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EXTREME STRATEGIZING

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Extreme Strategizing

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"The best laid plans of mice and men often go awry"
~ Robert Burns

This month (September, 2008) business leaders, government officials, students, and many workers at every level in the organization were shocked by the massive losses in the financial industry being documented in the press. The largest bankruptcy to date was announced by Lehman Brothers, and this was combined with what seems like daily onslaughts to our consciousness of business disasters, ethics violations, white-collar crime, and more.

Although we spend a lot of time reading business books and magazines that feature the most successful of firms, these types of negative events clearly remind us that not all organizations achieve greatness. In fact, many firms cannot execute on their own strategies, and they do not succeed in the growth initiatives that make up those business plans. Raps (2004)[1] states that only 10 to 30 per cent of organizations are successful in implementing their own strategic plans. Part of the reason for failure is the fact that shocks waves from the external environment wreak havoc on the best laid plans, or barriers to success and growth, more often than we like, erupt from inside the organization.

Major initiatives to grow organizations have high rates of failure. A review of several sources shows that the estimate of merger failure is somewhere between 50 and 80 percent. The same story can be told of major organizational change efforts aimed at spurring growth, with failure rates estimated at 70% (Miller, 2002)[2]. My own research on initial public offerings (IPOs), also a route for growth, shows that they too have high rates of failure, with rates of organizational survival only 60% five years after their IPOs.

Growing a business, or even stabilizing an organization, is risky business, and it's getting worse. As the rate of change in the world escalates, and as business continues to become more global and competitive, the game of business becomes incredibly challenging. However, in this evolving world, many of the tools we use to do business have not changed in years. At the core of any organization's founding, maturing, growing or even reduction is a strategy, and the strategy making process has been refined, written about by many experts, taught in every business school, and remained fundamentally unquestioned.

This article proposes that the institutional way of strategy making needs to adapt to today's business environment and that it needs a major overhaul, at least for

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[1] Raps, A. (2004). Implementing strategy. Strategic Finance, 85 (12), 49-53.
[2] Miller, D. (2002). Successful change leaders: What makes them? What do they do that is different? Journal of Change Management, 24(4), 359-368.

organizations experiencing high levels of change. I am not saying that having a strategy is bad; I am in this article, however, suggesting that the traditional strategy making process we use is outdated and can lead to negative consequences for the organization.

In this article, the argument is made that the strategy making process is similar to software development in that they both traditionally were very big picture, and they both had high failure rates. Traditional software development was done in 'waves' through big conversations, large-scale implementations, and then finally massive releases were made, which were out of date when deployed.

In the world of programming, a new model has emerged that makes the software development process not only more agile and timely but more accurate. Reduced errors, higher customer satisfaction, and better product are the outcomes of extreme programming models. Therefore, in this article, learning from changes in software development are applied to the strategy making process to present an alternative to firms interested in reducing risk of failure of their strategic plans, their change management programs, their mergers, or their IPOs. That new process is termed extreme strategizing, which parallels the extreme programming model. The words reflect a process that is different from current models of strategy making. Extreme strategizing is a continuous process, while strategy making is an event; that is the core difference and the key advantage of extreme strategizing.

Traditional Strategy Making

Below is a brief description of the typical process of strategy making for a large organization with multiple business units:

- Internal strategy department or consulting firm starts the process.
- Senior executive team interviewed.
- Research conducted.
- Senior executive team meets off-site for intense strategy discussions.
- New 5-year strategy devised.
- Strategy documented and shared with core senior team.
- Strategy summary is disseminated to the next level of management.
- Business unit strategies repeat the process, creating strategies that "fit."
- Business unit strategies are given to functional area leaders.
- Functional area leaders devise their own strategies that "fit."
- Mangers in functional areas create their own matching strategies.
- Individual employees are given objectives and goals that align with the department strategy, business strategy, and corporate strategy (in theory).

As anyone who has been through this process knows, it takes a long time. What many people know but are hesitant to admit is that it is outdated. The search for organizational agility, flexibility, and continuous change hint that this process does

not work, but most efforts have tried to add tools to complement the traditional strategy making process rather than seek to replace it altogether.

