

THE  
PERFORMANCE  
PAPERS

ANDREW BASS

First Published in Great Britain 2011 by Bookshaker

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## ACKNOWLEDGMENTS

Many colleagues and clients have contributed both directly and indirectly to the development of *The Performance Papers* – some of whom must remain nameless for reasons of commercial confidentiality (you know who you are, and I thank you). I am very pleased to be able to acknowledge the insight, inspiration and top-quality critique I have received from Jens Höhnel, Alastair Dryburgh, Helga Henry, Karl Pestell, Peter Selkirk, Richard Goodier, Cora Lynn Heimer Rathbone, John Handley, Charlie Wilson, Lucy McCarraher, Joe Gregory and Alan Weiss.





## FOREWORD

This book will be of great benefit to anyone who wants to develop their people, organization and business to world class standards. It will help you to understand the interdependence between culture and strategy, leadership and people; through reading it you will gain a clear perspective on how to create a high performance organization.

Andy Bass has many years of business experience in a range of areas, in addition to which he has an impressive understanding of how to teach, train and motivate people.

This book lays out the importance of culture as “the beliefs and values that influence behaviour” in an organization. It also confirms my own experience that executing a business strategy depends, in the end, on people’s performance and behaviour. It demonstrates very clearly that real success results from pursuing two interrelated paths: the business goals *and* the behaviour of people.

My personal experience, being a CEO in the extremely competitive environment of automotive suppliers, is that we need a better understanding of how *all* the elements of our businesses are tied together. That way we grasp what makes us more competitive and successful in our global markets.

To effectively develop, produce and market new products requires target-oriented, interdisciplinary teamwork among all the areas involved in each specific customer project, for instance in my own business this would include Engineering and Design, Manufacturing, Controlling, Purchasing, Finance, Marketing and Sales. In other words, it requires a high performance organization.

IAC (International Automotive Components Group) has integrated six acquisitions over the last four years

and you can imagine how important it is for such a business structure to establish a common company culture – not just on paper, but lived and loved.

Acquisitions always bring new employees with specific behaviours, developed over years. Once you have bought a new company you will definitely have their “bodies”, but what you need is their “brain” and, even more, you want their “heart”. Once you have achieved that, you will have motivated people. And these people will be able to achieve also your business goals.

Looking at demographic developments over the next five to ten years we are going to be faced with a lack of young, well-educated and business-minded people. For any company with the need for qualified employees, it will be key to develop and train their next generation leaders. These “emerging leaders” and high potentials will be crucial for a successful future and will be essential in growing a business. HR managers and management are not only challenged to find the right people but also to retain and motivate the next generation of leadership.

Our next generation leaders at IAC have attended a Leadership Development Programme at the Aston Business School Centre for Executive Development which was outstanding and highly valued by all participants.

The IAC people are also benefitting hugely from the content of this book and additionally from Andy’s exceptional expert guidance for aligning our people with our objectives and turning strategy into action.

You can read this book without getting disoriented by arcane jargon or “sophisticated” terminology. It is exactly what you want and need to know – based on solid business background and real life experience. This book is relevant and advantageous for everyone who wants to create a high performance organization.

**Jens R. Höhnel**  
CEO / President Europe  
International Automotive Components Group (IAC)

## CHAPTER EIGHT

# DRIVING STRATEGIC PRIORITIES

At some point, almost every client I have ever consulted with has wanted to mull over the following question: “Of all the things we could be doing, which should we be doing?”

The question comes in many versions:

- Which of our current operations should we continue or discontinue?
- Which opportunities should we pursue or ignore?
- Which projects should we start, continue to back, turn down, or stop?

Alternatively, there’s a more general sense of frustration, often expressed as follows:

- “It takes forever for the team to make a strategic decision.”
- “We seem finally to agree, but then it all gets opened up again at the next meeting.”
- “We agree, but then everyone goes off and does something different anyway.”

And on other occasions, the question comes wrapped in a Product-Market (“Ansoff”) Matrix which, rather than clarifying things, ends up just rewording the question into: “Should we pursue these new products or these new markets, or both, or...?”

