McKinsey Global Survey results:

Creating more value with corporate strategy

Few companies create strategies that deliver more value than the sum of their business unit parts, but those that do also excel at moving resources and removing barriers.

The development of a corporate strategy should amount to more than the aggregation of business unit strategies. The best corporate strategies, in our experience, force a multibusiness company to make clear choices about its portfolio and the allocation of its resources. Yet the results of a recent McKinsey survey show that just one executive out of five says his or her corporation fully addresses strategy in this way. What's more, more than a quarter of executives at multibusiness companies say their corporations lack a consistent process for developing strategy.

In this survey,[1] we asked executives at multibusiness companies how they approach the development of corporate strategy—the frequency with which they review it and the amount of time they spend on it, the inputs of the process and the resulting activities, the barriers to reallocating resources, and the talent and other management processes they apply to overcome these barriers.

A small group of 151 respondents emerged who rate their companies' approaches to strategy development as very effective and also say their profit margins are higher than those of competitors. Executives at companies that are "effective developers of strategy" are twice as likely as their peers to say their companies apply a distinct corporate strategy process

[1] The online survey was in the field from December 7 to December 17, 2010, and received responses from 2,313 executives around the world, representing the full range of industries, regions, tenures, and functional specialties. Of those, 1,944 respondents are at multibusiness companies and can describe their companies' process for developing a corporate strategy.

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(38 percent compared with 18 percent of all other respondents). Furthermore, 97 percent of these respondents view their companies' processes for developing corporate strategy as consistent, compared with 59 percent of others. Executives also say these companies spend more time developing strategy, review strategies more frequently, and are much better at eliminating barriers to implementation.
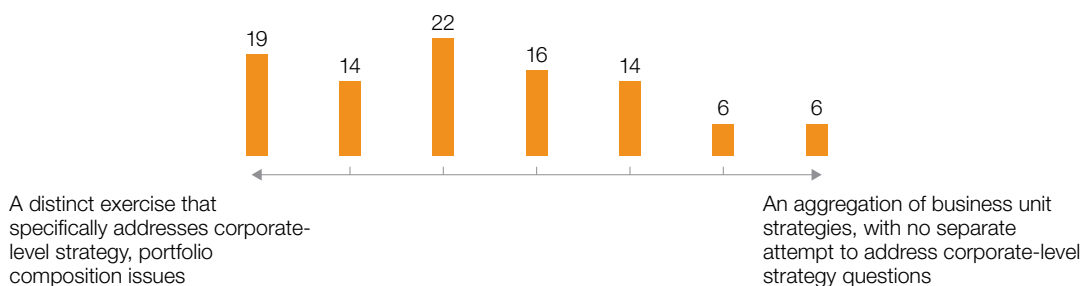
Slow and steady doesn't win

In both the boom of the mid-2000s and the financial crisis that followed, many companies did not (or could not) make critical portfolio choices and trade-offs. This may be why so few—just 19 percent of all respondents to this survey—say their companies have a distinct process for developing corporate strategy (Exhibit 1). Nearly a quarter, however, think

Exhibit 1

Developing a distinct strategy

% of respondents,[1] n = 2,174

Which point on the spectrum best represents your company's approach to corporate strategy development?

19   14   22   16   14   6   6

A distinct exercise that specifically addresses corporate-level strategy, portfolio composition issues

An aggregation of business unit strategies, with no separate attempt to address corporate-level strategy questions

[1] Respondents who answered "don't know" are not shown.

Exhibit 2

Few revisit strategy regularly

% of respondents,[1] n = 1,944

■ Actual
■ Ideal

How often does your company engage in corporate strategy development?
How often should it?

	Actual	Ideal
On an ongoing basis	8	23
More than once per year	4	8
Annually	44	34
Every 2–3 years	25	25
Every 4–5 years	11	8
Less than every 5 years	6	2

[1]Respondents who answered "other" or "don't know" are not shown.

their companies *should* engage in corporate strategy development on an ongoing basis (as opposed to episodically), compared with only 8 percent who say they currently do so (Exhibit 2). The small group of respondents at the effective-developer companies is ahead of the pack: 19 percent say their companies currently review corporate strategy on an ongoing basis.

A similar pattern emerges with regard to the amount of time a company's senior-executive team actually spends—and ideally should spend—on developing corporate strategy in a typical year. No more than one in seven respondents say their companies' senior leaders currently spend more than 15 percent of their time on this activity, but nearly three times as many describe that as the ideal time commitment. Among respondents at effective developers, a quarter say senior leaders currently spend more than 15 percent of their time on corporate strategy development.