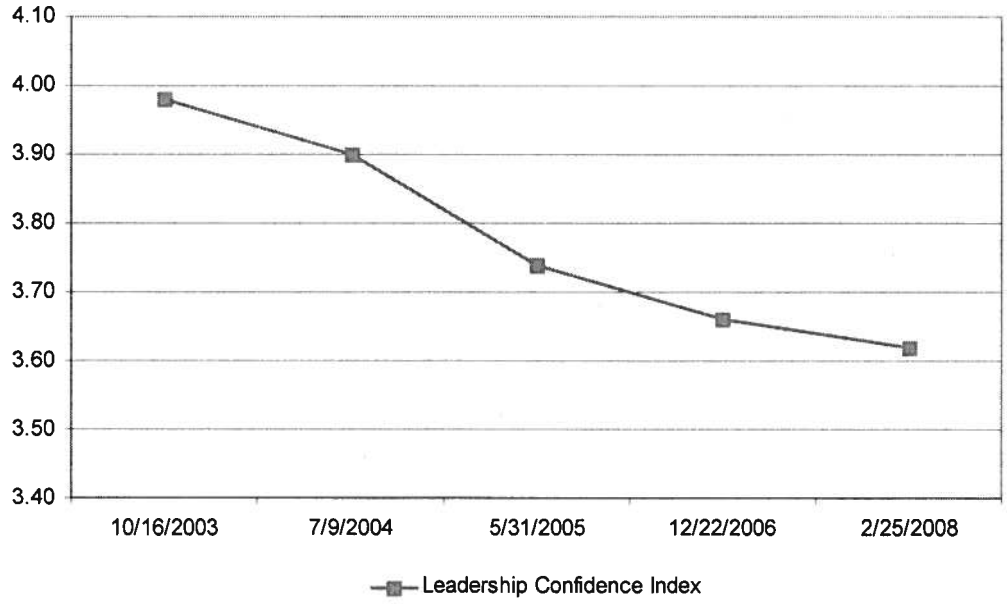
The Case for Changing the Traditional Strategy Making Process

Evidence for the need for change comes from multiple sources, but any glance at the daily business papers provides evidence enough. For example, consider the big "three" automobile companies in the United States. With all the resources at their disposal, how could they not have known that a strategy to continue manufacturing large, gas guzzling vehicles would come crashing down on them? What about the banking industry?

In the midst of these disastrous business circumstances, I have been running a study of global leaders called the Leadership Pulse. Every two to three months I reach out to a sample of leaders (about 14,000 people at the time I am writing this article) and ask them a few questions and then provide feedback and results back to the group. I have been tracking a number of key leadership metrics with this sample since 2003. One such measure is leadership confidence, which is examined once a year. I also study leaders' energy, which is the one question we monitor in each leadership pulse survey. The data that I have gathered from these ongoing pulse surveys with leaders have led to the suggestions in this article.

First, let's examine leadership confidence. In summary, confidence has been steadily declining since 2003 (see Figure 1):

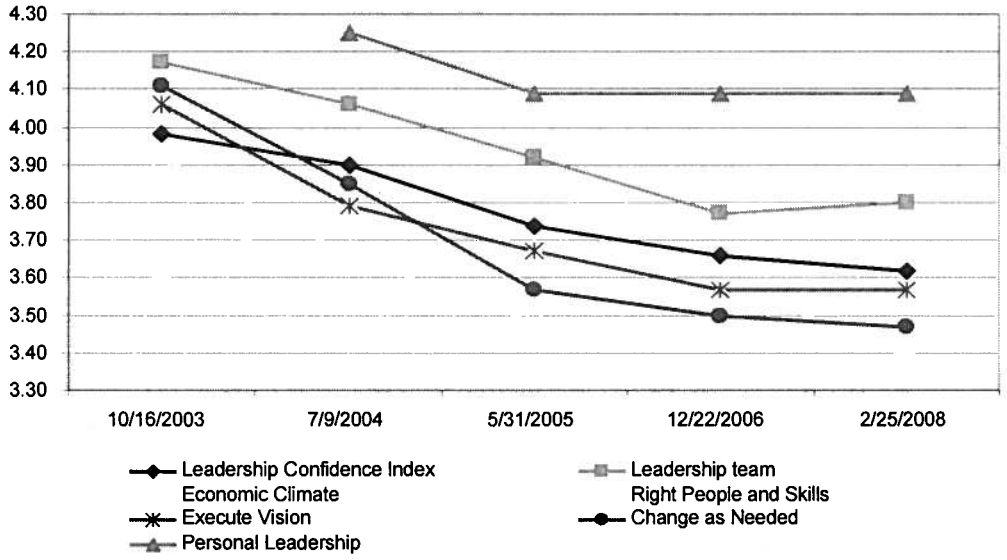
Figure 1: Leadership Confidence Index Trend (2003 to 2008)



