Tony Manning's
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StrategyLetter©

AN OCCASIONAL REPORT ON GLOBAL TRENDS AND NEW MANAGEMENT THINKING

In this issue:

A time for change?

Is it even vaguely possible that ten years from now the firms you compete against for customers and profits will act the way they do today? What about five years from now? Five months? Five days?

It's possible, but not likely – even *five minutes* from now.

Some corporates will hardly change, or change too slowly; their fortunes will wane. Some will move faster; they'll have a better shot at survival. A few will race ahead, inventing their way into the future, redefining markets, reshaping value propositions, and radically changing their delivery systems.

If there's one certainty in this first decade of the new Millennium, it's that the pace, the magnitude, and the complexity of change will all be greater than we've been used to. Life in corporations will be more, not less, difficult. Decisions will be harder because more people will be involved, more issues will have to be weighed up, there will be more options, and the trade-offs will be tougher.

Business is a balancing act between the old and the new, the known and the novel, stability and change. It's possible to move too fast – or too slowly. You can just as easily destroy your company by *improving* products too fast as by *abandoning* best practices too slowly. The "first mover advantage" can be the kiss of death. "More of the same" is sometimes the smartest strategy.

To say, "We must change" is true for most companies, most of the time. But knowing *what* to change, and *when*, is where the real skill kicks in. There are no easy answers.

This is a transformational moment in human history, mostly because of new information technologies. But it is also a time in which uniquely *human* qualities – foresight, insight, imagination, judgement, and our ability to relate to each other – matter as never before.

This issue of my *StrategyLetter* provides powerful analytical tools for managers, as well as thoughts on how to create a new environment for extraordinary performance, and how you can be more effective as a leader. Once again, the advice is thoroughly practical, so it should help you make a difference fast.

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Does your "business logic" make sense?

There are countless ways to make money in business. But few managers are clear about how they do it. When they do describe their "profit recipe," they're often unconvincing. And it doesn't take a rocket scientist to see that their "unique" competitive advantage is just like many others, and will lead them straight down the commodity track.

When outsiders evaluate a company, they ask simple questions. Insiders, by contrast, seldom ask the same things. They spend time on fluffy mission or values statements, make decisions based on assumptions rather than facts, and make their goals so general they don't matter. Result: they can't explain their business logic, or if they try, it doesn't add up.

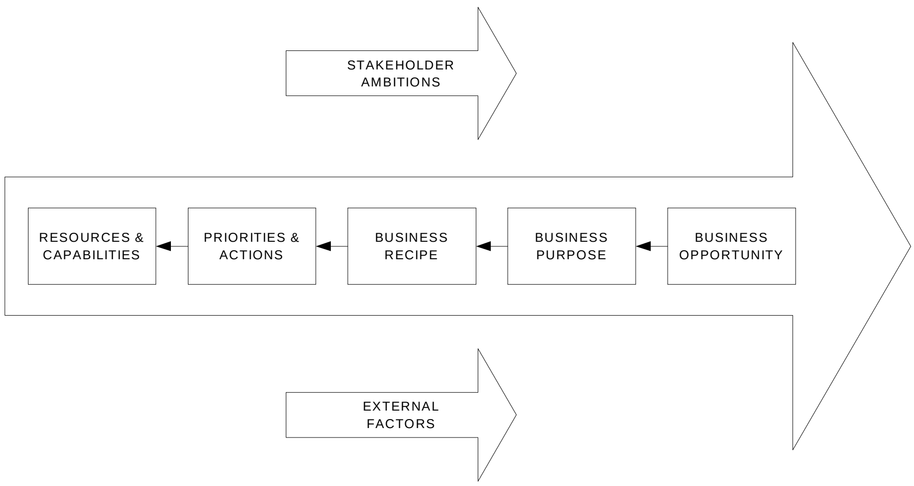
Here are the critical questions:

1. Is there a real – and *exploitable* – business opportunity for *this* organization?*
2. Is the business purpose clear and worth supporting?
3. Is there a "business recipe," and is it likely to deliver the intended results?
4. Have hard choices and trade-offs been made about priorities and actions?
5. Are essential resources and capabilities available, or can they be?

