

Thinking For Competitive Advantage

By

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Introduction:

Mention strategic planning to many line managers and you are met with a chorus of groans. They do it because they have to develop their operational budgets for the coming year, but too many feel that they have wasted too much time in meaningless exercises and contentious conversations when they have work piling up back at their desks. One executive told me he'd rather have a root canal than go through the process. When pressed to explain his reaction he pointed to how quickly the plan became irrelevant. People assumed positions that maximized their functional budgets. They lobbied to adopt strategies that they felt would produce performance targets they could reach without too much difficulty or change. They argued against initiatives that would require them to leave their comfort zones or to work more collaboratively with colleagues they didn't trust or respect. "We have to have budgets and I know we need performance targets, but there must be a better way," he said. His experience is typical of far too many people in companies large and small throughout the business world.

This manager's complaints are justified, but his experiences aren't the natural result of planning. They are the result of participating in planning sessions that are poorly conceived and executed. A closer look at his underlying complaints show that he has been engaged in a process that lacks both strategic purpose as well as authenticity. He and his colleagues make a plan that justifies their budgets rather than visa versa. Everyone knows that as soon as unexpected events deviate from the predictions, the plan will be scrapped and everyone will scramble to make the numbers work. Under stress, everyone will fall back into old patterns. This entropy occurs because except for a handful of managers, few people in the company know or appreciate its strategy. They make tactical adjustments to unanticipated events because they only see the business from their own desktops. The strategic plan that they have created is really nothing more than a strategic wish that misses the point and fails to deliver. What is needed is an authentic planning process crafted to fit today's realities.

Planning For The Future:

A plan is a set of steps designed to help us reach a goal within a given set of circumstances. Business is competition and every competitor must be ready to react as the contest unfolds. No right thinking leader would take the organization into competition without a plan.

Today's business environment is dynamic, unpredictable and filled with instances of discontinuous change. As a result, effective competitors must be fast, nimble and

focused on their own keys to success. One critical ingredient for success in this demanding environment must be the ability of the company, as an organic whole, to accurately perceive itself while in continuous interaction with rapidly changing environment. This is much easier said than done. A major source of the difficulty is the natural tendency to see ourselves as we want to be and our environment as we wish it, rather than seeing things as they are.

The magnitude of the difficulty can be gleaned by looking at the life span of major corporations. Arie de Geus has pointed out that, “The average life expectancy of a multinational corporation – Fortune 500 or its equivalent – is between 40 and 50 years. A full one-third of the companies listed in the 1970 Fortune 500, for instance, had vanished by 1983 – acquired, merged, or broken into pieces.”

Accurately perceiving ourselves and correctly assessing the environment are two separate tasks but they are both important for any organization to thrive in a highly competitive environment. People are creatures of habits and patterns, so too are our organizations. We make sense of a chaotic world by looking for patterns and developing theories of how things work that quickly solidify into mindsets. Successful people and organizations tend to become strongly attached to their points of view, after all, they have worked to get them to their current level of success. Problems arise when conditions evolve until belief in what is becomes misaligned with today’s reality. A company’s ability to evolve its thinking, re-invent itself and move beyond yesterday’s winning formula is fundamental to its long term success. United Airlines hasn’t been able to move past its once successful business model, while Jet Blue, unencumbered by an obsolete paradigm is a highly successful competitor.

Seeing ourselves accurately requires us to minimize the gap between one’s espoused values, what one says (or thinks) one believes, and one’s lived values, how one actually performs as one interacts with the world on a day-by-day basis. The ability to accurately perceive our environment requires us to remain aware of what is possible today that was not possible yesterday. Both requirements necessitate a constant attention to and a cold-blooded assessment of the results of our efforts. At the organizational level, it is not enough for boss to be aware. The organization must work to deeply ingrain these skills.

The Organic Organization:

We can gain a vital insight by thinking about the company as a living organism. Arie de Geus made a compelling case for this model when writing about the work that he and his colleagues have done in the planning function at Royal Dutch Shell, in his book, The Living Company. After extensive research on long-lived corporations, the team identified four for common features shared among those organisations.

1. “Sensitivity to the environment represents a company’s ability to learn and adapt.
2. Cohesion and identity are aspects of a company’s innate ability to build a community and a persona for itself.

3. Tolerance and its corollary, decentralization, [which] are both symptoms of a company's awareness of its ecology, its ability to build constructive relationships.
4. Conservative financing: the ability to govern its own growth and evolution effectively."

By thinking about organizations as living entities it becomes easier to think about how they operate in their ecologies. How well do they gather intelligence? How accurate is their mindset? How well do they think? How effectively does the organism act on its intentions?

Colonel John Boyd, coming from a very different starting point reached startlingly similar conclusions. Boyd was a military strategist who developed the first air combat manual for the United States Air Force. His focus was specifically on military combat but it fundamentally addresses the nature of competition. His thinking has found its way into modern business thinking as a result. De Geus identified four steps for the adaptability of the living organization. His steps are identified as: "perceiving, embedding, concluding and acting."

