The strategic management paradigm, the dominant management paradigm in North America, fails when it comes to helping a company move successfully into new ventures. The author proposes placing strategic management within the larger "creative management" paradigm.

Why Strategic Management Is Bankrupt

David K. Hurst

"We had the experience but missed the meaning."
—T.S. Eliot, Four Quartets

Over the past 35 years, North American management thinking has become dominated by the strategic management paradigm, or model, of the management process. The structure of this model, outlined here, is familiar to all who work in the management field:

1. *The environmental scan*. An analysis of what the business does, a prediction of the environment's direction and risks, and the identification of corporate strengths and weaknesses.
2. *The setting of objectives*. A generalized model of how the business should compete in the environment and a summary of performance baselines and targets.
3. *The development of options*. The identification and analysis of alternative policies and an evaluation of consequences and the probability that they will occur.
4. *The strategic decision*. The selection of operating policies consistent with resources and purpose.
5. *Organization*. The development of action plans and timetables that take into account competitive responses.
6. *The strategic review*. A periodic review of the strategy.

The strategic management process, illustrated here, is a sequential step-by-step affair, based heavily upon an objective, rational, systematic assessment of the business and its environment. The emphasis is on scanning, selection, and decision making; implementation primarily involves developing action plans and timetables.

The use of the word *strategy* to describe the core tasks of management is a relatively new one. Although the notion of strategy was developed in the military field centuries ago (the word is composed of two Greek words: "stratos," meaning an army, and "legein," meaning to lead), it has been applied to management only for the past 35 years.

Evolution of Strategic Management

Several factors seem to have been important in the introduction of the concept of strategy to management during the 1950s and in the rapid growth of its use during the 1960s and 1970s. First, the military requirements of World War II led to the allocation of vast resources for scientific research and the development of new technologies. With the coming of peace, the new discoveries and technologies were applied to all areas of industry. The high-technology commercial corporation, which then came of age, faced logistical problems more complex and planning horizons more distant than any that had been encountered before. The planning systems developed to deal with these new problems broke new ground, and their developers became pioneers in new techniques. For example, George Steiner and Igor Ansoff, two of the early strategic planners, both served their planning apprenticeships at Lockheed before becoming vocal advocates of strategic planning.

In addition, management theory during the 1950s was characterized by the search for and purported discovery of the fundamental principles of management. Management theorists at that time believed that they had isolated the elements of administration that were common to all management situations. Because they thought these principles were universal, they believed that management skills could be transferred from one business to another.

This belief was soon put into practice by the founders of the fledgling conglomerates (such as Litton, Textron, and ITT). Even Peter Drucker, who avoided enumerating principles, claimed to find evidence in the histories of companies like Sears Roebuck that management was fundamentally a rational, systematic activity. (See his book, *The Practice of Management*.) His article "The Discipline of Innovation," which appeared in the May–June 1985 issue of *Harvard Business Review*, proves he has retained this belief to this day.

Moreover, developments in operations research and the theory of systems gave scientists new insights into decision making in organizations. The organizational model most accepted just after the war was Max Weber's hierarchical bureaucracy; the new model viewed the organization as a cybernetic system that processed information through programs and feedback loops.

The most notable use of the concept of strategy during the 1940s was in the enormously influential *Theory of Games and Economic Behaviour*, written in 1944 by John Von Neumann and Oskar Morgenstern. The classical notion of the profit-maximizing "economic man" had lost ground during the 1930s. Although Von Neumann and Morgenstern cautioned that the scope of their work was very limited, the use of their metaphor started to spread. The new view of man as a rational strategist, a game player, soon became popular. The manager came to be seen as an analyst and programmer, someone who could control the system. According to Herbert A. Simon, author of *The New Science of Management Decision*, published in 1960, "We can think of white-collar organizations as factories for processing information. The executive is the factory manager, with all the usual responsibilities for maintaining the factory operation, getting it back into operation when it breaks down, and proposing and carrying through improvements in its design."

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Hurst has written about the experiences of the Russelsteel management team in an article entitled "Of Boxes, Bubbles, and Effective Management" (Harvard Business Review, *May–June 1984). He has spoken on topics such as planning, organization, team building, motivation, and business turnarounds at numerous business functions and for organizations such as the North American Society for Corporate Planning and The Canadian Association for Corporate Growth. He has also taught business strategy in the Canadian Management Association's programs and has contributed to the* Management for the Eighties *series of programs broadcast on CJRT-FM, a local Toronto radio station. He is presently writing a book on the application of his ideas to many aspects of business. Hurst received a B.A. degree in psychology from the University of the Witwatersrand and an M.B.A. degree in finance from the University of Chicago.*

Along with these three factors, we must also include the general atmosphere of optimism that pervaded North America 30 years ago. It seemed then that science and technology had our social problems on the run. This optimism peaked during the Kennedy administration with the beliefs, for example, that economists could "fine tune" the economy and that government could implement policy with some precision. In the field of management, this spirit is best illustrated by the former chairman of Ford, Ernest Breech, in his widely quoted statement, "We believe it is our business, and that of other large companies, to make trends, not to follow them. A confident, aggressive spirit, backed up by intelligent planning and hard-hitting management, can be contagious." This belief was echoed in a thousand corporate offices across the continent—indeed, across the Western world. If managers could control their own destiny, it seemed, they could certainly control the growth of their organizations.

Since the mid-1960s the form of the strategic model has remained essentially the same, but the scope of its applications has grown steadily. The introduction of *management by objectives,* for example, expanded the scope of the original planning model to cover strategic management. Strategic concepts were popularized by strategic management consultants, who found they had a powerful marketing tool for their services.

When the strategic concepts were combined with insights from modern portfolio theory, the view of the master strategist as a detached, rational decision maker was further enhanced. Now each business could be viewed as part of a portfolio of investments.

Throughout the 1970s the range and complexity of the concepts covered by the strategic management paradigm grew steadily. In part this was a response to the changing environment as the relatively smooth growth of the post World War II world economy began to fade. But it was also a response to a feeling that something important was missing from the earlier, narrower versions of the paradigm. This feeling was reflected in the escalating grandeur of the words used to describe corporate purposes. As soon as objectives were reduced to concrete measurable targets, "goals" appeared, then "missions," "creeds," "beliefs" and, most recently, "superordinate goals."

In the 1980s some enthusiasm for the strategic model began to wane because of disappointing results where it had been applied. Critics argued that it and other techniques had encouraged managers to take too short a perspective in the running of their businesses. Today the debate between advocates and critics of the model continues. This article approaches the conflict from the viewpoint of a practicing manager and places the strategic model within a larger paradigm of the creative management process.

