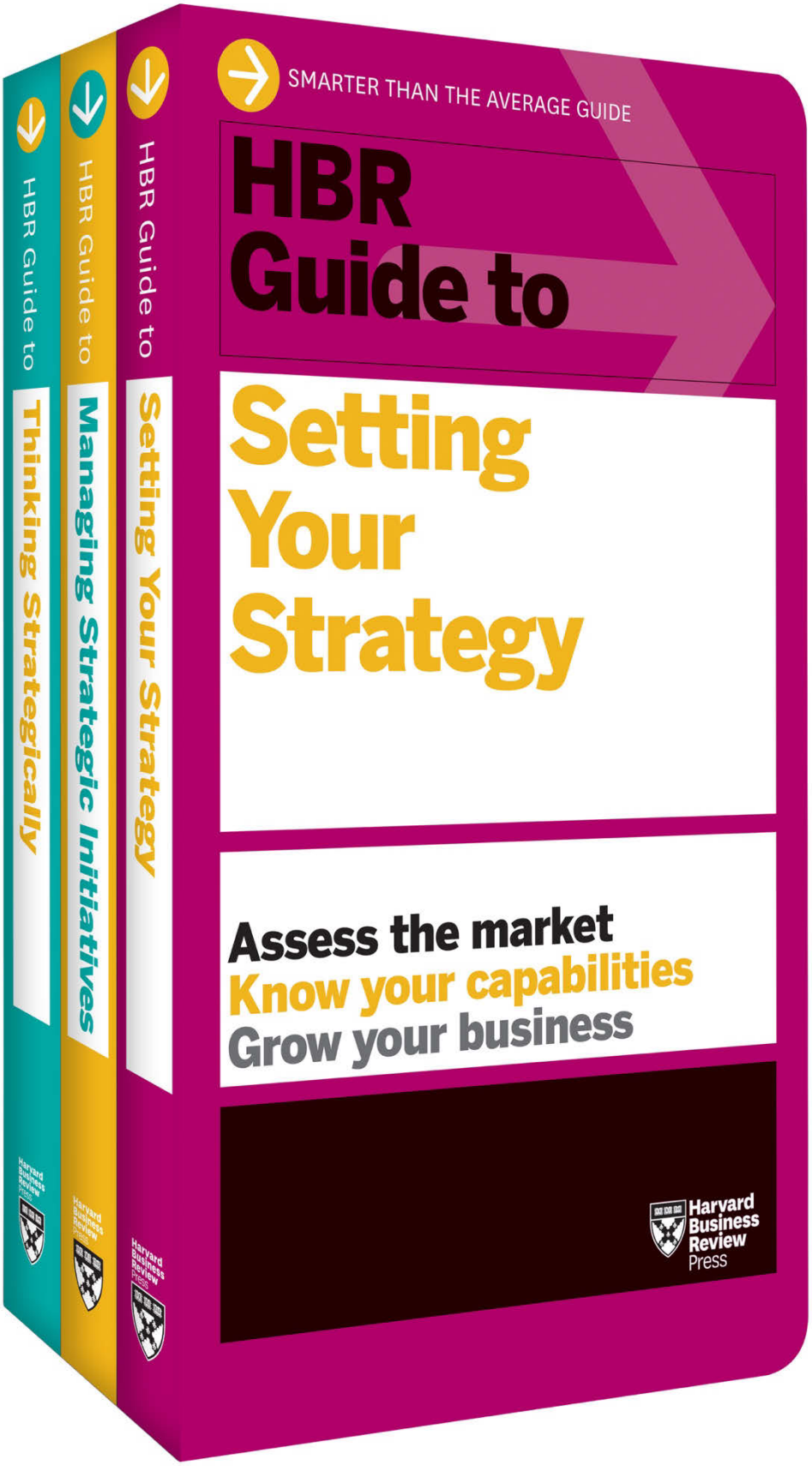
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What You'll Learn

Every company needs a strategy, one that will position it to grow over the long term. But charting such a path forward can be challenging, especially if your industry is facing new entrants, frequent disruption, or increased regulation. Your strategy must account for where you're competing, the customers you are targeting, what you aim to offer, and what your people need to succeed. And it must be communicated in a way that ensures buy-in from stakeholders—especially your employees. Otherwise, execution may fall flat.

Whether you are revising a strategy you already have or formulating your startup's strategy for the first time, this guide will provide you with practical tips and advice to help you define a strategy that will give your company a competitive edge, test it to ensure it will work, communicate it to others and execute it, and adapt it as needed.

You'll learn to:

- Understand the basics of strategy, implementation, and execution
- Consider the predictability and malleability of your industry

- Organize a more productive strategy offsite
- Recognize who your stakeholders are, what their needs are, and what you want from them
- Consider where you'll play and how to win in crafting your strategy
- Build purpose and creativity into your strategy
- Think in the long term, rather than in annual—or quarterly—cycles
- Identify the capabilities you need to ensure success
- Test your strategy before implementing it
- Communicate your strategy to your team by defining what you *won't* be doing
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INTRODUCTION

Get the Strategy You Need—Now

What's your competitive advantage? Who are your key customers and stakeholders? How will you respond to disruption in the marketplace? Do you have the capabilities in place to succeed, and are your people aligned? Are you planning for the future—the right way?

If these questions make you sweat, you're not alone. Setting a strategy that will help your organization or business unit succeed while responding to new competitors and changes to your industry is daunting. Assessing potential threats while creating new ways to grow is a difficult balance. Choose the wrong strategy, and you can stumble—or worse, go out of business. But find the right strategy and you can stand out to your customers and last for years to come.

But where do you start? And what do you need to think about? How do you decide where and how to compete,

gain buy-in from your stakeholders and employees, and ensure your strategy is executed properly?

Whether you're retooling your organization's existing strategy, creating one from scratch as a startup, or outlining a plan for your specific business unit, this guide will help you think about your business in the right way to create a strategy specific to your needs. You'll discover questions to ask and advice to follow to define a well-thought-out strategy, test it before implementation, and communicate it effectively for others to execute.

The Benefits of Smart Strategy

There's no one, universal definition of strategy, but for the purposes of this book, you can think of strategy in the way that Stephen Bungay, Director of the Ashridge Strategic Management Centre, states in chapter 2: "Strategy is about what we are going to do now in order to shape the future to our advantage."

Setting a strategy gives you an active role in planning for your company's future. Without it, too many of your actions will be focused on the short term—reacting to every potential threat, meeting goals that may not have long-term impact, and focusing too much on the day-to-day operations and problem solving. What's more, without an eye on the big picture, you may miss the larger shifts in your industry—shifts that require early planning in order to respond and thrive.

Having a clearly thought-out and communicated strategy also allows decision making across your organization to align, so everyone is moving in the same direction. Leaders and employees alike can then prioritize the

correct projects and initiatives, focus on the right metrics, and invest in the most crucial areas. And they can make smart changes in response to new competitors or stakeholder interests.

And it isn't just organizations that need a strategy. Business units also need to have such principles and fundamentals in place. While your company may decide that setting up a new office in Tokyo to expand its international presence is part of its global strategy, your business unit may then need to assess if its products and offerings need to change amid new competitors in the Japanese market. Either way, understanding the steps to setting a strategy, communicating it to your employees, and executing it will be critical for leaders at any level.

What This Book Will Do

From Michael Porter's five forces to agile approaches, how we've thought about strategy has transformed and shifted over time. But this book will not focus on any one specific school of thought. Rather, it will explore the *practice* of setting your strategy, so you can work with your leadership team to formulate the approach that works best for your unique capabilities, circumstances, and industry.

This guide will help you set a strategy for your organization or business unit by explaining the basics of what strategy is, helping you to lay the foundation for strategic discussions, walking you through what to think about when formulating your strategy, testing it before implementation, communicating it to your employees, and finally executing and learning from it.

- **What is strategy?** The first section in this book helps you understand the basics of strategy, starting with the difference between strategy, implementation, and execution, and how each relate to both corporate and business strategy. It then debunks five common myths about strategy and explains how strategies, objectives, and actions differ, so you'll understand how these work together in your strategic planning sessions.

- **Laying the foundation.** Before you lead a strategy discussion, you and your leadership team must have some basic understanding in place. The first two chapters outline four strategic styles that correspond with the predictability and malleability of your industry and describe a variety of approaches to making strategic decisions. Chapter 6 looks at the specifics of the strategy offsite, offering tips and advice to ensure a productive conversation. The last chapter in this section helps you think carefully about your stakeholders, understanding both what you want from them and what they want from you, so you can take that into account in your strategy formulation.

- **Develop your strategy.** Once you've established the basics, you're ready to dive into your strategic discussions. The first chapter of section 3 provides approaches to think about strategy creatively—through contrast, combination, constraint, and context. Next, Roger Martin, author of *Playing to Win*, provides five key questions to consider,

what he calls the "strategy choice cascade." In chapter 10, you'll learn about common competitive threats, so you can face potential uncertainty as you develop a path forward, and in chapter 11, futurist Amy Webb explains how to think about the long term—looking long past the standard five years ahead. Strategy should always be changing, though, especially as fast-growing platform companies have more and more influence in many industries. Chapter 12 helps you understand how these companies may affect your business and whether (and how) you should adjust your approach. The section closes with a look at purpose, and how you can incorporate it into your strategy.

- **Test your strategic choices.** It's hardly feasible to assume that a new strategy will work seamlessly. Before you move your plan forward, you need to test it, and section 4 helps you to do just that. Chapter 14 provides ways to pressure-test your strategy, including helping you to build situational awareness, taking an outside-in perspective, and war-gaming. The next chapter helps you identify where you may be falling victim to your own cognitive biases in your strategic decision making. Then, you'll assess what capabilities you require to be successful by identifying what your organization or business unit should do differently, and defining how to build the skills, knowledge, and processes you need to carry out these changes.

Last, you'll look at your organization or team's strategic alignment to make sure that your people are able to support the strategy.

- **Communicate your strategy.** Any plans you make will go nowhere if your people don't understand them. Communication—and communication in the right way—remains critical to successful execution. Section 5 begins by outlining how to explain your strategy to your people, particularly given that with a new approach often comes change. Next, you'll discover how to help your team understand your strategy and its priorities by contrasting what they *will* be working on with what they *won't*. Last, you'll learn how to conduct these conversations across cultures, especially since diverse talent can have different points of view on competition and the market.

- **Execute the strategy and learn from it.** The final section in this book helps you to execute and adapt your strategy as necessary. The first chapter explores how strategy and execution are linked, and explains how to examine gaps in execution, learn from them, and adjust your strategy accordingly. The next chapter identifies common execution traps to avoid. You'll then learn the risk of putting too much focus on metrics—specifically quarterly numbers—and how that can take your strategy off course. Finally, the concluding chapter of the book emphasizes that becoming an expert strategist won't happen overnight—it requires prac-

tice. Roger Martin provides tips for how you can improve your development process as you revisit and adjust your strategy, so over time you can become a more confident and more accomplished strategist.

While the steps outlined in this book are not rigid in their order, it's important not to skip over any of them. Without laying the right foundation, your discussions are unlikely to prove fruitful. Without testing, you're likely to stumble in unforeseen ways. And without effective communication, it's highly unlikely you'll see your strategy executed well, whether you're leading the entire organization or a business unit.

Above all, it's important to remember that a strategy is never static. Your plans will require frequent assessment, adjustment, and refining. According to Martin, "competitors don't wait for your annual strategy cycle to attack, customers don't wait for your annual strategy cycle to shift their preferences, and new technology doesn't wait for your annual strategy cycle to leapfrog yours."[1] Lead your company into the future by thinking about your strategy regularly—starting now.

NOTE

1. Roger L. Martin, "Three Quick Ways to Improve Your Strategy-Making," hbr.org, May 22, 2014 (product #H00TEP).

SECTION ONE

What Is Strategy?

CHAPTER 1

Defining Strategy, Implementation, and Execution

by Ken Favaro

It is striking how much confusion there is between strategy, implementation, and execution. Is "strategy" a matter of making choices about where we want to go, where we play and how we win, of setting goals and actions, about how we create and capture economic value over time? Does it include creating solutions to unforeseen problems and running with unexpected opportunities? Is "getting things done" what we mean by

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Adapted from content posted on hbr.org, March 31, 2015 (product #H01YRY).

implementation or execution? Do you "execute" or "implement" a strategy? And can you separate these from strategy formation?

For strategy wonks like me, thinking about the definitions of these ideas provides endless fascination. For many business leaders, however, I find that the semantics matter a lot less. And that's too bad because the semantics should matter. There are meaningful distinctions between strategy, implementation, and execution that are helpful to running a company or business in the real world. Ignoring, blurring, or getting them wrong creates sloppy thinking, deciding, and doing at all levels of an organization.

Let's start with strategy. As I understand the term, strategy consists of two categories: corporate strategy and business unit strategy. Corporate strategy consists of CEOs and top executives making just three basic choices:

- What should be the capabilities that distinguish the company?
- What should be the company's comparative advantage in adding value to its individual businesses?
- What businesses should the company be in?

These are the fundamental choices that constitute a *corporate* strategy, and they should frame and guide all the decisions that a company's corporate executives, functions, and staff make every day, including how they run the place, what they buy, what markets they enter, how they measure success, and so on.

For a business unit, there are also three key decisions that cannot be delegated by its leader. They are different but no less fundamental:

- Who should be the customers who define our target market?
- What should be the value proposition that differentiates our products and services with those customers?
- What should be the capabilities that make our business better than any other in delivering that value proposition?

These are the choices that a *business* strategy comprises, and they should drive the decisions a business unit's management team, functions, and staff make every day, including pricing, R&D, where to manufacture, and many more.

This brings me to implementation. Implementing a strategy consists of all the decisions and activities required to put the two sets of strategic choices I've just described into effect. If the corporation has the capabilities, enterprise advantage, and business portfolio it wants, its strategy is implemented. If the unit has the customers, value proposition, and skills it has chosen to have, its strategy is also fully implemented.

Of course, almost by definition, a strategy can never actually be fully implemented because everything that you necessarily assumed when formulating it—about customers, technology, regulation, competitors, and so on—is in a constant state of flux. CEOs and their

business unit leaders must continuously evolve their strategies (i.e., those fundamental choices listed above) if they are to remain relevant and competitive. And if that's the case, there will always be a gap between where their companies are and what their strategies call for. Closing that gap is "implementation." Thus, developing and implementing strategy are running almost continuously in parallel rather than in sequence.

What, then, is execution? I define the term as the decisions and activities you undertake in order to turn your implemented strategy into commercial success. To achieve "execution excellence" is to realize the best possible results a strategy and its implementation will allow.

To understand what this means, let's say that Netflix has made a corporate strategy choice to enter the content business and to exit the mail order business. Once Netflix is in the content business and out of the mail order business, that "strategy" (or that part of its strategy) is implemented. Now, Netflix leaders must set goals and plans for the content business, establish the right incentives, create a motivational, purpose-driven mission statement, and more. All leaders need such activities to realize great results from their companies within the context of an implemented strategy. This is execution.

Strategy, implementation, and execution are three coincident determinants of a company or business unit's ultimate output—its results—that are very difficult to parse into their individual effects. When we see a company or business unit producing poor results over multiple years, no one can say for sure whether that's due to poor strategy, implementation, or execution. But in my

experience, it's very difficult to implement a poor strategy well and doubly difficult to produce excellent results with a poor strategy that's being poorly implemented. (Having a great corporate or business strategy is no guarantee of great results either; you still have to implement and execute well.)

The distinctions I make above are not between thinking and doing, deciding and acting, or planning and producing. All of these kinds of activities are involved in strategy, implementation, and execution. Does that make them the same thing? Absolutely not. They each involve very different specific activities, tools, and people. And when business leaders conflate strategy, implementation, and execution, they usually end up with a lot of the trappings of running a modern-day company or business unit—such as goals and targets; plans and initiatives; and mission, vision, and purpose statements—but very little actual strategy, implementation, or execution.

Lim Chow Kiat, CEO of Singapore's GIC, says that for his organization "nomenclature is destiny . . . We are meticulous about word choice . . . The wrong words can corrode, if not corrupt, our [business]." I agree. Leaders do themselves a great disservice by not being more thoughtful about what they mean when they say strategy, implementation, and execution.

Ken Favaro is lead principal of act2, an independent adviser to CEOs and their teams and boards based in Bronxville, New York. He is the author of the forthcoming book *Strategy 101*.

CHAPTER 2

Five Myths About Strategy

by Stephen Bungay

There are lies, there are big lies, and then there are myths. And myths are the worst of the three.

Unless you have sealed yourself off in a social media echo chamber, lies are easy to spot. Except, that is, when the lie is a big one. People hearing or reading big lies start to doubt themselves and think "maybe I have got things completely wrong." That's why politicians and propagandists tell big lies. They're not trying to assert a truth so much as sow doubt and confusion about what is true. That's bad, but a smart person can resist a big lie by looking at the evidence at hand.

Adapted from content posted on hbr.org, April 19, 2019 (product #H04WWB).

Myths present a different, subtler trap, which is what makes even smart people fall for them. They are seductive because they are based on a half-truth. That element of truth is what allows them to become established as myths, and they do not immediately lead you astray if you start to act on them. It's only with the passage of time that you realize that you've made a mistake, but by then your wrong choices can't be unmade and the damage is done.

We encounter myths in most realms of human endeavor and the discipline of strategic thinking is no exception. Here are five of the most pernicious ones I've encountered in a long career studying strategy and advising companies about it:

Myth 1: Strategy Is About the Long Term

Why it's plausible

In some industries, the basis of competition can remain unchanged for decades, and leaders who stick to their strategy through downturns as well as upturns and ignore surface noise do very well.

Why it's wrong

It is precisely when long-held assumptions about an industry are challenged that strategic changes happen. And you will need to make those changes very quickly. Thinking about strategy as a long-term commitment can blind you to that need. Strategy is not about the long term or the short term, but about the *fundamentals* of how the

business works: the sources of value creation, the drivers of the cost to deliver it, and the basis of competition. To get a grip on strategy, we do not need to lengthen the time horizon of our thinking but its *depth*. Far from being about things we are going to do in the future, strategy is about what we are going to do *now* in order to shape the future to our advantage.

Myth 2: Disruptors Change Strategy All the Time

Why it's plausible

It looks as if Amazon and the platform giants like Google and Facebook keep changing strategy because they use the massive amounts of cash they generate to innovate, bringing out new products and services every year. Innovation is easily confused with a change in strategic direction, and sometimes it does indeed trigger such a change.

Why it's wrong

In the case of Amazon and the rest of Big Tech, most of the innovative new products and services reflect a single, consistent strategy, one that's been familiar to business people since at least the 1960s. That's when Bruce Henderson, the founder of Boston Consulting Group (BCG), observed that in many businesses, costs decline by a predictable amount with every doubling of cumulative volume. The implication was that by pricing ahead in anticipation of those cost declines, a company could sacrifice current margins to gain share, achieve market

leadership, and then reap the gains. The strategy was captured in the imperative: "Cut price and add capacity." That's basically what today's platform businesses are doing—though they do use more jazzy vocabulary like "blitzscaling" or "hypergrowth" and add some twists. For today's platform businesses for instance, the imperative could be called: "Give it away and add users." But it's just a more radical version of a strategy that's more than half a century old.

Myth 3: Competitive Advantage Is Dead

Why it's plausible

There is evidence that the time period over which advantage can be sustained is shortening, which suggests that achieving defensibility is harder, which in turn implies that barriers are more flimsy and easier to surmount. One market observer notes that average tenure in the S&P 500 had fallen from 33 years in 1964 to 24 years by 2016 and is forecast to shrink to just 12 years by 2027.[1]

Why it's wrong

Reports of the death of competitive advantage are vastly exaggerated. The competitive advantages of Amazon, Alphabet, Apple, Facebook, and Microsoft are so massive and the barriers to overcoming them so high that public discussion of them revolves around the use of regulation to break them up to reduce their power. In a very short time, it has become hard to imagine how mar-

ket forces alone could tame them. The full truth is not that competitive advantage is dead but that you need to rely on multiple advantages rather than just the one. And part of the reason that Amazon and these other companies will be hard to unseat is that they have realized this. They are not betting on building a single big wall but on building lots of smaller ones.

Myth 4: You Don't Really Need a Strategy; You Just Need to Be Agile

Why it's plausible

Agile firms—especially startups—are always turning on a dime, and they certainly don't seem to be following any kind of plan. Easy enough, then, to assume that what you see an agile firm doing—acting at high speed, maintaining a high tempo, being highly responsive—is all there is.

Why it's wrong

Agility is not a strategy. It is a *capability*, a very valuable one that has immediate operational benefits but that cannot permanently affect a firm's competitive position unless there is a strategist making the right decisions about where to direct that capability. And the seeming absence of a plan doesn't mean that successful startups don't have strategies. A strategy is not a plan; it is a framework for decision making, a set of guiding principles which can be applied as the situation evolves. And most startups fail because being able to turn on a dime doesn't mean that you'll turn in the right direction. Successful startups actually do a lot of hard thinking

about fundamentals, questioning and testing basic assumptions with a rigor that incumbents would do well to emulate. Startups have to, because their resources are extremely scarce. If they don't have a coherent strategy, they will make poor resource allocation decisions, and for them that will not mean a fall in earnings, but death.

Myth 5: You Need a Digital Strategy

Why it's plausible

Digital technology is a way of collecting, storing, and using information, and information is everywhere. In its early stages, it enabled us to do what we did already rather better. Then it enabled us to do it a lot better. Then it enabled us to do things we had never done before. Now the possibilities are exhilarating but also confusing. When people feel confused they look for a way of sorting things out, making sense of them, and deciding what to do. Hence the call for a digital strategy.

Why it's wrong

A company is an organism, and if you try to optimize the parts you will suboptimize the whole. You don't want a strategy for digital, IT, finance, HR, or anything else—just a strategy for the entire business. So don't imagine you can develop a strategy for the digital part of your business and leave the rest alone. Digital technology and the more specific technologies to which it gives rise fundamentally change the sources of customer value and the cost of delivering it. The way to address digital is to think through and lay out all the fundamental assump-

tions you have about how your company works and ask yourself if they are still valid. And that's what strategy has always been about.

In our uncertain world, fundamentals are changing so we need to think about them and whether they are valid in the short or long term. Think how you can deploy the capabilities you have and build new ones you need to defend your competitive position. Add them in layers to create barriers. Be clear about what will make a difference so that you can make rapid resource allocation decisions. Be on the lookout for the emergence of unexpected events at the customer interface that point to opportunities that can be deliberately exploited. Play to win the short games that will enable you to prevail in the long ones. Think deep to act fast. Strategy is still what it has always been: the art of taking action under the pressure of the most difficult conditions.

Stephen Bungay is a director of the Ashridge Strategic Management Centre in London. He is the author of *The Art of Action: How Leaders Close the Gaps Between Plans, Actions and Results*.

NOTE

1. Scott D. Anthony, S. Patrick Viguerie, Evan I. Schwartz, and John Van Landeghem, "2018 Corporate Longevity Forecast: Creative Destruction Is Accelerating," Innosight, https://www.innosight.com/insight/creative-destruction/.

CHAPTER 3

Your Strategic Plans Probably Aren't Strategic, or Even Plans

by Graham Kenny

It happens all the time: A group of managers get together at a resort for two days to hammer out a "strategic plan." Done and dusted, they all head home. But *have* they produced a plan with a strategy?

At the start of my public seminars on strategic planning I ask attendees, who rank from board members and CEOs to middle management, to write down an

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Adapted from content posted on hbr.org, April 6, 2018 (product #H049N3).

example of a strategy on a sheet of paper. They look at me quizzically at first as they realize that this is a tough assignment. I reassure them that this is indeed a hard question, and they plow ahead.

The results are always astonishing to me and them. Here are some of the responses from the list I received at my most recent session: actions ("launch a new service," "review our suitability to the retirement business"), activities ("marketing our products through the right channels"), objectives ("achieve $100 million net revenue"), and broad descriptions of what goes on ("planning process from beginning to end of product," "working for your stakeholders").

Sorry folks, but not even one of these responses is a strategy.

Unfortunately, while C-suite executives talk "strategy" they're often confused about what it means. Why this confusion? The problem starts with the word itself—a scarily misunderstood concept in management and board circles. The most basic mix-up is between "objective," "strategy," and "action." (I see this frequently in published strategic plans as well.) Grasp this, I tell my audience, and your day will be well spent.

An "objective" is something you're trying to achieve—a marker of the *success of the organization*. At the other end of the spectrum is "action." This occurs at the *individual level*—a level that managers are presented with day after day. So naturally when they think "strategy" they focus on what they *do*. But this isn't strategy either. "Strategy" takes place between these two at the *organization level* and managers can't "feel" that in the same

way. It's abstract. CEOs have an advantage here because only they have a total view of the organization.

The key to strategy is that it's the positioning of one business against others—GM against Ford and Toyota, for example. What exactly is positioning? It's placement on the strategic factors relevant to each key stakeholder group.

An organization exists as part of a system composed of transactions between itself and its key stakeholders such as customers, employees, suppliers, and shareholders. Organizations differ in the detail of these sets, depending on the complexity of the industry in which they're located. (For more on stakeholders, see chapter 7.)

The task of a strategic planning team is to produce positions on these factors that deliver value to the organization's key stakeholders *and* meet the objectives of the organization. Let's go back to our seminar list and take one of the responses: "achieve $100 million net revenue." This is an objective, rather than a strategy. A strategy serves an objective by providing a position on the relevant strategic factors—in this case for customers.

Let's say the strategic planning team identifies "price" as one strategic factor. In this case let's make the business Dan Murphy's, Australia's largest liquor retailer with a national footprint. It has stated its position on this factor unequivocally: "Lowest liquor price guaranteed. In the unlikely event that a customer finds a lower price, we'll beat it on the spot." This is that company's position on price. Alternatively, let's look at Toyota. A strategic factor relevant to the same type of objective for customers is "safety." By reviewing its

materials, we can construe the company's position on this as: Safety is paramount, and our cars are among the most advanced, reliable, and safest on the road.

Now to ensure implementation, a strategic planning team must identify some *project- or program-level* actions. McDonald's had to do this when on "product range" it took this position: *Traditional meal range but with an increased emphasis on salad items and with the option for customers to design their own burgers. Periodic special offerings to spur customer interest.* You can envision the high-level actions that might follow such as: Design a training program for all staff in made-to-order food handling procedures.

If you take a helicopter view of the process I've outlined, you can see that it involves system design. Each key stakeholder group is taken in turn to work out what an organization wants from it (an objective) and what the key stakeholder wants from it (strategic factors)—for example, customers want effective performance on factors such as price and customer service. The strategic planning team must then decide on the organization's position on these factors (strategy). This will be conditioned, of course, by customer research. Having done this, key stakeholder by key stakeholder, the next step is to ensure congruence—a fit between employee relations and customer relations, customer relations and supplier relations, and so on—in system design.

My experience in working with clients over many years is that executive teams fail to approach strategic planning from a system-design perspective. A major cause of this is that managers within these teams approach the task

from their own functional-management view, for example, finance, HR, marketing, operations. Consequently, they think "action" when they mean to think "strategy." Taking a stakeholder approach to strategic planning induces managers to raise their thinking to the organization level.

Remember: Strategic planning is a journey, not a project. Plans require ongoing adjustment. Yes, kickstart yours with a two-day retreat. But never end it there.

Graham Kenny, CEO of Strategic Factors, is a recognized expert in strategy. He is passionate about helping managers, executives, and boards create successful organizations in the private, public, and not-for-profit sectors. He does this through seminars and workshops on strategy and performance measurement; through keynote speaking; by working with managers to develop their business strategy and performance scorecards; and by publishing books, articles, and manuals. You can connect to or follow him on LinkedIn.

SECTION TWO

Lay the Foundation

CHAPTER 4

Your Strategy Needs a Strategy

by Martin Reeves, Claire Love, and Philipp Tillmanns

The oil industry holds relatively few surprises for strategists. Things change, of course, sometimes dramatically, but in relatively predictable ways. Planners know, for instance, that global supply will rise and fall as geopolitical forces play out and new resources are discovered and exploited. They know that demand will rise and fall with incomes, GDPs, weather conditions, and the like. Because these factors are outside companies' and their competitors' control and barriers to entry are so high, no one is really in a position to change the game much. A

Reprinted from *Harvard Business Review*, September 2012 (product #R1209E).

company carefully marshals its unique capabilities and resources to stake out and defend its competitive position in this fairly stable firmament.

The internet software industry would be a nightmare for an oil industry strategist. Innovations and new companies pop up frequently, seemingly out of nowhere, and the pace at which companies can build—or lose—volume and market share is head-spinning. A major player like Microsoft or Google or Facebook can, without much warning, introduce some new platform or standard that fundamentally alters the basis of competition. In this environment, competitive advantage comes from reading and responding to signals faster than your rivals do, adapting quickly to change, or capitalizing on technological leadership to influence how demand and competition evolve.

Clearly, the kinds of strategies that would work in the oil industry have practically no hope of working in the far less predictable and far less settled arena of internet software. And the skill sets that oil and software strategists need are worlds apart as well, because they operate on different time scales, use different tools, and have very different relationships with the people on the front lines who implement their plans. Companies operating in such dissimilar competitive environments should be planning, developing, and deploying their strategies in markedly different ways. But all too often, our research shows, they are not.

That is not for want of trying. Responses from a recent BCG survey of 120 companies around the world in 10 major industry sectors show that executives are well

aware of the need to match their strategy-making processes to the specific demands of their competitive environments. Still, the survey found, in practice many rely instead on approaches that are better suited to predictable, stable environments, even when their own environments are known to be highly volatile or mutable.

What's stopping these executives from making strategy in a way that fits their situation? We believe they lack a systematic way to go about it—a strategy for making strategy. Here we present a simple framework that divides strategy planning into four styles according to how predictable your environment is and how much power you have to change it. Using this framework, corporate leaders can match their strategic style to the particular conditions of their industry, business function, or geographic market.

How you set your strategy constrains the kind of strategy you develop. With a clear understanding of the strategic styles available and the conditions under which each is appropriate, more companies can do what we have found that the most successful are already doing—deploying their unique capabilities and resources to better capture the opportunities available to them.

Finding the Right Strategic Style

Strategy usually begins with an assessment of your industry. Your choice of strategic style should begin there as well. Although many industry factors will play into the strategy you actually formulate, you can narrow down your options by considering just two critical factors: *predictability* (How far into the future and how

accurately can you confidently forecast demand, corporate performance, competitive dynamics, and market expectations?) and *malleability* (To what extent can you or your competitors influence those factors?).

Put these two variables into a matrix, and four broad strategic styles—which we label *classical, adaptive, shaping,* and *visionary*—emerge. (See figure 4-1.) Each style is associated with distinct planning practices and is best suited to one environment. Too often strategists conflate predictability and malleability—thinking that any environment that can be shaped is unpredictable—and thus divide the world of strategic possibilities into only two parts (predictable and immutable or unpredictable and mutable), whereas they ought to consider all four. So it did not surprise us to find that companies that match their strategic style to their environment perform significantly better than those that don't. In our analysis, the three-year total shareholder returns of companies in our survey that use the right style were 4% to 8% higher, on average, than the returns of those that do not.

Let's look at each style in turn.

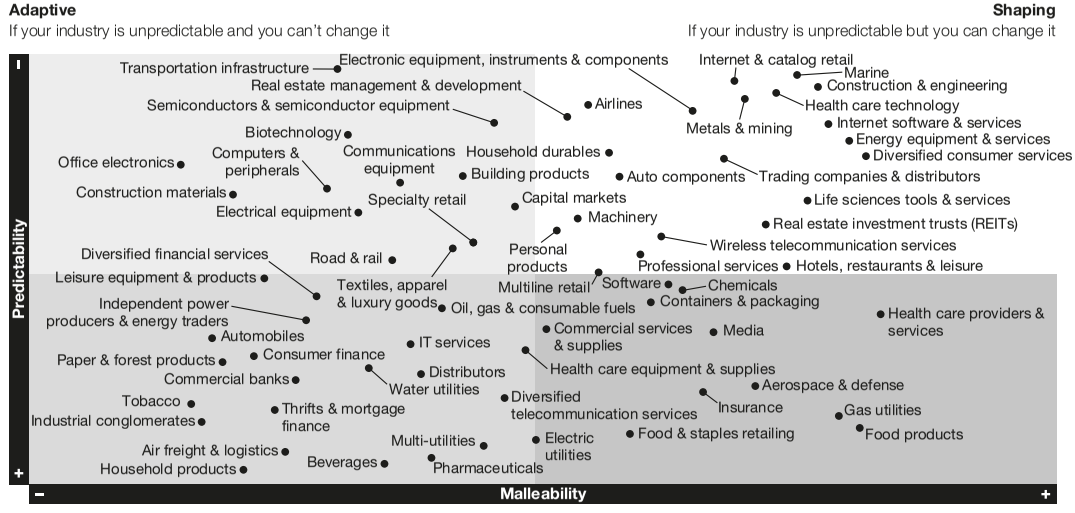
Classical

When you operate in an industry whose environment is predictable but hard for your company to change, a classical strategic style has the best chance of success. This is the style familiar to most managers and business school graduates—five forces, blue ocean, and growth-share matrix analyses are all manifestations of it. A company sets a goal, targeting the most favorable market position it can attain by capitalizing on its particular capabilities

FIGURE 4-1

The right strategic style for your environment

Our research shows that approaches to strategy formulation fall into four buckets, according to how predictable an industry's environment is and how easily companies can change that environment.



Source: BCG analysis

and resources, and then tries to build and fortify that position through orderly, successive rounds of planning, using quantitative predictive methods that allow it to project well into the future. Once such plans are set, they tend to stay in place for several years. Classical strategic planning can work well as a stand-alone function because it requires special analytic and quantitative skills, and things move slowly enough to allow for information to pass between departments.

Oil company strategists, like those in many other mature industries, effectively employ the classical style. At a major oil company such as ExxonMobil or Shell, for instance, highly trained analysts in the corporate strategic-planning office spend their days developing detailed perspectives on the long-term economic factors relating to demand and the technological factors relating to supply. These analyses allow them to devise upstream oil-extraction plans that may stretch 10 years into the future and downstream production-capacity plans up to five years out. It could hardly be otherwise, given the time needed to find and exploit new sources of oil, to build production facilities, and to keep them running at optimum capacity. These plans, in turn, inform multiyear financial forecasts, which determine annual targets that are focused on honing the efficiencies required to maintain and bolster the company's market position and performance. Only in the face of something extraordinary—an extended Gulf war; a series of major oil refinery shutdowns—would plans be seriously revisited more frequently than once a year.

Adaptive

The classical approach works for oil companies because their strategists operate in an environment in which the most attractive positions and the most rewarded capabilities today will, in all likelihood, remain the same tomorrow. But that has never been true for some industries, and, as has been noted before in *Harvard Business Review* ("Adaptability: The New Competitive Advantage," by Martin Reeves and Mike Deimler, HBR July–August 2011), it's becoming less and less true where global competition, technological innovation, social feedback loops, and economic uncertainty combine to make the environment radically and persistently unpredictable. In such an environment, a carefully crafted classical strategy may become obsolete within months or even weeks.

Companies in this situation need a more adaptive approach, whereby they can constantly refine goals and tactics and shift, acquire, or divest resources smoothly and promptly. In such a fast-moving, reactive environment, when predictions are likely to be wrong and long-term plans are essentially useless, the goal cannot be to optimize efficiency; rather, it must be to engineer flexibility. Accordingly, planning cycles may shrink to less than a year or even become continual. Plans take the form not of carefully specified blueprints but of rough hypotheses based on the best available data. In testing them out, strategy must be tightly linked with or embedded in operations, to best capture change signals and minimize information loss and time lags.

Specialty fashion retailing is a good example of this. Tastes change quickly. Brands become hot (or not) overnight. No amount of data or planning will grant fashion executives the luxury of knowing far in advance what to make. So their best bet is to set up their organizations to continually produce, roll out, and test a variety of products as quickly as they can, constantly adapting production in the light of new learning.

The Spanish retailer Zara uses the adaptive approach. Zara does not rely heavily on a formal planning process; rather, its strategic style is baked into its flexible supply chain. It maintains strong ties with its 1,400 external suppliers, which work closely with its designers and marketers. As a result, Zara can design, manufacture, and ship a garment to its stores in as little as two to three weeks, rather than the industry average of four to six months. This allows the company to experiment with a wide variety of looks and make small bets with small batches of potentially popular styles. If they prove a hit, Zara can ramp up production quickly. If they don't, not much is lost in markdowns. (On average, Zara marks down only 15% of its inventory, whereas the figure for competitors can be as high as 50%.) So it need not predict or make bets on which fashions will capture its customers' imaginations and wallets from month to month. Instead it can respond quickly to information from its retail stores, constantly experiment with various offerings, and smoothly adjust to events as they play out.

Zara's strategic style requires relationships among its planners, designers, manufacturers, and distributors that are entirely different from what a company like

ExxonMobil needs. Nevertheless, Exxon's strategists and Zara's designers have one critical thing in common: They take their competitive environment as a given and aim to carve out the best place they can within it.

Shaping

Some environments, as internet software vendors well know, can't be taken as given. For instance, in new or young high-growth industries where barriers to entry are low, innovation rates are high, demand is very hard to predict, and the relative positions of competitors are in flux, a company can often radically shift the course of industry development through some innovative move. A mature industry that's similarly fragmented and not dominated by a few powerful incumbents, or is stagnant and ripe for disruption, is also likely to be similarly malleable.

In such an environment, a company employing a classical or even an adaptive strategy to find the best possible market position runs the risk of selling itself short, being overrun by events, and missing opportunities to control its own fate. It would do better to employ a strategy in which the goal is to shape the unpredictable environment to its own advantage before someone else does—so that it benefits no matter how things play out.

Like an adaptive strategy, a shaping strategy embraces short or continual planning cycles. Flexibility is paramount, little reliance is placed on elaborate prediction mechanisms, and the strategy is most commonly implemented as a portfolio of experiments. But unlike adapters, shapers focus beyond the boundaries of their own

company, often by rallying a formidable ecosystem of customers, suppliers, and/or complementors to their cause by defining attractive new markets, standards, technology platforms, and business practices. They propagate these through marketing, lobbying, and savvy partnerships. In the early stages of the digital revolution, internet software companies frequently used shaping strategies to create new communities, standards, and platforms that became the foundations for new markets and businesses.

That's essentially how Facebook overtook the incumbent MySpace in just a few years. One of Facebook's savviest strategic moves was to open its social-networking platform to outside developers in 2007, thus attracting all manner of applications to its site. Facebook couldn't hope to predict how big or successful any one of them would become. But it didn't need to. By 2008 it had attracted 33,000 applications; by 2010 that number had risen to more than 550,000. So as the industry developed and more than two-thirds of the successful social-networking apps turned out to be games, it was not surprising that the most popular ones—created by Zynga, Playdom, and Playfish—were operating from, and enriching, Facebook's site. What's more, even if the social-networking landscape shifts dramatically as time goes on, chances are the most popular applications will still be on Facebook. That's because by creating a flexible and popular platform, the company actively shaped the business environment to its own advantage rather than merely staking out a position in an existing market or reacting to changes, however quickly, after they'd occurred.

Visionary

Sometimes, not only does a company have the power to shape the future, but it's possible to know that future and to predict the path to realizing it. Those times call for bold strategies—the kind entrepreneurs use to create entirely new markets (as Edison did for electricity and Martine Rothblatt did for XM satellite radio), or corporate leaders use to revitalize a company with a wholly new vision—as Ratan Tata is trying to do with the ultra-affordable Nano automobile. These are the big bets, the build-it-and-they-will-come strategies.

Like a shaping strategist, the visionary considers the environment not as a given but as something that can be molded to advantage. Even so, the visionary style has more in common with a classical than with an adaptive approach. Because the goal is clear, strategists can take deliberate steps to reach it without having to keep many options open. It's more important for them to take the time and care they need to marshal resources, plan thoroughly, and implement correctly so that the vision doesn't fall victim to poor execution. Visionary strategists must have the courage to stay the course and the will to commit the necessary resources.

Back in 1994, for example, it became clear to UPS that the rise of internet commerce was going to be a bonanza for delivery companies, because the one thing online retailers would always need was a way to get their offerings out of cyberspace and onto their customers' doorsteps. This future may have been just as clear to the much younger and smaller FedEx, but UPS had the means—

and the will—to make the necessary investments. That year it set up a cross-functional committee drawn from IT, sales, marketing, and finance to map out its path to becoming what the company later called "the enablers of global e-commerce." The committee identified the ambitious initiatives that UPS would need to realize this vision, which involved investing some $1 billion a year to integrate its core package-tracking operations with those of web providers and make acquisitions to expand its global delivery capacity. By 2000 UPS's multibillion-dollar bet had paid off: The company had snapped up a whopping 60% of the e-commerce delivery market.

Avoiding the Traps

In our survey, fully three out of four executives understood that they needed to employ different strategic styles in different circumstances. Yet judging by the practices they actually adopted, we estimate that the same percentage were using only the two strategic styles—classic and visionary—suited to predictable environments (see the sidebar "Which Strategic Style Is Used the Most?"). That means only one in four was prepared in practice to adapt to unforeseeable events or to seize an opportunity to shape an industry to his or her company's advantage. Given our analysis of how unpredictable their business environments actually are, this number is far too low. Understanding how different the various approaches are and in which environment each best applies can go a long way toward correcting mismatches between strategic style and business environment. But as strategists

WHICH STRATEGIC STYLE IS USED THE MOST?

Our survey found that companies were most often using the two styles best suited to predictable environments—classical and visionary—even when their environments were clearly unpredictable.

9%
Shaping

16%
Adaptive

35%
Classical

40%
Visionary

think through the implications of the framework, they need to avoid three traps we have frequently observed.

Misplaced confidence

You can't choose the right strategic style unless you accurately judge how predictable and malleable your environment is. But when we compared executives' perceptions with objective measures of their actual environments, we saw a strong tendency to overestimate both factors. Nearly half the executives believed they could control uncertainty in the business environment through their own actions. More than 80% said that achieving goals depended on their own actions more than on things they could not control.

Unexamined habits

Many executives recognized the importance of building the adaptive capabilities required to address unpredictable environments, but fewer than one in five felt sufficiently competent in them. In part that's because many executives learned only the classical style, through experience or at business school. Accordingly, we weren't surprised to find that nearly 80% said that in practice they begin their strategic planning by articulating a goal and then analyzing how best to get there. What's more, some 70% said that in practice they value accuracy over speed of decisions, even when they are well aware that their environment is fast-moving and unpredictable. As a result, a lot of time is being wasted making untenable predictions when a faster, more iterative, and more experimental approach would be more effective. Executives are also closely attuned to quarterly and annual financial reporting, which heavily influences their strategic-planning cycles. Nearly 90% said they develop strategic plans on an annual basis, regardless of the actual pace of change in their business environments—or even what they perceive it to be.

Culture mismatches

Although many executives recognize the importance of adaptive capabilities, it can be highly countercultural to implement them. Classical strategies aimed at achieving economies of scale and scope often create company cultures that prize efficiency and the elimination of varia-

tion. These can of course undermine the opportunity to experiment and learn, which is essential for an adaptive strategy. And failure is a natural outcome of experimentation, so adaptive and shaping strategies fare poorly in cultures that punish it.

Avoiding some of these traps can be straightforward once the differing requirements of the four strategic styles are understood. Simply being aware that adaptive planning horizons don't necessarily correlate well with the rhythms of financial markets, for instance, might go a long way toward eliminating ingrained planning habits. Similarly, understanding that the point of shaping and visionary strategies is to change the game rather than to optimize your position in the market may be all that's needed to avoid starting with the wrong approach.

Being more thoughtful about metrics is also helpful. Although companies put a great deal of energy into making predictions year after year, it's surprising how rarely they check to see if the predictions they made in the prior year actually panned out. We suggest regularly reviewing the accuracy of your forecasts and also objectively gauging predictability by tracking how often and to what extent companies in your industry change relative position in terms of revenue, profitability, and other performance measures. To get a better sense of the extent to which industry players can change their environment, we recommend measuring industry youthfulness, concentration, growth rate, innovation rate, and rate of technology change—all of which increase malleability.

Operating in Many Modes

Matching your company's strategic style to the predictability and malleability of your industry will align overall strategy with the broad economic conditions in which the company operates. But various company units may well operate in differing subsidiary or geographic markets that are more or less predictable and malleable than the industry at large. Strategists in these units and markets can use the same process to select the most effective style for their particular circumstances, asking themselves the same initial questions: How predictable is the environment in which our unit operates? How much power do we have to change that environment? The answers may vary widely. We estimate, for example, that the Chinese business environment overall has been almost twice as malleable and unpredictable as that in the United States, making shaping strategies often more appropriate in China.

Similarly, the functions within your company are likely to operate in environments that call for differing approaches to departmental planning. It's easy to imagine, for instance, that within the auto industry a classical style would work well for optimizing production but would be inappropriate for the digital marketing department, which probably has a far greater power to shape its environment (after all, that's what advertising aims to do) and would hardly benefit from mapping out its campaigns years in advance.

If units or functions within your company would benefit from operating in a strategic style other than the one

best suited to your industry as a whole, it follows that you will very likely need to manage more than one strategic style at a time. Executives in our survey are well aware of this: In fact, fully 90% aspired to improve their ability to manage multiple styles simultaneously. The simplest but also the least flexible way to do this is to structure and run functions, regions, or business units that require differing strategic styles separately. Allowing teams within units to select their own styles gives you more flexibility in diverse or fast-changing environments but is generally more challenging to realize.

Finally, a company moving into a different stage of its life cycle may well require a shift in strategic style. Environments for startups tend to be malleable, calling for visionary or shaping strategies. In a company's growth and maturity phases, when the environment is less malleable, adaptive or classical styles are often best. For companies in a declining phase, the environment becomes more malleable again, generating opportunities for disruption and rejuvenation through either a shaping or a visionary strategy.

Once you have correctly analyzed your environment, not only for the business as a whole but for each of your functions, divisions, and geographic markets, and you have identified which strategic styles should be used, corrected for your own biases, and taken steps to prime your company's culture so that the appropriate styles can successfully be applied, you will need to monitor your environment and be prepared to adjust as conditions change over time. Clearly that's no easy task. But we believe that companies that continually match their

strategic styles to their situation will enjoy a tremendous advantage over those that don't.

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CHAPTER 5

The Different Approaches Firms Use to Set Strategy

by Kimberly Teti, Mu-Jeung Yang, Nicholas Bloom, Jan W. Rivkin, and Raffaella Sadun

What is your strategy? Most senior executives can confidently answer this question.

How has that strategy changed over time? This one usually gets a quick answer too.

How do you make decisions about changing that strategy? Now it gets much more difficult.

The fact is, many senior executives struggle to describe how they make strategic decisions. That's a serious

Adapted from content posted on hbr.org, April 10, 2017 (product #H03LAM).

problem, since the process for making strategic decisions can shape the strategy itself. Making a strategy without knowing your process is like sailing without a compass. You are setting yourself up for a long, stressful journey. Even worse, if you eventually reach your destination, you may not realize that you're in the right place.

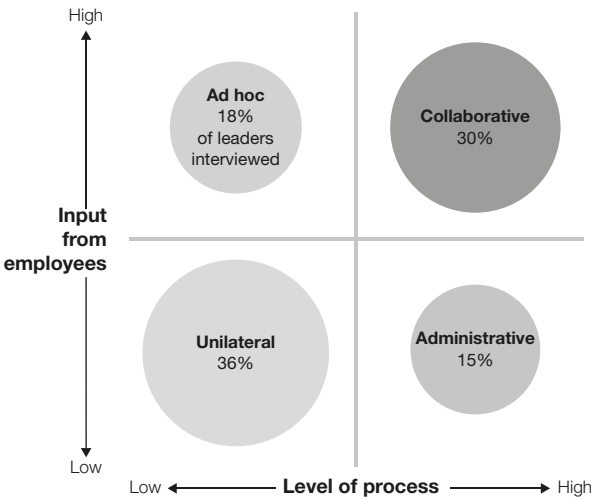
To better understand how companies really make strategic choices, we recently interviewed 92 current CEOs, founders, and senior executives. We asked each to answer detailed questions about their approach to strategic decision making. Their replies revealed both striking variety and underlying patterns. Here, we offer a typology of four approaches. Our results can't say that any single approach to strategy is always best, but we do offer some evidence that one of the approaches is often flawed.

Four Approaches to Strategic Decision Making

Companies' processes differed from each other in two ways. The first was whether a firm uses a high or low level of process to make strategic decisions. That is, does it have recurring routines for discussing strategy, triggering strategic changes, and reviewing those changes? The second was the amount of input from other employees that the leader considers while making a strategic decision. This factor focuses on employee involvement in decision making, not simply attendance at meetings or postdecision communication. These two factors can exist in any pairing, and based on our interviews, firms populate all boxes, which gives us four distinct archetypes of strategic decision making.

FIGURE 5-1

Four approaches to strategic decision making



Note: Based on interviews with 92 executives

Unilateral firms are both low process and low input. They tend to have a top-down leader who makes decisions alone. During our interviews, these individuals often had difficulty explaining their decision-making process and the role other employees played. Interestingly, these interviewees had two different types of attitudes: Some disliked their process and admitted that they should do things differently, while others seemed very confident with how they made decisions. A potential benefit for unilateral firms is that leaders can make decisions quickly, without the constraints of process complexity and debate. However, lacking checks and balances, unilateral firms can make *bad* decisions fast. Moreover, speed is not a sure thing in a unilateral firm: If

the top-down leader chooses to procrastinate on a tough decision, no process is in place to force timely action.

Ad hoc firms are low process and high input. These firms do not have a codified, recurring process that they follow every time they make a strategic change. But when a change needs to be made, the leader pulls their team together to take action. The exact steps the firm follows and the exact people in the room change from one decision to the next. The benefit of an ad hoc system is that rigid rules don't constrain the firm. Leaders can tailor the process to each decision by adjusting the length of deliberations, the involved parties, and other factors. The main risk is that the firm may not learn over time how to get better at making strategic decisions. The top leader of an ad hoc firm might also use the process flexibility to exclude stakeholders who disagree with the leader's position. This will eliminate the debate that fuels ad hoc decision making, and, in essence, shift the firm down to the unilateral box.

Administrative firms are high process but low input. These firms follow rigorous processes and well-defined routines to make strategic decisions without actually eliciting debate from other employees. One benefit is the detailed data collection and documentation that accompanies this extensive process. If administrative firms are smart, they can leverage this information to improve future decision making. But, similar to unilateral firms, the low level of input can result in bad decisions if leaders do not consider key information or opinions. In fact, this risk can be especially grave in administrative firms because the detailed process and the sheer quantity of

information gathered can act as theater, masking the lack of broad input from internal and external stakeholders.

Collaborative firms are both high process and high input. These firms have the rigorous process of an administrative firm, but also the engaged employees of an ad hoc firm. During interviews, these leaders showed strong consistency across different types of decisions and could clearly articulate how employees added value during the process. The detailed process ensures that the leaders don't miss any steps. The frequent input ensures that they don't miss any information. However, the inflexible system can potentially slow down decision making and prevent firms from acting on time-sensitive opportunities. For example, collaborative firms may inadvertently include irrelevant parties in strategy discussions or spend too much time achieving consensus among the participants in order to maintain engagement.

Which Approach Should a Firm Use?

Each of these archetypes has benefits and risks, which invites a question: Where should a firm sit in the matrix? Our interview data shows tremendous variation in archetype within each industry and across firms of similar size, which suggests that the right archetype for a given firm depends on subtle features of the company and its context. Our current research does not include enough data on context and firm performance to pinpoint the conditions in which one archetype would be the winner.

That said, our early data does make us skeptical about the unilateral archetype. In our interviews, we asked managers to give us a sense of where their approach

stood in terms of five attributes that are generally associated with good strategic decision-making processes, namely:

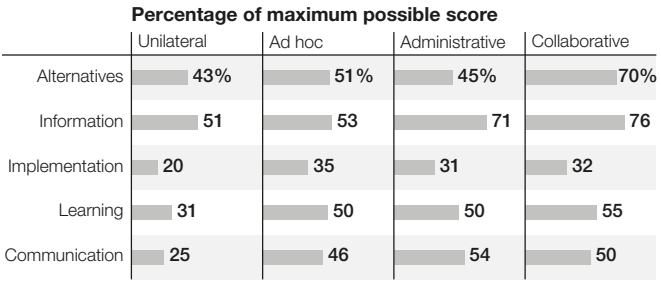
- **Alternatives.** Does the firm consider alternative options when making strategic decisions?
- **Information.** How much information does the firm use to spark debate about decisions?
- **Implementation.** Is a detailed implementation plan available when a decision is made?
- **Learning.** Does the firm study successes and failures to learn for future decisions?
- **Communication.** Does the firm have a clear plan to communicate changes to employees?

We then scored executives' responses based on a quantitative rubric. Figure 5-2 shows the percentage of total possible points that the average firm in each archetype scored on each of the attributes. Unilateral firms scored lower on all criteria, to the point of statistical significance, than collaborative firms; on four of the five than administrative firms; and on three of the five than ad hoc firms. The low scores of unilateral firms raise a red flag about this approach. If you are using the unilateral archetype, you should pressure-test it and consider whether it is the best option for your firm. In contrast, the other three archetypes do not differ much in terms of the five attributes. For example, the chances of establishing learning routines appear very similar across ad hoc, collaborative, and administrative archetypes.

FIGURE 5-2

How different strategic approaches compare

Based on five attributes associated with good decision making.



Note: The closer to 100%, the more one's answers suggest decision making near the frontier. Based on interviews with 92 executives.

Ultimately, the wide variation in strategy-making approaches, even within similar industries and across organizations of similar sizes, was a real eye-opener for our research team. An optimistic interpretation of this finding is that managers have considerable leeway to choose the archetype that best fits their specific context. A less rosy interpretation is that managers may inadvertently be stuck with less-than-optimal approaches. Our future research will aim to shed more light on this important question.

In the meantime, our advice to leaders is to take a hard look at how they make strategic decisions. Where does your firm sit on the matrix? Does your approach match where you *want* to be, given the pros and cons of each archetype? Does the approach fit with the demands of your market and firm? Questions like these will show

whether you need to change and will help you start the work needed to shift processes and culture to find a new home on the matrix.

The authors are grateful to Alek Duerksen, David Lopez-Lengowski, Michael Lynch, Meg McGuire, and Jackie Reilly, who conducted many of the interviews and gave insightful input on the design of the survey instrument.

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CHAPTER 6

Six Tips for Running Offsites That Aren't a Waste of Time

by Melissa Raffoni

Let's face it. Team strategy offsite meetings are expensive and time-consuming. While these events can provide a great environment for team building and alignment, such benefits can be short-lived and easily lost when team members move back into their day-to-day operations.

Adapted from content posted on hbr.org, July 22, 2019 (product #H0523M).

For the past 20 years, my team and I have worked closely with CEOs to plan and facilitate annual strategic planning offsites for executive teams. With facilitating these meetings comes the responsibility to drive sustained results. We've learned what it takes to make offsites "sticky"—meaning that the outcomes team members walk away with have an ongoing impact on their business.

Whether you are running a small executive team offsite or one for a larger group, here are six tips to make sure your next event has a lasting impact:

1. Be Crystal Clear About Your Objectives

Before the offsite, make sure you and your team identify what you hope to achieve during the event, as well as how you will measure success after it. Your objectives might include:

- Working together to develop a set of strategic priorities and desired measurable outcomes that the team fully commits to.
- Developing a plan for follow-through and accountability with respect to achieving these goals after the event.
- Facilitating a structured and thoughtful discussion on how the team can improve performance.

As you craft your objectives, consider the following questions: What do you want the participants to understand, agree to, rally around, and ultimately act on? How

do you want them to feel after the meeting, and what can you do to drive that?

Sticky tip: Complete the following statement, "I'd be really happy if, by the end of our offsite, we [*fill in objectives here*]." This clarity will help you set expectations with your team when you discuss the objectives of the offsite beforehand. It will also strengthen their confidence and increase their engagement by allowing them to prepare for the discussion.

2. Think Twice About Who Should Be Invited

In our experience, leaders often make the mistake of inviting too many people to their offsites. When making your list of invitees, look closely at your objectives and ask yourself, "Am I better off with a large group or a handful of key people who can work closely to develop a strategy?" While having a larger group may be more inclusive, the productivity of your meeting has the potential to decrease.

Larger groups often require you to engage more people, which can result in a more superficial discussion. When people with varying levels of authority and skill sets are sitting around a table, there is a greater chance that politics, fear, or personal agendas will throw you off course. This can distract from the real conversations that need to happen for the event to meet your objectives. Inviting a smaller number of key people will allow you to have those conversations more easily.

Sticky tip: Map your attendee list to your objectives and make hard decisions about who to include if you must. It's usually best to invite the executive-level team first. Get them aligned. Then, once the core team is on the same page, designate some time at the offsite to figure out the best approach for engaging the next level of employees once you return to the office.

3. Develop a Detailed Agenda

Once you have a clear set of objectives and an invite list, it's time to create an agenda. Plan for each topic of discussion to last between 45 minutes to two hours maximum—this ensures that topics are neither cut too short nor watered down by having too much time allotted. With these guidelines in mind, you will likely be able to cover four to six topics in a full day. Your agenda planning should include:

- Topics of discussion (i.e., leader vision presentation, SWOT analysis, goal prioritization, team performance discussion)
- Specific objectives for each topic (i.e., understand leader direction, agree on SWOT, commit to three strategic goals, list three things the team can improve on)
- The types of activity or delivery modes you want to use (i.e., small group working sessions, large group facilitated discussions, brainstorms, knowledge presentations, panel discussions, Q&A sessions, games)

- The amount of time you want to designate to each topic
- A plan for the preparation work that needs to be done beforehand—by you, the organizer, or the team

Sticky tip: When you complete your agenda draft, check it against your objectives. You should be able to map each topic and activity back to each objective. Make sure everything lines up before finalizing. It may take a few rounds. You should also try to vary the delivery modes you decide upon. This will keep the energy of the team up and help participants stay engaged throughout the meeting.

4. Prepare the Logistics, Messaging, Materials, and Templates

While the basic logistics of transportation, food, sleeping arrangements, social events, and the meeting venue will need to be arranged by someone on the team, don't let this distract you from the more strategic task at hand—planning the higher-level details that will ensure stickiness. Take time well in advance of the event to work on the following:

- **Well-thought-out messaging.** How will you communicate objectives and expectations for the offsite, both prior and during? How will you frame the agenda? If you are assigning prework, how will you communicate the purpose and importance of it?

- **Quality and vetted communication materials.** What presentations or handouts are needed for the sessions you've mapped out? Who needs to be involved? What's the time line for completing them prior to the offsite?
- **Thoughtfully designed templates.** What documents need to be prepared in advance to help you capture the work being done at the event?

Sticky tips: Walk through the agenda to determine what templates you need. Some examples might include a SWOT grid, a KPI dashboard, a scorecard to capture strategic goals and targeted measurable outcomes, or a meetings/governance plan template.

We also recommend that you, as the leader of the offsite, create a thoughtful kickoff presentation to give at the start of the offsite. Doing so will set your team up to dig into the work. Plan for it to be about 45–75 minutes, depending on your objectives. Engage others to help you prepare your presentation or offer feedback in advance, and try to anticipate or collect questions from the audience beforehand. You should also be sure to include scheduled time for a Q&A following the presentation. Think of it as a way to align and set expectations with your team, both with respect to the offsite and the business in general.

5. Focus on the Big Picture, Not Everyday Work

Well-planned offsites that see lasting results move above the day-to-day operations and concentrate on the larger picture. Think of this time as an opportunity to do just

that. Focus on strategic thinking and important issues that you haven't had time to think about at the office. Tune out mobile phones and leave laptops closed so you aren't pulled back into everyday tasks.

For example, you might use this time to make a decision you've been avoiding or haven't had the resources to tackle. It could be phasing out a product line that is not viable, addressing a low retention rate, improving cross-departmental collaboration, or a big idea, like expanding to other geos.

As you start to record team feedback, decisions, or goals, say no to flip charts, and instead, use an adapter to connect your computer to a larger screen and record notes live with your team. The visual will help them digest the information and allow you to have typed notes available for everyone immediately after the offsite. They will have the documents in their inboxes before they are back in the office and can start putting the agreed-upon plans to work right away.

Sticky tip: As you move through the offsite, reference this idea of "working *on* the business" to pull people out of the weeds as needed. Frequently ask: What problem are we trying to solve? At what level do we need to be addressing this? What do we need to do to make sure we follow through on this after we leave this meeting?

6. At the Close of the Event, Create a Team Governance Plan

To make sure the learnings and strategies you developed during the offsite are acted upon, take some time near the close of the event to discuss, as a team, what each

person needs to do to drive the agreed-upon plan forward. Then, be sure to schedule enough progress check-ins to ensure success. Outside of high-quality output from your offsite, well-managed follow-up meetings are the single most important factor in ensuring stickiness.

As you develop your governance plan, ask:

- How will we hold each other accountable for executing the plans and decisions agreed to at the offsite?
- What needs to go on the calendar?
- For each required check-in, who needs to be there and what is the agenda?
- How often should these meetings occur, and how much time is needed to accomplish the goals on the agenda?
- Can the meetings be conducted virtually or do they need to be in-person?

For example, if one of your goals from the offsite is to improve the working relationship between sales and delivery, then you may need to schedule regular weekly meetings with those two departments aimed at making that happen.

Sticky tip: Agree on your governance plan at the offsite, and schedule your first few check-in meeting dates with the group while they are present. This will help everyone commit to follow-through, give you a forum to revisit the goals you established, and provide you with an opportu-

nity to course correct if necessary. Don't be surprised if your team is resistant to more meetings. The key is to emphasize the importance of follow-through while being thoughtful about how many meetings need to happen, how long they need to be, and who should be involved. Seek to create a plan that drives results but does not waste people's time.

The combination of thoughtful planning prior to your offsite and mindful follow-through after will make this event "sticky" and well worth the investment. Your team will not only be more engaged, aligned, and prepared to better execute but also grateful for the time spent. And more importantly, the health and success of the business will be better for it.

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CHAPTER 7

Stakeholders First, Strategy Second

by Graham Kenny

What stakeholders do you depend on for success?

When setting strategy, it might seem obvious that you'd need to ask this question. But most managers, even at the world's largest companies, don't think about it. Instead, they focus on a narrow set of key performance indicators and wade right into developing solutions that feed those metrics, burrowing deeper and deeper into the details. Very quickly they lose their "helicopter view" and get stuck in fix-it mode. Suggestions come one after

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Adapted from "A List of Goals Is Not a Strategy" on hbr.org, November 19, 2014 (product #H01P99).

another: Engage sales outlets. Devise an advertising program. Attract, retain, and develop capable people. Good stuff, perhaps, but how would you know if you haven't defined a context for success?

Your organization or unit is completely dependent on others outside it for its good fortune. Without the support of stakeholders such as customers, suppliers, employees, and shareholders, for example, you *have* no organization. But you must identify those who are key to the long-term survival and prosperity of your organization—and then satisfy them.

Here, we should take a lesson from John Mackey, cofounder and co-CEO of Whole Foods Market. His company has annual sales of $9 billion and more than 300 stores. It dominates U.S. natural-foods retailing and has become an iconic brand. In a *Harvard Business Review* interview, Mackey describes what has brought success to Whole Foods. "Customers, employees, investors, suppliers, larger communities, and the environment are all interdependent," he explains. "Management's job at Whole Foods is to make sure that we hire good people, that they are well trained, and that they flourish in the workplace, because we found that when people are really happy in their jobs, they provide much higher degrees of service to the customers. Happy team members result in happy customers. Happy customers do more business with you. They become advocates for your enterprise, which results in happy investors. That is a win, win, win, win strategy."[1]

It's essential to think about who your stakeholders are *before* diving into strategy discussions. But simply iden-

tifying these groups or individuals is not enough. You must also think carefully about their wants and needs—as well as your own—to have a better understanding of how they align with your potential strategy.

Recognize What You Want from Your Stakeholders

When management teams begin to think about their key stakeholders, they often launch right into what they need to do *for* customers, *for* employees, and so on, without thinking first about what they want *from* them.

Why is sorting out the "from" so important? What an organization wants from each group of key stakeholders translates neatly into its objectives. For instance, sales and revenue growth will come from customers, productivity and innovation from employees, and quality goods and services at the right price from suppliers. What's more, company law requires that boards, CEOs, and senior executives act in the best interests of the *company*. All decision making should stem from that mandate. Of course, this doesn't preclude looking after customers' and other stakeholders' interests en route.

Although objectives and clear targets aren't a substitute for strategy, you do need to design them, stakeholder group by stakeholder group, before you can develop a smart strategy for each group. (See the sidebar "Creating a Value Proposition for Stakeholder Groups.") Otherwise, any old strategy will do. Unfortunately, strategies are often created in a vacuum. They won't be meaningful if you haven't decided what you want them to achieve.

CREATING A VALUE PROPOSITION FOR STAKEHOLDER GROUPS

by Jack Springman

It's helpful to create a value proposition for each stakeholder group you are targeting and detail how you will create value for that group. Typically there are three dimensions of value—financial (price, volume, margin, ROI, etc.), functional (increasing stakeholder's productivity, providing choice or flexibility, being easy and convenient to do business with, and delivering speedy service), and emotional (providing security to generate trust and stimulating a feel-good factor). All of these can be offered in some form to each group.

This value creation for each stakeholder group needs to be balanced by what the business will gain in return—the value it will extract from the relationship. Determine what you are seeking from each stakeholder group, both financially and operationally (in terms of loyalty, referrals, prioritization, etc.).

Knowing what value you want to offer, and what you hope to get in return, will allow you to identify what stakeholder-facing capabilities you need in order to execute. Compare the capabilities you need with those that you already have to highlight any gaps. You'll have to fill those gaps in through organizational redesign, training, process development, systems implementation, and cultural change.

Track the costs and benefits associated with each value proposition, including the investment necessary

to complete the initiatives required to fill the capability gaps you've identified. Use this information to create a profit model to manage the inevitable trade-offs among your stakeholder groups. You may not be able to afford all the things you would like to do, but the profit model becomes the means for managing competing interests and the returns provided to each stakeholder group—the output being your financial returns (which are central to the value proposition to shareholders).

Finally, you need to determine a set of key performance indicators. These should track how effectively your business is creating value for each stakeholder group and how well you're capturing value in return. This will enable you to develop a stakeholder scorecard that provides a 360-degree view of performance.

Defining the value created for and from each stakeholder group adds perspective, ensuring that you look at your business from all angles. And by focusing on value creation for all your different stakeholders, you will be a creating a business that is more sustainable—in all senses of the word.

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Adapted from "Implementing a Stakeholder Strategy" on hbr.org, July 28, 2011.

Recognize What Your Stakeholders Want from You

When management teams delve too quickly into problem solving, they make assumptions. They think they already know what's good for their stakeholders. As a result, their companies end up with products and services that don't sell.

When you articulate what key stakeholders want, you're defining what I call "strategic factors." (They're not the same as "critical success factors"—a term you might already use. Those are generated by your management team, whereas strategic factors come from your stakeholders.) Strategic factors bring an external perspective. They are those *few* things that you must excel at if you are to achieve a competitive advantage and, simultaneously, meet your corporate objectives.

Here's a list of strategic factors from a company that manages a port and aims to attract as many ship operators as possible:

- Port capability (suitability for a ship's size and freight)
- Freight availability (to pick up on the return leg)
- Congestion (speed of unloading and turnaround time in the port)
- Location (which affects "steaming time," or time between destinations)
- Price (port charges for docking and remaining moored)

Note how these are defined from a stakeholder's point of view, not from management's. If you're not sure of them (that's the norm), interview your stakeholders to better understand their stories and needs.

Before diving into strategy and writing your strategic plan, thoughtfully consider who your strategy serves—and what you'd like from these individuals in return. By identifying your stakeholders, you can define a clearer strategy and objectives for your organization, so you can get the buy-in and support your plans deserve.

Graham Kenny, CEO of Strategic Factors, is a recognized expert in strategy. He is passionate about helping managers, executives, and boards create successful organizations in the private, public, and not-for-profit sectors. He does this through seminars and workshops on strategy and performance measurement; through keynote speaking; by working with managers to develop their business strategy and performance scorecards; and by publishing books, articles, and manuals. You can connect to or follow him on LinkedIn.

