The Future: Trends, discontinuities, and opportunities
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TRENDS, DISCONTINUITIES,

If an oracle could predict the next forty years with perfect accuracy, what would you do with the information? As the pace of change in the business environment continues to accelerate, confidence in our ability to forecast the future in which we will be operating seems to have gone the way of the fin-tailed cars and poodle skirts of the '50s.

Winston Churchill said that the further back you look, the further forward you will see. The environment is changing at a faster rate now than it was in Churchill's day. Change is often incremental, and even profound changes may not be noticeable in a short time frame. To look ahead five years in an industry, it many be necessary to go back ten years to really see the trends. And these trends are likely to have a far broader impact than we might think.

Presenters in the Future Track at the 1997 International Strategic Leadership Conference tackled the issue of having to make critical, bet-the-company, strategic decisions in the face of dynamic uncertainty. From their several perspectives, they challenged practitioners to consider:

◆ Why strategic management tools often fail to live up to expectations.

◆ How the strategic-planning process can be made more relevant and effective.

◆ Why technology innovation often threatens the survival of established firms.

◆ How to address critical, long-term decisions in the face of dynamic complexity.

AND OPPORTUNITIES

by Audrey Schriefer

Audrey Schriefer of Strategic Management Associates was the moderator of the Future Track at SLF's 1997 International Strategic Management Conference. This article provides a summary of the four sessions in that track. Audio tapes of most of these presentations are available.

The Tools of Strategic Planning

Benchmarking, core competencies, and activity-based costing are gaining in popularity among management tools, while total quality management and business process reengineering are losing corporate followers. For the fourth consecutive year, Darrell Rigby, a director at Bain & Company, has surveyed nearly 800 companies to compile the equivalent of a Consumer's Guide to Management Tools and Techniques. Overall, he found that the use of strategic management tools remains high. The respondents in the survey used an average of 13 of the 25 tools listed and plan to add another tool during the next year. This finding was consistent across all industries and regions surveyed.

The most popular tools, such as strategic planning, benchmarking, mission/vision statements, and customer satisfaction measures, are used by over 80 percent of the respondents. However, they reported mediocre performance results. Rigby noted that the average satisfaction score for all tools is only B minus. Respondents felt that the tools tended to promise more than they delivered.

A critical determinant of satisfaction and success appears to be the amount of time and resources invested in the deployment of any tool. A limited, half-hearted implementation effort consistently produces lower satisfaction than a gung-ho, all-out commitment to the tool. How the tool is used within the context of the organization is another success factor. Off-the-shelf, cookbook approaches are not nearly as effective as tailored, individualized efforts. Tools work best when they are customized for a company and its particular situation.

Mission and vision statements topped Rigby's list of the most widely used tools for several years until they were bumped to second place in the latest survey by "strategic planning," which was included as a "tool" for the first time. Despite their popularity, Dan Simpson, director of strategy and planning at The Clorox Company, warned practitioners to think twice before working on mission, vision, and values, claiming that most of the time spent on them is not very productive. He said, "George Bush called it 'the vision thing,' and most such statements are little more than generic gibberish. If you string together a combination of words like, 'service,' 'customers,' 'growth,' 'environment,' 'profit,' 'shareholders,' 'communities,' 'quality,' 'value,' 'vision,' 'success,' 'best,' and 'mission,' you could create most mission statements. Just mix them around, and you pretty much have what you need."

A critical determinant of satisfaction and success [in using strategic-planning tools] appears to be the amount of time and resources invested in the deployment of any tool. – Darrell Rigby

As an actual example of such corporate "gibberish," Simpson offered this vision statement:

"We are committed to an organizational capability and mindset which guarantees rapidly delivering exceptional customer and stakeholder value by negotiating and making the appropriate tradeoffs among schedule, quality, cost, functionality, technical limits, and resources."

Most employees react to this type of statement with "I'm working for idiots." Values, according to Simpson, have become nearly as generic. By including the following four elements, you basically have it covered:

◆ Make some commitment to your employees.

◆ Make some commitment to high-quality goods that give your customers and consumers added value.

◆ Give shareholders added value.

◆ Be publicly responsible with high ethics and high integrity.

Simpson suggested that organizations should do mission, vision, and values work at the end of the strategic-planning process, not at the beginning. He counseled practitioners to spend the bulk of their time working carefully on defining and understanding what business they are in and what value the organization adds. The organization's purpose and strategy flow from the business idea.