One Company's Experiences

Our experiences over the past 25 years with the strategic management model are instructive and, as the reader will see, appear to parallel those of many North American corporations. When our company first went public in 1962, it was a tiny steel distribution business with five branches and $14 million in sales. The management group consisted of the president, the only member of the founding family working in the company, and his manager, a seasoned steel operator who had spent 20 years in the business. Both men were intimately involved with the day-to-day activities of the steel distribution operation, and their objectives and strategy reflected a determination to stick to that business.

The early 1960s was a good time to be in the steel service-center industry in Canada. Driven by the demands of the baby boom, the country was developing an infrastructure with the necessary manufacturing industries, and steel users were poorly serviced by distributors. The general economy appeared in excellent shape, and there was much talk of economists' newly found ability to fine tune the important variables. Government at last seemed to have solved the perennial problems of cyclical recessions and unemployment. In the private sector the talk was all of growth and planning.

Sometime between 1962 and 1964 our company president caught that growth bug and resolved to make the company grow. His operating manager, a tough, hard-nosed taskmaster from the old school, was clearly not the man to make this happen. But the president found an individual who fitted the requirements perfectly. An engineer with a Harvard M.B.A., this man had spent 15 years at Proctor and Gamble. He was organized, understood strategic planning, and was determined to make businesses grow. He joined the company in 1965 as executive vice-president.

The organization changed in several ways after he joined. First, it became a good deal more formal, with written policies and plans. Second, a split was created between operating units and the holding entity—a split between managers and investors, between divisions and the head office.

At this time, comprehensive planning was introduced into the corporation. Divisions were asked to submit five-year forecasts to the corporate office which, faced with competing demands for scarce funds, would then allocate capital using various financial tests and minimum requirements for return on investments.

Two groups with distinctly different perspectives and interests began to emerge in the company: the operating managers who ran the profit centers and the "investors," the corporate office heads who ran the holding company on behalf of the public shareholders. This second group acted as a kind of mediating investment group, investing on behalf of the shareholders in a portfolio of divisions.

To give themselves the perspective and space needed to plan for growth, the president and executive vice-president moved their offices away from the steel operations. They saw themselves as "informed directors," supplying advice and counsel to the divisions as required. They recognized that they could not be operators and could not provide general management support. Their management function was limited to the assessment, reward, and replacement, if necessary, of the operating management.

This form of organization, dubbed *federal decentralization* by Peter Drucker, is undoubtedly good for operating managers. In our company it gave them the necessary space to operate without interference, even though at times their autonomy bordered on complete independence. But federal decentralization creates a head office of powerful, driven managers who have no businesses to run, only a group of autonomous divisions to oversee. The head office makes decisions in the areas of portfolio structure, capital allocation, and senior personnel, but these activities are not enough to engage the full attention of top executives. The temptation for the corporate office to buy something is nearly irresistible. Thus, when the president and executive vice-president moved to a corporate office, the stage was set for the company to grow by acquisition.

Lessons from Acquisitions

Between 1964 and 1980, when we were acquired by another firm, our corporation made 27 separate acquisitions, which involved more than 40 distinct businesses. This program expanded the company's size tremendously through the 1970s; but in the process, the investment function and its needs totally overpowered the management function and its concerns. The situation made the company vulnerable to a takeover and was a major factor in the subsequent collapse of the organization.

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Specifically, the initial four acquisitions were failures. The first company bought was a small manufacturer of precision equipment, primarily for the auto industry. Since the owner/manager wanted to retire, our vice-president of administration was put in charge "to introduce the necessary organization and control" and to work with the acquired company's existing management. However, the acquired company's management was in turmoil for the next 18 months: All managers were replaced, and many skilled workers were lost.

Fortunately, a surge in the marketplace brought the business back into the black. At that time, our corporation decided to acquire a similar business and merge the two. This led to the second disaster.

On paper the numbers look impressive. It seemed that a combination of cost savings and margin improvements would result in a significant profit. Instead the combination of the two businesses became almost instantly unprofitable. Sales sagged and margins shrank as the business cycle turned down. It became clear that the businesses were not nearly as similar as they had appeared. Each one served slightly different markets and had different ways of operating. The complete merging of the two businesses led to a predictable loss of good people. The combined business never did make an operating profit. In 1972 we were relieved to sell it to ITT Canada.

Early in the game we also acquired a steel distribution operation very similar to those in our core business. We planned at the outset that this business would be run by our own operating managers. In fact the returns were predicated upon their ability to turn the business around. The first year was expected to be tough, but the medium- and longer-range view called for the acquisition to be an important source of new income. The purchase appeared to involve little financial risk because the major asset being acquired was steel inventory. The deal proceeded.

A year later only one member of the acquired company's original management team was left. It would take five years and a good deal of help from the 1973–1974 economic boom before the business again became profitable. During that time the operating management was so preoccupied with problems that it missed out on most of the considerable growth in the markets served by the acquisition. The employees who had left in the first year formed their own business, and with new equipment and financing they became very successful. They outstripped the business we had acquired in both size and profitability—a very perverse outcome.

Our fourth acquisition in this "program of planned corporate growth" was in high technology. The business was "in applications engineering in the field of process control and instrumentation," as the acquisition recommendation put it. Reasons for the acquisition of the business included:

- The high growth rate of the industry.
- The presence of an undeveloped niche in the marketplace.

• Large potential markets, of which a small share would generate significant sales volumes.

• Diffuse and scattered competition.

• Technical synergies available to other businesses.

• The parent company's ability to provide financial management and policy direction.

The investment was made by way of a debenture in March 1968. By August the business was insolvent. We were forced to call the loan and put in a receiver to wind up the company's affairs. The problem was that this high-tech company had never really been an organization; rather, it had been a group of technical experts, all doing whatever interested them. There had been no core of competence.

A Reevaluation

Following these inauspicious beginnings senior managers in the corporate office took stock. They again asked themselves what business they were in and concluded that it was "industrial distribution." This new definition coincided (unfortunately, as it turned out) with their first successful acquisition.

This time a family-owned distributor of ballbearings and power transmission equipment was acquired. The family, keen to sell but concerned that the employees and the business be well looked after, approached us through a mutual friend. The business had always been profitable, and several other buyers were willing to pay the asking price. However, we were selected as the buyer because of the closer personal rapport the family felt it had with our company's senior management.

The existing management team stayed with the business after we acquired it. The business continued to be profitable, growing steadily by branch network expansion, and became a major contributor to our results. Unfortunately, this success was attributed to the "industrial distribution" strategy. After making two more steel-related acquisitions, we set off on what was to become a disastrous course, a series of acquisitions in the building supplies industry.

The Grand Design

By 1972 we were still earning less than $100 million in revenue. Outside of the steel business, our only successful acquisition was the bearings distribution operation. This industry continued to be extremely attractive to us, but in both Canada and the United States few of the distributors were for sale. Those that were for sale were quickly snapped up by Bearings Inc. and Genuine Parts, the two largest operators in the industry.