When the answers are connected by a straight line, the chances of success go up; when there are disconnects, danger lights flash. Enthusiasm is no substitute for common sense.

Neither do companies operate in isolation. They are, to a real extent, "prisoners of their environment." So two other questions must be asked:

6. Does this organization satisfy the ambitions of key stakeholders?
7. Does its strategy take into account external forces that may affect it?



Test your company against these questions now. See how your business logic adds up. Do you *believe* what you're saying? Can you *defend* it? Will others – shareholders, suppliers – buy it? Would you back your story with money? Will you stake your life on it?

A lot of executives – especially entrepreneurs with a new idea – are on shaky ground when they explain their strategies. Their PowerPoint presentations and spreadsheets dazzle the audience, and their confidence is compelling. But switch off the projector and turn up the

* Pick your fights carefully – and pick the ones you *can* win. Every opportunity is not for everyone. Some are worth chasing, while others should be left to someone else. Walking away can be the smart thing to do.

lights, and apply the test of these seven questions, and things quickly look different.

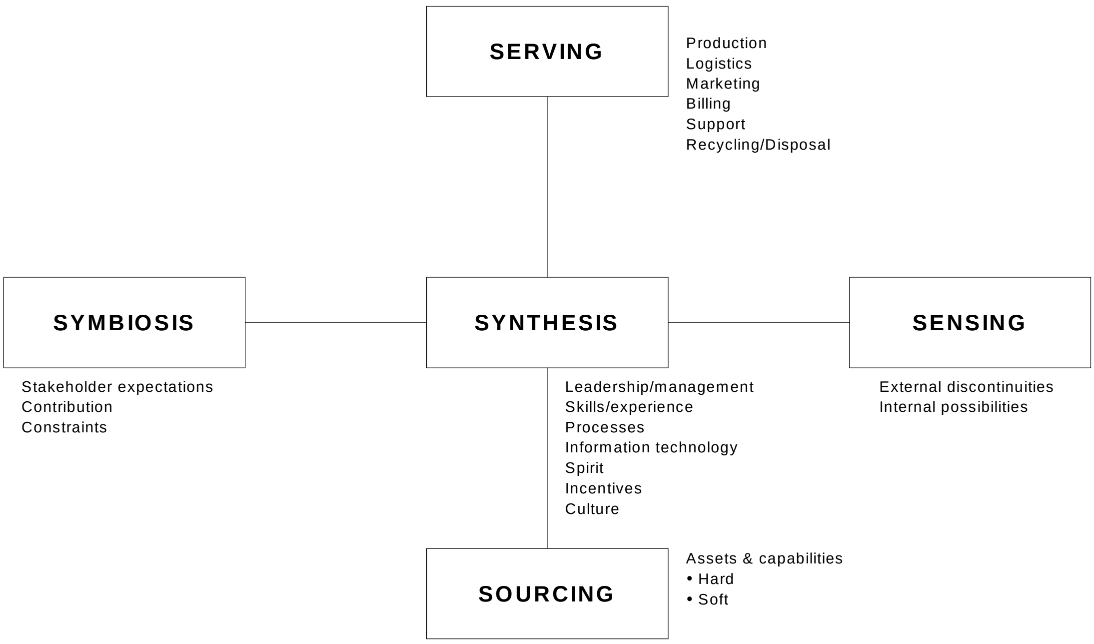
There's nothing worse than a skeptic who can't see the promise of the future. But in the new economy there's no shortage of dreamers. And for all their hype, most will go down in smoke. (Already, for example, "e-tailers" and many other dotcoms are falling like flies.)