*Driving Strategic Priorities*

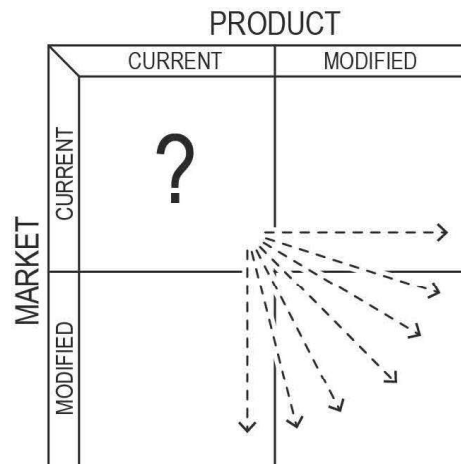


Figure 8.1: Which direction will you grow in?

It's easy to get bogged down – especially when faced with a greater number of appealing options than you can realistically handle.

Many people are tempted to resolve the resulting impasse by collecting more and more data, in the hope that analysis will show the best way forward. But that data is of necessity historical, and so its analysis alone can't decide the overall nature and direction that the business should take. In the end, strategy is a matter of making choices which cannot be entirely reduced to hard data.

The problem these clients are confronting is a strategic one, but the discussion tends to blur into operational terms, and hence get muddy and confused. Strategy involves making high-level commitments which will guide the specific decisions about what to do and also, importantly, what NOT to do. Without that strategic clarity, it's easy to go chasing after every promising idea which pops up, and the results are familiar:

### *The Performance Papers*

- Insufficient focus to achieve a critical mass in any one area.
- Proliferation of brands which end up competing and confusing the customer.
- Dilution of resources.
- Unnecessary internal competition as people fight for their pet projects.
- Convergence with competitors as the firm and its rivals all try to offer everything, destroying their differentiation in the eyes of buyers.

The following sections provide information that clients have found helpful in order to bring shape to their strategic discussions and to create actionable priorities.

### *What's Your Strategic Driving Force?*

It's very revealing to think of any business as being shaped primarily by one of nine 'strategic areas':<sup>3</sup>

- the market it serves
- the nature of the products or services it offers
- its production capabilities
- its method of sale
- its method of distribution
- its access to resources
- its technological know-how
- its profit guidelines, or
- its growth aspirations (see table for examples)

In any given business at a particular time, one of these areas will predominate. Clarifying the dominant area – the business's driving force – provides an invaluable

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<sup>3</sup> This idea was developed by Tregoe and others at the consultancy firm Kepner-Tregoe, and was first introduced to me by Alan Weiss. It is an extremely useful way to provoke focused discussion on the nature and direction of the business.

### *Driving Strategic Priorities*

filter for resolving the confusions I raised at the start of the chapter. The table lists the forces and gives examples of the effect each force has, together with well-know companies that (as far as we can tell without asking their top management) seem to be driven by that force.

Note that all businesses will have vital activities in most if not all of the nine areas. The idea is that one area, for better or worse, shapes decision-making more than the others.

Driving Force	Typical Path of Growth	Example
<b>Market served</b>	Modified or new products/services to existing, well-understood markets. Asks "What extra, especially higher value, needs can we meet?"	<i>Saga offer an increasing array of products and services to older people.</i>
<b>Products/services offered</b>	Same or modified products or services to new markets (either geographic or demographic). Asks: "Who else will value this?" May also find new uses for existing products.	<i>Nokia during its period of highest growth.</i>  <i>Arm &amp; Hammer rebranded their baking powder as fridge deodoriser.</i>
<b>Production capability</b>	Optimises its current processes and seeks more highly-valued uses for its production capabilities. Seeks projects/contracts which increase utilisation of productive assets. Asks: "What else can we make or provide this way?"	<i>Commercial printers</i>  <i>Large consultancies</i>

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<b>Method of sale</b>	Additional products which can be presented to the buyer using the existing sales process. Asks: "What else can we sell this way? Who else would buy this way?"	<i>Amazon</i>
<b>Method of distribution</b>	Modified or new products which can be brought to market through existing channels. Asks: "What else can we get out to people this way?"	<i>McDonalds</i> <i>Tesco (sell in stores and online, but in both cases, distribution is through stores).</i>
<b>Technology/ Expertise</b>	Modified or new applications of proprietary technology or expertise. Asks: "Where else would this technology add value?"	<i>Intel</i> <i>Honda (in engines)</i> <i>Autonomy Corporation</i>
<b>Natural Resource</b>	Might seek to acquire new sources, transport commodities to new markets. May forward integrate and then adopt an alternative driving force.	<i>Alcoa</i> <i>BHP Billiton</i>
<b>Profit</b>	Few companies are purely profit driven. Those that are will build or acquire businesses wherever they think there is a best return for their capital.	<i>Berkshire Hathaway</i> <i>Hedge Funds</i>
<b>Growth</b>	Usually a temporary driving force which is then replaced by another as the business matures.	<i>Research in Motion (in 2009)</i>

