

Insights

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Managing from Clarity: A Review

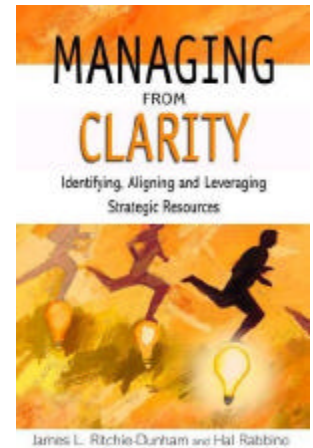
In searching for the organizational 'magic' that makes some businesses thrive and others fail, management gurus, academic seers and business leaders strive to articulate a single reason for success. Managers are then faced with analyzing numerous findings and trying to integrate the best elements from each view that makes sense to them.

Managing from Clarity integrates the different views into one streamlined structure which includes organizational as well as operational dynamics and moves it into the realm of strategic management. A host of tools and processes are presented, which offer leaders the means to make informed and deeply thought decisions on how best to balance

multiple strategic issues. This book shows managers how to:

- Describe an individual's mental model of the world as a basis for decision making
- Clearly articulate and map key relationships across the entire organization
- Describe the basis for developing a common, systemic platform for communication of strategic issues
- Provide a rigorous and straightforward method for testing strategic hypotheses
- Identify the essential strategic resources within a firm, harnessing the enormous potential for performance improvement that comes

from integrating and aligning the mental models of the individuals of the firm around the global goals of the organization.



News and Events

Strategic Clarity

Visit Strategic Clarity's new website at <http://www.strategicclarity.com/>

Our book *Managing from Clarity: Identifying, Aligning and Leveraging Strategic Resources* is now available in your local and on-line bookstores. For more information about the book and its authors, visit the book's website at <http://www.managingfromclarity.com/>

At the International System Dynamics Conference in Atlanta, Georgia, Strategic Clarity consultants Hal Rabbino, Conrado Garcia, and Annabel Membrillo presented recent findings from their consulting work on (1) systemic negotiations, (2) the future of Mexico's strategic resources, and (3) grasping national petroleum strategies. For copies of the presentations, see <http://www.instituteforstrategicclarity.org/lppubli.htm>.

An Interview with the Authors

Where did the seed idea for *Managing from Clarity* come from?

The first inspiration came from Jim going to a conference with Peter Senge in Cancun, Mexico. Upon returning, he read *The Fifth Discipline* and was profoundly impacted. At the time Jim was teaching Decision Sciences at the ITAM and was able to dedicate significant time to developing his own ideas of how to relate Senge's work in this arena. This was the beginning, but by no means the end.

How did you two meet?

We studied our Masters together. We were two of five students selected for a dual Master's program between Thunderbird (Masters of International Management) and the ESADE (Masters in Business Administration) in Barcelona. We studied together in a few classes and formed our strongest bonds on the ski slopes of the Pyrenees...

What is the theory behind your

methodology?

The theory behind the *Managing from Clarity (MfC)* methodology is based in the fundamental question of "why does the firm exist?" To answer this question we have integrated the strongest elements from the fields of strategy, systems thinking, decision sciences and organizational behavior to build the framework for the *MfC* approach. The strategy perspective focuses on sustainable value creation. The systemic perspective ensures that we capture the key dynamics that drive behavior over time. The decision sciences aspect minimizes biases from people within the firm in order to focus clearly on what truly matters to the individuals in the business when they make strategic decisions. The organizational behavior element ensures that we understand the incentives that motivate different groups to act

as they do. Combining them provides a rigorous, robust holistic understanding of the firm, its people and how they interrelate over time – all critical to the evaluation and development of strategic judgment and action.

What makes *Managing from Clarity* so effective?

