

Stephen Bungay: Thought leadership

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On strategy

„Strategy is a framework for decision making“

The word 'strategy' has become popular across many areas of life. The word comes from the Greek 'strategos' which means 'general'. Though it has military origins, it has been taken over by other realms in which there is conflict or competition, such as politics and business. In other contexts, a strategy often means something like a 'game plan', or 'approach'. In business and politics, it is used very loosely when words like 'policy' or 'objective' might be closer to the mark. Strictly speaking, a strategy is only needed in a very particular context – when you are trying to achieve a particular aim with limited resources against some form of opposition.

WHY STRATEGY?

„Strategy is thoughtful, purposive action“

A business needs a strategy because it is trying to prosper in a competitive environment. It is common to hear people talk about the 'strategy' of functions like HR or IT. A large corporation will probably have dozens of strategies being pursued within it, many of which it knows nothing about. This is complicated by the fact that there are different levels of strategy: it means something different at the corporate level from the business unit level.

This is where the problems begin. In strategy, more is not necessarily better.

The various elements of a business all have a part to play, but there is only one strategy. Its elements need policies, goals and objectives which support the strategy. If they have strategies of their own, expect trouble. They will seek to optimise themselves rather than the whole and the result will be silos and conflict. A strategy should be a way of overcoming silos, not cementing them.

The environment of strategy is fast moving and uncertain. It is fundamentally unpredictable. Strategy seeks to shape and adapt to events, not predict them. Good strategists know the limits of their knowledge and are humble in the face of their ignorance.

A strategy is a means of giving coherence and direction to an organisation. A good one can turn activity into purposive action. Because executing a strategy involves co-ordinating different efforts, it usually gives rise to plans. But because its environment is unpredictable, a strategy itself cannot be a plan. It is the evolution of a central idea under continually changing circumstances. It provides coherence by forming a framework for decision-making.

No strategy is foolproof. No strategy is invulnerable. Every strategy has a counter-strategy. If the environment changes, the very things which made a strategy successful can make it fail.

A business without a strategy but good at operations may do well for a while. But sooner or later it will fall victim to a competitor or a change in the environment.

On the other hand, a good strategy does not guarantee success. All it can do is to shift the odds in your favour.

Success only results from the combination of strategic rigour and operational excellence.

Combining the two is the hardest thing of all. Operational excellence cannot be an end in itself, but it can be the basis of strategic advantage. Strategic purpose guides and dominates operations; but

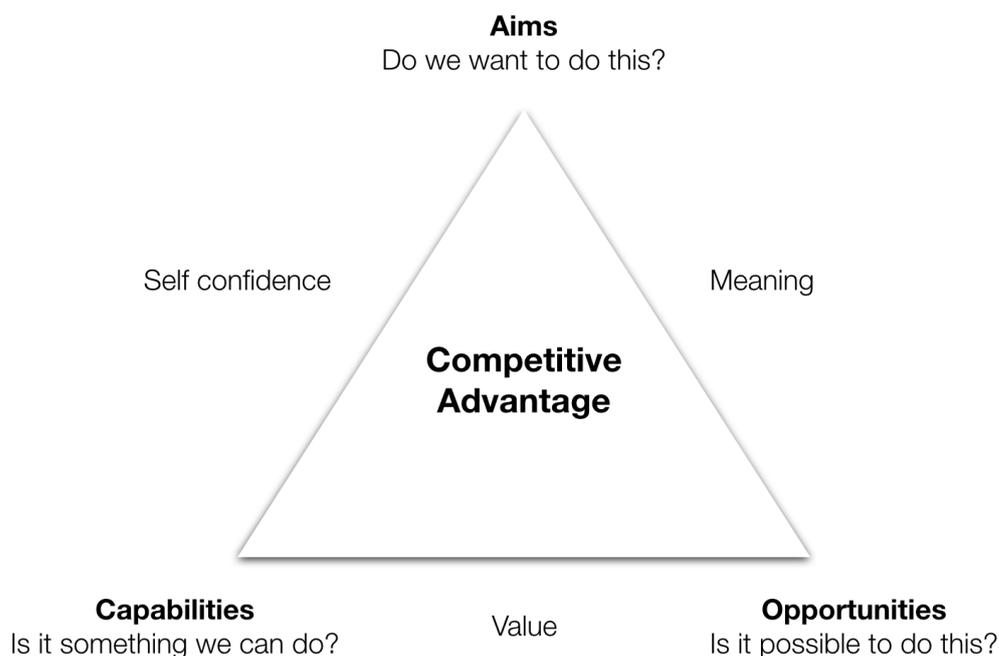
in the face of operational success the demands of strategy fall silent and it adapts itself to the new situation.

