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Real-Time Strategy



Improvising Team-Based Planning
for a
Fast-Changing World

LEE TOM PERRY

RANDALL G. STOTT W. NORMAN SMALLWOOD

REAL-TIME STRATEGY

IMPROVISING TEAM-BASED PLANNING FOR A FAST-CHANGING WORLD

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Preface

In the new world economic order, strategic planning has lost its edge. When U.S. companies dictated the ebb and flow of world commerce, strategic planning worked effectively, but today's global economy is too complex, too dynamic, and too unpredictable for companies to place their faith in the centralized, plan-and-control model of management.

This book introduces an alternative to strategic planning. We call it *strategic improvising*.

Strategic improvising is designed to meet the challenges of today's global economy:

- It assumes that strategic responsibility needs to be widely distributed throughout organizations;
- It emphasizes putting strategic tools in the hands of self-directed team members;
- It promotes team-based actions and learning that will support strategic objectives.

Our thinking about strategic improvising has been influenced by both the music and the culture of jazz. We are not jazz musicians, but we greatly admire the music that skilled jazz musicians can create by exercising freedom within a limited form. Ray Smith, Bob Taylor, Steve Call, Lars Yorgason, and Ron Brough, all wonderfully talented jazz musicians, have been our teachers. They have a rare capacity for both playing and

talking about their music. They are also our good friends, and we thank them for sharing their knowledge with us and for deepening our understanding of this uniquely American form of music.

As we learned about jazz improvisation, we began to develop a new way of thinking about strategy. We gained wonderful insights about the differences between strategic planning and strategic improvising when we compared the protocols of symphony orchestras with those of jazz groups. Through these metaphor-based insights, our ideas about strategic improvising became animated and viable.

Writing *Real-Time Strategy* has been a splendid education in team-based learning. While we were developing our ideas about team-based strategies, we experienced the highs and lows of teamwork. On some days, everything clicked. We were creatively in step, engaged, productive, and having the time of our lives. On other days, we did not want any part of being a team: the experience was too painful. Our stubbornness was probably our ultimate bonding agent. We refused to surrender to the forces dividing us because we wanted to write about teams as they really are, in a book that was truly a team product.

Our ideas were never blended automatically. We are three individuals who have strong opinions and different sets of experiences to support them. We worked very hard, and not silently, at understanding each other's views and then defining the common ground. In the process, we learned to respect each other's ideas as much as our own. Moreover, we came to appreciate the benefits of exploring and linking multiple perspectives.

Along the way, each of us had a private moment of truth about our attitude: individual accomplishments had to yield to team accomplishments. Our focus had to be on whether the team was accomplishing what it set out to do, not on who was getting what credit. The longer we worked together, the more our individual contributions became interrelated. Were there times when each of us wanted to claim individual ownership of ideas? Absolutely; but we eventually realized that none of us wanted a book with our own proprietary credit lines. We needed to trust each other enough to share the ownership of our ideas. The result is a far better book than any one of us could have written alone.

Writing *Real-Time Strategy* also involved real-life experience with improvising. In the beginning, we knew only the general direction we wanted to take. The specific ideas needed to be improvised. If our ideas

had been fully developed, we could never have worked collectively. Because our ideas were still in a formative stage, we were able to grow and develop them together.

Real-Time Strategy makes several unique contributions to the study of strategic management. The book delivers a wide assortment of empowering, strategic tools that combine to form an alternative, team-based planning technology. Readers will find here both an inside-out and an outside-in approach to strategic thinking; coincident and equal attention is given to organizational capabilities and to opportunities in the business environment. *Real-Time Strategy* updates strategic thinking by incorporating new, real-time information technologies into the logic of strategy. Our method is faster and more responsive than others because it empowers people in two ways: first, by providing strategic tools that work (they have been site-tested in more than 50 businesses), and second, by showing members of self-directed teams how to use the tools together, as a means of improvising operational strategies.

Many organizations and people contributed to the development of this book. Our clients have been an accessible well from which we have drawn insight and understanding. Although we are tempted to acknowledge each of them separately, we prefer to recognize their collective contribution. All of our clients have been part of this team effort, and the key players know who they are.

We are indebted to Jon Younger, our partner and colleague at Novations Group, Inc., for his contributions to this project. Jon is the co-creator of the resourcing model described in Chapter 4. Many other ideas in the book can be traced to informal discussions with Jon. His demanding style and uncompromising standards of excellence have leavened our work.

Gene Dalton, also a partner at our firm, has provided both encouragement and constructive feedback. He was the first to warn us about the pitfalls of coauthoring a book. Fortunately for us, he was an advocate for persistence when the going got tough.