Let's assume that every member of the leadership team has 100% comprehension of the business model, its strategic resources and how they interrelate and behave over time. What percent of their knowledge is effectively transmitted to the next level of the organization? The research indicates that effective leaders communicate at most 70% of the message to the next level of the organization. In turn, these directors might communicate 70% of what they understood to the managers responsible

(Continued on page 4)

Case Study

An Analysis of Mexico's Critical Strategic Resources: A Future Perspective

Part 1 of 2

Abstract: Mexico has always been a country full of diversity. Any opinion about its future would be daring. Instead of giving an opinion on Mexico's future, we identify critical strategic resources that leaders would have to manage to achieve the country's global goal, which we propose is improving the average quality of life per resident. To accomplish this task, a high-level system dynamics model will be used to guide the identification, definition, interpretation and interrelation of the strategic resources. We are aware that there are experts that dedicate their careers to the analysis of just one of these resources or even a part of one of them. That is why we decided to leave the resource detail to the experts and dedicate this work to the identification of critical strategic resources for Mexico. The objective is to identify the strategic resources and understand how they interrelate in order to gain clarity about their impact on the behavior of the global goal, the unintended consequences, and to provide a tool to help to build a shared vision for decision-making.

Mexico's Global Goal

Identifying the global goal is one of the most important steps in constructing the model, as it defines the system's purpose or the manager's problem in focusing on a more specific issue. This logic follows the system dynamics paradigm of modeling problems not systems. To define the global goal for the Mexico model we asked, "What would be the best indicator, at the country level?" We propose that it is **the average quality of life per resident**. That indicator includes the economic and social situation of each person in the country. A word of caution – this indicator does not reflect whether the wealth distribution

is fair or unfair. We will get to this later. If most of the people in the country have a relatively comfortable life, the indicator is high, regardless if one part of the population living in extreme poverty.

Once the global goal of the model is identified, we ask, "which resources directly influence the average quality of life in Mexico?" We identified five: **ecosystem, average governmental services, average consumption of basic goods, average consumption of luxury goods and violent events**. These resources correspond to the success indicators for the three major stakeholders in the system: the ecology, government and residents. Let's delve deeper.

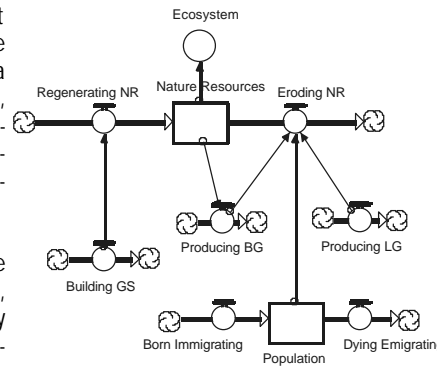
Strategic Resources of the Quality of Life in Mexico

Ecosystem condition-

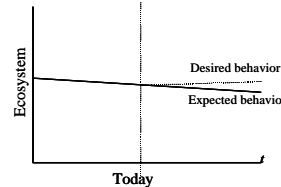
Three items define the resource:

1. Air, water and earth condition – refer to the quality of the natural resources. High pollution will likely lead to present or future harm to the population.
2. Natural renewable resources usage – refers to the ecological impact of the utilization of natural resources to fulfill human needs.
3. Ecosystem/Human balance – refers to how balanced the Mexican lifestyle is with nature.

The **ecosystem** outflow represents the utilization of natural resources by the population to produce goods or to use for daily living. The inflow represents the governmental plans that are meant to regenerate the **ecosystem** (reforestation, water treatment plants, in addition to others).



Over time the **ecosystem** has been eroding, despite the government's restoration programs. Those programs and the rate at which nature renews resources are not sufficient to replenish what is being utilized every period to produce goods and to satisfy population needs.



The desired behavior is to maintain or improve the **ecosystem** condition.

Governmental Services per Resident-

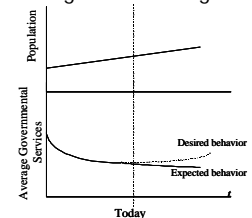
This resource refers to: (1) Health programs that look to preserve human health; (2) Ecology programs to safeguard nature; and (3) Public services such as water, electricity, hous-

ing, gas, transportation, and safety among others, which raise the average quality of life of the population.

