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# A New Approach to Strategy

Whether consciously or not, your company is already adhering to one theory of strategy or another. What it may not have done is to tailor its approach to strategic questions to its own needs and priorities. Instead, it could be acting on unexamined assumptions about what its strategy should be and how it should be arrived at. Sometimes, those unexamined assumptions can limit a business's ability to shape its future, or even place that future in jeopardy.

As I note in the Preface to this book, issues relating to strategy are too often viewed as either/or dichotomies: Businesspeople think, for instance, that they have to choose between meeting current market needs and attempting to predict future ones, or between deliberate planning and allowing strategies to emerge. In fact, the ultimate goal is not to choose a single approach to strategy but to strike exactly the right balance for your specific company and situation. Such a balance will enable a business to maintain a coherent sense of direction while also being adaptive and flexible enough to respond fluidly and quickly to the turbulent conditions in its

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environment. Balance will allow your business to reap the benefits of rational planning processes while still achieving maximum responsiveness to customers.

What is required are systems and structures that are both dynamic enough to respond to new information from the outside and influence the environment they operate in, and fluid enough to accommodate a good deal of disorder without lapsing into real chaos. As such leading management theorists as James Brian Quinn, Robert G. Eccles, Nitin Nohria, and Tom Peterson have argued, the optimal state for an organization is one of “functional chaos.” One of the key questions I seek to answer in this book is what such a state would look like in terms of strategy.

Essentially, there are two main debates concerning strategy: strategic fit versus strategic foresight, and deliberate planning versus allowing strategies to emerge. While these debates may be more explicitly aired in business school classrooms than in the halls of corporations, they are actually played out in real-world situations. Let us begin by examining the arguments from both sides.

*Strategic fit versus foresight.* According to one school of thought, the success of a strategy will depend on its degree of strategic fit, that is, the alignment between what the customer wants and the strengths of the organization. Adherents of this view believe in thoroughly researching customer needs, analyzing internal capabilities, and then coming up with product-service offerings directly based on their findings.

Proponents of foresight, on the other hand, argue that the best you can hope for if you aim for strategic fit is a me-too, catch-up strategy with a built-in blindness to change. Do not focus on what customers want now, they say; try to anticipate what they will want tomorrow. Your job is to identify customer needs before customers themselves are aware of them, and identify

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markets that have not yet been recognized. Do not just analyze: Dare to prophesize. After all, that is what successful companies like Starbucks, The Body Shop, MTV, and CNN all did: They created new markets by foreseeing what customers would want if only they could have it.

*Deliberate planning versus allowing strategies to emerge.* This debate centers on how strategy should be formulated and who should be involved. The argument for deliberate planning is threefold: (1) A methodical planning process is the only way to make sure that all relevant factors will be taken into account. (2) Senior managers are better equipped to carry out the planning process than anyone else; not only do they have the broadest perspective on the organization's resources and goals, and the environment in which it operates, they also have access to all different types of data. (3) Employees need a clear statement of strategy and a plan document to provide them with focus and direction.

Opponents of this more traditional approach argue, however, that today's rapidly changing business climate makes such a linear process outmoded; in fact, it may even be dangerous, since it does not allow for new information to be absorbed and acted on quickly. Arguing that strategy is best arrived at by fluid processes of continual adaptation to the environment, they maintain that lower-level people in direct contact with customers need to participate in the process, or the organization's strategy will not accurately reflect the realities of the marketplace. (This less traditional process of arriving at strategy has come to be known as "strategy making.")

Adherents of more formal planning are skeptical of this argument: As they see it, allowing strategy to evolve in response to the environment, and getting more people involved in making it, result in a loss of focus. A company that is always scrambling to respond to external factors cannot maintain its sense of

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direction, and having everyone empowered to make decisions about strategy means that nobody knows who is in charge. That can paralyze rather than energize people.

