A Strategy for Supporting Innovation and Growth in Times of High Uncertainty

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One good indicator of the accelerating pace of change is the time it takes for die total amount of human knowledge to double. At the end of the first millennium, it doubled in about 200 years; at the beginning of the industrial revolution, in about 30 years; and today, in about five years. Welcome to the information age!

Many thoughtful people are asking whether, in the face of this incredible amount of new information, it makes sense to „do" strategy at all. How useful is it to engage in strategic reviews, analyzing market positions and setting goals and tactics, when at the end of the process the world will have changed – and will continue changing? Is strategy still relevant?

The answer is yes, it is. Consider the battle between Garri Kasparow and Deep Blue. Garri Kasparow is an international chess champion who has at his disposal some 50 billion neurons and can think through about two moves per second. Deep Blue is an IBM computer consisting of 32 processors and able to calculate 200 million moves per second. How can a human being possibly compete with such a superb piece of technology? And yet, Garri Kasparow has won most of the matches between the two. It's hard to imagine a better illustration of the power of strategic thinking – or the superiority of ambition-driven versus resource-driven strategies.

Today there is much discussion about core competencies and strategic focus as ways for companies to better leverage their limited resources. This is good. Much harm was done when businesses attempted to do too many things at the same time. But merely narrowing a company's focal range cannot in itself ensure strategic success. What each company needs is a clear and shared ambition that the entire organization can pursue with real dedication.

Arthur D. Little's Ambition-Driven Strategy™ framework and methodology are designed to create this dedicated pursuit of shared goals by establishing a high degree of alignment across the organization. Unlike conventional strategy-formulation processes – which address only the rational, analytical elements of strategy – Ambition-Driven Strategy also addresses the fundamental behavioral aspects. Moreover, Ambition-Driven Strategy actively addresses the issue of uncertainty, not as an obstacle to long-term success, but as a resource for business opportunities.

Creating strategy today requires a new toolkit. In this article, we discuss the development of the Ambition-Driven Strategy approach, which supports innovation and growth – and a few thoughts on why traditional strategic planning isn't working very well.

The Trouble with Traditional Strategy

Virtually all major companies develop strategies. Companies understand the need to have a common course of action toward shared goals. *Yet* according to research conducted recently by *Fortune* magazine, companies execute only 25 percent of these developed strategies.

How could that be? After all, these companies have invested millions of dollars in strategic planning, using the latest analytical planning tools. What goes wrong in the development of these strategies? We've identified a number of reasons:

• For many people, strategy remains remote and almost mystical, the outcome of a top-secret senior-management retreat. This kind of strategy can't generate staff enthusiasm or even support. How can employees act strategically without knowing anything about the strategy?

• Traditionally, strategy development has involved a lot of data gathering and analysis of past performance – neither of which does much to help manage fundamental market uncertainty. Often, internal discussions of whether the company's target market share should be 12 percent or 12.5 percent become more important than any discussion of future business drivers and their impact.

• Strategy is still perceived as primarily an analytical process that ends in one „best" strategy for the company. This „best" strategy is then translated into a business plan, which the organization attempts to implement. But if strategies were the result of a purely analytical and rational process, think how easy it would be for all competitors to predict each other's strategies.

• „OK, the strategy is done, let's get back to operations," is a frequently heard observation. Even in relatively enlightened companies, strategy development is only rarely set up as an ongoing process, and strategic reviews are rarely incorporated into the business planning process.

• What usually causes strategy to fail is not wrong information, but inappropriate or misaligned behavior. Check this observation against your own company's experience:

when you were trying to implement your last strategic initiative, where were the barriers – in content or behavior? Most companies spend 95 percent of their strategy development time in defining the content of the strategy – mostly by analyzing the current market and company performance.

So what happens when the „behavioral aspects“ – i.e., the people – are left out of die strategy process? First the strategy cannot generate the necessary buy-in for implementation in operations. People may pay lip service to the new strategy, but they won't live by it. And second, even if this content-based strategy were somehow implemented, it would be unlikely to be very differentiating, because the information that shaped it is readily available to every competitor in the marketplace.

