

CHAPTER ONE

THE ONLY FOUNDATION WE HAVE

People and organizations have been prepared and unprepared throughout history, yet businesses continue to run, decisions and problems continue to be dealt with, and innovations continue to break through. So why is the need to have a Prepared Mind more critical than ever before?

To answer that question, we need to start with what we know. Contrary to the “clean sheet of paper” recommendations from the heyday of the reengineering movement, we humans *do not* start with a “clean sheet of paper” when we are constructing new knowledge and understanding in our minds. We build new knowledge and skills by appending new information to existing knowledge and skills and by recombining the old with the new in new ways.

We thus start with some of the important things we already know as business practitioners. These, combined with new information we gain from reading, listening, and experiencing business for ourselves with the application of the Prepared Mind skills, will set the stage for a new way of thinking. We have no choice but to build on today. It's the only foundation we have.

SIX GIVENS

We offer the following as what we know about the context for building a Prepared Mind. These are the givens, the context in which we operate:

- We know we operate in a system; we are not alone.
- We know that we are in the midst of multiple life cycle curves.

- We know that life cycle clock speed is accelerating.
- We know that progress requires us to actively sense and respond to the changes around us.
- We know that leadership is important during times of change.
- We know that every organization has a cascade of strategies, whether they know it or not.

As you think about these givens individually and then consider the connections among and between them, you will see a picture, a mosaic, of an evolving future that requires us to be more prepared than ever before.

There are more givens unique to you and your organization. What would you say they are? Are you listening to others in your organization who see connections you may not? Are you painting the picture and bringing others along the path of seeing the connections?

WE KNOW WE OPERATE IN A SYSTEM

When we investigate organizational successes and failures, the question of responsibility is often focused on the person in command. However, the system in which that leader is operating is just as powerful a determinant. Consider the realities of business life.

Collectively, companies are part of a system called “business.” For much of the twentieth century, we followed the mechanistic thinking of the industrial revolution and considered ourselves to be part of a massive industrial machine (a “cog,” with a specific role in a specific part of the machine, so to speak). By the end of the century, we changed the metaphor to that of ecology, which is more complex because the chains of cause and effect are co-evolving, they are much longer, and they are more interrelated. Your business is part of a business ecosystem. As with nature, if the ecosystem dies, all of the inhabitants die. Think of the airline industry as an ecosystem. Just how healthy is that entire ecology?

Like any other system, the system called business is a network of components, among them the human components or stakeholders: managers, executives, employees, competitors, suppliers, customers, and others who have relationships with one another. Both the components and relationships can change over time, and the strength

of the relationships will wax and wane over time. In addition, any category of stakeholders can have multiple relationships. For example, competitors can buy from companies, sell to them, and also compete against them: same company—different relationships.

Changing any component or relationship can cause a string of other changes, which are not necessarily tightly linked in time or space. For example, when a competitor makes an improvement in quality control, a company's relationship with its own customers will change. What was good enough may no longer be so.

Now here is the tough part. In a complex system like business, we often do not know all the components. What people or organizations might affect or be affected by your decisions?

Furthermore, we often do not know the type or strength of the relationships between and among those people and organizations. Which relationships are becoming more or less relevant in your own ecology of business? For example, do your employees recognize themselves as having a contractual relationship or a loyalty relationship with the company? Will that loyalty relationship still hold after the latest round of layoffs?

The bottom line is that being prepared for the future is more complex than ever before. The leaders and companies that will succeed in this climate are those that appreciate the requirements of its many relationships, are able to change as they change, and can do so more quickly and more intelligently than their competition. Prepared Mind leaders are those who know how to work within the system while getting the system to realign or evolve in the direction they have imagined.

To get any system to change in a business ecology, we must first start with the people or stakeholders of the system: the decision makers behind other system components such as budgets, policies and governance, technological choices, and customer preferences. The Prepared Minds of successful leaders strive to understand what is on the minds (and in the hearts) of the stakeholders of their business ecology, and they design strategy and change from that understanding.