### **The Strategic Dilemma**

So those are the choices as they are traditionally laid out. Either base your strategy on the fit between your organization's strengths and weaknesses and the current demands of the marketplace, *or* try to anticipate what customers will want—or *would* want if someone were smart enough to offer it—a year from now. Either arrive at your strategy through a formal planning process, conducted by senior management, *or* allow strategy to emerge through a more participative, fluid process, involving as many people as possible. Either regard strategy as a fixed plan of action that gives the organization focus, *or* think of it as something adaptive and flexible.

That all seems pretty clear, doesn't it? But why does strategy making have to be an either/or proposition? What if there were a third alternative, a synthesis that combined the benefits of each approach?

Let us begin by looking at what those benefits are.

### ***Strategic Fit***

There is no doubt that strategies based on the alignment of internal strengths and external needs have historically proved very profitable. Using research and analysis to figure out what the market demands—and how much it will want—and then determining what the company needs to do in order to fill that demand gets rid of some of the uncertainties surrounding strategy formulation. Even if there is no such thing as a surefire strategy, an accurate picture of what is required to meet a market demand

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and/or gain a unique competitive advantage—Market and customer reach? Technology leadership? Service differentiation?—allows you to address deficits before they lead to problems. It can also prevent an organization from entering a business or market at which it just is not equipped to succeed.

For example, when diversification was the rage, back in the 1970s, organizations could have benefited from understanding the concept of strategic fit. Because they tried to enter businesses that they knew nothing about, or to succeed in markets that they lacked the competencies to service, many of them wound up with disasters on their hands.

### ***Strategic Foresight***

Strategic foresight, as its name suggests, is a matter of envisioning what customers will want and need in the future, and what will be required for delivery. Sometimes it entails the ability to imagine not only the kind of change that is continuous with the

A good example of strategic fit was the Fiat Punto. Fiat invited potential customers to visit their web site and indicate which of many possible features—all of which Fiat was well equipped to provide—were important to them. More than 3,000 people took them up on this invitation. As a result, Fiat was able to design a car that accurately reflected its customers' needs and priorities.<sup>1</sup> Other companies, like Cisco Systems, have used their web sites to enable customers to cocreate features for the products they purchase, a policy that has helped Cisco to increase revenues while simultaneously reducing installation costs.<sup>2</sup>

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present, but also radical, discontinuous change. In its most visionary form, strategic foresight can mean foreseeing dramatic changes in the entire industry in which the organization competes, or even the creation of a whole new industry.

For example, the government has recently announced that it will subsidize U.S. auto makers' efforts to develop environmentally friendly, fuel-cell-powered vehicles. Currently, the technology is prohibitively expensive, and there is no method of distributing the hydrogen that fuel cells need. However, if this changes, what will happen to the automobile industry and all the industries dependent on it? What is going to happen to oil companies if cars are no longer powered by gas? What new kinds of industries will spring up? There are a lot of people out there giving those questions serious thought right now.

The most dramatic examples of strategic foresight are those that involved creating whole new products or new markets. The first Polaroid camera, the Sony Walkman, and Apple Computer's introduction of the computer into nonwork settings are all classic examples. The handheld computer is another case in point. A new product created a new market by tapping into an unrecognized need. No one could be sure the need existed until the means were there to satisfy it; intuition, a hunch about what people might want, played an important part.

Yet strategic foresight can also involve not product or market innovations per se, but determining what types of internal resources and skills an organization is likely to need in order to come up with cutting-edge products and deliver them to the marketplace in a competitive fashion. Gary Hamel and C.K. Prahalad, two of the leading writers on the subject, insist that "competing for the future" is essentially a matter of ensuring that the core competencies are in place to exploit the unknown opportunities that will arise and satisfy customer requirements.<sup>3</sup>

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This slightly less dramatic type of strategic foresight is more clearly linked to analytical and planning processes, although predicting what competencies will be required in the industry of the future may require as much vision and inspiration as coming up with a whole new type of product.

