Agile Strategies for the 21st Century

Agile Strategies for the 21st Century:

The Need for Speed

By

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Few, if any, projects are successful with just one person working on them. This book is no different. I must thank my wife, Addie, for her patience and encouragement to keep me focused on the end objective. The Continuous Loop Management Model emerged from my doctoral research and was refined with reflections of my 30+ year career in business and experiences after entering academia at the relatively advanced age of 61. Dr. Kelly Conrad with the University of Phoenix, School of Advanced Studies was instrumental in encouraging me to refine my research and to publish my findings after earning a doctorate in organizational leadership. Without Dr. Conrad's encouragement and advice, none of what has happened since 2011 would have been possible. The second half of this book is dedicated to delving into the elements of the Performance Triangle which was developed and refined by my friend and colleague, Lukas Michel of Agility Insights SA. Lukas graciously supported this project and helped to edit portions to be sure that the final product properly and clearly adhered to the vision of designing agile organizations that we both share. Special thanks are extended to another friend and colleague, Dr. Johanna Anzengruber with the Upper Austria University of Applied Sciences, Linz, who was instrumental in organizing the effort to test the validity and reliability of the Performance Triangle diagnostic instrument. Without her deep knowledge of statistical methodologies and insistence on precision, we would not have been able to test the diagnostic instrument and demonstrate that it is reliable and that decisions made based on the results from the diagnostic are valid. Many thanks also go out to Barry Caponi and Bruce Wyse who kindly volunteered their time and expertise to read, edit, and offer constructive feedback to make the final product worthy of publication.

INTRODUCTION

In 1979, I entered the business world as a manufacturing engineer at Texas Instruments in Dallas, Texas, building infrared sensor systems for tanks and missiles. With a master's degree in education and six years of teaching and coaching experience, I knew absolutely nothing about manufacturing or engineering or tanks and missiles or business. My parents were both teachers and coaches, and I grew up surrounded by educators and leaders in sports. Issues related to manufacturing, engineering, or business were not topics of dinner conversation. Over the next few years, I took a few courses on manufacturing engineering so that I could do my job effectively. Along the way, I decided that I did not want to be an engineer when I grew up so I returned to school taking accounting and finance classes to qualify for the CPA exam, which I passed in 1983.

With several years of experience in manufacturing and now an educational foundation in accounting and finance, I was reassigned to the business side of running the business at TI. Here, I discovered that my experience and education combined with earlier education and experience in education working with emotionally disturbed or learning-disabled teenagers gave me a distinct advantage over anyone else in the "administrative" functions. My unique combination of experience and education in multiple settings in which problem-solving was highly valued helped me to become recognized as the primary "trouble shooter" in the business unit. One of the primary issues that hurt our business at this time was the length of time it took to make decisions and implement them.

After leaving Texas Instruments, I worked for several companies over the years in executive roles as controller or chief financial officer where I discovered and developed a talent for guiding companies through periods of rapid change. Again, I observed burdensome decision-making processes that were detrimental to these companies. Executives debated on possible decisions for so long that it was too late to either respond to an emerging threat or take advantage of an opportunity. The results were always bad for the company. I always found this behavior somewhat of a mystery after being brought up in a sports environment where the coach

must evaluate and analyze a situation, make a decision, and issue commands in a space of a 60-second timeout.

In 2007, I returned to school to earn a doctorate in organizational leadership, while at the same time serving as vice-president of finance and operations at a large company. My initial academic inquiry focused on the decision-making process that had mystified me for decades. Researching the decision-making process led me to conclude that the way to accelerate the decision-making process was dependent on accelerating the rate of knowledge creation. Essentially, executives and managers had to get smarter and faster, in order to make an informed decision quickly. Three and a half years of research and study resulted in the emergence of the Continuous Loop Management Model that combines elements of Eastern culture with elements of Western culture to describe an accelerated decision-making process. The effectiveness of accelerating knowledge creation and the environment that was necessary for the model to function was demonstrated in my doctoral research. I also successfully applied these theories in practice before exiting the business world and joining academia.

Shortly after receiving my doctorate in 2011 and publishing my research in 2012, I was approached by Lukas Michel in Switzerland who had been developing a model and tool to help executives assess the ability of their organizations to adapt to change…. quickly. The key to effective management in the 21st century was to design an organization that was agile and could sense and respond to rapid changes quickly. Accelerating the decision-making process was an essential part of an agile organization. I had found a kindred spirit. It turned out that my work on knowledge creation and organizational culture helped to connect some of the dots to fill out the *Performance Triangle* and develop a diagnostic tool to evaluate underlying unseen and unspoken elements of the culture that inhibit change or agility. Years of collaboration with Lukas and other practitioners and academics in Austria and Germany resulted in work that statistically confirmed the validity and reliability of both the *Performance Triangle* model and the diagnostic instrument that Lukas had developed.

After retiring from business in 2011, after earning my doctorate, I entered academia and continued my research that was expanded to include knowledge creation, organizational culture, and now organizational agility. All were inextricably connected. I began sharing the research papers, several of which received “best paper” awards, with students. Some students actually read them. I worked these new and emerging concepts into my classes on strategy, leadership, and operations when I realized that few of

the undergraduate students who read the papers could actually understand them because the published papers are intended for master's or PhD level readers. However, those few students who "got" what I was saying began to apply these novel concepts in their careers, and I began receiving feedback that they were being successful. Applying these new and novel ideas in practice was giving my students a competitive edge in the workforce.