To avoid the shortcomings of traditional strategic planning, companies must first recognize that in both formulating and implementing strategies they must wrestle with issues that are far from certainty and far from agreement. The key challenges are managing the uncertainty in the market environment and achieving alignment of the employees within the company, as shown in Exhibit 1. Because the uncertainty in the business environment is pushing strategic planning to the far right of this matrix, companies that stick to traditional planning methods will often fail in implementing strategies. Every company should ask whether its strategic planners have the appropriate tools to tap into the organization's intuition and creativity, to create agreement and alignment at the far right of the matrix.

Ambition-Driven Strategy

The challenge for companies is to merge the rational and analytical strategic planning tools with a process and instruments that encourage creativity and trust. The goal is to enable the organization to make the necessary quantum leap to strategies based on people's real ambitions.

Arthur D. Little's response to this strategic challenge, Ambition-Driven Strategy, differs from traditional strategy in three fundamental aspects:

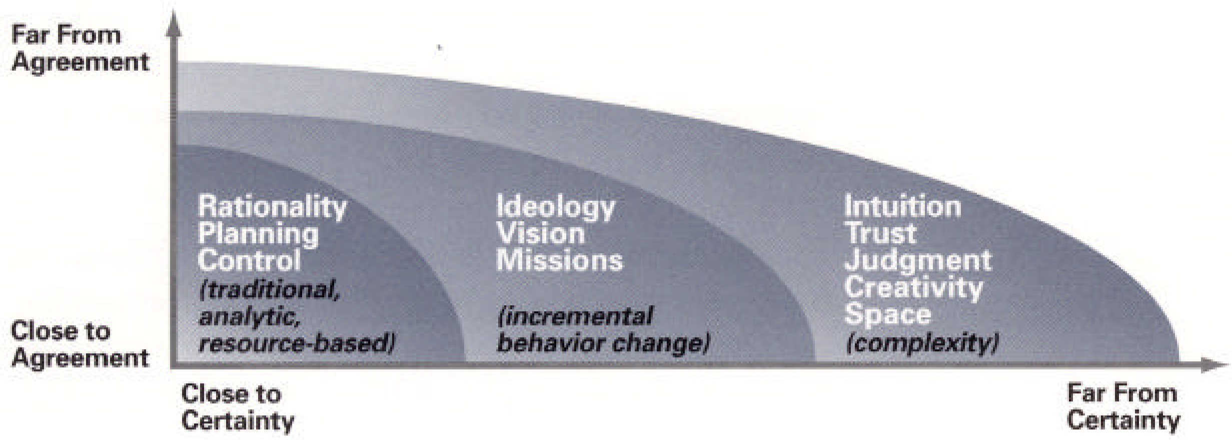
• It creates content that is future-based and ambition-driven.

• It ensures that behavior is aligned with objectives.

• It provides continuous process management that relies on a balanced set of performance indicators.