Sometimes strategic foresight can take the form of investing in the future even when that future looks uncertain. For example, companies that embark on education programs or initiatives to improve business processes during a period of recession find themselves in a better position to take advantage of the recovery when it comes. Texas Instruments' decision to invest in an ambitious effort to come up with a single-chip cell phone at a time when chip sales had experienced their worst decline ever is another such example of foresight—or will be if it pans out. So is Lehman Brothers' refusal to lay off employees in the market downturn of late 2002, when almost all the other big financial firms were downsizing. When the upturn comes, Lehman Brothers' full complement of employees (with years of experience) will be in place to take advantage of it.

### ***Formal Strategic Planning***

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A crucial benefit of the formal planning process is its built-in guarantee that things *will not* just happen; it ensures that control will be exerted, to help the organization retain its strategic focus. By forcing the organization to analyze and identify its strengths and weaknesses, its core competencies, the threats that it faces and the opportunities it is qualified to exploit, formal strategic planning strengthens its understanding of who it is and what it is equipped to accomplish.

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Plans made on an ad hoc basis by people within a particular function or business unit will inevitably reflect the concerns of those people and that business. When senior managers formulate strategy, however, they are more likely to be objective and to see the larger picture. They also have more facts at their disposal, and can gather information from all areas of the organization. Because they have the tools and the training to sift through data; because they can interpret it, weigh up its relative importance, and arrive at decisions based on a systematic assessment, senior managers are uniquely qualified to evaluate various strategies' likelihood of success.

Another advantage of a deliberate, linear process is that it allows the organization to arrive at a clear definition of where it wants to go, how it plans to get there, and how it can measure its progress toward the goal. Thinking through how you can differentiate yourselves, how you can win, what you are uniquely qualified to do—and what you do not want to do—can only be beneficial to the company as it goes forward.

Who would choose to set out on a journey without a map? You cannot get to where you are going if you do not know where it is. The formal plan is a kind of road map to be consulted along the way. Finally, even in a turbulent world, having such a road map will provide a context for dealing with the unexpected as it arises. In order to respond effectively to change, companies need a clear sense of their capabilities and the kinds of resources they can draw on when they are required to adapt to changing circumstances.

### *Allowing Strategies to Emerge*

Reacting to what is actually happening now, rather than basing your actions on what happened in the past or might happen in the future, allows an organization to recognize opportunities in

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unexpected places or in unexpected forms—or to recognize that something no one had mandated is actually in the process of happening anyway.

Unlike the type of deliberate strategy that results from a formal, highly rational planning process, strategy that emerges organically may have its basis in intuition and flashes of insight (like strategic foresight). That could be one of its strengths. As the strategy theorist Henry Mintzberg has pointed out, the “hard information” that senior people rely on when formulating plans is “often limited in scope, lacking richness and often failing to encompass important noneconomic and nonquantitative factors. Much information important for strategy-making never does become hard fact. The expression on a customer’s face, the mood in the factory, the tone of voice of a government official. . . .”: These cannot be reduced to data on a page.<sup>4</sup>

In fact, strategies have always emerged rather than being exclusively mandated from above. Sometimes they have even been born out of accidents. The classic historical example of this is Scotchgard, which had its inception in an accident in a lab: One of the lab assistants accidentally dropped a bottle that contained a batch of synthetic latex, and some of it spilled on his canvas tennis shoes. Everybody tried to rinse it off, but each thing they used ran off the shoes like water off a duck’s back. It was very annoying at the time—but it inspired a very profitable product.

In other cases, strategy has evolved out of an unintended consequence of a deliberate strategy. When the CEO of American Express had trouble cashing a check, he resorted to traveler’s checks, and realized how to make money on the float. Similarly, an AmEx employee in Paris started giving travel advice and helping people to book trains and boats when they came in to buy checks. Though at first he was asked not to do this, it proved so lucrative that it was finally adopted as a deliberate strategy.

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While AmEx's CEO was the first to recognize the potential of the traveler's check, it is often the people on the front lines who spot opportunities first. A closeness to customers on a daily basis makes such employees uniquely qualified to recognize changes as they occur. The idea for Starbucks' blended coffee drink, Frappuccino, for example, came from the field. Although Howard Schultz, the company's founder and chairman, was doubtful that the new drink would take off, he was outnumbered by other managers, and Frappuccino turned out to be one of Starbucks' most successful product launches.

