

# EFFECTS-BASED THINKING

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## PART I: Effects Based Thinking (EBT)

As the name implies, effects-based thinking is an approach to planning and decision making where the effects of specific actions are assessed, not in a narrowly defined and time-limited way, but through a perspective that is sensitive to broad-ranging and lasting impacts. Effects-based thinking is the opposite of short-sightedness or myopia.

Sadly, we have the ability to think about effects, yet we often don't. In our fast-paced personal and work lives we tend to think more about today's issues rather than tomorrow's. Strategic objectives get pushed back further and further to accommodate those immediate concerns. Modern organizations tend to exacerbate our naturally myopic tendencies by planning in small executive teams and passing down narrowly defined objectives and goals with little connectedness to overall goals. Ironically, such narrow planning sparks our natural capacity for effects-based thinking.

In the wake of some failed corporate plan, the water cooler conversations buzz with effects-based criticisms like, "Didn't they realize that was going to happen?" or "I saw that coming a mile away."

To some extent we are all effects-based thinkers. If you ever said to yourself, "I'm not going to stay up to watch the rest of this game because I won't get enough sleep and I have a busy day tomorrow." Or, if you decided to enroll in graduate school to get an MBA so that you would have better career options, then you are certainly thinking about effects. In this sense, Effects-Based Thinking, which we will call "EBT", is a fundamental human trait in our planning processes. We envision some future or some goal, or we analyze some set of choices or actions and we think forward through a chain of cause and effect to make decisions. Thinking about effects is part of our nature as humans.

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However, few individuals or organizations utilize EBT systemically. Such an organized, process-oriented approach is what we mean by Effects-Based Thinking. We partially define EBT as coordinated planning and decision-making directed to shape an organization's picture of the future. This is only a partial definition because we must additionally consider what we know about complex systems – that they are inherently unpredictable and subject to rapid, even destructive change. Furthermore, actions can produce unpredictable effects and unintended consequences within complex systems. In complexity, the cause and effect sequence will always have some degree of ambiguity. Unfortunately, we're stuck with the fact that no person or group of people has completely reliable predictive abilities about complex systems. We also know that within complex systems root causes of effects can be obscure. So, even with the benefit of hindsight, we may not know precisely what forces are at work to yield

any given effect. Therefore, we must be ever vigilant about what is happening around us. And, we must continually assess cause and effect in our internal and external systems. EBT is more than just planning by mentally projecting through a series of causes and effects. It is also about assessing the effectiveness and accuracy of our predictive planning. To truly think in an effects-based way requires us to think cyclically rather than linearly.

To be more accurate, then, EBT can be defined as a continuum of planning and assessing the effectiveness of actions directed to shape an organization's overall goals and objectives. In other words it's "how do we get what we want and how do we know we're making the right choices to get it." And that seems pretty simple and straightforward if it were not for this pesky problem within most organizations known as "execution."

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Organizations create plans that span the course of years. They call these plans “strategies.” But, leaders in organizations struggle to coordinate or orchestrate the execution of that strategy. One of the many reasons for this is that the strategic plans are often not well connected to the operational plans, or what military planners call “tactical plans.” The strategic plan often spans a period of years while the tactical plans may only span a period of days, weeks or a month. There is a missing planning tier needed to bridge that gap – one that spans the multiple-month to multiple-year gap. Without it the plans we carry out on a daily basis are hard to connect to the overall strategy that spans a year or more. In that case then, how do you measure your progress in support of the strategy? And, even more importantly in this rapidly changing complex world, how do we know our strategy is still a viable

one? Complex phenomena obscure our ability to determine whether our chosen course is correct. So, what do we do? Do we just keep plugging along for months or even years until it becomes painfully obvious that our strategy is ineffective or needs adjustment?

In 2010, IBM produced a report called Capitalizing on Complexity. This report clearly outlined the challenges of operating in a highly complex world, what it called a “global system of systems.” In its conclusions it made several recommendations, all of which agree with the fundamental assumptions inherent in Flawless Execution®. But, one in particular speaks directly to EBT. The report instructs the reader to: “Course correct as needed. Align a few clear metrics with objectives to identify success patterns, then regularly track results as part of a continual feedback loop. Modify actions based on what is learned.”

