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Achieving the impossible "intentionally"

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Four-minute mile? No way.

A man on the moon? Impossible.

*Mandela out of jail—and President of South Africa?
Preposterous.*

Any of you could make a longer and better list of events and accomplishments which many people—if not nearly all of us—once thought were "impossible." And yet, examples, which prove our opinions of "impossibilities" to be incorrect, abound. This is why the Chairman of my Board of Trustees tells me to "have a healthy disregard for the impossible." It turns out that, according to research, his advice is very well taken.

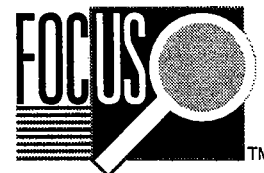
Traditional strategy approaches suggest that organizations should set goals based upon their resources and a clear understanding of the constraints of the environment. We are told to review our strengths, weaknesses, opportunities, and threats. Once this analysis is completed, we are able to set goals, which are really analytical "forecasts" of our future performance.

Strategic Intent

Some new, emerging models of strategy and performance suggest that organizations should set goals based upon their passion, commitment, and aspirations even though it may be very unreasonable to think the goals could be accomplished, based on resources and the environment. One of these approaches is "strategic intent."

The term "strategic intent" was created by Hamel & Prahalad (Strategic Intent, Harvard Business Review, May-June, 1989), as a result of their study of compa-

nies—such as Honda, Komatsu, and Canon—which have come to global leadership during the past twenty years:



"Companies that have risen to global leadership over the past 20 years invariably began with ambitions that were out of all proportion to their resources and capabilities. But they created an obsession with winning at all levels of the organization and then sustained that obsession over the 10-to-20-year quest for global leadership. We call this obsession, 'strategic intent'."

Traditional strategic planning models often suggest setting goals or intentions based upon the organization's resources and an understanding of the constraints of the environment.

However, using strategic intent suggests setting goals based upon the organization's commitment and aspirations even though it may be very unreasonable to think the goals could be accomplished—based on resources and the environment.

Hamel & Prahalad contrast their strategic intent approach with the traditional concept of "strategic fit" between resources and opportunities—a concept they believe has "often abetted the process of competitive decline":

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“Strategic intent implies a sizable stretch for an organization. Current capabilities and resources will not suffice. This forces the organization to be more inventive, to make the most of limited resources. Whereas the traditional view of strategy focuses on the degree of fit between existing resources and current opportunities, strategic intent creates an extreme misfit between resources and ambitions. Top management then challenges the organization to close the gap by systematically building new advantages.”

A New Strategy Frame

Strategic intent represents a new “strategy frame.” It provides a new and different perspective of strategy, compared to traditional strategic fit. It is a new way of thinking. Hamel & Prahalad say “The essential element of the new strategy frame is an aspiration that creates, by design, a chasm between ambition and resources.” The creativity which Hamel & Prahalad say is produced as a result of this “chasm” or misfit between aspirations and resources, is similar to the “gap” between “vision and reality” which Peter Senge says is “the source of creative energy.” He calls this gap “creative tension.” The tension between the vision and current reality requires resolution—creativity is ignited to resolve the tension.

“Organizations using strategic intent must understand ... the possibility of failure as a trade-off for the possibility of extraordinary performance.”

One example of the power of this creativity is the Apollo program. Although the technology needed to put a man on the moon did not exist in the early 1960s, President Kennedy set the goal to do so by the end of the decade. The creative tension of that goal inspired Apollo engineers to create the technology needed to achieve the goal.

Goals set using strategic intent, i.e., goals based on aspirations rather than projections or fit are, by definition, unreasonable and unlikely—by reasonable prediction—to be accomplished. In fact, given the rapidity of change in the environment, it is difficult to make accurate forecasts of any kind with regard to producing outcomes. This means that the predictable possibility for failure is high. Organizations using strategic intent must understand this and accept the possibility of failure as a trade-off for the possibility of extraordi-

nary performance. In fact, organizations using strategic intent may actually have both failure and extraordinary performance. For example, if an organization sets a three-year goal to achieve a 100% increase in a certain measure—an exceptional “stretch”—and achieves a 90% increase, it has “failed” to reach its goal completely, but has probably far outperformed the results it would have produced had it set modest or reasonable goals.

It’s Called a BHAG!

