

Dynamic Strategy- Making

REAL-TIME GUIDELINES FOR THE 21ST CENTURY LEADER

LARRY GREINER THOMAS G. CUMMINGS



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More Praise for *Dynamic Strategy-Making*

“The authors’ view of strategy-making is highly relevant to the fast pace of the 21st century. Their insights make this book essential for leaders who seek to be involved in charting the long-term direction of their organizations!”


—Jay W. Lorsch, Louis E. Kirstein Professor of Human Relations, Harvard Business School; and author, *Back to the Drawing Board* and *Aligning the Stars*

“The authors make a convincing case that strategy is too important to leave to the strategists. They provide a fresh perspective on the domain of strategic management as a comprehensive organizational process of learning and development, reframing our traditional lenses and inviting much needed cross functional discourse on the very essence of sustaining competitiveness.”

—Dr. Roland Deiser, chairman, European Corporate Learning Forum; and former dean, DaimlerChrysler Corporate University

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Dynamic Strategy-Making

**A Real-Time Approach for the
21st Century Leader**

Larry E. Greiner
and Thomas G. Cummings

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Preface

Recent business maelstroms have not been reassuring to managers concerned with strategic planning. On the radar screens of CEOs, the high price of oil, global warming, the financial credit crisis, and terrorism ripple through the usual turbulence of global competition, technological innovation, and hostile takeovers. What will tomorrow bring? In this world of constant, uncertain surprise, many companies are on the decline or are being swallowed up by stronger ones. The outlook has been poor for many organizations, and the fallout on the negative side has been huge.

In 1994, Henry Mintzberg, in his classic book, *The Rise and Fall of Strategic Planning*, astutely declared that the practice of strategic planning is an oxymoron: it has generally failed because it eliminates creative thinking. In our opinion, it has taken over a decade for CEOs and managers to accept Mintzberg's keen insight. Most organizations have continued to do strategic planning as a ritualistic annual exercise. However, the lethal heat and pace of real-world competition today spell an end to that neglect. Ours is now a world of global companies and hypercompetition, sparking real-time events that were not pervasive in 1994.

Bureaucratic thinking still casts a pall over the way many firms do strategic planning. Even if their organizations aren't bureaucratic, the planning process remains rigid and inflexible because it occurs only once a year, conducted solely by top management, highly formalized in its format and detail, and communicated impersonally down the chain of command. And frequently it is tied to the budget and capital spending cycle. Execution occurs in a similar way: responsibility for results is assigned to line managers, who

send their version of the strategic plan down the chain of command. It is not even a strategy at this point but a set of assignments to subordinates. It rarely reaches the frontline workforce. No wonder that these plans are weak on implementation and that managers report on surveys how unhappy they are with this planning process (Dye and Sibony, 2007). All of this is hardly in keeping with being able to plan today.

Fast-moving events surrounding organizations have made formal annual approaches to strategic planning outdated. And they have thrown a challenge at consultants who are used to billing by time for studies and other methods that extend over several months.

This book is about a new real-time approach to strategy-making for leaders to take when faced with increasingly global, perpetual hypercompetition. It proposes a new concept, *dynamic strategy-making*, which takes on form as a sustainable and renewable strategic system permeating the organization, making it relevant to today's world. The system charts direction while remaining flexible and timely, possessing built-in capabilities for involvement and revision as new events dictate.

We believe our approach is unique and innovative. To help managers in designing a strategic system, it offers (1) the *4D framework* to make a strategic assessment and formulate strategic content, (2) *four key elements* to transfer their content conclusions to (3) a *statement of strategic direction* that is concrete, clear and actionable, (4) while using *guided involvement* as a process to stimulate strategic content and build commitment to a new direction, (5) all aided by the support of a new kind of consultant providing strategy facilitation.

This is not a book about strategy as an abstract property of organizations; it is an attempt to close the theory-practice

gap. It is a how-to book founded on existing theory and research. It avoids academic jargon, opting for action-focused steps to take. The strategy field, long dominated by academics and consultants, is in need of simplified, concrete approaches that leaders can use in a do-it-yourself mode. And interestingly, at least one traditional, somewhat tired, term, *strategic management*, may be due for a dynamic update.