Prepared Mind Question

How do we make progress in a dynamic system with unknown components, unknown relationships, and unknown strength of relationships?

WE KNOW WE ARE IN THE MIDST OF MULTIPLE LIFE CYCLE CURVES

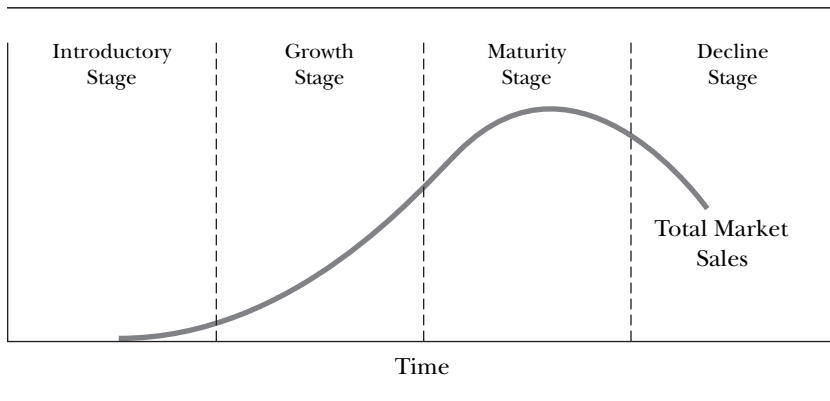
Most of us are familiar with the standard product life cycle terminology of introduction and growth and maturity and decline (Figure 1.1). These are the stages that all products traverse from creation to elimination.

We also know that the same-shaped curve can be used to describe the life cycle of a business or an industry. And for those of us with enough years under our belt, we can see the same happening for most, if not all, management tools, techniques, and fads that have passed through our lives. Do you remember when Total Quality Management was hot (and then rapidly cooled off)? Do you remember the meteoric rise and fall of Quality Circles? How about the concept of employee empowerment? Is it mature, or on the decline, or already dead in your organization?

We live in the midst of simultaneous industry changes, company changes, product changes, technique changes, and fads—and all are at a different point in their own life cycle. There is so much evidence of the life cycle curve in our environment that we no longer take notice and consider it. We are like fish that don't see the water.

The hard part of all of this is that there is a big difference between knowing the cycle exists and knowing how to deal with it in

FIGURE 1.1. LIFE CYCLE CURVE



a proactive manner. The curve is crystal clear when we look back on what has happened but almost impossible to anticipate as we look forward. We know the shape of the eventual curve that will play out, but we don't know how long the current phase will last and therefore when the curve will change direction. We also don't know how abrupt the change will be or to what degree the curve will change. And this is critically important when we think about the curve in the light of developing strategy.

Prepared Minds work within the current curve while thinking ahead of it. They also start seeing and helping others prepare for the new curve so the shift is truly evolutionary rather than a jolt to the system. Through skills such as imagining, learning, reflecting, teaching, and deciding, they determine when and how to ride the current curve and when and how to act beyond it.

Consider this. Would Motorola have lost the lead in cell phone technology if it had been prepared for the shift from analog to digital technology? We can look back and see that analog technology was in a decline long before Motorola did anything about it. It may have noticed the shift but clearly acted on it too late. What if Motorola leaders had noticed the curve in time to “jump the curve” to the digital life cycle? We can be sure that *someone* was jumping up and down and worried about the analog life cycle, but we have to ask why didn't they do anything in time to avoid the sudden maturing of the analog cycle.