Exhibit 1

Two Key Dimensions of Strategic Thinking

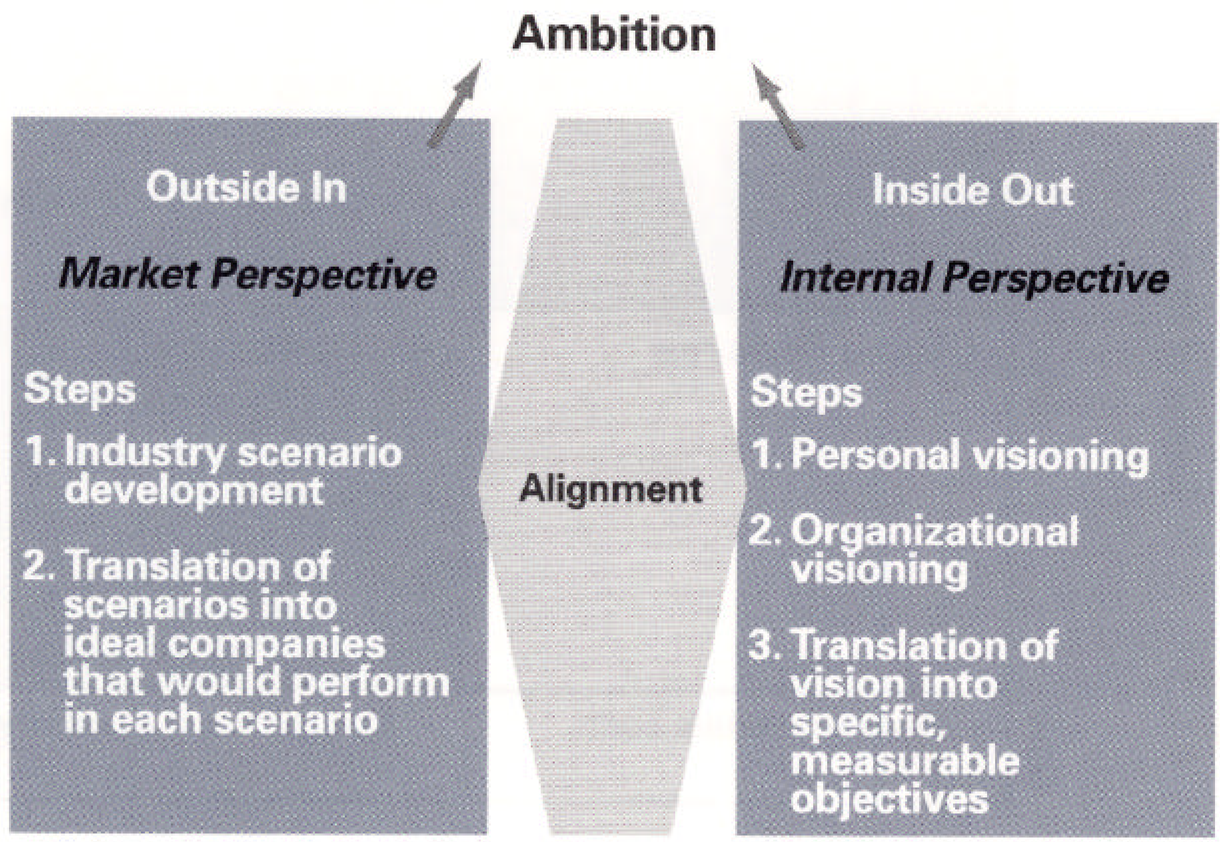


Future-Based, Ambition-Driven Content. In our experience, managers best meet the challenges of an uncertain future when they start their strategy process by thinking about the future independent of their current situation. The objective of this exercise is to create an ambition that will drive strategic direction. To define that ambition, the organization first needs to formulate two distinct perspectives, die „outside in“ and the „inside out,“ and then to merge the two (Exhibit 2).

The „outside-in“ perspective looks at the market. To develop this the organization holds structured brain-storming sessions in which it thinks about driving forces that might have an impact on its industry. These driving forces are derived from expert knowledge and intense market research, assessed for its relative certainty and arrayed on an Impact-Uncertainty Matrix. During the outside-in process, participants combine the endpoint alternatives of various driving forces that have a high impact on their industry to create possible scenarios for market development. Exhibit 3 shows the Impact-Uncertainty Matrix that a company intending to produce retina implants created for its industry. The driving forces with a high impact and a high uncertainty form the zone of focus. The endpoint alternatives for the driving forces are assembled into four to five scenarios. Each selected scenario is described and given a name that captures the central theme, hi the case of the retina implants company, one of the different scenarios was called „Innovate or out,“ and the environment was described as „customers pushing for lower prices, but innovative products capture market share. New competitors likely to enter and use technology as a lever.“

Exhibit 2

Ambition as a Merge of the „Inside Out“ and the „Outside In“ Perspectives



When doing the scenario development it is important to check the:

• *possibility,* i.e., the events should have the potential to become reality

• *coherence*, i.e., the events should logically fit together

• *uniqueness,* i.e., each scenario should be different from the others

• *usefulness,* i.e., each scenario must have value for testing strategic options

Once the scenarios have been described, the teams define one ideal company for each scenario. This ideal company is an industry leader and a nightmare competitor, configured specifically to address the specific market conditions within the scenario. We use Arthur D. Little’s well-established High Performance Business Model as a frame to describe these future companies. The major questions we answer when using the High Performance Business Model to describe the ideal company are: who are the stakeholders of the ideal company, and what are their expectations? What are the most important processes to address the stakeholders needs? How are we organized and what resources do we need to achieve a sustainable market position?

