An Excerpt From

I'm Sorry I Broke Your Company: When Management Consultants Are the Problem, Not the Solution

by Karen Phelan
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When Management Consultants Are the Problem, Not the Solution

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Preface

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I'm sorry. I really am. Does it help if I say I meant well? To be honest, though, it's not entirely my fault. We're all victims of a flawed business model. What happens when you hire new employees fresh out of prestigious business schools? What are they good at? Performing logical analyses, learning models and theories and applying them, and creating new models and theories. What are they most lacking? Real-world experience. So how were we to know that the models and theories were wrong? They were elegant and logical, and based on our experience with models and theories, that's the mark of excellence. Fortunately, I was a little bit different from the rest. My degrees were in engineering and science, and I had a brief foray into a scientific career in a military laboratory before becoming a consultant. I knew a little about real-world results not matching the theories. But I must say, I was as gullible as the next consultant—at first.

Unfortunately, few statistically sound, well-managed studies prove the accuracy of management theories. Management theories rarely get peer-reviewed or validated by a third party before they become part of the accepted body of knowledge. Most of the evidence is anecdotal, and many of the existing studies have a degree of self-interest. (How many companies will admit that their multimillion-dollar restructuring effort had few benefits?) So I am going to tell you about my personal journey of enlightenment, where during a thirty-plus-year career as a management consultant and manager in Fortune 100s, I slowly and steadily realized that many of our management theories are wrong.

On behalf of all the management consultants who've been working in your companies over the last three decades, proselytizing about management by objectives and competitive strategy, I apologize. I'm sorry I broke your company.

Introduction

Most people, if not all, have a hidden talent—some goofy or useful ability that they share with few other humans. I once met a woman with an uncanny ability to call coin tosses. I know another woman who can mimic the tones of a telephone and get her voice mail without pressing buttons. My older son can manipulate three-dimensional images of objects in his mind. When we built models together, I noticed that he built his in his head first. My younger son converses in his sleep. I don't mean he utters random words or phrases. You can have an entire conversation with him while he is sleeping. My husband can dead reckon anywhere through the woods. If you ever need to get out of the woods quickly, he can navigate a path without a GPS and get you within one hundred feet of your car. I have a skill, too. I realized exactly what it was only a few years ago.

In 2006 I attended a Sloan School class on systems dynamics. Our first task was to break into teams and play the beer distribution game, a simulation of the supply chain of a beer manufacturer. The game illustrated the bullwhip effect, a phenomenon well-known to people who work in supply chains. The effect shows that small variations at one end of the chain can become amplified along the chain, resulting in large variations at the other end. A few minutes into the game, I realized what was going on and figured out the correct order quantities while the rest of the class struggled. I am familiar with supply-chain problems, so I thought little of it. However, in problem after problem, the answer was just plainly obvious to me. While everyone else was documenting cause-and-effect loops, I thought about the problems and found the answers. My classmates marveled at my ability, and I became something of a phenomenon. Only I felt like a fraud. Yes, I could solve all the systems problems in my head in a few minutes, but I didn't have a remarkable computer-like ability to solve systems problems. My talent is empathy—being able to put myself in someone else's shoes.

With each problem, I immersed myself in the situation and pretended I was there, making decisions as the various actors until I found the one that worked. How I really differed from everyone else in the class, including the instructor, was that I knew these problems weren't about supply chains, factory maintenance, improvement initiatives, or construction schedules. They were about people reacting to circumstances. Every business problem is about people reacting to circumstances.

Textbooks, consultants, and experts blame the bullwhip effect on forecast errors, unpredictable demand, poor information, poor inventory management, and so on. What they don't mention is that the bullwhip effect is primarily caused by emotions. It is caused by fear when demand falls off slightly, and people become scared and order less and less all along the chain. It is caused by optimism when demand increases slightly, and people hope demand grows and worry that they won't have enough supply so they order too much. It is caused by mistrust as each person adds to or subtracts from his order to cover his ass if the supplier can't ship as planned or the customer changes her mind. The only way to eliminate the bullwhip effect is to eliminate the fear, hope, and mistrust of the people ordering inventory.

I wrote this book because, after a thirty-year-long career, I am tired of pretending. I've had to do a lot of pretending—pretending that the inventory management system I am implementing is the answer when I am really getting each part of the supply chain to trust each other, pretending to reengineer the new product development process when I am really getting the Sales, Marketing, and Research and Development (R&D) Departments to work together better, pretending that my amazing ability to solve problems is due to computer-like thinking rather than human-like imagining. Most of all, I am tired of seeing employees treated as assets that need to be monitored, measured, standardized, and optimized. I can't be honest about what I do because no one would buy my services if I said that I help people work together better. Instead, I pretend to sell methodologies, models, metrics, processes, and systems.

