

Introduction

The world has become a messy place.

The principal external business drivers (forces) to which organizations¹ must respond have achieved levels of unpredictability and velocity of change that most of us would not have imagined just a few years ago. The business of business has become increasingly problematic.

This turbulence is made manifest in the share markets of the world, the ebbs and flows of the global trade network, the polarization of the distribution of wealth, and the increasingly tenuous relationships between cultures.

The world is one “permanent whitewater” and is likely to remain that way well into the early decades of this century.

Still, one must find a way to survive and thrive amidst this storm. This book is about some ideas (also forces) on getting safely to “the other side.”

Dawn

Recognition that business as usual was no longer usual began to dawn on me when, in the early 1990s, I read Joe Pine’s book on mass customization.² Pine presented an intriguing argument regarding the power of a unit of production of one, how this could, in certain circumstances lead to competitive advantage, and what an organization might do to achieve this position.

¹ The word “organization” is used to mean for-profit, non-profit, regulatory, and governmental groups having a common agenda.

² Pine, B. J. (1993). *Mass Customization; The New Frontier in Business Competition*, Harvard Business School Press.

My view of those days was that Pine was creating whitewater for he knew how to navigate it in ways that others did not.

It seemed from that point on that I continued to encounter increasing turbulence as if I were a hurricane hunter trying to gain the eye of the storm. Whether it was in my client work, reading of the newspapers, or general observations of what was going on around me, or any of the countless other things in my life it was becoming clear that turbulence was increasing, taking on a life of its own, and, beginning to transform into chaos.

Kernels of Thought

Into this mix, which I was becoming very attuned to, came a number of ideas.

First was *Managing by Wire*, an article in the Harvard Business Review by Haeckel and Nolan.³ Haeckel and Nolan argued that companies needed to focus on sensing and responding to rapidly changing customer needs. This necessitated a strategy they called “managing by wire” (a metaphor from aviation) and run a business by managing its informational representation, a coherent information model that codified how things got done and how things were changed.

Haeckel then followed this with a more complete treatment⁴ in 1999.

Perhaps it is no coincidence that Haeckel and Pine were at the IBM Advanced Business Institute at the same time.

³ Haeckel, S. H. and R. L. Nolan “Managing by Wire.” Harvard Business Review (September 01, 1993).

⁴ Haeckel, S. H. and A. J. Slywotzky (1999). *Adaptive Enterprise: Creating and Leading Sense-And-Respond Organizations*, Harvard Business School Press.

Haeckel's notion of the **adaptive enterprise** is one of the fundamental lines of thinking I intend to follow in this book.

About the middle of the 1990s I encountered the idea of the learning organization. I suspect this came from an encounter with the *Systems Thinker* newsletter and my introduction to the ideas of Peter Senge (to whom I will return later). Also released at this time was a research report⁵ on the learning organization. It maintained in the coming century success would go to those enterprises that learned to capture, create, leverage and manage knowledge. In short, those enterprises that learned best would have the odds in their favor.

It makes sense to me that becoming a **learning organization** was critical to being an adaptive enterprise.⁶ The learning organization is the second fundamental line of thinking to be explored in this book.

The kayaker and canoeist may have numerous lines they can take to navigate the whitewater. In the global dynamic there are organizations are faced with an increasing number decisions and smaller windows in which to make these decisions. I endorse the idea of decision-making on the basis of the value of the decision to the customer and the value of the customer to the organization. An organization's ability to do that, however, rests on its ability to make informed

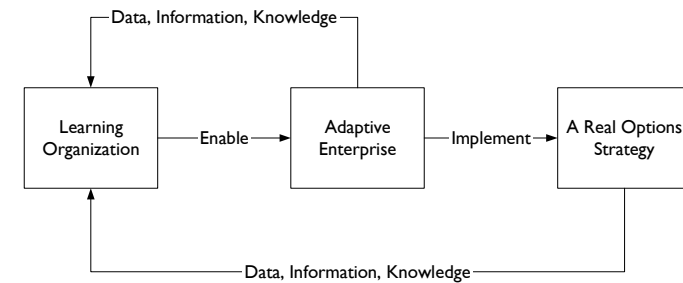
⁵ (1996). *The Learning Organisation: Managing Business Knowledge for Business Success*. North Tarrytown NY, The Economist Intelligence Unit, The IBM Consulting Group.