In its search for new growth opportunities, senior management came upon a hardware supply business in eastern Canada. Run by a self-made man, a political figure in the region, the business had an astonishing growth record. This man had parlayed a bank loan and his political contacts into a small group of assorted trading companies. With the sale of his business he became financially independent. In addition, he was given a mandate to make the new division grow—and grow it did. Between 1972 and 1976 we invested more than $50 million (much of it borrowed) in the Building Supplies Group, as it came to be called. Twelve business units, located between Nova Scotia and British Columbia, were acquired.

Acquisition was piled on acquisition without any attempt on our corporation's part to digest what were essentially small family businesses. Unfortunately, the businesses were not particularly profitable; rampant inflation and FIFO accounting (which allows increases in inventory costs to be reflected in profits) made them appear much more profitable than they really were. The profit picture for each acquisition developed into a pattern. The business would generate profits for the first one or two years after acquisition and then slump badly. Economic forecasts for each unit began to show the "hockey stick" effect—losses for the short term followed by a steady recovery to handsome profits in the long term.

Even though senior management accepted this outlook, the stock market did not. Our share price, after many years of trading at around book value, began to fall below that range.

Why did corporate management allow this acquisition activity to continue? One of the chief opponents of this course, a steel operator, argued that cash was being siphoned off from his steel operations to finance a reckless acquisition spree. Nevertheless, dedication to growth undoubtedly made the corporate office amenable to strategies that promised growth. Perhaps even more important, at the root of corporate management's inability to see reality was a grand strategic design developed by the management of the Building Supplies Group.

The grand design culminated in a national chain of supplies stores linked by a sophisticated on-line computer system and operating at several levels of distribution—retail, wholesale, commercial. Numerous examples of this kind of organization were cited, including Lowes and Hechinger (two successful U.S. regional building supplies distributors) and (one trembles to remember it) Wickes (which went into Chapter 11 in 1981, the second largest U.S. company ever to do so). Because of the emphasis on formal, written communication and the investor-manager distinction, these strategies, which looked good on paper, were never tested in practice. Corporate management never went into the field to talk to employees without the filter of senior management.

Much later while walking around a particularly dilapidated Building Supplies Group operation in 1979, I was reminded of Liddel Hart's report of the World War I general visiting the battlefield: "This highly placed officer from general headquarters was on his first visit to the battlefront—at the end of the four months' battle. Growing increasingly uneasy as the car approached the swamp-like edges of the battle area, he eventually burst into tears, crying, 'Good God, did we really send men to fight in that?' To which his companion replied that the ground was far worse ahead."

For us, the further we proceeded with the acquisition(s) program, the harder it became to get out of it. In theory the investor role of the corporate office allowed it to divest itself of a business, but in practice this did not work. There were always objections from the various group managements, the inevitable "hockey stick" forecasts, and the arguments that one more acquisition would complete the puzzle and fulfill the grand design. The company had become trapped in its own conceptual framework.

The pace of acquisitions continued, with profits coming primarily from the steel operations and the bearing distribution companies. The inflationary growth of the late 1970s, together with the Canadian government's reckless investment incentives designed to encourage energy self-sufficiency, helped sustain the trend. The steel cycle peaked in 1979: The company produced a net income of $14 million on revenues of $535 million, with the Building Supplies Group producing 7% of the profit on 30% of the revenue. The steel cycle faltered in 1980 and recovered briefly in 1981 before plunging into its steepest decline since the Great Depression.

After the Fall

The downward plunge in the business cycle caused problems in all of our businesses, but the failure of our strategic frameworks was brought home to us most forcibly in the collapse of the Building Supplies Group. This group of operations, which had been acquired at such great cost over the previous ten years, collapsed in two senses: financially and conceptually. The severe recession battered the entire economy, and many marginal businesses failed. On the conceptual level, the entire grand design, the coast-to-coast network of distribution operations, was suddenly revealed to be a management delusion, a paper plan without substance. In hindsight, every strategic view taken by the management team of the Building Supplies Group seemed to have been a wishful pattern imposed upon the future by a small number of managers at the top.

Now the reader may well feel that these corporate disasters are indicative of management incompetence, faulty analysis, and misdirected strategy. Indeed the proponents of strategic planning usually make this argument. "There is nothing wrong with the model," they say. "All you have to do is apply it properly." Well, there *is* something wrong with the model.

The problem with the strategic paradigm is the assumptions underlying it. The paradigm assumes that businesses are like complex, mechanical clockworks operating in an environment that can be objectively determined by senior managers of the business. It is supposed that this knowledge, together with the managers' assessment of their organizations' strengths and weaknesses, can be

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Exhibit 1

TWO ORGANIZATIONAL PROCESSES

Strategy	*Mission*
Planned	Spontaneous
Analysis	Synthesis
External	Internal
Things	Phenomena
States	Relationships
Strengths/weaknesses	Competencies/preferences
Reduction	Emergence
Fundamentals	Purpose
Designed	Evolves
Objectives	Values
Precise	Vague
Targets	Directions
Set	Appear
Focus	Awareness
Search	Recognition
Means	Ends
How	Why
Make it happen	Let it happen
Today's business	Tomorrow's business

used to devise a strategy of objectives, plans, and so forth. These strategies are meant to allow managers to structure their organizations and adapt to and/or take control of the environment.

But these strategic structures are built on retrospective foundations. They work for the future only so long as the pattern of the future mimics that of the past. Such stability is unusual and does not last for long. The last such period was the 30 or 35 years after World War II. This largely benign economic environment caused the strategic view of business to become extremely popular. Like the economists' ability to "fine tune" the economy, the strategic method appeared to work—at least for a while.

A deeper problem with the strategic model is the economic framework upon which it is based. This framework assumes that capital is the scarce resource to be rationed among many competing investment opportunities. In fact, the current situation in North America is quite the opposite: Opportunities are scarce, while capital is plentiful. I shall argue that the inability of the strategic model to create such opportunities lies at the heart of its problems.

TOWARD AN ALTERNATIVE MODEL

Alfred North Whitehead once wrote that "understanding has two modes of advance, the gathering of detail within assigned pattern, and the discovery of novel pattern with its emphasis on novel detail." This is also the case with the progress of business organizations. On the one hand is the strategic mode, with its gathering of data within an existing conceptual framework. On the other hand is a more naive mode, by which data are gathered apparently without pattern, and in that process new patterns are formed. In contrast to the strategic mode, this might be called the mission mode—a search for mission, purpose, and meaning for both the organization and its employees.

