Prescription for disaster: failure to balance structured and unstructured thinking

Robert J Mockler

Successful leaders continually try to balance structured and unstructured approaches and thinking. Failure to do so has led recently to many burst financial bubbles, such as those in the fibre optics, 3G mobile and related telecommunications, computing and technology, and dot-coms.

Faced with uncertainties in their external environments managers can either adopt a very structured approach to formulating their strategy or can act intuitively, sometimes almost recklessly. But what is really required is a balance of both: a structure that allows risk to be adequately and maturely assessed but one that is not so confining that it prevents intuitive or innovate responses.

Effective strategic leadership and management requires a thorough knowledge of how the industry or market and the value chain leading from raw materials used in the creation of a product or service through to its delivery to the customer work. This can involve a systematic analysis of the industry and competitive market, the situation, as indicated in the right-hand box of Figure 1. Major tasks in such analyses are evaluating the risks and impact of future uncertainties inherent in each situation and spotting emerging or changing trends. It may be an easy task for (or a task already done by) someone who knows the industry well from having worked in it for years.

However, for someone without experience and background, such as many of those involved in the burst bubble companies, it requires considerable skill to complete what will be a difficult and time consuming task. But an inability or unwillingness to do such studies carefully is one early step towards disaster.

Skilful and systematic situation analysis is an indispensable step that provides a basis of knowledge for both the structured and the unstructured thinking and action needed to meet the challenges presented by rapidly changing and highly competitive markets. It is essential in identifying the key activities needed to enter into and survive in a competitive market by meeting threshold requirements (me-too steps and marginal improvements). It also provides the basis for developing dramatically differentiated winning strategies.

The effectiveness of such a balanced approach is not limited to the burst bubbles described in the following sections, however. In the currently disintegrating airline industry, for example, Southwest and JetBlue in the US are outstanding examples of companies that prospered by developing new business models based on well-balanced and structured innovative contrary thinking and carefully planned innovative implementation.
Southwest Airlines was able to find profitable new niche opportunities by analysing substitute industries. Southwest reasoned that for short-haul destinations, the automobile was a substitute for flying. Southwest focused on why people fly (to save time) and why people drive (to save money). It then created its market by making its fares very low and making its flights faster by creating point-to-point flights using secondary airports (cutting average flight time because of reduced taxi time, fewer gate holds and less stacking). It broke the mould by ignoring normal industry competitive factors such as meals, designated seats, central airports (with detours through hubs) and multiple classes of seats – all considered indispensable to those whose thinking was locked into past mindsets. It also focused on making the flying experience fun and people-friendly, both for its passengers and its employees. Southwest is also an example of an existing company that carefully and continually makes effective use of the Internet in selling (over 30 per cent of sales in 2001).

Southwest was one of the few profitable airlines during the period following the September 11, 2001 terrorist attacks in the US. It first used the period to hold its position, not cut back as did other airlines, and then to expand market share in 2002 as it expanded into markets dominated by the major airlines and continued aggressively to pursue expansion.

Major airlines are today faced with serious problems arising from smaller airlines, which like Southwest have developed a more customer-valued approach that substantially undercuts the fares charged by the major airlines and at the same time provides better overall value.

In mid-2002 it was clear in the US that these so-called “Wal-Mart” airlines such as Southwest, JetBlue and Frontier were growing and gaining market share at the expense of major airlines such as American, United, Delta, Northwest and Continental whose sales were falling. Similarly, in Europe in 2002 Ryanair, the Irish-based budget airline, was expected to continue growing at 30 per cent a year (profits and revenues), while two major European airlines, Swissair and Sabena, went into bankruptcy and others’ profits and sales were declining.

In a quite different industry, Coca-Cola flourished by breaking with traditional industry structural models that dictated that syrup manufacturers like Coke distribute through independent bottlers. It also won by breaking another mould, total dependence on the (Coke) brand, as it promoted new products, such as Thums Up, Planet Java Coffee and bottled coffee drinks in different foreign markets. This skill in breaking with, and at the same time building on, the past is a strategic winning driver at many successful companies.