DEVELOPING STRATEGY: SOME PROPOSITIONS

„What has not been made simple cannot be made clear and what is not clear will not get done“

1. Strategic thinking involves setting the most ambitious aim possible given the opportunities offered by the external environment and the internal capabilities of the organisation.
2. The relationship between ends and means is reciprocal - they co-determine each other.
3. Neither capabilities nor opportunities are fixed. Capabilities can be developed and opportunities evolve. But the strategist must make a tough, realistic assessment of both.
4. The aim should be ambitious, but must also be realistic. Stretch can easily turn into fantasy. Some of the worst strategic disasters in history have been due to the hubris of leaders who set unrealistic goals.
5. The development of strategy can start at any point on the triangle, but it must end by going through all three. A test of a strategy is how strongly aims, opportunities and capabilities reinforce each other. A good strategy is coherent.
6. A good strategy shifts the odds by defining competitive advantage. True competitive advantage is hard to imitate and therefore often difficult to achieve. Every situation is a one-off, every competitive advantage is unique.
7. Running operations is about solving problems. Developing strategy is about making choices. A good strategy should make it clear what it is not trying to achieve.
8. Running operations is about eliminating weaknesses. Strategy is about building on strengths.
9. Operations can be benchmarked and improved by adopting best practice. Strategy tries to increase differences and seeks uniqueness.
10. Good operators take action quickly to react to current events. Good strategists think incisively to proactively shape future events.

A good strategy is realistic and coherent

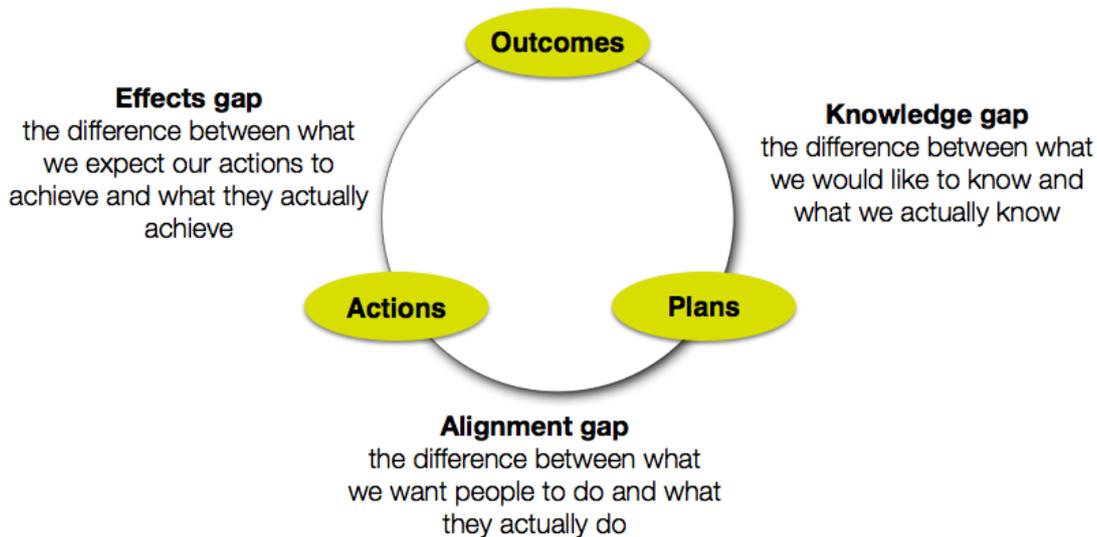


EXECUTING STRATEGY: SOME PROPOSITIONS

„Operations is about doing things right. Strategy is about doing the right things.“