Exhibit 1 shows clearly the contrast between the two modes, although the reader is cautioned that the conceptual problem lies less with the nouns and the verbs than it does with the conjunctions used to connect them. Western thought is biased toward "either . . . or" rather than toward "both . . . and." This bias is largely the result of our failure to reconnect the conceptual categories to which we have reduced reality by our exclusive use of rational thought structures. It reflects our penchant for linear thought and notions of cause and effect, as opposed to cyclical, interactive concepts. The key to understanding strategy and mission rests primarily on our ability to grasp the complex dynamic relationship that exists between the two.

The Task of Strategy

The lists in Exhibit 1 can be read both horizontally and vertically. The strategic management mode is a conscious, deliberate activity that focuses on a particular organization in a particular environment. The strategic manager stands outside of these "objects" and analyzes them, reducing them to some fundamental categories. This analysis is achieved, of course, by the use of complex conceptual frameworks that allow managers to generalize and manipulate aspects of reality. Targets are set to measure the corporation's progress toward objectives. The focus is on programs — how to "make it happen."

Now this is a very valuable process, but not for the purposes for which many managers use it. The strategic mode is helpful for looking *backward* rather than *forward*, for what it *excludes* rather than what it *contains*. The strategic mode cannot tell managers where they are going, only where they have been. It is useful for managing today's business, the business that already exists. The strategic mode requires some content that can be analyzed. An organization has to exist *before* the strategic mode can be applied. Otherwise, there is nothing on which to focus and from which to generalize.

This requirement of the strategic mode interferes with the strategic manager's ability to discover new business opportunities. Discovery is only partially a problem of search; it is mainly a problem of recognition. The history of product innovation in business abounds with examples of this. After a comprehensive study carried out in the early 1950s, Arthur D. Little assured IBM that there would never be a market for more than 5,000 copiers of the kind then being developed by Haloid (which later became Xerox), and IBM rejected the license to the new process. In the 1980s both Parker Brothers and Milton Bradley turned down the opportunity to market Trivial Pursuit.

Thus exclusive use of the strategic mode leads to discovery of only what is recognized. A historical pattern is imposed on reality and, unless the world stays very stable, this pattern may not be appropriate in the future. This was what our company discovered during our acquisition years. Our view of the future was continually determined by our interpretation of past events.

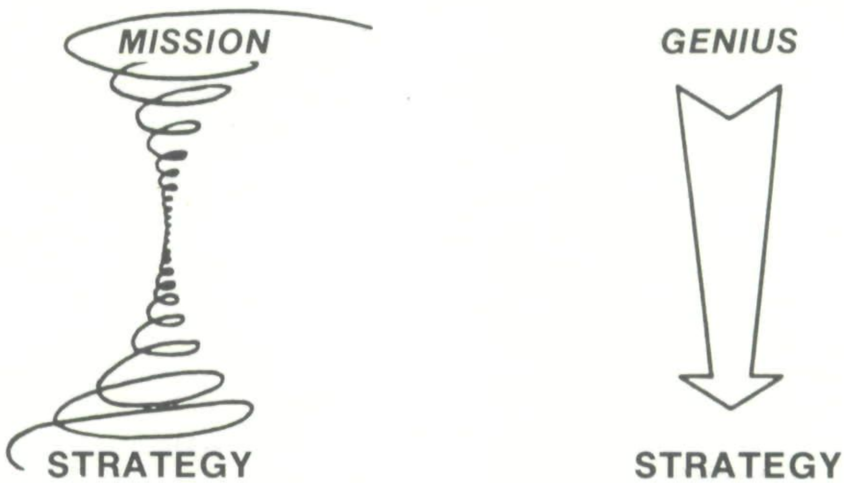
Even though the strategic mode may not be very useful for creating new businesses, it is invaluable for getting rid of old ones, for "sloughing off yesterday's business," as Peter Drucker has put it. Any manager who has been through a turnaround can testify to the power of formal, strategic analysis applied to existing businesses. Without its use, organizations become complacent and overweight. To use a farming analogy, strategic management is a weeding device that allows healthy, productive crops to grow unharmed by weeds. But in the process it ensures that a different crop will never be grown.

The task of strategy is to "make it happen," but too often all the emphasis is put on the *make* and none on the *it*. To make anything happen, a person must first know what *it* is. When dealing with an existing business, managers may know what *it* is; but when they try to bring about change and develop new businesses, they usually don't know. The question "What is *it*?" is crucial. The role of the mission mode is to answer that question.

The Role of Mission

The mission mode consists of a process that is spontaneous rather than planned. It in-

Exhibit 2
A MODEL OF ORGANIZATION PROCESSES



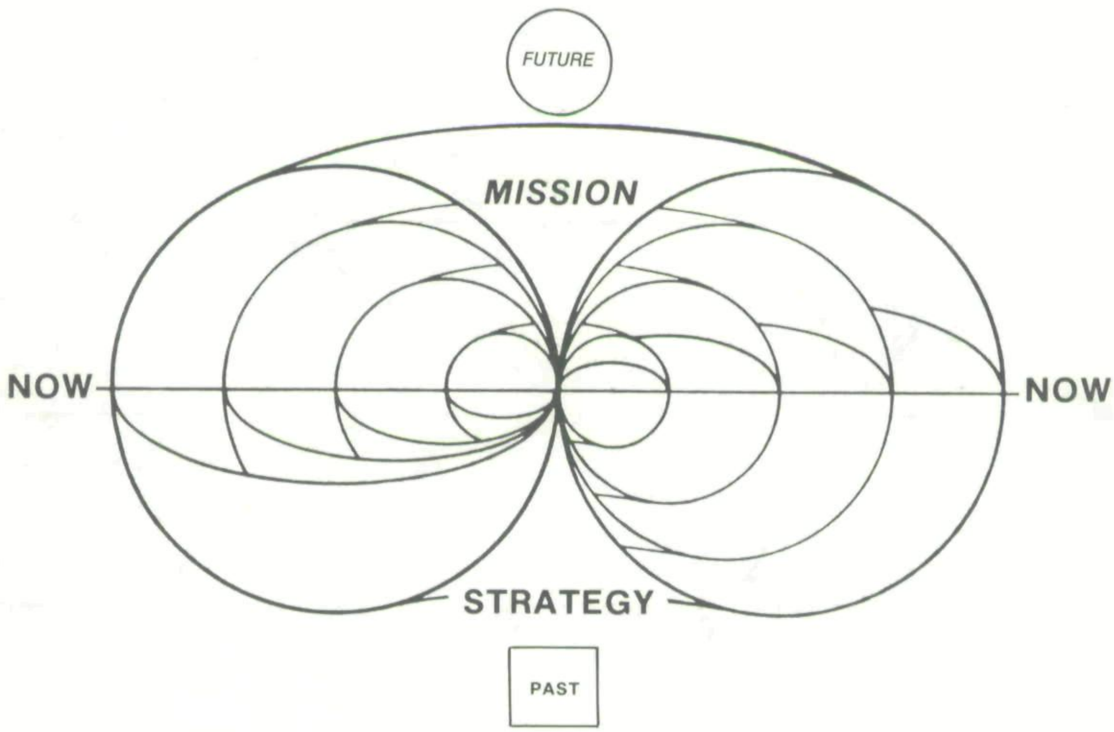
volves the gradual synthesis of phenomena internal to the organization, a growing awareness on many levels of relationships, competencies (things a person does well), and preferences (things a person likes to do). As the process proceeds, ideas begin aggregating in clusters around particular people and groups. Visions of what *could* be and a sense of purpose become clearer to the members of the organization. Values are discussed openly; as they are spread, refined, and shared, they begin to allow a *recognition* of what directions to take. The external environment of opportunity begins to crystallize, and these directions appear.

