Tony Manning's

Issue 31/July 2004

StrategyLetter©

AN OCCASIONAL REPORT ON GLOBAL TRENDS AND NEW MANAGEMENT THINKING

In this issue:

An outside view

During May, I checked the proofs of my ninth book, *Tony Manning's Management Toolkit* (Zebra Press), so it will soon be on the shelves. I also attended a seminar on "The Art and Craft of Discussion Leadership" at Harvard Business School, spent five days in New York City, worked on a new leadership programme with my long-time client Johnson & Johnson in New Jersey, then returned to Boston for the 2004 "Innovations in Management" conference at the Massachusetts Institute of Technology (MIT). After that, I visited London and Paris, dashed back to South Africa for two days of meetings, and then flew back to Oxford for another three-day assignment. Result: lots of air miles, jet lag, a sore back, and a load of new insights and ideas.

In Boston, I enjoyed a wonderful dinner with my friend Tom Stewart, Editor of the *Harvard Business Review*, and interviewed MIT Professor Edgar Schein and Harvard Business School strategy expert, Professor Pankaj Ghemawat. Part of the interview with Schein appears in this *StrategyLetter*; the Ghemewat interview appears in the July 2004 issue of *Directorship*. Both interviews will appear in full on my website at www.tonymanning.com.

The one thing that struck me most in my travels and discussions was how the drive for the next new thing contrasts with the sense of insecurity that hangs everywhere. When I asked Tom what he saw as today's big issue for executives, he said, "Uncertainty." I agree.

Growth in the global economy is at a 20-year high, but nobody knows how sustainable the trend is, and huge imbalances hold serious threats for the future. Inflation is rising, so while interest rates are low, central bankers are starting to nudge them upwards. The oil price is way up – and the threat of disruption to supplies is serious. Branding and design have become really big issues, but high-quality, low-priced goods are swamping every sector. And the fear of terrorism is an everyday thing.

Back home in South Africa, things are on a roll. We have ten years of democracy under our belt, and exciting times ahead. The opportunities for business are unlimited. There's a big world out there, and lots to do.

This issue of my *StrategyLetter* begins with a view of some of the challenges ahead, then turns to more practical matters – the use of corporate culture as a competitive weapon, and how firms can making strategic planning more effective. It's information you can use!

Tony Manning/*Strategist*

CONSULTANT IN COMPETITIVE STRATEGY & CHANGE MANAGEMENT

P.O. Box 750 Morningside 2057 South Africa Phone 27 11 884-2635 Mobile 082 800-5862 Fax 27 11 884-6006

E-mail strategy@tonymanning.com

SA: Alive with challenges

There can be no doubt that the single biggest issue facing SA today is people. We need jobs and skills. In December 2003 and January 2004, HR Futures magazine carried articles of mine on these issues. Here is a shortened version of the first one. (The full articles appear on my website at www.tonymanning.com.)

Business in a post-September 11 environment is different than anything that went before. There are new risks and uncertainties. There are also plenty of exciting opportunities. But the question is: will we "seize the day?"

SA business has a lot to be proud of. A growing number of local companies now deserve the title "world class." More will get there quite soon. Productivity is rising. There's a welcome shift in management style from rigid autocracy to one that's more open and participative. People from diverse backgrounds are working well together. And people matters now get more time than ever from top management.

This country is, as its marketing slogan says, "alive with possibilities." Yet while there are many reasons to be optimistic – and lots of pressure to focus on the positive – our future is threatened by a central issue: our ability to create it.

A recent survey comparing SA managers to their peers in other countries suggests that we're likely to take a strategic view of things, but then act too fast. But my experience of working with hundreds of companies and thousands of executives suggests that reality is quite different. Most local managers are uncomfortable about looking too far ahead. Because they know there's some unpalatable stuff out there, they work hard to deny reality. And when it comes to action, why, they'd much rather keep talking!

A decade ago, for example, you could predict that HIV/Aids would be a deadly issue, that transformation would become a big deal, that companies would be under growing pressure to fulfill a social role, and that there would be too few managers and too many unskilled people. You could foresee problems in education, increasing unemployment, rising crime, and the crumbling of social values. And you could place bets on inadequate economic growth, too little foreign direct investment, and a widening poverty gap.