“The core task of executives is to master and simplify complexity.“

The three gaps



1. The business environment is unpredictable and uncertain, and so are we. We would like to be able to make perfect plans, have people do exactly what we want, and be certain that their actions will achieve the outcomes we desire. We can do none of those things – there are gaps between plans, actions and outcomes.
2. Our instinctive reaction to the knowledge gap is to seek more information. We confuse understanding with information.
3. Our instinctive reaction to the alignment gap is to issue more specific instructions. We confuse clarity with detail.
4. Our instinctive reaction to the effects gap is to impose tighter controls. We confuse outcomes with metrics.
5. These reactions do not only fail to solve the problem, they make it worse. They add cost, paralyse decision-making and demoralise people. The organisation becomes a slow, expensive robot.
6. To close the gaps we should change our mindset to expect the unexpected and should not plan beyond the circumstances we can foresee.
7. Within the constraints of our limited knowledge we should strive to identify the essentials of a situation and make choices about what it is most important to achieve.
8. To allow people to take effective action, we must make sure they understand what they are to achieve and why.
9. They should then explain what they are going to do as a result, define the implied tasks, and check back with us. Communication is a loop. We should replace quantity with quality.

10. They should then assign the tasks they have defined to individuals who are accountable for achieving them, and specify boundaries within which they are free to act.
11. Everyone must have the skills and resources to do what is needed and the space to take independent decisions and actions when the unexpected occurs, as it will.
12. As the situation changes, everyone should be expected to adapt their actions according to their best judgement in order to achieve the intended outcomes.

On Leadership

„As a leader, you can't change who you are. But you can change what you do.“

Leadership is even more popular than strategy. Here, it seems, we really cannot get too much. However, there is not much agreement about what it actually is.

There used to be a general consensus that leaders are born not made. Leadership in all walks of life depended on having the right stuff, and that was largely inherited. Given the number of books and courses about leadership, the consensus must have changed. Maybe we are just wasting an awful lot of time and money.

There is still little agreement about the qualities that make a good leader. Some believe they are universal, others that they depend on context. Some people emphasise intellectual qualities, other emphasise emotional intelligence. Some people believe that great leaders need outstanding moral qualities. Others believe that leadership is morally neutral and can be a force for good or ill.

However that may be, what matters in the end is not such much what leaders are as what they do. Many people in business have some sort of leadership role as well as some sort of role as a follower. Like it or not, we have to do it. So whatever our personal qualities and characteristics, we all need to try to do it as well as we can. We are told that it is different from management. It remains amorphous. It may be helpful to think more carefully about its component parts.

THE EXECUTIVE TRINITY

„The leader is committed, passionate, and determined. The director is detached, calculating and flexible. The manager is engaged, pragmatic and realistic.“

„People only change when they are ready, willing and able. Leaders address all three: head, heart and hand.“

