

Successful Meta-Strategies using Systems Thinking

Research consistently shows that over 70% of all strategic change projects fail. The major reasons cited are poor implementation and people problems. Given that there is such a high failure rate, it seems reasonable to assume that the problem lies, not within the individual strategic plans, but rather the underlying methodology or models used to develop those plans. Such methodologies can be considered as meta-strategies, or the strategies about creating strategies. This article outlines a meta-strategy based on systems thinking, which maximises the certainty of success of the development and implementation of strategic plans. It shows how the systems thinking meta-strategy creates "joined up" solutions capable of ensuring the whole organisation takes ownership of the successful implementation of the plans, in a way that will give a sustainable competitive advantage.

A traditional meta-strategy for creating strategic plans would be for an organisation to initially identify where it wanted to be in the future, such as being "number one" in a particular market segment. Then starting from where it was currently, it would develop a strategic plan by identifying the separate improvements that would have to take place in order to take it in the right direction, for example "Improve delivery performance". Those changes could then be allocated to different managers and targets set on what was considered to be an achievable level of improvement from the current level of performance.

This may seem a perfectly rational approach to developing a plan. However, typically, each manager will have a different set of targets. In order to meet their targets, they are likely to need the assistance of various other managers, each of whom may have a completely different set of objectives. Indeed, it is not unusual for many of the separate targets to be in conflict with each other. Very quickly, the whole process can become gridlocked, where none of the proposed solutions are able to "join-up" to achieve the desired goal.

This situation can also be aggravated by the fact that most strategic plans are based on a set of assumptions about the behaviour and performance of the different groups involved, such as customers, competitors, staff, trade unions, government etc. The problem is that such assumptions are, by their very nature, almost certain to quickly become out of date, thus potentially invalidating the strategies that were based on the out-of-date assumptions. So, the only meta-strategy that is likely to have a high success rate is one that creates joined up solutions capable of continually adapting to any variation between predicted and actual outcomes.

Such a meta-strategy is one that is based on systems thinking. In systems thinking, the whole world can be considered as a massive set of interconnected, operational systems. However, because everything is connected either directly or indirectly to everything else, it is impossible to change one system without affecting other systems. In other words, every time we focus on trying to solve the problem inside one particular system, the solutions are likely to create unpredicted problems in some of the other systems.

Investigating a very simple scenario is often the easiest way to understand the difference between a systems thinking meta-strategy and a traditional approach to creating a strategic plan. This will show exactly why a traditional approach can soon create a series of simplistic strategies over which no one has any real ownership. This can then be contrasted with the application of a systems thinking meta-strategy that, although requiring more information initially, can develop a very powerful, focused, but simple solution, in which ownership is an integral part of the solution.

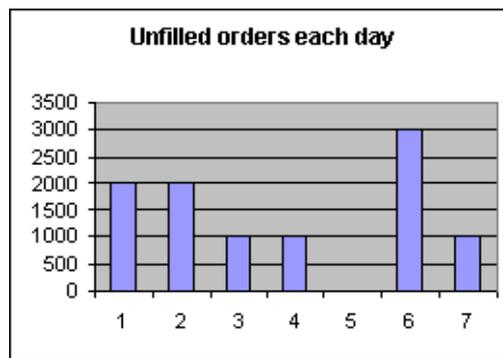
Consider a scenario where a wholesale bakery has two main departments, each with 20 staff. One department is focused on supplying a range of different breads, whilst the other is focused on supplying a range of different cakes. In order to ensure freshness of their products, the organisation has a policy that orders received from retail outlets by 5 p.m. one day, will be dispatched by their fleet of lorries by 4 a.m. the following morning. Any orders, or parts of orders not fulfilled by that time, are in effect cancelled.

The managers would like their organisation to be the market leader in its area, but they are

starting to lose business to competitors who are more reliable in fulfilling the daily orders. When the managers had gathered to develop their strategic plans, no progress had been made because each manager had different views on the most pressing strategic issues that needed to be addressed in order to enable the organisation to become the market leader in their area. So they agreed to adjourn the meeting for a week, to enable them to have time to collect factual data to conclusively identify which were the most important issues that needed to be resolved. In order to make the figures compatible, the accountant recommended the unit of sale as a "Bakery Unit", which represented either one loaf, or one cake, because both products cost virtually the same to produce.