We are writing first and foremost for today's and tomorrow's leaders of organizations: for profit, not-for-profit, and public. These individuals are searching for a new approach to strategy-making because their formal planning methods no longer work. But you need not be a CEO to find useful knowledge in this book. It is relevant to a number of other audiences: aspiring students in business schools who want to become leaders, strategy consultants trying to improve how they work, and experienced managers looking to become senior leaders in their companies. Academics should find it interesting for its focus on the practical application of their theories and research in innovative ways.

Skeptics may think, "We have heard it all before," but we know it has not been said in this way in the same place and with the same practical guidelines. The concept of a real-time strategic system, including how to install and maintain it, is new. This isn't old-style strategic planning redressed or a new age vision-setting process that strains credibility. While we think *dynamic strategy-making* is advanced in its formulation, it is still at an early stage of development, and we hope that future scholars, consultants, and managers will refine and improve it with new approaches and methods.

The Authors

Larry E. Greiner is professor of management and organization in the Marshall School of Business at the University of Southern California (USC). He received his M.B.A. and D.B.A. degrees from the Harvard Business School, where he has served on the faculty. He has also been on the faculty of INSEAD in France and other schools. He currently serves as founding academic director of USC's Global Executive M.B.A. Program in Shanghai, China. Previously he was academic director of USC's top-ranked Executive Program for fourteen years. He is former chairperson of the Management Department at USC, as well as chairperson of the Organization Development Division and the Managerial Consultation Divisions of the national Academy of Management.

Greiner is the author of numerous publications on the subjects of organization growth and development, management consulting, and strategic change. His most recent book, *The Contemporary Consultant* (with Flemming Poulfelt), has been widely recognized as a major contribution to the field. Among his many articles is the *Harvard Business Review* classic, "Evolution and Revolution as Organizations Grow." In 1999, he and Arvind Bhambri won the McKinsey Prize from the Strategic Management Society for their paper, "New CEOs and Strategic Change Across Industries." Greiner has served on numerous editorial and corporate boards and has consulted with many companies and government agencies.

Thomas G. Cummings is a leading international scholar and consultant on designing and implementing high-performance organizations. He is currently professor and chair of the Department of Management and Organization at the Marshall School of Business, University of Southern California. He is also a senior member of the Center for Effective Organizations at USC, a world leader in applied knowledge of high-involvement organizations, team-based work, innovative reward systems, and large-scale change. He received B.S. and M.B.A. degrees from Cornell University and a Ph.D. in business administration from the University of California at Los Angeles.

Cummings is widely recognized in both business and academic communities for his many contributions to knowledge about strategic change and high-performing organizations. He has authored over seventy articles and twenty-two books, including the critically acclaimed *Self-Designing Organizations: Learning How to Create High Performance* (with Susan Mohrman) and *Organization Development and Change, Ninth Edition* (with Chris Worley).

Cummings was formerly president of the Western Academy of Management, chair of the Organization Development and Change Division of the Academy of Management, and founding editor of the *Journal of Management Inquiry*. He was the sixty-first president of the Academy of Management, the largest professional association of management scholars in the world, with a total membership of over eighteen thousand. He is listed in *American Men and Women of Science* and *Who's Who in America*.

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DEMISE OF STRATEGIC PLANNING AND ITS DYNAMIC REPLACEMENT

Today's organizations face a 24/7 world that is fast-paced, complex, and uncertain. Competition can be intense around the clock throughout the world. Competitive advantage can disappear overnight. Even the smallest companies can enter global markets easily, relying on Web-based transactions and unique products and services. New technologies can quickly make products and services obsolete. A hostile acquirer, using borrowed capital, can oust a firm's management and restructure its assets in a blink (Gladwell, 2005).

Unforeseen threats and political instability can swiftly render even the largest companies vulnerable and insecure; witness the recent financial crisis and energy problems. Some scholars say that companies in these chaotic and uncertain situations are "competing on the edge," using strategies to cope with "structured chaos" (Brown and Eisenhardt, 1998). In situations such as these, profits can fall precipitously under slow, old-style strategic planning, but they can rise under quick-acting strategy.

Despite these perils, the world offers enormous opportunities for new competitive advantage and growth. Firms can create new markets globally through constant product innovation and novel marketing practices such as Web-based advertising. Outsourcing can reduce costs and enable companies to focus on what they do best. Computers and mobile technologies can speed decisions and

communication. They can help firms create strategic networks and value chains that transcend time, place, and organizational boundaries.