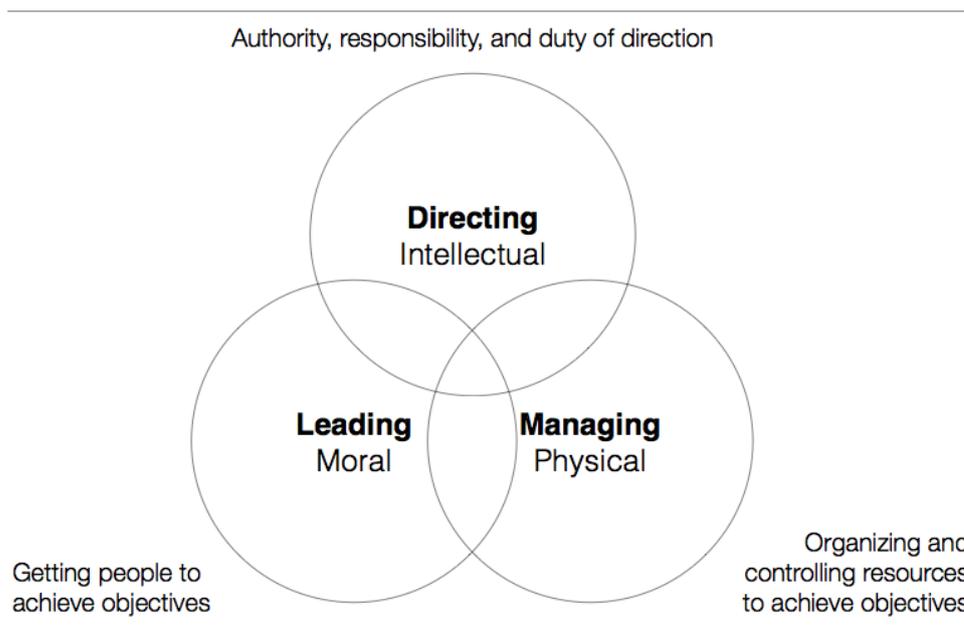
If you had picked up a book fifty years ago about the job of running an organisation, it would almost certainly have had the word 'management' in the title. During the 1980's, it was suggested that whilst management is fine in a stable environment, change requires leadership. As the rate of change continued to increase, so did the emphasis on leadership. Today, running a business is understood to be a matter of leadership. Management is regarded as old fashioned or worse. That is a problem.

The reason that the theme of leadership arose in the 1980's is that by then the inadequacy of the idea that organisations are machines and running them was an engineering task was beginning to be obvious. If organisations are organisms made up of people, then the performance of the organisations will depend to a large part on the motivation of the people in them, and they need to be led.

The military have known that for centuries. But they also know that efficient management is part of any general's job. If his highly motivated men arrive on a battlefield without food and ammunition and the artillery got lost along the way, they will probably fight bravely and lose. There is a well known military saying that amateurs talk tactics and professionals talk logistics.

Management matters, and it always will. So does leadership. So does something else which nobody in the business schools seems to have noticed. In the military it is called 'command'. In business we might call it 'directing'. Being part of the group running a business organisation requires mastering three sets of skills: the executive's trinity.

The executive's trinity



In the business world, we not only suppress management, but lump directing and leadership together. However, the skills required are quite different. Because we don't distinguish them, we can get good leaders who are poor directors and vice versa, and we develop people as leaders and then expect them to be able to demonstrate the abilities of directing which they have not been trained in. Executives need to be able to deal with concepts, things and people. Not surprisingly, the individuals who master all of these challenges in equal measure are very rare. So we need all the help we can get.

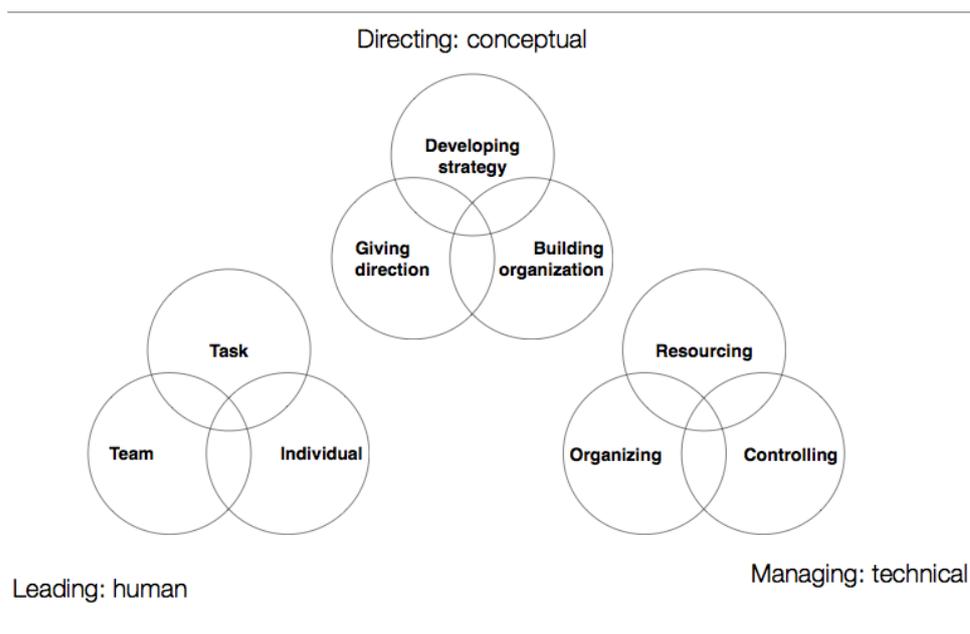
John Adair defined the three circles of leadership several decades ago. Effective leadership involves balancing the requirements of the task, the team and the individual. The requirements are constantly changing, so a good leader adjusts the balance of their attention. That is about what leaders do, not what they are and is eminently practical. Adair's model remains as valid today as ever it did. The other elements of the trinity need more attention.