Population and total government services determine this resource. The budget that the government assigns to provide governmental services comes from tax collection and export income. Public debt is not included,

even though we know that the government could borrow money to build infrastructure to provide more services and implement health and ecology programs.

Historically, governmental services have grown over time to cover population needs. Globalization encourages foreign and national investment in the country, which generates more taxes and exports, possibly increasing the budget as-

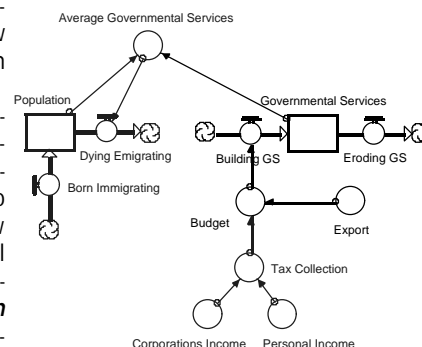


signed to these issues. However, current behavior shows that the population has grown faster than government investments to increase services.

The desired behavior for this resource is to create enough services to satisfy population needs. To meet **governmental services** demand, services would need to grow at the same rate as the population.

Consumption of Basic and Luxury Goods-

This variable refers to the



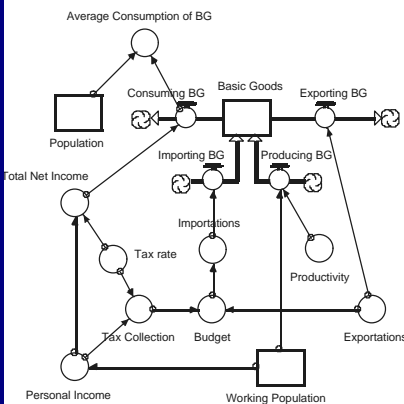
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Case Study

An Analysis of Mexico's Critical Strategic Resources: A Future Perspective

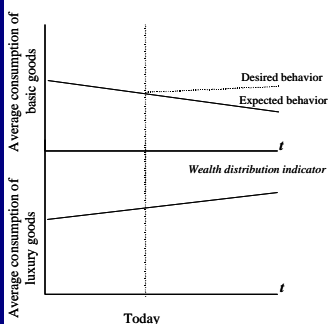
average purchasing power of the population. The **consumption of basic goods** per resident reflects whether the population, in general, can acquire the minimum supplies to survive, such as food, clothes and housing. The **consumption of luxury goods** per resident reflects whether the population can buy goods for making their lives easier and more comfortable.

Production/Importing and Consumption/Exporting rates influence this resource. These rates



depend on the working and total population levels. Import and export rates will affect the level of goods available in the market.

Uncontrolled population growth has aggravated the decreasing tendency of **average consumption of basic goods**. The income per person has been decreasing over time, limiting consumption. The future is not very promising. Unemployment is high. Sometimes, even well



skilled people cannot find an adequate job and are forced to do lower skilled work. Moreover, external factors such as economic crisis and technological advancement provoke some people to lose their jobs. Even when new jobs are generated, it is insufficient to meet the demand, which is often linked to the violence in the streets and the strong informal economy. The desired behavior is an increase in **average consumption of basic goods**.

The behavior of **average consumption of luxury goods** is not clear. Apparently, the rich are getting richer. The **consumption of luxury goods** is going up or at least remaining stable. An increase in the **consumption of luxury goods** means that the average quality of life has increased. However, comparing the consumption of basic and luxury goods, we can see whether wealth is being distributed fairly. If the distribution of wealth is unfair, luxury goods consumption will increase more than basic goods consumption, which may be stable or even losing ground.

