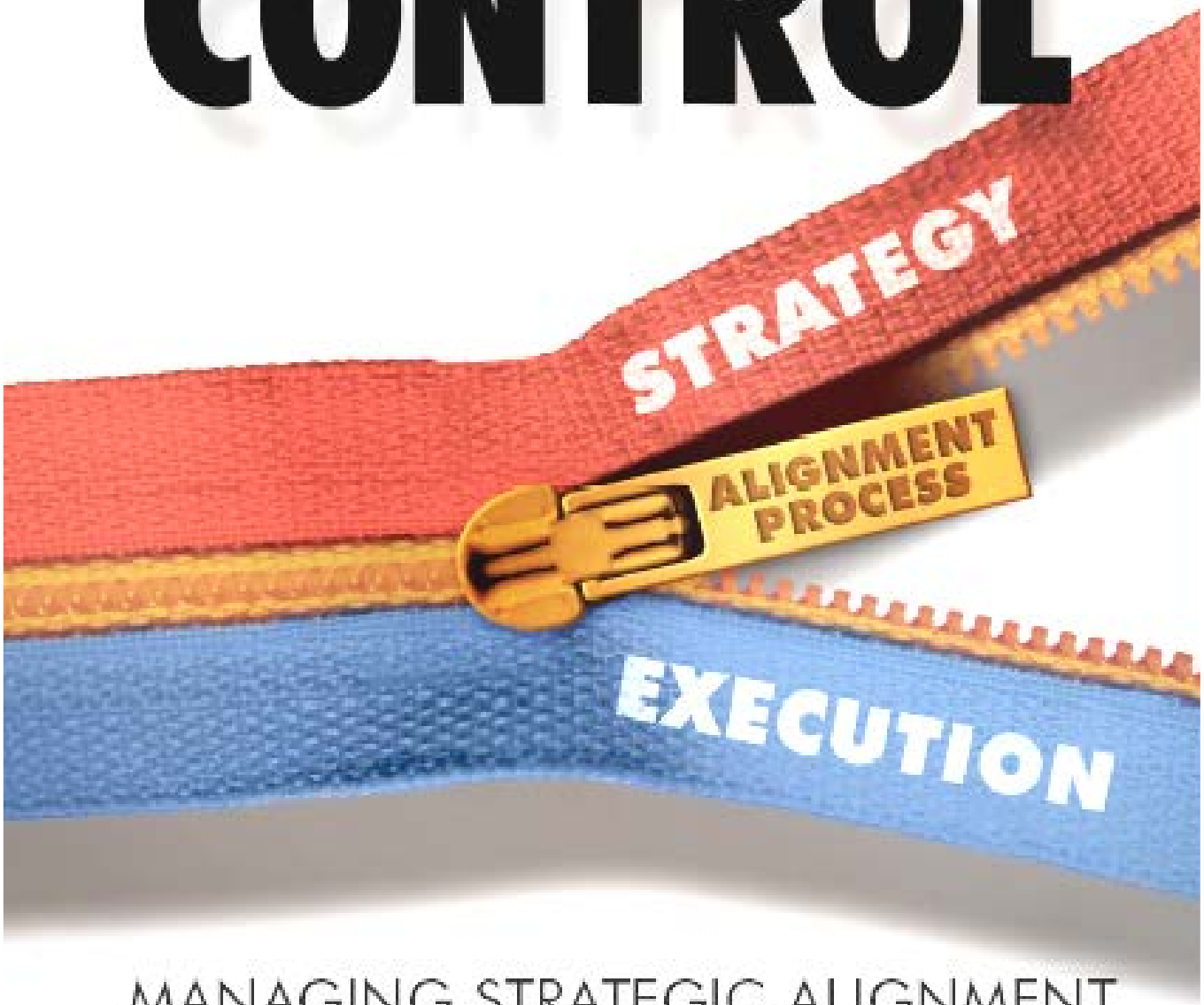
FRED LACHOTZKI AND ROBERT NOTEBOOM

BEYOND CONTROL



MANAGING STRATEGIC ALIGNMENT THROUGH CORPORATE DIALOGUE

Unleashing the strength from within the company through Corporate Dialogue.

How leadership is brought back into the middle of the organization.

MANAGING CAPABILITIES, THE WAY TO GROW

A company's success might be measured in financial terms, but its future success depends on its capability to react, innovate and implement, in other words its capability to compete and grow. Existing structures and processes around budgets and P&L's are necessary for measuring and managing the monthly, quarterly and yearly "finish line." In a decade when agility, speed and the unleashing of the creativity and power of talented people are key to tomorrow's success, leaders need a new approach to manage a company's capability to execute.

Capturing innovation requires a different approach to that provided by traditional structures. Those structures – the hierarchies, the bureaucracies – are still needed to manage performance, but will generally constitute barriers to innovation and execution – that is, to spotting new ideas, sometimes hidden away deep within the organization, and then being able to act on them.

A COMMON DEFINITION OF SUCCESS AND A MORAL COMPASS AS "FITNESS" FOR GROWTH

The very first requirement for a company to attain "success" is that there be broad agreement as to precisely what that "success," accompanied by the company's moral compass, looks like among all key personnel, i.e. the Board, senior- and middle managers, etc. That is the essential foundation, and not much else is needed, for the key is restraining one's urge to control – i.e. to define not only success but exactly how it is to be attained - and instead let the company's common definition of success serve as the "fitness criterion" for the autonomous development of new ideas and effective strategy execution, no matter how complex the organizational circumstances.

