

1

Fundamentals of Strategic Thinking and Leadership

To adequately address the issues and questions we raised in the Introduction, we must recognize and understand the nature of strategic thinking and leadership. To do so, we will begin by addressing each as an independent topic. We will also explore the important relationship between them. After reviewing their nature and elements, we will turn our attention to their application through several stories of strategic thinking and leadership in action.

The Nature of Strategic Thinking

Achieving a meaningful understanding of strategic thinking involves addressing several interrelated topics. From an academic perspective, we see strategic thinking at the intersection of three fields of study: cognitive psychology, systems thinking, and game theory.

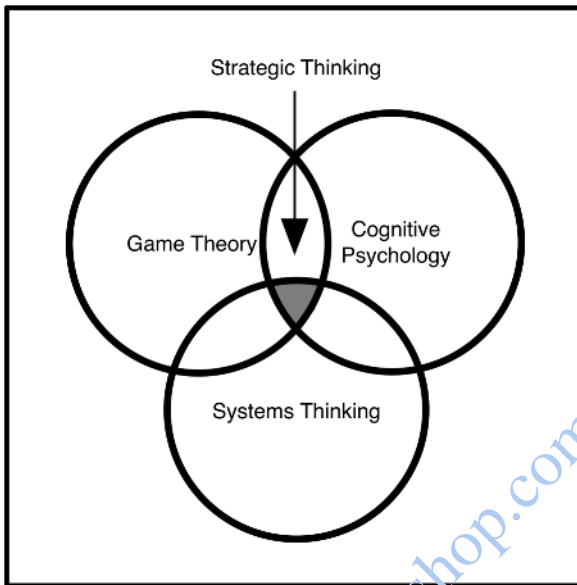


Figure 1.1 The Three Components of Strategic Thinking

Cognitive psychology is the study of perception, creativity, decision making, and thinking. Systems thinking is an approach to understanding how systems behave, interact with their environment, and influence each other. Game theory is the study of decision making when the decision involves two or more parties (the decision maker and the opponent or adversary). While these are all academic disciplines, they address highly practical real-world matters. Applying cognitive psychology helps you manage your biases and blind spots. Systems thinking helps you broaden the slate of factors you consider when evaluating options and prioritizing actions. Game theory helps you further recognize the ramifications of your decisions and actions and take steps to mitigate opposing forces. We will now explore each of these disciplines in terms of how they influence and impact strategic thinking and strategic leadership.

Before we begin, we should note that the purpose of this chapter is not to provide an exhaustive review of the research that has been conducted in each of these three fields. Rather, our intent is to lay the foundation for subsequent chapters and provide enough information to raise your level of awareness of considerations impacting your ability to think and lead strategically.

Cognitive Psychology

The term *cognitive psychology* was first used in 1967.¹ It is the branch of psychology that studies mental processes regarding how people perceive, solve problems, make decisions, and become motivated. Although cognitive psychology includes the study of memory and how individuals sense and interpret external stimuli, the most relevant elements for our purposes include how preconceived notions and beliefs influence and impact your analysis, the conclusions you draw, and the decisions you make. It also reveals the impact of mental models and processes on our focus, self-awareness, and awareness of the environment. Combined, these factors influence how we perceive our current reality, interpret existing and emerging opportunities, and imagine the future we desire.

In essence, cognitive psychology helps us explore and understand the way we interpret and interact with the environment. We consider this important because *interpretation* involves our grasping and analyzing information, and *interaction* involves our managing, altering, or manipulating our current or future environment.

Types of Discovery

The questions we ask are a key influence on how we interpret and interact with the environment. For example, what questions do we typically use when seeking to comprehend? When thinking about

the future? When attempting to identify viable alternatives? A series of studies conducted by noted psychologist Jerome Bruner in the 1960s revealed that individuals have a natural tendency to ask certain types of questions when attempting to understand situations, events, and circumstances. His research revealed two types of questions, rooted in concepts called “episodic empiricism” and “cumulative constructionism.” Episodic empiricism is manifest in questions unrelated to or unbound by existing rules, laws, and principles—they are the questions typically used when attempting to make sense of the world and decide on a path forward. In this case, the question becomes the new hypothesis. Cumulative constructionism, on the other hand, manifests as questions intended to add clarity to existing understanding, paradigms, and structure.² Put simply, some questions focus on “drilling down,” while others focus on “broadening.”

For example, consider the two types of questions that can be asked about a commercial-transport airplane crash. Cumulative constructionism-type questions, intended to drill down, might include:

- When did the crash occur?
- How far from the departure airport was the crash?
- How far from the arrival airport was the crash?
- Did the pilots declare an emergency prior to the crash?
- Were there any eyewitnesses to the crash?
- If there were eyewitnesses, what did they see?
- Was anyone on the ground injured or killed?
- Did the pilots deviate from the flight plan prior to the crash?
- Did the airplane strike a mountain or another airplane?
- Were there any survivors?

Episodic empiricism-type questions, asked to broaden one’s thinking, might include:

- What type of material was the transport airplane carrying?
- What is the safety record of the company owning the airplane?

- What was the safety record of the flight crew?
- Who manufactured the airplane?
- What is the safety record of airplanes built by this particular manufacturer?
- How do all of the above compare to other airplanes, flight crews, and airplane manufacturers?
- How do all of the above compare to equipment, operators, and manufacturers in other industries?

Both lines of questioning are important. The value lies in understanding the difference and appropriate use of each.

From our perspective, the former type of questions are valid but will likely lead you down the current path to a certain conclusion and decision, albeit one with a greater level of detail. In contrast, the latter type of questions will likely lead you to a broader understanding and ultimately to a new and potentially more creative insight through considering more options.

The Role of Cognitive Ability

Another branch of cognitive psychology focuses on the role of intelligence in decision making and problem solving. While these activities are undoubtedly a component of strategy, we deemphasize the role of intelligence in strategic thinking and strategic leadership. Our stance is consistent with the conclusion that Bruner came to in his analysis of creativity:

Nothing has been said about ability, or abilities. What shall we say of energy, of combinatorial zest, of intelligence, of alertness, of perseverance? I shall say nothing about them. They are obviously important but, from a deeper point of view, they are also trivial. For at any level of energy or intelligence there can be more or less of creating in our sense. Stupid people create for each other as well as benefiting from what comes from afar. So too do slothful and torpid people. I have been speaking of creativity, not of genius.³

Creativity is manifest in a wide range of circumstances, independent of basic intelligence. Given this, we do not consider intelligence to play a distinguishing role in strategic thinking or strategic leadership. Instead, we consider several other cognitive characteristics to be important, including the following:

- The ability to recognize and take advantage of personal strengths and mitigate personal weaknesses,
- Comfort with and ability to understand complexity,
- The ability to recognize related concepts and principles,
- Self-confidence and belief in oneself,
- Comfort with ambiguity and uncertainty,
- A willingness to take risks,
- The courage of conviction,
- The willingness to draw conclusions and make decisions, and
- Personal assertiveness.

These cognitive characteristics consistently have been proven to correlate with creativity.⁴

We believe that cognitive activities associated with the creative process⁵ enable strategic thinking. These activities—while perhaps not always discrete or linear—typically include the following:

- Preparation: Becoming familiar with existing works, what has been done, how challenges are typically addressed, and how opportunities are typically seized.
- Incubation: Allocating time to the creative process, such that ideas and thoughts combine and awareness and understanding materialize.
- Insight: Combining existing concepts, principles, frameworks, and models to form new relationships, combinations, associations, or structures.
- Verification: Assessing and elaborating on new ideas to determine whether they are likely to be brought to fruition and molded into a complete product.

Types of Thought Processes

Whether your approach to problem solving and decision making involves sequential steps or taking intuitive leaps may depend partly on what research psychologist Gary Klein describes as System 1 and System 2 thinking.⁶ System 1 thinking involves applying instinct and intuition, which are in essence experience-based and expertise-driven. System 2 thinking involves applying and following preestablished steps and procedures. System 1 is somewhat unstructured, emergent, and omnidirectional, while System 2 is linear, somewhat rigidly sequenced, and unidirectional. While System 2 will help ensure you do not make serious mistakes in your logic or thinking, it alone is not enough. Much like the list of drill-down, cumulative construction-type questions we cited earlier, System 2 thinking alone proves inadequate in terms of raising, considering, and addressing the myriad issues in our complex, ambiguous, and uncertain world. System 1 thinking is much more effective at raising these issues.