NOTE

1. Justin Fox, "What Is It That Only I Can Do?" *Harvard Business Review*, January–February 2011 (product #R1101J).

SECTION THREE

Develop Your Strategy

CHAPTER 8

Strategy Needs Creativity

by Adam Brandenburger

I've noticed that business school students often feel frustrated when they're taught strategy. There's a gap between what they learn and what they'd like to learn. Strategy professors (including me) typically teach students to think about strategy problems by introducing them to rigorous analytical tools—assessing the five forces, drawing a value net, plotting competitive positions. The students know that the tools are essential, and they dutifully learn how to use them. But they also realize that the tools are better suited to understanding an existing business context than to dreaming up ways

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to reshape it. Game-changing strategies, they know, are born of creative thinking: a spark of intuition, a connection between different ways of thinking, a leap into the unexpected.

They're right to feel this way—which is not to say that we should abandon the many powerful analytical tools we've developed over the years. We'll always need them to understand competitive landscapes and to assess how companies can best deploy their resources and competencies there. But we who devote our professional lives to thinking about strategy need to acknowledge that just giving people those tools will not help them break with conventional ways of thinking. If we want to teach students—and executives—how to generate groundbreaking strategies, we must give them tools explicitly designed to foster creativity.

A number of such tools already exist, often in practitioner-friendly forms. In "How Strategists Really Think: Tapping the Power of Analogy" (HBR, April 2005), Giovanni Gavetti and Jan W. Rivkin write compellingly about using analogies to come up with new business models. Charles Duhigg talks in his book *Smarter Faster Better* about introducing carefully chosen creative "disturbances" into work processes to spur new thinking. Youngme Moon, in "Break Free from the Product Life Cycle" (HBR, May 2005), suggests redefining products by boldly limiting—rather than augmenting—the features offered.

What these approaches have in common is the goal of moving strategy past the insights delivered by analytic

tools (which are close at hand) and into territory that's further afield, or—to use a bit of academic jargon—*cognitively distant*. They take their inspiration more from how our thought processes work than from how industries or business models are structured. For that reason they can help strategists make the creative leap beyond what already exists to invent a genuinely new way of doing business. Simply waiting for inspiration to strike is not the answer.

In this article I explore four approaches to building a breakthrough strategy: (1) *Contrast*. The strategist should identify—and challenge—the assumptions undergirding the company's or the industry's status quo. This is the most direct and often the most powerful way to reinvent a business. (2) *Combination*. Steve Jobs famously said that creativity is "just connecting things"; many smart business moves come from linking products or services that seem independent from or even in tension with one another. (3) *Constraint*. A good strategist looks at an organization's limitations and considers how they might actually become strengths. (4) *Context*. If you reflect on how a problem similar to yours was solved in an entirely different context, surprising insights may emerge. (I wrote about these ideas more academically in "Where Do Great Strategies Really Come From?" *Strategy Science*, December 2017.) These approaches aren't exhaustive—or even entirely distinct from one another—but I've found that they help people explore a wide range of possibilities.

Contrast

What pieces of conventional wisdom are ripe for contradiction?

To create a strategy built on contrast, first identify the assumptions implicit in existing strategies. Elon Musk seems to have a knack for this approach. He and the other creators of PayPal took a widely held but untested assumption about banking—that transferring money online was feasible and safe between institutions but not between individuals—and disproved it. With SpaceX he is attempting to overturn major assumptions about space travel: that it must occur on a fixed schedule, be paid for by the public, and use onetime rockets. He may be on track toward a privately funded, on-demand business that reuses rockets.

It's best to be precise—even literal—when naming such assumptions. Consider the video rental industry in 2000. Blockbuster ruled the industry, and the assumptions beneath its model seemed self-evident: People pick up videos at a retail location close to home. Inventory must be limited because new videos are expensive. Since the demand for them is high, customers must be charged for late returns. (It was basically a public-library model.) But Netflix put those assumptions under a microscope. Why is a physical location necessary? Mailing out videos would be cheaper and more convenient. Is there a way around the high fees for new releases? If the studios were open to a revenue-sharing agreement, both parties could benefit. Those two changes allowed Netflix to carry lots more movies, offer long rental periods, do away with late fees—and remake an industry.

Most of the time, strategy from contrast may look less revolutionary than Netflix (which remade itself again by streaming videos and becoming a content creator) or SpaceX (should it succeed). Any organization can ask whether it might usefully flip the order in which it performs activities, for example. The traditional model in retail is to start with a flagship store (usually in a city center) and add satellites (in suburban locations). Now consider pop-up stores: In some cases they conform to the old model—they are like mini-satellites; but in others the pop-up comes first, and if that's successful, a larger footprint is added. The Soho area of New York City has become a testing ground for this strategy.

Another approach is to consider shaking up the value chain, which in any industry is conventionally oriented in a particular way, with some players acting as suppliers and others as customers. Inverting the value chain may yield new business models. In the charitable sector, for example, donors have been seen as suppliers of financial resources. DonorsChoose.org is a model that treats them more like customers. The organization puts up a "storefront" of requests posted by schoolteachers around the United States who are looking for materials for their (often underresourced) classrooms. Donors can choose which requests to respond to and receive photos of the schoolwork that their money has supported. In effect, they are buying the satisfaction of seeing a particular classroom before and after.

In some industries the status quo has dictated highly bundled, expensive products or services. Unbundling them is another way to build a contrast strategy. Various segments of the market may prefer to get differing

subsets of the bundle at better prices. Challengers' unbundling of the status quo has been facilitated by the internet in one industry after another: Music, TV, and education are leading examples. Incumbents have to make major internal changes to compete with unbundlers, rendering this approach especially effective.

How to begin

- Precisely identify the assumptions that underlie conventional thinking in your company or industry.
- Think about what might be gained by proving one or more of them false.
- Deliberately disturb an aspect of your normal work pattern to break up ingrained assumptions.

What to watch out for

Because the assumptions underlying your business model are embedded in all your processes—and because stable businesses need predictability—it won't be easy to change course. Organizations are very good at resisting change.

Combination

How can you connect products or services that have traditionally been separate?

Combination is a canonical creative approach in both the arts and the sciences. As Anthony Brandt and David

Eagleman note in *The Runaway Species*, it was by combining two very different ideas—a ride in an elevator and a journey into space—that Albert Einstein found his way to the theory of general relativity. In business, too, creative and successful moves can result from combining things that have been separate. Often these opportunities arise with complementary products and services. Products and payment systems, for example, have traditionally been separate nodes in value chains. But the Chinese social media platform WeChat (owned by Tencent) now includes an integrated mobile payment platform called WeChat Pay that enables users to buy and sell products within their social networks. Expanding beyond the Chinese ecosystem, Tencent and Alibaba are coordinating with overseas payment firms to enable retailers in other countries to accept their mobile payment services.

Sometimes competitors can benefit from joining forces to grow the pie. (Barry Nalebuff and I explored this idea in our 1996 book *Co-opetition*.) For example, BMW and Daimler have announced plans to combine their mobility services—car sharing, ride hailing, car parking, electric vehicle charging, and tickets for public transport. Presumably, the two automakers hope that this move will be an effective counterattack against Uber and other players that are encroaching on the traditional car industry.

In other instances, companies from wholly separate industries have created new value for customers by combining offerings. Apple and Nike have done so since the 2006 introduction of the Nike+ iPod Sport Kit, which

enabled Nike shoes to communicate with an iPod for tracking steps. More recently, versions of the Apple Watch have come with the Nike+ Run Club app fully integrated. Nest Labs and Amazon also complement each other: Nest's intelligent home thermostat becomes even more valuable when it can deploy voice control via Amazon's virtual assistant, Alexa.

New technologies are a rich source of combinatorial possibilities. AI and blockchain come together naturally to protect the privacy of the large amounts of personal data needed to train algorithms in health care and other sensitive areas. Blockchain and the internet of things come together in the form of sensors and secure data in decentralized applications such as food supply chains, transportation systems, and smart homes, with automated insurance included in smart contracts.

Perhaps the biggest combination today is the one emerging between humans and machines. Some commentators see the future of that relationship as more competitive than cooperative, with humans losing out in many areas of economic life. Others predict a more positive picture, in which machines take on lower-level cognition, freeing humans to be more creative. Martin Reeves and Daichi Ueda have written about algorithms that allow companies to make frequent, calibrated adjustments to their business models, enabling humans to work on high-level objectives and think beyond the present. (See "Designing the Machines That Will Design Strategy," hbr.org, April 2016.)

Strategy from combination involves looking for connections across traditional boundaries, whether by link-

ing a product and a service, two technologies, the upstream and the downstream, or other ingredients. Here, too, the creative strategist must challenge the status quo—this time by thinking not just outside the box but across two or more boxes.

How to begin

- Form groups with diverse expertise and experience; brainstorm new combinations of products and services.
- Look for ways to coordinate with providers of complementary products (who may even be competitors).

What to watch out for

Businesses often manage for and measure profits at the individual product or activity level. But combinations require system-level thinking and measurements.

Constraint

How can you turn limitations or liabilities into opportunities?

The world's first science fiction story, *Frankenstein*, was written when its author, Mary Wollstonecraft Shelley, was staying near Lake Geneva during an unusually cold and stormy summer and found herself trapped indoors with nothing to do but exercise her imagination. Artists know a lot about constraints—from profound ones, such as serious setbacks in their lives, to structural ones, such

as writing a 14-line poem with a specified rhyming structure. In business, too, creative thinking turns limitations into opportunities.

That constraints can spark creative strategies may seem paradoxical. Lift a constraint, and any action that was previously possible is surely still possible; most likely, more is now possible. But that misses the point that one can think multiple ways in a given situation—and a constraint may prompt a whole new line of thinking. Of course, the Goldilocks principle applies: Too many constraints will choke off all possibilities, and a complete absence of constraints is a problem too.

Tesla hasn't lacked financial resources in entering the car industry, but it doesn't have a traditional dealership network (considered a key part of automakers' business models) through which to sell. Rather than get into the business of building one, Tesla has chosen to sell cars online and to build Apple-like stores staffed with salespeople on salary. This actually positions the company well relative to competitors, whose dealers may be conflicted about promoting electric vehicles over internal-combustion ones. In addition, Tesla controls its pricing directly, whereas consumers who buy electric vehicles from traditional dealers may encounter significant variations in price.

I should note that this attitude toward constraints is very different from that suggested by the classic SWOT analysis. Strategists are supposed to identify the strengths, weaknesses, opportunities, and threats impinging on an organization and then figure out ways to

exploit strengths and opportunities and mitigate weaknesses and threats.

In stark contrast, a constraint-based search would look at how those weaknesses could be turned to the company's advantage. Constraint plus imagination may yield an opportunity.

This approach to strategy turns the SWOT tool upside down in another way as well. Just as an apparent weakness can be turned into a strength, an apparent strength can prove to be a weakness. The likelihood of this often increases over time, as the assets that originally enabled a business to succeed become liabilities when the environment changes. For example, big retailers have historically considered "success" to be moving product out the door; to that end, they needed large physical footprints with on-site inventory. Among the many changes they face today is the rise of "guideshops"—a term used by the menswear retailer Bonobos—where shoppers try on items, which they can have shipped to them or later order online. In the new environment, traditional retail footprints become more of a liability than an asset.

Another way to approach strategy from constraint is to ask whether you might benefit from self-imposed constraints. (Artists do something similar when they choose to work only within a particular medium.) The famous Copenhagen restaurant Noma adheres to the New Nordic Food manifesto (emphasizing purity, simplicity, beauty, seasonality, local tradition, and innovation). A similar strategy of working only with local suppliers has

been adopted by thousands of restaurants around the world. A commitment to high environmental standards, fair labor practices, and ethical supply-chain management can be powerful for organizations looking to lead change in their industries or sectors.

Self-imposed constraints can also spur innovation. Adam Morgan and Mark Barden, in their book *A Beautiful Constraint*, describe the efforts of the Audi racing team in the early 2000s to win Le Mans under the assumption that its cars couldn't go faster than the competition's. Audi developed diesel-powered racers, which required fewer fuel stops than gasoline-powered cars, and won Le Mans three years in succession (2004–2006). In 2017 Audi set itself a new constraint—and a new ambition: to build winning all-electric racers for the new Formula E championship.

How to begin

- List the "incompetencies" (rather than the competencies) of your organization—and test whether they can in fact be turned into strengths.
- Consider deliberately imposing some constraints to encourage people to find new ways of thinking and acting.

What to watch out for

Successful businesses face few obvious constraints; people may feel no need to explore how new ones might create new opportunities.

Context

How can far-flung industries, ideas, or disciplines shed light on your most pressing problems?

An entire field, biomimetics, is devoted to finding solutions in nature to problems that arise in engineering, materials science, medicine, and elsewhere. For example, the burrs from the burdock plant, which propagate by attaching to the fur of animals via tiny hooks, inspired George de Mestral in the 1940s to create a clothing fastener that does not jam (as zippers are prone to do). Thus the invention of Velcro. This is a classic problem-solving technique. Start with a problem in one context, find another context in which an analogous problem has already been solved, and import the solution.

Intel did that when it came up with its famous Intel Inside logo, in the early 1990s. The goal was to turn Intel microprocessors into a branded product to speed up consumers' adoption of next-generation chips and, more broadly, to improve the company's ability to drive the PC industry forward. Branded ingredients were well established in certain consumer product sectors—examples include Teflon and NutraSweet—but hadn't been tried in the world of technology. Intel imported the approach to high tech with a novel advertising campaign, successfully branding what had previously been an invisible computer component.

Context switching can be done across industries, as in Intel's case, or even across time. The development of

the graphical user interface (GUI) for computers was in a sense the result of a step backward: The developers moved from immersion in the text-based context in which programming had grown up to thinking about the highly visual hand-eye environment in which young children operate. Similarly, some AI researchers are currently looking at how children learn in order to inform processes for machine learning.

Companies are always eager to see into the future, of course, and techniques for trying to do so are well established. That is the purpose of lead-user and extreme-user innovation strategies, which ask companies to shift their attention from mainstream customers to people who are designing their own versions or using products in unexpected ways in especially demanding environments. Information about where the edges of the market are today can signal where the mainstream will be tomorrow. Extreme sports, such as mountain biking, skateboarding, snowboarding, and windsurfing, are good examples. In an MIT Sloan School working paper, Sonali Shah relates that aficionados led many of the innovations in those areas, starting in the 1950s, and big manufacturers added cost efficiencies and marketing to take them mainstream.

When companies locate R&D functions far from headquarters, they're acknowledging the importance of jumping into someone else's context. This is not just a strategy for large companies that move people to Silicon Valley for tech or the Boston area for biotech. Startups, too, should put themselves in the best context for learning and growth. The hardware accelerator HAX, located

in Shenzhen, hosts hardware startup teams from numerous countries and enables them to tap into the high-speed ecosystem of the "hardware capital of the world," quadrupling the rate at which they cycle through iterations of their prototypes.

Strategy focused on context may involve transferring a solution from one setting to another more or less as is. It may mean uncovering entirely new thinking about problems (or opportunities) by finding pioneers who are ahead of the game. At bottom, it's about not being trapped in a single narrative.

How to begin

- Explain your business to an outsider in another industry. Fresh eyes from a different context can help uncover new answers and opportunities.
- Engage with lead users, extreme users, and innovation hotspots.

What to watch out for

Businesses need to focus on internal processes to deliver on their current value propositions—but the pressure to focus internally can get in the way of learning from the different contexts in which other players operate.

Conclusion

In the world of management consulting, aspects of "strategy" and "innovation" have started to converge. IDEO, the design and innovation powerhouse, has moved into strategy consulting, for example—while

McKinsey has added design-thinking methods to its strategy consulting. This convergence raises an obvious question: If the distinction between strategy and innovation is less clear than it once was, do we really need to think carefully about the role of creativity in the strategy-making process?

I believe strongly that the answer is yes. At its core, strategy is still about finding ways to create and claim value through differentiation. That's a complicated, difficult job. To be sure, it requires tools that can help identify surprising, creative breaks from conventional thinking. But it also requires tools for analyzing the competitive landscape, the dynamics threatening that landscape, and a company's resources and competencies. We need to teach business school students—and executives—how to be creative and rigorous at the same time.

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CHAPTER 9

Five Questions to Build a Strategy

by Roger L. Martin

People make strategy much harder than it needs to be. For some, the problem is that they focus too much on the tools: environmental scans, SWOT analyses, customer analyses, competitor analyses, financial modeling, and so on. Other people get into trouble because they think it's all about the broad, conceptual, future-oriented, big-picture stuff—not to be confused with tactics. Still other times, people think that strategy is what happens when we think about changing directions.

The reality is that strategy is at some level about all those things, and you can't do a satisfactory job with

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Adapted from content posted on hbr.org, May 26, 2010 (product #H005PU) and "Strategic Choices Need to Be Made Simultaneously, Not Sequentially," on hbr.org, April 3, 2017 (product #H03K4Y).

your analysis alone, or your big picture alone, or your changes alone. You have to do a bit of work on all of them.

That's actually a lot easier than it sounds. My preferred approach is to treat strategy making as developing a set of answers to five interlinked questions. The questions—which cascade logically from the first to the last, as seen in figure 9-1—are as follows:

1. What are our broad **aspirations** for our organization and the concrete **goals** against which we can measure our progress?

2. Across the potential field available to us, **where** will we choose **to play** and not play?

3. In our chosen place to play, **how** will we choose **to win** against the competitors there?

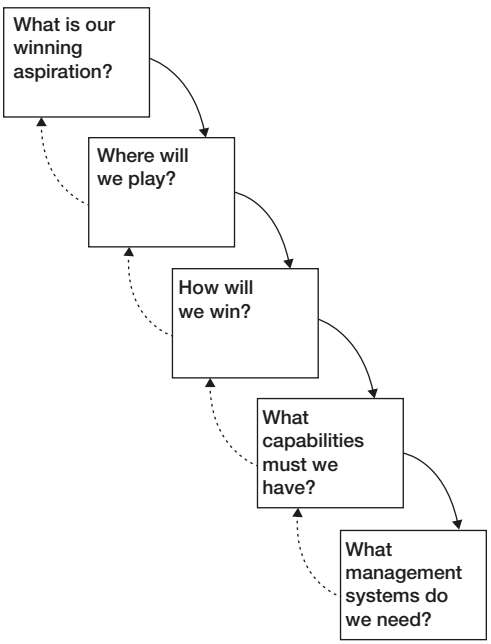
4. What **capabilities** are necessary **to build** and maintain to win in our chosen manner?

5. What **management systems** are necessary **to operate** to build and maintain the key capabilities?

The trick is to have five answers that are consistent with one another and reinforce one another. "Aspirations and goals" to be a great international player and a "where to play" response that is domestic doesn't match well with a "how to win" on the basis of proprietary R&D—because the competitors with global aspirations will almost certainly out-invest and outflank you. Winning on the basis of superior distribution is unlikely to happen if you don't have a concrete plan to build the capabilities and a management system to maintain them.

FIGURE 9-1

The strategy choice cascade



Source: A.G. Lafley and Roger L. Martin, *Playing to Win: How Strategy Really Works* (Boston: Harvard Business Review Press, 2013).

Moving Up and Down the Cascade

So where do you start? Most organizations start at the top with some kind of mission/vision exercise that drives participants around the bend. The reason it drives them crazy is that it is extremely difficult to create a meaningful aspiration/mission/vision in the absence of some idea of "where to play" and "how to win." That is why those conversations tend to go around in circles with nobody knowing how to actually agree on anything. Any

mission or vision will do when you don't have a thought-through concept of "where to play" or "how to win."

That said, if you think entirely about "where to play" and "how to win" without consideration of "aspirations and goals," you may end up with a strategy that is effective for its intended goal but isn't something you would actually want.

To create a strategy, you have to iterate—think a little bit about "aspirations and goals," then a little bit about "where to play" and "how to win," then back to "aspirations and goals" to check and modify, then down to "capabilities and management systems" to check whether it is really doable, then back up again to modify accordingly. Each of the five boxes are related to each other. You must make your strategic choices simultaneously, rather than sequentially, in order for your strategy to make sense.

Consider this example. The CEO of a large Australian company called me to relay a strategy development problem his firm was facing and ask for my advice. My friend explained that each of his five business-unit presidents was using the strategy choice cascade, and that all of them had gotten stuck in the same place. They had chosen a "winning aspiration" and had settled on a "where to play" choice. But all of them were stuck at the "how to win" box.

It is no surprise, I told my friend, that they have gotten stuck. It is because they considered "where to play" without reference to "how to win."

The challenge here is that both are linked, and *together* they are the heart of strategy; without a great

"where to play" and "how to win" combination, you can't possibly have a worthwhile strategy. Of course, "where to play" and "how to win" have to link with and reinforce an inspiring "winning aspiration." And "capabilities and management systems" act as a reality check on the "where to play" and "how to win" choices. If you can't identify a set of "capabilities and management systems" that you currently have, or can reasonably build, to make the "where to play" and "how to win" choices come to fruition, you have a fantasy, not a strategy.

Many people ask me why "capabilities and management systems" are part of strategy when they are really elements of execution. That is yet another manifestation of the widespread, artificial, and unhelpful attempt to distinguish between choices that are "strategic" and ones that are "executional" or "tactical." Remember that, regardless of what name you give them, these choices are a critical part of the integrated set of five choices that are necessary to successfully guide the actions of an organization.

I had to tell my Australian friend that locking and loading on "where to play" choices, rather than setting the table for a great discussion of "how to win," actually makes it virtually impossible to have a productive consideration of "how to win." That is because no meaningful "where to play" choice exists outside the context of a particular "how to win" plan. An infinite number of "where to play" choices are possible, and equally meritorious—before considering "how to win" for each. In other words, there aren't inherently strong and weak "where to play" choices. They are only strong or weak in the

context of a particular "how to win" choice. Therefore, making lists of "where to play" choices before considering "how to win" choices has zero value in strategy.

Understanding Matched Pairs

You can find a number of relevant business examples that fell in the same trap my friend did. For example, Uber made a "where to play" choice that included China because it's a huge and important market. But being huge and important didn't make that choice inherently meritorious. It would have been meritorious only if there had been a clear "how to win" as well—which it appears there never was. Microsoft made a "where to play" choice to get into smartphone hardware (with its acquisition of Nokia's handset business) because it was a huge and growing market, seemingly adjacent to Microsoft's own, but it had no useful conception of how that would be twinned with a "how to win"—and it lost spectacularly. P&G made a "where to play" choice to get into the huge, profitable, and growing pharmaceutical business with the acquisition of Norwich Eaton in 1982. While it performed decently in the business, it divested the business in 2009 because, in those nearly two decades, it came to realize that it could play but never win in that still-exciting "where to play."

No meaningful "how to win" choice exists outside the context of a particular "where to play." Despite what many think, there are not generically great ways to win—for example, being a first mover or a fast follower or a branded player or a cost leader. All "how to win" choices are useful, or not, depending on the "where to play" with

which they are paired. A "how to win" choice based on superior scale is not going to be useful if the "where to play" choice is to concentrate on a narrow niche—because that would undermine an attempted scale advantage.

Undoubtedly, Uber thought its "how to win"—having an easy-to-use ride-hailing app for users twinned with a vehicle for making extra money for drivers—would work well in any "where to play." But it didn't work in the "where to play" of China. It turned out that Uber's "how to win" had a lot to do with building a first-mover advantage in markets like the United States; when Uber was a late entrant, the "where to play" wasn't a simple extension, and it exited after losing convincingly to first mover Didi. Perhaps Microsoft felt that its "how to win" of having strong corporate relationships and a huge installed base of software users would extend nicely into smartphones, but it most assuredly didn't. As a Canadian, I can't help but recall the many Canadian retailers with powerful "how to wins" in Canada (Tim Hortons, Canadian Tire, Jean Coutu) that simply didn't translate to a "where to play" in the United States. Perhaps there is some solace, however, in retailer Target's disastrous attempt to extend its U.S. "how to win" into the Canadian "where to play"—turnabout is, I guess, fair play.

The only productive, intelligent way to generate possibilities for strategy choice is to consider *matched pairs* of "where to play" and "how to win" choices. Generate a variety of pairs and then ask about each:

- Can it be linked to an inspiring, attractive "winning aspiration"?

- Do we currently have, or can we reasonably build, the capabilities that would be necessary to win where we would play?
- Can we create the "management systems" that would need to be in place to support the building and maintenance of the necessary capabilities?

Those "where to play" and "how to win" possibilities for which these questions can plausibly be answered in the affirmative should be taken forward for more consideration and exploration. For the great success stories of our time, the tight match of "where to play" and "how to win" is immediately obvious. USAA sells insurance only to military personnel, veterans, and their families—and tailors its offerings brilliantly and tightly to the needs of those in that sphere, so much so that its customer satisfaction scores are off the charts. Vanguard sells index mutual funds/ETFs to customers who don't believe that active management is helpful to the performance of their investments. With that tight "where to play," it can win by working to achieve the lowest cost position in the business. Google wins by organizing the world's information, but to do that it has to play across the broadest swath of search.

While it may sound a bit daunting, iterating like this actually makes strategy easier. It will save you from endless visioning exercises, misdirected SWOT analyses, and lots of heroically uninformed big thinking. Crafting your strategy in relatively small and concrete chunks and honing the answers to the five questions through itera-

tion will get you a better strategy, with much less pain and wasted time.

Roger L. Martin is professor emeritus and former dean of the Rotman School of Management at the University of Toronto. He is a coauthor of *Creating Great Choices: A Leader's Guide to Integrative Thinking* (Harvard Business Review Press, 2017).

CHAPTER 10

Four Types of Competition That Can Threaten Your Company

by Carsten Lund Pedersen and Thomas Ritter

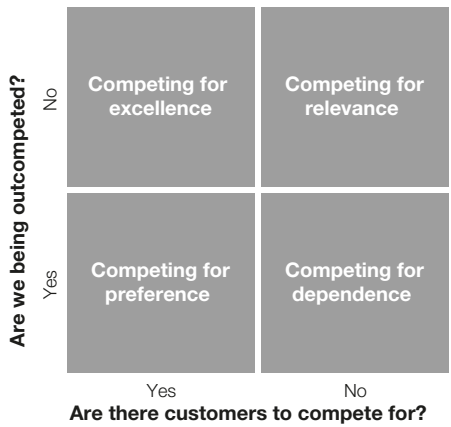
As uncertainty is increasing and competition is becoming more fierce, leaders and executives need to have a broader understanding of competition itself in order to sustain an edge. As a leader, you should be thinking about four different types of competition to maintain relevance in a changing environment, which originate from our work on competitiveness, strategy, and strategic change.

Adapted from "Stress Test Your Company's Competitive Edge with These 4 Questions" on hbr.org, June 5, 2018 (product #H04DBI).

FIGURE 10-1

The four types of competition

Use this 2x2 to identify which currently exposes you to the greatest challenge.



In figure 10-1, these four competition types are positioned along two dimensions, which reflect two distinct questions:

1. Are there customers for which to compete?
2. Are we being outcompeted?

These questions will help you identify the type of competition that currently exposes your organization to the greatest existential threats. Leaders who consider and discuss all four types of competition will uncover important insights, and such an analysis can help move your strategy forward.

The Four Types of Competition

Table 10-1 provides an overview of the four types of competition and the four key questions that help identify important strategic issues:

Competition for relevance

The first, and most fundamental, level of competition relates to competition for relevance. Here, executives must ask: "Does our offering meet and satisfy actual consumer needs?"

Technological developments are often interesting to discuss in relation to relevance. For instance, numerous

TABLE 10-1

Which types of competition threaten your company?

Ask yourself these questions regularly to help maintain a competitive edge.

Type of competition	Question	Competing for	Competing against	Example
Relevance	"Do our offerings satisfy real consumer needs?"	Consumer needs	Irrelevance	Blockchain
Dependence	"Can consumers supply their own solutions?"	Willingness to buy	Self-supply	The DIY economy
Preference	"Do customers prefer us to our competitors?"	Market share	Competitors	The retail industry
Excellence	"How can we renew our business?"	Renewal	Complacency	Nokia

smartphone apps have been developed that do not solve any actual problems. A current example of uncertainty around relevance concerns blockchain, the technology behind virtual currencies such as bitcoin. On one hand, there's the question of whether blockchain is essentially hype or whether it fulfills an actual need of the mainstream public. On the other hand, if the blockchain technology actually lives up to its promises of securing transparent and secure transmissions, then it will also challenge intermediaries such as brokers and bankers, who may no longer be needed. In other words, the technology can make brokers and bankers irrelevant. Consequently, the blockchain technology is a great example of the uncertainty that often accompanies new technological developments—they can either negate the relevance of established organizations or prove to be an unsustainable alternative without sufficient mainstream support.

Competition for dependence

When relevance is established, executives face another level of competition: competition for dependence. This refers to the notion that organizations also compete against consumers' abilities to satisfy their own needs and their jobs to be done. In other words, consumers can often create a solution for themselves, thereby making the organization's offering obsolete.

An example of the difficulties of competing for dependence can be seen in the rise of the "DIY-economy," which was particularly pronounced after the 2008 recession. At that time, many consumers adopted a new level

of frugality, such that they took on previously outsourced tasks and became more self-reliant. For example, many consumers started to dye and cut their own hair, brew their own espressos, wash their own cars, clean their own houses, and walk their own dogs. This "in-sourcing" of household chores hurt many of the small, service-oriented businesses that had previously handled these tasks. However, some organizations have been able to capitalize on self-reliance. For instance, Target has run marketing campaigns that glorify do-it-yourself alternatives, while IKEA has become synonymous with enabling consumers to do the work themselves.

Competition for preference

Given relevance and dependence, the next battle is the competition for preference. Organizations compete to win customers' preference for their offerings over those of competitors.

An example of competition for preference can be seen in the retail industry, which has long been a battleground for customer preferences. Interestingly, customers have varied preferences for retailers depending on the product category. Therefore, the retail market is actually several markets. For example, customers may prefer Target for product category A, Walmart for product category B, Staples for product category C, and Amazon or Alibaba for product category D. Consequently, the battle with competitors for customer preference often takes place on the specific product-category level. Moreover, this form of competition can lead to price pressure, which may have a damaging effect on industry profits.

THE STATUS QUO IS RISKY, TOO

by Liane Davey

Armed only with the risks of changing, it's natural to shy away from decisive action. But failing to assess the risk of the status quo does not mean the risks won't materialize—it just means you won't be adequately prepared when they do. Here are several strategies you can employ to combat the risk of underestimating the status quo with your team.

- ***Bring the discussion back to your current strategy.*** Frame the conversation in terms of changes in what customers need or want. If the customers haven't changed much, point to changes in the competitive environment that make your strategy less sound today than it was when it was developed. Mine societal, economic, political, regulatory, and technological trends to identify any external changes that necessitate a shift in your strategy.

- ***Develop a risk profile for your current strategy using the same framework you're using to assess your new strategic options.*** If you have assessed the risk of your strategic options in terms of brand risk, operational risk, market risk, and so on, do the same for the current strategy. Focus the team on the incremental risk of the new options and highlight any places where the proposed strategy is actually less risky than the existing one.

- ***Put boundaries in place.*** If executives on your team are endlessly asking for more information, ask questions like, "How much do we need to know before we can make a good decision here?"

or "What would it take for you to have 80% confidence in this path?" or "What is our window for making this decision?" By calling attention to the indecisiveness and helping your teammates get more comfortable with acting in the absence of complete information, you are more likely to get traction to move beyond the status quo.

- ***Deal with team dynamics that stem from turf issues or self-interest.*** If you're seeing protectionist behavior on your team, invoke the best interests of the organization. For instance, I use the curves laid out in Clayton Christensen's *The Innovator's Dilemma* to show how continued incremental progress will leave the organization vulnerable to competitors. Then you can say something like, "What are we doing about the coming war over wearable computing? It's not here yet, but how do we ensure we're not irrelevant when wearables really gain momentum?"

We are more likely to evaluate the risk of changing than to evaluate the risk of staying the same. If your teammates are anchoring your business in the past, it's your responsibility to help them see the risk of the status quo.

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Adapted from content posted on hbr.org, May 2, 2014 (product #H00SI2).

However, the battle for customer preference is not solely fought in specific product and price categories—it is also fought in the domains of location and promotional expenditure.

Competition for excellence

After successfully competing for relevance, dependence, and preference, organizations must consider competition for excellence. At this level, the challenge is to sustain the organization's advantage while continuously seeking renewal.

An example of a failure to compete for excellence is illustrated by how Nokia, in the midst of its success, failed to keep up with the competitive threats from Apple. Despite being a leader in the mobile phone market with a market share of over 40%, Nokia experienced a dramatic decline that led to a sale of its mobile phone business to Microsoft in 2013. The demise was partly caused by a competitive shift toward software and ecosystems rather than hardware; Nokia did not appropriately adapt to this environment due to conservatism and a belief in its existing strengths. Put differently, Nokia's past success acted as a blinder to peripheral threats coming from unexpected sides. (For tips on how to respond to those who resist change, see the sidebar "The Status Quo Is Risky, Too.")

How to Use the Four Questions

How can executives actively ask these four questions and compete on all four levels to ensure renewal and sustain

corporate performance? Executives can introduce three initiatives:

- **Put the questions on the agenda and regularly challenge your strategy:** The four types of competition should be used as a checklist for regularly challenging the strategy. Asking questions about the strategic plan is necessary for stress-testing a strategy (a topic discussed in more detail in chapter 14) and for applying a moderate amount of stress to your strategy.
- **Let different employee types discuss the four questions:** It can be beneficial to invite different types of employees to discuss the four questions, including employees at different hierarchical levels and different types of project managers.
- **Implement strategic projects for all four types:** The four types of competition can provide a categorization tool for different types of projects with which an organization can compete. For instance, companies can have a project where they collaborate with users to develop or refine a specific product or feature. Such an approach would improve the "competing for relevance" and "competing for dependence" dimensions, as it would secure user relevance while proactively codeveloping user dependence.

Competition is a multifaceted concept that plays out in different ways. Therefore, leaders and executives need

to keep their eyes on all four types of competition in order to keep up with an ever-changing world.

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CHAPTER 11

How to Do Strategic Planning Like a Futurist

by Amy Webb

I recently helped a large industrial manufacturing company with its strategic planning process. With so much uncertainty surrounding autonomous vehicles, 5G, robotics, global trade, and the oil markets, the company's senior leaders needed a set of guiding objectives and strategies linking the company's future to the present day. Before our work began in earnest, executives had already decided on a title for the initiative: Strategy 2030.

Adapted from content posted on hbr.org, July 30, 2019 (product #H052ET).

I was curious to know why they chose that specific year—2030—to benchmark the work. After all, the forces affecting the company were all on different timelines: Changes in global trade were immediate concerns, while the field of robotics will have incremental advancements, disappointments, and huge breakthroughs—sometimes years apart. Had the executives chosen the year 2030 because of something unique to the company happening 10 years from today?

The reason soon became clear. They'd arbitrarily picked the year 2030, a nice round number, because it gave them a sense of control over an uncertain future. It also made for good communication. "Strategy 2030" could be easily understood by employees, customers, and competitors, and it would align with the company's messaging about its hopes for the future. Plus, when companies go through their longer-term planning processes, they often create linear timelines marked by years ending in either zeros or fives. Our brains can easily count in fives, while it takes a little extra work to count in fours or sixes.

Nice linear timelines offer a certain amount of assurance: that events can be preordained, chaos can be contained, and success can be plotted and guaranteed.[1] Of course, the real world we all inhabit is a lot messier. Regulatory actions or natural disasters are wholly outside of our control, while other factors—workforce development, operations, new product ideas—are subject to layers of decisions made throughout our organizations. As all those variables collide, they shape the horizon.

Chief strategy officers and those responsible for choosing the direction of their organizations are often asked to facilitate "visioning" meetings. This helps teams brainstorm ideas, but it isn't a substitute for critical thinking about the future. Neither are the one-, three-, or five-year strategic plans that have become a staple for most organizations, though they are useful for addressing short-term operational goals. Deep uncertainty merits deep questions, and the answers aren't necessarily tied to a fixed date in the future. Where do we want to have impact? What will it take to achieve success? How will the organization evolve to meet challenges on the horizon? These are the kinds of deep, foundational questions that are best addressed with long-term planning.

Why We Avoid Long-Term Timelines

As a quantitative futurist, my job is to investigate the future using data-driven models. My observation is that leadership teams get caught in a cycle of addressing long-term risk with rigid, short-term solutions, and in the process they invite entropy. Teams that rely on traditional linear timelines get caught in a cycle of tactical responses to what feels like constant change being foisted upon them from outside forces. Over time, those tactical responses—which take significant internal alignment and effort—drain the organization's resources and make them vulnerable to disruption.

For example, in 2001 I led a meeting with some U.S. newspaper executives to forecast the future of the news business. They, too, had already settled on a target year:

2005. This was an industry with visible disruption looming from the tech sector, where the pace of change was staggeringly fast. I already knew the cognitive bias in play (their desired year ended in a five). But I didn't anticipate the reluctance to plan beyond four years, which to the executives felt like the far future. I was concerned that any strategies we developed to confront future risk and find new opportunities would be only tactical in nature. Tactical actions without a vision of the longer-term future would result in less control over how the whole media ecosystem evolved.

To illustrate this, I pointed the executives to a new Japanese i-Mode phone I'd been using while living in Tokyo. The proto-smartphone was connected to the internet, allowed me to make purchases, and, importantly, had a camera. I asked what would happen as mobile device components dropped in price—wouldn't there be an explosion in mobile content, digital advertising, and revenue-sharing business models? Anyone would soon be able to post photos and videos to the web, and there was an entire mobile gaming ecosystem on the verge of being born.

Smartphones fell outside the scope of our 2005 timeline. While it would be a while before they posed existential risk, there was still time to build and test a long-term business model. Publishers were accustomed to executing on quarter-to-quarter strategies and didn't see the value in planning for a smartphone market that was still many years away.

Since that meeting, newspaper circulation has been on a steady decline.[2] American publishers repeatedly

failed to do long-term planning, which could have included radically different revenue models for the digital age. Advertising revenue fell from $65 billion in 2000 to less than $19 billion industrywide in 2016.[3] In the United States, 1,800 newspapers closed between 2004 and 2018. Publishers made a series of short-term tactical responses (website redesigns, mobile apps) without ever developing a clear vision for the industry's evolution. Similar stories have played out across other sectors, including professional services, wired communications carriers, savings and loan banks, and manufacturing.

Use Time Cones, Not Timelines

Futurists think about time differently, and company strategists could learn from their approach. For any given uncertainty about the future—whether that's risk, opportunity, or growth—we tend to think in the short- and long-term simultaneously. To do this, I use a framework that measures certainty and charts actions, rather than simply marking the passage of time as quarters or years. That's why my timelines aren't actually lines at all—they are cones.

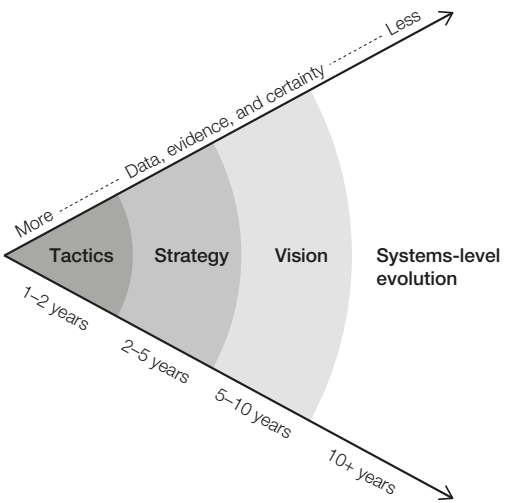
For every foresight project, I build a cone with four distinct categories, as depicted in figure 11-1: (1) tactics, (2) strategy, (3) vision, and (4) systems-level evolution.

I start by defining the cone's edge, using highly probable events for which there is already data or evidence. The amount of time varies for every project, organization, and industry, but typically 12 to 24 months is a good place to start. Because we can identify trends and probable events (both within a company and external to

FIGURE 11-1

A futurist's framework for strategic planning

Instead of arbitrarily assigning goals on a quarterly or yearly timeline, use a cone instead. First identify highly probable events for which there's already data or evidence, and then work outward. Each section of the cone is a strategic approach, and it encompasses the one before it until you reach major systems-level evolution at your company.



Source: Amy Webb, Future Today Institute

it), the kind of planning that can be done is *tactical* in nature, and the corresponding actions could include things like redesigning products or identifying and targeting a new customer segment.

Tactical decisions must fit into an organization's strategy. At this point in the cone, we are a little less certain of outcomes, because we're looking at the next 24 months to five years. This area is what's most familiar to strat-

egy officers and their teams: We're describing traditional strategy and the direction the organization will take. Our actions include defining priorities, allocating resources, and making any personnel changes needed.

Lots of organizations get stuck cycling between strategy and tactics. While that process might feel like serious planning for the future, it results in a perpetual cycle of trying to catch up: to competitors, to new entrants, and to external sources of disruption.

That's why you must be willing to accept more uncertainty as you continually recalibrate your organization's vision for the future. A company's vision cannot include every detail, because there are still many unknowns. Leaders can articulate a strong vision for 10 to 15 years in the future while being open to iterating on the strategy and tactics categories as they encounter new tech trends, global events, social changes, and economic shifts. In the vision category, we formulate actions based on how the executive leadership will pursue research, where it will make investments, and how it will develop the workforce it will someday need.

But the vision for an organization must also fit into the last category: systems-level disruption that could unfold in the further future. If executive leaders do not have a strong sense of how their industry must evolve to meet the challenges of new technology, market forces, regulation, and the like, then someone else will be in a position to dictate the terms of your future. The end of the time horizons cone is very wide, since it can be impossible to calculate the probability of these kinds of

events happening. So the actions taken should be describing the direction in which you hope the organization and the industry will evolve.

Unlike a traditional timeline with rigid dates and check-ins, the cone always moves forward. As you gain data and evidence and as you make progress on your actions, the beginning of the cone and your tactical category is always reset in the present day. The result, ideally, is a flexible organization that is positioned to continually iterate and respond to external developments.

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CHAPTER 12

Ecosystem Businesses Are Changing the Rules of Strategy

by Julian Birkinshaw

Why are business ecosystems suddenly such a hot topic? It's not as though they're a new idea. The term "ecosystem" has been used in business for 20 years. Companies including Volkswagen and Toyota have been orchestrating huge networks of suppliers and distributors for more than 50 years. Lloyd's of London, the insurance

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marketplace, is a classic ecosystem and was founded in the 17th century.

What's changed is that most of today's fastest-growing companies—from Amazon and Google, to Alibaba and Tencent—are *explicitly* positioning themselves as ecosystem players, as hubs within networks of customers, suppliers, and producers of complementary services. Industry observers and regulators are looking on with interest and concern. They want to understand if these companies have developed a new way of competing that might challenge the conventional view of how businesses create and capture value.

The truth is, we don't yet know if these so-called ecosystem orchestrators have an enduring advantage. For every Google or Tencent that is hugely profitable, there is a Spotify, a WeWork, or an Uber that continues to lose money. But regardless of how successful they prove to be, it's important to understand that they are playing by a different set of strategy rules than traditional firms. Rather than building moats, they are operating turnstiles.

The Old and New Rules of Competitive Advantage

Warren Buffett is famous for investing in businesses that have what strategists call "deep moats." The moat is what protects the business from competitors. Sometimes it is based on access to a scarce resource or ownership of a patent, sometimes it is based on customer loyalty and a strong brand, and sometimes it is an artifact of government regulation.

How do you build a moat? One approach is to position your business skillfully, by finding an industry with high entry barriers and then differentiating your product to keep customers hooked. The other approach is to focus on your underlying assets and capabilities and invest in those assets that are rare, valuable, and hard for competitors to imitate.

These two worldviews—market positioning and the resource-based view—have dominated how we think about competitive advantage for 40 years.

But the rapid growth of business ecosystems in recent years challenges this thinking. Most of these ecosystem orchestrators, like Google, Alibaba, and Uber, don't make the things they sell; they exist to link others together, and this makes the old positioning-based logic less relevant. And, of course, they don't have many assets, either. They create value through relationships and networks, not through physical goods or infrastructure, so arguments built around asset ownership are equally challenging. These firms are also looking to grow the market—by increasing the flow of people and goods—rather than to capture as much of the existing market as possible.

In other words, they don't care much for the moat-based logic of competitive advantage. I think a more apt metaphor for these firms may be the logic of the turnstile: They want to get as many players involved in their ecosystem as possible and to get them interacting according to rules they have shaped. Of course, there are many ways these companies make money—committees, membership fees, advertising sales, and so on—but the

key point with all these business models is that they work better when the ecosystem is larger. That's why the turnstile metaphor is useful.

This shift from moats to turnstiles can be hard to grasp. For most business strategists, it is second nature to protect your existing assets and to keep competition at bay. But a pure-play orchestrator is happy to open up to competition and to share its intellectual property, as long as that keeps the ecosystem growing. Its aim is to maximize the number of people coming through the turnstile, rather than to increase the height of the fence or the width of the moat.

To help strategists understand how to put this turnstile logic into practice, here is some advice about what to focus on:

Keep customers flowing in

Most sectors have competing ecosystems—think Android versus iOS—so you need to give people a reason to participate in yours. Consider WeChat, China's dominant lifestyle and social networking app. For its first few years, WeChat was all about coming up with novel offerings, such as its Moments and Red Packets features, which drew people in. Once it was established, the app could have chosen to monetize its user base through advertising, as Facebook did. But it chose not to: Even today, users see only two ads a day, and WeChat makes its money in other ways, primarily commissions on transactions. WeChat prefers to keep the turnstiles moving by emphasizing the quality of its user experience. And it

has continued to grow, with over one billion active daily users.

Give people a reason to stick around

A vibrant ecosystem is one where participants gain value in multiple ways. WeWork rents out office space to corporations, startups, and individuals in prime city locations. It could use moat-based thinking to enforce tight contracts that lock its tenants in. But it prefers to create flexible contracts that give people the option to leave, and it provides a raft of ancillary services—networking events, advice for startups, lifestyle services—that make people want to stick around. It's clear that customers like these benefits, but it's not clear yet whether WeWork will ever be able to monetize the value they are creating. Investors looking for a locked-down revenue stream will undoubtedly be steering clear of WeWork; those prepared to think big—and differently—will still see it as an opportunity.

Don't steal your partners' business

Amazon started as an online retailer, but in 2000 it opened up to selling third-party products through its marketplace. There is a delicate balance here: Amazon would like to prioritize the sales of its own products, but if it pushes those products too hard, it scares away third-party vendors and loses its attractiveness as a one-stop shop. Consider the alternative case of Alibaba, China's answer to Amazon. Unlike Amazon, Alibaba doesn't make its own products, and therefore it doesn't compete

with its suppliers. As the company's website says, "We operate an ecosystem where all participants have an opportunity to prosper." Alibaba deliberately passes up some short-term money-making opportunities in pursuit of longer-term growth. As of the beginning of 2018, its third-party e-commerce businesses had grown to more than twice the size of Amazon's—and accomplished that with a staff of just 66,000 people, as compared with 550,000 at Amazon—according to the book *Ecosystem Edge* by Peter Williamson and Arnoud de Meyer.

Keep evolving

One huge benefit of being an ecosystem orchestrator is privileged access to information about the entire ecosystem. You see what's selling well, and you see how the market is evolving before others. While it might be tempting, again, to use this information to make more money in the short term, the smarter approach is to keep things moving—to open up new markets and to do this quicker than your competitors. Google illustrates this point, with its steady stream of new analytics services, as does Alibaba, with its traffic aggregation platform, Taobao Ke. WeWork isn't standing still either; in recent years it has created WeGrow, WeLive, and WeWork Labs.

The Challenges

This ecosystem-based approach to strategy isn't for everyone. As a way of working, it is inherently more stressful and chaotic than the more traditional moat-based approach. And it attracts a lot of challengers. For example,

critics have suggested that WeWork's business model is a house of cards. Amazon has fallen foul of regulators for abusing its dominant position. In China, WeChat's owner, Tencent, has faced government restrictions on its growth.

To further complicate things, the split between the worlds of moats and turnstiles isn't absolute. For example, Amazon isn't just building an ecosystem—it is also operating in the brick-and-mortar world of logistics and retail. Alibaba is explicitly pushing its ecosystem strategy while also building a strong proprietary capability in artificial intelligence. Google has its own smartphone offerings alongside its search and video-sharing businesses.

The rules of competitive strategy are not getting any simpler. But a good first step to navigating them is to understand that the traditional moat-based logic of strategy doesn't work well in a world of platforms and ecosystems. By looking afresh at the way ecosystem orchestrators operate, and in particular at their fixation on increasing the flow of traffic through their turnstiles, strategists in established industries will be better positioned to compete with them.

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CHAPTER 13

Put Purpose at the Core of Your Strategy

by Thomas W. Malnight, Ivy Buche, and Charles Dhanaraj

Eight years ago we launched a global study of high growth in companies, investigating the importance of three strategies known to drive it: creating new markets, serving broader stakeholder needs, and changing the rules of the game. What we found surprised us. Although each of those approaches did boost growth at the organizations we studied, there was a fourth driver we hadn't considered at all: purpose.

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Companies have long been encouraged to build purpose into what they do. But usually it's talked about as an add-on—a way to create shared value, improve employee morale and commitment, give back to the community, and help the environment. But as we worked with the high-growth companies in our study and beyond, we began to recognize that many of them had moved purpose from the periphery of their strategy to its core—where, with committed leadership and financial investment, they had used it to generate sustained profitable growth, stay relevant in a rapidly changing world, and deepen ties with their stakeholders.

Two Critical Roles

In the course of our research, we talked to scores of C-level executives. They worked at 28 companies—in the United States, Europe, and India—that had had an average compound annual growth rate of 30% or more in the previous five years. What we learned from those conversations was that purpose played two important strategic roles: It helped companies *redefine the playing field*, and it allowed them to *reshape the value proposition*. And that, in turn, enabled them to overcome the challenges of slowing growth and declining profitability.

Role 1: Redefining the playing field

What's a key difference between low-growth and high-growth companies? The former spend most of their time fighting for market share on one playing field, which naturally restricts their growth potential. And because most aggressive battles take place in industries that are

slowing down, gains in market share come at a high cost, often eroding profits and competitive advantage as offerings become commoditized.

High-growth companies, by contrast, don't feel limited to their current playing field. Instead, they think about whole ecosystems, where connected interests and relationships among multiple stakeholders create more opportunities. But these firms don't approach ecosystems haphazardly. They let purpose be their guide.

Consider the different strategies adopted by the two leading companies in the pet-food industry: Nestlé Purina PetCare, the largest player in North America; and Mars Petcare, the global leader. The companies have defined very similar purposes for themselves—"Better with pets" (Purina) and "A better world for pets" (Mars Petcare)—and both want to develop new products that will help customers improve their pets' health. But Purina has continued to focus on the pet-food playing field and is applying purpose in some inspiring social initiatives, whereas Mars Petcare is using purpose to propel its expansion in the broader field of pet health.

Mars Petcare, which had established a foothold in pet health with the acquisition of Banfield Pet Hospital in 2007, decided to build its presence in that arena by buying two other veterinary services: BluePearl in 2015 and VCA in 2017. Then in 2018 Mars Petcare entered the European veterinary market, buying the Swedish company AniCura, which has operations in seven European countries, and the British company Linnaeus. Those acquisitions helped Mars Petcare become Mars Inc.'s largest and fastest-growing business division.

In moving deeper into this larger ecosystem, Mars Petcare did more than just capitalize on a burgeoning industry. It also shifted its orientation beyond products to services, a radical change for an asset-heavy company that for 75 years had relied on the production and sale of goods. To succeed, the company had to build completely different core competencies and devise a new organizational structure. Many companies in this dangerously open-ended situation might have flailed, but Mars Petcare did not. It was able to pull off a transformation because it ensured that every move it made was aligned with the same core purpose. And it's not done yet: The company is now bringing that sense of purpose to efforts to expand into pet-activity monitoring with "smart" collars.

Another company that has used purpose to redefine the playing field, this time in the industrial sector, is the Finnish oil-refining firm Neste. For more than six decades Neste, founded in 1948, operated a business focused almost entirely on crude oil, but by 2009 it was struggling. The market was glutted, oil prices had dropped sharply, margins were falling, and the EU had passed new carbon-emissions legislation. During the previous two years the company's market value had shrunk by 50%.

Fighting those headwinds, the executive team, led by Neste's new CEO, Matti Lievonen, realized that the company could no longer survive on its traditional playing field. It would have to look for new opportunities in the larger ecosystem. Renewable energy could be a

key driver of growth, they realized. Their purpose, they decided, should be to develop sustainable sources of energy that would help reduce emissions, and everything they did would be guided by a simple idea: "Creating responsible choices every day."

It's common for major oil companies to nod to sustainability in some way, but Lievonen quickly proved that Neste meant business, launching a bold transformation that would become a seven-year journey. Employees, customers, and investors all initially resisted the change, but Lievonen and his team were undaunted. They made major investments in infrastructure, innovated renewable technologies, focused on converting customers to green energy solutions, and, most important, engineered a fundamental change in the company's culture.

The process wasn't easy. When Lievonen was just three months into his tenure, a leading economic magazine in Finland published an article saying that he should be fired. He soldiered on, however, and by 2015 Neste had established itself as the world's largest producer of renewable fuels derived from waste and residues. A year later its comparable operating profits from renewables would surpass those of its oil-products business. In 2017 the company took yet another step by actively researching and promoting the use of waste feedstock from new sources such as algae oil, microbial oil, and tall oil pitch.

Role 2: Reshaping the value proposition

When confronted with eroding margins in a rapidly commodifying world, companies often enhance their

value propositions by innovating products, services, or business models. That can bring some quick wins, but it's a transactional approach geared toward prevailing in the current arena. Because a purpose-driven approach facilitates growth in new ecosystems, it allows companies to broaden their mission, create a holistic value proposition, and deliver lifetime benefits to customers.

Companies can make this shift in three main ways: by responding to trends, building on trust, and focusing on pain points.

Responding to trends

In line with its purpose of "contributing to a safer society," Sweden's Securitas AB, a security company with 370,000 employees, has traditionally offered physical guarding services. But in the early 2010s its CEO at the time, Alf Göransson, saw that globalization, urbanization, and the increasingly networked business landscape were all changing the nature of risk—for people, operations, and business continuity. At the same time, labor was becoming more expensive, and new technologies were becoming cheaper. Given those developments, Göransson decided that Securitas could no longer "simply sell man-hours." Instead, the company had to explore new ways of using electronics to provide security. This shift, Göransson understood, was not a threat to the existing business but an opportunity to grow—as indeed it has proved to be.

In 2018 the company decided to go a step further and reshape its value proposition from reactive to predictive

security, a plan that once again built on the company's core purpose. Under the leadership of Göransson's successor, Magnus Ahlqvist, the firm strengthened its electronic security business by acquiring a number of companies, investing heavily in modernizing and integrating back-office systems, and training its guards in remote surveillance, digital reporting, and efficient response. That allowed Securitas to offer bundled, customized security solutions—encompassing physical guarding, electronic security, and risk management—that provided a much-enhanced level of protection at an optimized cost. By expanding its value proposition in this way, Securitas has been able to strengthen client relationships and significantly increase its margins for the solutions business. From 2012 to 2018 the company's sales of security solutions and electronic security also increased, from 6% of total revenue to 20%.

Building on trust

When Mahindra Finance, the financial services arm of the Mahindra Group, a $20 billion Indian conglomerate, wanted to define its value proposition, it looked to its parent company's longtime purpose-driven strategy of improving customers' lives—encapsulated in 2010 by the simple motto "Rise." It's a word that the company's third-generation leader, Anand Mahindra, expects will inspire employees to accept no limits, think alternatively, and drive positive change.

In keeping with that strategy, Mahindra Finance decided to target its core offering, vehicle financing, to

rural areas, where it could—as Rajeev Dubey, the group head of HR, put it to us—"address the unmet needs of underserved customers in an underpenetrated market."

That meant that the company had to figure out how to determine the creditworthiness of customers who were mostly poor, illiterate, and unbanked, with no identity documents, no collateral, and cash flows that were often impacted by monsoons. To do that, the company had to develop completely new ways to handle loan design, repayment terms, customer approval, branch locations, and disbursement and collection in cash. Not only that, but it had to figure out how to recruit workers who could speak local dialects, assess local situations, and operate under a decentralized model of decision making.

Remarkably, the company managed to do all those things and established a preliminary level of trust with its customers. It then stretched its value proposition to help farmers and other customers obtain insurance for their tractors, lives, and health. In a country where insurance penetration is abysmally low (about 3.5%), this was no small feat, especially since rural residents didn't easily part with any minuscule monthly surplus they had, even if it was to secure their livelihood.

Then Mahindra Finance extended its purpose-driven efforts to housing finance, another arena in which it recognized that it could help its rural customers rise above their circumstances. For most of those people, securing loans for housing was difficult in the extreme. Banks offered loans at an interest rate of about 10% but demanded documentation most rural residents couldn't provide. Moneylenders offered instant financing but charged in-

terest rates of about 40%. Recognizing an opportunity, Mahindra Finance decided to play at the intermediate level, offering customized home loans at rates of about 14%, an option that appealed to its growing base of customers. And when some of those customers developed successful small agribusinesses, they began looking for working-capital loans, equipment loans, project finance, and so on—more unmet needs that Mahindra Finance could address. So it extended its value proposition again, into the small-to-medium-enterprise arena, offering finance and asset-management services.

Throughout its expansion, Mahindra Finance was guided by its goal of helping rural citizens improve their lives. The company identified and committed itself to value propositions that allowed it to deepen its relationship with its customers, which in turn created additional streams of revenue and profits. Today Mahindra Finance is India's largest rural nonbanking financial company, serving 50% of villages and 6 million customers.

Focusing on pain points

We've already seen how Mars Petcare's health care value proposition led to direct connections with pet owners at multiple touchpoints. Having established them, the company looked for other ways to create "a better world for pets." How could it come up with a value proposition that would make pet ownership a seamless, convenient, and attractive experience?

The answer was by investing in technology to help address one of the biggest concerns of pet owners: *preventing* health problems. In 2016 the company acquired

Whistle, the San Francisco–based maker of a connected collar for activity monitoring and location tracking—a kind of Fitbit for dogs. Teaming the device up with its Banfield Pet Hospital unit, the company launched the Pet Insight Project, a three-year longitudinal study that aims to enroll 200,000 dogs in the United States. By combining machine learning, data science, and deep veterinary expertise, the project seeks to understand when behavior may signal a change in a pet's health and how owners can partner with their veterinarians on individualized diagnostics and treatments for their pets.

Developing a Purpose

Leaders and companies that have effectively defined corporate purpose typically have done so with one of two approaches: *retrospective* or *prospective*.

The retrospective approach builds on a firm's existing reason for being. It requires that you look back, codify organizational and cultural DNA, and make sense of the firm's past. The focus of the discovery process is internal. Where have we come from? How did we get here? What makes us unique to all stakeholders? Where does our DNA open up future opportunities we believe in? These are the kinds of questions leaders have to ask.

Anand Mahindra very successfully employed this tactic at the Mahindra Group. First he looked back at his 30 years at the company and at the values that had guided him as its leader. Then he delved into the psyche of the organization by conducting internal surveys of managers at all levels. He also did ethnographic research in seven countries to identify themes that resonated with his company's multinational, cross-cultural employee base. The

IS PURPOSE AT THE CORE OF YOUR STRATEGY?

Not unless you answer yes to all five questions below.

1. Does purpose contribute to increasing your company's growth and profitability today?
2. Does purpose significantly influence your strategic decisions and investment choices?
3. Does purpose shape your core value proposition?
4. Does purpose affect how you build and manage your organizational capabilities?
5. Is purpose on the agenda of your leadership team every time you meet?

process took three years, but ultimately Mahindra arrived at "Rise," which, he realized, had been fundamental to the company from its inception. "'Rise' is not a clever tagline," he has said. "We were already living and operating this way."

The prospective approach, on the other hand, reshapes your reason for being. It requires you to look forward, take stock of the broader ecosystem in which you want to work, and assess your potential for impact in it. The idea is to make sense of the future and then start gearing your organization for it. The focus is external, and leaders have to ask a different set of questions: Where can we go? Which trends affect our business? What new needs, opportunities, and challenges lie ahead? What role can

we play that will open up future opportunities for ourselves that we believe in?

The prospective approach can be particularly useful for new CEOs. In 2018, when Magnus Ahlqvist took charge at Securitas, he spearheaded a "purpose workstream" to capture aspirations for the company from the ground up. He asked all his business-unit leaders to run "listening workshops" (with groups of employees from diverse functions, levels, age groups, genders, and backgrounds), which were held over six months. At the end of that period, the findings were collated and analyzed. Among the discoveries: Employees had a vision of transforming the company from a *service provider* to a *trusted adviser*. That shift would require anticipating and responding to security issues instead of relying on the legacy methods of observing and reporting. So employee input helped executives refine the firm's predictive-security strategy.

Implementing a Purpose-Driven Strategy

Our research shows that a compelling purpose clarifies what a company stands for, provides an impetus for action, and is aspirational. But some purpose statements are so generic that they could apply to any company (like Nissan's, "Enriching people's lives"), while others provide only a narrow description of the company's existing businesses (like Wells Fargo's, "We want to satisfy our customers' financial needs and help them succeed financially"). Even if organizations do manage to define their purpose well, they often don't properly translate it into

action—or do anything at all to fulfill it. In those cases the purpose becomes nothing more than nice-sounding words on a wall.

Leaders need to think hard about how to make purpose central to their strategy. The two best tactics for doing that are to *transform the leadership agenda* and to *disseminate purpose throughout the organization*.

Consider Mars Petcare again. In 2015 its president, Poul Weihrauch, significantly altered the composition and focus of the leadership team. Its new collective agenda, he declared, would go beyond the performance of individual businesses; it would include generating "multiplier effects" among the businesses (such as between pet food and pet health) and increasing their contributions to creating a better world for pets.

In keeping with that principle, Weihrauch had the company adopt an "outside-in" approach to meeting stakeholder needs. As part of this effort, in 2018 Mars Petcare launched two new programs to support startups innovating in pet care: Leap Venture Studio, a business accelerator formed in partnership with Michelson Found Animals and R/GA; and Companion Fund, a $100 million venture-capital fund in partnership with Digitalis Ventures. In announcing these initiatives the company declared that its ambition was "to become a partner of choice for everyone willing to change the rules of the game in pet care."

Revising a leadership agenda and restructuring an organization are arguably easier at a privately held company like Mars Petcare than at a publicly held one. But Finland's Neste is public, with a major stake held by the

government, and it has managed to do both things very effectively.

Neste faced an uphill battle when it decided to move into renewables. The company had to build new capabilities while confronting strong opposition from many employees who didn't buy into the change in direction. About 10% of them left during the first year of the strategy's implementation. Painful as it was, it proved to be a positive development, since the company could not have forged ahead with people who didn't believe in its new purpose.

And forge ahead it did. Neste put in place a new top management team, mobilized its 1,500 R&D engineers, innovated patented renewable technology, and invested €2 billion in building new refineries.

The shift also raised a big question for Neste. How could it change its organizational mindset from *volume* to *value* selling—which entailed convincing customers that its clean fuels would be better for them in the long run? That shift meant going beyond wholesalers to work directly with the distributors and even the distributors' customers. The new leadership team realized that a much higher level of collaboration among business segments and functions was imperative. Winning deals was no longer the sole responsibility of the sales department. The expertise of the whole organization—product knowledge, marketing, finance, taxation—would be required to understand the specific needs of customers like airlines and bus fleets. So Neste engineered a major reorganization and created a matrix structure, in the process rotating about 25% of senior managers and about 50% of upper professionals into new positions. Targets

and incentive plans became cross-functional, designed to build capabilities both within and across businesses. And at every step, purpose helped everybody in the company understand the "why" (the business environment's increasing emphasis on sustainability), the "what" (value-creation programs offering renewable solutions to customers, which in turn generated higher margins for Neste), and the "how" (changing from a sales organization to a key-account management model with dedicated people responsible for strategic customers).

The process worked. Neste is now a leader in the renewables industry, and the world is starting to pay attention. In 2015, for example, Google and UPS began partnering with the company to reduce their carbon emissions, as did several cities in California, among them San Francisco and Oakland. In 2018, Forbes ranked Neste second on its Global 100 list of the world's most-sustainable companies.

Benefits on the Soft Side

Purpose can also help with the soft side of management—the people-related aspects of running a business, which so often prove to be the undoing of leaders. By putting purpose at the core of strategy, firms can realize three specific benefits: more-unified organizations, more-motivated stakeholders, and a broader positive impact on society.

Unifying the organization

When companies pursue dramatic change and move into larger ecosystems, as both Mars Petcare and Securitas have done, it's unsettling for employees. Why does

a pet-food company need to develop a platform to support technology startups? Why does an on-site guarding company want to provide electronic security services that could, over time, make the physical presence of guards redundant? Purpose helps employees understand the whys and get on board with the new direction.

Motivating stakeholders

According to the Edelman trust barometer, distrust of government, businesses, the media, and NGOs is now pervasive. At the same time, more than ever, employees, especially Millennials, want to work for organizations that can be trusted to contribute to a higher cause. And when customers, suppliers, and other stakeholders see that a company has a strong higher purpose, they are more likely to trust it and more motivated to interact with it.

Broadening impact

Strategy involves exploring some fundamental questions. Why are we in this business? What value can we bring? What role does my unit play within the bigger portfolio? Purpose creates a basis for answering those questions and defining how each unit will contribute to the organization and to society as a whole. This focus on collective objectives, in turn, opens up many more opportunities to improve growth and profitability today and in the future.

Conclusion

The approach to purpose that we're recommending cannot be a one-off effort. Leaders need to constantly as-

sess how purpose can guide strategy, and they need to be willing to adjust or redefine this relationship as conditions change. That demands a new kind of sustained focus, but the advantages it can confer are legion.

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SECTION FOUR

Test Your Strategic Choices

CHAPTER 14

Four Ways to Pressure-Test Your Strategy

by Rick Lynch and Jay Galeota

Every leader wants to avoid major strategic mistakes, but, in a complex world, it's hard to anticipate all the forces that might impact your goal. It's vital to find weaknesses in your strategies *before* you implement them—and to develop a rigorous process to do so.

The ability to poke holes in one's own strategies is something the U.S. military has practiced and refined over centuries. Rick served in the U.S. Army for 35 years,

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Adapted from "4 Ways to Pressure-Test Strategic Decisions, Inspired by the U.S. Military" on hbr.org, October 30, 2018 (product #H04ML7).

retiring as a lieutenant general, and has seen this firsthand. In the heat of battle, strategic planning that's incomplete or simply wrong causes leaders to revert to on-the-spot decision making. While sometimes necessary, making it up as you go is more often associated with failure—and loss of life—and is often a symptom of ineffective or inaccurate anticipation of competitive moves or environmental shifts.

The same is true in business, and the techniques the military has honed can help executives anticipate problems and change course when necessary.

Build Situational Awareness

Simply put, situational awareness is achieved after a soldier has deliberately assessed an environment from various vantage points and has ensured that all potential perspectives have been captured.

In the business world, things are fuzzier—there are no landscapes, buildings, or troop movements to scan. But it's still crucial to make sense of the environments in which we operate and foresee how different factors will affect our decisions.

One way to build one's situational awareness is to talk through alternate realities. Although this sounds like science fiction, alternate realities are basically hypotheticals. We think X will happen, but what if Y or Z does instead?

At Merck, where Jay served as chief strategy and business development officer and president of emerging businesses, "alternate realities" were used to prevent "team think," which frequently occurs when organiza-

tions believe the conventional view of a situation is the correct one.

To develop better situational awareness, start by forming teams and tasking them to develop alternatives based on different views of the same situation. For example, what if new competitors enter the market earlier than expected? What could they do that would surprise or outmaneuver us? What if they are delayed; what types of things might they do to try to recover and penetrate the market more quickly? Could any of their actions be extreme or desperate? What actions could and should our team consider to mitigate or blunt the risk in these alternate scenarios?

The next step is to compare these hypotheticals collectively and then determine what countermeasures will have the most impact.

Most importantly, make sure to consider specific "triggers" that would indicate one or more of the alternative scenarios is unfolding. Agreeing on these triggers up front is useful because they prospectively define specific thresholds for change in action or direction. Once identified, you should track these triggers regularly on a dashboard that all senior team members see. This eliminates or greatly reduces debate when course changes become necessary and urgent. Then, make sure that group leaders complete a situational awareness assessment regularly and discuss the alternative scenarios and triggers during each business review.

