

POLICY & LEVERAGE

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Managing from Clarity

Our clients tell us that as their competitive environments become more complex, they have greater difficulty maintaining clarity around their principle strategy. This holds true for those managing both private and public-sector organizations. We have reduced the management of complex systems to five clarifying questions.

1. What do I want?
2. What resources do I need?
3. What actions most leverage these resources?
4. How do I structure the resources and actions?
5. How do I bring the system to life?

These questions address "why management does what it does," "with what" and "how." Though seemingly simple, these five hard-to-answer questions represent milestones along our well-tested, comprehensive Systemic Leverage process for helping leaders manage from a position of clarity about their system. Briefly we examine each question.

WHAT DO I WANT?

Asking what management wants from the system focuses attention on why the system exists. The answer identifies the fundamental objectives of the "owners" of the system and proves crucial in designing a system to achieve that goal. How can a system achieve its goal, if the goal is not explicit and known? SDSG's "Global Goal Analysis" facilitates the elicitation, integration, analysis, internalization and communication of these objectives.

WHAT RESOURCES DO I NEED?

Management uses resources to achieve the system's objectives. Management needs to be clear on three resource issues. First, what valuable resources exist or are needed? Second, what does the system do well

or need to do well with these resources? Third, how does the system most efficiently grow and maintain these resources? SDSG's process facilitates an explicit exploration of resource-based questions.

WHAT ACTIONS MOST LEVERAGE THESE RESOURCES?

Management does not directly create these strategic resources, rather affects them through actions that accumulate and maintain the strategic resources. Management needs to be clear on two action-related questions. First, at what points in the system of resources does management directly intervene? These points are often far from the desired effect. Management trains people to serve customers better to improve customer satisfaction to increase the client base to increase revenues - management does not directly affect revenues. Second, which actions provide the most leverage in achieving what management wants from the system? SDSG's Systemic Leverage assessment directly focuses on those actions that provide the strongest results toward the global goal.

HOW DO I STRUCTURE THE RESOURCES AND ACTIONS?

The structure of relationships between the resources and the actions of the system users of those resources determines the system's ability to achieve its goals. A pile of bricks does not constitute a house, it depends on how they are put together. Management needs to be clear on two structure-related questions. First, do the tactical objectives align to achieve the system's objectives? Second, what are the potential unintended consequences of structures and policies in the system? SDSG's Systemic Leverage framework focuses attention directly on the alignment and leveraging of strategic resources.

HOW DO I BRING THE SYSTEM TO LIFE?

The previous four questions focus attention on designing system structures. Now we bring them to life by adding the essential factor of people. Managers must explicitly recognize that people do things for a reason, and that, to be successful, human behavior must be integrated into the system's design. Management needs to be clear on two people questions. First, do the structure and incentives conflict directly or indirectly with what is important to the people in that part of the structure? Second, do the structure and incentives maximize the potential for each individual? These questions focus management on realizing that systems do not do

Value-Driving and Enabling Resources: A System Paradox by Design

VALUE-DRIVING AND ENABLING RESOURCES

We find it helpful when discussing strategic resources, to distinguish two types of resources, **value-driving** and **enabling**. We suggest that systems, in this case the organizations in which they work, are created to achieve a global goal, and that individuals work within the organization naturally pursuing local goals from their local perspectives. We specialize our efforts to most efficiently utilize the resources available to us. At SDSG, we find that differentiating between these classes of resources aids our analyses.

"Value-driving" resources generally reside at the global perspective of the organization and primarily exist within growth-oriented or reinforcing feedback loops (i.e., the business growth cycle). They have the explicit purpose of continuously creating value for the system's "stakeholders."

"Enabling" resources usually reflect the local or operating perspective of management (i.e., assembly capacity). These resources primarily exist within stability-oriented or balancing feedback loops whose explicit purpose is to utilize these resources as efficiently as possible. We refer to this paradox of a system where the global goal focuses on growth and the local goals focus on stability as the "Global to Local Paradox."

GLOBAL TO LOCAL PARADOX

The two very different perspectives naturally fight each other, with one trying to grow and the other trying to stabilize. Let's dig a little deeper to understand some of the significant implications of this paradox. If management at the local perspective lives primarily in a world of balancing feedback, they

work, people do, and people have goals that drive their decisions. The system's structure and these goals have to be aligned to move the living system in the desired direction. SDSG's process makes explicit the multiple local and global perspectives in the system and how their level of alignment and leverage affect the system's ability to achieve its goals over time.

These five questions lead management on a straightforward path to clarity – clarity regarding why their system exists, what it does and how. Articles on our website (<http://www.sdsd.com/>) discuss, in more detail, each of these questions and SDSG's Systemic Leverage process.

focus on those actions that close the gap between the actual state, where we are, and the desired state, where we want to be. Furthermore, in balancing feedback systems, this management would only focus on closing the gap.

Many authors talk about the strategic alignment of complex systems using the metaphor of the airplane cockpit. Line up on the cross hairs and everything will work out fine. This analogy only works for closing the gap, because it leads management to ask, "How far are we from the desired goal?" and then doing whatever it takes to get back on course.