Yet today, as these matters crowd the headlines, smart business leaders are shocked and unprepared to deal with them. Too often, their response is to turn away and focus on the good news. If they do act, it's too little, too late.

Government is doing much to shape an environment conducive to business, provide the needed skills, and encourage sound practices in labour relations. But it is also doing a lot to ensure that we move too slowly, that progress is difficult, and that becoming a "winning nation" is harder than it need be.

Unfortunately, one era of social engineering has given way to another, of a different kind. We know too well the consequences of the first. We can only guess what those of the second will be.

Wanted: work and workers

People are the make or break factor in any society. Yet *SA has a human resources crisis. And if we continue on our chosen path, it will get much worse much faster than anyone imagines.*

On the one hand, there are not enough jobs. On the other, we don't have enough managers, we don't have enough skilled workers, and we will have too few of both in the future. In both private and public sector organizations, goals are not met and promises are not kept. So economic – and thus social – targets remain elusive.

SA's unemployment rate is anywhere from 30% to 50%, depending on whose estimates you believe. Every year, 750 000 job seekers enter the market, but just one in five can get work.[1] Without serious foreign direct investment (FDI), there's no chance economic growth will hit the 6%–7% level needed just to stop this calamitous situation getting worse. But SA gets less than 1% of the total FDI that goes to developing countries, and anyway, FDI to *all* developing countries has been cut in the past few years because of the global economic slump.[2]

Foreign firms cite HIV/Aids, crime and corruption, the skills shortage, and stringent labour laws as reasons not to put down roots here. And why should they, when there are easier places to do business?

In any event, those that do come will not be big employers – and especially not of semi-skilled or unskilled workers. Cheap skills are available in too many other places. Local trade unions have priced their own members out of jobs, and prevent non-members – the poorest of the poor – from working for wages that would keep them alive.

Since 1994, the illusion has been fostered that there's a huge opportunity to create factory jobs in SA. But long before then, those jobs were rapidly shifting to low-wage countries like Taiwan, Malaysia, South Korea, and Mexico. India is now aggressively promoting itself as a manufacturing centre. European countries such as Turkey, Poland, and the Czech Republic are increasingly competitive. Nobuyuki Idei, the chairman and CEO of Sony, recently noted that "China is a factory." Meanwhile, an article in *The Wall Street Journal Europe* reports that "manufacturing jobs are disappearing around the globe."[3]

The rand's recent strength has been good for importers and consumers, but awful for exporters. The cost of doing business in SA is rising. The tourism industry – long held out as the great hope for job creation – is taking strain. One area where jobs might be created is call centres. But again, the competition from other countries is fierce.

All in all, there's no hiding the fact that the outlook for jobs is not good. But what about the *supply* of skilled people who will do tomorrow's knowledge work? And more critically, what about the supply of managers who will have to create jobs, organize work, and make things happen?

Importing people is not easy. So we have to "grow our own" – and that's not working very well.

The education system is taking too long to deliver. Pass rates in many schools are appalling. In maths and science, South African students rank right near the bottom globally. There's a looming teacher shortage.

Anecdotal evidence says standards are falling in many universities. One can only imagine the negative consequences of the mergers now taking place between some universities and technikons. (Most business mergers fail; the chances of success in these politically-charged marriages can't be good!)

And what about the quality of teaching in business schools and management programmes? Although a welcome stream of foreign academics is coming here to share their knowledge, local talent is thin on the ground. Little is published that's either original or noteworthy. Tired concepts are endlessly recycled. The quest for an "African leadership model," for example, has yielded nothing but more references to *ubuntu* – and no one has yet explained what's unique about that.

Then there's HIV/Aids catastrophe. In a report much criticized by local officials, the World Bank warns that SA will suffer "a complete economic collapse" within four generations if we

[1] Gaenor Vaida, "The great jobs gap," *Sunday Times Business Times*, August 3, 2003
[2] Reg Rumney, "Foreign investment falls flat," *Business Day*, October 28, 2003
[3] "Factory layoffs are a global issue, research shows," *The Wall Street Journal Europe*, October 20, 2003

don't act fast to fight the epidemic.[4] By 2015, around 4,4 million people will have died. Life expectancy is headed downwards, from about 60 years to just 40.