Small investments of time can result in new insights about your organization's readiness, and your leaders' acumen, that would have gone unnoticed until a crisis.

Develop an Outside-In Perspective

This is another technique that's routine in the military and can highlight unique but under-leveraged capabilities or untapped sources of competitive advantage. Think of aviation. For a long time, the military used aircrafts primarily to increase visibility of topography and troop movements, but starting in the early 1900s, the military began using planes to deliver ordnance and conduct warfare. What are your organization's aircraft?

Frequently, these are ancillary assets or capabilities that are often considered to be a "cost of doing business." These could include a controlled global supply chain, distinct abilities to test compounds, proprietary communication channels with key constituents, unique manufacturing machinery, and so on. Think to yourself: In future scenarios, could any of these become new lines of business? If your environment changes unexpectedly could any of them help you to adapt?

In companies, an outside-in perspective can help shape an honest view of your organization's strengths (and weaknesses). Customers can be a great source for this. Forming a strategic advisory council is another option.

Game It Out

Another practice is war-gaming, and there is often no substitute for putting real people into the mix to see how they react. Even complex AI simulation, while helpful, can lack the variability and ingenuity of human creativity. The U.S. military has become an expert

in preparing for combat operations using war games. Most notable is the establishment of the National Training Center in the Mohave Desert in California where the U.S. Army conducts live, force-on-force battles to refine its capabilities.

At Merck, war-gaming exercises around critical decisions were used frequently. The process was as follows: Assign high-performing managers to lead "opposing" teams made up of individuals with expertise across relevant functional areas. Before the exercise, prepare a background that outlines the general challenge and provides specific information and data. Task the line area most responsible for the situation with organizing and leading the overall exercise—and make sure that each group presents its findings at the end. Incentivizing "opposing" teams for success will help ensure a robust simulation. For example, consider inviting a senior leader to judge the readout and offer a cash bonus, recognition, or both for the winning team.

Form Diverse, Strategic Groups

Finally, form strategic initiatives groups, and populate them with people who can analyze problems from various perspectives.

At Merck, the strategic initiative group often came up with alternate decisions and actions on key business issues. In one case, the choice to position a new product as second-line treatment versus trying to displace a well-accepted initial therapy turned out to be uniquely advantageous, helping achieve a launch that far exceeded expectations.

Looking at your strategy in a variety of ways can help you see where there might be issues before it's too late to make changes. Learning from the experience of the military and applying these approaches to your own business can help you assess your weaknesses and adjust before implementation.

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CHAPTER 15

Which Strategy "Comfort Traps" Are You Falling Into?

by Roger L. Martin

Faced with an unpredictable future, strategy makers often fall into three traps:

1. **Strategic planning:** They create a long list of to-dos without having a strategy to carry out.
2. **Cost-based thinking:** They try to model revenue (which is hard to nail down) the same

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Adapted from content (assessment) posted on hbr.org, May 2014, https://hbr.org/web/assessment/2014/05/which-strategy-comfort-traps-are-you-falling-into.

way they model costs (which are much easier to predict).

3. **Self-referential frameworks:** They focus on the company's existing strengths and its ability to quickly copy rivals' moves instead of finding a new source of competitive advantage.

Though understandable, these avoidance behaviors are dangerous. If creating strategy feels comfortable, chances are you're not really doing it.

Answer the following questions to find out which traps (if any) you've fallen into and how to get out of them. "No" responses show that you're on the right track. But if you find yourself answering "yes" to any of these questions, you may have a problem. Use the tips below to remedy the situation.

Comfort Trap 1: Strategic Planning

1. Is your strategic plan a long document (50-plus pages) that lists many functional, product, and geographic initiatives?

Problem: A long planning document may feel rigorous, but the longer it is, the more it will distract you from the harder strategic work of finding ways to acquire and retain customers. Listing a bunch of things that the company plans to do is not the same as creating a strategy.

Remedy: Set the plan aside and ask yourself, "Of all the places we could 'play' in the marketplace, where will we

play? And how will we beat competitors there?" One page should be sufficient, and five pages the absolute maximum. Initiatives are an important component of a good strategy, but they must be clearly linked to "where to play" and "how to win" choices. Make those choices first and then work out a plan that supports them. (To read more about where to play and how to win, flip back to chapter 9.)

2. Is it difficult to identify any explicit choices that show what the company will not do?

Problem: If you haven't specified what the company will not do, you haven't effectively specified what it will, which means you don't have a strategy.

Remedy: Identify a number of places you won't play. Once you've defined enough of that territory, you'll be able to describe where you will play with greater precision.

3. Does the plan spend more time describing what will happen in the first one to two years than it spends on years five to 10?

Problem: What you have is really just a budget expressed in prose, not a strategy.

Remedy: Pick five years as the focus of your strategy. Where does the company want to play—and how does it want to win—five years from now? After you've determined that, make the next four years the steps you need to take to achieve your five-year target.

Comfort Trap 2: Cost-Based Thinking

4. Does your strategic plan review costs in more detail than revenue?

Problem: You are spending more time on the easier thing to do.

Remedy: Spend two to three times as many person-hours modeling revenue as modeling costs. Anybody can model costs. It takes real effort and skill to model revenue, because it's controlled by customers, not the company. Revenue modeling necessitates a deep understanding of customer needs.

5. Is it difficult to see any link between revenue predictions and the value proposition?

Problem: If the link isn't obvious, then the revenue predictions aren't worth the paper they're printed on. Most revenue projections are just extrapolations from past revenue, even though competition is notoriously unstable.

Remedy: Look to the future, not the past. Base your projections on how well the value proposition suits customers where the company has chosen to play.

6. Do you treat the predictability of revenue as equivalent to the predictability of costs and model them in a similar fashion?

Problem: Because revenue is determined by customer behavior, it's much harder and messier to predict than costs, which are largely under the company's control. If you model them the same way, you'll end up with grossly inaccurate revenue projections.

Remedy: To model revenue, start by predicting customers' choices rather than deciding what the company wants to do. When creating strategies and budgets, assume a greater range of error for revenue than for costs. Whereas costs might have an error range of plus or minus 5%, for example, a realistic error range for revenue might be plus or minus 20%.

Comfort Trap 3: Self-Referential Frameworks

7. Does the strategic plan avoid making concrete predictions about the future of competition in your industry?

Problem: You may think you're applying the concept of "emergent strategy" by avoiding commitment to a predicted future. But to have a strategy of any kind, a company must develop a model of how it thinks competition will look five to 10 years down the road. Without that model, the company can't make strategic "where to play" and "how to win" choices.

Remedy: Make a prediction about the future even if it's likely to be only partially accurate. Your vision of

the future should inform the strategic bets you're placing now.

8. Does the strategic plan recommend "fast following" market innovators?

Problem: Fast following is not strategy but the abdication of strategy. The companies least likely to be successful at it are those that make it their goal. They don't know what to follow fast and when to start following.

Remedy: Don't fast follow. Choose where to play and how to win; then watch what happens, learn, and adjust your choices accordingly.

9. Does the strategic plan proudly affirm existing capabilities that are difficult to link to particular customer needs?

Problem: If a company luxuriates in its existing capabilities, it will reinforce an internal, producer-focused mentality. It will be hard-pressed to become or stay customer-focused.

Remedy: Specify which capabilities must be built or maintained to produce the winning value proposition for the targeted set of customers. Capabilities matter only to the extent that they help your company meet customers' needs better than rivals do where you've decided to play.

As you pursue and refine your strategy, continue to ask hard questions. Also, ask someone else who knows your organization well to take the assessment. You don't want to fool yourself into thinking that your strategy is flawless when it might not be. "No" responses show that you're on the right track.

Roger L. Martin is professor emeritus and former dean of the Rotman School of Management at the University of Toronto. He is a coauthor of *Creating Great Choices: A Leader's Guide to Integrative Thinking* (Harvard Business Review Press, 2017).

CHAPTER 16

Identify the New Capabilities You Need

by Ron Ashkenas and Logan Chandler

While strategic plans identify what your organization should do differently, very few provide a road map for how to build the skills, knowledge, and processes needed to carry out and sustain the critical changes. But without building these capabilities, it's very difficult to achieve the results you want.

For example, a multiproduct technology firm we advised laid out a strategy to significantly increase business

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Adapted from "Your Strategy Won't Work If You Don't Identify the New Capabilities You Need" on hbr.org, November 1, 2017 (product #H03ZPZ).

with its large enterprise customers by creating single points of contact and focusing on providing solutions as opposed to delivering products. The strategy was sound, but making it happen required many new capabilities: Dozens of sales people had to learn new approaches to selling and relationship building, different sales divisions needed to share information and collaborate, new roles for coordinating enterprise accounts had to be created, financial information had to be presented and analyzed differently, and so on. These changes meant that hundreds of people in the company had to work differently in some way—but the plan said nothing about developing capabilities. So despite general agreement that the strategy made sense, the missing capabilities made it impossible to carry out.

Capabilities lie at the heart an organization's ability to achieve results, so it's hardly a surprise that different results require different capabilities. But strategic plans often get this simple equation wrong, for one of two reasons.

First, many strategic planners and senior executives assume that if the strategy is logical then people will figure out what to do and don't build capabilities development into their plans at all. And yes, every organization has people who are highly adaptable, learn quickly, and can operate in this mode. Unfortunately, they often comprise a small group, and leaders end up over-relying on these individuals to tackle challenging execution assignments. And since these few people can't do it all, the efforts founder.

At the other extreme, some planners like to be prescriptive and can spend significant resources mapping out in great detail what everyone should do differently. But a paint-by-numbers approach to strengthening organizational capabilities rarely works. Developing capabilities requires experimentation, trial and error, and iterative learning to figure out what will work in each organization's unique culture, functional structure, and environment. Faced with lengthy lists of best practices and new processes that don't match reality, teams simply give up and revert to old patterns of behavior.

Overcoming these pitfalls requires thinking of capability development in a different way: as an integral part of strategic execution. The key is to link each strategic priority to the capabilities needed to drive that opportunity and to frame accountability for each strategic priority around both results and capability development. Let's look at one company that we helped take this approach.

When leaders of Rich Products, a global food manufacturer, launched a strategic initiative focused on accelerating innovation, they recognized that helping the organization simultaneously strengthen its innovation "muscles" was critical to addressing the challenge. So, while some work focused on innovation strategy—the customary task of identifying where the company should place innovation bets—equal attention was paid to understanding the capabilities needed to execute the strategy. Formal diagnostics and substantive discussions across the organization generated a clear picture of the specific capabilities that would need to be strengthened

if the organization was to achieve its innovation targets in the necessary time frame.

As teams were chartered to pursue promising opportunities, they were also tasked with developing specific capabilities that were critical to the innovation strategy. For instance, a team trying to introduce a promising cooking technology was also tasked with learning how to do effective customer immersions, a key capability gap for the organization. Another team trying to launch a new platform of food products was also made responsible for finding ways to strengthen new product introductions. In each case, leadership regularly reviewed progress with teams, not just on the business outcomes but also on what each team was learning about its assigned skill. As successive phases of this work took place, teams brought what they learned to new iterations and new teams, helping to scale and sustain the development of these capabilities. Now Rich Products is embedding this approach in its ongoing multiyear innovation efforts.

The technology company mentioned in the beginning also eventually used this approach but in a slightly different way. They created three small teams of sales, HR, and finance people and challenged them to increase revenues from three enterprise accounts while also figuring out what capabilities they needed to be successful. The three teams then began to test new ways of working with their actual clients, configured different financial reports, carved out new roles for team members, and more. As they proceeded, they met together regularly to share what they were learning. Eventually, the three teams developed a successful model for how to work

with their accounts and increase sales results. Each team then mentored two other new groups and helped them learn what worked for their clients—while all the teams continued to share best practices and refine the model. Over the next two years this iterative cascade approach continued until 150 of the largest accounts were being handled in this new way.

As these examples illustrate, combining capability development with strategy execution does not need to be a complex undertaking. The key is to make capability learning as overt and intentional as possible. This will allow you to build organization muscle while getting business results.

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CHAPTER 17

A Simple Way to Test Your Company's Strategic Alignment

by Jonathan Trevor and Barry Varcoe

There is no universal or one-size-fits-all prescription for a winning business. But corporate leaders today seem to agree that strategic alignment is high on the list.

Strategic alignment, for us, means that all elements of a business—including the market strategy and the

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Adapted from content posted on hbr.org, May 16, 2016 (product #H02VVA).

way the company itself is organized—are arranged in such a way as to best support the fulfillment of its long-term purpose. While a company's purpose generally doesn't change, strategies and organizational structures do, which can make chasing "alignment" between strategy and the organization feel like chasing an elusive will-o'-the-wisp.

As if that weren't tough enough, another challenge for corporate leaders is how to make sense of strategic alignment at *both* the team/business-unit level (or division or department, however it is classified) *and* at the enterprise level. (See the sidebar "Is Anyone in Your Company Paying Attention to Strategic Alignment?")

Yet it is possible. For example, as it grew, Facebook found that its early "move fast and break things" culture had to be funneled into focused technical teams and product groups to make its product development process faster and less erratic and for it to have a chance of meeting the demands of its new public shareholders following its IPO. The current mantra is "move fast with stable infrastructure," which speaks to the organizational design challenge of operating at scale in a fickle and volatile world.

There is a simple test you can perform to start an honest conversation about strategy and organizational effectiveness where you work. Think of your company in its entirety or perhaps select a strategically important element of it, such as a growth area upon which future success depends or its primary source of income, and consider the following two questions:

1. **How well does your business strategy support the fulfillment of your company's purpose?** Purpose

is *what* the business is trying to achieve. Strategy is *how* the business will achieve it. Purpose is enduring—it is the north star toward which the company should point. Strategy involves choices about what products and services to offer, which markets to serve, and how the company should best set itself apart from rivals for competitive advantage. Think of your own business and ask yourself, using a scale of 1–100, *How well does our strategy support the fulfillment of our purpose?* (If you are unclear on your company's strategic priorities, or its purpose, then the likelihood is that it does not.)

2. **How well does your organization support the achievement of your business strategy?** "Organization," as we're using it here, includes all of the required capabilities, resources (including human), and management systems necessary to implement your strategy. For instance, if your company seeks to beat competitors through superior customer service, is this reflected in the day-to-day behavior of staff and their interactions with customers? If innovation is a key strategic priority, does your organizational structure enable creative collaboration, risk-taking, and knowledge sharing? To maintain strategic alignment, a company's people, culture, structure, and processes have to flex and change as the strategy itself shifts. The symptoms of poor alignment are often obvious, especially to those who work in the company,

IS ANYONE IN YOUR COMPANY PAYING ATTENTION TO STRATEGIC ALIGNMENT?

by Jonathan Trevor

In my research and consultancy with companies, I observe that, oftentimes, no individual or group is functionally responsible for overseeing the arrangement of their company from end to end. Multiple different individuals and groups are responsible for different components of the value chain that makes up their company's design, and they are often not as joined up as they should be. All too often, individual leaders seek—indeed are incentivized—to protect and optimize their own domains and find themselves locked in energy-sapping internal turf wars, rather than working with peers to align and improve across the entire enterprise.

So, who should be responsible for ensuring your company is as *strategically aligned* as it can be? Consider these questions for your own company:

- ***Who*** at the enterprise level in your company is responsible for ensuring it's as strategically aligned as possible? Is their focus and behavior consistent with this responsibility, or is it merely an addition to their overriding day job? Is it the responsibility of your company's most senior managers, or should it be a more distributed responsibility? How much and how often is time devoted in your company to revisiting its core organizing principles and discussing how to build capability for tomorrow's customer, versus focusing on today's business?

- ***How*** is your company's leadership making informed decisions about the arrangement of your

company as a complex system of many moving and interconnected parts—including organizational capabilities, resources, and management systems—all aimed at fulfilling one overarching purpose? What frameworks and information do your leaders require to ask good questions, have better conversations, and make robust strategic and organizational choices?

- ***What*** capabilities do your enterprise-level leaders require to be effective at aligning your company to ensure it is fit for its purpose? Leaders I've worked with who take on the challenge of strategic alignment describe themselves as needing to be "multi-everything" in outlook and ability. This means being *multilevel*, or being capable of enterprise-level thinking; *multidisciplinary*, being "T-shaped," or possessing generalist and specialist knowledge ranging across the business; *multinational*, having no geographical or cultural bias in scope or decision making; *multistakeholder*, understanding the company from multiple perspectives and interests; and *multiphased*, choosing to think in the near-, medium-, and long-term despite pressure for immediate results.

If there are no obvious answers to these questions, then there is a good chance that nobody is paying enough attention to strategic alignment in your company. If that's the case, you urgently need to address this gap in leadership focus and capability.

Adapted from content posted on hbr.org, January 12, 2018 (product #H043U2).

but also to customers who do not experience the service they expect from a company's branding and advertising. Using the same 1–100 scale, ask yourself: *How well does our organization support the achievement of our strategy?* If your organization is incapable of delivering its strategy, the strategy is effectively worthless and your company's purpose will go more or less unfulfilled.

Your answers to both questions can be plotted on the matrix in figure 17-1. Each state poses a different leadership challenge. (Across all four, however, we're assuming that the purpose itself is viable and has the potential to be successful.)

FIGURE 17-1

The best companies are the best aligned

Strategy, purpose, and organizational capabilities must be in sync.

Very best chance of winning: Companies that score highly on both scales stand the very best chance of winning in their competitive field. But alignment manifests itself in more than just superior financial performance. It also leads to a more positive work climate, above-average staff engagement, a strong commitment to values, and few(er) energy-sapping turf wars and in-fighting. There is a buzz, no matter what the type of business, because people value being part of a company that is winning.

ARM is possibly one of the best-performing companies you've never heard of. Its microprocessors are used in over 95% of the world's smart devices, including iOS and Android smartphones and tablets. Superior technical innovation is at the heart of its strategy and its organizational design. ARM organizes purposefully for innovation by maximizing opportunities for knowledge sharing and collaboration throughout its entire ecosystem comprising thousands of external partners. Its core staff of only 3,500 based mostly in Cambridge (UK) shares a singular purpose and set of values that supersede functions, occupations, and roles. There are few barriers to spontaneous collaboration among technical teams.

Best of intentions, but incapable: Companies that score highly on the purpose and strategy alignment scale, but low on the strategy and organization scale, are more or less incapable of implementing their strategy as intended. The performance penalty may be manifest in poor customer attraction and retention, higher-than-expected costs, organizational dysfunctions, or simple financial underperformance.

Like many leading international banks in recent years, Barclays has been subjected to strong criticism of its culture, governance, and risky behavior that contributed to the 2008 financial crisis. A series of scandals, such as foreign exchange fixing, has resulted in it receiving record fines, regulatory scrutiny, and highly negative publicity. A report commissioned by Barclays in 2013 revealed a corporate culture that wasn't fit for purpose, tending to "favor transactions over relationships, the short term over sustainability, and financial over other business purposes."[1] It further revealed a complex and siloed organization, with competing operating assumptions, values, and practices across the group. The result was a fertile environment for reckless and risky employee behavior running contrary to the overarching vision and values of the enterprise.

Boldly going nowhere: Businesses that have strong alignment between their strategy and organization but weak alignment between strategy and purpose are classed as "boldly going nowhere." In our experience, there are many capable businesses with great people that lack a coherent, overarching purpose that helps guide shifts in strategy. The result is a company that becomes less and less capable over time as customers move on and talented employees depart for new pastures. Kodak is a famous example of a terrifically capable blue-chip business brought low by confusion about how best to fulfil its purpose in the digital world. Although it developed digital photographic technology, too many people in the company focused on the core organizational competence

of film. Instead of seeing digital cameras as a new way to execute on the organizational purpose of capturing "Kodak moments," they hewed to their existing, film-centric strategy. That left them out of sync with the changing preferences of consumers for digital media and instant sharing.

Not long for this world: Companies that score low on both scales are in crisis, even if it isn't immediately obvious. Their strategies do not—cannot—fulfill their larger purpose, because they fail to effectively address customer preference, market conditions, and competitor capability. Equally significant, their organization is incapable of delivering against strategic priorities.

The fall can come quickly. Royal Bank of Scotland (RBS) was a flagship bank, feted for its stellar financial performance. It grew rapidly in the late '90s and early 2000s, transforming itself from a regional Scottish bank into a national British bank with the acquisition of National Westminster Bank in 2000, finally and fleetingly becoming a global universal bank with the acquisition of ABN Amro in 2007. At its peak, RBS employed 170,000 people and operated in more than 50 countries with annual profits of £10.3 billion. In 2008, however, RBS failed spectacularly and was nationalized by the UK government to prevent its collapse.

Many have speculated since about failures of its leadership under its bullish former CEO, Fred Goodwin. Goodwin was notoriously combative, with a "Fred says" autocratic management style. RBS was also famous for its "strategy of not having a strategy," being largely

opportunistic and relying upon aggressive plays, agility, and audacity to outpace peers. Supercharged inorganic growth—especially the acquisition of ABN Amro—meant that RBS grew very large, very quickly, with multiple different operating structures and subcultures. RBS outgrew the ability of its command-and-control leadership structure to effectively govern complex and diversified activities across international operations. Many poor business decisions resulted in an accumulation of unsustainable toxic debt. Almost a decade on from its nationalization, RBS still remains on life support provided by UK taxpayers and has yet to return to sustainable profit, posting yet another loss in 2015 that has more or less wiped out the equivalent of all the public money invested since its downfall.

How does your company score? What does it tell you about how you perceive the effectiveness of your strategy, or your organization? Consider further: *Why* have you rated your business the way you have, and, if accurate, *what* are the consequences for performance in future?

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NOTE

1. Anthony Salz, "Salz Review: An Independent Review of Barclays' Business Practices," April 2013, https://online.wsj.com/public/resources/documents/SalzReview04032013.pdf.

SECTION FIVE

Communicate Your Strategy

CHAPTER 18

Leading Change and Strategic Transitions

Once you have defined and tested your strategy, you must ensure that your employees understand it and agree that it's in their interests to support it. Sometimes this comes easy, but at other times, organizational change requires a more deliberate effort on your part.

If you're leading your team through a new strategy or strategic change, you'll likely get a range of responses, from "This is exactly what we need! I'm in!" to quizzical stares and tight-lipped smiles. Some employees may respond with open doubt, fear, or anger. Too often, these reactions take managers by surprise. To ensure

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Adapted from *Harvard Business Review Manager's Handbook* (product #10004), Harvard Business Review Press, 2017.

that your employees fully understand the change and get on board with it, you must communicate a clear vision and overcome any resistance that may occur.

Articulate a Vision That Others Will Follow

David Bradford and Allen Cohen, both scholars of business leadership, have observed that significant change only happens when someone presents a compelling vision to draw out and channel the group's energy. "People need to see that change will be worth all the effort," they write in their book *Power Up*. "It is difficult to visualize interactive changes in the abstract."

Think of a vision as a picture of the hoped-for end result of your new strategy: what it will look like, how it will function, what it will produce. It also helps to tie into something your followers already innately care about. To share that vision in a way that encourages buy-in:

Focus on people

"A vision always goes beyond the numbers that are typically found in five-year plans," says John Kotter, a professor at Harvard Business School and author of the classic book *Leading Change: Why Transformation Efforts Fail*. To reach your team at an emotional level, he suggests, tell a story about how the change you're seeking will affect real people connected with your company—customers *and* employees. Draw this picture in some detail: For example, what will an improved customer interaction look like? How will the customer and the employee feel during these interactions, and how will it

THREE KEY ASPECTS OF COMMUNICATING STRATEGY

by Georgia Everse

Not all messages are created equal. They need to be prioritized and sequenced based on their purpose. I suggest using an inspire/educate/reinforce framework as you communicate with your team and employees about strategy:

Inspire

Messages that inspire are particularly important when you are sharing a significant accomplishment or introducing a new initiative that relates to your strategy. The content should demonstrate progress against goals, showcase benefits to customers, and be presented in a way that gets attention and signals importance. The medium is less important than the impression that you leave with employees about the company. Whether you're looking to build optimism, change focus, instill curiosity, or prepare them for future decisions, you'll have more impact if you stir some emotion and create a lasting memory.

Educate

Once you've energized your team with inspiring messages, your explanations of the company's strategic decisions and your plans for implementing them

(*continued*)

THREE KEY ASPECTS OF COMMUNICATING STRATEGY

should carry more weight. To educate your teams most effectively on the validity of your strategy and their role in successful execution, make sure you provide job-specific tools with detailed data that they can customize and apply in their day-to-day responsibilities. It is most important for these messages to be delivered through dialogues, rather than monologues, in smaller group sessions where employees can build to their own conclusions and feel ownership in how to implement.

Reinforce

It isn't enough to explain the connection between your company's purpose and its strategy—and between that strategy and its execution—once. You'll need to repeat the message in order to increase understanding, instill belief, and lead to true change over time. These reinforcing messages need to come in a variety of tactics, channels, and experiences. Ultimately, they serve to immerse employees in important content and give them the knowledge to confidently connect to the strategy. You'll also want to integrate these messages with your training and your human resource initiatives to connect them with employee development and performance metrics. Recognize and reward individuals and teams who come up with smart solutions and positive change.

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Adapted from "Eight Ways to Communicate Your Strategy More Effectively" on hbr.org, August 22, 2011 (product #H007MJ).

make their lives better? The sidebar "Three Key Aspects of Communicating Strategy" provides more ways to connect with and convince your employees.

Practice, practice, practice

You probably won't get your vision statement right the first time. As you gain more experience with the change process and learn about your people's responses, modulate your pitch. Kotter offers this benchmark: "If you can't communicate the vision to someone in five minutes or less and get a reaction that signifies both understanding and interest, you are not yet done."

Weave your vision into everyday management

Your employees need repeated exposure to your ideas in order to really internalize them. "Executives who communicate well incorporate messages into their hour-by-hour activities," says Kotter. "In a routine discussion about a business problem, they talk about how proposed solutions fit (or don't fit) into the bigger picture. In a regular performance appraisal, they talk about how the employee's behavior helps or undermines the vision." By orienting employee interactions around your vision, you show your people how the strategic change will work and why it matters—and that you want them to take it seriously.

Find the right allies

People must accept the messenger before they accept the message. Chances are you aren't that messenger for everyone, and that's OK. Find people who are. Look up and down the chain of command for individuals whose colleagues see them as trustworthy and competent, and who themselves seem open to change. Focus on persuading these people, and ask them to play a leadership role with their peers. That could mean facilitating a meeting with the rest of the team, playing backup for you in a Q&A, or simply supporting your plan in regular interactions with their colleagues.

Court the uncommitted

Ronald Heifetz and Marty Linsky, who teach leadership at the John F. Kennedy School of Government at Harvard University and are in private practice with Cam-

bridge Leadership Associates, advise that "the people who will determine your success are often those in the middle." These employees don't have anything against your initiative per se, but "they do have a stake in the comfort, stability, and security of the status quo," Heifetz and Linsky write in their *Harvard Business Review* article, "A Survival Guide for Leaders." "They've seen change agents come and go, and they know that your initiative will disrupt their lives and make their futures uncertain. You want to be sure that this general uneasiness doesn't evolve into a move to push you aside."

To recruit these players, sincerely acknowledge their accomplishments, as well as the loss and sacrifice that change entails. Help them understand the personal upside to adapting to change. Also make it clear that only those who can and will adapt will have a future on your team.

Overcome Resistance

Even if you take all these steps to gain support for your vision, your team members may still have some legitimate reservations. If you're asking them to do something new, they may worry about risking failure or about changing their status from master to apprentice. Perhaps you're asking them to throw out comfortable assumptions—that they provide a certain kind of value to the company, that the work they do is stable and prosperous. (See the sidebar "Cultivate Emotional Steadiness in Times of Change.") Maybe change upends the established balance of power, bringing some skill sets and experiences to new prominence and devaluing others.

CULTIVATE EMOTIONAL STEADINESS IN TIMES OF CHANGE

by Lisa Lai

Strategic ambiguity pushes you out of your comfort zone. When strategies shift, or are hinting toward a shift, it's normal to feel unsettled, and you'll see this in your team too. Here are three steps you can take to help yourself and your team navigate the emotions of strategic ambiguity.

Be Proactive. Learn More.

In times of change, questions arise naturally: How will this impact my group? What if everything we're doing today alters? What if this involves job changes, layoffs, or lost resources? Learn as much as you can so you're informed, not just reacting to rumor and innuendo. Use your internal network and ask others in the organization for insight, context, and clarity. When you've done the hard work of sense-making, you'll be able to anticipate the questions your team will ask and prepare the most effective answers you can.

Acknowledge and Navigate Your Own Emotions

Emotional steadiness requires that you be intentional about the way you show up in the workplace. Your role is to be calm, transparent, and steady, all while painting a vision for the future. Acknowledge your emotions and talk to a peer or your boss if you need to work through them. Play out the worst-case scenario in your mind and then move on to the more likely outcome. Chances are the reality isn't as bad as what you might conjure up when your emotions are heightened. Com-

mit to avoiding stress responses, frustration, rumors, or other nonproductive behavior. Your team members are watching and taking their cues from you.

Keep Team Communication Open

Strategic uncertainty can cause managers to communicate with team members less frequently and less openly. "If I don't have clarity to provide, why not wait?" the thinking goes. But in truth, ambiguous situations require you to communicate even more than normal. To demonstrate emotional steadiness, share your own emotions and acknowledge those of your team in productive ways. Let team members know that what they feel is OK. But talk with them about your commitment to being emotionally steady even during times of uncertainty. Ask them to do the same and come to you if they are frustrated or concerned. Maintaining open dialogue will keep your team engaged and aligned until a clear direction emerges.

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Adapted from "Managing When the Future Is Unclear" on hbr.org, January 9, 2019 (product #H04QGH).

Dealing with these reactions is tough, but your leadership can survive some discontent. Here are two approaches you can try:

Cook the conflict

While it's important to confront the fear and doubt that's driving resistance, you can't always afford to bring conflict to a head. Sometimes, open clashes can help resolve disagreements and channel your people's passion in a constructive way. Other times, they simply put too much stress on the group's morale.

To balance this delicate equation, Heifetz and Linsky recommend two techniques: "First, create a secure place where the conflicts can freely bubble up"—maybe an offsite retreat with an outside facilitator or an on-site conversation governed by a special set of rules for respectful, open dialogue. Insulate these conversations from your discussions about actually implementing and executing change. That means holding separate meetings, at separate times, with separate agendas. "Second, control the temperature" of the conflict by pushing people to tackle a tough issue when you think they can resolve it constructively and by backing away from disagreements or slowing the pace of change when the group's morale becomes fragile.

Engage others in problem solving

When everyone is looking to you for answers, you may feel you need to provide them all yourself. But your employees must own this change, too, and they need to feel competent in the new regime. That means "forc[ing]

yourself to transfer . . . much of the work and problem-solving to others," say Heifetz and Linsky. If ever there was a time to delegate, it's now. Encourage discussion, collaboration, and creative thinking among team members around specific problems or challenges that arise.

Change management is an important skill in today's business world, where strategy-formulation initiatives, reorganizations, and audacious goals are increasingly the norm. If you lead your team through change successfully—at any level—you'll increase the group's productivity and deliver new benefits to your organization.

CHAPTER 19

Explain Your New Strategy by Emphasizing What It Isn't

by Nick Tasler

It is nearly impossible to translate—let alone *execute*—a strategy that you don't understand. Yet, according to research by MIT's Donald Sull, almost half of top executives cannot connect the dots between their company's strategic priorities, and two out of three middle managers say they simply do not understand their strategic direction.[1] McKinsey & Company reported similar findings

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Adapted from content posted on hbr.org, May 18, 2015 (product #H022EB).

from its Organizational Health Index, as did Timothy Devinney at Australia's University of Technology in a recent experiment.[2] Taken together, this research points to the fact that most leaders just don't *get* what their organizations are trying to do.

As bleak as that sounds, leaders can avoid the problem by borrowing a technique from teachers: "compare and contrast." As educational researchers have found, it is perhaps the single best way to teach new concepts.[3]

Here's how it works. Say you're trying to teach a child what a rectangle is. It would be a mistake to only show the child a red plastic rectangle and identify it as a rectangle, because she might erroneously assume that all rectangles must be red or that color is related to shape.

So you'd need to make finer distinctions. The best approach would be to teach the child that a yellow book and a white window frame are also rectangles (compare), whereas a red ball and a maroon can of beans are *not* rectangles (contrast). As a result, our burgeoning geometry student should be able to generalize that understanding to new situations. She'll easily identify a television as a rectangle, but not a car tire—even though you never said anything about TVs or tires. She *gets* it.

Psychologists have found that the same type of compare and contrast technique is also a superior method for teaching adults how to apply abstract business principles to new situations like complex negotiations.[4]

For example, if you wanted to explain something like the "foot in the door" sales technique to a business school student, your best bet would be to describe how a door-to-door vacuum salesman begins a sales call by re-

questing permission to examine the homemaker's cleaning products before making the much bigger request to purchase a vacuum cleaner. Then ask the student to "compare and contrast" the vacuum salesman's approach with a peace negotiator's tactic of asking for a small and relatively unimportant parcel of land before requesting a large payment of reparations. By doing so, the students will grasp the general principle behind the "foot in the door" technique, and in the future they'll be able to apply the same principle to completely new situations like business mergers or salary negotiations.

Isn't that exactly what a strategy should do—help teams and leaders decide the right thing to do in the face of new threats and opportunities?

The problem is that most widely used planning processes like management by objectives and balanced scorecards overlook the *contrast* piece of the compare-and-contrast equation. They do a fine job of requiring leaders to spell out what the strategic objectives *are*, but they rarely require leaders to get clear about what they are *not*. As a result, most leaders score a C- in strategy comprehension.

Does this sound familiar? If it does, I would suggest adding a wait list to your planning process—a list of objectives that you'll put on hold for three to six months.

Let's assume your planning process has revealed a list of key growth drivers including the launch of next generation product lines, enhancing the quality of existing products, boosting employee engagement, cutting costs, tightening up the supply chain, and many others. Before your team jumps into divide-and-conquer mode where

everyone lists all the ways they can contribute to those priorities, first discuss which of those priorities should go on your wait list. Even though all these priority initiatives will impact your profitable growth this year, challenge yourself and your team to put at least half of them on a wait list for three to six months.

This isn't just about trimming your list of projects. Evaluating top priorities side by side to make mutually exclusive, now-or-later distinctions will encourage your team to use comparative learning. If your team puts *launching next generation product line* on the wait list, but leaves *enhance quality of existing products* on the list of near-term priorities, that contrast makes an invaluable distinction. You have suddenly clarified that even though your team or organization absolutely values innovation, this year's strategy is actually focused more on innovating the core product lines rather than the new products. This is a subtle but important nuance.

This is precisely what Howard Schultz achieved in 2008 when he pulled Starbucks's highly profitable breakfast sandwiches from store shelves for nine months. By doing so, he instantly clarified for board members and baristas alike exactly what he meant with the new strategy of "reasserting our *coffee* authority." By pulling back on breakfast sandwiches while doubling down on research and development of new coffee creations, he engaged the whole organization in comparative learning. Everyone suddenly understood that all sources of revenue were not equal in this strategy. It clarified for store managers that "because it makes

money" was not justification for straying from the coffee core.

You can accomplish the same thing with wait lists. Slowly but surely, through this repeated act of comparing and contrasting top priorities, a common theme will begin to emerge. In the minds of your team members, the hodgepodge list of projects begins taking shape as a bona fide strategy. All of the sudden, they *get* it.

To be sure, execution will always be a multifaceted beast. No one trick or tool will tame it. But a wait list can give your team a much better grip on the reins.

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NOTES

1. Donald Sull, Rebecca Homkes, and Charles Sull, "Why Strategy Execution Unravels—and What to Do About It," *Harvard Business Review*, March 2015 (product #R1503C).
2. Arne Gast and Michele Zanini, "The Social Side of Strategy," *McKinsey Quarterly*, May 2012, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-social-side-of-strategy; Timothy Devinney, "All Talk, No Action: Why Company Strategy Often Falls on Deaf Ears," *The Conversation*, March 25, 2013, https://theconversation.com/all-talk-no-action-why-company-strategy-often-falls-on-deaf-ears-12788.
3. Robert J. Marzano, Debra J. Pickering, and Jane E. Pollock, *Classroom Instruction That Works* (Alexandria, VA: Association for Supervision and Curriculum, 2001).
4. Simone Moran, Yoella Bereby-Meyer, and Max Bazerman, "Stretching the Effectiveness of Analogical Training in Negotiations: Teaching Diverse Principles for Creating Value," *Negotiation and Conflict Management Research* 1, no. 2 (2008): 99–134.

CHAPTER 20

Discussing Strategy Across Cultures

by Leonard M. Fuld

I can't stand it when someone writes "obviously" at the beginning of a sentence. Nothing is obvious to everyone, especially when it comes to appreciating the impact a person's culture has on interpreting—or preventing the acceptance of—information.

A case in point: I facilitated an important global marketing meeting in Beijing not long ago with a U.S.-based multinational food company, which had just purchased a specialty food product line from one of its rivals. The

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Adapted from "Cross-Cultural Communication Takes More Than Manners" on hbr.org, August 1, 2012 (product #H0096J).

newly adopted subsidiary had recently become a market leader under its old ownership, based mostly on very good market research that was informed and driven by a deep cultural understanding of the habits and behavioral preferences of the average urban Chinese.

The new owners sent their U.S. team to participate in a strategy session, a discussion of where this Chinese subsidiary believed its market was heading and how it must respond to new and mounting competitive threats. The U.S. team set about asking questions as they would do in any meeting in the United States. They tried to be sensitive to their hosts and believed they were treading lightly. To their surprise, the Chinese nationals reacted defensively to even the smallest and seemingly most innocent questions. "Who were these 'outsiders' telling us about our market?" In essence, perhaps without recognizing it, the Americans slighted them without even knowing how or why.

It turned out that their Chinese hosts relied on close customer proximity in developing the company's packaging and marketing practices. So when the Americans suggested that perhaps their new Chinese colleagues may have overlooked new competitive threats from other multinationals as well as from home-grown rivals, the local executives viewed it as a challenge to their research and felt insulted. Interestingly, also attending were a handful of Hong Kong Chinese who were not at all upset by the Americans' questions. It turned out that many of them were educated abroad, including in the United States, and appreciated the purpose and direct-

ness of the questions posed by the U.S. execs. No harm, no foul, they felt.

At the end of the first day of meetings, the overall group accomplished little. The room felt like a boxing arena with each contingent remaining in its own corner. The Americans remained concerned over ominous signs that the company's Chinese market was about to change. Looming new government regulations would likely curb nutritional claims and impose stricter enforcement on violators. New rivals were poised to enter the market. Nevertheless, the local PRC nationals (not the Hong Kong group) remained stalwart, unconvinced that they might have to alter their existing plans. There was data to validate the Americans' concerns. Unfortunately, their very presence interfered with discussion of the issues.

On the second day, the meeting's facilitators deliberately blended the groups, and a thaw occurred in the room. The Hong Kong participants assumed the role of cultural translators and explained to their colleagues from the United States as well as the China mainlanders that each had a legitimate perspective, grounded in different methods of validation. The Chinese preferred to test their view deductively. By starting with an understanding of the cultural habits and behaviors of their customers, the Chinese team believed they could explain past, present, and future outcomes. The Westerners preferred to validate their view inductively, discovering the facts and then developing an explanatory storyline.

While the various groups still reserved their right to disagree, the session ended with something of a

consensus. The local Chinese group remained determined to focus on its rigorous marketing plans, still largely driven by a series of cultural insights they had identified. At the same time, the group did concede that perhaps it needed to examine the new competition more closely and more directly. It also acknowledged a need to monitor rumors of government regulatory changes in its market.

There is nothing new about the tensions and difficulties that emerge from an intermingling of cross-cultural, cross-functional groups. While the business world is certainly far more interconnected today than it was when I started working, it nonetheless remains fraught with many land mines. Companies that have partners overseas are confronted with such talent challenges on a regular basis. Often, players from across the globe have become participants in the same enterprise, shuffled together like a deck of playing cards. But unlike perfectly uniform playing cards, people can't be so easily blended with each other.

The very richness that global yet diversified talent brings to a company can also impede its progress all because of cultural misperceptions or unintended affronts. Absorbing the strategic insights and the intelligence that drive any business decision or strategy requires awareness and the need for discussions prior to a formal meeting; the use of intermediaries such as cultural interpreters may prove useful if only to bring to the surface deeply held beliefs and assumptions.

Could we have headed off the initial locking of horns between the Americans and the mainland Chinese? Per-

haps, though we were not given any warning of the prevailing temperament of both sides. More to the point, even in a world of globalization there remains an ever-present need for executives to anticipate and appreciate this frequently hidden culture factor and early on to place it on both the written and unwritten agenda of every similar meeting in the days ahead. If not, decision makers may overlook basic data—and miss major strategic opportunities.

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SECTION SIX

Execute the Strategy and Learn from It

CHAPTER 21

Your Strategy Should Be a Hypothesis You Constantly Adjust

by Amy C. Edmondson and Paul J. Verdin

The widely accepted view that strategy and execution are separable activities sets companies up for failure in a fast-paced world.

One of us (Paul) is a strategy scholar and economist; the other (Amy) studies organizational behavior and operations management. We came together to consider why strategy so often breaks down in the execution

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stage. While conducting research on recent dramatic cases of strategic failure in different industries, involving vastly different business models and strategies, we discovered a common pattern: What started as small gaps in execution spiraled into business failures when initial strategies were not altered based on new information provided by experience. These companies' strategies were viewed by their top executives as analytically sound; performance gaps were blamed on execution.

Take the notable failure at Wells Fargo in 2016. Executives formulated a distinctive strategy of cross-selling, which had much to recommend it. Selling additional products to current customers leverages the costs of establishing those relationships in the first place, and serving more and more of their financial service needs (to grab a greater "share of wallet") is appealing, in theory. Wells Fargo was even good in implementing the strategy—up to a point.

Yet the strategy eventually hit the realities of customers' finite wallets (their spending power) and real needs.

Cementing the business failure, salespeople appeared to believe that senior managers would not tolerate underperformance and found it easier to fabricate false accounts than to report what they were learning in the field. The widespread nature of the behavior strongly suggests that the fraud was not the result of some corrupt salespeople. Rather, it points to a system set up to fail—by the pernicious combination of a fixed strategy and executives who appeared unwilling to hear bad news. (From the perspective of the senior management at many companies, missing sales targets is a failure in the execution of an analytically sound strategy.)

An alternative perspective on strategy and execution—one that we argue is more in tune with the nature of value creation in a world marked by volatility, uncertainty, complexity, and ambiguity (VUCA)—conceives of strategy as a hypothesis rather than a plan. Like all hypotheses, it starts with situation assessment and analysis—strategy's classic tools. Also like all hypotheses, it must be tested through action. With this lens, encounters with customers provide data and insights that are of ongoing interest to senior executives—vital inputs to dynamic strategy formulation. We call this approach "strategy as learning," which contrasts sharply with the view of strategy as a stable, analytically rigorous plan for execution in the market. Strategy as learning is an executive activity characterized by ongoing cycles of testing and adjusting, fueled by data that can only be obtained through execution.

Imagine if Wells Fargo had adopted a strategy-as-learning perspective. Its top managers would have taken repeated instances of missed targets or false accounts as data to help them assess the efficacy of the cross-selling strategy. This learning would then have triggered a much-needed adjustment of the original hypothesis.

The key indicator of a strategy-as-learning approach lies in how managers interpret early signs of gaps between results and plans. Are they seen as evidence that people are underperforming? Or as data that indicates the initial assumptions were flawed, triggering further tests?

Volkswagen's software that allowed diesel engines in its vehicles to cheat on emissions tests is another case of a top-down fixed strategy that suffered in imple-

mentation. VW's strategic ambition to become the largest car company in the world required it to conquer the U.S. market. To help VW stand out and win in the U.S. market, its executives formulated a strategy of developing so-called clean-diesel vehicles that leveraged the company's core competence.

As was the case at Wells Fargo, VW's culture—specifically, its executives' lack of tolerance for pushback from people lower in the organization—seems to have played a major role in its diesel-emissions fiasco. Bob Lutz, who held leadership roles at General Motors, BMW, Ford, and Chrysler, describes a "reign of terror" that had long prevailed at VW.[1] This, he says, undoubtedly contributed to VW's ignoring evidence that the claim that the diesel technology could comply with environmental regulations was too good to be true. In this way, VW leaders lost out on the opportunity to revisit and update the strategy. Meanwhile, engineers had developed software to fool the regulators—postponing the inevitable.

Cheating and cover-ups are natural byproducts of a top-down culture that does not accept "no" or "it can't be done" for an answer. But combining this with the approach that treats strategy and execution as separable is a sure recipe for failure. At both Wells Fargo and VW, disconfirming data was available for a surprisingly long time and was not acted on by senior management. Signs that corners were being cut were ignored. And the illusion that brilliant top-down strategies were working persisted—for a time.

We are not saying top-down fixed strategies necessarily lead to fraud. Rather, our point is that these two

visible examples of strategic failure illuminate the risks of failing to *integrate* strategy and execution through a deliberate and continual executive-learning process.

Strategy as learning requires senior executives to engage in an ongoing dialogue with operations across all levels and departments. The people who create and deliver products and services for customers are privy to the most important strategic data the company has available. And the strategic learning process involves actively seeking deviations that challenge assumptions underpinning current strategy. Deviations and surprises must be welcomed for their informative value in adapting the strategy. Executives who adopt a strategy-as-learning framework understand that pushing harder on execution may only aggravate the problem if shortcomings are, in fact, evidence of inadequate market intelligence or flawed assumptions about the business model.

Companies that fuse strategy and execution, continually making adjustments and periodic dramatic pivots, demonstrate what strategy as learning can look like in action. Consider the steady strategic morphing of Amazon from online bookseller to global retail powerhouse. Or take ING Bank in the Netherlands, which adopted an agile approach to strategy and execution that uses "squads" as the company's "nervous system" to sense changes in customer needs and competitive realities and to give senior executives the data they need to rethink strategy and respond. These and other cases exemplify a fundamentally different (iterative) approach to strategy making.

Of course, embracing a learning approach at the top of the organization is not a new idea. What we suggest has

much in common with the notion of execution as learning, which was introduced by Amy in *Harvard Business Review* some years ago.[2] Our ideas are also consistent with current work on organizational agility—defined as an ability to sense and respond quickly to changes in the environment.

What is new is the idea that closing the gap between strategy and execution may not be about better execution after all, but rather about better learning—about more dialogue between strategy and operations, a greater flow of information from customers to executives, and more experiments. In today's fast-paced world, strategy as learning must go hand in hand with execution as learning—bypassing the idea that either a strategy or the execution is flawed—to recognize that both are necessarily flawed and both are valuable sources of learning, improvement, and reinvention for sustained value creation.

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NOTES

1. Bob Lutz, "One Man Established the Culture That Led to VW's Emissions Scandal," *Road & Track*, November 4, 2015, https://www.roadandtrack.com/car-culture/a27197/bob-lutz-vw-diesel-fiasco/.

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CHAPTER 22

Your Strategy Has to Be Flexible—but So Does Your Execution

by Martin Reeves and Rodolphe Charme di Carlo

Peter Drucker said, "Plans are only good intentions unless they immediately degenerate into hard work." This and a slew of similar maxims reflect a common view of strategy execution: that it's distinct from strategy, harder to pull off than defining a strategy, and therefore more critical to success—underpinned by seemingly

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indisputable virtues such as diligence, discipline, consistency, alignment, and focus. But such a simplistic view of execution can be misleading and can reduce actual impact.

In fact, several frequently observed traps result from such a view of execution:

Losing the Plot

Action plans and Gantt charts can span many pages in pursuit of precision and concreteness. But excessive complexity can undermine thoughtful execution as much as a failure to specify tactics. In the worst case, busyness can become an implicit goal or cultural norm, and the original strategic intent can be lost in a frenzy of detail and activity. Execution must be insightfully focused on the most critical aspects of a challenge, or those which unlock other critical actions. For example, if category expansion is critical to value creation in a particular strategy, plans should focus disproportionally on how to achieve this. For example, former Mars president Paul Michaels shares in *Your Strategy Needs a Strategy*: "The job of strategy for a segment leader like us is to drive category growth, and that's the thing you should be thinking about all the time."

Metric Obsession

Drucker's exhortation "What gets measured gets managed" is often invoked when approaching execution. In the sense that results count, and their quantification is desirable, it seems irrefutable. But the worst way to achieve a goal can sometimes be to pursue it directly.

For example, new drugs are not discovered by pursuing a target number of new drugs but rather by exploring new areas of chemistry and biology. It is also a mistake to restrict ourselves to managing what we can easily measure. Few would deny the importance of corporate culture, for example, even though it is not easily quantifiable. (To read more on how metrics can distract from strategy execution, flip to the next chapter.)

Planning Myopia

Emphasizing compliance with a plan can, under stable conditions, accelerate fruition of a strategy. But under the changing conditions of a nascent or recently disrupted industry, a rigid plan can become a straitjacket for the flexibility and adaptation that are required to succeed. To take a historical example, centrally-planned economies in the Eastern Bloc left no space for adaptation to even the simplest types of change, like variation in demand. This inevitably created shortages and oversupply of goods.

Missed Learning Opportunities

The value of execution can, in the simplest cases, be boiled down to the successful accomplishment of specific tasks. But where a high degree of uncertainty and change is involved, the value can instead reside in the learning that accompanies execution, whether or not the immediate outcome is successful. Consider the example of YouTube, which began as a video dating site back in 2005. The site failed to gain traction so the founders, leveraging what they learned while building the original

platform, launched another version of the website focusing on sharing videos online, with significantly more success.

Tyranny of Intermediate Goals

When goals and tasks are broken down several times into lower-level ones, it can clarify what is required of an individual or department and can therefore help scale the job of execution. But often the intermediate goal or task becomes an end in itself. A famous example is Hoover's free flights promotion. In 1992, to free up warehouse space, the UK team promised free airline tickets to customers who purchased more than £100 worth of its products. A little later, the U.S. marketing team offered the same promotion to U.S. customers in order to boost sales. The offer was implemented so "successfully" that the company could meet neither the demand for vacuum cleaners nor the cost of the flights. As a consequence, after the courts settled customer complaints, the U.S.-based company had lost £48 million and had to sell its UK branch a few years later.

Missing the Forest for the Trees

Strategic plans are often broken down into different modules for execution by different parts of an organization. Yet sometimes optimization of the parts does not lead to optimization of the whole. To take a biological example, the U.S. National Parks policy used to be to extinguish all forest fires. This led to an increase in the severity of fires. Why? Because most fires are small and

stop by themselves, while creating natural firebreaks and eliminating the undergrowth that can fuel larger fires. In 1972, the policy was therefore adjusted so that only man-made fires were fought.

Businesses can be equally complex: A diversity initiative, for example, might include some compulsory training, but if this triggers sentiments of resistance and skepticism, it can be self-defeating. Every action can change perceptions, motivations, and actions, such that a list of individually plausible actions can easily create the opposite of the intended effect. In such cases, a holistic perspective to strategy and execution is required.

Execution as a Thing

We often treat strategy and execution as being separable disciplines, each with its own distinct and constant character. But as we have shown in *Your Strategy Needs a Strategy*, different strategic environments require different approaches to strategy and execution. A nascent technology business might require an adaptive approach and a stable commodity business might require a classical, planning-based approach. In predictable classical environments, strategy formulation can be separated from execution. But in adaptive environments, it cannot, since "strategy" continually emergences from amplifying the results of success experiments, i.e., execution. Furthermore, the nature of execution is also very different for each case. In the first, it centers on compliance to a predetermined plan; in the latter, on decentralized initiative taking and experimentation.

Tyranny of Practicality

That an execution plan be "practical"—simple, concrete, familiar, and unchanging—seems incontrovertible. Execution is praxis, after all. But when dealing with new or changing situations, familiar, plausible actions can easily fail to achieve the desired effect. Polaroid, for example, was a pioneer in digital photography. Yet, it tried to sell its digital cameras using the same business model as its film-based cameras—by aiming to make high margins on instant film sales. Believing that users would want hard copies, it added digital technology to instant cameras instead of creating a new product not requiring film. As we now know, the company lost to rivals. Former Polaroid CEO Gary T. DiCamillo summarizes the company's failure well: "The reason we couldn't stop the engine was that instant film was the core of the financial model of this company."[1] More broadly, a mature business can often create its own increasingly questionable reality by focusing on the part of the market where its own beliefs about how things work still apply, creating a double opportunity for disrupters—one physical and one mental. Indeed, entrepreneurs and disrupters often refer to this double inertia of incumbents as their greatest asset in taking on incumbents.

We should not let the simplistic but comforting dualism of strategy and execution deceive us. Execution should be as varied, as thoughtful, as subtle, as diverse, and as intertwined with strategy as is necessary to get the job done, and that will vary according to the spe-

cific challenge at hand. In short, your execution needs a strategy.

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NOTE

1. Andrea Nagy Smith, "What Was Polaroid Thinking?" *Yale Insights*, November 4, 2009, https://insights.som.yale.edu/insights/what-was-polaroid-thinking.

CHAPTER 23

Stop Letting Quarterly Numbers Dictate Your Strategy

by David Hersh

In 2008, as the CEO of a software company that had just missed its target for the second quarter in a row, I was so intent on hitting our fourth-quarter revenue number of $8 million—and so scared for my job—that I promised the company I would get a tattoo of the number somewhere on my body if we hit it.

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No single metric has more drama surrounding it than quarterly revenue. Make it, and you're a hero. Miss it, and you may not have a job. But beneath the drama lies real danger. In my experience, nothing has done more long-term damage to promising young companies than focusing on quarterly revenue.

For public companies, the issues surrounding the "beat or miss" quarterly updates are well documented. Short-term scrutiny leads to short-term moves, activist shareholder shenanigans, and other tricks used to bump up the price of the stock. These pressures distract company leaders from the company's long-term health.

But it's not just the big public companies that fall into this revenue-focus trap. I've advised hundreds of start-ups and growth companies that feel the same short-term pressure. Their boards push aggressively on quarterly sales goals. And with only six to eight board meetings a year, most outside board members don't grasp the big-picture strategy in the same way that the CEO does.

There's nothing wrong with having a quarterly target; cash is the oxygen of a growth business, and it needs to be managed very carefully. But leaders, especially those who are still learning to navigate their market, must have a deep, unwavering focus on how they will win over the long run. Doing anything else is like driving across the country while looking only five feet in front of your car.

Here's an example from an SVP of product for a once-promising $20 million software company:

> *We raised over $100 million in venture capital but were still figuring out a repeatable business model. We*

couldn't learn how to make the model work because our strategic moves were always trumped by having to make the quarterly number. The CEO we hired was a bean counter who made the numbers reinforce his story, and the board bought into it, but it was a false story. The sales team was amazing, but it was too hard to sell because the product had no more differentiation or vision. Over time the company lost relevance in the market, all the good people left (myself included), and the potential acquirers were no longer interested.

In a scenario like this one, the sales team may respond admirably to revenue pressure, but their "do whatever it takes" mentality usually leads to chaos in the name of getting deals done. The result? You push innovation aside, compromise market positioning, turn the product into a dumpster of features, and create a trail of mayhem, making these deals successful postsale. And every subsequent quarter becomes increasingly difficult.

It doesn't have to be that way.

While not every company can have a Jeff Bezos or a Steve Jobs who can keep the board focused on long-term vision, it is possible for CEOs and other leaders to have an enlightened conversation around strategy and to better manage unrealistic or misguided expectations from the board.

In table 23-1, you'll find a few "canary in the coal mine" warning signs that the number has gotten too important and advice for avoiding the situation.

If you are a CEO or senior leader and find that revenue has become shorthand for whether the business

TABLE 23-1

Are quarterly numbers becoming too important to your company?

There are warning signs to watch out for.

Warning sign	Solution
The board focuses on sales results rather than key strategic issues.	Architect board meetings around three to five important strategic issues, and reinforce the quarterly number as a result of strategy, not the other way around.
Executives, employees, and the board can't articulate the strategy.	Communication of the strategy is as important as the strategy itself, so ensure your "aggressive but achievable" plan is clear to everyone.
Your company is adding people too fast for its growth rate and market position.	It's better to do a one-off downsizing rather than sacrifice your vision and strategy with destructive, short-term cash moves, so size according to the true position of your company.
Your R&D road map is always slipping.	Ensure the R&D department has a voice in strategy and deal triage, and that the best people have a reason to stay motivated.
The sales team is only focused on commissions.	Hire a strategic head of sales who can see the big picture of business building, not just last minute heroics, and balance quota compensation with equity and other incentives.

is working, it's time to change the conversation. In my experience, these are the four main ways to drive that change:

- Ensure that your strategic plan is still appropriate, clear, and embraced by the team. It's often shocking to most leaders, but up to 95% of employees are unaware of, or don't understand, company strategy.[1] Update the plan as needed and make

sure it can be summarized in a short, clear statement that employees can express with confidence and energy.

- A McKinsey study found that only 21% of board members (public and private boards) fully understand the company strategy.[2] To get past this hurdle, meet with board members individually to delve deeply into how the company plans to win, but also spend time listening to each member's motivations, ideas, concerns, and aspirations for the company. You need to build strong connective tissue between management and the board.

- Update the company dashboard around the key metrics that support the company's long-term goals, and ensure those KPIs are aligned with the company's purpose. Visually represent sales numbers as the result of strategic execution, not the goal.

- Keep the strategic communication and metrics flowing constantly, and celebrate the successes and course corrections that accelerate the strategy. Companies should be in a "flow state" where information is constantly available and is driving decision making throughout the organization.

Quarterly sales numbers are important, but they are also a deceptively comfortable way to manage a growth company. It can feel good to hit the number and pop the champagne. But leading with that number is lazy, a death knell for innovation and long-term success, and

can disguise the real issues facing the company's prospects. The biggest value creation comes from companies that know how to win over the long run.

Oh, and my tattoo promise? We did hit our number that quarter. And yes, I still have Roman numeral VIII on my ankle. I'm proud of that period of time, but if I were coaching a leader or CEO foolish enough to make the same promise, I would recommend a more inspiring, strategic image. And maybe start with a temporary tattoo.

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NOTES

1. Robert S. Kaplan and David P. Norton, "The Office of Strategy Management, *Harvard Business Review*, October 2005 (product #R0510D).
2. Chinta Bhagat, Martin Hirt, and Conor Kehoe, "Tapping the Strategic Potential of Boards," *McKinsey Quarterly*, February 2013, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/tapping-the-strategic-potential-of-boards.

CHAPTER 24

Strategy Is All About Practice

by Roger L. Martin

I have never seen anybody become good at strategy without practice. It may happen, but I have never seen it. I doubt that I will see it, because strategy is a discipline. Like any discipline, you have to believe in it and work at it to become skilled; both mindset and effort are required to make progress and become adept at strategy.

The key to the strategy mindset is to view business life as not entirely random; stochastic but not random. While it may be necessary to revisit and revise choices more often than convenient, the assumption holds that

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effortful, determined, revisable strategy is better than simply letting happen whatever will happen.

By far the easiest thing to do is to see the future as so unpredictable and uncertain that you should keep all your options open and avoid choice-making entirely. The irony, of course, is that not choosing is every bit as much a choice, and every bit as impactful, as choosing to choose.

There is a bit of F. Scott Fitzgerald here: He wrote that "one should . . . be able to see that things are hopeless yet be determined to make them otherwise." Businesses will evolve and change in ways that make last month's or last year's investment decisions look stupid. It will happen, no matter who you are or how smart you are. It happened to Warren Buffett with Salomon Brothers, Dexter Shoes, US Airways, and Conoco. But those are anomalies among the countless other bets that worked out largely as he thought they would. The mindset of a strategist is to hold that just because some bets turn out to be wrong doesn't mean that the future is entirely unpredictable.

If the first necessary element to being an accomplished strategist is belief, the second is work, work, and work some more. This means making strategy choices, seeing how they work out, and then learning from them. Strategy is part art and part science; a heuristic, not an algorithm. As with most heuristics, you can learn the categories to think about: Pay attention to customers, to competitors, to capabilities, to elements of industry evolution. But there isn't a learnable formula about how to put them together in any given choice context.

That is what requires practice—and the form of that practice is really important. In golf, you might feel that going to the driving range and hitting a thousand balls is inherently good practice. It isn't, though, if all you do is go up to the tee, pound the ball as hard as you can, and see whether it went straight and far. If some shots were great and others not so much, what did you learn? Just about nothing, unless you thought in advance about what you were trying to do and what you would pay attention to (for example, head stillness, hip turn, hands leading, etc.). And still, in golf, you probably need a swing coach to watch what you actually do, versus what you hope you are doing, in order to learn something useful.

In strategy, helpful practice means setting out your logic about a choice in advance—for example, "I think consumers will react in this way," "competitors will react that way," "we will be able to deliver this," and "we will achieve this outcome"—and then watching what actually happens against this predicted logic. This is the only way you will learn; the only way you will figure out whether your logic was entirely sound or flawed in some way.

And when I say setting out your logic, I mean writing it down in advance, not just thinking it through. That is important because of our human capacity for ex post facto rationalizing absolutely anything and everything. If you don't write down in advance what your logic was, you will find that you will convince yourself that everything worked out the way you thought it would—and you will learn nothing. In golf, your swing coach can keep you honest—no, you didn't lead with your hands through impact. But in strategy, you need to keep yourself honest.

Of course, you can't ever eliminate chance. You may have made a bet that was a sound one but didn't pay off this time because you were unlucky. Perhaps it had an 80% chance of paying off, and you fell prey to the 20%. That is why lots of practice and experience is required—they build up your repertoire of bet analysis and observation. The more you practice, the less exposed to chance you'll be—though it never quite goes away.

Bottom line: If you believe that you can succeed more often than not in dealing with the inherent uncertainty of the future and you practice at laying out your logic, making strategic choices, and assessing the outcomes, you will become an accomplished strategist.

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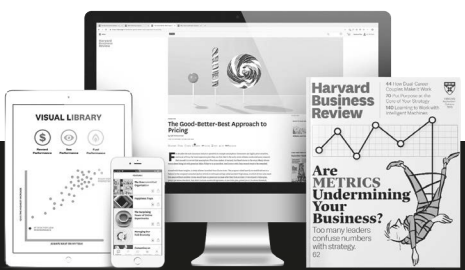

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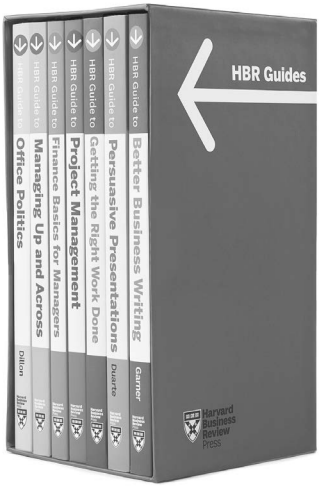

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What You'll Learn

Strategic initiatives are the key projects and programs that will transform your company from what it is now into what it needs to be. But choosing the right strategic initiatives and running them effectively can be a serious challenge for new managers and seasoned leaders alike.

It begins with deciding which initiatives to pursue among many worthy possibilities. Then you have to navigate the politics of approvals and allocating resources. Once a project is up and running, you need to keep it on track and aligned with your company's strategy. You may have to overcome in-house resistance to keep things from backsliding—especially if your initiative brings about change for your team or the organization.

Also keep in mind that no initiative exists in isolation. It's not enough just to manage each project the right way; you need to know how to oversee multiple initiatives and to understand how *all* of your company's initiatives are working together to move your strategy forward.

Whether you're pitching your first signature project or overseeing an established portfolio of initiatives, this book will provide you with the tools, tips, and advice you

need to run them effectively, whether within your team or across the company. You'll learn how to:

- Win—and keep—support for your new idea
- Move rapidly from approval to implementation
- Assemble transformative, high-performing initiative teams
- Stay on schedule and within budget
- Avoid losing momentum once you're up and running
- Maintain the confidence of your project's sponsors and stakeholders
- Avoid initiative overload by killing programs that aren't meeting business needs
- Manage multiple initiatives as a portfolio, and keep them all aligned with your company's strategy

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INTRODUCTION

Putting Strategy into Action

You have an exciting day ahead. At 9:00 you're leading a cross-department brainstorming session to generate new ideas for what your company needs to do to get ahead of regulatory changes that are coming to your industry. At 10:00 you're sitting in on a bimonthly group that reviews the progress of the dozen innovation projects your department is running. And at 1:00, you'll be presenting the business case to your unit leaders to spearhead a pilot program to make your company culture more friendly to working parents.

All three of these are examples of strategic initiatives, and your schedule is full of them. Each meeting is with a different team that has been assembled specifically for this task. Perhaps none of these are your "day job." As a manager, you could be playing any role in an initiative on any given day. You might be championing your

employee's idea across your department or pitching your own proposal to senior executives. You might be a team member or a team leader on a cross-functional project. You might be the one fighting for more funding for a program or part of the committee that decides whether a program should be cut.

Managing initiatives requires you to keep the big picture and the little details in your head at the same time, thinking like a project manager one minute and a CEO the next. To manage initiatives successfully, you need to learn how to choose them, launch them, sustain them, and shut them down if they're no longer effective. Whether you're a manager pitching your first signature program or an executive overseeing an established project portfolio, this book will provide you with the tools, tips, and practical advice you need to run initiatives effectively and put your company's strategy into action.

What Is a Strategic Initiative?

An initiative is a project or program outside a company's routine operational activities that is meant to help the company achieve its strategy. Initiatives include such things as instituting change, creating a capability, improving performance, streamlining a process, balancing the needs of current economic conditions with the future, raising customer satisfaction, increasing employee retention, or ensuring regulatory compliance.

Initiatives follow a number of common steps at any organization, though the formal structure around each step will differ based on the size and culture of your company.

- **Idea generation.** Ideas at your company might come directly from executives or may be solicited from employees. Inspiration may come via group brainstorms or solitary eureka moments. They may spread through formal channels or through hallway chats. No matter how the ideas for initiatives come about, for them to progress, they need a shepherd to tend them and push them forward toward implementation.

- **Building a business case and presentation to decision makers.** This step consists of the legwork in fleshing out the idea, collecting needed data, running the numbers, getting feedback from stakeholders, winning over supporters, and pitching to decision makers.

- **Evaluation, approval, and prioritization.** Your organization should have a clear and fair process for evaluating initiative proposals and then accepting or rejecting them. Once they're approved, they are prioritized or put into classes or categories to make clear which are most and least critical to the company.

- **Launch, implementation, and learning.** The prework is done, and the initiative has the green light—act. Secure the funding you need and assemble your all-star team. The initiative is now a project to be managed effectively and monitored until it is showing the results you've promised. And whether or not the initiative is a hands-down

success or a disappointment, you need to capture what you've learned throughout the process and communicate it to stakeholders.

These steps may all seem simple enough, but initiatives don't exist in isolation. Two more ongoing processes should be taking place throughout an initiative's life cycle:

- **Review of the company's portfolio of initiatives.** Effective organizations should frequently look at *all* of the initiatives that are happening in the company (or unit, or department) together, to make sure they are reaching milestones, continuing to meet business needs, and are reprioritized accordingly. Are any initiatives redundant? Are any more valuable in aggregate than they would be in isolation? Underperforming initiatives should be identified, their given assistance or cut. Resources are limited, and not every strategically worthy project can be funded—initiatives that aren't meeting business needs should be killed to make way for others.

- **Alignment of strategy and execution.** "Alignment" isn't a static characteristic or a box to be checked before an initiative is approved—it's part of an ongoing process that will ensure your projects continue to further strategic goals in a changing environment, perhaps quarters or years after launch. Initiatives are the strongest tools your organization has to execute its strategy. You can't

> ensure that your initiatives are actually supporting your company's strategy unless you are frequently confirming that there's no gap between strategy and execution.

This framework applies to just about any initiative in any industry. Now that you have the basics down, let's dive into the challenges.

Why Is Managing Initiatives So Difficult?

Leading a strategic initiative requires all of the management skills you use in your day-to-day work, but brings additional challenges: navigating the office politics of gaining approval and getting funded, keeping support of your project from crumbling, overcoming resistance to change, leading without formal authority, building up teams quickly, course-correcting on the fly, and making the changes that you've pioneered stick—just to name a few. Plus add in the stress of knowing that having your name on a successful initiative—or a flop—could have a big effect on your career track.