The Prepared Mind senses changes in the direction of the life cycle curve before it's in full force and prepares the business for the new fundamentals while continuing to operate in the old fundamentals. Andy Grove, the cofounder and chairman of Intel, referred to these changes in direction of the life cycle curve as *strategic inflection points*, describing them as “a time in the life of business when its fundamentals are about to change.”¹ This often means seeing the connection of something new in the greater environment, beyond our own industry. We have to learn to think through or imagine the possibilities of these out-of-industry changes on our own business's market, our organization's competencies, or other key factors in strategic decision making. For instance, have we truly thought through and begun to jump to the next curve that the flood of baby boom retirements will bring to bear on almost all industries and social systems?

Prepared Mind Question

We know we are in the midst of many life cycles. We know that shifts in their curves will herald new fundamentals for products, services, and businesses. But even in the fast-paced world of high technology, nothing happens overnight. There is always some sign of the changes about to hit, or even creep into, a company or an industry. Talk to some of the people who work with suppliers or customers. What new trends or technologies are they seeing? Are *you* paying any attention to them?

WE KNOW THAT CLOCK SPEED IS ACCELERATING

In the early 1990s, we were besieged with articles, speeches, and books addressing the topic of managing change. It was not a question of whether organizations could change, but whether they could change fast enough (or thoroughly enough) to get the benefits they needed. Most important, did leaders and workers change their mind-sets so they were more prepared and more agile to meet future changes, or did they simply survive one change after another?

Whether you embraced or fought the change movement, the reality is that thinking well and doing more, more quickly and more frequently than before, is an important variable in making progress. Move too fast, and your organization may expend resources as it moves down blind alleys: markets that will never materialize, problems that will self-resolve, and so on. Move too slowly, and problems may become too big to handle or opportunities may fall into the laps of competitors.² Look at Sears Roebuck and Company or Howard Johnson restaurants and ask yourself, “Is it what they did that got them in trouble—or is it what they didn’t do?”

Prepared Minds know how to engage in thoughtful, real-time observation, analysis, and decision making in the midst of time-sensitive, resource-constrained, high-risk situations, and they know how to keep themselves and those around them focused on their core purpose and ultimate goals as they are making sense and deciding what to change and what to keep. They know how to walk the thin line between thinking and doing, between responding and reacting, between planning and experimenting. Also, they know how to engage others in continuous strategic iterations, understood as part of their normal course of doing business, and becoming smarter in the process. They don’t hesitate to use tools

such as scorecards and forecasts, but they don't just react or jump on the next new fad. They learn and change as they go.³

Prepared Mind Question

What do the people in your organization believe about your ability to "lead faster"? What values do you and they have in common?

WE KNOW THAT PROGRESS REQUIRES US TO ACTIVELY
SENSE AND RESPOND TO THE CHANGES AROUND US

Survival and progress have always depended on the ability of the person or the organization to sense changes in the environment and then to respond in a timely and appropriate manner. Consider the early leader in electronic calculator industry, the Bomar Company (a manufacturer of LED displays), and its calculator, the Bomar Brain. Bomar had the lead and then lost it. What didn't the company adapt to?

Individually, we have all experienced the fight-or-flight syndrome. Something sudden happens, and we respond; in days gone by, this often was the difference between living and dying. Today, problems arise; we roll up our sleeves and attack the problem and feel tired, but satisfied, at the end of the day. We also know, but don't usually admit, that while we are often adept at handling "something big" that happens to us, we are lousy at dealing with small, slow changes. So we slowly let our relationships dissolve, or we slowly get out of shape.

And the same conditions happen in our business organizations. While some changes are fast (such as technological capacity), the impact on our day-to-day lives may feel slow or ambiguous unless we are, by nature, early adopters or unless we are prepared to see the change and its implications for our business. We go from being a hard-charging competitor to a company with bloated overhead expenses. We go from knowing our best customers to having a profile of a typical customer (which does not actually fit any particular customer). Margins slowly shrink, and we blame the dynamics of "the industry" instead of making the changes we should make in our organizations. One of the dangers of being strictly results driven is that we can spend so much energy "doing" and keeping up that we don't take the time to think ahead, until the inevitable is at our door and we feel compelled to react.⁴

It seems so simple, yet we manage to mess it up time and time again. What step or steps in the process were missed or delayed and caused Polaroid to miss the shift to digital photography? Our guess is that its leaders sensed it and made sense of it, but could not “pull the trigger” and decide to change the emphasis of the company. What food companies or restaurants missed the huge impact of the low-carb craze in 2004? Did Apple Computer possibly *cause* a shift in consumer electronics with its iPod music storage device? Time will tell.