There's even gold among the ruins for companies that can make real-time decisions. In 2005, Southwest Airlines had the strategic foresight to look ahead at the inevitable rise in oil prices and acted quickly to purchase oil at twenty-six dollars a barrel to cover 85 percent of its 2005 fuel needs as well as hedges for lower-priced fuel over the next four years, ending in 2009 at thirty-five dollars a barrel for 25 percent of their needs. In 2005, Southwest reported a profit for the first six months of \$235 million when it could have been a \$116 million dollar loss had it not locked in the fuel costs.

In another example, Japanese auto companies Toyota and Honda innovated their way out ahead of U.S. auto companies with their hybrids. Now GM, once the biggest auto company in the world, has a market value of \$7 billion, and Toyota is at \$200 billion. GM continued for years to sell gas guzzlers to customers who never thought that the price of gas could soar to the heights it did in 2008. Long known for its traditional planning bureaucracy, GM ignored long-established trends suggesting that oil prices were going to increase. The Japanese companies caught on to this long-term trend with some early decisions to invest in hybrid technology. This example signals that slow-moving leaders should get their own house in order by doing real-time strategy-making.

To cope with this fast-paced environment, executives and administrators are searching for ways to make their organizations' strategies more dynamic and action oriented. They are shunning traditional planning methods and looking for new approaches to strategy-making.

An Ongoing Strategy-Making Process

In this book, we present a process for *dynamic strategy-making*, which enables organizations to thrive in today's competitive environments. It provides them with the capability to strategize continuously and execute rapidly, thereby forging a strong link between strategy and execution as an ongoing flow rather than sequential and separate events. It involves managers and frontline workers in tapping their ideas to build both substance and commitment to a new strategy. In all, it embeds strategy-making and implementation into the fabric of the organization—its structures, processes, and culture—to comprise what we call a strategic system. *Dynamic strategy-making* addresses both the content (the what of strategy) and the process (the how and who) of strategy-making.

It treats strategic content and process as inseparable and shows how they can be integrated to create a strategy that is relevant and implementable. *Dynamic strategy-making* bridges the gap between the competitive demands facing organizations today and the methods normally used to respond to them. Fast-paced environments require rapid strategic responses. Yet conventional approaches for planning and executing strategy are highly formal, detailed, and time-consuming, and they create, often unintentionally, obstacles to fast thinking and action. They obscure the fact that in rapidly changing environments, to be systematically late is to be systematically wrong.

In this book, we describe the forces shaping competitive environments. Then we say more about why traditional approaches to strategy-making have become obsolete and ineffective. We also present some popular alternatives, which we call *pseudo strategy-making*, that are unlikely to

produce a coherent and sustainable strategy. We conclude the chapter with a call for real-time strategy-making and an outline of the rest of the book.

Today's Fast-Paced Environments

High velocity, hypercompetitive, and blur are terms that describe the ever changing environment of organizations (Davis and Meyer, 1998). They signify the competitive world's accelerating change, complexity, and uncertainty. Fast-paced environments present firms with unprecedented threats and opportunities for success and call for real-time strategies and actions. A number of major trends contribute to fast-paced environments:

- Globalized markets (now notably including China and India) provide tremendous growth opportunities, but they also intensify competition. Even small companies are affected by global competitors (Bartlett and Ghoshal, 1998).
- Hypercompetition comes from sellers that lower costs yet still provide quality and service through outsourcing, unbundling the value chain, and joint ventures. Providing higher-quality service at lower cost is no longer a contradiction, as the successes of Costco, IKEA, and Ryanair make clear (Andersen and Poufelt, 2006).
- Customers are better able to decide when they want to do business with “anyone, any time, any place.” They can, for example, make stock transactions over a cell phone on the freeway late at night, do ATM banking at their choosing, or sell and order products on the Web when they want (Davis, 1996). Rapid technological and scientific advances lead to new products and services. Breakthroughs in bioscience

and nanotechnology are just around the corner. Energy-saving products will lead the green revolution (Bytheway, 2007).

