

# Strategic Learning

A Leadership Process for Creating and Implementing Breakthrough Strategies

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## THE LEADERSHIP CHALLENGE

What is the central challenge facing business leaders today?

The answer most management experts will give you is “the need for change.” This has been repeated so many times, in so many different ways, that it has become accepted as a truism. But on closer inspection, this answer is only half true. And a half-truth, like a little knowledge, can be a dangerous thing.

The problem with “the need for change” as an answer is that it strongly suggests that change should be a one-time event—that a company needs only to go from point A to point B in order to succeed. This A-to-B approach is at the core of traditional strategy, but in today’s fast-changing world, that approach is badly outdated. One-time change just isn’t good enough. It simply gets you stuck in a new place. Meanwhile, the market moves on and leaves you behind.

Today’s competitive environment presents unique challenges for organizations: high levels of uncertainty and complexity, disruptive technologies, and a premium on speed, choice, and innovation. These new challenges demand a new type of leadership.

*Rather than A-to-B change, the central challenge facing business leaders today is to create and lead an adaptive enterprise. This means creating an organization with the built-in ability to sense and rapidly adapt to changes in the environment... on a continuous basis.*

As a practicing CEO for 20 years and now as a professor of management, I recognize that one of the biggest hurdles facing executives is their inability to mobilize their companies behind new ideas. Change is disruptive to organizations and is notoriously difficult to lead. And ongoing, continuous change is even harder to achieve than one-time change. Yet building an adaptive enterprise is the only path to long-term survival.

This paper will lay out a practical leadership process for creating an adaptive enterprise by mobilizing a dynamic cycle of four steps: *learn, focus, align, and execute*. These steps build on one another and are repeated to create a dynamic cycle of renewal that I call Strategic Learning. It is a process that offers a new way to lead companies in a world of unpredictable change.

## LEARNING FROM NATURE

What are the principles of successful adaptation? Nature is our best teacher.

In nature, the creation of favorable variations is the key to successful adaptation. A wonderful example is a plant, the common red clover, which has developed a flower with a unique feature—a long, thin funnel leading to the nectar at its base. Only bees, which have very long tongues, can reach the sweet nectar. Other insects are shut out.

The beauty of this strategy is that bees can fly farther than other insects. In effect, the red clover has formed an exclusive alliance with bees that ensures that its pollen is distributed more widely than that of other plants. This gives it a crucial competitive advantage that promotes its long-term survival.

This strategy is not without risk, of course. What if another plant produces a sweeter-tasting nectar and the bees “switch brands”? Or what if the bees themselves are outmaneuvered and become extinct? The principle of risk/reward trade-off is hard at work here! Nonetheless, at least for the time being, the alliance strategy has cap-

tured a significant advantage that no other plant has been able to challenge.

How does the natural world produce such brilliant strategies? Nature generates variations through a massive and ceaseless set of experiments—mutations that test a wide range of survival strategies. Most of these variations are failures. But a few succeed, enabling individual organisms to live longer, reproduce in greater numbers and out-compete other species. These are the favorable variations that will come to dominate future generations.

The key is that nature never sits still. What is stunning is that, in nature, the development of favorable variations is a completely random, unconscious process. The variations that arise are generated without apparent design, and the ones that will survive are not predictable. As a result, evolution is a low-odds game: 99 percent of the species that ever existed are now extinct.

What lessons does nature hold for organizations? As in nature, the rules of survival in the marketplace are essentially Darwinian. Never sit still. Continuously generate favorable variations—those that create competitive advantage—or run the risk of extinction.

*It's no good being on the right track. If you just sit there you'll be run over.*

Will Rogers

*It is not the strongest of the species that survive, nor the most intelligent, but the most responsive to change.*

Charles Darwin

*In the world of organizations, effective learning is at the heart of successful adaptation.*

But here is the twist. People have one crucial advantage over other organisms: the power to think and learn. Nature's low odds are due to two gigantic learning disabilities. When nature fails, it doesn't know why; when it succeeds, it doesn't know why.

Organizations possess the capacity to overcome these learning disabilities. It is our power to harness learning that increases our chances of survival, and the quality of that learning determines our odds of success. Therefore, in the world of organizations, *effective learning is at the heart of successful adaptation.*

What is the track record for organizations in responding to this challenge? The evidence is not encouraging. Longevity in corporations is the exception, not the rule. Only one third of the Fortune 500 firms of 1970 still survive today. And the casualty rate appears to be getting worse. According to Dun and Bradstreet, of the 9 million companies currently registered in the U.S., only 7 percent are over fifty years old.

If organizations want to improve their ability to adapt and survive, they will have to change their ways.

## **CREATING THE ADAPTIVE ENTERPRISE: FAILED RESPONSES**

Three approaches in particular have held out the promise of improving an organization's ability to adapt: the notion of *the learning organization*, the resurgence of strategic planning and complexity theory. None on its own has worked.

### **The Learning Organization**

The recognition that learning is central to successful adaptation has given rise to a body of thinking on what has come to be called the learning organization, i.e., an organization with an enhanced ability to generate and apply learning. Learning theorists have provided valuable insights into how individuals and groups learn and how to convert this knowledge into organizational learning—a key ingredient of an adaptive enterprise.

Some years back, Arie de Geus, formerly of Shell Oil and author of *The Living Company* (Harvard Business School Press, 1997), made an observation which has since been repeated many times in the business literature: "In the future, an organization's ability to learn faster than its competitors

may be its only sustainable competitive advantage." He thus captured the central insight of the learning organization movement.

It is an important insight but incomplete. De Geus's comment positions learning as an end in itself, rather than as a means to an end. It doesn't tell us where to concentrate our scarce learning resources to achieve successful adaptation. Arguably this is the most critical choice of all. As the Institute for the Future's Paul Saffo has pointed out, "Our predicament is the growing gap between the volume of information and our ability to make sense of it." If we try to learn everything, we will learn nothing.