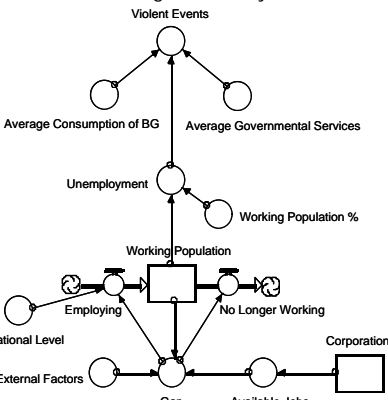
Violent Events per Resident

This variable refers to assaults, assassinations, robberies and other events that are not exclusive of big cities like rebellions, revolts, and paybacks. These events directly influence the sense of physical integrity of residents as well as the tranquility and peace of the population.

Social issues such as unemployment, hunger and poverty affect this resource. Average consumption of basic goods per resident and the lack of governmental services are indicators of hunger and poverty. Uncon-

trolled population growth in Mexico has resulted in a decrease in the **average quality of life**, increasing the factors that trigger violence.

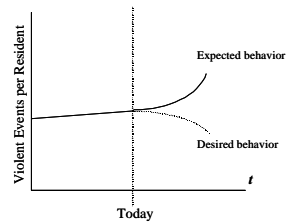
Violence can be fought back with short-term solutions such as training high-quality and competent public security forces, or by long-term solutions such as ensuring that the population has their basic needs fulfilled. The long-term solutions require two things: (1) a level of education high enough to get a well-paid job, and (2) enough jobs should be generated to meet this demand. Otherwise, Mexico will continue to be a manufacturing country with



high unemployment. Educational level is one of the strongest impact strategic resources of the success indicators identified.

Historical behavior shows a considerable increase in **violent events**, not just within the cities but also in the small towns where the people write their own laws and in the indigenous and native communities. While social inequity continues to grow and crime keeps on being a "better paid job", this indicator will not decrease, and most likely will grow exponentially. It is time to act on the fundamental solutions and to stop attack-

ing symptoms. An improvement in the police department might provide some time to put into practice a more fundamental solution,



such as a considerable improvement in the average educational level of the population. The desired behavior is a major reduction of violent events.

Recapping what we have seen so far, there are five main strategic resources: **ecosystem, average governmental services, average consumption of basic goods, average consumption of luxury goods and violent events**. The behavior of each one is not helping to achieve the global goal.

With these tendencies we can only expect continued lifestyle deterioration, unless the government and people living in Mexico start doing something as soon as possible to stop the tendencies or even try to reverse them in the long term.

In this article we have explored each resource individually. In the next issue of Insights we will identify the interrelations among these resources and the resulting dynamics of the model.

An Interview with...

(Continued from page 1)

for doing the work. So by the time the organization is ready to act on the leadership's message, they are getting **less than half of the original message on average**. **Managing from Clarity** is so effective because it raises the rate of effective communication between the leadership team and the organization. It does this by ensuring that, as a minimum, the same mental model of the business is being used to interpret and communicate the leadership's strategic intent and actions to the directorship level. In the cases where the directorship level uses the same business model to communicate the organization's strategic intent to its managers, the rate of effective communication increases even more. Not only is this shared mental model effective for transmitting the leadership's message down to the organization but also it provides a powerful mechanism for the organization to communicate its ideas to management. By identifying the causal links that management uses to link the different areas, true operating knowledge can filter up when inconsistencies or corrections need to be made. Great opportunities for uncovering hidden leverage exist when the organization and its leadership team share the same understanding of the underlying business model.

Who should be part of the process? Does the same group need to be part of the whole process or can more people be integrated later on?

This depends upon the point of contact with the organization. When defining who needs to be involved, we use a few guiding thoughts: Is this person responsible for managing a strategic resource? Is this person's area affected by the strategic resource in question? As for adding people later on, it is recommended to initiate the work with a fixed group of executives. Often subtle but significant changes in how these executives communicate occurs as a result of this work. The same words now have a different meaning and new words and measure have been developed. It is always easier to include more executives earlier than later since they are the ones developing this new way of thinking together. However, once the groundwork has been laid, there is sufficient material to explicitly lay out the path to this new way of thinking. It follows in the thinking of "teach the teachers." As the experiences executives use the **MfC** approach, their support people will adopt the thinking quickly.