As a young consultant, I created many models, processes, and programs, all with the purpose of taking the variability out of tasks, the emotions out of decisions, and the judgment out of management. In short, I was trying to eliminate the human element from running a business. I was not alone. Over the last two decades, management methods have proliferated and embedded themselves as corporate best practices with the goals of improving efficiencies, standardizing skills, and optimizing performance. Balanced scorecards, pay for performance, core competence development, process reengineering, leadership assessments, management models, competitive strategy, and cascading performance measures are some of the models that are now entrenched in business management, even though there is little evidence that they work as advertised. All these models and theories attempt to dehumanize the workplace, and they have succeeded, though not as intended. People are treated like machines that have to be maximized until they break, and all their unique and goofy talents never see the light of day.

We have been led to believe by management gurus and management consultancies that businesses are logical and run by the numbers and that their models and theories will provide step-by-step instructions on how to succeed. Companies try to implement these models or make decisions strictly by the numbers and never realize the expected successes because businesses are not actually rational. Human assets are not a part of a business. If you take away the human assets, you don't have a business, just a bunch of offices and equipment that can't do anything. Businesses are people—irrational, emotional, unpredictable, creative, oddly gifted, and sometimes ingenious people who don't operate according to the theories. This book is a reminder that we need to stop trying to dehumanize the workplace and that if you manage the people element, you pretty much have everything covered. This book is intended for consultants, people who hire consultants, nonconsultants, and anyone who is tired of pretending that modern management practices work. If you have ever been at work and wondered if everyone else was insane, you are not alone. I wrote this book for you.

▷ Why I blame management consultants

The term "consultant" is used very loosely. Anyone who is a contractor to a business is considered a consultant. Plus, there are all sorts of technology consultants, marketing consultants, and design consultants. When I use the term "management consultant," I am talking about those who work with the top layers of corporate management and advise them on what to do. More specifically, my ire is mostly addressed at the large consultancies that hire MBAs straight out of school and arm them with spreadsheets, pro forma methodologies, incoherent jargon, and a not-small amount of arrogance. I blame these people for conceiving and propagating the many management myths that are the roots of some of the biggest problems in business today—lack of innovation, short-term focus, obsession with financial gains over creating valuable products and services, and stressed-out, overworked, and disengaged employees.

Rather than focusing on the obvious question—How can my business make life better?—corporate leaders have spent the last few decades fixating on other, less-meaningful questions like,

- How do I gain a competitive advantage?
- How do I maximize my shareholder value?
- How do I increase my bottom line (both personal and corporate)?
- How do I optimize the efficiency of my human assets?

The result is lean and mean companies that operate alike, offer copycat products and services, and are dependent on acquisitions for growth. Many of these problems are rooted in the accepted management wisdom that abounds with little proof of veracity. The beginnings of all this management dogma started with one or more management consultants. The best analogy I can use to explain this cycle is diet and exercise fads. It seems like every year brings a doctor or fitness expert who has found the solution for weight loss. That solution may be a miracle food or a rigorous diet program or a new exercise regimen. However, none of these fads work, and worse, they often result in yo-yo dieting that leads to more weight gain and overall poor health. To be healthy, you need to eat a variety of foods in moderation and get plenty of exercise and enough sleep. The secret to weight loss is the same secret that everyone has known forever. There is no secret.

Similarly, every year, management consultants develop some new model or theory that will be the answer to all your business problems. Visit the website of any consultancy and you will see that it sells "business solutions." Management consultants strive to achieve thought leadership by creating new models and theories that hopefully will be adopted widely by businesses and make them famous (and rich). However, all this has just led us to fad after fad after fad. The widespread adoption of each fad brings with it its own set of problems that lays the groundwork for the next fad. Competitive strategy based on external factors led to competence strategy based on internal capabilities, which led to blue ocean strategy based on top-down ideation, which led to adaptive strategy based on bottom-up responses to the marketplace. Each one corrects the deficiencies of the former fad but then creates deficiencies of its own. The result is a vicious cycle similar to dieting, gaining weight, more dieting, and more weight gain. The only way to stop the fads is to stop the management consultants creating and selling them.