Thus, we need to build on de Geus's insight by adding the dimension of *strategic focus*. Learning gives us half of the adaptation equation. To complete the equation, we must explicitly link a firm's learning to the creation and implementation of winning strategies.

### **Strategic Planning**

As a focus of business leadership, strategic planning is enjoying something of a resurgence. During the 1990s, when downsizing, consolidation, and cost-cutting failed to pro-

duce sustained success, companies returned to strategy to find ways of driving growth.

The trouble is that most companies are relying on the conventional A-to-B strategic planning process. That model simply doesn't cut it in today's turbulent environment.

In many companies, there is widespread frustration over the fact that their strategic plans are not doing their main job—creating competitive breakthroughs. People groan when they hear that the strategic planning season is at hand. Frankly, they have good reason. Strategic planning in most cases is 10 percent strategy and 90 percent planning—number crunching, forecasting, and budgeting. All this does is generate thick binders full of data that end up collecting dust on the shelf. The sad truth is that strategy all too often fails to engender the kind of ongoing renewal that is the hallmark of an adaptive organization.

Why is this so?

Remember that successful strategy is essentially a response to the Darwinian logic we explored earlier. Survival, in the final analysis,

*It is not learning for its own sake, but learning strategically that is the source of successful adaptation.*

*Winning once is not enough. To survive in the long term, we have to go on winning.*

depends on our best use of limited resources. No matter what business we manage—IBM or the local pizzeria—we all have finite resources; if we squander them, we are out of the game. Thus, the main job of strategy is to make the most intelligent choices about how to use our limited resources. And as the environment becomes more discontinuous, intelligent choice-making depends increasingly on an organization’s ability to make sense of the changing landscape through learning and discovery, to translate superior insights into strategic action...and to do so continuously.

As Henry Mintzberg, author of *The Rise and Fall of Strategic Planning* (Free Press, 1994), has pointed out, strategy is one thing, planning another. Strategy should come first, planning afterward. However, for many companies, strategy is a numbers game rather than an ideas game—a planning ritual rather than a process of discovery. Companies may have been able to get away with planning alone in the slower-moving environments of yesterday. Such an approach could prove fatal today.

But by far the most serious indictment of conventional strategy is that it is static. Focused on creating one-time, A-to-B change, it provides no means for generating *ongoing* adaptation.

### **Complexity Theory**

The failure of traditional strategy has sparked a growing interest in so-called *complexity theory* as a new way to think about adaptation and renewal. Borrowing concepts from biology and other natural sciences, the complexity theorists argue that in a nonlinear world, you cannot accurately predict the future, nor can companies plan ahead. Therefore, conditions should be created that will allow strategy to emerge “naturally” and permit organizations to “self-organize” in response to signals from the external environment, as flocks of birds, for example, migrate successfully together, instinctively responding to environmental cues.

There are a number of valuable insights in complexity theory: the need to understand organizations holistically, the importance of allowing enough freedom for creativity to flourish, and the crucial role of organizational learning. All these have a

major role to play in the creation of adaptive organizations.

However, some complexity theorists have taken the argument too far. Human organizations are not flocks of birds, schools of fish, or swarms of bees. People have free will. They can and do make choices that are often at odds with the goals of the organization. They can resist change, sabotage strategy, and even go on strike. In other words, they don’t always fly south in an orderly manner, as some complexity theorists like to think.

The reality is that we need the right combination of chaos and order for creativity to flourish. It is a fallacy to believe that winning strategies can simply emerge without a deliberate process for generating insight, making choices and creating focus. The need for leadership hasn’t gone away. But our concept of leadership must change from the pursuit of static goals to the challenge of continuously modifying a firm’s strategic focus in response to changes in the environment. Survival in a rapidly changing world is hard because it takes a juggler’s skill to balance the demands for focus and change.

### **WHAT IS THE RIGHT ANSWER?**

This brings us back to the issue raised at the beginning: *How can business leaders create and lead adaptive enterprises?* This challenge contains two separate questions—the *what* and the *how*:

1. *What* are those few things organizations must be able to do outstandingly well to generate ongoing renewal?
2. *How* can organizations accomplish these things in practice?

Let’s deal with the *what* question first. After all, we must know *what* to do before we can tackle the *how* issue of implementation. What are we going to focus our scarce resources on? The biggest decisions we make in business involve *deciding what’s important*. The detailed answers will vary from company to company and from industry to industry, but there are certain commonalities that all businesses share. Here are the five “killer competencies” that I believe every organization must master to become an adaptive enterprise:

#### **The Five Killer Competencies**

1. **Insight:** The ability to make sense of the changing environment

*The key challenge is to both create strategic focus and continuously adapt to the changing environment.*

*Organizations that can master the five killer competencies better than their competitors will greatly improve their odds of long-term survival.*

2. **Focus:** The ability to create an intense focus on the right things
3. **Alignment:** The ability to align and mobilize the entire organization behind this strategic focus
4. **Execution:** The ability to implement fast
5. **Renewal:** The ability to do these things over and over without stopping

Note that the fifth competency is different from the first four. The first four competencies are aimed at producing specific outputs. The fifth is the ultimate competency—the ability to go on repeating the first four. This ability creates a *cycle of renewal* that separates truly dynamic organizations from those that are doomed to become tomorrow’s dinosaurs.

**ACHIEVING ADAPTIVENESS THROUGH STRATEGIC LEARNING**

Having decided on the competencies crucial to an organization’s long-term survival, the big challenge is to move beyond the rhetoric and actually implement them—the *how* question. An idea, no matter how profound, has absolutely no value until it is put into practice.

Strategic Learning is presented here as a practical leadership process for mobilizing the five competencies to create an adaptive enterprise. I developed it initially through trial and error as a practitioner; it has since been refined with input and encouragement from my colleagues at Columbia Business School. The methodology is now widely used in executive education programs at the School. The principles of Strategic Learning have been taught and applied in such leading companies as Aviva, Bausch & Lomb, Boeing, Chubb Corp., Deloitte, Ericsson, ExxonMobil, Henry Schein, Inc., Process Energy, SAP and Sony. And the Girl Scouts Organization is using this process for its strategy creation.