The leadership confidence index is made up of six questions that tap into confidence in an organization's internal resources. This makes the index unique in that most other confidence metrics assess confidence in the external business environment. Table one provides a summary of the questions used in the study. Respondents are asked to rate each aspect using a 1 to 5 scale, where 1 is not at all confident, 5 is very confident.

Figure 2 shows the trends for each individual question making up the index. You will note that personal confidence is missing the 2003 data point because it was added in 2004.

Figure 2: Trend Data Leadership Confidence Questions



These trend charts indicate that confidence has been going down. Data are tracked by industry, job level and function of respondent, firm size, and by a number of other variables, and although there are some small outliers, overall, the data leads us to conclude that confidence is going down in this sample[3].

Confused Management Teams

More interesting than the lines and numbers is the reason for the decline in confidence, and this is what brings us to the topic of strategy making. In the survey, respondents are asked to discuss their confidence scores, and the data on energy (collected in each survey) are merged with the confidence data for analysis

[3] The Leadership Pulse now has about 14,000 global leaders in the core respondent group. In each survey (done every 2 or 3 months), we obtain about a 10% response rate. Respondents are 75% Directors and above, and the remainder are managers or senior managers. More information and reports are available at www.leadershippulse.com.

purposes. In addition to the leadership pulse study, I have been collecting data within organizations (in-depth case studies) since 1996. Taken together, the qualitative and quantitative data (including in-depth case studies that supplement the leadership pulse study) tell a story of leaders who are confused. C-level executives are saying that they go into work on Monday morning, and they are not sure what to do. Managers are unclear about priorities. Respondents tell stories about having more and more projects dumped on their desks with no one taking old ones away.

These are people who have memorized their strategy; they have objectives tied to the strategic business mantra. However, the strategy is not helping them. In fact, the problem goes beyond strategy not informing employees and managers. The strategy misinforms.

In the leadership pulse data, I read about managers who are in the trenches working with clients, talking to suppliers, and dealing with the day-to-day new challenges that they are certain are not on the radar screens of the strategy makers in their organizations. The lack of strategy 'fitting' with their real world contributes to lowering confidence levels. Because for all the 'hoopla' associated with getting the strategy right (and the cost associated with it), the result of the strategy making process is useless. Two things then happen when employees see a disconnect between their firm's strategy and reality:

1. The 'right' problems or opportunities are not pursued, as they are not in synch with strategy. Management looks bad to employees because they are doing work and making decisions that are not on target.

2. Leaders realize the strategy is off and they initiate change, and that effort results in lower confidence.

Confidence is reduced under option #2 (even though management did the right thing) because leaders spent so much money "making" strategy that when they change their mind, others in the organization lose confidence in the leaders' abilities. The conclusion is that leaders were wrong; thus, they must not have been too bright in the first place. My working hypothesis is that leadership confidence is being driven down, in part, due to a broken strategy making process that uses outdated models, methodologies, and tools.