Other examples of spotting and creating business opportunities include: (1) the baggage handler at British Airways who came up with a way to expedite the handling of first-class baggage, which enabled the carrier to improve its relations with its most profitable customers and gave it a new marketing tactic;<sup>5</sup> (2) the two low-level employees who used the thread they were developing for astronauts' space suits to floss their teeth, thus giving birth to Glide dental floss; (3) the finance and accounting department employee of Mail Boxes Etc, whose memo to CEO Jim Amos convinced him to enter the lucrative business of offering a broad range of technical services to the home office market.<sup>6</sup>

By its very nature, and because it relies on the insights of people at all levels of the organization (or even outside it), allowing strategy to emerge is directly linked to a more freewheeling, participative culture; at the same time, it helps to build such a culture. The one thing it cannot do is to succeed in a rigidly hierarchical organization.

### **Combining Fit and Foresight: Why You Need Both**

Some of the great business success stories of our time are tales of strategic foresight. Who would not choose to tap into the kind

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of vast unidentified market that Steve Jobs and Steve Wozniak discovered—or created—for the personal computer?

Yet given the importance of timing in achieving competitive advantage, foresight can sometimes mean hitting on a brilliant idea whose time has not yet come. The English inventor Ian Sinclair, for example, came up with the idea of the personal computer long before Jobs and Wozniak . . . in fact, long before the market was ready for it. Because he had a plan for the future, but none for the present, he found himself in the position of offering the world what it was *going* to need, but not what it wanted right at that time. The same was true of Studebaker, when they introduced the minivan 15 years before anyone else. They had recognized an untapped need, but unfortunately customers remained oblivious to that need for more than a decade. Studebaker's foresight, like Sinclair's, led not to competitive advantage, but to business failure.

All too often, companies that attempt to create demand from an undefined market fall flat on their faces. Coming out with the right product at the wrong time can be as disastrous as failing to come out with the wrong product. Even Apple, when it introduced its now-defunct Newton, was guilty, as one commentator said, of "delivering products ahead of their time."<sup>7</sup> It was the upstart Palm Pilot, which came along three years later, that wound up dominating the market that Newton had opened up.

Moreover, sometimes customers think they want something, only to discover they really don't. For instance, when Web Van offered to do people's grocery shopping for them, a lot of consumers thought it would be great not to have to go to the supermarket any more. They signed up for the service, tried it once, and realized that not only was it impossible to pick out produce over the Web, but they actually *liked* shopping; they

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liked going in with their list of 8 necessary items and coming out with 20 more they hadn't planned to buy. First-time Web Van customers were plentiful; return customers were practically nonexistent.

Much of what is involved is not merely foresight but luck—and counting on being lucky is too big a gamble for any organization to afford. Yet in today's volatile climate, depending on a fit between organizational strengths and the current demands of the marketplace may be equally dangerous. After all, the very concept of strategic fit rules out the possibility of creating new markets, of imagining something that does not exist yet. It is also based on an unspoken assumption that the future will be a continuation of the past, which is extremely unlikely.

That's why organizations need to combine foresight on the one hand and strategic fit on the other: They need to serve customers' current needs as efficiently and effectively as possible *while also thinking creatively about the future*. It can be hard for a company whose core businesses are highly successful and profitable to recognize the need for new business development; the temptation is to concentrate on what is already successful, and to devote the organization's resources to maintaining that success. However, focusing on just one side of the equation is too great a risk for any business to take.

### **Combining Strategic Planning and Strategy Making: Why You Need Both**

At its worst, allowing strategy to emerge—waiting for the market to dictate strategy—can be dangerously similar to just muddling through: Hey, we haven't got a plan, but we'll see what's happening and then react to it. We'll keep in touch with what's going on out there, and hope we can catch the wave.

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Companies without a strong sense of direction, who simply try to respond to what is happening in their markets, can wind up with no core identity. Fluidity should not mean having no shape at all, or changing shape whenever the outside environment changes. That in itself is demoralizing for employees.