Table 8.1: Defining your strategic driving force

### Driving Strategic Priorities

As a simple visualisation, here's how a business's emphasis shifts according to whether or not it chooses a market-served or products-offered driving force. Following Tregoe's example, I've extended the original Ansoff game-board to make the transition from box to box more evolutionary – it can be extremely useful to extend this even further by segmenting the markets and product ranges.

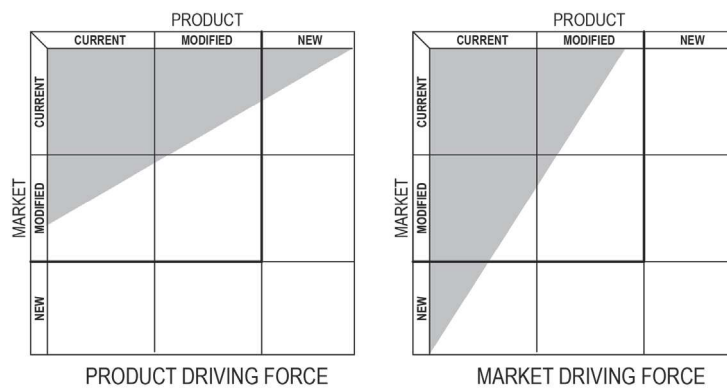


Figure 8.2: How your choice of high-level driving force shapes the product-service journey

The high-level choice of driving force starts to shape the journey through a product-service matrix. It provides a rational way to avoid the diluted effort of “branching out in all directions”, and brings coherence to discussion about strategic choices (for example, decisions about investment in technology, distribution channels, partnering, outsourcing or integration of value chain steps all change as you consider alternative driving forces).



### *Examples*

Here are some examples of how the driving force idea can bring illumination to strategic conversations.

#### **Whitbread: From brewery to hotels and restaurants**

At what we can call stage one in the industry's evolution, breweries historically were driven by a product driving force: they made beer. They quickly evolved to stage two extending further along the value chain into "hospitality", i.e. pubs and hostelrys – modifying their driving force but still driven by the products and services offered.

Some brewers then moved to a third driver: for economically appealing reasons they came to think of themselves increasing as property companies. This was even seen as a clever (or fortuitous) hedge against a declining pub market. At one point, a typical buy recommendation for shares in a brewer might note that the asset value of their properties was higher than their market capitalization – managing their property assets created more value than their operations. They increasingly developed freehold property acquisition and management skills and strategic decisions have inevitably been shaped by managers who had developed that orientation. One source at M&B notes the difficulty of his managers considering offering hospitality services on the modern high street where premises are typically leased rather than bought and managed – the de facto driving force has become method of distribution (freehold pubs), or perhaps production capability (utilisable space). Look how inflexible to customer demand this has made them.

However, contrast this with Whitbread. It's a highly successful company that has nothing to do with making beer any more. In order to do that, it had to have confidence and clarity to define itself as driven

### *Driving Strategic Priorities*

by the services it offers, not its historical distribution network, and therefore able to consider alternative products and distribution outlets and acquisitions. Whitbread is clear that it is the hospitality business, not the property business.

#### **Amazon: Which driving force do you think?**

What is Amazon's driving force? Try answering it before reading on. I use this question to check whether or not a group of executives have grasped the concept of driving force (for example prior to us using it to think about *their* strategy).

The knee-jerk responses are often either *Products-offered* or *Technology*, but I think we can exclude both of these quite quickly. Amazon started out selling books, for sure, but then it went on to offer CDs, DVDs, then clothes and electrical goods. It continues to offer an even wider range of products, expanding the offerings further through its marketplace arrangements with associate businesses. Unlike Waterstones or Barnes and Noble, Amazon's product-market decisions are not determined by a commitment to a particular type or few types of products.