The role of the mission process, then, is to open up the organization to new opportunities by relaxing the tight downward focus of the existing strategy. The process releases to the surface deeply, perhaps unconsciously, held convictions and beliefs about what the organization means to its members. These values form a soft framework in which new opportunities at the periphery of vision may be netted. In other words, the role of the mission process is the "let it happen," when "it" is the process leading to the "it" of strategy.

The Interaction Between Mission and Strategy

The interaction between the mission and strategy modes is extraordinarily difficult for members within an organization to see, for the processes are "nested" inside one another. The processes of the mission mode precipitate strategic actions which, in turn, trigger mission processes, and the two modes are present simultaneously. A somewhat simplified model

Exhibit 3
A DYNAMIC MODEL OF ORGANIZATION PROCESSES



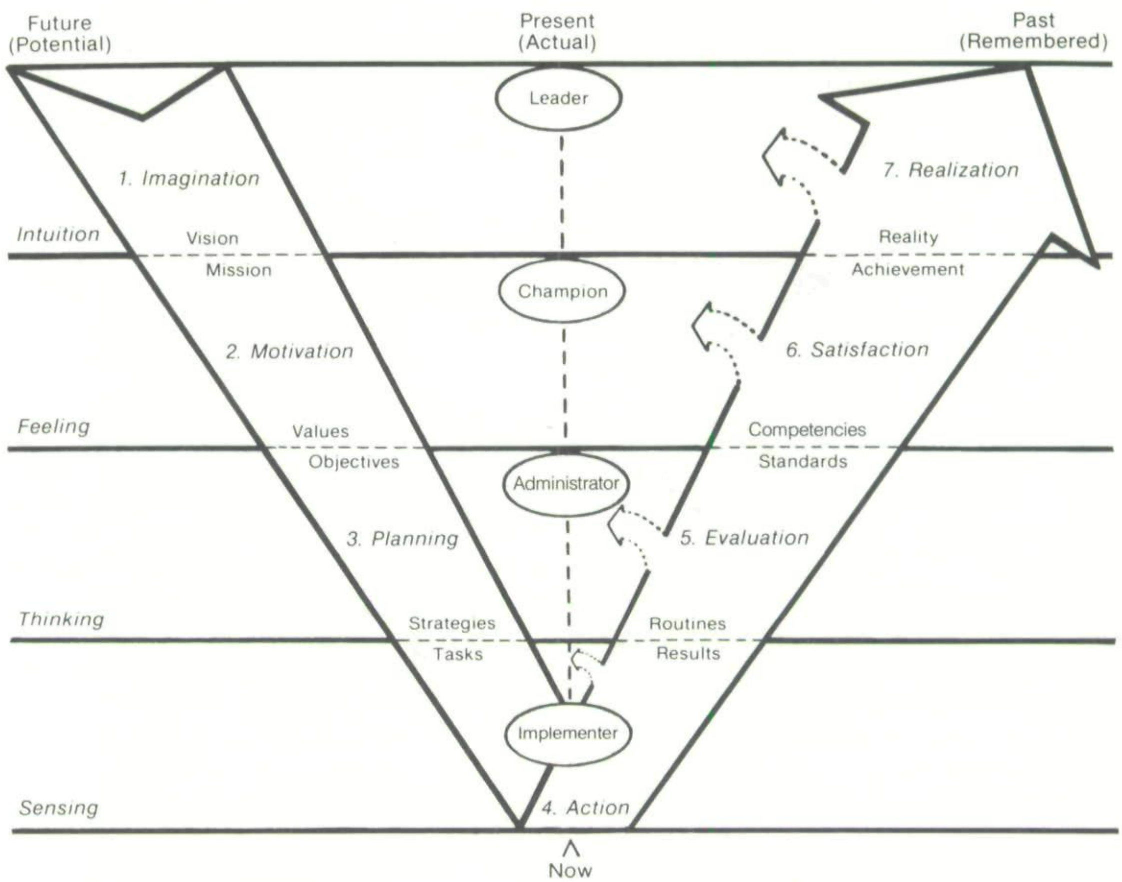
of the organization (Exhibit 2) shows the two processes connected by spirals. The power for the spin is provided by the twin processes of mission and strategy: Mission pulls while strategy pushes. Of course strategy can also be generated by the lone genius who knows just what to do. This method is a more direct process.

The mission process can be thought of as a way to pull the organization into the future. It brings opportunities (by ensuring that they are recognized) into the vortex of the organization, where they are transformed from ideas into innovations and from innovations into new products, services, or whatever. This transformation is accomplished by the strategy process, which cuts out old, unprofitable products and services and reduces innovations to practical programs. Mission supplies the form to which strategy can give substance.

This part of the process can be compared to the precipitation of crystals from a supersaturated solution. A liquid (people in the organization) is heated and stirred so that an amorphous powder (potential opportunities) can be dissolved (assimilated). As the liquid stops moving (changes mode) and

Exhibit 4

THE LAYERS OF THE CREATIVE MANAGEMENT PROCESS



cools (becomes rational), large crystals (good ideas) will appear out of the solution, solidify, and grow.

The analogy is fine as far as it goes, but it does not reflect the reverse process in which the decisions made affect the opportunity-recognition process. The organization's understanding of what has happened in the past will have an important influence over the way it sees the future.

This aspect of the process is best illustrated by Exhibit 3, which shows a returning outer set of spirals connecting strategy to mission. The inner and outer spirals combine to create a swirling toroidal, or donut, shape (the layers of the donut will be explained shortly). Thus an organization can be conceived of as being dynamic. Like the vortex that forms in bath water when one pulls out the plug, the structure of the organization is sustained only so long as energy is poured through the system. In this model the donut shape of the organization is sustained by mission (supplied either by process or genius) and strategy. Like Janus, the Roman god of the threshold, the organization looks forward to the future and back to the past. Mission prospects while strategy retrospects. The two meet in the present. The potentially perceivable environment is all around, but the environment actually perceived is represented by the "skin" of the donut. Thus the organization grows (learns) by expanding its perceived environment—by recognizing and processing opportunities.