At GE, for example, Jack Welch actively nurtured the new vision of small company agility within a large corporation by refocusing everyone on the customer, the competition and the future through one-on-one contacts. But he did it within an integrative and

---

**Figure 1**

**A basic emergent entrepreneurial contingency process**

<table>
<thead>
<tr>
<th>For example:</th>
<th>The task</th>
</tr>
</thead>
<tbody>
<tr>
<td>Task to be performed and its dimensions</td>
<td>- Observed events</td>
</tr>
<tr>
<td>- Handling present emergencies to formulating and implementing creative, innovative long and short-term solutions, to developing and carrying out approaches to general task areas</td>
<td>- Industry, economic, and political information</td>
</tr>
<tr>
<td>Problem to be solved and its dimensions</td>
<td>- Competitors and capabilities past/future</td>
</tr>
<tr>
<td>Decision to be made and its dimensions</td>
<td>- Individual planner perspective</td>
</tr>
</tbody>
</table>

Create appropriate concepts and  For example:  
Continue to restructure, reconceive situation (be as specific as dictated by situation ... an emerging process)  
In a way that:  
Is useful for completing the task  
Replicates the situation as accurately as possible  
Future trends and related future scenarios
structured enabling process (outlined in Figures 2 and 3) which are applications of the process shown in Figure 1 to strategic management.

Integration and balance are especially difficult when leading and managing, since a leader needs both conceptual skills (head in the air) to create visions and organise reality as well as practical entrepreneurial and interpersonal skills (feet on the ground) to get things done and translate visions into actions.

The ability to learn from mistakes is also important. Roberto Goizueta, the late former chairman of Coca-Cola, for example, made a major mistake when he tried to change the formula for Coke and introduce “new Coke” in the mid-1980s. That failed but Coke recovered by maintaining two Coke brands, Coke Classic (the original Coke) and New Coke, which eventually helped increase sales and profits overall. As one famous world leader once put it, great leaders always do the right thing, usually after they have done all the wrong things.

Almost everybody makes mistakes sometimes. The key to success is to learn from them and in some instances, as at Coke, to turn the mistake into a profitable opportunity. The capability to respond quickly to different market and customer needs can be enabled by creating an organisational culture in which failure is tolerated (mistakes will occur when exploring new ideas) and experimentation and improvisation are encouraged.

Systematic structuring is base-building. It enables managers to identify the many activities that must be done as well or better than the competition to survive in a competitive market. At the same time, it gives form and shape within which to do creative innovative thinking when developing specific differentiating winning strategies and actions. When integrated and balanced through effective leadership, structures can stimulate innovative creativity as situations are conceived and reconceived and scenarios developed of different possible ways to build on or break with the past and strike out in new directions and develop and pursue new visions.

Structuring is needed not only in formulating innovative strategies but also in translating them into profitable activities within a firm. Coca-Cola and Southwest Airlines, for example, formulated strategies that broke prior moulds – accepted industry practices and thinking. But each formulated these creative and innovative strategies in a systematic way, looking at value chains and customer needs in a competitive market. They also were extremely disciplined and systematic in the way they implemented these strategies in a balanced way.

**It’s a brave new world**

Today’s competitive market environment recalls the words of Dorothy when landing in Oz early in *The Wizard of Oz*: “Toto, I have the feeling we’re not in Kansas anymore”.

Times are changing rapidly and the rules affecting success in the future are not all the same as in the past. The competitive business market has changed and continues to change rapidly. Balancing unstructured and structured strategic management approaches is one way to help avoid disasters in dealing with and effectively exploiting this change.

**Bursting bubbles**

The dot-com bubble is only one of many burst bubbles seen in business over the past few years. They include

---

**Figure 2. Strategically focused management: the strategic framework**

<table>
<thead>
<tr>
<th>The task</th>
<th>The situation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic foundation</strong> (the strategic drivers)</td>
<td><strong>Strategic objectives:</strong> Guidelines for timing resource allocation</td>
</tr>
<tr>
<td>- Mission/vision</td>
<td>- Threshold (me-too and incremental) winning differentiating strategies</td>
</tr>
<tr>
<td>- Values/principles</td>
<td>- Differentiating winning strategies for intermediate and longer term</td>
</tr>
<tr>
<td>- Identified opportunities and boundaries</td>
<td>- Planned actions, including putting enablers in place</td>
</tr>
<tr>
<td>- Core competencies/skills profile</td>
<td>- <strong>Strategically focused activities</strong></td>
</tr>
<tr>
<td>- KISS (keep it short and simple)</td>
<td>Managing the key enabling mechanics to implement threshold and longer-term winning strategies in light of available opportunities, critical success factors, resources, and other situation restraints</td>
</tr>
</tbody>
</table>

