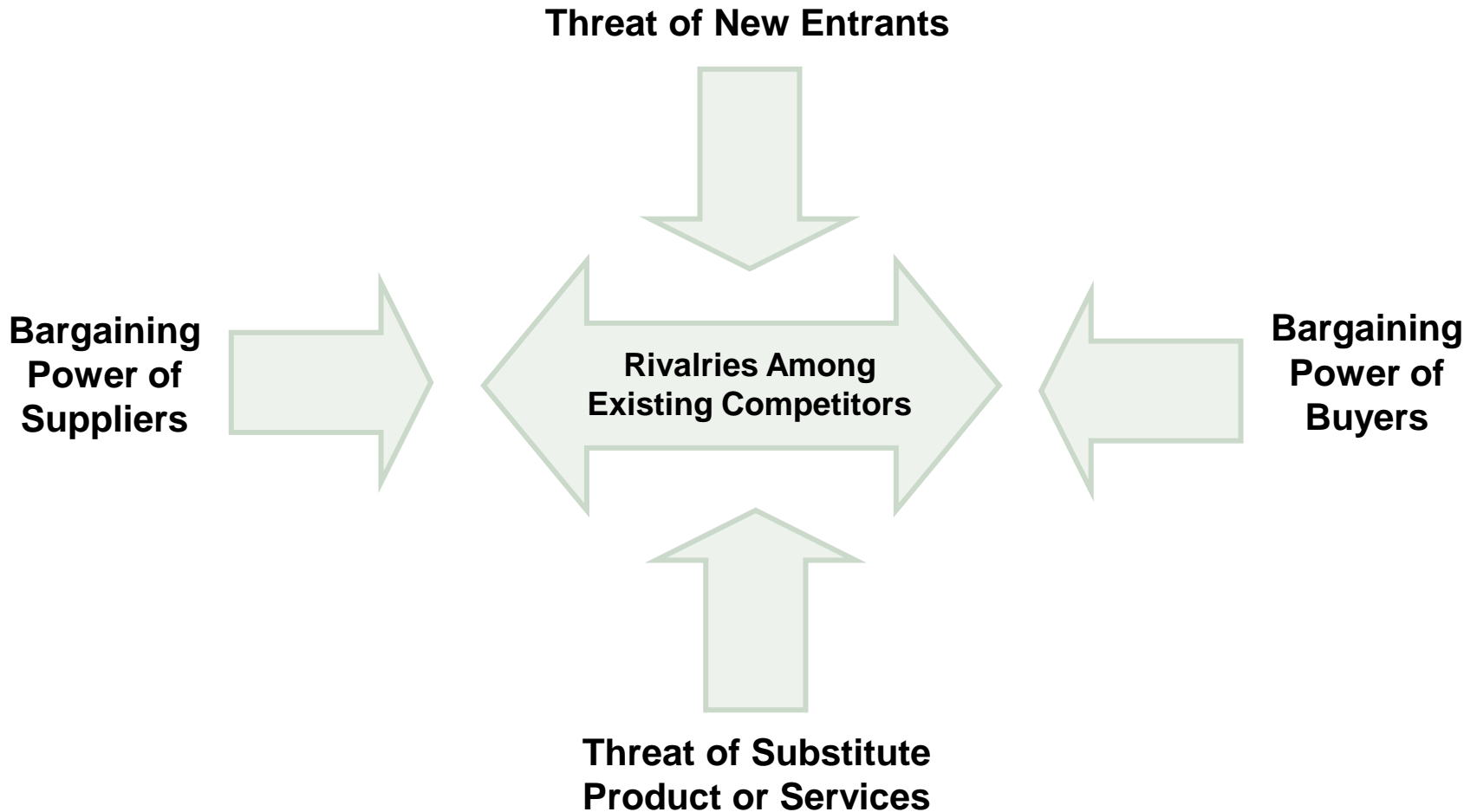
## Impact: **Favorable and Unfavorable**

1. Unfavorable as non-surgical technologies yields alternatives to traditional surgery
2. Favorable as new technology brings opportunities to reach more patients who may have been reluctant to opt for surgery

## Impact: **Unfavorable**

Highly competitive market  
Little opportunities to collaborate to scale  
We scale internally

# Five forces model of industry analysis



# Five forces exercise – Table groups

In your table groups, please select the business unit or organization for one member. Define the industry it plays in and perform a five forces analysis of that industry.

Identify which force or forces are most important for determining long term viability. Use the handout or some other format, and please identify any options the organization has for mitigating unfavorable forces.

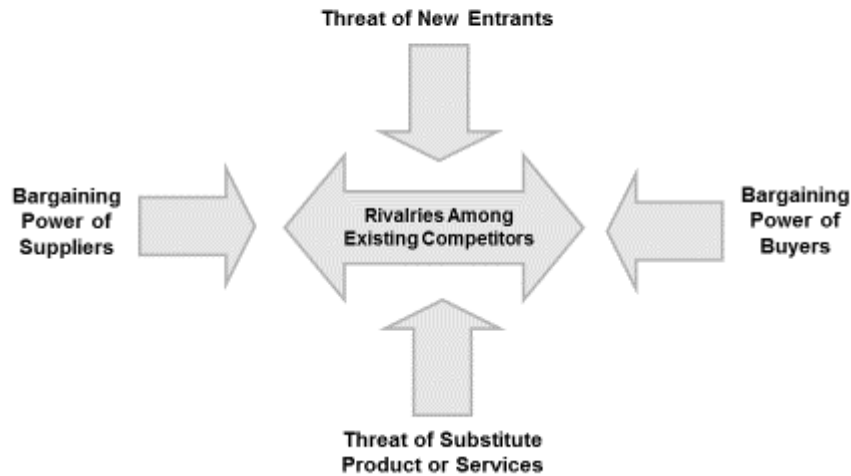
Please take 10 minutes to do this, and return to class prepared to share your results

If you have extra time, feel free to analyze the industry of another team member...



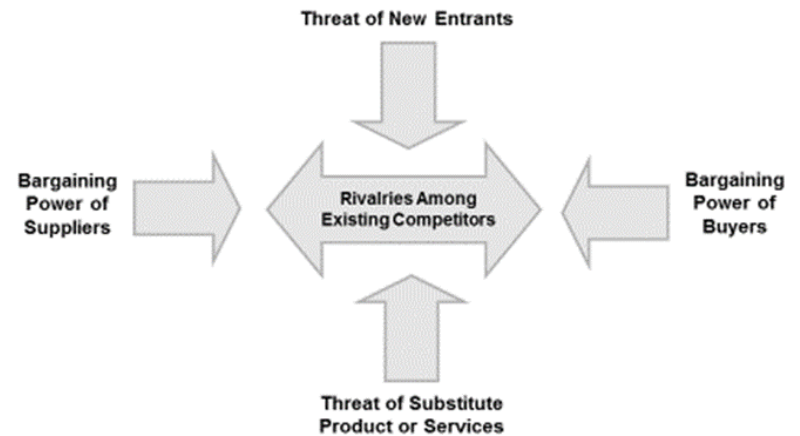
# Table group report out – Five forces

Five forces model of industry analysis



# How can a player reshape the industry?

- Neutralize supplier power by....
- Counter customer power by...
- Scare off new entrants by...
- Limit threat of substitutes by...
- Defend against established rivals by...



# How can a player reshape the industry?

- Neutralize supplier power by *having multiple vendors or standardizing specifications*
- Counter customer power by *expanding services to create lock in*
- Scare off new entrants by *elevating the fixed costs of competing*
- Limit threat of substitutes by *offering better value through wider accessibility*
- Defend against established rivals by *differentiating your products*

# Five forces analysis Specialized Cancer Care

Impact: **Favorable**, **Unfavorable**, **Neutral**

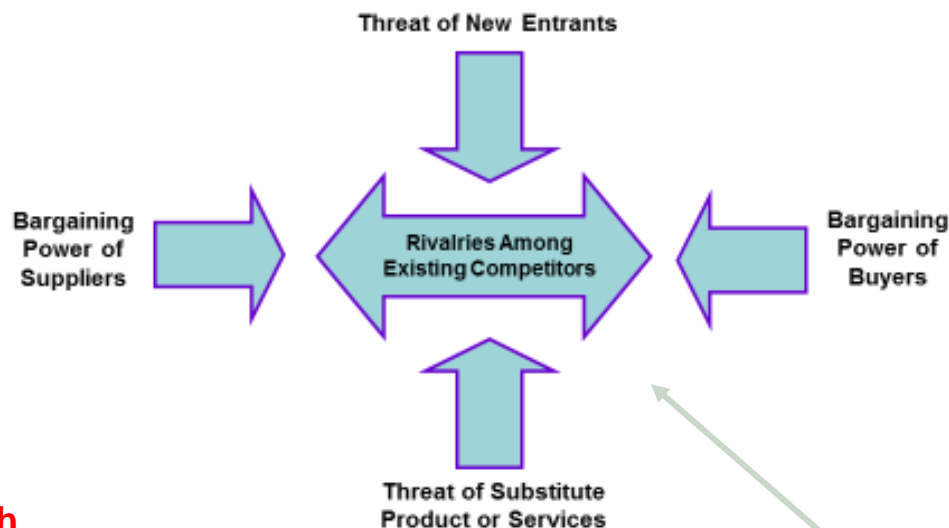
Description:

- **Other cancer centers (private groups)**
- **CMS regulations**

Impact: **Favorable**, **Unfavorable**, **Neutral**

Description:

- **PPS-Exempt (CMS)**
- **Econ of scale (drugs, supplies)**
- **Small compared to comprehensive health systems**
- **Government policy**



Impact: **Favorable**, **Unfavorable**, **Neutral**

Description:

- **Brand name recognition**
- **Insurance coverage**
- **Buyer information**

Impact: **Favorable**, **Unfavorable**, **Neutral**

Description:

- **Other large comprehensive health systems**
- **Proton therapy centers**

Impact: **Favorable**, **Unfavorable**, **Neutral**

Description:

- **Innovation**
- **Marketing power**
- **NIH funding for research**



## Five forces analysis (Specialized cancer care)

What could this organization do to improve its competitive positioning?

- Marketing (beyond current region)
- Lobbying (payors, fed/state gov)
- Broaden community outreach
- Promote clinical trials and research
- Community health and cancer screening

# Five forces template – Health insurance industry small player

**Impact: Unfavorable,**

Description:

Network providers (MDs/hospitals)  
Pharmacy Benefit managers (PBM)  
DME vendors

**Impact: Unfavorable,**

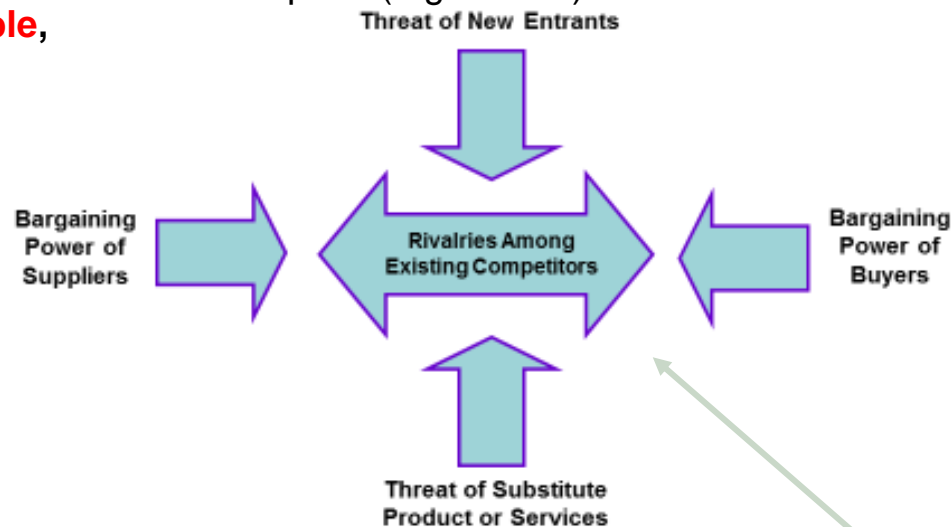
Description:

National payers (United, Cigna),  
other health systems starting health plans (Central Mass Health), Other disruptors (e.g. Haven)

**Impact: Unfavorable,**

Description:

Employer groups,  
individuals on marketplace



**Impact: Neutral**

Description:

Public option/Medicare expansion, going uninsured (younger, healthy populations)

**Impact: Unfavorable**

Description:

Government Regulation

What could this organization do to improve its competitive positioning?