At the other extreme, formal, deliberate strategic planning can mean a long cumbersome process that, given today's business climate, simply takes too long for relevant information to filter through. In an increasingly volatile, competitive environment, day-to-day information about what customers want, what competitors can do, and how a company's products and services stack up is absolutely critical. But in many organizations, this information may never get to the designated strategists at the top. As the economist Kenneth Boulding said (and as many people who work in corporations would agree), "The very purpose of a hierarchy is to prevent information from reaching higher layers. It operates as an information filter, and there are little wastebaskets all along the way."<sup>8</sup>

Even when the information arrives in the CEO's office, several factors may be at work to prevent its being acted on in a speedy fashion. It is hard, after all, to abandon a whole way of thinking, or an approach that may have worked well for the business for years, on the basis of some new information. The very fact of having arrived at the top tends to make senior managers feel that they know best, but what worked brilliantly in the past may not work in the future. It is the people on the front lines—the ones least insulated from ordinary customers—who are most likely to catch the first whiff of changing needs. As David Murphy, vice president of human resources at Ford Motor Company, put it, "We can't afford to wait for decisions to come down from the top. If we did, the consumer would be [angry]

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about having to wait so long—and would be gone before those decisions even got made.”<sup>9</sup>

What if the process of arriving at strategy could include both the coherent sense of direction that deliberate strategy provides and the flexibility and ability to adapt that are the virtues of allowing strategies to emerge? What if there were a way of capturing the advantages of rational planning processes while still allowing for maximum responsiveness to customers? Can there be institutional processes that allow strategy to emerge informally?

It is not that businesses have to stop formulating plans; they just have to learn to regard these plans differently. It is no longer a question of issuing marching orders to the troops, but of coming up with working papers: something intended to clarify issues and goals, not to be slavishly obeyed. (There are times when the most useful thing about a plan is that it serves to remind people of what they are deviating from!)

The greatest military leaders, despite their reputation as command-and-control figures, have always known this. A recent article in the *Harvard Business Review* pointed out that Admiral Lord Nelson, the hero of the Battle of Trafalgar, actually gave the captains of his fleet more freedom to make their own decisions than they had ever had before. Rather than trying to control their every movement through flag signals back and forth, as Royal Navy commanders usually did, he simply required them to adhere to one basic strategic principle: Always get beside an enemy ship. As long as they obeyed that one central command, they could determine their course of action for themselves, adapting to the particular situation they found themselves in. It worked brilliantly.<sup>10</sup>

For an organization to successfully transform itself—and in today’s climate, organizations need to perpetually transform

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themselves in order to survive—requires a combination of intentional change (the goals defined in the strategic plan, the formal strategies laid out in the binder or the Power Point slides) and responsiveness to what emerges in the process. It may also require recognizing that strategies *are* in fact emerging, that the strategy laid out in the binder is actually not the only one being pursued. Sometimes, a stated strategy may be belied by the way resources are allocated. Intel, for example, went on thinking of itself as a memory company long after much of its manufacturing capacity had been reallocated to microprocessors; a strategy had emerged without being acknowledged.

*Strategy versus tactics.* Accepting the idea that strategy is not always intentional but may emerge, or evolve, over time means recognizing that strategy is not just about planning. It is also about doing—and sometimes the doing actually comes before the planning. That flies in the face of an idea we all learned in school: First plan, then act. While such a neat linear sequence may sound like the rational way to go, in the real world we often act and then use the results of our actions to decide on the next step.

To embrace the idea of emergent strategies calls for a different understanding of the relationship between strategy and tactics. The line between them, which was once considered sharply defined, has increasingly become blurred. When we talk of “evolving strategy” (a term that first appeared in my book *The New Strategists* in 1995), we are accepting that, in the process of implementation, strategies will be continually reshaped, as people at all levels of the organization respond to customers, sign up new clients, work with suppliers, design new products, and refine existing ones. This is more than a matter of tactics, that is, choosing the means to arrive at the end defined by senior management.