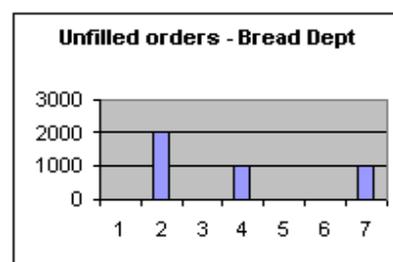
At the subsequent meeting, the accountant outlined the current performance and financial situation from the information assembled during the previous week. He estimated that recent increase in costs were affecting profitability and no matter what the longer term strategic plans were, it was essential that profitability was improved in the short term. He suggested that it was possible to make up the lost profitability by a modest increase in productivity of 10,000 units a week. He suggested that the sales manager should have a short-term target to "improve sales by 10,000 units a week within three months", and the two bakery managers should each have targets to "increase productivity by 5,000 units per week within three months".

Following the accountant's presentation, the sales manager then explained that it was pointless asking him to increase sales, because they were already losing customers because of poor reliability in fulfilling orders each day. He then presented a graph of the performance for the previous seven days showing the number of lost bakery unit sales each day.



The sales manager demonstrated that it was possible to increase sales by 10,000 units a week, simply by delivering the orders that were already being received. However, he agreed that in order to become market leader, it was essential that the bakery performance was improved.

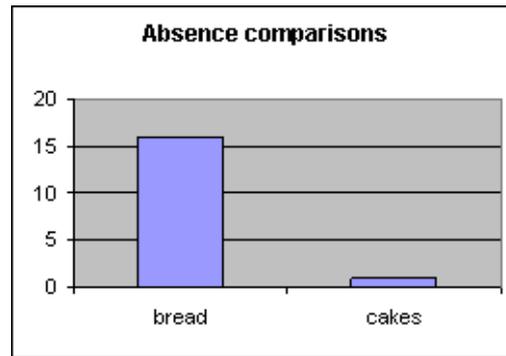
Then the manager of the bread department displayed the information he had collected during the previous week.



He explained that the problem with unfilled orders was totally down to unreliable staff and casual absence. The graphs clearly showed that the only days that bread orders went unfilled were those days (day 2, 4 and 7) where four or more staff were absent in the bread bakery. He believed the personnel manager should be given a strategic target of bringing in a system of penalties or dismissal for unreliable staff.

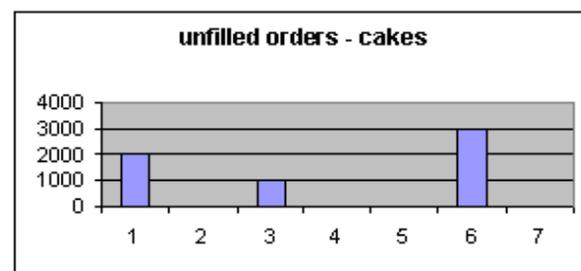
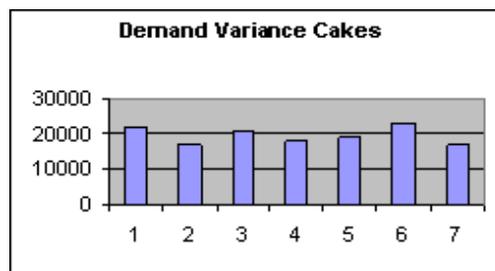
However, the personnel manager then stood up with the data that he had collected during the

previous week.



This showed that in the previous week the bread division had lost 16 working days from short term absence, but the cakes department had only lost one day. This clearly demonstrated that the problem was not with the staff personnel systems, but with the ability of the bread manager to motivate his staff. It was therefore imperative that the bread manager went on a man-management course as soon as possible.