- Differentiate from competitors
- Entering into new value-based care products with hospitals
- Develop lower cost options for healthcare (site of care)

# Reactions?

What do these examples suggest?



# Strategy in dynamic markets, part 1

# Strategy components

A strategy is an integrated set of choices  
that positions a firm in an industry  
so as to generate superior financial returns  
over the long run

Configure the firm by making internal choices to secure competitive advantage

Size up the external environment

**Sustain a firm's competitive advantage over time**

# What do these Products have in Common?

- Online education
- Steel mini-mills
- Lower cost airlines like Southwest
- Telephones
- Cheap “starter” cars
- Portable ultrasound devices

# The Toyota Crown

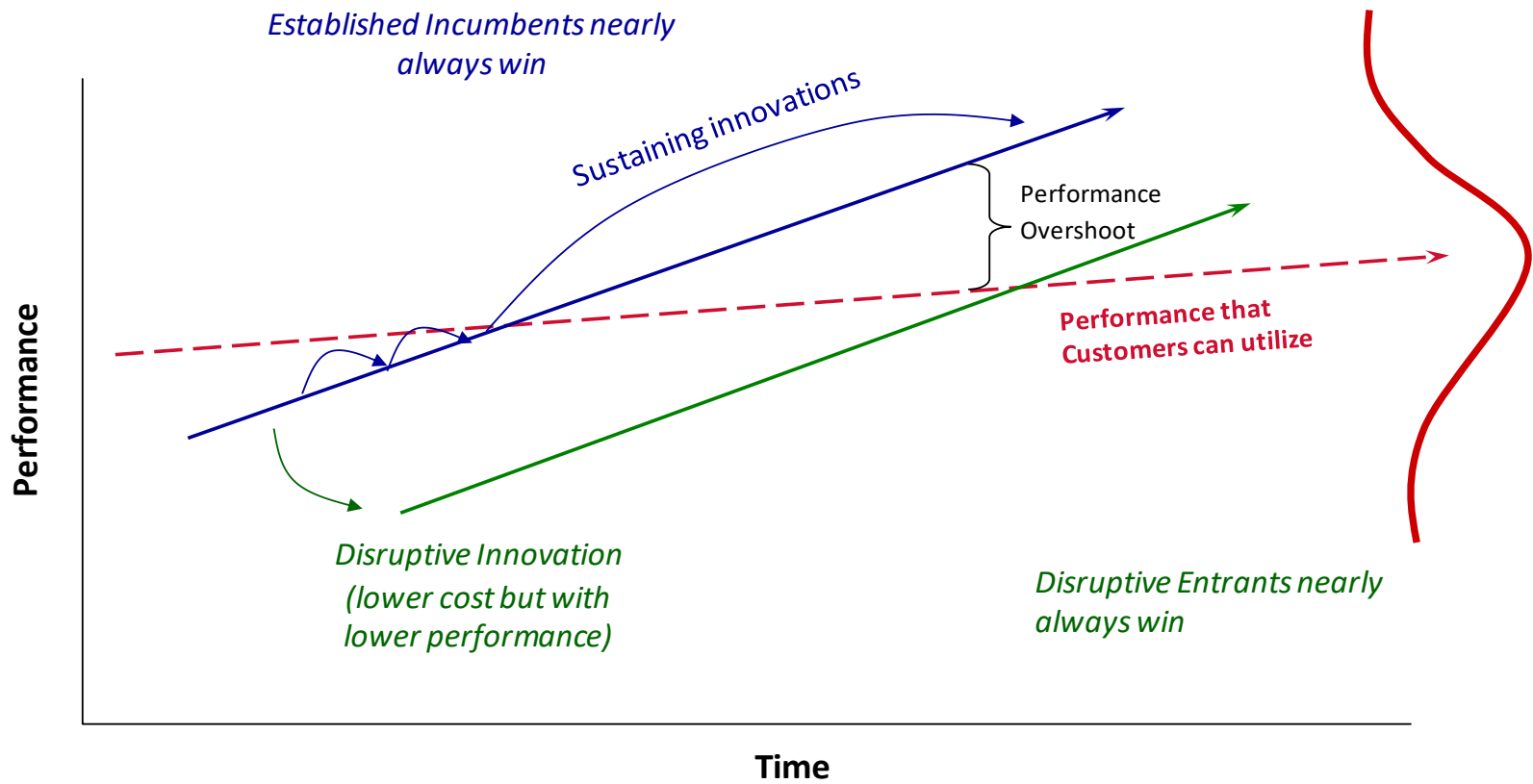




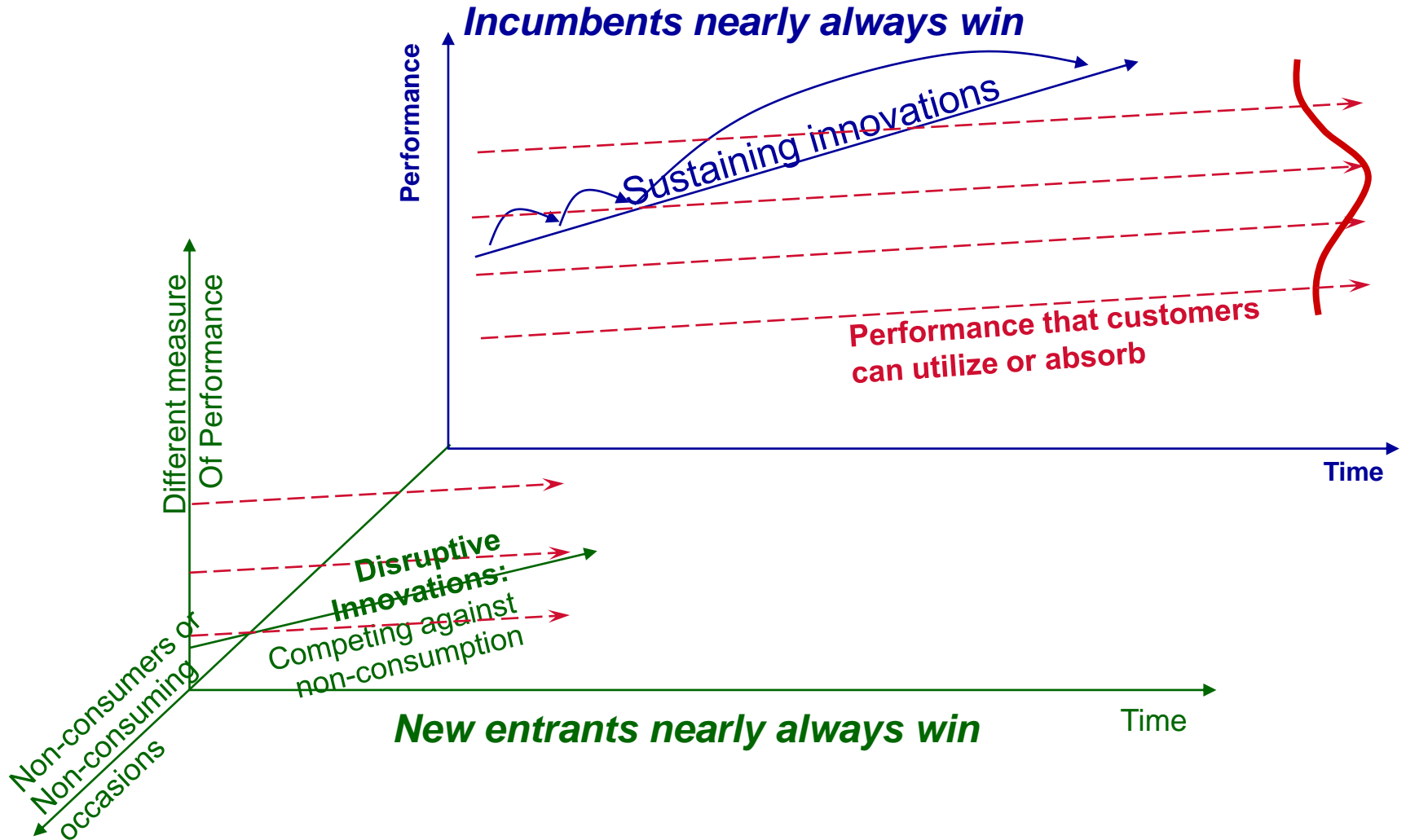
# Toyota today



# Defining disruptive technologies



# New market disruption



# Review: Breaking the tradeoffs – blue ocean thinking

**Red oceans** – Contested marketplaces where competitors compete fiercely for existing customers, diminishing value by aggressively competing on price or differentiation

**Blue oceans** – Uncontested marketplaces where participants offer customers a leap in value while streamlining costs, leading to healthy profits and rapid growth.

Please be back at 1:30



# Netflix case discussion



# Netflix case summary

- Reed Hastings founded Netflix with a vision to provide a home movie service that would do a better job satisfying customers than the traditional retail rental model. But as it encouraged challenges it underwent several major strategy shifts, ultimately developing a business model and an operational strategy that were highly disruptive to retail video rental chains
- Blockbuster, the nation's largest retail video rental firm, was initially slow to respond, but ultimately rolled out a hybrid retail/online response in the form of Blockbuster Online. Aggressive pricing pulled in subscribers, but at a price to both it and Netflix
- But a new challenge was on the horizon: video-on-demand

Who is a Netflix subscriber?