Although Simpson finds some strategic management tools like Michael Porter's five-forces industry analysis and Boston Consulting Group's growth/share matrix helpful, he cautioned practitioners against depending on past trends to project future events. He feels that most strategic management tools tend to extrapolate historic data into the future. While it is necessary to understand and incorporate the lessons of history, Simpson stressed that planners have to continually probe to find ways the environment might change and invalidate past experience.

In spite of benchmarking's gain in the ratings poll, Simpson believes that spending a lot of time thinking about the competition is being reactive. He prefers to save money on competitive intelligence and spend it on market intelligence—focusing less attention on the competition and more on customer needs. British Airways used to focus its attention on traditional competitors—United and American Airlines. Virgin Atlantic came out of nowhere and now carries more passengers than United and American combined. Virgin Atlantic served needs that the existing competitors had not discerned.

Core competencies are another rising star in Rigby's survey. An organization's core competencies are rooted in its history but are often difficult to define in a way that is meaningful to the future direction of the company. Simpson suggested that planners look at a company's ten greatest successes and failures to find patterns that can lead to a clearer understanding of which competencies are most deeply rooted and have had the greatest impact. Looking forward to the future, an organization should see a difference between its vision and its current competencies. The gap creates an internal tension and provides stretch goals.

Making Strategic Planning More Effective

Rigby has found that there is no correlation between satisfaction with financial results and the number or type of strategic management tools used by an organization. The connection between strategy and business results is not perfect because reality usually interferes. Henry Mintzberg terms that which is actually achieved as "realized" or "emergent" strategy. Reality may interfere internally, as when a company is unable to execute its intended strategy, or externally, as when events such as competitive response, technological innovation, or societal trends affect the business environment.

In an informal poll, 75 percent of managers questioned couldn't think of a single decision they had made as a result of their strategic plans. As a result of this weak connection, the planning process has a limited ability to influence the strategic direction of the enterprise. Most planning processes simply do not work very well.

Simpson offered some tips on what planners could do to improve the effectiveness of the planning process. He suggested minimizing the size of the planning func-

The role of the planning professional is to ask good questions, to be responsible for the process that helps to answer those questions, and to spend a lot of time on communications. – Dan Simpson

tion, expanding participation in the planning process, and keeping planning as far away from finance as possible. He noted that a large planning staff tends just to create work, and that it is important for managers of the functions and business units to do their own planning. In this way, they do the thinking, have the insights, and are invested in the implementation and results. The business units need to "own" their plans, and so Simpson cautioned against having the corporate planning staff review and critique an operating department's plans.

While reducing the size of the planning staff, Simpson recommended simultaneously expanding the number of people involved in the planning process by including people at all levels and in all parts of the organization. Planning must become non-elitist and less exclusionary. In the past, it was considered the function of upper management to create the strategy that the lower ranks would then execute. If this were ever the case, it is no longer a functional model. In *Competing for the Future*, Gary Hamel and C.K. Prahalad call for a democratization of the strategy process and counsel us to include young people, people on the geographic periphery of the organization (i.e., away from headquarters) and people with experience outside of the company's industry. Business models that can be adapted across traditional industry boundaries have the potential to transform an industry. A wise strategic planner will grab these lessons early. A collage of views from various perspectives helps to challenge conventional wisdom, expand options, and enhance creativity.

Plans are emotional things that are driven by people. Hamel and Prahalad put them somewhere between craft and analysis. Simpson counseled practitioners to steer toward the creative process even though it is often difficult to make the transition away from the financial focus. Finance professionals have a bias toward numbers and "getting the right answers." They have become responsible for risk in the corporate environment—in particular, eliminating disadvantages and controlling risk—and so are not rewarded for expanding ideas. Scott Adams, in a "Dilbert" cartoon, shows a finance professional informing Dogbert:

"We don't need any of your intuition mumbo-jumbo; we need quantitative data. The only way to make decisions is to pull numbers out of the air, call them assumptions, and calculate the net present value. Of course, you have to use the right discount rate, otherwise it's meaningless."

The planning process should be more of an art than a science—far more creative than analytical. Simpson suggested that the marketing department might produce a much better planning environment than the finance department. The planning process is not like a symphony where every note is written down and decreed by the sheet music. John Kao uses the metaphor of the jazz ensemble in his book *Jamming*. In a jam session, the music flows between the players until someone says "take it" and one person gets the solo.