▷ About this book

This is not an academic book offering original research or proof positive of my ideas. This is the story of how I came to realize that everything I believed about business was wrong. It's my story woven with the rise and fall of some of the management fads I helped propagate. I chose the examples based on how they changed my thinking about what I was doing. The first three chapters recount my experiences with strategy development, process improvements, and metrics implementations. Many of the examples in these chapters are from my early career as a young consultant, when I worked for large consultancies. The next four chapters discuss the methods that fall under the banner of "talent management" and cover performance management systems, management models, high-potential programs, and leadership competencies. Most of the examples in these chapters relate to my experiences in a later part of my career in the corporate world, where I got to live through many of the methods I had helped implement.

I would like to be very clear about my purpose. The point of this book is to debunk the conventional business wisdom and not to add to it. Although I offer my recommendations, I offer them as alternatives to the theories that don't work. For the most part, I recommend replacing the model or process with a candid conversation among colleagues. Unfortunately, I haven't done a major study to show that improving dialogue and relationships has a business benefit. I will let you be the judge of that theory. Fortunately, debunking a theory is much easier. It requires only one piece of evidence that disproves it. I'm going to repeat this because most consultants I know have a hard time understanding this: you need only one piece of contrary evidence to disprove a theory. Proving a theory to be true is much harder, requiring that it works in all situations. This is where management consultants often get it wrong. They find something that works once or twice and label it a best practice to be followed by everyone when it is useful only in a specific situation.

I offer recommendations and alternatives as a starting point to help us get out of the faulty thinking that pervades today, like "You can't manage what you can't measure." (Well, yes you can!) I am in no way suggesting that I have the solutions. I'm just suggesting that instead of implementing a method that is often wrong, we try doing something else that might work. I'm suggesting that we cut through the dogma to find the kernel of truth and base our new solutions on that truth. Isn't it better to have only a chance of being wrong than to most certainly be wrong? I think that's pretty obvious. In fact, if I were to describe what this book is about, I think it's about the really obvious.

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Strategic Planning Can't Predict the Future

Strategy Development Is a Vision Quest

▷ The downside of having a strategy is missed opportunities

In 1980, Michael Porter, a Harvard professor and founder of the Monitor Group consulting company, published a book called *Competitive Strategy: Techniques for Analyzing Industries and Competitors* and helped usher in the modern age of business strategy consultants that exploded in the '80s and '90s. While boutique consultancies, namely Bain and the Boston Consulting Group, were formed in the '60s, either their client base was limited or their models dealt with managing cash. Actually formulating a business strategy was something of a black art consisting of one part analysis, one part experience, and a whole lot of magic—kind of like a corporate version of the Native American drug-induced rite of self-discovery, the vision quest. However, businesses tend to prefer analysis, structure, and tangibility over magic, art, and lucid dreaming. Michael Porter's book not only codified how to create a strategy, with step-by-step instructions on how to do the analysis, it also codified what the strategies should be.

Besides embedding the phrase "competitive advantage" into the corporate psyche, Porter introduced two well-known models in his book. The first was the five-forces model, which showed the external and internal factors facing businesses: competitors, potential entrants, potential substitutes, buyers, and suppliers. This was the framework for performing the industry analysis and was introduced in chapter 1. The second chapter offered up Porter's second most famous item: the three generic business strategies of lost-cost producer, differentiation, and focused offering. Depending on your position in the industry, you would choose one of the three strategies to gain a competitive advantage. The rest of the book is an incredibly comprehensive blueprint for analyzing competitors, anticipating their potential responses, and dissecting industry structures to determine alternative strategies—all with a multitude of checklists to use. After several attempts at reading this book and eventually struggling through it, I came to realize that perhaps the reason why the five-forces model and the generic strategies were the only models to become part of the management lexicon was that few people were able to read beyond the first two chapters. With Porter's models and checklists, consultants had both a method and a set of answers that could be packaged and implemented by any reasonably smart college graduate. The art part of strategy formulation was replaced by a series of checklists and a multiple-choice option and made available to anyone.

When I was a consultant at Deloitte Haskins & Sells (DH&S) in the late '80s, Porter's book was required reading. DH&S was undergoing a major shift in its management consulting arm. When I joined, each office had its own local consulting practice and sold whatever work it was able to, usually small jobs to small local clients. After I had been in the New Jersey office about a year, the consulting leadership decided to develop a national consulting practice that would bring us more prestige, Fortune 500 clients, and bigger engagements with more revenues. It started with a strategic vision of organizing around industrial expertise, like banking and manufacturing, and developing service offerings. Local offices would be part of a national practice depending on the industries at their locations. New Jersey was a hotbed of pharmaceutical manufacturing, so we were part of the manufacturing practice. Because of our proximity to New York City, we also had a designated financial services practice. In addition to serving our local markets, we would also share resources nationally. This would provide a depth of experience often missing locally. At the time, this seemed like a good idea to me. Designated service offerings versus ad hoc services, national practice versus local, Fortune 500 clients versus smaller businesses—it seemed like a no-brainer. Who wouldn't want to be part of a strategic vision?