# Video – Netflix operations



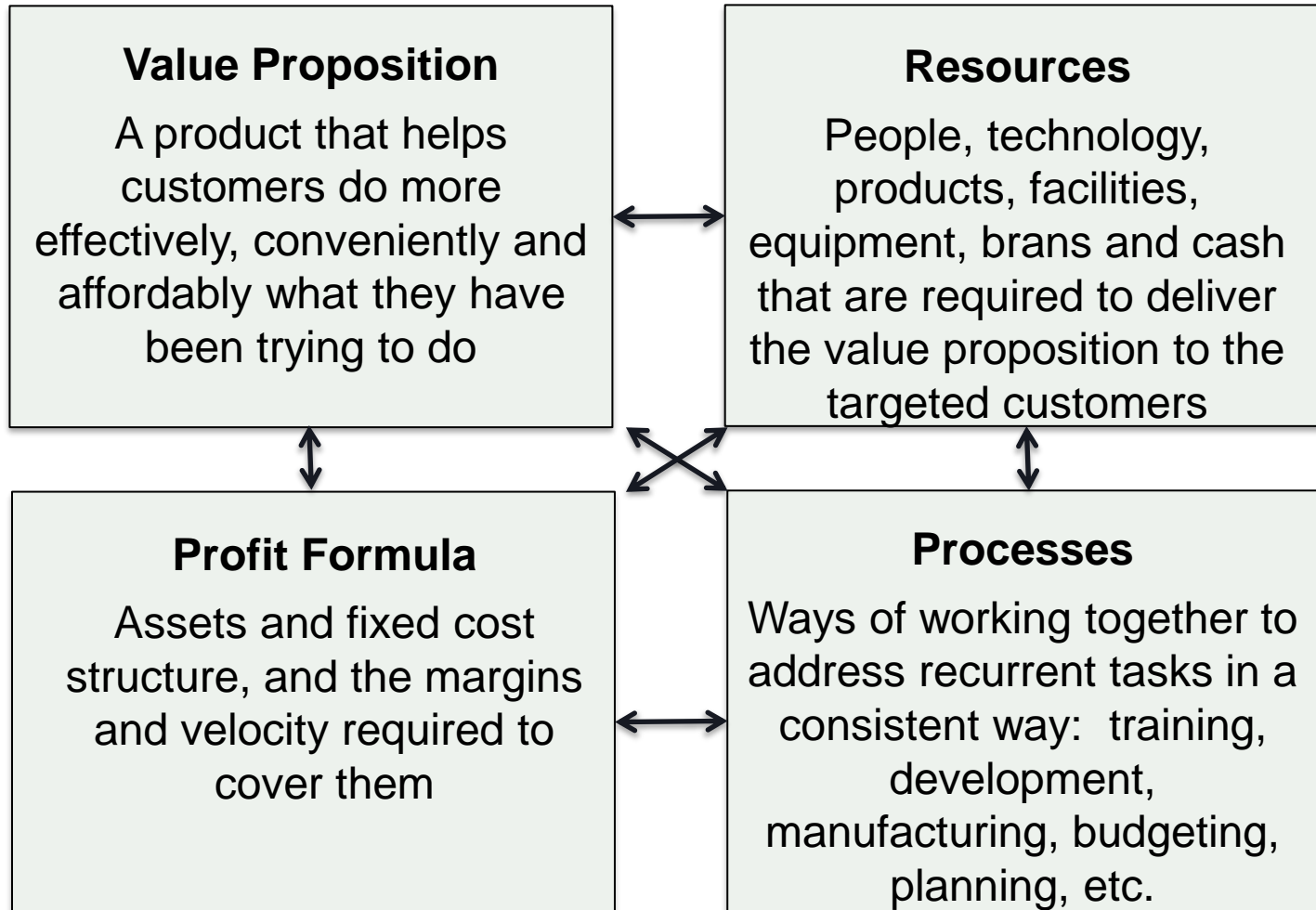
1:10 – 4:01

# Do you agree?



*“Companies rarely die  
from moving too fast, and  
they frequently die from  
moving too slowly...”*

# What is a Business Model?



# Discussion

If you were part of the Blockbuster management team in 1998 would you be worried about upstart Netflix?

Why or why not?



## In class exercise – Blockbuster in 2002

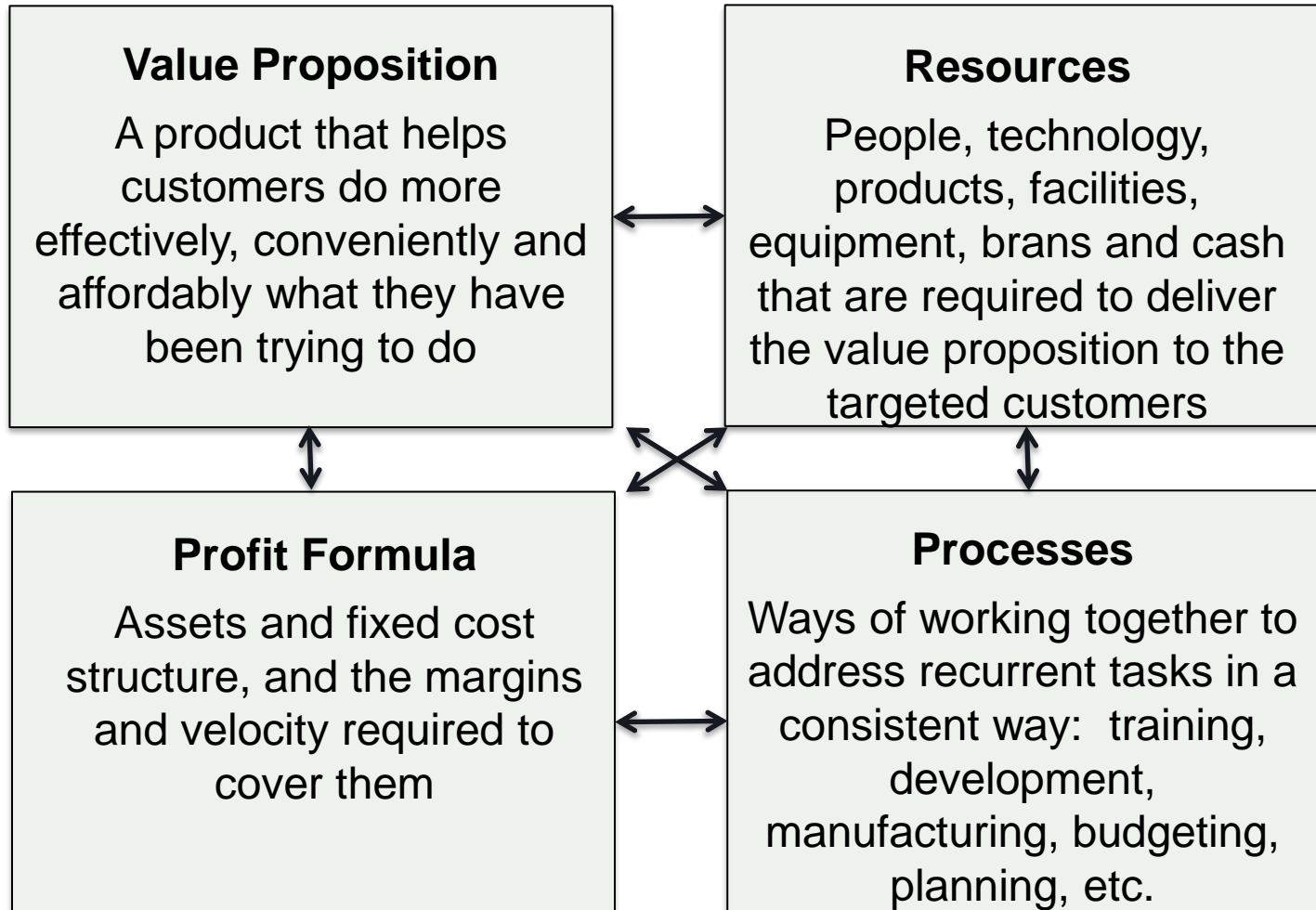
*“In 2002 Blockbuster enjoyed record levels of revenue and profitability, riding a wave of consumer DVD-player adoption which increased from 24% to 37% in just one year.”*

*“2002 represented Blockbuster’s fifth consecutive year of same-store growth and the Blockbuster brand achieved nearly 100% recognition with active movie renters.”*

In table groups-

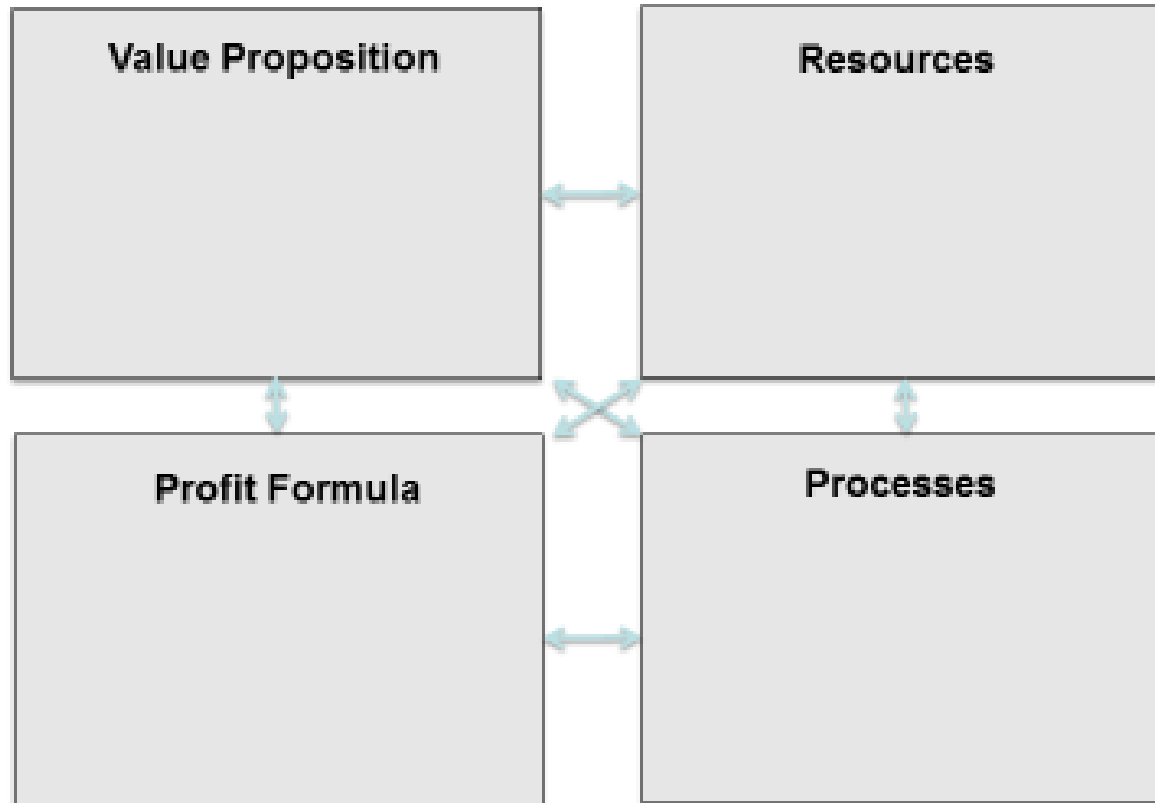
- Please analyze Blockbuster’s business model circa 2002
- Return to class ready to discuss your assessment of Blockbuster’s competitive position

# What is a Business Model?



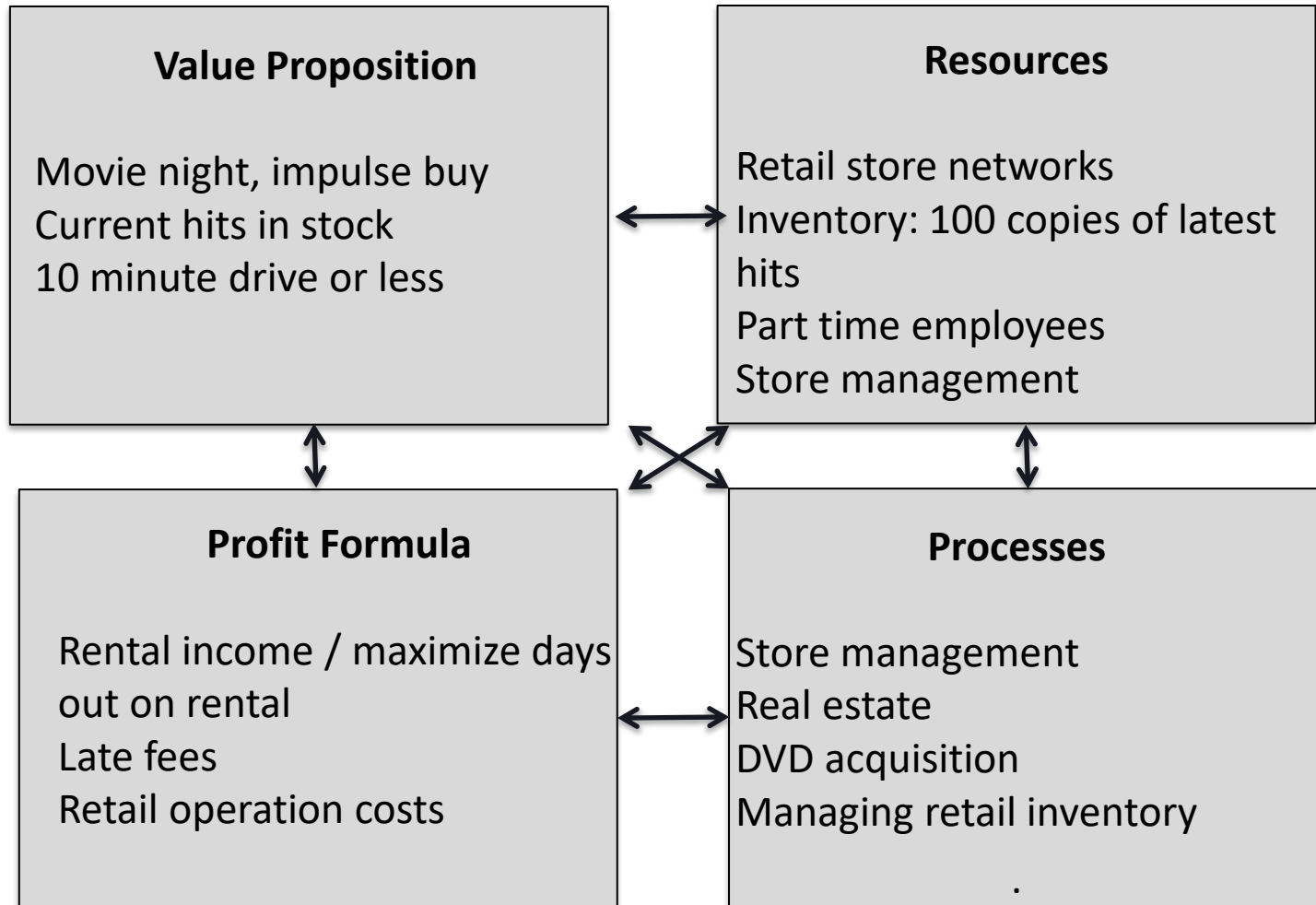
# Discussion

What did your team analysis reveal?



