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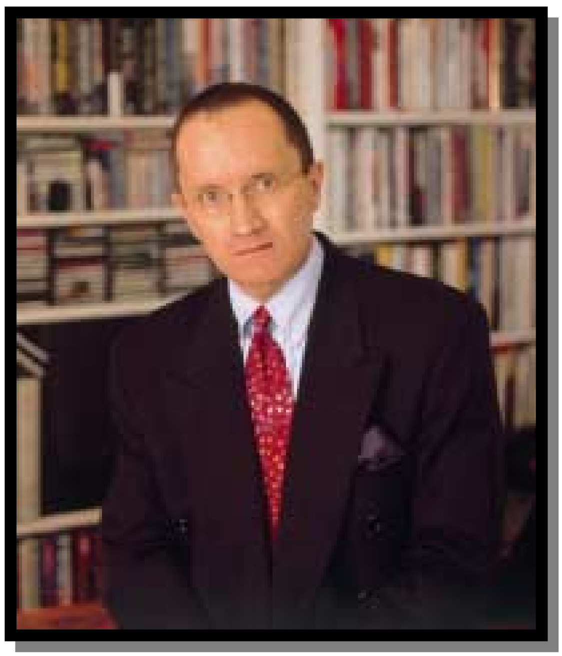
THOUGHTS ON STRATEGY



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MANAGERS NEED A NEW APPROACH TO STRATEGY

Managing today demands a different approach to strategy than most firms use. Yet managers persist with practices that never worked well in the past, and now expect different and better results.

In this extraordinary moment in human history, much of what we know about business has been turned on its head. Executives who don't see the new realities – and adapt to them with lightning speed – will be left behind in the race for customers and profits.

Five specific changes have awesome implications for just about every company in any country.

First, is the fact that customers worldwide are now on the radar screen 24 hours a day, 365 days a year. So whereas managers might have had quite modest ambitions for their sales targets, now they can and should be much bolder. If they needed a big share of this market to earn the returns they wanted, they'll do even better with a very small share of the international pie.

The second big change is in the way companies arrange their value chains. Yesterday's model typically kept most activities in-house, where one could administer things with an iron hand. Now, organizations are being broken up, activities are being dispersed, and all manner of alliances, partnerships, outsourcing arrangements and licence agreements are making tight control virtually impossible.

Third is the impact of the Internet on the design of business models. Key areas like sales, distribution, support and administration can now all be thought of in radical new ways. Levels of performance can be raised to previously unimaginable levels, and measured more precisely than ever. Tasks that required specialist intermediaries such as travel agents, financial experts or service staff can be rethought or cut out.

Fourth, is the rapidly escalating war for talent. For all the marvels of new technology, competition hinges increasingly on human ideas and the human spirit. So companies in most developed countries are falling over each other to hire the best and the brightest, and Internet start-ups are a magnet for brains. Meanwhile, managers are experimenting with new ways of attracting, developing, motivating and rewarding these people to drive innovation.

Last but not least, is the advent of Internet time. Things are indeed moving at warp speed. The shelf life of success is collapsing. Companies have less time than ever to create new products and services and to capture sales and profits. And as new technologies flood the market, and competitors and customers learn how to use them, time will become an even greater threat to success.

In this new world, five- and ten-year plans have no place. But neither do many of the control systems, human resources practices or management methods that have been so carefully honed over the past century.

In this unfamiliar environment of constant and rapid change and guaranteed surprises, executives will be tempted to see all the answers in technology. In fact, they need to give even greater attention to people. And they must focus specifically on elusive issues such as fostering trust, leveraging tacit knowledge and governance without bureaucracy.

Most critically, they need to see strategy as an activity that defines where they're headed and how they intend getting there, but that also inspires extraordinary performance, shapes their organizational culture and builds human capacity for future change.

This requires a quantum leap in the way most executives think about strategy today. It also demands massive shifts in the way they manage their companies altogether.

Yesterday's approach saw strategic planning as one activity and implementation as another issue. Different people were responsible for each. The new way acknowledges that thinking and action are interwoven, and that insights, innovation, and implementation are everybody's business.