Therefore, I resolved to write *Agile Strategies for the 21st Century: The Need for Speed* as a way to convert academic language into a form that normal people can understand and hopefully apply. Several chapters contain brief descriptions of traditional management techniques to establish a baseline for readers to compare with my emergent ideas on knowledge creation, culture, and organizational agility. While traditional methodologies remain relevant, the rapid pace of change demands that effective managers and leaders design organizations that are built for speed. The way to do this is by developing a people-centric culture that enables knowledge sharing at all levels and a structure with processes that encourage people to share their ideas so that they can be acted on… quickly. *Agile Strategies for the 21st Century: The Need for Speed* is a handbook of traditional methodologies and a roadmap for effective and agile management in the new world.

CHAPTER 1

THE VUCA WORLD

Few executives or academics would argue that the 21st century world in which we live is not **V**olatile, **U**ncertain, **C**omplex, and **A**mbiguous hence the acronym, VUCA. The term, VUCA, was first introduced by the United States Army at the US Army War College in Carlisle, Pennsylvania, to describe the military environment after the fall of the former Soviet Union and the end of the Cold War. The concept of a VUCA environment has since been expanded to describe other environments, including business, in a rapidly changing world. The VUCA vision of the world emphasizes the unpredictable and rapidly changing nature that exists and affects virtually every aspect of personal and business life. Information, both true and false, is transmitted around the globe at nearly light speed via social media over the internet, and developments spread worldwide at a previously unimagined speed. The worldwide spread of Covid-19 and the resulting pandemic is an excellent example. Military doctrine prior to the end of the Cold War was primarily based on the concept of uniformed opponents lining up, then fighting it out along an identifiable line of combat. The "good guys" and the 'bad guys" are easily identifiable and fight it out with well-known, common, rules of engagement. In a VUCA environment, the "good guys" and the "bad guys" may not necessarily be easily identified and can attack from any direction using new and never anticipated weapons. A basic understanding of VUCA helps leaders gain greater insight into how and why systems, people, and organizations either fail or succeed in today's global world that is shaped by rapid technological developments.

- V = Volatility refers to the nature and dynamics of change, and the nature and speed of forces that drive change as well as the catalysts which accelerate the rate of change.
- U = Uncertainty refers to the lack of predictability and the probability of unanticipated surprises, and emphasizes the need for a heightened sense of awareness and understanding of issues and events that shape the environment and decisions.
- C = Complexity refers to the intertwined interactions of many forces surrounding an organization, the confounding of multiple

issues, with no apparent cause-and-effect chain of reactions that confuse and befuddle leaders.

- A = Ambiguity refers to the haziness of reality, the potential to misinterpret information or events, and the mixed meanings of conditions leading to confusion about cause and effect.

These elements describe the environment in which organizations must view their current and future state in the 21st century. A clear appreciation for a VUCA environment helps leaders appreciate both the importance and limitations of planning and policy making. Acknowledgement and recognition of these elements can help leaders sharpen their ability to look ahead, plan ahead and move ahead by making rapid decisions to adapt to whatever the VUCA world throws at the organization. An appreciation for VUCA sets the stage for managing and leading. In general, the underlying premises of VUCA tend to help shape an organization's ability to:

1. Anticipate the issues that are shaped by internal or external forces,
2. Understand the intended or unintended consequences of issues and actions,
3. Simultaneously appreciate the interdependence of a multitude of variables,
4. Prepare for alternative outcomes and challenges, and
5. Interpret and respond quickly and effectively to relevant opportunities or threats.

For virtually all 21st century organizations – business, the military, education, government, and others – VUCA becomes a practical philosophy that promotes awareness, anticipation, and readiness along with rapid evolution and action.

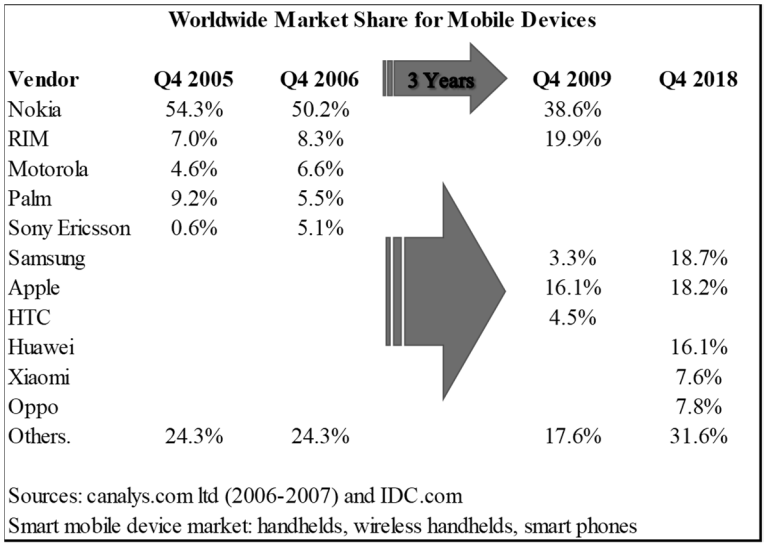
When I describe growing up in the 1960s to my students … no calculators, just pencil and paper…. libraries with books and the card catalogue … rotary phones … black and white television, air conditioning in houses and cars, color television, and air travel being advantages that only the wealthy or most privileged had, they just stare and cannot imagine such a world. Textbooks were used for years and worn out long before they became out of date. Powered by seemingly endless technological advances in virtually every aspect of modern life, the pace of play continues to accelerate as information is distributed and shared at light speed throughout the globe. In the 1980s, Buckminster Fuller calculated that until 1900 human knowledge doubled approximately every 100 years, and Fuller

created the "Knowledge Doubling Curve" to illustrate the rate of change and predict the future rate of knowledge creation. By the end of World War II, the total amount of knowledge in the world was doubling every 25 years (longer than the life span of a textbook). By 2013, David Shilling observed that the world had become more complex and that different types of knowledge grew at different rates. Knowledge in the field of nanotechnology, for example, is doubling every two years while clinical knowledge is doubling every 18 months. On average, the total body of human knowledge was doubling every 13 months in 2013. IBM at the time predicted that the "internet of things" will result in the doubling of human knowledge every 12 HOURS![1] Even the most superficial observer can have no reason to question IBM's reasoning that the rate of knowledge creation is accelerating and will most likely continue to do so in the foreseeable future.

