

THE VISION DEVELOPMENT PROCESS

Determining where and how we can best create long-term value.

Introduction

We use the vision process to determine where and how our businesses can best create long-term value. An effective vision will help employees understand how they can contribute to value creation and provide a guide for decision-making and effective action.

Since we cannot fully anticipate the future, an important part of the vision process is to increase our ability to respond in a timely and appropriate way to new opportunities and threats. This requires that our businesses are effective at preparing for, recognizing, and responding to emerging developments. Our goal is to enhance our ability to profit from new opportunities and to mitigate the effect of new threats.

An effective vision and an individual employee

From an employee's perspective, an effective vision can help to:

- Provide a sense of purpose by clarifying how the organization creates value and how he or she can contribute.
- Create the necessary conditions and frameworks to legitimize change
- Provide a guide for decision-making and effective action
- Attract commitment by defining the challenge and establishing what "good" looks like

Developing an effective vision

For us, the process of developing and implementing an effective vision has five interdependent elements.

Capability assessment: An intellectually honest and realistic assessment of what we are (or could be) good at in comparison to others. True capabilities are distinctive, durable and broadly applicable organizational attributes that result in long-term advantage.

Point of view development: A set of mental models used to help us anticipate, identify, confirm, and respond profitably to new developments in the political, macroeconomic and business environment. An effective point of view will include a fact-based assessment of how we create value for our customers and the characteristics of our current and potential markets including an understanding of anticipated future trends.

Opportunity and gap identification: Based on the capability assessment and point of view, we prioritize the opportunities we have to create value and identify and assess gaps, obstacles and risks that may affect our ability to realize the potential value. The opportunities should be assessed based on risk-adjusted net present values and returns on capital and capability consumed.

Connection to effective action: Our belief is that a well-written vision supported by a rigorous capability assessment and a thoughtful point of view is valueless if it fails to lead to improved decision-making and effective action. The appropriate way to communicate and use the vision to enable effective action will vary, but this element is always an integral and crucial part of the vision process. An important step is developing actionable strategies that reflect priorities at the business level. This can be followed by groups translating the business level vision into more specific visions and strategies that are relevant to them. The Roles, Responsibilities and Expectations of every employee should be aligned with his or her group's value opportunity in support of the vision.

Measure, recognize, review, and revise: We know our markets are subject to continuous change and that our judgment regarding the future will never be perfectly accurate. In addition, our capabilities will change and evolve. As a result, as time goes on we must test our mental models and assumptions against market realities and update and revise our vision as required. We want the vision process to enable on-going review and to encourage innovation and robust questioning of the status quo. Appropriate measures can alert the business to unanticipated changes and based on these the vision and strategies can be reviewed and revised appropriately.

The vision development process for capabilities and support groups

For groups that do not have external customers, vision development is largely similar to the process at standalone businesses. An important distinction will be the point of view development process where often many of the tools used by standalone businesses will not be relevant. However, identifying and understanding internal customers and clearly understanding what it is that creates value for them, and how it is measured, will likely be useful. This will often require discussion with a cross-section of individuals who interact with the group, and are affected by the group's activities.

Additional questions particularly relevant to the vision development process for capabilities and support groups include the following:

- 1) Who are your customers? Who is affected by the services you provide?
- 2) How do you contribute to your customers realizing their visions?
- 3) If you were to perform poorly who would care and why?
- 4) Are you able to appropriately measure and track the cost and value of the services your group provides?
- 5) Do you know what are the most important questions, opportunities, and challenges facing your customers? How does your group contribute to addressing these issues?
- 6) Does the way your group charges for its services appropriately align the interests of all participants and provide useful market signals?
- 7) Why would Koch Industries not be better off by buying all or some of the services your group provides from an outside vendor?
- 8) What opportunities exist to eliminate waste?
- 9) Are other Koch Industries businesses optimally benefiting from your group's assets, skills and other resources?
- 10) Is your group making optimal use of assets, skills and other resources that reside elsewhere in Koch Industries businesses?

Some potential pitfalls

Failing to involve an appropriate group in the vision development process. An effective vision cannot be developed by a single leader and imposed on the organization. It must involve a wider group. Limiting participation to an inappropriately small or homogenous group will have two undesirable consequences. First, the quality of the thinking and analysis is likely to be lower than if a broader group with more divergent views and breadth of knowledge participates. Second, communicating and implementing the vision is likely to be more difficult since fewer people will feel vested and committed to the vision at the outset. On the other hand, vision development is not a democratic process and it does not require full consensus. Involvement should be focused on constructive challenge and input and garnering commitment.