What about *technology* as a candidate driver then? Amazon is an online business, and it uses clever software, for example to make recommendations to regular customers about books or films they might enjoy. It is certainly in some loosely defined way "a technology company". But if it were a *technology driven* company, its main thrust for growth would be by applying its expertise in areas such as software development and user interfaces to other product/service/market combinations.

Although we would have to talk to its top management to be sure, Amazon actually looks most like a "*method of sale*"-driven company.<sup>4</sup> It sells an

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<sup>4</sup> Thanks to Alan Weiss for the original insight.

### *The Performance Papers*

increasingly wide range of things that share the characteristic that can be displayed and delivered within its online shopping environment and where delivery and returns handling can be handled using third party couriers and postal services.

Notice how different Amazon would be if it really was *product* or *technology* driven. Then, and here is the true value of the driving force concept, imagine how diffused its business would be if its managers were incongruently trying to pursue all three drivers at once.

#### **Could you change if you wanted to?**

I've talked elsewhere about the problems Digital had in moving from a technology driving force to a market driver. It's worth a quick mention in this context too. I make the point that Digital's management knew they had to make the shift – they recognised that the market wanted packaged computing “solutions” that they could use without needing to become techies – but they couldn't fulfil the strategic imperative for cultural reasons: essentially, their engineers liked building ever-more-clever machinery. My guess is that the Digital case is a paradigm for the issues facing many other businesses in many industries as they mature – as emphasis shifts from early adopters to the later majorities, there is less patience among buyers for steep learning curves: they want things that fit into their existing lifestyles with ease and without disruption.

### *Driving Strategic Priorities*

#### *Questions To Consider*

For a rich debate which is truly strategic, review the list of driving forces and examples, and then consider the following questions:

- What do you and your team consider your current driving force to be?
- Do you agree with each other?
- What are the operational consequences of any disagreement?
- What other driving forces might make sense for you to consider?
- How would the business look under each alternative? How would priorities change in areas such as resource allocation, investment, project criteria, marketing, and product or service development?
- Is your current driving force the right one for your future, or do you need to move towards a new one?

Once you have reaffirmed or changed your strategic driver, you then need understand how to implement consistently with it. You need to protect current activities while simultaneously putting things into place to support new ones. How do you do that without immediately getting bogged down in too much detail?

*Final Thoughts*

The Driving Force concept is a penny that can take a while to drop – you have to play with it: applying it to businesses you know, asking yourself how they would change if the driving force changed. Once you get it, it very quickly enables you to improve the quality of strategic conversations. For example, companies which feel they lack strategic clarity, or are finding it hard to translate a strategy into action, can find that they are trying to pursue contradictory driving forces at the same time: for example attempting to maximise utilisation of assets producing lower margin products (which could be appropriate to a production capability driving force) while undermining themselves by chasing market opportunities (consistent with a market need driving force) requiring new assets they can't hope to make profitable unless they reposition as a high-margin business.

Driving forces are worth the effort it takes to understand them, because once you do, the clarity is highly rewarding.

*Driving Strategic Priorities*

## CHAPTER NINE

# HOW TO BALANCE THE SHORT AND LONG TERM

Jack Welch observed that anyone can run a business for the short term if they don't have to worry about long-term survival, and anyone can strategise if they never have to implement.

The trick is to do both at the same time. A very simple and valuable tool for getting a handle on this short-term-to-long-term tension is the Three Horizons<sup>5</sup>:

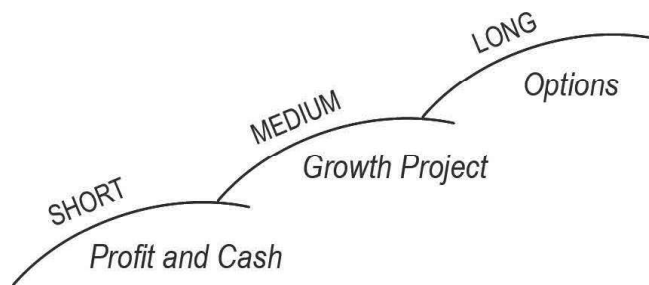


Figure 9.1: The Three Horizons © 1999 McKinsey & Company, Inc.

In essence the Three Horizons framework suggests:

- The short horizon is about profit and cash – it's all about creating operational efficiency, current customer satisfaction etc.
- The medium term horizon is about a committed effort to grow a new business, work stream or client relationship. The emphasis is on the top line. In time, this business should become

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<sup>5</sup> Formulated by Baghai and colleagues in *The Alchemy of Growth*.