Prepared Minds watch for anomalies—warning signs, surprises, new developments on the horizon—and ask if they fit their view of the world. If they do, then all is well. If they don’t, then action must be taken. The danger in this simple scenario is the temptation to force-fit the anomalies into an existing view of the world and set of assumptions. To avoid this danger, they must continuously question the assumptions they and their organizations are making and ask for input from those closest to the action.

Prepared Mind Question

What can be done in your organization to help it slow down and take the time to make sense of new data and information? Is there a tie back to the organization’s core purpose and ultimate goals and getting decision makers to think through the new situation in the light of those?

WE KNOW THAT LEADERSHIP IS IMPORTANT DURING TIMES OF CHANGE

The business scandals of the past few years have raised the need for better leadership of our businesses. Changes in global business conditions raise the need for global leaders. Changes in the technologies underlying our products and business operations raise the need for leaders who can transform our organizations. And yet, at the same time, we see the need to drive leadership lower in the organization to reduce response time, improve service, and deliver better value to customers.

What’s the answer? The myriad of books and articles about the secrets of leadership make good points, but they have different perspectives to stress. Consider what some of the more objective minds have to say about the topic of leadership in business. Warren Bennis,

a professor at the University of Southern California, focuses on the leadership of people in an organization and presents the need to foster conditions that support knowledge workers. From his point of view, this means providing purpose, developing an atmosphere of trust, fostering hope, and getting results.⁵ Jim Kouzes and Barry Posner, the authors of the best-selling book *The Leadership Challenge*, now in its third edition, talk about the five practices of exemplary leaders: model the way, inspire a shared vision, challenge the process, enable others to act, and encourage the heart.⁶ And Bill George, the former CEO of Medtronic, writes that he sees the qualities of a leader to include understanding the need for leadership, practicing solid values, leading with heart, establishing connected relationships, and demonstrating self-discipline.⁷

So we have three different points of view and all from people respected for their understanding of leadership. The words are different, but the meanings are clear. What do they have in common?

- Leadership is demonstrated in action, not just words. Therefore, acting on our organization's capabilities and capacity in the light of customer, employee, and shareholder needs is the acid test of good leadership.
- Leadership is found in the trust relationship with followers; it is not just a position in the power hierarchy. Therefore, the common ground for leadership and change is the point of alignment or convergence of our values, our employees' and customers' values, and the organization's values.
- Leaders know their purpose and the purpose of their organization. Therefore, we have to be prepared to answer the question, "Why are we doing this?"

So far, so good. But what about other realities of the twenty-first century?

One reality is that we have more knowledge workers than ever before, and they may or may not be part of an official hierarchy. They may, in the words of Charles Handy, be part of a shamrock organization, or a federal organization, or a "hive."⁸ We may not have followers to lead as much as we have stakeholders to influence.

Another reality is that leadership deals with a wider sphere of influence as a result of globalization and the increased access to information and new technology. Leaders know more and are

expected to know more, as are followers. In fact, those who twenty years ago may have been thought of as followers are charged with self-leadership and with acting on the information they have in the best interest of customers, the global organization, and the local culture and situation. Leadership is not confined to one job or to a predefined set of circumstances. It is situational and goes beyond the bounds of narrowly defined jobs. Like knowledge, leadership spreads with use.