Adapted from Christensen and Johnson, "What are Business Models. And How are They Built?"

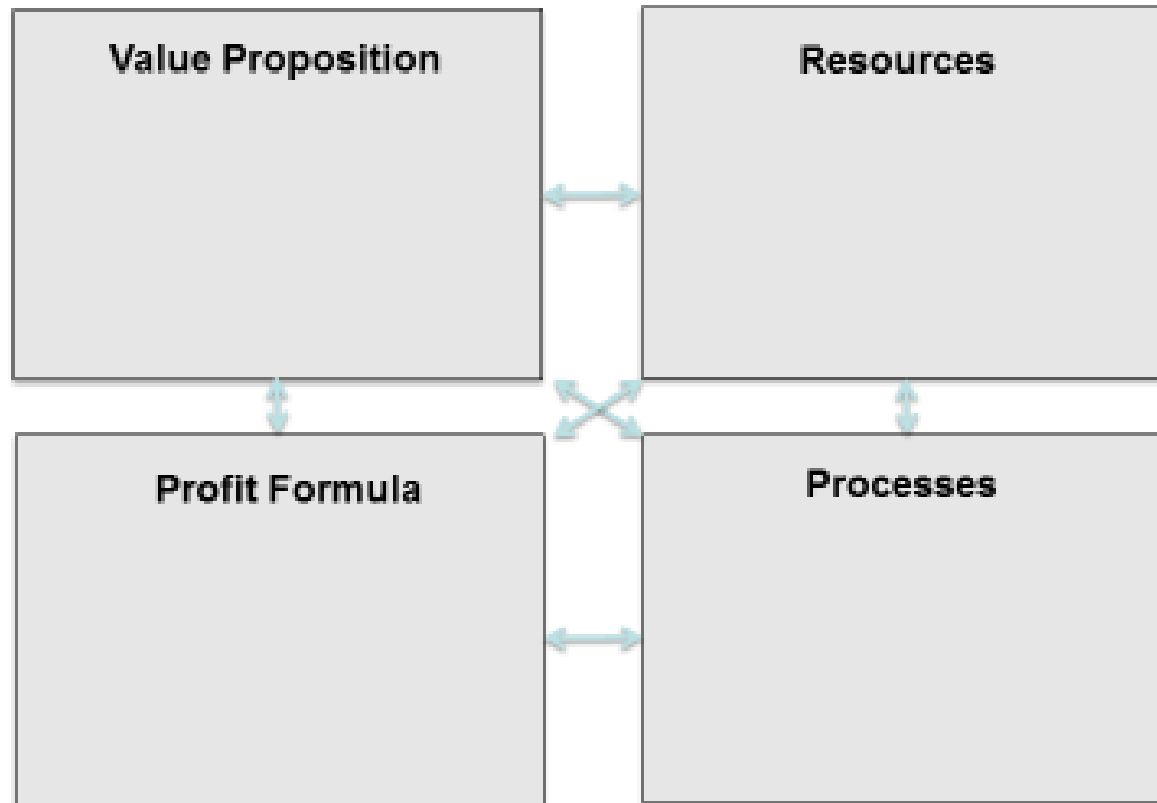
# Blockbuster business model





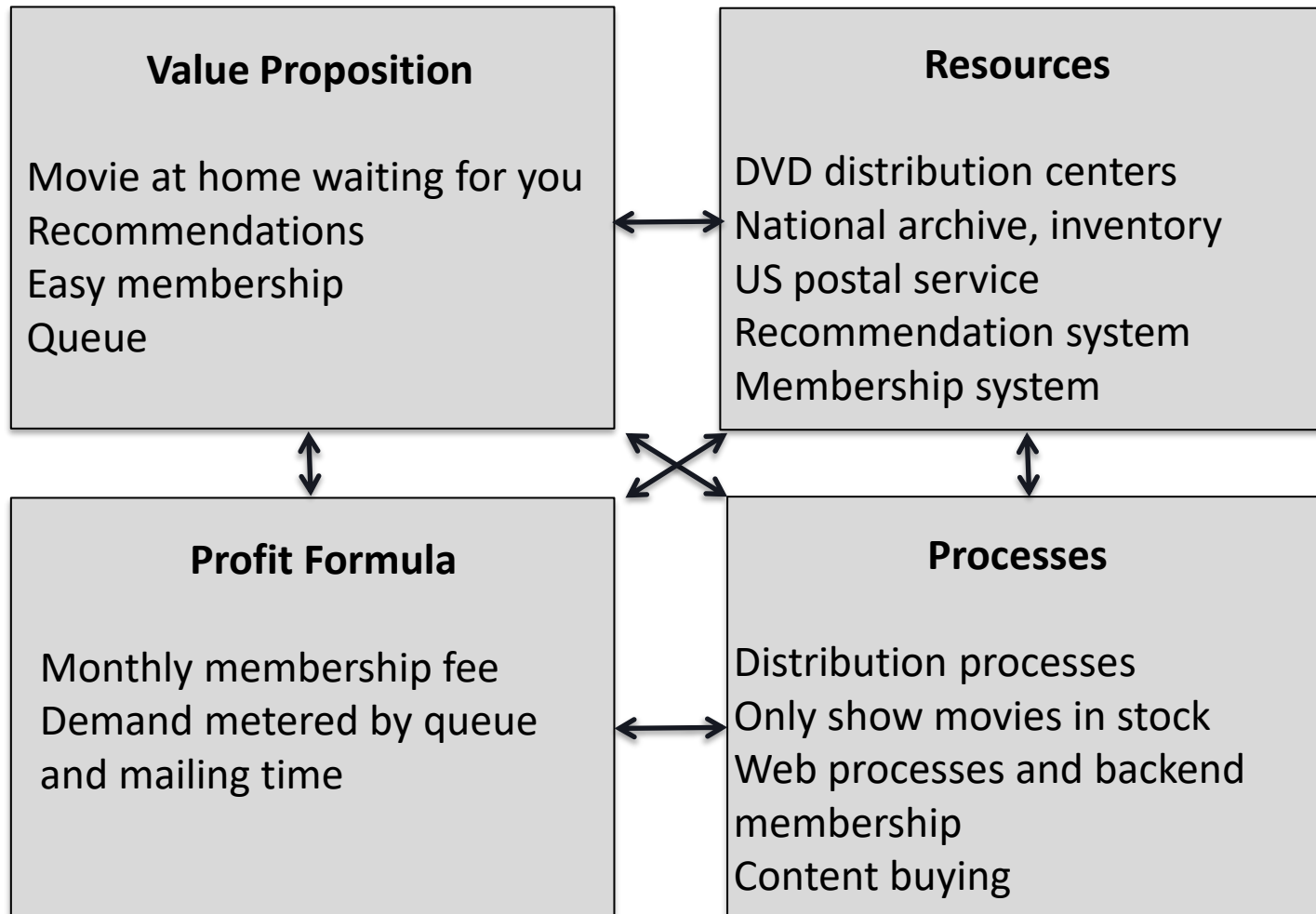
# Discussion

How is Netflix different?



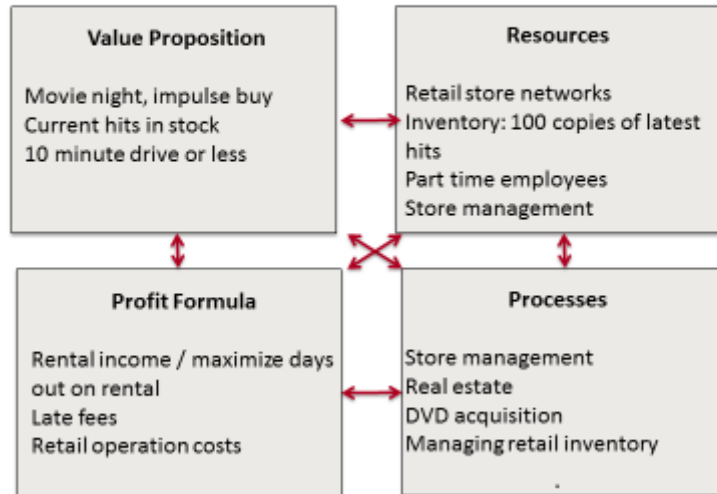
Adapted from Christensen and Johnson, "What are Business Models. And How are They Built?"

# Netflix DVD business model



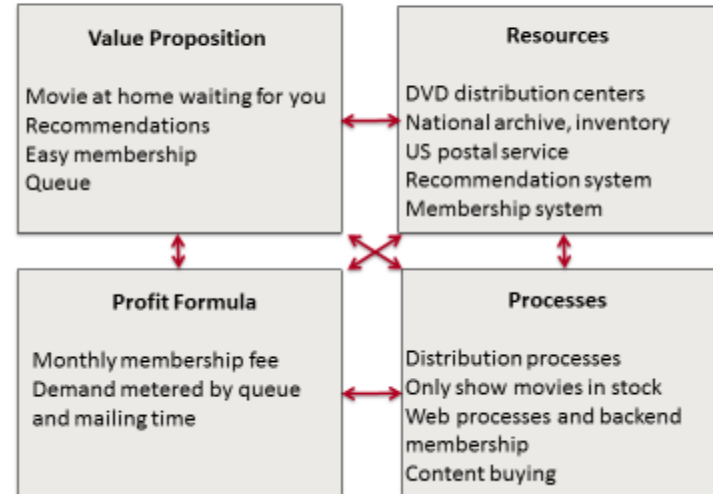
# Why do these differences matter?

## Blockbuster business model



Adapted from Christensen and Johnson, "What are Business Models. And How are They Built?"

## Netflix DVD business model



Adapted from Christensen and Johnson, "What are Business Models. And How are They Built?"

## Discussion

If Blockbuster was so well-positioned, why was Netflix able to disrupt their model, and ultimately drive them into bankruptcy?



# Discussion

What options might Blockbuster have pursued to defend against the Netflix threat?



Netflix was able to dominate largely by staying ahead of technology...