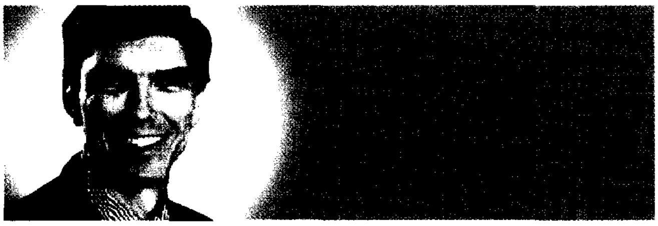
As a crafted phenomenon, the strategic-planning process is not an exercise that can be done on a schedule. Simpson offered this radical idea: don't do the planning process every year, or vary the process significantly as soon as it shows signs of getting stale. A creative process does not respond well to repetition. Clorox just skipped it one year, and Simpson feels they didn't miss much. The senior team may have to participate in an annual review, but it can be an abbreviated process that leaves out most of the organization's resources. The review should focus on the business units that need support—those that are considerably above or below plan, have made changes in their assumptions, or have had significant management turnover. Most of the time, business units that are performing to plan can be left alone and reviewed every two or three years.

The strategy conversation should be focused on insightful questions, not on the analytical data. The role of the planning professional is to ask good questions, to be responsible for the process that helps to answer those questions, and to spend a lot of time on communications, especially post-plan communications.

The Threat of Technology

Common practices of good management, according to Professor Clayton Christensen of Harvard, often sow the seeds of eventual failure, because they are biased toward incremental improvement rather than radical change. He identified two types of technological change: incremental and disruptive—or radical—change. In the face of disruptive technological change, very few established companies have managed to stay on top of the changes and stay ahead of upstart competitors. Adopting these disruptive technologies would have caused currently lucrative product lines to become obsolete more rapidly. Companies stumble in the face of technological change for all kinds of reasons, including complacency and arrogance. Failure may be the price of success as companies become captive to once-successful paradigms.

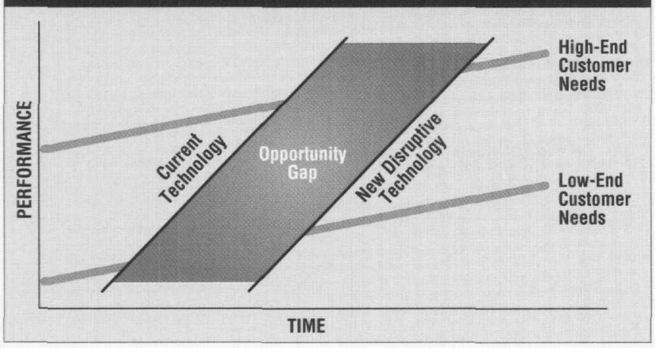
Consider the example of mini-mills in the steel industry. Initially, they posed no threat to the major steel manufacturers because they were able to produce only low-grade steel products such as the concrete reinforcing bars used in the construction industry. As the quality of the steel produced by the mini-mills rapidly improved and the limits to their manufacturing processes were reduced, they were able to produce high-quality rolled sheets and, with substantially reduced prices, take a significant share of the steel market away from the established players.



Common practices of good management often sow the seeds of eventual failure, because they are biased toward incremental improvement rather than radical change. – Clay Christensen

To help understand these dynamics that could apply to a wide range of industries, Christensen developed a model of this failure phenomenon. His model indicates that technology improves at a faster rate than required by the market and will, therefore, inevitably overshoot customer needs. (See Exhibit 1.)

Exhibit 1—Technology Opportunity Gap



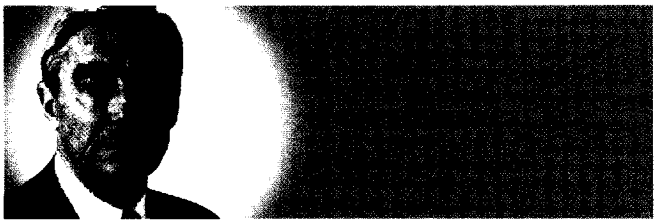
The gap between what the market requires and what technology is providing creates opportunities for the introduction of radically new technologies. Discontinuities occur when a new technology gives the market smaller, cheaper products with fewer features, less performance, or lower quality. Disruptive technologies will not have all the features valued by the mainstream market but may very well serve the needs of a significant portion or an emerging sector of the market. The Sony Walkman provided music listeners with a smaller, cheaper alternative to existing tape players by eliminating the ability to record. The concrete-construction contractors can do very nicely with the reinforcing bars produced by the mini-mills with recycled materials, and the reduced price is attractive in a highly competitive industry. The problem occurs when emerging technologies experience rapid improvement and threaten the industry leaders.