Extreme Programming as a Model for Extreme Strategizing

The problem diagnosed with strategy making is not new to business. The art and science of programming went through the same cycle. The traditional path to writing new software was to release new versions in fairly complex, large cycles (often called the waterfall process). Big releases were planned (just like big strategy), people were lined up to work on the project, testing scheduled, code written, documentation prepared, and nothing was provided to the customer until

the entire 'waterfall' or (top down) process was complete. These releases took many months or years to complete (very similar to the traditional strategy making and alignment process), and programmers experienced outcomes similar to those making business strategy. The program was outdated the moment it was released, and this led clients to lose confidence in their suppliers.

Then in the late 1990s a new approach to software development was introduced to software development. Kent Beck in his book with Cynthia Andres[4] (2005) made the following statement in the book's foreward to explain why he started working with extreme programming:

> *"I work in a just-in-time software culture with compressed release cycles spiced up with technical risk. Having to make change your friend is a survival skill."*

My guess is that most of you reading this article can replace the three underlined words above, and then this quote could have been stated by you. Replace the words 'software,' 'release' and 'technical' with words that fit your industry and job, and I think this quote applies to many managers in multiple industries in business today. We are all working in risky environments; most of us have compressed cycles; and the nature of business today seems to be about just-in-time everything (products, projects).

The idea of extreme programming not only has worked for programmers, but it can be applied to the overall business models of strategy making. The result is organizations that are more responsive to clients and in synch with current business challenges. This then leads managers to be more energized and confident in their leaders and their personal careers and destiny.

The concept supporting extreme programming is smaller, frequent releases to improve the quality and output of the work. In the same book that was quoted earlier by Beck, in Chapter 1 states that "extreme programming is about social change." This implies that the basic concepts are applicable to more than just developing software.

The extreme programming methodology offers a viable alternative for strategy making. Rather than developing the 5-year plan, a leadership team could put effort into multiple short-term processes that leads to quicker and on-target strategic actions.

What is Extreme Programming?

According to Lindstrom and Jeffries[5] (2004: 43):

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[4] Beck, K & Andres, C. (2005). Extreme Programming Explained. Addison-Wesley, Boston.
[5] Lindstrom, L & Jeffries, R. (2004). Extreme programming and agile software development methodologies. Information Systems Management, 21(3), 41-52.

"Extreme programming is a discipline of software development based on values of simplicity, communication, feedback and courage." Programmers have simplified the planning and work cycle to deliver faster, better and in a way that supports today's business cycles. Programming teams work together to deliver smaller but integrated releases that meet the needs of their customers. Customer requirements are well understood because programmers talk to customers every few weeks; they have left the old cycles of collecting information, dissecting, then proposing and building based on old knowledge behind. The interactive nature of the conversation is an important part of what makes extreme programming models work.

Programmers interact with customers in a way that moves them forward. You can see how the four values laid out as core to extreme programming work together. It takes courage to talk to your customer on a regular basis because you know they will find things you don't' want to hear. Also, needing to talk to the customer regularly forces programmers to 'keep it simple.' Customers do not want to get into detailed discussions of what is not possible; they want problems solved. Communication and feedback – have we heard those two words uttered by employees in any other contexts? Of course, we have. Every employee survey I have seen in my career comes out with low scores on communication because employees crave it, and no matter how much managers seem to pay attention, employees will say they are still not getting enough feedback. Extreme programming has taken the core of what we know is good management practice and applied it to work, to customers, and to employees. The results have been success in deploying software with less errors and that more accurately meets the needs of clients[6].

Level One: Start with Employee Focused Data and Dialogue Driven Tools

Improving what is delivered to clients is a goal that could be in place for any organization, thus, the first lesson learned from extreme programming is quite applicable to any industry and to the strategizing process that is also part of any organization. In all of the extreme programming books, articles and documentation you find a number of different tools that range from paired programming to writing and displaying stories to various group exercises and learning models. However, core to everything that is written, and the one component that is not disputed by any academics or users, is the need for ongoing, high quality feedback from the end user (customer, who may be internal or external to the organization).

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[6] Two examples of research investigating outcomes of extreme programming: Holstrom, H., Fitzgerald, B., Agerfalk, P, and Conchuir, E. (2006). Agile practices reduce distance in global software development. Information Systems Management, Summer, 23:3.; Erdogmus, H. & Williams, L. (2003). The economics of software development by pair programmers. The Engineering Economist, 43(4).