THE TRINITY: SOME PROPOSITIONS

„The most neglected of all the critical skills of an executive is giving direction.“

1. **Management** is about organising, resourcing and controlling. It deals with physical assets. Good management does not just enable a business to be efficient. Without the proper allocation of resources, it cannot execute any strategy.
2. **Leadership** is about motivating people to perform a task, building a team and developing individuals. Good leadership defines the task and enables people to perform it better than they would have done had the leader not been there. Without leadership, strategy would fail at the first difficulty.
3. **Directing** is about developing strategy, building the organisational capability to execute it and giving direction. It is primarily an intellectual challenge. Without good direction a business will lose its cohesion and become a victim of circumstances.
4. No one element is more important than any other. They overlap and many executives will be called upon to do all three. In the course of a career, we all begin as leaders, have to learn to act as managers as we take on responsibility for departments and finally if we become senior executives, learn the skills of directing.
5. When we are directing we need to be dispassionate and realistic. If we act like a leader we will court the danger of imagining we can do the impossible just by trying harder, and wreck the organisation.
6. When we are leading we need to be engaged and enthusiastic. If we act like directors we will appear to be remote and uncertain. We will demotivate and perhaps even demoralise people and performance will flag.
7. The most neglected single skill is the art of giving direction. Developing a strategy is not enough. We have to put it across to individuals and the organisation as a whole. Doing so well is difficult, and requires practice. It is the point at which successful execution begins.

The elements of the trinity



On organizations

„The principles of bureaucracies and businesses are not just different, but opposed.“

„In businesses, people dominate processes. In bureaucracies, processes dominate people.“

As a species, human beings are unique in forming organisations for a wide variety of collective purposes which go well beyond simple survival.

Throughout history, there have been two fundamentally different types of organisation. Neither is good or bad, so they are simply labelled ‘Type A’ and ‘Type B’. Both have been vital to the development of civilisation.

	Type A organization	Type B organization
Purpose	Create stability	Create change
Principle	Subsume reality into itself	Adapt itself to reality
Goal	Extend its power through growth and continuity (internally directed)	Fulfil its mission by achieving tasks benefiting stakeholders (externally directed)
Organisational rationale	End in itself (seeks perpetuation)	Means to an end (can abolish itself)
Managing principles	Avoid corruption Processes dominate individuals, inputs dominate outputs Follow procedures Treat everyone the same Personnel are servants of the organisation Reward compliance	Create accountability Individuals dominate processes, outputs dominate inputs Show initiative Treat everyone appropriately Personnel are free agents within boundaries Reward achievement
Consequence	The general dominates the specific	The specific dominates the general
Definition of failure	Departing from process (how)	Failing to achieve goals (what)
Examples	Churches State bureaucracies	Businesses Armies

This is a heuristic device, a model in terms of which real examples can be understood, not an attempt to describe an organisation or group of organisations. The dimensions define scales along which it is possible to plot any organisation. Nevertheless, impurely, but perhaps usefully, one could think of Type A as standing for ‘Administrative’ and Type B for ‘Business’.

