Chapter One

What Is Strategic Leadership?

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Imagine that you are standing on a beautiful beach, with the sand between your toes, looking out over the deep blue-green water. You feel a fresh and invigorating breeze on your face. You hear the roar of waves breaking in the distance. Every once in a while your warm feet feel the relief of cool water when a particularly strong wave makes its way up the beach.

Your watching the ocean has a purpose, for you have a surfboard in hand. You've practiced at home: lying on your board in your living room and working to pop up to your feet in a quick and flowing motion. You've practiced with small waves: picking those big enough to pick you up, but not big enough to toss you over.

Now you want to try your luck on the bigger waves. You walk into the water, get on your surfboard, and paddle out to where the waves are breaking. The wind is strong today, and the waves are big. As you reach what appears to be the best spot, waves are crashing around you and you are tossed about in the water. You try to catch a wave, turning the nose of your surfboard toward the beach and popping up to your feet on the board, but your timing is off and you find yourself back in the water with the wave and your surfboard crashing over you. You try again, and this time you make it to your feet, but as you stand up you lose your balance and fall. You try again, but are unable to catch the next wave as it rapidly passes by you. Attempt after attempt is met with sour results. You try to figure out what is going wrong, but waves are passing you by and your day of beautiful surfing is turning into a day of frustration. Paddling back to shore, you are not sure what you did wrong, but you hope that the next time will produce a different result.

Now imagine yourself at work. You've worked hard for a number of years and been rewarded with several promotions. But you've recently learned from your boss that, while the organization values your operational leadership skills, people do not view you as a strategic leader. You asked your boss what that means, only to receive a shrug and "You know, be strategic" in reply. You've looked to others to help you understand this feedback, but people seem unable to explain what "being strategic" really means. Just as it's difficult to learn to surf when you don't know what you're doing wrong, it's also difficult to become strategic when you don't understand how you are not that way now and people cannot tell you what to do differently.

Increasingly, organizations are calling on people at all levels to be strategic. Even if you have not heard that you need to be more strategic, we bet you can think of others with whom you work who need to develop their strategic capabilities. However, the path to that end is neither clear nor well defined. In some ways, it may feel a bit like learning to surf. You find yourself in the middle of chaos, business issues and initiatives swirling all around you like waves. You're not quite sure which one calls for your best energies (which waves to catch), and even if you pick one you might not be able to find your balance and ride it to a satisfactory conclusion.

Our intent in this book is to help you become strategic. We also intend to help you help others throughout your organization become more strategic and to help teams with strategic responsibilities to meet those demands more effectively. In this chapter we'll lay a foundation by exploring the nature of strategic leadership and the nature of strategy making as we consider the following questions:

- What are the definition and focus of strategic leadership?
- How does strategic leadership differ from leadership?
- What makes strategic leadership so difficult and challenging?

- How can strategy-making and strategy-implementing processes work in organizations to create enduring success?
- What are the implications for leaders of making and implementing strategy?

With this groundwork in place, then, we will turn our attention in successive chapters to the specific question of *how* individuals and teams exercise strategic leadership.

The Definition and Focus of Strategic Leadership

Individuals and teams enact strategic leadership when they think, act, and influence in ways that promote the sustainable competitive advantage of the organization.

This statement is a real mouthful. But because it encompasses all of the critical elements of strategic leadership, we offer it as our definition.

The focus of strategic leadership is sustainable competitive advantage, or the enduring success of the organization. Indeed, this is the work of strategic leadership: to drive and move an organization so that it will thrive in the long term. This is true whether the organization is for-profit or nonprofit. It depends only on whether your organization seeks and achieves an enduring set of capabilities that provide distinctive value to stakeholders over the long term, in whatever sector your organization operates or whatever bottom line you are measured by.

Later in this chapter, we'll discuss the strategy process in more detail and how it can be used to help create sustainable competitive advantage. But for now, let's explore leadership that creates sustainable competitive advantage by considering two organizations: IBM and Digital Equipment Corporation.

IBM

In 1993, many experts in the technology industries had concluded that IBM was inching toward its last days as an organization. Although the company had its most profitable year in 1990, the early

1990s saw big changes in the world of computers. Smaller, more nimble companies were innovating their way into the hearts of consumers and businesses, and the traditional big computers produced by IBM were seen as outdated, old technology. IBM stock had dropped from its 1987 high of $43 a share to less than $13 a share at the end of the first quarter of 1993 (Gerstner, 2002). Lou Gerstner joined IBM as its CEO in April 1993. IBM was on the verge of being split into autonomous business units when Gerstner arrived, a move that would have dissolved the organization that had long been a computer industry icon.

Gerstner chose a different path for the company. He kept the company together and took critical and bold steps not only to keep the company alive but to revitalize it to the point where it again led the industry. Most notably, Gerstner adopted a new strategy that moved the company from a product-driven approach to a service-driven approach. This was no easy task. It required a complete retooling of the people, processes, and systems in the organization. But the work paid off, and IBM's stock rose every year except one until Gerstner retired early in 2002.

Digital Equipment Corporation

Contrast IBM's story with the story of one of its key competitors, Digital Equipment Corporation (DEC; see Digital Equipment Corporation, 2004, paragraph 3). Ken Olsen founded DEC in 1957 and ran the company until the 1990s, when Robert Palmer replaced him. DEC was known for several advances in the computer industry, including the first commercially viable minicomputer and the first laptop. Additionally, it was the first commercial business connected to the Internet.

With more than a hundred thousand employees, DEC was the second-largest computer company in the world at its peak in the late 1980s. But it does not exist as an organization today. With the successes of the 1980s, the company became more and more insular. Products were well designed, but they would work only with other

DEC products and so customers tended to overlook them. Ken Olsen also believed that superiorly engineered products would stand alone and did not need advertising. When the new RA-90 disk drive came to market very late and several other products ran into trouble, competitors overtook the company with similar products at lower prices. DEC experienced its first layoffs in the early 1990s. The company was sold to Compaq in 1998, and then Hewlett-Packard acquired Compaq in 2002. Clearly DEC was led with great fervor and the company was able to achieve great things. But that greatness was not sustained.

What Makes Strategic Leadership Different?

What led IBM to thrive, but DEC to die? Why was IBM able to weather a very difficult storm, make necessary changes, embark on a new path, and reach success in a new way, while DEC was swallowed up by its competition? The short answer is that effective strategic leadership—leadership focused on sustainable competitive advantage—was enacted at IBM.