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In other words, because formulation and implementation cannot be clearly distinguished, and because the rapid pace of change requires frequent adaptation of existing strategies, today's tactics can become the basis of tomorrow's strategy.

Robert Silver, executive vice president of UBS Wealth Management USA, recalls how Corporate Employee Financial Services, an equity administration service for Fortune 500 companies that currently has more than 800,000 participants and nearly 100 corporate clients, got started:

One of our advisers in Hartford, Connecticut who had a strong advisory relationship with a client started doing it on a small scale locally, since it was something the client needed. We realized it had great potential, and could lead to high asset retention and capture as well as being the best source of lead generation and client contact. So we wound up making a huge investment to professionalize it and make a line of business out of it.<sup>11</sup>

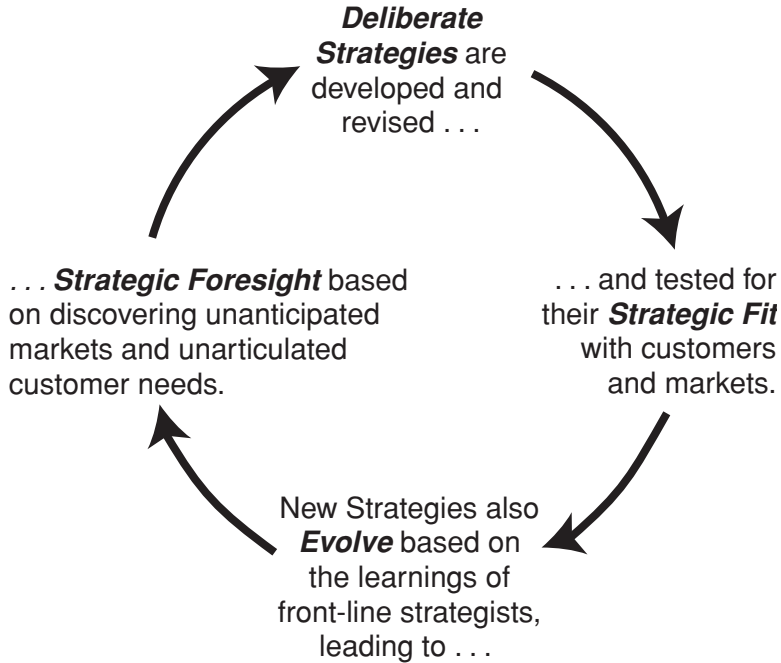
What had begun as a tactic to satisfy the needs of a specific customer emerged into a strategy.

### Strategy Making as a Dynamic Learning Process

Figure 1.1 shows the process of arriving at strategy as a combination of all four of the elements previously discussed. In this model, all the elements and activities feed into each other in a dynamic learning process that has no distinct beginning, middle, or end. It can start at any of the four points depicted in the figure. The sequence of events is less important than being sure to recognize and manage all four aspects of strategy making.

Whether they consciously decide to incorporate all four elements or not, most successful companies leverage this four-part

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**Figure 1.1** Strategy as an Ongoing Process

process. A good example is the story of Honda's entry into the U.S. motorcycle market. Originally, Honda's strategy—its deliberate strategy—was to compete directly against Harley-Davidson. In 1959, Honda sent some of their managers to Los Angeles to launch their large motorbikes into the U.S. market. Because they were short of foreign currency and had been told there was no public transport in the city, these managers used Honda's small Super Cub motor scooters to get around.

The company had assumed these small bikes would not be worth marketing in the United States, because of their modest size and lack of luxury, but the big motorcycles they were trying to

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promote proved to have serious reliability problems. Meanwhile, the Super Cubs kept attracting admiring attention—every time one of the Honda managers parked his bike somewhere, people came up to him and asked where he had bought it. Next, a Sears buyer phoned to inquire about selling the bikes through their organization. At first, Honda resisted, but when it became clear that the problems with the larger bikes meant they could never hope to crack the hard-core motorcycle market, the company finally adopted the promotion of Super Cubs as its deliberate strategy. Before they did so, motorcycles had been seen as strictly the province of the black-leather-jacket crowd. Pretty soon, middle-class Americans were buying Super Cubs from sporting goods stores, and Honda became a highly visible presence in the American market.