If management at the global perspective lives primarily in a world of reinforcing feedback, their focus is on those actions that increase the gap between the actual state and the desired state. Hamel and Prahalad refer to this as "strategic stretch." Since managers are not really sure where they are going as they grow away from the actual state, they need to know much more about the resources they have in hand and how those resources are being accumulated and maintained over time. This gives them a local picture of how much further they can continue at the same pace.

Managers at the global perspective need to know not only what resources they have now but also what resources they will need to acquire, develop and maintain, to ensure that the journey will continue far into the future.

The global to local paradox shows, among other things, a key reason for the resistance to change in systems. Upper management expects and pursues change, but middle and lower management are structured to resist it. To achieve growth, upper management pursues the accelerating growth of

"value-driving" resources, by allowing growth through periodic, step-change investments in "enabling" resources. However, as the "value-driving" resources are increased exponentially, they require ever greater step-change increases in the "enabling" resources. As management at the local perspective spends more

time adapting to the increasing rate of change around them, they spend relatively less time on working with "enabling resources" efficiently. They become more frustrated and resist this increasing rate of change because their culture and incentives promote stability i.e. closing the gap, not growths.

Looking Forward

This section discusses environmental scanning, trends, issues, and outlooks for the future. Given the growing global economic crisis, this issue will focus on that topic. Reduced to simplest terms, plans should accommodate an unstable and potentially volatile business environment and slow growth.

GENERAL BUSINESS OUTLOOK TO 2002

The Asian Economic Crisis

During the three years since we surfaced the issue of an Asian Economic crisis, little meaningful action has occurred to correct the problem or to encourage recovery. The bulk of action has been superficial and cosmetic. Japan was vocal and expressed much worry and struggled with declining exports but did little of substance apparently hoping someone else would take the lead. In December 1998 Japan finally committed \$30 billion (US) in aid to the region with \$3.4 billion to be disbursed by March. The primary intent is quite straightforward, to boost their own economy by boosting exports. Given the condition of the Japanese economy this program is ambitious and possibly unrealistic.

Should Japan successfully fulfill this obligation the Asian economic outlook should improve to everyone's joy. Two alternative scenarios deserve serious consideration. First, Japan may not fulfill the commitment, and, second, fulfilling the commitment may impact negatively on the Japanese economy.

With most of Asia languishing in the doldrums, many problem areas remain. The economic health that disappeared almost overnight with the crash in Indonesia takes substantial time to grow and redevelop.

We expected the governments and financial institutions in those countries to take action to avert chaos. As recently as last spring hope remained, but deterioration in Japan and continued unwillingness to address core issues in Japan, Indonesia, and the former Soviet Union (among others) are discouraging. While one would hope to see the precursors to recovery soon, there seems to be little, if any, action under discussion that would lead to real improvement. Thus we are forced to anticipate continued Asian turmoil with spreading impact. Lack

of meaningful action leads us to believe that the bottom is at least a year away. Key indicators to watch:

- structural and policy shifts in Japan, Russia, and Asia [to date action has been mostly superficial - deeper, structural changes are needed and may be necessary before economic recovery can truly begin];
- emergence of violence in Japan, Russia or China.

Latin American Will Pull Down the U.S.

Brazil's vulnerability to Asia and Mexico's to oil will bring the crisis to the U.S. While the Fed will take action to protect the U.S. we expect deterioration/stagnation of U.S. markets and trade for at least eighteen months. Increased violence and political instability in Latin America will exacerbate the problems. Key indicators to watch: Latin American trade statistics, US trade to Latin America; violence and political instability in Latin America.

The Year 2000 and Y2K Factors

The arrival of the year 2000 is being heralded as both an event for optimism and for extreme negativism. Public opinion will be the key determining the impact of this event. Optimism and celebration could buoy the global and U.S. economy shortening the economic downturn. Pessimism could exacerbate economic decline, lead to hoarding and artificial scarcity, and trigger social unrest.

Computer failures (including embedded chips) will almost certainly cause some level of disruption upon the arrival of the year 2000. Expert opinions of potential impacts range from relatively disruptions to total failure of the electric supply. Unless the failures are massive or critical, public reaction will define the significance of the event.

High levels of uncertainty support strategies emphasizing flexibility, but this implies some level of hoarding, which exacerbates economic problem. Key indicators to watch: Spiritualism and new age movements; public hoarding and survivalist activities related to Y2K; publicity of Y2K; visibility of Y2K alarmists.

A Summary View to 2001 or so

While we would agree that positive (or more favorable) scenarios are certainly possible, we anticipate that the current economic downturn will be extended as Y2K concerns induce increased fiscal conservatism during 1999. (NOTE: building of business and personal inventories during 1999 will inflate 1999 business indicators.) Y2K related failures and reduced demand (as inventory hoards are worked off) are likely to further delay real recovery such that our most likely forecast involves extended economic sluggishness. Given the uncertain outlook we suspect key governments will not begin taking productive steps to get the global economy moving prior to midyear 2000. Significant recovery does not appear likely prior to mid-2001.