There's a common view that HIV/Aids is most likely to strike those who are least needed – those at the bottom of the skills pile. But as Clem Sunter keeps saying, *everyone* is a potential victim. A recent SA Reserve Bank report shows that it's skilled or semi-skilled people who are most likely to exit the workforce because of HIV/Aids. What's more, 59% of these are women – this at a time when women are seen as a key resource.[5]

As more workers are infected, and as more infected workers progress from HIV to full-blown Aids, absenteeism will increase. But *"presenteeism"* may be an even greater problem. For people who turn up may not be able to do their jobs. The boss's fine vision of the future won't excite them, because they will know they have no future.

Developing managers to go

There's both good news and bad news in the fact that SA is a "hothouse" of management development.

The good news is that executives here get everything thrown at them. In this slow-growth economy, they feel all the impacts of globalization, deregulation, and privatization. They deal daily with tough international competitors, and often tougher local ones. They have to cope with a tangle of red tape, job-destroying labour policies, and aggressive unions. And to "play business" in SA they have to deal with a shortage of skills, HIV/Aids, transformation, corporate social investment, pressure to comply with the King II recommendations on corporate governance, crime and corruption, and a volatile currency. They learn a lot of stuff about a lot of stuff – and fast.

The bad news is, this makes them attractive to overseas employers. And the brain drain is alive and well.

But never mind, we're told. There's plenty of talent "out there." But is this so? And if it is, how do you bring it "in here?" How do you attract, integrate, and retain the people you need?

These, then, are some of the issues SA managers must contend with. Clearly, their work will not get easier. Clearly, too, the work of human resources professionals will become increasingly important.

In conversation with Edgar Schein

Edgar M. Schein is Professor Emeritus at the Massachusetts Institute of Technology. A pioneer and internationally-acclaimed expert in the field of corporate culture and change management, he is the author of many seminal books and articles and a consultant to major corporations worldwide.

Manning: How does culture impact on organizational performance?

Schein: There is of course the national culture, but the things that hurt organizations are really occupational cultures. People who grow up in the different functions like sales and manufacturing and engineering and marketing develop different mentalities, vocabularies, and concepts. So getting an organization to work well is really a *multicultural* issue. And when you add on top of that multinational, global kinds of organization – joint ventures and so on – it's a miracle that organizations work at all, given the different mentalities you have to coordinate.

---

[4] Geoff Dyer, "'Economic collapse in S Africa without action on Aids,'" *Financial Times*, July 15, 2003

[5] "HIV/Aids and the loss of household income," *ThisDay*, October 29, 2003

Manning: There's a glib view that "diversity is a good thing." Do you see value in it in an organization?

Schein: There's a lot of evidence that when you're facing an uncertain, novel, unpredictable environment you're better off with diversity. The systems theorists have a proposition, the Law of Requisite Variety, which says that when the environment has six different components, you'd better have six components in your organization – that you can't have uniform organizations in diverse environments and expect them to adapt and work. So while diversity as an absolute is not necessarily of any value, diversity in relation to environmental diversity is essential.

Manning: In South Africa, we're faced with rapidly bringing together people from very different backgrounds, with very different world views, different experiences, and so on. How would you get them to work together?

Schein: Pre-training might just lead to stereotyping. So I'd probably throw them into sink-or-swim situations, but build a lot of reflection time into the process.

I would tell people that we need to get to know each other, so at the end of each day we're going to take an hour or so to see how it went, to examine our process and see what our needs are. I don't have any data saying that would work, but that would be my intuition.

Manning: I use a very simple model in change processes. There are four key steps in it: create dissatisfaction with the status quo; debate possible futures; act to learn; and review, reflect, and revise. This seems to be quite a successful sequence of activities.

Schein: That sounds right. You really need to make sure the reflection time is used well.

What usually happens – particularly if people have had some success – is that they say, "OK, that was good; we don't need processing today." So it may take a particular kind of facilitator to say, "Right, now we've got to examine *why* this worked and *how* it worked, and *what* we could do better," and lead them through a process of learning from their own experience. You shouldn't expect them to do that by themselves.