These are exciting times, and the race is on to develop the business models of the future. Start-ups have to offer something new and different to break into already crowded markets. Established firms must innovate just to stay in place. And growth for everyone will become harder as more competitors chase the same customers. But *beware of infatuation with "new rules" when the old ones still apply.*

Business life cycles are not dead – they're just shorter. They're a product of flaky *thinking* as much as of poor *execution*. Strategies don't have to be brilliant. But they do need to make sense. Being radical is no substitute for being rigorous. Blend the two, and you're most likely to have a winner.

The 5Ss: a systems view of value delivery

There are many ways to think about business, and no "one right answer." Different tools serve different purposes. Most managers are familiar with the concept of a value chain, and it remains useful. But in this age of temporary alliances, outsourcing, empowerment, and systems thinking, a more holistic view is needed. The 5Ss framework highlights the five things every company must do to capture and keep customers and deliver consistent profits.



Whether it's selling hot dogs or hedge funds, every firm has to:

1. Be alert to what's going on outside that may be an opportunity or a problem … and what is happening inside that might be either an advantage or a handicap **(SENSING)**.
2. Access key resources – both "hard" ones like cash, raw materials, components, and so on, and "soft" ones like knowledge, brands, patents, etc. **(SOURCING)**.
3. Create and deliver value to customers **(SERVING)**.
4. Foster win-win relationships with a wide range of stakeholders **(SYMBIOSIS)**.
5. Pull it all together into a cohesive whole that is more than the sum of the parts **(SYNTHESIS)**.

Firms that manage these five factors best will have an edge over the rest. By using this holistic way of thinking about how you produce results, you can quickly cut to the chase and start doing what really matters. Let's consider thee factors separately:

- SENSING – Management is about laying bets on the future. The question is, *which future?* If hindsight is a perfect science, foresight is partly a matter of homework and largely a matter of luck. Gathering facts, speculating, and creating scenarios is no guarantee of success. Sometimes you'll get it right and sometimes you'll get it wrong.

  That said, it's important that you do watch what's happening in your environment, and that you do improve your "peripheral vision." This way you at least have a chance of spotting trends or seeing events unfold in time to do something about them.

  In most companies, this task happens by default. It's nobody's responsibility, neither is it methodically tackled. A research project might be conducted from time to time, but this is usually to check a specific issue rather than to keep information and insights flowing.

  The result is that when someone does spot an interesting shift, they're not sure what to do about it. There's no channel by which they can alert their colleagues; no process by which the issue can be further defined, ranked, or analysed; no means of escalating it to where it will get serious attention.

  But there's more to sensing than watching the world go by. It is equally necessary to know what's happening *inside* an organization, to understand where internal capabilities can be connected with external opportunities. And as innovation becomes more critical, so will this ability to bridge the organization's boundaries.

- SOURCING – Recent emphasis on focus, capabilities, and core competence has encouraged companies to become excellent in some critical task or tasks, and to leave the rest to someone else. This trend will accelerate as companies strive to drive costs ever lower in the face of price deflation. So more work will be assigned to strangers.

  This will bring massive problems of communication and coordination, as well as serious risks and questions of corporate governance.

  One key resource that will increasingly be outside the firm is skilled people. The demand for talent is at crisis levels in some industries. "Smokestack" companies are finding it extremely hard to attract and hold smart people. New approaches to leadership and management, and new ways of developing and rewarding people, are urgently needed.

- SERVING – Delivering value keeps revenues flowing in to a firm. This is the sharp end – where the rubber meets the road. Smart companies put maximum effort into it, for they know that their most valuable asset in the future will be *ownership of their customers*.

  If customers are the priority, the first challenge is how to choose the "right" ones for your organization. Then, how to "wrap them in value": how to understand them, anticipate their needs and likely moves, and continuously customize your offering to keep up with them as they change.

  For about 20 years now, managers have been intensely aware of the importance of customers. Many firms have made huge investments in "customer excellence." The new buzz is customer relationship management (CRM). Everywhere you look, call centres are proliferating to deliver on the promise. Yet survey after survey shows that customer dissatisfaction remains high – and may in fact be rising.