Other colleagues at Novations deserve special recognition. Even when we were not crystal clear about what we were trying to accomplish, Sarah Sandberg had an uncanny knack for implementing our ideas. Sarah's ability to persuade clients to try the untried has aided our work immensely. Kurt Sandholtz, an accomplished jazz pianist, first introduced us to the power of the jazz metaphor for understanding organizations. During our discussions with Kurt, the first seeds of strategic improvising

were planted. Joe Hanson made us keenly aware of the financial implications associated with strategic improvising. His current work about the relationship between shareholder value and real-time strategies holds great promise for the future. Paul McKinnon's ongoing study of executive leadership has revealed to us some ways to ease senior executives' discomfort about their loss of top-down control, which they may see as an exclusive trait of strategic improvising. Joe Folkman's skill at measuring the impact of change was an enormous help. He has pushed forward the technology for gathering real-time information about customers, employees, product quality, organizational arrangements, and stakeholders. Nigel Bristow, Vern Della-Piana, Murray Low, Troy Scotter, and Kendall Lyman contributed important ideas and concrete experiences. The Novations marketing staff—Ron Olthuis, Courtney Rogers, and Carolyn Low—provided us with direct feedback from clients about ways to make our ideas more useful. To Judy Seegmiller, Linda Christensen, Stacey Hill, Stacy Keith, and Krista Lewis we owe special thanks for their support in preparing the manuscript.

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We are fortunate to have had a wonderful group of publishing professionals running with us in the anchor lap. Our literary agent, Michael Snell, helped connect us with the right people at John Wiley & Sons. John Mahaney, our editor, who played a significant role in fine-tuning the manuscript, has been a good friend and an understanding adviser. We have also appreciated the administrative support provided by Gloria Fuzia and the production management provided by Nana Prior. The skilled copyediting of Maryan Malone of Publications Development Company significantly improved the book.

Most of all, we are grateful to our wives—Carolyn, Jolene, and Diana—and our children. They have sacrificed for us, provided us with unwavering support, and lifted and loved us as we have worked on the book. We can never repay our debt to them, but we intend to keep trying.

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1 PICKUP: AN INTRODUCTION TO STRATEGIC IMPROVISING

Pickup An introductory phrase, usually one or two bars, leading into a new selection or a chorus. Used for synchronization, to help a jazz group come in together and play as a unit from the first regular bar of the piece.

Taco Bell, a subsidiary of PepsiCo, made McDonald's blink. Taco Bell concentrates on one group of customers—frequent fast-food eaters—and offers them low-cost, good-tasting food. With 20 menu items under a dollar, 39-cent fiesta tacos, burritos, and tostadas, and 20 percent annual profit margins, Taco Bell was driving the fast-food giant crazy. McDonald's responded by offering a 59-cent hamburger, creating a healthier menu that featured salads and the McLean Deluxe hamburger, and using biodegradable packaging. The most telling move by McDonald's was the one it should not have made: it added chicken fajitas and breakfast burritos to its menu. Taco Bell had stared into the giant's face and the giant blinked.

Taco Bell would have made a comparable mistake if it had added hamburgers like McDonald's to its menu. Instead, it gained an advantage by keeping its menu simple and consistent. The company, however, decided to develop a new business that could compete directly against McDonald's without imitating it.

After considering several hamburger concepts, Taco Bell acquired Hot 'n Now, a small chain of hamburger shops based in Michigan. The Hot 'n Now concept was intriguing to Taco Bell's management because it offered value to customers in two ways: it saved them time (the hamburgers

were served in 30 seconds or less) and it gave them a unique product at an attractive price (39 cents).

Hot 'n Now's concept had, however, started to break down. Its prices remained low, but its service had become progressively slower. Hot 'n Now was still the fastest in the fast-food business, but its speed did not always meet customer expectations for hot food *and* immediate service.

Taco Bell owned the management expertise and discipline to get Hot 'n Now back on track—and the resources to grow it fast. Taco Bell managers joined Hot 'n Now managers to form a *new* Hot 'n Now management team. Its first agenda item was a discussion of the principles of the business. Every decision that was made was first run through the strategy filter. This ensured that members of the management team would maintain a constant focus on saving the time and the money of frequent fast-food eaters.

One of the fundamental principles underlying Hot 'n Now's present strategy is the "self-management" of stores: teams of employees are responsible for making work assignments, handling people issues, and coordinating performance. The only assistance received by unit teams is from a multiunit manager, who is charged with providing guidance to three or four unit teams.

