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AN OCCASIONAL REPORT ON GLOBAL TRENDS AND NEW MANAGEMENT THINKING

In this issue:

A critical moment

What an extraordinary time we live in! Every generation has imagined that it was subject to the most rapid and extreme change ever, but we really are. "The world finds itself at a critical moment," said U.S. president George W. Bush on April 4. And indeed, it is poised on a knife-edge.

America's "war on terror" has been complicated by rising tensions in the Middle East. Bush's imposition of quotas on imported steel has brought swift retaliation from Europe. Economic signals are confusing. Fallout from the "Enron affair" is still spreading. Protestors take to the streets when world leaders gather. Millions of people have been thrown out of work as companies try to preserve their profits….

It's too easy to despair at what is happening around us. It's hard to see a happy resolution of many of these issues. Clearly, we're in for serious turbulence for a long time to come. Nasty surprises are guaranteed. *But just as mankind weathered previous storms, so will we deal with today's difficulties.*

In this daunting and complex situation, business leaders have a special responsibility. On the one hand, they must shape strategies and organizations that will survive and thrive despite the challenges they face. On the other, they must remember that companies are the most powerful of all social institutions and their impact on society is enormous; and they must use that power wisely.

It's tempting in times like this to shutter the windows and bolt the doors, and focus inwards. But it's smarter to open up, to reach out, and to seek new ways to make a difference.

If business leaders start, encourage, or tolerate strategic conversations that are downbeat, they shouldn't be surprised that their people become demotivated and defeatist, or that their sales and profits take a beating. If, instead, they choose to speak of positive possibilities, then the world is their oyster.

This is not to suggest that you should deny reality. On the contrary. *Now, more than ever, executives must face reality, and insist that their people do the same*. Only by doing this is there any prospect of sensing threats and opportunities early, and of dealing with them faster and better than the competition.

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Confusing signals

Hints of a downturn in the U.S. economy started to appear around the end of 2000. Most people shrugged them off. The technology slump hurt, but it didn't affect everyone. Other industries seemed fine. The productivity boom that had been under way for a decade wasn't about to end – even Alan Greenspan said that. Soon, things would "get back to normal." The only question was *when* would the upturn come?

Most "experts" saw a short, sharp V-shaped recovery. Some worried about a longer U-shaped slump. A few serial pessimists and lunatics warned of a protracted L.

As it turns out, the pessimists were closest to the mark. Recession hit America, according to the National Bureau of Economic Research, in March of 2001. By September 11, it was spreading across the globe in an unusually coordinated way. Now, it's well entrenched in many countries.

However, there are signs of recovery here and there. So the optimists are in boastful mood, trumpeting "I told you so!"

But hold the horses. The one thing that's clear right now is that nobody knows what the hell is going on. Each day, new reports and new opinions add to the confusion.

The record of economists in providing guidance has been pathetic, to say the least. As Robert Samuelson noted in his *Newsweek* column of January 11, "Truth be told, most economists don't really understand this peculiar recession especially well. We know this because most of them didn't predict it, which wasn't surprising, because most didn't understand the preceding boom, either."

Right now, there's a large body of concern that any recovery will be W-shaped – with a quick upturn followed by another, even sharper, downturn. Here are some reasons why such a "double-dip" recession is possible:

1. The U.S. slowdown was triggered, not as usually happens, by slowing *consumer* spend, but rather by sharp cuts by *business*. Consumers have been splashing out as if there's no tomorrow (in Europe and Asia, too.) The big questions are: will they keep it up, and what happens to corporate profits – and investment – if they slam on the brakes? (Longer-term, there's the nasty question of what the *erosion of their savings* and their *mounting debt* means.)
2. Jobs are still being slashed at a horrific rate across the globe. At the same time, some firms are asking employees to take sabbaticals on reduced pay – or *no* pay. Last year, banks and IT companies led the way in cutting bonuses; today, salary and wage cuts are becoming common. So household budgets are taking strain and shoppers for many goods and services are "buying down."
3. In the last quarter of 2001, companies in every industry cut prices to dig themselves out of trouble. Deals got inventories moving. But what now? Were last year's low-margin sales (by the U.S. auto industry, Amazon-com, and a host of others) stolen from this year's profits? No doubt about it.
4. Inflation is rearing its ugly head. Oil prices are rising on fears of the spreading Middle East conflict. Security costs have jumped. If ever the global economy was "friction free," there's now sand in the gears. *And as input costs go up, margins go down, so companies will be cautious about investment.*
5. The prospect of further terror attacks is casting a pall over the world. Security experts say the question is not "if" but "when" one will occur. It is impossible to gauge what this will mean.