In his influential book *Thinking, Fast and Slow*, Nobel Prize winner Daniel Kahneman⁷ provides examples of activities attributed to System 1 thinking:

- Determining that one object in the distance is closer than another.
- Looking toward the direction of a loud and sudden sound.
- Completing the phrase “peanut butter and . . .”
- Making a “sad face” when shown a heartbreaking photo.
- Detecting anger in someone’s voice.
- Understanding two- to three-word sentences.
- Driving a vehicle on an empty road.

Kahneman also provides examples attributed to System 2 thinking:

- Looking for a person wearing a red hat.
- Walking faster than normal.
- Self-monitoring and self-regulating your behavior.

- Stating your telephone number.
- Comparing and contrasting the value of consumer goods.
- Completing and submitting the annual tax form.
- Evaluating a complex logical argument.

Just like the two types of questions highlighted earlier, System 1 and System 2 thinking both serve different purposes.

We believe that System 1 and System 2 exploration is not an either-or proposition. Rather, we consider both to be conducive to credible analysis and exploration. The issue therefore is not which System to apply but, rather, when to emphasize each and what risks to consider when placing too much emphasis on one or the other. More specifically, when should you apply a process-driven methodology and when should you broaden your thinking to include or emphasize intuition or instinct? What are the trade-offs or risks of placing too much emphasis on one type of thinking and too little on the other?

While the preceding exploration focuses heavily on the internal cognitive process, it is imperative that the internal process occurs with conscious awareness of context. Alva Noë, a professor of philosophy and expert in the theory of perception, emphasizes the importance of paying attention both to what one is doing and how one is doing it at any given moment.

Suppose I am a hiker. I walk along and move my legs in all sorts of subtle ways to follow a path along a trail. But the steps I take and the way I move my legs are modulated by, controlled by, the textures and bumps and patterns of the trail itself. There is a kind of locking in. To study experience, to think about the nature of experience, is to look at this two-way dynamic exchange between the world and the active perceiver.⁸

Context is as critical to the leaders' thinking as it is to the hiker's walk.

Conversations with Bobby DUBY,⁹ a world-class hunter, showcase these tenets. Bobby is a hunter even hunting opponents like. He takes

steps to follow all state laws pertaining to wildlife conservation and hunting, only kills enough animals to provide an adequate amount of meat for his family, takes steps to leave only footprints behind when leaving a hunting area, works with local wildlife officers when he comes across illegal or questionable practices, and does all that he can to help ensure the animals he shoots do not suffer. He also takes steps to level the playing field. For example, he only hunts with a compound bow, hunts only on land in which game has escape routes, and does not bait his prey. Bobby realizes taking these steps comes with a price; in all likelihood, they decrease his success as a hunter. This is noteworthy given that some people pay professional guides up to \$15,000 to \$20,000 to hunt as he does and where he does.

While attempting to follow the hunting principles of his forefathers, what does Bobby do to increase the odds of his hunting trips being successful? In many ways, he applies the thought processes and discovery methods we have highlighted here—for example:

- Bobby believes that there is no substitute for hunting time. The more time you spend in the field, the more likely you are to succeed as a hunter.
- He relies heavily on his intuition, which he believes is strengthened each hunting season. In seeking to strengthen his intuition, he believes that his failures are as important as his accomplishments.
- Bobby studies maps of his hunting area, studies the flora and fauna therein, monitors weather patterns, and analyzes changes in elevation of the terrain. He applies both structured analysis and “a gut feeling” that he has developed over time to determine what this information implies.
- He periodically reassesses the situation during each hunting trip, evaluating presenting events and circumstances to recognize unanticipated and unexpected occurrences that might influence his thinking and behavior during the remainder of the trip.
- Bobby has conversations with as many individuals as he can who might be familiar with the area, the wildlife, and prevailing or emerging situations, events, and circumstances.

These examples reflect the integrated application of both types of discovery questions as well as both System 1 and System 2 thinking. Bobby integrates these methods to improve his performance as a hunter, just as we each have the opportunity to integrate practical concepts from cognitive psychology into our work and daily lives.

Systems Thinking

We consider systems thinking to be a key element of strategic thinking. Much has been written about systems thinking since noted systems scientist Barry Richmond began studying and writing about the topic in the late 1990s.¹⁰ Richmond considers most challenges we face to be multifaceted, interconnected, and constantly changing. He stresses the challenge of recognizing and understanding these interdependencies when dealing with such complexity. Given this challenge, he has been a champion for more effective methods of thinking.

Types of Thinking

Unfortunately, many people do not think in a way that is likely to recognize and understand the complexity that surrounds them. Richmond notes that many people are raised to be linear, sequential, and one-dimensional thinkers. For our purposes, we will focus our discussion on the tendency of some individuals to demonstrate a “checklist” mentality. While Richmond identifies other important implications of linear thinking, we emphasize the checklist mentality because it is particularly relevant to our exploration in this book.

One implication of having a checklist mentality is considering “cause” to be the one or two actions that occur immediately prior to a particular event. Such a cause-effect relationship can reveal an unconscious assumption that only directly linked factors can influence

an event in meaningful ways, underestimating the relevance and impact of indirect causes and influences.

Whenever an incident occurs, an individual using this mode of thinking would likely ask:

- Have we identified the one or two actions immediately preceding the state, event, or incident? If so, check.
- Have we created a solution to be applied to the one or two contributing factors? If so, check.

Having evaluated and confirmed these two questions, the matter would be considered closed. Unfortunately, this leaves several additional questions unexplored:

- What other factors directly or indirectly influence the event?
- Do each of these factors contribute equally, or do some have a greater impact than others?
- To what extent will a specific solution address the contributing factors?
- Which solutions should occur first, second, and third to ensure optimal results?
- Is this event a symptom of some larger problem?

Each of these questions combats the checklist mentality by opening up the possibility of discovering additional relevant data.

We frequently observe the checklist mentality at play when working with our clients, colleagues, and graduate students. We therefore recognize the strength of Richmond's recommendations for countering such a mind-set and helping us recognize and understand how things really work. His recommendations take the form of the following discrete types of thinking that contribute to his broader definition of systems thinking:

- **Dynamic Thinking:** Involves recognizing patterns and trends that materialize over time rather than focusing on isolated factors, events, or circumstances.

- **Closed-loop Thinking:** Involves recognizing that systems consist of connected and interdependent processes that do not flow one way but, rather, interact in dynamic and constantly changing ways. An important facet of closed-loop thinking is that it helps you recognize the role the individual plays in influencing the system.
- **Generic Thinking:** Involves recognizing the broad-based and multifaceted implications of people, processes, systems, mechanisms, and events. Using an example common in business school courses, what might have happened if the railroad companies had considered themselves to be part of the transportation industry rather than merely being railroad companies? Might Southern Railway now be responsible for transporting supplies to the International Space Station?
- **Operational Thinking:** Involves thinking in terms of how a system, process, or mechanism actually works rather than how it was intended to work. This helps one avoid falling into the trap of assuming that the system designed in the planning process will perform “in accordance to plan” simply because that was the original intent.
- **Continuum Thinking:** Involves recognizing that what seems like opposing forces typically are connected and have certain commonalities or interdependencies. Such recognition allows one to find common ground upon which to build rather than continuing to focus on the boundaries and disconnections.

Each of these examples provides concrete ways to apply systems thinking to avoid the checklist mentality and to understand more accurately the dynamics typically at play in a given situation.