Yesterday's approach saw value in long-term visions, thick plans and a dense web of controls. The new way has firms focused on a clear purpose, but laying lots of small bets with a rapid payoff.

Executives everywhere are changing their minds about the causes of business success. But too many companies are trying to solve their problems by relying less on people and more on technology. This is a deadly mistake.

Of course, technology is crucial in any modern organization. But in this high-tech age, a high-touch management style makes the real difference. Without improvements in that area, nothing else will help make companies world class.

NEW WAVE OF INNOVATIONS AHEAD

The last decade of this century has seen a rapid escalation in competitiveness in every industry. But just ahead lies a new era of corporate hostility, which will bring far more radical moves to drive down costs and add value. Managers need to wake up fast to the forces driving this trend.

Top of the list is the extraordinary pace and scope of innovation in computer and communications technologies.

Big players such as Intel, Microsoft, Sony and NEC are all ramping up their research and development efforts.

Swarms of small firms – supported by eager venture capitalists – are micro-slicing the market with new products and services.

Alliances between established companies and newcomers ensure that promising ideas get to market and become mainstream drivers of change in no time flat.

Advances in information technology have lead, in turn, to the birth of e-commerce. From nothing a mere five years ago, this has become the dominant issue of our time. And starting about now, its growth will be vertical and its impact will be incalculable.

New hardware and software is spawning a plethora of new business models. It not only makes ideas like "centreless organization" possible, it also makes disintermediation essential.

Ahead lies an era of shrinking office blocks, more temporary and contract workers and the disappearance of businesses ranging from travel and estate agents to financial services providers and publishers.

No one yet knows what the effect will be of companies unbundling most or even all of their activities, of the shift of information power to consumers or of giants like Cisco or General Electric doing 100 per cent of their buying via the Internet.

Nor is anyone sure what new technologies will appear, or how they will converge. But one thing is certain: today's benchmarks for design, quality, cost, and service are all just the beginning.

Early next year, companies everywhere are likely to swing attention and money from fixing the Y2K bug to building new competitive advantage. The bar of business excellence is about to be raised to unimaginable heights.

But technology is not the only driving force of change.

The Asian financial crisis which two years ago threatened the stability of the entire world had the perverse effect forcing massive restructuring in South Korea, Malaysia and Thailand – and even more so in Japan.

Companies across that region have tossed out many of their favourite practices and focused more intently on snatching market share and delivering profits. Conglomerates have been broken up and bits have been sold to foreigners. Cosy links with governments have been cut. And work has been shifted to wherever the cheapest, best-skilled workers are.

Old-style manufacturers are reinventing themselves as modern knowledge companies. In their new guise they're innovating faster than ever, and pushing harder than ever into foreign markets. And firms that continue to manufacture everything from motor vehicles to steel and cosmetics are setting new standards of performance – and accelerating their efforts to do even better.

Elsewhere in the world, companies are feeling the heat and responding accordingly with their own change programmes. So there is not a market today that is easy to attack, or where profits are assured.

Surprisingly few companies understand what they're up against, and are truly world class. But too many act like "happy amateurs."

For these laggards, improvement on many fronts is vital. But the priority for most must surely be to shape up in the way they market themselves and their products.

This is surprising, given that marketing is such a top-of-mind activity and much "sexier" than purchasing, manufacturing or logistics. But while these other matters have often been given close attention, marketing has been treated as stepchild.

There is no other way to explain the slapdash approach of so many firms to defining and understanding their customers, to customising their marketing communications or to following up on sales leads.

Nor is there any other way to explain why customer service remains lousy, why opportunities for repeat business are lost or why so many companies have to resort to price wars to keep their sales up.

Marketing is less complicated than many marketing people make it out to be. But the best marketing strategies are more complex than those most companies use.

The starting point to success in the next century will be for companies to select their "right" customers and to "get under their skin" by understanding them intimately and adjusting constantly to their needs.

Then, to attack those targets with "a flurry of blows" – not just personal calls, advertising, public relations and pricing, but also training, support financing, insurance and whatever else it might take to capture and keep them.