This concept of managing by means of such fitness criteria is derived from "Complexity Theory," which describes means of creating order in complex adaptive systems. As an example, think of a group of door-to-door salespeople guided by a company-wide agreement on "success" which includes doubling sales within three years. These salespeople neither operate in a vacuum – indeed, they meet colleagues all the time to exchange ideas and gossip – nor are they non-thinking, non-aware robots. They know what needs to be done, in fact they have agreed on it, and they can be relied upon to find ways to make sure that it *is* done, whether through means they think up themselves or (more likely) copy from someone else. In other words, the right combination of a fitness criterion and freedom of action is what leads to the non-linear growth of order in a complex adaptive system. This combination of fitness criteria and random feedback loops becomes a highly efficient information-processing system. It turns out to be much more efficient than the traditional method of having each salesperson report back to a central marketing entity.

The above salesmen example, while sufficient to introduce the "Complexity Theory" concept, is still a bit simplistic in that the salesmen were given only a "performance" fitness criterion. Of rather more importance, however, is ensuring that the organization attains, and maintains, a level of excellence which enables it to achieve such performance easily and repeatedly – what we can call "capability" criteria, such as "freedom to act." Any company's fitness criteria must also include such "capability" elements – how they are defined, measured, and managed. It may seem counter-intuitive that such "softer," qualitative criteria can be either defined, measured or managed at all – but, as we will show, that is far from the case.

MANAGING BEYOND CONTROL

A New Concept

In these uncertain times of accelerating history, company executives increasingly face developments which give them cause to wonder how those entities they are charged with managing should be brought into the future, and how they can stay under their "guided" control.

On the one hand, globalization and the development especially in China and India has led to the expansion in the sheer scale at which companies conduct their business, with the attendant added degree of complication. On the other, the advances in computerization and communication have also enabled the rise of nimble, fast-moving new enterprises that often function within a wider network of newly aquired companies and/or partnership and alliances structure. Each presents its own difficulties for the executives responsible for unleashing the power from within and keeping track of the whole picture – and for keeping control over it all.

But there is no reason to fret about this state of affairs. Those same technical advances behind the rise of these "new" firms can also provide the tools which enable top company executives to recapture that awareness of what is truly going on within their companies, and thus the capability to innovate and to steer them in the direction that they want. Or at least to steer them *roughly* in that direction – for it is not these technical advances alone which can retrieve the situation for today's top executives. Just as necessary to future business success will be embracing a new mindset, one willing to run the company "beyond control." And what is "beyond control"? It has two primary meanings:

- The **"what"** meaning: "Beyond control" means no longer devoting main attention to a company's results – to the "finish line," so to speak, as shown starkly in the financial results – but devoting equal attention to the company's ability to get there, what we call its "strategic alignment."

Sustained Profitability = Financial Results x Strategic Alignment

- The **"how"** meaning: "Beyond control" means redefining the traditional "top-down" management approach to employing instead a structured way of 'letting go' and allowing considerable room for assessments, opinions and contributions from the broad ranks of key executives who truly account for a company's success. In a sense, from the "top" the leadership team should shift to "managing from the middle."

STRATEGIC ALIGNMENT

Strategy means little if execution cannot follow. On the other hand, a state of "strategic alignment" means that those organizational capabilities are there ready and in place in the company to successfully innovate, react and carry out the proposed strategy. This "strategic alignment" can be attained through a well-balanced attention to both capabilities and actual performance, with the CEO in touch with his entire company, leading from the middle.

Management Beyond Control is about building the mindset and the infrastructure necessary to enable this strategic alignment, to be able to lead a company's key people at the required pace in the desired strategic direction. The key to this mindset is establishing or strengthening a culture of *transparency* and

accountability within the company: permanently facing the brutal facts, permanently looking for a better way of doing things. This allows CEOs to take up a leadership role that finds the right balance between guiding the organization in the desired direction and, at the same time, leaving room for inspiration and creativity, so that the company can remain innovative and competitive.

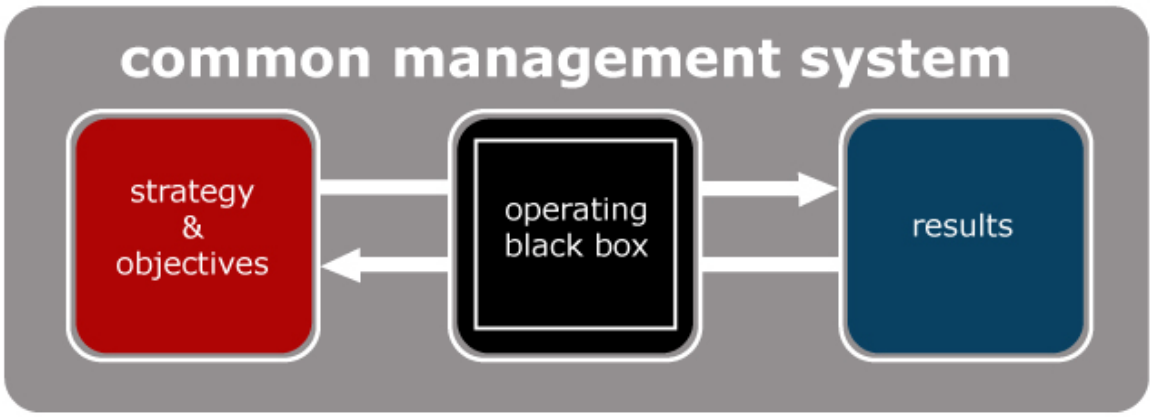
Control – yet also freedom: that is management "Beyond Control"