If there's widespread disagreement over the speed and shape of a recovery, there seems to be some consensus that growth will be sluggish for some time to come. The outlook for profits is not promising.

Management is never easy. It will definitely not get easier in the next few years. But if one thing will define success, it's a clear-eyed view of what it takes to be competitive and an urgency about doing it. Following are some thoughts on how to start.

The big questions

As a consultant to many leading firms in many industries, I have constant contact with executives contending with these tough times. Here are some of the questions that bother them – and my answers.

Does strategic planning have a place in uncertain times?

Yes – more than ever! In an annual survey of management tools, Bain & Company (www.bain.com), a prominent consulting firm, shows *strategic planning to be consistently top of the list*. It was used by 89% of the firms surveyed in 1999 and 76% in 2000. What's more, when executives are asked how satisfied they are with various tools, *strategic planning rates first as a way to drive long-term growth.*

When things are stable, "more of the same" will do. But when you face lots of change, you have to be more alert, you have to look and plan ahead, and you make sure your team are aligned behind the actions that will make the most difference.

So the real question is not *should* you do strategic planning, but rather, *how* should you do it. By changing your approach to suit the new environment, you can make this a very powerful activity with many spin-offs. (See next article: New directions in strategic thinking.")

Many people say that most firms are over-managed and under-led. Is this true? Is there really a difference between managing and leading?

The apparent difference makes a great story, especially for those selling leadership books or training programmes. But if there is a difference – a big "if" – focusing on it isn't helpful.

The current infatuation with leadership coexists with an infatuation for empowerment. There's a lot of talk of "everyone a leader" and "leaders at every level." And for good reason. For one thing, in a fast-changing, unpredictable world, you need people across your organization to be able to sense change and respond appropriately to it. Secondly, while strategy is partly about planning and design, it is also a matter of luck, chance, and innovation – which mostly happens "out at the edges." And third, there's the need in all strategy not just for shifts in *direction*, but also for constant *performance* improvement (see my *StrategyLetter* No 28, Page 5, "What does 'think strategically' really mean?")

The tasks of management have long been seen as planning, leading, organizing, and controlling. And surely, if a manager is someone who supervises others, these four tasks are what he or she does. But now consider the work of a leader. What is it, if not *the production of results through others*? And how do you do that, except by *managing* them – by planning, leading, organizing, and controlling?

Some people will sharply disagree with this. They'll argue that effective leadership demands a far more "liberal" style of operating, that empowerment replaces control, etc., etc. But perhaps this is precisely why so many companies under-perform. Every good leader that I know is far more "hands-on" than the pundits would like. They give people direction, space, and support, but they also hold them accountable. They insist on regular feedback. They jump in quickly when things go wrong. And they are very tough on non-performers.

Clearly, everyone in an organization can't make every decision, or even be involved in all of them. The buck has to stop somewhere. So someone must have the label, "the leader." But the individuals who do best in this role are seldom tyrants who tell others what to do without listening to their opinions. Rather, they are expert listeners, expert at drawing out a range of views, and expert at winning support for the strategic choices that are eventually made.

Too much has been made of the leadership vs. management debate. If we spent more time on doing whatever gets results, and less on idiotic semantic battles, we'd all be better off.

How important are "flat" structures in organizations?

Less so than many people like to think. The purpose of an organization is to get better results than one person could do on their own. So *organizations are arenas for working together*.

In an ideal world, everyone could be held responsible for everything. All decisions could be everyone's. Given a set of facts or a particular challenge, people would agree on the way forward and get on with it. There would be no conflict and everyone would do their best.

But let's deal with the *real* world. The starting point for performance should be to assume that everyone makes a positive contribution. (Remember Douglas McGregor's "Theory X and Theory Y"from the 1960s?) But you also need to know that *in practice* everyone can't or won't contribute equally. People *are* different; they're both *capable* of different things and *motivated* to do different things. They're also inconsistent: so today they perform and tomorrow they goof off or get things wrong.

In the real world, people must be aimed and herded. You have to point them at a goal and you have to coach, cajole, and inspire them to get there. You also have to check how they're doing and help them change course, speed up, improve, or whatever. It may be otherwise in rare cases, but this is the way things mostly are and it'll never change. So yes, hierarchy is necessary. So are leaders.

What about self-managing teams?