Strategic Learning is not a magic bullet. There is no such thing. But the method has been battle-tested and has made a measurable difference in a number of organizations. In working with executive teams, I have found that those who follow the principles of Strategic Learning with passion and determination have achieved a real difference both for their organizations and personally.

**WHAT IS STRATEGIC LEARNING?**

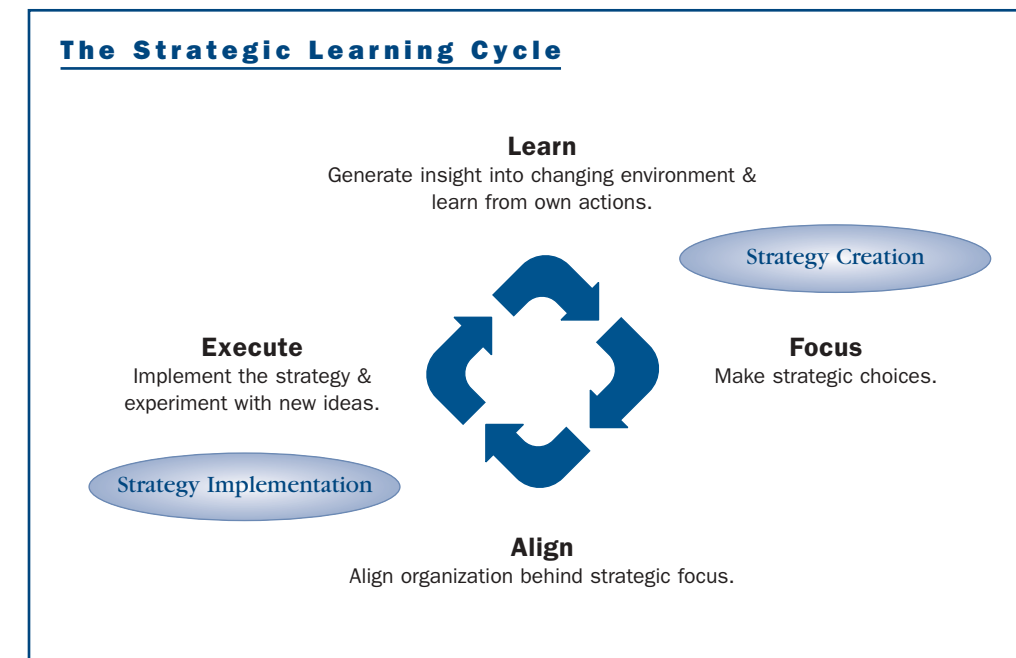
Strategic Learning is a learning-based process for creating and executing breakthrough strategies. Unlike traditional strategy, which aims at producing one-time change, Strategic Learning drives continuous adaptation.

As shown in Figure 1, the process has four linked action steps—*learn, focus, align,* and *execute*—which build on one another and are repeated (as the fifth step) in a continuous cycle. Together they embody the five competencies mentioned earlier. The first

two steps form the basis of a firm’s strategy creation. The third and fourth steps are the foundations of strategy implementation. Thus, strategy creation and implementation are integrated in a mutually reinforcing process.

The key is to think cycle—not straight line. Simply following the Strategic Learning process once is not enough. The leadership challenge is to repeat it over and over, so that an organization continuously learns from its own actions and from scanning the environment, and then modifies its strategies accordingly.

Figure 1



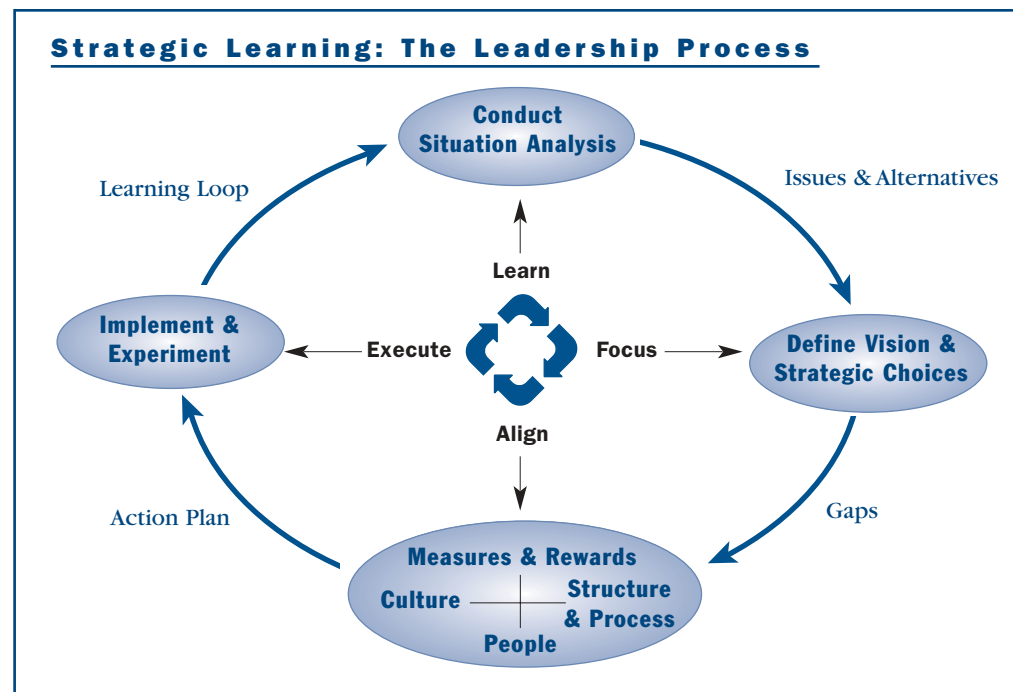
The more often an organization repeats this cycle, the better it will become at doing it, thus enhancing its adaptive capacity. The result is a process of ongoing renewal that characterizes the truly adaptive organization.