Hardly any firm needs more than a tiny slice of a big foreign market to add a huge chunk to its bottom line. So this is not the time to aim at every customer everywhere. Focus is the first principle of business competition. Professional marketing is the tool that will fill factories and create jobs. That's where management attention must now be aimed.

LEADERS MUST LEAD

Participative management is an idea that has got more than its fair share of attention during the 1990s, yet the management style in most organizations can not be described as participative. Leadership is another big topic; yet a failure of leadership now cripples many companies.

During this decade, many firms spent a fortune trying to get their people to share power and responsibility. For many, the path to nirvana lay in "value-sharing" workshops where people discussed the diversity of their backgrounds and tried to agree on some vision of the future.

These discussions ensured that conference rooms were jammed and facilitators were kept busy. From time to time a senior executive would pop in to hear some of the gut-wrenching confessions and complaints, and maybe make a short speech of solidarity. Then, with few exceptions, it was back to business as usual.

Some of these efforts must have made some kind of difference, though their champions have now mostly gone to ground.

Today, "empowerment" is the buzzword of choice. It is not clear just how it differs from "participation" – apart from being more politically correct – but what is clear is that companies still do not know how to get the most from their people.

Managers are told they must be coaches and mentors. They are told their job is to inspire and stretch their people, to tap the "wisdom of teams" and to unleash the spirit of every individual. And in this age of eco-consciousness, it is little wonder that they are also told that they can learn to lead not only in business school classes, but also by observing lions, wolves, eagles or dolphins.

But like much else that clutters the executive lexicon, this is good, stirring stuff that means little in everyday business life, and even less in the heat of a battle to take over another company, win shelf space in a supermarket or fend off a price-cutting competitor.

Senior people are quick to say that they do empower their people. In the same breath they will assure you that they share information freely, that their strategies are the product of many voices and that they encourage open debate and honest feedback in their organizations.

However, in company after company, communication remains the single most common problem. People say they are unsure where they're supposed to be headed, they don't understand the strategy and they have no idea what the priorities are.

Worse, they feel that their ideas are not always welcome and that speaking out on even minor issues can be downright dangerous.

The view from the top of most organizations is quite different from that at lower levels. And for all the talk of "flat" structures, there remains a hierarchy of information, influence and involvement.

But if power is not distributed, neither is it effectively used by those who cling to it.

Many top executives under perform because they are out of touch with what is happening at the coalface. They make assumptions about what customer behaviour or competitor tactics without venturing out to get the facts for themselves. And when the insights of people who are in touch with reality do not accord with their own, they brush them off as negative or nonsense not worth listening to.

It is paradoxical that in the age of high tech, people matter more than ever. It is an equal paradox that while leaders must be more sensitive, and their style needs to be more consensual, they also need to be more decisive, directive and demanding.

Tough love has shown itself to be effective in families. It is needed in organizations too.

Contrary to popular belief, everyone cannot manage anything. The notion of a "leaderless organization" is a dangerous myth. Effectiveness in a complex, turbulent and hostile world demands that someone has final responsibility, that someone makes the big calls, that someone decides what's best.

In the years ahead, performance will be critical. Those companies what do best will have leaders who lead, and followers who have both the confidence to make themselves heard and the confidence that after all is said and done, roughly the best decisions are taken.

Companies are not social clubs. They are measured by results. Sales, market share and profits are won by decisiveness, aggression and toughness, not by simply being nice.

FAST STRATEGY NEEDED FOR TIMES OF RAPID CHANGE

While competition becomes more intense and hostile in every industry, and while technological innovation is spawning a host of innovative business models, the practices in many companies ensure that they have little or no chance of staying in the race for tomorrow's customers and markets. Ironically, the starting point for failure is the way they make strategy.

To survive and thrive, firms must do more with less – and at a blistering pace. Yet the notion of three- and five-year plans is alive and well, and too many executives still think they're safe when they've crafted long-term visions and flowery mission statements.

There is no questioning the need to think hard about the future and to know as much about it as possible. But perfect insight is impossible. And for all the efforts companies make to cover themselves by considering alternative scenarios and creating contingency plans, surprise is the only certainty.

The fact is things change. Stuff happens. One event – the collapse of a major firm, an earthquake in Taiwan, the launch of a 700Mz Pentium chip, a switch in a nation's banking laws – triggers many others. In the blink of an eye, today's sure thing becomes tomorrow's disruption.