---

*Copyright © 2003 by R. J. Mockler. All rights reserved.*
The focus: an emergent entrepreneurial leadership process

The process

Strategic vision/mission:
“I knew exactly what kind of company I envisioned; I just didn’t know precisely what it would look like.” Precise definitions, in other words, often emerge over time, through the experiences involved in doing it.

Strategic guidelines/business policies:
This is the map, the path, the planned steps. The secret here is KISS—“keep it short and simple”. That means one page written, five minutes oral, maximum length. These are sometimes called “simple rules”.

Implementation:
“Doing whatever was necessary to get the job done within well-defined general moral, legal, ethical and policy guidelines.” This often involves reconciling and balancing diverse, conflicting and often paradoxical forces, on a continuing basis, in a complex and rapidly changing competitive market environment.

The activities
- Creating a strategic framework, including an overall vision, values, strategic focus on core competencies, opportunities in future, and the guidelines or map or rules. Specific strategies and strategic plans (enterprise-wide and in business units and functional areas) often emerge over time, through the enabling systems and processes.
- Activating, energising, putting into place and monitoring enabling systems and processes, such as: functional area operations; telecommunications/information systems; accounting and finance systems; organisation and business structures, processes and cultures; and strategic alliances.
- Nurturing enabling human resources and processes through: organisation development; understanding cultural diversity; staffing, training, and communicating; and effective flexible leadership and integrative management at all levels.
- Ensuring that a core management staff (with appropriate interpersonal, communication, entrepreneurial, and management skills and potential) is in place and functioning.
- Communicating and implementing the strategic framework, as well as the cultural benchmarks that are needed to enable the core management staff to translate the desired vision into action. The actual process involves superior visionary and pragmatic leadership appropriate for both the managers and people/groups involved in the situation.
- Leaving managers relatively free to manage, and pushing decision making as close to the customer as possible, but intervening where appropriate to make certain integrative activities are operating efficiently and effectively to achieve the company’s strategic short- and long-term objectives.

The fibre optic bubble
The fibre optic industry expanded rapidly and lavishly in the 1990s based on the unfounded and untested assumption that Internet usage would double every 100 days (or grow at roughly 1,000 per cent a year), which it may have done early on when the initial base was very low. The reality, however, is that today it is expected to grow only 40 per cent a year, an attractive pace but one unable to sustain the major investment bubble. As a result, in 2002 it was estimated that only three per cent of installed fibre optic cable in the US was actually being used. This had a major impact on companies that had impulsively rushed into the field.

For example, Montana Power Company, an electric utility company, sold off most of its assets for $1.6bn and invested most of the proceeds in a coast-to-coast fibre optic network. By the end of 2001, Montana Power was reported to have 26,000 miles of fibre in the ground, an new corporate name, Touch America, and to be among the US’s largest half-dozen broadband companies.

Unfortunately, during this period electricity tariffs rose dramatically (a major missed business opportunity) while broadband usage plummeted in relation to capacity. In 2001, less than 10 per cent of Touch America’s fibre lines were being used, its profits had been drained and its stock price had dropped from a high of $65 to under $8 a share.

Touch America’s unsuccessful experiences are, of course, a narrowly focused example but they are not unique, since overall it was estimated that only three per cent of the 39 million miles of fibre optic capacity in the US was in use in mid-2001. A more systematically planned and phased strategic management approach might have helped avoid this disaster.

Corning, a company known worldwide for its Corningware, Pyrex and other household products...
until 1995, decided to move in new strategic directions at that time. First, it changed its strategic focus from a research-oriented company that developed new products and then gradually developed markets for them to begin focusing on market needs and making products to meet those needs.

This perspective led to changes in Corning’s strategic product concentration. It sold off its household products and began to focus on telecommunications, a major perceived opportunity area in the late 1990s. But it did more than just market the products it had developed itself for this area, such as the fibres, cables and optical components that carry light down the fibre optic highway that forms the backbone of modern communication systems (it had developed optical fibres more than 30 years earlier).