OPENING UP THE OPERATING ARENA

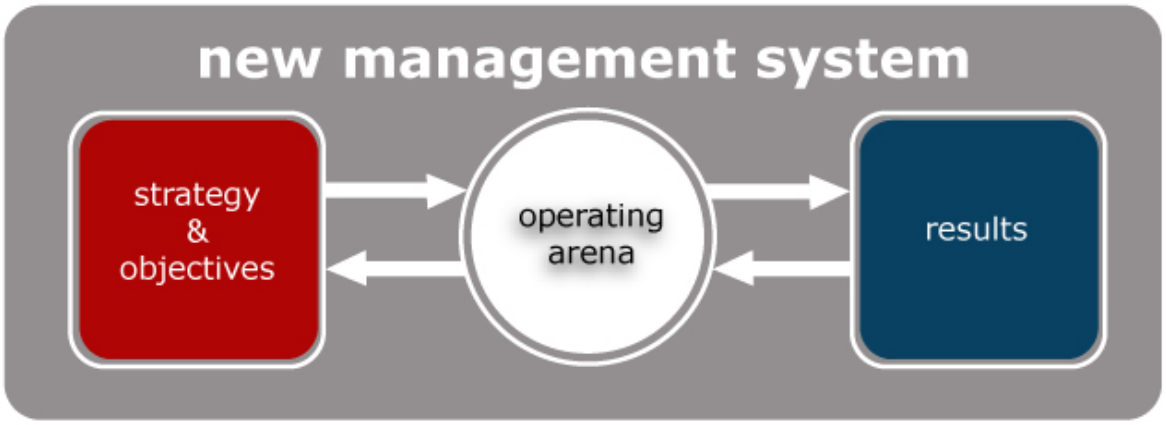
Applying Leadership's Power and Authority

In recent history a CEO's leadership mindset has almost naturally tended towards Managing by Objectives. After all, as we have mentioned, it is results – i.e. the attainment of those objectives – that still count the most in the real world.

However, this has often meant - particulary in large, complex organizations - not actively being involved in how those objectives are achieved. Traditional company structures assume decentralization as the answer for getting the best overall results, with the consequence of relying almost totally on senior managers responsible for divisions and business units in achieving these results. The effect will be that company's operational activities are "black-boxed." Finding the strength within the corporation, optimising resources and searching for opportunities requires more than delegating the attainment of yearly budgets..



Full corporate transparency about possible barriers to the company's growth, strengthening innovation and improving operational effectiveness will only happen the moment CEO's use their power and authority to create this transparency and bring about the opening of the **operating arena**.



It is always a challenge for the CEO to ensure his true authority within the company keeps pace with his nominal power, so that he does not risk a "disconnect" between where top leadership and middle management feel that the company is going (i.e. its definition of success). But maybe as important is the question concerning, if the CEO won't take charge of this process of

managing the corporate agenda around people, culture, systems and process, who will?

The challenge for CEO's is how to manage this corporate strengthening without jeopardizing the accountability of divisions, business units and departments for attaining quarterly and yearly results, and without resorting to micromanaging the execution process within their operating arena.

"Reaching out to as many people as necessary could be considered threatening by line management. I sometimes get that remark. Therefore I should never misuse the dialogue process to talk about a financial issue in order to get input which I would not get through the normal lines. Then I would undermine line management. But next to financial performance I am responsible for building capabilities for the future and that I can only do with people who are in charge with reality."

Peter Bakker, Former CEO TNT

The Operating Arena, in which the alignment process takes place, is essentially a notional workspace, defined as a **portfolio of 39 organizational capabilities**. In this operating arena, the various critical organizational capabilities are permanently **measured** and **managed** so as to maximize the alignment between strategy and execution.

The Operating Arena: 39 Organizational Capabilities in 7 Categories

PULL AND PUSH

Creating involvement in a large corporation spread out all over the world is a matter of striking a right balance between allowing people freedom to create, innovate, decide and act, and at the same time enforcing accountability, control, focus and prioritization.

Managing by objectives provides a company with *strategic pull*, offering clarity about the company direction and the desired performance. In contrast, when a CEO incorporates into that company direction the implicit objectives and ideas of his key people from deep within the organization, he will create *operational push*. This effectively builds company-wide ownership of both strategy and execution.

MANAGEMENT BY OBJECTIVES IS ABOUT FORMULATING AND ACHIEVING GOALS.
(STRATEGIC PULL)

MANAGING BEYOND CONTROL INCLUDES STRATEGIC ALIGNMENT,
WHICH IS FORMULATION, FACILITATION AND PARTICIPATION
WITH REGARD TO ACHIEVING GOALS.
(MANAGING BY PULL AND PUSH)

Managing Beyond Control **integrates strategic pull and operational push**. It generates a state of "focused animated drive" that stretches and strengthens a company's agility and resilience, and it does this by instituting effective forms of **corporate dialogue**. The first prerequisite, then, is in fact a CEO willing to have his beliefs and plans challenged by his people.

THE KEY WORD FOR MANAGING BY OBJECTIVES IS THE SCORECARD.