The future does not unfold in a straight line. As James Burke shows in his book *The Pinball Effect*, scientific discoveries are usually the result of a zigzag process in which one finding becomes a catalyst for others, and in which breakthroughs from various disciplines careen off each other to inspire new insights, new experiments and new ideas.

Recent writings in chaos theory also underline the random nature of life. Yet for all this evidence, and despite the fascination this "new science" holds for business people, most managers still stick with their tried – and thoroughly *discredited* – methods of concocting strategy.

They not only use planning models that were designed for a different time, they also plan as if events will unfold as predicted.

Planning is attached to the budgeting cycle, so they tend to do it once a year with progress reviews at six-monthly or maybe three-monthly intervals, or whenever else they can spare time from "real work".

Clearly this doesn't make sense in a world of continuous, frenetic and unpredictable change.

A further error is that managers put off hard decisions because they're not sure what lies ahead.

But management is about making choices in the absence of perfect information. And just as no punter can afford to back every horse in a race, neither can companies chase every opportunity. Resources must be aimed where the risks are lowest and the potential payoff is highest.

Like it or not, managers have to lay bets. They have to commit to this investment or that. And as companies like Microsoft, Ford and Sony know, the smartest thing to do in these chancy times is to place lots of reasonably small bets. That way, you get to probe the future at minimal cost, and hopefully wind up in roughly the right place at the right time and with the right offering.

To stand on the sidelines and speculate about precisely which way things will pan out is the height of stupidity. It offers no learning experience and does not lead to the development of capabilities. Companies only grow when they venture into the real world and test their mettle against living, breathing customers and competitors.

For all these reasons, strategists need a wake-up call. They need to deal with the world as it really is, accept the inevitability of surprise, see the value in modest experiments and realise that the best way to get to the future is by actually going there.

Executives today must ensure that their strategy making has three outcomes. First, it must result in new business models offering new value to tomorrow’s customers. Second, it must result in action. And third, it must develop the “strategic IQ” of their people.

These three objectives can all be met by involving people in high-level strategic conversations, by encouraging them to think, by challenging them to test the limits of what’s possible and by setting extraordinary goals and tight deadlines.

Most of the companies I work with now make strategy in 30-day chunks. They’re moving into the future at lightning speed, learning as they go and making rapid adjustments along the way.

Call this strategy as tactics. Or call it *practical* strategy. Whatever the term, this is likely to be the way of corporate life in the new millennium.

TECHNOLOGY CAN'T TAKE THE PLACE OF THE HUMAN TOUCH

As companies race after today's elusive customers, many of them are on a path to self-destruction. They are so intent on meeting the demand for lower prices that they fail to see their real challenge, which is to deliver new and unique value.

Their obsession with cutting costs leads them to commoditize their products and services. The result is "me-too" offerings, vanishing markets and the erosion of shareholder wealth.

During the early 1990s, companies everywhere became reengineering fanatics. But in many cases, the more they slashed and burned the more they hurt their competitiveness. They caused massive problems in their own ranks, destroying the loyalty and passion of their people. They focused inwards rather than outwards, wasting resources on problems rather than possibilities.

Around mid-decade, reengineering lost its glow. Customers came back into favour, and firms started paying more attention to delivering breakthrough service by unleashing the imagination and spirit of their people.

But now managers face a new challenge. Just as the global financial crunch has turned the spotlight back to cost-control, technology is fuelling a race to provide dramatically new kinds of customer satisfaction. So once again, companies are cutting jobs and redesigning processes; but at the same time they're tossing out yesterday's service benchmarks and making constant surprise the new goal.

Information technology lets them do things in ways that were inconceivable only a short time ago. And more managers need to pay more attention to the advantages IT might offer. But they'll make a deadly mistake if they think that the only way to compete is through technology, or that the Internet offers the only route to success.

In the PC industry, most players are adopting the direct-selling model that has made Dell Computer the fastest-growing firm. But even as they struggle to shrug off the dead weight of their current business practices, Dell is busy adding new layers of high-touch personal contact to its already high-tech sales systems.