Another nifty idea with obvious limitations. Teams should be involved in developing strategy, setting their own objectives, and creating their own action plans. They should also be encouraged to be creative and to figure out the best way to do their jobs. *But they can't just do their own thing; that's anarchy, and it's dangerous.* They have to fit into the larger organization. And they must be challenged, inspired, supported, measured, and rewarded. Someone has to be responsible for that work.

Teamwork is essential in any company. Teams – as individuals – should be given maximum responsibility for what they do. And some can be given more scope than others. But to think that every team can manage its own affairs, or that simply putting people into teams will make management – or leadership – obsolete, is wishful thinking.

Is team-building a good idea?

It depends what you mean by "team-building." If it's about taking your people fire-walking, bungee-jumping or white-water rafting, or playing silly games with ropes and poles, then you're wasting your time and money. These activities are pointless distractions.

You might argue that they bring out the best in people, that they let them test their limits and discover what they're capable of, and they're fun as well. I say *bullshit*. I watch teams do this stuff, and I talk to lots of people who've been coerced into it. Some say they had a great time. Fewer say they benefited. The vast majority hated what they did and thought it was stupid.

If by "team-building" you mean putting people in a room with a shrink and having them "let it all hang out," then I also have doubts. Too often, the focus is on people's weaknesses rather than their strengths. "Constructive" feedback can hide dangerous barbs.

The best team-building takes place in the workplace, on the job, and it happens when leaders create a context that is nourishing rather than toxic. This requires *challenges* that stretch and test people; *information* so they can make informed decisions; *resources*, *support*, and *encouragement*; tight *deadlines*; and open and honest *communication*. So – nothing new here. But as survey after survey tells us, these things are largely missing in most organizations.

Companies are communities. The better those communities work together, the more likely they will survive and thrive. So team-building is not an optional extra or something to fit into the gaps in your next conference schedule. It's a vital, everyday process that demands the most serious thought and attention plus a huge investment in time and attention.

Is your strategy know-how up to date?

As I've indicated in past issues of *Tony Manning's StrategyLetter*, there have been significant shifts in thinking about strategy over recent years. Here are the most important ones:

	FROM		TO
•	**Exploit**	→	**Exploit + explore**
•	**Long term**	→	**Short term for long term**
•	**Positioning**	→	**Execution**
•	**Intermittent**	→	**Continuous**
•	**Document**	→	**Conversation**
•	**Top down**	→	**Top down + bottom up**
•	**Plan-then-act**	→	**Plan + act**

1. **From exploiting current strengths to doing it at the same time that you explore new opportunities**. During the past two decades, companies fell into one of two categories: *change leaders* and *change resisters*. The first group took change as their mantra. To them, anyone who didn't constantly think, preach, and implement change was a dinosaur. The second lot didn't care about the hype; they plodded along, stuck to their knitting, and repeated what they were good at, secure that yesterday's formula would work tomorrow.

   The change leaders sought success in doing something different and new – and the more radical the shift, the better. They chased customers they didn't know, dived into markets they didn't understand (all that "white space" was very attractive!), tried frantically to be innovative, and strove to be "world class" when they had no idea what that meant or what it might take. They reengineered, downsized, outsourced, and latched on to every new management fad that came their way.

   But even while the change leaders were causing turmoil and confusing the hell out of themselves, the change resisters held fast. At most, they changed *incrementally*, taking a small step here, making a small shift there, and doing it only as fast as they had to.

   There were successes and failures in both groups. And no doubt companies will continue to be either change leaders or resisters. But by now it should be obvious that an "either-or" approach to business is not clever. Change is a good thing – and necessary, *when there's good reason for it*. But there's a time and a place for everything.

   The change leaders carelessly abandoned capabilities, products, processes, people, patents, markets, and much else that still had great – and largely *untapped* – value. Resisters, on the other hand, lost ground when their costs didn't fall fast enough, their supply chain efficiencies lagged, or their products became uninteresting or obsolete.

   In the future, the companies that fare best will be those that use "dual strategies" (for more on this, read Derek Abell's, excellent book, *Managing With Dual Strategies*, The Free Press, 1993). They will both "master the present" and "pre-empt the future." They will exploit their current strengths and opportunities even while building new strengths and exploring new opportunities.

2. **From thinking and managing long term to thinking and managing short term *for* the long term.** In the 1960s, "long range planning" was in vogue. By the early 1980s, when "Japanese management" was hot, executives in the West had pushed their planning horizons way out – from five years to ten, 20, or even 30. (One group of Americans who visited the president of a large Japanese company were wowed when he talked of looking *250 years* ahead!) But things have changed.