Systems Thinking in Groups

Just as systems thinking can help individuals think more strategically, it can also help teams and organizations. In the 1980s, Peter Senge conducted research to discover how organizations build learning

capacity and why some organizations are better at learning than others. The practices that differentiate the effective learning organization are referred to as the Five Learning Disciplines, all of which we consider to contribute to strategic thinking:

- **Shared Vision:** Involves formulating a compelling vision to create commitment among a group to “pull” individuals toward the envisioned future state.
- **Mental Models:** Involves surfacing the values, assumptions, and expectations that determine the way people think and behave. We will describe tools later in this chapter that can help challenge existing assumptions and ensure that contributors working together to turn the vision into reality do so in a consistent and mutually supportive manner.
- **Personal Mastery:** Involves taking steps to strengthen self-awareness about how we think, draw conclusions, make decisions, and manage conflict, as well as how we apply these to establish, manage, and strengthen relationships.
- **Team Learning:** Involves teams working together to review situations and gain mutual understanding of what they had hoped to accomplish, how things progressed, and how they handled unexpected and unplanned events. Doing so can reveal underlying and contributing factors, and identify necessary steps to increase effectiveness and efficiency in the longer term. Again, we will describe tools later in this chapter that can help teams work together to identify lessons learned and establish new best practices.
- **Systems Thinking:** Helps teams and team members recognize interconnected factors and forces that influence or impact events, analyze events to understand related and contributing challenges and opportunities, and identify ways to leverage the opportunities and mitigate the challenges.¹¹

The Five Learning Disciplines contribute to strategic thinking and help organizations build learning capacity by emphasizing the importance of planned and purposeful thinking; the benefit of teamwork

and teams composed of self-confident, self-motivated, and capable team members; and the importance of individuals and teams thinking through issues, considerations, and related implications prior to drawing conclusions and making decisions.

Applying Systems Thinking

A case involving a multifacility medical center that provides “full life cycle” health care services showcases how the effective use of systems thinking might lead to better outcomes. In this scenario, the Emergency Services Department is a well-known and highly recognized trauma center, seeing scores of patients every day who are experiencing some type of physical distress.

The department operates in an environment of continuous improvement, measuring success through a variety of internal and regulatory-driven metrics. The director of the Emergency Services Department conducts quarterly patient satisfaction surveys to gain insight into the overall impact of its policies and procedures, and to measure the effectiveness and efficiency of its operation. A special recognition program includes cards that patients and their families can easily complete and submit to recognize exemplary performance.

The director of the Emergency Services Department, troubled by a decreasing Patient Satisfaction Index, or PSI, decides to take action. The director’s strategic intent is to take steps to address concerns raised by patients with the ultimate goal of increasing the department’s PSI. Upon analyzing the data revealed through the quarterly patient survey, she realizes that approximately 80 percent of the concerns raised relate to wait time. Patients are spending two to four hours in the waiting room per visit. The director’s examination of the data reveals that concerns are being raised by “single appointment” patients and recurring patients who receive extended care.

Further examination reveals that the concerns being raised mostly center on the fact that patients entering the department at certain hours miss meals. Those entering after 3:00 or 4:00 AM miss breakfast, those entering after 9:00 or 10:00 AM miss lunch, and those entering after 2:00 or 3:00 PM miss dinner. The director weighs the options and decides to begin offering breakfast, lunch, and dinner to patients in the waiting room during the appropriate hours.

Time passes, and new patient satisfaction surveys and comments suggest the director's solution is working. Single-appointment and returning patients are pleased with the meals they now receive. The department's PSI is climbing, primarily as a result of increased satisfaction relating to the catered meals. Happy to see this key performance indicator returning to historical levels, the director takes satisfaction in a job well done.

If the director had applied systems thinking concepts and principles, how might have her considerations, conclusions, decision(s), and subsequent actions been different? In terms of her general considerations, the director might have broadened her level of analysis to include local, regional, and national emergency services departments. She might have shifted her focus from attempting to increase patient satisfaction by providing catered meals to attempting to increase patient satisfaction by decreasing wait times. In terms of the questions she asked, the director might have explored how effectively and efficiently the Emergency Services Department operates within the context of other similar emergency services organizations. Perhaps she might have investigated how the department's structure, systems, processes, policies, or staff capabilities affect the department's efficiency and effectiveness. In terms of the conclusions she drew and decisions she made, the director and her colleagues might have attempted to tackle the issue of patients using the Emergency Services Department as their primary health care provider through patient education. Alternately, they might have taken steps to strengthen the integration of systems and processes to enhance efficiency and

effectiveness. Perhaps they might have taken steps to bolster controls and incentives to ensure employees at all levels are committed, engaged, and motivated to work together to achieve the Emergency Services Department's goals and objectives.

In seeking the ultimate solution, they might have taken a variety of additional steps likely to improve the department's operating performance in more fundamental ways and thus increase patient satisfaction and the department's PSI in ways that don't simply mask the deeper problems within the department, as providing catered meals does. Any of these ideas might more appropriately identify and address root cause issues that were contributing to the presenting issue of wait times. Exploring these ideas reflects the application of systems thinking.

Game Theory

In his best-selling novel *State of Fear*, Michael Crichton introduces a slate of fascinating, captivating, and at times scheming protagonists and antagonists.¹² In his typical engaging way, Crichton devotes more than 500 pages to the debate around humanity's influence on global warming. As predicted, the protagonists and antagonists battle—both figuratively and literally—throughout the course of the book. Moves are made, actions are taken . . . countermoves are made, counteractions are taken.

Crichton includes a bibliography in his work of fiction to showcase, from our perspective, the need for politicians, scientists, business leaders, and community leaders to apply clear thinking to the subject of global warming. His bibliography cites research and writing on topics such as why failures associated with managing complex systems typically result from bad habits and lazy procedures rather than a lack of human capability,¹³ and how early witch hunts reflect how the consensus of many is not always correct, regardless of how many people agree or how long the agreement is shared.¹⁴ We consider this an excellent lead-in to our review of game theory.

Most strategy invariably requires change. Research on change highlights that individuals being asked to contribute to a desired state or compelling future will typically do so if steps are taken to help them understand and commit to the purpose and intent of the change.¹⁵ By applying proven methodologies of change leadership, a leader is more likely to succeed. However, in some cases, the decisions you make and the actions you take occur in a risk-laden environment. These risks can include the possibility that those being influenced and impacted might resist or potentially take steps to sabotage a proposed change to the status quo.

Given the likelihood of resistance, a review of game theory is a useful contribution to our exploration of strategic thinking. Game theory assumes that, as in the case of Crichton's protagonists and antagonists, individuals you interact with may counter your moves. Rather than assuming a neutral or positive reaction from stakeholders, game theory expects and anticipates other parties' potential disagreement, conflict, and action that may hinder progress. Such adversarial or competitive situations require planned action, including contingencies and countermeasures. An understanding of the general principles of game theory will raise your likelihood of success when functioning under these circumstances.

A Brief Word about Game Theory

While the concepts from cognitive psychology and systems thinking that we have presented will help generate ideas and advance a particular position, game theory is about handling competition and resistance. In reviewing game theory, our goal is to introduce several practical tools toward that end. It is important to note that game theory frequently involves theoretical and mathematical arguments. For our purposes, we will focus on several of the more actionable concepts without going very far into the underlying conceptual theory. For those interested in the theory, we encourage readers to

refer to other sources for a more thorough review and analysis of the theoretical and mathematical arguments within the field, several of which we have identified in the Resources section at the end of this text.

While other branches of decision theory assume effective implementation of decisions and subsequent directives, game theory is based on the assumption that interests among multiple stakeholder groups may differ and that others involved typically have alternatives available to them.

From our perspective, game theory strengthens strategic thinking because it highlights the context within which decisions are being made and actions are being taken. A simple example involves the Hua Shan Plank Trail in China. It is one of the most dangerous hiking trails in the world; traversing it involves climbing vertical staircases, walking along a narrow wooden platform bolted onto the side of a mountain, and stepping into indentions carved into rock . . . all while perched thousands of feet above the surrounding terrain. Two hikers approaching each other while traversing the Plank Trail must anticipate the likelihood of an accident; the more steep, vertical, or narrow the trail when the two hikers meet, the more likely there will be an accident. The more dangerous the situation, the more important a signal to indicate, "I will be taking this part of the path and hopefully you will take the other route," is needed. To negotiate the approaching challenge, at least one party must signal intent. The other party must see and properly interpret that signal. Much like a pilot communicating with air traffic control, both parties must acknowledge the signal, and then each respective party must act in accordance to the exchanged signals. Such cooperation is most likely to occur if both parties are familiar with their environment, are personally aware of their place within that environment, recognize approaching hazards and risks, and can respond properly to a signal of intent. Such cooperation and positive results are less likely to occur if either party is not paying attention or is preoccupied. A thrill-seeker may further complicate matters by handling the situation differently

than the other hiker might expect. A savvy hiker functioning in this type of situation anticipates these possibilities and plans accordingly. Game theory analyzes the mechanics of such situations, with specific attention to the implications of these matters of intent, signal, and response.