Part of this national practice vision required those of us in New Jersey to target some of the well-known pharmaceutical manufacturers. None of us had any pharmaceutical experience, so I, the most junior member, was tasked with doing a pharmaceutical industry analysis so that we could better position services to this very profitable industry. Using Porter's book, I had the step-by-step instruction guide for doing an industry analysis. What I remember most about doing this was how difficult it was to obtain the necessary information. This was before the Internet, and digging up information required both calling companies posing as a shareholder and making numerous trips to the library to sift through syndicated databases. Given my difficulties, I wondered how thorough and comprehensive any competitor analysis could really be. You would really have to work at a given company to get all its information. Despite having gaps in information, I managed to put together what looked like a comprehensive analysis of the industry with lots of graphs and charts and a summary of strengths, weaknesses, opportunities, and threats. I learned a great deal from this process and developed an in-depth knowledge of the pharmaceutical industry that I would use later in my career.

I wish I could say that my foray into developing a strategic analysis of the pharmaceutical industry was the beginning of a successful pharmaceutical practice, but shortly afterward, DH&S made the decision to merge with Touche Ross, and Touche took over the consulting practice, dissolving ours. Our strategy of becoming strategy consultants was foiled by external influences! If we had been any good, we would have seen that coming. At the time, I was astonished at this turn of events. Touche Ross was still using the local office, ad hoc model. We had a *strategy*! We had centers of expertise! Yet Touche Ross had more work. While we had been focusing internally to pursue bigger clients, our actual sales had been dropping. Touche Ross was still bringing in a steady stream of client engagements using the old model. As a result, most of the DH&S consultants were let go because we had no ongoing client accounts or important relationships to bring to the merged practice. While we had developed some expertise, some service offerings, and an organization structure, we hadn't developed the client base to go with them. In hindsight, I was spending a lot of time in the office doing analyses and not much time on billable client work.

Touche Ross had a much broader practice. It had numerous services I had never heard of in nonprofits, hospitals, and Medicare, Medicaid, and other government organizations, like conducting patient surveys and ferreting out fraudulent claims. While Deloitte was consolidating around financial services and manufacturing service offerings, Touche was just seizing whatever opportunities presented themselves.

To be fair, all the accounting firms did eventually develop more organized practices with service offerings, but these practices eventually emerged from the work they were doing. DH&S tried to use a top-down model dictated by a handful of managing partners based on their own experiences. Although it sounded good in theory, we missed a lot of opportunities, especially with the assumption that manufacturing would continue to be the bulk of the US economy. I learned that pursuing a strategy can actually have a downside, that of lost opportunities. Rather than responding to the marketplace by taking whatever client work presented itself, we tried to dictate the marketplace. With our single-minded focus, we ignored new markets and new services and focused on a vision we couldn't bring to fruition. I wish I could say that this was an isolated experience, but I would live through something similar two more times, with Gemini Consulting and Pfizer.

▷ Managing by the numbers only manages the numbers

In 1990, I joined the United Research Company, an operations and organization improvement consulting group, while it was undergoing a merger with the MAC Group, a strategy house, to become Gemini Consulting. For a few short years, Gemini became the go-to consultants to drastically reduce the number of permanent employees and increase efficiencies under the banner "business process reengineering." Unlike other consulting companies of that time, we actually implemented the recommended changes and promised specific results in the form of cost savings. Every consulting engagement had a benefits case that detailed the savings we promised to deliver. During the economic downturn of this period, Gemini became very successful at helping companies downsize, and we grew rapidly. Our engagements also became larger and larger, and in some cases we "transformed" entire divisions and even entire companies at one time.

Another entity famous for downsizing was General Electric. Under CEO Jack Welch, GE grew to become the largest company in the world through approximately one thousand acquisitions. However, he divested and laid off as much as he acquired, firing over one hundred thousand workers, almost 25 percent of the company, leaving empty buildings in his wake and earning him the name Neutron Jack. His philosophy was that a business should be number one or two in its industry in terms of market share or else be sold off. This was not an isolated or radical viewpoint. The Boston Consulting Group, one of the oldest and most prestigious strategy consulting companies, had long advocated for investing in business units that have a high market share and growth potential (stars) and divesting the "dogs" that don't. Because of GE's success, Welch's philosophy and methods were widely copied by other companies and deemed best practices.