All of these realities lead to our working definition of leadership. Leadership, as we think of it in the context of the Prepared Mind, takes Ronald Heifetz's notion of adaptive leadership and builds and expands on it.⁹

Heifetz's definition departs from many other theories of leadership in two respects. One is that he believes, as do we, that leadership is practice, not a particular position; it can be exercised from anywhere in the organization. Second, adaptive leadership requires deep learning and the challenging of mental maps to adapt to changed realities. This requires the person exercising adaptive leadership to think and act outside his or her usual or expected job description, and challenge others to do the same, in order to see or anticipate changes in the environment that require the adaptation of ways of thinking and ways of working.¹⁰

We build on the unique aspects of Heifetz's definition in the following ways. First, we believe that leadership practiced with a Prepared Mind not only adapts to changed environments but also is in the position to change environments by interacting with them in new ways. Adaptation is mutual. This notion of leadership moves from a traditional change management view of leadership to a view that more closely mirrors innovation and entrepreneurship.

The second way we build on Heifetz's definition is to acknowledge that to bring about effective opportunity and change, some core ideas in the current system need not change. In fact, they need to be reinforced and built on as foundational to success. In a study we did on turnaround companies that not only survived but became innovative, we found that the leadership authentically integrated and addressed the head, the heart, and the hands of business by building the new vision on something fundamental to the organization that did not have to change.¹¹ For one company, the idea of "empowered knowledge workers" released a whole new application of talent in a financial services organization and took

them to a new level of motivation, performance, understanding the business of the business, and acting more innovatively in a changing market. For another company, it was the image of being scrappy that unleashed a desire to contribute to its competitiveness, cross-train, and even change product lines in order to a move from a commodities manufacturing business to a more knowledge-based science and engineering business. The bankers even held off dissolving the business not only because the new business model and numbers looked promising but also because the people of the company were so committed and willing to sacrifice to make it work.

The four aspects of leadership are (1) practicing outside the technical confines of one's job description, (2) challenging ways of thinking inside and outside the organization, (3) innovating to have an impact on the external environment as well as realizing the external environment's changing dynamics and potential impact on the internal environment of the organization, and (4) building the continuous process of change readiness on deeply held, sustainable principles. Therefore we define Prepared Mind leadership as *the practice of continuously envisioning and executing opportunities for growth within complex, dynamic environments, built on core principles the organization is committed to sustaining and using as the basis for value delivered to all of its stakeholders*. Prepared Mind leadership engages stakeholders in making changes in their ways of thinking and acting by leading them to develop their own ability to navigate the sense-make-sense-decide-act cycle, while maintaining their integrity by being grounded in principles shared with the organization.

This broader view seems to fit the realities of the world today quite well. Some of us are ordained leaders in our organizations. We have the appropriate title and the appropriate box on the company organization chart. Others of us are left with the unofficial title of "follower." However, reality of the need for speed and intelligence on the spot makes this distinction moot. We simply can't wait for the official chain of command to comprehend the changing world around us: we don't have the time, and the situation demands a response! Therefore, *everyone* has the responsibility (but often not the cultural permission) to work outside their job description to take advantage of opportunity that leads to strategic advantage. Leadership is seen in acting with foresight in the best interest of the organization's value chain, in line with personal and societal

values. Prepared Minds enter the action anchored in purpose and unafraid to think and act differently than the status quo.

Prepared Mind Question

How has the responsibility for leadership changed in your organization? Are you seeing distributed leadership, or is the old semblance of hierarchy still in control?

WE KNOW THAT EVERY ORGANIZATION HAS A CASCADE OF STRATEGIES, WHETHER THEY KNOW IT OR NOT

Fundamentally, strategy is all about answering the question, “How will we accomplish a goal?” This could take place at the executive level of the corporation when the CEO asks, “How will we reinvigorate the revenue growth of this company?” and then goes on to answer the question by pursuing an acquisition of a complementary company. Moving down a notch, the president may ask herself, “How will I ensure the success of the acquisition?” and go on to answer her question by reorganizing the marketing and sales departments. Continuing the strategic cascade, the vice president of marketing has to answer the question of a combined marketing department, and the answer creates his strategy.