A Speculation on the Creative Process

The donut model of the organization is a complex one. What follows is an attempt to show how the model functions and how it illustrates the workings of the creative management process present (at least in part) in all organizations. The goal is to track the progress of an idea in an organization from its original conception to its final realization, using the dynamic donut structure as mental model. Before doing this, however, a more comprehensive view is needed of the mental processes used by members of organizations. Carl Jung identified four primary mental processes:

• *Sensing* is the perceptual process that yields concrete facts about the world and our own physical condition. We see, hear, taste, smell, and feel the world. Sensing tells us that something *is*, we detect "it."

• *Thinking* is the intellectual recognition process. Through thinking we learn *what* "it" is. Thinking is the rational linking together of ideas in concepts.

• *Feeling* is the evaluation process that allows us to value "it" as good or bad, pleasant or unpleasant. Jung described this emotional aspect that we attach to things as "tone" or "mood."

• *Intuition* is, Jung said, the "perception of the possibilities inherent in a situation." Intuition, then, is the awareness of the potential of "it" both in the future and in the past.

It may be helpful to think about these abstract mental processes in terms of one's own personality. Sensing is reflected in task skills gained from actual experience of the world, while thinking consists of rational skills usually acquired through language and formal education. The feeling process is reflected in interpersonal skills and individual values developed by the family and peer group. Intuition may be thought of as those innate, creative, imaginative skills.

The four processes are complementary, but different, dimensions of thought. They can be arranged, as Exhibit 4 illustrates, in layers through which the creative management process must pass.

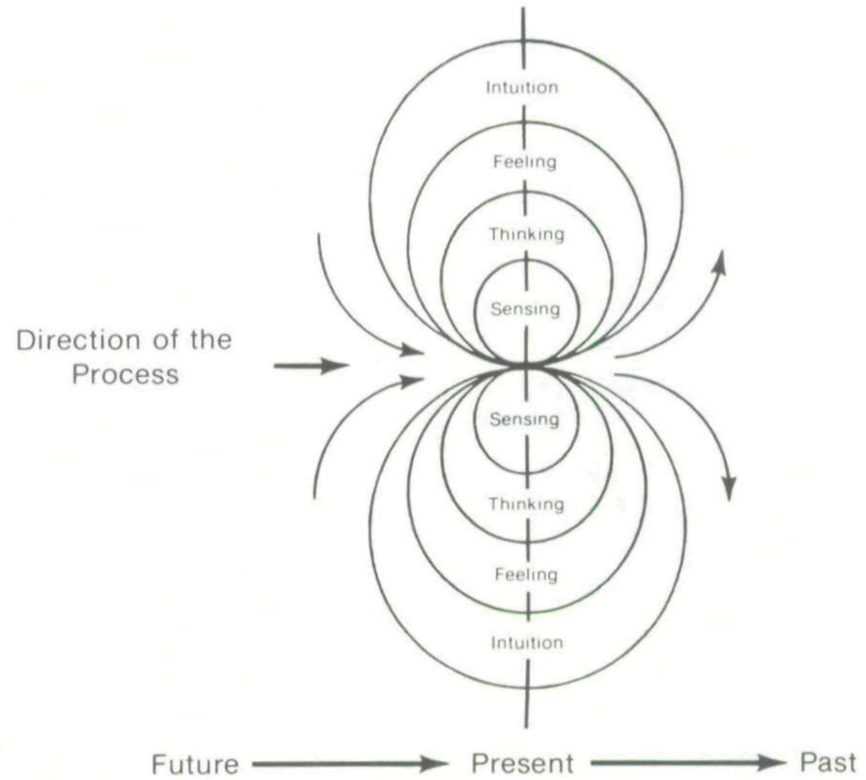
At first glance this diagram, with its broken arrow, may seem to bear little relationship to the donut model. To understand the link one needs to turn the donut vertically and imagine the modes of thought as concentric layers within it. (See Exhibit 5).

Each of the layers forms a Figure 8 pattern within the donut. When the layers are snipped at the bottom and laid flat like the layers of a cake, the broken arrow becomes the two-dimensional projection of the spiral path of the creative management process. The process can curve back on itself within each mental mode. This is reflected by the dotted arrows on the right hand side of the broken arrow (and by the plethora of spirals in the first donut diagram in Exhibit 2).

This rather complex manipulation of the model reduces the spiral, recursive path taken by the creative process to a linear, sequential affair that is more easily understood.

Exhibit 5

THE DYNAMIC NATURE OF CREATIVE MANAGEMENT



Using intuition as the (arbitrary) starting point, the creative process can be traced through seven stages, which are outlined in Exhibit 6.

The classical strategic management model deals explicitly only with Stages 3 through 5, the "plan-act-evaluate" cycle taught in most business schools. However, by ignoring the other stages in the process and overemphasizing the linear, the strategic paradigm misses three key aspects of the creative process. First, strategic thinking (Stage 3) does not appear out of thin air. It is based heavily upon earlier expectations and past experiences (Stages 4 through 7), modified by whatever happens in Stages 1 and 2. In addition, rationality and logic depend on conceptual structures developed after action. People understand (Stage 5) *after* they act (Stage 4), not before. Experience is always something that is gained about ten minutes after it is needed!

Finally, genuine innovation (Stage 1) usually represents a break with the thought structures of the past. Initially an innovation will not be based on rationality and logic because the supporting conceptual structures are not yet there. They will become

Exhibit 6

THE SEVEN STAGES OF THE CREATIVE PROCESS

Stage	*Mode*	*Time Orientation*	*Description*
1	Intuition	Distant future but timeless in many aspects	Imagination: Inspiration, creativity, and vision of potentials. Starts with vague, unframed questions: "What am I?" "What are we?" "What's 'it'?"
2	Feeling	Future	Motivation through the evocation of values and communication of purpose. Beliefs surface: "Could this be us?" "Could this be 'it'?"
3	Thinking	Immediate future	Planning: Conceptualization and concentration. Analysis of probabilities, development of objectives and strategies: "How to get 'it.'"
4	Sensing	Now	Action: Commitment to programs and the strategic choice, the implementation of the plan. "Do 'it.'"
5	Thinking	Immediate past	Evaluation: the collection and review of results, recycling to Stage 3 if necessary, and then the construction of routines and standards. Understanding and recognition: "This is 'it.'"
6	Feeling	Past	Satisfaction: The coordination and organization of competencies and the achievement of meaning. The organization becomes the embodiment and expression of the essence of "What we are." Competencies and achievements are often celebrated in festivals, stories, and legends.
7	Intuition	Distant past but timeless in many aspects	Realization of the vision: "Ah ha! So that's it." Growth by learning sets up long-term memory and creates a new way of seeing the world. It also creates a set of largely unarticulated expectations. Often enshrined in tradition and commemorated in ritual, these expectations will have a decisive influence over how the world is seen in future.

available only after the fact—that is, after action.