It will be fascinating to watch how this industry evolves as its members use their wonderful tools to do the same things. They are all hooked on the idea of one-to-one relationships with customers. So they will all make their web sites increasingly user-friendly. They will all automate their sales activities and integrate their marketing, logistics and administrative systems. And they will all spend heavily on their call centres.

But one thing is certain: the harder they work to be different, the less likely they are to be seen as different by customers. And the faster they improve, the faster they'll have to run to stay ahead.

For all the marvels of new hardware and software, their downside is that they homogenise products and services – and strategies – at light speed.

So while they offer companies extraordinary scope for pushing the boundaries of customer service and will continue to spawn a host of new business models, they will also take firms full circle to that worn saying, "Our people are our most important resource".

The first years of the new millennium will be marked by even more rapid technological advances. But the quest for uniqueness won't be satisfied by computers, software, or telecommunications. The way to win human hearts and minds is through human contact, and that will be the key to success.

The Internet is a valuable tool and great place to study new business models. The smartest managers will see both its potential and its limitations. They will apply their imagination to designing the organizations of tomorrow, but they will also pay increasing attention to exclusively human factors like listening skills, smiles, responsiveness, and creativity.

GREAT BRANDS BEGIN WITH BUSINESS BASICS

With brand valuation suddenly in vogue, there's a real danger that managers will put hype and hope ahead of common sense, and see market opportunities and profit growth slip away in the face of hostile competition.

No amount of drum beating can make up for weak business fundamentals. A brand is a perception in a customer's mind but it's what underpins that perception that makes or breaks it.

Coca-Cola's woes in Europe and the "expose" on television of impurities in South African bottled water showed just how frail brands can be. In both cases, loyal consumers headed for the hills when word spread that the products were contaminated.

Winning them back is only partly a communications challenge. Far more important is the need to ensure that the production and packaging processes are trouble-free. The clearest message in the world can't save a polluted product. And the slightest hint of another product problem would convince customers that their worst fears were justified.

It's tempting to think that virtually any product or service will be successful if it is promoted heavily enough. This is clearly nonsense.

Customers may be suckered into buying once, but if what they get doesn't match what they were promised they're unlikely to come back for more.

Bill Bernbach, one of the most famous advertising personalities of all time, once said, "The quickest way to kill a lousy product is to advertise it." All that happens is that more people try it faster. And when they shy away, they tell many others and turn them off too.

Paid publicity obviously does have clout, so it is the weapon of choice of almost every marketer. But word-of-mouth communication, which is free, is far more potent. The personal views of customers carry far more weight than any promotional campaign.

Marketing messages work best when they provoke people to draw attention to a product, to speak well of it, and to vouch for its value. The more customers a company can enlist to spread the word, the more leverage it will get from its other communications efforts.

Getting almost any product to market is a complicated process. Getting it there with the help of customers is the smart thing to do.

This only happens once people try the product and are convinced it's worth using. And it is only when there's a critical mass of these "missionaries" that sales really take off.

Obviously this requires initial publicity. But there is a bigger challenge that demands attention from many people throughout an organization.

A brand does not spring from the brain of a copywriter or from the computer screen of a designer. It is not a product, neither is it a slogan, a symbol, or a catchy tune.

A brand is a perception born of experience. And if the company's promise and the customer's reality don't match, the tills won't ring for long.

If managers far from the marketing department don't get the basics right, they'll go out of business.

Those basics begin with the corporate purpose and include questions about its philosophies, processes, people, and partnerships. In other words, every aspect of the way a firm functions must be deliberately thought through, designed, and managed to support the brand image.

Brand boffins often don't say this. Since most of them operate in or around design consultancies, advertising or sales promotional agencies or public relations firms, they push their own services. They sell their clients advice about getting attention, when the real challenge is far deeper.

Bright ideas are essential to break through marketplace noise. Being boring is no way to win customers.

But in business, getting the basics right is worth 100 IQ points. It's the basics that separate great brands from also-rans, and that add up to shareholder value.

QUESTIONS OF STRATEGY

In these complex times, the greatest risk to business is that managers will forget the value of simplicity and forego clarity. They will over-complicate things and thus guarantee their under-performance. Their "to do" lists will be too long. They will confuse their teams with agendas that cover everything and focus on nothing.