Cooperative and Noncooperative Games

Unlike the typical hiker or climber, we occasionally face situations in which it is not in our best interest to help another party. These situations, called “noncooperative” games in game theory, typically involve two or more players attempting to generate a personal gain in some area (market share, quality, efficiency, profitability, etc.) with success in that area resulting in a loss to the other players. Players involved in such a zero-sum game must recognize this fundamental tenet: other players are opposing players, and what is in one player’s best interest is likely to be harmful to others. Whereas the example of the two hikers emphasizes signaling and cooperation, this game emphasizes concealed intentions and countermoves.

It is important to recognize the complexity of the systems within which we interact. Rather than facing a situation in which self-interest or the interests of others are totally aligned or clash, in real life we often face situations in which the interests of players partially align and partially clash. This requires clarity regarding your goals and the other players’ goals. An analysis of your personal interests and those of the other party will reveal a slate of assumptions and expectations that may be addressed by one or more combinations of moves and countermoves. Combined, they have the potential of producing mutually acceptable results and outcomes. Experience suggests that individuals operating in such a “mixed-motive” situation should seek out a combination of solutions that leads to the most optimal result and outcome possible.¹⁶

Sequential versus Simultaneous Moves

In addition to understanding motivations, it is also important that you determine whether your interaction with colleagues is sequential or simultaneous. When sequential, one player acts and then a second player acts in response. When interacting in such a manner, you must anticipate how your action will influence and impact the second player, and how the second player will in turn interpret and then respond to your initial move. You can and should anticipate multiple moves in many situations, just as an effective chess player anticipates an opponent's next several moves. When acting sequentially, strive to anticipate the impact of your initial actions and how other parties are likely to respond. Then use this information to select your best course of action.

When your interaction is simultaneous, two players act concurrently. In this case, each player is unaware of the actions—if any—the other player is taking. When facing such a situation, it is important to recognize that you are not acting alone and that:

1. The actions you take will impact other players in some manner, either positively or negatively, and
2. The actions of others will simultaneously combine or collide with yours and will contribute to a new state.

In addition to recognizing the nature of the situation, you must also calculate the implications of each party's moves within the context of their intent. While sequential interaction involves linear thinking, simultaneous interaction involves your thinking in multiple directions, taking each party's intent and actions into consideration at the same time.¹⁷

While you are analyzing your personal interests and those of the opposing party, it is important to keep in mind the slate of external forces likely to influence your moves and countermoves. At no time

do you function in complete isolation. The following example serves as a powerful illustration of this point. It also reinforces the point that the term *players*, as used in game theory, may refer to individuals, teams, organizations, communities, or, as in this case, nature.

Conservationists since the 1960s have recognized the impact of introducing or reintroducing animals into an ecosystem. Since 1995, when wolves were reintroduced into Yellowstone National Park, the willow trees standing along streams in the park have grown taller. This has led many to conclude that the reintroduced wolves have improved the health of the trees, thus improving the health of the Yellowstone ecosystem. The rationale: the reintroduction of wolves has led to a decline in the elk population, which has reduced damage to the willow trees. In terms of game theory, the prevailing rationale goes something like this: to strengthen the Yellowstone ecosystem, we will reintroduce wolves into the park. The result of the reintroduction—in essence, nature’s reaction to it—will be a decline in the elk population, which in turn will reduce the amount of damage to the surrounding ecosystem.

This reasoning makes sense. Proponents of the reintroduction considered taller willow trees along streams in northern Yellowstone National Park as evidence of success. However, this case reflects decision making based on only one or two variables, with the assumption that subsequent results and outcomes are caused by the changes being made to those variables.

Research by ecologists at Colorado State University confirms that reductions in elk numbers following the reintroduction of wolves are proportionate to increases in willow height.¹⁸ However, additional research conducted by this group and others reveals that a multitude of additional factors also influence the Yellowstone ecosystem. A broader analysis reveals that geography, climate, and water supply also play a role. For example, the Colorado State University researchers cite a 2013 study that reveals the impact of beavers on vegetation health. Beaver dams lower and raise water levels, and in turn water levels affect vegetation health.¹⁹

Strategic Thinking Summarized

We consider these three subjects—cognitive psychology, systems thinking, and game theory—to be critical fields that inform strategic thinking. Application of cognitive psychology will help you manage your biases and blind spots. Systems thinking will help you broaden the slate of factors you consider when identifying options and prioritizing actions. Game theory will help you further recognize the ramifications of your actions and help you take steps to mitigate, reduce, or avoid opposing forces.

The Art of Leadership

The purpose of this section is not to present a comprehensive review of leadership theory. Rather, our aim is to highlight key ways that thinking on leadership has changed over time and to present some of the behaviors and actions we believe effective leaders typically exhibit.

In the context of human history, it wasn't that long ago that the definition of leadership was limited to either a charismatic hero, someone from a particular social or economic class, or an individual occupying a particular box on an organizational chart. Those whose names appeared at the top of the chart served as the leader, while all others—regardless of how high up or down on the pyramid—were considered to be employees, associates, or workers.

Thankfully, mainstream thinking has evolved considerably, and today our definition of leadership—and leaders—has become much more democratic. The sixth edition of *Leadership: Theory and Practice* defines leadership as a “process whereby an individual influences a group of individuals to achieve a common goal.”²⁰ This particular definition contains four components that we consider to be central to leadership:

- **Process:** Leadership is not a trait or characteristic; rather, it is a transactional event that occurs between the leader and follower.

- Influence: The leader influences the follower; without influence, leadership does not exist, and leading does not occur.
- Group: Leadership involves the leader influencing a group, organization, or community; others, the group, must be involved in the transaction in order for leadership to occur.
- Common goals: Leadership involves the leader directing their focus and energy toward individuals who are attempting to achieve a common goal.²¹

An Abbreviated History of Leadership Theory

Our understanding and expectations of leaders have evolved over time. Our views have changed through a combination of broad societal shifts and through the research and writings of key thought leaders. We consider this journey to be an interesting one, and we hope you find this condensed and abbreviated history of leadership interesting as well.

Trait Theory

The “hero” leader possesses and exhibits characteristics such as self-confidence, courage, intelligence, and charisma. These characteristics, combined with the right circumstance, are the basis upon which some find themselves in the spotlight. Although many of us have the potential to be a hero, relatively few of us will ever act in ways and under the right conditions in order to be considered a “hero” by these standards. Stogdill reflected on this prevalent and traditional thinking, noting several innate traits commonly seen as critical to leadership:

- Adaptability
- Ambitiousness
- Assertiveness
- Cooperativeness

- Dependability
- Persistence
- Self-confidence²²

According to trait theory, innate traits are inborn—you either have them or you don't. Trait theory emphasizes the importance of identifying individuals possessing leadership traits. If an individual possesses the relevant traits, they are considered a natural-born leader and capable of thinking and acting like one. If an individual lacks these traits, they are likely destined to think and act like a follower.

Conditional Models

Fiedler's contingency model of leadership reveals that your leadership style must "match" the situation if you are likely to produce the most favorable results.²³ In his model, an individual's leadership style leans toward being either task-focused or relationship-focused. Fiedler developed a tool called the Least Preferred Coworker (LPC), an assessment that asks the leader to rate the person that they enjoys working with the least on a series of characteristics such as friendliness and trust. Leaders rated low on the LPC are considered to be task oriented, and those rated high are considered to be relationship oriented. Matching an individual's leadership style to a situation yields the most favorable results. For example, if the situation is ambiguous and the task uncertain, consider calling upon a relationship-oriented leader. If the situation is clear-cut and followers are being asked to accomplish a well-defined task, consider a task-oriented leader. Achieving a proper leadership fit depends on three variables: the level of trust and confidence followers have in their leader, the extent to which everyone understands the activity to be undertaken, and the leader's ability to recognize and reward the followers. While this contingency model introduces some understanding of the importance of achieving the proper "fit" between the leader and the situation, it

still reflects trait theory in the emphasis on an individual being categorized as either relationship or task oriented.