For example, in order to make such a strategy feasible and win against the competition, in 2000 alone Corning spent $10bn to acquire companies that made the pump lasers and other products that generate and transmit fibre optic signals. Telecommunications products represented more than 75 per cent of total revenue by 2000. Corning’s hope was to keep growing by 20 to 30 per cent a year in the future.

There were problems with this aggressive acquisition programme, however, which reduced fourth quarter operating earnings in 2000 substantially (by more than

World of Coke: Coca-Cola made mistakes but learned from them
$350m) though sales continued to rise in line with expectations. The problems continued and Corning’s stock price plummeted from close to $100 in 2000 to under $10 in late 2002. What was even more worrisome, the tremendous glut of capacity in the fibre optic cable industry suggested a coming slowdown of growth that would hurt Corning substantially at least over the intermediate term.

Not only was Corning’s timing a problem but its singular focus on one area (75 per cent of sales) was in a sense betting the store on one horse, a move that, however promising it may have appeared at the time, increased risks substantially. In general, dealing with a future that is unknown is obviously almost always by definition inherently risky, so systematic contingency planning would seem a necessary dimension for effective strategic management.

It is clear from Corning’s experiences that success or failure in strategic management situations can depend as much on effective implementation and timing and on contingent and comprehensive systematic strategic planning as it can on the strategy itself.

For example, a major lesson, evident here – as in the mobile phone and computer industries – is that strategies are at times based on erroneous premises – in this instance there was a belief among many experts that Internet traffic would double every 100 days. This was an unfounded and unsubstantiated high-risk premise that dictated a more systematic, phased and well-researched balanced approach, including alternative scenario development and evaluation, not the “bet-the-entire-store” approach that Corning seems to have followed. At times, first is worst, contrary to the popular platitude.

The 3G bubble
The mobile or wireless segment of the telecommunications industry has also seen its bubble burst. The actions by companies in investing in “third generation” (3G) mobile communications technology illustrate how this bubble grew and then burst in ways that would have been predictable from the outset if time and effort had been spent exploring the implications of future possible scenarios.

Within the context of the frenzied but overly exaggerated projections of Internet usage growth, many companies viewed the introduction of 3G technology, which promised to enable a wide range of expanded mobile services including video, as a major growth area. This view led many frantically to bid up the value of 3G mobile licenses, without even a minimum of prudent development and evaluation of likely scenarios and of plans for dealing with their impact. Telecom companies, for example, paid a total of $22.5bn for licences to operate 3G mobile services in the UK. This was only the beginning, however, since developing, building, equipping and promoting 3G mobile systems could cost an additional two or three times that amount.

Investments in 3G licenses appeared excessive in terms of surveys of expected customer demands. For example, a 2001 survey showed that mobile phone users were utterly uninterested in surfing the Internet from their mobile phone and just four per cent said they were ever likely to use their phone to spend money online. A few more of these kinds of in-depth probing surveys could easily have been made before major
moves. Ultimately, consumers have only so much to spend and only so much time, so market movements would essentially only involve shifts among different media not expansion of the total market.

Additional studies also have shown that 3G was an imperfect technology that might not live up to its expectations over the intermediate term and that other technologies were cheaper and equally effective and efficient, further suggesting that the area was very high risk.

As further in-depth strategic management analyses were conducted, companies such as Sonera, a Finnish telecoms operator, gave back one of its 3G mobile phone licenses without asking for any refund rather than add to the $4.5bn it had already spent on licenses in order to buy, maintain and put them to use.

The whole 3G experience, like the dot-coms, seemed more the work of naive inexperienced youngsters playing games with other people’s money than the work of mature executives. This impression was further reinforced by the subsequent scandals involving financial manipulations designed to cover up these mistakes and from the naive expectations among the manipulators that they could get away with and even profit from such manipulations.

The telecom bubble
Overall, the telecommunications industry, of which fibre optics and mobile communications are two major segments, has suffered major losses – more than $1,000bn over five years, a loss which has brought the world to the brink of recession. Telecom equipment makers, as might be expected, also suffered.