Because of this, a critical task for directors is to cut through the clutter of competing issues, ideas, and possible actions, and make sure that resources are concentrated where they will make the most difference.

To do this effectively, they need strategic thinking tools that are appropriate to this moment. They also need independence of mind, determination to get to the heart of issues, and the courage to demand clear answers.

Above all, however, they need to accept that this is an age of paradox; that things are seldom black or white, right or wrong; that either-or choices may turn out to be the riskiest of all.

If the job of managers is to plan, organise, and execute, that of directors is to question. But to ask the *right* questions they need a good deal of information – not just about a company and its specific purpose and intentions, but also about the *context* in which it operates. For it's what's happening "out there" that determines what's possible, sensible, and desirable "in here."

Smart managers ask their own dumb questions: "Who is the customer?" "What value does that customer buy?" "What might they buy tomorrow?" "What do we know inside that they might want outside?" "Why should we enter this market?" "What specific skills do we need to succeed?" "What will be the real costs?" "When can we expect a payoff?" "How big will it really be?" And so on.

But smart directors don't assume that these questions are asked or answered. They don't assume that they are rigorously debated, or that the conclusions are tested as robustly as possible. They don't assume anything. They *ask*.

During the astonishing post World War II rise of Japan, executives there developed a technique known as the "five why's." Like most of the management ideas that transformed Japan, this one is not from the lofty realms of rocket science. You just keep asking, "Why?"

The reason is not so much to hear the answer, as to hear what led to the answer. What underpins it? What assumptions is it based on? What were people thinking when they came to this conclusion?

Chris Argyris, a professor at the Harvard Business School, has long advocated that managers learn to move beyond "single-loop learning" to "double-loop learning." What this means is actually very simple.

Single-loop learning occurs when something happens and you respond to it. For example, a room gets too hot, so you open a window or switch on the air-conditioner. You fix the immediate problem but all you learn is that you can cool a warm room.

Double-loop learning, on the other hand, occurs when you ask why the room was hot in the first place. When you probe for the answer behind the problem. When you learn not only how to manage temperature, but also what *causes* it. This deeper insight lets you anticipate how it will behave in the future – or in other conditions – so it equips you to adapt in other places and on other days.

In my experience, most managers give superficial answers to a lot of problems. It's not that they want to be glib. But they are busy, and their agendas demand action. What's more, they see their power lying in solutions, not questions; in decisiveness, not in endless deliberation.

But while they may be acutely aware of the need to avoid "analysis paralysis," and while they may like the hype of slogans like Nike's "Just Do It," they hurt their own efforts by failing to ask, "Why?" And all too often, they allow the first answer to be the last.

If they simply changed gears, and spent more time encouraging their people to clarify the assumptions on which they based their recommendations, they would achieve far more. Ironically, they would also get there faster. When flaky assumptions slip into a thinking process, they may go unnoticed for a while, but sooner or later they come back to haunt a firm. So it's best to root them out early – even at the risk of sounding boring.

If slick answers are common in everyday corporate life, they are especially easy at board level. It is easy in an atmosphere of decorum and strict process to slip into politeness and ready acquiescence. Even in one-on-one discussions between, say, an outside director and a CEO, pursuit of answers may be intensely discomfiting.

But it is not the task of a director to make life comfortable for the people who report to a board. It is the height of irresponsibility to let the easy answer be the right one. It is downright folly to take at face value the neat market analyzes, the "one best way" strategies, and the bold intentions that are the stuff of slick presentations.

According to *Fortune*, strategic planning is now the No. 1 management tool, closely followed by the use of vision and mission statements. But in a fast-changing world, where surprise and turbulence are givens, the product of strategising cannot just be a plan. A far more important outcome is *increased capacity to think and act strategically.*

Business strategy, like every journey through life, is a learning process. The first goal of every organization should be to raise its "strategic IQ" – the ability of every person to participate to the best of their ability in scanning the environment, providing new insights, applying their imagination, and exploring the bounds of what's possible.