Note that this section is not about surveys, focus groups or other one-way methods of gathering data. The focus here is on data and dialogue driven tools. This process emphasizes the feedback loop as being critical in the short term, not just in the long run. If surveys are used, the data are used for immediate interactive dialogues. This type of approach is consistent with extreme programming, where customers are providing feedback, programmers develop, and within a very short period of time the results are discussed. Data and dialogue driven tools, which I have developed and used since 1996, are different from what we normally use in organizations, and the uniqueness is to make the data collection process painless and easy, and then use the data to create immediate dialogue. The premise is that the data and dialogue together drive better actions and decision making, while building trust and relational capital[7].

Extreme strategizing, as a new model for strategy making, starts with data from employees. This is not because the employee is the 'customer' but because employees are the people who are in touch with all the organization's stakeholders every day. They know more about what is happening in the environment (as a whole) than any one individual in the management team or than any consultant available in the market.

The first step in implementing extreme strategizing is to devise a model of obtaining regular, ongoing data from employees and then feeding that data into a dialogue process about direction and strategy. We ultimately want data from other stakeholders; however, the discipline and competencies needed to use data and dialogue processes take time. My own experience has been that starting small with teams who master data and dialogue techniques within the organization, focused on employees, paves the way for a faster implementation of the model than any large-scale effort.

Extreme strategizing takes extreme technology. If you start with employees, then you need a technology core solution that allows you to do the following things simultaneously:

- Collect regular data from employees and provide the results to managers in a timely manner.

- Create a continuously flowing feedback process with data reviewed by managers, filtered by necessary decision rules, and then shared with others who need that data to inform their strategizing.

- Hold managers accountable for reading data and doing something with it; thus, questions used to collect data and start the dialogues have to be on target. Managers have to be motivated to use the data, and relationships

[7] To learn more about data and dialogue tools, see the research section of www.eepulse.com. Various published articles are listed on that site.

with employees must be positive so that the data coming from employees are honest and accurate.

- To support the process, training and learning programs must be in place to help managers learn to use data, engage in dialogue, and filter information. They also have to build high trust relationships with employees to assure accuracy of data received.

The level one process results in seeing employees in a new light. You can consider employees to be 'reporters' providing information about the business, new opportunities, customers, and other aspects of the environment not shared through normal processes.

Level Two: Use Data and Dialogue Tools with Customers

In my own work I have found that level one work can be done very successfully, and because perhaps HR is accustomed to getting employee survey data (albeit annually in most cases), HR can help introduce the concept to management. The second level of obtaining stakeholder feedback for strategizing purposes has been to move data and dialogue tools out to customers. The customer data and employee data are integrated, and the insights from the total analysis are used for decision making.

In most cases, this work has been possible because the original employee-focused projects were successful within the sales and marketing departments, and the leaders of these groups lobbied to use similar practices with their customer base. Sales and marketing teams are also groups accustom to obtaining feedback from customers, and when they see that using frequently obtained employee data can inform strategizing efforts, they quickly grasp the value for customers.

When doing this work, the type of data collected includes a core set of questions that are identical for both employees and customers, and then additional questions are targeted and customized for each group. Positive working relationships between customer service and sales also drive these level two projects because the leaders of both organizations stand to benefit by the improvements they can make working the extreme strategizing model. In other words, the organization's structure supports the level two work.

Case Vignettes of Level 1 and Level 2 Extreme Strategizing

New CEO, New Acquisitions (Level 1)