In another piece of serendipity, the monumentally successful ad for Super Cub—“You meet the nicest people on a Honda”—was conceived by an undergraduate advertising major at UCLA as a class project. His instructor took it to his neighbor, a Honda executive, who brought it into the company. Honda was initially reluctant to use it; they didn’t want to offend the leather-jacketed motorcycle crowd. Only the dogged persistence of the sales director convinced them to run the student’s ad, after which sales went through the roof. A classic piece of strategic foresight, the ad played a big role in tapping into the demand for small motorbikes, which had gone unidentified before.

### Overhauling the Planning Process

When 13 supervisors at International Harvester took on massive debt to buy a failing division of the company that rebuilt heavy engines and their components, they realized that the survival of their new business, the Springfield Remanufacturing Corporation (SRC), would depend on all their employees understanding

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its finances. Each of the company's 199 employees was given shares of stock, at \$.10 apiece; in addition they were all invited into the weekly huddles in which the financial data was looked at and sales and profit targets were set: Those who could not understand income statements and balance sheets were given training in how to do so.

The looming prospect of imminent disaster (Springfield's debt-to-equity ratio was a staggering 89 to 1) inspired a planning ritual, based around the huddles, that focused SRC on controlled growth, orderly operations, predictability, and wealth creation. CEO Jack Stack involved every SRC employee in the weekly planning and monitoring process, and established a bonus system based on meeting the targets for the plan, which was highly sales driven.

In order to ensure that all employees would have enough information to make effective strategic decisions, Stack also pioneered what came to be known as "open-book management." Everyone at Springfield had complete access to the company's financial data, meaning that strategic decisions could be made at every level. For example, a mechanic who was trying to decide whether to repair an engine's connecting rod or install a new one could compare his wage, \$26 per hour, to the cost of a replacement rod, \$45, and figure out that only if the job could be completed in under 90 minutes would it make sense to fix the old one.<sup>12</sup> Each employee was encouraged to think about the business in terms of opportunities for revenue generation and the management of expenditure, including their own salaries, benefits, and bonuses.

Within 3 years of its founding, Springfield Remanufacturing was turning a profit; within 10 years its stock—more than 80 percent of which was owned by employees—had gone up by 18,200 percent.<sup>13</sup>

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### The Role of Strategic Teams

It is only natural for people to focus on the kind of information that is most relevant to their own jobs. A marketing manager will pay more attention to feedback on markets; an R&D engineer will be particularly tuned in to news of scientific advances or inklings of scientific problems. Both will probably have blind spots, or know or understand too little about certain areas to recognize relevant information about them. Making sure that all key functions are represented on a given team leads to the kind of balance and objectivity that was once supposed to be the exclusive province of senior management.

Using teams to develop strategy is also a good way of ensuring that strategy making becomes a dynamic learning process. The inevitable flow of information and ideas among team members is itself conducive to both learning and fluidity. Furthermore, combining the different expertise of diverse groups of people increases the chance that no important factor will be overlooked, and all likely obstacles will be foreseen. At General Electric (GE), for example, cross-functional teams include representatives from research, marketing, engineering, and manufacturing and service, as well as vendors and customers.

Similarly, at Northern Telecom, even teams brought together to address a specific business's or function's problems will include people from other areas. A Northern Telecom vice president explains, "We wanted to bring the widest diversity of ideas to each team so we could stimulate breakthrough thinking. If we are working on a manufacturing problem and we just use manufacturing people, the solution won't be nearly as good as it could be."

The very nature of teamwork encourages the evolution of strategy. As people bounce ideas off each other, they tend to re-

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fine and develop them as they go along. In the course of their work, they may become aware of trends or customer needs that are just beginning to surface, or have not yet been identified. In fact, strategic foresight can sometimes be a matter of putting together two, three, or four different perceptions or hunches, realizing that what A has noticed about one group of customers may link up with what B has noticed about another. If creativity is about making connections between seemingly unlike things, as is often argued, the more heads you can put together, the more connections are likely to get made.