The snowboarding industry is a good example of the importance of addressing future market needs in strategic planning – and of how industry structure can change ovemight. As is typical of mature industries, the market for skiing equipment stagnated over many years. Suddenly there appeared an opportunity to change the industry structure and to restart the industry life cycle: snowboards. The technological competence to produce snowboards was in the domain of the classical ski manufacturers. But, with a few exceptions, they missed the boat. The names on the snowboarding slopes today are Burton and Oxbow – not K2 or Atomic. More important than the technical competence was the identification of a market need: the need of the younger generation to differentiate itself and to transfer a certain lifestyle from the beaches to the mountains. None of the traditional skiing equipment companies took the initiative to think about the uncertainty of their future. Instead, the future needs of the markets were anticipated by surfboard producers, who managed to transfer one lifestyle to another industry and hence changed the industry structure.

Exhibit 3

An Illustrative Impact/Uncertainty Matrix (Example: Retina Implants)

Level of Impact \ Degree of Uncertainty	Low	Medium	High
High	• Aging population • Cost pressure on end users	• New entrant with deep pockets • Regulation of manufacturing • Overseas markets mature and open • Demand for enhanced products rises	• Materials advancement • Other medical treatments • Price controls evolve • User integrated backwards • Consolidation of competitors
Medium	• Labor costs rise	• Manufacturing becomes tightly regulated	• Markets for peripheral products form • Legal liability rises • Increase failure rates • Lenses tracked as implantable devices
Low	• Raw materials costs rise	• Competitors diversify	• New manufacturing technologies

Complementing the outside-in perspective is the inside-out perspective, which incorporates the personal ambitions of the organization’s employees. The same teams that have described the future scenarios and the ideal companies from a market point of view link their personal visions to their organizational visions to generate a description of the future company. It is the starting point that differentiates the two processes, since the employees think first about their personal visions and then open up to the vision of their ideal organization. The vision will be described mainly in qualitative terms, distinguishing between the work environment, values, reputation with customers and marketplace, and contribution to overall organization, community, and society.

The process of bringing together the descriptions of the ideal companies derived from the scenarios in the outside-in perspective and the qualitative terms of the visioning exercise from the inside-out perspective into a coherent, qualitative, and quantitative vision of the company requires a certain instinct and intuition. We start this process first by analyzing the ideal companies. Characteristics of an ideal company that are common to all scenarios can be seen as sure wins and are incorporated into the base of the vision. The group then agrees on one most feasible scenario and its corresponding ideal company. The driving-force end-point alternatives of the chosen scenario form the premises of the strategy. The endpoint alternatives of the scenarios that are not selected are reflected and monitored in the strategic controlling system. As you can imagine, the process of agreeing on one scenario with its qualitative and quantitative elements creates alignment within the management team and a set of shared goals and values that are a prerequisite for successful strategy implementation.

Needless to say, this alignment cannot be hammered in. The process is iterative, often involving a number of loops, and it must be carefully managed. But the effort is well worth the time. Whereas misaligned undertakings based on unhappy compromises are doomed to fail, aligned teams can move mountains.

Behavior That Is Aligned with Objectives. For any strategy to be successful, companies must not merely involve people but engage their real energy and enthusiasm. And then companies must manage the momentum. Because strategy is a fundamental change initiative, it requires companies to create and sustain the readiness for change. One instrument that we use to assess the readiness for change within an organization is an Unwritten

Rules of the Game™[1] appraisal, which reveals, through a brief sequence of structured interviews, the company's actual and potential barriers to change, hi one client company we worked with, there was an unwritten rule that more than two personal failures led to an employee's dismissal. Clearly the company would have had a hard time implementing a strategy based on innovation.

Another company wanted to focus on shareholder value creation. The barrier to this goal was the unwritten rule that the only important performance indicator was the quarterly bottom line. Management over-invested heavily in current performance, neglecting to monitor its return on the capital it employed. Once management identifies the unwritten rules, it must address them and take action to remove the barriers for change.

We sometimes compare creating buy-in to the strategy process to heating cold water in a tea kettle. Once the kettle is set over a flame, the temperature of the water slowly increases, affecting every water molecule. The art is to manage this creative tension and involvement throughout the process – not overheating the organization to the point of distraction or unrealistic expectations, but increasing the temperature quickly enough to sustain the excitement.

Managing the momentum for a new strategy requires involving as many employees in the strategic process as possible, either actively, through participation in workshops, or passively, through companywide communication about this major change initiative. In one medium-sized company we worked with, we actively involved more than 200 managers – half the people in all layers of management. This process requires sophisticated communications, to calm fears and dispel rumors about changes in the company and to recognize and reward the people who actively participate in the strategy formulation process. For one company we even placed articles in the *Financial Times*, not so much to inform external stakeholders, but more to generate enthusiasm and momentum inside the company.