A vision that is solely aspirational and general in character that does not provide actionable guidance for a large proportion of employees. To be effective, the elements of a vision should address all three of the conditions for human action (i.e., a restless discontent with the status quo, a vision of a better state, and a reasonable path to that better state). Among other things, a good point of view should make it clear that standing still is a losing proposition, irrespective of a business' starting position. The vision should convey a realistic picture of the better state and also convey a sense of a reasonable path forward. The purpose of the vision process is to improve decision-making and enable effective action. If a vision is not relevant and actionable for many employees these goals will not be realized. Either a different vision is called for that is useful to more people or perhaps additional visions need to be developed for different groups or businesses areas. The additional visions could serve as bridges linking various groups to the overall vision for the business.

A point of view focused exclusively on potential incremental changes to the prevailing business environment that fails to consider the possibility of more fundamental changes. If we fail to recognize the possibility of significant changes in our markets we are likely to be poorly prepared when they eventually occur. Identifying possible major market dislocations such as those caused by significant changes in regulation, macroeconomic conditions or industry specific microeconomic issues and thinking through their potential implications for profitability and key success factors can be a valuable outcome from the point of view development process.

Starting with the answer. To be valuable the vision process must be fact-based and open to change as new information emerges. If it were to become an exercise in validating preconceived notions not only is the work involved in its preparation largely wasted but it will also, in all likelihood, have a damaging effect on future decision-making. However, the vision process cannot be endless analysis in search of an answer. It is important that a disciplined discovery process is followed. This will include developing and testing hypotheses (by analysis and through experimentation) taking into account the marginal benefits and costs of further work.

Believing that we can predict the future. The future is inherently unpredictable. If our vision or point of view development process leads us to hold a false sense of confidence regarding the predictability of future events, the process has been counterproductive. Detailed plans that reduce flexibility and rigid schedules and timetables that limit the opportunity to revise and update our thinking are the opposite of what we want to achieve. In fact, a measure of the success of the vision process is the degree to which it enables flexibility and responsiveness in our businesses and encourages continued testing and refinement of our assumptions as new information becomes available.

Ignoring capability shortfalls. An effective vision requires a realistic assessment of our organizational capabilities. In light of our current capabilities, some opportunities that are attractive for others will not be high priorities for us since we do not have the relevant human talent, skills, or experience. An unrealistic fantasy or pipedream cannot be an effective vision. A vision needs to identify where there are attractive opportunities to invest in improving capabilities and be supported by realistic strategies to do so.

Focusing on a list of short term objectives. A vision will establish a guide to determine strategies and objectives. An effective vision will stretch people's perspectives of what is possible; it will not be easily attainable. Rather than focusing on details a vision should direct people's attention to the handful of issues that are critical to long-term success.

Perceptual blindness

Perceptual blindness, also known as in attentional blindness, is the name given by psychologists to the phenomenon of an observer failing to perceive objects because they are unexpected or because the observer is concentrating on searching for something else.

In a well-known study conducted by Daniel Simons and Christopher Chabris, subjects were asked to watch a short video in which two groups of people pass a basketball back and forth. The subjects are instructed to carefully observe some aspect of the activity on the video such as to count the number of passes made by one of the teams. After watching the video, the subjects are asked if they noticed anything out of the ordinary take place. In many groups, around half of the subjects say they did not, even though in different versions of the video a woman walks through the scene carrying an umbrella or wearing a full gorilla suit.

This study, and others in a similar vein, demonstrates how we can often fail to perceive things which were unanticipated particularly if we are preoccupied searching for something else.

In a business setting, perceptual blindness, or similar phenomena, may lead decision-makers to overlook or fail to understand relevant information which does not fit with what is expected.

A vision that is based on a point of view that omits relevant elements of reality is unlikely to be effective. We can reduce the risk of this happening by actively seeking input from those with an independent perspective, conducting an effective challenge process and actively looking for clues that our assumptions and point of view may be wrong.

The fable of the big ships

A fable variously attributed to a number of different European explorers and travelers including Columbus, Magellan, Cook, and Darwin offers a lesson on the power of perceptual blindness.

Picture the explorers making landfall for the first time. What do the local people experiencing their first contact with Europeans observe? Certainly, the men. Although some things about their clothes and appearance are strange and unfamiliar they are recognizably human in form and behavior and everything about them is of great interest. The small row boats the explorers used to get to shore are also visible and studied with interest. Although different in detail from the canoes used by the local people the row boats' purpose is clear and it is natural to compare them to the familiar canoes. Moored further out to sea, the large sailing ships which brought the explorers from Europe seem to be of no interest to the local people. These ships represent the critical technology that has led the European explorers to a distant continent. Even though they are so important to understanding what is going on, the sailing ships are entirely overlooked by the people the explorers encounter. Asked by one of the explorers what he thought of the “big ships” – it is a fable, so language barriers can be ignored – the local leader responds “What big ships? I see only sea birds on the water.”