- Analysts and investors frequently pressure public companies to perform better. Firms cannot let up in seeking continuous growth and performance. The question analysts ask is, “What can you do for me today?” (Obstfeld and Taylor, 2005).
- The threat of being acquired, even through a hostile takeover, is often present. Investment firms with large equity funds seek to acquire underperforming firms and restructure them to sell them later for substantial returns (Buono and Bowditch, 2003).
- Employees are spread across the world and come from different cultural backgrounds. Many are in virtual jobs without close supervision and connected only by the Inter-net and e-mail. Corporate loyalty, once the prevailing attitude, has declined (O’Toole and Lawler, 2007).
- Political uncertainty and the threat of security problems characterize the global challenge. Some markets breed terrorism, requiring great security. The cost for security is increasing for many firms (Hough, 2007).
- Boards of directors, sensitive to governance scrutiny and their responsibilities, no longer trust verbal commitments and press top executives for written strategic plans. Many countries are requiring greater transparency and oversight through regulation (Nadler, Behan, and Nadler, 2006).

These trends, and many others, collapse the time frame within which organizations must respond to issues in their environments.

Traditional Strategic Planning Is Obsolete

These trends place extraordinary demands on companies to make and execute strategies rapidly. They make obsolete the calendar-driven, formal strategic planning that has long been at the core of strategy-making. Traditional planning, with its related analytical models, lengthy studies, and planning staffs, is aimed at reducing uncertainty and risk. It is highly methodical and based on the common belief that if organizations can somehow collect and analyze sufficient data, they can rationally find solutions on their way to a better future. Thus, some firms pay millions to consulting firms for definitive studies that identify a likely and less risky path to a successful future. Others rely on staff planners to produce detailed budgets and initiatives. And some have even appointed chief strategy officers to oversee the strategy-making process.

The fast-moving world makes the shortfalls of traditional strategic planning look even more rigid and obsolete—too slow, too formal, and lacking in commitment from management and the wider workforce—reinforcing the cliché of “analysis paralysis.”

Disenchantment with Former Approaches

Increasingly, organizations and executives are rejecting these traditional, formalistic approaches:

- *Calendar-driven plans.* This yearly exercise by managers to review and update their strategic plans is typically conducted only at a certain time each year. But this timing is too rigid for the continual adjustments that are required to adapt to opportunities and threats that can appear every day.

- *Preparation by staff and consultant experts.* Strategic planning has long been dominated by experts wielding sophisticated analytical models. Many executives see this as too abstract and remote from their concerns. They resent being isolated from much of the planning process and want to contribute to a strategy that they personally own. Jack Welch at GE dramatically reduced the company's huge planning staffs by half. Many companies have lost their love for large, lengthy, and costly strategy studies prepared by planning staffs and sold by consulting firms.
- *Detailed planning books and slide decks.* Countless managers have read their way through thick and highly specific planning books and PowerPoint presentations covering goals, budgets, financial projections, and assignments. Binders and slides are shown or e-mailed out to all managers, who are asked to comply with the recommendations. Excessively detailed plans, however, are an invitation for organizations to become lost in the trees. They provide a meticulous map to a landscape that may no longer exist.
- *Planning tied to budget goals and market projections.* Many organizations use strategic planning as the modus operandi for setting an annual budget. Yet budgets do not a strategy make. At best, they serve to allocate and account for resources once a strategy is set.
- *Planning that separates thinking from doing.* The separation between strategic thinking and doing is a false dichotomy. Executives have neither the patience nor the time to wait for lengthy data-driven studies as a prelude to action. They want to be involved early so their own opinions, judgment, and creativity can shape the discussion about strategy. Moreover, they are questioning the long-cherished assumption that

implementation begins after a plan is carefully conceived. They are finding that execution starts with formulation, not with implementation. Including key stakeholders early in strategy formulation can result not only in a more realistic strategy but one that has the essential commitment needed later for effective action.

- *Strategy as a separate subject.* For years, strategy has been treated as an independent subject. Executives are finding, however, that simply addressing strategy as if it is a separate property of the organization is too idealistic. Strategy has to be considered with everything else occurring in and around the organization. If taken out of the organization context, strategy will remain at thirty thousand feet, floating in the clouds.