Hersey and Blanchard's Situational Leadership® suggests that leadership behavior is most effective when it matches the situation.²⁴ Instead of replacing the leader to match the situation, Situational Leadership suggests that the leader can and should adapt. From the Situational Leadership perspective, your leadership style should not remain static; rather, it should remain dynamic and adapt to a combination of situational requirements, follower needs, and intended outcomes. Hersey and Blanchard's Situational Leadership emphasizes two factors: the amount of direction and support the leader provides, and the degree of competency and commitment the follower exhibits.

Hersey and Blanchard suggest that these two follower variables—competence and commitment—typically result in one of four follower types:

1. The follower who lacks competency and is unwilling to perform the task.
2. The follower who lacks competency but is willing to do the task.
3. The follower who is competent to perform the task but lacks self-confidence (does not believe they can perform the task) and therefore has self-doubt and lacks commitment.
4. The follower who is self-confident, is willing, and is capable of performing the task.²⁵

The authors go on to suggest that the amount of support and direction the leader gives should adjust and thus reflect one of four leadership styles:

1. Telling: Involves one-way communication from the leader, consisting of direction and guidance.
2. Selling: Involves two-way communication between the leader and follower; direction and support are given as and when needed.
3. Participating: Involves two-way communication between the leader and follower. The follower is allowed to make decisions

and act independently to the extent that their competency and commitment allow; the leader monitors the follower's performance and provides needed support.

4. Delegating: Involves two-way communication between the leader and follower. The follower is allowed to make decisions and act independently; the follower alerts the leader when challenges that cannot be addressed surface and/or when they need direction or support.²⁶

In defining these four leadership styles, Hershey and Blanchard introduced an important advancement over the earlier trait-based and contingency models. It was the leaders' behavior, not the leader themselves, that needed to fit the situation. This distinction opened up the possibility that a leader can indeed adapt to fit the situation rather than simply being evaluated as a fit based on fixed and predetermined personal characteristics.

Another important element of Situational Leadership is the assumption that the situation is not set but, rather, is dynamic and constantly changes. Thus, the follower who is confident, capable, and willing to perform one task may be less confident, capable, or willing to face the next challenge. In the work of Hershey and Blanchard, we continue to see a greater acknowledgment that both the leader and the follower can and do adapt, reflecting further progression beyond early trait theories toward a rather dynamic understanding of the role and capability of the leader.

Competency and Activity Models

In the 1980s, the research of several thought leaders brought attention to the focus and activities of effective leaders. Bennis and Nanus surveyed 90 leaders and identified four key abilities of what they labeled as transformational leaders:

- Management of Meaning: The leader helps the follower assign meaning to situations, actions, and events. Like the baseball

umpire who calls the ball traveling across home plate as either a “strike” or a “ball,” the leader helps the follower interpret a particular behavior or action as being positive (e.g., being consistent with the organization’s mission) or negative (e.g., running counter to the organization’s values).

- **Management of Attention:** The leader emphasizes and helps the follower focus on what is important, significant, vital, and critical. One important mechanism that helps guide the follower’s attention is the vision and mission of the organization.
- **Management of Trust:** The leader establishes trust as the foundation of their ability to influence the follower. Trust involves acting in a purposeful manner and being consistent in one’s words and actions.
- **Management of Self:** The leader consciously maintains self-awareness, self-monitoring, and self-regulation. Such awareness allows the leader to lead and support followers in the most effective manner.²⁷

These four abilities explore powerful ways of leading, focusing less on the tactical relationships between leaders and followers and more on the influence that leaders could have through their chosen areas of focus and their personal conduct.

Kouzes and Posner introduced five sets of skills and abilities that help leaders function at their personal best. Based on a combination of survey results and individual interviews, their Five Practices of Exemplary Leadership[®] model emphasizes that highly effective leaders:

- **Model the Way:** They establish standards of excellence pertaining to how followers should be treated and goals should be achieved. They set interim goals to encourage small wins, and they modify the organization’s bureaucracy so that it does not impede progress, achievement, or success.
- **Inspire a Shared Vision:** They serve as a change agent, striving to make a difference. They work with their followers to establish a compelling vision for the future. They then do all that they can to capture the hearts and minds of their followers.

- **Challenge the Process:** They seek out opportunities to challenge and change the status quo. They work with others to identify ways to strengthen the organization. They themselves are—and encourage others to be—lifelong learners.
- **Enable Others to Act:** They recognize the power of positive relationships and encourage collaboration and teamwork. They take steps to include and involve their followers and give them the opportunity to provide input. They understand the importance of mutual respect and ensure others receive the respect they are due.
- **Encourage the Heart:** They recognize and reward the commitment and contribution of their followers. They recognize and celebrate progress and accomplishment, and in doing so they stimulate action, progress, and achievement.²⁸

Kouzes and Posner's model emphasizes a practical focus on actions and has been embraced widely since it was first published.

Contextual Leadership[®]

Contextual Leadership[®]—a model developed by one of the authors of this book (Simerson)—builds on earlier concepts, placing more emphasis on the importance of context and personal adaptation. The model emphasizes that regardless of one's title, position, or role, everyone must occasionally influence others in a way that causes them to perform at a level they otherwise might not attempt or consider possible. When functioning in such a manner, we consider an individual to be thinking and acting as a leader.

The importance of leadership is evident. Experience proves that unexpected and unanticipated challenges and opportunities surface almost daily. In these situations, a leader acts to seize the opportunity or to avoid the threat. To adapt to these situations, an effective leader takes on a specific role to suit and address those circumstances.

Research conducted while developing the Contextual Leadership Model revealed nine leadership roles that enable an individual to influence others by addressing the requirements of the situation and the expectations of stakeholders. Each of these roles is a configuration of specific focus areas, actions, and skills that an individual can adopt or emphasize at a given point in time. From our research and experience, an individual can take on each of these roles with intentional focus. Some come more naturally, given an individual's background, personality, and personal style. All of them can be learned. The nine leadership roles are described as follows:

- *The Custodial Leader: Leadership begins and ends with the Custodial Leader. You must begin with a deep desire to extend your leadership beyond your time—to make certain your actions contribute to current and future success. That is the beginning. The end is the sum total of all else that you do, the results of all your other actions—the reality of what you have left behind being either better or worse.*
- *The Trusted Leader: Having others trust you cannot be accomplished through words—it must be accomplished through actions. Be honest, including admitting when you have made mistakes. Keep your promises, be open about your dreams and your fears, and show consistency in your actions. Don't try to motivate others with fear and don't waste time and energy looking for someone to blame.*
- *The Trusting Leader: A key to others trusting you is to show that you trust them. Do you make the goals clear and allow others to determine how to reach them? Do you reinforce good performance? Do you treat mistakes and failures as an opportunity to learn? Do you share responsibility? Do you trust others?*
- *The Nurturing Leader: People do not maintain good health by accident and neither do organizations. As a leader, you need to know how your organization is doing emotionally, psychologically, and physically. You will at times have to calm fears or be honest with people about their limitations. You need to build a sense of family and make certain that people know that regardless of what happens, you will remain a "united family."*