Christensen cited the case of Digital Equipment Corporation. In 1982, McKinsey's "In Search of Excellence" study named DEC among the best-managed companies, and a 1986 article in *Business Week* claimed DEC was capable of obliterating any competition that got in its path and could even take on IBM. Yet, two years later Digital fell off a cliff, losing more than $2 billion in a single year. Christensen asked, "How could good managers have gotten that bad that fast—or were they ever that good? After all, they totally ignored microprocessors during years when everyone thought DEC was a well-managed company." They never perceived personal computers as a threat to their core business. Indeed, they couldn't sell them to any of their high-end corporate customers. DEC was moving upstream and doing very well. However, PC technology improved at a rapid rate which blew an unprepared DEC out of the water.

Internally managing both incremental and disruptive change is difficult but not impossible. In almost every industry, examples can be found of companies that led in a prior technology and have also led in the development and introduction of the next generation of disruptive, yet sustaining, technologies.

The Power of Prediction

If you had that oracle to provide you with perfect knowledge of how your business environment will change, would the information allow you to make better decisions? Arie de Geus, author of *The Living Company* and long-time director of group planning at Royal Dutch Shell, believes that the powerful, distributed forces driving the creation, direction, and sustainability of external events are minimally impacted by the actions of any individual or organization.



The real purpose of strategic planning is not to predict the future, attempting to 'get it right,' but to change the mental models of the key decision-makers by broadening their perceptions and reframing their perspectives. – Arie de Geus

Mr. de Geus asserted that the real purpose of strategic planning is not to predict the future, attempting to "get it right," but to change the mental models of the key decision-makers by broadening their perceptions and reframing their perspectives. In order to do this successfully, planners must have a clear understanding of what is on the minds of the senior team. Learning how senior managers think is a critical first step toward identifying things that need to change. Planners can't know whether they have succeeded in changing someone's mental model unless they know what it is at the outset. This information can be gathered most effectively by a series of one-on-one interviews with team members.

Dan Simpson has created a list of questions that provide a basis for beginning these conversations. (See Sidebar on page 32.) The results of all the interviews, summarized and reported anonymously to the team, can be an extremely revealing piece of intelligence. Without this information, strategic planning is a random process.

Senior management and staff often have a mental model of the organization's history that facts don't always corroborate. These myths have developed over time and have become imbedded in the culture and practice of the organization. There is "gook" in the system and in people's heads. Planners can provide a different view of what history is by selecting and reinterpreting past events. It is critical to understand what needs to be forgotten before planning to succeed in today's realities.

Christensen and Simpson encouraged taking lessons from history but advised planners to use that knowledge to test for new realities based on changes in the social, economic, and political environments enabled by rapid advancements in technology. While the usage of scenario planning remains low in Rigby's survey of strategic management tools and techniques, Simpson and de Geus are long-term practitioners and passionate advocates. By using scenarios to explore a wide range of plausible alternative futures and understand their implications for today's strategic issues, robust plans can be developed that will work well in future environments that are distinctly possible. Thus, the temptation to rely on forecasts or predictions is reduced, and you can proceed with confidence in the decisions that you've made while constantly testing your strategies against the unfolding reality. Don't look for a crystal ball; use a wide-angle lens. S&L

A Sampler of Thought-Provoking Questions for Strategic Planning

1. What potential discontinuities in your business environment could create new threats and opportunities?
2. Assume you are able to question a clairvoyant—an accurate fortune teller—who will answer three questions related to your business a decade from now. What information would you seek? What are the most important unknowns?
3. What are the three most dangerous things competitors can do to you in the next five years? What can you do about these things?
4. If you were made CEO of your competitor's business tomorrow, what would you do to attack the business you worked on yesterday?
5. Assume for a moment that the future of your business develops so badly in the next decade that there is only one chance in ten it could be worse. Describe that future. What external developments or actions on your part led to it?
6. Assume for a moment that the future of your business develops so favorably in the next decade that there is only one chance in ten it could be better. Describe that future. What external developments or actions on your part led to it?
7. What things that made you successful in the past do you need to forget in order to be successful now?
8. What beliefs do you currently hold that need to be challenged? What part of your conventional wisdom about the business or the industry might be wrong in the future?
9. What fundamental factors distinguish the winners from the losers in your market?
10. How do you define your served market? What related markets are you now not serving and why?
11. What fundamental benefits are you providing customers/consumers?
12. What new types of benefits could you try to provide? What competencies do you need to acquire in order to provide those benefits?
13. Where do the new growth opportunities lie in your business?
14. What have you learned since the last time your strategic plan was presented?
15. Other than provide more resources, what can senior management do to help move your business forward? What obstacles can management help reduce or eliminate?

—Daniel Simpson, director of strategy and planning at The Clorox Company