One of his other much-admired and imitated philosophies was the concept of creating shareholder value, whereby a company ensures that shareholders get a better return from its stock than they could from other investments. A mathematical formula shows that shareholder value is a function of a company's return on its assets (ROA) and its investments (ROI). Together this is the return on equity, or ROE. This philosophy created a fixation on a bunch of financial measures—for example, ROE, ROA, ROI, and ROCE (return on capital employed). Managing these metrics would result in positive cash flows that would be reflected in the stock price, thus earning the shareholders better returns. (Of course, this is predicated on the efficient market hypothesis, which assumes rational entities buy stocks based on these types of calculations. This all falls apart if people purchase the stock because the logo looks pretty.) Hence, in addition to the traditional measures of revenues and profits, executives in the late '80s and early '90s became fixated on market share, share price, and a variety of financial metrics to determine how productive the company's assets and investments were. Management by the numbers and a focus on asset efficiency were in full swing.

I got my first taste of this mathematical approach to management on a very large business transformation project. Gemini was working at an underperforming business unit of a huge chemical manufacturer and tasked with improving its return on equity (ROE). An initial team of consultants had identified ROE as the weak point in the company's shareholder value drivers, so our main focus was to increase the "productivity of its assets," that is, cut costs, and to improve the returns on its investments. One of the first things we did was set up a huge war room where we hung charts and graphs showing our progress against our savings goals. One of the most impressive charts was a three-foot-wide bar chart labeled "Asset Productivity," which showed revenues generated per square foot for every facility. Of course, the least productive assets were the sprawling corporate headquarters and a massive research center. Realistically, we couldn't sell those off, but the chart did teach me an important lesson about consulting. Dividing one measure by another and then plotting the results on a fancy graph impresses clients. That and charting one measure along an x-axis and another along a y-axis, resulting in a quadrant chart, are probably two of the most important consulting skills you can have.

I led a team focused on improving the return on capital expenditures. In the company's current state, the business unit leaders had the decision-making authority to invest in capital as they saw fit. As part of our consulting intervention, my team put a standard portfolio review process in place where every business would use the same decision criteria and financial analyses to judge capital projects. The goal was to pool capital expenditures across all the business units and then to choose projects with the highest ROI. We developed a decision model that assigned a score based on the strategic value to the company and the financials of the proposed investment, and we implemented a new process for managing capital projects with a series of cross-business-unit meetings to act as gates for selecting the portfolio.

As a dry run, several of the current projects were put through the process. One project stood out like a sore thumb. The newest business unit had a very profitable product line and had been rapidly expanding its capacity. It had another capital project on the slate. Several executives at headquarters feared that this project would create an overcapacity situation and the profit margins would decrease. Given the rate of expansion in the past, it didn't make sense to build yet another plant. The accepted wisdom on the leadership team was that the business unit head was intent on building an empire at the expense of profits. Using the new capital projects decision model, we calculated the risks involved and the impact on margins and concluded that the plant would not meet the threshold ROI. Of course, the projected revenues were a best guess, but we based our projections on a straight-line increase in the current demand.

The head of this business unit was angry with our result. I considered this conflict to be a test of whether my client could exercise the discipline needed to judge the business units objectively or whether politics would win out, as it often does. I was disappointed to learn several months later that this project had gotten the go-ahead, and I assumed it was because of politics. Years later, though, I learned that my incremental projections for future demand were grossly inadequate. This particular field underwent an immense wave of innovation that spurred all sorts of new applications and end products that couldn't have been imagined at the time. The actual growth in demand was way off my charts. The company would need lots of additional capacity.

Another team on this project was devoted to developing a new strategy for generating revenue growth and improving market share. They were called the "Strategic Intent/Core Competence" team, based on a new trend in strategy from the Harvard Business School and elaborated on in a book called *Competing for the Future*, by Gary Hamel and C. K. Prahalad. The key point of the book was that companies needed to anticipate and shape the future of the industry by building core competencies, a collection of skills unique to that company. For example, Canon used its competencies in precision mechanics, fine optics, microelectronics, and electronic imaging to expand its product line from cameras into market leadership in copiers, fax machines, and printers. In many ways, the book was a much-needed antithesis to Michael Porter and the warfare paradigm, where everyone fights over a limited market share. *Competing for the Future* was about creating new market opportunities and developing unique capabilities, not determining a position based on what your competitors were doing. By building core competencies, companies would have capabilities that their competitors couldn't replicate easily and would be in a position to control the future and not just react to it. To contrast, Porter's work said that the market forces and industry determined what kind of strategic course should be pursued, while Hamel and Prahalad said that internal capabilities should not only determine the strategy but shape the industry. The latter is a very appealing idea because it essentially means you can control your future.