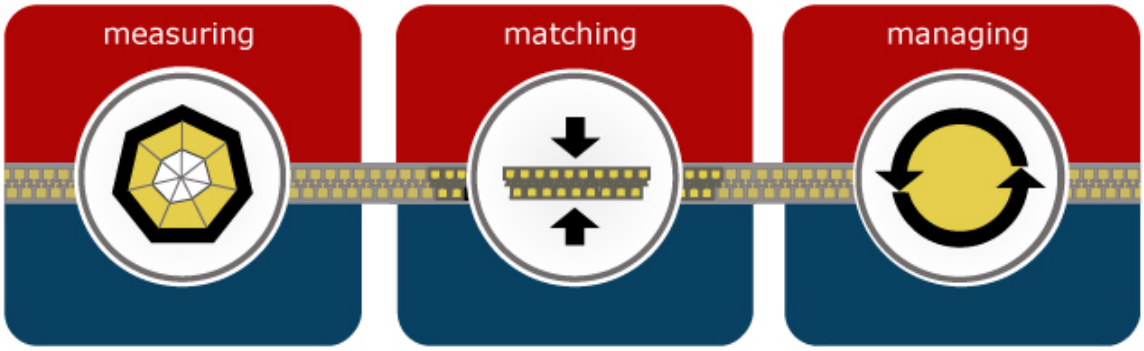
THE KEY WORD FOR MANAGING THE OPERATING ARENA IS ALIGNMENT
IT IS ABOUT THE DIALOGUE ON HOW TO ACHIEVE THE SCORE.

CREATING STRATEGIC ALIGNMENT

CORPORATE DIALOGUE

The process of Managing Beyond Control is based on **Corporate Dialogue**, which involves **measuring, matching** and **managing** company's strategic alignment.

Corporate Dialogue is a permanent process that serves as a **real-time** link between strategy and execution. This process involves (1) ongoing measurement of the status of organizational capabilities, (2) creating and sharing a common agenda with key executives and (3) managing a structured, continuous interaction with these executives for the initiation and follow-through of organizational improvement initiatives.

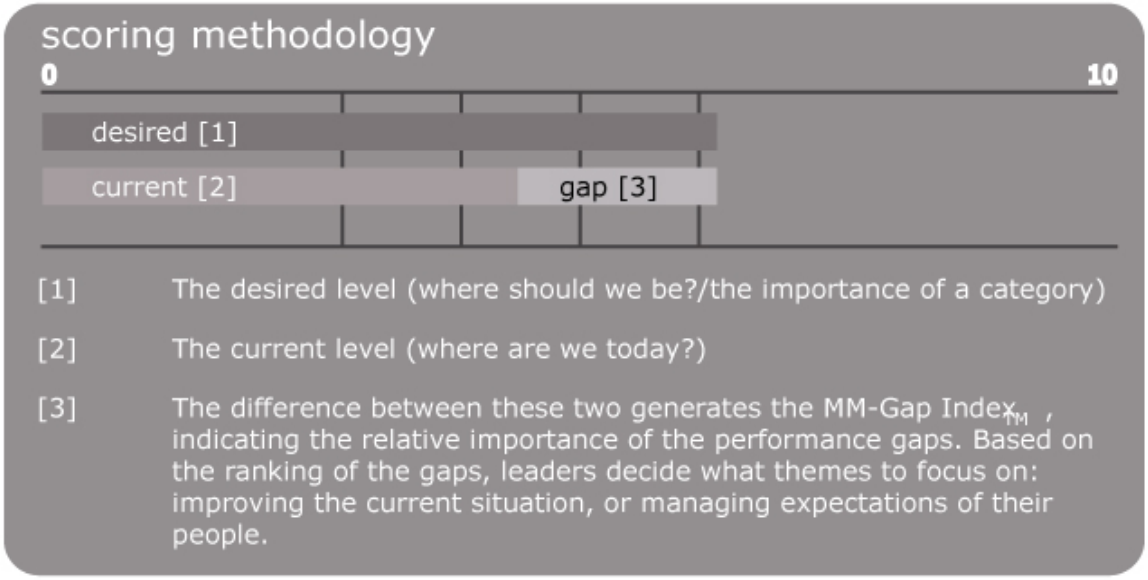


The Corporate Dialogue Process

MEASURING: Assessing Organizational Capabilities

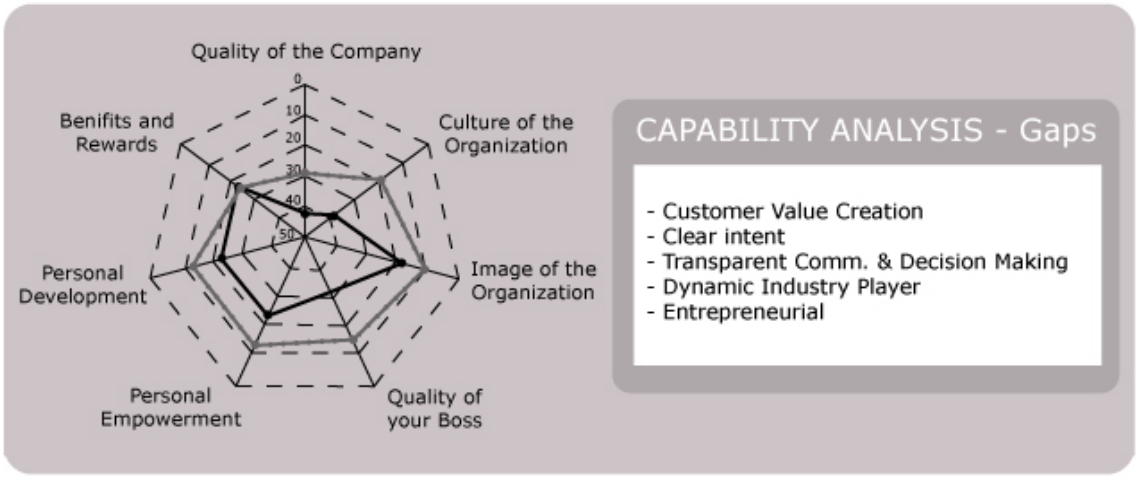
Successfully matching strategy with execution involves monitoring and "aligning" a company's organizational capabilities within its operating arena. But first there is another prerequisite: that the company demonstrate a sufficient capacity for alignment, based upon its degree of transparency and accountability.