How do we select the expert group to participate in the process?

Experts are those people within the organi-

zation who really know how material and information flow through specific areas of the business. These are usually the top executives in the firm. However, these top executives have been out of the trenches for some time. They surely have a clear understanding of what **should** be happening but may not have an exact knowledge of what **is** happening. Our work is usually focused on senior management and, to cover gaps in operational understanding, we regularly integrate people from all levels of the organization for specific information to validate and/or inform these executives.

What makes this methodology different from other methodologies or processes?

What makes **Managing from Clarity** different is the focus on **thinking systemically before acting locally**. Many methodologies focus on identifying, separating and then optimizing the different operational elements of the organization. This approach assumes that sum of the optimized parts will optimize the whole. So leverage points that truly maximize the results from one area may seriously jeopardize another area's ability to succeed. Even the methodologies that focus on integration across the business, such as supply chain optimization for example, tend to look at open-ended causality. That is, the route through the supply chain begins with the range of suppliers and ends with the customer. However, in real life, this value chain represents a closed-loop relationship that links the client experience back into the purchasing environment. **MfC** closes this loop where others do not. The value of closing this loop is that the systemic view enables executives to better understand the impact that delays and especially feedback have in the relationships that link the business to the outside world and back again. It more accurately reflects what is really going on.

Is this a practical exercise? What are we going to do differently after going through **Managing from Clarity?**

It is practical in that it is not complicated nor does it take months to complete. More importantly, it is practical because it is useful. In our work, one of the great roadblocks that management has faced in its attempts to link strategy effectively to the organization's daily work is the lack of a shared mental model or understanding, even among the leadership team, of what the global goal is (it has to resonate more than just make more money), which resources are strategic and how they interrelate operationally. It sounds hard to believe but it is very often true. As a result, each key executive has a clear but unique picture of what is happening to the firm and,

as a consequence, a unique answer to what the firm must do to reach its strategic goals. This most often leads to many hours of frustrating and confrontational meetings among the key executives. One of the great challenges in evaluating strategic options is that the underlying assumptions may change as different members present their ideas. The **MfC** framework and tools enable the leadership team to develop a common platform to discuss strategic resources and their dynamic impact on the firm's ability to achieve its strategy. By providing a single, integrated consistent lens through which to view the business, members of the leadership team spend less time on resolving internal differences among themselves and more time on addressing the strategic challenges directly.

If things are changing so rapidly, when do I need to do this again?

This is an important point for clarification. Change is a relative term. Though many business opportunities come and go, both the underlying resources that make up the business and the strategic focus for them most often do not change quickly. The insights and way of approaching the business realized from the **MfC** approach become a natural part of how the leadership team addresses these rapidly approaching opportunities. However, when you are considering a divestiture or an acquisition, then you should take this possibility through the **MfC** process again. A change in the underlying structure of resources that a divestiture or acquisition implies will, by definition, change the firm's ability to achieve its strategic goals. What is important is to explore the **unintended** consequences of this action, not just reinforce the intended ones. Here the **MfC** process is extremely helpful.

What do I need to do so that this idea permeates the whole organization?

Like all powerful ideas, the **MfC** concepts and tools will permeate the organization as its leaders begin to request that the organization answer business challenges in terms of strategic resources, shared authority and responsibility across functional lines, links of causality between direct and indirect results, the impact of delays on performance, patterns of behavior versus end-point results and personal and group incentives across the organization. These are the principles of the new strategically focused organization...and the whole organization should know them by seeing their leaders act according to them.

Looking Longer Term

The Failure of Models

by Jay Forrest

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Strategic Clarity proudly presents this column with Jay Forrest, a degreed futurist. This column pulls from Jay's environmental scanning to help readers think about the future of the environments in which they operate

Whether mental, formal, explicit, complete, or incomplete, models serve a critical role in everything we do. The better our models reflect reality, the better we should be able to act intelligently to move toward a preferred future. In my Ph.D. work in Foresight and Futures Studies I have been focusing on applying systems thinking to identifying sources of model failure and characterizing likely patterns of future behavior. This essay summarizes the key points from a recent conference paper. Readers are referred to the paper or the author for additional details (See <http://www.jayforrest.com/>).