When we discuss sustainable competitive advantage as the focus of strategic leadership, some of the executives we work with ask us, "Isn't that just leadership? How are they different? If you're a good leader, why aren't you, by definition, a good strategic leader?" That is not an easy question to answer, but our research and experience reveal some subtle and important differences: strategic leadership is exerted when the decisions and actions of leaders have strategic implications for the organization. It might also be described in this way:

- Strategic leadership is broad in scope.
- The impact of strategic leadership is felt over long periods of time.
- Strategic leadership often involves significant organizational change.

Scope

The broad scope of strategic leadership means that it impacts areas outside the leader's own functional area and business unit—and even outside the organization. This broad scope requires seeing the organization as an interdependent and interconnected system of multiple parts, where decisions in one area provoke actions in other areas. The waves in our surfer's ocean provide an analogy: As each wave crashes to the surface it disturbs the water, which moves in reaction to the falling wave. External forces, such as the wind, also affect the waves. In the same way, the scope of strategic leadership extends beyond the organization, acting on and reacting to trends and issues in the environment.

The scope of leadership does not necessarily extend this far. For example, a person who facilitates the decision-making process of a group demonstrates effective leadership even if the decision is small in scope, such as assigning group members to parts of a project.

Duration

Like its scope, the time frame of strategic leadership is also far-reaching. The strategic leader must keep long-term goals in mind while working to achieve short-term objectives. Nearly half a millennium ago, the Japanese military leader Miyamoto Musashi said, "In strategy, it is important to see distant things as if they were close and to take a distanced view of close things" (Advice on Strategy, n.d.). His apt observation describes the tension between short-term and long-term perspectives that strategic leaders must balance.

In contrast, not all leadership requires this forward view to be effective. Very good operational leaders manage day-to-day functions effectively and are skilled at working with people to ensure that short-term objectives are met. This is important work, but it does not always need to take the long term into account.

Organizational Change

A third way strategic leadership differs from leadership in general is that it results in significant change. For example, consider the strategic impact of a new compensation system that touches all parts of the organization, provides a structure for defining differences in roles and appropriate salary ranges, and ties performance plans and measures to the strategic objectives of the organization, giving people a clear understanding of what is required to advance along various career ladders. The human resources team that designed and implemented this system, replacing one that included no common understanding of appropriate salary ranges for roles, criteria for raises, and career progression, exercised genuine strategic leadership.

Effective leadership does not necessarily institute significant organizational change. Leading a team to complete a recurring task, such as closing out the quarterly books for the organization, is an example of effective leadership that does not create significant change.

Leadership, Not Strategic Leadership

To further explore the specific meaning of strategic leadership, let's look at two critical and important leadership behaviors that do not involve strategic implications.

Coaching a direct report is one example. As you make the transition from individual contributor to managing and leading others, getting results through others rather than through your own direct efforts is a critical leadership skill. Coaching may involve structuring assignments, motivating and supporting the development of the person, and challenging the person to think about things in different ways. While coaching a direct report can have a profound impact on that individual in the long run, it does not necessarily have strategic implications. However, developing an organizational priority and system to ensure that everyone receives effective coaching does have strategic implications.

Another example of leadership that does not have strategic implications is leading a team to complete a task that is not strategic in nature. A team assigned to open up a new retail outlet store in a global company that has thousands of such stores worldwide is a case in point. The team may consist of several members whose collective goal is to open the new store in a timely and effective way. Such a setup team will move from one store opening to the next. Although this work is absolutely critical to the successful implementation of the organization's overall strategy, it is not in and of itself strategic in nature. The scope and time frame are not far-reaching, nor does this work involve significant organizational change. However, if members of this team work with others to review the distribution of stores across the world, to understand trends among consumers, and to create plans for new store openings and closures, then that work would have strategic implications.

Where Strategic Leadership Falters

Creating sustainable competitive advantage for an organization is no easy task. It requires bright and capable people, but that is not enough. For example, the employees of Digital Equipment Corporation were smart enough to develop new technologies that pushed the technology industry forward. The individuals who ran IBM before Gerstner arrived were also bright—in fact, he was taken aback by the potential and capabilities of the people he met when he arrived there: "How could such truly talented people allow themselves to get into such a morass?" (Gerstner, 2002, p. 42). If the level of intelligence among its workforce did not differentiate IBM from DEC, then what did? What keeps organizations and their leaders from being successfully strategic? Frequently, the obstacles fall into three categories:

- *Lack of focus:* Organizations and the leaders in them try to be all things to all people, and they fail to make the tough decisions that provide a strategic focus.

- *Loose tactics:* The things that people, departments, and functional areas actually do are not aligned with the organization's strategy.
- *Limited range:* Leaders focus on short-term success at the expense of long-term viability.

Lack of Focus

An ill-defined or undefined strategy indicates that an organization has not made difficult but necessary choices. As Michael Porter of the Harvard Business School has said, "Strategy renders choices about what not to do as important as choices about what to do" (Porter, 1996, p. 77). Information collected from strategic leadership teams as part of CCL's Developing the Strategic Leader (DSL) program indicates that it is rare for organizations to have a strategy that is discriminating (clear about what will be done and what will not be done). This is particularly true in organizations that adopt strategies to copy their competitors. Avoiding difficult choices and refusing to discriminate can lead to a kitchen-sink strategy—one that includes a little bit of everything, the opposite of focus.

In an informal poll of the readers of one of CCL's electronic publications, 35 percent of the respondents said that lack of clarity about organizational strategy hinders their ability to be strategic (Beatty, 2003). Additionally, *CFO Magazine* found similar results in one of its polls (Lazere, 1998), where lack of a well-defined strategy was the most frequent (57 percent) explanation for a lack of value in the planning process.

A lack of focus affects people in organizations by making them feel overly pressured for time and overcommitted. They do not have a sense of what can come off their plates. The executives participating in our DSL program frequently mention that lack of time is one of their personal challenges to being more strategic. Additionally, a lack of common understanding about the strategy allows personal agendas to form and be pursued. Politics runs rampant as individuals try to look good against criteria that they have developed without having reached consensus across the organization that those criteria are indeed the right ones for measuring success.

Loose Tactics

Even with a common understanding of the strategy, actually making choices that are consistent with that understanding is hard to do. A strategic plan itself is only a plan; an organization's actual strategy lies in the decisions and choices its members make as they enact, or fail to enact, the plan.

A study by Benchmarking Solutions (cited in Banham, 1999) found that only 27 percent of companies fully integrate their tactics and strategies. More companies (58 percent) have some form of integration at the highest level, but transferring that integration to lower levels does not often happen.