But how does the "knowledge doubling curve" concept translate into practice and influence strategy or business performance? While examples are many, the evolution of the smart phone is a good example of how some companies respond to rapid change while others suffer from the inability to react quickly. Figure 1 illustrates the rapid change in worldwide smart phones market.

At the end of 2006, Nokia, Research in Motion (RIM), Motorola, Palm, and Sony Ericsson commanded 75% of the worldwide smart mobile device market. Nokia alone commanded 50%. However, even by the end of 2006, Figure 1.1 shows that Nokia's market share was declining and being taken by RIM and Motorola.[2] The total worldwide market for smart mobile devices increased by 30% between 2005 and 2006, but Nokia's share was being taken away by RIM and Motorola. Nokia had been the dominant market player for years after having been instrumental for popularizing cell phones in society in the 1990s. All of these companies had developed sound strategies, management designs, and practices that worked well and helped make them very successful. The loss of market share by Nokia from 54% to 50% was probably discussed by Nokia executives but overshadowed by the increased profit generated by an increase in total shipments of units sold. Shareholders are happy, executives at all of these companies get their bonuses so they are happy, and executives build an organization that maximizes efficiency to squeeze the most from their resources. Apple was not on anyone's radar in 2005.

Figure 1.1 – Worldwide Market Share for Mobile Devices



Vendor	Q4 2005	Q4 2006	Q4 2009	Q4 2018
Nokia	54.3%	50.2%	38.6%	
RIM	7.0%	8.3%	19.9%	
Motorola	4.6%	6.6%		
Palm	9.2%	5.5%		
Sony Ericsson	0.6%	5.1%		
Samsung			3.3%	18.7%
Apple			16.1%	18.2%
HTC			4.5%	
Huawei				16.1%
Xiaomi				7.6%
Oppo				7.8%
Others.	24.3%	24.3%	17.6%	31.6%

Sources: canalys.com ltd (2006-2007) and IDC.com
Smart mobile device market: handhelds, wireless handhelds, smart phones

***"I think there is a world market of maybe five computers"* – Thomas Watson, CEO of IBM, 1948**

Then, in January 2007 the CEO of Apple, Steve Jobs, unveiled the iPhone which he claimed is "a revolutionary and magical product that is literally five years ahead of any other mobile phone". Nokia, RIM, Motorola, Palm, Sony Ericsson, and other executives responded with a collective "cool, but not a threat." The response at the time was like that of Thomas Watson, CEO of IBM who in 1948 stated that "I think there is a world market of maybe five computers," or Ken Olsen, the founder and CEO of Digital Equipment Corporation (DEC), who in 1977 said, "There is no reason for any individual to have a computer in his home." In retrospect, we struggle and laugh when we ask, "How could these gifted and intelligent individuals have been so wrong?" and maybe more importantly, why didn't people around them push back? We are not privy to the internal discussion that may have occurred at the time in either case, but the fact is that IBM did not dive into computers until decades after Watson's death and DEC died quietly in the 1990s. The rapid sequence of events that highlight the evolution of smartphones illustrates how quickly knowledge is disseminated and opportunities or threats materialize forcing both executive

thinking and organizational designs to be more flexible and agile than in the prior century.[3]

- January 2007 – Steve Jobs, CEO of Apple, introduced the iPhone, but Steve Ballmer, CEO of Microsoft calls the iPhone "the most expensive phone in the world."
- April 2007 – Gartner, the technology research company, said that in the first quarter of 2007 Microsoft's Windows Mobile commanded 18% of the smartphone market then totaling 17 million handsets.
- November 2007 – Google announced it will offer the Android mobile operating system for FREE. Android is an open system so that anyone can use or change it, and by default it uses Google services for search, email, and video. Andy Rubin, Google's head of Android, when asked if there will be Google phones stated that "There will be thousands of Google phones – some you like, some you don't." In response to Google, Microsoft's Steve Ballmer arrogantly said, "We'll have to see what Google does. Right now, they have a press release, we have many, many millions of customers, great software, many hardware devices, and they're welcome in our world!"
- October 2008 – Apple announced it sold 4.7 million iPhones in the summer quarter capturing nearly 13% of the smartphone market.
- November 2008 – Less than two years after launch of the iPhone, the first Android phone, the G1, was launched with a slide-out keyboard and limited touchscreen capability.
- December 2008 – Just a year after welcoming Google "in our world" Steve Ballmer announced that Microsoft was killing off Windows Mobile because it cannot compete with the iPhone and Android. Microsoft's new strategy would be to develop a completely new mobile operating system, Windows Phone.
- Autumn 2009 – Gartner data indicated that Nokia's Symbian and RIM continue to command the smartphone market with 44% and 20% respectively.
- January 2010 – Apple launched the iPad, a 10-inch tablet.
- February 2010 – Android phones with full touchscreen interaction like the iPhone began to appear. Jobs' five-year advantage over the competition was just three years.