Meanwhile, many organizations don't make it easy for their managers. Companies of all kinds struggle with their strategic initiatives. Some put up too many bureaucratic obstacles to allow initiatives to get off the ground, while others launch too many and spread their resources too thin. Initiatives proceed to implementation without business cases or success metrics. Band-Aid initiatives and unfunded mandates proliferate. Inadequate portfolio review allows pet projects and underperforming

initiatives to go on for too long, spreading resources thin and starving more-worthy projects. The financial costs to the company and the human toll in the form of frustration, burnout, and turnover can be severe.

It doesn't have to be this way. The practices covered in this book can help you and your company find greater success as you manage initiatives, while using processes that are fair, sustainable, and effective.

What This Book Will Do

The *HBR Guide to Managing Strategic Initiatives* provides you with the knowledge, tips, and tools you need whether you are leading an initiative, championing your employee's project, overseeing an initiative portfolio, or just have a great idea to push your company's strategy forward. The five sections in this book will give you a good idea where to start. You can begin at section one if you're at an early stage, or jump in later if your initiative is already off the ground.

From idea to pitch

This section focuses on the work you need to do to when you have a great idea for an initiative, whether or not your company has a formal approval process. It begins with an overview on winning support for your project, covering how to get people on board, how to work with a champion on the review committee, how to secure funding, and what to do if your idea doesn't take off. Chapter 2 covers mistakes to avoid in order to prevent the disappearance of support for your initiative. The third article in the section explains what you should do next

after you've presented the case for your initiative to decision makers—whether you've heard yes, no, or something in between.

Evaluating and prioritizing a portfolio of initiatives

Initiatives need to be evaluated both on their own merits and on how they contribute to the company's strategy—and even if you're not the one making the call on whether a proposal makes the cut, it's important that you know how and why higher-ups in your organization are making these decisions. Chapter 4 describes a rigorous and rational process of evaluating which projects to implement that can be used at the department or unit level, or across the company. Next, "A Better Way to Set Strategic Priorities" shows a fair, transparent way to deal with trade-offs when resources become limited. "Too Many Projects" explores how initiative overload can lead to poor-quality work and burnout, and includes a list of questions to ask before you launch any initiative. And chapters 7 and 8 explore best practices for reviewing your company's portfolio of initiatives, monitoring each project actively for health and strategic fit, and thinking like an investment manager to keep the portfolio balanced and diversified.

Launching and implementing initiatives

Once you have the go-ahead, you want to get up to speed quickly and avoid stumbling when moving into the implementation stage. "New Project? Don't Analyze—Act" teaches you to embrace lessons from serial

entrepreneurs—to act, learn, and build fast to get your initiative off the ground. Chapter 10 is a five-step refresher on project management to make sure your team is staying on top of deadlines, keeping stakeholders informed, and managing changes to the initial plan. Next, "Building a Transformative Team" will help you look at whether you have the right mix of players to thrive in uncertainty. Chapter 12 covers how to bring together experts to solve problems they may be encountering for the first and only time, sharing their learnings with your company *while* they're executing. Finally, chapter 13 describes how to use the technique of *rapid-results initiatives* to break large, long-term initiatives into short-term projects distributed among numerous teams.

Maintaining momentum and overcoming challenges

Many initiatives will hit common roadblocks. Teams fail to gel, critical members are lost, early predictions prove wrong, attention wanders amid competing initiatives, underperforming programs limp along, champions lose their attention. This section will help you deal with these challenges to keep initiatives moving forward successfully. Chapter 14 will aid you in re-centering yourself and your team if your project isn't finding its groove in the execution stage. "Learning in the Thick of It" shows how before-action reviews and after-action reviews can help you stay on track and sense when change is needed. The next two chapters explain how to avoid problems when handing off a project from one team to another and provide techniques leaders can use to prevent pro-

cess improvements from backsliding when the *next* change initiative comes. Finally, since healthy initiative portfolio management means that not every initiative that is started will be completed, the last article in the section shows how "exit champions" can ensure the right projects are killed to make room for more-worthy investments.

Keeping strategy and execution aligned

While strategic alignment might not seem as urgent as the deadline-driven, day-to-day challenges of implementation, ignore it at your own risk. If your project is misaligned with your company's strategy, it may be in danger of being cut at any moment. And if your company's portfolio of initiatives is full of scattershot projects that aren't advancing the strategy, your whole company could be in trouble soon. You can read the articles in this section any time—they are equally relevant at any stage of an initiative. Chapter 19 discusses four tensions that characterize any execution effort and provides guidance on how to navigate them. The next chapter demonstrates how the best companies close the strategy-to-execution gap by using agile, test-and-learn approaches. Finally, "Your Strategy Has to Be Flexible—But So Does Your Execution" explores the dangers of thinking about strategy and execution as two separate tasks.

Managing initiatives will never be simple—that's why leaders who run them effectively will see themselves rising through the ranks, and organizations that oversee

a healthy portfolio of initiatives will surpass their competitors. The advice in this book can ease the challenges, help you avoid common pitfalls, and help you move your company and your career forward. You'll learn to lead projects and navigate uncertainty with greater confidence, overcome roadblocks, avoid initiative overload, and put your company's strategy into action. Let's get started.

SECTION ONE

From Idea to Pitch

CHAPTER 1

A Guide to Winning Support for Your New Idea or Project

by Rebecca Knight

You've got an idea for something that will improve your company's bottom line or make it a better place to work. Nice going. Now for the hard part: How do you get people on board? How do you get funding? And what should you do if your idea doesn't catch on?

What the Experts Say

In an ideal world, you'd come up with a genius new idea and tell your coworkers about it, and they'd immediately

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Adapted from content posted on hbr.org, June 19, 2015 (product #H025YR).

grasp its brilliance. Your boss would love it—and you!—and give you the resources you need to execute it. But that's not reality. "It's very hard to start a new initiative," says John Butman, author of *Breaking Out: How to Build Influence in a World of Competing Ideas*. "It's hard to get people to listen to your idea, to understand your idea, and to take action." It may be difficult, but it's also a vital skill to master. "Organizations need to keep changing, adapting, and innovating," he says. "If they don't, they stagnate and disappear." But it's not only the success of your company that's at stake, says Susan Ashford, professor of management and organization at the University of Michigan's Ross School of Business. The ability to get new initiatives off the ground is also critical to your career. "You want to stand out, be visible, and get noticed as a leader," she says. "And one of the ways to do this is by suggesting change ideas and implementing them." Here are some pointers on how to get your idea moving.

Understand what's motivating you

Before you breathe a word about your idea to a colleague, you must "think through your motives," advises Butman. Ask yourself two questions: Why am I doing this? And what do I hope to accomplish? "You need to be able to express your motives" in a way that's relatable and compelling to others, says Butman. "If the initiative seems like something that will only make you more successful, give you more exposure, or help you get a better job," people will be skeptical. "It needs to benefit more than just you. Otherwise you're going to run into trouble."

Think small

Next, you need to pinpoint "your idea by making it as specific and small as it can possibly be," Butman says. Pick precisely where you want to focus. If your new initiative involves, say, improving employee health, zero in on a particular goal, such as decreasing employees' back pain or helping workers quit smoking. This exercise helps you "articulate the issue" you're trying to address, and explain why your initiative "offers a possible solution," says Ashford. Your colleagues are more likely to respond to specific initiatives rather than lofty, ambiguous goals.

Gather feedback

Test the waters for your idea by making frequent use of what Butman refers to as "the cocktail party test." When you find yourself with colleagues who might be interested in your initiative—whether they are close coworkers or people from an entirely different department or division—broach your idea in an informal way. "Present your idea by saying something like, 'I've been thinking about this,' or 'What would you think of this?'" suggests Butman. Then, listen carefully to what people tell you. "You want questions. You want opposing viewpoints. You want pushback," he says. The goal is to get to a place where no matter what anybody throws at you, you have a response. "Be sure to integrate their feedback into your game plan," adds Ashford. "It's a process of iteration and figuring out" what works.

Shape your story for the audience

Strategize how you'll sell your initiative to different groups of colleagues and higher-ups. "Think about the language you'll use for each of your audiences," says Ashford. "You need to be seen as credible" when you're talking about the financial implications of your initiative to the finance group, for instance. "You need to be able to talk about your idea succinctly and vividly and in a solutions-oriented way," she adds. After all, "if you're in an elevator with a decision maker, you have only so much time to talk and you can't very well shoot your PowerPoint slides up on the walls." And bear in mind that "everyone has different learning styles," says Butman. "You can't expect to write a white paper and slap it on people's desks." For this reason, it's important to vary your messaging with "something written, something spoken, something visual, and perhaps even tangible." Butman recommends using a personal story to provide context. "Give people some idea of how you came up with the idea and why it's meaningful to you as a human being." Ashford concurs. Your presentation and pitch "should not be just a bunch of charts and graphs; it should have visual appeal," she says.

Sell, sell, sell

Selling your idea is "not a singular event—it's a campaign," according to Ashford. "You need to do a lot of watercooler talk with different kinds of people." Getting people to nod their heads in agreement is the first step,

but to spark excitement and secure funding you need to inspire. "You want to trigger people's emotions as well as their rational selves," she says. Your aim is to "reduce resistance, bring people on board, and band allies and resources together." You should be "closing the deal all the time," adds Butman. "When you talk about it, you want people getting a little bit more of the idea and signing on to it a little bit more each time." The goal, he says, is "internal virality" through "incremental agreement." One word to the wise: When you're trying to get others on board, don't use the word *new*. "That's the language of marketing," says Butman. Colleagues need to be able to understand your idea in the context of the company's past measures. "People often think their initiative has to be newer than new, but really it should be between 80% and 90% old—not radically new, but incrementally so."

Propose a pilot

Ashford suggests proposing a trial run. It could be in the spirit of "Let's not worry about making this change wholesale—let's try a pilot," she says. "It reduces the perceived risk" of implementing something big and new. Pilots "give people a chance to test out" the idea. "And they can also create data that changes minds." If you don't have the power to allocate budget to a pilot, you need to sell harder to those who do. "Organizations have limited time, attention, and money," says Ashford. Don't lose sight of the fact that you're constantly "competing against other people's ideas" and other people's

doggedness. “If you and your allies really care about something, you need to sell it”; a pilot is often a cost-effective way to do it.

Don’t get discouraged

Even when it seems you’re constantly running into roadblocks and your initiative may never get off the ground, don’t be deterred. “Sometimes an idea catches on right away, and sometimes it takes decades for it to take hold,” says Butman. Persistence is key. But this does not mean persistence at all costs. Make sure you’re incorporating people’s feedback—both the good ideas and the potential sticking points—into your pitch. “Give up your desire for credit and control, and let people help you,” says Butman. It all gets back to your motives, says Ashford. “You need to care about the idea, not getting credit for the idea,” she says. “Think about what’s good for all, not just what will let you shine. Trust the universe” that you will get credit when it’s due. (See the sidebar “Who Will Have Your Back?”)

Principles to Remember

Do

- Make your idea as specific as possible and emphasize how it offers a clear solution to a targeted problem.
- Adapt your sales pitch to the audience.
- Suggest a pilot of your plan—trials are less risky and less expensive.

Don't

- Insist on getting credit for the initiative—colleagues are less likely to support your idea if they sense you're only in it for yourself.
- Forget to solicit feedback from your colleagues.
- Give up if your idea doesn't immediately gain traction—change sometimes takes longer than you'd like.

Case Study: Use a Relatable Story to Sell Your Idea; Be Patient with Implementation

Julie Wittes Schlack, SVP of Innovation and Design at C Space, the global consulting company, knew that her company needed to streamline its client services, but she wasn't sure how to get the idea off the ground. "We had all these codified processes that we were doing just because that's the way we had always worked," she says.

Then, one day, when Julie and C Space's management team were at the company's annual off-site retreat, they had a moment of clarity. During one of the sessions, they read a case study about a hotel chain that trimmed labor and production costs by ceasing to launder guest sheets every day. It was a story that Julie and her team immediately related to.

"It was the first hotel chain to ask, is [every day] linen changing necessary?" says Julie. "Linen changing became a great metaphor for our own cumbersome and obsolete processes."

WHO WILL HAVE YOUR BACK?

by Raymond Sheen and Amy Gallo

Finding a champion on the review committee—or one who's close to it—will help you get a fair review, because she will lobby on behalf of your case. But how do you find a project champion?

Look at each member of the review committee: Whose goals and concerns will your project address most directly? That person is a potential champion. Reach out and ask what her department is trying to achieve in the coming year. Get a sense of what big projects are under way and which need more support. Explain how your initiative can help fill in gaps or address trouble spots. This is a time when your personal network will pay dividends. Work with people you know in that department or division to clarify the problem or business need that your project will address. Ask them specifically what the champion will care most about and how to address those concerns. Then, ask your

When Julie and the other senior leaders returned to the office, they worked to get other employees on board with the initiative to restructure client services—which accounted for three-fourths of the organization. They began by sharing the hotel story in meetings and in casual conversation. "People internalized the idea," says Julie, adding that from then on employees used "Are we

contacts to introduce you to the potential champion or to set up a meeting so you can clarify the need and explain your ideas. Even if you've never met the potential champion, you're more likely to get her ear since you're working on a problem that affects her division. If she is interested, ask her to review your business case when it's ready and champion it within the review committee. You'll also want to keep her informed and use her as a sounding board along the way.

Of course, having someone influential on your side does little good if you don't have a strong case that meets a business need and well-thought-out financials. If those elements are missing, even a powerful champion can't help you. So now that you've won over one person, it's time to tailor your pitch to meet the objectives of the organization and the broader committee.

Adapted from *HBR Guide to Building Your Business Case* (product #15038E), by Raymond Sheen with Amy Gallo, Harvard Business Review Press, 2015.

just linen changing?" to refer to processes that were not critical to the organization. "It was a shorthand and an easy way for people to talk about [the restructuring] as they were going about their daily tasks. Is this [process] necessary? Is this desirable?"

They had buy-in from employees, but when it came to implementing the initiative and eliminating certain

processes, Julie received some pushback. To deal with it, Julie diagrammed the current system to show how many different people and departments were involved in each process. "It became easier for others to see where there was overhead and get aligned on [where we could cut back]," she says.

Restructuring client services was a six-month process, but ultimately her employees embraced the initiative because it saved them time and it saved the company money. "They saw what was necessary and what was adding value," she says.

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CHAPTER 2

How to Keep Support for Your Project from Evaporating

by Allison Rimm

Even years later, I still consider it my biggest professional failure: A companywide employee training program that I'd developed and put through several rounds of vetting was shot down at the last minute. It was a painful surprise, and it changed the way I've sought support for new initiatives ever since.

As hospitals increasingly migrate their medical records from paper files to digital media, their employees

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Adapted from content posted on hbr.org, August 10, 2015 (product #H028WC).

face the challenge of making the information readily accessible to providers while adequately protecting patients' privacy. At my hospital, I was a senior vice president with a long track record of establishing successful programs, and I had oversight responsibility for my hospital's IT and health information departments.

To make sure our 23,000+ employees were up to date on the industry rules, policies, and procedures they were legally required to be familiar with, my department heads and I created a robust training program. We went well beyond the minimum that the law required, creating a curriculum rooted in industry best practices. We could have just printed out a thick informational packet to give to each employee, but we knew the training program had a much greater chance of being effective. And we gave the program a catchy name to top it off.

From the outset, I understood the training program would require the support of the entire senior management team, as they would have to direct their departments to complete the training and document that they had done so. As our multidisciplinary team developed the curriculum, I provided regular updates to my colleagues and asked for their input throughout the process. With each vetting, they indicated their support of the initiative. So when the pushback finally happened, I never saw it coming.

Timing is everything. When the final vote on the training program arrived, another vice president, who had been supportive of the program, had just come from a meeting where his pet project was shot down. He was livid about his defeat and was not in the mood to approve my program. In fact, he made such an angry speech that

a few others in the room weren't up to arguing with him. My initiative was tabled.

In hindsight, I had made two mistakes. In the highly regulated world of health care, training programs are introduced continuously with little fanfare. I gave my program a catchy name to make what was, frankly, a tedious chore a little more inviting to the many people who would have to complete it. Giving mine a sexy name made it sound like a full-blown program that would consume significant resources, raising its profile more than was warranted.

The second mistake was assuming that when my colleagues smiled and nodded every time I presented the details, they would continue their support no matter what was happening outside the conference room. My angry colleague being so riled up was not the time to remind him that the training met a critical need and was something we had to pursue.

Of course, angry outburst aside, the work still needed to be done. So, I waited a few weeks and went to visit my disappointed colleague once he'd had a chance to cool off. I reminded him that it was important for this program to go forward, and I asked him what it would take to get him behind the effort. We negotiated a few points and came up with a plan we could both support. I then asked him to present our changes at the next senior management meeting so it would be clear to everyone in the room that he was back on board. That time, the vote carried.

Nearly a decade later, I'm actually grateful to him for teaching me a valuable lesson. I had been so sure of the strength of my professional relationships that I'd just

assumed everyone would remain consistent and true to their word, regardless of what it would cost them in an unforeseeable situation such as the one we found ourselves in that day.

As a result of this experience, when I'm developing a project now, I ask for and record votes at every vetting and make those records available for review. That way, if there is ever a disagreement about the status of one of my projects, there is a clear record of everyone's position, making it more difficult for people to change their stance in the heat of the moment. I also log undecided votes when people haven't made up their minds yet, but I've found that people usually form opinions about new projects pretty quickly. If I'd had documentation of everyone's support for the training program, their positions would have been clear, so there would have been no need for me to go up against our angry colleague.

Second, I learned to wait until something is actually approved to give it an eye-catching name and brand it as a stand-alone program. When the training was finally approved a few weeks later, we gave it a new name—the result of a contest among the employees who would have to take it—which truly helped people understand what needed to be done and how to do it. But naming a program too early runs the risk of creating a sense among your teammates, who may be promoting their own initiatives, that there are winners and losers.

Most of us work in environments where there are many initiatives competing for limited resources of budgets, time, and attention. Sobered by my surprising upset, I've taken pains to formalize the vetting process and not rely on friendships and collegial alliances. In fact,

the higher the stakes, the more formal the process I use. Not all industries may need a process as formal as mine, but it's important to figure out the best way to get projects approved where you work.

Here's an example of how I use this process to facilitate budget negotiations. To prioritize the requests for expensive IT initiatives whose demands far exceeded the resources available each year, I created a multidisciplinary senior-level steering committee to evaluate various initiatives and sort them by order of strategic and operational importance. Votes were all documented. When I entered into budget negotiations with the other SVPs, I was armed with a record of who supported each initiative. The relevant SVPs either sat on the steering committee or were represented. In this way, we avoided the seriously unpleasant task of making the case for each initiative in the heat of the budget battle. The work of the steering committee allowed a full vetting in a neutral setting—which is exactly what the budget room is not.

I'm happy to report that since adopting these two practices, I've never endured the same kind of defeat, even when the stakes have been high. Maybe that experience wasn't such a failure after all.

Allison Rimm is a management consultant, speaker, and executive coach devoted to nurturing a positive, productive workplace. She is the former senior vice president for strategic planning and information management at Massachusetts General Hospital and best-selling author of *The Joy of Strategy: A Business Plan for Life*.

CHAPTER 3

You've Pitched Your Initiative—What's Next?

by Raymond Sheen with Amy Gallo

After you've presented the business case for your initiative, you may be popping a bottle of bubbly, walking despondently back to your desk, or pulling your hair out because you have to create and present a case all over again.

But the work is not over. Even if the decision makers said no, there are steps you can and should take. If you got a yes, it's time to begin implementing your project.

Adapted from *HBR Guide to Building Your Business Case* (product #15038E), by Raymond Sheen with Amy Gallo, Harvard Business Review Press, 2015, pp. 109–117.

If You Heard "No, the Project Isn't a Priority"

First off, don't despair if your project isn't approved. Although it may feel like failure to hear "no," keep in mind that you've contributed to the success of the company by helping it identify that the project wasn't a worthwhile investment. The real purpose of a business case is not to necessarily win approval for your proposal, but to provide enough information so the committee can make an informed decision.

But don't just accept the "no" by saying thank-you and walking away. Instead, always ask "Why?" If you know precisely why the decision makers rejected the case, then you'll be able to follow up appropriately. Ask this question in the meeting or in a subsequent email. Don't pick a fight or try to use the response to change the outcome, but seek to understand their reasoning. You might say, "Thanks for letting me know about your decision. I'd love any feedback you have on why the project wasn't approved."

The reviewers may have passed on your project for any of several reasons. For example, they might tell you that the project doesn't align with the company strategy. In this case, let it die. Any project that doesn't fit with the company's imperatives should be rejected.

If they thought the project wasn't viable—that the approach you described wouldn't yield the results you promised—you can go back and address their concerns. Do you need more data to show why the approach works? Can you create a prototype that will assuage their worries? You might ask for a small amount of funding to run a quick pilot to prove the project can succeed.

If the higher-ups say no because there aren't enough resources, hold on to your case in the event that resources become available. That actually happened to me at GE. Partway through the year, corporate decided to give our business unit some additional funding to invest in strategic product development projects. Some market dynamics had changed, making our market segments more attractive than others. The product manager and I quickly dusted off several business cases that had not been funded due to lack of resources during the previous year's strategic planning process. In less than a month, projects were approved and teams were getting down to work. Staying in close touch with your project champion so that she can keep you apprised of any changes will help you prepare for such opportunities.

When you ask for the reasons behind the rejection, you have to hope you'll get an honest answer. In most cases, you will. It may not be direct—the CEO may not say to you, "We didn't think you could pull off the project"—but you'll likely be able to infer the reasons. Try to read between the lines. If you're still not sure, ask the project champion for her insight. Whatever response you get, don't argue with the logic or take it personally. That's not a way to win allies—or support—for this or future projects.

If You Heard "We Can't Make a Decision Yet"

Having your proposal tabled is better than an outright no, but it's still disappointing. In most cases, you'll just have to trust that you built and presented a solid case

and then wait and see what happens. Any additional measures you take will depend on the decision makers' rationale. Typically, it's for one of three reasons.

The case hasn't made the first cut

It could be that your case didn't make it into the "definite yes" pile. If the decision committee is reviewing multiple cases at once, it may divide proposals into yes, no, and maybe piles. At least you know your project is in the mix. There's no need to lobby for your case at this point, especially if your project champion is representing you to the decision makers.

The decision makers just haven't decided yet

Sometimes you've got a management team full of ditherers who are unable or unwilling to make decisions on the spot. They might want to hold off until they're behind closed doors to make the final call. Of course, your project is more likely to be approved if your proposal clarifies what's in it for each of the decision makers. While you wait, though, you may want to periodically work through your champion to be sure your idea is still in front of people and to check if there's anyone else's ear you should get.

Sometimes, the committee hasn't decided because they're waiting for the outcome of another decision that has farther-reaching impact. This happened to me once, when a project I'd proposed was hanging in the balance while we waited to find out if an acquisition that was in the works would be successful. If the acquisition went through, our project wouldn't be needed. If the deal

didn't go through, our project would help fill a larger product development void.

The strategy is on hold

The third reason for tabling projects is that the strategy it supports is on hold or being reconceived. Use your internal network to stay abreast of where the strategy is going. Once you have that information, you'll have to tweak your case to reflect new goals, assumptions, or constraints. If your proposal focuses on U.S. customers, and your company has decided to focus more on European customers, for example, explore whether your idea could be carried out in the United Kingdom. Since you've done a good job preparing your business case, you'll easily be able to tweak it. This can be a great opportunity. Typically, senior leaders will want to do a project right away that aligns with the new imperatives to demonstrate support for the new strategy. With your carefully prepared plan, you could be first in line with a project that fits. Don't shoehorn your project into the new strategy, of course. If your case doesn't support it, don't make it.

Sometimes waiting for a final decision takes time—days, weeks, and even months. And the reason for the project—the pain point it's designed to address—likely isn't going away. There may not be a whole lot you can do, but look for opportunities to alleviate the pain a bit. If your case proposed a new system that would allow customer service representatives to respond more quickly to complaints, look for workarounds. Collaborate with the person heading up that department to see if he has any short-term ideas that will make things better.

While you're waiting, it's not a bad idea to find a simple, easy way to collect more information about the problem and its magnitude. Document what's happening so that when you have the opportunity to go back to the decision makers or to your project champion, you can say, "This problem hasn't gone away; in fact, it's gotten worse." This will make your case stronger. If the problem is getting severe, you'll provide people with new information and change the story of your case: The boat's not just taking on water—it's sinking.

If You Heard "We Can Approve Only Part of the Project"

What if your case has three parts but the decision makers only approve one? Or they sign off on the first phase of your project but ask you to come back in six months or more to request the additional funding? This happens more often than people think. It's frustrating, but it doesn't have to demotivate you and your team. Instead, focus on the fact that the committee liked your idea and want to move it forward.

Approval of just one part of your project is particularly common at companies that use a tollgate process. If this is the situation you're in, ask the review committee what risks or questions need to be resolved by the time you reach the first milestone. Then proceed as though your project will be fully funded. That will give you the best sense of whether the project will be a success. At the end of the funding period, be prepared to go back and explain which of your assumptions held true and which didn't. For instance, you might have determined that the

product cost can be 10% less than planned or that the launch date will need to change by three months. Since you documented the source of all your original numbers and assumptions, it will be easy to check with those individuals for updates. Prepare to come back and present the business case again with updated information on the benefits or costs based on what you learned so far.

The most common scenario, however—and the most challenging—is when the decision makers come back and say, "OK, we know you wanted $2 million, but what can you do for $1 million?" When asked if you can do the project or reach the same goals with less time or money, never say yes right away. Instead, tell the reviewers that you'll get back to them—very quickly—so you have time to redo the business case with those new constraints.

When you commit to doing just part of the project, resist the temptation to overpromise. First, don't do an across-the-board cut. If the committee wants you to submit a proposal for a project that costs 30% less, don't try to do everything the original case did with 30% less resources. It's better to restructure the project completely. Ask yourself and your team: What is a viable business opportunity that we can fund with this much money to achieve a portion of the goal? Can we drop the European sales arm? Can we cut down the rollout time? Second, don't agree to a cut in resources without a cut in the benefits. This creates an almost impossible situation. If your original case promised $800,000 in revenue from the new product but now you're asked to cut the budget by 20%, chances are you won't be able to realize the full $800,000. You'll need to bring that number down

as well. After all, if you don't have a full tank of gas, you can't go as far.

You'll be prepared for this conversation if you run several scenarios in your spreadsheet ahead of your presentation (as described in the *HBR Guide to Building Your Business Case*). It's great if you have those numbers in your back pocket, but if not, go back and rerun your numbers. Fortunately, this is pretty easy if you've structured your spreadsheet well. Simply create another tab and change the relevant figures.

It's rare that a company can afford to fund every good idea. Instead of harping on the cuts you needed to make, focus your team on creating and implementing a new plan that will help pave the way for the rest of your project to be approved later on.

If You Heard "Yes, Let's Move Ahead"

First, celebrate. Open a bottle of champagne or take your team out for dinner. Then get to work. After all, the decision makers just opened a door and you've got to walk through it. You'll need to figure out how you transition from getting your project approved to implementing it.

Don't wait for the check. In most companies, a formal funding mechanism doesn't exist—nobody actually writes you a check. More likely you're told: OK, you've got the resources and people you need; get started.

After your celebration, the first step is to set up your project management process. Some companies have a methodology for this. If that's the case at your organization, reach out to your contact in the project planning or management group. This person can set you up with

the appropriate tools, templates, checklists, or software to start the project.

If there isn't a formal process at your company, get the project moving yourself. Start by gathering your team and working on a project charter. Review the high-level implementation plan you outlined in the case and make sure it's still actionable. And keep the business case handy. It was the initial road map for the project and it will be helpful to refer to as you structure the work. See the *HBR Guide to Project Management* for more information on tools and templates to help you manage a project effectively.

You've succeeded in getting the organization behind your solution to an important business need, but this is just the beginning. Think of it as building a house: You've chosen the architect and the builders, you've agreed on a blueprint, the bank has approved the funding, and you have a rough schedule and budget—but you haven't broken ground yet. Now comes the real work.

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SECTION TWO

Evaluating and Prioritizing an Initiative Portfolio

CHAPTER 4

Which Initiatives Should You Implement?

by Sam Bodley-Scott and Alan P. Brache

Allocating financial and human resources to balance short-term and long-term needs is a perpetual challenge for organizations. Because of the complexity and risk around these decisions, the process for evaluating projects must be rigorous and rational. We recommend following a process we call *optimal project portfolio*, or **OPP**. Implementing OPP involves five steps:

1. **Develop project-prioritization criteria.** Are you more interested in achieving a short-term sales

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Adapted from *Harvard Management Update*, September 2009 (product #U0904B).

boost or in furthering your three-year strategic plan? Increasing customer ratings or reducing costs? The criteria you use to prioritize projects will be determined by your main goals.

2. **Analyze resource capacity.** How much time do your people have to give to special projects? What's the availability of needed machinery or shared services?

3. **Gather and organize information on current and planned projects.** How many projects are currently underway or in the planning stage? How much time and money is each project currently consuming? How many projects are related to product development and how many are related to safety and security issues?

4. **Evaluate the project portfolio.** Are there any projects that can be combined? Which initiatives should get the green light, and which should be shelved for now? Which can run in tandem?

5. **Implement an ongoing project-portfolio-management process.** What steps can you take to make project review and prioritization an ongoing effort?

This methodology works at the division and unit levels as well; indeed, in large organizations, implementing the OPP process on several levels is advisable. In this

chapter, we'll detail what goes into each step and show you what OPP looks like in action.

1. Develop Project-Prioritization Criteria

A project portfolio, like an investment portfolio, should be diversified. It typically contains a mix of strategic and tactical initiatives, growth-driven and cost-driven initiatives, and customer-focused and employee-focused projects. The criteria used to prioritize current and potential projects generally fall into these categories:

- Further the strategy.
- Balance the needs to weather the current economic storm and to prepare for the better days that lie ahead.
- Increase sales.
- Establish a competitive advantage, or eliminate a competitive disadvantage.
- Increase customer satisfaction.
- Reduce cost.
- Increase employee satisfaction and retention.
- Ensure regulatory compliance.

The following example shows how a U.S.-based multinational consumer products company determined what criteria it would use to prioritize projects.

During the process of formulating a new strategy, the organization's top management team concluded that its primary competitive advantages were the strength of its brand and its ability to facilitate customer-to-customer communication. As the team members brainstormed ways to leverage these strengths, they identified an opportunity to offer a smartphone-based digital platform. Because they were concerned that this opportunity would be stifled in their legacy environment, they set up a separate company to pursue it.

The executive team of the new company began with a list of 30 strategic initiatives. Using the company's new mandate as a basis, the group identified the following screening and priority-setting criteria:

- Maximize speed to market.
- Support the delivery of the strategic proposition.
- Support use of the parent brand.
- Maximize return on investment.
- Minimize business risk.
- Maximize value to external partners.
- Minimize time to recruit and deploy the right employees.
- Support robust process and IT development.

The team quickly realized that the criteria were not equally important, so they weighted each criterion on a 10-point scale and sought to strike a balance between

FIGURE 4-1

How one company assigned a priority score to initiatives

Balance of criteria				Priority-setting criteria		Potential initiatives: Set up Japanese business		Develop marketing plan and planning process		Build performance management process	
Internal	External	Long-term	Short-term	Weighting		Score out of 10	Weighted score	Score out of 10	Weighted score	Score out of 10	Weighted score
	•		•	10	Maximize speed to market	7	70	5	50	3	30
•		•		10	Maximize return on investment	7	70	6	60	8	80
•	•	•		6	Support use of parent brand	8	48	4	24	0	0
•		•	•	4	Minimize business risk	2	8	8	32	5	20
	•	•		3	Maximize value to external partners	7	21	3	9	1	3
					Prioritization score		342		277		173
					Resource requirements						
					Marketing	•		•			
					Process design	•		•		•	
					Finance	•		•		•	
					HR	•				•	
						Go		Go		No go	

short-term and long-term needs, and external and internal focus. (See the left-hand columns of figure 4-1.)

2. Analyze Resource Capacity

When it comes to committing to a certain number of initiatives, you don't want to bite off more than you can chew, but you also don't want to squander opportunities to, for example, improve systems, better serve customers, or boost employee development and retention. So you

need to take the measure of your resource capacity—not only the number of available person-hours by organization unit but also the availability of machinery, facilities, and materials.

Those conscientious executives who are aware of their project capacity in good times have to update their numbers to reflect any reductions in available funds or people.

3. Gather and Organize Information on Current and Planned Projects

Next is to assess the likely impact of each current or planned initiative as well as what resources it will require. Collecting the information necessary to do this should be relatively straightforward if there is a project office or some other structure with a finger on the pulse of all initiative activity. If not, a bit of digging ("initiative forensics") is required. Analysts with a healthy appetite for detail and significant project management experience should interview executives, project managers, and others in a position to know what initiatives are afoot and record their findings.

Their tasks will include:

- Identifying the projects that are currently underway, those that have been approved but not yet launched, and those under consideration.
- Answering the following questions for each project:
  - What is the purpose of this project?
  - What would be the short- and long-term consequences of scaling back, delaying, or eliminating this project?

  - What are its deliverables (outputs)?
  - In what phase (definition, planning, or implementation) is it?
  - Who are the people involved, and what are their roles?
  - How much time and money is the project currently consuming?

- Sorting the projects by:
  - **Project type.** For example, projects related to product development, marketing, customer service, revenue, safety, and so on.
  - **Resource type.** Which people from each department or site, which machines, which facilities, and how much money are dedicated to project work?
  - **Time.** When are the projects scheduled to begin and end, and when will the resources be needed?
  - **Objective.** For example, does it contribute to short-term cost reductions, long-term revenue growth, preparedness for a recessionary environment, or entry into a new market?

4. Evaluate the Project Portfolio

Now the really hard work begins. Based on the wealth of information gathered, the executive team embarks on the wrenching but necessary process of deciding:

- Which projects should be combined.
- Which projects are "go" and which are "no go."
- Which "go" projects will be deferred until resources become available.
- The priority of the "go" projects.
- The sequence of the "go" projects; some projects may be able to run simultaneously, while some may need to follow others.

In this step, the project team for the organization in our example—the consumer products company spin-off formed to develop a digital-service offering—put the work it had done in step 1 on establishing and weighting project criteria to good use. First, the team members assessed how well each of the 30 potential projects they had identified met each criterion and assigned scores from 1 to 10 to the projects according to how well they measured up to the various criteria. Their approach ensured that those projects that best met all the criteria received the highest priority.

While no projects were eliminated during this process, the team was able to place each project into one of four priority categories:

- **Mission-critical.** Most deserving of precious resources at this time.
- **Important.** Will pursue now but with less emphasis than initiatives deemed mission-critical.
- **Wait-listed.** Will tackle as soon as resources are freed up from initiatives in categories 1 and 2.

- **On hold.** Will not undertake or plan for at this time.

This categorization guided both resource allocation and sequence.

Armed with priority and sequence, team members moved to establish the schedule. They used their capacity analysis—the output of steps 2 and 3—to determine how much of this work they could take on at any one time. For example, they determined that a project in the second category ("Important")—"Develop brand guidelines"—would exhaust their marketing resources. Other initiatives requiring marketing expertise would need to be scheduled after the brand work was completed. The full set of projects was scheduled over 16 months.

5. Implement an Ongoing Project-Portfolio-Management Process

Realizing that creating a project portfolio couldn't be a onetime effort, the digital spin-off's project team established a process for the ongoing review and update of its project portfolio and an infrastructure for supporting project excellence. In this final step of the OPP process, the team embedded rational initiative portfolio management into their nascent organization by:

- Adding a standing "initiative portfolio review" item to the agenda of monthly staff meetings.
- Scheduling a comprehensive half-day portfolio review meeting every six months.

WHY DO SO MANY INITIATIVES FAIL?

by Peter LaCasse and Travis Manzione

Most organizations, regardless of their size, industry, or degree of complexity, struggle with their strategic initiatives—with identifying, prioritizing, planning, and/or managing them. Although these organizations recognize the vital role initiatives play in advancing their strategic goals, most fail to ensure their initiatives are actually doing so. Each year, they spend millions on the wrong initiatives and waste millions more on unsuccessful ones.

Why do so few initiatives achieve the desired results? Among the key reasons we've found:

- ***Initiative overload.*** The organization tries to implement too many initiatives at once and ends up spreading its resources too thin.
- ***Lack of alignment.*** One or more initiatives may not be well aligned to the strategy.

- Designing and installing a process and template for new initiative proposals.
- Designating a person in the finance department as "mission control" for all initiatives consuming more than 200 person-hours and/or $50,000 in capital.

What's more, the project team committed to re-evaluating the portfolio once the economic tide started to turn.

- ***Conflicting initiatives.*** One initiative is at cross-purposes with another.
- ***Inability to prioritize the initiative pool.*** Leaders might not agree on which initiatives should be made top priority, resulting in the adoption of initiatives that are strategically less relevant and therefore garner only lukewarm support.
- ***Insufficient resources.*** The right resources are either not made available or not applied.
- ***Poor project management.*** Initiatives are either mismanaged or not managed through to completion.

Adapted from "Initiative Management: Putting Strategy into Action" by Peter LaCasse and Travis Manzione, *Balanced Scorecard Report*, November–December 2007 (product #B0711B).

Getting to Results

Setting priority on initiatives ensures that an organization—whether it be a multinational behemoth, a 25-employee startup, or a midsize division—is not launching more initiatives than it can accomplish successfully and that those launched are those likely to have the greatest impact. If an organization did nothing else to improve the quality of its projects, prioritizing them would add significant value. Determining where to focus

finite resources is a critical step in enabling an organization to survive the downturn and emerge from it ready to leap ahead. (See the sidebar "Why Do So Many Initiatives Fail?")

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CHAPTER 5

A Better Way to Set Strategic Priorities

by Derek Lidow

Smart leaders understand that their job requires them to identify trade-offs, choosing what *not* to do as much as what *to* do. Grading the importance of various initiatives in an environment of finite resources is a primary test of leadership.

To meet this challenge, leaders often turn to rank ordering their priorities; it is natural and easy to make a list. When I work with leaders on the crucial task of priority setting, however, I caution against rank ordering.

Adapted from content posted on hbr.org, February 13, 2017 (product #H03FAI).

It can be tremendously demotivating to managers to be assigned a rank, and it all but guarantees dissension and turf wars between team members.

A better way to establish priorities is to put rank ordering aside and return to first principles. There are three interdependent variables that are essential for executing any initiative: objectives, resources, and timing. You can't produce a project's desired effect without precise objectives, ample resources, and a reasonable time frame. If you push or pull on one leg of this triangle, you must adjust the others.

All three variables are important, but resources reign supreme. Resources are what enable an objective to be accomplished within a set time; without dedicated means, an initiative is pure fantasy. Once a leader decides what resources will be allocated to achieve which objectives over what periods of time, there is no more need for ranking. The leader will be forced to acknowledge three kinds of priorities: critical, important, and desirable.

Three Types of Strategic Priorities

A *critical* priority is an objective that must be successfully accomplished within a specified amount of time, no matter what. For example, it might be critical that a company win a new order (which will be awarded on a given date) from a major customer, or get a factory fully operational by a certain day. If the objective of winning the order is set and the timing is nonnegotiable, then the only element you can manipulate is resources (money, people,

equipment). If the leader is sincere about the priority, then they must make all the resources requested available to the project manager. Though leaders may not realize it, declaring a project "critical" implies that it must be accompanied by a de facto blank check, enabling the manager to draw on all other available resources within the organization. And all critical priorities are, by definition, equal within the category.

An *important* priority, on the other hand, is an effort that can have a significant positive impact on performance. For these initiatives, resources are fixed and the variable is either time or the objective. For example, an organization may have an aspirational goal but fix the resources that it feels it can afford to invest over a specified time. A leader might say, "Let's assign Miguel and Aisha to this project full time for the next quarter." The organization, if it is operating rationally, should be willing to accept however much improvement it can get from that fixed investment. Alternatively, an organization may declare that it will invest a specified amount of resources for as long as it takes to achieve an objective: "We're going to assign Miguel and Aisha to install the new software, however long that will take." An important priority implies that the organization be understanding when the objective is variable and patient when time may vary.

A *desirable* priority is an effort in which resources and time are both variables. The organization desires an outcome but cannot absolutely commit specific resources over any specifiable time period: "Whenever Miguel and Aisha are not required on our critical product launch,

they will work on installing the software upgrade." Progress will be made only when and if resources become available.

Because resources are fixed for all critical and important priorities, the potential "blank check" resources that may be required to hit a critical project must all come from desirable tasks. You cannot in good conscience set a critical priority unless you also designate desirable projects from which resources will be immediately transferred to the critical objective when required.

Allocate Resources and Plan Priorities

Once you have identified critical, important, and desirable projects, you can begin to identify appropriate objectives, resources, and time for each one. Use the following four-step process, which is also illustrated in figure 5-1.

Step 1. List in one column the resources (people, money, highly constrained elements like a sample bus for demonstrating products) available for all proposed projects. For example, you might have 10 salespeople on the East Coast, 7 on the West Coast, 4 in the Midwest, and 3 in the South; a travel budget of $10,000; and one sample bus.

Step 2. List across the top row the projects, improvements, or initiatives you want to accomplish with those resources with any existing time constraints. For example, you might write, "Renew clients in all four regions; win a contract with IBM by the time your new plant

opens on March 1; get Salesforce.com in all regions but on a staggered schedule."

Step 3. Indicate in the appropriate cell how the available resources would be allocated in a scenario where everything proceeds as expected. For example, 3 salespeople in each region might be devoted to renewing customer contracts, while 12 salespeople, the sample bus, and half of the travel budget might go toward winning the IBM contract.

Step 4. Declare which one or two projects are critical, designating which additional resources from the matrix can be called on by the critical objectives when and if needed. (If you declare more than one project critical, you must keep in mind that they cannot potentially depend upon the same pool of on-call resources.) For example, if the IBM contract is critical, you would ask the project head—in this case, your lead IBM salesperson—what additional resources might conceivably be needed if the going gets tough, and where those resources might come from. That could include some of the IT resources from the Salesforce implementation on the East Coast, which means that the Salesforce effort is now categorized as desirable and that you cannot expect your people to fulfill the objective by a certain time. Projects that are not critical but aren't on call to potentially provide resources to a critical project now fall into the important category, where time or the objective is flexible.

As the projects and resources are listed and the group figures out how best to allocate resources and

FIGURE 5-1

Example spreadsheet for strategic priorities

Step 1: List resources

East Coast sales (10 people)						
West Coast sales (7 people)						
Midwest sales (4 people)						
Southern U.S. sales (3 people)						
Travel ($10,000)						
Sample bus						
IT resources (6 people)						

Step 2: Add projects, improvements, or initiatives

	Renew all clients	**Win IBM contract by March 1**	**East Install Salesforce by March 1**	**West Install Salesforce by ?**	**Midwest Install Salesforce by ?**	**South Install Salesforce by ?**
East Coast sales (10 people)						
West Coast sales (7 people)						
Midwest sales (4 people)						
Southern U.S. sales (3 people)						
Travel ($10,000)						
Sample bus						
IT resources (6 people)						

Step 3: Allocate resources

	Renew all clients	Win IBM contract by March 1	East Install Salesforce by March 1	West Install Salesforce by ?	Midwest Install Salesforce by ?	South Install Salesforce by ?
East Coast sales (10 people)	3 people	7 people				
West Coast sales (7 people)	3 people	4 people				
Midwest sales (4 people)	3 people	1 person				
Southern U.S. sales (3 people)	3 people					
Travel ($10,000)	$5,000	$5,000				
Sample bus		X				
IT resources (6 people)			6 people			

Step 4: Decide on one or two critical projects

	Renew all clients	Win IBM contract by March 1	East Install Salesforce ~~by March 1~~	West Install Salesforce by ?	Midwest Install Salesforce by ?	South Install Salesforce by ?
East Coast sales (10 people)	3 people	7 people				
West Coast sales (7 people)	3 people	4 people				
Midwest sales (4 people)	3 people	1 person				
Southern U.S. sales (3 people)	3 people					
Travel ($10,000)	$5,000	$5,000				
Sample bus		X				
IT resources (6 people)			6 people			

time constraints among the potential initiatives, this matrix becomes a strategy document. As projects are completed, leaders can revisit the process to reallocate resources that have been freed up. They can also reallocate resources if a crisis occurs—which by definition creates a critical priority. The same is true with a change of strategy.

The transparent allocation of resources and the specifying of responses to changed conditions align the team and head off dissension. Managers no longer feel that giving up resources reduces their status. They are playing an essential role in executing a critical priority. And they are content to be governed by the fair, inexorable logic of realistic priority setting instead of rank ordering that doesn't add up.

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CHAPTER 6

Too Many Projects

by Rose Hollister and Michael D. Watkins

If "the essence of strategy is choosing what not to do," as Michael Porter famously said in a seminal HBR article, then the essence of execution is truly not doing it. That sounds simple, but it's surprisingly hard for organizations to kill existing initiatives, even when they don't align with new strategies. Instead, leaders keep layering on initiatives, which can lead to severe overload at levels below the executive team.

Sometimes leaders are unaware of all the initiatives underway and their impact on the organization. In other cases organizational politics conspires to let initiatives continue long after they should have run their course. Either way, overload can result in costly productivity and quality problems and employee burnout. With record

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low unemployment, companies that do not adjust the workload are also at risk of losing valuable talent. One leader who used to head up talent consulting at a human capital firm told us in an interview, "While I enjoyed and respected my team and found the work motivating, the pace was unsustainable. I chose to leave before I had a heart attack."

In many organizations, the alarm bells for initiative overload ring when engagement survey results drop or turnover levels rise—or both. At one *Fortune* 500 retail company, for example, internal studies showed that store managers had more duties than they could accomplish in a standard workweek. Instead of moderating the demands of the job, their bosses expected them to prioritize and juggle. Yet with business results faltering and customer service scores declining, the senior executive team realized that a new approach was needed and recommended that a task force of high-potential leaders assess the impact of initiatives on frontline store managers.

The task force found that many departments were simultaneously launching initiatives that required store managers' attention, in areas such as product launches, training, customer service, and IT. A comprehensive review revealed that more than 90 distinct initiatives had gotten underway in the previous six months. Store managers were expected to absorb and act on them while dealing with high customer volume and managing the staff. All these demands took their toll. Some outlets failed to meet company expectations and forecasts, and adoption rates for new initiatives dropped, because the organization just couldn't process them all.

When company leaders received the report, they realized that they had to be more disciplined about setting limits and priorities, rather than expect store managers to keep shouldering everything. The country president assigned a senior leader to act as the gatekeeper between functional departments and store managers. Departments could no longer reach out directly to managers with new work expectations—those were funneled through the leader, who assessed priorities and protected the managers from impossible work demands. This change allowed store managers to focus; doing less yielded better results on the key initiatives and priorities.

In our consulting work with dozens of businesses, we've seen the consequences of overload play out again and again across a range of industries. In conversations and interviews in a wide variety of organizations, capacity is a frequent topic: Leaders feel pressured to do more with fewer resources. We've identified several root causes, which we'll discuss here so that you can spot the risks in your company. Organizations tend to rely on flawed fixes, so we'll also explain why those typically fail and what works better.

The Roots of the Problem

Why does initiative overload happen? We have observed seven causes:

Impact blindness

As the *Fortune* 500 retailer learned, executive teams can be oblivious to the number and cumulative impact of the initiatives they have in progress. Many organizations

lack mechanisms to identify, measure, and manage the demands that initiatives place on the managers and employees who are expected to do the work. In practice, it can be challenging to measure the load across an organization, because of initiative volume, company complexity and size, and insufficient tracking tools. But as the example above shows, it can be done if the business dedicates resources to making it happen.

Multiplier effects

Most senior leaders have a line of sight into their own groups' initiatives and priorities but a limited view of other groups' activities. Because functions and units often set their priorities and launch initiatives in isolation, they may not understand the impact on neighboring functions and units. Suppose, for example, that an organization consists of five units. If each one undertakes three initiatives, each of which requires some resources from two other units, then frontline managers in each unit are effectively juggling nine initiatives. And this assumes an even distribution of impact; if some units have particularly critical or scarce resources, their load could be far greater.

Political logrolling

Executives tend to be strongly invested in some "signature" projects and may garner resources for them through implicit agreements with their peers: "I will support your initiatives if you support mine." In the world of legislative politics, this is known as logrolling, a term reportedly coined in 1835 by U.S. Congressman

Davy Crockett as a metaphor derived from the old custom of neighbors' assisting one another with the moving of logs. In organizations it leads to a pileup of promises to fulfill—and projects that just won't die. This can happen even after funding has been officially cut, because leaders may have their own deep pockets of funding and the decision-making power to keep their initiatives moving forward.

Unfunded mandates

In the world of politics this term is used when legislatures pass laws that require certain things to happen but don't provide funding for implementation. Similarly, in business, executive teams often task their organizations with meeting important goals without giving managers and their teams the necessary resources to accomplish them. In one major acquisition in which we were involved, the executive team spent tens of millions of dollars on consulting to design the new, combined organization's strategy, structure, systems, and staffing but provided no funding to support the critical work of transition and integration. Largely as a result of conflicts between "us" and "them," the acquiring company lost most of the acquired entity's best talent—the retention of which had been a core goal. This is not an isolated example: Initiatives are often launched without having resources dedicated to them.

Band-Aid initiatives

When projects are launched to provide limited fixes to significant problems, the result can be a proliferation

of initiatives, none of which may adequately deal with root causes. We have seen companies make substantial investments in training programs in response to superficial assessments of the skills required, or provide limited support for integrating the new skills into day-to-day practice.

Cost myopia

Another partial fix that can exacerbate overload is cutting people without cutting the related work. This happens when organizations fixate on lowering head count (an obvious way to rein in human capital costs) but overlook the price they might pay—in employee burnout, performance strain, and turnover—for expecting the remaining people to take on the tasks of those who have left. A leader at a consumer products firm described the problem in an interview: "We had planned to reengineer our processes, but it did not happen. The impact is that our people are working harder with fewer resources."

Initiative inertia

Finally, companies often lack the means (and the will) to stop existing initiatives. Sometimes that's because they have no "sunset" process for determining when to close things down. A project might have been vital for the business when it launched, but later the rationale no longer exists—and yet the funding and the work continue. For example, for decades many organizations used so-called mystery shoppers to gather customer feedback and evaluate customer service. With the internet, companies can now gather feedback and data directly from

their customers. But many have been slow to make the shift, because parting with a well-oiled machine—even one that is clearly dated—means switching to less-tested systems that require all-new competencies. The habits and the infrastructure for mystery shoppers are already built. Capturing, understanding, and valuing customer data gathered online requires time and different skill sets. So, many traditional companies follow the lead of upstarts, which do not have to unlearn old, comfortable approaches: They hire new leaders with the right skills to help make the transition.

What Doesn't Work

Recognizing initiative overload is an important first step—but leaders must then take meaningful action. Too often, though, they resort to strategies that either have no impact or make the problem worse. For instance:

Prioritizing by function or department

Leaders are most comfortable setting priorities within their own area, because they know that territory best, but this does not allow them to recognize the cumulative impact of initiatives across groups. For example, a top goal for finance might be to adopt a new expense program across the enterprise. Even if it's the right decision for the company, learning the new system by trial and error or through training places extra demands on leaders outside the finance function. Designated "superusers" put in even more time than most, coaching their colleagues on day-to-day use and fielding questions as they arise, and that eats into the time they can spend on their

DOES YOUR ORGANIZATION HAVE A PROBLEM?

The first step in dealing with initiative overload is to honestly assess and acknowledge the problem. Ask yourself the questions below to gauge whether your organization is at risk. Then total up the yeses—those are red flags. If you have *more than four*, you may need to better manage the number or timing of initiatives.

Do leaders often talk about the need to cut back on the number of new initiatives? **Yes/No**

Does a significant amount of work and team time revolve around launching and supporting initiatives? **Yes/No**

Does the organization lack a central group that reviews all current initiatives? **Yes/No**

Does the organization lack processes for quantifying impact and prioritizing initiatives? **Yes/No**

Are multiple initiatives being launched simultaneously? **Yes/No**

Are initiatives often launched without coordination across units and functions? **Yes/No**

Are initiatives launched without business cases? **Yes/No**

Are initiatives launched without success metrics? **Yes/No**

Does the current number of initiatives have a negative impact on productivity and prioritization? **Yes/No**

Are initiatives often started mid-cycle in response to new external or internal demands? **Yes/No**

Is stopping or slowing down initiatives countercultural? **Yes/No**

Are legacy projects renewed without a regular assessment of current need or effectiveness? **Yes/No**

Are initiatives launched even when resources are already stretched? **Yes/No**

Are people expected to absorb new demands without stopping past projects? **Yes/No**

Are projects launched without a full analysis of ongoing support needs? **Yes/No**

Are initiatives launched without a "sunset," or stopping, process having been identified? **Yes/No**

Is the success of an initiative evaluated primarily by the leaders who launched and own the project? **Yes/No**

own teams' projects. Of course, all those demands butt up against recurring processes that consume everyone's time across the organization: Managers must create and manage budgets for finance, document individual and team performance for HR, undergo ethics or sexual harassment training for legal, and so on.

So priorities can't be set in a vacuum. Senior leaders need to encourage transparent conversations across functions about work volume, initiative demands, and resources—this top-down message is critical. But they must also be receptive to constructive feedback from bottom-up conversations, and too often they just don't want to hear about what people *can't* do. In such an atmosphere, employees are afraid to voice concerns about workload or to admit having limits, because of the risk to their careers, so they keep mum. And without that input, leaders lack a full view of demands across the enterprise and can't prioritize accordingly.

Establishing overall priorities without deciding what to cut

Leadership teams often engage in prioritization exercises that define and communicate where people should focus their energy. However, they undermine those efforts if they don't also do the hard work of explicitly deciding what trade-offs to make and what has to stop. At a real estate company we worked with, the leadership team decided to simultaneously launch more than a dozen initiatives. Project teams were formed and expected to produce results quickly. The desired outcomes were achieved, but at a steep cost: Key contributors de-

cided to exit the organization rather than meet the escalated demands—exceedingly long hours and overwhelming new responsibilities.

Making across-the-board initiative cuts

When leaders ask all departments or functions to cut their budgets or initiatives by a given amount—say, 10% to 20%—each group finds its own way to comply. However, this approach to reduction doesn't take into consideration overall organizational priorities and interdependencies. As a result, cuts to projects in one function, such as IT or marketing, can undermine the ability of other functions to deliver critical projects. For example, as part of overall cost containment, the IT department at a hospitality company had to cut costs by 20%. So it moved to a model based on self-service and outsourcing and eliminated on-site, in-person computer support. Although IT achieved its cuts, all the other functions spent more time resolving their IT issues.

What Does Work

While challenging, it is possible to fight initiative overload and concentrate organizational resources on strategically essential projects. For example, CBIZ, a growing business-services company, has become much stricter about deciding which projects can move forward. Marina Davis, the company's director of organization and talent development, told us in an interview, "We look at each initiative through two lenses: One, does it have a positive impact on the business? And two, does it have a positive impact on the culture? As we continue to gain

speed, we are being very careful about choosing what we will and will not take on at this time."

Similarly, senior leaders at the real estate firm mentioned earlier—the one that launched so many initiatives at once—began to see a need for change. Although they had pushed for business transformation that year, they didn't want that pace to become the new normal. So they watched for signs of that in the next year and were surprised at the sheer volume of budget dollars being requested for even *more* initiatives, most of them internal—all-staff meetings, leadership development events, planning meetings, IT launches, and HR training. Although the company financials were strong enough to support the requests, the firm needed to focus more intently on hands-on sales, and the executive team worried that the other proposed initiatives could get in the way. To assess that concern, they asked functional leaders to break down travel budgets and time spent in and out of the office, along with development funding and facility and food costs, for each requested initiative. The human capital implications then became clear: Together, the internal meetings and events would demand more than 30% of managers' time. After discussing the matter with the senior team and targeting a lower percentage of time away from customers, the CEO and the CFO decided which initiatives to keep and which to cut, favoring those that were important to generating business. The following year managers spent more time in the field and less in training and planning sessions, and the demands on their time became more manageable.

As these examples show, fighting initiative overload requires the will and the discipline to make and enforce

hard choices. Here's a step-by-step process that can guide you.

1. Get a true count of current initiatives across the enterprise, to see if your organization is suffering from overload. (See the sidebar "Does Your Organization Have a Problem?")

2. Assess all the initiatives currently underway. For each one, identify the business need, the required budget, the head count allocation, and the business impact.

3. Have senior leaders work together to establish priorities in an integrated way. The discussion must be driven by the top leadership team and informed by candid feedback from below to ensure sufficient decreases in initiatives.

4. Put in place a sunset clause for each initiative, identifying an end date for funding and a head count allocation, so that projects do not consume resources year after year unless they are making a significant business impact.

5. In subsequent yearly planning, require each initiative to reapply for funding and other resources. Mandated business cases should demonstrate the value to the organization.

6. Strongly communicate to the rest of the organization that stopping an initiative doesn't mean that it was a failure or lacked merit. Emphasize that there's simply a limit to how many great ideas the company can launch.

QUESTIONS TO ASK BEFORE YOU LAUNCH AN INITIATIVE

Analyzing the Project

- What problem is this initiative meant to fix?
- What data or other evidence tells us that this initiative will have the desired impact?

Assessing Resources

- What is the true human capital demand?
  - What resources (time, budget, and head count) are needed to design and launch the initiative?
  - In addition to the department that owns the initiative, what departments or functions will be tasked with supporting it?
  - What time commitments will be asked of leaders and staff members to attend meetings or develop the skills needed to understand or implement the initiative?
  - What resources will be needed to sustain it?

Of course, the best way to avoid initiative overload is to not allow it in the first place. That means building in rigorous reviews to impose discipline on when and how the organization launches initiatives—and keeping close tabs on whose time they consume, and how much. (See

- How does the human capital demand compare with the potential business impact? Does the cost outweigh the benefit?
- How will the organization determine whether it has the capacity to take on the initiative?

Sizing Up Stakeholder Support

- Who are the key stakeholders?
- What actions will be required to support the initiative?
- How fully is that support in place?

Setting Limits

- What trade-offs are we willing to make? In other words, if we do this, what *won't* get done?
- What's the sunset schedule and process?

the sidebar "Questions to Ask Before You Launch an Initiative.")

For companies already experiencing initiative overload, focusing on the benefits of cutting back can make the path forward somewhat easier. Organizations are

at a great advantage when they learn how to say no, as Steve Jobs once put it, to the "hundred other good ideas that there are." They can then use their creative and productive energy more wisely, foster greater employee commitment and loyalty, and accomplish more in the areas that really matter.

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CHAPTER 7

The Initiative Portfolio Review Process

by Keith Katz and Travis Manzione

While we've seen widespread improvement in prioritizing and selecting initiatives, organizations still have a long way to go in reporting on and managing them. This ongoing step is critical not only for assessing the progress of each initiative, but also for demonstrating the return each initiative is yielding (ROI, or return on initiative). It ensures the initiative's ongoing value to a company's overall initiatives, providing a dynamic cost/

Adapted from "Maximize Your 'Return on Initiatives' with the Initiative Portfolio Review Process," *Balanced Scorecard Report*, May–June 2008 (product #B0805C).

benefit assessment that tracks each initiative's impact on funding and resources.

All too often, initiatives continue to receive funding, even without a clearly identified "owner," the person who is accountable for performance. (In this article, "funding" initiatives refers not only to supporting their tangible, direct costs, but also to providing the full-time employees they require.)

Sometimes initiatives extend long beyond their proposed life, incurring cost overruns and failing to provide their intended benefit. Unanticipated obstacles and barriers can push an initiative off track. A change in organizational strategy can render a once-worthy initiative strategically irrelevant. In every case, the lack of sufficient information and oversight prevents leaders from making informed investment decisions.

A company's resources are, of course, finite, and it cannot fund all strategically relevant initiatives. It must make hard choices to prioritize those that promise the most strategic payoff. Each resource decision affects not only the funded initiative, but also all the proposed initiatives vying for limited resources. In other words, every investment carries an associated opportunity cost, as it displaces resources that might otherwise be available for other initiatives. For that reason, an organization should monitor initiatives to maximize their individual and collective impact on performance—and monitor them regularly.

A regular, formal review process helps companies track costs and benefits, obstacles, and strategic shifts that can radically alter an initiative's value and progress.

But it does more: It enables them to capture important opportunities as they arise. Good ideas do not emerge just once a year during the strategic planning process. When organizations relegate initiative review to a once-a-year strategic planning period, they lose the ability to dynamically allocate resources to capture new, emerging opportunities—or to replace underperforming initiatives with more promising ones, or even simply to adjust to existing initiatives' actual performance. So it's not enough to institute a formal annual review; companies should schedule regular reviews, at least two a year.

Take a Portfolio View

Initiatives have stand-alone value—their inherent value—as well as their value as a component of a larger portfolio supporting a strategic theme. Managing initiatives within portfolios provides accretive value; it recognizes that the sum of a cluster of initiatives is more than the sum of individual initiatives. Initiative portfolio management consists of four steps. In the first step, information collection, the company gathers essential information about an initiative's performance, including progress against milestones, variance from anticipated budget, and projected deviations from the ROI. It enters this information into a standardized reporting template that includes a high-level, qualitative analysis of performance and recommendations. The information on each initiative is consolidated into a master report, which, along with a summary review, creates an initiative portfolio analysis. This document (step two) primarily supports the initiative portfolio review (step three). In step four,

leaders communicate their decisions about ongoing, as well as funded but not yet launched, initiatives to all affected parties. These include initiative sponsors and project teams, as well as those who would use the initiative's deliverables—for example, customer service reps awaiting new CRM software implementation.

The Initiative Portfolio Analysis Document

The initiative portfolio analysis (IPA) reports on status and becomes the basis for the initiative performance review (IPR). It is created and revised regularly, according to the review meeting schedule. (See figure 7-1.) The document is divided into two sections, a summary and a detail section. The summary organizes initiatives by theme, in this example, "Realize Operational Efficiencies." Alongside each initiative, we see its progress (% completion) and whether it is being managed cost effectively (budget, variance from budget) and generating the expected return (expected and actual financial impact)—the latter two being critical risk factors for initiative success. Some reports include a column for "lifetime return." "Financial impact" covers the period of initiative implementation. Some initiatives, like Project Zebra, generate benefits even before they are completed. Also included is an overall status indicator (green, yellow, or red); it is based on timing vs. plan, budget vs. plan, and benefits realized vs. plan.

The goal of Project Zebra is to reduce shrink—the amount of a retailer's net margin that is eroded by waste, theft, and product spoilage. This initiative was

FIGURE 7-1

Initiative performance analysis (IPA) document—Summary

This summary is for our hypothetical company's strategic theme "Realize Operational Efficiencies." Among other things, summaries illustrate that different initiatives return at different rates and time periods.

Theme: Realize operational efficiencies

Initiative name	Status	Percent completed	Budget	Variance from budget	Financial impact (expected)	Financial impact (realized)	Owner
Project Zebra	G	100%	$300K	$0K	$1,000K	$1,050K	Jennifer Smith
Project Lion	Y	90%	$250K	$20K	$365K	$365K	John Opal
Project Penguin	R	20%	$800K	$200K	$2,400K	$2,400K	Mike Faith
2020 Business impact (budgeted)			$1,350K	$0K	$3,765K		Executive team
2020 Business impact (actual)			$1,350K	$220K		$3,815K	Executive team

expected to reduce shrink by 3%, ultimately contributing to a $3 million cost savings. At an estimated cost of $300,000, it would take three months to implement and generate $1 million of immediate cost relief. The detail view (figure 7-2) assesses Project Zebra just after completion. It came in on budget and delivered an immediate benefit of $1.05 million—$50,000 more than projected.

Each initiative within the theme portfolio has its own detail page in the IPA, which includes all of the summary-level information for that initiative, along with qualitative analysis, recommendations, and milestone progress. In the analysis section, the owner of the initiative explains whether the initiative is performing as expected, addressing time, budget, and return parameters. If the initiative is off track, the owner offers recommendations or else proposes terminating the initiative altogether, if it appears unsalvageable. In the milestones section, the owner tracks progress by phase; for example, Project Zebra's first milestone was to "assess current inventory tracking system."

The Initiative Performance Review

In a strategy review meeting, objectives are the primary focus; generally, managers only discuss initiatives in the context of how they support an objective. In the IPR, initiatives are the sole topic, discussed in the context of their organizational benefits. At this half-day working session, managers review each initiative portfolio in detail, deciding what to do with poorly performing initiatives and evaluating proposed initiatives. The fundamental

FIGURE 7-2

IPA—Detail for Project Zebra

The detail report provides further data on each individual initiative, including qualitative analysis of results and benefits realized. For example, it would explain that new inventory tracking systems reduced theft by 90% and spoilage by 35%. This detail was the last one written for Project Zebra, at its successful completion.

Project Zebra May 31, 2020	**Initiative owner** Jennifer Smith

Objectives impacted	**Description**
• Internal process objective • Internal process objective	The purpose of this initiative is to improve our operational efficiency. Reducing shrink by 3% will lead to an additional $3m in savings for the business.

Budget	$300K		
Variance from budget	$0K	**Financial impact (budgeted)**	$1,000K
Start date	January 21, 2020	**Financial impact (realized)**	$1,050K
End date	April 23, 2020	**Percent complete**	100%

Performance analysis	**Recommendations**

Status	Milestone/task	% Complete	Start	End	Responsible

purpose of the IPR is to maintain an optimal total initiative portfolio, allocating resources accordingly. Usually, only executive team members attend, but if a significant issue about a given initiative arises, the initiative sponsor might also participate.

The leaders discuss each initiative in detail. If necessary, they reallocate resources. They then turn to proposed initiatives. If a proposed initiative appears likely to generate greater return than an existing initiative that is underperforming, they decide to terminate it and launch the new project.

The IPR also provides an opportunity to discuss changes in organizational strategy that might affect any initiatives and dynamically reallocate budgeting toward projects that support the new strategy. Similarly, if the overall budget for an initiative portfolio changes, the IPR is the venue for reallocating funding to those initiatives that are generating the greatest results per invested dollar.

Finally, because the context of this meeting is analytical, it is largely free of the "pet project" or "pride of ownership" issues that can plague a strategy review meeting. The numbers are the focus of the meeting, and participants understand the purpose is to cut deadweight initiatives and substitute alternate projects when appropriate.

Frequency and Scheduling

How often and when to schedule a review are critical to ensuring IPR success. There must be enough time between meetings to allow managers to make an informed decision about the course of action for any underper-

forming initiatives, as well as sufficient time to take corrective action. If too much time elapses, however, an organization might lose opportunities to shift resources to initiatives with potentially greater impact. Best-practice companies find that quarterly IPR meetings are optimal; two more formal meetings allow for readjustments (for example, adding or canceling initiatives).

When should meetings occur? If a company follows a traditional budgeting cycle, the date for budget approval becomes the anchor for the IPR calendar. Organizations that have adopted rolling forecasts use major milestones—such as the dates they file financial reports to the market or board members—to establish an optimal schedule.

Roles

Establishing clear roles and responsibilities is critical to conducting reviews that lead to effective decision making about limited resources. Executive team members serve as the ultimate governing body, making final decisions based on the facts. Theme owners, some of whom are also executive team members, lead discussions about the performance of their initiative portfolio, and suggest ways to optimize the portfolio. They generally prepare for meetings with initiative sponsors, who oversee the day-to-day execution of individual initiatives. Since they coordinate with milestone owners and provide critical input on initiative performance, sponsors often play a vital role in developing reports.

The advantages of the initiative reporting and management process are similar to those of the rolling

forecast. Rather than wait for a once-per-year budgetary cycle to propose and allocate discretionary funding, companies have the information to continually adjust their focus and resources to maximize the impact of each discretionary dollar invested.

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CHAPTER 8

Rebalance Your Initiative Portfolio

by Peter LaCasse

The concept of initiative portfolio management is derived from sound investment practice. A good financial adviser ensures that each client has a balanced portfolio, with an appropriate mix of investments in stocks, bonds, money market, and other asset classes. In choosing this mix, the adviser considers many factors, such as the client's date of retirement, future income needs, and risk tolerance, among others. As things change, the adviser tweaks the mix on an ongoing basis. For example, if stocks represent 40% of a client's portfolio but quarterly

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Adapted from "Rebalance Your Initiative Portfolio to Manage Risk and Maximize Performance," *Balanced Scorecard Report*, September–October 2008 (product #B0809D).

returns from them exceed that percentage, the adviser will need to rebalance the stock allocation to maintain the portfolio's original risk levels.