...but things are changing as we move to streaming as the dominant delivery mechanism



# Was Netflix Successful as a First Mover?

## First mover advantages

- Can set the industry standard
- Form strong and lasting customer relationships
- More time to refine operations
- Control over key resources (maybe)
- Establish high switching cost
  
- Example: Amazon

## Later mover advantages

- Learn from the mistakes of earlier movers / reduce risk
- Reduce startup costs
- Adapt existing practices / choose most efficient
- Used newer technology when first mover is locked in
- Potentially more adaptable (first mover may stick with original strategy)
  
- Example: Google, Southwest

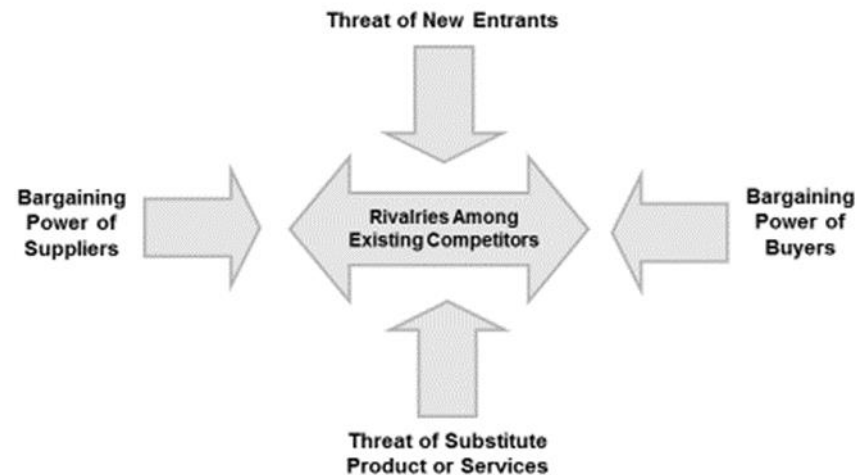
# Five forces discussion

*“We have to license a large set of content for a relatively large amount of dollars...but that also means that there are barriers to other people doing the same thing...its expensive for us to build a big market but its also expensive for someone to compete with us.”*

*-- Reed Hastings*

**What was Netflix’s five forces industry position with DVDs?**

**How is it changing as they move to streaming?**





## Netflix moves to streaming

Netflix moves to streaming, but it is a very different business model

...and they maintained their legacy DVD by mail business

But there were conflicts between the two business models

**Was this predictable?**

## Netflix tries to have it both ways

- Netflix announced its plan to split the two business (DVD/Streaming)
  - Quickster
  - Netflix
- No longer have subscription program and DVD combined
- Pricing essentially doubled for all users, customers who wanted both had to pay \$15.98

**There was a huge, negative consumer reaction**

**What should Hastings do now?**

# Break

**Please be back at 3:45**



# Strategy and execution

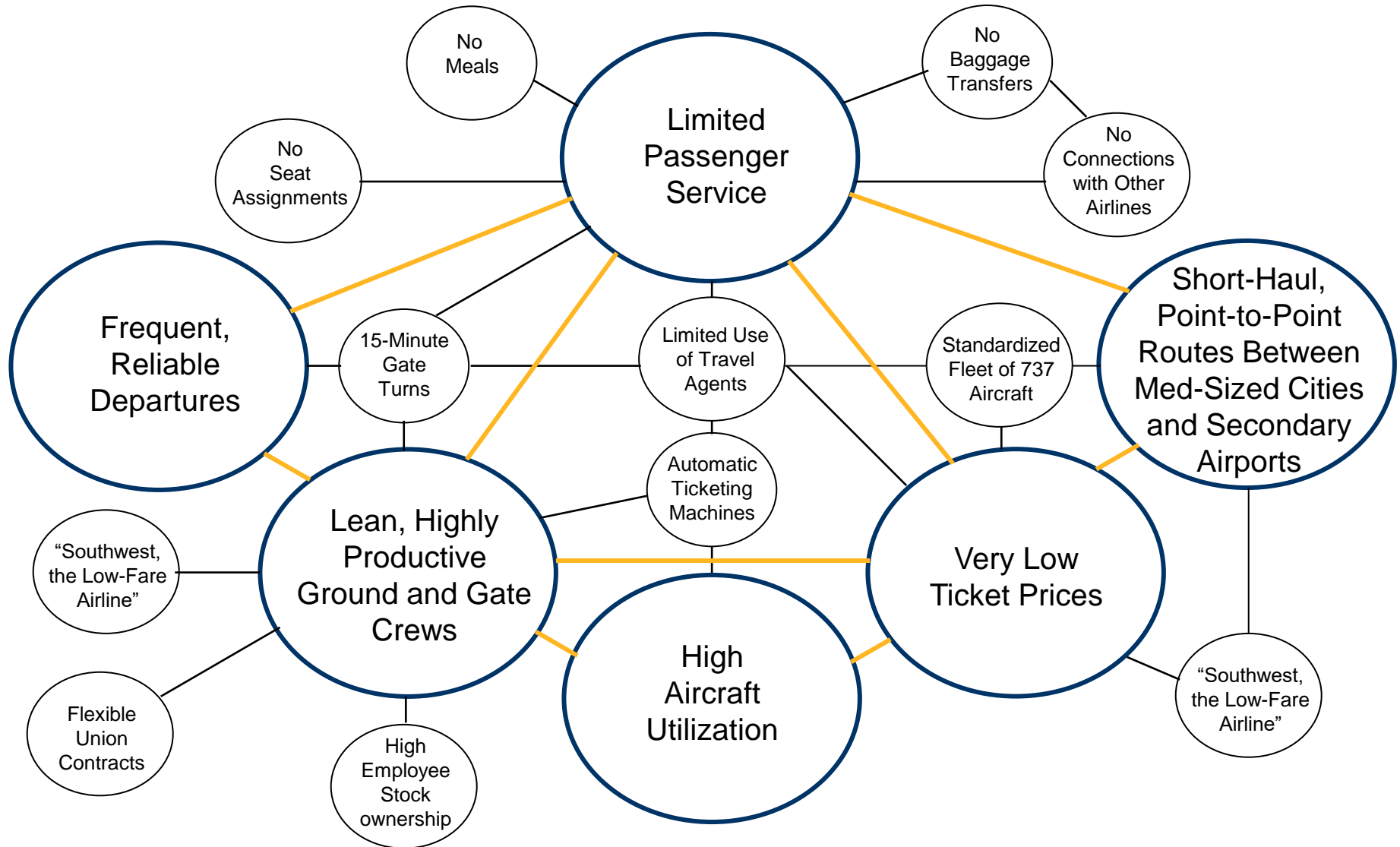
# Aligning strategic goals and capabilities

- Business capabilities grow out of the ***fit across interlinked activities***
  - The configuration of one activity raises or lowers the relative competitive value of other activities
- Competitive advantage rests in the entire system (the “business model”), not in the individual constituent parts or functions

# Competitive advantage

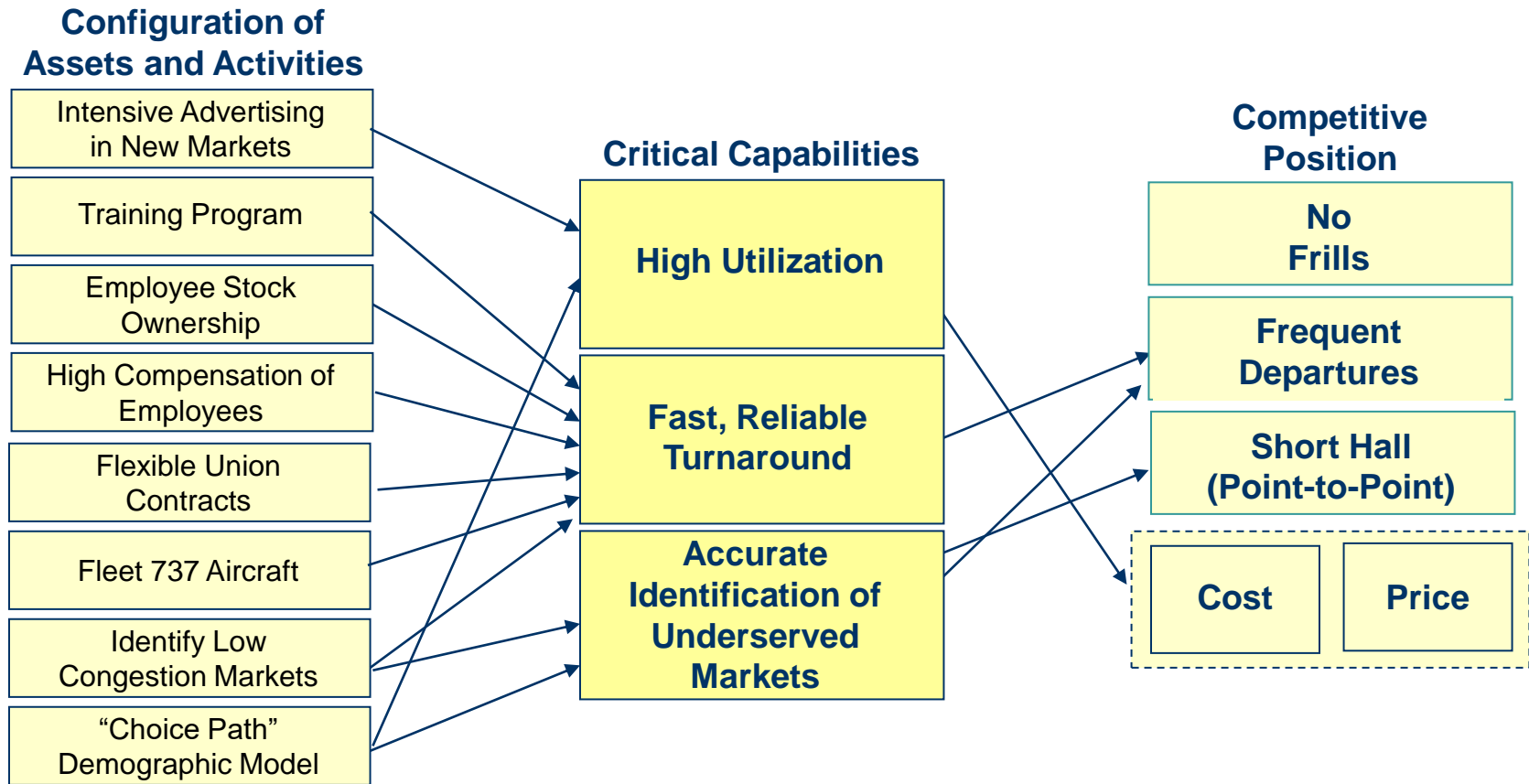
- Description of what the firm does differently, better, or uniquely compared to all other competitors
- Can be divided into two components
  - What is the value proposition to the customer?
    - What advantages do we provide them?
    - Why should they engage with us?
  - How we will deliver that distinctly?
    - The unique aspects of the firm's configuration of activities that enables us alone to deliver that particular value proposition

# Aligning goals and capabilities: Southwest Airlines' interlinked activities



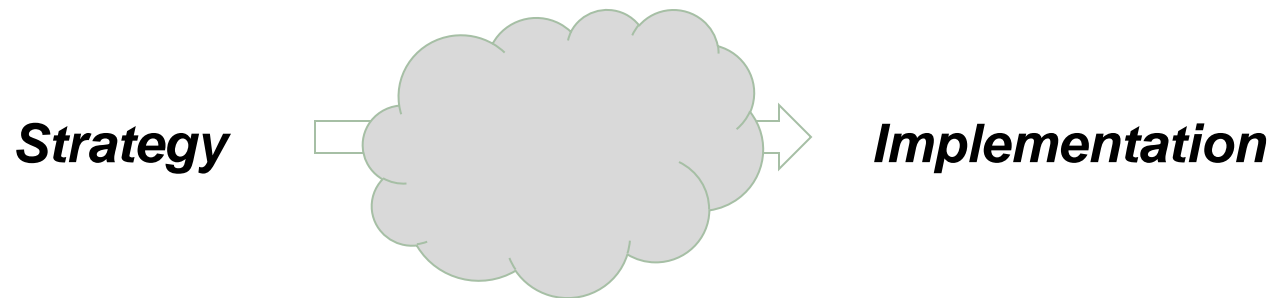
# Aligning goals and capabilities: Southwest Airlines' interlinked activities

In turn, the “fit” of these linked activities drives capabilities and a company’s relative competitive advantage...