- March 2010 – The fun began with fights over intellectual property powering smartphones as Apple fought back. Steve Jobs met Eric Schmidt, CEO of Google, and threatened him over copying iPhone features in Android phones. Apple sued Taiwan's HTC over its Android based touchscreen phone.
- April 2010 – Google's Android took nearly 10% market share in just three months. Competition in the smartphone market was getting crowded and heating up.
- September 2010 – Samsung launched the Galaxy Tab, a 7-inch tablet.
- October 2010 – After nearly two years of development Microsoft launched the first phones running Windows Phone but sales were low. Development took too long, and the market, driven by consumer expectations, had already moved beyond Microsoft.
- January 2011 – The researchers at Gartner and IDC announced that sales of smartphones exceeded PCs worldwide for the first time during the fourth quarter of 2010. The world was changing very quickly now.
- February 2011 – The CEOs of Nokia and Microsoft made a joint announcement with great fanfare that Nokia would use Microsoft's Windows Phone software for future smartphones.
- April 2011 – In a little over four years Apple had become the largest smartphone vendor in the world by number of units sold and revenue with 18.6 million units. Samsung was second with 17.5 million units in the first quarter of 2011. Android became the best-selling smartphone platform with a 36.6% market share, ahead of Symbian's 27%. Apple sued Samsung in the US over the Galaxy Tab tablet, and legal cases sprung up around the world.
- July 2011 – Android commanded 43% of the smartphone market, according to Gartner.
- October 2011 – Samsung became the world's largest smartphone vendor. Jobs' five-year lead over the competition was completely gone. Nokia introduced the Lumina 800, its first Windows Phone device which was too little, too late.
- December 2011 – RIM took a $485 million charge for an estimated 1.2 million unsold Playbooks sitting in warehouses. The end was near for RIM.
- January 2012 – Jim Balsillie and Mike Lazaridis resigned as co-CEOs and co-chairmen of RIM to be replaced by Thorsten

Heins and Barbara Stymiest, who have been with the company for several years.

I suggest that these failures, that are almost laughable today in hindsight, are not the fault of Watson or Olsen or Ballmer but rather the result of management philosophies, methods, and training that were developed and worked in the last century but are now unable to cope with the accelerating rate of change that defines the 21st century. Knowledge and expertise flow to all parts of the globe at near light speed thanks to the internet and other digital highways. Figure 1 illustrates the changes in the smart mobile device market that have shifted since Steve Jobs introduced the iPhone to the world in January 2007. Once-dominant players like Nokia, RIM, Motorola, Palm, and Sony Ericsson who initially defined the market either no longer exist or were minor players by the end of 2018. Knowledge and expertise have clearly moved from North America and Europe to Asia, and tech companies are in a constant and fierce struggle to introduce improved features and services.

Companies with long histories like Nokia (est. 1865) and Motorola (est. 1928) developed management structures and cultures that emphasize efficiency and performance using management principles developed at a time when knowledge creation was much slower than today. Even relatively new companies like Research in Motion/Blackberry (est. 1996) and Palm (est. 1992) were managed and built by leaders who applied management principles or strategies developed in the industrial age. Senior leaders of even these relatively new companies would have completed their college education and MBAs in the 1980s so were indoctrinated with management principles that are woefully inadequate for the pace of change in the 21st century.

Executives of these corporations were schooled and drilled on the benefits and the processes needed to analyze and evaluate the technical aspects of their organizations using one or more of many structured activities like the SWOT (Strengths, Weaknesses, Opportunities, and Threats) and PEST (Political, Economic, Social-cultural, and Technical) analyses that were promoted and used for thousands of years by luminaries like Sun Tzu and Carl von Clausewitz and more recently Gary Hamel and Henry Mintzberg. While clearly being useful processes to help leaders and executives focus their attention on the critical factors needed to be successful, whether in a military campaign or running a company, they essentially represent a snapshot of conditions at one moment in time. While virtually all the champions of these processes suggest that the SWOT or

PEST analysis establishes a baseline that is best used when compared to a later analysis to identify changes, the reality is that most organizations have an offsite strategy session to develop a SWOT or PEST analysis then never, or rarely, repeat the process and compare the results. Executives enjoy the weekend and congratulate themselves on the development of an insightful document to help plan the way forward, then file the document away in a filing cabinet… never to be seen again. In a world where knowledge was doubling every 100 years, it did not matter. One may argue that in the military context, situations change much more rapidly, which is true. In the military context the battle or campaign is over quickly in a life-or-death struggle, and the issue is resolved. In the business world, the issue is never, or rarely, resolved in such a manner so that the need to continuously reevaluate the situation becomes a necessary evil, which is rarely addressed.

Michael Porter's five-forces model of industry analysis was first proposed in the *Harvard Business Review* in 1979 and is arguably the most studied and promoted process for strategy development in the modern world. Porter's five-forces and value chain models are included in virtually every textbook used in business schools since the 1980s. Like the SWOT and PEST analysis processes, the mental gymnastics needed to evaluate the various forces helps to bring the focus on key success factors to executive decision-makers at one point in time. These processes establish a baseline that could and should be revisited regularly to help leaders sense changes and then take action. Unfortunately, too often, the results are filed away and forgotten which for practical purposes makes the effort and expense expended in the analysis a waste of time and money in many if not most organizations.

