



STRATEGY

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# How chief strategy officers **think about their role:** A roundtable

*Chief strategy officers from several high-profile companies discuss the complexities and challenges of the role.*

**Renée Dye**

**Article  
at a  
glance**

Chief strategy officers (CSOs) are cropping up in organizations of every size as companies struggle to balance their short- and long-term goals in an increasingly complex and volatile business environment.

But the role's relatively recent creation means that there are as many questions as answers. Who owns strategy? How deeply involved should CSOs be with its implementation? Which performance metrics address both short- and long-term expectations?

A McKinsey roundtable gathered CSOs from several high-profile companies to discuss the complexities of their roles and the major challenges they face.

**As companies struggle** to meet the challenges of today’s complex business environment by developing short- and long-term strategic visions, the role of chief strategy officer (CSO) has become increasingly prominent. Although CEOs remain ultimately responsible for strategic decisions, they regularly look to the CSO to craft and implement successful strategies. But the role’s relative novelty raises critical questions about its function and the degree of ownership it carries.

McKinsey recently brought together CSOs from several high-profile companies to discuss the challenges of the job—starting with its definition and what it entails. The panel included Edward C. Arditte, senior vice president of strategy and investor relations at the multi-industry company Tyco International; Stuart Grief, vice president of strategy and business development at the aircraft, industrial, and finance group Textron; Marius A. Haas, senior vice president of strategy and corporate development at the technology company HP; Dan Simpson, vice president, office of the chairman, at the cleaning-products group Clorox; Annabel Spring, managing director in charge of strategy and execution at the investment bank Morgan Stanley; and J. F. Van Kerckhove, vice president of corporate strategy at the e-commerce company eBay.

Some of the panelists say that they have one foot in the corporate suite and the other deep in the business units. Others believe that while communication with the business units is very important, a CSO’s primary concern is the development of high-level strategy. In that capacity, CSOs grapple with the challenge of balancing short- and long-term goals: handling the multifaceted demands of an increasingly global business environment, they strive to focus on growth without losing sight of productivity. All panel members agree that a close relationship with the CEO is vital for instigating change, but they voice different views on other issues, such as how to interact with the finance function. Renée Dye, a consultant based in McKinsey’s Atlanta office, moderated the panel discussion.


## The participants



**Dan Simpson**, vice president, office of the chairman, at Clorox, was head of strategy and planning for 16 years. Since joining Clorox, in 1979, he has had experience in brand management, finance, M&A, and new-business development.


**The Quarterly:** *How well defined is the role of the CSO?*

**Dan Simpson:** The role of the CSO is poorly defined, much like the discipline of strategy itself. Most other C-level executives have high levels of control over their disciplines, fairly clear ownership, and a large staff. But that isn’t true for the CSO. Many things affect the role, from the nature of the industry or company to the CSO’s reporting relationship. But the biggest factor is the style of the CEO, the true chief strategy officer.



**Stuart Grief**, vice president of strategy and business development at Textron (2005–present), works closely with the senior leadership to create and implement strategies for the corporation and its business units. He is also a corporate officer and a member of Textron’s transformation leadership team.

**Stuart Grief:** The CEO makes the ultimate decisions, but it’s our job to explore the facts and alternatives around an issue. We make sure CEOs have a clear understanding of the implications of various choices so that they can make informed decisions.



**J. F. Van Kerckhove**, vice president of corporate strategy at eBay (2007–present), is responsible for the strategic-planning and -development process across eBay, Paypal, and Skype. Before joining eBay, he was an associate principal at McKinsey (1999–2005), where he specialized in product strategies for corporations and business units.

**J. F. Van Kerckhove:** The CEO is the ultimate owner of corporate strategy. A good strategy process finds the right balance between top-down and bottom-up engagement in developing strategy, building on the collective wisdom, and exposing its main assumptions. While the formulation of strategy often goes through specific planning milestones, its development is ongoing—at times explicit and at times not. The CSO plays an important role in helping to coordinate and inject knowledge in the more formal strategy process, as well as fostering an environment for more spontaneous strategy creation. The latter often finds its roots in a close collaboration with the business units or field operations at the forefront of experimentation and learning. In a fast-paced industry like ours, the ability to rapidly learn from the field is a true competitive advantage.