The role of a director is not to be a policeman. Nor is it to second-guess their executive teams or to offer answers to every question. Rather, it is to raise awareness across the organization that assumptions matter, that smooth words are no substitute for a relentless quest for truth, that simplicity beats complexity, and that clarity counts.

Strategy is partly about stretching people by asking, "Why not?" But it is equally about bringing them back to earth by asking, "Why?" It is the search for balance between these questions that directors must orchestrate. This is their essential strategic role. It is their responsibility – and they should aim to make it their legacy.

STRATEGIC CONVERSATION: NO.1 MANAGEMENT TOOL FOR THE NEW CENTURY

The closing years of the 21st century have seen sudden and dramatic shifts in the business arena. Even more surprising changes lie just ahead. Yet while executives need to think in radically new ways to capture coming opportunities, they would do well to recall the adage that the more things change, the more they stay the same. At the same time, they should pin "SIMPLICITY!" signs everywhere, to remind themselves to cut to the chase and strip their questions and answers to words of one syllable

It's a challenge in this hyperactive age to work out what the hell is going on. Then there's the question, "So what does this mean to me?" And finally, there's the need to decide what to do – and usually there are too many options – and then to make roughly the right things happen.

This is hard enough when you're trying to make sense of your own life. Doing it as a manager in an organization of any size is a lot more difficult.

But managers don't help themselves. On the contrary, they crowd their radar screens with information that may be utterly fascinating but won't affect them in any way, they pack their to-do lists with actions that won't make a difference, and they keep jamming useless concepts into their business tool kits.

Andy Grove, chairman of Intel, talks of the need to separate "signals" from mere "noise." The ability to do this can be a key competitive weapon. Executives who most accurately discern the forces that will affect them gain a valuable edge over those who are bewildered by static. Those who see the future first have the best chance of getting there ahead of their rivals.

Unfortunately, there is no easy or sure way to do this. For all the talk of SWOT analysis, "systems thinking," scenarios, and game theory, the future remains a mysterious place, and calling it wrong is more a probability than a possibility.

Hindsight is an exact science. But being wise after the event doesn't help managers prepare for anything. If they're not alert, problems may engulf them or opportunities may slip by unnoticed.

More than ever today, executives need "peripheral vision" – the ability to scan a wide horizon. One reason is to scoop up clues about tomorrow. Even more important, though, is the fact that information is the raw material of creativity. Only by having what legendary advertising man, David Ogilvy, called a "richly furnished mind" can managers hope to produce a stream of new ideas.

But while they gather data, they also need to be focused. They need to quickly separate what's interesting from what's important, and apply their minds to those few issues most likely to affect them.

For example, Aids will clearly have a devastating impact on many countries. But the question for any firm is, "How, exactly, will it affect us?" and the answer, obviously, will vary from company to company.

Or think about the economic outlook. Most global indicators are very positive. However, while some companies report robust sales, and forecast more good times ahead, everyone cannot be equally optimistic. Many firms are struggling, and are likely to do so for some time. Some that are doing brilliantly will stumble. Good news on the macro-economic front does not mean the same thing to everyone.

To a retail pharmacist, a trade deal with the European Union is not a major issue. To a farmer – or to a company selling pesticides or tractors – it's very important. And while a sweet maker need not dwell too long on changes in the medical arena, ethical drug makers do need to know what's going on there.

Business is about laying bets. This is always risky. Judgement is always required. Whether you have two scenarios or ten in front of you doesn't really matter; sooner or later you have to make a choice and put money on the table.

Often, the only way to gain a significant advantage is to lay a seriously big bet. And in some industries such as mining or aluminium manufacturing, the payoff may be years away. But most companies don't have to make such massive commitments for so long. They can safely – and sensibly – play a different game.

Like Microsoft, they can lay many small bets and then wait to see how things evolve. They can "experiment their way into the future." By deferring total commitment to this course or that, they can learn as they go, and gradually refine both their view of the best opportunity and their strategy for seizing it.

Thirty years ago, long-range planning was all the rage. Twenty years ago, managers in the west fell in love with the Japanese notion of creating a vision for the next 100 or even 250 years. But for the past ten years, incrementalism has come to the fore. In the age of "Internet time," it's smart to talk about "rapid prototyping," "strategic incrementalism," and "patching."