- *The Strategic Leader:* This type of leader must maintain a global view of the world. Externally, you need to understand your industry, your competition, and the reality of doing business in today's tumultuous times. Internally, you must clearly communicate your strategic vision, perhaps involve others in crafting it, but always with a focus on moving forward to achieve it. Strategic leadership involves deciding on the desired position of an organization in the competitive environment as well as the actions that make that position a reality.
- *The Developmental Leader:* These leaders give—they give people a chance to learn, a chance to contribute, and an opportunity for broader experiences and use of their talents. The Developmental Leader finds out what others have to contribute, solicits input from others, and challenges others to think in creative and innovative ways. The Developmental Leader gives people the gift of personal growth and, in turn, receives the gift of improved performance.
- *The Supportive Leader:* To be a Supportive Leader, you must make certain that people are getting what they need, when they need it, in a way they can use it. Make certain you have given sufficient time and budget to effectively implement new ideas. Make certain you are consistently communicating key messages to all areas of the organization. Make certain you are doing everything possible to increase everyone's likelihood of achieving success.
- *The Inspiring Leader:* There are inspirational speakers and there are inspirational leaders. To inspire people through your leadership, you don't need to dazzle them with your words and the rhythms of your speech—you need to remind them. Remind them why they are part of the organization. Remind them how others have succeeded in similar situations where failure appeared imminent. Remind them what everyone working together can accomplish. That is inspiration through leadership.
- *The Working Leader:* There are times when you must work among your followers—aligning everyone to the common goal, helping people differentiate between crises and mere inconveniences, working among others to solve problems. Find out what others are having difficulty with and what

*they are finding easy. Measure and communicate progress. Spend time with the details.*²⁹

The nine leadership roles define the focus and activities required to address a particular circumstance, and anyone can adopt these roles through intentional effort and self-awareness. These principles are central to our view of effective leadership.

Strategic Leadership

We now arrive at the strategic leader. As the central focus of this book, strategic leadership means integrating strategic thinking and leadership. The rest of this book will establish and detail our observations regarding how leaders are most effective when seeking insight and driving strategic change. We will examine the key choices they face, the options they should consider, and the way in which they conduct themselves and work with others. We will also highlight where some leaders go wrong when they fail to integrate both strategic thinking and leadership effectively. Strategic thinking without leadership risks becoming an intellectual exercise, as demonstrated by the many strategic plans that gather dust on the shelves of executive offices. Leadership without strategic thinking risks not creating meaningful value, as is evident when otherwise effective leaders race down the wrong path or execute a good plan the wrong way. The strategic leader recognizes these risks and focuses on formulating strategy in a credible way and executing strategy in a planned and purposeful manner.

Strategic leaders have a multifaceted focus. They must establish and communicate a compelling mission (the “what”) and vision (the “where”), and then work with colleagues and allies to formulate a path to success (the “how”). These form the basis of what has

become widely recognized as the core components of strategic management:

- **Strategy Formation:** The determination of strategic intent, including such aspects as an organization's mission, vision, and goals.
- **Strategy Execution:** The application of actions, controls, incentives, and communication intended to achieve the strategy.³⁰

Each component is critical in its own right, and we should look at them both in greater detail.

Strategy Formation and Strategy Execution

The available literature on both strategy formation and strategy execution is extensive. We will touch on some of it in the context of this book, with a bias toward concepts and tools directly relevant to the intersection of strategic thinking and leadership. We will not provide an exhaustive inventory of the tools of strategic management. For those interested in delving deeper, you will find a list of recommended resources, including our own writing on the topic, in the Resources section at the end of this book.

Effective strategy formation involves solving problems in a way that adds value, is unique when compared to other options, and is sustainable over time. The solution to a given problem is often itself referred to as "the strategy." Strategy is the topic of much discussion and debate. Strategies are seen as good or bad, clear or unclear. Some discussion focuses on what even constitutes a strategy. Well-known professor of strategic management, Richard Rumelt wrote an entire book on the subject, arguing that this confusion has resulted in a deluge of unclear thinking passed off as strategy. Rumelt proposes a basic structure of good strategy that he labels "the kernel." A kernel has three components: (1) a diagnosis of the problem, (2) a guiding policy that helps set direction in solving the problem, and (3) a set of

cohesive actions that carry out the guiding policy.³¹ For example, one could describe the kernel of Apple's business as (1) helping higher-end consumers who aren't technology experts (2) access leading-edge technology through easy-to-use "all-in-one" products by (3) controlling all hardware, software, and services to deliver a seamless experience.

Strategy execution involves delivering on the proposed solution. While it is related to the third component of Rumelt's kernel, effective strategy execution raises a broad range of additional issues. A competitor who decided to mimic Apple's approach would face a number of challenges in copying all of their actions. It would need to acquire its own design talent, establish supply chain sources and manufacturing relationships, build appropriate retail locations, and establish a comparable brand reputation. Any one of these tasks would be a feat in its own right, but in combination it would be a very challenging task. As evidence of this, while many of Apple's competitors have produced hardware, software, or services of similar quality, none have been able to match its business results. In the third quarter of 2013, while Apple's iPhone made up only 12.9 percent of all smartphone devices shipped, it made more profit than all of its competitors combined.³²

This example raises the very real challenges involved in being effective at both strategy formation and strategy execution. This is what makes strategic leadership so challenging, and likewise what makes it so important. Strategic leaders create tremendous value and impact if they can effectively solve the riddles of strategy formation and strategy execution.

Strategic Thinking and Leadership in Action

After taking steps to recognize and understand strategic thinking and leadership, we turn our attention to the activities of the strategic leader. As previously stated, strategic leadership applies to both strategy

formation and strategy execution. We will be analyzing each of these components separately in Chapter 2, but to get started, we will first ground the conversation with a simpler approach—four stories of strategic leadership in action.

We have chosen these examples to illustrate the ways we see both strategic thinking and leadership applied. They feature organizations, leaders, and situations that are relatively well known, as we have found that their familiarity makes them easy to grasp and discuss. Each story builds on that popular understanding, but as is often the case, a closer look reveals lesser-known or misunderstood aspects of what made these organizations and leaders successful. It is in these details that we find some of the most interesting examples of the many ways that strategic leadership shows up in real life.

Disney

To many, Walt Disney serves as the very definition of a visionary. His work and the company he founded continue to influence entertainment, business, and society decades after his death. Unquestionably strategic, his life and legacy are an excellent example of both the impact and limitations of visionary leadership.

Disney was born in 1901, a year that marked a new century and the end of the Victorian era. In the next century, technology would revolutionize entertainment, both culturally and as an industry. In that regard, Disney fits one characteristic of the most recognized visionaries: being in the right place at the right time. Capitalizing on that opportunity, Disney demonstrated a second key characteristic of visionaries with impact: insight into an opportunity to harness change and define a future that had yet to unfold.

Disney's pioneering achievements in animation are well known due largely to the lasting impact of his most famous character, Mickey Mouse. *Steamboat Willie*, the first Mickey-animated short that featured sound, was a breakout success when it debuted in 1928. It was

followed by a string of successful shorts. A decade later, Disney's first animated feature film, *Snow White and the Seven Dwarfs*, became the most financially successful motion picture of 1938. That financial success ensured the viability of Walt Disney Productions and marked the beginning of what is commonly referred to as the Golden Age of Animation, from 1937 to 1942. That period saw the introduction of some of the most famous and innovative animated films of all time, including *Fantasia*, *Bambi*, and *Dumbo*. Each praised in its own right, in total these films pushed the boundaries of animation and motion picture storytelling.

Looking back at their success belies the creative risk and innovation they represented at the time, and overshadows the tenuous nature of Walt Disney Productions in those early days. *Steamboat Willie* was actually the third Mickey Mouse cartoon, after two silent-film versions failed to attract significant attention. *Snow White* was only partially complete when the studio ran out of money, and Disney had to screen it for creditors in order to secure loans to see it through to completion. It was Disney's passion and personal vision that fueled his continued experimentation. His emerging vision was informed by each failure and success. While this drive led to his ultimate triumph, it also strained relations between Disney and his artists—a tension that would persist even after financial success was beyond question.