What goes into strategy

Financial projections are important for allocating capital to businesses in the existing portfolio. But the importance of trend analysis grows when it comes to adding corporate value by creatively reallocating resources and by changing its composition through mergers, acquisitions, and divestments.

Yet executives rank financials as their companies' most important input when developing corporate strategy—23 percent of all respondents rank it first, followed by the performance of the overall portfolio, which 21 percent of all respondents rank first. Interestingly, executives at effective developers rank financial projections lower and macrolevel trends significantly higher (Exhibit 3). Furthermore, when asked what triggers a review of

Far more executives at effective-developer companies than others say
the developers of their corporate strategies work extremely closely
with their companies' market-facing groups, such as competitor intelligence
and marketing.

Exhibit 3

Prioritizing financials, macrotrends

% of respondents[1]

Top-ranked inputs considered by company when developing corporate strategy	Respondents who say their companies are 'effective developers of strategy,' n = 149	All other respondents, n = 1,743
Macrolevel trends	26	13
Performance of our overall portfolio	23	21
Industry dynamics	18	20
Financial projections	15	24
Competitors' current strategies, known plans	4	5
Operational benchmarking	3	3
Our talent pool	3	1
Investor expectations	2	8
Extent of regulation in the countries where we operate	2	2
Analyst expectations	0	2

[1] Respondents who answered "don't know" are excluded; respondents who answered "other" are not shown.

corporate strategy, more respondents say the trigger is their internal planning cycle rather than any external event, regardless of whether they work at effective companies or not.

Implementing strategy

Frustration about implementing strategy is evident among almost all respondents. For example, 40 percent say that ideally, their companies should fully engage in making major shifts in talent across the portfolio—five times as many as those who say their companies currently do so (Exhibit 4).

The most striking contrast we found between most executives and those at effective-developer companies is the latter group's apparent success at dismantling barriers to the implementation of corporate strategies. For example, when asked which barriers (such as risk-averse decision makers) interfere with reallocation of their companies' resources, 32 percent of

Exhibit 4

Dissatisfaction with status quo

% of respondents, n = 1,944

Actual
Ideal

Activities in which my company currently engages fully, and ideally should engage fully, as a direct outcome of its corporate strategy development
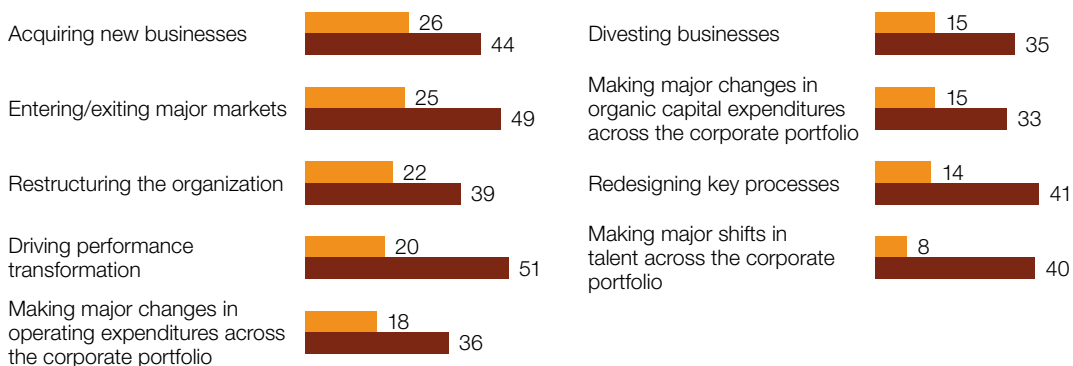
	Actual	Ideal		Actual	Ideal
Acquiring new businesses	26	44	Divesting businesses	15	35
Entering/exiting major markets	25	49	Making major changes in organic capital expenditures across the corporate portfolio	15	33
Restructuring the organization	22	39	Redesigning key processes	14	41
Driving performance transformation	20	51	Making major shifts in talent across the corporate portfolio	8	40
Making major changes in operating expenditures across the corporate portfolio	18	36			

Exhibit 5

Effective companies face fewer barriers

% of respondents[1]

Which situations, if any, are your company's biggest barriers to making substantial funding shifts across its portfolio?	Respondents who say their companies are 'effective developers of strategy,' n = 151	All other respondents, n = 1,793
Decision makers are risk-averse and see emerging business opportunities, by definition, as riskier	34	51
Business units feel entitled to the same level of funding they received in the previous year	23	41
Funding is distributed based on the size of the business unit	16	30
People are reluctant to relocate	14	25
By conclusion of strategy development process, changes in operating environment have made strategy obsolete	10	26
Other	8	7
We have no barriers to reallocation of our resources	32	11

[1] Respondents who answered "don't know" are not shown.

the effective-developers group claim to have no barriers, while only 11 percent of others say the same (Exhibit 5). Similarly, 38 percent of respondents at effective developers say their companies face no barriers of any kind to implementing strategy, compared with only 7 percent of others.