Boyd identified four steps in the competitive process. One must observe what is happening. One must orient what one sees against what one is trying to do. Next, once someone has understood what he or she has observed, then he or she must decide what to do about it. Finally, one must execute their chosen course of action. He referred to this as the OODA Loop (Observe, Orient, Decide and Act). Success depends upon speed and maneuverability. Whoever works through the process, more effectively and more quickly soon gains a lethal advantage.

Boyd went on to point out that, "The danger is that if our mental processes become focused on our internal dogma and isolated from the unfolding, constantly dynamic outside world, we experience mismatches between our mental images and our reality. Then confusion and disorder will not only result, but will continue to increase."

In their book, The Dumbest Moments In Business History, Horowitz et al, provide story after story of well known businesses who fell short of their goals or utterly floundered as a result of failures in their thinking. These companies either lost touch with the realities of their markets or lost sight of what they were capable of doing.

In Scenarios: the Art Of Strategic Conversations, Kees Van Der Heijden points out that, "The organization needs a good fit with its environment if its aims are to be achieved. The purpose of strategy is to develop policies guiding personal behaviors of individuals in the organization such that the total system achieves a good fit." Success depends on the accurate perceptions of the entire organization.

Strategic Planning versus Strategic Hoping:

Many companies sit down to do strategic planning only to find themselves more accurately engaged in a process of strategic hoping. They hope that the future they

predict is indeed the one that emerges over time. They hope that the intelligence gathered by a handful of people at the top of the organization is sufficient to underpin their plan. They hope that the rest of the organisation fully grasps their intent. While they don't consciously see themselves as hoping, hope is the best that their processes can deliver.

Let's look at the typical strategic planning process at XYZ Company. Once a year, the CEO takes a handful of people aside and develops a plan for the coming year. They generally set aside a handful of days to articulate their plan. They discuss recent developments. They refine their mission. They think about how they can best accomplish their goals given what they expect will happen. Of course, they tend to do it quickly because time is flying and there is much to do back at the office. As a result, conversations are time-limited. Deep disagreements are papered over for the sake of getting on with creating a plan. The most aggressive talkers usually force superficial agreement with their points of view, but a real change of opinion seldom happens.

Once a plan is developed, the members of the planning group are tasked with developing the budgets they will need to do their parts. They are tasked with sharing "the" plan with the people who work for them. In turn, they assign tasks and objectives to their people.

The CEO offers the plan to those who have governance responsibility for the organisation. He or she shares the plan's logic in a strong presentation. S/He argues, usually compellingly, for the plan's point of view. Once s/he receives their blessing, the plan is placed on the shelf, focus turns on the quantitative targets; people put their heads down and go to work. While the process described here may be dramatized, it conveys the essentials of planning at many companies.

What's wrong with the typical process?

For one thing, there isn't *a* future coming...there are multiple possible futures. A plan is a set of steps that will be taken as expected conditions unfold. When unanticipated events occur the plan is typically abandoned and people focus on hitting their numbers by doing whatever it takes. The plan becomes irrelevant because it isn't really a strategy for achieving the business imperatives; rather it is a vehicle for arranging the budgets and numerical goals for the coming year. Everyone knows it. It is obvious in how quickly the numbers, not the strategy become the driving force. When the plan lacks authenticity the focus of the organisation becomes fractured. Functional goals supplant enterprise goals.

De Geus points out that, "Planning is typically seen as the work of reducing uncertainty through prediction." For the typical company when predictions do not prove to be accurate, disorder results. The alternative, as Schwartz demonstrates in *The Art Of The Long View*, is to develop multiple scenarios. "Scenarios are not about predicting the future, rather they are about perceiving futures in the present." (p 38)

Levine et al, in *The Cluetrain Manifesto*, identify two sources of disruption to our predictions arising in today's markets characterized by customers empowered by choice

and knowledge. “First, mass-production-oriented business procedures had been ‘stove-piped’ into non-communicating bureaucratic business functions. Second, workers long told to ‘check your brain at the door’ were ill-equipped for the dynamic changes about to wreak havoc on the corporation.

In other words, we must prepare for multiple possible solutions as events change rapidly in the fog of war. The same holds true in business as the people in the field make moment-to-moment decisions that affect who we are and what is possible. If they are out of the loop they cannot help but create misalignments. Leaders must ensure that people comprehend corporate intent thoroughly enough to make intelligent adjustments.

A second problem arises when a plan is static, particularly in today’s environment; it is doomed to mediocrity if not outright failure. A discrete annual planning event is simply insufficient to anticipate today’s tomorrow. The disparity between our assumptions and unfolding events grows quickly over time. There is a disconnection between our version of the marketplace and what is actually transpiring. This gap makes it difficult for the organisation to respond effectively.

Boyd warns, “To be successful in combat (we can substitute competition here without losing the point) you must have inductive thinking. There is not just one right solution to a problem. There are two or three or five ways to solve a problem. Never commit to one solution.”