Manning: What about the time it takes to change a culture? What's your experience?

Schein: That depends very much on what you're actually changing. I think changing culture is a misnomer. You change people's *behaviour*, and you may eventually influence their beliefs. If you impose a new way of doing things, and people try it and it works, then slowly they build a new culture. Change comes from success, not from somebody imposing something new.

Manning: So why is there such an emphasis by the so-called culture gurus on changing minds?

Schein: It gives them a sense that "This is worthy, this is important enough." If you just call it changing business processes, it sounds routine. If you say, "I'm changing the culture," that elevates it to a higher status – but in the process loses some clarity.

When people ask me to help them to diagnose or change culture, my first question always is, "Why?" And, "What problem are you facing that makes you want to change anything?" You need to force them to be clear about the business problem or the organizational problem that's motivating any change. And then the culture comes in. In the context of that change, will the culture help you or hinder you?

Manning: How would you respond if you were asked to help a firm develop a new culture in, say, six months?

Schein: Well, what I do in that situation is ask, "What are you trying to change?" Push it down the abstraction ladder. And they'll say things like, "Well, we need to become more customer oriented." Or, "We need to develop a teamwork culture." Or, "We need to become more open in our communications." In each of those cases, I push and say, "I still don't understand what you mean. You really have to push and try to find out what problem they really want to solve before you cycle back to deciding what approach you're going to use. They typically haven't thought through their change problems.

Manning: What's your impression of the teambuilding activities that are now so popular – white-water rafting, abseiling, and so on?

Schein: I think they're questionable. I think they clearly change relationships among people, and that might be a good thing. It might be a good thing to get to know each other better. But they get very close to an invasion of privacy, which is a problem. People might reveal stuff which they wish they hadn't revealed, and become less effective, and embarrassed. So it backfires.

But that's a perfect example of how the word "openness" is one of those misused words. "We want more open communications." But I have to say, "About what?" I find that by forcing specific change targets, that brings the culture out into the open in a clearer way.

Manning: Start with clear goals?

Schein: Yes. And what problems you're having. "You've got safety problems? OK, give me some examples."

Manning: In SA there's a panic to change things. It's astonishing how many of these activities are taking place.

Schein: Is it working? The trouble is that we often don't have enough process consultation to decide what kind of expertise we really need. The consulting business is geared to selling whatever its product is. And there isn't that first step of asking, "What's your change problem?" Maybe, under some circumstances, Outward Bound is exactly what you should do; but under other circumstances, its not.

Manning: How important is understanding of each other in a change process, when people come from very different backgrounds?

Schein: You have to discover what the differences mean in the work context. Maybe simulations might not be so bad. Instead of climbing mountains, do a simulation of the job and see where the problems arise.

Manning: What do you think of scenarios?

Schein: Very positive. But the process hinges on getting people into the room, and that's often the hardest part. In a business context it should be easier. You have the power to get them there.

Manning: Too often, the people who need to hear the story aren't there. The value is in the fabric of the discussion, not the outcome.

Schein: The conversation is often held at the wrong level. The contact client is often the one who is anxious to get you somewhere else. Don't do it! They don't realize it's going to cycle back to them and they don't like it. When the consultant comes back and says, "The reason they're having a problem is because of the way *you're* managing them," they're not prepared for that. When someone points to a problem group, I often say, "Well supposing when I go out there that we discover the problem is in relation to your group? Are you prepared for me to come back and give you some feedback?" Because that's what's likely to happen.

Manning: What's the leader's role in making change happen?

Schein: If the HR person takes it on he's making a mistake. The leader has to remain involved at some level. He's part of the chain that creates the system.

Manning: What about his learning? How important is that?

Schein: It's crucial. It's the most important thing. That's another reason why, as a process consultant, you often don't have big projects. You sit with a senior person, and by forcing him to think through what it is he actually wants you to do, he gets some big insights. And very often that's enough. That's why I charge upfront. I often say to people, "We can spend a couple of hours together, but I'm going to bill you, because in that time we might solve the problem to your satisfaction." They have to buy in to the idea that we're not just going to have a discussion about what we might do, but rather that this is already reality.