Consistent with strategic intent, stretch, and creative tension, is a finding in the study by Collins & Porras (Built to Last, HarperBusiness, 1994) of eighteen companies that have been consistently preeminent over many years (e.g., Motorola, 3M, Procter & Gamble). They found that a vast majority of these companies more consistently used what they call BHAGs—Big Hairy Audacious Goals—in their operations, than did other comparison companies. The Chairman of one of those preeminent companies, General Electric, has recently acknowledged the power of using stretch goals. Following is a discussion of the use of stretch by G.E. Chairman John F. Welch, Jr. in a recent company annual report:



Welch tells shareholders that “stretch is a concept that would have produced smirks, if not laughter, at G.E. three or four years ago, because it essentially means using dreams to set business targets—with no real idea of how to get there.” Indeed, he says, “if you do know how to get there, it’s not a stretch target.” Such targets, he says, “are making seemingly impossible goals exciting, bringing out the best from our teams.” Incremental goals, he says, “inspire or challenge no one, capture no imaginations.”

How We Applied Stretch Goals

At the not-for-profit for whom I work, LeaderShape, we have been working to apply the ideas of strategic intent, creative tension, and stretch goals during the past few years. We have applied them toward increasing the number of young adults who attend our six day, ethics-based leadership program, The LeaderShape Institute. Simultaneously, we have used the strategic intent “strategy frame” to maintain our ability to deliver the program at a high quality level.

For example, in 1992 we had 229 young adults attend four sessions of The LeaderShape Institute. We wanted much, much more than that. So we began by setting stretch goals, both for the number of participants who attend the program, and for a “quality

score" goal we had set for each session of the program. We wanted to dramatically increase the number of participants per year while maintaining a very high level of quality. And yet, for each year that we have set these stretch goals, we have failed to meet our objectives. We made annual improvements, but never achieved our stretch goals.

However, by the completion of our 1999 sessions, we had 1,725 participants compared to 229 in 1992. Further, our quality scores remained essentially the same throughout this period. Even though we have achieved more than a 700% increase in participants, we were able to keep quality high.

"... successful use of stretch goals requires creating an organizational culture that allows for experimentation."

We have not mastered the usage of these concepts by any means. More often than not, we think more about constraints and limited possibilities than about "stretching." We frequently have to confront the likelihood of failure and realize our resistance to set goals at which we are likely to fail. It makes sense to us that as Thompson, Hochwarter, & Mathys (Stretch targets: What makes them effective? Academy of Management Executive, 1997), point out, successful use of stretch goals requires creating an organizational culture that allows for experimentation, or "safefailing" which encourages "employees to try new ideas and work toward constant improvement in processes and products."

Even so, this has been somewhat of a challenging issue for our staff to deal with. The theory we are following tells us to stretch and then take on a new attitude with regard to failure. We read that we should "celebrate noble failure" yet we find that hard to do. It helps to have significant accomplishments to point to. G.E.'s Welch seems to hold the proper attitude in his 1995 annual report to shareholders:

"Your company had a terrific 1995—a record year by any measure. This performance was recognized by the market, which rewarded G.E. investors in 1995 with a total return of 45%. As strong as the year was, we did not achieve two of what we call 'stretch' performance targets: operating margins and inventory returns. Over the past three decades, our highest corporate operating margin hovered around 10%, and our inventory turns around five, so in 1991 we set two stretch targets for 1995: 15% operating margin and 10 turns. 1995 has come and gone, and despite a heroic effort by our 222,000 employees, we fell short on both measures, achieving 14.4% operating margin and almost seven turns. But in stretching for

these impossible targets, we learned to do things faster than we would have going after 'doable' goals, and we have enough confidence now to set new stretch targets of at least 16% operating margin and more than 10 turns by 1998."

What the Future Holds

At LeaderShape, we are probably just scratching the surface of the power that the strategic intent concept holds for organizations. We continue to work to understand how to more fully apply the concept. For example, we may soon experiment with the setting of stretch goals on a multi-year basis—three, five, seven, or even ten years out. We will see if that opens up additional avenues of creativity and performance.

"The best new ideas would not go far without exceptional people to utilize them."

As helpful as the concept of strategic intent is, there are many factors that are important to the successful operation of any organization. It would be a mistake to treat any single idea as a cure-all for solving an organization's challenges. For example, in LeaderShape's case, we benefit greatly from the efforts of a committed and talented board, staff, facilitators, campus partners, and volunteers. The best new ideas would not go far without exceptional people to utilize them. But our "intent" is to continue to partner with exceptional people and to continue to provide a high quality experience at The LeaderShape Institute for more and more young people every year into the future. ➤

Editor's Note: If you found this article of interest, the full research report is presented in the Nonprofit Management & Leadership journal, Vol. 9, No. 4, 1999, "Achieving Growth and High Quality by Strategic Intent." (NML is available through Jossey-Bass Publishers, 888-378-2537, www.josseybass.com)

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GE Chairman's Annual Letter Notes

Strides by 'Stretch' of the Imagination

By JAMES C. HYATT

Staff Reporter of THE WALL STREET JOURNAL
NEW YORK — General Electric Co. Chairman John F. Welch Jr. is anything but modest when he writes his annual-report letter, and this year is no exception.