The first step of the SICC team was to determine the client's unique core competencies. Unfortunately, the only area where the client significantly outperformed its competitors was in performing financial analyses. That couldn't be leveraged to create a strategy for a manufacturing company. Without finding unique capabilities to leverage into an overarching strategy that would shape the future, the team fell back upon Porter's methods and embarked on a "differentiation strategy." The differentiation would be to create a premium product and with it a whole new brand and a new sales channel.

To make a long story short, we consultants walked away from that project contented and excited about having transformed an underperforming business by developing a premium brand, taking out a lot of costs by eliminating assets (including humans), and putting more meaningful decision making into its capital expenditures. However, in reality, the business continued to underperform, and ten years later it was spun off and sold with the exception of the business unit that had been expanding its capacity. I don't know if it was sheer luck or business acumen, but that business-unit head had an insight into his business no one else possessed, and he made the right decision to add capacity, even though the projected numbers didn't support it. Who could have predicted that so many new end products would be invented? To be honest, we did a terrible job of trying to shape the future. Heck, we couldn't even predict it accurately.

▷ Predicting the future is risky business

The problem with these strategic plans is that they require you to predict the future. I have to admit I experienced a perverse sense of enjoyment reading the case examples in my old strategy books. *Competing for the Future* uses NEC, Motorola, JVC, and EDS as examples of best practices, and what especially amused me was the story of the VCR and how JVC beat Sony to market dominance. Lots of the examples are of Japanese companies because at the time, Japanese companies and the Japanese economy were booming and outperforming American companies in many industries. What struck me about rereading Porter's book is the emphasis on manufacturing. Although he mentions other industries, most of the examples are about manufacturers, and he frequently mentions building capacity as a strategic maneuver and plants and equipment as barriers to entry and exit. Today, our biggest industries are health care, retail, financial services, and manufacturing, with manufacturing on the decline. Plus, I giggled every time he mentioned "mini-computers." This isn't a criticism of Hamel, Prahalad, and Porter. They are brilliant thinkers. It just highlights how difficult it is to predict the future.

If these brilliant, Harvard-educated guys can't predict the future very well, how can the rest of us expect to do so?

If you pick up any decade-old business book that uses company examples to illustrate its points, at least half of those companies will no longer be performing well. GE was used as a benchmark for companies in the 1990s, and lots of its practices were imitated. Today, few would copy a GE practice. Even Jack Welch himself has backpedaled on the importance of shareholder value. If you are looking for a company to emulate, Google and Apple are the likely choices.

The problem with executing strategic plans is that they are predicated on your ability to predict economic conditions, industry changes, competitor actions, and customer desires. However, no one can do this with any kind of reliability. This is why financial experts recommend investing in index funds. The majority of mutual fund managers cannot outperform the indexes they are trying to beat, and they have tons of research and researchers at their disposal. They come from all the best schools. Yet they cannot predict the future performance of stocks with any reliability or accuracy. Of all the world-class economists whose jobs are to predict the future, almost no one saw the financial crisis of 2008 coming. Yet it is a business best practice to try to predict the future and enact a plan around that future vision. This is what companies are supposed to do to succeed.

After Gemini had become successful at process reengineering, its leadership team decided that Gemini needed a strategy to take us to the next level. A small team of leaders decided that our future was "business transformation," and Gemini would own this term and offer all its services under this brand. This approach would tackle business strategy, business processes, information technology (IT), and organizational design in one fell swoop, completely remaking a company. Although that sounds altruistic, it was really consultant-speak for extra big cost-cutting projects. Except for desperate companies, who else would want a complete makeover? The business transformation strategy was communicated to all employees, and managers were told to sell work that fit the transformation tenets. Although we had some huge transformation engagements at the time, our bread and butter—as is the case generally for consultants—was a steady stream of small projects. We were no longer going to pursue these.

Unfortunately for us, but fortunately for the rest of the world, the economy picked up, companies were no longer desperate to downsize. No one was interested in buying business transformation because it is essentially a disruptive, costly, and painful process. Although our leadership eventually realized this folly, we had become a company associated with massive downsizing. Whenever "Gemini" was mentioned in a competitive bid, the client's employees trembled. Companies were tired of downsizing. This new thing called the Internet and its associate, e-commerce, about which we knew nothing, were all the rage. Gemini started cutting its own heads, something it knew how to do well. All our best consultants started to leave for competitors, and Gemini dissipated within a few short years. It is now a small organizational development group within Cap Gemini Ernst & Young and has a few small offices outside the United States. This outcome was particularly ironic as transforming companies through strategy development and process reengineering was our business, and we had the best tools and smartest people at our disposal.