Manning: You've talked elsewhere about organizations being coercive, and increasingly so. Why do you say that? Isn't this the age of empowerment?

Schein: Empowerment is just a word that's thrown around, like culture. Managers use it, but don't for a minute understand what it really means. I don't think companies are functioning that differently today, unless you're talking about young, entrepreneurial firms – and they've always had a more open, empowered model.

When people are truly empowered, they become powerful and that creates problems. Managers use the terminology, but then either subvert it or don't mean it in the first place.

Manning: In South Africa today, empowerment is the big goal for everyone, whether you're a factory worker or a teacher. The problem is, you have many people who have no experience and limited ability. You can't let them loose and managers won't let them loose. It's a problem that's going to have serious consequences.

Schein: Sounds tough.

Make strategic planning work

This article first appeared in *BA Upfront* in February 2004

Once again last year, a global survey by Bain and Co., a management consultancy, ranked strategic planning as the No. 1 management tool. Some people would find this surprising, since the world is a surprising and turbulent place and even the most brilliant plan can be upset in an instant. In fact, it's because we live in such uncertain times that planning is more vital than ever.

Most companies do it in one way or another. You'll probably take time out from the office this year to attend at least one, and probably more, strategy workshops. Before you go ahead, though, consider what you might do to add real value this time around:

1. **Get the process right**. Sound strategy is unlikely to emerge by itself. You have to talk about the right things. So you need a systematic and disciplined approach that gets facts on the table, tests assumptions, provokes rigorous debate, inspires imagination and creativity, narrows options, and results in specific actions. After long experience, I've narrowed my workshop agenda to five steps: (a) an introduction to strategy so everyone speaks the same language, (b) identification of key issues, (c) identification of assumptions about what lies ahead in the planning period, (d) development of a "ValuePlan", and (e) agreement on 30-day actions.
2. **Be clear about your goals**. What exactly do you expect from your upcoming *bosberaad*? Is it an information-sharing session? Do you want to review your strategy and confirm that you're on the right path – or are you after radical change? Best be clear before you start, or anything may happen and you may get an outcome you don't want.
3. **Involve the right people**. It's natural to invite your top team to a strategy meeting: after all, they're the ones responsible for strategy. They run your company and they'll enjoy a bit of "teambuilding" on the golf course after the meeting. But are they the only ones who can contribute? Absolutely not. The more voices you include in your strategic conversation, the better. You never know where the best new insights or ideas will come from.
4. B**eware SWOT**. If ever there was a "hardy annual", it's the SWOT analysis. Managers seem to think that it's mandatory, so year after year they slog through the same chore with the same result – approximately zilch. If a workshop is properly thought-out, debate will naturally cover your firm's internal strengths and weaknesses and the opportunities and threats it faces outside.
5. **Forget about vision and mission**. Like the SWOT exercise, visions and missions are trusty old timewasters. Rather, spend time on your *purpose* – "why we exist" – and reduce it to just a few bullet points.
6. **Get help from a strategy expert, not just a "facilitator"**. In theory, any good executive team should be able to work on strategy without external help. In practice, a skilled outsider adds immeasurable value, bringing to the discussion knowledge of business trends and strategy, wide industry experience, a dispassionate perspective, and the ability to handle tough characters.
7. **Insist on action afterwards**. Deep discussion that ends without action is pointless. Before you walk away, agree "what we'll do *tomorrow morning*." Pin people down. Be specific about who'll be responsible for what. Assign clear tasks with tight deadlines. (And then, for goodness' sake, follow through!)
8. **See the session as one step in a long process**. Strategy is an ongoing, endless process, not a one-off event. A plan is just a framework for action. Living it will reveal what you need to keep doing, and where you need to adjust. So your strategy meeting should be seen as just one step in this journey – not the whole trip.

Strategic planning is about framing your strategic conversation. It's serious business and should be treated more seriously than it often is. So think about it carefully, and apply the same logic to designing your next off-site meeting as you hope to apply to the debate itself. By planning the way you plan for success, you'll raise the odds in your favour.