Tactics may also be misaligned because people throughout the organization don't really understand what the strategy means for them on a day-to-day basis. Information collected from strategic leadership teams we have worked with supports the notion that individuals at all levels of their organization rarely understand how their roles support the organization's mission and strategy. In some cases this is because the strategy does not create focus. But in other cases, formal and coordinated communication systems are ineffective or nonexistent, so people get mixed messages about the strategy. A Watson-Wyatt survey of 293 organizations in the United Kingdom (Stewart, 1999) found that 67 percent of employees in well-performing organizations have a good understanding of their overall organizational goals, whereas only 38 percent do in poorly performing organizations. Further, the survey revealed that in all organizations communication could be significantly improved.

Limited Range

Many of our DSL executives feel a tremendous pressure to make short-term numbers. In fact, it is the most frequently mentioned issue when we ask them to define the major personal challenge to their becoming strategic leaders. For example, one executive characterized the challenge as "Balancing current operational needs versus looking at the long-term perspective of growth and development of our staff and business practice." Another said, "I need to let go of the busy day-to-day activities and spend more time thinking about the future."

In our experience, such executives have typically risen through the ranks by being rewarded for their strong operational leadership, their ability to fight the daily fires and come out ahead. (In fact, one executive commented that he was so good at fighting fires that he sometimes created them just so that he could fight them.) When a person has developed such strength in a particular area, it is very difficult for that person to shift focus and do something different. When it comes to developing the capacity for strategic leadership, it is extremely challenging for executives to let go of the day-to-day issues, even if they are potentially in conflict with the long-term issues.

Lou Gerstner provides a potent example of someone who was able to make a decision for the long run, even though it clearly had negative short-term implications. When he took over IBM in 1993, the company was bleeding cash. Mainframe revenue had fallen from $13 billion in 1990 to around $7 billion in 1993, and competitors were slashing mainframe prices to levels significantly below the prices of IBM products. Customers were asking IBM to do the same, so keeping prices above the competition ran the long-term risk of losing key customers. However, cutting prices would further threaten IBM's cash position in the short term. Gerstner chose to slash prices, and he believes this was one of the key decisions to saving IBM (2002, pp. 44–48).

Clearly the line between meeting short-term operational pressures and long-term success is a difficult one to walk, particularly for publicly traded companies that are under Wall Street's daily microscope. For these organizations, balancing the pressure of Wall Street is critical not only in the short run but also over the long run, because significant and sustained drops in stock price can have tremendous long-term impact. We are not saying that short-term success is not important. But when an organization consistently favors the short term over the long term by, for example, neglecting to make investments to keep resources and technology up-to-date, the organization will suffer in the end.

The Work of the Strategic Leader

These challenges to strategic leadership—the challenge to create focus, the challenge to align tactics with strategy, and the challenge to keep the long term in mind despite short-term pressures—are not surprising given the kind of environment organizations currently operate in. An increasing pace of change and growing uncertainty and ambiguity define that world. As a result of organizations' efforts to thrive in this environment, the world of work has become more complex and interdependent; just think of the complex organizational structures, systems, and processes that exist today to deal with this environment. Now also consider the fact that, amid this complexity and interdependence, organizations must also be resilient and flexible to continue to thrive.

Creating a sustainable competitive advantage is no easy task. It involves bridging the gap between internal complexity and interdependence on one hand and the need for flexibility and resilience on the other. Balancing this tension is the work of the strategic leader.

Creating Sustainability

By "creating sustainable competitive advantage," we mean that strategic leaders work toward a future state of enhanced vitality for their organization so that it will endure in the long term. Therefore, they are clearly implementing changes to the organization. But it is more than just change after change. The critical issue for strategic leaders is how to make changes that progressively build on each other. The right changes represent an evolving enhancement of the organization's vitality. They are changes that help an organization endure in the midst of a dynamic environment, not changes that sap energy and that, cumulatively, don't reflect developing capabilities and value.

Imagine yourself again as the surfer we described at the beginning of this chapter. Remember how, when going for a big wave for the first time, you made changes to your approach by pointing your board in a slightly different direction, changing the timing of your standing up on the board, making subtle changes to your weight distribution to keep your balance, and trying to catch waves at different points relative to their crest. But your changes had little impact because you did not understand the underlying issues that were keeping you from success. You just kept trying whatever came to mind, without stopping to reflect and learn from each of your attempts.

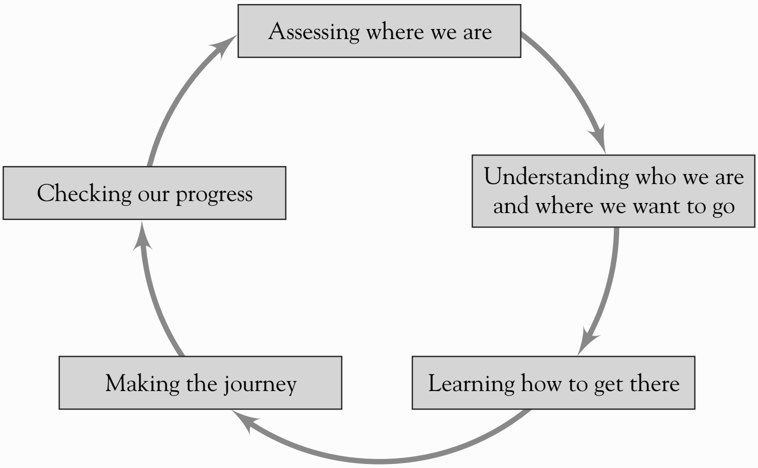
Leading an organization is clearly more difficult than surfing, but both require learning. Successfully creating sustainability through changes that progressively build on each other requires a learning engine that runs throughout the organization. Strategy-making and strategy-implementation processes provide the foundation for that learning engine, and strategic leadership is what drives it. We use a framework called "strategy as a learning process" to depict this engine. It describes a specific strategy mind-set, a way of thinking about how to craft and implement strategy. In particular, it implies that successful strategy operates in an ongoing state of formulation, implementation, reassessment, and revision. Let's briefly introduce the concept here, and then deepen our understanding by showing how it has played out in one company, Neoforma.

The Learning Process

Organizations and their leaders have certain theories about what will lead to success in their industries. They test these theories through the actions and decisions they make. They watch key indicators to see how they are doing. If the key indicators are as they expect, executives consider the organization to be on track. If the indicators reveal unexpected results, leaders will typically make changes. During the course of this work, a process of learning is taking place.

This process has five primary elements, as depicted in Figure 1.1.

Figure 1.1. Strategy as a Learning Process: Overview.