Organizational capabilities are aligned when the **crucial people** in the company decide that the quality of corporate organizational capabilities meets their expectations and enables them to execute the strategy. The crucial people are defined here as the corporate leaders, the managers and specialists in charge: those who truly determine the company's success. Commonly they are the CEO and his leadership team and key specialists and managers from within the firm.



The Gap Analysis Methodology

The actual state of organizational capabilities is measured by having key executives provide their assessments (anonymously) of the current and desired status of the operating arena, which incorporates all organizational capabilities. Any barriers to execution will be identified by **gaps** between the **current** and **desired** status.



MATCHING: Creating the Strategic Alignment Agenda

The Strategic Alignment Agenda is the principal guideline for managing strategic alignment. It emerges from the synthesis created between the strategic agenda (what the CEO wants) and the organizational agenda (what executives think, as gathered by the evaluations they give in organizational capability scans). Setting and managing this alignment agenda is a joint effort between the CEO and the leadership team on the one hand and key executives on the other.

A Strategic Alignment Agenda deals with organizational capability issues (i.e. *how* the company operates) rather than with performance or profitability (i.e. its goals). An effective alignment agenda will highlight the most critical capability and organizational improvement issues requiring continual attention and alignment. They represent the issues that the CEO, his leadership team and the key executives consider critical for corporate success in the short and medium term. They represent the company's **alignment priorities**.

Creating the Strategic Alignment Agenda; the Matching Process

MATCHING: Creating the Corporate Alignment Agenda

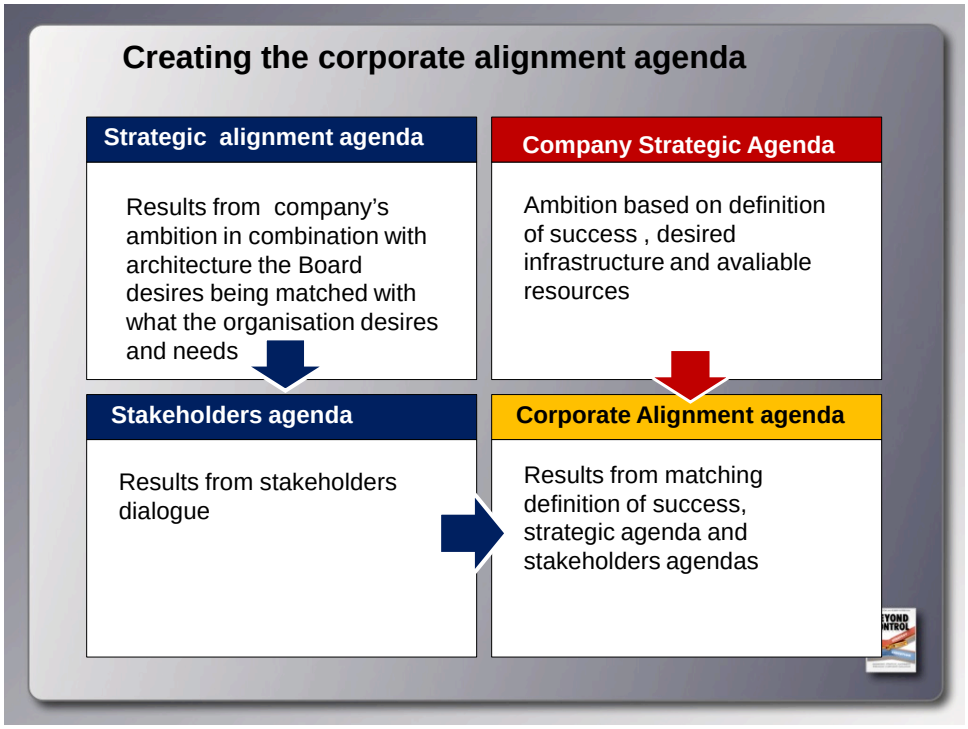
The objective of any company should be the creation of a sustainable competitive advantage, as well as the creation of sustainable superior returns on capital.

Strategic and Stakeholder Alignment is a prerequisite for realizing these objectives. A company is **strategically** aligned when the **crucial people** in the company decide that the quality of corporate organizational capabilities meets their expectations and enables them to execute the strategy.

A company possesses **stakeholder** alignment when **all relevant stakeholders** confirm that their interests are fairly balanced with each another.

Alignment is driven by Corporate Dialogue: measuring, matching and measuring.