***"Culture eats strategy for breakfast"* – Peter Drucker**

Massive corporations were built using a wide variety of methods after months and sometimes years of analysis and debate among executives. Important decisions that drive critical actions are based, justified, and supported by mountains of data, data, and more data that ostensibly give decision-makers a thorough picture of the impact, risks, and potential outcomes in almost any scenario. The underlying implication of such a process is that thorough analysis of the data increases the likelihood of making a good decision and reduces risk. Data-driven decision-making has been pounded into executives through years of academic indoctrination or demands from bankers, investors, and myriads of stakeholders. The development of "meta data" or "big data" technologies has further reinforced the dependence on and belief that more is better. The increasingly popular

technologies that enable the collection of every keystroke, website, or transaction that individuals execute combined with algorithms that collate, track, and categorize every activity in theory, provide increased insight into the needs, wants, and preferences of users worldwide. Traditional strategic initiatives like mergers, acquisitions, strategic alliances, reorganizations, and other techniques undergo intense analysis before being adopted after, sometimes, years of indecision or legal wrangling.

Yet research shows that despite mountains of data supporting the analysis and decisions, many strategic initiatives fail for reasons that are not quantifiable such as differences in organizational culture. Edgar Schein, one of the world's leading researchers on organizational cultures, described culture as a set of beliefs, values, and assumptions that is shared by a group of people which shapes behaviors and decisions.[4] Culture exists in the minds and experiences of people and has proven be an elusive organizational dimension to quantify and measure yet it is widely recognized as a critical success factor for success. Yet, despite the wide recognition of culture as critical to the success of strategic initiatives many, if not most, executives avoid the issue.[5] The result is that the failure rate of foreign mergers might be as high as 83%.[6] Cultural incompetence in global partnerships is a primary contributor to the high failure rate of foreign mergers. Culture, values, work ethics, and authority all play crucial roles in new business ventures and the success or failure of a partnership.[7] The merger of Daimler and Chrysler illustrated the potentially dramatic effects of national and business cultures in a merger.[8] Leaders of the two, seemingly equal companies failed to examine national and business cultures during the due diligence process or take effective steps to blend the cultures until it was too late. Executives frequently discover that many unseen, unconscious, and rarely discussed barriers can negatively affect operational efficiency even when members of the two entities communicate with the same basic language and share common business concepts. The ability of two organizations or even departments in the same company to function effectively suffers because performance expectations and management styles do not translate into the language and culture of the two organizations.[9] Senior executives know that organizational culture is a key to success yet they ignore the issue. I believe that the business school and business environment emphasis on data-driven decision-making combined with a seemingly human nature to avoid things we do not understand or cannot touch and feel contributes to this inconsistent behavior.

***"Success in war depends upon the golden rule of war, speed – simplicity – boldness"* – Inscribed in Gen. George Patton's field notebook**

Demands for efficiency and productivity along with command and control have resulted in the evolution of many rationalized organizational designs. Management techniques based on the classical bureaucratic structure outlined by Max Weber in the last century have proven to be inflexible in environments of rapid change and increased turbulence and complexity.[10,11] Traditional management structures and practices that emphasize command, control, and uniformity are essentially anti-change.[11] That is, the culture and structure of traditional organizations are such that adapting to rapid changes is inherently difficult and slow. If management focus is on, as Katz and Kahn wrote; "reducing the variability and instability of human actions to uniform and dependable patterns" (p. 28),[12] then creating an organization that adapts quickly to turbulence and complexity will be difficult indeed. Over time, organizations of all types develop processes, systems, and structures that become "hard wired" into the fabric of the organization both structurally and culturally. How many times have you heard "the system won't allow that" which means that the system is not flexible enough to serve the needs of the current client or customer. Consider too the reaction of a manager or executive who has spent 10, 15, or 20 years climbing the corporate ladder to occupy the corner office when some consultant says, "you need to change how you do business" or "change how you are organized." The reaction that I have seen too many times is "thank you for your observations." Then the manager or executive does nothing to jeopardize his or her hard-fought position, salary, and perks as soon as the door closes. All of these structural and human conditions contribute to making it difficult for organizations to adapt strategies in response to changes in the business environment. Consider that Sears, once an icon of American business, may soon be going the way of the dinosaur because of competition from internet-based retailers like Amazon and eBay due to a combination of all the factors that I have mentioned. Senior executives may be aware of emerging threats or opportunities but are handcuffed by their organizational design and lack insight into unseen and rarely discussed elements of the organizational culture.

What have we learned and where do we go from here?

In a VUCA world these widely accepted processes for strategy development must, or should, be repeated periodically, probably quarterly, in an environment that results in decisive decision-making. The rate of change in the 21st century is so rapid that three months may be a lifetime in some industries. Just look back at the timeline for the smart phone or consider the affects due to the Covid-19 pandemic. Steve Jobs did not have a five-year advantage on the competition, and Motorola, Palm, and Sony Ericsson had even less to sense and adapt the changing technologies and socio-cultural changes. The Covid-19 pandemic emerged worldwide seemingly overnight and crushed the hospitality industry but was a boon for Zoom, Amazon, and other internet-based service providers. What was a strength, became a weakness in short order as new threats emerged and opportunities disappeared before executives at these companies recognized what was happening! Conversely, vast opportunities emerged for companies equipped to respond quickly. Forces exerted by customers and competitors as well as the availability of substitutes and barriers to entry for new competitors changed at a pace never before experienced. One can argue that the iPhone fundamentally changed society at a rate never seen before making the tried-and-true methods of strategy development, knowledge sharing, and organizational design and management ineffective if not obsolete. The iPhone is just one of many examples of the need for new strategies, ways of thinking, and organizational designs that harness the power of the culture and accumulated knowledge of the people quickly and efficiently. Consider too, the Covid-19 pandemic of 2020 that infected and killed millions worldwide, forced the shutdown of entire national economies, and forced companies large and small to identify and implement new ways of doing business. Many companies will never be the same, and some may not survive.