- *Assessing where we are* refers to the process of collecting relevant information and making sense of the organization's competitive environment.
- *Understanding who we are and where we want to go* refers to the aspirational dimension of organizational strategy, including the organization's vision, mission, and core values.
- *Learning how to get there* involves understanding and formulating the critical elements of strategy.
- *Making the journey* involves translating the strategy into action by identifying and implementing tactics.
- *Checking our progress* is the continuing assessment of effectiveness. This part then leads to a reassessment at the organization's new level of performance, starting the learning cycle over again.

As illustrated in Figure 1.1, learning in organizations occurs as a cycle. Organizations go through life phases, which may be difficult to differentiate in the moment but often can be used in hindsight to describe the organization's evolution and growth. Neoforma, which provides supply chain management solutions to health care organizations, vividly illustrates this cycle. Its evolutionary phases build upon each other, progressively enhancing its vitality.

Neoforma's Journey

Throughout its life, Neoforma has focused on how technology can be used to support business practices in health care. People who specialized in architecture and physics founded the company in 1996, and their first product was a CD that was used to provide guidance for building medical rooms and facilities. The organization has grown and changed over the years. At the time of this publication, it has moved from helping build medical facilities to supporting approximately $8 billion in health care purchasing annually. The following sections explore its evolution in more detail.

Phase One: Technology. Neoforma was founded during the growth of the Internet, so not surprisingly the company fairly quickly moved to a Web-based product. Building upon the founders' ideas, the new Web-based product combined the planning and guidance functions of the CD with a public marketplace to buy medical supplies and auction used medical equipment. As its business grew, Neoforma's executives began to understand the potential of the marketplace functions of their product and to recognize the role of the Internet in achieving that potential. They saw that, as a supply chain management solution, the Internet could save hospitals and suppliers billions of dollars by enabling effective collaboration between them. The Internet's ability to connect hospitals and their suppliers in a low-cost way was the key—in the eyes of Neoforma's leadership team—to its success. The prevailing belief was that introducing this technology would require significant changes on the part of the hospitals, but that the potential for cost reductions was so great that hospitals would tolerate the short-term disruption.

Unfortunately, this early theory that technology would prevail met a harsh reality. The way the Neoforma processes were designed (for the public marketplace) did not match the way hospitals purchased their supplies. They had their own legacy systems to track inventory and make purchases, and the assumption that the cost savings would override the difficulty of changing these systems just did not hold. Also, the price of the software and supporting services was high. While hospitals are generally open to spending money on technology that is directly related to clinical applications, they are very conservative outside those applications. In fact, the Neoforma executives discovered that hospitals typically invest less than 1 percent of their revenue in business information systems, compared to an average of 3 to 10 percent for the typical U.S. corporation. Further, suppliers were not attracted to a strategy of building a customer base one hospital at a time. Neoforma needed those suppliers if it was to manage the supply chain effectively.

As Neoforma executives struggled to understand their situation, they focused on how hospitals connected with their suppliers without the technology of the Internet. Specifically, they delved into the world of co-ops, organizations that facilitate connections of hospitals and suppliers to achieve economies of scale in supply costs. Novation is one such co-op. It was formed through an alliance between two major hospital systems and represents about two thousand hospitals, or one-third of the U.S. market. Neoforma executives learned that the business processes inherent to Novation's success were largely paper based.

Phase Two: Partnership. Around the year 2000, Neoforma executives saw the potential of a partnership with Novation. Neoforma's technology could be modified to create a private marketplace that matched the existing systems in the Novation hospitals. And this technology would facilitate the business relationships that Novation had already established. If Neoforma agreed to develop the technology of a private marketplace for Novation hospitals, it would receive the benefit of access to these hospitals, something that could fuel its growth tremendously. So its leaders agreed to this partnership and began the next phase of their journey.

During the transition to the partnership, Neoforma's focus and understanding of how it was going to be successful changed, from "selling our technology to hospitals one at a time" to "partnering with a key co-op to extend our reach in efficient ways." The leadership quickly oriented the entire company to delivering to its key customer, Novation. For example, a team was formed to digest the requirements and agreements created between Novation and the hospitals. Additionally, significant shifts were made to encourage a more customer-oriented culture within Neoforma, as opposed to the inward focus and individualism of the previous culture. For example, Neoforma's staff members had to learn and use the language of their customers, setting aside the technical language that had been the basis of their communication in the past.

Success came quickly to Neoforma through this strategy. Whereas 2001 adjusted revenues were approximately $28 million, 2002 adjusted revenues were $70 million. However, $70 million was the top of the best projection regarding success of the relationship with Novation. So the success raised the questions: What's next? How do we continue to grow?

In mid-2002, the Neoforma executives gathered in an off-site planning meeting. Naturally, questions were being asked about the next steps. There was no clear agreement. But a decision was made to shift focus again. Now that the company had established itself in the industry, it was time to reclaim the Neoforma brand.

Phase Three: Brand. In the course of a few months, creating brand awareness in non-Novation hospitals became a core focus. Essentially, Neoforma's entire product base had been branded under the Novation name. Questions such as these were raised: How do we extract the products under the brand? How do we inform the market, and talk about solutions versus marketplaces? (*Marketplaces* was Novation's term.) How do we describe who we are? What we do? What we care about?

As the changes were designed and implemented, the challenge of selling to one hospital at a time resurfaced. At this point, Neoforma executives understood the conservative nature of hospitals—specifically, the scarcity of "early adopters" when it comes to nonclinical applications. Most hospitals ask two questions when considering something new: Can you prove to me that it works? and Can you show me how the hospital benefits from it, given its unique aspects? Neoforma executives came to a deeper understanding of how important those questions were to creating credibility with new hospitals. They learned that they needed to demonstrate success in their installed base so that they could answer those questions for potential customers. In this third stage, their prevailing strategy changed to driving the adoption of and reliance on their solutions in their installed base.