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## PART II: Three Orders of Effects

Many organizations utilize scoreboards or dashboards to track progress toward goals. Such methods have clearly measurable values that can be measured in a continuous manner to track performance. But such tools are just that - measures of performance toward discreet objectives. These objectives do not always have a clear connection to the organization's over-arching goals or vision. For example, making a certain amount of revenue or delivering a particular earnings per share by the end of the year are great measurements. How are we going to know whether the actions we are taking today and tomorrow are having the right effects upon those measurements? How do we know we aren't just getting lucky? Furthermore, how do we even know that those measurements are the right measurements? And worse, how do I know that the sum of the individual actions taken to affect these measurements, which often form the basis of incentive systems, are not interfering with each other or ultimately damaging the organization.

Every organization is a complex system that is typically composed of smaller complex systems that are interdependent. Interdependencies between complex systems are unpredictable and can create unintended effects or consequences. So, the lesson to learn is that scoreboards and dashboards alone are not necessarily good indicators of progress toward achieving organizational goals.

So, how do we manage organizations in uncertainty? We do it by first developing an understanding of Effects Based Thinking (EBT) throughout an organization. Do the people at the lowest levels of most organizations have an understanding of the organization's overarching goals in order to make the right decisions? Do they have the freedom to exercise judgment? Do they have access to the information they need to make those judgments? What about the middle managers - do they have the necessary understanding of goals and freedom of action to act in the organization's best interest?

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And furthermore, whether they make the right or the wrong decision, are they learning from it and transferring that learning horizontally and vertically throughout your organization? And, lastly, are the organization's senior leaders learning from what the most junior leaders are learning in order to adjust the organization's course and strategic direction? To do all these things and remain agile and adapt to the precarious changes in complex environments requires Effects-Based Thinking.

Everything exists within a system and everything within the system has the ability to affect everything else within that system. Central to EBT is the notion that effects transmit through systems in three orders. Think about actions in EBT as "Impacts." Impacts are the actions taken or an event that has occurred that causes the rippling effects that cascade throughout the larger system. These impacts are "kinetic" effects. Kinetic effects are measurable and immediate. Typically, then, kinetic

effects are localized. The effect remains within or close to the originating system or transmits merely to the neighboring systems. Kinetic Effects have a tendency to be a small step toward some larger objective.

Second Order Effects connect the very actionable, controllable, and immediately measurable Kinetic Effects to the long-term organizational goals that effect the much larger market or global system. Second order effects are those that have a significant impact on the primary systems that comprise the overall system. That is, they correspond to an organization's individual strategic objectives. Because Second Order Effects are much longer range than Kinetic Effects, they typically only manifest themselves over a period of months or even years and present a challenge to measurement.

At the level of Second Order Effects, complexity sets in and it isn't always clear what might be affecting the success or failure of our strategic objectives.

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And, our measurements may or may not be relevant to those objectives. So, the effects that we desire at the second order must first be described as Intended Effects in a simple, clear manner before we attach measurements to them. We must also always hold the Intended Effect as primary over the measurements and continually ask ourselves whether the measurements are indeed a reflection of progress toward the Intended Effect. If we can't make that connection, then what is the compelling reason to keep doing what we are doing? Are our actions achieving our Intended Effect?

So, Second Order Effects are the culmination of a few or many Kinetic Effects. They most likely align with an organization's strategic goals. Therefore, scoreboards and dashboards of a few carefully selected metrics can be excellent tools for assessing success. But there is another, higher order of effects that can't be ignored – Third Order Effects.

Third Order Effects describe an organization's ultimate Destination over a period of years. A Destination is similar to the popular notion of a company's vision. A Destination, though, is a high-definition description of some future state of the organization. It is the set of long-range goals that the strategy seeks to attain. When we speak of "ripple effects" we are often thinking in terms of Third Order Effects. The set of effects, expected and unexpected, that ultimately arise as a function of activity over a long period of time – on the order of several years – is the domain of Third Order Effects. The Destination is the set of effects we want to bring into existence. Other Third Order Effects, whether created by entities outside the organization or by the unforeseeable consequences of actions taken within the organization, are what we must guard against.

These three levels of effects – Kinetic, Second, and Third – provide a structure for thinking in terms of planning, executing,

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and assessing an organization's activity within complex environments. EBT helps guide organizations through such complexity and adapt to its constant changes and challenges with greater caution. But, perhaps even more important, EBT provides everyone in that organization a simple structure to guide and align their actions toward long-range success.