### IMPLEMENTING STRATEGIC LEARNING: A PRACTICAL GUIDE

When you want to achieve an important result, the key to success is to create a process that will take you there. For Strategic Learning to work

in organizations, it needs to be an integral part of the way the business is run, not a sideline or staff-driven activity. Strategic innovation is too important to be left to random actions and ad hoc initiatives. Just as companies employ systematic research and development to spur *technical innovation*, so too we need to harness a deliberate, systematic process to drive *strategic innovation*. Figure 2 illustrates how the four-step cycle is converted into a practical leadership process for creating and implementing breakthrough strategies.

Figure 2



The process involves a particular sequence of activities, each designed to produce specific outputs that feed into the next stage of the cycle. But note: Although these activities are portrayed as sequential, life is messy. Thus, it is often necessary to repeat a stage or loop back in an iterative process. That is part of the learning, and it is all to the good, as long as the whole cycle is completed. Here's how it works.

### STEP ONE: THE SITUATION ANALYSIS (LEARN)

The essential starting point in the Strategic Learning process is the Situation Analysis—a systematic exercise in diagnostic learning. The Situation Analysis is the engine room of strategy creation. Its aim is very specific: to develop superior insights as the basis for the firm's strategic choices. *All breakthrough strategies are based on a unique insight.*

The task of the Situation Analysis is to generate superior insights into the following key areas:

- Customers
- Competitors

- The firm's own realities
- Industry dynamics
- The broader environment

The aim is to scan and interpret the firm's external environment and its internal realities in a combination of analysis and creative brainstorming. The emphasis is on challenging existing assumptions and producing out-of-the-box thinking. It is important to probe and explore, always searching for trends, root causes, and ultimate consequences—not just stacks of data.

Note that the process does *not* begin with articulating a vision, as many strategy experts recommend. Trying to invent a vision in a vacuum is like shooting in the dark. Doing the Situation Analysis first ensures that the vision is based not on whim but on insight. Where a clear and compelling vision already exists, a thorough Situation Analysis will validate and reinforce it.

The key to conducting a good Situation Analysis is to ask and answer the right questions—penetrating questions that will provoke insights. Each company must find the right questions for its particular circumstances. The following list of sample questions is offered as a guide:

*A wise man's questions contain half the answer.*

Gabirol (ca. 1070)

### Customers

- What are the underlying trends in our customers' expectations? How is today different from yesterday, and how will tomorrow be different from today?
- What is the *hierarchy* of customer needs? These should include customers' hidden needs—those things we must understand before they do.
- How well do we currently serve those needs? (S=Strong, M=Moderate, P=Poor)

### Competitors

- In what distinctive ways are our traditional competitors serving the market? How does their effectiveness compare with ours in the eyes of the customer?
- Who are our nontraditional competitors and what unique benefits are they offering? Who is the most dangerous, and why?
- What will be the next big breakthrough in serving customer needs? Who is most likely to launch it—us or a competitor, and why?

### The Firm's Own Realities

- What are the five-year trends on our critical performance measures, and what conclusions can we draw from them?
- Where are we making money and where not? (This question requires disaggregation of profit and cash flow by customer, product group, and geography.) Are we addressing our losing propositions?
- What are our key strengths that we can leverage for competitive advantage? What are our weaknesses that represent barriers to better performance?

### Industry Dynamics

- Which trends in our industry and the “new economy” are the most important in shaping our destiny? How will they change the rules of success?
- What are we currently doing to exploit these developments so that they produce greater value for our customers?
- What barriers must we overcome to take the lead in profitably exploiting these trends? What are the top priorities?

### The Broader Environment

What is happening around us that will impact our business in regard to the following factors?

- Economic trends
- Social habits and attitudes
- Technology
- Demographics
- Government regulation

For maximum benefit, the Situation Analysis should engage the intellectual and creative resources of the entire firm, not only those at the top. Inputs should be sought from those who are closest to the customer. Therefore, extensive use should be made of cross-functional teams in a combination of market research, analysis, critical thinking, and creative brainstorming.

The key deliverable from the Situation Analysis is a set of insights, not a survey of data. These insights should be crystallized into concise diagnostic statements that can be readily understood by all. Simplicity and clarity are essential virtues.

When executive teams conduct a Situation Analysis, they should pretend they're journalists in search of a scoop. They should continue to delve and not stop until they feel they have developed superior insights—truths that they have understood better or earlier than the competition. Seeing it first and understanding it better is the name of the game—it's where the competition begins.

When the key insights have been defined, a firm can begin to consider the issues and alternatives that have emerged, and to explore the pros and cons of various alternatives. This is the analytical precursor to making the final strategic choices. For example, a key insight may be that a sizable share of your business will migrate to the Internet over time. If so, one issue to explore is the alternative ways of converting your existing model to a dual-channel (on-line and off-line) approach without destroying your current profit stream.

*Increasingly, the battle for the best insights is becoming the most decisive battle in the competitive wars.*

*The first task of the leader is to be the trumpet that sounds the clear sound.*

Peter Drucker

## STEP TWO: VISION AND STRATEGIC CHOICES (FOCUS)

The Vision and Strategic Choices are the key deliverables of strategy creation. They are based on the insights generated in the Situation Analysis and represent the strategic focus of the firm.

### The Vision

The sightless author and educator Helen Keller was once asked whether she could think of a fate worse than being blind. “Yes,” she said, “being able to see, but having no vision.”

There is no doubt that a compelling vision has an energizing effect on an organization. However, it is equally true that there is no bigger waste of time than the creation of bland, one-size-fits-all vision statements such as “We shall strive for excellence in all that we do.”

A vision is a concise word picture of what an organization aspires to be in the future that provides a clear sense of direction that everyone can understand. Coherence is key; the vision should be an extension of the firm’s strategic choices, not a thing apart.