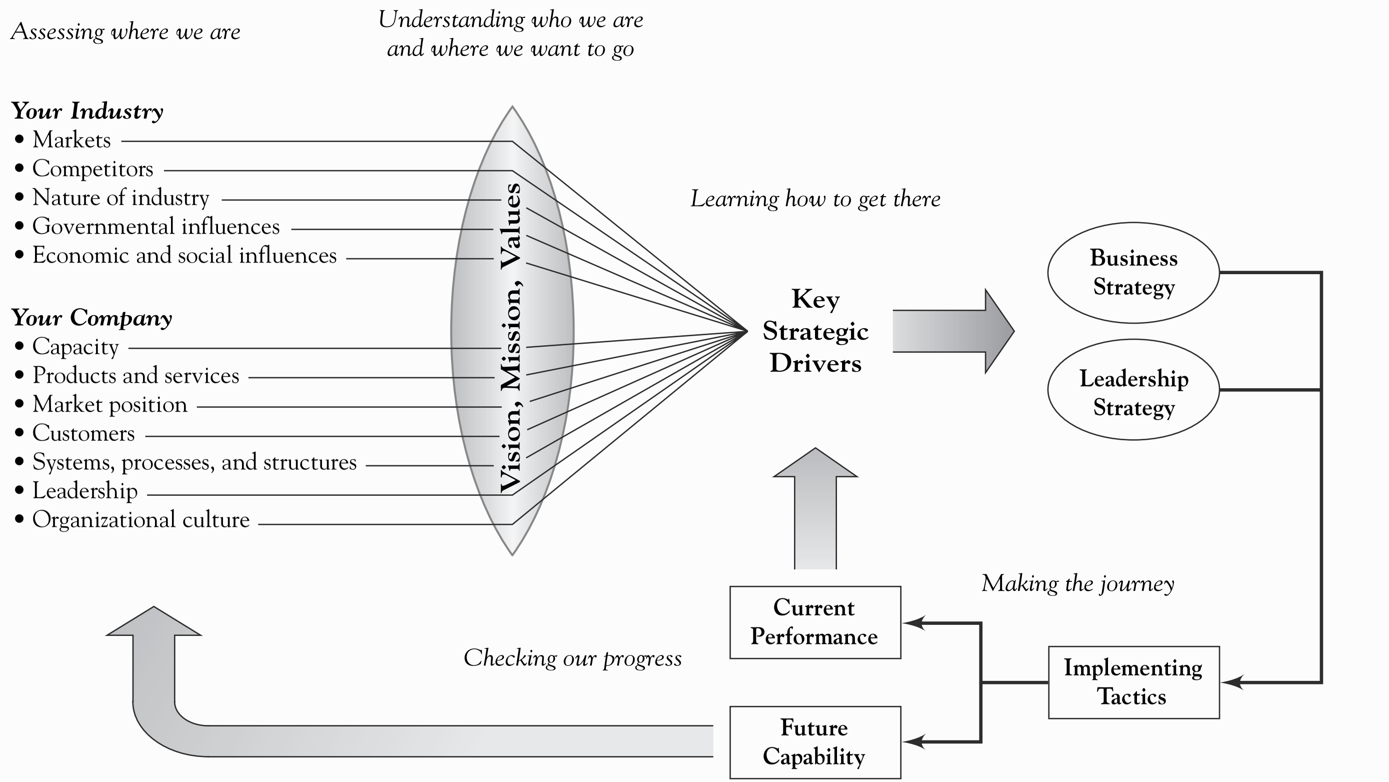
Defining Strategy as a Learning Process

Neoforma's journey is similar to the journey that all organizations make. There is evolution, possibly even an occasional revolution, as the organization tries different approaches, learns from those attempts, and implements strategic change. Neoforma's journey has been a learning process much like the one depicted in Figure 1.1. But as we apply this concept to organizations, and specifically to how they craft and implement strategy, it requires adding more depth to our depiction of the process, as shown in Figure 1.2.

Assessing Where We Are. Leading organizational learning requires assessing where it is now—that is, collecting and making sense of relevant information about the organization and its environment.

At different points in Neoforma's life cycle, a range of assessments was made about the state of the company in the industry. Diverse pieces of industry data became relevant at different times for the Neoforma leadership team. It learned about the state of technology in nonclinical applications in hospitals and the general nature of IT spending in hospitals. Neoforma executives also learned

Figure 1.2. Strategy as a Learning Process: Detail.



more about the way in which hospitals work together to achieve efficiencies in purchasing, and the conservative, even skeptical, nature of hospital purchasing decisions. They also assessed the changing nature of their own industry as it consolidated (in 2000, Neoforma competed with nearly 150 different players; by the end of 2003, that field had narrowed to a single consortium of suppliers). Each lesson drawn from this information and analysis caused Neoforma's executive team to think differently about its own company—for example, the way in which it was structured and how it allocated resources.

Understanding Who We Are and Where We Want to Go. This part of the learning process refers to the aspirational aspects of strategy making, including vision, mission, and core values. Our placement of it in Figure 1.2 is meant to represent the idea that these elements of strategy create a lens through which internal and external conditions are understood and evaluated; they are not derived from internal or external conditions. What is the identity of the organization? In what ways does that identity shape organization members' views of what is possible or not possible? For example, does the organization's mission suggest that certain strategies should not be considered?

The identity of Neoforma was refined over the years. It continues to provide essentially the same services and products (other than facilities planning), but the way in which it provides services and products has changed. That change has affected the way in which it thinks of itself. It has moved from an organization totally focused on a key partnership to one that creates and markets a brand of products and services. To get a flavor of the change we are talking about, read these excerpts from the company description (on its Web site) as this description has evolved over the years:

> 1999: The company is transforming the healthcare industry by delivering information to the people who need it using the proven efficiencies of the Internet. [Phase One: Technology]

2000: Neoforma builds and operates leading Internet marketplaces that empower healthcare trading partners to optimize supply chain performance. [Phase Two: Partnership]

2003: Neoforma is a leading supply-chain management solutions provider for the healthcare industry. Through a unique combination of technology, information, and services, Neoforma provides innovative solutions to over 1,450 hospitals and suppliers, supporting more than $8 billion in annualized transaction volume. [Phase Three: Brand]

Learning How to Get There. This element, depicted in Figure 1.2, is critical to the learning-process framework. It includes a focus on key strategic drivers and the business and leadership strategies necessary to satisfy those drivers. Let's further explore these concepts and how Neoforma put them into action.

Strategic drivers are those relatively few determinants of sustainable competitive advantage for a particular organization in a particular industry or competitive environment (also called factors of competitive success, key success factors, key value propositions).

Most organizations do not have more than three to five strategic drivers at any one time, and these invariably represent a subset of factors on which different companies in the industry compete. Organizations make choices about which strategic drivers they want to invest in—and excel at—in order to differentiate themselves in their industry. The reason for identifying a relatively small number of strategic drivers for your organization is primarily to ensure that you become focused about what pattern of inherently limited investments will give you the greatest strategic leverage and competitive advantage.

Drivers can change over time, or the relative emphasis on those drivers can change, as an organization satisfies its key driver. For example, in a high-growth industry, simply having available capacity may be the key driver of an organization. As the growth curve flattens, other competitive factors come into play.