Other Impacts

Prolonged economic doldrums would be likely to induce additional problems. Here are a few of our thoughts with brief explanations:

- *Instability in the Middle East.* Low oil demand and crude oil prices could easily encourage hostile actions in this region. Numerous scenarios for trouble exist.
- *Violence in Russia and Mexico* are likely to result from economic problems exacerbated by low oil prices. Indonesia and several South American countries are also candidates for unrest.
- *European economic crisis and tension.* The tax overheads in Europe remain very high. Any decrease in production/employment elevates the burden, further deteriorating competitive posture and inviting a downward spiraling economy.
- *Increasing nationalism and rejection of capitalism.* Countries may blame capitalists for their problems, to try to exclude imports, and to move away from global capitalism. This has already occurred in Indonesia. More countries are likely to follow.

LOOKING LONGER TERM

We feel that a great deal of the instability permeating global political, economic, and social arenas is

Books of Note

SMART THINKING FOR CRAZY TIMES

by Ian Mitroff, Berrett-Koehler Publishers, 1998. Ian Mitroff has long been a leading author on the issue of problem formulation and solution and this book

structural. As a simplistic overview, we feel the key roots of these instabilities lie in two areas:

- Our ability to communicate vastly exceeds the ability of our organizations (political, economic, social, personal, etc.) to cope with the both the volume of information, the speed of information, and the quality (or lack thereof) of information. Diminishing delays are particularly destabilizing as is erroneous and flawed information. Our political, corporate, family, and other organizations have not figured out how to deal with these challenges. Organizational evolution and transformation to forms which will accommodate these challenges will be slow, implying that what are currently viewed as states of relative instability are likely to be long lived.
- Evolutionary computational biology indicates that increasing interdependence and interconnectivity (of issues and organizations) leads to fragmentation. This view implies that globalization and growing internet communication will lead to a more fragmented world (of tribes, nations, special interest groups, and companies). Our research finds support for this view. We would suggest that this force is contributing significantly to turbulence around the world – and particularly political turbulence. This same work also indicates that “fitness” tends to be squeezed to some intermediate level, implying, for example that the U.S. is likely to find itself declining from its lofty economic perch as emerging countries rise toward the median. This, too, will tend to be interpreted as and/or result in economic and political instability.

Our primary conclusion is that we anticipate continued turmoil for the foreseeable future. We further anticipate that organizations will need to grow far more agile and responsive in recognizing and dealing with change (and turmoil). Organizations that find the right structure and level of response are likely to find major opportunities. Those who are wrong will naturally suffer. We expect a blossoming of the fields related to decision science and organizational design as organizations struggle to meet the challenges of instability and turmoil. In our next issue we will take a deeper look at several longer term scenarios.

expresses his philosophy of problem solving quite nicely and in relatively simple, accessible language. The book is not comprehensive in scope, but does introduce several insights to problem solving which deserve recognition and consideration. While the

book is relatively simple, it stimulates a deeper integration of previously disparate problem solving concepts. It works at multiple levels and should be a productive book for anyone in the problem-solving field.

Mitroff begins by identifying four steps to the problem solving process:

1. Acknowledging or Recognizing the Existence of a Problem
2. Formulating the Problem
3. Deriving the Solution to the Problem
4. Implementing the Solution

While this book addresses all four steps to some degree, it focuses primarily on formulating the problem and deriving the solution. Mitroff goes further to combine these steps and proposes that the combination has four possible outcomes:

1. Formulate the Correct Problem and Derive the Correct Solution
2. Formulate the Correct Problem and Derive the Incorrect Solution
3. Formulate the Wrong Problem and Derive the Correct Solution (to the Wrong Problem)

4. Formulate the Wrong Problem and Derive the Incorrect Solution.

Mitroff next points out that statistical analysis and many problem solving methods concentrate on distinguishing the correct solution from the incorrect solution. Mitroff proposes that too little effort goes into formulating the correct problem which too frequently leads to formulating the wrong problem – and ultimately to developing precise, correct solutions to the wrong problem, thus leading to failure.

At this point Mitroff introduces five categories of solving the wrong problem precisely:

1. Picking the wrong stakeholders
2. Selecting too narrow a set of options
3. Phrasing a problem incorrectly
4. Setting the boundaries/scope of a problem too narrowly
5. Failing to think systemically.

The bulk of the book examines the five categories in greater detail and suggests methods for avoiding failures.

Odds and Ends

Contacting SDSG

For general information, call or write to:

James Ritchie-Dunham
SDSG, LLC
12100 Metric, #212
Austin, TX 78758
(512)832-6518 (voice)
(512)832-6530 (fax)
info@sdsd.com
<http://www.sdsd.com>

Workshops

Systems Thinking for Strategic Insight public workshops are scheduled as follows:

Apr. 19-22	Washington, DC
May 10-13	Boston, MA
June 14-17	San Francisco, CA

Those courses will be taught by High Performance Systems, developer of itthink software. SDSG will be teaching the course in Austin in Spanish at a date to be determined. Call HPS at (603)643-9636 for info.