  This is due partly to the fact that firms really do deliver more today, and their standards keep rising. So customers have been spoiled. Their "unreasonable" expectations of yesterday are now seen as perfectly normal. And in most industries, they have many options when they go shopping.

One thing you can take poison on is that customer expectations will keep rising. Satisfying them will get harder, not easier. The efforts you've made so far may serve you today, but they won't be enough tomorrow. Now is the time to raise your sights.

- SYMBIOSIS – Every organization has a range of stakeholders who can "vote" for or against its success. These include its shareholders, directors, management, employees, suppliers, the media, customers, government, communities, environmentalists, and so on. It's a long list and all these players must be encouraged to support rather than block the organization's efforts.

  In the past, companies could ignore many stakeholders and treat others badly. If people liked them, fine; if they didn't, so what. But that has changed. A lot of stakeholders now have serious clout. They can do serious damage if they're provoked (and the Internet dramatically extends their reach).

  One objective may be to lessen the risks of alienating stakeholders. But it surely makes more sense to look for win-win relationships with them. By considering them early, and by communicating effectively with them, they can be extremely valuable.

- SYNTHESIS – The ultimate key to competitiveness, and perhaps the most under-rated, is the ability of management to "pull it all together." So the central issue on my model – synthesis – is obviously the most important one.

  Many companies don't survive even though they understand their environment, have a lock on important resources, have finely-tuned service-delivery processes, and enjoy great relationships with their stakeholders. The reason most often is that *they can't get their act together.*

  Synthesis is a product of that most basic human activity: conversation. When people are informed, involved, and encouraged to speak their minds, miracles happen. But when they don't talk about the right things – and don't talk about them constantly, creatively, and constructively – things quickly come unglued. Parts of the organization fly off, and resources are sprayed in different directions.

  Strategic conversation is a "sleeper" idea whose time has come. *It will unquestionably be the No. 1 management theme of this decade and beyond*. Many business thinkers are starting to talk about it as they seek ways to hook together today's dominant challenges: entrepreneurship, innovation, empowerment, outsourcing, virtual organization, organizational learning, etc.

  Technology vendors would have you believe that their gizmos hold all the answers for the future. Interestingly, though – and not surprisingly – the smartest information experts agree that *technology is simply an enabler of human performance*. And no amount of technology can make up for failures on the human front.

  IT spend is rising sharply. Companies that are lagging must act fast or they'll perish. The new information tools are indispensable. But they are only as good as the conceptual framework into which they fit. And if that framework is flawed, the millions invested in hardware and software will be wasted.

The 5Ss framework gives you a conceptual framework quite unlike any other, and especially suited for these times. It helps you think about how you make a money and how you might redesign your value delivery system. By rating your company's ability in each of the five areas on a simple 1–10 scale (where 1 = weakness and 10 = strength), you can quickly gauge its competitive health.

Use this framework with your team soon, and you will almost certainly see new possibilities for improvement and change, and trigger new directions in your strategic thinking.

Ten secrets of management

Management is common sense, not rocket science. The basics have had a long shelf life, and they still apply.

Here's a quick take on management wisdom I've gleaned – from top executives, academics, consultants, and others – over a couple of decades of studying the subject. This is the stuff that "everyone knows," yet which is ignored by to many people in positions of power.

1. **Manage the context**. Experts in leadership agree: the No. 1 job of a leader is to manage the "space" in which people will do extraordinary things. But people running companies, departments, and projects tend to underplay *why* things must be done, and instead emphasise *what* must be done, *how*, and *how well*. This leaves their people operating in an information vacuum, where they can't see the purpose in their work.

   For all the current talk about empowerment, the fact is, most people are systematically *dis*-empowered – by their bosses! They may be trained in useful skills, but they're not allowed to see or hear the "secret stuff" that people at the top think must be kept from them. And because they're not trusted with the big issues, they can't be trusted with the small ones.