Supporting the principle of self-management is another principle restricting the proliferation of cumbersome policies and procedures. The management team wanted to provide a framework for unit teams, but it did not want to stifle creative problem solving. In the middle of every Hot 'n Now store, there is a standing area equipped with a whiteboard. Unit teams are expected to huddle there to make key operational decisions. When, for example, a bus with 50 people aboard pulls up to a Hot 'n Now store, the team huddles and develops a strategy for dealing with the flood of customers.

Once the principles of the business were in place, Hot 'n Now's management team acted quickly. They tried different *incomplete* solutions in a few test stores, to see what worked or did not work. They continuously experimented with new ideas that did not violate the dual strategic concepts of low cost and high speed. They also encouraged every unit team to experiment with new ideas and share the results with management.

Hot 'n Now's management team acknowledged that, initially, operations would not run smoothly, but they saw in each failure an opportunity to learn how to make the business better. For example, they tried a

bonus system to improve unit team performance. When the bonus system failed to achieve its desired results, they found out why and made the needed adjustments. The management team consistently returned to Hot 'n Now's underlying strategy and principles for guidance in making these adjustments.

Hot 'n Now is among the businesses that operate in the more dynamic sectors of today's global economy. In these businesses, individuals and teams, working together, formulate and implement competitive strategies in real time. This is the core of *strategic improvising*, an approach to strategic thinking designed for businesses like Hot 'n Now, in which rapid-fire change is a way of life.

The Hot 'n Now example reveals three important differences between strategic improvising and traditional strategic planning.¹ Perhaps the most obvious difference is that, with strategic improvising, strategic decisions are made at all organizational levels, not exclusively at the top. Strategic improvising is a *team-based*, not a top-down, approach. Strategic responsibilities are assigned to the team nearest the action.

Second, strategic improvising involves a high-frequency (and, typically, low-impact) approach; strategic planning is clearly a low-frequency (typically, high-impact) approach. Strategic improvisers launch a lot of strategic thrusts, hoping to hit for a high average; strategic planners agonize over each strategic thrust they launch, intent on hitting a few home runs.

A more important difference is that strategic plans are front-loaded: top managers plan before they act. Strategic improvising occurs in real time. Strategic improvisers act before they plan, because they believe action informs strategic thinking.

TEAM-BASED STRATEGIC THINKING

Strategic improvising works only when self-managing teams are given strategic responsibilities *and* strategic tools are placed in the hands of team members. In the Hot 'n Now example, two types of teams were discussed: the management team and the unit teams. The management team had the responsibility for blending Taco Bell's strategy with the Hot 'n Now concept, and then defining a clear and focused business strategy. The strategic tools the management team used were the higher-order tools used to set strategic direction. However, the strategic direction

established by the management team was not overspecified. In fact, the management team consciously resisted developing detailed policies and procedures because they wanted the unit teams to assume the responsibility for improvising operational strategies.

People might mistakenly assume that the improvisation of Hot 'n Now's unit teams is tactical, not strategic. However, thinking is not defined according to the organizational level at which it occurs. Tactical thinking by a CEO is not strategic thinking, and strategic thinking by Hot 'n Now's unit teams is not tactical thinking. Moreover, what appears to be a "tactic" to Hot 'n Now's management team may be a "strategy" to members of its unit teams if it determines the ultimate success and viability of their store. According to James Brian Quinn, professor emeritus at Dartmouth's Tuck School of Business Administration:

[Tactics] are the short-duration, adaptive, action–interaction realignments that opposing forces use to accomplish limited goals after their initial contact. Strategy defines a continuing basis for ordering these adaptations toward more broadly conceived purposes.²

Organizational designers, particularly those steeped in sociotechnical systems models, are redesigning organizations around self-managing teams. In most of these redesign efforts, teams are charged with implementing, but not formulating, competitive strategies. This is a serious oversight because, without the license to formulate and implement strategies together, teams are severely limited in their scope of work.

When strategic responsibilities are withheld from self-managing teams, their efforts often miss the mark. One of our colleagues recently attended a session at a major national conference in which he heard an organizational design consultant discuss a new intervention. The consultant's presentation recounted impressive changes in the sociotechnical system of a company using self-managing work teams and other organizational redesign tools. Everyone seemed persuaded by the presentation until someone innocently asked about the progress at the company where the redesign had occurred. The consultant admitted that, before the company's organizational design had passed through the final round of fine-tuning, the company had gone out of business because of problems with its strategy.