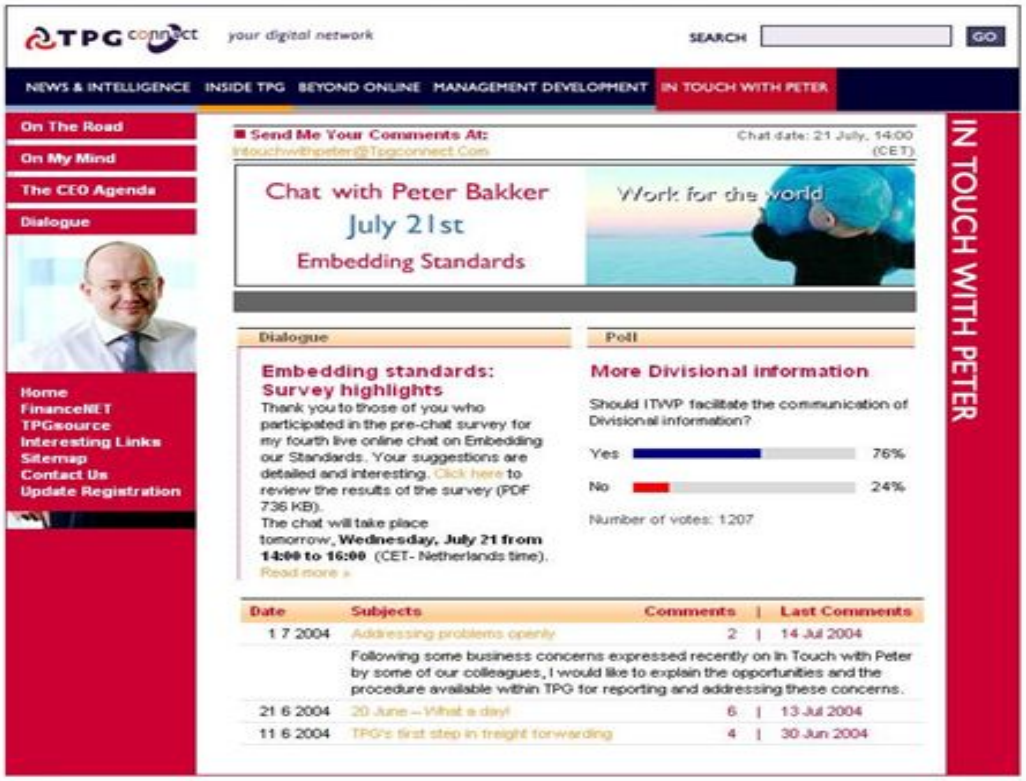
Victory goes to those companies that best structure the process of Corporate Dialogue and act upon its outcome.



Creating the Corporate Agenda: The Matching Process

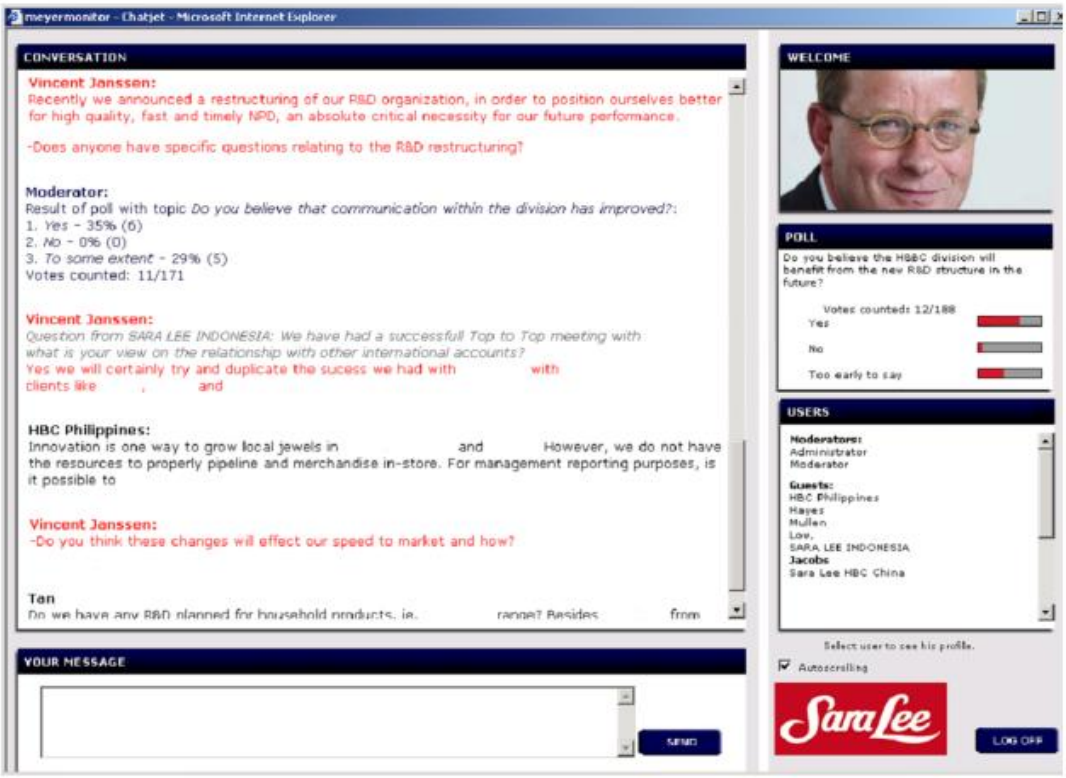
MANAGING: Creating an Executive Dialogue Center

CEOs need to be able to reach out to key people deep within the organization, both to understand them and to be better understood themselves. This used to require "managing by walking around," but modern organizations are simply too large and too complicated for that. Fortunately, modern technology can provide a substitute, namely a virtual CEO office, also known as the Executive Dialogue Center (EDC). Managing Beyond Control makes explicit use of the EDC to bring on-line technology to bear to manage the dialogue between the CEO and key executives. It is a virtual measurement and interaction space, managed from the CEO's office.



The Executive Dialogue Center owned by Peter Bakker, CEO of TNT

An EDC makes it possible for the CEO in a sense to move back to the middle of the operation, the middle of the "action." And it definitely allows the company's key people to access the CEO's office, sometimes by invitation, at other times without needing any. In both cases, the objective is for them to use this means to participate in company policy-making, even while the CEO remains in the driver's seat (since he controls the EDC's format and access). It enables regularly-scheduled discussions to take place, leverages the management board's time and provides key executives with structured access to the CEO for asking questions, submitting ideas and generally staying strategically aligned.