In *learning how to get there*, organizations also employ (consciously or not) two types of strategies: business strategy and leadership strategy.

> *Business strategy* is the pattern of choices an organization makes to achieve sustainable competitive advantage.

Strategy involves a pattern of choices reflected in different parts of the business. For example, if being a high-quality provider is a critical element of an organization's strategy, then investments related to quality would be visible wherever you look: product design would include high-end features, manufacturing would ensure consistent production, customer service would be fully staffed with highly capable and knowledgeable people, the sales force would ensure a personal touch with customers, and so on.

In addition, strategy involves a series of choices. In order to dedicate more money to quality, the organization purposefully spends less money elsewhere. For example, it may realize that mass advertising does not play a role in its success, and so it limits expenditures there. Finally, the strategy must be linked to the key drivers to ensure sustainable competitive advantage.

> *Leadership strategy* describes the organizational and human capabilities needed to enact the business strategy effectively.

What type of culture should an organization engender to create success? What perspectives and abilities must individual leaders and teams have to be successful? What will they do to develop these skills and perspectives? Many organizations fail to pay attention to these "soft side" issues that are critical to success. The world of mergers and acquisitions provides a potent example of how inattention to the soft side can lead to failure. The statistics for mergers and acquisitions are sobering. Timothy Galpin and Mark Herndon (1999) note that 70 percent of merger and acquisition deals do not achieve their projected synergies, and they cite many studies showing that the primary issues in those failures are the people and organizational culture issues.

Neoforma has clearly tried different approaches to achieving success, some of which have worked better than others, and some of which worked for a time, but then changed in terms of priority. For example, its leaders quickly learned that their initial driver—a pure focus on technology—was important in the early stages, but was not going to lead them to success in the long term. Another driver became important as they learned more about their industry: marketing and distribution channels. Specifically, they needed to focus on how they reached their customer base and how they established credibility with that base. This is not to say that the technology was not important—it just was lower in terms of priority after Phase One.

During Phases Two and Three, the drivers have not changed. That is, in both phases the company is emphasizing the ways in which it reaches its customers and also the products it can deliver. However, the difference between Phases Two and Three lies in the strategies Neoforma adopted for reaching those customers. In Phase Two, the strategy was a partnership with Novation. In Phase Three, the strategy involved the adoption of and reliance on solutions in Neoforma's installed base to demonstrate both "proof" and "how" to potential customers.

Neoforma has also focused on the "soft side" of the business, although its executives would acknowledge that the leadership strategy has been less explicit than the business strategy. In the early days, its culture was focused inward and was individualistic; it rewarded those who succeeded in making technology better. As Neoforma came to understand the need for an emphasis on reaching its customers through marketing and distribution, the culture became much more customer focused. People learned to use the language of their customers (Novation's language in the partnership phase, and the end users' language in the brand phase) and to focus on the users' requirements.

Making the Journey. This part of the learning process framework involves translating the strategy into action by identifying and implementing tactics. In making the journey, Neoforma chose tactics consistent with its strategies. For example, during the technology phase, it invested heavily in product development and allowed marketing and service to fall down on the priority list. As the company shifted to a focus on Novation, finding different ways to connect with this partner was critical. For example, Neoforma invested resources to learn about the requirements and agreements created between Novation and its hospitals. Engineers and technicians also spent considerable effort learning about the back-end systems of the Novation hospitals.

During the brand phase, specific tactics are in place to identify "power users" (hospitals who use the technology on a daily basis) and to showcase their success with Neoforma products. The goal of these tactics is to demonstrate progress to both current and potential customers. Other tactics during this phase emphasize a focus on marketing to end users. Neoforma hired a vice president of marketing and is rebranding its products, including developing a new logo. Finally, service has become particularly important, as each end user has to feel supported by Neoforma.

Checking Our Progress. Organizations continually assess their effectiveness by measuring key indicators related to their drivers and their strategies. It is also important for organizations to attend to their future capability. Are there measures to indicate success (or not) in building that future capability?

In Neoforma, key performance measures have evolved along with the company. Certainly the development of the technology was the focus in the early days, and the critical measures revolved around product development. As the company shifted to a focus on

Novation, attention turned to measures related to the relationship with Novation (for example, the number of Novation hospitals that had adopted the technology). Finally, in this last phase, a critical measure is the number of power users.

These examples of Neoforma's movement through the strategy process are summarized in Tables 1.1, 1.2, and 1.3. Table 1.1 summarizes the elements of strategy as a learning process during Neoforma's technology phase.

Table 1.2 summarizes the same information during the partnership phase.

Table 1.3 provides a summary of the learning process elements during the brand phase.

Interestingly, although Neoforma executives describe themselves as going through these three critical phases, the knowledge of different phases was neither explicit nor intentional at the time,

Table 1.1. Neoforma's Learning Process: Phase One—Technology (1996–1999).

Process Element	*Example*
Assessing Where We Are	Pressures in health care to reduce costs. Lack of even rudimentary IT tools in hospitals.
Understanding Who We Are and Where We Want to Go	A high-tech company with an Internet solution for the health care industry.
Learning How to Get There	Selling our technology to hospitals one at a time, business and leadership strategies built around developing and delivering the best technology.
Making the Journey	Significant investments in product development, power in the organization afforded to those in technology.
Checking Our Progress	Success in development of the technology.

Table 1.2. Neoforma's Learning Process: Phase Two—Partnership (2000–2002).

Process Element	*Example*
Assessing Where We Are	Hesitancy in hospitals to invest in nonclinical applications. Hesitancy of suppliers to become involved unless guaranteed access to many hospitals. Existence of co-ops to offset costs and risks to hospitals and suppliers.
Understanding Who We Are and Where We Want to Go	A company that has partnered with a key organization to deliver our technology to the health care industry.
Learning How to Get There	Create a link to customers and suppliers and extend our reach in efficient ways by partnering with a key co-op (Novation).
Making the Journey	Tactics to immerse the mind-set, operations, and systems around Novation and its hospitals, such as learning about the back-end systems in these hospitals and creating a culture to support the Novation relationship (for example, using the language of the hospitals instead of the language of technology).
Checking Our Progress	Performance measures related to the relationship with Novation, number of Novation hospitals that had adopted the technology.

and the transitions from phase to phase were not perfect. Rather, in hindsight they can map the history of their organization to the cycle in Figure 1.2. It does not take having the knowledge of a process like that depicted in Figure 1.2 to create learning and focus in an organization, but having knowledge of this process allows a common language to exist within the organization and might make navigating that process a bit easier. Successfully driving this process—whether it is explicit or not—does require effective leadership, a type of leadership we call strategic leadership.