**Ed Arditte:** That depends on your organizational structure and how many lines of business you have. In a more monolithic type of company, it’s easier to identify issues around which people can rally. For more diversified companies, like Tyco, strategy is driven by the businesses, with appropriate input and guidance from the corporate center. That has proved to be a better approach for us than approaching it from the center outward.

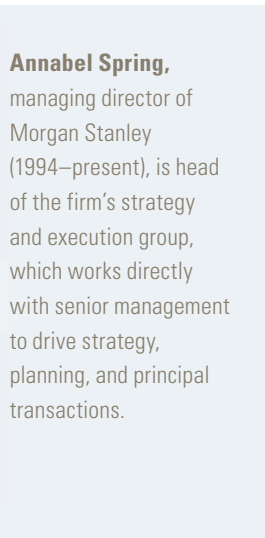
**Annabel Spring:** I absolutely agree. Our role is to get feedback from the business units, overlay the global trends, and make sure that everybody has identified the right issues. We then prioritize the opportunities across the business units and provide a strategic element for that prioritization. Feedback from the business units is also critical for maintaining that entrepreneurial edge. Morgan Stanley is so specialized and yet complex and global, which is hard to balance.

**Marius Haas:** The CSO’s role is dependent on CEOs not only because they have the final sign-off on strategy decisions but also because of their skill sets, tendencies, and way of managing the business. The question becomes: how do you complement the CEO’s strengths and weaknesses? My job at HP is to lay out the key initiatives we need to focus on in order to execute the plan. What are the initiatives that could

build extra capacity, enhance our plan, or bring incremental operating profits or revenues? We go through those questions to get a sense of which ones need to mature and which ones are clearer from an execution standpoint.

**Annabel Spring:** The market also affects the CSO’s role. When the market is up, the role addresses long-term vision and investment. When the market is down, it requires restructuring strategy. You have to be able to move with the market and with the CEO.

**Dan Simpson:** Is it your role per se that varies according to market conditions, or does the difference lie more in the issues you address?



**Annabel Spring,** managing director of Morgan Stanley (1994–present), is head of the firm’s strategy and execution group, which works directly with senior management to drive strategy, planning, and principal transactions.

**Annabel Spring:** “Role” is somewhat of an amorphous word. When the market is growing, it’s easier to see the big picture, sit back, and prioritize across opportunities. In a market downturn, it is very much a tighter, hand-holding role with the business units, and a much more operational one.

**Stuart Grief:** I find Textron going in the opposite position, which may highlight the difference between industrial and financial companies. When the company is struggling, there’s a need to step back and reexamine things. When the company performs very well, people sometimes believe the good times will continue forever.

**The Quarterly:** *How does a company’s performance modify what the CSO does?*



**Marius A. Haas,** senior vice president in the office of strategy and corporate development at HP (2002–present), leads the strategy and corporate-development team, whose focus includes driving the strategy and planning processes, as well as managing new strategic initiatives.


**Dan Simpson:** Performance changes the issue set, not the role. During performance shortfalls, consistency and conviction become more important—horizons are closer and you focus all the water on short-term fires. But it’s not uncommon for short-term fixes to create long-term problems. A downward spiral develops momentum and becomes harder to turn around. While nearly everyone focuses on the near term, a CSO must be an advocate for long-term health.

**Marius Haas:** That makes sense, but in our situation at HP, when the company wasn’t performing well, the solution required restructuring. The people running the business were so close to the business that they weren’t able to think outside of the box. The fundamental pieces were broken. We felt that driving for operational excellence was going to deliver more value for us in that period of time.

**Stuart Grief:** If a company's doing poorly, one of the first worthwhile diagnoses is an assessment of the quality of the strategy and its execution. If you're happy with the strategy, you just need to focus operationally to get it done. I wasn't at Textron at the time, but in 2000 and 2001, the leadership realized, "We've got a dead business model. We have to rebuild the company and transform it fundamentally." It was a strategic issue in need of rewriting.