A few years later, after I had left the chaos of the consulting world for a more stable corporate job, I lived through a similar experience with Pfizer. Under Hank McKinnell, Pfizer's strategy was to use its massive sales force (almost twice as large as the nearest competitor's) to create blockbuster drugs. In the early 2000s, Pfizer had an impressive array of multibillion-dollar drugs and more in the pipeline. It had turned Lipitor into the best-selling drug in history, had created a whole new market with Viagra, and was buying Pharmacia to exploit Celebrex in the same way. At the time, Pfizer wouldn't even consider developing a drug that didn't have a potential market value of $1 billion. Also in this time frame, Pfizer began to shed its nonpharmaceutical businesses because it wanted to focus on its core business of proprietary pharmaceuticals, and these side businesses were diluting its earnings per share. Pharmaceutical companies have traditionally diversified to mitigate the risks of drug development. Pharmaceuticals may have high profit margins, but the chances of developing a useful and popular drug, never mind a blockbuster, are pretty slim. Needless to say, over the next few years, Pfizer's pipeline of potential blockbusters, Celebrex, Bextra, torcetrapib, Exubera, Chantix, and Rezulin, went bust. The Pfizer stock price declined from forty-two dollars to seventeen dollars during this time (before the market crash of 2008), and the company chewed through both Hank McKinnell and his handpicked successor, Jeff Kindler, in five years.

I have worked for only four companies in my career, and this is what happened to three of them. (I left the fourth after a poorly managed acquisition—so poor that the corporate leadership needed to testify before Congress.) These anecdotes about strategies going awry are not the exception. This is how strategy is done. If you look at them from a textbook perspective, Gemini and Pfizer did many things right. From the core competence perspective, they both built upon their own unique capabilities. At Gemini, it was process reengineering and results delivery capabilities. At Pfizer, it was its sales juggernaut. They also anticipated the future and conceived an innovative strategy that would shape the marketplace. From a Porter perspective, they pursued a differentiation strategy that would result in a significant competitive advantage. Gemini would own the business transformation consulting market, and Pfizer would turn drugs into blockbuster drugs. Best yet, aligning with the Jack Welch and Boston Consulting Group tenets, these strategies would lead to unbridled growth and market leadership. Plus, they were based on past successes in the marketplace. The strategies themselves passed these textbook tests, and even better, the companies also executed the strategies well.

If you look at these strategies from a layperson's perspective, rather than a strategy analyst's, you're likely to say, "What were they thinking?" In the consulting world, the Holy Grail is big projects at Fortune 500 clients. This is the consulting equivalent of premium products with repeat buyers—a highly profitable business model with low conversion costs. This is the strategy both DH&S and Gemini were pursuing and the place where most consulting firms want to be. The problem with targeting Fortune 500 clients is that there aren't thousands of them. There are only 500. And there are only so many big projects a company of any size wants to take on. Getting a big project at a big client is a little like winning the lottery. In comparison, Pfizer's strategy of developing only blockbuster drugs is a lot like the strategy of trying to win the lottery by buying only winning tickets. Of course, every pharma company wants blockbuster drugs. It's just that drug development is a very risky business, and most of the promising molecules won't result in any drug at all.

What would lead smart companies like Pfizer and Gemini to create untenable strategies? Let's review the typical process for strategy development. First, it is a given that corporate success is predicated on a leader developing a corporate vision of the future, which by definition is predicting the future. The way to develop the future vision is to hire consultants who do lots of research on the industry and trends and write all this up in a report. Next, the consultants bring a small group of the leadership team together to brainstorm an overall vision and strategic goals based on their findings. In the strategy world, "big, hairy, audacious goals" (per Jim Collins), like "being number one or two," "new market creation," and "continuous double digit growth," are encouraged. If you are going to dream, you might as well dream big! Once that vision is created, the leader needs to persuade the rest of the organization to believe the vision, and then management ensures that the organization takes only those actions that would lead to the creation of that vision. Businesses need to focus their resources and therefore can't expend resources on anything other than achieving the strategy.

To summarize, the current state of strategy development and execution is this:

1. Predict the future.
2. Define an audacious stretch goal based on that prediction.
3. Persuade other, more pragmatic people, who weren't involved in creating the goal and who typically need their monthly salaries, to work toward it.
4. Work on nothing else.
5. Celebrate success!

Are you laughing or are you crying? I mean, it is pretty funny except for being so sad. Companies go bankrupt and people lose their jobs because of this thinking. Even funnier is that neither Porter, Prahalad, Hamel, Welch, nor BCG or any of the other strategy houses devised this process. It is the collective sum of the thinking around strategy, and in this case, the sum is much, much less than the parts. Obviously, this is not the right way to plan the future of a company.