Conversely, highly structured thought, as well as tradition, will interfere with and inhibit innovation. Managers may become psychic prisoners, trapped in their own mental cages. It is no coincidence that many entrepreneurs and innovators either have little formal education or performed poorly in the traditional educational system.

Four Kinds of Managers

Attached to each of the dimensions of

thought through which the creative process passes is one of four managerial designations: leader, champion, administrator, and implementer. The leader can see the whole process through from imagination to realization, from vision to reality. The champion, tied to the feeling dimension, is the principal motivator. Champions make people aware of the values and common purpose that they share. In Stage 6 of the creative process, the champion may become the symbol of all that has been achieved, an embodiment of the organization's abilities.

The administrator is the classical manager, the rational profit maximizer beloved by economists and management strategists alike. Administrators perform the thinking function, concentrating objectives into strategies and seeing the process through to the evaluation of results and the collection of routines, which help the company form standards. Lastly, the implementers are the actors, those who do "it."

Although these managerial designations and their characteristics have been separated for analytical purposes, they are part of one process. Everybody is capable of performing all of the managerial roles in that process, although different people may prefer some parts of the process to others.

Our company's problem between 1964 and 1980 was our overemphasis on the rational-thinking function. We forgot about the visions and values that must lie behind the objectives and strategies. Instead of expressing the shared values of the organization as a whole, our corporate objectives reflected the narrower purposes of a small group of executives.

Furthermore, neglect of the creative stages of the process ensured that this executive group never tried anything new. Our corporate strategies reflected repeated applications of the same conceptual formula. The corporation's seasoned operating managers knew this was the case, but they could never

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explain it to their bosses. It's an old problem: Intuition can't speak and logic won't listen. The executives' obsession with rationality was readily apparent in their preoccupation with written plans at the expense of the planning process. It was also evident, as the reader will see in the next section, in their inability to implement effectively the plans arrived at rationally.

Planning and Plans

The model of the creative process makes clear the distinction between the planning process and the plans. The planning process describes the continuous swirling of ideas within the organization, the condensation of perceived opportunities, their placement within programs, and their reduction to action. Ideally this process is accompanied by the emergence of committed individuals who become champions of particular programs. If a visionary genius heads the organization, then the planning process and the emergence of a champion take place at the same time and within one individual. In other words, Stages 1 and 2 are combined.

In the absence of genius, the planning process should allow groups of individuals to function as coherent wholes. The team "mind" so produced can, under the right conditions, substitute for the lone genius and take the organization through all the stages of the process. Members of the team will come up with ideas, reach a consensus on the appropriate ones, and commit to their realization of these opportunities with the obsessive passion characteristic of genius. They will begin to find a purpose and a meaning in their work and in their lives that they did not recognize before. This is the process of self-actualization. It might even be said that effective strategy consists of telling people what they know already.

Effective strategies, then, depend on people's commitment to them. Strategies should capture ideas released by the planning process. These ideas, reduced to strategies, should be implemented only by people committed to them. And people will be committed to them so long as they recognize them as their own.

The planning process as described here never stops. The ideas swirl continuously. The *formal* planning process (and the printed plans it produces) is a procedure imposed upon the organization (at Stage 3) to help the crystallization process. To pursue this analogy, a crystal (a formal planning structure) dropped into a supersaturated solution (a group of people brimming with ideas) will trigger the crystallization process. The formal planning procedure then is a catalyst, not a cause. It encourages the downward, reductive process by which bright ideas held by highly motivated people are turned into practical programs.

Of course, if the solution is not supersaturated (if there are no ideas), the only crystals coming out of the solution will be the ones put in it in the first place. When this happens, the creative process collapses into strategic management. It no longer creates the future but incessantly repeats the past, tracking the same path over and over again. The organization becomes a clockwork, capable of endless elaboration but incapable of evolution, a mechanism that always selects before the organism can mutate.

Stability and Change

Alfred D. Chandler's model of the stages of growth in North American business suggests that North American business tends to alternate between periods of growth and change and periods of stability and consolidation. Much of big business in North America now is in a state of stagnation. Perhaps the huge creative surge generated as a by-product of World War II has spent itself, and subsequent wars and events (the space race, the Great Society, the arms race) have not been able to sustain the pace.

In any event the present challenge to management is to innovate—to find tomorrow's business. In the absence of genius this means that rigid organizations must become more flexible. Given the well-established patterns of thought in large organizations, such change usually requires a crisis, something that will break the mold of the past.

Although crises and surprises are anathema to managers trying to keep organizations stable, they seem to be essential to the creation of change. Many courses in creativity stress the importance of brainstorming, lateral thinking, and other techniques designed to shock thinkers out of habitual thought structures. Unfortunately, these techniques are rarely helpful in dealing with the problems managers face. Creativity courses deal with "tame" problems—problems that can be clearly formulated and that have an answer that can be proved correct. In contrast, the most important issues managers face are usually "wicked" problems. Such problems are affected by their formulation. Often the first step is to find the question; the answer to this question will never be right or wrong, only better or worse than another answer.

As we found out in our organization, wicked problems engulf the familiar questions "What business are we in?" and "What business should we be in?" Because answers to such questions depend upon conceptual frameworks developed retrospectively, managers may be able to answer the first question but they will struggle with the second. They may be able to conceive of new businesses only after they have *done* something new—and they won't be able to give very good reasons for doing something new before they have done it! To answer the second question most successfully, established companies must both permit and encourage managers to do something new. Usually this requires a change in the behavior of the CEO and senior management, which may occur only in the face of a business crisis. But something has to happen, either revelation, revolution, or—perhaps best of all—both. Even a new CEO needs a mandate.

Why Strategic Management is Bankrupt

The test of business solvency is not the size of assets but the relative balance of assets and liabilities. Strategic management has enormous assets, but often the claims against it exceed those assets. Instead of recognizing it as a rational tool for managing stability—for elaborating on success and culling failure—too many advocates view strategic management as a way to create innovation and lead change. Our experience suggests that this is not the case. The strategic management model is essential for managing today's business, but it cannot create tomorrow's because the strategic paradigm is sterile.

The strategic model also runs into trouble when it is used as an instrument to manage managers by objectives. By starting with the concept of objectives, the paradigm ignores the critical roles of imaginative vision and shared values. As a result, instead of growing from within the organization, vision and values turn into extensions of the personality of senior managers. The prevalence of the "tool" or "instrument" metaphor in strategic management is illustrative of this tendency. The manager is seen as a rational tool user who stands outside the situation. Objects are changed by the tool user but do not affect either the tool or its user. Thus the strategic management of people can easily become manipulative and elitist. In the absence of genius, purpose and meaning will be lost. So will the organization's ability to innovate — that is, to evolve.