Initiative portfolio management should follow this portfolio balancing approach, where you evaluate each project in the context of the total portfolio. Unfortunately, most companies select initiatives independently of one another, with little regard for their impact on

A CASE EXAMPLE

The web division of a large retail bank defined its five-year strategy in terms of four strategic themes: market share growth/business development (sales), market protection/maintaining customers (web channel use), process efficiency, and organizational learning. Division leaders wanted to focus on expanding the web as a sales channel without losing ground in the other areas. After developing strategic objectives and aligning existing projects with the themes, the leaders learned that the company was spending most of its discretionary dollars on retaining customers and driving web channel use—to the detriment of the other themes.

However, as the leaders pushed for more projects geared toward sales growth, they did not overlook the other elements of a balanced portfolio. To balance the portfolio's risk profile, they maintained a healthy investment in keeping their current customer base if the new product ideas failed to catch hold in the marketplace. They also made sure that the returns from their

other efforts. They should review the business case for each initiative in the larger context to consider its impact on other initiatives. This prevents overweighting investments to short-term results that risk mortgaging the organization's future, prevents investing too much in a particular strategic theme at the expense of others, and simply helps avoid projects that are too risky. (See the sidebar "A Case Example.")

projects aligned to their short-, medium-, and long-term (division) targets. In the short run, they felt that by freeing up 20% of their discretionary spending and an even greater percentage of their employees' time, they could apply those resources to projects more closely aligned to the strategy. For example, they invested in building the capability to sell products that the company had never before sold on the internet, rather than in enhancements to online checking and savings account services.

Once an enterprise establishes portfolio categories based on its strategic themes, each business unit should use the portfolios to organize its discretionary spending. Units then present their project portfolios to enterprise leaders, who can more readily assess how well the portfolios are balanced against overall strategy. In reviewing the portfolios collectively, the leaders can ensure that each division is doing its part to support the strategy of the whole company.

Preparing Initiatives for a Portfolio Management Approach

Organizations that follow the disciplined initiative management process already have detailed information on each project. They have already developed a business case when first proposing an initiative. Initially a set of high-level assumptions within a concept document, the case is refined into a detailed proposal document once the idea is approved and/or sponsored. This document addresses the project's goals, strategic impact, financial costs and benefits, time to implement, time to benefit, skills and capabilities required, and implementation and impact risks. If the detailed proposal passes leadership review, companies finalize the business case and develop a project plan.

The detailed business case information enables companies to regularly evaluate their initiative portfolios. Canadian Blood Services (CBS), the nonprofit that manages Canada's blood supply provides a good example of this process. The organization's leadership team spent three days evaluating its initiative portfolios. The portfolios were based on CBS's strategic themes, "Safety," "Operational Excellence," and "Prepare for Tomorrow." The team seemed to have allocated its initiatives appropriately across the three themes. But when team members looked at risk and benefit levels within each theme, the portfolios now seemed off balance. For example, in the theme Prepare for Tomorrow (about expanding business into new areas), most of the initiatives were medium to low risk and of medium benefit. The only ini-

tiative actually designed to help CBS expand into new areas was focused on developing its (umbilical) cord blood bank capabilities. Team members recognized that the strategic theme focused on changing their business should contain initiatives that would truly transform it. This realization spurred conversation, leading to the idea of expanding into such areas as organ transplants and tissue bank services that could further capitalize on CBS's process expertise. Now the team could easily see the gaps in each portfolio and develop initiative ideas to fill them. According to CEO Graham Sher, this portfolio framework "allowed us to have the difficult conversations about which initiatives to include or eliminate," adding that the total cost of slashed initiatives "equaled millions of dollars." Balancing the initiative portfolio, Sher observes, has helped CBS make the link between strategy and operations explicit.

Portfolio analysis should be the first step in rebalancing the initiative portfolio, as it provides the necessary data for discussion and decision making. Leaders examine the amount invested (both financial and human resources) in each theme, the skills and capabilities required to deliver on the portfolio's initiatives, the organizational change required, the aggregate risk within the portfolio, and the anticipated changes and benefits. They then weigh these requirements against the organization's available budget and human resources, inventory of skills, and capacity to support change, as well as the desired level of performance. Portfolio analysis is often best represented in multiple formats, including graphical and written. (See the sidebar "Keeping It Honest.")

KEEPING IT HONEST

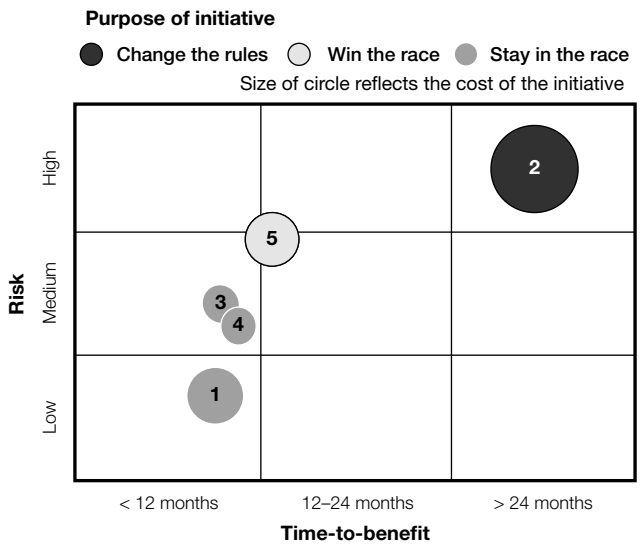
Many organizations struggle to justify their initiatives. Overzealous managers write business case proposals that claim unrealistic benefits or underestimate costs. But there is a way to ensure business case legitimacy and prevent ill-founded initiatives from passing muster. By making leaders accountable for each business case and incorporating initiative and portfolio performance into their regular strategy performance reviews, organizations can remove the bias and fluff from proposals. Knowing that they will be held accountable for delivering their forecasted benefits and working within their own estimated budgets, leadership team members tend to be more realistic. Embedding such accountability into the process will invariably result in more pleasant surprises than unfortunate miscalculations.

Figure 8-1 is an example of a nine-cell grid, a graphical tool for evaluating theme initiative portfolios. Initiatives are classified by their purpose ("stay in the race," "win the race," or "change the rules"), risk level, and time to benefit. This example represents an office-product company's portfolio of initiatives within its strategic theme of innovation. Projects 1, 3, and 4 involve enhancements to the company's stapler, pen, and desk organizer product lines. These projects, aimed at maintaining competitiveness,

FIGURE 8-1

The nine-cell grid for evaluating theme portfolios

This grid, an aid in portfolio analysis, provides a snapshot view of an office products company's initiative portfolio for its innovation theme. The five projects represented here run the gamut in terms of purpose (design improvements to transformational change), risk, and time-to-benefit.



are relatively low cost and designed to yield short-term results. Project 2, a transformative initiative, involves developing an entirely new line of products, which will require creating new production capabilities, distribution partnerships, and new marketing. Project 5, geared toward gaining market share, involves marketing an existing product in a new region, which will require establishing a new distribution channel as well as a marketing

campaign. The overall portfolio balances the short-term need to fend off competition and expand market share with the longer-term goal of exploring new markets and establishing new sources of revenue.

Making It Stick

Most investors would agree: A financial adviser who analyzes the client's portfolio only once a year is not doing his or her job. The same goes for initiative portfolio analysis. The leadership team needs to review and update portfolio needs regularly. Repeated project reviews and progress reports provide the necessary information. The team should promptly note and assess project changes for their impact on the whole portfolio. For instance, if one project's risks rise during implementation, does the portfolio contain appropriate projects that are a backup in case the project fails? Companies that are investing in a new product area, for example, will want to maintain an existing program to retain current revenues. Quarterly reviews are best, but regularity is most crucial; if left only to when executives have time, the reviews will almost never happen.

In practice, developing a portfolio review process takes time and effort. At first, initiative portfolio reviews often seem like regular project reviews, where leadership team members know little about parts of the business outside their direct functional responsibility. Over time, however, leaders realize the importance of understanding the entire business in making portfolio trade-off and balancing decisions. Discussions become more substan-

tive, and leaders take a true team approach to making project portfolio decisions.

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SECTION THREE

Launching and Implementing Initiatives

CHAPTER 9

New Project? Don't Analyze—Act

by Leonard A. Schlesinger, Charles F. Kiefer, and Paul B. Brown

We all know how new projects happen in a predictable world: A team is assembled, a market analyzed, a forecast created, and a business plan written. Resources are then gathered, and the plan is set in motion.

But how do you launch new projects in an unpredictable environment? What's the best way to do it in an age when the proliferation of data and opinion makes truly decisive analysis impossible; when faraway events have immediate, unexpected impact; and when economic malaise has made companies reluctant to take big bets on unproven ideas?

Adapted from an article in *Harvard Business Review*, March 2012 (product #R1203R).

Take a page from the playbook of those who are experts in navigating extreme uncertainty while minimizing risk: serial entrepreneurs.

We and others in the academic and consulting communities have spent years studying these leaders and the logic they use to create new products, services, and business models in situations where the old methods of analyzing, forecasting, modeling, planning, and allocating don't work.

Some of the most surprising research comes from Saras D. Sarasvathy, an associate professor of business administration at the University of Virginia's Darden School of Business, whose in-depth study of 27 serial entrepreneurs revealed a number of common behaviors. Instead of starting with a predetermined goal, these entrepreneurs allow opportunities to emerge; instead of focusing on optimal returns, they spend more time considering their acceptable loss; and instead of searching for perfect solutions, they look for good-enough ones.

The point is that successful entrepreneurs don't just "think different." They translate that thinking into immediate action, often eschewing or ignoring analysis. Rather than predict the future, they try to create it. We have seen this firsthand in clients and former students who have launched businesses in a variety of industries. And look at Starbucks CEO Howard Schultz: Coffee sales had been steadily declining for two decades before he came up with the café concept that would grow into a multibillion-dollar business.

This logic shouldn't be limited to entrepreneurs working outside the bounds of traditional organizations. (Af-

ter all, Schultz first tested his café idea when Starbucks was a small retailer of coffee beans, teas, and spices, and he was its director of marketing.) We believe that any manager can—and should—follow the same process when confronting the unknown, because it is an extremely low-risk way to launch new projects. It also involves only a few simple steps:

Act: Take a smart step toward a goal.

Learn: Evaluate the evidence you've created.

Build: Repeat steps 1 and 2 until you accomplish your goal, realize you can't, or opt to change direction on the basis of new information.

Reading that list, you might think, This is common sense. And it is. Any two-year-old understands the concept of learning through action. So do artists and scientists. Even if you don't know exactly where you're going, you get started. You make right turns and wrong turns, learning more about what the right direction is as you go. You're not flying blind; you're moving forward carefully, eyes wide open. You're alert to any looming danger—or opportunity.

We acknowledge that action before analysis, learning instead of predicting, can be, well, unpredictable—and messy. And we concede that it's antithetical to the way most organizations work. However, in the long term, taking lots of small steps actually reduces risk, which makes such an approach ideal for tackling challenges and getting fledgling initiatives off the ground, particularly in today's skittish corporate environment. And such

innovation is critically important not only for companies that want to stay competitive but also for enterprising employees who want to feel fulfilled in their jobs.

First Steps

Research shows that entrepreneurs forecast, plan, and model only when they have to. In Sarasvathy's study, not one subject tried to gather specific information about potential returns or predict an ideal level of investment before getting started. But these weren't reckless leaps of faith. No, these entrepreneurs and others like them tend to move in a safe, low-risk way by taking a series of quick, small, inexpensive steps that follow certain rules. Adapted for managers working within organizations, the rules are:

1. Use the means at hand

Successful entrepreneurs, of course, gather resources before embarking on a new venture. For the first few exploratory steps, however, most simply draw on their own skills, education, experience, and expertise, along with anything helpful their personal and professional contacts might have to offer, quickly and at no, or very little, cost. So instead of jumping through hoops to get multiple approvals and formal funding at your company, simply use the people you know, the budget you have—whatever tangible and reputational resources you can muster by picking up the phone, sending an email, or reaching out to a social media contact.

2. Stay within your acceptable loss

The act-learn-build model is inherently low risk, but that doesn't mean it's risk free. So, with each step, consider

how much time and money (your own and your company's) you can afford to lose should the step result in failure. Also think about the cost of not pursuing other opportunities at work in order to focus on your project, and the resulting impact on your professional reputation and the firm's image. Make sure that whatever is at risk could be safely lost.

3. Secure only the commitment you need for the next step

Through the process we're discussing, you'll run into four types of people: those who want to make your project happen, those who will help it happen, those who will let it happen, and those who will keep it from happening. Don't waste time trying to get buy-in from the last two types. Instead of asking, "How do I get everyone committed to my idea?" ask, "What's the *least amount of commitment* I need to act?" Aim for just enough freedom to act in an organization designed to push you back into predictive thinking.

4. Bring along only volunteers

If you've decided to move forward, make sure to invest in the "make it happen" and "help it happen" people. The former should be made up of *only volunteers*—people who share your desire. You can't compel others to innovate; if you try, the first setback will send them running to their "real jobs." After identifying these trusted colleagues, make sure they're committed to the process. "Enrollment" happens when you show your own engagement (inspiring your volunteers), act honestly (giving them a complete picture of your plan and presenting

both good news and bad), and demonstrate a willingness to collaborate (immediately offering them real work to do).

5. Link your move to a business imperative, and produce early results

This is essential to creating momentum and winning over those in the "help it happen" category—especially your boss. Show how even your first step could make a difference in the world immediately around you, and build out from there. If your boss thinks it won't work, find out why, and see if you agree. If she's hesitant because your proposed step exceeds her acceptable loss, or her boss's, suggest a less significant move.

6. Manage expectations

Don't overpromise. Don't make any big launch announcements. Explain that you're just taking an exploratory step to generate evidence that will inform the direction of the next one.

To see how this process works in practice, consider the experience of Mary Jo Cook and Suzanne Sengelmann, job-share partners and vice presidents in Clorox's laundry and home care division. As committed environmentalists and mothers of small children, Cook and Sengelmann liked natural products and wanted their employer to start producing them. But at the time, when "green" offerings accounted for only 1% of their industry's sales, it was a hard case to make with the predictive analysis that Clorox typically used to identify new business opportunities. The company hadn't launched

a major new brand in 20 years—much less tried to break into a small, new market with high barriers to entry. Still, Cook and Sengelmann suspected the category could be a fruitful one and had a strong personal desire to investigate it. (See the sidebar "Why Desire Matters.") So, even as they worked on extensions of Clorox's established, chemical-based products to satisfy the requirements of their job, they gave themselves a new, under-the-radar mandate—develop an effective, marketable, green cleaner—and began to pursue it with smart steps.

At first they simply "played around at home" with products already on the market, and then traded notes on how effective the products were. They also reached out to working-mom colleagues, including Sumi Cate in research and development, whose team was already experimenting with biodegradable plant- and mineral-derived formulas. She was their first "volunteer."

At the time, many people at Clorox were worried that a green line would diminish the brand's reputation for effectiveness, generate paltry profits, and, worse, draw unwelcome attention to the toxic ingredients used in its other offerings. So Cook and Sengelmann kept their interest relatively quiet. But it eventually caught the attention of the company's new-ventures group, which asked them to evaluate an existing European cleaner the group had scouted. The two women and the few volunteers they had by then recruited tried it in their own homes, while Cate's team tested the formulation. Unfortunately, the results were disappointing; the cleaner didn't work well enough to be a Clorox product. But Cook and Sengelmann now had a stronger link to a business imperative—

WHY DESIRE MATTERS

It doesn't make sense to venture into the unknown unless it's for something you care about.

Desire motivates you to act, enables you to persist, and makes you more creative when confronted with obstacles. That doesn't mean you have to have a big idea or a grand passion, at least not at first. Most entrepreneurs begin with a simple interest in a market, product, or service—an itch they need to scratch—and pursue it because it feels satisfying or because they think it might lead to something that does.

Very few of us work at places that are like the early days of Google, where the business model is open, and pet projects are expected to take up 20% of employees' time. Consider the goals of your company, your division, and your boss, and then figure out whether you can link them to what you care about. If you have just been handed a new company initiative, look for something in it that excites you—even if it's just the project's potential to boost your career. If you can't find that connection, consider stepping aside. While it's certainly possible to try the act-learn-build strategy when desire isn't present, it won't be much fun, and your chance of success will be significantly compromised.

namely that a broader set of managers thought a green line could be part of the company's innovation efforts. The trick would be to find an effective one.

They told their bosses about their ambition and explained why it might be a good business for Clorox, but in an informational way that didn't require any sign-offs. That gave them just enough commitment to progress. They also made sure their potential loss during this startup stage was acceptably low: some time and a small percentage of an existing budget, with no threat of diminished reputation because they had made no promises about the green research and they continued to work on other product extensions in the traditional Clorox mold.

After a year, the R&D team finally found a formula that was 99% free of petrochemicals and that worked as well as the company's chemical-based products. But Cook and Sengelmann still had work to do. At that point they could have reverted to extensive market study, models, and financial projections to figure out how to package and sell the new line. But they decided that the market was still too new for the customary in-depth analysis and that internal concerns about the riskiness of green offerings were still too great to be overcome without more evidence. So they stuck with small, smart steps.

They added another "volunteer": their colleague Jessica Buttimer, who was not only a marketing specialist but also another young mother and a health enthusiast. And they began to test prototype products with a small group of consumers in California's Bay Area, where Clorox is based, again using their existing budget and

simply keeping their bosses informed. The company learned a lot from this low-risk research: Most users rated the products as highly effective, and all were excited to see the Clorox brand on a green line. It didn't change their opinion of the company's other offerings—they already knew those contained chemicals—but it did change their views on the efficacy of natural products: If Clorox was behind an environmentally friendly brand, it must work. Cook and Sengelmann now had early results on which to build.

Build Momentum

When it comes to learning from and building on our actions, serial entrepreneurs do a better job than the rest of us in four ways: First, they move quickly in the face of positive results. If one step works, they immediately execute the next using the rules we've laid out.

Second, they embrace even negative results. They are grateful for surprises, obstacles, and disappointments because unwelcome news often provides the impetus to make a product, service, or business better, or it points to an entirely different opportunity—before too many resources are invested.

Third, they understand when and how to use prediction, even as they're learning by acting. As your initiative progresses and requires more organizational resources, you'll need to forecast where you can forecast, plan where you can plan, and model where you can model—but using the evidence you have created (and hopefully are still creating) through your smart action steps. This

new way of thinking should augment, not replace, the way you currently solve problems.

Fourth, entrepreneurs know when to cut their losses and walk away. They recognize when their idea is impossible to execute, that they're incapable of executing it, or that the risks involved in pursuing it exceed their acceptable loss.

Fortunately, in Cook and Sengelmann's case, the smart steps paid off handsomely. They continued to act their way into the future while simultaneously planning Clorox's classic big-product launch. Another "volunteer" supplied connections at the Sierra Club to secure the San Francisco–based environmental group's seal of approval for the new line. Sample products and packaging were placed on store shelves. Low-cost, grassroots, social media–driven marketing initiatives were tried. The result was Green Works, which within a few years grew to a $60 million brand for Clorox.

We've heard similar success stories from managers in other traditional organizations. One example cited by Harvard Business School professor Rosabeth Moss Kanter is the triumph of a group of tech enthusiasts at cookware retailer Williams-Sonoma, who countered their CEO's lack of interest in e-commerce by launching a low-risk pilot site that has since grown into an industry-leading web presence. Another, smaller-scale case study comes from a Whole Foods Market buyer we know whose interest in nutrition prompted him to pitch to his manager the idea of an in-store bar for vitamin-enhanced smoothies. He now personally staffs it once a week, and it's a big sales driver for the store. Each of us

has also had recent firsthand experience with entrepreneurial action at work. Here's one quick example from Len: Instead of spending significant time and money to research whether Babson should create a West Coast outpost, his dean simply opened up admissions and discovered enough demand to start one six months later.

This anecdotal evidence suggests that the act-learn-build strategy can and should be espoused not only by entrepreneurs but also by employees working within traditional organizations. It takes just one smart step to get started.

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NOTE

The authors note that a more detailed look at the Clorox venture is found in *The New Entrepreneurial Leader: Developing Leaders Who Shape Social & Economic Opportunity*, by Danna Greenberg, Kate McKone-Sweet, and H. James Wilson (Berrett-Koehler, 2011).

CHAPTER 10

Monitoring and Controlling Your Project

by Raymond Sheen

Unlike processes—where the same people repeatedly perform the same activities—projects often involve unique activities (such as using new technologies, building new buildings, or writing new software) carried out by individuals who may be working together for the first time. So as a project leader, you'll need to actively monitor progress to figure out whether your plan is really bringing the team closer to its objectives.

Adapted from *HBR Guide to Project Management* (product #11184E), Harvard Business Review Press, 2013, pp. 127–134.

When monitoring and controlling a project, you'll follow five basic steps:

1. Track Project Activities

It's important to check in with team members regularly to make sure they're completing their tasks and meeting quality standards. You can do this most effectively through team meetings if everyone works at the same location. However, given how common distributed teams are in today's business environment, it can be difficult to get the entire group together. When that's the case, I conduct separate working sessions with individuals or small groups needed for particular activities. For example, I recently participated in a "live meeting" conference call where engineers from three locations helped prepare a product-development proposal for a customer. If I had created a draft, sent it around for comments, and then tried to integrate all the feedback, it could easily have taken weeks to complete the document. Instead, I had the right engineers reviewing it over the phone for about three hours, until everybody agreed on the wording. After a working session like this, I loop the rest of the team in at a larger group meeting or through email.

I also use "buddy checks" to verify that tasks are done properly. When someone completes an activity, another team member looks at the results. This is not an in-depth technical analysis; it's a quick check to confirm that the person who did the work hasn't accidentally overlooked something or misunderstood the requirements. A team member checking a training plan for a new system, for example, would make certain that all departments in

need of training have been included. If possible, have someone who will *use* the results of the activity do the buddy check. When I worked with a medical device company on developing a new product, I had its regulatory department review the design documentation and test data to flag any missing information that would be required later for regulatory submittal. If a team member with a stake in the activity's result is not available, you can do the buddy check yourself—but make it clear that it's not a performance appraisal. It's just one team member looking out for another.

2. Collect Performance Data

A few companies have project management information systems that automatically generate reports. If you have access to one, by all means use it—but also seek out performance data through short *pulse meetings,* where team members share status updates on activities and assess risks, either face-to-face or virtually. I limit these to 10 minutes and discuss only the tasks started or finished since the last meeting. The purpose is to get a quick sense of where things are, not to roll up sleeves. If the team identifies any problems or risks, I resolve them in a separate working session with the appropriate individuals.

I normally pulse projects on a weekly basis, which allows me to track progress adequately and identify problems in time to respond to them. However, when a project is in crisis mode, the "pulse rate" quickens. I once managed a project in which the power system for a new facility failed three days before the building needed to be up and running. An important business objective hinged

on that deadline. The team worked around the clock to identify the cause of the failure, replace the destroyed component, and bring the facility back on line. All that would normally have taken two to three months, but we had three days, so I pulsed the project every three hours.

3. Analyze Performance to Determine Whether the Plan Still Holds

Activities seldom go precisely as anticipated. They may take more or less time; they may overrun or underrun the budget. A departure from your plan isn't a problem unless it's likely to compromise the team's objectives. On one project, I had an engineer report at a pulse meeting that a new mold would be two weeks late. But since the mold wasn't on our critical path and we had nearly six weeks of slack time in that portion of the schedule, the team didn't need to take special action. If the late deliverable had put us in danger of missing an important goal, I would have called a meeting with the appropriate team members to figure out a solution.

This is the time when careful project planning pays dividends. Knowing the critical path will help you decide which issues warrant a schedule change. If you've identified risks up front that could undermine your objectives, you can more easily recognize which snags are threats to the project's success. Having estimated each activity's duration and costs and carefully noted any uncertainties, you'll be able to distinguish between variances that aren't a big deal and those that suggest larger underlying problems.

When a plan does need revising, you may have to extend the end date, apply budget reserves, remove deliv-

erables from the project's scope, or even cancel the project. On one software development project I oversaw, we had an excessively "buggy" first release. Before trying to fix the software, I quickly checked the requirements document and realized that the developers were using an out-of-date version. We had to reschedule the software development task for that module, causing us to delay project completion by about a month, but the change clearly needed to be made.

4. Report Progress to Your Stakeholders

Some project managers and team members perceive *stakeholder reviews*—which involve preparing reports and conducting progress meetings—as wasted effort because they take time away from other activities. However, if managed properly, these reviews propel a project toward success. There are three types: management reviews, tollgate reviews, and technical reviews. For all three, record and circulate action items, and keep meeting minutes in the project file for future reference.

The purpose of the *management review* is to manage risk. Stakeholders may examine several projects at a time to see if the portfolio as a whole will generate the desired business performance and to identify systemic weaknesses. They'll look at individual projects on their own merits as well. Such reviews are normally held at regular intervals—monthly, for instance. When conducting them, keep in mind that your stakeholders care about reaching business goals, not about following the team's day-to-day activities. I recently attended a review where the project leader spent nearly 30 minutes describing

technical designs the team was considering and testing, which only bored and frustrated the stakeholders. Instead, he should have spent five minutes telling them the project was on schedule (it was), that the team had made progress on its technical analysis (it had), and that no new risks had been identified.

Creating a *project dashboard* is a great way to summarize your objectives and show stakeholders whether the project, as currently planned and managed, will achieve them. (You can break it down into components such as schedule, cost, and performance.) This is often called a *stoplight chart,* since it usually indicates activity statuses in red, yellow, and green. Most companies have a standard format to help senior managers quickly and efficiently assess progress and risks on many projects. When using color coding, make sure everyone understands exactly what each color means. For example, do you list all incomplete tasks in red? Or are some of them green, because the plan for completion is approved and underway?

When you need to report bad news in a management review, always couch it in terms of risks to project objectives. Explain how certain task delays will prevent the team from realizing project goals on time, for instance, or how a resource shortage will reduce the rigor of an activity and thus the quality of its deliverable. When you present problems, also give options for responding to them and discuss the risks associated with each solution. The stakeholders will decide which risks they want the business to take.

The *tollgate review* (also called the *stage-gate review,* or *phase-gate review*) is a decision meeting, not a status check. It's used when a business plans and executes

projects in discrete phases. In it, the project team summarizes the results of the preceding phase and presents a plan for the next phase. The stakeholders assess the plan, options, and risks, and then decide whether to approve, redirect, or cancel the project. If they say to proceed to the next phase, they also provide the team with the necessary resources, including funding.

At a *technical review* (sometimes referred to as a *peer review*), an independent team of experts—internal or external consultants, say, or representatives from a regulatory agency—provides an in-depth analysis of project results. The purpose is to ensure that team members did the work accurately, completely, and to the right quality standard. Stakeholders may give a stamp of approval at this time: If the team has successfully completed one phase of the project, it can now proceed to a tollgate review for approval to begin the next phase.

5. Manage Changes to the Plan

When revising a plan, you may make major changes or just minor tweaks that will allow the team to meet its objectives.

If you propose major changes to your stakeholders, spell out the costs and risks of adopting them and those of sticking with the original plan. A defense contractor that I work with was asked by the Air Force to improve performance of a weapon-system component. After the Air Force reviewed the proposed options (which included costs, risks, and schedules) and selected one, the contractor synchronized updates to design documentation, manufacturing processes, supplier contracts, the project schedule, and the budget so the transition would be as

seamless as possible. When making such large-scale revisions, record them (along with the rationale) on some type of change log in the project records. You can use your normal project-planning processes and techniques to revise your plan. Send the new plan to your team members, and explain any changes that affect them.

Minor changes may come up as you're implementing a contingency plan or working out details of a portion of the project that was planned only at a high level. The project team can usually manage these on its own, without seeking stakeholder approval, unless the changes will directly affect stakeholders or their departments.

As you're monitoring your project, remember that meeting your objectives trumps everything else. Don't get hung up on compliance with the original plan. In my experience, almost every project plan must be revised at some point—especially when you're developing new products or systems, because what you learn in the early stages sheds light on how later-stage tasks should take shape. Don't be afraid to change course if it will bring you within reach of your goals.

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CHAPTER 11

Building a Transformative Team

by Nathan Furr, Kyle Nel, and Thomas Zoëga Ramsøy

An all-star team is making headway with a new initiative that could alter the future of the organization. Spirits are optimistic, and the team is successfully maneuvering through new, yet very promising, territory. Then, the results begin taking longer than anticipated to prove, and after too much time spent outside of their comfort zones, the team of high-achieving employees can't seem to execute within the uncertain environment.

Adapted from "If Your Innovation Effort Isn't Working, Look at Who's on the Team," on hbr.org, November 9, 2018 (product #H04N87).

The team's outlook shifts, and it becomes clear that the group will not be able to weather the storm of uncertainty needed to realize this new organizational opportunity.

How could such a capable team fail?

At the heart of many organizations is a deeper problem that blocks transformation: product/function organizational structure. This structure works in well-understood environments, where maximizing delivery of a product or service is the goal, but transformative projects require the organization to return to a more malleable state. This challenge requires teams that are formed through a rematching of resources and employee capabilities.

Transformation-capable teams are made up of people who not only are high performers, but have a unique balance of skills and mindsets that allows them to sustain focus, agility, and optimism in the face of uncertainty for prolonged periods of time. Ultimately, not all top-performing employees are equipped for this.

In our book, *Leading Transformation: How to Take Charge of Your Company's Future*, we highlight certain capabilities to search for and cultivate while building a transformative team. Specifically, there are three unique characteristics that will play critical roles as a team takes on a breakthrough initiative.

Negative Capability: Being Comfortable with Uncertainty

The term "negative capability" was coined by the poet John Keats when describing writers like Shakespeare

who were able to work within uncertainty and doubt. Keats was describing the ability to accept not having an immediate answer and to remain willing to explore how something may evolve before there is a clear outcome.

In the modern context, negative capability can be thought of as the ability to be comfortable with uncertainty, even to entertain it, rather than to become so anxious by its presence that you have to prematurely race to a more certain, yet suboptimal, conclusion. Whereas many people cannot stand the fuzziness of uncertainty, those who demonstrate negative capabilities can facilitate the exploration of new terrain and the discovery of an adjacent possible opportunity.

Individuals with negative capability remain curious and focused even when your project is far from the end goal. Chances are, they will even find this point of the project enthralling, rather than overwhelming, which is exactly what you want. They will also be able to suspend judgment about an end result and stay open to many possible outcomes, rather than become fixed early on to one version of success.

Chaos Pilots: Leading and Executing in Unfamiliar Territory

In 1991, Danish politician and social worker Uffe Elbæk took out a $100,000 personal loan to open an unusual business school called Kaospilot. The vision of the business school was inspired by a previous project of Elbæk's, where he observed a new skill set in students for navigating uncertain problems and saw the opportunity to teach

these skills to business leaders who needed to do the same. *Chaos pilot* is a perfect label for a specific persona needed on a transformative team.

Chaos pilots are people who can creatively lead a project through uncertainty. They have negative capability, but they also have other critical skills, such as the ability to create structure within chaos and take action. Leaders who are chaos pilots are able to drive a team forward on a project even as the environment around them fluctuates.

Although it may sound glamorous to be such a person, being a chaos pilot is hard—they are the colleagues working on ambiguous projects and frequently getting beat up in the process. People who aren't capable of being chaos pilots quickly flounder when the environment around the project gets shaky.

Chaos pilots often care more about creating meaningful change than about climbing a corporate ladder or getting another star on their charts. Finding chaos pilots to join you can be challenging and requires observation and experimentation, though there are a few fertile places to look for good candidates.

For example, look for people who are getting mixed performance reviews, but who are still highly prized by the organization. Often, these people are getting mixed reviews because they make those around them uncomfortable—as the potential candidates often challenge the status quo—but they continue to succeed because they perform so well.

Divergent Thinking, Convergent Action, and Influential Communication

Finally, there are three neuropsychological traits to seek while building a transformative team. These three traits—divergent thinking, convergent action, and influential communication—all play a crucial role for success in innovation and transformation. While many individuals hold one or two of these skills, finding a person with all three is more challenging, yet optimal.

The first of the three, divergent thinking, is the ability to uniquely connect new information, ideas, and concepts that are usually held far apart. People with this skill can match dissimilar concepts in novel and meaningful ways and uncover new opportunities that others may overlook.

Convergent action, the second trait, is the ability to execute on these new ideas in order to create something tangible. Though many people can come up with great ideas, it is often those with convergent action who will move that new concept from idea to product. Last, having the ability to communicate ideas in a coherent, compelling, and influential way is paramount. This trait will inspire other leaders and decision makers to believe, support, and act on a novel idea or opportunity.

Similar to how many transformative business opportunities are found in unlikely places, the same is true about where you may find the best-suited team members to drive forward a promising new initiative.

Each organizational project represents a moment of potential transformation, and each successful project helps an organization self-correct away from becoming a calloused machine executing on routine and instead become what it needs to survive: a malleable organization capable of capturing new opportunities.

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CHAPTER 12

Teamwork on the Fly

by Amy C. Edmondson

If you watched the Beijing Olympic Games, you probably marveled at the Water Cube: that magnificent 340,000-square-foot box framed in steel and covered with semitransparent, ecoefficient blue bubbles. Formally named the Beijing National Aquatics Center, the Water Cube hosted swimming and diving events, could hold 17,000 spectators, won prestigious engineering and design awards, and cost an estimated 10.2 billion yuan. The structure was the joint effort of global design and engineering company Arup, PTW Architects, the China State Construction Engineering Corporation (CSCEC),

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Adapted from *Harvard Business Review*, April 2012 (product #R1204D).

China Construction Design International, and dozens of contractors and consultants. The goal was clear: Build an iconic structure to reflect Chinese culture, integrate with the site, and minimize energy consumption—on time and within budget. But how to do all that was less clear.

Ultimately, Tristram Carfrae, an Arup structural engineer based in Sydney, corralled dozens of people from 20 disciplines and four countries to win the competition and deliver the building. This required more than traditional project management. Success depended on bridging dramatically different national, organizational, and occupational cultures to collaborate in fluid groupings that emerged and dissolved in response to needs that were identified as the work progressed.

The Water Cube was an unusual endeavor, but the strategy employed to complete it—a strategy I call *teaming*—epitomizes the new era of business. Teaming is teamwork on the fly: a pickup basketball game rather than plays run by a team that has trained as a unit for years. It's a way to gather experts in temporary groups to solve problems they're encountering for the first and perhaps only time. Think of clinicians in an emergency room, who convene quickly to solve a specific patient problem and then move on to address other cases with different colleagues, compared with a surgical team that performs the same procedure under highly controlled conditions day after day. When companies need to accomplish something that hasn't been done before, and might not be done again, traditional team structures aren't practical. It's just not possible to identify the right skills and knowledge in advance and to trust that cir-

cumstances will not change. Under those conditions, a leader's emphasis has to shift from composing and managing teams to inspiring and enabling teaming.

Stable teams of people who have learned over time to work well together can be powerful tools. But given the speed of change, the intensity of market competition, and the unpredictability of customers' needs today, there often isn't enough time to build that kind of team. Instead, organizations increasingly must bring together not only their own far-flung employees from various disciplines and divisions but also external specialists and stakeholders, only to disband them when they've achieved their goal or when a new opportunity arises. More and more people in nearly every industry and type of company are now working on multiple teams that vary in duration, have a constantly shifting membership, and pursue moving targets. Product design, patient care, strategy development, pharmaceutical research, and rescue operations are just a few of the domains in which teaming is essential.

This evolution of teamwork presents serious challenges. In fact, it can lead to chaos. But employees and organizations that learn how to team well—by embracing several project management and team leadership principles—can reap important benefits. Teaming helps individuals acquire knowledge, skills, and networks. And it lets companies accelerate the delivery of current products and services while responding quickly to new opportunities. Teaming is a way to get work done while figuring out how to do it better; it's executing and learning at the same time.

From Teams to Teaming

The stable project teams we grew up with still work beautifully in many contexts. By pulling together the right people with the right combination of skills and training and giving them time to build trust, companies can accomplish big things. For instance, traditional teams at Simmons Bedding Company in the early 2000s achieved a major turnaround by driving waste out of operations, energizing sales, and building better relationships with dealers. In those teams, membership was clearly defined, each group knew which part of the operation it was responsible for, and no one had to do fundamentally new types of work. These stable teams left a trail of positive indicators, including savings of $21 million in operational costs without layoffs in the first year alone; increased sales and customer satisfaction; and dramatically improved employee morale. But Simmons had what many companies today lack: reasonably stable customer preferences, purely domestic operations, and no significant boundaries that had to be crossed to get the job done.

Situations that call for teaming are, by contrast, complex and uncertain, full of unexpected events that require rapid changes in course. No two projects are alike, so people must get up to speed quickly on brand-new topics, again and again. Because solutions can come from anywhere, team members do, too. As a result, teaming requires people to cross boundaries, which can be risky. Experts from different functions—operating with their own jargon, norms, and knowledge—often clash. People who aren't from the same division or orga-

nization can have competing values and priorities. When junior and senior staff members from different divisions are paired, reporting structures and hierarchies often silence dissent. On global teams, time zone differences and electronic correspondence can give rise to miscommunication and logistical snafus. And because the work relationships are temporary, investing the time to grow accustomed to new colleagues' work styles, strengths, and weaknesses isn't possible.

Disagreements were plentiful in designing the Water Cube, given the need for intense collaboration across boundaries. Early on, two architecture firms—one Chinese and one Australian—each developed a design concept. One was a wave-shaped structure, and the other was an eroded rectangular form. A participant recalled tension between what felt like two camps. Another added, "It was like two design processes were going on at the same time. One team was working secretly on its idea, and the other architects were doing their own thing."

Consider also a geographically distributed product development team I studied in a high-tech materials company. Working to develop a custom polymer for a Japanese manufacturer's new-product launch, the group nearly broke down over conflicting cultural norms about customer relationships. One team member, a U.S.-based marketing expert, wanted data on the manufacturer's market strategy to assess the longer-term opportunity for the polymer; she was deeply frustrated by a Japanese team member's failure to fulfill her request. In turn, the Japanese team member, an engineer, thought the U.S.

marketer was pushy and unsupportive. She knew that the customer had not yet established a strategy for the product and that demanding more information at this stage in the nascent relationship would cause the customer to "lose face."

At the same company, another team of seven experts spread across five facilities on three continents was trying to develop a different polymer on an aggressive timetable. In spite of its combined knowledge, the group reached a dead end in an effort to source a specialized compound. One member eventually found a colleague from outside the formal team who could produce it. In technologically and scientifically complex projects like this one, teaming occurs not just across the boundaries it was designed to span but also across boundaries between projects, when colleagues with expertise and goodwill help out.

As these brief examples illustrate, teaming involves both technical and interpersonal challenges. It therefore falls to leaders to draw on best practices of project management (to plan and execute in a complex and changing environment) and team leadership (to foster collaboration in shifting groups that will be inherently prone to conflict). This is the hardware and the software of teaming. Let's tackle the hardware first.

The Hardware

To facilitate effective teaming, leaders need to manage the technical issues of *scoping* out the challenge, lightly *structuring* the boundaries, and *sorting* tasks for execu-

tion. A classic error is assuming that everything a team does has to be collaborative. Instead, input and interaction should be used as needed so that not all tasks become team encounters, which are time consuming. Another error is subjecting highly uncertain initiatives to traditional project management tools that cope with complexity by dividing work into predictable phases such as initiation, planning, execution, completion, and monitoring. The hardware of teaming modifies those tools to enable execution during, rather than after, learning and planning.

Scoping

The first step in any teaming scenario is to draw a line in the (shifting) sand by scoping out the challenge, determining what expertise is needed, tapping collaborators, and outlining roles and responsibilities. Leaders of the Water Cube project, for example, started by identifying a handful of Pacific Rim firms that were capable of state-of-the-art engineering and design and willing to work together. In other organizations, this scouting activity might involve lateral and vertical searches through the hierarchy to identify people with relevant expertise. When a team is already assembled, scoping includes figuring out what additional resources are needed, as occurred in the second polymer team, or which team members can be freed up over time to join other groups. Successful scoping articulates the best possible current definition of the work and acknowledges that the definition will evolve along with the project.

Structuring

The second step is to offer some structure—figurative scaffolding—to help the team function effectively. In building, a scaffold is a light, temporary structure that supports the process of construction. For improvisational, interdependent work carried out by a shifting mix of participants, some structuring can help the group by establishing boundaries and targets. Scaffolding in a teaming situation could include a list of team members that contains pertinent biographical and professional information; a shared radio frequency, chat room, or intranet; visits to teammates' facilities; or temporary shared office space. The use of "shirts" and "skins" to designate sides in a pickup basketball game is a kind of scaffold, as is a quick briefing at the launch of a rescue mission that assigns, say, groups of four people, each with a different role, to head in three different directions. The objective of structuring is to make it easier for teaming partners to coordinate and communicate—face-to-face or virtually.

Melissa Valentine, a doctoral candidate at Harvard University, and I recently looked at the use of figurative scaffolds in emergency rooms, where fast-paced teaming has life-or-death consequences. In this setting, physicians, nurses, and technicians with constantly varying schedules depend on one another to make good patient care decisions and execute them flawlessly in real time. More often than not, people scheduled on the same shift do not have long-standing work relationships and may not even know one another's names. Valentine and I

found several hospitals that were experimenting with a system to make ad hoc collaboration easier by dividing ERs into subsections ("pods") incorporating a preset mix of roles (such as an attending physician, three nurses, a resident, and an intern) into which clinicians slide when they come to work. As a result, the teaming arrangement for each shift is established early on, which reduces coordination time, boosts accountability, improves operational efficiency, and shortens patient waits.

Temporary colocation is a common type of scaffold for high-priority, short-term projects in corporate settings. Motorola used this for one of the most successful product launches in history: the RAZR mobile phone. Battling fierce global competition in 2003, the company set out to create the thinnest phone ever in record time. Roger Jellicoe, an electrical engineer, led the project, in which 20 engineers and other experts from various groups and locations temporarily worked side by side in an otherwise unremarkable facility an hour from Chicago. The resulting product, introduced in 2004, was a stunning market success: More than 110 million RAZRs were sold in the first four years.

Sorting

The third step is the conscious prioritizing of tasks according to the degree of interdependence among individuals. As the organizational theorist James Thompson noted a half century ago, organizations exist to combine people's efforts. Combining, or interdependence, can take three forms: pooled, sequential, or reciprocal. *Pooled* interdependence was the very essence of the

industrial era—breaking work down into small tasks that could be done and monitored individually, without input from others. To the extent that such work exists in current projects, there's flexibility in when and where it gets done. But most tasks now require some degree of interaction among individuals or subgroups.

Sequential interdependence characterizes tasks that need input (information, material, or both) from someone else. The assembly line is the classic example: Unless the guy upstream does his part, I cannot do mine. Teaming situations are full of these tasks; they must be scheduled carefully to avoid delays. Effective teaming streamlines handoffs between sequential tasks to avoid wasted time and miscommunication. Too often, people focus on their own part of the work and assume that if others do likewise, that will be sufficient for good performance.

The management of tasks involving *reciprocal* interdependence—work that calls for back-and-forth communication and mutual adjustment—is most critical to successful teaming. Because it's often difficult for people in cross-functional, fluid groups to reach consensus, these tasks tend to become bottlenecks. They should therefore be prioritized. It's crucial that leaders specify points when individuals or subgroups must gather—literally or virtually—to coordinate upcoming decisions and resources or to analyze and solve problems.

One factor that distinguished the design and construction of the Water Cube from most large-scale building projects—in which different tasks are performed sequentially by different disciplines—was that all the experts came together at the beginning to brainstorm and consider the implications of various design ideas. This

decision about process deliberately converted traditionally sequential activities into reciprocal ones. The result was greater complexity and more need for coordination but also better design, less waste, quicker completion, and lower cost. One outcome was the radical decision to use ethylene tetrafluoroethylene (ETFE), a material that had been developed for space exploration but never used in a major building. Its unique properties solved several acoustic, structural, and lighting problems, and although the choice initially appeared risky, Arup engineers used the latest computer modeling software to confirm the safety of ETFE for their purposes and to communicate their thinking to the Chinese authorities.

Of course not all tasks in the Water Cube project required reciprocal interdependence. Expert subgroups had many independent tasks, such as fire safety analyses and certain technical drawings. But for interdependent work, groups had to coordinate across what the company called "interfaces." Carfrae and his colleagues divided the entire project into "volumes" (separable parts) on the basis of areas of interdependence and assigned subteams to carry them out. When issues required coordination across volumes, interface coordination meetings were held—for just the relevant parties—to manage the structural, organizational, or procedural boundaries. In this way, the project eliminated mistakes that might otherwise occur at such boundaries—saving materials, costs, and headaches.

The Software

The hardware of teaming rarely works smoothly unless the software is thoughtfully managed as well. (See the

sidebar "The Behaviors of Successful Teaming.") One challenge of any kind of teamwork is that people working together are more vulnerable to the effects of others' decisions and actions than people working independently. Stable teams overcome this by giving members time to get to know and trust one another, which makes it easier to speak up, listen closely, and interact fluidly. But constantly shifting relationships heighten the challenge. The software of teaming asks people to get comfortable with a new way of working rather than with a new set of colleagues. This new way of working requires them to act as if they trust one another—even though they don't. Of course they don't; they don't yet know one another. Leaders have at their disposal four software tools: emphasizing purpose, building psychological safety, embracing failure, and putting conflict to work.

Emphasizing purpose

Articulating what's at stake is a basic leadership tool for motivation in almost any setting, but it's particularly important in contexts that require teaming. Purpose is fundamentally about shared values; it answers the question why we (this company, this project) exist, which can galvanize even the most diverse, amorphous team. Emphasizing purpose is necessary even when the purpose is obvious, such as in the historic 70-day rescue operation of 33 Chilean miners in 2010. Andre Sougarret, the senior engineer at the Codelco mining company who led the complex rescue, constantly reminded the dozens of engineers and geologists teaming with him about the human lives they were trying to save. This helped experts from

THE BEHAVIORS OF SUCCESSFUL TEAMING

Speaking Up

Communicating honestly and directly with others by asking questions, acknowledging errors, raising issues, and explaining ideas

Experimenting

Taking an iterative approach to action that recognizes the novelty and uncertainty inherent in interactions between individuals and in the possibilities and plans they develop

Reflecting

Observing, questioning, and discussing processes and outcomes on a consistent basis—daily, weekly, monthly—that reflects the rhythm of the work

Listening Intently

Working hard to understand the knowledge, expertise, ideas, and opinions of others

Integrating

Synthesizing different facts and points of view to create new possibilities

disparate disciplines, companies, and countries quickly resolve disagreements and support one another instead of competing to come up with the idea that would save the day. Jellicoe and the Motorola RAZR team emphasized producing a groundbreaking product that would be beautiful as well as practical, while the polymer developers had a mandate to satisfy their customers' needs as quickly and effectively as they could.

Building psychological safety

In fast-paced, cross-disciplinary, cross-border teaming situations, it's not necessarily easy for people to rapidly share relevant information about their ideas and expertise. Some people worry about what others will think of them. Some fear that they will be less valuable if they give away what they know. Others are reluctant to show off. Even receiving knowledge can be difficult if it feels like an admission of weakness.

Because these vital interpersonal exchanges don't always happen spontaneously, leaders must facilitate them by creating a climate of psychological safety in which it's expected that people will speak up and disagree. A basic way to create such a climate is to model the behaviors on which teaming depends: asking thoughtful questions, acknowledging ignorance about a topic or area of expertise, and conveying awareness of one's own fallibility. Leaders who act this way make it safer for everyone else to do so. To establish a psychologically safe environment for the rescue operation in Chile, Sougarret shielded everyone involved from the media, asked questions and listened carefully to people regardless of rank, and dem-

onstrated deep interest in new ideas about how to save the miners. In the Water Cube project, Carfrae created what team members referred to as a "safe design environment" by reinforcing the need to experiment with wild ideas.

Embracing failure

Teaming necessarily leads to failures, even on the way to extraordinary successes. These failures provide essential information that guides the next steps, creating an imperative to learn from them.

In teaming situations, leaders must ensure that all participants get over their natural desire to avoid the embarrassment and loss of confidence associated with making mistakes. The RAZR team confronted failure when, despite long working hours, it missed its ambitious deadline and the associated holiday sales. Fully supported by senior management, the team launched a few months later, and the phone's sales still surpassed expectations. The first polymer team described above undertook a series of experiments that went nowhere and ultimately brought in some specialists, confident that those colleagues would not think less of them. Teaming is needed for just those kinds of situations—when the people responsible for implementing solutions are not necessarily the ones who can come up with them.

Putting conflict to work

When teaming occurs across diverse cultures, priorities, or values, progress-thwarting conflicts are common—even when leaders have done all the right things.

To move forward, all parties must be pushed to consider the degree to which their positions reflect not just facts but also personal values and biases, to explain how they have arrived at their views, and to express interest in one another's analytic journeys. In this way, people can put conflict to good use.

As Chris Argyris wrote in the HBR article "Teaching Smart People How to Learn," learning from conflict requires us to balance our natural tendency toward advocacy (explaining, communicating, teaching) with a less spontaneous behavior: inquiry (expressions of curiosity followed by genuine listening). A useful discipline for leaders is to force moments of reflection, asking themselves and then others, "Is this the only way to see the situation? What might I be missing?" Such exploration—even in the face of deadlines—is critical to successful teaming. In fact, in my research and consulting I've found that "taking the time" to do this actually takes less time than allowing conflicts to follow their natural course.

Conflict can feel like a failure. It can be frustrating not to see eye-to-eye with collaborators, but differences of perspective are a core reason for teamwork in the first place, and resolving them effectively gives rise to new opportunities. Instead of parting ways when they disagreed about the design for the Olympic aquatics center, the Chinese and Australian designers came up with a brand-new concept that excited both sides. Would either of their original design concepts have won the competition? We can't answer that, but the new, shared solution—the Water Cube—was spectacular. Project leaders

facilitated this successful outcome by assigning those rare specialists who had deep familiarity with both Chinese and Western culture to spend time in each other's firms helping to bridge differences in language, norms, practices, and expectations.

Challenges Bring Benefits

Having studied the evolution of teamwork for 20 years, I believe that teaming is not just something individuals and companies have to do now but something they should want to do now, because it's an important driver of personal and organizational development.

When managed effectively, teaming can generate not only amazing short-term results, as illustrated by the RAZR and the Water Cube, but also long-term dividends. (See table 12-1, "The Rewards of Teaming.") Organizations that learn to team well become nimbler and more innovative. They are able to solve complex, cross-disciplinary problems, align divisions and employees by developing stronger and more-unified corporate cultures, deliver a wide variety of products and services, and manage unexpected events. Teaming helps companies execute even as they learn on multiple fronts, which in turn leads to improved execution.

Individuals also benefit from serial teaming, developing broader knowledge, better interpersonal skills, a bigger network of potential collaborators, and a better understanding of their company and the different cultures at work in it. In a study of product development teams, my colleagues and I found that people who had worked on teams with greater task novelty and product

TABLE 12-1

The rewards of teaming

The most challenging attributes of teaming can also yield big organizational and individual benefits.

Multiple functions must work together	People are geographically dispersed	Relationships are temporary	No two projects are alike	The work can be uncertain and chaotic
Challenges				
Conflict can arise among people with differing values, norms, jargon, and expertise.	Time zone differences and electronic communication present logistical hurdles.	People may not have time to build trust and mutual understanding.	Individuals must get up to speed on brand-new topics quickly, again and again.	Fluid situations require constant communication and coordination.
Benefits				
ORGANIZATIONAL Innovation from combining skills and perspectives Ability to solve cross-disciplinary problems	***ORGANIZATIONAL*** Greater alignment across divisions Better diffusion of the company's culture	***ORGANIZATIONAL*** More shared experience among colleagues Greater camaraderie across the company	***ORGANIZATIONAL*** Ability to meet changing customer needs	***ORGANIZATIONAL*** Ability to manage unexpected events
INDIVIDUAL Boundary-spanning skills Understanding of other disciplines Broader perspective on the business	***INDIVIDUAL*** Familiarity with people in different locations Deeper understanding of different cultures and of the organization's operations	***INDIVIDUAL*** Interpersonal skills Extensive network of collaborators	***INDIVIDUAL*** Flexibility and agility Ability to import ideas from one context to another	***INDIVIDUAL*** Project management skills Experimentation skills

complexity, more-diverse colleagues, and more boundary spanning learned more than people on teams that faced fewer of those challenges.

The multinational food company Group Danone believes so strongly in the power of teaming that the company has institutionalized it in the form of Networking Attitude, a program initiated by the executives Franck Mougin and Benedikt Benenati. It encourages ad hoc projects involving employees spread across hundreds of business units that previously operated independently, with little or no cross-pollination. Using a mix of face-to-face "knowledge marketplaces" and electronically mediated discussions, managers with an interest in a particular issue, brand, or problem can find partners with whom to share practices and launch new initiatives. An internal report featured stories of 33 practices transferred across sites, from which the company expects new teams and projects to bubble up. One initiative involved a dessert Danone Brazil helped Danone France launch in under three months in response to a competitor's move; it became a €20 million business. The company now has more than 60 new "networks"—porous communities of teaming colleagues—around the globe. Networking Attitude was designed to produce business successes, and it did. But, just as important, it shifted a culture of localized, hierarchical decision making to one of horizontal collaboration.

Teaming is more chaotic than traditional teamwork, but it is here to stay. Projects increasingly require information and process sophistication from many fields. And managers are dependent on all kinds of specialists

to make decisions and get work done. To excel in a complex and uncertain business environment, people need to work together in new and unpredictable ways. That's why successful teaming starts with an embrace of the unknown and a commitment to learning that drives employees to absorb, and sometimes create, new knowledge while executing.

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CHAPTER 13

Why Good Projects Fail Anyway

by Nadim F. Matta and Ronald N. Ashkenas

Big projects fail at an astonishing rate. Whether major technology installations, postmerger integrations, or new growth strategies, these efforts consume tremendous resources over months or even years. Yet as study after study has shown, they frequently deliver disappointing returns—by some estimates, in fact, well over half the time. And the toll they take is not just financial. These failures demoralize employees who have labored diligently to complete their share of the work. One middle manager at a top pharmaceutical company told us,

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"I've been on dozens of task teams in my career, and I've never actually seen one that produced a result."

The problem is, the traditional approach to project management shifts the project teams' focus away from the end result toward developing recommendations, new technologies, and partial solutions. The intent, of course, is to piece these together into a blueprint that will achieve the ultimate goal, but when a project involves many people working over an extended period of time, it's very hard for managers planning it to predict all the activities and work streams that will be needed. Unless the end product is very well understood, as it is in highly technical engineering projects such as building an airplane, it's almost inevitable that some things will be left off the plan. And even if all the right activities have been anticipated, they may turn out to be difficult, or even impossible, to knit together once they're completed.

Managers use project plans, timelines, and budgets to reduce what we call "execution risk"—the risk that designated activities won't be carried out properly—but they inevitably neglect these two other critical risks—the "white space risk" that some required activities won't be identified in advance, leaving gaps in the project plan, and the "integration risk" that the disparate activities won't come together at the end. So project teams can execute their tasks flawlessly, on time and under budget, and yet the overall project may still fail to deliver the intended results.

We've worked with hundreds of teams over the past 20 years, and we've found that by designing complex projects differently, managers can reduce the likelihood

that critical activities will be left off the plan and increase the odds that all the pieces can be properly integrated at the end. The key is to inject into the overall plan a series of miniprojects—what we call *rapid-results initiatives*—each staffed with a team responsible for a version of the hoped-for overall result in miniature and each designed to deliver its result quickly.

Let's see what difference that would make. Say, for example, your goal is to double sales revenue over two years by implementing a customer relationship management (CRM) system for your sales force. Using a traditional project management approach, you might have one team research and install software packages, another analyze the different ways that the company interacts with customers (email, telephone, and in person, for example), another develop training programs, and so forth. Many months later, however, when you start to roll out the program, you might discover that the salespeople aren't sold on the benefits. So even though they may know how to enter the requisite data into the system, they refuse. This very problem has, in fact, derailed many CRM programs at major organizations.

But consider the way the process might unfold if the project included some rapid-results initiatives. A single team might take responsibility for helping a small number of users—say, one sales group in one region—increase their revenues by 25% within four months. Team members would probably draw on all the activities described above, but to succeed at their goal, the microcosm of the overall goal, they would be forced to find out what, if anything, is missing from their plans as they go forward.

Along the way, they would, for example, discover the salespeople's resistance, and they would be compelled to educate the sales staff about the system's benefits. The team may also discover that it needs to tackle other issues, such as how to divvy up commissions on sales resulting from cross-selling or joint-selling efforts.

When they've ironed out all the kinks on a small scale, their work would then become a model for the next teams, which would either engage in further rapid-results initiatives or roll the system out to the whole organization—but now with a higher level of confidence that the project will have the intended impact on sales revenue. The company would see an early payback on its investment and gain new insights from the team's work, and the team would have the satisfaction of delivering real value.

In the pages that follow, we'll take a close look at rapid-results initiatives, using case studies to show how these projects are selected and designed and how they are managed in conjunction with more traditional project activities.

How Rapid-Results Teams Work

Let's look at an extremely complex project, a World Bank initiative begun in June 2000 that aims to improve the productivity of 120,000 small-scale farmers in Nicaragua by 30% in 16 years. A project of this magnitude entails many teams working over a long period of time, and it crosses functional and organizational boundaries.

They started as they had always done: A team of World Bank experts and their clients in the country (in

this case, Ministry of Agriculture officials) spent many months in preparation—conducting surveys, analyzing data, talking to people with comparable experiences in other countries, and so on. Based on their findings, these project strategists, designers, and planners made an educated guess about the major streams of work that would be required to reach the goal. These work streams included reorganizing government institutions that give technical advice to farmers, encouraging the creation of a private-sector market in agricultural support services (such as helping farmers adopt new farming technologies and use improved seeds), strengthening the National Institute for Agricultural Technology (INTA), and establishing an information management system that would help agricultural R&D institutions direct their efforts to the most productive areas of research. The result of all this preparation was a multiyear project plan, a document laying out the work streams in detail.

But if the World Bank had kept proceeding in the traditional way on a project of this magnitude, it would have been years before managers found out if something had been left off the plan or if the various work streams could be integrated—and thus if the project would ultimately achieve its goals. By that time, millions of dollars would have been invested and much time potentially wasted. What's more, even if everything worked according to plan, the project's beneficiaries would have been waiting for years before seeing any payoff from the effort. As it happened, the project activities proceeded on schedule, but a new minister of agriculture came on board two years in and argued that he needed to see results sooner

than the plan allowed. His complaint resonated with Norman Piccioni, the World Bank team leader, who was also getting impatient with the project's pace. As he said at the time, "Apart from the minister, the farmers, and me, I'm not sure anyone working on this project is losing sleep over whether farmer productivity will be improved or not."

Over the next few months, we worked with Piccioni to help him and his clients add rapid-results initiatives to the implementation process. They launched five teams, which included not only representatives from the existing work streams but also the beneficiaries of the project, the farmers themselves. The teams differed from traditional implementation teams in three fundamental ways. Rather than being partial, horizontal, and long term, they were results oriented, vertical, and fast. A look at each attribute in turn shows why they were more effective.

Results oriented

As the name suggests, a rapid-results initiative is intentionally commissioned to produce a measurable result, rather than recommendations, analyses, or partial solutions. And even though the goal is on a smaller scale than the overall objective, it is nonetheless challenging. In Nicaragua, one team's goal was to increase Grade A milk production in the Leon municipality from 600 to 1,600 gallons per day in 120 days in 60 small and medium-size producers. Another was to increase pig weight on 30 farms by 30% in 100 days using enhanced corn seed. A third was to secure commitments from

private-sector experts to provide technical advice and agricultural support to 150 small-scale farmers in the El Sauce (the dry farming region) within 100 days.

This results orientation is important for three reasons. First, it allows project planners to test whether the activities in the overall plan will add up to the intended result and to alter the plans if need be. Second, it produces real benefits in the short term. Increasing pig weight in 30 farms by 30% in just over three months is useful to those 30 farmers no matter what else happens in the project. And finally, being able to deliver results is more rewarding and energizing for teams than plodding along through partial solutions.

The focus on results also distinguishes rapid-results initiatives from pilot projects, which are used in traditionally managed initiatives only to reduce execution risk. Pilots typically are designed to test a preconceived solution, or means, such as a CRM system, and to work out implementation details before rollout. Rapid-results initiatives, by contrast, are aimed squarely at reducing white space and integration risk.

Vertical

Project plans typically unfold as a series of activities represented on a timeline by horizontal bars. In this context, rapid-results initiatives are vertical. They encompass a slice of several horizontal activities, implemented in tandem in a very short time frame. By using the term "vertical," we also suggest a cross-functional effort, since different horizontal work streams usually include people from different parts of an organization (or even, as in

Nicaragua, different organizations), and the vertical slice brings these people together. This vertical orientation is key to reducing white space and integration risks in the overall effort: Only by uncovering and properly integrating any activities falling in the white space between the horizontal project streams will the team be able to deliver its miniresult. (For a look at the horizontal and vertical work streams in the Nicaragua project, see the sidebar "The World Bank's Project Plan.")

The team working on securing commitments between farmers and technical experts in the dry farming region, for example, had to knit together a broad set of activities. The experts needed to be trained to deliver particular services that the farmers were demanding because they had heard about new ways to increase their productivity through the information management system. That, in turn, was being fed information coming out of INTA's R&D efforts, which were directed toward addressing specific problems the farmers had articulated. So team members had to draw on a number of the broad horizontal activities laid out in the overall project plan and integrate them into their vertical effort. As they did so, they discovered that they had to add activities missing from the original horizontal work streams. Despite the team members' heroic efforts to integrate the ongoing activities, for instance, 80 days into their 100-day initiative, they had secured only half the commitments they were aiming for. Undeterred and spurred on by the desire to accomplish their goal, team members drove through the towns of the region announcing with loudspeakers the availability and benefits of the technical services. Over

the following 20 days, the gap to the goal was closed. To close the white space in the project plan, "marketing of technical services" was added as another horizontal stream.

Fast

How fast is fast? Rapid-results projects generally last no longer than 100 days. But they are by no means quick fixes, which imply shoddy or short-term solutions. And while they deliver quick wins, the more important value of these initiatives is that they change the way teams approach their work. The short time frame fosters a sense of personal challenge, ensuring that team members feel a sense of urgency right from the start that leaves no time to squander on big studies or interorganizational bickering. In traditional horizontal work streams, the gap between current status and the goal starts out far wider, and a feeling of urgency does not build up until a short time before the day of reckoning. Yet it is precisely at that point that committed teams kick into a high-creativity mode and begin to experiment with new ideas to get results. That kick comes right away in rapid-results initiatives.

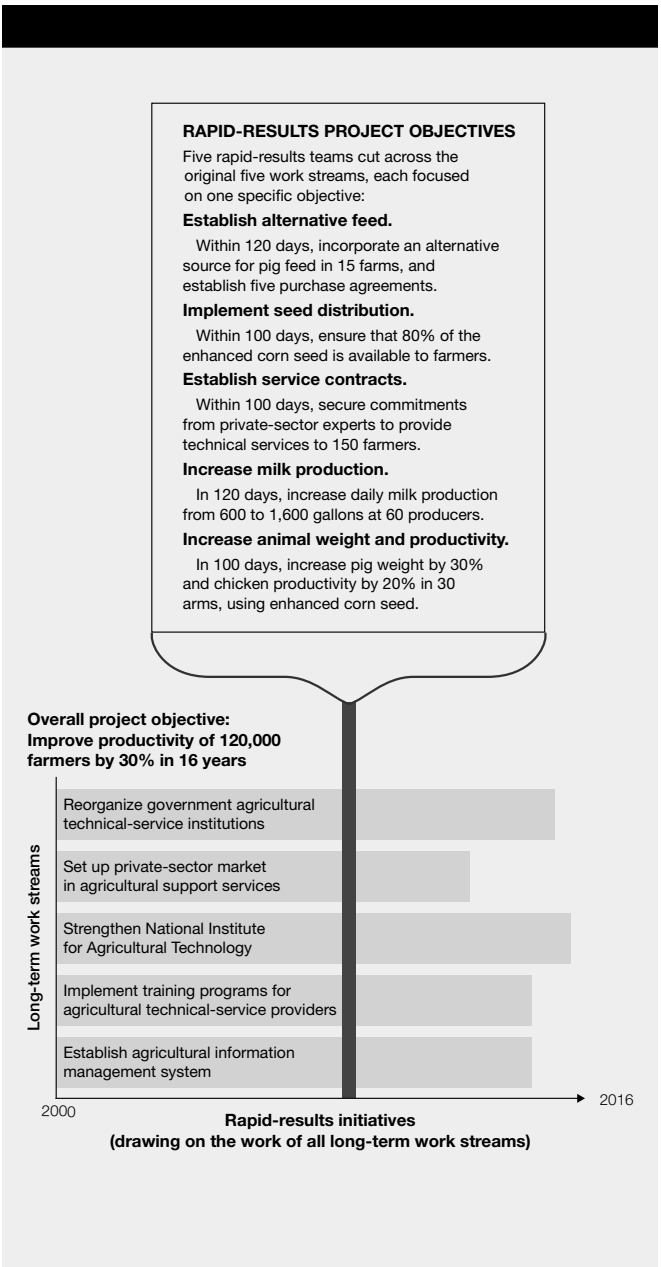
A Shift in Accountability

In most complex projects, the executives shaping and assigning major work streams assume the vast majority of the responsibility for the project's success. They delegate execution risk to project teams, which are responsible for staying on time and on budget, but they inadvertently leave themselves carrying the full burden of white

THE WORLD BANK'S PROJECT PLAN

A project plan typically represents the planned activities as horizontal bars plotted over time. But in most cases, it's very difficult to accurately assess all the activities that will be required to complete a complicated long-term project. We don't know what will fall into the white space between the bars. It's also difficult to know whether these activities can be integrated seamlessly at the end; the teams working in isolation may develop solutions that won't fit together. Rapid-results initiatives cut across horizontal activities, focusing on a miniversion of the overall result rather than on a set of activities.

Here is a simplified version of the Nicaragua project described in this article. Each vertical team (depicted as a group by the vertical bar) includes representatives from every horizontal team, which makes the two types of initiatives mutually reinforcing. So, for example, the horizontal work stream labeled "Set up private-sector market in agricultural support services" includes activities like developing a system of coupons to subsidize farmers' purchases. The vertical team establishing service contracts between technical experts and farmers drew on this work, providing the farmers with coupons they could use to buy the technical services. This, in turn, drove competition in the private sector, calling on the work that the people on the horizontal training teams were doing—which led to better services.


RAPID-RESULTS PROJECT OBJECTIVES
Five rapid-results teams cut across the original five work streams, each focused on one specific objective:
Establish alternative feed.
Within 120 days, incorporate an alternative source for pig feed in 15 farms, and establish five purchase agreements.
Implement seed distribution.
Within 100 days, ensure that 80% of the enhanced corn seed is available to farmers.
Establish service contracts.
Within 100 days, secure commitments from private-sector experts to provide technical services to 150 farmers.
Increase milk production.
In 120 days, increase daily milk production from 600 to 1,600 gallons at 60 producers.
Increase animal weight and productivity.
In 100 days, increase pig weight by 30% and chicken productivity by 20% in 30 arms, using enhanced corn seed.
Overall project objective:
Improve productivity of 120,000 farmers by 30% in 16 years
Long-term work streams
Reorganize government agricultural technical-service institutions
Set up private-sector market in agricultural support services
Strengthen National Institute for Agricultural Technology
Implement training programs for agricultural technical-service providers
Establish agricultural information management system
2000
2016
Rapid-results initiatives
(drawing on the work of all long-term work streams)

space and integration risk. In World Bank projects, as in most complex and strategically critical efforts, these risks can be huge.

When executives assign a team responsibility for a result, however, the team is free—indeed, compelled—to find out what activities will be needed to produce the result and how those activities will fit together. This approach puts white space and integration risk onto the shoulders of the people doing the work. That's appropriate because, as they work, they can discover on the spot what's working and what's not. And in the end, they are rewarded not for performing a series of tasks but for delivering real value. Their success is correlated with benefits to the organization, which will come not only from implementing known activities but also from identifying and integrating new activities.