▷ Planning for the future and predicting the future are not the same thing

Let's go back to the beginning, before Porter and everyone else. The basis for corporate strategy development was warfare; that's where the term "strategy" came from. Porter's book is full of warfare terminology such as "competitive warfare," "defensive moves," "retaliation," and "fighting brand" and assumes that a company needs to beat its competition to win. Although I don't agree that corporations need to engage in battle to succeed, I do want to understand how warfare theory can contribute to business strategy.

Back in the '80s, some of the other popular books on strategy were treatises on war, like Sun Tzu's *Art of War*. I don't particularly care for this book because it's a listing of aphorisms, and it's over two thousand years old. The book I chose to teach me about battle strategy was Ulysses S. Grant's personal memoirs, considered to be one of the best accounts of war. When Grant describes the Civil War battles, most of his description is devoted to explaining the lay of the land. The book contains numerous hand drawn maps of the battlefields. He studied the land fastidiously to determine where to position his men and how to orchestrate a battle. As the battle took place, he usually had to abandon his original plan, but knowing the lay of the land helped him devise a new course of action. This, plus his attention to logistics and supply, is how Grant won the Civil War.

Another famous, winning general was Dwight D. Eisenhower. I often refer to one of his famous quotes, "In preparing for battle I have always found that plans are useless, but planning is indispensable." Battles rarely go according to plan. Neither does life. Needless to say, businesses rarely proceed according to plan either.

The problem is that people have been sold on the strategic plan as the answer. The plan itself has very little value. As our famous military generals advised, it is the planning that adds the value. Learning about trends, economic scenarios, competitors' strengths and weaknesses, regulatory changes, and consumer feedback adds insight and wisdom to a company's decision making. With this knowledge, businesses are better able to react to situations and recognize good opportunities. Planning expands thinking while following a plan limits thinking. And the whole point of developing a strategy is to improve intelligence, not replace it! Exacerbating the problem, most companies use consultants to do the analyses and develop the plans, and all that knowledge walks out the door when the consultants are done. Instead of insight built within the company, what's left behind is a seventy-five-page PowerPoint document that few read, let alone comprehend, and that becomes obsolete almost as soon as it's printed. There is a huge difference in what you learn from spending weeks doing an analysis, documenting findings, and formulating conclusions and what you get from reading a report.

The goal of strategy development should not be a plan. Strategy development is actually a vision quest. Vision quests are not attempts to predict the future or create a plan of action but are acts of self-discovery. Strategy development should be an act of corporate self-discovery. Hence, the value of developing strategy is not in the paper document left behind. You can probably throw that away. The value is in the learning and discovery process. The goal shouldn't be to develop a plan to follow but to gain the wisdom to react appropriately to a *rapidly* changing world given the capabilities of the company. This way, when opportunities present themselves, employees can distinguish the good ones from the not-so-good ones. The problem with a plan is that it can never account for all the unplanned opportunities that will arise. And some of those unplanned opportunities will be the key to succeeding in the future. Businesses don't succeed by predicting the future and dictating the marketplace; they succeed by recognizing good opportunities and pursuing them, especially when no one else does. This is how Microsoft, Apple, and Google became market leaders, not by predicting the future, but by recognizing and seizing upon good opportunities. Logically, then, the best way to succeed is to persuade your competitors to develop and execute strategic plans while you just keep your eyes open for good opportunities.

To choose good opportunities, corporate discovery needs to include as many people as feasible. A company is the sum of its people, and how do you discover who you are if you include only the head but not the heart and soul? Most companies develop their strategies with a select few, usually the leadership team, who aren't close to customers or competitors or trends. This is how blockbuster drugs and total business transformation become strategic goals. In contrast, military leaders are constantly gathering intelligence from the field. Similarly, employees can provide a wealth of intelligence about the marketplace, customers, and even competitors—someone has probably worked there. Sharing information throughout the organization about the company's values and capabilities, projects that worked and didn't work, what customers want, and emerging technologies is all critical to good decision making. People need to know these to recognize good opportunities. This is what strategy development is really about—providing the foundation for making informed decisions. It is not about a few people making those decisions in advance.

We need to think about corporate strategy in realistic terms. Not everyone can be the market leader. Not all businesses will grow at double-digit rates or be the stars. Predicting the future is pretty much impossible even for the smartest people in the world and certainly impossible for a bunch of twenty-something-year-old consultants. However, discovering a purpose and creating the wisdom needed to make decisions about unexpected events is foolproof in comparison.