⁶ During this period I managed an engagement with a major transportation company to apply the concepts of object-oriented technology to the development of an information system to support rapid deployment of the senior management initiatives necessary to achieve competitive advantage in the marketplace. This real-world experience confirmed to me this linkage between the adaptive enterprise and the learning organization.

strategic decisions. The notion of **real options** constitutes the third fundamental line of thinking in this book.

Amram and Kulatilaka⁷ argue that standard models of evaluating strategic investments fail to consider the element of risk fully. The real options approach they describe shows how to shape business strategies using a system based on option-pricing.

Things were beginning to come together for me.



Organizations, while adaptive, would need to become increasingly reliable. This notion of a **highly reliable organization** came to mind in the fall of 2002 from a book⁸ dealing with this very subject. It would serve us poorly if an increasingly dynamic business configuration became increasingly unreliable in the delivery of the desired outcomes.

This notion of a highly reliable dynamically changing organization able to achieve and sustain competitive advantage by being the very best at riding the waves of

⁷ Amram, M. and N. Kulatilaka (1998). *Real Options: Managing Strategic Investment in an Uncertain World*, Harvard Business School Press.

⁸ Weick, K. E. and K. M. Sutcliffe (2001). *Managing the Unexpected: Assuring High Performance in an Age of Complexity*. San Francisco, John Wiley & Sons.

change hangs on that strongest, yet weakest of components – the person. The requirement to be able to affect a **change in culture** is the single most critical success factor for the emergence of the business of the future.

Indeed, during the last half-dozen years in my previous career this issue was at the heart of virtually all I was trying to help clients achieve. My current thinking on this matter has been very much influenced by Gabel and Pilnic.⁹

The next piece of my thinking is in regards to the **sustainable organization** and is directly prompted by a 2002 article by Peter Senge.¹⁰ We can't very well have an organization that is a net consumer of the earth's resources.

Finally, we need some idea to bind these other ideas together, to allow one to make the necessary tradeoffs. The **balanced scorecard** can trade direction on this matter.

It is these ideas I want to explore in a bit more detail, examine the manner in which they are related, postulate a strategy for integrating these ideas to achieve a new and valuable synergy, and close with some discussion of next steps.

Forces Redux

Kernels of Thought identifies seven ideas I wish to consider in this book. Ideas, or forces, that can be deployed by management to improve the performance of the organization. I also identified business drivers as forces and it seems

⁹ Gabel, J. E. and S. Pilnick (2002). *The Shadow Organization in Logistics: The Real World of Culture Change and Supply Chain Efficiency*. Oak Brook, Council of Logistics Management.

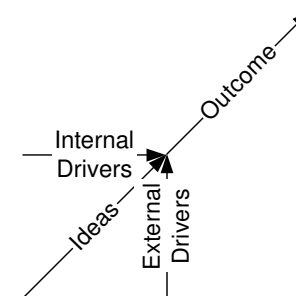
¹⁰ Senge, P. and G. Carstedt (2001). "Innovating Our Way to the Next Industrial Revolution." *MIT Sloan Management Review* 42(2): 24-28.

reasonable to add some additional detail of what I have in mind.

- I) External Drivers
 - A) Social, Economic, Political Context; the environment in which the organization conducts its operations.
 - B) Customer Forces; that which is required to delight a customer.
 - C) Competitive Forces; that which is deployed against the organization in an attempt to prevent it from meeting its goals and objectives.
 - D) Supplier Forces; that which can aid or inhibit the organization from meeting its goals and objective.
- II) Internal Drivers
 - A) Learning; the continually improving ability of the organization to improve its outcomes through the development and deployment of new knowledge, skills, and abilities.
 - B) Growth; increases in organization size and scope.

Vectors

What I am about here can be likened to an exercise in high school vector algebra.



The External Drivers, and sometimes the Internal Drivers, represent forces impinging on the organization that can't always be controlled, but certainly must be dealt with.

How, then, can the Ideas be used by organizations to do this?

I aim to provide some answers along this line.