Behind these creative victories lies an equally important vision that proved strategically vital to the lasting success of Disney's creations. Walt Disney pioneered a business model based on the ownership of entertainment properties, forging the earliest marketing synergies that now dominate mainstream entertainment. Today's entertainment merchandising and product tie-ins are so common that it's difficult to comprehend that this practice is barely a half-century old. Through investments in the Disneyland theme park, launched in 1955, Disney gained firsthand insights into and early experience with the myriad business opportunities that lay beyond the distribution of those early films and the characters they made famous. In a 2013 *Harvard Business Review* article, Washington University professor Todd Zenger

highlighted a map Disney drew in 1957 that depicted his emerging vision just two years after his experience with the theme park. In the map, a dense web of theme park rides, music, TV, and entertainment opportunities are depicted as flowing from the creative studio that drove the Disney machine. Zenger notes that Disney's drawing both predicted the evolution of the entertainment industry and served as a road map for him and his successors, guiding them to explore additional opportunities and create business value for decades to come.³³

While Disney's visionary leadership is evident in both his creative works and his business success, it also serves to illustrate a critical risk often associated with visionary leaders. In the years following Disney's death, the company and its executives often struggled to navigate the future without falling victim to its past. Much has been written about the rise of a question that often guided decision within the company: "What would Walt do?" First coined to harness the creative vision that drove the company, it came to haunt decisions that were at times criticized as lacking creativity or holding back necessary change. Indeed, every CEO of the Walt Disney Company since its founder has had to frame their own agenda and leadership style in relation to Disney the founder.³⁴ In that context, it's not difficult to imagine the challenges that lie in defining strategy for the company in a world that has changed radically since Disney passed away in 1966. This risk has become so well recognized that Steve Jobs, Apple's equally visionary chief executive, famously advised his successor Tim Cook to never ask what Jobs would do. "Just do what's right," he implored.

Visionary leadership continues to maintain a particular hold on the public's imagination. Talk of the need for vision and the power of visionary leaders pervades both the popular and business press. Fueled by the rapid progress of technology and its disruptive influence in both industry and society, the opportunity to create change and define something truly new often seems within reach to today's entrepreneurs, entertainers, executives, and social activists. And yet, for all this popular attention, considerable mystery remains: where does vision actually come from? Indeed, in the best-selling book *Strategy Safari*,

the authors noted that the majority of writing on entrepreneurship and visionary leadership has been “in the spirit of the great leader view of management.”³⁵ This view of the heroic leader is well documented by the popular press or biographies. It often focuses on the individual’s personality, it and does much to eulogize that person’s accomplishments but does little to help others understand where the person’s insight came from or the real actions they took to drive change. The modern emphasis on a compelling “founder’s story” for startup companies illustrates this problem, showing preference for a compelling (and oftentimes false) story that conveys a sense of purpose at the expense of accurate and specific detail that can help individuals see how to craft a vision and use it to drive change strategically.

While the tendency is toward mythologizing visionary leaders, we shouldn’t be altogether dismissive. When we get past the superficial characterizations of visionaries, it’s still clear that leaders like Disney are no doubt strategic. As such, he provides an excellent example for us to consider as we analyze strategic leaders.

General Electric

General Electric (GE) is widely viewed as one of the most well-managed companies in the world. The nine executives who have held the titles of CEO or chairman include some of the most well-regarded business leaders in history, from GE’s first president, Charles Coffin—named the greatest CEO of all time in a *Fortune* magazine cover story³⁶—to Jack Welch, one of the most celebrated CEOs and leadership pundits alive today. The company’s current CEO, Jeff Immelt, was handpicked by Welch in 2001 and has been listed as one of the world’s best CEOs by *Barron’s* magazine three times.

Beyond the job at the top, GE is also widely recognized for developing future executives. In a 2006 article, *The Economist* deemed GE “America’s CEO Factory,” a label still widely used to describe the company’s ability to produce strong general managers who have gone

on to lead businesses within GE and other companies across a diverse range of industries.³⁷ This reputation is backed up by research, as GE consistently appears near the top of Aon Hewitt's semiannual "Top Companies for Leaders" research study, which assesses organizations' effectiveness at developing their leaders and evaluates the link between leadership practices and financial results.³⁸

GE is therefore a useful company to examine, serving as a standard-bearer for modern management and as a training ground for executive talent.

But, for all of its famed executive talent, the best way to learn strategy from GE is not by focusing on the iconic individuals who have led the corporate giant but, rather, by examining GE's most enduring management practices, each famous in its own right. For it has been these business processes—from the prescriptive "blue books" of the 1950s to Jack Welch's famous Work-Out sessions of the 1980s—that define the culture of this storied company.

In 1956, under the watch of CEO Ralph Cordiner, GE purchased land north of New York City that would later become Crotonville. Since then, Crotonville has arguably become the most famous corporate university in the world. It became the mechanism used to disseminate the core practices of the company and to develop its up-and-coming managers. In those early days, Crotonville taught a highly prescriptive set of management practices that typified the scientific management of the day. Over the next decade, they evolved into a formal set of strategic planning processes. At Crotonville's height, GE had over 200 staff in its strategic planning department.

Then, in the 1980s, Jack Welch famously dismantled that department, criticizing it as isolated and overly bureaucratic. In its place, Welch established more agile mechanisms. The Work-Out emphasized dialogue among employees close to core work activities, focused on eliminating work that didn't add value, and is still widely admired for the ability to speed up decision making. In a typical Work-Out session, a problem is identified as the central topic of the session.

Necessary research or data gathering is done in advance, and formal roles are established for a session's sponsor, facilitator, and participants. Emphasis is placed on ensuring the session includes both managers and those who do the work activities in question. Decisions are made within the session, and participants leave with clear guidance on how to proceed and implement the established plan.

More recently, Jeff Immelt has started to bring back some of the emphasis on strategy and long-range planning that distinguished GE's past, updated with a new focus on creativity and innovation. Inheriting an organization from Welch that emphasized execution and efficiency across the vast array of business units GE had amassed over decades, Immelt found himself in an era marked by rapid changes in technology, Internet-fueled disruption, and economic growth that had largely slowed following the boom of the 1990s.

Given this challenge, Immelt turned his focus to growth. He reintroduced—and renamed—the GE strategic planning process as GE's "Growth Playbook," and in 2005, he introduced a corresponding set of five "Growth Values" against which every GE employee would be evaluated.³⁹ Immelt increased R&D spending from 3 percent of revenue in the Welch era to 5 percent of revenue in 2011,⁴⁰ supporting a Global Research organization of over 2,800 employees and 1,000 PhDs.⁴¹ Crotonville also added courses around innovation and strategic thinking.

This focus on innovation is an overt component of GE's branding and marketing as well, stated as "GE Imagination at Work." GE reinforced this message through several high-profile advertising campaigns positioning it as an innovator. These included "ecomagination" and "healthymagination," which spotlighted the company's more innovative products, its increasing focus on the environment, and its culture of creativity.

During each of these periods, GE has adopted management practices that have systemically driven strategy in line with management's prevailing view of the status and needs of the organization. This disciplined approach—be it the prescriptive processes of the 1950s or

the collaborative approach today—distinguishes GE as a company focused on a rigorous and disciplined governance model aligned to the times and the priorities of the company.

3M

Minnesota Mining and Manufacturing—better known as 3M—is widely recognized as a benchmark for innovation among global companies, a reputation earned by its decades-long track record of introducing revolutionary products used in everything from household cleaning to NASA missions.

Founded in 1902 by two investors pursuing opportunities in local mineral deposits, the company quickly switched to a focus on manufacturing sandpaper—a shift that Silicon Valley would popularize as “pivoting” nearly a century later. The company faced similar challenges in this new market, but this time it chose to continue on. Through a combination of customer feedback, continuous improvement, and product innovation, 3M was profitable by its fifteenth year. Soon after, in 1921, the company took its first steps toward being a research-driven company when it acquired a patent and hired its creator, Francis Okie. That patent led to the introduction of Wetordry, a unique waterproof sandpaper quickly adopted by the automotive industry. It also laid the foundation for nearly a century of product innovation that continues today.