When we bear in mind our ultimate goals when planning and executing toward immediate or short-range ones, we can align our actions more effectively toward those ultimate goals. We're also able to better construct, align, and adapt our measurements to ensure we aren't measuring the wrong things or, worse, driving the wrong behaviors.

## PART III: Line-of-Sight Alignment

Effects transmit through systems in three orders – Kinetic, Second and Third Order effects. Kinetic effects describe the objectives of short-range operational plans – the plans and projects we carry out on a daily basis in our work. These objectives must be clear, measurable, achievable and support the organization's Destination. Although a plan or project may take some time to complete, its effects should be immediately observable and measurable. That's a kinetic effect – a small but significant step toward a larger goal (i.e. second and third order effects).

But, the Kinetic Effects we seek to create must have another quality. That quality is what we call line-of-sight alignment. Line-of-sight alignment is a clear understanding of the actions that need to be taken now to affect change over the long term and achieve the effects desired at the Third Order. Simply, it's understanding how what you do today most likely affects the future. It's a clear line of connection between Kinetic, Second and Third Order effects – or daily operations, strategy and organizational mission and vision. For example, the customer service I provide

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today, effects the store's bottom line at the end of the month and supports the long term success of the business. The investment I make in the new leadership development program today, will stem the outflow of experience from the retiring Boomer generation over the next few years, and build a firm foundation for long-term growth and success. With that in mind, we are well-equipped to make the daily, weekly and monthly actions necessary to get there. Line-of-sight alignment also helps develop a more keen perception of the system as a whole.

The intended impact of multiple planned kinetic effects ultimately generates second order effects within the larger organizational units. It is even possible that a single, timely, kinetic effect can directly cause third order effects. But, for that to occur, the larger system would have to be in a critical and highly sensitive state. Complexity scientists refer to such a state as self-organized criticality. Consider the assassination of Arch-Duke Ferdinand in 1914 and the introduction of the Apple iPod

in 2001 as examples. An anarchist assassinated Arch-Duke Ferdinand in August of 1914 precipitating the First World War. But that's a misunderstanding of the complex system that existed in Europe nearly a hundred years ago. A complex array of treaties and political relationships existed in a critical state. War was virtually inevitable – it only needed a small push. The music industry existed in a similar critical state in 2000 with technology and downloadable music threatening intellectual property rights and profits of major entertainment corporations. Into that system stepped Apple who launched one of the most successful products in history. The iPod's success was due, in part to the criticality of the system and Apple's decision to seize the opportunity inherent in that instability. For businesses, sensing such critical states is the essence of recognizing opportunity – an opportunity that is more clear to those with an EBT mindset and line-of-sight alignment.

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All activity in a social organization takes place through individual actions or it is carried out by processes designed and implemented through individual actions. People originate action and, therefore, create effects. Think about that for a moment and what it means. A corporation is a legal entity much like a person. However, regardless of the legal status of a corporation, it does not think and act as an individual. It takes no action except through the actions of individuals. That individual may be the owner or the CEO or the Chairman of the Board, but nothing actually occurs, there are no impacts or kinetic effects except through the actions of individuals. A company does not purchase raw materials. A purchasing agent purchases those raw materials either through their own decision-making process or via an inter-organizational process. A company does not merge with another except through the legal transaction committed by an officer so empowered to

execute that transaction. The individual person is where the rubber meets the road in social systems.

For example, if the vision or goal of a retail chain is to capture the largest segment of its market, then it is not the Regional Manager that sells the product. It's not the District Manager that builds a new store. It's not the Store General Manager that stocks the shelves. It's the sales rep that sells the camera to the customer. It's the contractor that pours the concrete. It's the store associate that stocks the green beans. The third order effects desired by the organization upon the larger market system must be translated in a cascading fashion from the very top of the organization to simple actionable tasks at the individual level. It does this through clear line-of-sight alignment in the context of EBT.

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## Summary

We utilize the word “Thinking” in Effects Based Thinking for one very important reason. Although the concept finds its roots in military operations, and is known as ‘Effects-Based Operations’ in military circles, the application is much more broad, and perhaps more important in non-military settings. We call it Effects-Based Thinking because of the absolute necessity for human thought processes to cut through the muddy waters of complexity. Effects-Based Thinking, at every level in an organization from the CEO to the front-line associate must ultimately rely on well-informed judgment to guide right action. Technology can only provide more information. It cannot provide meaning . . . and, it can’t decide.

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