A good vision is simple, motivating, and realistic. Martin Luther King Jr.’s “I have a dream” speech is a great example of a powerful vision statement that inspired a movement and, ultimately, a nation. Here are some other examples:

#### President John F. Kennedy

“To put a man on the moon and return him safely to earth in ten years”

#### Ogilvy & Mather

“To be the agency most valued by those who most value brands”

#### Walt Disney

“We use our imagination to bring happiness to millions”

#### Marriott Hotels

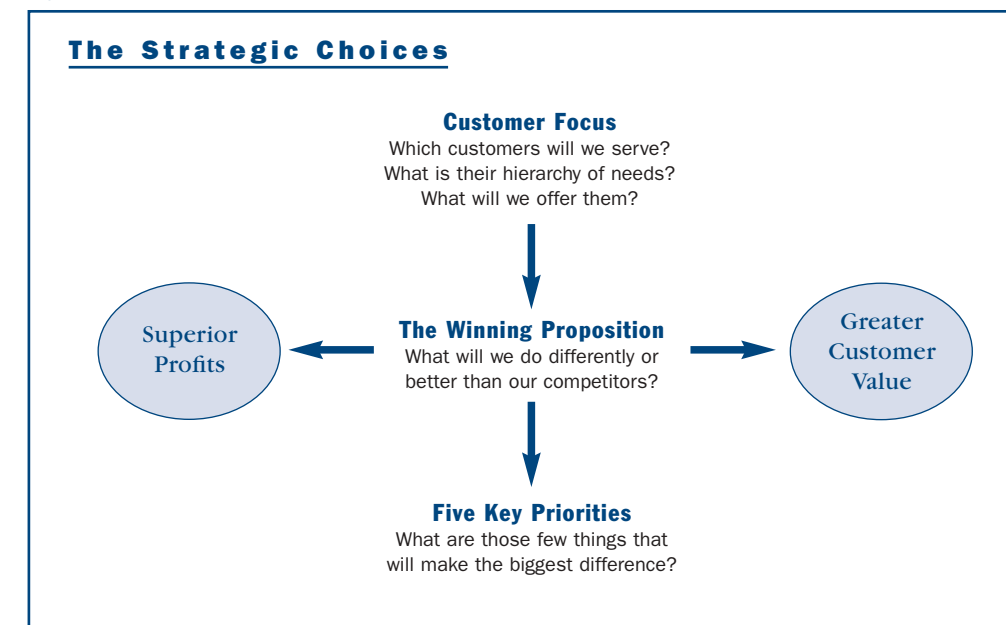
“Every guest leaves satisfied”

A vision should involve stretch. The desired response should be “Yes, that’s where we want to go—but we can’t get there by doing what we’re doing today.” Great visions motivate transformational behavior, not incrementalism. They inspire people to invent their way to the desired future.

### The Strategic Choices

Strategy is about making choices. No lasting success has ever been

Figure 3



achieved without an intense focus on the right things. But making choices takes courage. The worst decision is to duck the issue, trying to be all things to all people. The Strategic Learning process is designed to ensure that your choices are based on insight rather than guesswork and that you make the most intelligent choices possible.

The Strategic Choices contain three elements (Figure 3). The first, Customer Focus, defines which customers the firm will serve (and which it will not), and what products or services it will offer them. The

second is the Winning Proposition. This answers the question, “What will we do differently or better than our competitors to achieve greater value for our customers and superior profits for our firm?”

The third element is the Five Key Priorities, a list of the top priorities the firm will pursue to realize its winning proposition. Avoid a laundry list. If there are more than five priorities, focus becomes blurred. The process of prioritizing should then cascade throughout the organization, so that each division, department, and individual develops an aligned

*One litmus test of a good strategy is that the firm has decided not only what it will do, but also what it will not do.*

*I am sorry  
to write you  
this long letter;  
but I didn't  
have time to  
write you a  
short one.*

Blaise Pascal

set of strategic priorities, never more than five in number.

The Strategic Choices should be described in utterly simple, concise statements. This takes time. Simplicity is not a shortcut—it is hard work. But the time spent is a sound investment. People simply do not respond to long, complex statements.

A good example is Southwest Airlines. Their customer focus is single-minded: to serve budget-conscious travelers. Their winning proposition is to operate at the lowest industry costs and provide fun-filled air travel that competes with the cost of car travel. Their key priorities are equally unambiguous:

- Have fun.
- Focus on the needs of the customer.
- Ensure that everybody helps out.
- Maintain superior operational efficiency.
- Apply tight cost controls.

Everyone at Southwest knows exactly what the strategy is, what the firm will and will *not* do, and where each employee fits in. It is no accident that Southwest has the best growth and profit record in the airline industry.

## **GEARING UP FOR IMPLEMENTATION**

Before moving to the alignment step in the process, the strategic priorities need to be translated into operational goals that clearly spell out what must be done for the firm's strategy to be effectively implemented. First, look at each of the strategic priorities and ask what gaps must be closed for them to be achieved.

The resulting gap statements define the appraisable difference between the current reality and the desired future state for each priority. They should be articulated in concrete, measurable terms. For example:

- To improve customer satisfaction rates from 70 to 90 percent
- To raise sales from products introduced in the past three years from 20 to 40 percent of the total
- To reduce R&D time to market from seven years to four
- To increase the percentage of on-line sales from 2 to 30 percent

Each gap should contain clear milestones, and for each gap a specific champion should be selected and charged with leading teams to achieve those targets. In setting their

goals, companies should strive for worldwide best practices, not simply to be the best in their local market. Today the competition for the best ideas is global. If there is a better idea anywhere else in the world, sooner or later it will come into your market and compete against you. You can run, but you can't hide!

## **STEP THREE: ALIGN THE ORGANIZATION (ALIGN)**

Now that the Strategic Choices and the gaps to be bridged have been clearly defined, a firm is ready to tackle the issue of strategy implementation. In large, complex organizations, this can be a daunting task. For many executives, this is the hardest part of all.