   When people know that what they're doing matters, and understand how it fits into the larger scheme of things, they blossom. When they're kept in the dark, they wilt. So it makes sense to flood them with information, to explain the big picture, and to keep reminding them how pivotal they are to the organization's success.

2. **Keep things simple**. In this increasingly complex world, the ability to make things simple is a rare gift. Most of us think that big words are best, that it's a sin to use one word when ten could do, and that complicated explanations have a ring of authority that will impress others. But fuzziness is the enemy of action. And most people are too damned busy to decode what you're saying. If they don't get what you mean on the first take, they're not likely to try again.

   Lots of strategies fail not because they're bad *strategies*, but because they're badly *communicated*. The people who're supposed to make them happen don't understand them, don't know the reasoning behind them, and are not sure what to do.

   If you want to turn good intentions and great ideas into action, you'd better be brief and clear about what you expect. If your strategic plan is more than a few pages thick, turf it out and put the key points down in no more than five or ten pages. If the language is dense and flowery or full of technical terms, change it. If you can use drawings or charts instead of words, do so. Peter Drucker once said that his best business ideas "had just one moving part." The best strategies are like that too.

3. **Focus on the big picture/manage the basics**. It's easy, in the hustle and bustle of everyday work, to get bogged down in minutiae. Most of it won't make a jot of difference. No matter how good you are at the small stuff, you'll never do anything great if you don't have big, exciting plans.

   However, it's vital that while you aim for the moon, you build a rocket that will actually fly: that you take care of the basics that will get you off the ground and back safely. Dreams are the drivers of great performance; but details turn dreams into reality.

   In most organizations, only a handful of people can see the big picture. Only a privileged few have "a line of sight" to the future or to customers. The rest are encouraged to keep their heads down and sweat the small stuff. The irony is, because they don't understand the organization's purpose and its larger goals, and because they don't understand what external changes mean, they let the details slide. "Housekeeping" in many companies is appalling. It's little wonder that so many strategies turn to dust.

4. **Expect the extraordinary**. It's a truism that you get what you expect in life. (Remember

the "Pygmalion effect" and Douglas McGregor's famous "Theory X" and "Theory Y"?) Nowhere is this more evident than in organizations – as countless research projects show. If you expect the best from people, they'll almost always deliver. But expect anything less and that's what they'll do.

In high-performance firms, managers demand extraordinary performance. Nothing is impossible … so many things become *possible*. People in the strangest places come up with observations, ideas, and actions that break new ground and result in money-spinning products and services.

5. **Encourage the unexpected**. A "no surprises" dictum may make senior executives comfortable, but it also cuts off excitement and makes "boring, boring, boring" a way of life. Surprises can be worth a fortune. They're essential if you want to stand out in the marketplace. If creating and celebrating them is not a big deal in your organization, you're unlikely to make them a big deal for your customers.

   So best let everyone know – through speeches, in meetings, with incentives, etc.– that you expect and value the unexpected. Make a habit of asking, "What's new?" Demand answers. Push people to think beyond the first insight or idea. Provoke them to see things from different perspectives, to consider and present alternatives, to think not just about "Plan A", but about other possibilities too.

6. **Set bold, high-payoff goals/tight deadlines**. Perhaps the most valuable lesson in all the literature on core competence and capabilities (the "resource-based view" of the firm) is that you needn't be limited by your current resources. Great things are possible from humble beginnings. But first, you have to have a great *ambition*.

   What market share do you intend owning in 2001? What turnover, profit, or share price are you reaching for? How many of your people will you train by then (and in what skills and to what standards)? What will your customer service rating be? Are your goals out of reach … or just a few steps away? If they don't stretch you, you may hit them but be disappointed. On the other hand, if they do stretch you, you may fall short but still be a winner.

   But while you set new stretch goals, *shrink your deadlines*. Why? Because when you allow too much time for anything, the wheels spin. People get busy with "real work" and new initiatives take second place.