A third problem arises from the fact that planning with a select cadre of managers marginalises too much of the organisation’s intellectual resources. No one is as smart as everyone, and few thinkers are not as good as many. When people are not included in anticipating the events that will befall them, they take little ownership of the plans, particularly in times of stress. “The” plan becomes “their” plan in the minds of the people doing the work. Often the line workers have no idea what are the main elements of the company’s strategy. Even if they know what they should do, they tend to attack their work from their own perspectives and fall back into usual habits and patterns. Synergy is lost and strategy is the concern of someone else.

As a result of his research, de Geus has concluded that, “companies die because their managers focus on the economic activity of producing goods and services, and they forget that their organizations’ true nature is that of a community of humans.” When a large portion of the company’s thinking capacity is marginalised, not only are intellectual resources wasted, it is impossible to maintain an alignment between what we want to do and what we wind up doing.

Another problem stems from the fact that this approach to organisational planning simply doesn’t allow the organisation to rehearse for multiple, possible futures. Department heads and functional leaders focus on their parts of the plan and staff members often see a fractured picture, one that is limited to their work and their goals. The bigger picture is missing.

In “Planning as Learning,” in the Harvard Business Review, Mar./Apr. 1988, p 74, Arie de Geus says, “We understand that the only competitive advantage the company of the future will have is its managers ability to learn faster than their competitors.” Boyd underscores this point when he says, “Speed must come from a deep intuitive understanding of one’s relationship to the rapidly changing environment.” This requires that the entire organisation is involved in the planning process. This is not to suggest that planning is done in all company meetings, but rather that the critical strategic imperatives are a vital part of the on-going conversations in the workplace. Communication must flow in both directions. It is the work of leaders at every level to ensure that all departments and functions are aligned around a common intent.

These conversations not only serve to create a shared perspective regarding fluid events, but they also serve to build trust. Leaders have to trust that their people are prepared to act effectively in the face of uncertainty. Workers need to trust that leaders are accurate in their perceptions and interpretations of events. Such trust is not common in most organisations as typical misalignments generate skepticism and cynicism.

Levine, recognizes the risk when he writes, “This engagement in [in the external market environment] must be fearless and far reaching. Workers must become fully empowered and self-directed. Scary. Suppliers must become trusted allies in developing new products and business strategies. Scarier still. Markets must come to have faces and personalities in place of statistical profiles.” Without an infrastructure of strategic conversations it is indeed frightening and the absence of these conversations is why these are risks that most companies ultimately avoid, even at their peril.

Finally, as the people in the workforce receive lists of goals, they focus on the numbers rather than the strategy, and they are seldom prepared to understand and interpret events from an enterprise point of view. They don’t hear the stories that let them see the world as their leadership sees it, as it affects their particular teammates, nor as it affects the enterprise as a whole. Under pressure these people opt for what works for them. It’s everyone for themselves and the gap between what we say we believe and how we act in the day-to-day grows. Cynicism is the end result.

Stories are an integral part of shared strategic thinking. In *The Art Of The Long View*, Peter Schwartz suggests that the task is to create and sustain shared meaning. He writes, “Stories are about meaning; they help explain why things could happen in a certain way. They give order and meaning to events – a crucial aspect of understanding future possibilities.” He goes on to say, “Stories have many advantages. They open people up to multiple perspectives...stories help people cope with complexity.” (pp 41-420)

Authenticity In Planning Should Set The Stage For Outstanding Performance:

Savvy organisations today know that they have to use as much of the potential of their people as they can harness. Highly effective competitors have to operate in an environment of trust:

- Trust that what the bosses say they believe is what they actually believe.

- Trust that there is a reasoned plan driving the choices that are made.
- Trust that others are working for shared goals and mutually beneficial outcomes.

This trust is built upon the foundation of authenticity. When the gap between what we say we value and what we really value becomes too large synergy is lost. To optimise enterprise performance, planning process has to:

- Focus people on a common definition of success.
- Help all of the people involved understand the core assumptions about the company's environment and their implications for how they have to do their work.
- Turn everyone into gatherers of intelligence as events unfold.
- Turn co-workers into co-thinkers, collaborators rather than competitors.
- Create a flexible game plan that enables everyone to adjust to unexpected developments while still being focused on delivering the promises of your brand.

Recommendations:

To gain competitive advantage companies must move beyond their typical annual planning processes and develop the capability for on-going strategic conversations in the workplace. These conversations generate a sense of community and identity within the organization. They nurture trust both up and down the organizational structure. Hierarchies are all about control. The age of tight control has past. Leaders must capture and put the full intellectual capacity of the organization to work in this age of ambiguity.

Companies that prepare for multiple possible futures are outfitting themselves to be highly effective competitors. They can harness the energy of the workforce to produce action that is quick and flexible. They work the OODA Loop faster and more effectively than their competition. By thinking of itself as a living entity, it becomes easier to align action and intent, external realities with mental models. Having rehearsed the future before it arrives, they are poised to respond quickly to threats while remaining ready to take advantage of opportunities.