Fortunately, there are clear principles for success. If applied effectively, they can substantially improve a company's results. But if they are ignored, then failure is inevitable.

The first essential is effective project management. The right disciplines, measurements, and accountabilities must be applied to closing the gaps, and follow-through must be relentless. But successful implementation is more

than a matter of good, hard-nosed project management. It also requires that all the key supporting elements of the business system be aligned behind the chosen strategy. The existing alignment has been put in place over time to support yesterday's strategy. It is essential to realign the business system behind tomorrow's strategy. Otherwise, that strategy will fail.

There is a trap that many organizations fall into when they move into this implementation phase: Management of Things in Isolation (MTI). Companies fall into the MTI trap when they simply change one element of the business system and hope for success. The kinds of isolated initiatives many companies launch include Six Sigma, management by objectives, reengineering, and especially changing the organizational structure. Company after company sets out to reorganize its way to success. When this doesn't work, they simply do it again. Before long they become serial reorganizers! They then become frustrated, finding that nothing happens except confusion.

Such selective interventions hardly ever work. For implementation of any strategy to be successful, *all*

*The big  
question is,  
“How do we  
get our organi-  
zation to do  
what we want  
it to do?”*

*The key is to see the organization as an ecosystem of interdependent elements. Think of the giraffe and the acacia tree.*

the key elements of the business system must reinforce each other in support of the strategy. No single element on its own can do the job.

The task is to understand the key supporting elements of a firm's business system that must be aligned. Various frameworks for doing this have been suggested by, among others, Galbraith, Nadler, and Tushman. The model proposed here (Figure 4) comprises the following supporting elements, which must work in uni-

son: *Measures and Rewards, Structure and Process, People, and Culture.*

Think of an organization as an ecosystem, like a rain forest or an oasis in the desert. An ecosystem functions successfully only when its interdependent elements support one another. When any single element does not play its supporting role or when the elements work against each other, the system fails.

Consider the story of the giraffe and the acacia tree. Giraffes love the

leaves of the acacia tree. They browse on them all day long. But a giraffe will never feed from the same acacia for very long. After a brief period of eating, it will amble off and start feeding from a similar tree nearby. It looks as if the giraffe is acting on a whim. But this is not so. The tree is actually giving the giraffe its marching orders. After a certain number of its leaves have been eaten, the tree rapidly injects a bitter sap into its leaves, thus repelling the giraffe and forcing it to feed elsewhere. This protects the tree from extinction, while preserving the giraffe's food supply.

The key elements of the business system are similarly interdependent. Success comes not from isolated actions, but from orchestrating the right interactions. For example, Southwest Airlines' strategy is supported by all the key elements of its business system working together. This is why their competitors find it so hard to copy them.

It is necessary to examine each element in turn and make the changes necessary to ensure that they are acting in concert to support the strategy.

**Measurements and Rewards**

A good place to start is with Measurements and Rewards. It is amazing how often a firm will try to introduce a new set of practices while continuing to measure and reward the old ones. When this happens, the new initiative is dead in the water.

Every measurement conveys a hidden message. Whenever a company measures something, it is doing *two* things: It is gauging performance, *and* it is making a strong statement: "This is important." Failure to measure something sends the opposite message, i.e., "This is *not* important." Thus, it is crucial that the measurement and reward system act in unison with the other elements in the business system.

**Structure and Process**

A new strategy often requires important changes in the way a firm is organized and how its decisions get made. Therefore, it is necessary to ask such questions as:

- To best support the new strategy, should the firm be organized by product line, customer grouping, function, geography, or some other principle?

*What gets measured gets done. What gets rewarded gets done repeatedly.*

Figure 4



*Be the change  
you want  
to create.*

Mohandas K. Gandhi

- Should we introduce some form of matrix system to ensure that the proper linking mechanisms are in place?
- What should be the level of centralization or decentralization for each activity in the value chain?

As your strategy changes, it's likely that your answers to these questions need to change too.

**People**

An organization is not a machine. Success will be achieved only if its people are *focused, skilled, and motivated*.

A firm that defines and communicates its strategic choices with clarity and simplicity will create the necessary focus. It then needs to build the competencies required to support the new strategy. This often involves recruitment, training, and job rotation. Sometimes, hard decisions must be made about the need for severances. And if the competency overhaul is radical, a firm may need to acquire or partner with an organization that has the required skills.

Motivation is a pivotal factor. The evidence shows clearly that high-

commitment organizations outperform those where employees exhibit lower levels of motivation. Yet human beings by nature resist change. People do not easily leave their comfort zones to embrace the uncertainties brought by change.

We need to address this psychology of resistance with specific actions designed to overcome the resistance and convert it into active support for the new strategy. Simple exhortation will not be enough. We have to address the underlying causes of resistance. This is, perhaps, the most difficult of all leadership challenges.

The leadership of change is a vast subject of its own. However, the keys to success can be summarized through six simple rules:

***Principles of Change Leadership***

1. Create a simple, compelling statement of the case for change.
2. Communicate constantly and honestly throughout the process.
3. Maximize participation.
4. If all else fails, remove those who resist.
5. Generate short-term wins.
6. Set a shining example.

The last rule, “Set a shining example,” lies at the heart of effective leadership. A leader's words and deeds must be completely *integrated*. This is what we mean when we say that leadership is about *integrity*. The first lesson officers learn at military school is that your troops will always follow your example. The moment a leader's words and deeds come apart, the leadership effort will die.

**Culture**

Culture is probably the most misunderstood and mismanaged part of the business system—and arguably the most important success factor of all. As Lou Gerstner, CEO of IBM, has said about his turnaround strategy for the once-troubled computer company, “Fixing the culture is the most critical—and most difficult—part of a corporate transformation.”

The poor management of culture usually stems from two misconceptions. The first is that culture is vague and mysterious. This is a fallacy. Culture expresses itself through specific values and observable behaviors. The second misconception is that culture is somehow separate and distinct

from the rest of the business, like the separation of church and state in the American political system. This notion, too, is flawed. Business performance and culture are inextricably linked together.