Over the period of six months a new CEO is challenged with putting together 13,000 employees from a number of different acquisitions. The CEO needed a strategy, needed to organize the people, get them on track, and continue to grow the business at the same time. The CEO reached out to

the HR executive to help with the process, and they adopted level one of extreme strategizing. The team created a system for going out to all employees, weekly, with short pulse surveys to obtain information about the employees. The focus was twofold: (1) to obtain data on how the employees were doing, as they wanted to assure the employees did not lose energy and focus throughout what was a very trying few months, and (2) to find out where problems lie and solve them immediately. The CEO delegated the process of working with data to all the managers in the organization, and then the managers were responsible for assimilating their data and making recommendations to the CEO. A series of weekly management meetings were set up to go over not only the employee data but other financial and performance data. The employee data enhanced the archival data on sales and financials because employees reported information about client opportunities, transition issues, and more. This allowed the management teams to quickly adjust strategies and processes on a weekly basis. The outcome, per the CEO, was an over $1 million saving in the first 30 days and a faster transition than this CEO had experienced in the past. The HR team led the technology implementation initiative and trained all managers in the 'extreme strategizing' model. The project was so successful that the group's work was replicated in a second division under a different CEO, and his experience too resulted in fast financial gains.

The "Almost Acquired" Organization (Level 1)

Team of 400 employees were told that their organization would be the target of an acquisition, and when this effort was finalized, there was a good chance many, or perhaps all, would lose their jobs. The group implemented level one of extreme strategizing, collecting data from employees on a bi-weekly basis. The reports derived from this process were used in regular management team meetings. The benefit derived by this group was not as much financial gain as much as reducing financial loss. With the acquisition on the horizon, employees and managers started to lose focus; they spent a considerable time worrying and talking about the consequences of the unforeseen change, and this led to many parts of the regular business process slowing down. The data were used to quickly assess where problems occurred so that the management team could work to get employees back on track. They prepared themselves for the changes that were to come by helping employees embrace the idea of change and work toward improving their work and processes in a negative or fear-laden work environment. The continual communications and small changes to work process resulted in higher output and quality for this team. At the end of six months, it was announced that the acquisition was off, and the team walked away with higher productivity than prior to the event.

Merging Employee and Customer Needs (Level 1 and 2)

> A financial services firm (700 employees; 4,000 customers), intent on growth in a highly competitive market, sought to move their strategizing process to level two. They collected monthly data from employees and bi-monthly data from customers in an effort to tailor product modules and offerings to better compete in the market. The employee data were fairly easy to obtain; however, the customer data were not quite as simple to collect. The effort involved setting up a new CRM system because customer reach was through the sales people, who at the time were not keeping adequate records and collecting high quality information from customers. Therefore, step one involved improving the CRM process (which in itself was a benefit) and then reaching out to customers directly with questions about the market, the competition, offerings that were on the horizon, and the extent to which the firm's modules compared to that of their competitors. These data were high quality and used for intense quarterly strategizing sessions with all the managers. The result was improved offerings over a short period of time, high influence with the "corporate" office as this division's data were better than that of other groups, and ultimately they experienced higher sales and growth.

In my own work, I've been able to see tremendous success at both level one and two. Often organizations have trouble moving beyond level two due to organizational structure barriers.

Level Three: Expand to Other Stakeholders

The effort to move beyond employee and customer data and integrate information from other stakeholder (e.g. retirees, partners, investors, suppliers, etc.) seems very difficult for organizations. I think this is because to do so challenges the structure or the silo mentality that is so core to many organizations today.

Marketing tends to reach out to customers; finance obtains data from investors; HR works with employee data, and every part of the organization works with its own suppliers and partners. The data from these stakeholders are rarely combined, analyzed, or used together.

Level three requires changes in the core structure of parts of the organization. The closest I have come to a level three implementation is working with organizations that obtain data from employees, customers, and their outsourced employees. This was possible because the structure of the organization still supported the management practices needed to use these data for strategizing. However, to move beyond one additional stakeholder and take on the entire organization and all of the stakeholders would require reworking the organization's structure.

As threatening as that may seem, that is exactly what extreme programming advocates. Level four will only be possible when an organization opts into some radical changes.

Level Four: Organizational Structure Changes as Enablers

The lessons learned from extreme programming are that the core structure of the technology department had to change in order to create an environment that was open to feedback and that used customer input to continue to evolve products. The same thing will happen with extreme strategizing.