**Marius Haas:** I was in a corporate-strategy team at Compaq about eight years ago, where the team spent way too much time focusing on the strategic, long-term view. The CEO liked this model, but none of the other executives felt there was any deliverable value. When I got into the role of CSO, I tried to build a bridge between the CEO and the executives in the business units. I wanted a model that pulled from all of them. You need to be able to dive into a business unit and become a core part of its strategy-setting and operational-excellence initiatives.

**The Quarterly:** *How do you ensure that strategy is executed well?*



**Edward C. Arditte** is senior vice president of strategy and investor relations at Tyco International (2003–present), where he oversees strategic planning, investor relations, and external communications.

**Ed Arditte:** At Tyco, it's very clear. It is the responsibility of the businesses to act upon the plan, and it's our responsibility, at the corporate center, to challenge and evaluate the plan. Once it's approved, our job is to watch it and make sure the right people are being put on the bigger issues.

**The Quarterly:** *When we surveyed 800 executives on strategic planning in 2006, one of the most striking results was that only 36 percent of them said that the strategic plan was meaningfully integrated with human-resources processes—incentive, evaluation, and compensation systems. Does strategy play a role in evaluations?*

**Ed Arditte:** The responsibility is both in the short- and long-term results. There has to be a balance, but there's never a perfect answer for how you balance them. You need a dialogue that aligns resource allocation, people, and money with both the short and the long term.

**Stuart Grief:** Balancing the short versus the long term is the biggest challenge we have. How do you balance the trade-off between the short-term compensation lift from near-term performance and the investments—and therefore the depressed economics, short term—that make the long-term strategies pay off?

**Marius Haas:** An implementation plan that has clear milestones and owners is a must. Execution sits in the business units. At HP, we won't make the hand-off until the business owner understands, accepts ownership, and acknowledges the need to deliver. As to the strategic plan as a whole, we've gotten a lot more disciplined.

Now we can say, “Here are the levers within our plan that we need to execute in order to deliver. We know the plan, the capacity, and what we can do incrementally. If you’re going to show me a number, you’ve got to tell me how you’re going to get there.” Management has changed how people’s performance was going to be measured at a granular level.

**The Quarterly:** *What’s the dialogue like, though, when a business unit presents a plan that doesn’t have steadily increasing margins, because the unit wants to make a long-term investment that won’t pay off until beyond the current planning period?*

**Marius Haas:** We ask the business unit heads to build capacity in the plan and then reinvest that into areas they believe will be longer-term growth areas. Most of them have now divvied up their portfolios into three areas: emerging market opportunities and initiatives, mature but current businesses, and investments that help generate the required cash flow. We constantly look at that life cycle to see if those investments are in the right areas to generate longer-term growth.

**The Quarterly:** *Is there any advantage to having a closer relationship with the finance function?*

**Annabel Spring:** I think there is a significant advantage to being close to the CFO. I understand the budgeting and am involved in the process, both within the business units and at the corporate level. I’m part of the dialogue—which is critical for credibility and understanding the business. For Morgan Stanley in particular, being close to the CFO is important, given the number of transactions we do for the firm on a principal basis, because you need that back-and-forth relationship in order to be effective.

**Ed Arditte:** There’s always a debate about who owns the strategy process—accountants, financial-planning people, or business people? But it shouldn’t be a question of where it’s owned, but of who is involved in the process. Do they work together? Are they able to achieve alignment? Alignment is key to the process: it defines what you want to do and, more important, makes sure that everybody understands the priorities. Then you can allocate the resources, evaluate the progress regularly, and provide support when necessary.

**Dan Simpson:** People commonly confuse strategy and planning. Planning is primarily internal resource allocation and budgeting, which is clearly tied to finance. Resource allocation has to be driven by strategy but isn’t strategy in and of itself. Strategy should be focused on the marketplace and on customers and consumers. You must improve your position in the marketplace and have a clear idea about why people choose your products or services over someone else’s. At Clorox, we try to separate those conversations. One of the things we’ve done in the past is to bar financial components and exhibits from the first rounds of strategy

meetings. That way, the discussion focuses on market competitiveness rather than on internal resource allocation.