The reality of constant and rapid change makes the shelf life of almost any competitive advantage shorter and shorter. But it also means that business people need to be clearer than ever about what they must do to be successful, and how they must go about it. And a good starting point is with a reminder that while fads like "vision" come and go, some aspects of management don't change.

Peter Drucker has lived for most of the past 100 years. Since World War II he has regularly put his finger on issues that should concern management. It was he, for example, who noticed that "results occur outside the business – with the customer." It was he who proclaimed marketing and innovation to be the two most vital management tasks. And it was he who saw the need for managers to have "a theory of the business" to guide them in their decision-making.

Drucker was always clear about the role of business in society. "The first responsibility of business," he wrote, "is to stay in business." He also saw ahead of most the need for a firm to identify its strengths (now called core competences) and build on them; for managers to "feed opportunities and starve problems"; and for them to set a few clear objectives in their pursuit of results.

From time to time, other academics, consultants, and writers have come to market with "breakthrough" concepts and in many cases won a lot of attention and made a lot of money through them. But Drucker could rightly claim to have "been there, said that, and moved on." So managers would do well to ground themselves in his work before diving into the latest stuff. Doing so would not only save them making a lot of false turns, it would also ensure that they understood what really matters.

The fact is, the *principles* of management have changed little, if at all, for all the time that management has been understood as a practice that can be taught (another of Drucker's observations). His quirky habit of harking back to a little-known event in, say, Japan, several centuries ago, or to the way Alfred Sloan ran General Motors 50 years ago, proves the point.

The same basics still matter – and they will continue to matter.

This needs saying because many managers can do with a reality check. Faced with unprecedented opportunities – and a host of serious problems, too – they need urgently to get to grips with the tools that will make them successful, and abandon the fads that merely waste time.

In a complex world, it is easy to be tempted to seek complex answers to seemingly complex questions. But just as it's vital to get to the essence of an issue fast, and to put your finger on what you must deal with and what you can safely ignore, so it's critical that you apply the right tools.

The past two decades especially have seen a flood of "new" business ideas come to market. Academics and consultants will continue to churn them out in the new millennium because executives are eager buyers of anything that might save their skins. But one central theme – "strategic conversation" – will dominate.

The reason is simple. All speculation about the future has a single purpose: to enable management to focus resources on the most profitable opportunities. Having chosen where to aim, they must then get stakeholders to buy in and "vote" for their strategy. And as the organization moves forward, its people must be inspired to volunteer their imagination and spirit to constantly reinvent it, and to push aggressively into new territory. These things are all made possible by strategic conversation. Without that conversation, uncertainty, disarray, and sluggishness are inevitable.

Thinking from many disciplines is now converging around this conclusion. Corporate superstars like GE's Jack Welch, IBM's Lou Gerstner, and the late Roberto Goizueta of Coca-Cola have all shown the value of clear, consistent, and relentless communication. Strategy gurus like Michael Porter and Gary Hamel have emphasised over and over the role of conversation in developing and implementing strategy. And others like Peter Senge, Margaret Wheatley, and William Isaacs have contributed from their fields of expertise.

To succeed in tomorrow's world of even more hostile competition, "Internet time," and "the death of distance," business leaders need to see that they are scarcest resource of all, and that their first priority is to use that resource wisely. And the best way to do that is to begin by asking, "What should we talk about around here?" "Who should be involved?" And "What should be the quality of that conversation."

Their role is to craft the critical messages, and to manage the context in which the strategic conversation takes place. Nothing else is more important. Yet in most organizations, nothing gets as little attention.

Peter Drucker once said that his best ideas had "one moving part." Strategic conversation is an idea with one moving part. The pity is, it's so simple it will be easy to ignore in favour of something more complicated.

But the next century will be unforgiving. It will demand faster decisions, more innovation, and above all, the "bias for action" that Tom Peters and Bob Waterman wrote about in *In Search of Excellence* back in 1982. So executives should keep reminding themselves that while it's true that "what gets measured gets managed," it's only what they and their teams *talk* about that will be either measured or managed.

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TONY MANNING'S

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