Programmers, who were accustomed to working in isolation, changed their daily method of work to program in pairs. A parallel for extreme strategizing might be pairing up managers of different departments to work together to dialogue about their own data, provide each other with peer coaching, and then determine what information needs to be moved up the hierarchy for other decision makers. The paired management system could be replicated throughout the hierarchy.

Extreme programming also calls for radical change in office space. This is being done by a number of organizations already, with changes to open space offices on the rise. It may be that these types of organizations would be more open to extreme strategizing models. The extreme programming model is very project driven. Today project management is used in many departments outside of technology. It may be that organizations accustom to working in projects rather than set jobs are better candidates for extreme strategizing. Being able to use frequent data requires major changes in power structures and the ability to 'let go' of information. Project managed companies have built talent that can more easily work with changing priorities and understand the need to listen, share data and be responsive.

The positive aspect of starting with employees is that the desire for information and change can come from within the organization. Once leaders and employees learn through experience that the first steps of extreme strategizing work, they ask for more. The external environment also will drive the need. Extreme strategizing as a model will work when businesses start to underperform. It will be needed when change is higher than an organization or leader has experienced in the past. Given what we are seeing in today's business environment, the time may be ripe for such organizational innovation.

Extreme Strategizing: The Potential

The wins from extreme programming are examples of what can be done with extreme strategizing. This is not necessarily a new concept; many researchers have been studying agility and concluded it is time for something new. In Lawler and Worley's recent book titled "Built to Change[8]," they state the following (page 3):

[8] Lawler, E. E. & Worley, C. G. (2006). Built to Change. Jossey-Bass.

> "We believe that many current organization practices and designs actually prevent leaders from successfully implementing necessary changes."

Extreme programming requires changes in facilities (where people sit, how they work), change in jobs, alteration of the reporting structure, and using innovative ways to work. These same ideas need to be addressed in a level four extreme strategizing model. However, given what I have seen in the field, level four will not be something an organization can do overnight. Breaking down silos, changing power when structures are altered, and requiring that senior managers 'listen' to voices that for years have been silent to them; these are all radical changes. Thus, the progression from level one to level three provides the methodology and learning required for reaching level four of extreme strategizing. As you move from one to four, you build the bench strength needed to succeed as an extreme strategizing organization.

The uniqueness and contribution of the work in this article is that we can learn from the evolution of software development. The programming model provides us with specific models and information to build an organization that is, as Lawler and Worley say, "built to change." In this article, I reviewed one starting point, creating data and dialogue tools within an organization to provide the feedback loop required for extreme strategizing. I can discuss this in detail because I have seen it work in numerous organizations, from various industries, for the last ten years. The move to change structure within HR has accompanied the work with employees, and I have also seen some organizations move the process out to customers with accompanying changes in the structure of the marketing group. However, to date, I have not worked with any organization taking extreme strategizing to its full potential, using data from all stakeholders to build a model of continuous change.

This, however, is what C. K. Prahald calls a next practice. It is the work we will see organizations do who outperform their peers in the business environment of today, when entire industries are at risk of bankruptcy, when global business is not an option but a requirement, and when we have to finally admit to ourselves that the business tools we have been using simply do not work well any more.

Sidebar:

Global Positioning System (GPS) Analogy

In the 'olden' days, we used maps in books to help us get from Point A to Point B (when we set out to drive). Then the Internet improved our process by giving us software that allowed us to be more precise with our directions. Maps are outdated; by the time you purchase one, it is old. But the Internet allows for frequent updates. This was an improvement. However, GPS is even better. You still need to know where you want to go (Point B in our example), but your GPS system helps you by letting you know when there is a detour, alerts you to a traffic jam, and more. The GPS is checking traffic constantly, frequently feeding data back to the driver, and alerting the drive when a new direction is needed.

This new technology makes the driver more nimble, focused, and ready to redirect and not be stuck in traffic jams or on detours. GPS gets you to your destination faster and more efficiently.

Extreme programming concepts can do the same thing for business leaders. The tools developed and tested in the software development world can be slightly modified for leaders and used to reinvent the strategy making process. These methods can turn what we think has become an old, time consuming, and expensive leadership tool into something that is nimble, fast, and that leads to higher confidence levels.