In a euphoric treatise that touches on everything from peanuts to pizza, he reviews GE's progress toward three operating principles he calls "boundaryless," "speed" and "stretch."

GE, he says, is using those principles to build a work force with an "absolutely infinite capacity to improve everything." From anyone else, such lofty rhetoric could be dismissed as hyperbole. But Mr. Welch's record as chairman of GE for 13 years gives his management views high visibility, and they're copied frequently in business circles.

'Stretch'

Mr. Welch, who writes his own shareholder letter and takes considerable pride in the exercise, tells shareholders that "stretch is a concept that would have produced smirks, if not laughter, in the GE of three or four years ago, because it essentially means using dreams to set business targets — with no real idea of how to get there."

Indeed, he says, "if you do know how to get there, it's not a stretch target." GE, he says, "used to timidly nudge the peanut along setting goals of moving from, say, 4.73 inventory turns to 4.91, or from 8.53% operating margin to 8.92%; and then indulge in time-consuming, high-level, bureaucratic negotiations to move the number a few hundredths one way or the other. The point is—it didn't matter."

Incremental goals, he says, "inspire or challenge no one, capture no imaginations. We're aiming at 10 inventory turns, at 15% operating margins, and at the introduction of more new products in the next two years than we've developed in the last 10. In a company that now rewards progress toward stretch goals, rather than punishing shortfalls, the setting of these goals, and quantum leaps toward them, are daily events."

Such targets, he says, "are making seemingly impossible goals exciting, bringing out the best from our teams; and the pizza-delivery people are getting rich as our people celebrate each milestone."

'Speed'

Concentrating on "speed," he says, means that new products are coming out "with drumbeat rapidity." There's a new-product announcement from the appliances business "every 90 days — unthinkable years ago. The GE90, the world's most powerful commercial jet engine, was designed and built in one-half the normal time, by a boundaryless team. Another team developed a breakthrough ultrasound innovation in less than a year and a half. We designed and built a new AC locomotive in 18 months."

Such efforts, he writes, have meant

significant gains in the way GE manages its assets. "Focusing on the speed of our order-to-remittance cycle — from time of order to when we get paid — has increased our inventory turns 27% in two years, throwing off almost \$2 billion in cash in the process. Every single-digit improvement in inventory turns produces \$1 billion in cash to reinvest for tomorrow."

The faster pace, he says, has freed up nearly five million square feet of manufacturing space in the past three years. To a business like plastics, that has meant saving "nearly one-half billion dollars that would have been required for new capacity—like getting a new plant, free."

Speed, he adds, "is allowing us to shift the center of gravity of the company rapidly toward the high-growth areas of the world, particularly in Asia. Forty percent of our sales now come from outside the United States, up from 30% just five years ago. GE's non-U.S. sales have grown at a compounded rate of almost 10% over the past five years." The lighting business, which less than five years ago had 21% of its sales outside the U.S., today sells 38% in the non-U.S. global market.

'Boundaryless'

Mr. Welch, says the "boundaryless" notion means internally "piercing the walls of 100-year-old fiefdoms and empires called finance, engineering, manufacturing, marketing, and gathering teams from all those functions in one room, with one shared coffee pot, one shared vision and one consuming passion — to design the world's best jet engine, or ultrasound machine, or refrigerator."

Mr. Welch, once labeled the toughest boss in the country, repeats a theme that GE is looking for "leaders at every level who can energize, excite and coach rather than enervate, depress and control." In some cases, he adds, "this means parting company with some impressive people — Heisman Trophy candidates, to use an American football expression—who won't block for others or play as part of a team."

The two quickest ways to part company with GE, he says, are "to commit an integrity violation, or to be a controlling, turf-defending, oppressive manager who can't change and who saps and squeezes people rather than excites and draws out their energy and creativity."

Ideas, he insists, are judged on "quality rather than the altitude of their origin. The status-defining tie on a manager at a GE plant is now about as fashionable as a leisure suit."