The secret of effective developers' success may be the extent to which they integrate their corporate strategy processes with key management processes. For example, 49 percent of respondents at effective developers, compared with 22 percent of others, say their corporate
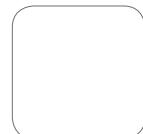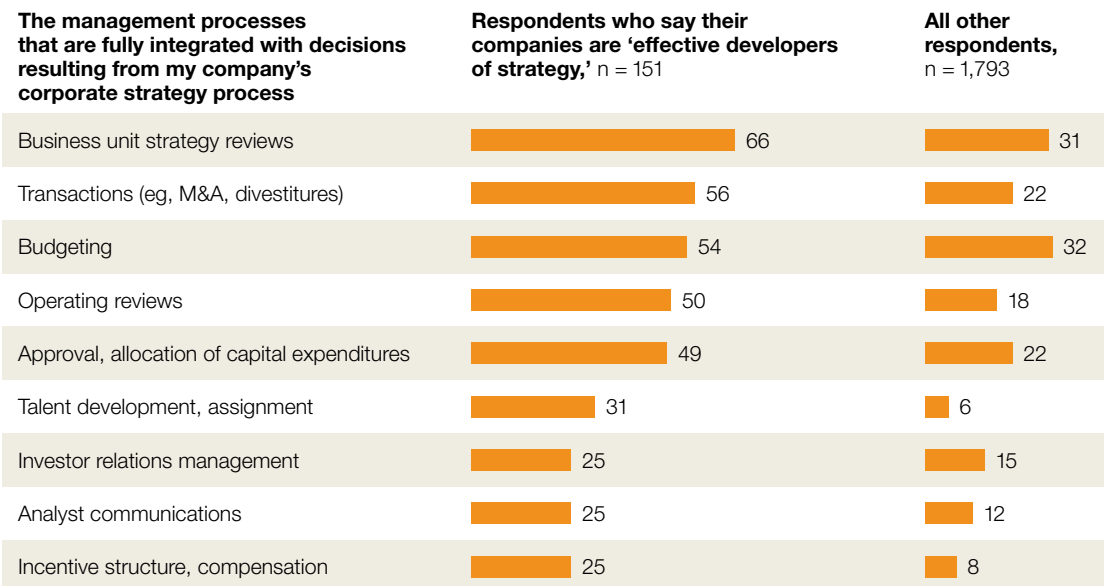
strategy processes are fully integrated with the approval and allocation of capital expenditures. As for talent development and assignment, 31 percent of effectives, but only 6 percent of others, integrate it (Exhibit 6).

Indeed, 60 percent of executives at effective companies say their companies are extremely effective at translating corporate strategies into day-to-day implementation. Just 6 percent of others say the same.

Exhibit 6

Better strategy through integration

% of respondents

The management processes that are fully integrated with decisions resulting from my company's corporate strategy process	Respondents who say their companies are 'effective developers of strategy,' n = 151	All other respondents, n = 1,793
Business unit strategy reviews	66	31
Transactions (eg, M&A, divestitures)	56	22
Budgeting	54	32
Operating reviews	50	18
Approval, allocation of capital expenditures	49	22
Talent development, assignment	31	6
Investor relations management	25	15
Analyst communications	25	12
Incentive structure, compensation	25	8

Looking ahead

• Many corporations have emerged from the hunker-down mentality of the financial crisis with strong balance sheets and profits. Robust corporate strategy development will be essential to charting a future path to successful growth and returns.

• Companies would do well to design an ongoing corporate strategy-development process that explicitly tackles key corporate-level issues, such as resource reallocation, and that drives on major economic trends and other external factors.

• Managers should forge much stronger links between corporate strategy and other key management processes, such as talent management and allocation of capital expenditures, to ensure that their strategies translate into meaningful action. ◻

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