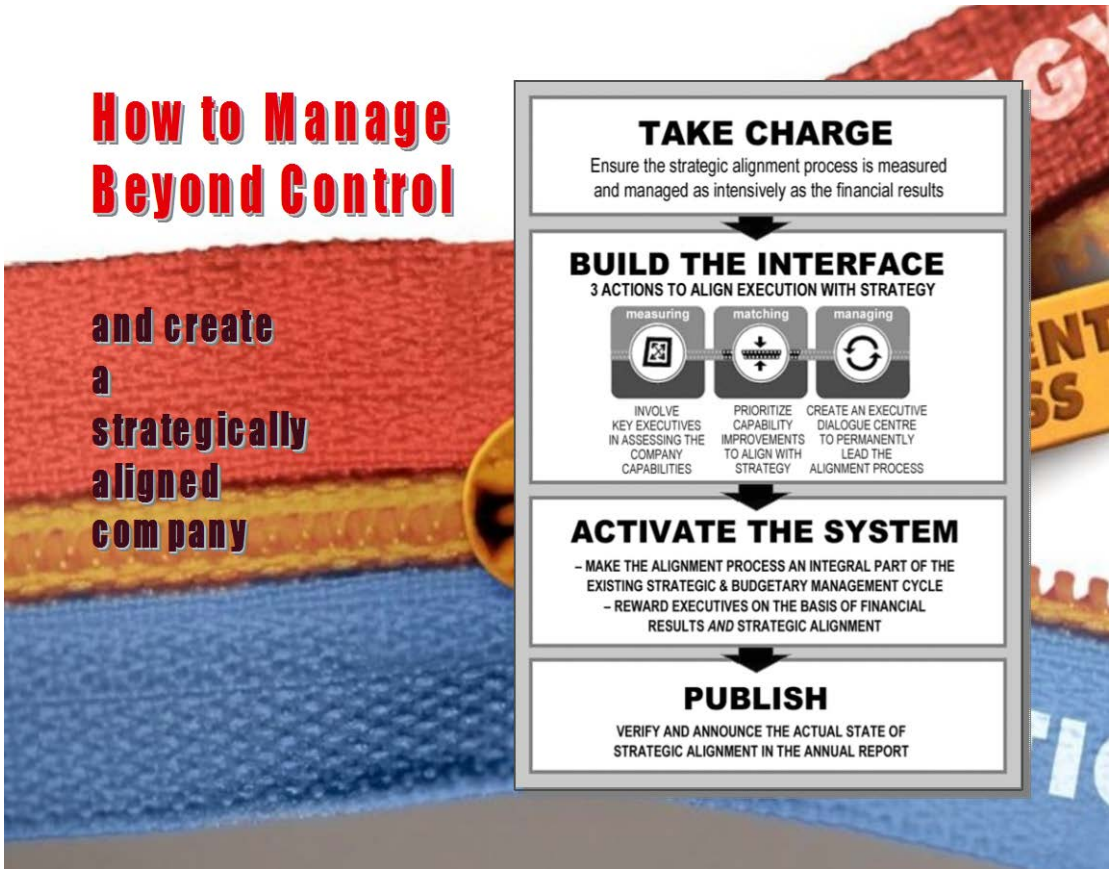
Global Management Chat at Sara Lee: CEO Vincent Janssen talks with Key Executives

The EDC is essentially a leadership support tool for CEOs who want to involve their talent base in this sort of dialogue with no barriers of bureaucracy standing in the way. It assists leaders in directing and changing the company through pull and push management initiatives. Decisions become more supported, and thus more effective, while the strategic alignment agenda becomes *the* backbone of corporate dialogue.

360° FEEDBACK

Thirty-nine capabilities make up the operating arena. Strengthening most of them depend on a manager's ability to make it either part of his or her management style or part of his or her priorities. A "beyond control" leadership style in combination with priorities coming from the alignment agenda (e.g. more entrepreneurial, more customer-focused) should be part of the leadership assessment process. Installing a 360°feedback system with the above content is a logical consequence.

ACTIVATING THE PROCESS



TEAMING UP

Managing beyond control is not the responsibility of the CEO alone. Every member of the leadership team must set the example of being willing to manage by pull and push, even as each has his own pivotal task to fulfil. People will pay more attention to actual behavior than to strategy.

The role of the ***chief executive officer*** is obviously crucial because he initiates the process of strategic alignment by inviting key executives to join in the corporate dialogue and so become involved in the creation of the company's alignment agenda. He is the one who enforces transparency and accountability on data having to do both with results and with the organizational capabilities that achieve them.

Because the key responsibilities of the ***chief financial officer*** include assessing and evaluating the financial consequences of strategic decisions, he is also closely involved with organizational capability data, as that reflects the company's ability to achieve sustained profitability. In addition, his special reporting responsibilities towards outside stakeholders must necessarily include using such organizational capability data to provide the background to the financial results and projections.

In most companies it will be the ***human resources director*** who manages the operational side of the effort to create "push." Among his key tasks are identifying the best talent for involvement in the strategic alignment process and following up on key improvement projects identified as necessary during that process.

The creation and maintenance of a coherent and consistent corporate "story" is the prime responsibility of the ***communications director***. In most cases he will

manage the operational side of the corporate dialogue center and, because of his professional expertise, will play an important role in keeping the agenda alive.

REWARDING

Sustainable profitability means finding the right balance between the company's financial performance and the quality of the company's capabilities. Creating this balance means rewarding executives for building organizational capabilities as well as for reaching financial results.