The ability of an organization to design an agile internal environment that senses changes in its environment and then create new knowledge to take rapid and decisive action is what is needed for success in the VUCA world of the 21st century. Chapter two will be a brief review of 20th century strategies that are widely discussed in management textbooks and dominate boardrooms and management thinking through many if not most companies. The remaining chapters will discuss strategies and managerial designs that will help organizations to be successful in the global 21st century.

Thinking exercises

1. Identify a recent emergent and disruptive innovation enabled by technology like internet retail sales or electric vehicles, then build a timeline with major developments and the emergence of competitors. Reflect on how and why the major developments propelled the emergence of competition.
2. Are the early adopters identified in your timeline in #1 still operating today? Explain how and why, whether the answer is yes or no.
3. Review the timeline of the Apple iPhone and the emergence of smart phones. What is the moral of this story? Is there anything that Steve Jobs might have done to extend Apple's competitive advantage in response to the quick reaction by competitors? Explain your reasoning.
4. Consider Gen. Patton's observation "Success in war depends upon the golden rule of war, speed – simplicity – boldness." Is this line of thinking applicable in a business setting? Why or why not? Explain your reasoning.
5. Take a close look at the organization that you work for or one that you know well. Map its history and reflect on how the organization has reacted to changes that affected its success or failure. What actions or inaction might have been taken to improve outcomes? Explain your logic.

Suggested Reading

Bennis, W., & B. Nanus. *Leaders: The Strategies for Taking Charge*. New York, NY: Harper-Row, 1985.

Johansen, R. *Strategic Planning, Leadership, Business Forecasting, Decision Making*. San Francisco, CA: Berrett-Koehler Publishers, 2007.

CHAPTER 2

TRADITIONAL STRATEGIES THAT WORK…. IN A NON-VUCA WORLD

Roots of Strategy

The oldest treatise on military strategy in the world is *The Art of War* written by Sun Tzu in China around 500 BC.[1] While modern militaries no longer use chariots to ride into battle or spears as weapons, the fundamental principles contained in these 13 chapters remain as relevant today as they were 2,500 years ago. *The Art of War* is studied at military colleges worldwide today, and Sun Tzu's principles have influenced military strategists as well as others in non-military strategic contexts. Many Japanese companies require the book to be read by executives. *The Art of War* is popular in many western university business school reading lists, and many successful sports coaches, like Bill Belichick in the National Football League, have applied the principles effectively. With just a little imagination, one can visualize how Sun Tzu's 13 brief chapters can apply to modern business strategy. For example, in chapter one "Laying Plans" Sun Tzu contends that success in war, or in our case business, is governed by five primary factors. Figure 2.1 illustrates how Sun Tzu's factors might be applied to modern businesses.

Even the most casual reader should be able to see the connection between Sun Tzu's philosophy for military success and success in business and similar nuggets of wisdom abound throughout *The Art of War*. For example, in chapter six Sun Tzu wrote that whoever is first in the field and awaits the coming of the enemy has a distinct advantage by being fresh for the fight and whoever is second to the field must hurry to battle and will arrive exhausted. In the business context, whoever is the first to market with a unique or new product has a distinct advantage, at least for some window of opportunity. The five dangerous faults of a general that can lead to ruin listed in chapter eight are as relevant today in business as they were two and half millennia ago; (1) recklessness, (2) cowardice, (3) a hasty temper, (4) a delicacy of honor that is sensitive to shame, and (5) over-solicitude for his

men which exposes him to worry and trouble. An overarching theme throughout *The Art of War* that is many times overlooked is that the general (business executive) must be flexible and adaptable and make speedy adjustments as conditions change. Over the centuries, military and business leaders have forgotten this principle and employed methods or designed organizations that resist change or adaptation. The following sections are brief descriptions of common strategic planning processes, tactical approaches to executing the strategy, and common organizational designs that evolved during the last century. These sections were compiled from several widely used textbooks on strategic management.[2,3,4,5,6]

Figure 2.1 – How Sun Tzu's factors translate into business strategy.

Factor	Sun Tzu's Explanation	Business Application
The Moral Law	People must be in complete accord with the ruler or general and will follow the leader regardless of danger or possible death	People buy into a common purpose or cause then become engaged to go above and beyond minimum expectations
Heaven	Uncontrolable conditions like night and day, cold and heat, times and seasons	Quarterly or annual reports, economic developments in other countries, natural disasters
Earth	Decisions made by generals on distances (great or small), security, choosing open ground or narrow passes, and evaluating the chances of life or death	Decisions by executives on product development and introduction, whether to compete on cost or quality, evaluating the possible success or failure of initiatives
The Commander	The commander must demonstrate the virtues of widsom, sincerity, benevolence, courage, and strictness	Business executives must demonstrate the same virtues to inspire followers and be transformational
Method and Discipline	The army must be organized into proper subdivisions, commanded by various ranks of officers, logistic systems put in place to supply and maintain the army, and control expenditures	Companies must be organized to fit the business and environment, lead by trained and competent managers, with effective supply and logistics systems with proper control and governance

Common Strategic Planning Processes

Heaven and Earth

Clearly, Sun Tzu put a great deal of thought into developing his timeless strategies that emphasized speed and maneuver. He advised against direct battle until the conditions are favorable for victory. Favorable conditions are achieved indirectly through careful planning and swift execution that take advantage of all opportunities to weaken the enemy BEFORE engaging the enemy directly in battle. Sun Tzu said that “All men can see the tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved.” In the modern business context, there are many tools that can help executives identify opportunities or ways to weaken competitors. In addition, there are innumerable tactics that executives can employ to create favorable conditions for victory. C-suite executives will retire to some off-campus location for several days of analysis, dialogue, and strategy formulation using a multitude of widely accepted processes facilitated by a highly paid consultant and then congratulate each other on the fine document they created. Unfortunately, too many executives seem to forget Sun Tzu’s emphasis on speed and maneuver because in too many companies the strategy documents that were created with the help of consultants or the internal “priesthood” of strategy specialists are locked in a safe, never to be shared or looked at again until next year. Heraclitus, a Greek philosopher, is quoted as saying, "Change is the only constant in life," which has also been translated to "the only constant is change." In a VUCA world, conditions that are favorable for victory today may reverse very quickly due to the high rate of change. So, while executives should employ the basic tools and process that encourage reflection and analysis of the conditions in order to develop an effective indirect strategic plan, they must be mindful of Heraclitus and routinely and frequently repeat the process because the common tools create a snapshot of the current situation which will change rapidly.