Type A's used to be the most common. They include political bureaucracies and churches. Two of the most successful organisations in history, the Imperial Civil Service of China (221BC – 1904AD) and the Catholic Church have been Type A.

Type A's create the conditions in which Type B's can flourish.

Type B's are now far more numerous because they include the business corporations which dominate market economies. However, they only started to become common some 200 years ago. Prior to this the main examples were some standing armies, but they too did not become common until the C17th. The outstanding Type B of all time probably remains the Roman Army (ca 580BC – 565AD).

Importantly, the principles of Types A and B are not just different, but opposed. Hence a hybrid will have immense difficulties in being effective.

Military organisations are curious. In peacetime they exhibit the characteristics of Type A. In war, their effectiveness, and hence their survival, depends on the speed at which they can change into Type B. Some have been very good at this, others less so. Today, the armed services signal the change by being very clear about when they are and are not 'on operations'. They are not hybrids, because they switch between the two states. However, if a military apparatus at war consists of one part (e.g. the Army) which switches to Type B and another part (e.g. a Ministry of Defence) which remains a Type A, there will be friction.

ORGANISATIONS: SOME PREPOSITIONS

„The intelligence of an organisation is never equal to the sum of the intelligence of the people who work in it.“

„An increase in communications capacity will lead to an increase in control – unless this is deliberately countered.“

1. The most effective examples of each type are those which are most consistent and avoid drift towards the other model.

No organisation is at one extreme end of the spectrum along every one of the dimensions. However, the dimensions are not neutral, but reinforce each other. So the more consistently an organisation's characteristics are grouped around one end or the other of the spectrum, the more effective it is likely to be.

The most basic choice facing those in charge is what type of organisation is required in order to be fit for purpose. Taking a basic Type A and trying to graft on Type B features will usually result in a mess. It is at the heart of many problems of public sector performance across the world. Demanding that a public sector organisation simultaneously govern citizens and serve customers is demanding that it be Janus-faced, and that is an impossible act to pull off. Governments need to decide what they want and create separate organisations to do each. They need some thoroughgoing Type A's, like central banks. Central banks need to govern financial institutions, not to serve them.

2. There is a natural drift towards Type A; maintaining Type B characteristics requires the constant expenditure of energy.

Businesses tend to demonstrate Type A characteristics as they lose their sense of purpose and they come to be dominated by structure and processes. It is more common if they become very large, but not all large organisations are Type A (GE is a thoroughgoing Type B). Type B organisations tend to drift naturally towards the state of Type A unless their leadership is energetic in countering this. The opposite of this entropy is crisis. In a crisis, external needs become so pressing that behaviour tends to move towards Type B until the crisis has passed. So it is that sustained success is dangerous for Type B's and they often need to experience a disaster (e.g. a collapse in share price, a hostile bid, a humiliating battlefield defeat) in order to

regenerate. Wise leaders of Type B organisations create internal crises by challenging the organisation before a real crisis hits them.

3. In any organisation, power tends to float upwards and responsibility tends to sink downwards.

This is a corollary of 1. Like oil and water in a bottle, keeping the right mix throughout requires vigorous shaking.

4. The intelligence of an organisation is never equal to the sum of the intelligence of the individuals who work in it - i.e. $I_{org} \neq \sum I_{ind}$

Organisational intelligence is manifested as an ability to respond to its environment and react to changes in order to fulfil its purpose. This depends on its being able to identify, absorb and process information and act upon it. A measure of intelligence is the speed and accuracy with which it does so.

Organisations always act as multipliers or dividers of the intelligence of the people in them. They are never neutral.

5. An increase in communications capacity will lead to an increase in control unless this is deliberately countered.

The volume of communications will tend to expand to fill capacity. Capacity is defined by how much senior people can transmit rather than how much junior people can absorb. An increase in capacity will therefore tend to centralise control. Expansion towards capacity creates overload and in conditions of overload prioritisation mechanisms break down. The effects of this will be to create confusion, slow down decision-making and create inaction.