As the company grew, it institutionalized values and codified routines that helped it scale and sustain the innovation that defined its first success. Today the company offers over 60,000 commercialized products and spends over \$1.7 billion annually on R&D, an amount representing 5.6 percent of sales in 2013.⁴² It has also received widespread recognition for its achievements, ranking fifth on PWC’s 2013 list of the World’s Most Innovative companies⁴³ and repeatedly making *Fortune*’s annual list of the World’s 50 Most Admired Companies—it ranked twenty-first in 2013.⁴⁴ In 1995,

President Bill Clinton awarded 3M the National Medal of Technology and Innovation “for its many innovations over decades.”⁴⁵

Perhaps most famously, 3M’s management targets 30 percent of annual revenue to come from products introduced within the last five years. This metric provides a simple measure for both management and shareholders to evaluate the company’s execution on its innovation-based business model. While the company hasn’t always achieved the target—in 2008, that number had dropped to 25 percent—the number reached 35 percent in 2013, and a goal of 40 percent was set for 2017.⁴⁶

However, this metric alone can’t explain 3M’s sustained record of innovation. Plenty of CEOs set ambitious goals for revenue or operating performance. By themselves, these goals are no better than the claims of countless athletes and coaches that “this will be the year” to bring home the championship. Rather, it takes an integrated set of management routines and employee actions to achieve sustained results.

In the case of 3M, a key management principle gives us an indication of how 3M sustains its innovation-centered strategy: 15 percent time. This is a well-known but undocumented policy within the company that allows any technical employee to spend up to 15 percent of their week pursuing personal research interests. The result is a continuous exploration of new ideas and insights. Many of those insights have led to some of the company’s most successful products, including Scotch brand tapes and Post-it Notes.

A management practice critical to 3M’s innovation is their treatment of failure. Employees are rarely punished for failed projects. Rather, the projects are viewed as opportunities for continuous experimentation, and employees are regularly encouraged to focus on lessons learned and alternative benefits. Again, Post-it Notes offers an informative example. Started as research focused on creating new adhesives, the outcome of the project was considered a failure due to its weak bonding properties. Rather than being discarded, the adhesive was retained. Years later, another employee picked up the project and

started using the adhesive to temporarily attach paper to other surfaces. Today, Post-it Notes using that adhesive is one of the company's most widely recognized products and an excellent example of 3M's culture of experimentation and learning from failure. In fact, 3M now offers more than 400 Post-it Note products in over 100 countries.

These two principles—15 percent time and continuous experimentation—offer a view into the system of management practices that drive 3M's core strategy of product innovation. The company's goals, management practices, and employee activities are aligned around a singular focus on incubating and commercializing projects that come not from the most senior executives but from the insights of thousands of 3M employees. The practices also provide an example of strategic leadership for others to follow. Numerous companies have followed 3M's incubation model. Google's 20 percent time is a recent and equally famous example, and several of its core products, such as Gmail and AdSense, came out of a policy that Google's founders designed to allow engineers to pursue pet projects.

Nelson Mandela and South Africa's Truth and Reconciliation Commission

In 1995, South African President Nelson Mandela authorized the creation of a special body called the Truth and Reconciliation Commission. Its mission was to address the country's 40-year history of racial segregation called "apartheid," in which minority white Afrikaners ruled the country's majority black inhabitants. Over the ensuing 3 years, the commission played a central role in addressing that history. It is widely viewed by experts as setting the standard for addressing restorative justice and is commonly cited as a key element of South Africa's successful transition to democratic rule. It also presents a process that we have come to view as an archetype for a particular form of strategic leadership.

One of us (Olson) had the privilege of visiting South Africa in 1994 in the weeks following Mandela's election as the nation's first

black president. During that tour, a series of political briefings and personal interactions with each of the country's historically divided ethnic and political groups provided palpable insights. It revealed both the remarkable progress that had been made in the years leading up to the nation's first democratic elections and the daunting challenges that lay ahead in achieving closure for the millions of citizens whose lives had been affected by apartheid.

Mandela's leadership during this transition has received increasing global recognition in the decades that followed, culminating in the global outpouring of respect that followed his death in 2013. His personal journey served as a remarkable example of the country's transitions. Over the course of his life, he emerged as a leading figure in the antiapartheid movement, spent 27 years imprisoned by the government for treason, and then went on to share the 1993 Nobel Peace Prize. Yet, in the course of his growing stature, the role he played in establishing and supporting the Truth and Reconciliation Commission has received relatively less attention. That omission is remarkable in that the commission was a critical component of Mandela's approach to leading the country during his presidency, and it provides a window into his approach to leadership.

The commission was founded through legislation "to establish the truth in relation to past events as well as the motives for and circumstances in which gross violations of human rights have occurred, and to make the findings known in order to prevent a repetition of such acts in future."⁴⁷ It addressed these goals through three committees: an Amnesty Committee, a Reparation and Rehabilitation Committee, and a Human Rights Violations Committee. The committees provided a structured process to hear from any and all individuals and stakeholders, establish a record of facts and findings, and form policies and recommendations. Importantly, the Commission and its committees focused strongly on establishing the conditions for healing and a future of peaceful coexistence. This stands in contrast to historical situations in which a focus on punishment has been seen at times as perpetuating a cycle of retribution and ongoing social conflict.

As one example, the commission created a Register of Reconciliation, designed to allow any citizen to make public comments. The resulting record provides a fascinating and often emotional look into the lives of South Africans, many of whom express regret not just for actions taken but for a lack of action to oppose the apartheid system during that era.

Nelson Mandela played a visible role during this process, acting as the primary sponsor of the commission and a voice that articulated its vision. Speaking at the commissioning service, he said:

*All South Africans face the challenge of coming to terms with the past in ways which will enable us to face the future as a united nation at peace with itself. To you has been entrusted the particular task of dealing with gross violations of human rights in a manner that ensures that the painful truth is laid bare and that justice is done to the victims within the capacity of our society and within the framework of the constitution and the law. . . . The Truth and Reconciliation Commission affords all South Africans an opportunity to participate in reconciliation and nation building. There is a role for community based organizations and nongovernmental organizations to play their part. There is a role, too, for individuals to make a contribution.*⁴⁸

It is in this comment that Mandela's strategic leadership is revealed. His insight was the important role that participation of all South Africans would play in the commission's success. While there were many ways in which justice could be served both to victims and to perpetrators, it was only through direct participation that broader goals of closure, reconciliation, and future peaceful coexistence could be achieved. By providing a carefully constructed process, Mandela and the commission created the opportunity to establish trust. By creating avenues for participation in that process, they created the dialogue and interactions necessary to build trust.

The power of both process and participation are likewise evident in examples where trust is not established. In the decades following South Africa's transition, several nations have attempted to navigate

similar transitions in political rule or coexistence between ethnic groups. Some have even used truth commissions similar to the format used in South Africa. Those that have failed to reach their goal often demonstrate a failure of either process—marked by intervention of military or governmental entities that modify or invalidate prior established agreements—or participation—marked by the rejection of key aspects of the process by parties who do not feel their views were heard or respected. And, indeed, close examination reveals pointed objections and dissatisfaction in South Africa’s process. Our point is not that Mandela and South Africa’s Truth and Reconciliation Commission are beyond criticism but, rather, that it stands as one of the best examples of both the characteristics and challenges to the approach to which they aspired, which demonstrates an important approach to collaboration that we will continue to examine as we look more closely at the various manifestations of strategic leadership.

Implications

These four examples bring strategic thinking and leadership to life. In the key actors, you can see the building blocks of strategic thinking—cognitive psychology, systems thinking, and game theory—and the basic components of leadership—context, focus, activity, and role adaptation.

Yet, when the elements of strategic thinking and leadership are applied in these four situations, the results look very different. The structured management approach preferred in the early days at GM could not feel more different than the experimental culture formed at 3M. The domineering personal style of Walt Disney was nearly the exact opposite of the collaborative approach chosen by Nelson Mandela.

If we accept that each of these leaders was both successful and highly strategic, what should we make of their differences? If their

actions vary so widely, what does that tell us about “being strategic?” Would they be successful if placed in different situations? If not, why?

In these questions, we find interesting challenges. They are the issues our clients, colleagues, and students have wrestled the most with when encountered. Indeed, they are the questions we’ve wrestled with ourselves when trying to teach other people to be more strategic. And it is in that struggle that we have gained insights into the intersection of strategic thinking and leadership. As we turn to the exploration of that intersection, we’ll continue to draw on these four examples to help us find our way.

This chapter was designed to provide an overview of issues pertaining to strategic thinking and leadership, and to introduce strategic leadership as the intersection of those two concepts. In the next chapter, we will present the application of strategic leadership through four strategic leadership types.

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