# A common problem



Why does this happen?

# A little theory...

## ***Turning Great Strategy into Great Performance Mankins and Steele***

- Keep it simple: describe what your company will and will not do
- Challenge assumptions: reflect real market dynamics
- Speak the same language: different parts of the organization need to be on the same page, benchmark externally
- Discuss resource deployment early
- Identify priorities: make strategic priorities explicit, so everyone knows what to focus on
- Continuously monitor performance: track real time results against plan, include KPIs
- Develop execution ability

# Difference between business strategies and functional tactics

## Specificity

Business strategies provide general direction

Functional tactics identify the specific activities needed to meet short term objectives

## Time horizon

Business strategies typically focus on 3 – 5 years in the future

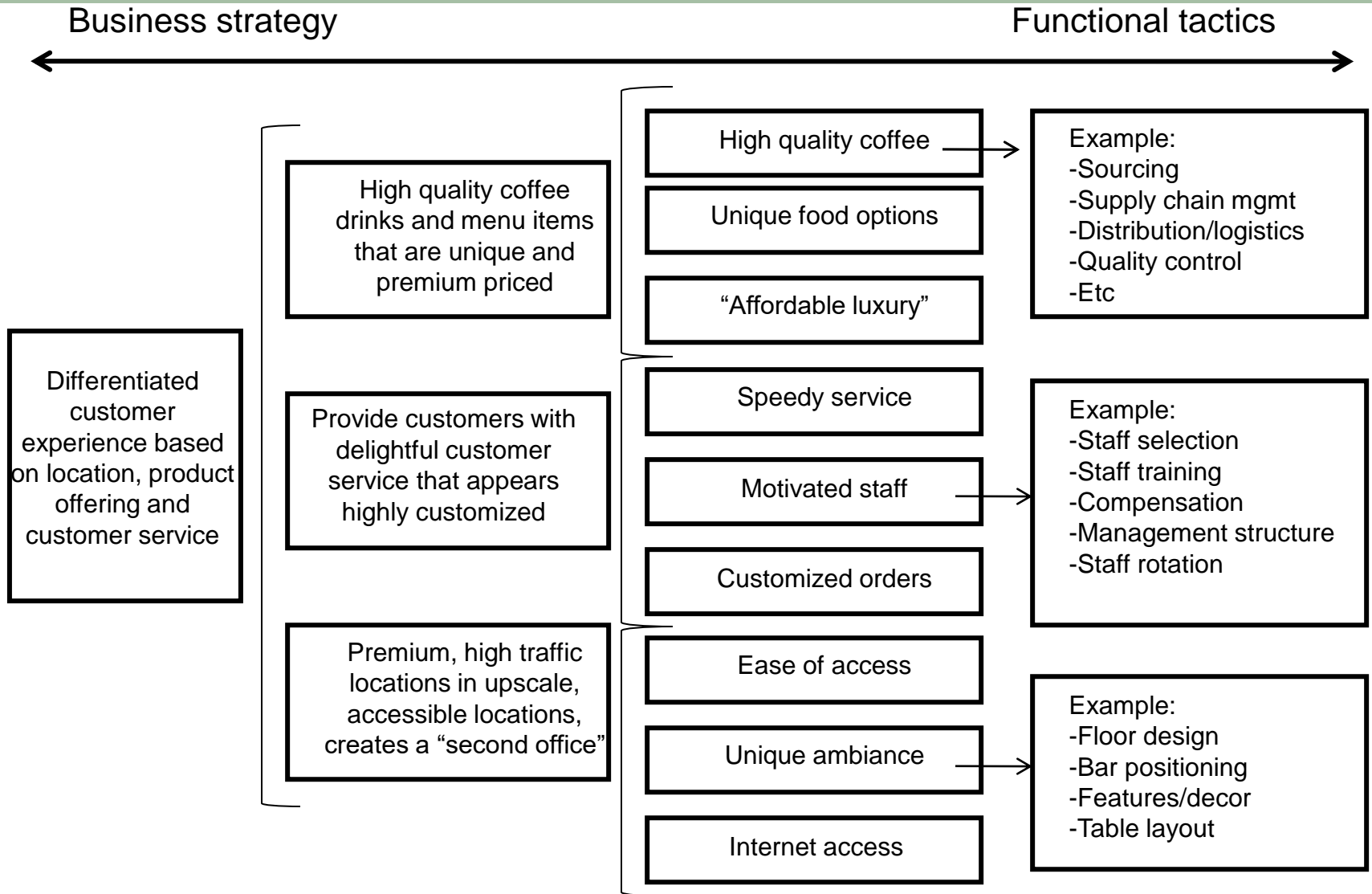
Functional tactics are immediate

## Participants

Business strategies typically undertaken by the general manager of a business unit

Functional tactics typically driven by operating managers

# Starbucks example



# Summary

- Great strategy is useless without strong implementation
- Organizational design matters
- Careful attention to decision rights and information flow enables organizations – commercial or mission-driven – to be effective
- Strategy often happens at the top level of an organization – but important that it be informed by all levels (and often be driven by line staff) to be effective
- “Culture eats strategy for breakfast”  
(Peter Drucker)



# Recap: the link between strategy and implementation

What needs to happen for strategy to be effectively implemented?

**Clear Communication** with stakeholders

**Strong Leadership**

**Alignment** with the organization's mission, vision, and values

**Effective Decision Making and Resource Allocation** (financial, human, and technological) in a way that supports the strategy

**Employee Involvement and Engagement**

**Organizational Culture**

**Flexibility and Adaptability**

# Zola Case Summary

In April 2020, Rachel Jarrett, President and COO of wedding technology company Zola, called a meeting with the organization's key decision-makers. The company had previously launched three business expansions: a vendor marketplace, a wedding apparel division, and a honeymoon-planning service.

The March 2020 onset of COVID-19 had prompted many couples to delay or cancel their weddings, and it was unclear how long the pandemic would last. As a result, Jarrett and Zola CEO Shan-Lyn Ma knew that they could only fully invest in one of the three new businesses, while they could pursue a second business with limited funding. To decide the appropriate path forward, Jarrett and Ma sought the perspectives of the company's leadership team through a four-step decision-making process that Jarrett had developed.

The process, which the team called "taking a vote," began when the key decision-maker delivered a data-driven presentation on a discrete set of options for a given strategic dilemma. During the meeting, the Zola team must decide which business to pursue, which to continue in a limited way, and which to pause. Jarrett must also decide how to proceed if the team's opinion differed from her own.

# Implementation and Decision Making

The rational process is based on the premise that people behave rationally and logically when making complex decisions:

1. Define the problem
2. Generate alternatives
3. Identify the relevant criteria
4. Weigh the criteria
5. Evaluate each alternative on each criterion
6. Compute the optimal decision



**How often is the rational process used in your organization?**



# Amending our ideas on process

## Assumptions of the Rational Model

When making a decision, we consider all relevant alternatives and accurately assess their outcomes

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We use absolute standards and factual information to evaluate and choose among alternatives

---

We evaluate all alternative simultaneously using objective measures and choose the best one

## Evidence from Organizations

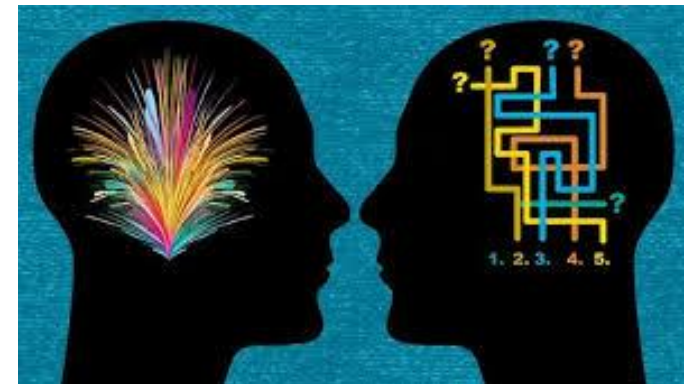
Due to our limited information processing capabilities, we typically consider only a small set of alternatives

---

We often have an implicit favorite choice and bend the facts to meet this preference

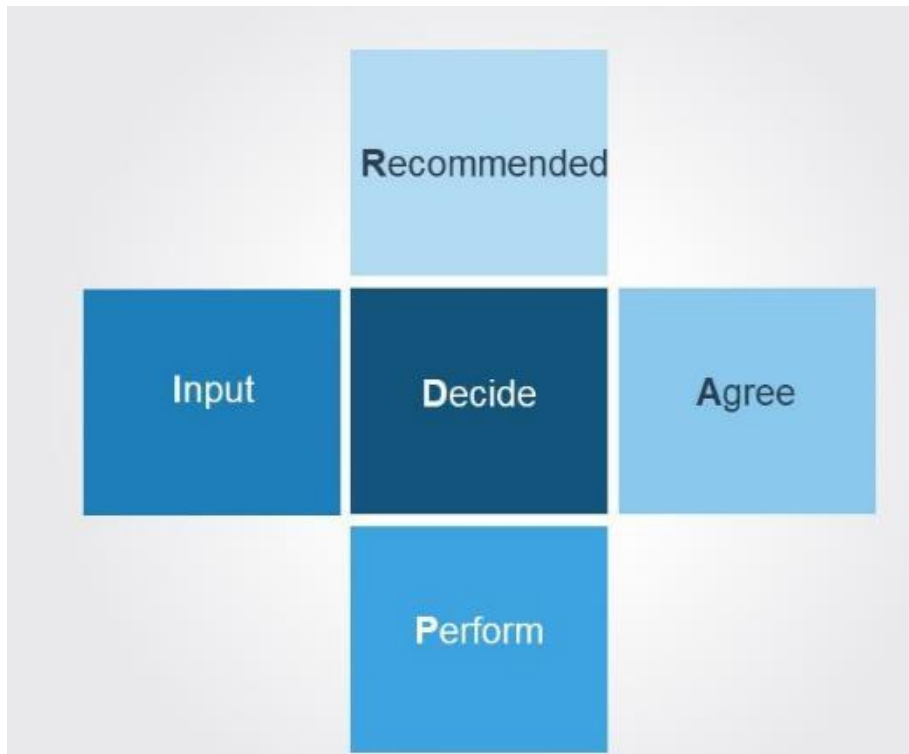
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We often evaluate alternatives sequentially and choose the one that is “good enough” at different points



**How consistent is this with your observations?**

# Who has the D – the RAPID model



# Show of Hands

Which option do you personally think the Zola team should invest in?

\_\_\_ Honeymoon Travel



\_\_\_ Vendor Marketplace



\_\_\_ Wedding Apparel

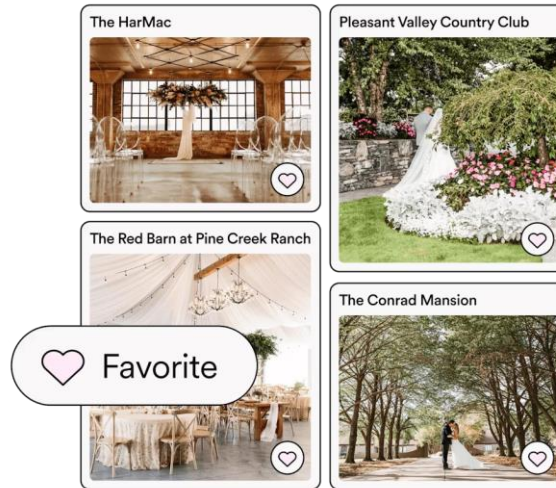


# Table Group Discussion – 5 mins

Which of the three options should Zola invest in? Why?