According to the consultant, the organizational redesign was an unmitigated success in spite of the company's demise. Our view is that the redesign was an unmitigated failure. Because self-managing teams were

never given strategic responsibilities, their work was not guided by strategic considerations. The company drifted toward ultimate dissolution because teams lacked strategic direction.

It is not enough to equip self-managing teams with strategic tools. Before team members can accept responsibility for strategic improvising, they need to be coached in the *use* of strategic tools. At Hot 'n Now, the principal responsibility of multiunit managers is to coach people, not manage them. Instead of exercising authority over people, multiunit managers are expected to train unit teams in the use of strategic improvising tools and shepherd them toward becoming self-managing.

Alfred Chandler, professor emeritus of history at Harvard Business School and widely recognized as the leading authority on American business history, once proposed that the art or science of strategy was so crucial and complex that it required specialized guidance by senior executives. He called these executives "the key few men in any enterprise."³ Chandler's observations were used to define strategic planning as a top-management function, and they support the model of management depicted in Figure 1-1(a). Detailed corporate strategic plans provide a context for detailed business strategic plans; together, they nearly eliminate discretion at the operating level.

In contrast, the Hot 'n Now example demonstrates that another model of management is possible (see Figure 1-1(b)). A few key

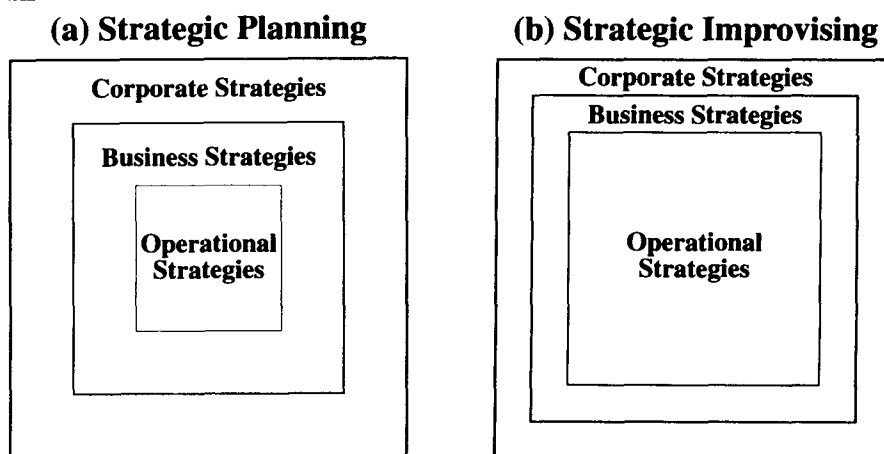


FIGURE 1-1. Strategic planning versus strategic improvising: the relationship among corporate strategies, business strategies, and operational strategies.

individuals may be necessary to clarify strategic direction at the corporate and business levels, but lower-level teams of individuals can assume critical strategic responsibilities if they are given strategic improvising tools and coached in how to use them. Strategic improvising invites members of self-managing teams to exercise significant freedom in formulating and implementing operational strategies within the limited form provided by corporate and business strategies.

HIGH-FREQUENCY STRATEGIES

Strategic improvising involves the continuous, rapid firing of strategic thrusts within an established strategic direction. Given that almost every business is constrained in its use of resources, the rapidity of strategic thrusts affects their intensity, which will inevitably vary. Strategic improvisers practice the *theory of the small win*. Their goal is to accumulate maximum understanding about a rapidly changing business environment as quickly as possible, by making low-cost, fast-paced, successive approximations.

In contrast, strategic planning is typically a low-frequency, higher-impact approach to strategic thinking. It involves a surfeit of policies—thorough market research, competitor benchmarking, and industry structure analysis, for example—to raise the odds of success and get the *biggest bang* from each strategic thrust.

At Hot 'n Now, overall success equals the pooled contributions of hundreds of individual strategic thrusts. Because it is acceptable to try out incomplete solutions in the culture created at Hot 'n Now, teams keep the strategic thrusts coming. Teams at all levels of the business are involved in the process. Because there are many more teams at the unit level than at the multiunit and business levels, most of the strategic thrusts are launched by unit teams.

The sheer volume of strategic thrusts, not their variety, characterizes strategic improvising. Strategic improvisers at Hot 'n Now shoot a tight pattern of strategic thrusts because they aim in a single strategic direction. Although strategic improvising has a clear bias for action, it is not necessarily a *ready, fire, aim* approach to strategic thinking. The reasons for this should be obvious. One of the keys to strategic improvising's success is everyone's involvement, but everyone would end up going everywhere pointlessly, without some guidance and discipline. Teams of