The milk productivity team in Nicaragua, for example, found out early on that the quantity of milk production was not the issue. The real problem was quality: Distributors were being forced to dump almost half the milk they had bought due to contamination, spoilage, and other problems. So the challenge was to produce milk acceptable to large distributors and manufacturers that complied with international quality standards. Based on this understanding, the team leader invited a representative of Parmalat, the biggest private company in Nicaragua's dairy sector, to join the team. Collaborating with this customer allowed the team to understand Parmalat's quality standards and thus introduce proper hygiene practices to the milk producers in Leon. The collaboration also identified the need for simple equipment

such as a centrifuge that could test the quality of batches quickly.

The quality of milk improved steadily in the initial stage of the effort. But then the team discovered that its goal of tripling sales was in danger due to a logistics problem: There wasn't adequate storage available for the additional Grade A milk now being produced. Rather than invest in refrigeration facilities, the Parmalat team member (now assured of the quality of the milk) suggested that the company conduct collection runs in the area daily rather than twice weekly.

At the end of 120 days, the milk productivity team (renamed the "clean-milking" team) and the other four teams not only achieved their goals but also generated a new appreciation for the discovery process. As team leader Piccioni observed at a follow-up workshop: "I now realize how much of the overall success of the effort depends on people discovering for themselves what goals to set and what to do to achieve them."

What's more, the work is more rewarding for the people involved. It may seem paradoxical, but virtually all the teams we've encountered prefer to work on projects that have results-oriented goals, even though they involve some risk and require some discovery, rather than implement clearly predefined tasks.

The Leadership Balancing Act

Despite the obvious benefits of rapid-results initiatives, few companies should use them to replace the horizontal activities altogether. Because of their economies of scale, horizontal activities are a cost-efficient way to work. And

so it is the job of the leadership team to balance rapid-results initiatives with longer-term horizontal activities, help spread insights from team to team, and blend everything into an overall implementation strategy.

In Nicaragua, the vertical teams drew members from the horizontal teams, but these people continued to work on the horizontal streams as well, and each team benefited from the work of the others. So, for example, when the milk productivity team discovered the need to educate farmers in clean-milking practices, the horizontal training team knew to adjust the design of its overall training programs accordingly.

The adhesive-material and office-product company Avery Dennison took a similar approach, creating a portfolio of rapid-results initiatives and horizontal work streams as the basis for its overall growth acceleration strategy. Just over a year ago, the company was engaged in various horizontal activities like new technology investments and market studies. The company was growing, but CEO Phil Neal and his leadership team were not satisfied with the pace. Although growth was a major corporate goal, the company had increased its revenues by only 8% in two years.

In August 2002, Neal and president Dean Scarborough tested the vertical approach in three North American divisions, launching 15 rapid-results teams in a matter of weeks. One was charged with securing one new order for an enhanced product, refined in collaboration with one large customer, within 100 days. Another focused on signing up three retail chains so it could use that experience to develop a methodology for moving

into new distribution channels. A third aimed to book several hundred thousand dollars in sales in 100 days by providing—through a collaboration with three other suppliers—all the parts needed by a major customer. By December, it had become clear that the vertical growth initiatives were producing results, and the management team decided to extend the process throughout the company, supported by an extensive employee communication campaign. The horizontal activities continued, but at the same time dozens of teams, involving hundreds of people, started working on rapid-results initiatives. By the end of the first quarter of 2003, these teams yielded more than $8 million in new sales, and the company was forecasting that the initiatives would realize approximately $50 million in sales by the end of the year.

The Diversified Products business of Zurich North America, a division of Zurich Financial Services, has taken a similarly strategic approach. CEO Rob Fishman and chief underwriting officer Gary Kaplan commissioned and launched dozens of rapid-results initiatives between April 1999 and December 2002. Their overall long-term objectives were to improve their financial performance and strengthen relationships with core clients. And so they combined vertical teams focused on such goals as increasing payments from a small number of clients for value-added services with horizontal activities targeting staff training, internal processes, and the technology infrastructure. The results were dramatic: In less than four years, loss ratios in the property side of the business dropped by 90%, the expense ratio was cut in half, and fees for value-added services increased tenfold.

Now, when you're managing a portfolio of vertical initiatives and horizontal activities, one of the challenges becomes choosing where to focus the verticals. We generally advise company executives to identify aspects of the effort that they're fairly sure will fail if they are not closely coordinated with one another. We also engage the leadership team in a discussion aimed at identifying other areas of potential uncertainty or risk. Based on those discussions, we ask executives to think of projects that could replicate their longer-term goals on a small scale in a short time and provide the maximum opportunity for learning and discovery.

For instance, at Johnson & Johnson's pharmaceutical R&D group, Thomas Kirsch, the head of global quality assurance, needed to integrate the QA functions for two traditionally autonomous clinical R&D units whose people were located around the world. Full integration was a major undertaking that would unfold over many years, so in addition to launching an extensive series of horizontal activities like developing training standards and devising a system for standardizing currently disparate automated reports, Kirsch also assigned rapid-results teams to quickly put in place several standard operating procedures (SOPs) that cut across the horizontal work streams. The rapid-results teams were focused on the areas he perceived would put the company in the greatest danger of failing to comply with U.S. and European regulations and also on areas where he saw opportunities to generate knowledge that could be applied companywide. There's no science to this approach; it's an iterative

process of successive approximation, not a cut-and-dried analytical exercise.

In fact, there are really no "wrong" choices when it comes to deciding which rapid-results initiatives to add to the portfolio. In the context of a large-scale, multiyear, high-stakes effort, each 100-day initiative focused on a targeted result is a relatively low-risk investment. Even if it does not fully realize its goal, the rapid-results initiative will produce valuable lessons and help further illuminate the path to the larger objective. And it will suggest other, and perhaps better-focused, targets for rapid results.

A Call for Humility

Rapid-results initiatives give some new responsibilities to frontline team members while challenging senior leaders to cede control and rethink the way they see themselves. Zurich North America's Gary Kaplan found that the process led him to reflect on his role. "I had to learn to let go: Establishing challenging goals and giving others the space to figure out what it takes to achieve these . . . did not come naturally to me."

Attempting to achieve complex goals in fast-moving and unpredictable environments is humbling. Few leaders and few organizations have figured out how to do it consistently. We believe that a starting point for greater success is shedding the blueprint model that has implicitly driven executive behavior in the management of major efforts. Managers expect they will be able to identify, plan for, and influence all the variables and players in

advance, but they can't. Nobody is that smart or has that clear a crystal ball. They can, however, create an ongoing process of learning and discovery, challenging the people close to the action to produce results—and unleashing the organization's collective knowledge and creativity in pursuit of discovery and achievement.

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SECTION FOUR

Maintaining Momentum and Overcoming Challenges

CHAPTER 14

Four Ways to Be More Effective at Execution

by Jack Zenger and Joseph Folkman

Most people recognize that execution is a critical skill and strive to perform it well, but they may (a) underestimate how important it is to their career advancement or (b) not realize that they can improve on execution without working longer hours.

On the first point, bosses place a premium on execution, which we define as the ability to achieve individual goals and objectives. In fact, when we asked senior managers to indicate the importance of this ability, they

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ranked it first on a list of 16 skills. Other raters in the organization ranked it fourth, behind inspiring and motivating, having integrity and honesty, and problem solving. We recognize that there are many parts of your job that are important, but if you want to move ahead in your career, it might be time to double down on simply getting more stuff done—it's what your boss wants to see.

Which brings us to the second point. Many managers react with defensiveness or despair to this news; after all, most of the managers we know already feel like they've got too much to do. People who are lethargic, slow, or unfocused are rarely (at least in our experience) promoted to upper-management positions. The leaders we know already work hard and long, and working harder and longer is not a viable option. In the short term, this typically yields improved results, but in the long term, leaders burn out. And if they've pushed their teams to do the same, team members quit.

But our data—gleaned from tens of thousands of 360-degree performance reviews—tells us that there are more sustainable methods of improving execution. We looked at thousands of leaders who were rated as being highly effective at execution and looked for the coinciding behaviors that enabled this skill. We found a set of behaviors that improve execution. Four behaviors in particular stood out.

Be Clear and Methodical

Many people who are energetic about execution tend to jump into activities and take action before they get orga-

nized, create a plan, or connect what they're doing to the strategy of the organization. Having the discipline to organize people, assemble resources, and then generate a plan that others can commit to will collectively improve execution. So will making clear who is doing what; we have learned that when everyone is collectively responsible, no one is responsible. Providing others with clear direction and a sense of connection to the strategy of the organization helps people understand how the work they are doing dovetails with the organization's mission.

If you are quick to jump into action and tend to start projects without a well-organized plan of attack, or if you get feedback on your lack of planning and organization, this suggestion might be one to focus on. An individual contributor might be able to get away with being disorganized, but it rarely works out well at the senior management level.

Set Stretch Goals and Deadlines

Setting stretch goals helps the group achieve its objectives and generates greater engagement and satisfaction in team members. To push the group to achieve those goals, pair them with deadlines. While we may not like it, when someone gives us a deadline, our behavior changes. Simply setting deadlines for goals and objectives goes a long way toward achieving those goals and objectives. If you resist setting stretch goals for your team, start by asking your team questions like, "What would it take to accomplish this goal two weeks earlier?" We find that by challenging your team and

supporting them in accomplishing a difficult goal, team members actually feel more engaged and satisfied with their jobs.

But don't go overboard; we've also found that too much pushing can erode trust, which will hurt execution in the long run. When an untrusted leader asks for additional effort, people question their motives and resist their requests. Moreover, involving your team in the process of setting goals deadlines will increase their sense of commitment and autonomy.

Give More Feedback, Especially More Positive Feedback

Improve execution through intrinsic motivation, rather than through goals and deadlines. Leaders who are great executors are skilled at giving feedback. Specifically, the leaders who rate most highly are those who deliver critical feedback by taking the time to listen to and understand their employees' perspectives, rather than simply dropping a difficult message on someone and ending the conversation as quickly as possible.

But where we really saw a major difference was with *positive* feedback. Specifically, we found that leaders who are great at execution give a lot more positive recognition. Our research indicates that while giving a little more recognition did not affect execution, being above the 65th percentile on this skill had a major impact.

Resolve Conflict and Build Team Unity

Have you ever been part of a team so great that you love coming to work? Teams like this probably do all or most

of the above—work assignments are clear and processes make sense, deadlines are ambitious but fair, and feedback is plentiful—but they also do something more. On these teams, it's not just the boss motivating team members; the expectations of peer team members are powerful motivators, too. Creating this kind of team culture is an important element of good execution. While there's a lot that goes into building high-performance teams, perhaps the biggest single thing for leaders to focus on is resolving conflict. That's because many of the problems within a team come from differences and conflict between team members; on high-performing teams, team members trust each other and conflict is constructive, not destructive or personal.

As you think about your ability to execute, all four of these dimensions are critical. You may focus on one or two and find that one is lacking. But our research shows that balancing all four of these factors is the strategy that will improve execution most of all.

Finally, if you've made it this far and you really feel as if you're already doing all of these things, and yet somehow you're still perceived as having an "execution problem," consider this: In our research, we also found that there's almost a one-to-one relationship between leaders who are seen as fast, and those who are seen as great executors. Previous work we've done has shown that some of the things we've discussed—setting stretch goals, having clear processes in place, and building trust, for example—will help you move faster. But you may also need to give your peers and bosses more evidence of your speed by, for example, being more transparent

about how many projects you're working on and where they are in your pipeline.

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CHAPTER 15

Learning in the Thick of It

by Marilyn Darling, Charles Parry, and Joseph Moore

IDEA IN BRIEF

Like many managers, you probably conduct after-action reviews (AARs) to extract lessons from key projects and apply them to others. But in most companies, AARs don't fulfill their promise: Scrapped projects, poor investments, and failed safety measures repeat themselves, while hoped-for gains rarely materialize. One manufacturing executive, reading an AAR report for a failed

Adapted from an article in *Harvard Business Review*, July–August 2005 (product #R0507G).

project that had stumbled twice before, realized with horror that the team was "discovering" the same mistakes all over again.

How to transform your AARs from diagnoses of past failure into aids for future success? Realize that looking for lessons isn't the same as learning them. View the AAR as an ongoing learning process, rather than a onetime meeting, report, or postmortem. Set the stage for AARs with rigorous before-action planning—articulating your intended results, anticipated challenges, and lessons from previous similar situations. Conduct mini-AARs after each project milestone, holding everyone accountable for applying key lessons quickly in the next project phase.

Companies that master this process gain—and sustain—competitive advantage. They avoid repeating the kinds of errors that gnaw away at stakeholder value. And instead of merely fixing problems, they adapt more rapidly and effectively than rivals to challenges no one even imagined.

IDEA IN PRACTICE

To improve your AAR process:

Build your AAR regimen slowly

Rather than applying the AAR process across the board, begin using it selectively—on projects where the payoff is greatest and leaders have committed to working through several AAR cycles.

Focus on efforts critical to your team's mission, so people will be motivated to participate.

Conduct a before-action review (BAR)

Before embarking on an important project, answer these questions:

- **"What are our intended results and metrics?"** Does your team want to improve product quality? Accelerate its response to emergencies? Improve sales win/loss ratio?
- **"What challenges do we anticipate?"** Do you expect shortages of certain resources? A turn in customers' preferences?
- **"What have we or others learned from similar projects?"** Be candid about past failures—focusing on improving performance, not placing blame.
- **"What will enable us to succeed this time?"** What practices helped you succeed in earlier efforts? What worked before that should be tested under different circumstances?

Responses to these questions align team members' objectives and set the stage for effective AARs as your project unfolds.

Conduct mini-BARs and AARs

Break big projects into smaller chunks, bookended by short BAR and AAR meetings conducted in task-focused groups. You'll establish feedback loops that maximize

project performance and foster an ongoing learning culture. But tailor your process to fit each project and project phase. For example, during periods of intense activity, use brief daily AAR meetings to help teams coordinate and improve the next day's work. At other times, less frequent meetings—monthly or quarterly—may be sufficient to identify and correct emerging problems.

Focus on your own team's learning

Lessons must first and foremost benefit your team, so resist any urge to create an AAR document specifically for some other corporate use. Focus team members on improving their own learning and, as a result, their own performance.

Your people may generate a lesson during the AAR process, but they won't have learned the lesson until they've changed their behavior. It takes multiple iterations to produce solutions that stand up under any conditions. (See the sidebar "Five Ways to Put AARs to Work at Work.")

Marilyn Darling, Charles Parry, and **retired Colonel Joseph Moore** were formerly researchers and consultants with Signet Consulting Group. Moore is a former commander of the 11th Armored Cavalry Regiment, the Opposing Force at the U.S. Army's National Training Center in Fort Irwin, California.

FIVE WAYS TO PUT AARS TO WORK AT WORK

The U.S. Army's standing enemy brigade (referred to as OPFOR) applies the after-action review (AAR) process to everything it does, but that's not realistic for most companies. Business leaders must act selectively, with an eye toward resources and potential payoffs. Don't even think about creating an AAR regimen without determining who is likely to learn from it and how they will benefit. Build slowly, beginning with activities where the payoff is greatest and where leaders have committed to working through several AAR cycles. Focus on areas critical to a team's mission so members have good reason to participate. And customize the process to fit each project and project phase. For example, during periods of intense activity, brief daily AAR meetings can help teams coordinate and improve the next day's activities. At other times, meetings might occur monthly or quarterly and be used to identify exceptions in volumes of operational data and to understand the causes. The level of activity should always match the potential value of lessons learned. Here are some ways you can use AARs, based on examples from companies that have used them effectively.

	The AAR in practice	The payoff
1 Emergency response	• Survey past emergencies to identify types of events and learning challenges. • Ask team members to take notes during the response process to facilitate the AAR.	• Avoid similar emergencies in the future. • Improve the speed and quality of your responses and damage control.

(*continued*)

FIVE WAYS TO PUT AARS TO WORK AT WORK

	The AAR in practice	The payoff
1 Emergency response (continued)	• Conduct AARs during the response process (if possible) or immediately afterward to begin building procedures and long-term solutions. • Periodically review past AARs to identify potential systems improvements.	• Improve the long-term effectiveness of your solutions.
2 Product dev	• Start each phase of product development with a before-action review (BAR). • Conduct AARs to identify insights to feed from one phase of product development into the next—and then into the next project. • Periodically conduct AARs on the product-planning process to identify potential improvements.	• Improve quality, reduce cost, and shorten time to market. • Anticipate customers' changing expectations.
3 Entering a new business or market	• Launch business planning with a BAR to reflect on past lessons. • Conduct AARs throughout the launch process to test lessons and create innovative solutions. • Conduct a wrap-up AAR to improve performance on the next venture.	• Apply lessons from past successes and failures to improve results on new ventures.
4 Sales	• Build AARs into the sales process, focusing as much on learning from wins as from losses. • Conduct AARs on customer defections to competitors' products.	• Improve the win/loss ratio. • Refine the value proposition for a new product.
5 Mergers and acquisitions	• Build AARs into strategy, negotiation, due diligence, and execution phases to continually reveal, test, and modify assumptions about the deal. • Wrap up each M&A activity by comparing it with previous efforts to identify problems and good ideas.	• Ensure that transactions deliver promised value to stakeholders.

CHAPTER 16

How to Hand Off an Innovation Project from One Team to Another

by Joe Brown

Companies invest millions in coming up with breakthrough innovations, but a sickening number of those investments fail. The truth is that you can have the right portfolio of investments, the right metrics and governance, the right stage-gate development process, and the right talent on the right teams, but if you don't design the right handoffs between your teams, all of that planning falls apart.

Adapted from content posted on hbr.org, August 23, 2018 (product #H04IGJ).

If innovation projects are going to succeed at scale in the marketplace, they'll need to survive a handoff from an innovation team to an execution team. And every time you create a handoff, you risk dropping the baton.

For example, one major Asian electronics company built a design lab to develop new hardware product ideas. All too often, when the design lab passed a concept on to a product manager, like a computer customized for 3D modelers and film editors, the PM would ignore the lab's thinking and simply apply the physical design of the computer to a product that she was already developing—like a low-powered computer targeted at students for the back-to-school season. When sales of the Frankenstein product missed their mark, everyone shared the blame. This electronics company had no clear plan for how projects would transition from the small design lab team back into the core business. It didn't have a handoff, it had a drop-off.

How do you prevent a drop-off? By tailoring each handoff to the teams involved. In many companies, innovation teams tend to fall into three buckets: "explorers," "scalers," and "optimizers" (with credit to Bud Caddell and Simon Wardley). Optimizers make up the core of most established businesses—they're skilled at enhancing and perfecting the existing business to drive growth or improve operations. Explorers work in teams like R&D, customer insights, or product development. Explorers are skilled at uncovering new opportunities in the face of ambiguity—they're people who translate inspiration into ideas using methods like design thinking. Scalers iteratively experiment and tweak new ideas until

they find product-market fit using methods like agile or lean. These labels also nicely describe the phases of innovation: explore, scale, and optimize.

How should you create a smoother handoff between teams? There are four basic models for the handoff, and dozens of hybrids. The right one for each part of your innovation portfolio will depend on how integrated your projects need to be with your core business.

The Owner's Manual

This is both the most common handoff and the most difficult to pull off. After months—sometimes years—of work, an innovation team extensively documents its work in hundreds of pages of slides, spreadsheets, and other files, and then hands all of that over to a new team to execute. When was the last time you read an owner's manual? Exactly. You only pull out the owner's manual in a moment of panic when something is broken. In this model, a frightening amount of innovation work is skimmed over and forgotten. The new team then risks moving on without absorbing the learning of their predecessors. This model works best when there is no more ambiguity left in the challenge, when the project is ready for implementation by technical teams, and when the manual can be divided into small, specific, applicable chapters for each of its stakeholders.

The Architect

The best way to avoid a drop-off is to eliminate the handoff. In this model, the future owner of the work is embedded in the explorer and scaler teams. That person then

acts as a connector, knowing all of the avenues already explored and all of the learning gained. This is a strong model for industries like consumer packaged goods, where one person, such as a brand manager, is responsible for product development from beginning to end. Although architects might not be leading the project in each phase, they will need to have final sign-off on the team's work. If the architects don't believe in the work, they'll end up killing the idea.

The Ambassadors

Similar to the previous model, in this model, members of the explorer, scaler, and optimizer teams remain embedded in each phase of the project to ensure that no learning is lost and that each phase of work is designed to feed smoothly into the next. In addition, this model improves the future work of innovation teams by helping them build an awareness of what downstream teams need most. This model is most common in software development teams, where UX designers may be involved in both early user research and long-term management of the product.

The Hive

In this model, multidisciplinary teams tackle challenges across the initiative's life cycle. This is most common in accelerators and incubators, where a new organization is set up as a microcosm of the parent company and made up of people from every major function and discipline. Hive teams also have representatives from functions that might normally act as corporate antibodies, like legal,

finance, HR, or compliance. The hive pushes those protective functions from a posture of eliminating risk to one of reducing it—from saying no to saying "no, but . . . "

Other than the owner's manual, each of the other handoff models brings implementation teams along throughout the innovation process in order to seamlessly transfer knowledge. Doing this reduces the sense that a new idea was not invented here, and makes the handoff less like drinking from a firehose and more like a series of steady sips.

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CHAPTER 17

Making Process Improvements Stick

Research from Matthias Holweg, Bradley Staats, and David M. Upton

Starting with Frederick Taylor and W. Edwards Deming, managers have long been obsessed with ways to improve business processes. And in the past 20 years a host of improvement initiatives, including lean production, Six Sigma, and agile, have swept through a range of industries. Studies show that companies embracing such techniques may enjoy significant improvements in efficiency and costs. But when the University of North Carolina's

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Brad Staats and the University of Oxford's Matthias Holweg and David Upton looked at the benefits, they noticed a gap. "These things always work well initially, but often the gains fade very quickly," Holweg says. "It's always felt like researchers were telling only half the story. It's not just about putting the programs in place—it's also about making them stick."

To understand why some improvements are sustained and others aren't, the researchers examined 204 lean projects launched from 2012 to 2017 at a European bank with more than 2,000 branches in 14 countries and serving more than 16 million customers. The lean initiative, started by the head office, was supported by a global consulting firm, which helped create an in-house academy to train lean "champions" at each regional subsidiary. Initial projects focused on processes (such as opening an account and making a wire transfer) that could benefit from decreased handoffs and fewer steps and were common to all regions. The regional offices subsequently identified additional projects according to their needs. The projects shared an overarching goal: to increase labor productivity, a key variable in service operations.

At first glance, the initiative appeared to be a great success. Over the first four years the bank launched 33 to 51 projects every six months, each involving 1,600 employees, on average. Initial improvements in efficiency averaged 10%; the gains rose to 20% after a year and 31% after two years. Those numbers are in line with the best-performing lean implementations in any industry, the researchers say, and the bank was rightly very pleased.

But when the researchers looked more closely, they found a more complicated picture. Despite the impressive aggregate gains, 21% of projects failed to yield any improvements. And among the 79% that showed initial improvements, many regressed: Only 73% were still producing results above baseline after a year, and after two years the number fell to 44%. Adding up the projects that had no improvements and the ones for which improvements were temporary, only slightly more than one-third of projects held on to gains after two years.

The researchers also explored whether projects that were initially successful could not only preserve the gains but also show continuous improvement—getting progressively better over time, which is the goal of many lean projects. Just 51% of them were continuing to improve a year after launch; after two years the figure dropped to 36%.

Seeking to understand these findings, the researchers looked at factors identified in previous research as influencing the initial success of lean projects: the experience of local leaders driving implementation, the level of training provided, and teams' familiarity in working together. None explained the difference, suggesting that what accounts for initial success is different from what's needed to hold on to gains or to improve further.

Interviews with lean champions in the bank's 14 countries provided some insight. Managers said that one condition needed to keep improving was visible support from board members and senior leadership—without it, frontline workers believe that the company's enthusiasm for the effort has waned, and backsliding ensues.

They also cited the need for consistent measurement and monitoring and noted that problems arise when significant early improvements give way to diminishing returns. "Addressing the low-hanging fruit is easy; it becomes harder in the long term," one lean champion told the researchers.

The data reinforces these observations. Projects with strong support from the head office showed 35% greater improvement after a year than ones without that support; they were also less likely to backslide, with 79% performing above baseline after a year, compared with 61% of projects not driven by the head office. "Senior leadership, through paying attention to the lean improvements, clearly has a major enabling role in sustaining improvements," the researchers write. Some companies hope that a continuous-improvement mentality will become embedded in their culture and will motivate frontline workers even without the involvement of senior leaders, but this work suggests that hope may be unrealistic.

The researchers also interviewed executives with deep experience leading lean initiatives across a range of industries; from this, they identified three ways in which organizations can help initiatives achieve sustained improvements.

The first is by communicating the program in a clear narrative that aligns with the organization's purpose. For example, a hotel might focus on how a lean process will improve guest satisfaction; that's more likely to motivate employees than an emphasis on cost savings. The second is by directing efforts toward pain points whose easing

IN PRACTICE: HELEN BEVAN

Helen Bevan has spent 25 years overseeing change initiatives at England's National Health Service, which serves more than 50 million patients and employs 1.2 million health care staffers. She spoke with HBR about the challenges of preserving the gains from one initiative while launching new efforts. Edited excerpts follow.

Why is it so hard to sustain an initiative's improvements?
It's an issue of energy. And when a new initiative comes along, people ask, "What do we do with the old one?" Much of our workforce models the behavior of senior leaders, and when those leaders shift their energy to something else, it's hard to sustain things.

What differentiates changes that stick?
Sustainability starts at the beginning, in how we frame a project and what it means to the organization and our purpose. It's the difference between behaving like a buyer and behaving like an investor. If we're asking doctors to get on board something that's underway, it's already too late. We need to get them invested in the project, and thinking like owners, well before it begins. When I look at the difference between projects that are sustained and ones that aren't, it often has to do with taking the time at the beginning to set them up, frame them the right way, and get people invested.

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IN PRACTICE: HELEN BEVAN

Is this especially hard in a health care setting, where efficiencies may seem to conflict with quality care?

Our purpose is health and wellness. That's what motivates people in this sector; they don't come for the pay. If we can frame a project as relating to things that really matter to the people who work here, they will connect with it on an emotional level. Even doctors, who make decisions logically, are more likely to engage and be motivated if an initiative fits with their emotions and values. So we show data and avoid jargon. If we talk about "lean" and "agile" and use words like *kanban*, *kaizen*, and *scrum*, it feels like we're taking away people's autonomy. We can convey those concepts perfectly well without those words.

But don't people worry that the programs are actually about cost cutting?

Of course we focus on costs—we have finite resources. But it's about framing. Instead of talking about waste, we focus on unwarranted variation in care. Every

would clearly benefit employees. For instance, one hospital's initiative aimed to decrease the time medical personnel spent on paperwork, freeing them up for patient care. The third is by ensuring that senior leaders act as coaches, enabling small wins to increase employees' motivation and engagement.

patient with the same condition should get the same high-quality treatment; when that doesn't happen, it can be a matter of life and death. Variation also adds to cost, so reducing unwarranted variation increases care and reduces cost. We see more success when we frame things in terms of our mission, which is care.

How do you start an initiative without losing the gains of the previous one?

Four years ago we did a crowdsourcing exercise in which we asked colleagues about the biggest barriers to change. The most common answer was "confusing strategies." People said that when a new initiative, target, goal, or focus comes along, they don't know whether it's more important than the previous one. We have to find ways to continue the journeys we've started by sustaining people's energy while creating space for new things. Managers and leaders must make sense of those things and reduce ambiguity.

A particularly troublesome obstacle to sustained improvement, the researchers say, is initiative fatigue, which occurs when leaders jump too quickly from one improvement fad to another. (One of the researchers has joked about the danger of airport bookstores, which tempt traveling executives to pick up business books that may

send them in pursuit of a new improvement plan.) Embarking on a new project is often more exciting than staying the course, but that doesn't necessarily deliver the best long-term results. Staats says, "It's always easier to start something, whether it's weight loss, going to the gym, or smoking cessation. Getting individual changes to stick is hard, and getting organizational changes to stick is even harder." (See the sidebar "In Practice: Helen Bevan.")

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CHAPTER 18

Your Initiative Needs an "Exit Champion"

by Isabelle Royer

You can still find them on eBay, sleek and gleaming videodisc players with LP-sized discs. The product: RCA's SelectaVision—one of the biggest consumer electronics flops of all time.

But it isn't simply the monumental failure in the marketplace that makes the SelectaVision story worth remembering. It's that RCA insisted on plowing money into the product long after all signs pointed to near certain failure. When the company developed its first

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Adapted from "Why Bad Projects Are So Hard to Kill," *Harvard Business Review*, February 2013 (product #R0302C).

prototype in 1970, some experts already considered the phonograph-like technology obsolete. Seven years later, with the quality of VCRs improving and digital technology on the horizon, every one of RCA's competitors had abandoned videodisc research. Even in the face of tepid consumer response to SelectaVision's launch in 1981, RCA continued to develop new models and invest in production capacity. When the product was finally killed in 1984, it had cost the company an astounding $580 million and had tied up resources for 14 years.

Companies make similar mistakes—if on a somewhat more modest scale—all the time. "Why can't companies kill projects that are clearly doomed? Is it just poor management? Bureaucratic inertia? My research has uncovered something quite different. Hardly the product of managerial incompetence or entrenched bureaucracy, the failures I've examined resulted, ironically, from a fervent and widespread belief among managers in the inevitability of their projects' ultimate success. This sentiment typically originates, naturally enough, with a project's champion; it then spreads throughout the organization, often to the highest levels, reinforcing itself each step of the way. The result is what I call collective belief, and it can lead an otherwise rational organization into some very irrational behavior.

Of course, a strongly held conviction and the refusal to let inevitable setbacks undermine it are just what you need to get a project up and running. But there is a dark side: As the project moves forward, faith can blind you to increasingly negative feedback—from the lab, from vendors and partners, from customers.

My analysis revealed a number of practices that can help companies avoid this kind of disaster. For one, they can assemble project teams not entirely composed of people enthusiastically singing from the same hymnbook. They can put in place a well-defined review process—and then follow it. Perhaps most important, companies need to recognize the role of "exit champions": managers with the temperament and credibility to question the prevailing belief, demand hard data on the viability of the project, and, if necessary, forcefully make the case that it should be killed. While the importance of project champions is well documented, the value of someone who is able to pull the plug on a project before it becomes a money sink hasn't generally been appreciated.

Recognize the Role of the Exit Champion

Sometimes it takes an individual, rather than growing evidence, to shake the collective belief of a project team. If the problem with unbridled enthusiasm starts as an unintended consequence of the legitimate work of a project champion, then what may be needed is a countervailing force—an exit champion. These people are more than devil's advocates. Instead of simply raising questions about a project, they seek objective evidence showing that problems in fact exist. This allows them to challenge—or, given the ambiguity of existing data, conceivably even to confirm—the viability of a project. They then take action based on the data. At Essilor and Lafarge, two companies I studied for this article, exit

champions joined the projects as evidence of their unpromising futures was mounting. But supporters were still clinging to the shreds of positive evidence that occasionally emerged—or ignoring the evidence altogether. Had it not been for these exit champions, team members said later, the projects probably would have continued for months or even years.

To be effective, an exit champion needs to be directly involved in the project; a negative assessment from someone based elsewhere in the company is too easy to dismiss as ill-informed or motivated by organizational rivalry. The exit champion also needs a high degree of personal credibility. The exit champions at Essilor and Lafarge had been with their companies for a long time and were well regarded by top management. Both had a strong network of people at different levels of the company ready to provide support when they decided the project should be killed.

What kind of person would willingly assume such a role? Even if killing a project doesn't put an exit champion out of a job, the role, unlike that of a traditional project champion, seems to offer little in the way of prestige or other personal rewards. (For a discussion of the differences between the two roles, see the sidebar "The Exit Champion and the Project Champion.") In fact, the exit champion faces inevitable hostility from project supporters; those at Essilor and Lafarge were variously described as villains or dream breakers.

Consequently, exit champions need to be fearless, willing to put their reputations on the line and face

THE EXIT CHAMPION AND THE PROJECT CHAMPION

The types of individuals who gravitate toward the roles of project champion and exit champion are similar. Both must show initiative; after all, they have by definition assumed their roles rather than been assigned them. And they need to be energetic and determined enough to overcome the obstacles and inevitable skepticism they face. Given their similar personal traits, it's not surprising that, at a number of companies I studied, exit champions had been project champions at other points in their careers.

Differences between project champions and exit champions appear, however, in the particulars. For one thing, while project champions necessarily operate in an environment of uncertainty and ambiguity, exit champions need to remove ambiguity. They must gather hard data that will be convincing enough to overcome the opposition of believers. They need clear criteria for deciding whether to kill the project. When existing procedures don't include such criteria, they need to reach an agreement with believers on the criteria for assessing the new data; otherwise, reaching an agreement on the decision will be impossible. Thus, while project champions often violate procedures, exit champions typically have to introduce or restore them.

Project champions' reputations are often put at risk by their choice to champion what may turn out to be

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THE EXIT CHAMPION AND THE PROJECT CHAMPION

to be a failed project. Exit champions also put their reputations at risk, but the threat is of a different nature. Project champions run a long-term risk of being wrong—something that will become clear only if a project ultimately fails. Exit champions face the immediate risk that comes from challenging a popular project. That risk exists even if the exit champion is, in fact, ultimately right.

the likelihood of exclusion from the camaraderie of the project team. They need to be determined: Both Essilor's and Lafarge's exit champions failed in their first attempts to stop their projects. Perhaps most important, exit champions need to have some incentive for putting themselves out to halt a bad project. For many, this will simply be an acute distaste for wasted effort. As one exit champion at another company I researched said, "When I work, I need to believe in what I do. I don't want to waste time on something that is worthless."

It is important to understand that an exit champion is not a henchman sent by top management to kill the project. The exit champions at Essilor and Lafarge certainly weren't: They were assigned their positions only because their predecessors had left the company, and they simply took the initiative to determine if their projects were likely to be successful. Indeed, it wasn't initially clear to

either of them that their respective projects *should* be killed. Although signs that the projects wouldn't succeed were accumulating, in neither case was the evidence conclusive because it wasn't based on hard data.

Senior executives need to recognize the exit champion as a defined role that someone might play in the organization—otherwise, they may not know exit champions for who they are and give them the support they will need. And they can take steps to create an environment in which such a savior would be more likely to emerge. Just as companies celebrate and recount stories of the great successes of product champions, they could perhaps identify and spread tales of courageous exit champions in their midst (or at other companies) who saved their organizations millions of dollars. Top managers should at the least make it clear that challenges to a popular project would be welcome or even rewarded. At the same time, though, they need to demand from the exit champion strong evidence of the project's weaknesses—just as they should have earlier demanded growing evidence of its viability.

Although they may not always be played out on such a grand scale as RCA's SelectaVision, stories like these are all too familiar in business. That's because belief is a powerful sentiment, and collective belief is even more powerful. Clearly, any project has to start with faith because there typically isn't much objective evidence, if any, at the beginning to justify it. But, as a project unfolds and investments increase, this faith has to be increasingly tested against the data. Indeed, the challenge

for managers in the "can-do" culture of business is to distinguish between belief as a key driver of success—and belief as something that can blind managers to a project's ultimate failure.

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SECTION FIVE

Keeping Strategy and Execution Aligned

CHAPTER 19

Good Strategy Execution Requires Balancing Four Tensions

by Simon Horan and Michael Connerty

Putting strategy into practice is notoriously difficult. In our experience, the primary obstacle to strategy execution is a failure to balance the inherent tensions that characterize any major initiative. Successful strategy execution calls for skillful orchestration of sometimes opposing forces and competing needs. In particular, there are four core tensions that leaders need to balance.

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Tension #1: An Inspiring End State versus Challenging Targets

A vision of an inspirational "end state" is essential for getting people to commit to change: a simple narrative that articulates not only why change is necessary but also what life will look and feel like once change is successfully implemented.

However, aggressive "mid-state" targets are also required to provide direction and to challenge people to give their all. Among workers, an inspiring end state without challenging targets will likely elicit the response, "I will give this a go, and we can see where we land." That's not optimal. But at the same time, challenging targets without an inspiring end state leads to a grind in which workers often ask themselves, "Why am I doing this?"

Consider the experience of a major utility that made the strategic decision to undertake a broad-based initiative aimed at improving efficiency and reining in costs. When a detailed cost assessment identified significant savings potential, executive leadership boldly added another five percentage points to the target. The team tasked with overseeing the effort designed an aggressive implementation plan that tied targets to manager compensation. However, beyond the strategic goal of becoming an industry leader in terms of cost structure, there was no "story" for how this effort would complement the business's broader ambitions. After about six months, the effort began to falter, due primarily to staff frustration and a sense that the initiative lacked a compelling purpose.

Tension #2: Top-down Control versus Democratization of Change

When everyone in the organization feels empowered to make decisions that can influence change, it creates a palpable energy: People tend to work harder, offer more ideas, and become far more invested in the process. If every activity is the result of a command from on high, the company runs the risk of sucking all the energy out of the room. But the flip side can be myriad groups of enthusiastic change agents dashing off in multiple, uncoordinated directions.

The successful but challenging experience of a large pharmaceutical company illustrates the tension between top-down and decentralized change efforts. The company defined a new growth strategy that would require a significant improvement in its ability to innovate rapidly. While there was broad consensus on the strategy, there was disagreement within the leadership team regarding the best way to implement the strategy—especially when it came to making critical decisions, involving and empowering managers and staff, and holding people accountable for results. Tensions arose, and significant debate ensued over several months as the leadership team tried to work their way through an initial set of critical decisions that would guide execution. Ultimately, leadership managed to strike a balance across these areas, continuing to drive the change effort while soliciting contributions of a broad set of managers and staff. The result was a far stronger and more efficient R&D organization.

Tension #3: Capability Development versus Pressure for Results

Many strategies call for significant changes in the ways a company works, which raises questions of whether the organization needs to develop new capabilities. But the pressure to deliver immediate results is often so intense that an organization may be forced to forge ahead with its existing capabilities.

Take the example of a global industrial products company that was in the early stages of implementing a growth strategy. The strategy called for significant changes to the company's organizational structure and the way it marketed, sold, and serviced customers across numerous geographies. But as a publicly traded company, it was under the gun to deliver results every quarter. As the leadership team held numerous conversations across the organization about strategy execution, they came to the realization that most midlevel managers and frontline staff perceived serious capability gaps. This candid feedback allowed leadership to identify those capabilities most in need of strengthening in order for the strategy to be successful. At the same time, they were able to achieve some early wins that bought them time to develop these critical capabilities.

Tension #4: Creativity versus Discipline

Creativity is a part of any distinctive strategy. Fearing that discipline will stifle creativity, it is not uncommon for executives to choose to "let the creatives run free." At

its best this can lead to unanticipated insights and outcomes, but at its worst it can lead to chaos and complete unaccountability for results. In fact, creativity and discipline are not mutually exclusive, yet this tension can be the hardest one to balance.

Consider the experience of a services business that had an iconic reputation for its one core service. Entering a new space had been elusive for many years, and in desperation the company gave the business development function complete freedom. It moved to a new building, changed its business cards, hired "disruptive thinkers," and experimented with all manner of innovation techniques. Several months (and several tons of Post-it notes) later, they were called in to report back, only to serve up a raft of tired ideas and zero outcomes.

Getting strategy done well often calls for trade-offs between delivering short-term results and implementing foundational changes that require time. Yet companies that can achieve a balance between opposing forces are far more likely to realize successful strategies that endure.

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CHAPTER 20

Five Ways the Best Companies Close the Strategy-Execution Gap

by Michael Mankins

Executives say that they lose 40% of their strategy's potential value to breakdowns in execution. In our experience at Bain & Company, however, this strategy-to-performance gap is rarely the result of shortcomings in implementation; it is because the plans are flawed from the start.

Too many companies still follow a "plan-then-do" approach to strategy: The organization works tirelessly

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to create its best forecasts about the future market and competitive landscape. Leadership then specifies a plan that it believes will position the company to win in this predicted future. This approach may have made sense when first popularized by GE and others in the 1970s, but in today's fast-paced world, the "cone of uncertainty" surrounding future market and competitive conditions is too great for companies to prescribe every element of a multiyear strategy. The plan-then-do approach is obsolete, even dangerous.

Today's successful companies close the strategy-to-performance gap with a new strategy approach best described as "decide-do/refine-do." This agile, test-and-learn approach is better suited to today's tumultuous environment. It also helps bridge the chasms that exist at so many companies between great strategy, great execution, and great performance.

Here are five lessons we've gleaned from what we see the best companies doing.

Treat Strategy as Evergreen

The best companies see strategy less as a plan and more as a direction and agenda of decisions. In effect, a company's strategy is the sum of decisions it effectively makes and executes over time. This mindset focuses leadership on making near-term decisions with the longer-term destination in mind, but it doesn't presume that there is only one path from here to there.

Take Dell Technologies, for example. Following the company's go-private transaction in October 2013, Dell put in place new models for strategy development, re-

source allocation, and performance management. Instead of formulating detailed, long-term financial plans, executives at Dell now align around a common performance ambition—a cash flow vector consistent with growing the company's intrinsic value faster than competitors. Executives then delineate a multiyear outlook for each of Dell's businesses, capturing the current performance trajectory of the business given the decisions management has made to date. Finally, the team defines a strategy agenda comprising the highest value at stake and most urgent issues that leadership must address to close the gap between its ambition and Dell's current trajectory.

Dell's executive leadership team focuses on systematically addressing the issues on the company's strategy agenda. Once they address an issue and make a decision, they allocate the resources needed and turn to the next issue on the agenda. Strategy development at Dell is no longer a batch process tied to some planning calendar; it is a continuous process.

Value Flexibility

When the road is obstacle-free, the value of maneuverability is low. Leadership is better off selecting a single path forward, even if it limits the company's ability to steer around potential roadblocks. In today's world, however, flexibility matters.

The rise and fall of Webvan illustrates the cost of an inflexible strategy. Internet usage was growing fast when the world's first online grocery delivery business hit the scene in 1996. Webvan promised to deliver the

best-quality groceries at the cheapest price by the click of a button. The strategy required a massive capital investment in a nationwide system of distribution centers with robotic stock-picking equipment. To justify the investment, Webvan made a bold forecast of future usage, order sizes, and costs. There were no reliable proxies to use to create this forecast. Any deviation from management's forecast meant failure, regardless of how effectively the strategy was executed. Unfortunately, usage turned out to be far lower than expected, order sizes much smaller, and capital costs far higher. Webvan was forced to cease operations by 2001.

Think of Strategy as a Portfolio of Options, Not Bonds

The traditional plan-then-do model treats the value of any strategy like a bond. Management forecasts the future coupon payments (or cash flows) associated with various strategies and then selects the one that has the highest discounted value. When volatility is high, however, strategic decisions should be treated more like call options. Leadership decides whether the small up-front investment is worth making as a call on potential profits. As long as the option appears "in the money," management can continue to invest; the moment the strategy becomes "out of the money," leadership can stop investing, cut its losses, and move on.

Take Google. Since 2005, Google (and more recently, its parent company, Alphabet) has invested in countless new ventures. Some have been highly publicized (YouTube, Nest, Google Glass, Motorola phones, Google

Fiber, self-driving cars); others are less well known (grocery delivery, photo sharing, online car insurance comparison). While many of the company's investments have succeeded, some have not. Larry Page and his team have been quick to respond, shedding these investments and doubling down on others. Over the past three years, Alphabet has closed smart home company Revolv, shut down Google Compare, paused Google Fiber, and sold Motorola Mobility to Lenovo. During this same period, the company has increased its stake in cloud services and various new undertakings managed by the company's X lab group. By treating strategic investments like options, Alphabet has avoided committing too early to new businesses. This approach has also allowed the company to double down on promising ventures and build them into profitable new businesses.

Create Response Mechanisms

In a world where the best-laid plans can go awry, companies that react quickly and effectively come out on top. Rigorous contingency planning is as important as disciplined action planning. It requires that you identify the most important known unknowns associated with your company's strategy, specify concrete steps to adjust course if you see an unplanned change in the external environment, and put in place mechanisms to continuously monitor market and competitive conditions. Caterpillar, for example, is reported to have put in place robust contingency plans in advance of the global financial crisis in 2007. Well before the crash, Caterpillar's CEO insisted that all division heads develop contingency plans for a

recession. At the time, Caterpillar and its competitors were at full capacity, and global demand was high. Few of Caterpillar's competitors were contemplating a downturn. When the recession hit, Caterpillar put its contingency plans into effect, safeguarding the company's profits and giving it the ability to support critical players in the value chain.

Test and Learn, Then Test Some More

Agile planning can be thought of as a series of time-boxed sprints—or micro-battles, as my Bain colleague James Allen would say—with the objective of moving forward, testing the waters, learning, and refining the strategy based on the results.

Caesars Entertainment has built test-and-learn into its marketing investments. For gaming companies such as Caesars, promotions are a major strategic investment. Successful promotions (free hotel rooms, subsidized flights, comped meals) bring new customers to the casino, and the profits generated by the games they play offset the cost of the promotion. Many promotions are unsuccessful. Either they fail to spawn new customer interest or the cost of the promotion is too high relative to the incremental gains. Caesars uses its network of more than 50 casinos to test promotions before rolling them out. This test-and-learn approach lets Caesars limit the unsuccessful promotions and ensures that its most successful promotions are pushed out to as many casinos as possible.

Most companies do not take advantage of their opportunities to test and learn. They go for a big bang—

and risk a big bust—when a series of smaller, more productive bangs would generate better results.

Great performance requires great strategy *and* great execution, but poor execution is often used as an excuse for flawed strategy. Today's leaders need a new approach to strategy development. They can no longer define a plan over many years and then just do. Success requires identifying the next few steps along a broadly defined strategic path and then learning and refining as you go. This approach makes execution easier and increases the odds of delivering great results.

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CHAPTER 21

Your Strategy Has to Be Flexible—But So Does Your Execution

by Martin Reeves and Rodolphe Charme di Carlo

Peter Drucker said, "Plans are only good intentions unless they immediately degenerate into hard work." This and a slew of similar maxims reflect a common view of strategy execution: that it's distinct from strategy, harder to pull off than defining a strategy, and therefore more critical to success—underpinned by seemingly

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indisputable virtues such as diligence, discipline, consistency, alignment, and focus. But such a simplistic view of execution can be misleading and can reduce actual impact.

In fact, several frequently observed traps result from such a view of execution:

Losing the plot

Action plans and Gantt charts can span many pages in pursuit of precision and concreteness. But excessive complexity can undermine thoughtful execution as much as a failure to specify tactics. In the worst case, busyness can become an implicit goal or cultural norm, and the original strategic intent can be lost in a frenzy of detail and activity. Execution must be insightfully focused on the most critical aspects of a challenge, or those which unlock other critical actions. For example, if category expansion is critical to value creation in a particular strategy, plans should focus disproportionally on how to achieve this. For example, former Mars' president Paul Michaels shares in *Your Strategy Needs a Strategy*: "The job of strategy for a segment leader like us is to drive category growth, and that's the thing you should be thinking about all the time."

Metric obsession

Drucker's exhortation "What gets measured gets managed" is often invoked when approaching execution. In the sense that results count, and their quantification is desirable, it seems irrefutable. But the worst way to

achieve a goal can sometimes be to pursue it directly. For example, new drugs are not discovered by pursuing a target number of new drugs, but rather by exploring new areas of chemistry and biology. It is also a mistake to restrict ourselves to managing what we can easily measure. Few would deny the importance of corporate culture, for example, even though it is not easily quantifiable.

Planning myopia

Emphasizing compliance with a plan can, under stable conditions, accelerate fruition of a strategy. But under the changing conditions of a nascent or recently disrupted industry, a rigid plan can become a straitjacket for the flexibility and adaptation that are required to succeed. To take a historical example, centrally planned economies in the Eastern Bloc left no space for adaptation to even the simplest types of change, like variation in demand. This inevitably created shortages and oversupply of goods.

Missed learning opportunities

The value of execution can, in the simplest cases, be boiled down to the successful accomplishment of specific tasks. But where a high degree of uncertainty and change is involved, the value can instead reside in the learning that accompanies execution, whether or not the immediate outcome is successful. A famous example is YouTube, which began as a video dating site back in 2005. The site failed to gain traction, so the founders, leveraging what they learned while building the original

platform, launched another version of the website focusing on sharing videos online, with significantly more success.

Tyranny of intermediate goals

When goals and tasks are broken down several times into lower-level ones, it can clarify what is required of an individual or department and can therefore help scale the job of execution. But often the intermediate goal or task becomes an end in itself. A famous example is Hoover's free flights promotion. In 1992, to free up warehouse space, the U.K. team promised free airline tickets to customers who purchased more than £100 worth of its products. A little later, the U.S. marketing team offered the same promotion to U.S. customers in order to boost sales. The offer was implemented so "successfully" that the company could meet neither the demand for vacuum cleaners, nor the cost of the flights. As a consequence, after the courts settled customer complaints, the U.S.-based company had lost £48 million and had to sell its U.K. branch a few years later.

Missing the forest for the trees

Strategic plans are often broken down into different modules for execution by different parts of an organization. Yet sometimes optimization of the parts does not lead to optimization of the whole. To take a biological example, the U.S. National Parks policy used to be to extinguish all forest fires. This led to an increase in the severity of fires. Why? Because most fires are small and

stop by themselves, while creating natural firebreaks and eliminating the undergrowth that can fuel larger fires. In 1972, the policy was therefore adjusted so that only man-made fires were fought. Businesses can be equally complex: A diversity initiative, for example, might include some compulsory training, but if this triggers sentiments of resistance and skepticism, it can be self-defeating. Every action can change perceptions, motivations, and actions, such that a list of individually plausible actions can easily create the opposite of the intended effect. In such cases, a holistic perspective to strategy and execution is required.

Execution as a thing

We often treat strategy and execution as being separable disciplines, each with its own distinct and constant character. But as we have shown in *Your Strategy Needs a Strategy*, different strategic environments require different approaches to strategy and execution. A nascent technology business might require an adaptive approach, and a stable commodity business might require a classical, planning-based approach. In predictable classical environments, strategy formulation can be separated from execution. But in adaptive environments, it cannot, since strategy continually emerges from amplifying the results of success experiments, that is, execution. Furthermore, the nature of execution is also very different for each case. In the first, it centers on compliance to a predetermined plan, in the latter on decentralized initiative taking and experimentation.

Tyranny of practicality

That an execution plan be "practical"—simple, concrete, familiar, and unchanging—seems incontrovertible. Execution is praxis, after all. But when dealing with new or changing situations, familiar, plausible actions can easily fail to achieve the desired effect. Polaroid, for example, was a pioneer in digital photography. Yet, it tried to sell its digital cameras using the same business model as its film-based cameras—by aiming to make high margins on instant film sales. Believing that users would want hard copies, it added digital technology to instant cameras, instead of creating a new product not requiring film. As we now know, the company lost to rivals. Former Polaroid CEO DiCamillo summarizes the company's failure well: "The reason we couldn't stop the engine was that instant film was the core of the financial model of this company." More broadly, a mature business can often create its own increasingly questionable reality by focusing on the part of the market where its own beliefs about how things work still apply, creating a double opportunity for disrupters—one physical and one mental. Indeed, entrepreneurs and disrupters often refer to this double inertia of incumbents as their greatest asset in taking on incumbents.

We should not let the simplistic but comforting dualism of strategy and execution deceive us. Execution should be as varied, thoughtful, subtle, diverse, and intertwined with strategy as is necessary to get the job done, and that

will vary according to the specific challenge at hand. In short, your execution needs a strategy.

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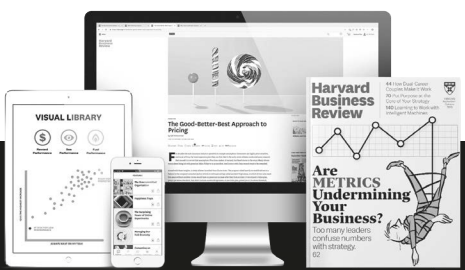

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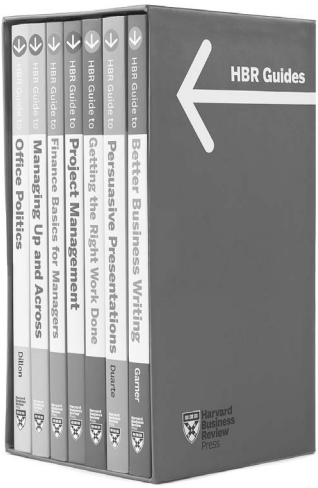

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What You'll Learn

Your boss just told you to "think strategically," but what does that mean? Acting on this feedback is crucial for anyone looking to advance their careers—especially aspiring leaders. But it rarely comes with concrete advice on how to do it.

At a basic level, thinking strategically means maintaining a broad perspective on every aspect of your daily work, from making decisions to setting your team's priorities and managing your own productivity. To do so, you need to understand your company's key objectives and strategy and keep those driving forces front of mind when you're faced with tough choices and competing goals. You must also align your team with these organizational needs, so that they're working on the projects and initiatives that contribute most to executing the company's strategy. And you must remain agile, able to identify changes in your business environment and alter course when objectives change.

It can be difficult to prioritize big-picture needs over short-term demands—and to know how to switch between the two. This guide provides practical tips and

approaches to help you embed strategic thinking into your everyday work, so you can strike the right balance, create real value for your organization, be known as a strategic thinker—and achieve your own career goals.

You'll learn how to:

- Be more strategic in your daily work
- Ask questions to better understand your company's strategy
- Demonstrate your thinking skills in ways that your bosses will notice and respect
- Make faster, better decisions
- Identify when to broaden—or narrow—your perspective
- Detect patterns in internal and external trends
- Set your team's priorities based on goals, resources, and timing
- Navigate conflicting objectives and manage trade-offs
- Cut projects that are no longer adding value
- Communicate a company vision to your employees
- Align your team to execute the strategy
- Deal with common problems like unclear strategic goals or a strategy you disagree with

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INTRODUCTION

Why Everyone Needs to Think Strategically

You've just sat down with your boss to discuss your performance. You lay out all you've done in the past few years, highlighting your successes and contributions. You describe how you've effectively worked with your team, showing data about how they've met their goals consistently since you became their manager. You remind her that your past few performance reviews have been positive, and even note the additional work you've taken on to assist colleagues and even your boss herself. Then you make the ask: You'd like a promotion.

Adapted from *Pocket Mentor: Thinking Strategically* (product #13281), Harvard Business Press, 2010.

Your boss pauses for a moment, then replies, "You do good work, and you're a key member of the organization. There's no question your team benefits with you as their manager. But you're not quite ready to move up to the next level. Before we can consider you for a new position, you need to learn to think strategically."

Certainly, this is important feedback, and you have a vague notion of what it means: You're being asked to consider the big picture and make decisions with that larger view in mind. But this instruction rarely comes with concrete advice on how to do it. What does it mean to think strategically, and how do you develop that skill?

This book defines that term and shows the critical ways you can embed strategic thinking into your daily tasks, decision making, and management of others.

What Is Strategic Thinking?

As a manager, you routinely encounter complex situations, difficult problems, and challenging decisions. Your job is to deal with these situations as best you can by using the information you have. In an ideal world, you would have access to all the information you need to navigate through these situations and decisions. But in actuality, you probably only have a limited amount of information to work with. And because you sit in a particular part of your organization, you may have an incomplete view of the forces that lie outside your sphere of influence.

Strategic thinking helps you overcome these limitations. In its most basic sense, strategic thinking is about analyzing opportunities and problems from a broad per-

spective and understanding the potential impact your actions might have on the future of your organization, your team, or your bottom line. When you think strategically, you lift your head above your day-to-day work and consider the larger environment in which you're operating. You ask questions and challenge assumptions about how things operate in your company and industry. You gather complex, sometimes ambiguous data and interpret it, and you use the insights you've gained to make smart choices and select appropriate courses of action. You also make daily decisions about where you and your team spend your time, and you understand the trade-offs that come with those decisions.

By thinking this way, you ensure that every choice you make and every action you take drive results that matter. When you and others in your organization think strategically, you generate important benefits:

- You chart a course for your group that aligns with the overall corporate strategy and execute on it in your day-to-day work.
- You make smart long-term decisions that complement and align with decisions that others in your organization are making.
- You gain your employees' commitment to supporting your decisions.
- You boost your group's performance and maximize business results.
- You focus your daily work so you're working on priorities that make the highest contribution.

These benefits also yield valuable professional and personal benefits for you, including the respect and appreciation of your supervisor, peers, and direct reports—and perhaps that promotion you've been seeking.

Who Needs to Think Strategically?

At the most basic level, everyone should think strategically, so they are certain that the work they're doing directly contributes to the organization's strategic objectives and bottom line. As a manager, though, it's especially important to have this broader view, so you can ensure that your team's time and resources are aligned with the objectives that matter most and create the biggest impact for the company.

Strategic thinking is a particularly critical skill for ambitious managers who want to rise up the ranks of their organizations. Senior leaders may be the ones who set an organization's strategy, but you won't be promoted into these roles unless you can prove that you know how to think strategically on a regular basis first. Learning how to take the overarching needs and direction of the company into account as you prioritize objectives and manage trade-offs can help you transform from a manager into a strategic leader.

Your team should also learn to think strategically. By asking them the right questions and carefully planning their work, you can help them execute on strategic goals and increase productivity—and help to develop your workforce so when they're ready to become managers and leaders themselves, they have the critical skills they need.

Why Is Strategic Thinking So Hard?

One reason managers struggle to think strategically is because they feel they simply don't have the time. And certainly, when you're faced with immediate demands and deadlines, finding time to carefully consider your actions and decisions in light of strategic objectives can be difficult. But thinking strategically is more than allotting an hour or two per week on your calendar to consider the big picture. It plays a part in everything you do, from setting priorities for your team to planning your daily work to anticipating outcomes of everyday decisions.

And it takes a basic understanding of the organization's underlying purpose and strategy. But according to research by author and consultant William Schiemann, only 14% of organizations he surveyed claimed that their employees had a clear understanding of their company's strategy and direction, and only 24% felt the strategy was linked to their individual accountabilities and capabilities.[1] These statistics indicate a severe disconnect between our organizations' core objectives and what we *actually* do in our daily work.

It takes conscious effort to think strategically on a regular basis. You must actively ask questions and learn about your organization's key purpose and objectives. You must evaluate the pros and cons and potential repercussions of your decisions and your actions. You may need to let go of projects that your team has been working on for years in favor of new initiatives that could add more value. And in some cases, you may need

to decline new opportunities, even if they seem exciting, simply because they are not in line with your priorities. You may be hesitant to make these tough choices, particularly as you face uncertainty and assess any risks associated with your final decision.

But you can overcome these challenges by learning the characteristics of a strategic thinker. Individuals who think strategically demonstrate specific personal traits, behaviors, and attitudes, some of which can seem to conflict. These attributes include:

- **Curiosity.** You're genuinely interested in what's going on in your unit, company, and industry and the wider business environment.
- **Consistency.** You strive to meet goals and pursue these objectives persistently.
- **Agility.** You're able to adapt approaches and shift ideas when new information suggests the need to do so.
- **Future focus.** You constantly consider how the conditions in which your group and company operate may change in the coming months and years. And you keep an eye out for opportunities that may prove valuable in the future—as well as threats that may be looming.
- **Outward focus.** You're able to identify trends and patterns in your industry and understand their implications. And you're willing to ask individuals outside your company for feedback to help you improve your business.

- **Openness.** You welcome new ideas from supervisors, peers, employees, and outside stakeholders such as customers, suppliers, and business partners.
- **Breadth.** You continually work to broaden your knowledge and experience so you can see connections and patterns across seemingly unrelated fields of knowledge.
- **Questioning.** You constantly ask yourself if you *should* be doing what you're doing—whether your team is focused on the right things, if there is something you can stop doing, if you should change your approach, and how what you are doing is creating value.

Adapting these qualities will help you "lift up" to consider the larger view, so you can continually ask yourself how your actions create value (or where they don't) for your company. By learning to do this regularly, you can maximize your contribution to your organization and set yourself up for growth.

What This Book Will Do

This guide provides you with a road map for developing your strategic thinking skills and using them to be a more effective manager and leader. The first section gets you started on this path with a picture of what it means to be a *strategic leader*—the characteristics you need to balance and the skills you need to learn. It includes an assessment to help you determine what your strategic thinking strengths are and where you need to improve,

and it ends with advice on how to make sure your skills are noticed.

Once you understand these basics, you can move on to folding strategic thinking into your daily work and that of your team. We recommend six key elements for putting strategic thinking into action:

- **Understand your organization's overarching strategic objectives.** As an aspiring leader, you need to have a clear picture of the strategic goals your company is striving toward. Section Two describes how to ask the right questions about your company's strategy, assess risk, and identify your organization's impact on the world. You'll also learn how to build the right relationships to stay in touch with this strategic viewpoint.

- **Keep a big-picture perspective.** Section Three helps you avoid being bogged down by immediate, daily demands by showing you how to focus on the long term, keep strategy front of mind, and think more broadly about your organization's context. You'll learn how to make time to think about the big picture, see your company in new ways, consider the future in your daily actions, and observe internal and external trends to discover new connections and information.

- **Make decisions with the organization in mind.** Every choice you make should tie into your company's bottom line. Section Four helps you to reflect, rather than react, when facing difficult choices and problems, and provides a simple checklist to help

you carefully consider your toughest decisions. And while data is crucial to decision making, the final chapter in this section provides a smarter, more strategic approach to using information to solve problems.

- **Set strategic priorities and manage trade-offs.** While you may have a clear understanding of your company's strategic goals, it's not always obvious how these translate into your daily work. Section Five provides a simple tool to help you sort critical, important, and desirable priorities. You'll learn how to create a plan to achieve these goals—and manage trade-offs when plans or projects change. And you'll learn how to decide what *not* to do—those initiatives that may need to be delayed or ended because other, more pressing objectives require your attention.

- **Align your team around organizational goals.** Finally, ensure that your team is working toward the needs of your company. Section Six provides questions and exercises to help your employees think strategically themselves and consider the future consequences of their own actions. You'll learn how to communicate with your team about strategy, particularly when the strategy changes.

- **Move beyond strategy and start to execute.** Strategy and execution are more closely intertwined than many realize. In Section Seven, you'll learn how to execute more effectively by getting the right people working on the right problems

and how to ask the necessary questions to narrow the gap between strategy and execution.

A final section focuses on navigating common problems of understanding and executing strategy—when the strategy is unclear or always changing, when you think the company strategy is wrong, or when your boss gives you conflicting messages. If any of these describe your situation, you can turn to Section Eight now.

This book is geared to help you change the way you think and to align your work and the work of your team with the larger objectives and purpose of your company. By thinking in this way, you'll have a better understanding not just of your organization, but of your industry as a whole, and you'll ensure that you're contributing to your company in the most valuable way possible.

Most of all, by reaping the organizational benefits of this work, you'll prove to yourself and others that you're ready to take on bigger roles and more responsibility—and get closer to that promotion you've been wanting.

NOTE

1. William A. Schiemann, "Aligning Performance Management with Organizational Strategy, Values, and Goals," in *Performance Management: Putting Research into Action*, eds. James W. Smither and Manuel London (San Francisco: Jossey-Bass, 2009).

SECTION ONE

Get Started: Be Strategic in Your Daily Work

CHAPTER 1

Strategic Leadership: The Essential Skills

by Paul J. H. Schoemaker, Steve Krupp, and Samantha Howland

The storied British banker and financier Nathan Rothschild noted that great fortunes are made when cannonballs fall in the harbor, not when violins play in the ballroom. Rothschild understood that the more unpredictable the environment, the greater the opportunity—if you have the leadership skills to capitalize on it. Through research at the Wharton School and at our consulting firm involving more than 20,000 executives

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to date, we have identified six skills that, when mastered and used in concert, allow leaders to think strategically and navigate the unknown effectively: the abilities to anticipate, challenge, interpret, decide, align, and learn. Each has received attention in the leadership literature, but usually in isolation and seldom in the special context of high stakes and deep uncertainty that can make or break both companies and careers. This article describes the six skills in detail. An adaptive strategic leader—someone who is both resolute and flexible, persistent in the face of setbacks but also able to react strategically to environmental shifts—has learned to apply all six at once.

Do you have the right networks to help you see opportunities before competitors do? Are you comfortable challenging your own and others' assumptions? Can you get a diverse group to buy in to a common vision? Do you learn from mistakes? By answering questions like these, you'll get a clear view of your abilities in each area. The self-test at this article's end (and the more detailed test available online) will help you gauge your strengths and weaknesses, address deficits, and optimize your full portfolio of leadership skills.

Let's look at each skill in turn.

Anticipate

Most organizations and leaders are poor at detecting ambiguous threats and opportunities on the periphery of their business. Coors executives, famously, were late seeing the trend toward low-carb beers. Lego management missed the electronic revolution in toys and gam-

ing. Strategic leaders, in contrast, are constantly vigilant, honing their ability to anticipate by scanning the environment for signals of change.

We worked with a CEO named Mike who had built his reputation as a turnaround wizard in heavy manufacturing businesses. He was terrific at reacting to crises and fixing them. After he'd worked his magic in one particular crisis, Mike's company enjoyed a bump in growth, fueled in part by an up cycle. But after the cycle had peaked, demand abruptly softened, catching Mike off guard. More of the same in a down market wasn't going to work. Mike needed to consider various scenarios and gather better information from diverse sources in order to anticipate where his industry was headed.

We showed Mike and his team members how to pick up weak signals from both inside and outside the organization. They worked to develop broader networks and to take the perspective of customers, competitors, and partners. More alert to opportunities outside the core business, Mike and the team diversified their product portfolio and acquired a company in an adjacent market where demand was higher and less susceptible to boom-and-bust cycles.

To improve your ability to *anticipate*:

- Talk to your customers, suppliers, and other partners to understand their challenges.
- Conduct market research and business simulations to understand competitors' perspectives, gauge their likely reactions to new initiatives or products, and predict potential disruptive offerings.

- Use scenario planning to imagine various futures and prepare for the unexpected.
- Look at a fast-growing rival and examine actions it has taken that puzzle you.
- List customers you have lost recently and try to figure out why.
- Attend conferences and events in other industries or functions.

Challenge

Strategic thinkers question the status quo. They challenge their own and others' assumptions and encourage divergent points of view. Only after careful reflection and examination of a problem through many lenses do they take decisive action. This requires patience, courage, and an open mind.

Consider Bob, a division president in an energy company we worked with, who was set in his ways and avoided risky or messy situations. When faced with a tough problem—for example, how to consolidate business units to streamline costs—he would gather all available information and retreat alone into his office. His solutions, although well thought out, were predictable and rarely innovative. In the consolidation case, he focused entirely on two similar and underperforming businesses rather than considering a bolder reorganization that would streamline activities across the entire division. When he needed outside advice, he turned to a few

seasoned consultants in one trusted firm who suggested tried-and-true solutions instead of questioning basic industry assumptions.

Through coaching, we helped Bob learn how to invite different (even opposing) views to challenge his own thinking and that of his advisers. This was uncomfortable for him at first, but then he began to see that he could generate fresh solutions to stale problems and improve his strategic decision making. For the organizational streamlining, he even assigned a colleague to play devil's advocate—an approach that yielded a hybrid solution: Certain emerging market teams were allowed to keep their local HR and finance support for a transitional period while tapping the fully centralized model for IT and legal support.

To improve your ability to *challenge*:

- Focus on the root causes of a problem rather than the symptoms. Apply the "five whys" of Sakichi Toyoda, Toyota's founder. ("Product returns increased 5% this month." "Why?" "Because the product intermittently malfunctions." "Why?" And so on.)
- List long-standing assumptions about an aspect of your business ("High switching costs prevent our customers from defecting") and ask a diverse group if they hold true.
- Encourage debate by holding "safe zone" meetings where open dialogue and conflict are expected and welcomed.

- Create a rotating position for the express purpose of questioning the status quo.
- Include naysayers in a decision process to surface challenges early.
- Capture input from people not directly affected by a decision who may have a good perspective on the repercussions.

Interpret

Leaders who challenge in the right way invariably elicit complex and conflicting information. That's why the best ones are also able to interpret. Instead of reflexively seeing or hearing what you expect, you should synthesize all the input you have. You'll need to recognize patterns, push through ambiguity, and seek new insights. Finland's former president J. K. Paasikivi was fond of saying that wisdom begins by recognizing the facts and then "re-cognizing," or rethinking, them to expose their hidden implications.