And so it goes: goals beget strategies, which become goals, which need a strategy, and on and on. This process could be planned and coordinated, where the intention at the top of the hierarchy links with execution at the bottom of the hierarchy; or it could happen in a disconnected fashion. In either case, the company has embarked on a series of strategies.

Models and patterns abound to describe the top-level strategy.¹² The problem for most managers and executives is that these models are only a starting point. They still have to figure out how to do the hard work of taking an elegant concept and fitting it to the realities of their industry and company. After that, they have to worry about the big issue of adoption. They have to take a company’s goals and its general statement of strategy and make them real.

And so the work shifts from learning the basics of the strategy models to the day-to-day work of strategic thinking. It is hard work. It requires spending time pondering the multiple futures of the organization and determining what can be changed to reach or

deal with those futures and, finally, considering the intended and unintended consequences of those changes. Just remember that strategic thinking at its core is simply good, critical thinking about the future of the organization.

This book is not strictly about strategic thinking, but thinking and acting strategically is a goal and result of Prepared Mind leadership, and this loose definition needs a bit of explanation.

First, when we think about strategy, we have to keep in mind the two key components of the future of the organization: goals and multiple futures. Strategy always is in response to understanding a goal. If you don't have one or if you won't share one, then the thinking process is nothing more than a shot in the dark. Also, every organization has multiple futures it has to consider.¹³

Second, when we engage in strategic thinking, we need to go beyond concepts and address those things we can actually change as we consider the adoption of the strategy. For example, quality is a concept. Improving quality may require changes to suppliers, machinery, employee training, and measurement systems.

Finally, strategic thinking must always consider the consequences of planned actions. This imperative is well expressed in one of the truisms from the discipline of systems thinking: every solution brings about a unique set of new problems. An example was the phenomenal success of GE's strategy in the 1990s. An unintended consequence was the raiding of GE for talent. GE was so good in its management team training and development that other companies saw it as a source of talent—and went after GE's best people.

Prepared Mind Question

Do the people at the bottom of the hierarchy have the same basic understanding of organizational goals as the executives do? Are corporate strategies meaningful to the workforce, or are they “just a bunch of words”?

CONNECTING THE DOTS

So why be concerned about developing and applying a Prepared Mind today? As a starting point, take the known aspects of business we've just related and consider some of the implications of those

givens. As you do, think about the implications for your mental preparedness as well as that of your entire organization:

- Because globalization is a fact, the system called business is getting considerably more complex. Therefore, we need a mind that is open to new information and interpretation. Do you observe actively, or do you wait for something to hit you?

- Because the life cycle model underscores our world and because response time is shrinking, we need a mind that constantly looks ahead. How much time do you spend imagining the future conditions of competition?

- Because speed and balance are fundamental to success, we need a mind that is agile. Can you make decisions without all the facts? Are you willing to challenge today's paradigms?

- Because we need a process to prepare for navigating our future, we need a mind that is aware of its position in multiple organization, product, and concept life cycles and can observe the early warning signs of upcoming shifts. What warning signs do you use to see if your environment is changing? Can you explain the big picture to your peers and workers?

- Because leadership is critical in organizations, we need a mind that is willing to challenge and respond to challenges to take advantage of opportunities or intercept problems. When is the last time you considered the validity of the assumptions you're using in your job?

- Because strategy-in-action always trumps intention, we need a mind that deals with complexity. For every complex problem, there is a solution that is simple and easy to understand—and wrong. How prepared and willing are you to dive into the messiness of complex problems?

While we know that we need to understand and act on these things, knowing how is another story. The eight skills of the Prepared Mind provide the hows of taking what we already know about the business environment and creating new futures for strategic advantage and for the sustainability of the business system in which we act.

But first we look at the frameworks on which those skills are built.