Table 1.3. Neoforma's Learning Process: Phase Three—Brand (2003 and Beyond).

Process Element	*Example*
Assessing Where We Are	Conservative and skeptical nature of hospitals.
Understanding Who We Are and Where We Want to Go	A company that has succeeded in reducing costs in the health care industry, and one that can help other hospitals too.
Learning How to Get There	Extend reach to potential customers (to answer "proof" and "how") by driving the adoption of and reliance on our solutions in our installed base.
Making the Journey	Rebrand our products and services outside of Novation; develop key case studies of success with our installed base.
Checking Our Progress	Number of power users, growth in new offerings.

Implications for Strategic Leaders

Conceptualizing the strategy-making and implementation process as one of continuous learning is not new in the strategy literature. Henry Mintzberg has contributed significantly to our understanding of strategy making, and particularly to the idea that it includes a dimension of learning. He has helped clarify the distinction between *deliberate strategy*, which includes the more formalized and intentional elements of organizational strategy (for example, what you might find in a formal document, or explicitly articulated as official strategy) and *emergent strategy* (Mintzberg, 1987, 1998; Mintzberg & Waters, 1985). The latter involves strategy as it evolves in real-time practice, with or without conscious realization that what is being done in the interest of organizational success may not necessarily be consistent with expressed strategy. Others also have commented on how strategy-in-practice can change somewhat beyond individual or organizational awareness that it is happening: "Strategies develop over time through successive iterations of decisions and actions. Most of the time nobody even recognizes the strategic implications of what is going on until much later" (Floyd & Wooldridge, 1996, p. 38).

Despite the advice of Mintzberg, and despite the emphasis on organizational learning by Senge (1990) and others, we find in our work with executives that strategy is not often thought of as a learning process. In fact, when we ask executives to describe how strategy is crafted in their organizations, we get long descriptions of off-site retreats with agendas filled with rigorous steps and analyses. The outcome of such a retreat is often a strategic plan that is so long and involved it fills binders and weighs down shelves. Once the retreat is over, the binders tend to sit on the shelf and gather dust.

Why don't executives explicitly talk about strategy as a learning process? One reason may be that learning implies that something is not currently known—and the cultures of many organizations emphasize *knowing*. Aren't those who know the most those who are promoted? Other executives are open to learning yet feel there isn't time for it. The reality is that organizations must learn and those that have the best learning practices in place have a significant competitive advantage. As Peter Senge notes, "It is no longer sufficient to have one person learning for the organization, a Ford or a Sloan or a Watson. It's just not possible any longer to 'figure it out' from the top and have everyone else following the orders of the 'grand strategist.' The organizations that will excel in the future will be the organizations that discover how to tap people's commitment and capacity to learn at *all* levels in an organization" (1990, p. 4).

While there are many implications of viewing strategy as a learning process, we would like to explore four in particular:

- Leading strategy involves discovery more than determination.
- Strategic leadership is not reserved for those at the top.
- It's not enough to be a good strategic leader yourself; you have to foster strategic leadership in others, too.

- Strategic leaders blend the skills of thinking, acting, and influencing to drive strategy as a learning process in their organizations.

Discovery versus Determination

Several writers on strategy (for example, Beer & Eisenstat, 2000) talk about the process of defining strategy as if a person or group of people can go into a room, talk about what their strategy should be, and as long as it is clearly defined, all should be fine. The word *define* implies that we can sit back and determine what strategy is best for us. Many writers (for example, Treacy & Wiersema, 1995) have even gone so far as to define a limited number of categories of strategies (for example, product innovation, customer intimacy, and operational effectiveness) and declare that the work of leadership is to determine which one is right for the organization.

For most organizations, crafting strategy is more of a discovery process than it is a determination process or a process of choosing among a limited set of possibilities. It involves discovering the few key things the organization needs to do well and can do well to differentiate it in its industry.

In *Good to Great,* Jim Collins (2001) describes this process as coming to understand the "hedgehog principle," a term based on the Isaiah Berlin essay "The Hedgehog and the Fox." Berlin divided the world into foxes, who "know many things" and see the complexity of situations and create different strategies to deal with that complexity, and hedgehogs, who "know one big thing" and simplify the complexity of the world into one unifying concept. As Collins found, both good and great companies had strategies. However, while the good companies set theirs from bravado, the great companies set theirs from understanding. He summed up his findings with this statement: "A Hedgehog Concept is not a goal to be the best, a strategy to be the best, an intention to be the best, a plan to be the best. It is an *understanding* of what you *can* be the best at. The distinction is absolutely crucial" (p. 98).

Discovery takes discipline. Think again about your mental experiment with surfing. While you may feel exuberance about trying to conquer the waves and may be tempted to jump right in, you know that an expert surfer spends time watching the waves before ever attempting to catch one. It's necessary to learn about where the waves break. You work to understand the impact of the direction, speed, and fetch of the wind (the distance the wind blows over open water) on the size and shape of the waves. You get a sense of the waves' rhythm and the patterns underlying their progression. And this knowledge makes you even more energized about the possibilities; that is, you can actually fuel your exuberance with this disciplined learning.

Discipline is even more necessary in strategy and in business. Collins notes that coming to an understanding of the Hedgehog Concept is an iterative process that takes *four years* on average (2001, p. 114). Bravado, on the other hand, can happen instantaneously. Perhaps that is why it is so appealing.

This discovery process is modeled week after week in our DSL program. We use a business simulation where executives run a company called Hawley-Garcia. In the simulation, participants have use of a computer model to simulate five years of operations at the company. Over the course of those years, their articulation of the drivers and strategy of Hawley-Garcia changes as they come to a deeper understanding of the industry dynamics and their company's position in that industry. For example, early on one regional group articulated key points of its strategy as follows: "Maintain market share in the home market. Leverage alliances to become a leader in specialty tools." As their understanding deepened, they changed those key points: "Increase capacity and quality of manufacturing lines to support growth in high-end product lines while investing in research and development to support innovation." Those two statements are quite different. The first was essentially set through bravado—putting a stake in the ground with little understanding. The second evolved as they studied their industry, the key drivers in their region, and their region's role in the company overall. It represents a much more informed strategy.