The manager of the cake department then stood up with the information that he had collected the previous week and explained that he felt the problem was due to the variation in demand. The bakery used to sell to a large number of small retail outlets. The variation in demand of the large number of outlets tended to even out to give a fairly predictable level of total demand. Now they were selling to fewer, larger outlets and the daily demand varied very dramatically, even though their staffing levels were fixed.



He used the graphs to show that the days that cake orders went unfilled (day 1, 3 and 4), were the same days that cake demand exceeded 20,000 units. He considered that there either had to be a target for sales to get a higher proportion of business from smaller outlets, or the personnel manager had to recruit extra staff to cover the peaks in demand.

So they listed all the possible strategies that they had identified, together with the potential owners.

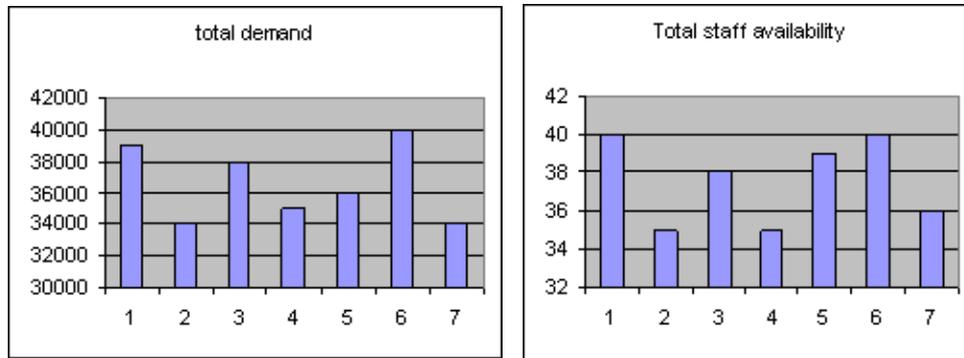
- Increase sales by 10,000 units per week - sales manager
- Increase efficiency by 5,000 units per week - both bakery managers
- Increase bakery efficiency to be able to cope with daily variation in demand and staffing levels - both bakery managers
- Increase proportion of smaller customers - sales manager
- Create new personnel systems to reduce staff absence - personnel manager
- Reduce staff absence by attending a man-management course - bread bakery manager

They realised that even if any of these solutions were put into a strategic plan, every strategy would have to be implemented by managers who believed they were the wrong solutions. Not a single manager was enthusiastic about implementing any of the strategies for which they would become responsible. Indeed, every strategy for improvement had been identified by a manager who saw the problem as inefficiencies in someone else's department. Furthermore, even if some of the strategies, such as increasing the proportion of smaller customers, or going on a man-management course, could have been successfully implemented, there was no way of

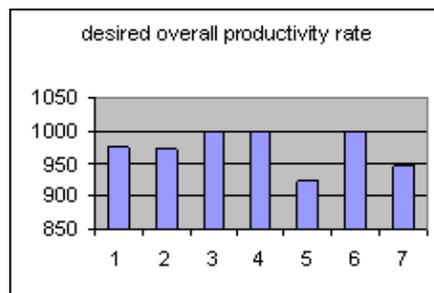
accurately predicting the effect they would have had on the problems of variation in demand and staff absences. Likewise for those strategies that had clear targets, there was no way of predicting exactly what process would be certain to achieve the required results. This meant that there was no real way of costing any of the strategies or calculating their relative cost/benefit ratios. So, as not all the strategies would be required, the managers continued to argue which strategies should be removed from the list.

Now consider the scenario where the Managing Director assembles all the data that the various managers had collected, into a single spread sheet so that they could try to identify a strategy on which they could all agree. He applied the systems thinking approach. This does not start by attempting to solve the current problems. It starts by identifying the future solution that would be capable of performing at precisely the required level.