These conventional approaches to strategic planning thwart real-time thinking and action, and they leave participants discouraged and cynical, as suggested by McKinsey consultants Dye and Sibony (2007) who surveyed senior executives on their experiences with planning and reached this conclusion: “For the better part of a year, corporate planners collect financial and operational data, make forecasts and prepare lengthy presentations with the CEO and other senior managers about the future of the business. But at the end of this expensive and time-consuming process, many participants say they are frustrated by the lack of impact on either their own actions or the strategic direction of the company” (p. 1).

Worse yet, traditional planning can create the illusion of strategy-making without really providing the firm with a clear strategic direction. In the words of strategy guru Richard Rumelt (quoted in Lovallo and Mendonca, 2007, p. 1): “Most corporate ‘strategic plans’ have little to do with strategy. They are simply three-year or five-year rolling

resource budgets and some market share projection. Calling it 'strategic planning' creates false expectations that the exercise will somehow produce a coherent strategy."

CEOs Express Their Disenchantment

Not surprising, CEOs faced with rapidly changing markets are becoming disenchanted with strategic planning. A recent survey of global executives shows the magnitude of their discontent (Dye and Sibony, 2007):

- More than half of 796 respondents were dissatisfied with their strategy efforts.
- Eighty percent viewed their strategic approach as "inefficient."
- Forty-four percent said their strategic plans do not "track execution."
- Ninety percent said that organization "speed" and "agility" have become increasingly urgent issues for them over the past five years.

Our own research with CEOs shows them rejecting old-style strategic planning because of inefficiencies, long time frames, and weak connections to implementation. Consider the following interview comments from a broad sample of CEOs:

"We can't create plans that encompass and understand our global market that is so diverse and complex."

"Our markets are being upset daily by continuous cost cutting and outsourcing to Asian manufacturers, which makes any planning seem ridiculous."

"We're living only in the short term—there is no long term because of quarterly demands from investors and analysts for immediate results."

“Our industry has been wracked by acquisitions and takeovers that make us live only for daily survival. I could be gone tomorrow.”

“We paid millions to a strategy consulting firm, and by the time it reported back, the market opportunities were gone.”

“I feel like a football coach: ‘Win now or you’re fired.’”

“I don’t know anyone today who has ever completed a five-year plan with one-year updates, which has long been the model.”

“How can one rationally plan for irrational events?”

Many CEOs are casualties of this turmoil; one indication is the low median tenure of CEOs (five and a half years) in S&P 500 companies for 2006 (Spencer Stuart study, 2007). There is no honeymoon for CEOs to sit around to study the situation or call in a consultant for a year-long study. They have little time to initiate strategic planning or implement it so that it is accepted by the workforce. Their actions and results are being scrutinized from the outset, and their successors, whether insider or outsider, fail to affect performance up or down (Greiner and Bhambri, 1989).

The Search for Alternatives

For these concerned executives and many others, the competitive environment is too complex and full of surprises for conventional strategic planning to anticipate. Market forces that do not bend easily to the certainty of formal planning have turned their planning world upside down. Consequently they search elsewhere for solutions to speed up decisions and respond to changing events, often relying

on their own hunches and ideas about strategic planning. But some solutions are more apparent than real.

Pseudo Strategy-Making

This can result in pseudo strategy-making, which consists of palliatives that are temporary, reactive, and superficial. These alternative methods tend to neglect or simplify the substance of strategy: how the firm will achieve and sustain competitive advantage in a particular industry, place, and time. Among the most popular alternatives to traditional strategic planning are these:

- *Let politics determine strategy.* In this alternative, key stakeholders exercise power in a political game to determine who will dictate firm strategy. The result has more to do with the organization's power dynamics and executives' personalities than strategy. Because there are winners and losers in the influence game, competition, compromise, and accommodation influence strategy-making more than the competitive environment does.
- *Rely on annual budget and operating plan.* The focus here is on beating past results: "Let's do 10 percent better than last year on revenues and lower costs by 5 percent." In this approach, financial numbers drive a company's strategy, the focus is on short-term goals, controls, and budgets rather than the marketplace. In the absence of a substantive strategy, annual exhortations from senior management to boost the top line and cut expenses are often hollow rhetoric.
- *Expect the new CEO to be a savior.* This white-knight approach to strategy relies on a new, charismatic CEO to revitalize the firm. It is the fastest way to come up with a new strategy: the CEO creates the strategy and