**Stuart Grief:** One of the challenges we used to face at Textron, though, was that without finance being deeply involved in the strategic discussions early on, we risked the CFO undoing the strategy three months down the road. A personal relationship with the CFO is really critical—more than reporting to the CFO. Alignment is vital on the road to execution.

**Marius Haas:** Our plans require three things to be aligned: efficiency productivity, accelerating growth, and capital strategy, both financial and human. We've often taken resources out of the capital strategy to tackle inefficiency, generating capacity so we can invest in growth. In those cases, the triangulation of those key areas has been critical.

**Dan Simpson:** Execution problems are often symptoms of trouble upstream in the strategy-development process—the strategy process has failed to realistically assess current reality, to honestly understand organizational capabilities, to align key players with those who do real work, or, at the end of the day, to create a compelling, externally driven vision of success.

**Ed Arditte:** It depends on your organization and how centralized it is, but the more a strategic initiative is owned by the business units, the greater the chance of success. Many great corporate ideas fail in the business units because of a lack of ownership.

**The Quarterly:** *What are the most important issues facing strategists today?*

**Stuart Grief:** An important challenge is engaging with the businesses to think differently about what they do by helping them consider different business models, challenging the status quo, and avoiding complacency. It's hard but necessary in an environment where competitors are more aggressive and diverse than ever.

**Marius Haas:** The biggest challenge for us is transitioning from an efficiency–productivity focus to a growth focus without dropping the ball on the execution of the efficiency–productivity side. The second challenge lies in migrating external influences and forces to our mainstream thinking. If the customer and technology are evolving, we're facing an environment of accelerated consolidation in the competitive landscape. Getting ahead of the pack and being the ones consolidating—versus having to react to actions taken by our competitors—is very important.

**Annabel Spring:** I would echo the short-term versus long-term balance issues but add a layer of globalization. Short-term profit opportunities are abundant in the developed world, as long-term opportunities are in the developing world. You have

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to do both to get the continuous-growth profile we all need, but managing the timing is a very tricky thing—not to mention a core component of our role in terms of project prioritization, resource allocation, and long-term strategy.

**J. F. Van Kerckhove:** Given rising customer expectations for the online experience, the high pace of innovation, and the emergence of new business models, we need to sharpen our game continuously and faster than ever, as well as assess what elements of our past success we need to strengthen and from which we need to depart. In that context, our main challenge is strengthening our core business while rapidly scaling our new growth platforms and developing new operational and organizational muscles for our future success. Just as our company has grown rapidly, so has its organizational complexity. We are focusing on simplifying how we do business, creating alignment behind a few clear priorities, and stepping up our organizational agility and effectiveness.

**Ed Arditte:** As is probably true for everyone here, our businesses are exceedingly complex and growing more so every day. It doesn't matter if this is driven by developed markets, emerging markets, financial markets, or technology—there are so many changes, and the pace has gotten much faster over the years. Taking a complex set of business issues and simplifying them is a key part of this role. We can't do it individually, but we have to be facilitators of that process and get alignment around the truly important issues that will drive performance.

**Dan Simpson:** Externally, our toughest strategic issue at Clorox is the consolidation and globalization of both the upstream cost structure and the downstream retail trade, offset by extreme fragmentation in the media environment. Change in the last 20 years has been extraordinary, and the implications for brand equity and value creation and distribution are profound.

Internally, the toughest issues are exposing orthodoxies that constrain our thinking and options, as well as spreading priorities and resources across time horizons and business unit boundaries. Part of strategy's role is to define external imperatives at a higher level so that investments spanning different time horizons or organizational units actually reinforce each other. *Q*

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**Renée Dye** is a consultant in McKinsey's Atlanta office. Copyright © 2008 McKinsey and Company. All rights reserved.