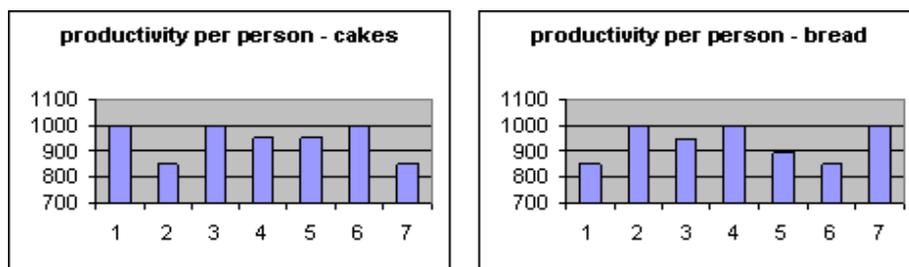
As there would probably always be a certain level of variation in both demand and staffing levels, the MD decided to produce graphs of the variation that an overall successful solution would have had to accommodate had it been operational during the previous week. The graphs showed that the solution would have had to deal with a demand which varied from a minimum of 34,000 units to a maximum of 40,000 units, and would also have had to deal with a staff variance of a minimum of 35 to a maximum of 40 as shown below:



Also, in order to be able to achieve that performance, the next graph demonstrated that on some days (days 3, 4 and 6) it would have required a productivity rate of 1000 units per person:



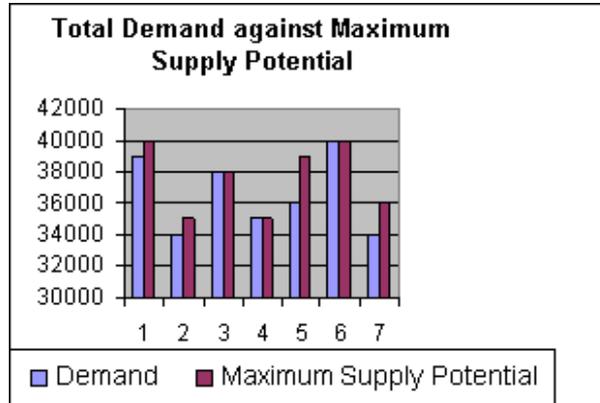
So, how far was the current system from being able to operate at that level? The Managing Director plotted the previous week's performance for both the Bread and Cake departments as shown below:



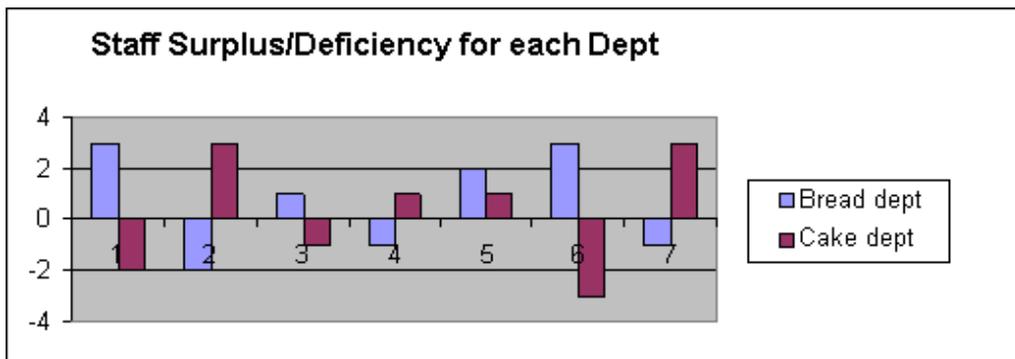
It can be seen that both departments regularly hit this level of productivity, but this was often on

the very days that demand was greater than their ability to supply. The days that they did not hit the productivity level were when the supply potential was greater than the demand.

In other words, on some days each department was slightly overstaffed, and on others they were slightly understaffed. However, as the graph below demonstrates, on no days during the previous week did the total demand exceed the potential overall supply capability.



The graph below shows the under and overstaffing levels for each department on each day:



For example, on day one, the bread department had 3 too many staff, but the cake department had two too few to cope with the demand. On no days was there an under-availability of staff required to meet all the total demand.