Continuous Process Management. As stated earlier, one misunderstanding people have is that strategy in its traditional sense is usually something companies develop episodically, at long intervals, and implement afterward. In Ambition-Driven Strategy, implementation is from the start an integral part of the process. Once the company has agreed on its vision of an ideal company, and once this ideal company is in line with the organizational vision, the team has to consider what this ideal means in view of the company's current situation. For example, if a shared goal is to lead the industry in innovation, what does that mean? Does it mean reducing time to market from 12 to 5 months, or increasing the product introduction rate by 20 percent, or selling via innovative sales channels such as the Internet? Similarly, if cost leadership is key in all scenarios, the company needs to be very explicit about defining its desired end-state in terms of cost leadership, so that it can measure its performance. While management teams often agree easily on general goals, such as being more innovative, defining what these goals actually mean to their companies can be considerably more difficult.

Only when the team has made the defined vision tangible, with specifically defined parameters, will it become clear whether the team really is aligned and how this team can implement its vision. Toward that end, we incorporate the idea of a balanced reporting and monitoring system early in the strategy development process. A balanced set of performance indicators can be seen as providing timely „x-ray" health check-ups for the company's strategy, revealing progress toward objectives. These indicators also link a five- to six-year strategy to the yearly planning and budgeting process, and even to monthly performance, as shown in Exhibit 4.

Managing the strategy development and implementation process is particularly challenging and complex because all three aspects must be addressed in parallel (Exhibit 5). In Ambition-Driven Strategy, the distinction between strategy and organization begins to blur as increasingly organization *is* strategy. In establishing Ambition-Driven Strategy processes in companies around the globe, we have observed several commonalities. The developed strategies lead to fundamental changes in the organization. Growth and innovation are recognized as central initiatives that require immediate and radical action. Divestiture and investment go hand-in-hand as ways to create value. Interestingly, the rate of management buy-outs is significantly higher in these organizations than in comparable firms using traditional strategy processes, possibly because their management teams feel they can best reach their ambitious targets under new ownership constellations.

Another result of effective alignment is a surfacing of previously submerged feelings and agendas. Ambition-Driven Strategy is an open and honest process. It goes to the heart of companies, detecting and creating not only shared values and goals but barriers to change. As the latter become apparent, they require action. But they also free the organization's energy and help it align for unprecedented innovation and growth.