Honeymoon Travel



Vendor Marketplace



Wedding Apparel

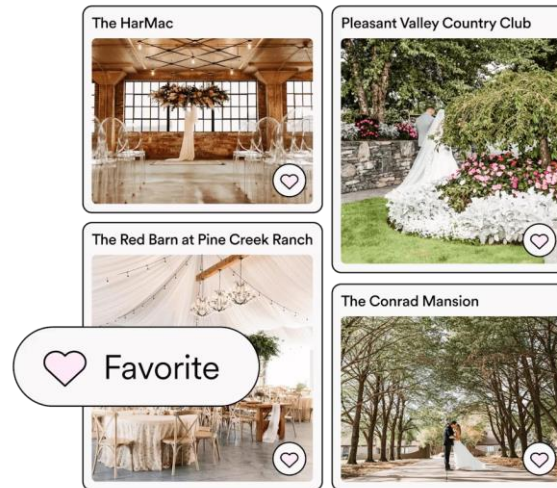
# Table Group Results

Which of the three options were favored by your group?

Did you use a rational process to make this recommendation?



Honeymoon Travel



Vendor Marketplace

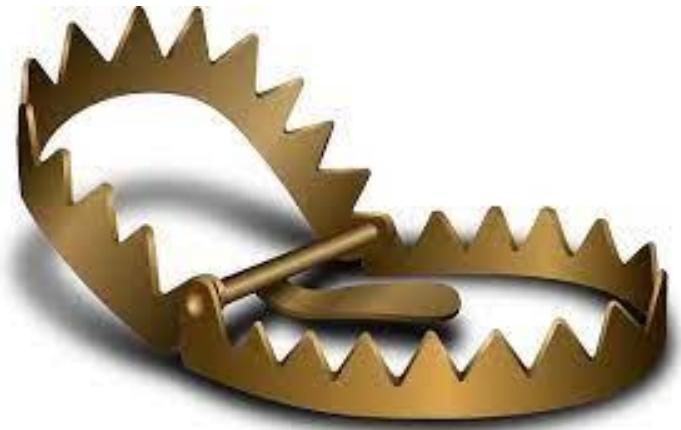


Wedding Apparel

## Which Might You Have Experienced?

### The Seven Common Traps of Human Irrationality

- **Framing trap** – how choices are presented to us
- **Confirmation trap** – we prefer confirming vs. disconfirming information
- **Availability heuristic** – form judgements based on ease of recall or accessible examples
- **Anchoring effect** – early information strongly affects our judgements
- **Overconfidence** – human tendency to be overconfident when making judgements
- **Representativeness heuristic** – make initial judgements conforming to previously formed stereotypes
- **Escalation of commitment** – continue to invest even when it is no longer logical to do so



# But wait...

If the rational process has so many flaws, what would be better?



# Guiding question

How would you characterize the decision-making process at Zola?

Is it a good fit for the organization?





# “The Vote”

“The Vote”



The key decision-maker delivers a data-driven presentation on a discrete set of options for a given strategic dilemma.



The team conducts an anonymous vote, followed by a discussion in which each team member explained the reasoning behind their vote.



Finally, the team votes a second time on the ideal path forward.



**Upper management then decides whether to follow this vote**

## Pro

Zola's take a vote process  
**is effective** for making  
decisions

## Cons

Zola's take a vote process is  
**not effective** for making  
decisions



# What makes Zola's process work?

In your view, what conditions need to be in place for a process like Zola's to be effective?



# Conditions for process effectiveness

What conditions need to be in place for a process like Zola's to be effective?



- *Jarrett and Lyn-Ma's leadership style – engage and empower*
- *High psychological safety*
- *Trust among team members*
- *At Zola, the small size enables fewer silos*
- *Zola's culture of open dialog and debate, transparency and mutual respect, supports this process*
- *Shared norms: rules understood, team members accountable to each other*

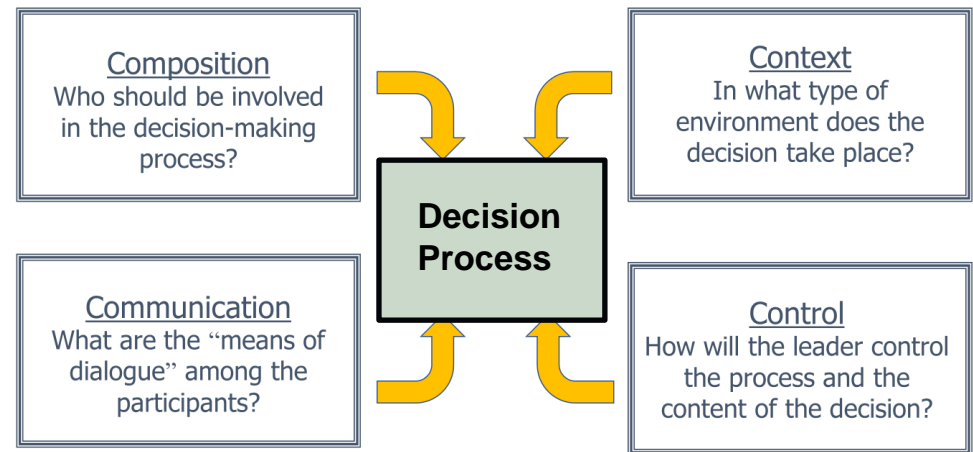
# Psychological Safety and Deciding how to Decide

## Psychological Safety and Accountability



Adapted from work by Amy Edmonson

## Deciding How To Decide



Adapted from work by Michael Roberto

# Discussion

Leaving Zola aside for a minute, based on your experience what do you see as typical dysfunctions of team decision-making



# Discussion

How might Zola's process go off the rails?

Where are there risks in this kind of approach?



*“Practicing fair process means being clear about who the decision-maker is, inviting input from those who will be impacted (and being explicit about how it will be used), explaining the decision, and outlining expectations once a decision has been made.”*

-- The Management Center



What are the components of a fair process?

Voice

Consideration

Opportunity for  
Influence

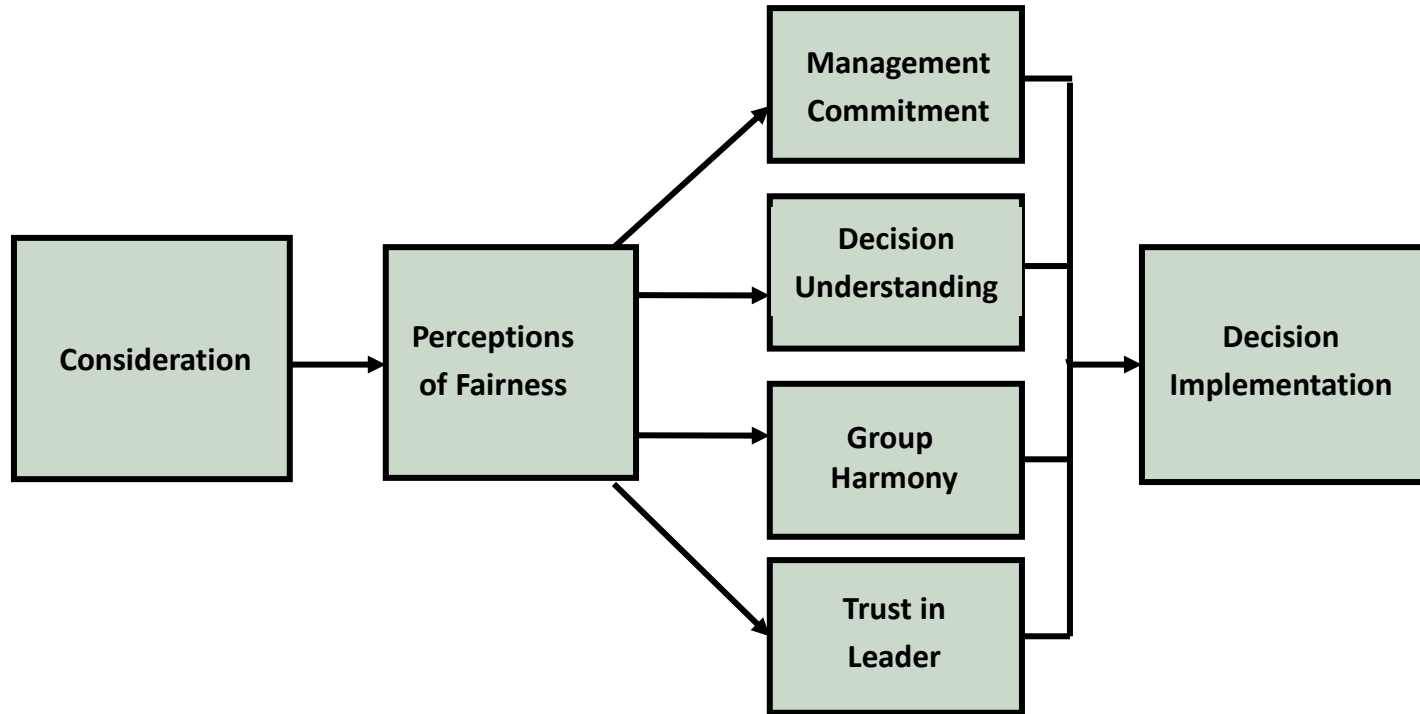
Transparency



The key insight—allowing people to voice their opinions is not enough

Source: Mike Roberto

# Why is this important to effective implementation?



Source: Mike Roberto

# How leaders do this

Leader Techniques	Illustrative Statements
Provide a process roadmap	<i>"Here are the key steps in the decision process, and here is how I plan to make the final decision."</i>
Reinforce an open mindset	<i>"I have some thoughts about how we should proceed, but my position is tentative. I am quite open to changing my mind. Let me remind you how I have amended my initial views in the past..."</i>
Listen actively	<i>"I think you are suggesting that none of the existing options enables us to meet our objectives. Have I understood you correctly?"</i>
Explain the decision rationale	<i>"I selected this course of action based upon the following criteria..."</i>
Explain how input has been used	<i>"Your views and advice regarding this decision influenced my thinking in the following way..."</i>
Express appreciation	<i>"I am very grateful for all the input and advice that I have received. Everyone's comments have been valuable."</i>

Source: Mike Roberto

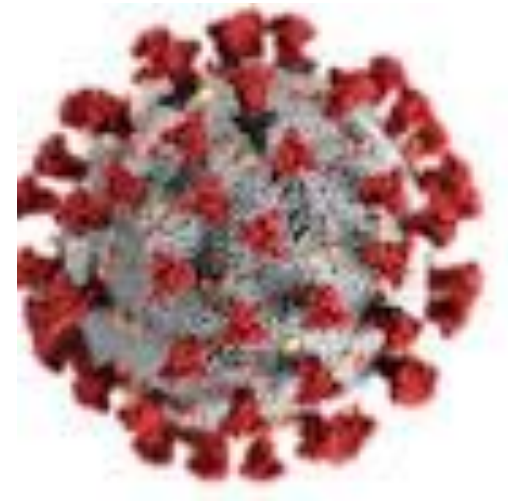
# Choices

What would you do differently if you were on the ZOLA Leadership Team?



An important backdrop to the case is the COVID-19 Pandemic, which effectively halted most weddings

How did this contribute to Zola's decision-making challenges?



# Decision making under pressure at your organization

Has your organization experienced similar pressures on decision making?

How was it handled?

Is a fair process approach always used?