REPORTING/PUBLISHING

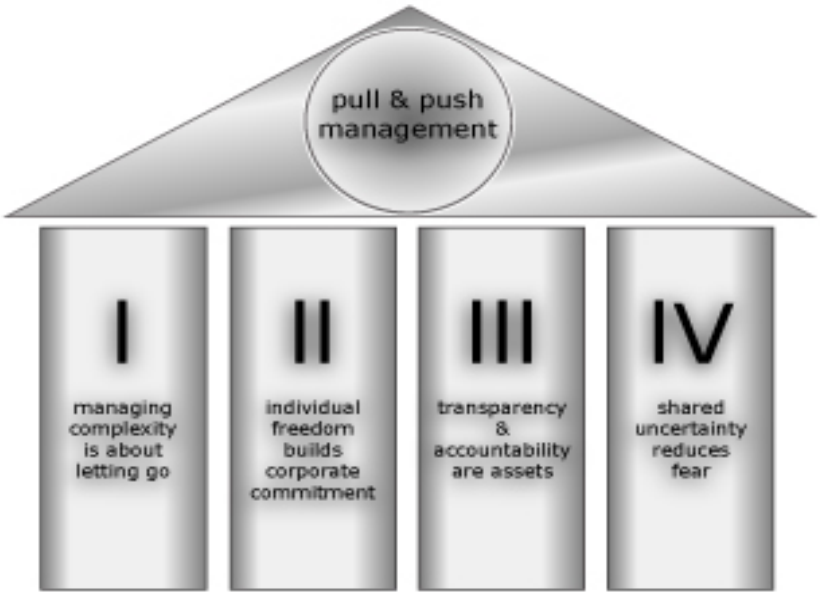
Transparency about financial results as well as the status of the organizational capabilities should be created for all stakeholders, both internal as well as external. Organizational capability data should be published in annual reports alongside the customary financial results.

CASES

Various large corporations have served as a laboratory for the tools presented in this book, and several of their leaders have generously allowed us to make use of their organizational capability survey results and to reveal the designs of their CEO dialogue centers.

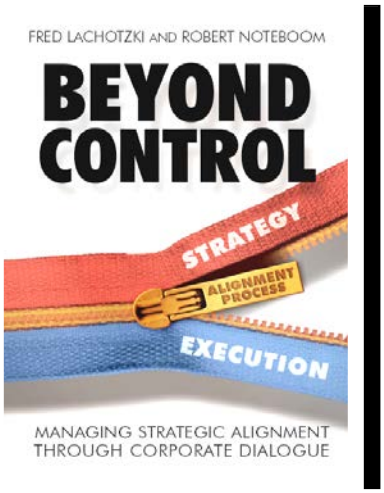
THE FUNDAMENTALS

Managing beyond control means managing by pull and push. Four principles make up the "pillars" of this management philosophy:



1. Effective strategy formulation and execution can emerge out of complex circumstances, if we moderate our urge to control.
2. Managed individual freedom can stimulate corporate commitment and responsibility, and reinforce the acceptances of authority.
3. Transparency and accountability are corporate assets rather than corporate or social obligations. They should be values that are well-defined, measured and shared by all.
4. Permanent, well-structured corporate dialogue transforms the ever-present fear of failure into a stimulating type of uncertainty, creating energy, a quest for innovation and a culture of respect.

"BEYOND CONTROL"
CONTENTS OF THE BOOK



PART I MOVING BEYOND CONTROL

1. **Strategic Alignment:** *Is a New System Needed?*
2. **The Corporate Black Box**: *Understanding History*
3. **The Operating Arena**: *Aligning the Space*
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8. **The Chief Executive Officer:** *Believer-in-Chief*
9. **The Chief Financial Officer:** *Guarding the Equation*
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11. **The Communications Director:** A *Coherent, Consistent Storyline*

"This mini-book is a synopsis of the book *Beyond Control* by Fred Lachotzki and Robert Noteboom, and also provides a contextual update and further insight into the creation of stakeholder alignment by Fred Lachotzki"

WHAT PEOPLE SAY ABOUT THE BOOK

“I found the book "Beyond Control" fascinating, describing so well what is in my view absolutely required in today’s management of large, complex organizations that operate on a global scale. It will transform the way CEOs see their role. It will also create a huge debate, from boardroom to the academic world.

Ben Verwaayen, former CEO British Telecom and CEO of Alcatel

“A well written book that illustrates so clearly that intensive dialogue is such a better guarantee for success than the ‘ivory tower’ that CEOs so easily put themselves into.”

Thony Ruys, former Chairman Executive Board,
Heineken NV

"The book has an extraordinary story to tell. Use the Internet to run an ongoing dialogue between CEO and employees? That's radical thinking. Before the digital revolution it would have been impossible. It's still impossible to chief executives with a command and control mindset. But in an age when transparency has suddenly taken on bottom-line importance, CEOs that have the courage to manage with tools like these may find that they have results to justify their openness."

John Deighton, Professor Harvard Business School

"Highly innovative and globally validated. Practically proven in a number of high level CEO and CXO situations, not only theory: it really works. Would improve alignment of strategy with execution in charge of enterprises if seriously applied. Could be an important book."

Peter J.S. Korsten. Executive director IBM institute for
Business Value. EMEA Partner Strategy & Change

WHAT PEOPLE SAY ABOUT THE PROCESS

The intense dialogue I have through the Organizational Capability process with my management and talent contributes directly to the implementation of my strategic agenda."

Peter Bakker, former CEO TNT

"Within three weeks the digital capability scan was able to diagnose our organization and compare us with the outside world. The results were presented at our annual Top 180 conference where workshops where organized. That yielded actionable project plans with improvement initiatives."

Jan Bennink, former CEO Numico, Chairman SaraLee

"Since 2000 our annual Organizational Capability research has provided us with input to set and prioritize our strategic HRM agenda. It allows us to 'close the gaps' and at the same time monitor the effectiveness of our improvement programs."

Herman Bouwman, former Member of the Board Human Resources/Legal
Affairs/Communications Sara Lee/DE