Broad Reach

One of the myths of strategic leadership is that strategy is the CEO's job and others play little to no role in the process. Associated with this myth is the belief that the CEO and possibly the top leadership team go off for several days and come back with the strategy. True, the CEO is ultimately responsible for deciding upon a path for the organization. True, the CEO often involves some team of senior management in that decision-making process. But that does not mean that these people are the only strategic leaders within an organization. On the contrary, the CEO relies upon input and insights throughout the organization to set the strategy, to enact the strategy, and to help in understanding how well the strategy is working. The danger of this myth—that strategic leadership is reserved for those at the top—is that those lower in the organization will consciously or unconsciously believe it, will not see themselves as strategic leaders, and therefore will not behave as strategic leaders.

The plethora of big-name CEOs who have been very successful leading their companies—both past and present—perpetuates this myth. Names such as Henry Ford, Jack Welch, Lou Gerstner, and Andrew Carnegie bring to mind the image of people so bright and so good that they can single-handedly know the best direction for their companies, set the processes in motion to get there, and ensure that the company stays on track. However, more likely than not, these people were so good at leading their companies precisely because they relied on others.

Consider the case of Dennie Welsh. Does his name sound familiar? Probably not. In 1993, Dennie was running the Integrated Systems Services Corporation of IBM, that is, the services and network operations in the United States. While the fact that he was running a unit within IBM may sound big, his role was relatively small given the size and structure of IBM at the time. As Lou Gerstner indicates in *Who Says Elephants Can't Dance?*, "[This part of the organization was] a promising but minor part of IBM's portfolio. In fact, it wasn't even a stand-alone business in IBM. It was a sub-unit of the sales force" (2002, p. 129). So Dennie was not exactly a top manager within IBM.

Yet in many ways, Dennie can be credited with the major shift in IBM's strategy from a product company to a service company. Here is an excerpt from Gerstner's book, in which he describes a meeting with Dennie:

> It was our first private meeting, but he didn't waste much time on small talk. He told me that his vision of a services company was not one that did just IBM product maintenance and strung together computer codes for customers. He envisioned a company that would literally take over and act on behalf of the customers in all aspects of information technology—from building systems to defining architectures to actually managing the computers and running them for the customers.
>
> My mind was afire. Not only was he describing something I'd wanted when I was a customer (for example, I had tried unsuccessfully to outsource the running of RJR Nabisco's data centers), but this idea meshed exactly with our strategy of integration. Here was a man who understood what customers were willing to spend money on, and he knew what that meant—not just the business potential for IBM, but the coming restructuring of the industry around solutions rather than piece parts [pp. 129–130].

Gerstner might well have come upon this idea himself, given his desire to integrate the various parts of the company rather than sell them off; however, he did not need to do it himself. He had good people below him he could rely upon. And he recognized the need to rely upon those people.

When we think of how organizations have evolved over the past several decades, one of the key differences is that the lines between classic distinctions have become blurred—and rightly so. Trends such as concurrent engineering have emphasized the need for functions to work together, as opposed to the old model of having Marketing develop product specifications and then "throw them over the wall" to Engineering, who would develop the design and then "throw it over the wall" to Manufacturing for production. A better understanding of the needs and perspectives of the various functions allows the product to come to market more quickly and to meet customer needs more effectively—two outcomes that are critical for competitive advantage.

This blurring trend has happened with strategy making and strategy implementation too. That is, the line between *planner* and *implementer* has become blurred. The competitive forces in today's environment require us to be as in tune with our environment as possible, and often those who are at middle and lower levels of the organization are best suited to know the customer, competitors, and industry trends.

So strategy is not just the CEO's job. That is, strategic leadership is best exerted when information from the top is combined with information from the bottom ranks of the organization, and middle managers are in a unique position to do this. It is no wonder that more and more people throughout organizations are feeling the need to become more strategic.

Fostering Strategic Leadership

Just as it's a fallacy to believe that strategy is the job of just the CEO, it's wrong to believe that in order to enhance your own strategic leadership abilities you have to concentrate on building your own strategic skills. Being a strong strategic leader means you have to focus on others as much as—if not more than—on yourself.

Why this focus on others? Simple. The process of creating and sustaining competitive advantage in an organization is just too complex for any one person to develop and carry out. There is too much information to digest, the decisions are too complex, and success is too dependent on the blending of capabilities across the enterprise. This list could go on and on, but these two items go far enough in suggesting ways in which the strategic leader can focus on others:

- Create a climate that fosters strategic leadership in others.
- Develop strategic leadership abilities in those around you.

Many factors go into managing that first point, but one common example serves to illustrate: What is the climate in your organization for sharing information? Does information flow freely, so that people share their most honest opinions with each other, allowing those opinions to be shaped by data and perspectives of others? Beer and Eisenstat (2000) have researched what they call "silent killers" of strategy implementation and learning. Several of those silent killers are related to keeping things quiet in an organization—for example, a top-down management style and poor vertical communication. They cite Apple Computer as a prime example. It was known for several years in the 1980s that Microsoft was developing the Windows platform, which would compete with the Macintosh by providing less expensive access to similar technology. While managers throughout Apple were arguing for the need to develop and produce a low-end product, Beer and Eisenstat note their senior managers responded by yelling that this was wrong. This kind of response from any manager is virtually certain to inhibit information sharing.

With respect to developing strategic leadership abilities in those around you, we ask that you read this book with others in mind, perhaps at least one other person you are working with who needs to be more strategic. Think about ways you can apply the assessments and exercises throughout this book to guide this person's development. You might even consider working alongside that person as you both develop so that you can provide support to each other.

Driving Strategy as a Learning Process

The next three chapters will focus on how strategic leaders blend the skills of thinking, acting, and influencing to drive strategy as a learning process in their organizations. They use these skills throughout the cycle of learning to bring clarity and focus to the strategy, to enact that strategy with purpose and direction, and to engender the commitment of others to the future of the organization.

We have purposefully decided to devote a chapter each to thinking, acting, and influencing. This allows us to discuss specific competencies and perspectives related to each of these skills, and each skill's place in driving strategy as a learning process.

But it's important to clarify that thinking, acting, and influencing should not be viewed as separate and individual. It's not the case that a strategic leader first thinks to determine what to do, then acts to make the necessary decisions and choices associated with that thinking, and then influences others to get them on board. In reality, thinking, acting, and influencing are interdependent. That is, a strategic leader will take action that then informs future thinking about the strategy. (Indeed, this type of learning is the foundation of strategy as a learning process.) A strategic leader will also invite others into the strategy-making process—not just to facilitate their buy-in to the process but also to produce a better strategy than could have been developed in isolation. As you read the next three chapters, keep in mind the various ways that thinking, acting, and influencing work together. Each chapter will conclude with a discussion of that interdependency to help you make that connection.