### *Self-Generated Teams*

Perhaps the most productive teams of all are those that have not been designated by upper management, but that come together on their own initiative because people are interested in finding new ways of doing things, or have an idea they want to develop. Organizations are beginning to encourage this kind of “self-organization” at all levels, gambling on productive outcomes from such grass-roots teams. (That means, among other things, learning to accept the inevitability of failure—because not all ideas will come to fruition or prove profitable—rather than punishing people for it.)

At W.L. Gore & Associates, project teams evolve from employee initiatives. Employees who think they have a good idea are expected to act like independent entrepreneurs and try to rally colleagues behind it. If enough people share the employee’s enthusiasm, a project team is born. Usually the person who first conceived of the idea becomes the project leader, although other team members can decide to appoint someone else. Any worker, at any level of the organization, can become a team manager.<sup>14</sup>

At Sumitomo 3M, engineer Kazunori Kondoh was intrigued rather than dismayed when it turned out that a microporous film

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intended for use in safety garments darkened after repeated contact with human skin. While others in the company considered it a flaw that the product was highly absorbent of skin oils, Kondoh saw an opportunity to create a new kind of facial skin treatment. Because his 3M colleagues did not immediately share his enthusiasm, he became a one-man cheering squad for the idea, developing his own production system, meeting with 3M marketing people and customers. Finally, he was able to put a team together, and his product—a new line of skin care applications, bought by a major cosmetics company—was an immediate market success.<sup>15</sup>

### The Role of Senior Managers

We've just seen some examples of strategy making at its most dynamic, as a process that goes on at all levels of an organization. When strategies emerge from that kind of dynamic learning process, the role of senior management changes. Instead of setting the company's direction in a specific, step-by-step way, and trying to control it from on high, senior managers are more likely to concentrate on formulating a general strategy that is based on input from people at all levels of the organization as well as their own insights.

The task of formulating specific plans for the business units can be handed over to lower-level employees, although senior managers will still be responsible for monitoring progress and ensuring that the company is really moving in the direction of greater responsiveness. Their role is to offer guidance and keep things on track, not to lay down the law. At the same time, they should be using the insights and knowledge of those on the front lines to hone their own strategic foresight.

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Rather than being all-powerful parent figures responsible for setting the strategic direction of their companies single-handedly—as the business press likes to depict them—senior managers need to become elder-brother/sister figures instead. It may not be coincidental that the call for more participative strategy making comes at a time when not only is it necessary to respond more quickly to market changes, but people are increasingly reluctant to obey orders unquestioningly.

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### In Conclusion

We have seen that the dynamic learning process known as strategy making can and should involve both deliberate planning and allowing strategies to emerge; it can and should encompass both strategic fit and strategic foresight. The challenge is to get past either-or thinking and find ways to incorporate all the benefits of different approaches to strategy within the same process. In the chapter that follows, we look at some of the dilemmas—the seemingly either/or choices—that organizations face when trying to design an inclusive strategy-making process.

### Key Points

- To succeed, businesses have to make use of both strategic fit and foresight. That is, they have to ensure that they can serve customers' current needs as efficiently and effectively as possible while also thinking creatively about the future.
- Businesses require both the coherent sense of direction that deliberate strategy provides and the flexibility and

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ability to adapt that they gain from allowing strategies to emerge. The challenge is to maintain focus while achieving maximum responsiveness to customers. Though it may seem paradoxical, organizational systems and processes can be designed to encourage innovation and the emergence of strategy.

- With emergent strategy, planning and doing can no longer be neatly separated; as people at all levels of the organization go about their business of implementing strategies, the strategies themselves take on different shapes. Thus, the line between strategies and tactics increasingly becomes blurred.
- Cross-functional teams are an invaluable part of the new kind of strategy making. Not only are the solutions arrived at more inclusive and balanced, but the sharing of information and ideas makes for a dynamic learning process.