   I've introduced my 30-day strategic planning process into every company I work with. The results are fantastic. Managers suddenly find they can cut huge costs, restructure, launch new products, or otherwise change direction in no time flat.* When the pressure's on, people perform.

7. **Share responsibility/demand accountability**. It's been said to death: *participative management pays*. As former SAS CEO Jan Carlzon put it many years ago, "People without information cannot take responsibility; people with information can't help taking responsibility." Yet true participation remains rare; few firms allow it.

   You can change that today. Involve people in decisions that affect them – and where you need them to volunteer their input. Give them real responsibility and authority.

   But don't stop there. Make them *accountable*, too. When they sign up for any task, they need to know that they're making a serious commitment. When they get it right, they should be praised and rewarded; when they screw up, they should feel the heat.

   People don't like to work where it doesn't matter how well they perform. Human nature needs challenges. We all want to excel. So set your people free to do just that. And let them share in the consequences of both success and failure.

* For information on this process, contact me at 27 11 884-2635 or strategist@tonymanning.com

8. **Be decisive/act fast.** Don't waste time waiting for the perfect forecast of the future; any forecast is likely to be wrong. Don't call for another research report, or waste any more time dissecting production numbers; rather, go out and make something, sell something, meet a customer, or just clean your desk! *Act*, dammit!

9. **Frequent, robust reviews/"rich", respectful feedback**. A key aspect of my 30-day strategic planning process is the reviews. Once a month, results are checked against goals. The conversations are feisty and honest, and there are "no prisoners." Participants quickly learn that it doesn't pay to bullshit or to duck promises.

   Feedback in these sessions must balance toughness with good manners and respect. Questions need to be probing and relentless to drive down to real issues, get to causes, uncover weaknesses, and reveal ways to improve or change. But they also need to focus on the *problem* not the *person*, so discussions stay positive and productive and don't degenerate into criticism, name-calling, and defensiveness.

10. **Communicate clearly, consistently, and continually**. Define your message. Stay *on* message. And keep talking!

Executive bookshelf

As a "magpie" reader, I look far and wide for interesting stuff. Here are some of the most interesting books I've found in recent months:

1. *Leading The Revolution,* Gary Hamel, Harvard Business School Press, 2000. The dominant strategic thinker of these times is somewhat breathless (*a la* Tom Peters) in his latest book, but it's is sure to become the new business bible.
2. *Living On The Fault Line,* Geoffrey A. Moore, HarperBusiness, 2000. Strategy in the new economy from a guru of Silicon Valley.
3. *A Future Perfect*, John Mickelthwait & Adrian Wooldridge, William Heinemann, 2000. Globalization is a hot topic and writing about it has become big business, but these authors, both writers for *The Economist,* are worth reading.
4. *The Capitalist Philosophers*, Anrea Gabor, John Wiley, 2000. Fascinating though somewhat skimpy overview of the influence of 10 major management thinkers. Confirms how little is really new in the field.
5. *Beyond Greed & Fear*, Hersh Sefrin, Harvard Business School Press, 2000. Excellent analysis of the drivers of investment behaviour. A timely tome, given the intense in financial markets and the fact that so many ordinary people are now laying extraordinary financial bets.
6. *Road To Riches*, Peter Jay, Weidenfeld & Nicholson, 2000. Story of economic man, with plenty of lessons for the future, by the economics editor of the BBC.
7. *Smart Choices*, John S. Hammond, Ralph L. Keeney, Howard Raiffa, Harvard Business School Press, 1999. Crisp advice on how to make sound decisions.
8. *The Knowing-Doing Gap*, Jeffrey Pfeffer & Robert I. Sutton, Harvard Business School Press, 2000. The best book by far on how to make things happen.
9. *Connect,* Edward M. Hallowell, Pantheon, 1999. The author's 1998 *Harvard Business Review* article, "The Human Moment at Work," was in my view one of the most profound business articles of all time. His book is equally worth reading.
10. *Mega Change,* William F. Joyce, The Free Press, 1999. Key lessons on making large-scale change happen.