Some years ago Liz, a U.S. food company CMO, was developing a marketing plan for the company's low-carb cake line. At the time, the Atkins diet was popular, and every food company had a low-carb strategy. But Liz noticed that none of the consumers she listened to were avoiding the company's snacks because they were on a low-carb diet. Rather, a fast-growing segment—people with diabetes—shunned them because they contained sugar. Liz thought her company might achieve higher sales if it began to serve diabetics rather than fickle dieters. Her ability to connect the dots ultimately led to

a profitable change in product mix from low-carb to sugar-free cakes.

To improve your ability to *interpret*:

- When analyzing ambiguous data, list at least three possible explanations for what you're observing and invite perspectives from diverse stakeholders.
- Force yourself to zoom in on the details and out to see the big picture.
- Actively look for missing information and evidence that disconfirms your hypothesis.
- Supplement observation with quantitative analysis.
- Step away—go for a walk, look at art, put on non-traditional music, play ping-pong—to promote an open mind.

Decide

In uncertain times, decision makers may have to make tough calls with incomplete information, and often they must do so quickly. But strategic thinkers insist on multiple options at the outset and don't get prematurely locked into simplistic go/no-go choices. They don't shoot from the hip but follow a disciplined process that balances rigor with speed, considers the trade-offs involved, and takes both short- and long-term goals into account. In the end, strategic leaders must have the courage of their convictions—informed by a robust decision process.

Janet, an execution-oriented division president in a technology business, liked to make decisions quickly and keep the process simple. This worked well when the competitive landscape was familiar and the choices straightforward. Unfortunately for her, the industry was shifting rapidly as nontraditional competitors from Korea began seizing market share with lower-priced products.

Janet's instinct was to make a strategic acquisition in a low-cost geography—a yes-or-no proposition—to preserve the company's competitive pricing position and market share. As the plan's champion, she pushed for a rapid green light, but because capital was short, the CEO and the CFO resisted. Surprised by this, she gathered the principals involved in the decision and challenged them to come up with other options. The team elected to take a methodical approach and explored the possibility of a joint venture or a strategic alliance. On the basis of that analysis, Janet ultimately pursued an acquisition—but of a different company in a more strategic market.

To improve your ability to *decide*:

- Reframe binary decisions by explicitly asking your team, "What other options do we have?"
- Divide big decisions into pieces to understand component parts and better see unintended consequences.
- Tailor your decision criteria to long-term versus short-term projects.
- Let others know where you are in your decision process. Are you still seeking divergent ideas and

debate, or are you moving toward closure and choice?

- Determine who needs to be directly involved and who can influence the success of your decision.
- Consider pilots or experiments instead of big bets, and make staged commitments.

Align

Strategic leaders must be adept at finding common ground and achieving buy-in from stakeholders who have disparate views and agendas. This requires active outreach. Success depends on proactive communication, trust building, and frequent engagement.

One executive we worked with, a chemical company president in charge of the Chinese market, was tireless in trying to expand his business. But he had difficulty getting support from colleagues elsewhere in the world. Frustrated that they didn't share his enthusiasm for opportunities in China, he plowed forward alone, further alienating them. A survey revealed that his colleagues didn't fully understand his strategy and thus hesitated to back him.

With our help, the president turned the situation around. He began to have regular face-to-face meetings with his fellow leaders in which he detailed his growth plans and solicited feedback, participation, and differing points of view. Gradually they began to see the benefits for their own functions and lines of business. With greater collaboration, sales increased, and the president came to see his colleagues as strategic partners rather than obstacles.

To improve your ability to *align*:

- Communicate early and often to combat the two most common complaints in organizations: "No one ever asked me" and "No one ever told me."
- Identify key internal and external stakeholders, mapping their positions on your initiative and pinpointing any misalignment of interests. Look for hidden agendas and coalitions.
- Use structured and facilitated conversations to expose areas of misunderstanding or resistance.
- Reach out to resisters directly to understand their concerns and then address them.
- Be vigilant in monitoring stakeholders' positions during the rollout of your initiative or strategy.
- Recognize and otherwise reward colleagues who support team alignment.

Learn

Strategic leaders are the focal point for organizational learning. They promote a culture of inquiry, and they search for the lessons in both successful and unsuccessful outcomes. They study failures—their own and their teams'—in an open, constructive way to find the hidden lessons.

A team of 40 senior leaders from a pharmaceutical company, including the CEO, took our Strategic Aptitude Self-Assessment and discovered that learning was

their weakest collective area of leadership. At all levels of the company, it emerged, the tendency was to punish rather than learn from mistakes, which meant that leaders often went to great lengths to cover up their own.

The CEO realized that the culture had to change if the company was to become more innovative. Under his leadership, the team launched three initiatives: (1) a program to publicize stories about projects that initially failed but ultimately led to creative solutions; (2) a program to engage cross-divisional teams in novel experiments to solve customer problems—and then report the results regardless of outcome; and (3) an innovation tournament to generate new ideas from across the organization. Meanwhile, the CEO himself became more open in acknowledging his missteps. For example, he described to a group of high-potentials how his delay in selling a stalled legacy business unit had prevented the enterprise from acquiring a diagnostics company that would have expanded its market share. The lesson, he explained, was that he should more readily cut losses on underperforming investments. In time, the company culture shifted toward more shared learning and bolder innovation.

To improve your ability to *learn*:

- Institute after-action reviews, document lessons learned from major decisions or milestones (including the termination of a failing project), and broadly communicate the resulting insights.
- Reward managers who try something laudable but fail in terms of outcomes.

- Conduct annual learning audits to see where decisions and team interactions may have fallen short.
- Identify initiatives that are not producing as expected and examine the root causes.
- Create a culture in which inquiry is valued and mistakes are viewed as learning opportunities.

Becoming a strategic leader means identifying weaknesses in the six skills discussed above and correcting them. Our research shows that strength in one skill cannot easily compensate for a deficit in another, so it is important to methodically optimize all six abilities. The box "Are You a Strategic Leader?" at the end of this chapter contains a short version of our Strategic Aptitude Assessment (available online at hbrsurvey.decisionstrat.com), which can help reveal areas that require attention. For clearer and more useful results, take the longer survey and ask colleagues—or at least your manager—to review and comment on your answers.

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ARE YOU A STRATEGIC LEADER?

As you complete this assessment, think about the work you have done over the past year related to developing new strategies, solving business challenges, and making complex decisions. Average your scores for each of the six leadership skills and then address your weakest area first, following the recommendations described in this article and online.

How often do you...	**RARELY**						**ALMOST ALWAYS**
Anticipate	SURVEY AVERAGE: 4.99*						
Gather information from a wide network of experts and sources both inside and outside your industry or function.	1	2	3	4	5	6	7
Predict competitors' potential moves and likely reactions to new initiatives or products.	1	2	3	4	5	6	7
Challenge	SURVEY AVERAGE: 5.52						
Reframe a problem from several angles to understand root causes.	1	2	3	4	5	6	7
Seek out diverse views to see multiple sides of an issue.	1	2	3	4	5	6	7
Interpret	SURVEY AVERAGE: 5.78						
Demonstrate curiosity and an open mind.	1	2	3	4	5	6	7
Test multiple working hypotheses with others before coming to conclusions.	1	2	3	4	5	6	7

(*continued*)

ARE YOU A STRATEGIC LEADER?

Decide

SURVEY AVERAGE: 4.81

Balance long-term investment for growth with short-term pressure for results.	1	2	3	4	5	6	7
Determine trade-offs, risks, and unintended consequences for customers and other stakeholders when making decisions.	1	2	3	4	5	6	7

Align

SURVEY AVERAGE: 5.01

Assess stakeholders' tolerance and motivation for change.	1	2	3	4	5	6	7
Pinpoint and address conflicting interests among stakeholders.	1	2	3	4	5	6	7

Learn

SURVEY AVERAGE: 4.95

Communicate stories about success and failure to promote institutional learning.	1	2	3	4	5	6	7
Course-correct on the basis of disconfirming evidence, even after a decision has been made.	1	2	3	4	5	6	7

*Averages are based on responses to this survey from more than 20,000 executives.

CHAPTER 2

To Be Strategic, Balance Agility and Consistency

by John Coleman

As a former consultant, I have a deep and abiding love for the use of 2 × 2 matrices in business strategy. My favorites are those that highlight two factors that seem, at first glance, in conflict. I find these particularly relevant to personal development, since individuals often must resolve the tensions between competing values and traits and must carefully monitor their own strengths so those strengths don't lapse into weaknesses.

Adapted from "The Best Strategic Leaders Balance Agility and Consistency" on hbr.org, January 4, 2017 (product #H03DD0).

I've recently been thinking about this with regard to how leaders, and those aspiring to leadership positions, can be more strategic—able to effectively execute the core of their business while remaining open to trends in the market and adapting to meet them. I've begun to view this as the ability to hold two specific traits in balance: consistency and agility. Figure 2-1 illustrates these qualities in such a matrix.

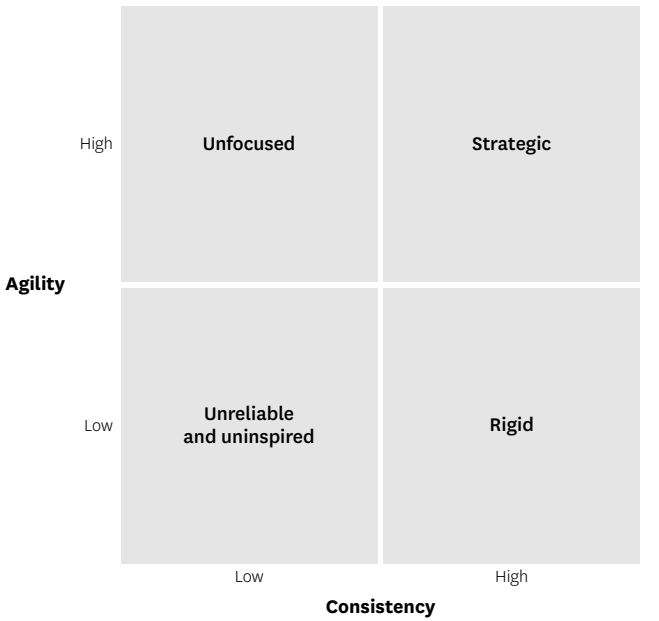
The best performers are, of course, *consistent*. Consistent leaders work hard and show up on time. They set goals for themselves and their employees—and they achieve them. They plan diligently and produce excellent products and experiences for clients time and time again. They possess resilience and grit. Consumers expect consistent products; people appreciate consistent management.

But if organizational leaders are merely consistent, they risk rigidity. In changing environments, they can struggle to adapt and may cling to old habits and practices until those practices become counterproductive, distracting them from the more important new work that needs to be done.

On the other side of the spectrum, great leaders are *agile*. Markets demand that companies and people adapt and change constantly. According to one analysis by Mark J. Perry at the American Enterprise Institute, 88% of companies appearing on the *Fortune* 500 list in 1955 were not on it in 2014 (having merged, gone bankrupt, or fallen off the list).[1] As we know, buggy-whip makers and telegraph companies must evolve or die. And the most successful managers must change similarly as they

FIGURE 2-1

Strategic leaders must be agile and consistent at the same time



assume additional or different responsibilities through their careers, moving from head of sales to COO or from CFO to CEO. These leaders must pivot when needed, and agility requires that they be intellectually curious, ready to learn from others, communicative, collaborative, and willing to change.

But just as consistency can become rigidity, agility can become a lack of focus when it isn't tempered by consistency. Purely agile leaders may be visionaries and change agents but they lack the single-mindedness and

dedication to execute their visions. They often turn to new projects before they've finished ongoing projects, and, in extreme cases, force their teams or organizations into chaos and instability.

It's in the combination of consistency and agility that leaders can become strategic, performing an organization's purpose with excellence but changing course when the situation demands. These leaders have high standards, achieve goals, and expect consistency, but they are also open to change, keep an eye on the external environment, and understand when old ways of working no longer pass muster in the market in which they compete. They stay the course until it no longer makes sense and combine continuous improvement with ideation and strategy.

Of course, few individuals are equally consistent and agile, just as few people are ambidextrous. So how can you hold these traits in balance?

First, as Socrates said, "Know thyself." Are you more prone to consistency or agility? Are you more naturally capable of deep focus or ideation? Do you thrive in situations of chaos and rapid change or in periods that require relentless pursuit of a clearly defined goal? If in doubt, ask a spouse, best friend, or close work colleague—they almost always know. Understanding and accepting our tendencies is the foundation for growth.

With that understanding in hand, surround yourself with others who complement your traits. For managers, it's wise to find a strong "number two" who can check your worst impulses and enhance your strengths. Are

you an agile visionary? Find a structured, methodical, and disciplined deputy or peer. If you are a consistent operator, find a strong voice for agility on your immediate team or a mentor to push your creativity, no matter how frustrating that might be. And empower those people to speak up and challenge you.

Support this organization model with operational process. To ensure consistency, develop strong dashboards and balanced scorecards to assure outcomes are regularly reached and continually improving. To assure agility, develop a fluid planning model that allows the organization to change outside of the formal annual planning process and create an annual strategic planning process that looks outward to the external environment and forces the organization to contemplate big ideas. As an individual, do this for yourself, perhaps as an end-of-year exercise, to make sure you're pointed at the right goals and aspirations for where you are as a leader.

Finally, with these people and processes in place, seek to learn and grow. If you're naturally an agile thinker, you may never be the most consistent operational manager, but you can get better. And you can often do so simply by consciously observing what's working around you and then forcing yourself to expand your skills in that direction. Make note of those traits you admire in others—those that complement your own—and find ways to practice them.

As an aspiring leader, you must know how to balance consistency and agility in your career and in the organization you serve. Are you doing so today? If not, take

steps to understand yourself and think about the people and processes around you that can help move you into greater balance.

John Coleman is a coauthor of the book *Passion and Purpose: Stories from the Best and Brightest Young Business Leaders* (Harvard Business Review Press, 2012). Follow him on Twitter @johnwcoleman.

NOTE

1. Mark J. Perry, "*Fortune* 500 Firms in 1955 vs. 2014; 88% Are Gone, and We're All Better Off Because of That Dynamic 'Creative Destruction,'" aei.org, August 18, 2014, https://www.aei.org/publication/fortune-500-firms-in-1955-vs-2014–89-are-gone-and-were-all-better-off-because-of-that-dynamic-creative-destruction/.

CHAPTER 3

Prove You're Ready for the Next Level by Showing Off Your Strategic Thinking Skills

by Nina A. Bowman

One of the cardinal rules for securing a promotion is that you already need to be demonstrating many of the skills required at the next level. Emerging leaders must achieve results and manage resources and people well, but the most effective, "ready to be promoted" managers also display another critical skill—the ability to think strategically.

Showing strategic thinking skills tells your bosses that you're able to think for yourself and make decisions that

position the organization for the future. It assures them that you aren't making decisions in a vacuum but are considering how other departments might be affected or how the outside world will respond.

We all know that developing strategic thinking skills is important, but many don't realize how critical *showing* these skills to your boss and other senior leaders is to your career advancement. To really stand out, you have to both develop *and* demonstrate them.

- *Developing* great strategic thinking skills is a demanding challenge. It requires you gain exposure to strategic roles, synthesize broad information, participate in a culture of curiosity, and gather experiences that allow you to identify patterns and connect the dots in novel ways. That's why high-potential and leadership development programs often include job rotations, cross-functional projects, and face time with senior leadership—all of these accelerate the development of strategic thinking.

- *Demonstrating* strategic thinking, on the other hand, requires that you are simultaneously a marketer, a salesperson, and a change agent. You may be able to show your skills immediately and start to stand out today. Proactive and widespread communication of your strategic efforts combined with the courage to challenge others and initiate and drive your strategic ideas are what make your boss and peers take notice.

The case of one of my coaching clients illustrates the distinctions between developing and demonstrating strategic skills.

"Not Strategic Enough"

Tim Waters (not his real name), vice president of the U.S. supply chain for a growing medical products company, hoped to be named global senior vice president of supply chain but sensed that his promotion discussions were stalled. Tim had a good reputation for responding to business unit leads, and he worked tirelessly and effectively to keep the supply chain functioning well. He was therefore surprised to receive informal feedback from the head of HR, a longtime colleague and friend, who said that a few influential executives had voiced concern that Tim "wasn't strategic enough." These executives felt Tim was good at keeping the trains running, but he had not driven proactive change in the organization or set a strategic vision for supply chain. Tim agreed that strategic thinking could be an area of personal growth and decided to engage an executive coach to help him hone and demonstrate these skills.

Developing Strategic Thinking

Build a solid foundation of trends and insights

Any manager's first step toward developing strategic thinking skills is learning more about what's happening beyond their day-to-day work. By better understanding trends within the function, the company, the industry,

or the macro environment, and asking, "How might this impact my function or organization?" new managers and seasoned managers alike can make thoughtful strategic suggestions.

Tim had over 20 years of experience in supply chain but had stopped attending industry conferences and engaging with his external network of analysts and supply chain peers due to time pressures. He knew, honestly, that he had been coasting lately, operating as if he already knew everything that he needed. His first concrete step was to recommit to updating his knowledge by reading relevant articles, getting outside his organization routinely, and reconnecting with external contacts. Tim quickly learned about the new ways in which peer companies were addressing challenges. He felt energized by this new knowledge and quickly saw himself developing sharper views on ideas for his own company and asking better strategic questions.

Prioritize strategic thinking

Finding time to plan, think, and stay up to date is challenging for managers at all levels. Strategic thinking is a textbook example of an "important, not urgent" activity that tends to get pushed aside by the day-to-day. It requires discipline to carve out dedicated time for learning and deliberate thought, and young managers in particular should build habits early to ingrain this mindset.

Tim realized that his packed schedule was keeping him from ongoing learning and reflection. Changing how executives perceived him was a long-term goal, so he knew that he needed to develop practical, sustainable

processes to keep himself and his team up to date on trends. Without routines, urgent demands would always crowd out the need to look ahead.

Tim committed himself to attending two key events a year and blocked them off on his calendar before it got filled with other meetings. He set aside 30 minutes a week to read relevant articles and to connect with external resources. He made the discussion of new ideas a recurring agenda item in the weekly team meetings he ran and asked team members to take turns bringing in a provocative article. Tim realized that good ideas can come from anyone, and that developing the strategic thinking skills of his direct reports would accrue to his benefit as well.

Lastly, Tim instructed his assistant to block out 30 minutes on his calendar before important meetings. He knew that barely having time to collect his thoughts before going into meetings made him unprepared, less vocal, and certainly less willing to challenge other's ideas. Just a half hour, once or twice a week, would allow him to begin to shape his point of view on important issues and identify a few strategic questions to bring up.

Demonstrating Strategic Thinking

Bring a point of view to the table

To display strategic thinking, you must synthesize disparate thoughts into a point of view and a vision that your bosses can see. You don't want to be the manager and leader who, lacking confidence in your own vision, tries to hedge by staying quiet or deferring to the most senior

person in the room. While being politically astute is important, your leaders want to know what you think, and they view your worthiness for promotion through the lens of how ready you are to make bigger decisions. By asking yourself, "Do people know where I stand?" before meetings, you can sharpen your ability to demonstrate this strategic skill.

Tim's efforts to shape his ideas began to pay off over time. New thoughts emerged, and Tim was able to shift his contributions in senior executive meetings from operational input to strategic input. He took time to package his ideas into a vision for the organization and engaged his peers in new discussions about how the vision could impact their areas. Some conversations went better than others, and Tim quickly learned how to frame his thoughts in a way that was not threatening to his peers.

Having greater clarity of vision also enhanced Tim's effectiveness as a supervisor. Tim was able to see how his team was missing the specific skills needed to support the vision. Now, instead of having reactive discussions with his HR business partner, he was able to engage in forward-looking discussions about strategic hiring and leadership development opportunities for his team. Demonstrating that you think strategically about hiring and talent development is a surefire way to make your leaders notice you.

Show that you can initiate innovation and bring strategic change

To be viewed as a strategic thinker, it is critical to go beyond offering ideas and showing understanding outside

your area: You must also demonstrate that you can use your knowledge to put new ideas into action. The scope of such an initiative will depend on your role. But no matter your level, you can demonstrate strategic thinking by executing an innovative project that shows that your understanding extends beyond your current function and making your efforts visible to others.

Tim channeled the new energy and vision he had gained into a strategic planning process that culminated in formal recommendations for the supply chain group. Tim communicated the project and its milestones across the organization, allowing the executive team to see that he could lead a strategic initiative; previously, Tim would have kept it behind the scenes. Boldly suggesting value-added changes was a welcome shift to both Tim and his colleagues. Tim felt he had greater control, projecting greater confidence because he was no longer just reacting to others' suggestions and issues, and Tim's colleagues also appreciated that he was initiating improvements without their prodding.

Tim's journey to demonstrating strategic thinking took him longer than he had expected, but over time, his boss, peers, and team noticed the changes and viewed them positively. Tim was promoted to the global role a year later and was ultimately better equipped to navigate the bigger job.

The need to develop strategic thinking, and making sure your bosses can see it, is universal. You can start small and begin your journey by practicing the individual skills

involved. If you are a functional worker, you might begin by attending a conference or by raising your hand to assist on a interdepartmental initiative. You can gain practice with developing a point of view by making a list of strategic questions before entering meetings. As a new manager, you might focus on building your network outside of your department or addressing pain points within your own department. If you are not sure where to start, the rest of this guide provides many practical suggestions that will allow you to build your strategic thinking skills one step at a time.

Nina A. Bowman is a Managing Partner at Paravis Partners, an executive coaching and leadership development firm. Previously, she held various advisory and leadership roles in strategy. She is an executive coach and speaker on issues of strategic leadership, leadership presence, and interpersonal effectiveness. She is also a contributing author to the *HBR Guide to Coaching Employees* (Harvard Business Review Press, 2015).

SECTION TWO

Understand Your Organization's Strategy

CHAPTER 4

Understanding Your Organization's Strategy

Your organization has an overarching plan for developing its competitive advantage, likely served by a series of cascading goals for business units and individuals. As a manager, you work through your employees to support the company's overall plan; your own strategies and goals must align with the priorities set from above.

But before you can align your work with a larger strategy, you need to know what that strategy is. Simply reading a strategy memo isn't enough. You must actively work to clarify what are you're supposed to be delivering

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Adapted from *Harvard Business Review Manager's Handbook* (product #10004), Harvard Business Review Press, 2017; *Harvard Business Essentials: Manager's Toolkit* (product #2896), Harvard Business School Press, 2004; and "Worksheet for Clarifying Strategic Objectives," *New Leader Program*, Harvard Business Publishing, 2016.

and how you're supposed to do it—by clearly understanding your company's strategic vision and goals, and assessing potential risks.

Step 1: Gather Information About Strategic Objectives

Review any strategy documentation that your team, division, or organization may have. This information will be vital to understanding what targets the company aims to meet and how leadership teams are communicating this direction. But don't stop there. Set up a "listening tour"—a series of conversations with key figures in your company that will help you clarify its strategic objectives. It's obviously important to interview your boss, but you'll want to understand the perspectives of other leaders in your group or organization as well.

Don't just look up for answers. Consider coworkers below or lateral to you. You also want to hear from people with insight who may not have positional power to act on their ideas, but will have a good read on what's really going on. Who's been at the company for a long time? Who's worked closely with the current leadership? Who recently transferred from a company that went through a similar change process? For example, a peer in R&D might have niche knowledge about how technology in your field is likely to evolve, while someone in market research may have the most up-to-date information about how your customer base is evolving. (Use the sample language in the box "Defining Strategic Objectives" as a template for these discussions.)

DEFINING STRATEGIC OBJECTIVES

Your Organization

- "What are the company's major strategic objectives right now?"
- "What are the major needs/challenges/opportunities we're facing over the next six months? Year? In the long term?"
- "I'm hearing that _____ is our primary priority right now, and that long-term we're preparing for _____. Am I reading the landscape right? What am I missing?"

Your Team

- "How do you see my team fitting into this picture?"
- "What are your top priorities for my group? What are the big needs/challenges/opportunities you'd like to see us tackle in the next six months? Year? In the long term?"
- "I'd like to see my team do _____ and _____. What are your thoughts?"

You

- "What role would you like to see me play in carrying out this strategy?"

(*continued*)

DEFINING STRATEGIC OBJECTIVES

- "What are the major needs/challenges/opportunities you'd like to see me take on in the next six months? Year? In the long term?"
- "I think I'd be most useful doing _____ and _____. What are your thoughts?"
- (With your boss or key peers) "What are your major objectives right now within the organization? How can I support them?"

As you conduct these conversations, press for clarity and specificity. Ask questions such as, "I hear you saying that innovation is a priority for my team. Where would you like to see us focus?" If open-ended questions aren't getting you answers, offer limited choices: "I think there's a lot of opportunity to innovate with the way we conduct client relations and with our inventory technology. Where would you like us to focus?"

Reflecting on your conversations, note the gaps and contradictions in what you're hearing. Do different people emphasize different strategic goals? Is your supervisor tasking you with projects that don't match the priorities they've defined? If you can, press to figure out where these inconsistencies are coming from: "How do you see this special assignment supporting the overall direction you've sketched for my department?"

Step 2: Analyze Risk in Strategic Objectives

Once you've identified the goals and opportunities in front of you, review all the information you've gathered and ask where the biggest risks are:

- What are the major sources of uncertainty in your team's future?
- What external risks can you identify? Think about categories like funding; competition and conflict with other units in the company; the status of your patrons or protectors within the company; and potential reorganization.
- What internal risks can you identify? Consider upcoming personnel changes, team dynamics, and office politics.

Filter everything you're learning through a more personal question, as well: What will it take for you to be successful in your role? This isn't vanity on your part. Your bosses expect you to be a strategic thinker, and that means learning to evaluate the risks and opportunities that you must navigate yourself.

Ask yourself these questions:

- What are the major sources of uncertainty in my own future?
- What are professional risks to my success? Think about categories like your professional goals; your

experience, training, and accreditation; your network, especially within your company; and work logistics (for example, a difficult commute).

- What are personal risks to my success? Think about your health, your family, your finances, and your personality and disposition.

Once you understand the major risks to your success, analyze them from a few different angles. First, which of these risks are most likely to have a direct impact on your success? What do you absolutely need to plan for? For example, if you know that your workload makes it hard to meet important deadlines—say, submitting legal filings to a court—you must find a strategy for dealing with this problem.

Second, which risks are impossible or impractical to counter? What can't you plan for? For instance, you may not know if your company or division may be sold in the coming year, but if you haven't seen any indications that this will happen, it may not be worth planning for. You can compensate for this risk by solving a related problem—say, planning for delays or creating new ways to strengthen relationships with other team members.

Third, which are easy to plan for? Are there high-value actions that would be easy for you to take? If your inexperience with a particular coding language compromises your ability to lead a new product rollout, for example, find out if your company will pay for you to take a course in the language or bring an expert in from outside the company.

Finally, who else in your organization do these risks touch? Who can be a strategic ally? Perhaps if your team needs expanded IT support to meet its performance targets, you might look for another unit in the company that's also underserved to help you press for more resources.

Understanding your company's strategy is crucial to ensuring that your work and the work of your team align with overarching priorities. By asking the right questions of key individuals in your organization and assessing the risk associated with these objectives, you can get a fuller picture of what your company strives to do and take steps toward this strategic direction.

CHAPTER 5

Strategy Isn't What You Say, It's What You Do

by Roger L. Martin

You sometimes hear managers complain that their organization has no strategy. This isn't true. Every organization has a strategy: *Its strategy is what it does*. Think about it. Every organization competes in a particular place, in a particular way, and with a set of capabilities and management systems—all of which are the result of choices that people in the organization have made and are making every day.

When managers complain that their company's strategy is ineffectual or nonexistent, it's often because

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Adapted from "Strategy Isn't What You Say, It's What You Do" on hbr.org, June 18, 2014 (product #H00UXA).

they haven't quite realized that their strategy is what they're doing rather than what their bosses are saying. In nine cases out of ten, the company will have an ambitious "strategy statement" or mission of some kind: "We are going to be the best in the world in our industry and always lead innovation to the benefit of all of our customers."

The bosses will have worked hard to come up with such a statement, and it may very well be a praiseworthy one. But unless it is reflected in the actions of an organization, it is not the organization's strategy. A company's strategy is what the company's people are actually doing, not the slogan their bosses articulate.

The point is that everyone needs to connect the dots. If strategy is what people do rather than what bosses say, it is absolutely critical that each person in the organization knows what it means to take actions that are consistent with the intent of the strategy as asserted.

Strategic choice-making cascades down the entire organization, from top to bottom. This means that every person in the company has a key role to play in making strategy. Performing that role well means thinking hard about four things:

1. What is the strategic intent of the leaders of the level above mine?
2. What are the key choices that I make in my jurisdiction?
3. With what strategic logic can I align those choices with those above me?

4. How can I communicate the logic of my strategy choices to those who report to me?

If you as a manager can do the first three of these four, then you will own your choices and own your strategy. If you do the fourth, you will set up your subordinates to repeat these four things and thereby own their choices and their strategy, and pass on the task to the next layer of the company. If each successive layer assumes this level of ownership, the organization can make its bosses' statement a real strategy rather than an empty slogan.

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CHAPTER 6

Building a Strategic Network

by Linda A. Hill and Kent Lineback

We all know how important networks are in all the different parts of our lives: medical and health, financial and legal, and especially in work and career. What many don't know is that to be successful as a manager and leader, you need not one but three networks: operational, developmental, and strategic.

First, of course, is the network of those you and your group need to do your day-to-day work. These are people in other units of the company, and outside, on whom and on whose work you rely on do your work. This is your *operational network*. Those in it don't work for you, but

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Adapted from "The Three Networks You Need" on hbr.org, March 3, 2011 (product #H006X5).

your success depends on them. It also includes those who rely on you and your group to do *their* work. Though you may not need them, their demands on you can have a big impact on how you spend your time and attention.

Your *developmental network* is the collection of individuals whom you trust and to whom you can turn for a sympathetic ear, advice (depending on their experience), and a place to discuss and explore professional options. One way or another, these are people who help you grow as a manager and leader.

You create both operational and developmental networks naturally. The people in your operational network are those you must work with every day. And most of us naturally turn to knowledgeable friends and acquaintances for personal help with professional dilemmas. You may not have thought about these two groups as networks, but they are. In our experience, most managers spend too little time and care on building and maintaining them. They're mostly forged by immediate need and happenstance, and they often lack key people. But most managers create them, if only in rudimentary form.

The third network you need, your *strategic network*, is the one many managers don't create at all because it doesn't naturally evolve in the everyday course of work and life. A strategic network is about *tomorrow*. It comprises those who can help you do two critical tasks: first, define what the future will bring, and second, prepare for and succeed in that future. There will be some overlap between this network and your operational network, but the differences are likely to be significant, too.

Nobody can predict the future, but that doesn't mean you don't need to worry about it. Even if you can't know what's coming, you still need to identify what *might* happen—the most probable futures that lie ahead—and think about how you might prepare for them. You need a strategic network because the forces that drive change in your field will probably come from outside your current world. That means you need some way to discern those forces when they first appear on or over the horizon, not when they arrive at your door. That's the purpose of this network.

Your strategic network consists of outposts—individuals who work on the horizon of your world and can see into worlds beyond, both inside and outside your organization. Because there are many worlds surrounding yours and you can't predict which will produce the invading forces of disruption, you need several outposts—and you need to create them intentionally, because such relationships won't develop naturally. That's the tough part.

The good news is that your links to these outposts will mostly be what sociologists call "weak ties." You connect with them only on occasion, perhaps once a month or even only two or three times a year. But once you've made the connection, you can keep it alive with an occasional email, phone call, cup of coffee, or hallway chat at a conference you both attend. And once you've made the links, each outpost will know your interests and can let you know if anything of consequence to your world occurs in theirs.

Like all networks, a strategic network works only if it's built on mutual interest. You serve as an outpost in your

world for those who serve you in theirs. You learn their interests and goals and let them know if anything in your world might concern them.

Leadership and management are largely based on the future, on a sense of where you and your group are trying to go, the future you want to create. To define, move toward, and succeed in that future, you need to proactively build a far-flung network of people who live and work at the edge of your current world.

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SECTION THREE

Develop a Big-Picture Perspective

CHAPTER 7

Spotting Trends and Patterns That Affect Your Business

by Nina A. Bowman

As organizations strive to be more agile, and competitive forces demand a greater ability to anticipate and adapt, individuals need to understand not only what objectives they're striving toward but also what key trends may affect these goals. Managers at all levels will need to "lift up" and find a greater balance between current-day demands and big-picture needs. As Rosabeth Moss Kanter demonstrates in chapter 11, the best leaders know when to focus in and when to pull back.

Lifting up requires you to keep an eye out for the weak signals of change that may impact your role, department, or business. These signals can come from within your company or the external environment.

Observe Signals Inside Your Organization

Start by paying attention to the internal signals within your company that may give rise to opportunities or challenges right under your nose. In many organizations, the heavy demands of day-to-day work and short-term goals lead to a myopic view of the business that can lead to flawed decision making and negative outcomes. Consider a marketing manager who misses the signs of his company's broader financial struggles and presents an unrealistic budget. Or an HR manager who works tirelessly to hire highly sought-after tech talent but ignores the signals of falling retention rates in the existing employee base.

To identify the relevant changes happening within your company, look for trends related to different aspects of your function. Notice signals related to people, process, products, and strategy. The types of questions shown in table 7-1 can help you uncover the weak signals of internal change.

After you reflect on these questions, draw connections between the data by considering possible implications of these changes. Ask yourself, *What might these changes mean for me and my department?* and *How will these signs in my department impact stakeholders in other*

TABLE 7-1

Questions to help you identify signals of internal change

People	Process
• Have there been any new hires or departures of key employees in the company? Has there been an increase in external hires? • Have there been important changes in relationships and power dynamics that could impact your efforts? • What is your sense of employee engagement, and how might that impact the speed and quality of your initiatives?	• What key process or technology changes are occurring in other departments? • Are there patterns in the types of requests you are receiving from key stakeholders? What might these requests signal? • Has your team experienced a change in the service they receive from internal colleagues?
Products	**Strategy**
• How might the introduction of a new product, service, and geography by your company impact your line of business? Does a series of new products signal a change in direction? • Are there signals that a drop in sales of a key product might be due to internal factors?	• Does a series of acquisitions signal a new direction for the organization? • Are there changes in resource allocation across the company? • Are there signals that stakeholder priorities have changed?

parts of the business? By asking these questions, you'll realize where your own strategy and priorities may need to adapt.

Additionally, consider the root cause of these changes by asking "why?": *Why is employee engagement dropping on my team?* or *Why are there increased requests from selected areas of the business?* Understanding root cause can help you find a solution to the problem you're facing or a better path forward if change requires it.

Study Trends Outside Your Company

In exploring root causes, you will also need to consider external forces affecting your business. External monitoring has long been the purview of dedicated internal strategy teams, external consultants, or forward-looking executives. But for organizations to be able to respond more quickly to outside patterns and trends, all managers must see this as an important task worthy of their time. Failure to pay attention to external signals—or waiting until a signal becomes strong before acting—can have harsh consequences.

At times of broad and fast change, you need to actively observe changes in your market and encourage your employees to collect and share relevant external information as well. First, specify what information is important to gather and how often you need to look for it. Your department's function and the degree of change in your industry will determine how much effort to place on external monitoring. Routine monitoring efforts may suffice for more stable industries, while more dynamic industries, such as tech, may require more frequent action.

It's important to draw from a broad array of sources. Doing so will likely unearth a trend faster than relying on one stream of information alone. Consider these different sources of information as you conduct your search:

- **News and competitor updates.** Regularly browse headlines across publications, explore conversation patterns in social media, and track competitors' new product offerings and press releases. Ask

yourself, *Which information is most relevant to the work I do?* Consider, for example, someone who develops toys for a living. He should take note of headlines that indicate shifts in buying habits or social media complaints about product features. If a competitor is developing a new tech-savvy toy for childhood learning, he would also want to jot that down to discuss with his team.

- **The latest research.** Reach out to your industry and trade associations or local chambers of commerce for the latest trend reports, and dig into key data sets from relevant federal bureaus. What patterns may have a direct impact on your business? For someone in the toy industry, these reports may reveal industrywide trends in toy sales as well as changes in who customers are and where they are making their purchases.

- **People in your network.** Conversations with former coworkers or friends who work at competitor companies can help you find out what others are seeing and how they're reacting. For example, the toy developer may attend conventions and toy fairs, and set up coffee meetings with members of his network there. He can then ask, *What trend is most interesting to you right now? Why do you think that's happening? Any concerns about the industry? What are you excited about?*

- **Macro trends.** Demographic, economic, social and cultural, technological, and political trends, like

those discussed in chapter 10, can have direct and indirect effects on your industry and your organization. For example, for toy companies, technological trends would come into play as younger children spend more time on tablets and smartphones. Average income data for key sales regions would also be important to consider when making pricing decisions.

- **Sources outside your core area of business.** Familiarity with our own industry and business can often blind us to what's new or evolving. By looking at an industry you're less familiar with, you can spot inconsistencies and commonalities. Look to other industries or fields and ask, *Could this happen in my company, or my department?* The toy developer may look into outdoor recreation, book publishing, the entertainment industry, or other activities that children and families do together when they're not playing with toys.

As you and your team gather information, encourage your employees to share early observations and concerns. Plan small group discussions on market signals or schedule meetings to identify what you're missing that enable weak signals to come to light.

Examining weak signals requires teams to become comfortable with exploring what might initially seem like a "silly idea." Your team may be hesitant to do so at first. Support your team members by making it safe to discuss these fledgling ideas. Then decide which signals are worth continuing to monitor, focusing on trends

with impact—those with a broad scope and the ability to endure over time. To sort out the important information from the noise, ask, *Could this trend have significant impact on market share or sales?* Or *Does this trend have the potential to exacerbate the company's weaknesses?*

Move from Information to Insights

To find value in your research, you must connect these seemingly random external and internal signals and translate them into usable insights. By combining internal information with external observations, you can find new ways to overcome challenges or new opportunities to pursue.

Let's say that you're a manager at a skin-care manufacturer and you notice a drop in sales of moisturizing lotion. On a first review of internal sales data, you may simply conclude that the company's branding efforts are ineffective, or that you need to tweak product placement or price. But when you consider external trends as well, you discover other potential causes for the dip. A trend that "consumers are increasingly pressed for time" may indicate that users are dropping the task of putting on moisturizer altogether. Warmer temperatures may mean customers are swapping out the lotion in favor of sunscreen. These findings can lead you to different proposed solutions—perhaps considering partnerships with other products, so that a busy individual can combine using the moisturizer with already established routines, or identifying other products you might sell during warmer seasons to make up for the drop in sales. These options

could be much more effective than simply changing placement, price, or branding.

The following tips can help you convert seemingly disparate trends and observations into strategic insights:

- **Detect patterns by looking at information and data over time.** Patterns may not be obvious in the short term but often become clearer as we look at data over time, such as six months, one year, three years, or more. But don't wait too long to react. Analyzing employee engagement numbers, for example, can reveal a lot about your employees' job satisfaction and what they value, so you can continue this activity over time to find ways to improve the workplace. But if you begin to see signs of increased negativity and decreased productivity, you'll want to respond to the situation quickly, before critical team members leave the company.

- **Categorize the information into common themes.** Information gathering can quickly become overwhelming. Organizing your findings into common themes can decrease the number of items the brain needs to process, allowing you to see connections more easily. If you notice trends that involve customer shopping patterns—even across differing industries—group them together and see if there are connections to your company's offerings.

- **Discuss the implications of trends.** Not every trend you identify will matter. As a bank manager, you may not need to spend too much time analyzing

a general trend that individuals are moving closer to cities. But if this data shows that more people are renting homes, rather than buying them—particularly in the region where you operate—this may indicate a decrease in loan requests in the future. By focusing on implications, you can find the trends that have the potential to impact your space.

- **Explore peripheral ripple effects.** It can be easy to ignore trends that don't have a direct impact on your environment, but it is important to explore the longer-term consequences or ripple effects before declaring a trend "unimportant." For example, the increasing number of people using social media was seemingly unrelated to the service industries—that is, until users started posting reviews and complaints on social platforms.

- **Combine trends and build multiple scenarios for the future.** Meaningful insights often arise when we combine different trends and then ask the question, "What would happen if . . . ?" If you're in a medical profession, for example, you may notice changes in health-care offerings by insurers, increasing concern by individuals about how they'll afford treatment, and more families hesitant to vaccinate children. By combining these trends, you can ask yourself, "What would happen if kids suffer from rare diseases and can't afford medication? What options can I offer my patients in these situations, and what will this mean for other patients

in the community?" By thinking through three or four plausible scenarios for how selected trends might unfold, you can decrease your response time if a particular scenario arises.

- **Ask the big questions.** Insights are a product of the questions asked. Ask bigger questions and you will get bigger insights. A manager in the leadership and development space may ask, "How can I prepare John to be a more effective leader?" and get a short-term response. Instead, they should ask, "How will age demographics affect our overall leadership pipeline?" This broader question will lead to a set of actions that can position the company for the long term.

In lifting up to see trends and patterns, it's important to realize that your biggest roadblock may not be the information itself but managing your own analysis. Our assumptions and unconscious biases may cloud our objectivity, which can cause us to see a trend that we want to see, rather than what is actually there.

Take conscious steps to prevent these tendencies. Openly challenge your assumptions, look for data that goes against your beliefs, and craft discussions with your team that allow individuals to let go of current constraints so you can decrease the effects of bias and create the conditions for effective strategic discussions. With greater awareness, you can observe trends more accurately and lift up in a manner that supports the organization objectively.

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CHAPTER 8

Look at Your Company from the Outside In

by Graham Kenny

I was once appointed CEO of a company in need of a turnaround. We made trusses and frames for houses. One morning, after I'd been on the job about three months, I found myself staring out my window, watching the trucks and forklifts below, and I thought: *What am I doing here? Can I, on the fingers of one hand, list the ingredients of success in this industry?*

Adapted from "Customers Are Better Strategists Than Managers" on hbr.org, September 23, 2014 (product #H010B8); and "Five Questions to Identify Key Stakeholders" on hbr.org, March 6, 2014 (product #H00PH9).

In the weeks and months that followed, the senior management team and I made a number of major decisions about the company's future. As a team, I observed, we were busy doing things and making changes, all of which made sense to us as managers. But as time progressed, I returned to these questions, over and over: *How well do we know what our customers want? How well do we know what our suppliers and employees expect? What would it take to meet those needs better than our competitors could?*

In short, I'd begun to think in a way that I'd now call "strategic." Up until that point, most of my focus had been on saving the company from ruin, which had led largely to "operational" thinking—worrying about the proper staffing numbers, the ratio of overhead costs to direct costs, the prices we were paying for supplies, how machinery was utilized in the plant, the overstocking and obsolescence of products used in manufacturing, the cash flow for the business, that sort of thing.

It was after I left that job and started working as a consultant that the penny finally dropped: I realized I'd been looking at the business from the inside out. From that perspective, all I could see was the activity that consumed my day. I also realized that customers and other stakeholders have the opposite perspective. Their view is outside-in—and that's what makes them good strategists.

Think about it: As a customer, how often do you ask yourself, "Why don't they . . . ?" When you go to a department store, do you note which products should be added

or removed? If you could have your way with the store's presentation, would you change the layout, the lighting, and perhaps the color scheme? How about the service? No shortage of suggestions there, right? So it goes with airlines, telephone companies, banks, every organization you deal with: You're continually redesigning strategic factors such as product range, presentation, and customer service. We all do it.

Now try doing that for own your organization. Suddenly it's much harder, because it requires an outside-in view. Here are my suggestions for making it easier.

Tap Your Stakeholders

If your company's two-day offsite involves a group of senior executives getting together to develop a strategic plan, and they do so right there and then, my guess is it's not a *strategic* plan at all. It's an operational plan. Your management team is most likely looking inside-out, and it surely doesn't have all the answers. It probably hasn't even asked the right questions.

Effective leaders *listen*. They *observe*. And they *translate* what they learn into strategy. Hubris has no place in outside-in thinking and effective strategy development. You have customers and other stakeholders who are dying to share their ideas about how you should change your company in ways that will make them even greater supporters. So empower them to do that. (The box "Five Questions to Identify Key Stakeholders" will help you create a focused list.)

FIVE QUESTIONS TO IDENTIFY KEY STAKEHOLDERS

Suppose you're meeting to determine who your key stakeholders are. People will submit their ideas, and in no time at all you'll have a large list—and potentially a nightmare. If you don't focus on the relationships that matter most, management and staff will be running in all directions, not meeting anyone's needs very well.

To produce a shorter, more coherent list, answer the following questions about each contender you've identified in your brainstorming session.

1. Does the stakeholder have a fundamental impact on your organization's performance? *(Required response: Yes.)*

   Example: A manufacturer of trusses and frames for houses decided, on reflection, that a local council wasn't a key stakeholder. Though the council set regulations that the company had to follow, those rules didn't have much of an effect on sales or profits the way, for instance, customers did.

2. Can you clearly identify what you want from the stakeholder? *(Required response: Yes.)*

   Example: Members of a law firm's strategic planning team knew they wanted revenue from clients, productivity and innovation from employees, and continued funding from partners—yet they couldn't specify what they wanted

from the community. That relationship wasn't deemed key.

3. Is the relationship dynamic—that is, do you want it to grow? *(Required response: Yes.)*

   Example: A company that ran 17 retirement villages had a dynamic, strategic relationship with current and potential residents. It wanted increased occupancy and more fees for services used. The company's relationship with a university, by contrast, was static and operationally focused. It involved only a fixed amount of research funding and co-branding each year. Though the co-branding generated broader awareness and may have indirectly yielded more residents and revenue, the university itself didn't achieve key stakeholder status.

4. Can you exist without or easily replace the stakeholder? *(Required response: No.)*

   Example: A professional services firm in HR that had taken out a loan initially listed the bank as a stakeholder. But ultimately, that relationship didn't qualify as key, because the loan could be easily refinanced through another source.

5. Has the stakeholder already been identified through another relationship? *(Required response: No.)*

(*continued*)

FIVE QUESTIONS TO IDENTIFY KEY STAKEHOLDERS

Example: A government department involved in planning and infrastructure listed both employees and unions as key stakeholders. But this amounted to double counting: The unions represented employees' interests, and the organization's primary relationship was with its employees.

After you've applied the above criteria, your list will certainly be shorter, but it may still feel a bit unwieldy. If that's the case, try to combine categories. By clustering stakeholders according to common needs, you'll whittle your list down to a more manageable length, increasing the efficiency and impact of your efforts to meet the right groups' needs.

Conduct interviews to understand your stakeholders' needs. You want to hear, for example, how customers decided to buy from you or from the competition. You want to find out how employees committed to join your organization or decided to leave to work somewhere else, how suppliers agreed to enter into contracts to provide you with goods or services when they had a choice, and how partners signed up to sponsor your events when there were plenty of other options to consider. You're looking for insight into their "journey" with the organization, to put this in marketing terms. On the criteria that emerge

from their stories, you want to know how your organization performs—and what suggestions people have for improving your competitiveness.

Each interview should take place soon after the customer's shopping trip, the supplier's experience with your company, and so on. Wait too long, and people will forget important details and convey only vague impressions.

Go Beyond Your Current Customers

Interview potential stakeholders, too. That includes customers and others who are currently dealing with your competitors—but also those who interact with neither you nor your rivals. In the wine industry, you would talk to people who don't drink wine—beer and cocktail consumers, for example—in order to appreciate why they prefer these other beverages, understand fully any objections they might have to wine, develop ways to eliminate any barriers to purchase, and figure out how to appeal to them in order to disrupt their pattern of choice. This is how you glean insights into new areas of competitive advantage.

Listening to your stakeholders—both current and potential—will give you a new perspective on your organization and what you're offering. By looking at your organization from the outside in, you can adjust your company's positions on the factors that matter.

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CHAPTER 9

Thinking Long-Term in a Short-Term Economy

by Ron Ashkenas

Do you find it odd that when a company announces a profit of $8.4 billion in a single quarter, the performance is reported as "disappointing"? Or $5.7 billion as "dreadful"? Fact is, these were the terms used by analysts to describe the results produced by Exxon Mobil and Royal Dutch Shell after their second-quarter earnings release in 2012.[1]

Adapted from "Thinking Long-Term in a Short-Term Economy" on hbr.org, August 7, 2012 (product #H0097Q).

Almost all publicly traded firms are given "qualitative assessments" by analysts during earning announcement season, which influence investors. But too often the weight of Wall Street opinion causes executives to focus on hitting short-term earnings targets rather than creating long-term value. And even if executives' strategies are not playing to short-term expectations, they still have to spend a lot of time explaining why this quarter's earnings are not up to snuff.

So despite Exxon Mobil's and Shell's robust, multibillion-dollar profits, analysts deemed the results "disappointing" and "dreadful" compared with previous quarters. And they use these terms even while acknowledging that the industry is facing lower oil prices, increased availability of natural gas, decreasing economic activity, and rising costs—all factors largely outside of the companies' immediate control. The analysts also say that in the face of all this, both companies continued to make long-term investments and still delivered billions of dollars in profit. How is that "disappointing"?

Unlike Exxon Mobil and Shell, many other companies end up making decisions—such as laying off staff or overpaying for an acquisition—to appease these quarterly earnings pressures. In fact, one of the surest ways to increase stock prices in the short term is to announce a significant layoff.

However, the reality is that most organizations can't be judged on a quarter-to-quarter basis. Strategies take time to unfold and bear fruit, and managers need time to develop their own capabilities and those of their teams. Yes, it's important to achieve short-term results as a way

to test new approaches and build confidence, but these need to be put into the context of long-term value creation. Otherwise we run the risk of sacrificing our future.

But how do you keep the focus on long-term value creation while the media and the markets exert pressure to do the opposite? Here are a few thoughts, not just for CEOs, but for all managers:

First, make sure that you have a dynamic, constantly refreshed strategic "vision" for what your organization (or unit) will look like and achieve three to five years from now. I'm not talking about a strategic plan, but rather a compelling picture of market/product, financial, operational, and organizational shifts over the next few years. Develop this with your direct reports (and other stakeholders) and put the key points on one page. This then serves as a true north to help guide key decisions.

Second, make sure that your various projects and initiatives have a direct line of sight to your strategic vision. Challenge every potential investment of time and effort by asking whether it will help you get closer to your vision, or whether it will be a building block to help you get there. Doing this will force you to continually rebalance your portfolio of projects, weeding out those that probably won't move you in the right direction.

Finally, be prepared to take some flak. There may be weeks, months, or quarters where the results are not on the rise, or don't match your (or analyst) expectations. Long-term value, however, is not created in straight lines. As long as you're moving iteratively toward the strategic vision on a reasonable time line, you're probably doing the right things. And sure, you can always do

more. But just make sure that you're doing things for the right reasons.

Ron Ashkenas is an Emeritus Partner with Schaffer Consulting, a frequent contributor to *Harvard Business Review*, and the author or coauthor of four books on organizational transformation. He has worked with hundreds of managers over the years to help them translate strategy into action. He is the coauthor of *Harvard Business Review Leader's Handbook* (Harvard Business Review Press, 2018).

NOTE

1. Clifford Krauss and Stanley Reed, "For Exxon Mobil and Shell, Earnings Fall with Energy Prices," *New York Times*, July 26, 2012, http://www.nytimes.com/2012/07/27/business/global/royal-dutch-shell-earnings-tumble-13-in-first-quarter.html?_r=3.

CHAPTER 10

The Future Is Scary. Creative Thinking Can Help

by Alan Iny and Luc de Brabandere

Having a long-term view can be a struggle. In an effort to plan for a future we can't clearly see, we search for ways to reduce uncertainty and risk. But doing so can thwart fresh thinking that opens our eyes to new possibilities. Instead, we learn to embrace uncertainty—and create more opportunity for our team and organization—by thinking creatively.

Thinking creatively about the future requires sensitivity to the complex, fast-moving world in front of you, the

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Adapted from "The Future Is Scary. Creative Thinking Can Help" on hbr.org, September 18, 2013 (product #H00DZG).

ability to anticipate unexpected disruptions, and a willingness to constantly reevaluate your most basic beliefs and assumptions. Done well, we believe thinking about the future of your organization in this way requires doing three things.

Understand How People Think

The way the brain is hardwired could be leading you and your colleagues to hold on to tired assumptions and misperceptions about your organization. People have a natural bias toward ideas and concepts that confirm, rather than contradict, those they already believe. Such biases can sabotage their capacity for fresh thinking.

A classic example: Henry Ford famously insisted that the all-black Model T would always remain desirable to consumers. Even as other automakers created new car models and colors, and his colleagues urged him to consider pursuing new directions, Ford refused to budge. After years of fantastic innovations that helped bring the automobile to the masses, Ford fell prey to the *anchoring bias* that leads people to make (or fail to make) new decisions by referencing their previous experiences.

Free your mind to generate new ideas by noticing how these and other cognitive patterns may be shaping your key assumptions and holding you back from thinking in more creative ways. When thinking about the future of your organization, ask yourself whether "the way we do things here" is necessarily still relevant—and encourage your colleagues to do the same. Insist on a culture that allows people to constantly challenge the hypotheses and

assumptions they have about your organization, the industry in which it does business, and the world in which it operates.

Question Your Organization's Fundamental Beliefs

To think creatively is to change the way you look at something—to update one or more of your mental models. To get started, drill down on some of the most important mental models that you and your colleagues are currently using by conducting a "beliefs audit." Interview or survey your colleagues to understand their thoughts about your organization's current situation. Consider the following questions:

- What are some key assumptions inherent in your day-to-day activities—established "rules" under which you or your organization generally operate? What core values are "given"?
- What are some of your own beliefs about your organization, and what makes it perform effectively at present? In what areas does your organization devote too much—or too little—time and resources?
- What is your organization's competitive space, and are there ways it might be redefined?
- If you or your organization didn't exist, what difference would it make to the world? What would be missing?

These are only sample questions—you should develop others based on the current needs of your organization.

Questioning your current situation can open up paths to creative thinking. For instance, Google's original aspiration was to build the best search engine ever; arguably the organization achieved that. But in order to enter a new era of growth, Google leaders needed to perceive their company differently. Only when they challenged their long-held assumption that "We are a search engine company" could they then come up with the "We want to know everything" concept that sparked projects such as Google Earth, Google Book Search, and Google Labs, along with further improvements to their fabled search engine.

Use "Prospective Thinking" to Consider Key Trends and Disruptions

Take an expansive, long-term view. Be open to all possibilities and fully aware of what's happening both within and outside of your organization or your immediate environment.

Trends, a topic that was covered in more detail in chapter 7, can have a great impact on your business and provide new opportunities for competitive advantage. *Megatrends*—large social, economic, political, environmental, or technological changes likely to have major impact across a wide range of areas—can be a very useful tool to help spark new possibilities. Examples include the rise of alternative energy sources, rapidly developing markets like Brazil and China, and increasing mobile connectivity. Megatrends will affect your company, your

customers, and your competition as well as your family and community.

Develop a list of issues you believe will likely play out over a relatively long period of time (say, 5 to 10 years, though different industries could have longer or shorter time frames), have a strong and wide-reaching impact, and open up a range of strategic responses on your part. Then refine your list by asking: "Which trends will be the key vectors for shaping my organization's future?" "What are some of the seemingly irrelevant trends that could end up being surprisingly critical?"

Ponder the many ways you could exploit these megatrends to create new opportunities for your organization. Stretch your thinking by considering which of these trends your organization would be the *least* ready to deal with. Are there trends right in front of you that you haven't yet addressed?

Ask yourself how these potential trends could influence the new ideas you want to generate for the future. For example, a client we worked with several years ago, a major European department store chain, stated emphatically that its future was in China, based on trends outlining the increased purchasing power of the rising middle class there. But not a single person on the leadership team had heard of Taobao, the closest Chinese analogy to Amazon.com, which was growing at double-digit rates, building new distribution centers across the country, and focusing on customer relationships and loyalty.

Thinking creatively about the future is not only about gathering the trend data but maintaining the

atmosphere of doubt cultivated in the first step. This will enable you to look at data—whether trends, customer research, or competitive intelligence—in fresh ways, to be better prepared for an uncertain future. Indeed, thinking creatively about the future means embracing the uncertainty, rather than trying to remove it.

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CHAPTER 11

Zoom In, Zoom Out

by Rosabeth Moss Kanter

After an explosion on a BP oil platform in the Gulf of Mexico in April 2010 killed 11 people and caused the biggest oil spill in U.S. history, the company's CEO at the time, Tony Hayward, zoomed in on the implications for his career. He appeared preoccupied with the incident's impact on BP's management and, particularly, on himself. About a week after the explosion, Hayward was quoted as saying to executives in his London office, "What the hell did we do to deserve this?" Despite PR coaching, a month later he told reporters, "I'd like my life back."

Hayward, who was forced to resign in July, had numerous opportunities to acknowledge the bigger picture:

Reprinted from "Managing Yourself: Zoom In, Zoom Out" in *Harvard Business Review*, March 2011 (product #R1103K).

the human devastation and public consternation in the Gulf region. But even though BP deployed thousands of engineers to contain the spill, he could not, in public, rise above a 10-foot view; it was as though the crisis were his own personal devil. Hayward repeatedly focused on the small picture—trying, for example, to shift the blame to supplier Transocean, which had run the rig that exploded. His zoom button seemed to be stuck on the closest setting.

The lens through which leaders view the world can help or hinder their ability to make good strategic decisions, especially during crises. Zoom in, and get a close look at select details—perhaps too close to make sense of them. Zoom out, and see the big picture—but perhaps miss some subtleties and nuances.

Zoom buttons on digital devices let us examine images from many viewpoints. They also provide an apt metaphor for modes of strategic thinking. Some people prefer to see things up close, others from afar. Both perspectives—worm's-eye and bird's-eye—have virtues and pathologies. But they should be vantage points, not fixed positions. Leaders need multiple perspectives to get a complete picture. Effective leaders zoom in and zoom out.

I've come to this conclusion after more than 25 years of observing how leaders set strategic direction, interact with constituencies, and respond to unexpected events. I've worked with thousands of executives and conducted systematic studies of innovation, alliances, change, and transformation in hundreds of organizations. I've seen how organizational structures, processes, and cultures

can direct the gaze of leaders close in or far out, and how levels of analysis can become default positions that limit effectiveness.

The zoom framework offers a dynamic model that can help current and aspiring leaders increase their own range of vision and establish conditions that enable others' success. In this article, I will identify the behavior and decision modes associated with zooming in and contrast them with those for zooming out. I'll consider the structures and cultures that trap people in dysfunctional default positions, and I'll conclude with ideas on developing capabilities for zooming to all levels.

Zooming In

Zooming in brings the details into sharp focus. Any opportunities look large and compelling, though they may lack some context.

A CEO I will call "John Jones"—who owns a mid-size retail chain started by his father—works primarily in close-in mode. A classic entrepreneur who combines hustle with retail-is-detail know-how, Jones expanded the chain successfully from two to 30 locations by continually seeking the next prime site, merchandise item, or website tip. His discoveries came mostly through his personal connections rather than analysis. Jones disdained strategic plans and management theories. He removed a well-regarded banker from his advisory board, for instance, because the banker would ask for plans—orderly goals, with timelines—when Jones simply wanted to concentrate on specific operational ideas that were easy to implement.

Thanks to his industry knowledge, wide personal network, and intuition, zooming in served Jones well for a decade. But when the economy soured, his good instincts felt insufficient. Family members and key employees began to question his decisions. Jones had no succession plan—nobody had been groomed for the future. He made acquisitions on the basis of his own taste or just because an owner wanted to sell and gave little thought to cost, whether the acquisition was a good fit, or what else was on the horizon. He had no broad theory about which opportunities to pursue and no industry map. Zooming in was limiting his company's growth prospects.

Close-in managers look for immediate benefits and make ad hoc decisions. They often favor one-on-one conversations over group meetings. They want to address details by doing whatever occurs to them. Faced with a problem, they look for quick fixes rather than stand back to seek underlying causes, alternatives, or long-term solutions. They prefer to contact someone they know rather than search more widely for expertise. These tendencies are exacerbated in organizations that restrict information flow, reward quick hits, and confine people to their roles.

A close-in perspective is often found in relationship-intensive settings, where human talent is the primary asset. Consider another executive, whom I'll call "Sam Lee." He ran a well-regarded professional services firm during a decade of incremental growth. Known as a benign leader, Lee could talk about strategies with external constituents, but he operated best when zooming in. He liked to confer in a clublike huddle in his office rather

than discuss issues in open meetings. He was unfailingly helpful with individual requests (including one-off favors). In other words, he liked to make exceptions instead of policies. As a result, his organization had an abundance of private deals with individual staff members (such as off-calendar budget allocations, vacation privileges, sabbaticals, and extended family leaves).

In a time of prosperity with few external threats, a personal approach may be acceptable. Toward the end of Lee's tenure, however, the firm found itself in an increasingly competitive environment with greater regulatory pressure. It was becoming untenable to treat each situation as unique. Even as policy exceptions accumulated, the logic behind these decisions remained unaddressed. Junior professionals were left to wonder and worry about the rules and fairness. Whispered concerns about favoritism ran through the corridors. The organization was running on a patronage system of personal credits and debits, with a market for favors substituting for principle-based decision making. Morale and productivity declined, jeopardizing the company's reputation and making it harder to attract the best talent. When Lee retired, his successor immediately zoomed out, stating a few broad strategic priorities. He created clear formal policies to replace informal exceptions and began discussing them all openly in large meetings.

One of the traps of zooming in is that policies and systems are based on internal politics. Close-in people tend to talk about their personal lives, as though self-disclosure will beget the same from others, turning organizational actions into an exchange of favors based

on special relationships. They often resist change because it disrupts the social equilibrium. Sometimes their personal approach is valuable, because people respond faster to individuals they know than to abstract appeals. But "Do it for me" is a weak basis for corporate decisions. It also means that employees cannot easily stand in for one another, because relationships are "owned" by specific people. And it can put ego above institution.

Relying heavily on personal instinct and interpersonal deals without a wider perspective or a long-term rationale can prove perilous. An overly personal approach can also make managers quick to perceive slights, whether or not they're real. The CEO of one technology company, though known as a great strategist, still let zooming in drive some decisions. He was personally offended by how a prominent magazine had portrayed him, so the company stopped advertising there. Employees took this as a warning to tread carefully when providing him with unfavorable information. In another case, a corporate middle manager pored over emails to see whether he was being treated appropriately, and complained immediately if he perceived any suggestion of offense. His focus on status over substance cost him a higher-paying position; the plum promotion went instead to a manager with a grasp of the bigger picture.

Zooming in can obscure the big picture, leading managers to overlook important issues. Decisions become based on who you are and whom you know, not on broader goals.

Zooming in can also lead to turf protection. When managers use territorial language, it reveals that they

have fallen into this trap. One division CFO, for instance, always used the first person when referring to budget numbers, as in "I have x dollars," even though it was the organization's money, and ignored repeated requests from other members of the executive group to stop this manner of speaking.

Personalizing is not the same thing as self-reflection—indeed, it might be the opposite. Self-reflection is a learning process that requires a distant perspective on one's own behavior, in context. An obsession with self is reinforced by zooming in, but self-awareness stems from zooming out.

Zooming Out

Zooming out is essential to big-picture decision making. When people are far out, they can map the whole territory before taking action. They see events as examples of general patterns rather than as idiosyncratic or personal incidents. They put things in context and stress principles.

The former CEO of Garanti Bank, Akin Ongor, led it from a middle-of-the-road bank in Turkey to global prominence by setting up processes that replaced poor performers and upgraded talent. When his announcement of layoffs provoked union protests and even death threats, Ongor refused to take the attacks personally or get drawn into ad hominem battles. Instead, he went to the media and elevated the discussion to the principles behind the bank's actions. By zooming out, he helped his employees, the public, and government officials see the layoffs in the context of a transition in the economy and

as a move that would save an important institution so that it could create more jobs in the future. The protests ended, and Ongor continued to lead successful change at the bank.

Zooming out helps people see the map and stay focused on larger principles. Consider Procter & Gamble CEO Robert McDonald, who rose through the ranks to head a global public company with a long-established culture. Even while seeking current profits, he constantly asks questions about what will support the sustainability of the company and keep its values intact. He can generalize about geographies and lines of business while appreciating cultural differences. He is personable but doesn't personalize issues, repeating often that he is a steward of an institution that must endure beyond him.

Zooming out is appropriate for top leaders. But it also has traps. For one thing, key stakeholders might want to see immediate results and know that the details are right before they support long-term big-picture thinking. That's why broad visions need to be matched by small wins that demonstrate feasibility. For another, leaders who like to be far out may operate so high above the fray that they don't see emerging threats and opportunities (which, ironically, is a danger for close-in leaders too) or recognize competing theories that are better able to explain new developments. Having zoomed out to examine all possible routes, they can neglect to notice the moment for action on one promising path. When zooming out makes established highways look too good, leaders may fail to jump onto a side road to get around the traffic.

When the focus is on grand theory, novel situations are dismissed as too insignificant to merit attention. Leaders lose the sense that the big picture might be contingent on a set of circumstances that may well evolve. But sometimes a novelty is a signal, heralding embryonic change. The film *The Social Network* presents a fictionalized version of an iconic moment in which the Winklevoss brothers, feeling aggrieved that fellow student Mark Zuckerberg had created Facebook when he was supposedly working on their web venture, meet with the university president, a disguised version of then–Harvard president Lawrence Summers. In the movie, the president dismisses Facebook as just another undergraduate venture and tells the brothers to forget it and start another business rather than waste his time on something so trivial. Whether the incident was merely movie fiction or not, in real life that president was overly focused on important long-term plans and goals and on keeping a wide perspective on the institution. His lack of attention to interpersonal interactions eventually cost him support and his job.

Sometimes leaders need a nudge to look at details that might shake their theories. Take a chief executive I'll call "Herman Fry," who ran a science-based company that was starting to use genetic engineering in a growing product line. Fry had previously led a division to global prominence through breakthrough innovations and was known as a brilliant strategist and big-picture thinker. But when he heard rumblings against genetically modified ingredients in Europe, he initially dismissed them as local issues that didn't require scrutiny or a

response. When he heard that a U.K. customer was being pressured about the same issue, his attention was caught—but not enough; he still said the concern was a minor blip and did not bother to look more deeply. By the time he was persuaded to gather more details, a global backlash had begun, and the company had lost the chance to reassure customers and tell its story ahead of the protests.

A preference for zooming out can make leaders appear remote and aloof. After a campaign that involved both inspiring rhetoric and street-level organizing, President Barack Obama faced severe national crises. He zoomed out to address big systemic issues, such as the financial crisis, with policies that advisers said stopped further erosion. But critics said that he failed to convince average Americans that he was addressing their problems. His supporters argued that his actions, Keynesian in nature, would show their merits in the longer run; yet as John Maynard Keynes himself pointed out, in the long run we're all dead. One of the problems with staying at the most distant end of the zoom is that the picture looks static and few routes are visible. It may appear, for instance, as though all economic highways go through the Federal Reserve and big banks. Zooming in and monitoring the situation as it appeared to communities and families, might have helped Obama communicate that he was seeking alternatives that would reach more people directly—such as increasing small-business lending at local banks. Instead, despite his many accomplishments, Obama's approval ratings plummeted, and his party lost badly in the 2010 elections.

Getting Stuck

A failure to zoom can spell doom. As we have seen, problems arise when people get stuck at one end of the scale and are unable to move to the other for a different perspective.

One question is whether it's possible to create teams that balance close-in and far-out modes. Perhaps. But if people can't shift from the worm's-eye or bird's-eye level, they often talk past one another. Those zooming in want to come back to the particulars and haggle over details, frustrating those who want patterns and a strategy. Those zooming out might seem theoretical and impractical, or find that their general frameworks and principles are not understood by those who zoom in. Hardened preferences can get in the way of good decisions.

A narrow focus in either direction can lead to trained *incapacity*, a concept attributed to social theorist Thorstein Veblen. Regardless of their innate potential, if people spend too much time on tasks that draw on only part of their repertoire, it can make the other part atrophy. The fact that it's difficult to balance zooming in and zooming out may explain one perceived difference between male and female managers uncovered by INSEAD professor Herminia Ibarra. She found that women score high on all aspects of "21st century" leadership performance (such as relationship building, collaboration, and teamwork) except vision setting. Relationships are nurtured by zooming in. Vision involves zooming out. This may derive from the pernicious stereotypical view that men should be entrusted with big-picture decisions,

while women should be assigned to caretaking tasks. The very nature of caretaking requires zooming in to be attentive to details, one child or one executive at a time. Zooming in is also a necessity for those whose fate depends on being attuned to the characteristics and preferences of power holders. Traditional divisions of labor by gender encourage men to zoom out and women to zoom in, with fewer opportunities to take another perspective.