In other words, the solution does not lie **inside** any of the current systems. The solution may well reside in a system that is currently invisible, because it does not yet exist. It lies in the gap in between the bread and cake departments. The problem lies with the fact that there is currently **no system** that starts each shift by looking at the staffing required in each department to fulfil the demand. If such a system had existed in the previous week it would have automatically achieved the following improvements:

- Increase sales by 10000 units
- Eliminated all under supplies
- Increased efficiency by 5%

Equally important is that the overall system would have been operating at a level that would encourage customers not to try the services of the competition. Thus, the potential benefits from such a simple system could be considerable. The cost of implementing such a system could easily be jointly assessed by the two bakery managers. Additionally, the regular collection of the variation in supply and demand information would create data that was sufficiently statistically significant to enable accurate predictions of the potential future variations in demand and supply. This would enable the organisation to quickly identify any changes that were occurring in either the demand or supply systems.

Why should such an obvious solution be invisible when using traditional meta-strategies? The reason is that everybody was looking inside other systems to solve their problems, rather than looking at the relationship between the systems that were able to provide the required solution. Because systems are so interconnected, it is not possible to solve problems in complex situations by using a meta-strategy that **starts** by trying to identify the strategic changes that are required to overcome the **current problems inside** the operational systems, in an attempt to move the organisation in the right **general direction**. This may have been a very simple scenario, but it demonstrated how quickly a conventional meta-strategy produces a set of conflicting strategic objectives over which no one has ownership. In real situations, there are a much greater number of variables, and the complexity created by such meta-strategies rises exponentially.

Using a meta-strategy based on systems thinking, you work in exactly the **opposite direction** to traditional approaches. You have to **start** at the **hypothetical** state where the operational systems have the capability of providing the **precise future solution**. You then identify the **relationships** between the systems that will be required in order to create that desired solution. This allows you to identify the **smallest** number of changes that automatically solve the **greatest** number of current problems. Because the emphasis is on designing the overall solution, rather than solving the numerous current problems, the complexity of the systems thinking approach does not rise exponentially in real situations. Even the most complex situations remain manageable using this type of meta-strategy.

This is not to suggest that other solutions, such as a reduced staff absence should not be investigated. However, before any strategy is identified, the systems approach requires an understanding of the relationships between the systems that will eventually provide the solution. Once, everyone can clearly see these relationships, it is usually relatively straight forward to get genuine buy-in to providing the solutions.

However, it is important to stress that the systems approach is universally applicable to virtually every aspect of organisational performance. A classic example of the use of this type of approach to identify previously "invisible systems" and then leverage those systems to maximise overall value is the approach to Customer Relationship Management used by Tesco in the UK. CRM is again, one of those strategies that has a terrible failure rate amongst organisations that use traditional meta-strategies to implement such initiatives. Yet Tesco's success at CRM has enabled it to rise to being the number one supermarket chain in the UK. It is now also assisting it to become a highly successful international player.

How did Tesco achieve this? Tesco offered benefits to customers using their loyalty Clubcard, so that they were able to build up a powerful database of customer's behaviour at every swipe of the card. The whole approach to analysing the data was to identify previously "invisible" systems within the overall customer system, which had identifiable behaviour characteristics that could be leveraged by other, relative low cost systems. They soon identified hundreds of customer segments where extra value could be created by low cost systems. So some segments would be offered special offers available in parts of the store that they did not usually visit, but where they were likely to find other products that they would usually purchase elsewhere. Customers that were in the system segment of "expectant mothers" were given priority parking outside the store and personal shopping assistants to help them. The repeat business created by the subsequent store loyalty could be clearly shown by the data to far exceed the cost of providing the service.

The reason that so many CRM initiatives fail, is the same reason why so many strategies fail; because they are based on the wrong meta-strategy. These meta-strategies can often create paralysis by analysis, because of the massive number of variables in complex situations. It requires a systems thinking type of meta-strategy to be able to make sense of the information and identify the invisible interfaces between systems, where the maximum value leverage is usually just waiting to be utilised by implementing "joined up" solutions.

Perception Dynamics Ltd specialises in providing management development and consultancy in the application of the systems thinking approaches to strategic planning and organisational change. These approaches ensure successful step improvements in organisational performance. To discuss how these meta-strategies could help your organisation, contact Ian Robson on (+44) (0)1372 813413 or e-mail IanRobson@PerceptionDynamics.com

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