   Common sense tells us there are three realities about strategic management. First, the future gets murkier the further you try to see. Second, you need to take a reasonably long view, or you'll weave all over the place. And third, even if the deadline for your goals is several years out, you surely have to do some things *right now* to get going. The sooner you start and the quicker you show some results, the better your chances of success.

   Most change efforts – and implementing strategy is one of them – don't deliver the expected results. A key reason is that managers assume that change takes time … so they allow plenty of time for it to happen … so the wheels spin as people get busy with the urgent stuff that's on their desks right now. (Greece's preparation for the 2004 Olympics is an example. When Athens got the nod for the Games, there was plenty of time to get ready. So things progressed slowly. Now there's a crisis, and real fears that the city won't meet its deadlines.)

   Effective executives know that they have to not only set stretch goals, but also pressure their people to get results fast. That's how Jack Welch kept things humming at General Electric (*Jack: Straight From The Gut*, Warner Business, 2001), how Carlos Goshn steered Nissan back onto the road to profit, and how Bill Gates and Steve Ballmer keep Microsoft out front in the frenetic IT industry.

3. **From positioning to execution.** Michael Porter, Al Ries and Jack Trout, and most ad agencies and brand gurus say that strategy is first and foremost about *positioning*. Their view is that you have to decide which market niche you want to occupy, then focus on it like a laser. Your business model – Porter calls it an "activity system" – must be tailored to your specific audience. (See his article, "What is Strategy?" in the October Nov-Dec 1996 *Harvard Business Review*).

   They're absolutely right. First prize is to *avoid* head-on competition. First prize is to find and occupy unexploited territory, and to promise and deliver value no one else can offer.

   The trouble is, your chances of doing it in this information age aren't good. Today there are few secrets, and they don't last. Most strategies are quite easy to decode. It's often surprisingly easy to copy or better them. So while you should strive to "run a different race" than your competitors, the fact is you're likely sooner or later to find yourself in the *same* race. When that happens, there's only one way to win: *you just have to run faster*.

   As I wrote in the last issue of my *StrategyLetter* ("What does 'think strategically' really mean?") you should keep striving for "the difference that matters." But excellent execution is worth 100 I.Q. points. So even while you think *direction*, think *performance*.

4. **From intermittent to continuous.** I regularly get calls from top executives who want to review their strategies because "We haven't done it for some time." That can mean anything from one year to three, four, or even more.

   In most companies, strategic planning is tied to the financial budgeting cycle. But since things change all the time in the outside world, companies run big risks when they fail to notice and respond. Adapting has to be a way of life. Radical shifts might be crucial.

   Besides, while formal planning might take place once a year, running a business is actually a pretty haphazard activity. Far from being systematic, it's a need-driven, moment-by-moment process.

   Research by Henry Mintzberg shows that chief executives' days are chopped into very small chunks (*The Nature of Managerial Work*, Harper & Row, 1973). "Half of the observed activities were completed in less than *nine minutes*, and only one-tenth took more than an hour." (My italics.) So while myth might have it that they spend lengthy periods in profound thought, meetings, or reviewing documents, reality is quite different. They get a constant flow of new information, and make a constant stream of decisions to deal with what's happening around them.

It makes no sense to fight this reality and to pretend that planning is a neat process that can be "done" to a convenient schedule. Nor is there any point in arguing that "strategic" issues can wait for the big year-end meeting, while "tactical" ones will be handled day-by-day. And it's plain stupid to insist that decisions taken at your January retreat are still right when July comes and everything's different.

This is not to suggest that planning is a bad idea or unnecessary. As I said in the previous article, it is absolutely imperative. But the way you do it must fit reality.

More and more firms are coming to accept that it's best to 1) encourage a rich, robust, and continuous strategic conversation at all levels, and 2) take time for regular, in-depth discussion about past performance, current circumstances, and future possibilities. But note: strategic conversation is *ongoing*. The big debates are *regular*.

5. **From document to conversation.** The product of strategic planning sessions is usually a document – "The Plan." But few plans are worth the paper they're written on. So they usually wind up on the shelf and make little or no impact on what actually follows.

When Jack Welch became chairman and CEO of GE, one of his first acts was to kill the thick planning books that were so famous in strategy circles. In their place, he asked managers to answer just five key questions: 1) what's the current position of your business and of your competitors? 2) what have they done to change things? 3) what have *you* done to change things? 4) what might they do in the next two years? 5) how will you beat them?