SWOT

Figure 2.2 – SWOT

One of the most basic tools to promote introspective dialogue is an analysis of the strengths, weaknesses, opportunities, and threats that exist at one moment in time in the internal and external environment. Identification and recognition of strengths and weaknesses may provide insight into internal conditions that may be leveraged to gain an advantage or weaknesses to be strengthened before engaging in battle with a tough competitor. Dialogue on potential opportunities may uncover a worthwhile target of opportunity while recognition of the potential threats from competitors or other external sources like government regulation or general economic conditions can help the development of contingency plans. In over 30 years at senior levels with multiple companies I participated in many SWOT exercises but not one time, ever, did the management team revisit the resulting decisions made from the exercise to evaluate how the conditions had changed. Not once did the executive teams go back, pull out the SWOT analysis and ask, "what worked?", "what did not work?", and most importantly, WHY and what changed? The SWOT analysis can be a valuable exercise ONLY if revisited routinely, regularly, and objectively in a VUCA world. Executives must fight natural human nature to interpret why and what through preconceived biased beliefs or positions and importantly…. ego. Only by being objective and sometimes brutally honest can executives interpret why and what changed and then make adjustments targeting future performance.

General Environmental Analysis

It is absolutely essential for executives to be sensitive to and develop a deep understanding of the general environment in which the business operates. Most of the conditions that represent powerful forces are not controllable or can only be affected indirectly. Sun Tzu would classify general environmental conditions as "heaven." The general (business

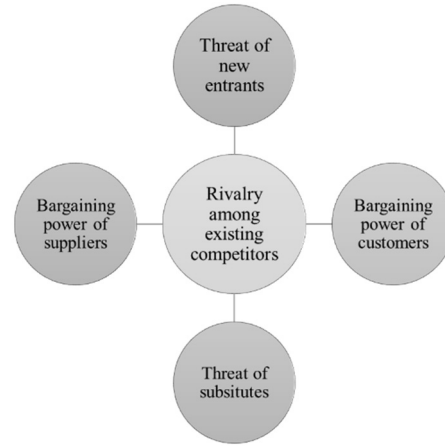
leader) must be cognizant of these conditions and be prepared to change strategic objectives quickly as the heavens change. The PEST (Political, Economic, Social-cultural, and Technical) model is widely used to provide a framework for executive discussion. However, in a VUCA world that has become globally interconnected, where social events and trends are transmitted globally via Facebook, Instagram, Twitter, and other social media platforms, PEST must be expanded and, most importantly, be constantly monitored as the environment changes.

- **Political/Legal conditions –** The P in PEST for political should be expanded to include legal issues and changes. Clearly governmental regulations that regulate or deregulate industries, taxes at federal, state, and local levels, and legislation like the Americans with Disabilities Act (ADA) or the Affordable Health Care Act (Obamacare) must be factored into any strategic decision. In addition, court rulings on cases directly affect many aspects of strategies. Issues like tort reform and compensatory or punitive awards for damages have a direct impact on decision-making. Executives must always consider risk versus reward as judged by the judges and juries who are profoundly influenced by changes in societal norms or expectations. The Covid-19 experience introduced additional potential legal risks from executive orders or decrees from state and local officials.
- **Economic conditions –** General economic conditions have a strong influence on all companies. Interest rates, the unemployment rate, inflation rate, and consumer price index can be significant forces that can benefit or hurt the best strategic plan. Increases in personal income or changes in stock market valuations directly affect the behavior of consumers and corporate executives.
- **Socio-cultural conditions –** Socio-cultural conditions both reflect and influence the values, beliefs, and lifestyles of people in a society. Long-term trends like an increasing number of women in the workforce, an increase in dual-income families, and the postponement of marriage and having children must be considered. More recently, emerging trends like an increasing concern for healthy diets and physical fitness or increasing levels of obesity or environmental issues drive consumer behaviors. Of course, I would be remiss if I did not mention the affect that social media have had on the social structure and personal interactions in society, not all of which has been positive.

- **Demographic conditions –** I believe that demographics are important enough to be a separate group. Changes within the makeup of a population have a significant influence on consumer attitudes and behaviors. Populations continue to age and are being replaced by millennials who have a very different life experience and worldview as well as needs and expectations. The geographic distribution, and ethnic, religious, and lifestyle composition of populations continue to change on both national and local levels. Certainly, disparities in income levels are a great determinant of needs and wants in a specific geographic area.
- **Technological advancements –** Advancements in technology and the constant and rapid expansion of new technologies for purposes undreamt of a few short years ago present new opportunities and create new threats at a dizzying pace. The internet, social media, wireless technology, genetic engineering, nanotechnology, artificial intelligence, and so many more areas offer an unending string of possible applications to help or hurt (in the opinion of some) humanity and change our world.
- **Global conditions –** I suggest that awareness and appreciation for global conditions must also be a separate category. In a world where people and goods can travel around the globe in hours and information, data, and news are transmitted almost instantaneously around the globe, conditions and events anywhere can have a significant effect on any other business. Companies operate on a global scale. The economies of nations are intertwined, and the continued emergence of economies in nations that were minor players in the world economy in the past century like the BRIC (Brazil, Russia, India, and China) nations must be considered. Trade agreements among regional blocs of nations as well as risks from global terrorism must be contended with and planned for.