### *How To Balance The Short and Long Term*

established, repay investment, and then take its place as a new short-horizon activity.

- The longer term is where you develop options, exploring possible future growth activities, and sort out the great ideas from the merely good ones with pilot projects and experiments.

It's crucial to realise that you don't wait to finish horizon one before moving on to horizon two or three – in fact *all three require some action now*, and on an ongoing basis. Many firms give much less urgency to the “long” horizon than they should, for example, and leave themselves open to threats from more imaginative competitors.

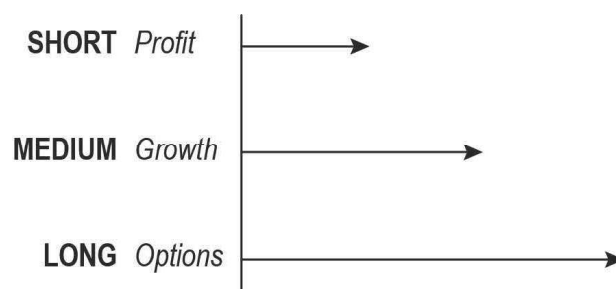


Figure 9.2: All horizons have the same starting point: *today!*

The projects at each horizon form a pipeline which can be managed with discipline to ensure sustainable success over the long-term. In an insightful interview in the CNBC's *The Leaders* series, much-admired Reckitt Benckiser CEO Bart Becht makes it clear how his company systematically creates and commercialises new products in a way which follows exactly this process.

The Three Horizons is a great diagnostic for a business's ability to manage the tension between running the business and building the business. There are eight possible configurations, and the goal is to have a tick at all three levels.



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Here are some of the patterns which can occur, along with possible interpretations:

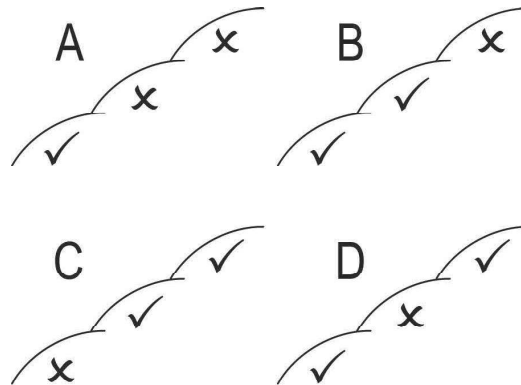


Figure 9.3: Some possible Three Horizon configurations

- **A** is complacent. They may be fine as long as nothing changes – but things change.
- **B** is much better off than A, but *may* be overly committed to one plan or be too trusting that the future environment will continue much like the present.
- **C**, in the language of Baghai and colleagues, is losing the right to grow. They are more excited about the future than the present and are neglecting their existing commitments.
- **D** is competent at their present responsibilities and has great ideas, but fails to bring these ideas into fruition. A classic corporate example is Xerox, who invented all the key elements of the modern PC (windows, mice, pull down menus etc.) but left it to Apple to bring them to market.

Questions to discuss with your team:

*How To Balance The Short and Long Term*

- What is the current state of the business at each of the Three Horizons?
- What needs to happen, given our answers?

*You Can Have Your Cake and Eat it, But Not at The Same Time*

Chapter Eight identifies a key strategic question: “Of all the things we could be doing, which should we be doing?” and we have probably all experienced the problems of trying to pursue too many avenues at once.

A major cause of difficulty is quite simply fear of missing out on a good opportunity, which leads to starting lots of projects. But the big danger – the one that a strategy is supposed to prevent in the first place – is that by trying to do too many things and hedge too many bets, effort is diluted to the point where although you are busy, you don’t earn an overall return.

Of course, once people get together in meetings, everyone has their pet ideas about what to take forward; discussion can go around in circles for months. The Three Horizons can be a great device for transforming the deadlock into a constructive discussion. Instead of arguing for X versus Y, it’s much more productive to discuss questions such as:

- Should we do this now, or is there something that would be better done first?
- Can we actually build the capability for Y by doing X?
- If we tackle this item on the middle rather than long horizon, do we have enough resource to keep the short, medium and long plates spinning at the same time?