Lou Gerstner did much the same when he became head of troubled IBM on April Fool's day in 1993. He banned the use of sexy technology in strategy discussions, and demanded simple answers and straight talk in "non-techie" language. He also spelled out his six "key themes" in a way that everyone could understand. And the results showed in Big Blue's rocketing share price in the years that followed.

Strangely, very little has been written about strategy as conversation. Kees van der Heijden's 1996 work, *Scenarios: The Art of Strategic Conversation*, (John Wiley & Sons) is the only book on the topic that comes to mind, aside from my own *Radical Strategy* (Zebra Press 1997) and *Making Sense of Strategy* (Zebra Press 2001, Amacom Books 2002). An index search of dozens of recently-published management books fails to find "conversation" – or "dialogue" or "discussion" – more than a few times.

However, there are plenty of *suggestions* that strategy is, in fact, a matter of conversation. Examples: Peter Senge's popular writing on learning organizations, Arie de Geus's book, *The Living Company* (Harvard Business School Press 1997) and an article by Oriet Gadiesh and James L. Gilbert in the May 2001 issue of the *Harvard Business Review*, called "Transforming Corner-Office Strategy into Frontline Action."

Human resources folk have banged on forever about the importance of communication. But ironically, it has taken *technology gurus* to highlight the fact that people speaking to each other is what makes companies work. Michael Schrage (MIT), Thomas Davenport (Accenture), Lawrence Prusak (IBM), and John Seely Brown (Xerox) have provided some of the most valuable insights in this area.

In my experience with many leading firms, even the most complex strategy can usually be reduced to just a few pages – and often to just a single drawing or set of bullet points. If it can't, you have a problem. Not only are *you* unclear about your intentions, but you will not be able to make them clear to anyone else.

6. **From top down to top down *and* bottom up.** Hierarchies were a fact of organizational life in the past, they are today, and they will be tomorrow. And for all the scorn they attract, they are necessary. But they do have drawbacks.

   The biggest is that people at the top are assumed to be the only ones with the perspective, knowledge, and skills to make sensible strategic decisions. From there, it's only natural that strategy is mostly left to them.

   But this is ridiculous. Much of what goes on in or around any organization happens a long way from the boss's office. He or she doesn't have "line of sight" to customers, competitors, suppliers, or most other stakeholders, let alone to people *inside* the firm. Things happen all day long which people in high places are blissfully unaware of. To put it bluntly, although they think they're completely in touch and in tune, *they mostly don't know what is going on!*

   Some decisions are best made by senior people. Lots of others can't be made by them – and definitely shouldn't be. They're simply too far from where the rubber meets the road to know what's best. Nor can they respond as fast or as well as necessary to new events.

   Innovation is crucial in competitiveness. Firms have to keep pushing the limits of design, quality, productivity, and service. The more these tasks are shared, the better. So empowerment is more than a fashionable idea; it's an utter *necessity*.

   In many firms today, strategy is a remarkably democratic process. People from many areas are involved. The value in this trend is born out by thinkers like Gary Hamel (*Leading The Revolution*, Harvard Business School Press 2000) Richard Pascale (*Surfing The Edge of Chaos*, Crown Business, 2000), and Henry Mintzberg ("Crafting Strategy," *Harvard Business Review*, July-August 1987). No firm should ignore the evidence.

7. **From plan-then-act to plan-and-act.** For many of the reasons mentioned, it's been usual for some people to be responsible for planning and others for action and for planning to come before action. But things have changed.

   Current best practice is to integrate planning and action as much as possible – to "plan on the run." Anything else is to deny reality. It's also the best way to ensure that there's a big gap between *intentions* and *results*.

   Strategy is a messy process, not a neat task with a clear beginning and end. It's an intensely human activity, dependent on insight as much as analysis, on imagination as much as information, on serendipity as much as structure and systematic logic. Treat it like this, and you'll create an organization where challenging the future is not only fun and profitable, but also develops the "strategic I.Q." you need to outlast your competition.

These changes are happening across the globe. As they are adopted, you can expect the bar of competitive excellence to rise. So clearly, the best time to act on them is right now.

Theories of strategic management have gained greatly from fields such as leadership, human resources management, learning, technology, change management, and so on. There's plenty of proof supporting a new approach. Yet many executives are still surprisingly reluctant to change their minds and do what actually works.

Those that do change see immediate and impressive results. Firms I work with are almost always surprised at how simple planning can be, and how effective *they* can be when they use the latest methods.

If there's one over-arching business challenge in this new century, it's to *make sense of strategy*. And that's easier to do than you might think.