For the purposes of this paper, we will assume that an appropriate short-term model exists. The structure and concepts in the model are generally adequate. As the time frame of the model is extended, reality can be expected to depart from model predictions. These model failures can be aggregated into four sources:

- Fuzziness
- Boundary Issues
- Emergence of New Loops and Mechanisms
- Wildcards

Considering these sources of error can greatly strengthen the basis for forming plans and strategies.

The concept of fuzziness is not only a popular scientific concept but also a practical facet of mental function. All models

characterize, agglomerate and simplify reality in some way. This means that dissimilar items are collected or characterized as uniform items within variables in the system. Successful models frequently grow to be an unquestioned, and frequently black box, source of "insight" with little or no broad understanding. Over time the nature of the distribution may shift, invalidating the assumptions underlying the model, causing the model to drift from reality. A key to avoiding problems resulting from fuzziness lies in carefully documenting the assumptions underlying a model and testing those assumptions against reality to recognize when models (assumptions) are departing from reality so that the model can be revalidated.

All models have boundaries of some form. As the time frame of a model is extended, the likelihood of significant influence from outside the model's boundaries increase. Boundary problems are often exacerbated by models that only focus on items under the control of the modeler(s) and that models are too frequently artificially isolated from their environment, resulting in the model failing to include factors which will shape longer term behavior. A futurist perspective recognizes the need for a broader perspective of the overlying environment. Modeling of the broader perspective may, or may not, be necessary but recognition and testing of the environment is critical. In addition, different time frames require focusing on different model mechanisms and structures. Tuning the structure to the time frame under investigation can be very important in identifying appropriate system behavior. Inclu-

sion of participants perceived to be two to three layers beyond a system can be very helpful in establishing appropriate boundaries for a model.

The emergence of new loops and mechanisms (new model structure) is similar to boundary issues but deals specifically with the need to include new factors and mechanisms that may not exist previously. Understanding how new structure arises and evolves provides a powerful perspective for identifying likely sources of model shift. Three primary sources of new structure and mechanisms are identified:

- Exploitation of System By-products
- Exploitation of System Induced Demand
- Penetration by External Systems

Brevity precludes broad discussion of these topics. Put simply, all systems generate by-products which can attract exploitation by others. In addition, systems frequently create demand for similar or related "products," which provide an avenue for entry by competitors. And finally, competition may directly attack a resource (i.e., customer base) through direct competition or by siphoning off customers via some unrelated product. In any case, recognized sources of competition rarely generate major shifts in models for their potential actions are generally recognized. Unrecognized sources of competition are much more troublesome and likely to lead to wholesale revision of models and their mechanisms. A key insight from system dynamics is that the penetration will occur through exploitation of a stock, providing a logic and rationale for evaluating a model for attractiveness and vulnerability of stocks to exploitation. Once again, a diversity of insights is desirable in identifying potential points of entry.

The concept of wildcards is used to represent low probability events that are often deemed unpredictable, but commonly modify the actual future. One of the key concepts that drives futures thinking is that the accumulated probability of these low probability events is such that for long-term futures the "no surprise" future is very unlikely. Incorporating low probability events into a model is very challenging – so much so that conventional planning is almost invariably based on a "no surprise" future and uncertain events are ignored, even when the event is certain – though with uncertain timing, such as a major earthquake near St. Louis, Missouri. Potentially significant wildcards can often be identified and grouped according to their impact on a model (business, or organization). Grouping can raise the probability to a level where consideration of the group is practical and useful. Combined with scenario planning, this can do much to promote more robust thinking and planning. Experience indicates that professional futurists can be very helpful in building and evaluating lists of potential wildcards for consideration.