Exhibit 4

Balanced Reporting and Monitoring as a Link Between Strategy and Operations

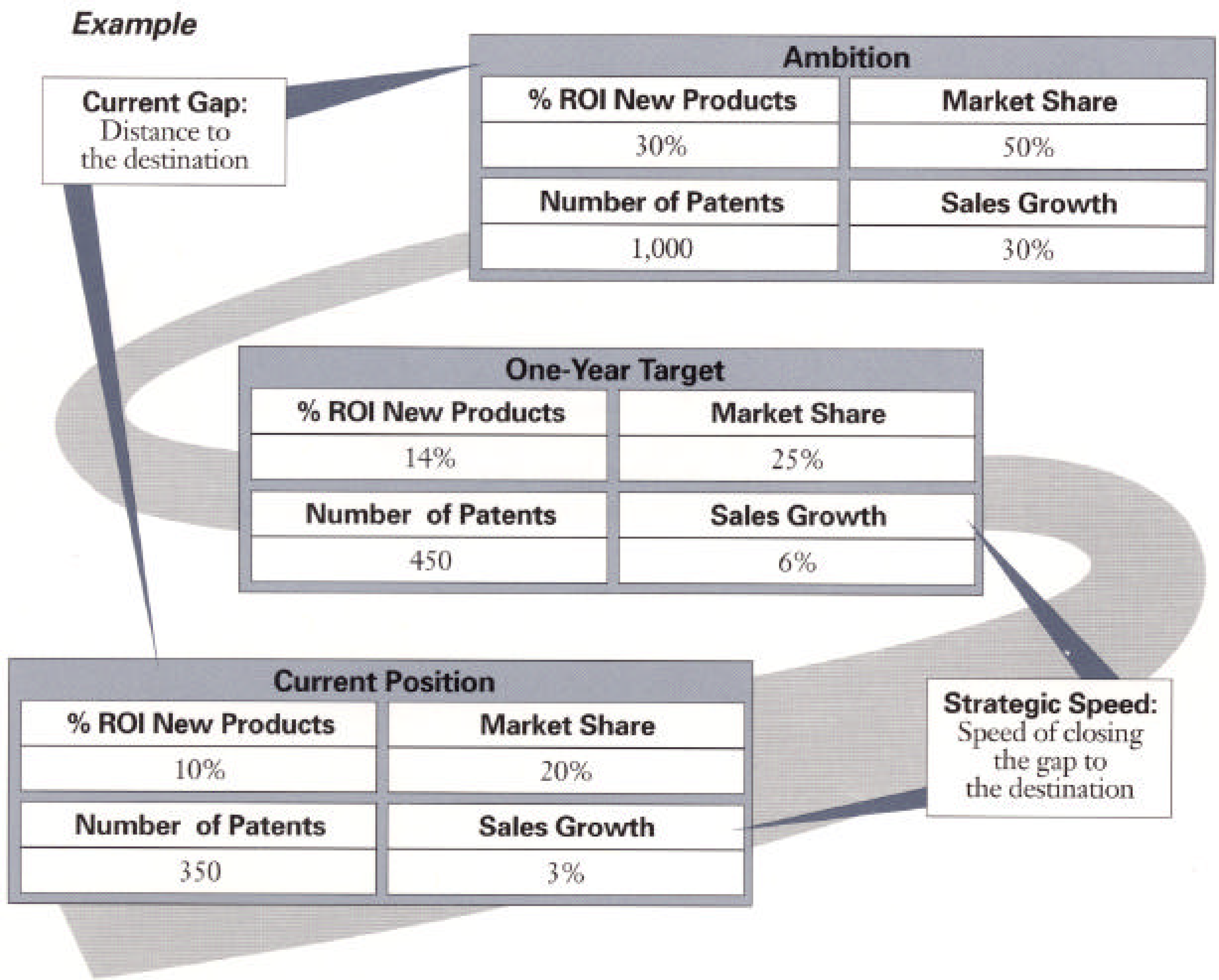
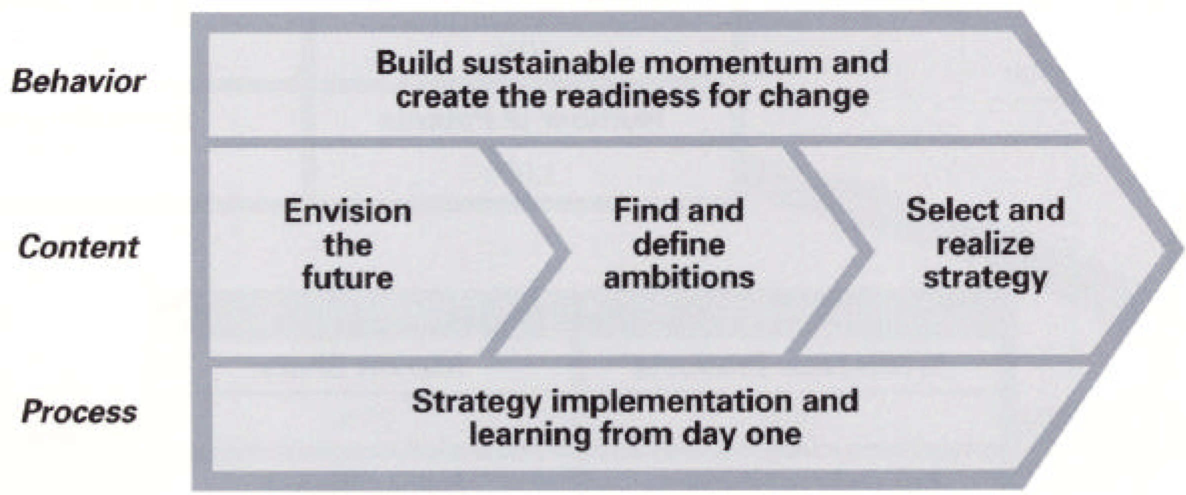


Exhibit 5

The Ambition-Driven Strategy™ Framework



[1] Peter Scott-Morgan, The Unwritten Rules of the Game, McGraw-Hill Inc., 1994.

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