Job losses at equipment makers and other telecom companies was estimated at 300,000 and 31 telecoms companies (one every six days over a six-month period in 2001) went bust.

These problems continued in 2002, as Global Crossing, a major fibre optic communications company once worth $50bn, went into bankruptcy in early 2002, as did WorldCom in mid-2002 to become the largest US bankruptcy ever. Others were changing strategies and drowning in debt. AT&T was just one of the many giant telecoms searching for a winning enterprise-strategy as it first expanded its operations in diverse telecommunications areas and then decided to break up the group into four separate companies.

It is important to look into the long-term future and have the courage to innovate, take risks, strike out in new directions and break moulds. But is equally important to do this within some kind of systematic structure within which a balanced perspective can make the risks more prudent, for example by allowing time for alternative scenarios to be anticipated and planned for prudently, a rudimentary strategic management tool.

The computer/technology bubble
The computer field has been through many ups and downs, the most recent downturn being in the early 2000s, when the PC market saw its first period of negative growth since 1985 and prices of software and hardware were tumbling. Because of their past experiences with dealing with industry ups and downs, computer companies generally seem more capable of moving with the tides of change than telecom companies. Intel and Dell are two good examples.

In creating and implementing winning strategies, Intel consistently creatively balanced structured and unstructured thinking. Intel produces microprocessors (chips) for computers. The industry is fast growing and changing rapidly and so Intel has a strategic mindset – its strategic framework – that allows for continuous reinvention in many areas to meet the challenges of change in a systematic way.

For example, in the late 1960s and early 1970s Intel’s early innovative drive was to go beyond selling microprocessors. It aggressively assisted customers in developing ways to use microprocessors to add value to the their own business. It was a long, hard journey but eventually paid off with firms such as Ford including Intel microcontrollers in all their products. This programme was intensified and in 1980 alone 2,500 customer product designs were developed using Intel chips.

Extending this customer solutions approach, during the 1980s Intel focused on showing how its products could help customers like IBM get to market more rapidly with newer faster computers. To support this move, Intel extensively embraced change (a $250m investment) by redesigning its product development process (its key enabling mechanism) and shortened
it from 90 weeks to 44 weeks. This in turn enabled Intel to stop licensing its technology and to inhibit cloning by competitors.

In addition, Intel initiated development work on new products earlier. As a product was being developed, Intel also began development of the next generation product to replace it. This was done to further frustrate competitors and proactively increase the pace of activity in the industry.

There were other strategic drivers contributing to Intel's success. Intel sought to acquire additional new competencies by starting to manufacture products for personal computers that contained chips, such as computer motherboards. This gave it greater control of its then primary market, personal computer manufacturers, since this helped the firms who dealt with Intel to get to market faster than competitors. This enabled Intel to move further down the value chain in creating and maintaining markets.

In the 1990s Intel went further and began promoting its name to the final consumer, the computer user. The “Intel Inside” campaign encouraged computer makers to use Intel microprocessors by creating end-user preferences for Intel products. Like Coca-Cola, Intel's strategy moved closer towards management of the entire value chain, though in a much different way.

Intel also had the courage and foresight to embrace product refocusing – to drop major product lines that it felt would not be profitable in the light of competition and market dominance by others. During the 1980s it dropped its DRAM (dynamic random access memory) chip business and in 1999 exited the market for high-end graphic chips. Intel did this because Japanese competitors were consistently able to produce lower-cost products and this severely limited Intel's profit opportunities, a systematic comparative competitive position evaluation.

In this way, Intel pursued a strategy that combined a systematic review of the competitive market and its customers with a strategy based on building on its major core competencies.

In 2000, Intel was again pursuing new strategic directions, supplying semiconductors for information appliances, PCs and networking gear. In addition, it focused on mobile phone markets, e-commerce, consumer electronics and Internet servers. For example, it introduced a new family of chips for networking and communications gear that zips data through the Internet, opened a $3bn Internet services centre for other firms and began producing information appliances.

Intel's experiences provide an example of the complexities involved in balancing working within structures, such as systematic competitive market analysis and planning frameworks, with having the competency to create innovative solutions within these structures.

