What Gets in the Way of Great Strategy?

Seven common pitfalls trip up leadership teams.

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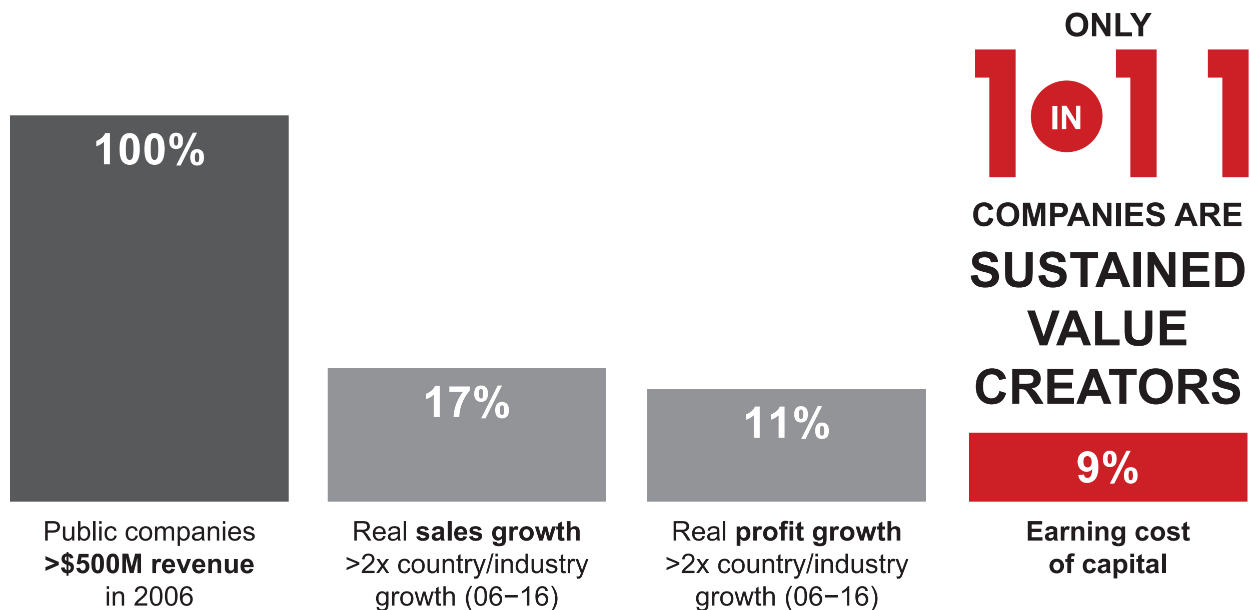
At a Glance

- Bain research shows that most companies struggle to sustain profits over 10 years.
- We've identified seven common ways companies tend to undermine their own success.
- Turning mediocre strategy into great strategy is about focusing scarce resources on where a company can and should win.

Great companies manage to create more value than the sum of their parts. Yet most struggle to select the right assets and operate them in the right way. Bain & Company research shows that just 1 in 11 companies outperform their market over a 10-year period. The rest are merely keeping up or falling behind *(see Figure 1)*.

What gets in the way? Obviously, there's no easy answer. But in our work with leadership teams around the world, we've been able to identify seven common pitfalls that trip up leadership teams as they develop and execute strategy.

Figure 1: Surprisingly few companies manage to sustain growth over time



Notes: Growth benchmark is >2x country/industry real growth with a minimum of 5.5%; earning cost of capital defined as above average total shareholder return; analysis of 4,500+ companies (inflated universe) in 43 advanced and developing economies
Sources: Capital IQ; Bain & Company analysis

Tilting toward the assets you own vs. those you should own. Leaders tend to hold on to their existing businesses for too long, rather than regularly asking themselves the "best owner" question. That's because strategies are too often limited by the current business perimeter. They ignore opportunities to capitalize on adjacencies or build new, transformative profit engines. They aren't attuned to threats from new players.

Leaning on today's management routines. Managers tend to get locked into their existing reporting structures and routines, making it easy to define their business that way. They then fail to recognize the true boundaries and interdependencies among business units. They can achieve greater clarity by looking *across* the organization to determine where units share customers, costs and capabilities. Leaders also tend to think about the potential of each of their businesses incrementally, relative to today's results. That often leads to what we call "satisfactory underperformance" and discourages a full-potential perspective aimed at accelerating away from today's performance.

Too much "today forward," not enough "future back." In the absence of crystal balls, companies try to extrapolate strategy from the past and spend a lot of time scrutinizing short-term forecasts. They downplay or ignore the "future back" perspective, which bolder teams use to produce a fresh and radical set of alternative industry scenarios. In times of disruption, especially fast-paced digital disruption, companies benefit by understanding potential shifts in their ecosystems and how these might affect their position, as well as what implications any change has for their strategy.

World-class strategies generate growth and sustained profitability when they focus scarce resources—a company's capital, time, talent and energy—on where it can and should win.

Allocating resources democratically. When leaders lack transparency on investment options and potential returns, a couple of things happen: Rather than set clear priorities and resolve trade-offs across the portfolio, they allocate capital like peanut butter, spreading it evenly across the enterprise based on last year's performance, not future potential. They also get defensive, focusing too much on protecting against downside scenarios and not enough on capturing upside.

Ignoring the value-creation lens. Corporate leaders too often look at the P&L only, which narrows the focus on top-line growth and margin improvement. Total shareholder return depends on more than that. It relies on external valuation, cash-flow choices and capital structure. Strategy has to account for all these factors, and it is important for leaders to understand and articulate the "equity story" that underlies a clear path toward full potential.

Using M&A as an end, not a means. Beyond synergies, the right acquisitions catalyze broader transformations, an aspect of M&A that is widely underexploited. Too often, however, deal fever rapidly overwhelms strategy when executives pin their hopes on a single opportunistic deal (often at the urging of investment bankers). The desire for an easy step change in the company's fortunes very often leads to overpaying for assets. The true value of mergers and acquisitions lies in establishing and executing against a clear transaction roadmap rooted in the company's strategic vision.

Failing to account for uncertainty. Market trends like digitalization are shifting business boundaries at an ever-increasing speed. Expected M&A transactions may never materialize and economic conditions may change. Strategies have to navigate this uncertainty by augmenting the company's no-regret initiatives with strategic options based on well-developed scenarios. In this sense, a strong corporate strategy is best expressed as a set of options and hedges that get triggered as conditions change on the way to the target state.

What great strategy looks like

World-class strategies generate growth and sustained profitability when they focus scarce resources—a company's capital, time, talent and energy—on where it can and should win. Five clear, actionable objectives help companies produce results:

- **Define an ambition** that sets a high bar for value creation, articulates the target portfolio, and aligns management and the board to embark on a multiyear journey.
- **Develop a clear view of the value upside and downside** of each asset in the portfolio, with an understanding of each asset's true full potential and how changes in the industry might affect it.
- **Identify the parenting advantages** unique to the company and establish the decisions and set of interventions necessary to manage the portfolio to its full potential.
- **Set financial guardrails** to manage the risk/return trade-offs between reinvesting in the business and returning capital to shareholders. Allocate resources differentially, favoring the businesses with the most potential.
- **Develop and orchestrate a transformation plan** that will advance the company toward the target portfolio by combining a set of "no-regret" moves with "what-if" options tied to different scenarios that leadership can trigger as the future unfolds.

In our experience, when leadership teams and boards commit to achieving these objectives, they unlock significant shareholder value by laying out a clear plan of action that serves as a North Star for the organization for years to come.

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