- Effective decision making is at the core of effective strategy implementation
- Good organizations pay close attention to decision rights and processes
- Even when we think we are being rational, there are numerous “traps” and cognitive biases in decision processes
- There are many team-based dysfunctions in decision making that good leaders must overcome
- If decisions are going to stick, they need employee engagement; this is built from trust and fair process and supported by culture and shared norms

4:45 – 5:30

Peer to peer  
project reviews





## Saturday Agenda

7:00 – 7:30

*Breakfast*

7:30 – 9:30

Finance discussion with Guest Speaker Al Swallow

9:30 - 9:45

*Break*

9:45 – 11:00

Customer Centricity and Cleveland Clinic case discussion

11:00 – 11:15

Reflections and Take Aways

11:15 – 11:30

Course Assessment

# SUPPLEMENTAL SLIDES

# Some additional decision-making models

## Small group process

Making effective decisions with just a few people



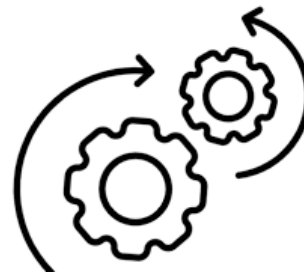
## Analytics

Using data and quantitative models to support decision-making



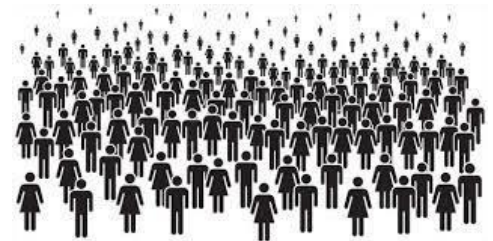
## Automation

Using decision rules and algorithms to automate decision processes



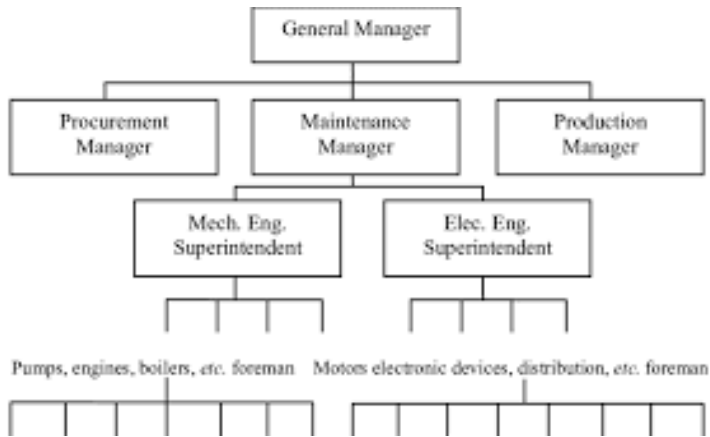
## Wisdom of crowds

Using surveys or markets to allow decisions and inputs by large groups



# Organizational forms

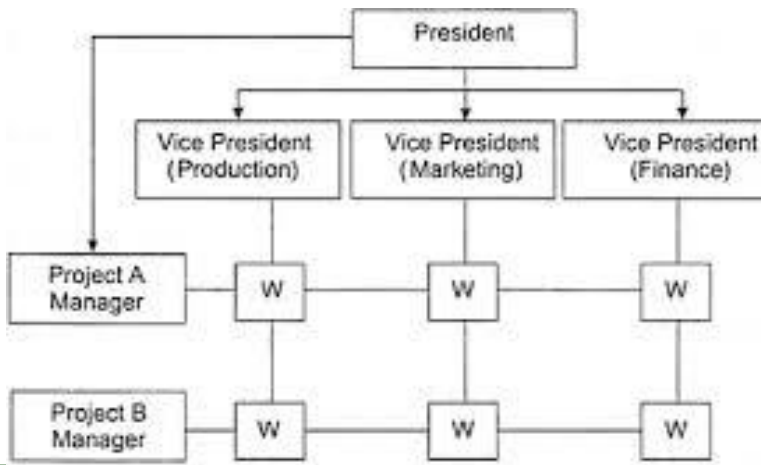
## Functional



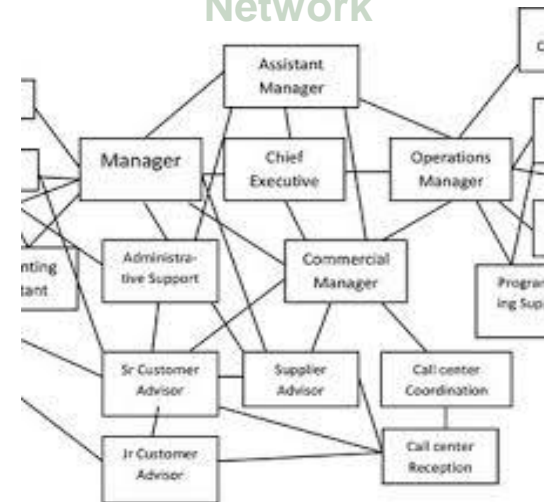
## Divisional



## Matrix



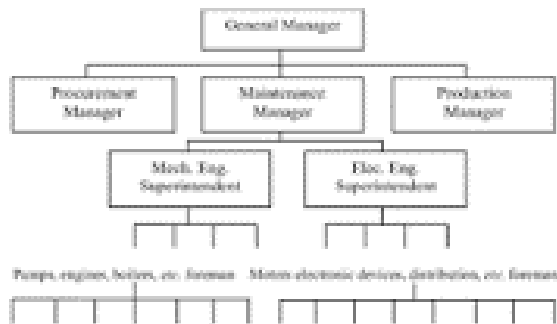
## Network



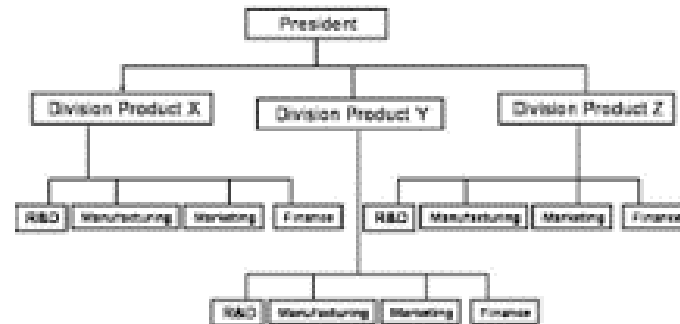
# Discussion

If you were trying to develop an organization that provided Covid-19 contact tracing, which form would you choose and why?

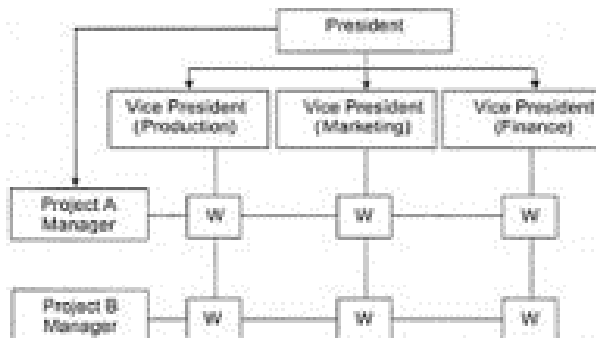
**Functional**



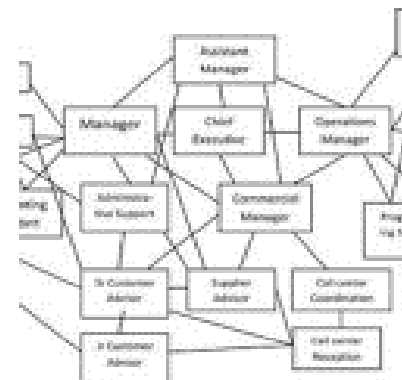
**Divisional**



**Matrix**



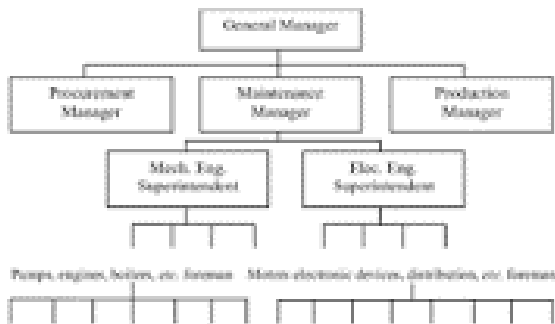
**Network**



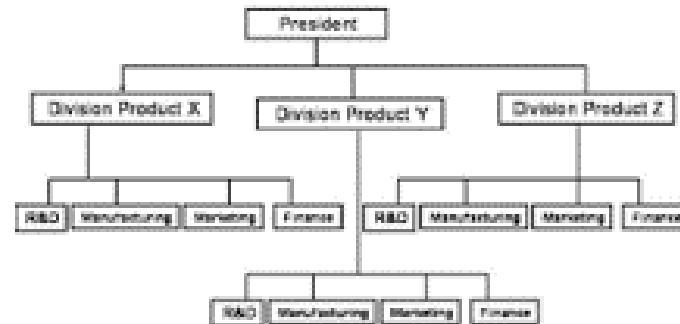
# Discussion

If you were trying to develop an organization that manufactured COVID 19 test kits, which form would you choose and why?

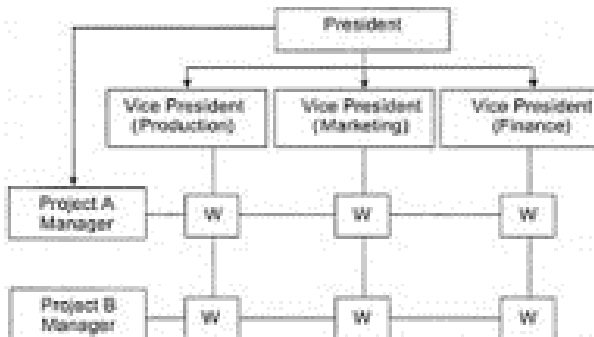
**Functional**



**Divisional**



**Matrix**



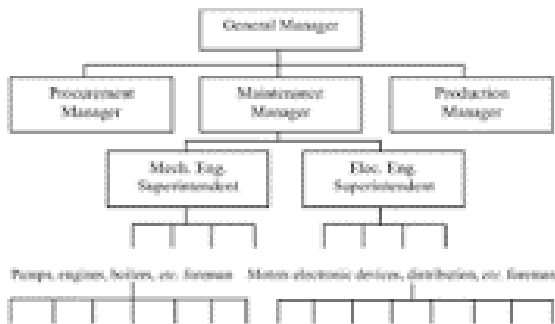
**Network**



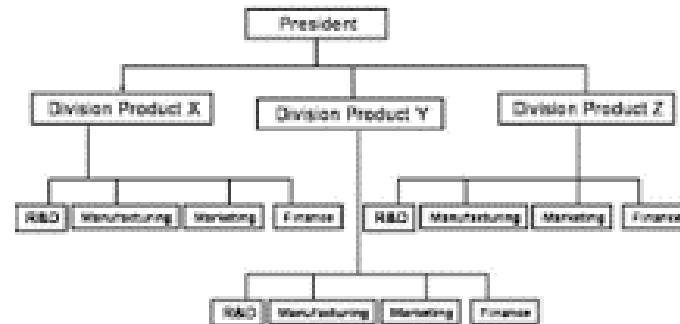
# Discussion

If you were trying to develop an organization that was working to create AI solutions that supported post-COVID 19 economic recovery which form would you

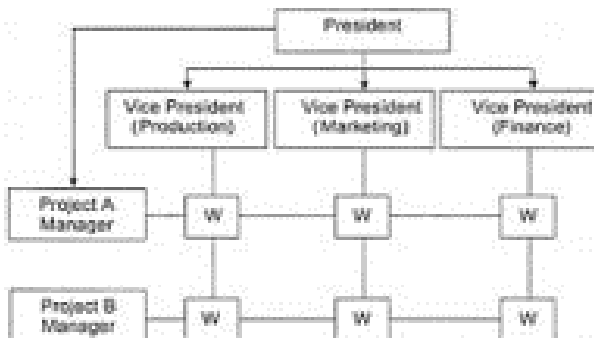
**Functional**



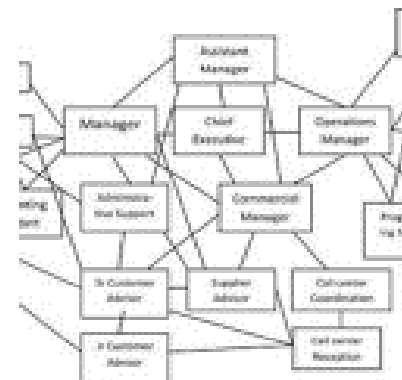
**Divisional**



**Matrix**



**Network**



# Just for fun...