But Intel's experiences also show, however, that such a carefully balanced approach is no guarantee of immediate success. In 2002, for example, it had made major investments in the communications industry ($11.5bn), believing that the industry had a great future as companies reduced their heavy debt burden and become stronger and the market grew, a very questionable timing problem in 2002. At that time only 20 per cent of Intel's revenue came from the communications chip business. In addition, in late 2002 Intel's newest 64-bit superchip (developed jointly with Hewlett-Packard), Itanium 2, was encountering competitor/customer problems.

Craig Barrett, who heads Intel, believes that, like the computer industry, the communications industry will move towards industry-standard equipment and components as price pressures and competition mount. Intel is strong in this area and so should prosper. At the same time, Intel is making major investments in the PC and larger corporate computer systems microprocessor business, where it is strongest (80 per cent of its business) and where cost-efficient manufacturing is a major competitive advantage.

But even there it is also having problems, though these are not disastrous because Intel has not “bet the store” on new technologies but instead has moved in a carefully planned, selective and incremental way.

In other words, Intel proceeded in a way that balanced a systematic well thought-out structured approach with creative innovative steps.
Dell has been equally balanced in its approach to a highly volatile computer market. Its basic strategic business model is to keep inventories small, expenses down and prices low, which has led to Dell increasing its world-wide PC market share from about five per cent to 15 per cent (27 per cent in the US) in the past five years, in spite of (or maybe because of) unspectacular industry conditions. In addition, Dell is taking its distribution and logistics business model developed for PCs and using it to sell clusters of networking, servers, printers, peripherals, software and storage equipment and in some cases creating its own brand in these areas.

Over the years, Dell has been innovative in many other ways. Its early performance in Europe was dismal when it used traditional retail sales channels – the usual way of selling in Europe. In an effort to increase sales, Dell defied the commonly accepted guideline that successful formulas often are not able to be successfully transferred across national and cultural boundaries. Using its US selling method, Dell began selling direct in France and Germany. As a result of “breaking the mold”, Dell’s sales in France and Germany rose five times faster than European personal computer sales in 1996 and Dell doubled its market share. Even in 2000 in Europe, Dell was the only PC maker to grow as the general market was falling 11 per cent. Dell successfully used the same selling approach in China.

Dell, a truly entrepreneurial company, was also among the first computer makers to experiment with selling through kiosks in shopping malls. As markets changed, Dell was flexible, and in mid-2002 announced it would expand its direct-sales policy and begin selling to intermediaries.

Intel’s and Dell's experiences provide an example of the difficulties and benefits arising from starting from structures, such as systematic competitive market analysis, planning and company core competency frameworks such as those shown in Figures 2 and 3, and having the creative skills to create innovative solutions, such as decreasing development time for introducing new products and customer services in key opportunity areas in the industry and having the courage to abandon highly competitive areas.

Building on their past successes, Intel and Dell used a variety of innovative strategies to meet and beat competition initially (short-term), then to anticipate competition in key areas and proactively surpass them in dramatic ways (intermediate term) and finally to change competitive market structures and relationships (long term).

Integratively balancing creativity, future vision and rejuvenation with systematic structuring is clearly hard work that requires expert leadership skills and differs in day-to-day practice from firm to firm. If many of the bankrupt telecoms had had such a balanced perspective their managers might not have had to resort to unethical financial manipulations to try to survive; they might have kept going by simply pursuing the balanced strategic management approach discussed in this paper.

The dot-com bubble
In the popular press, the seismic event of the past four years remains the dot-com bubble bursting. While the pictures and stories of geeky young men in baseball caps winning millions in paper wealth made interesting popular reading – many books and films have been written and made exposing the shattered egos and greedy excesses – and are exciting entertainment, in fact, the telecoms fall was much greater and had much more significant and far-reaching impacts on the world’s economies. It is for this reason that this paper has focused on the telecom and computer areas where the story is still unfolding.

A balanced approach is possible
The balanced entrepreneurial approach given in Figure 1 and other more systematically structured approaches such as those shown in Figures 2 and 3 earlier are no guarantee of avoiding disaster.

They only provide a more carefully thought-out structured basis on which to build a more systematically balanced approach, a prudent approach to risk taking. Admittedly, without effective creative leadership, innovative thinking and some luck it is possible to miss or fall behind when a major new opportunity arises.