Strategic management is a fine methodology with which to pursue given ends. But it functions poorly as a philosophy for reaching an agreement within an organization as to what those ends should be.

Leadership

In the past many writers on management have described leadership in terms of the qualities a single individual may possess. These qualities bear a striking resemblance to the various stages of the creative management process. Leaders, they say, have vision and values, conceptualize rapidly, and act decisively. We can now see that leadership is really a process, an ongoing dynamic relationship among a number of individuals in search of meaning. If leadership is effective, then these individuals will develop a shared vision, a sense of common purpose, and the ability to make their own unique contributions. Their work will satisfy their need for both identity and community, their striving both to become what they are and, at the same time, to belong to something larger than themselves.

Leadership is the process by which each individual is allowed to play his or her best role at the appropriate stage. We call the effective mingling of strengths a team. The achievement of teams within an organization is the result of true leadership. "When the great leader has done his work, the people will say 'We did it ourselves,' " wrote Lao Tzu in the fifth century B.C.

Too few business leaders today are innovators and developers of new industries. Most of our heroes are either paper entrepreneurs, assisted mightily by our tax laws, or technicians. (Keep in mind Maslow's definition: "A technician is a man who understands everything about his job except its ultimate purpose and its place in the order of the universe.") The result has been a profound loss of meaning for both the managers and the managed.

This loss of meaning is not restricted to business organizations. It pervades our social institutions, churches, govern-

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ments, universities, and families. We have the answers but we have forgotten the important questions. This "freedom" from the important has made us slaves to the urgent. Too many managers have lost the vision of what they can become, of their sense of purpose.

The search for and the recognition of purpose and meaning are the mainsprings of all motivation. In this way, the processes discussed here are at the heart of both the most glorious and the most infamous periods in human history. When great leaders released these processes within their people, philosophy and art flourished and societies had their golden age. When great tyrants used the same processes for their own purposes, they led their people into darkness and disaster.

In business, the point at which everything starts to go wrong is also the point at which management believes that it can stand outside the system and manipulate the processes for its own benefit. Such actions generate perverse reactions because management is not outside the system looking in; it is inside the system looking at itself. The perverse outcomes of many acquisitions and mergers have been documented repeatedly. Following acquisitions, hundreds of major corporations have attempted to restructure their operations, usually by shedding the acquired businesses and returning to their core operations. Many acquisitions, especially those carried out by the large integrated oil companies, were based on the most rational and logical of reasons. Yet the results have often been the opposite of those intended.

Perverse outcomes are also endemic to government at all levels. Government housing programs have usually achieved results opposite those intended. Energy self-sufficiency programs lead to line-ups and shortages. Efforts to prop up foreign governments often succeed in alienating them from the people that they govern.

We persist with our efforts to achieve unilateral control and domination over complex systems. But we are part of these systems, and the systems are alive. They react *and* respond to our efforts to change them. In the short term we may get the logical results of our actions. In the longer run these results may be overwhelmed by natural consequences.

To change complex systems we need to start by changing ourselves. We do not have to change to anything *different*. We need only to stop trying to be things that we are not.

The change begins with the recognition that reality is not a given that is accessible to clear-eyed, rational perception. To be sure, parts of the world are accessible in this way, but reality is mostly multidimensional, and we as individuals are intimately involved in its construction. The business environments that strategists scan are as much an *output* of our culture as they are an *input* from reality. The recognition of this must have profound effects on our understanding of the meaning of objectivity. C. West Churchman has put it well: "Instead of the silly and empty claim that an observation is objective if it resides in the brain of an unbiased observer, one should say that an observation is objective if it is the creation of many inquirers with many different points of view."

These different points of view correspond to the different stages of the creative process. We need to abandon our notions of the lone manager as hero, who rationally solves the problems of the world. We must assemble teams to handle the total process. We need to combine the two great human gifts, reason and passion, the head and the heart, and we need to stand at the threshold of the present, looking at both the past and the future. Now is the only time. In that process our organizations may realize their potential. We may become what we are.

Selected Bibliography

A good selection of writings during the early stages in the development of the strategic model can be found in *Long-Range Planning for Management* edited by David W. Ewing (Harper and Row, 1958). A dialectic soon ensued between the "grand designers" such as Igor Ansoff and George Steiner on the one hand and "incrementalists" such as Philip Selznick and C. E. Lindblom on the other. See *Leadership in Administration* by Philip Selznick (Harper and Row, 1957) and "The Science of 'Muddling Through'" by C. E. Lindblom (*Public Administration Review*, Spring 1959). The "hard" side of the debate, which has been by far the most popular among teachers of management, is exemplified today in Michael Porter's *Competitive Strategy* (The Free Press, 1980) and *Competitive Advantage* (The Free Press, 1985).

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One of the best discussions of innovation in organizations is *The Management of Innovation* by Tom Burns and G. M. Stalker (Tavistock Publications Limited, 1961). The firsthand experience of a "hard" organization changing to a more innovative structure is described in my article "Of Boxes, Bubbles and Effective Management" (*Harvard Business Review*, May-June 1984).

Questions of how we perceive reality have long been the preserve of philosophy but have received little attention from scientists and even less from management theorists. Two helpful philosophical books are *The Design of Inquiring Systems* by C. W. Churchman (Basic Books, 1971) and *Objective Knowledge* by Karl R. Popper (Oxford University Press, 1972). Popper's book can be tough reading for those not trained in philosophy; his two essays "Of Clouds and Clocks" and "The Bucket and the Searchlight" are the most accessible pieces. Two books on the problem from the perspective of science are Thomas S. Kuhn's landmark *The Structure of Scientific Revolutions* (University of Chicago Press, 1962) and *Order out of Chaos* by Ilya Prigogine and Isabelle Stengers (Bantam Books, 1984). In the field of management, Karl Weick's *The Social Psychology of Organizing* (Addison-Wesley, 1970) is a major contribution.

Diagrams and geometric figures can be extremely helpful in illustrating the metaphors that are used to describe mental processes. *Maps of the Mind* by Charles Hampden-Turner (MacMillan, 1981) gives an excellent overview, mapping many of the models that have been proposed.

The use of multiple perspectives in management is a growing topic for management writers. Two examples are *Managing Strategic Change* by Noel M. Tichy (John Wiley & Sons, Inc., 1983) and *Multiple Perspectives for Decision Making* by Harold A. Linstone (Elsevier Science Publishing Co., Inc., 1984).

Given the North American preoccupation with the manager as a lone individual, it is not surprising that there is little written about how management teams work in practice. Pioneer work has been done by Meredith Belbin in England. See his excellent book *Management Teams* (John Wiley and Sons, 1981).

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