Porter's Five-Forces

Figure 2.3 – Porter's Five-Forces



Another common exercise to assist executives in identifying favorable conditions for battle is Michael Porter's five-forces model of Industry Competition (now expanded with a sixth force) which is illustrated in Figure 2.3. Similar to the SWOT analysis, Porter's forces model promotes introspective dialogue on industry conditions at one moment in time. A deep understanding of the underlying forces that drive profitability is essential to help executives identify opportunities and set reasonable expectations. The primary objective of Porter's methodology is to help executives identify a product or service that will give the company a competitive advantage over key competitors. The focus is primarily on the product or service with the struggle to gain an advantage over competitors as a war. It is critically important to recognize that the forces driving industry profitability in the 21st century are very different from those that existed in the 20th century, and they will likely change dramatically in many industries in a few years or even months in some industries. Internet-based companies like Amazon, eBay, Craigslist, and many others have changed the retail industry to such an extent that iconic institutions like Sears or J.C. Penney will likely go the way of the dodo bird. The evolution of the smart phone/devices demonstrates the speed at which technology can change and have a dramatic effect on the underlying forces in an industry as well as change society as a whole. I frequently use the chicken or egg conundrum by asking students which came first. Did Apple use technology to meet the changing expectations of society or did the iPhone change society?

Sun Tzu might equate the process of evaluating Porter's five-force's industry competition model to assessing heaven and earth conditions to evaluate the chances of success. The questions that the model forces executives to consider are:

- Threat of new entrants – What is the possibility of new competitors entering the market? Some industries like energy generation have high barriers to entry while internet-based businesses can have very low barriers to entry.
- Threat of substitutes – What is the possibility of customers turning to alternative methods to fulfil their needs? For example, when shipping products customers may prefer transportation by air, but railroads, trucks, and ships are alternatives. These alternatives act as a force to hold prices in check.
- Bargaining power of suppliers – If suppliers raise their prices, will that affect our profitability? In many cases, the answer is a clear yes. If the cost of raw materials rises, then the alternative is to absorb the cost and the resulting reduction in profit or pass the increases along to customers with price increases which may cause issues with customers. Unions, in many cases play a significant role in labor costs which should also be considered.
- Bargaining power of customers – If we raise prices will we lose customers or increase profits? This force prevents a company from overcharging but creates a definite friction with the power of suppliers.
- Rivalry among existing competitors – If we take an action, what will be the response from our competitors? Newton's first law says that for every action there is an equal and opposite reaction. Of course, competitors in the same industry are subject to many of the same forces, but the competitive response to any action must be anticipated and planned for.

Value Chain Analysis

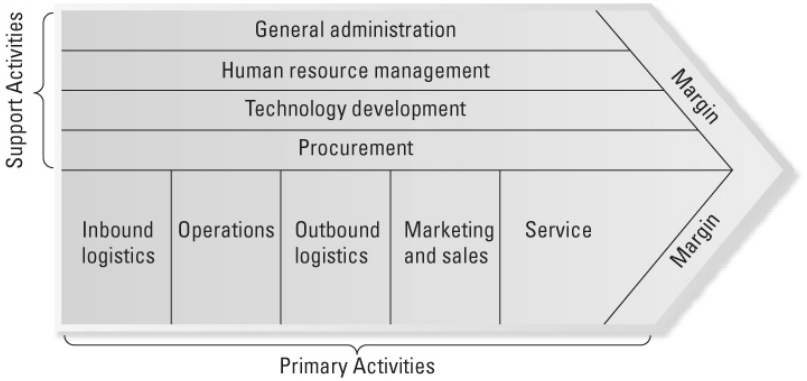
Another of Michael Porter's important contributions to strategic thinking is the value chain which he first suggested in 1985 in *Competitive Advantage: Creating a Sustaining Superior Performance*.[7] The value-chain concept encourages executives to look closely at the internal workings of their company to understand what capabilities can be leveraged to gain a competitive advantage. While the five-forces framework provides a vehicle to help executives visualize the industry-wide forces that influence profitability, the value-chain framework focuses attention on the internal capabilities of the company that convert material or intellectual inputs into a product or service that brings value to customers. The trick to gaining a competitive advantage, according to Porter, is to manage the costs needed to create or provide value to generate healthy profit margins. Simply put,

reducing costs and expenses is a competitive advantage that increases profit margins…. Pretty basic.

Porter broke down the activities of an organization into two broad categories: primary activities and support activities.

Support activities shown in Figure 2.4 are those that typically exist at a corporate level and provide services to the entire organization. They add value by coordinating essential activities and gaining efficiencies through scale.

Figure 2.4 – Porter's Value Chain



Source: Adapted from Stevenson, W. (2012). *Operations Management* (11th. Ed.), New York, NY: McGraw-Hill Publishing

- **General and administrative (G&A)** activities include functions like general management, planning, finance, accounting, legal, public relations, and governmental affairs. Information technology needed to integrate all parts of the organization and share essential information throughout all the value-creating activities falls into G&A.
- **Human resources management (HR)** activities include functions like recruiting, hiring, training, leadership development, payroll, labor negotiations, and more. Human resources include tasks like developing and maintaining good relations with labor unions and developing and managing reward or incentive programs intended to motivate employees.