Of course, in this fictional encounter between two groups of people with very different experiences and expectations, the phenomenon of perceptual blindness runs in both directions. While the local inhabitants are blind to the ocean going sailing ships, the European explorers are blind to important aspects of local culture and technology. Not because the evidence is truly invisible, but because it does not fit with what they are familiar and expecting.

For us, the moral of this fable is that we can easily fail to perceive or understand things that are important – may be even those things that are the most important – because they do not fit with our preconceived notions of how the world works.

In our businesses, we need to ask:

What are we missing because we are assuming that future trends and developments will fit with our past experiences and with our prevailing frameworks and assumptions?

What are the “big ships” that we are overlooking because they do not fit with what we expect to see and because we are preoccupied searching for something else?

Lamppost aphorisms

“A drunk chooses to look for his lost house keys under a lamppost even though he mislaid them elsewhere, because there is more light close to the lamppost.”

It is often difficult to allocate time and resources to the right priorities. In particular, it is easy to confuse being active with being effective. So, for example, in developing a point of view we may be inclined to spend time developing an analysis with what appears to be great precision because there are a lot of relevant data available and improving the accuracy of the analysis has the appearance of being useful. However, it may be the case that other issues are more important. These may be less easy to quantify precisely but could be more valuable to study.

“Most people use statistics the way a drunk uses a lamppost, more for support than for illumination.”

Although it is sometimes difficult, we should try to remain open-minded to new and different explanations. In particular, we should try to avoid the natural human tendency to ignore evidence that contradicts our preconceived notions and to only accept confirmatory evidence. In fact, we should seek out and consider all relevant information and be prepared to reassess our thinking if appropriate. An effective challenge process can help us to achieve this goal.

Thought provoking questions

Capabilities assessment

- 1) What are the distinctive skills and resources of your group?
- 2) What outside organizations represents good practice in your group’s areas of activity? What could you learn from them?
- 3) Does your group have capabilities that do not add value to customers?
- 4) What valuable skills exist only in your group? How are these skills being strengthened and what steps are being taken to ensure that they are not lost?
- 5) Are there ways your group creates value for the organization other than by delivering products and services to customers?
- 6) How are your group’s capabilities expected to change over time?

Point of view development

- 1) Who are your customers? What are their needs? How are their needs changing?
- 2) How do you create value for your customers? How do your customers measure the value created?
- 3) What alternatives are available to your customers and how do they compare to your offerings?
- 4) How are prices for your group’s inputs and products and services determined?
- 5) What are the most important elements of the business environment that will affect future profitability (including relevant government policy, macroeconomic and industry specific microeconomic issues)? What range of outcomes is plausible?
- 6) What scenarios are plausible for your future business environment? How probable is each of them? What does each scenario imply in terms of key success factors and risks?

Opportunity and gap identification

- 1) Is there alignment between your group's activities capabilities, and point of view?
- 2) Do current activities correspond to the areas of greatest potential value creation?
- 3) If you were building your group today from a blank sheet which of your group's assets or other capabilities would you try to duplicate? Which would you not?
- 4) In light of your group's capabilities and your point of view, what are the greatest opportunities for your group to create value, currently, and in the future?
- 5) Currently, and in the future, what capability shortfalls exist?
- 6) What change to your group's personnel, processes, culture or other capability would be most helpful in improving your position?

Connection to effective action

- 1) What specific actions should be taken to optimize the group's potential to create value?
- 2) How do you know that for all relevant parties your group's vision is understood, is viewed as important and provides direction?
- 3) What is the relationship between your group's vision and individuals' Roles, Responsibilities and Expectations?
- 4) How does your group's vision fit with that of your business or parent company?

Measure, recognize, review, and revise

- 1) Is your group's vision open ended and subject to challenge and review? How does your group's vision encourage innovation and questioning of the status quo?
- 2) What measures do you use to check that the assumptions underlying your vision are still valid and to obtain an early warning if changes are appropriate?
- 3) How is new knowledge incorporated into the vision process?
- 4) How are experiments being used to accelerate the capture of new knowledge?

Questions, comments and suggestions

Please discuss your questions, comments and suggestions regarding this document with anyone on the MBM team or contact "MISC MBM Training.