To summarize, models (whether mental or quantified) generally grow less accurate and less useful as the time frame of their use is extended. Structural shifts in models can often be anticipated by applying diverse perspectives and insights to the model under consideration. Systems thinking and futures studies provide useful insights for recognizing potential sources of shift in system/model behavior and can lead to more robust plans and strategies.

News and Events

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The Institute for Strategic Clarity is offering the *Managing from Clarity* course, based on the book, in Austin, Texas and Vail, Colorado. The course will: (1) enrich your mental models and help you understand how they improve your effectiveness in your personal and professional arenas, (2) help you understand better how your role interacts dynamically with other key roles to minimize unexpected outcomes from seemingly good actions, and (3) provide a different learning experience where enjoying personal space is an integral part of hard work. To register or request more information, visit <http://www.instituteforstrategicclarity.org/lpclass.htm>.

At the International System Dynamics Conference in Atlanta, Georgia, Executive Director Jim Ritchie-Dunham presented and won an award for his research on informing mental models for strategic decision making with ERPs and the Balanced Scorecard. The findings, from a simulation-based experiment with 118 masters students are that (1) what information is presented significantly influences the decision maker's mental model of the business; (2) more consistent information improves decision calibration; (3) stronger mental models of the business create more shareholder value; and (4) inclusion of more stakeholders in the decision maker's strategy improves shareholder value creation.

Visit the Institute for Strategic Clarity's new website at <http://www.instituteforstrategicclarity.org/>

Books of Note

The Tipping Point

Gladwell, M. 2000. Boston: Little, Brown and Company.

The Tipping Point discusses the nature of epidemics, or exponential growth, from a social perspective. According to Gladwell, there are three basic characteristics that define a social epidemic; contagious behavior happens, a small event or change can provoke it, and the growth rate can become exponential very quickly. *The Tipping Point* is the "one dramatic moment in an epidemic when everything can change all at once..." The success of Paul Revere's midnight ride, the reduction of crime in New York City and the unlikely rebirth of Hush Puppies as a fashion trend are examples of such behavior. He tries, very successfully, to answer the question if there were similar, underlying forces that acted together to generate these events. Gladwell developed a practical framework for looking at these underlying forces. He states that the three main agents to change are the Law of the Few, the Stickiness Factor and the Power of Context.

The Law of the Few looks at how a few exceptional people are critical to the ability for an idea or event to grow into an epidemic. Connectors are those who have inroads to many people of influence. They know the right people to tell. Mavens are not just experts in the message being sent, they are motivated to tell you about it. They want to help and gladly provide the comparative

benefits of whatever idea is relevant to them. Salesmen are those who can convince us about the message being sent and are just as important to the word of mouth epidemic as the other two. These are people whose personal charisma influence not only the number of people affected but also the rate at which the message is diffused and accepted. For a social behavioral epidemic to happen, a few key Connectors, Mavens and Salesmen are required.

The Stickiness Factor refers to the quality of the message itself. It addresses the issue of whether or not the message is so memorable that it can spur someone into action. Conventional marketing wisdom assures us that repetition is a sure way to have the message, whatever it is, stick. This is especially true in children's education. However, this may not always be true. When we look at Revere's famous ride, this idea falls apart. Gladwell states that the stickiness factor depends upon how you package and present a message that is both practical and personal - then it sticks.

The Power of Context refers to the sensitivity epidemics have to the conditions and circumstances of the times and places in which they occur. In the crime epidemic in New York, for example, the physical surroundings, such as graffiti, may actually

provoke criminal behavior. Context also refers to who gets the message, in Gladwell's terms the Innovators, Early Adopters, Early Majority, Late Majority or Laggards. The reader can visualize which group she most often belongs to regarding new trends. The book provides insight into how the message grows from one group to the next.

Gladwell's book is a compelling read for those interested in grasping the forces behind exponential growth. It is relevant for those who are facing the challenges of growth, regardless of the size of the organization. More importantly, *the Tipping Point* provides the reader with a fresh, captivating and useful framework for thinking through the drivers of exponential growth in social and organizational settings. You will enjoy it!