Think of culture as a means to an end. In a particular society, culture is a set of beliefs and behaviors that persist over time because they help that society solve its problems (whether social, economic, or political). Every society has an elaborate system of rewards and penalties designed to ensure that supportive behaviors continue and that destructive behaviors are extinguished.

The same is true in any business. A company's values and behaviors must directly support its strategy—and work in combination with all the other key elements in the business system—in order for that strategy to succeed. Especially important are the necessary measurements and rewards, without which those supporting behaviors will simply not happen.

*When culture  
resists strategy,  
culture wins.*

## **STEP FOUR: IMPLEMENT AND EXPERIMENT (EXECUTE)**

Effective alignment, as described in Step Three, ensures that the firm's key organizational resources and the energies of its people are concentrated as a powerful driving force behind the new strategy. The firm is now in a position to execute the strategy successfully and rapidly.

Step Four is the actual implementation phase of Strategic Learning. It should include a deliberate set of experiments to fuel organizational learning. We can never know for sure what is going to work. Like nature, we must maximize our chances of finding favorable variations through continuous experimentation.

Step Four then feeds back into the Situation Analysis. The firm updates its insights, learning by examining its own actions and by rescanning the environment, and then modifies its strategies accordingly. The process never stops.

## **DOCUMENTING THE STRATEGY**

A strategy based on Strategic Learning should be captured in a concise document consisting of six sections:

### **The Strategic Learning Document**

1. A summary of the key insights generated by the Situation Analysis
2. The Vision Statement
3. The Strategic Choices and a list of the Key Priorities
4. The gaps that must be closed in order to achieve the priorities
5. The plan for aligning the organization behind the strategy
6. A list of experiments to stimulate further learning

The emphasis should be on brevity and clarity. Ten pages is the limit. Long, rambling documents simply cloud the issues and often go unread. The operating plan is a separate document that will contain the financial projections, capital budgets, and other important details.

## **STRATEGIC LEARNING AS A PATH TO PERSONAL RENEWAL**

Just as companies need a process for generating ongoing renewal, so do individuals. Strategic Learning can be used not only as an organizational tool to help create breakthrough business strategies but also as a personal tool for the development of effective leadership skills.

Strategy and leadership are often approached as two separate subjects. But the truth is that they are two sides of the same coin, each indispensable and both intimately linked. Without strategy, there is no clear direction, which makes effective leadership impossible; yet even the most far-sighted strategy is doomed to failure unless its implementation is guided through effective leadership. Thus, any lasting success is the product of great strategy and great leadership working hand in hand.

Furthermore, in today's new economy, effective leadership is more crucial than ever. Success in the old world was based mainly on the leveraging of physical assets. In the new world, it is based mainly on the leveraging of such human assets as

knowledge, creativity and insight. The familiar saying, "Our people are our greatest assets," has now become an unforgiving reality. Tomorrow's losers will be the companies that fail to fully realize the potential of their employees. The winners will be those that maximize not only their ROA (return on assets) but also their ROP (return on people).

### **Leadership and Emotional Intelligence**

What then is leadership? How does it differ from the intelligence and technical skill needed by any competent executive?

In the business context, intelligence and technical skills are threshold capabilities—the basic requirements for entry into the executive suite. True leadership involves an additional set of qualities, including self-awareness, empathy, motivation, sociability, and political adroitness. In combination, these qualities are sometimes referred to as *emotional intelligence*, or EQ. Research increasingly suggests that the most effective leaders are those with a high degree of EQ.

In his book *Working with Emotional Intelligence* (Bantam, 1998), Daniel

Goleman lists five key elements of EQ, grouped under two broad headings:

*Personal Competence (How We Manage Ourselves)*

- Self-awareness—Knowing one’s internal states, preferences, resources, and intuitions
- Self-regulation—Managing one’s internal states, impulses, and resources
- Motivation—Emotional tendencies that guide or facilitate reaching goals

*Social Competence (How We Handle Relationships)*

- Empathy—Awareness of others’ feelings, needs, and concerns
- Social skills—Adeptness at inducing desirable responses in others

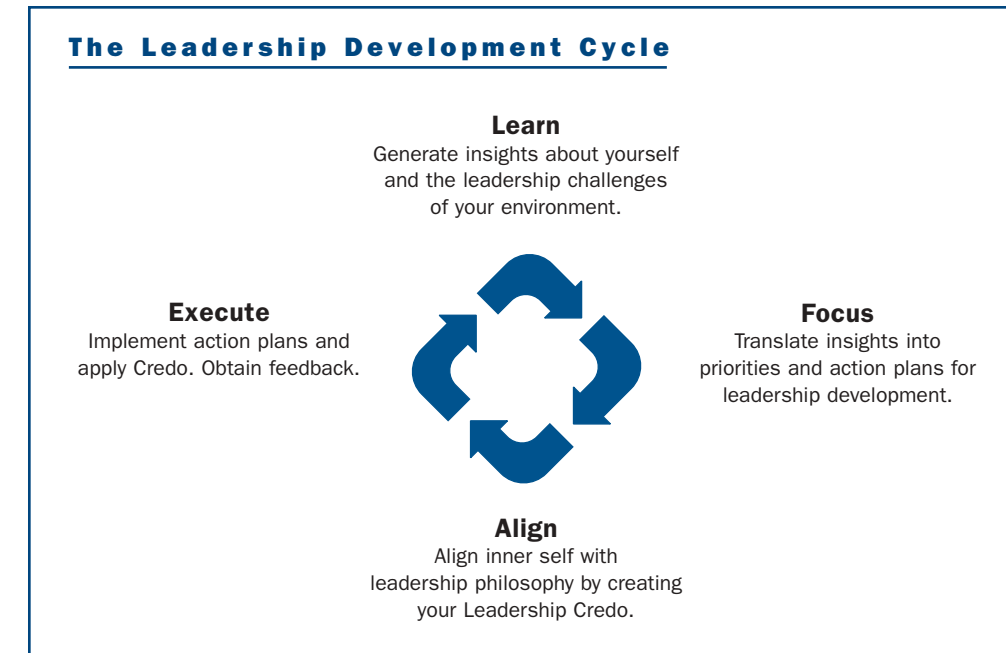
It is easy to think of effective leaders from the worlds of business and politics who have a high degree of EQ, as well as others who lack this special set of sensitivities and therefore are vulnerable to professional derailment—often despite high IQs and brilliant technical skills. To a large extent, the qualities that make up EQ are what we have in mind when we describe someone as a “real leader.”