### Developing and Sequencing Your Strategic Growth Priorities

Used together, the Product-Market Matrix, Driving Force and Three Horizons provide a neat way to organize your deliberations and communicate a workable sequence for strategically consistent growth to colleagues. An organization with a market-served driver will need to continue to deliver efficiently its current and perhaps modified products to its current market. It may also be introducing and growing the volume of one new product to its current, and perhaps to a modified, market. For longer-term growth options, it may be exploring options involving modifications for both markets and products, and continuing to think about completely new products within its basic market thrust.

		PRODUCT			
		CURRENT	MODIFIED	NEW 1	NEW 2
MARKET	CURRENT	1	1	2	3
	MODIFIED	2	4	5	6
	NEW				

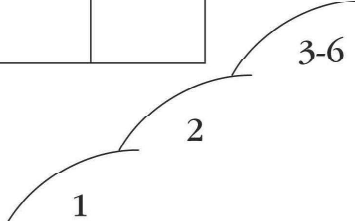


Figure 9.4: Combining Product-Market Matrix,  
Driving Force and Three Horizons

*How To Balance The Short and Long Term*

*Using a Market Served Driving Force  
and Three Horizons To Choose and  
Communicate High-Level Priorities*

Once they have done the hard work of thrashing out their chosen driving force, its implications for product and market segments, and the strategic timing captured by the horizons, it is then actually quite straightforward to link strategic discussions to tangible plans. New proposals can be quickly assessed for both high-level strategic fit and “implementability”. Time and frustration are saved, and execution proceeds with renewed focus and urgency.

You can also use this as the basis of the stories you tell your investors and talent.

**THE RIGHT RESPONSE TO THE WRONG SITUATION**

Have you ever found yourself trying to put the kettle into the fridge, thinking that you were actually replacing the milk? Perhaps you even noticed the kettle wouldn't fit before you realised why, and so tried to jam the thing in harder? Psychologists call this an “action slip” (the classic book is *The Psychology of Everyday Things* by Donald Norman). Another example would be taking the lid off a can and throwing the can away.

The essence of the action slip is doing the right thing at the wrong time. The mental mechanism that underlies it the same that a fencer, boxer or bowler tries to exploit: training their opponent into a particular response, and then taking advantage of the resulting blind spot to land a successful attack. The loser becomes conditioned to a comfortable pattern and doesn't notice they are trying to apply it in the wrong situation.

Here are some examples of analogous problems in business:

- **Relying solely on continuous improvement to the detriment of innovation:** Getting better and better at delivering something while failing to notice that people are getting less and less interested in buying it (e.g. The Digital Equipment Corporation (DEC) made the market-leading VAX minicomputers but didn't adjust to people migrating to networks of cheap desktop PCs).
- **Trying to repeat past successes that are well past their sell by date:** Jaguar based the visual design of the S-type on the classic Mark II, ending up with something that looked nice (if too much like the similarly-inspired Rover 75), but was outclassed in the eyes of many by a dazzling modern Mercedes or BMW. Look how much better the subsequent more contemporarily-styled Jags are doing.
- **Not noticing that one's power base has eroded:** Staff departments such as HR and IT, used to dictating the way the rest of a company deals with them, rigidly repeat bureaucratic procedures until they find themselves being outsourced.
- **Relying on outdated cultural assumptions:** Many in the traditional professions who grew up during the deferential post-WW2 period have been slow to recognise that 21<sup>st</sup> century clients are neither intimidated nor impressed by status or professional trappings and have no compunction about shopping around and negotiating hard on fees.

The antidote is to remain aware of the changing ends required by customers, and by one's own business, not automatically to favour historically successful means, and make sure you have sensible activities to address the likely future at all three time horizons.

James Dyson's approach is instructive. According to a recent interview on CNBC, his starting point is to go back to people's everyday experiences, discover their repeated frustrations, and then search for answers using both existing capabilities and the capacity of Dyson's engineers to develop new ones.

*How To Balance The Short and Long Term*

This is no argument against seeking incremental improvements in efficiency and skill, reductions in slack and inventory, and increases in the automation of existing processes. But at the very least, working backwards from desired results provides a reassuring check that the direction of your continuous improvement is still relevant. And at the most, it can avoid catastrophic failure, or even lead to a decisive breakthrough.

Now if Dyson would just design a kettle that fits in my fridge...