**THE LEADERSHIP DEVELOPMENT CYCLE**

The good news is that the leadership skills comprised in EQ can be enhanced through learning, provided one is willing to work at the task with systematic rigor. The Strategic Learning process can offer a powerful framework for such personal self-development.

Learning, in fact, is at the heart of both strategy creation and leadership development. In the case of strategy creation, learning is an outside-in process (starting with a study of customers and competition), while in the case of leadership development, it is an inside-out process (starting with an understanding of self). Yet the steps in both processes can be the same. Mike Fenlon, my colleague at Columbia Business School, and I have developed a Leadership Development Cycle whose four steps—*learn*, *focus*, *align*, and *execute*—closely mirror those of the Strategic Learning Cycle (Figure 5).

Figure 5



**1. Learn—Generate insights about yourself and the leadership challenges you face.**

The essential first step is to conduct a Personal Situation Analysis, with the aim of generating the key insights needed to guide your self-development program. One good starting point is the Lifeline Exercise, which is often used in executive education programs at Columbia Business School. This involves drawing a line across a sheet of paper, representing the timeline of your life up to the present. You then mark on this line key turning points in your

life—achievements, setbacks, milestones, instances of self-discovery. Relating the importance of these defining moments to a trusted colleague can be a powerful tool for uncovering some of the unrecognized lessons of your life.

Another powerful learning experience is the use of a well-constructed 360-degree feedback instrument, which gathers feedback on your personal and business skills from peers, subordinates, and superiors on an anonymous basis. This is a sensitive exercise, one that demands maturity,

honesty, and openness on all sides. Expert advice and coaching can help you gain the greatest benefits from this process. In fact, a growing number of businesspeople are employing executive coaches on a continuing basis to help them learn and grow as leaders. If you and your organization are able to devote the necessary time and resources, this is an option worth considering.

## **2. Focus—Translate insights into priorities and action plans.**

The second step is to develop your own priorities for personal growth. What are those few things that you will concentrate on, day in and day out, in order to become a better leader?

Begin by summarizing the key insights about yourself and your leadership challenges as generated in your personal Situation Analysis. Discuss these with your coach or trusted colleague. What strengths can you build on? What gaps need to be filled? Which leadership qualities are likely to be most severely tested in the coming months?

On the basis of your answers to these questions, establish a list of no more than five personal development priorities together with specific

actions and a method for assessing your progress.

## **3. Align—Align your inner self with your leadership philosophy.**

The task here is to align your sense of self and core beliefs with how you intend to lead your organization. The integrity of this alignment gives the leader authenticity and moral authority.

One powerful tool in this process is the personal Leadership Credo, a succinct statement of the beliefs and principles that will drive your success as a leader. It should provide compelling responses to the following questions:

- What do I stand for as a leader?
- What is our organization's vision? How will we win?
- What do we stand for as an organization?

The Leadership Credo can be the crucial point at which strategy and leadership intersect. If the Credo is clear and simple, and if you harness the power of images and stories to communicate its message to those with whom you work, it can play an important role in keeping you and your organization on track.

## **4. Execute—Implement action plans and obtain feedback.**

In the fourth step of the Cycle, you implement your personal improvement plan. Seek opportunities to articulate and act upon your Leadership Credo, continually appraise your own performance, and seek feedback from others—your colleagues, your coach, and others whose opinions and observations you trust. Use the results as the basis for further learning and improvement.

The key is to repeat the cycle again and again, never ceasing to strive for self-improvement. If you remain open to new ideas and self-examination, you can continuously enhance your EQ and improve your leadership effectiveness.

## **SOME FINAL THOUGHTS**

Strategic Learning rests on the proposition that the ability to learn and adapt is the only sustainable competitive advantage in today's turbulent world. This is equally true for organizations and individuals. But merely saying this is not enough. Executives need practical methods for turning ideas into action, which

define not only the *what* but also provide the *how*. Hence, the four-step cycle of Strategic Learning: *learn, focus, align, and execute*.

But Strategic Learning is about leadership, not mechanical rituals. Strategic breakthroughs have been achieved by companies when they apply the process with imagination, in a discovery-driven, dynamic way. It involves a constant drive for insights, followed by the rapid translation of insights into action.

Finally, I would like to bring the human aspect of all this to center stage. It is often stressed that people are the most important asset in any business. There used to be an implicit understanding between employer and employee that loyalty and hard work would earn security of employment. The era of downsizing and outsourcing has shattered that social contract. By mobilizing Strategic Learning for both organizational and personal renewal, a firm can develop the intellectual capital of its people, thus helping to provide them with the vital tools for success in today's competitive environment.

### **Acknowledgments**

Strategic Learning has evolved from the two great learning laboratories that have shaped my ideas. The first was my twenty years as a practicing CEO in various countries and industry settings. The second has been the last five years at Columbia Business School as a teacher, consultant, and researcher, where I've received wonderful input and encouragement from my colleagues.

I would particularly like to thank Bill Klepper and Mike Fenlon for their many and generous contributions to my thinking, Victoria Marsick for her guidance on learning theory, and Jeffrey Kuhn for his energetic support on numerous aspects of this project.

*You can learn more about the benefits of Strategic Learning in Willie Pietersen's book, Reinventing Strategy (John Wiley & Sons, 2002).*

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