Zooming Toward Both Perspectives

The best leaders work the zoom button in both directions. Faced with a crisis, they can address the immediate situation while seeking structural solutions. They can zoom in to see problems while zooming out to look for similar situations, root causes, and principles or policies that will help prevent the crisis from recurring.

Daniel Vasella, chairman and former CEO of pharmaceutical giant Novartis, was both a psychiatrist by training—which made him able to zoom in on the emotional state of the people around him—and a strategist with a theory of industry change that guided divestitures, acquisitions, and internal restructuring. He stressed personal values as well as global trends. Indra Nooyi, PepsiCo's CEO, blends a big-picture view of principles guiding the company, such as the need for transformation in food and beverage companies to promote improved health, with an ability to zoom in on the details of budget allocations for current business lines. Nooyi has defined new roles (such as a chief science officer) and new structures (for instance, the Global Nutrition Group, linked to cen-

tral R&D) that help the previously decentralized organization both zoom out to a global perspective and zoom in on local differences.

Effective leaders encourage others to expand their zooming range. For example, P&G, like most companies in the consumer packaged goods industry, is a heavy user of large-sample survey market research, which maps territories through statistical abstractions, a form of zooming out. Though P&G's leaders don't disregard these data, they also send employees into the field to live with families, zooming in on their needs and experiences. The closely observed details of individual household behaviors ultimately influence P&G's investment decisions.

The zoom function is more than a metaphor; it can be a way for people to stretch their mental capabilities by, for example, manipulating maps, comparing photos, exploring issues from various vantage points, and creating action plans that reflect learning from multiple perspectives. IBM's Corporate Service Corps integrates both the big and the small pictures into its global leadership development programs. It sends culturally diverse teams on monthlong field assignments in unfamiliar territory. The team members get direct experience solving specific problems on the ground while gaining a broad view across countries and cultures.

The language of zooming offers an objective way to discuss differences in perspective and encourage people to move to a different level: "Let's zoom in on that problem." "Let's zoom out to put it in perspective." Zoom-based checklists can help people stop themselves from overpersonalizing, reminding them to go up a few levels

TABLE 11-1

Are you stuck in a perspective that's too close in?

Telltale signs	Questions that will help you zoom out
• You get overwhelmed by countless details.	• What is the context? What matters most?
• You take things personally, finding the "me" angle first.	• What larger purpose is being served? What is at stake for others?
• You trade favors, hoping others will "do it for me."	• Why is the task or mission worthy of support?
• You make exceptions or special deals based on particular circumstances.	• Will the circumstances recur? What policies or decision frameworks could be used?
• You jump on any good-looking offer that pops up.	• Does this fit the goal or destination? What else might be on the horizon?
• You treat every situation as unique.	• Are there other similar situations? What categories or groupings make sense?

to the principles involved, or from overgeneralizing, encouraging them to get more grounded in situational realities. Everyone can apply the principles of zooming to his or her own job by asking the right questions, such as whether a given action fits the overall goal or whether there is sufficient information to move forward on a particular theory. (See table 11-1, "Are you stuck in a perspective that's too close in?" and table 11-2, "Are you stuck in a perspective that's too far out?")

The zooming idea suggests that we don't have to divide the world into extremes—idiosyncratic or structural, sit-

TABLE 11-2

Are you stuck in a perspective that's too far out?

Telltale signs	Questions that will help you zoom in
• You dismiss deviations from plans or models as too minor to matter.	• Does the deviation challenge the model? How can the deviation be understood?
• You veer away from dealing with specific problems in favor of focusing on general theory.	• What actions does your theory suggest for this particular problem?
• You must have a full analysis or a big study before determining actions.	• Is there sufficient information to proceed in this instance? What are the costs of delay?
• You always stay on major established paths.	• Are there side roads or shortcuts?
• You pursue the mission regardless of human costs.	• How is this affecting the people who must carry out the mission?
• You fit everything into a few general categories.	• What are the details that make things different? Which details matter?

uational or strategic, emotional or contextual. The point is not to choose one over the other but to learn to move across a continuum of perspectives. President Bill Clinton's political genius was that he could "feel your pain" while putting events into historical and international context, zooming in and out quickly in a single conversation or speech. That dynamic capability is the essence of great strategic thinking.

Zooming can help leaders respond to events before they become crises. It can help them embrace new opportunities while continuing to operate with principles that build sustainable institutions for the long run. Leaders should make room to zoom.

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SECTION FOUR

Align Decisions with Strategic Objectives

CHAPTER 12

Reflect on Your Actions and Choices

by Liane Davey

Being more strategic doesn't mean making choices that affect the whole organization or allocating scarce budget dollars. It requires only that you put even the smallest decisions in the context of the organization's broader goals. Nurturing a relationship that could provide unique insight into a supplier, a customer, or a competitor is highly strategic. Everyone has an opportunity to think more strategically.

If you're not being seen as enough of a strategic thinker, my guess is that it's because you're so busy.

Adapted from "Strengthen Your Strategic Thinking Muscles" on hbr.org, January 21, 2014 (product #H00MVH).

Between meetings, emails, phone calls, and other immediate demands, there's often not much time left for work that requires deep thought. The result is decisions that are based more on *reflex* than on *reflection*. The risk of these reflexive, knee-jerk decisions is that they tend to be based on what has worked before. That would be fine if our world were static, but it is not. Your industry, your competitors, and your customers are changing at an unprecedented rate. Doing what you've always done can be as risky (or more risky) as trying a new and unproven approach.

In this context, it's critically important to make time to reflect before making decisions: *What is involved? Who is involved? What is at stake? What is the opportunity and what are the risks?* What at first seems like an opportunity might reveal significant risk, and what seemed risky at first might reveal a significant opportunity.

Your other response to your harried life might be to make a list of things to accomplish, put your head down, and get things done. But focusing too narrowly restricts your chance to be strategic. Strategic people create connections between ideas, plans, and people that others fail to see. Consider this example: A senior banking executive was looking for a new IT vendor for operations in the Caribbean when he learned that another department was working on new customer service standards. His default reaction was to just carry on. But that would have been a lost opportunity to marry the system requirements with the new service standards, which would create better protocols for customer interactions with more efficient and effective data available in real time.

And remember, relationships are strategic too. The executive asked the new IT vendor to introduce him to other clients who had already implemented their new systems. This gave him the chance to ask questions about the vendor and how to optimize the contract and the relationship.

Strategic people see the world as a web of interconnected ideas and people, and they find opportunities to advance their interests at those connection points.

But a person who *reflects* on situations and *connects* ideas and people still has one problem: It isn't possible to do everything! Possibilities are unlimited; time, money, and resources are not. That necessitates the ability and willingness to make choices—to decide what you will do and what you won't. Closing one door in favor of another requires the courage to take action (for which you could later be blamed) and confidence to abandon an alternative (which could be a missed opportunity). It is at the point of choice that your ability to be strategic is finally tested. Making a choice isn't without risks, but the risk of not choosing—of spreading limited resources over too many options—is greater. You will be seen as more strategic if you take action and course-correct than if you choose to stagnate and do nothing or stall because you're trying to do everything.

You don't need a new title, more control, or bigger budgets to be more strategic; you just need to be more deliberate in your thoughts and actions. By investing time and energy to reflect on the situations and decisions that face you; by finding ways to connect ideas and people that you had never linked before; and by having

the courage to make choices about what you will do and what you won't, you will greatly increase your strategic contribution.

Liane Davey is the cofounder of 3COze Inc. She is the author of *You First: Inspire Your Team to Grow Up, Get Along, and Get Stuff Done* and a coauthor of *Leadership Solutions: The Pathway to Bridge the Leadership Gap*. Follow her on Twitter @LianeDavey.

CHAPTER 13

Seven Steps for Making Faster, Better Decisions

by Erik Larson

Managers make about three billion decisions each year, and almost all of them can be made better. The stakes for doing so are real: Decisions are the most powerful tool managers have for getting things done. While a tool like goal setting is aspirational, making decisions actually drives action. People usually do what they decide to do.

The good news is that there are ways to consistently make better decisions by using practices and technologies based on behavioral economics. In a three-month

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Adapted from "A Checklist for Making Faster, Better Decisions" on hbr.org, March 7, 2016 (product #H02PR2).

study of 100 managers, my team and I found that managers who made decisions using best practices achieved their expected results 90% of the time—and 40% of them exceeded expectations.

But although there's great potential for using best practices to improve decision making, many organizations are not doing it. In a study of 500 managers and executives, we found that only 2% regularly apply best practices when making decisions, and few companies have systems in place to measure and improve decision making over time.

There are three reasons why this gap between potential and practice exists:

- **History.** Decision making in business has long been more art than science. That is partly because, until recently, most managers had relatively little access to accurate information. Few decision tools are widely used; the pros-and-cons list, popularized by Benjamin Franklin, is probably the most common—and it's nearly 250 years old. And then there is the unfortunate circumstance that economics in the 20th century was based on the theory that people make rational choices when given good information, a theory proved to be somewhere between spotty and completely wrong, thanks to a revolution in behavioral economics, led by Nobel Prize winner Daniel Kahneman.

- **Psychology.** We are predictably irrational. Behavioral economists have uncovered a range of mental shortcuts and cognitive biases that distort our

perceptions and hide better choices from us. Most business decisions are collaborative, which means groupthink and consensus work to compound our individual biases. Further, most business decisions are made under the stress of high uncertainty, so we often rely on gut feelings and intuition to reduce our mental discomfort.

- **Technology.** Enterprise software has automated many managerial tasks over the past 40 years. That shift has formed a foundation for better decision making, but it leaves the job unfinished. Behavioral economics shows that providing more complex and ambiguous information does little to help managers and their teams with the main challenges they must overcome to make better decisions.

So what can be done?

Through our work and experiments with thousands of decision makers, my team and I found that the most successful decision-making approach boils down to a simple checklist. But simply understanding the items in the list is not enough. This checklist must be *used* to be effective, since our biases don't go away just because we know they are there.

Each time you face a decision, use these steps as a tool to counteract your biases:

1. **Write down five preexisting company goals or priorities that will be impacted by the decision.** Focusing on what is important will help you

avoid the rationalization trap of making up reasons for your choices after the fact.

2. **Write down at least three, but ideally four or more, realistic alternatives.** It might take a little effort and creativity, but no other practice improves decision making more than expanding your choices.

3. **Write down the most important information you are missing.** We risk ignoring what we don't know because we are distracted by what we *do* know, especially in today's information-rich businesses.

4. **Write down the impact your decision will have one year in the future.** Telling a brief story of the expected outcome of your choice will help you identify similar scenarios that can provide useful perspective.

5. **Involve a team of at least two but no more than six stakeholders.** Getting more perspectives reduces your bias and increases buy-in—but bigger groups have diminishing returns. According to research by Marcia Blenko, Michael Mankins, and Paul Rogers of Bain & Company, once you've reached seven people in your group, each additional member reduces decision effectiveness by 10%.[1]

6. **Write down what was decided, as well as why and how much the team supports the decision.**

Writing these things down increases commitment and establishes a basis to measure the results of the decision.

7. **Schedule a decision follow-up in one to two months.** We often forget to check in when decisions are going poorly, missing the opportunity to make corrections and learn from what's happened.

Our research has found that managers who regularly follow these seven steps save an average of 10 hours of discussion, decide 10 days faster, and improve the outcomes of their decisions by 20%.

We need a new, scalable approach to managing decision performance. It must replace the historical theory of rational choice. It must acknowledge that our psychology often leads us astray. And it must use simple, friendly tools like this one, designed to have an outsize impact on how managers and teams make decisions.

Erik Larson is founder and CEO of Cloverpop, a cloud solution that applies behavioral economics and collaboration to help businesspeople make better decisions together. He is a graduate of MIT and Harvard Business School, a decorated U.S. Air Force officer, and an experienced technology executive based in San Francisco.

NOTE

1. Marcia W. Blenko, Michael C. Mankins, and Paul Rogers, *Decide and Deliver* (Boston: Harvard Business Review Press, 2010).

CHAPTER 14

How to Make Better Decisions with Less Data

by Tanya Menon and Leigh Thompson

Maria, an executive in financial services, stared at another calendar invite in Outlook that would surely kill three hours of her day. Whenever a tough problem presented itself, her boss's knee-jerk response was, "Collect more data!" Maria appreciated her boss's focus on the data, but as the surveys, reports, and stats began to pile up, it was clear that the team was stuck in analysis paralysis. And despite the many meetings, task forces, brainstorming sessions, and workshops created to solve

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Adapted from "How to Make Better Decisions with Less Data" on hbr.org, November 7, 2016 (product #H038UJ).

any given issue, the team tended to offer the same solutions—often ones that were recycled from previous problems.

As part of our research for our book, *Stop Spending, Start Managing*, we asked 83 executives how much they estimated that their companies wasted on relentless analytics on a daily basis. They reported a whopping $7,731 per day—$2,822,117 per year! Yet despite all of the data available, people often struggle to convert it into effective solutions to problems. Instead, they fall prey to what Stanford University professor James G. March and his coauthors describe as "garbage can" decision making: a process whereby actors, problems, and possible solutions swirl about in a metaphorical garbage can and people end up agreeing on whatever solution rises to the top.[1] The problem isn't *lack* of data inside the garbage can; the vast amount of data means managers struggle to prioritize what's important. As a result, they end up applying arbitrary data to new problems, reaching a subpar solution.

To curb garbage-can decision making, managers have to think more strategically about which information they need to solve a problem and how it should be applied in their decision making and actions. We recommend the "data DIET" approach, which provides four steps of intentional thought to help convert data into knowledge and wisdom.

Step 1: Define

When teams and individuals think about a problem, they likely jump right into suggesting possible solutions.

Indeed, many brainstorming sessions begin this way. But while the prospect of "problem solving" sounds positive, people tend to fixate on familiar approaches rather than stepping back to understand the contours of the problem.

Instead, start with a *problem-finding mindset*, where you loosen the definitions around the problem and allow people to see it from different angles, thereby exposing hidden assumptions and revealing new questions before the hunt for data begins.[2] With your team, think of critical questions about the problem in order to fully understand its complexity: How do you understand the problem? What are its causes? What assumptions does your team have? Alternatively, write about the problem (without proposing solutions) from different perspectives—the customer, the supplier, and the competitor, for example—to see the situation in new ways.

Once you have a better view of the problem, you can move forward with a disciplined data search. Avoid decision-making delays by holding data requests accountable to if-then statements. Ask yourself a simple question: *If I collect the data, then how would my decision change?* If the data won't change your decision, you don't need to track down the additional information.

Step 2: Integrate

Once you've defined the problem and the data you need, you must use that information effectively. In the example above, Maria felt frustrated because as the team collected more and more pieces of the jigsaw puzzle, they weren't investing the same amount of time to see how

the pieces fit together. Their subconscious beliefs or assumptions about problems guided their behavior, causing them to follow the same tired routine time and time again: collect data, hold meetings, create strategy moving forward. But this is garbage-can decision making. To keep the pieces from coming together in an arbitrary fashion, you need to look at the data differently.

In design thinking, you break down the problem and then synthesize it, putting the pieces together again. One technique you can use with your team to integrate the different elements of the problem is the KJ diagram (named after its creator, Kawakita Jiro). The goal is to sort discrete facts and data points into causal relationships. Write the facts on notecards and then sort them into piles based on observable relationships—for example, an increase in clients after a successful initiative, a drop in sales caused by a delayed project, or any other data points that may indicate correlated items or causal relationships. In doing this, you can create a visual model of the patterns that emerge and make connections in the data.

Step 3: Explore

At this point in the process, you may have some initial ideas or solutions based on your KJ diagrams. Now's the time to develop them. To facilitate collaborative exploration, one of our favorite exercises is what we call the "passing game": Assign distinct ideas to each team member and give each individual five minutes to develop it by drawing or writing in silence. Then have them pass their

work to a teammate, who continues drafting the idea while they take over a teammate's creation.

Discuss the collaborative output. Teammates recognize how it feels to give up "ownership" of an idea and how it feels to both edit and be edited; they also recognize their implicit assumptions about collaboration. The new perspective forces them to confront directions that they didn't choose or never would have considered. You can also add multiple sequential passes (like a telephone game) to demonstrate the idea's unpredictable evolution as three or four teammates play with it. After allowing people this space for exploration, discuss the directions that are most fruitful.

Step 4: Test

The last dimension requires team members to use their powers of critical thinking to consider feasibility and correct for overreach. Design tests to see if your plan for moving forward will work. Under which types of situations will the solution fail? Select a few critical tests and run them. While people often over-collect data that supports their prior beliefs—a tendency known as confirmation bias—people under-collect disconfirming data. By running even a single test that fights this bias, you can see what you need to see, even if you don't want to.

Instead of ignoring the data entirely or getting overloaded by it, think strategically about your data needs. This involves doing more with less—widening, deepening,

integrating, extending, and testing the data you do have to convert it into knowledge and wisdom. In practicing the mental exercises we've described with your team, you can curb your appetite for data while getting better at using the data you have.

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SECTION FIVE

Set Priorities and Manage Trade-Offs

CHAPTER 15

A Better Way to Set Strategic Priorities

by Derek Lidow

Smart leaders understand that their job requires them to identify trade-offs, choosing what *not* to do as much as what *to* do. Grading the importance of various initiatives in an environment of finite resources is a primary test of leadership.

To meet this challenge, leaders often turn to rank ordering their priorities; it is natural and easy to make a list. When I work with leaders on the crucial task of priority setting, however, I caution against rank ordering.

Adapted from "A Better Way to Set Strategic Priorities" on hbr.org, February 13, 2017 (product #H03FAI).

It can be tremendously demotivating to managers to be assigned a rank, and it all but guarantees dissension and turf wars between team members.

A better way to establish priorities is to put rank ordering aside and return to first principles. There are three interdependent variables that are essential for executing any initiative: objectives, resources, and timing. You can't produce a project's desired effect without precise objectives, ample resources, and a reasonable time frame. If you push or pull on one leg of this triangle, you must adjust the others.

All three variables are important, but resources reign supreme. Resources are what enable an objective to be accomplished within a set time; without dedicated means, an initiative is pure fantasy. Once a leader decides what resources will be allocated to achieve which objectives over what periods of time, there is no more need for ranking. The leader will be forced to acknowledge three kinds of priorities: critical, important, and desirable.

Three Types of Strategic Priorities

A *critical* priority is an objective that must be successfully accomplished within a specified amount of time, no matter what. For example, it might be critical that a company win a new order (which will be awarded on a given date) from a major customer, or get a factory fully operational by a certain day. If the objective of winning the order is set and the timing is nonnegotiable, then the only element you can manipulate is resources (money, people,

equipment). If the leader is sincere about the priority, then they must make all the resources requested available to the project manager. Though leaders may not realize it, declaring a project "critical" implies that it must be accompanied by a de facto blank check, enabling the manager to draw on all other available resources within the organization. And all critical priorities are, by definition, equal within the category.

An *important* priority, on the other hand, is an effort that can have a significant positive impact on performance. For these initiatives, resources are fixed and the variable is either time or the objective. For example, an organization may have an aspirational goal but fix the resources that it feels it can afford to invest over a specified time. A leader might say, "Let's assign Miguel and Aisha to this project full time for the next quarter." The organization, if it is operating rationally, should be willing to accept however much improvement it can get from that fixed investment. Alternatively, an organization may declare that it will invest a specified amount of resources for as long as it takes to achieve an objective: "We're going to assign Miguel and Aisha to install the new software, however long that will take." An important priority implies that the organization be understanding when the objective is variable and patient when time may vary.

A *desirable* priority is an effort in which resources and time are both variables. The organization desires an outcome but cannot absolutely commit specific resources over any specifiable time period: "Whenever Miguel and Aisha are not required on our critical product launch,

they will work on installing the software upgrade." Progress will be made only when and if resources become available.

Because resources are fixed for all critical and important priorities, the potential "blank check" resources that may be required to hit a critical project must all come from desirable tasks. You cannot in good conscience set a critical priority unless you also designate desirable projects from which resources will be immediately transferred to the critical objective when required.

Allocate Resources and Plan Priorities

Once you have identified critical, important, and desirable projects, you can begin to identify appropriate objectives, resources, and time for each one. Use the following four-step process, which is also illustrated in figure 15-1.

Step 1. List in one column the resources (people, money, highly constrained elements like a sample bus for demonstrating products) available for all proposed projects. For example, you might have 10 salespeople on the East Coast, 7 on the West Coast, 4 in the Midwest, and 3 in the South; a travel budget of $10,000; and one sample bus.

Step 2. List across the top row the projects, improvements, or initiatives you want to accomplish with those resources with any existing time constraints. For example, you might write, "Renew clients in all four regions; win a contract with IBM by the time your new plant

opens on March 1; get Salesforce.com in all regions but on a staggered schedule."

Step 3. Indicate in the appropriate cell how the available resources would be allocated in a scenario where everything proceeds as expected. For example, three salespeople in each region might be devoted to renewing customer contracts, while seven salespeople, the sample bus, and half of the travel budget might go toward winning the IBM contract.

Step 4. Declare which one or two projects are critical, designating which additional resources from the matrix can be called on by the critical objectives when and if needed. (If you declare more than one project critical, you must keep in mind that they cannot potentially depend upon the same pool of on-call resources.) For example, if the IBM contract is critical, you would ask the project head—in this case, your lead IBM salesperson—what additional resources might conceivably be needed if the going gets tough, and where those resources might come from. That could include some of the IT resources from the Salesforce implementation on the East Coast, which means that the Salesforce effort is now categorized as desirable and that you cannot expect your people to fulfill the objective by a certain time. Projects that are not critical but aren't on call to potentially provide resources to a critical project now fall into the important category, where time or the objective is flexible.

As the projects and resources are listed and the group figures out how best to allocate resources and

FIGURE 15-1

Example spreadsheet for strategic priorities

Step 1: List resources

East Coast sales (10 people)						
West Coast sales (7 people)						
Midwest sales (4 people)						
Southern U.S. sales (3 people)						
Travel ($10,000)						
Sample bus						
IT resources (6 people)						

Step 2: Add projects, improvements, or initiatives

	Renew all clients	Win IBM contract by March 1	**East** Install Salesforce by March 1	**West** Install Salesforce by ?	**Midwest** Install Salesforce by ?	**South** Install Salesforce by ?
East Coast sales (10 people)						
West Coast sales (7 people)						
Midwest sales (4 people)						
Southern U.S. sales (3 people)						
Travel ($10,000)						
Sample bus						
IT resources (6 people)						

Step 3: Allocate resources

	Renew all clients	Win IBM contract by March 1	East Install Salesforce by March 1	West Install Salesforce by ?	Midwest Install Salesforce by ?	South Install Salesforce by ?
East Coast sales (10 people)	3 people	7 people				
West Coast sales (7 people)	3 people	4 people				
Midwest sales (4 people)	3 people	1 person				
Southern U.S. sales (3 people)	3 people					
Travel ($10,000)	$5,000	$5,000				
Sample bus		X				
IT resources (6 people)			6 people			

Step 4: Decide on one or two critical projects

	Renew all clients	Win IBM contract by March 1	East Install Salesforce ~~by March 1~~	West Install Salesforce by ?	Midwest Install Salesforce by ?	South Install Salesforce by ?
East Coast sales (10 people)	3 people	7 people				
West Coast sales (7 people)	3 people	4 people				
Midwest sales (4 people)	3 people	1 person				
Southern U.S. sales (3 people)	3 people					
Travel ($10,000)	$5,000	$5,000				
Sample bus		X				
IT resources (6 people)			6 people			

time constraints among the potential initiatives, this matrix becomes a strategy document. As projects are completed, leaders can revisit the process to reallocate resources that have been freed up. They can also reallocate resources if a crisis occurs—which by definition creates a critical priority. The same is true with a change of strategy.

The transparent allocation of resources and the specifying of responses to changed conditions align the team and head off dissension. Managers no longer feel that giving up resources reduces their status. They are playing an essential role in executing a critical priority. And they are content to be governed by the fair, inexorable logic of realistic priority setting instead of rank ordering that doesn't add up.

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CHAPTER 16

How to Prioritize When Your Manager Is Hands-Off

by Amy Jen Su

Prioritizing work can be frustrating, especially if you work for a hands-off manager or a company that doesn't give you clear goals. Most of us face this reality daily. The frequently cited research of Robert Kaplan and David Norton shows that more than 90% of employees don't fully understand their company's strategy or know what's expected of them to help achieve company goals.[1]

Adapted from "How to Prioritize Your Work When Your Manager Doesn't" on hbr.org, January 24, 2017 (product #H03EVL).

Compounding the problem, research from Strategy& shows that global executives say they have too many conflicting priorities.[2]

In a world where clashing and unclear objectives are the norm, how can you learn to prioritize your own work and still feel satisfaction from a job well done?

Take Ownership

First, check your mindset when it comes to setting priorities. Don't assume that prioritizing your workload is someone else's job, and don't choose to see yourself solely as a "do-er" or a "worker bee." It's easy to point blame at our managers and organizations when we experience high levels of stress or an overwhelming amount of work. Recognize that consciously setting priorities is a key pillar of success.

Filter Priorities

Select a couple of areas to set priorities in; this can help the brain manage information overload. Many researchers have found that it's the overload of options that paralyze us or lead to decisions that go against our best interests. Two criteria I use with clients to filter for priorities include *contribution* and *passion*. Consider your role today and answer the following questions:

- **What is my highest contribution?** When we reflect on contribution, we consider both the organization's needs and how we uniquely bring to bear strengths, experience, and capabilities. The word *contribution* captures a sense of purpose, citizenship, and service.

- **What am I passionate about?** Motivation and energy fuel action, so when setting priorities, get clear on what brings you inspiration in your work today.

Determine Next Steps with an Organizing Framework

We can put the two criteria of contribution and passion together to create an organizing framework. This framework can help you to sort priorities and define subsequent actions. Look at the matrix in figure 16-1.

Quadrant I: Prioritize those areas of your job that hit this sweet-spot intersection of bringing your highest value-add and making an impact that you feel excited about. Consider how you answered the two questions about your contribution and your passions. Which projects, initiatives, and activities show up on both lists?

Quadrant II: Tolerate those parts of the role that are important but drain your energy when you're engaging in them. What are the possible discomforts, and what can you do about them?

- Tolerate and accept that you aren't going to love every part of the job. For example, you may be excited about having a larger role and team but less excited about the increase in managerial processes and administration that come with it.
- Tolerate the fact that you may be on a learning curve. Perhaps a key part of the job includes

FIGURE 16-1

Which tasks should you prioritize?

Focus on those that align your passion with where you can contribute most. Tolerate, elevate, and delegate the rest.

Source: Paravis Partners

something that isn't yet a strength, such as presenting at town hall meetings or being more visible externally. Keep a growth mindset and push yourself out of the comfort zone.

- Remember that there is a tipping point in this quadrant. For example, your highest contribution in a strategy role may never offer you the passion you feel when coaching people. The quadrant

could highlight that it's time for a change (which was my situation more than 15 years ago, when no amount of prioritizing was ever going to overcome the fact I was in the wrong career).

Quadrant III: Elevate those tasks that give you a lot of energy but that others don't see as the best use of your time. Where are the possible points of elevation?

- Elevate the value-add. Perhaps you see a hot new area, but the impact is less clear to others. Share what you are seeing out on the horizon that fuels your conviction, and explain why it's good not only for you but also for the company.
- Elevate yourself. Be mindful of areas that you still enjoy, perhaps from a previous role or from when the company was smaller. Maybe you love to fix problems and have a bias toward action, which leads you to get involved in things your team should be handling. Hit "Pause" before diving in.
- Ultimately, if the disconnect grows between what keeps you motivated and what your organization values, it may be time to move on.

Quadrant IV: Delegate the daily churn of low-value and low-energy-producing activities, emails, and meetings. If there's no one to delegate to, make the case for hiring someone. You may also be able to just say no, or eliminate those tasks altogether. The irony is, as we progress in our careers, things that were once in quadrant I now belong

in quadrant IV. If people still come to you for these tasks, graciously redirect them by saying something like, "It's so great to see you. I know how important this is. I've asked Kate on my team to take on those issues, and she'll be able to get you a more direct and speedy answer."

Operationalize and Flag Priorities in Your Calendar

Look back on your calendar over the last month to see how much time you allocated across the four quadrants. (I highlight each one in a different color in my calendar to quickly see how I'm doing: QI = yellow, QII = purple, QIII = blue, QIV = no color). At the start of a week, flag all QI priorities and give yourself a little extra preparation time on them.

Don't settle for the status quo. As Greg McKeown, the author of *Essentialism,* observes, if you don't prioritize your time, someone else will.[3] And it won't always be with your best interests or the greater good in mind. Take ownership and reclaim decision-making power over where you can best spend your time and energy. By doing so, you set yourself on a trajectory to produce meaningful results, experience more job satisfaction, and have increased energy.

Amy Jen Su is a cofounder and Managing Partner of Paravis Partners, a boutique executive coaching and leadership development firm. She is coauthor, with

Muriel Maignan Wilkins, of *Own the Room: Discover Your Signature Voice to Master Your Leadership Presence* (Harvard Business Review Press, 2013). She holds an MBA from Harvard Business School and a degree in psychology from Stanford University. Follow Amy on Twitter @amyjensu.

NOTES

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CHAPTER 17

Identify and Kill Outdated Objectives

by Jessica Avery

When we think of strategic action, we often focus on what new things we should start doing: What projects should our department or team take on to contribute to the organization's end goal? What innovative business ideas should we pursue? While this forward thinking is essential, many managers forget a key step in achieving those results: leaving the past behind.

In his book *The Three-Box Solution*, Tuck School of Business professor Vijay Govindarajan introduces three "boxes" for allocating an organization's time, energy, and resources:

Box 1: Manage the present by optimizing core businesses.

Box 2: Forget the past by letting go of the values and practices that have lost relevance.

Box 3: Create the future by inventing a new business model.

As managers strive to run a high-performing business, Boxes 1 and 3 tend to get most of the attention, while Box 2 is often forgotten. Deciding whether to leave something behind—especially if it's a project you've devoted a lot of time and attention to—can be a tough choice. But just as it's important to identify what you should be contributing, it's essential to recognize and stop doing tasks and projects that interfere with or distract from valuable work.

Human Nature and the Aversion to Letting Go

As humans, we're emotional beings, and our emotional attachment to initiatives can often stand in the way of a clear analysis of how much value they bring. The time and effort we've invested in a project in the past often blinds us to what it may contribute in the future. We need to put those emotions aside to judge the initiative on its merits and learn to let go.

In an ideal world, we'd be able use pure logic to make these strategic choices on what to cut. Think of *Star Trek*'s Mr. Spock when he assesses situations on the USS

Enterprise. Unencumbered by emotion, his decisions on how to proceed come down to three simple steps:

1. He estimates the value of what he's currently doing.
2. He estimates the value of what else he could do.
3. He then compares the two values. As soon as he sees that the alternative creates more value than the current option, he switches to that new path.

Spock is constantly evaluating options and making adjustments accordingly. The trade-offs that must be made for each decision come down to the basic idea of opportunity cost. *Opportunity cost* is the value of what you aren't doing but could be doing. It's the value of the new store that you aren't opening, the new product you aren't launching, or the additional sales you'd get from a new marketing approach that you aren't executing on.

In general, we undervalue opportunity cost because it feels fuzzier and is harder to quantify than "real costs." But being hard to value doesn't mean that it has no value—opportunity cost may be the biggest cost that your company has. Think of how much the opportunity cost would have been if Apple had chosen to pass on the iPhone and concentrated instead on its core computer business. Simply put: If the value of what you are doing now is lower than the value of what you could be doing instead, you need to change course—and in business, that may mean letting go of work that had been successful in the past.

Say you want to add a new product line in your company. You calculate the potential value of the product line at $100,000 per year. But there's a snag—in order to launch the new line, you'd have to take three sales and marketing employees off supporting a current product, which generates $50,000 a year and has been a solid seller for the company. However, this product's sales are starting to decline. In this case, it makes sense to let go of the solid seller (lose up to $50,000) in favor of the bigger, more profitable opportunity (gain $100,000).

Assessing opportunity cost for new objectives is a guessing game, and so it will always feel risky, especially when your emotions get in the way. But *not* taking advantage of an opportunity can hold even bigger risks. Your team's attachment to a "classic" product—one you've dedicated years to creating and selling—could mean wasting a lot of time and money on something that may no longer have value. These old projects ultimately become "zombie projects." They live on because they've always been there, creating less and less value over time but refusing to die. Think about the social media team that spends hours writing dedicated social promotions that show no significant increase in sales. Or the marketing manager who creates email newsletters that have low open and click rates. Every minute that people spend working on an out-of-date objective is one where they are missing out on significant amounts of money by not contributing to the priorities that matter. (To see an example, see the box "The Curious Case of Telex.")

THE CURIOUS CASE OF TELEX

Telex machines started as a bold new replacement for business-to-business telegrams in the 1930s, reaching their heyday in the early 1980s. After that, the growth of fax machines and then email made them increasingly cumbersome and expensive by comparison—and ultimately obsolete.

Yet it wasn't until 2008 that AT&T and British Telecom finally closed down their Telex operations. For two decades, they continued to serve the shrinking market of companies that found it hard to let go of their Telex machines, even as they could use them to communicate with fewer and fewer people. In retrospect, having a Telex machine in the 1990s or 2000s, using up support fees and employee time and expertise, seems crazy.

But how does the Telex machine get killed?

The company's Telex expert who is checking the machine hourly for urgent messages and maintaining it with paper, ink, and repairs may realize that the number of messages is decreasing. But does he want to suggest switching to checking messages once a day? Or switching to faxes or email? By doing that, he risks being perceived as a complainer who just wants to do less work. Worse yet, he could lose his job if people agree the Telex is unnecessary and don't think he can contribute in other ways. His coworkers don't want to insult him by pointing out that his job is obsolete, and

(*continued*)

THE CURIOUS CASE OF TELEX

certainly, there are a few clients who might still use the Telex, so what's the harm in keeping it around?

The "harm" is that spending time and energy on this outdated device means that other, more pressing needs aren't getting the attention they deserve. If the company shifts away from Telex early, one-off clients may be briefly inconvenienced as they learn to communicate via other means, but internal teams would free up time to devote to other, more important goals—like bringing in additional clients and generating more revenue for the organization.

Part of the reason switching to new opportunities is so hard is because of the *status quo bias*. Humans have evolved to have a strong preference for keeping things the same; we're averse to change. This trait can be very useful, for instance, when it kept early humans from leaving the cave at night while the saber-toothed tigers were roaming. But it also means we remain wedded to projects and processes in our work simply due to habit. And it leads to inertia in organizations.

With emotions running high and a human inclination toward status quo bias, the deck is stacked against Box 2 efforts. It therefore requires a *lot* of active energy to break out of this inertia.

Assess What to Cut—and Finally Let Go

So if it's difficult to clearly define opportunity cost and human nature encourages us to remain the same, how do you decide what to stop pursuing and implement that change? Start by asking the right questions of the initiative or task.

Make a project prove its worth

When looking at a potentially outdated project or objective, we tend to wait until we get unanimous consensus that there's no harm in abandoning it. This default approach is wrong on three levels:

- **Consensus generally arrives too late.** By the time the process is so thoroughly obsolete that *everyone* agrees that it should be stopped, you've probably wasted years of resources that you should have redeployed.
- **It puts the burden of proof in the wrong place.** We require proof that stopping a project will cause no harm, but instead, we should be asking ourselves, "Can we prove that the project is creating value now?" Flipping the burden of proof in this way becomes a powerful lever for change.
- **It looks at the value of the project in a silo.** Deciding whether there's no harm in abandoning an old process or initiative project takes the value

> it creates as a stand-alone benefit, rather than comparing it to the value of what you would do instead. Doing something that adds $1,000 may seem worth doing—but if you are so busy with your current business you can't put resources into new endeavors that may add $10,000 of value if properly resourced, you are saving dimes but losing dollars.

To agree to continue pursuing something, you have to make the case for keeping it, taking into account other options and alternatives. For example, for a company using an outdated method of communication like Telex machines, this means asking, "What is the additional value created by receiving messages on the Telex rather than streamlining all communication to modern systems? What would we do with the extra money and employee time if we stopped supporting the Telex network?"

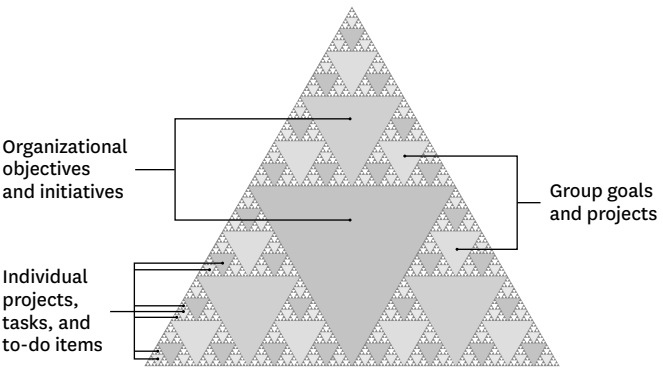
If the existing part of the business can prove that it's adding more value than what you would do instead, then the organization should keep it. But if can't, that's a signal that it should be discarded.

Create a process for winnowing large, medium, and small projects

Projects come in a variety of sizes. Organizational resources are devoted to some large, strategic goals, but they're also used for thousands of little tasks that you and your team tackle on a daily basis. Figure 17-1 illustrates the many projects that make up the work in your company—from large, organizational objectives that affect

FIGURE 17-1

Organizational work comes in many sizes



the entire workforce (the largest triangles) to group projects and goals that affect your unit (the mid-size triangles) to small daily tasks on an individual's to-do list (the hundreds of smallest triangles). Each of these three areas benefits from a different approach when deciding what—and how—to cut.

Large goals above your group. Unsurprisingly, the biggest triangles use the largest amounts of resources, and cutting such objectives would allow significant resources to be deployed to more valuable alternatives. Deciding whether one of these triangles should be removed requires answering two key questions: What is the value that they are creating? And what is the value of what else we would be doing?

As a manager, you may not have the ability to answer these questions or make these large-scale cuts in your

organization. Changing projects or processes that affect companywide strategic objectives instead requires a top-down approach. These cuts will likely be highly visible and, unless these activities or products have become obsolete and are creating zero value, getting rid of them will be thorny and contentious. Arguments between groups of stakeholders will likely stall the process until upper management steps in to make the hard decision.

Midsize goals within your group. As a manager, you can act as identifier, evaluator, and often decider on the many midsize projects and to-do items that are primarily in the domain of your group. Keep your group's core goals in mind at all times and ask yourself whether what you and your team are doing is necessary for a given goal: Why are we doing the task? Does it add value? Has that value been shrinking? For instance, is your group creating reports that don't generate follow-up questions? Are you managing customers who buy less and less? Are you marketing to segments that are becoming less relevant?

Look for clues that may indicate an incipient zombie task: less feedback from stakeholders and less urgency around the task. For instance, if there's a delay, are there repercussions? Listen to your gut: If doing a task gives you a vague feeling of pointlessness, you may be working on an emerging zombie item.

Small tasks within your group. A large portion of the work of a group is the hundreds of smaller tasks that keep everyone busy. Individually, these tasks don't have much impact if they become zombies—they may add a

few minutes back to a person's day. Cumulatively, however, they are a huge drag on the organization.

For instance, is it really necessary to proof three drafts of a marketing mailing for the independent plumbing suppliers? Or was the second draft good enough for this shrinking market? What could your team members be doing with this time instead? This task may only take 10 minutes of a team member's day, but cut that, along with dozens of other small tasks that could be removed, and you've freed up a few hours for your team member to work on other projects, like updating your company's website with new materials to bring in prospective customers.

Each member of your team should be encouraged to spot and remove these items—and replace them with higher-value work. If there's a clear set of group priorities, this can happen naturally. If you assign someone a new high-profile project, they'll prioritize it and instinctively remove lower-priority items from their to-do list to make room for it. But it also helps if you can encourage and validate this trimming-back process. Make it clear that because you are adding higher-priority work for the group, you expect that existing work will need to be reshaped, delegated, or discarded to accommodate the new objective. When team members understand and internalize the group's priorities, they can use those priorities as a lens to examine their own work and make necessary cuts.

This process won't be perfect. By actively adding high-value priorities and shedding lower-value items to make room for the new work, at some point you or your team

members will make a mistake. One of those low-value tasks will turn out to have more value than you thought and will need to be restarted. When this happens, don't abandon the new process or blame the employee. Add back that work, and acknowledge its medium value. If you discover that some people are making too many calls that backfire, have in-depth discussions with them about how they are prioritizing their to-do list. On the other hand, if you see that no one on your team makes any mistakes, it's probably a sign that they aren't pushing the process hard enough.

The goal here is to be nimble and flexible at all levels and to move the organization toward the future. Leaving the past behind requires that you put aside your natural biases and require that all objectives and projects prove their value. By actively identifying and weeding out Box 2 items—and encouraging your team to do the same—you can be assured that the priorities you're working toward offer the most value to your business.

Jessica Avery is the Director of Business Analytics and Insights of the Harvard Business Review Group.

CHAPTER 18

What to Do When Strategic Goals Conflict

by Ron Ashkenas and Brook Manville

Strategy is the practice of translating your organization's vision and purpose into a set of specific goals, and then developing plans and actions to achieve them. As such, strategy is all about choices—what to do and what not to do; where to invest and where to pull back; how fast or slowly to proceed; how much risk to take.

On paper, this looks like a rational and straightforward process—just lay out the possible goals and plans, analyze the pros and cons, and make your decisions. The reality, however, is far messier. Sometimes the goals that emerge will require resources and skills that don't exist on your team; at other times the various goals—each of

which makes sense on its own—conflict with each other and can't all be done. So what do you do?

To strike the right balance, you need an *execution strategy*. You need to assess carefully how you plan to follow through on the goals—whether that means making adjustments, finding necessary resources, or dropping priorities entirely. This chapter aims to show you how to ask the right questions of strategic goals so you can navigate through strategic tensions and find the right path forward.

Restarting Growth in a Competitive Market

Consider this example: A technology firm with a unique product had grown rapidly in its first 10 years from a startup to a $500 million business, but now it was hitting the wall. Competitors had entered its market, selling similar but lower-quality products at lower prices. To maintain its existing customer base, the technology firm had matched its competitors' prices, but now margins were shrinking and profitability was being squeezed.

In response to this changing financial landscape, the leadership team conducted a strategic analysis to identify ways of restarting its growth and regaining its place in the market. Three goals emerged:

- To dramatically reduce operating costs, lower prices, and win back market share
- To enhance the core product so that it would be more valuable for customers and therefore command a higher price

- To redirect its sales team toward larger enterprise customers who would pay a premium for quality

Unfortunately, these choices seemed mutually exclusive—or at least difficult to do simultaneously. If costs were significantly reduced, the company wouldn't have the resources or management bandwidth to focus on product enhancements or new go-to-market approaches. The company also didn't have the right talent to make these shifts, so it would require new investments, which weren't available unless the operating costs came down.

After much debate, the leadership team realized that looking at each goal individually was the wrong approach. Instead, they needed to look at each goal as part of a bigger picture. In doing so, they were able to create a path forward that allowed them to take on all three goals, but at different degrees of intensity.

First, they decided to go all-in on cost reduction and aimed to reduce operating expenses by 15% as quickly as possible. They knew that this would be painful and that they would lose some good talent—but they also felt that they had to generate profits that could be reinvested in the other two goals.

At the same time, however, they didn't want to wait six to twelve months for the product and sales shifts. To get those started, the head of R&D immediately canceled a number of longer-term and more speculative projects, and redeployed some of the engineers to a product-enhancement skunk works team. The team's specific challenge was to find ways of increasing the value of the company's technology for its customers and to test the

most promising opportunities with several existing customers within three months.

Similarly, while reducing other operating costs, the head of sales asked three of his top performers to talk to a few large, high-end enterprises about their needs and how the company's technology could be helpful. They aimed to gain insights quickly so they could use that information to form the basis of a pilot go-to-market approach for large enterprises that could be tested in a few months.

Taking these steps did indeed help the company restart its growth, and this example illustrates an important point: The goals that emerge from your strategy should not be implemented piecemeal, but instead need to be considered holistically, as part of an overall execution strategy. If the goals are not part of an integrated plan, they might be pursued in the wrong sequence, cancel each other out, or receive less attention and fewer resources than they require.

Creating a Strategy Around Strategy

Though strategy is usually made at the highest level of a company, many executional choices may fall to you as a middle manager or unit team leader. As you develop the "strategy for the strategy," you must assess and communicate to senior leaders specific implementation issues related to the choices you're making, especially since they may not be as close to relevant frontline details as you are.

Voice your perspectives objectively and avoid being seen simply as a "naysayer"; if there are key implementa-

tion issues that have surfaced or hidden barriers to overcome, discuss them openly but constructively, suggesting ways to address them. Your goal is to help final decision makers detail an overall solution, ensuring the best possible choices and follow-through of what's being prioritized and sequenced.

Ask yourself the following questions when you are developing a "conflicting goal" execution strategy:

- **Sequencing.** Can you work on all of the strategic goals at the same time? If not, what needs to be tackled first? Are there resources or knowledge that can be gained from an early opportunity that could help another objective later? In our technology company case, for example, the team realized that they had to become cost competitive in order to remain financially viable, so changing the underlying operating model was a priority. In addition, the savings generated from this goal could then be reinvested in the other shifts later.

- **Bandwidth.** How much can you and your team do at once? Do you have the resources to focus on more than one major strategic project at a time? What will it take to keep the current business going while you are driving new strategic initiatives? In the example, the team at the technology firm decided that they didn't have either the resources or the management attention to do everything. But they could proceed on a couple of the goals if they carved them down to a much smaller scale, leading them to create a technology

skunk works team and begin focused dialogue with potential higher-end customers.

- **Talent.** Do you have people in place that have the skills and know-how to move into new strategic territory? Will you need to hire new people or train existing staff? What's the extent of this investment, and how will it be integrated with the current team? Assess what your team or department brings to the strategy, and fill in any missing pieces. In the technology company, the leadership team realized that the main talent deficit was probably in the sales area, since high-end selling requires more of a consultative approach, which was not in their wheelhouse. But before hiring new people or training current ones (both of which can be costly), they decided to learn more about these customers so that their eventual investment would have a better chance of success.

- **Conflict resolution and rebalancing.** If the market or our resources change during planning, should our original assumptions about how to compete still prevail? Have our investigations suggested specific learnings that would substantially alter those assumptions? Are there serious disagreements between key stakeholders about the execution strategy? What's the root cause of the opposition? Are skeptical colleagues raising legitimate concerns that might call for refashioning the way forward? Even with a clear framework for allocating resources to complementary strategic

initiatives, market changes, learning, and (let's be honest) human disagreements may crop up. Work to resolve these conflicts, and be ready to rebalance initiatives if the conditions warrant it.

Considering these points will help you create a clear execution strategy to meet multiple objectives. Of course, no strategic plan remains static. As you move forward on the early initiatives, you'll learn what works and what doesn't, and what assumptions might need to be changed. You'll start to see whether early pilots need to be reconfigured, or what it will take to scale them. You'll better understand what your people are capable of doing, and where they will need help. You'll assess further investments and when to make them. And as you do all of this, you'll continue to massage and adjust the overall framework based on everything you learn.

Strategic analysis and thinking almost always lead to a number of different goals, some of which might seem incompatible with others. Putting them together into an integrated implementation framework gives you a way of moving them forward, and learning as you go.

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CHAPTER 19

Assess and Manage Trade-Offs

Even with clearly set priorities and a well-defined execution strategy, plans are naturally subject to change in the course of business. Consider the team working on a new product that is suddenly asked to speed up production to satisfy the needs of a major customer. Or the request to add new features to an app, when the development budget is almost maxed out. Deciding whether to adjust course on key objectives requires careful thought, and you'll need to weigh the advantages and disadvantages of making a change. You need to manage trade-offs.

Making trade-offs involves understanding the real impact of your choice for your team, other departments, and the organization overall. Just because someone

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Adapted from *Pocket Mentor: Thinking Strategically* (product #13281), Harvard Business Press, 2010.

makes a request that affects your team's priorities doesn't mean that you have to take action. In assessing trade-offs, you can decide whether your team can feasibly adjust their workload, whether it's in the best interest of the organization, and how to move forward if the requested action is, in fact, worth pursuing.

The following practices can you help you navigate through this difficult terrain.

List Pros and Cons

When you're facing a change to your priorities—a new strategy for your group, an additional product to market and sell, a shortened development time line—first consider what alternatives you have. You may have only one option to meet the new objective, or you may have many. For each potential course of action, ask yourself what advantages and disadvantages might be associated with that plan.

Consider a manager who was recently asked to design a new feature for a product on a tight deadline. His team is unlikely meet every strategic objective—develop the new product feature that doesn't threaten sales of earlier product versions, that can be sold at a sufficiently high price, avoids expensive redesign, and so forth. To see the trade-offs visually, he wrote down his list of pros and cons of adding the new feature. Table 19-1 shows how he conducted this assessment.

To create your own list, consider your company's and unit's strategic goals. Do these goals emphasize reducing costs? Improving brand awareness? Simplifying product-development processes? Asking these questions

TABLE 19-1

Pros and cons of a new product feature

Advantages	Disadvantages
• Allows us to charge a higher price to customers • Could attract new customer segments • Might improve brand awareness; our company could be seen as on the leading edge of technology	• Might cannibalize sales of the previous product version • Could be perceived as unnecessary or a nuisance by consumers • Would require expensive redesign of the base product

keeps organizational objectives front of mind as you consider alternatives. Your answers can help guide your decisions about what's okay to trade off—and what isn't—based on larger strategic objectives.

Your list doesn't need to be long or detailed, but it should provide enough bullet points for you to understand what this change would be contributing to your team and organization, and what you'd be risking by moving in this direction.

Assess Short- and Long-Term Outcomes

Next, think through the potential short- and long-term impacts of potential courses of action. For example, suppose you're wondering whether to cut prices on a product line that has experienced declining sales. You realize that adjusting prices in this way may boost sales this month or even this year. In the long run, however, this move could hurt revenue if consumers came to expect deep discounts on your company's offerings. They may

hold off purchasing your products until you provide another discount.

In order to think strategically about short- and long-term impacts, consider these steps:

1. Meet with your boss to determine how much time you and your team should be allocating toward short-term issues versus long-term goals.

2. Review the work that you and your team have done in the past month to determine what has been accomplished on both short- and long-term issues. If the balance is not aligned with your group's priorities, set new guidelines for how your team spends its time.

3. Keep an ongoing log to determine how you and your team are spending your time. Every two weeks, evaluate whether you are giving the proper time and attention to short-term requirements and long-term goals. Readjust your focus if necessary.

4. When you face competing priorities, determine which are the most important and make those your first priority. When an urgent matter arises, determine how it fits into your daily plan and act accordingly.

5. Involve your team in decisions about how to make progress on long-term goals while addressing short-term needs. They may have a perspective on how to balance large objectives while still meeting immediate deadlines.

After a conversation with your boss and tracking your team's work, you may discover that while a lot of team time and attention may be spent on this declining product line, your overall goal is to increase sales across all products for the year. You may then decide that a price cut for this line makes sense to boost sales in the short-term, since you can also test how the product performs at this lower price. While this experiment is taking place, your team can turn its attention to other products in an effort to increase their sales and ensure the company's long-term growth.

Balance Unit and Company Needs

Some decisions involve trade-offs between your department or group and the company overall. Suppose you lead a sales group whose representatives have won numerous new accounts by promising customers early delivery dates on a new product. That's great for your group. But it puts a burden on product development, manufacturing, order processing, and customer service—all of which must accelerate their processes in order to meet the promises your sales reps have made.

This situation may lead to several possible outcomes. For example, forcing product development to release a product early may jeopardize the quality of the product. This, in turn, might affect that unit's strategic goal of raising the quality standard of all products. It may also cause a high volume of calls to customer service as users of the product complain about defects. Individuals in this department will be focusing more time on pacifying customers, rather than their own critical priorities. Your

promise of early delivery could thus hurt relationships with other groups within the company and with long-standing, existing customers.

In this case, you need to consider whether to trade-off some new sales in return for smoother operation of the rest of your company's functions, so your organization can serve all its customers, not just the newest ones. Always think about how changes to planned priorities may affect not only your group but others in the company as well.

Make the Final Decision

By taking these points into account, you can fully assess how to proceed when your priorities or plans change. (The box "Six Questions for Making Trade-Offs" provides a reminder of key questions to keep in mind as you make your decision.) Thinking through each of these considerations will help you realize what is most important to continue doing, and what trade-offs don't line up with your organization's strategic priorities.

It's worth noting, though, that sometimes making a trade-off requires nothing more than specifying what you *won't* do. For example, suppose your group is evaluating the possibility of creating tiered versions of a product—high-end, midmarket, and low-end. Your work throughout this process has revealed especially significant risks for low-end products: these offerings could hurt brand image and generate lower profits, neither of which align with company objectives. In this case, simply say no and explain your decision: "I don't know what

SIX QUESTIONS FOR MAKING TRADE-OFFS

1. What are your choices regarding the issue you're facing?
2. What are the pros and cons of each choice?
3. What are the potential short- and long-term ramifications of your choices?
4. How might knowledge of your company's or unit's strategic goals inform your decision?
5. What cross-functional effects should you consider while making your decision?
6. Taking all of your responses into account, what trade-off seems most appropriate to make in this situation?

a high-end version of the product would look like. But I do know that we won't do a low-end version. It'll damage our brand image, and it won't generate enough profit to justify production."

By defining trade-offs in this way, you help your group focus on the acceptable courses of action—and determine where a change may hurt your team, other departments, or the company overall. By keeping the organization's strategy front of mind, you can determine when and how to change course when the opportunity presents itself.

SECTION SIX

Align Your Team Around Strategic Goals

CHAPTER 20

To Be a Strategic Leader, Ask the Right Questions

by Lisa Lai

Strategy is complex. Thought leaders all over the world have created sophisticated frameworks designed to help leaders grapple with their own strategies at an abstract level. But the reality is that strategy succeeds or fails based on how well leaders at every level of an organization integrate strategic thinking into day-to-day operations. This is less about complexity and more about practical focus.

How can you personally be more strategic as a leader? Ask yourself and your team the five questions below to

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Adapted from "Being a Strategic Leader Is About Asking the Right Questions" on hbr.org, January 18, 2017 (product #H03ENN).

drive clarity, alignment, and strategic insight. The questions build on one another, leading to a well-aligned, strategic perspective. If you make these five questions part of your ongoing dialogue, you will inevitably become more strategic and more successful as a team.

1. What Are We Doing Today?

Leaders are often surprised at just how much they don't know about what team members are working on. Here's why: Over time, organizations add more and more to the plates of various teams and employees. While leaders and team members talk at length about new initiatives and assignments, they focus less on legacy work that's still being done. At some point, leaders lose sight of just how much time people are investing in legacy priorities. Asking this question almost always brings to light significant work that managers aren't aware is being done or that's taking much more time than it should. You can't move your team forward strategically without knowing the answer to this question with total clarity.

2. Why Are We Doing the Work We're Doing? Why Now?

Once you've taken stock of all the work being done by your team, the next logical step is to examine the importance of that work. This serves two strategic purposes. First, you gain clarity on what's important and why it's important from your team's perspective. You'll likely uncover situations where you and your team are uncertain or in disagreement. This drives important conversations with your team about choices, resources, and trade-offs.

Second, you have the opportunity to attach value and meaning to the work your team is doing. Everyone wants to believe that the work they do matters. It's your job to understand and articulate that with your own team and across the organization. The only way you get there is with scrutiny.

3. How Does What We're Doing Today Align with the Bigger Picture?

Never underestimate the power of gaining total clarity about your own area of responsibility and then examining how well your work aligns with the broader goals of the organization. This is a discussion about gaps and outliers. If your team is working on something that doesn't align with the broader purpose or goals of the organization, you have a responsibility to challenge the value of doing that work. This is true even if your team believes the work is important or meaningful. Does it bring value to your customers? Does it contribute to the highest priorities of the business? Work that benefits both your customers and your business should be the top priority, and work that is no longer adding value should be removed (see chapter 17 for tips on how to do this). If you identify gaps that are not currently being addressed, more strategic discussion is needed. Are you doing exactly, and only, what most benefits your organization?

4. What Does Success Look Like for Our Team?

Chances are that you have a handful of measures that others use to evaluate your success. Do they tell the

story of what success really looks like for your team? If you asked your team what success looks like for them individually and for the team overall, could they articulate an answer? The best strategic thinkers invest time here—not in trying to pacify their boss with a few measures that can readily be achieved, but in trying to understand what really drives success in terms of activities, behaviors, relationships, and strategic outcomes. The better you are able to align your team around a strong vision of success, the more likely you are to achieve it.

5. What Else Could We Do to Achieve More, Better, Faster?

Most leaders want to demonstrate their ability to "be strategic" by jumping directly to this question. If you haven't done the work to answer the preceding questions, it almost doesn't matter what you come up with here, because you may or may not be able to act on it. But if you have answered these questions, you are well positioned to be strategic in answering this one. You may identify new and better ways to serve the broader goals of your company. You may choose to redirect resources from current work that is relatively less important when compared to other new possibilities. This question is the most important of the five; every great leader needs to challenge their team to do more, better, or faster over time. It is, however, inextricably linked to the previous questions if you want to generate the best strategic insights.

Being a strategic leader is about asking the right questions and driving the right dialogue with your team. In doing so, you raise the team's collective ability to be strategic. The more competent you become in asking these questions, the better positioned you are to drive progress for your team and your organization.

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CHAPTER 21

An Exercise to Get Your Team Thinking Differently About the Future

by Leonard M. Fuld

Thinking about the future is hard, mainly because we are glued to the present. Daniel Kahneman, the Nobel Prize–winning economist and author of *Thinking, Fast and Slow*, observed that decision makers get stuck in a memory loop and can only predict the future as a

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Adapted from "An Exercise to Get Your Team Thinking Differently About the Future" on hbr.org, January 23, 2015 (product #H01TY2).

reflection of the past. He labels this dynamic the *narrative fallacy*—you see the future as merely a slight variation on yesterday's news. A way around this fallacy, we've found, is a speed-dating version of scenario planning, one that takes hours rather than months.

Consider the experiment we recently ran with an expert panel to jump-start fresh thinking about the future. Our guinea pigs consisted of life sciences executives from big pharma, biotech entrepreneurs, and academics.

The question we asked: *How might a shortage of science, technical, engineering, and math (STEM) talent affect the growth of life sciences companies?* The high-speed scenario workshop involved three steps:

1. Identify key story elements or drivers of the STEM talent "story" to be explored.
2. Conceive a plausible future by combining the elements.
3. Explore this future to understand its implications for their businesses.

Participants chose three drivers—forces that could be expected to shape the future of the life science industries: science education, federal investment in life sciences, and private investment. They then identified extremes for each driver that were far from their current state. For example, the group defined the education driver as "the degree to which U.S. elementary through higher education has developed curricula to produce science and technical talent." Participants decided that in

their future story, the U.S. education system would substantially weaken, resulting in relatively few new science graduates, and that government funding, the second driver, would drop precipitously. Meanwhile, the group suggested that large-scale private investment in life sciences would soar.

Building a scenario based on the imagined future state of these drivers, the experts painted a picture of a world in which investor-funded technology companies would transform the traditional life sciences industry. In this world, life sciences research draws more on big-data analytics than lab-bench experiments, and virtual talent easily supplants large pools of scientists married to one location. The result is a more efficient and cost-effective industry.

By helping the group break free of the narrative fallacy, the exercise allowed them to rapidly build a scenario that stood in sharp contrast to their initial assumptions about the future—that a science-graduate shortage could only harm their industry.

Next, we asked participants to consider the strategic implications of this single future story. Here are a few of the provocative ideas the group advanced:

- Pharmaceutical and biotech firms will make smaller bets, and more of them. Private money, not government grants, will fuel these bets.

- There will be more R&D partnerships between private organizations like the Gates Foundation and biotech firms, as well as big pharma. Private

foundations will supplement, but not replace, anemic government funding.

- Crowdsourcing will become a fundamental R&D engine. This will allow corporations to continue to pursue R&D near current levels but at lower cost.
- Big data and analytics companies such as Google will reshape life sciences R&D, shifting the emphasis from hands-on laboratory experimentation to virtual research facilitated by ever-increasing computing power.

While a two-hour exercise could never substitute for a full-bore, months-long scenario planning activity, our experiment did get participants out of their usual frame of reference, opening their eyes to a possible future that would require very different types of investment and research. That this shift can happen in a matter of hours shows how workshops like this one can unstick executive thinking.

To make exercises like this work, a disciplined facilitator must prepare and guide the participants. They don't need to be given a formal write-up, but relevant research materials must be handy (in our case, these included a handful of short articles on life sciences growth trends, as well as a few news reports on STEM talent); and the facilitator must serve as an editor, pruning and clarifying the flood of ideas the group will generate. Given the tight constraints on such exercises, the facilitator has to carefully balance the time devoted to imagining a future world, and to "living" in it—that is, exploring how the

envisioned future might actually affect participants' businesses and industry.

Obviously, a brief workshop like this one shouldn't be used to shape strategy; that requires true scenario planning. But we've found that such exercises work well to dislodge narrow thinking about the future, neutralize Kahneman's narrative fallacy, and kick-start a strategy conversation with your team.

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CHAPTER 22

Communicating a Corporate Vision to Your Team

by Kelly Decker and Ben Decker

A manager we'll call Amit supervises a team of 40 people around the globe for a massive tech company. After his team spent months furiously working on a new product to be the first to market, Amit's boss told him that the company's strategy had shifted. The product's launch plans were then delayed, and competitors began gobbling up market share. The team felt deflated. Instead of celebrating a launch, they found themselves mired in more contract negotiations, tactical challenges, and

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Adapted from "Communicating a Corporate Vision to Your Team" on hbr.org, July 10, 2015 (product #H026YB).

follow-up calls. They doubted the new strategy. Amit had to restore their trust and motivation. He needed to communicate vision.

Let's clear something up. Amit's big task was not to *set* the vision. In this case, the product strategy had changed at the top. His job was to translate the executives' thinking behind the changes, so his team could understand *why* things had changed and *how* they were supposed to redirect their efforts. After all, they were now being told to scrap all the work they'd done, go back to the drawing board, and renegotiate every painstaking contract. Without clarity around the *why* and *how*, it would be hard for them to execute the new strategy.

There are two things to remember when trying to communicate an organizational vision to your team. First, target your message. A team in IT has different needs than a team in marketing. Leaders are responsible for translating the same vision into different messages that their unique teams will respond to. Second, augment logical reasoning with an emotional appeal to inspire. That's how you get buy-in, and how you shift the team's response from "I have to" to "I want to."

We've developed a communication approach that breaks this down into four key components to be addressed: listeners, point of view, actions, and benefits.

Understand Your Listeners

Step back and think about your team. Sure, you know the player roster well, but attitudes change over time (e.g., from the beginning of a project to the end). Before

you start on the vision, take a few minutes to answer the following questions about your team:

- What do they know about the current status of your project or goal or bigger strategy? What are they expecting? How do they feel about the team and the organization right now?
- How would they challenge the vision? What would make them resistant?
- How can I help them? What problems am I trying to solve that will make their lives better in some way?

Find the Lede of Your Story

With the broader vision in mind, it's time to develop the specific point of view for your team. Think of this as the *why* behind the message. What is the one thing that you want everyone to walk away knowing? Don't get too granular or tactical. You're simply looking for a motivator—some way to get the team to nod their heads and accept the change.

For his team, Amit couldn't default to something as narrow as, "We need to negotiate new contracts for the new changes to our product." Yes, that was a key element (and it needed motivation!), but that wasn't an inspiring vision. Instead, he had to make it bigger: "Our current product faced a massive risk of being commoditized. Our products have never been commodities! We must always position ourselves as the leader in this space."

Point the Way

After you have developed your point of view, it's time to zero in on your next challenge: converting vision into action—or pointing your team in the right direction so they can make something happen. You don't have to lay out every step that leads to your ultimate goal, but you do have to be specific and set benchmarks and deadlines. Action steps have to be physical, timed, and measurable to pave a way toward the vision that the team can actually see. For instance, Amit's team had much work to complete over the next quarter. To get them started on renegotiating the contracts immediately, he asked each of them to schedule meetings with three key stakeholders by the end of the week.

Give Them a Reason to Believe

To get your team behind the vision, your message also has to address what's in it for them—each of them. Too often we provide a laundry list of general benefits that are far too removed from people's real-life situations to really motivate anyone. Better ROI, increased top-line growth, and greater customer satisfaction are all great for the organization—they just don't mean that much to us as individuals. Team leaders have to drive the benefit down to the individual level as much as possible. The best way to do this is to connect the dots. Go back to how you described your team. Amit could appeal to his team's pride in leading the industry, or the accolades they would add to their professional trophy cases: "Look at what you'll create." This individual focus engages peo-

ple's emotions and moves them to action. After all, logic makes us think; emotion drives us to act.

Emotion can also come from analogies, stories, or concrete examples that illustrate what success looks like. As Chip and Dan Heath describe in their book *Switch*, you want to create a destination postcard, or "a vivid picture from the near-term future that shows what could be possible." Describe exactly what success will look like for your team, so everyone envisions the same goal. They should reach the same answers for questions like: *How will customers feel when they use the product? What will the analysts say? How about kudos from the top? What do the ratings and reviews show?*

In order to get his team's buy-in, Amit had to be more transparent about why the company was shifting to the new plan. He also had to demonstrate that he was listening. So he explained how individual strengths and contributions from team members would move them forward. This approach helped Amit's team feel once again proud and invested. The change in morale was noticeable across emails and check-ins. The team started rebuilding momentum. (The box "How to Communicate an Organizational Vision to Your Team" highlights example language Amit used to motivate his team at the tech company.)

As a team leader, you're not always the one to set the grand overarching vision, but your role—communicating it and casting it in a way that motivates your team—is essential. Getting your team to see how their work matters

HOW TO COMMUNICATE AN ORGANIZATIONAL VISION TO YOUR TEAM

Four Steps to Move Them to Action

New company vision example: "We're shifting our focus to the cloud instead of developing separate services for each client."

1. ***Think about your audience.*** What do they care most about? *"Your product development team cares about the end result; they want to be proud of the product they built."*
2. ***Target the message to their needs.*** How is the vision relevant to them? *"Our goal is to always be industry leaders. A cloud-based service is a better way of achieving that."*
3. ***Lay out action steps.*** What are specific, measurable goals and deadlines? *"Our first major task is to meet with our key stakeholders and get their input on the new design by the end of the next week."*
4. ***Engage their emotions.*** How will they benefit at the end? *"This will streamline a lot of your future work, and your name will be forever tied to the success of this project."*

Source: Ben Decker and Kelly Decker, *Communicate to Influence* (McGraw-Hill Education, 2015).

on an organizational level will keep them motivated and productive, especially during times of change. It will also reflect well on you as their manager. That's the value of the vision.

Kelly Decker and **Ben Decker** are leading experts in the field of business communication. They run Decker Communications, a global firm that trains and coaches tens of thousands of executives a year. They are the coauthors of *Communicate to Influence: How to Inspire Your Audience to Action*, which shares real-world stories and tips from the C-suite that apply to us all.

SECTION SEVEN

Move from Thinking Strategically to Executing the Strategy

CHAPTER 23

Execution Is a People Problem, Not a Strategy Problem

by Peter Bregman

Paul, the CEO of Maxreed, a global publishing company, was having trouble sleeping. (Names and some details in this story have been changed to protect privacy.) Publishing is an industry that's changing even faster than most other fast-changing industries, but Paul wasn't awake worrying about his strategy. He had a solid plan that took advantage of new technologies, and the board

Adapted from "Execution Is a People Problem, Not a Strategy Problem" on hbr.org, January 4, 2017 (product #H03DWS).

and his leadership team were aligned around it. Paul and his team had already reorganized the structure—new divisions, revised roles, redesigned processes—to support their strategy.

So what was Paul worrying about? People.

Which is precisely what he *should* be worrying about. However hard it is to devise a smart strategy, it's 10 times harder to get people to execute on that strategy. And a poorly executed strategy, no matter how clever, is worthless.

In other words, your organization's biggest strategic challenge isn't strategic thinking—it's *strategic acting*.

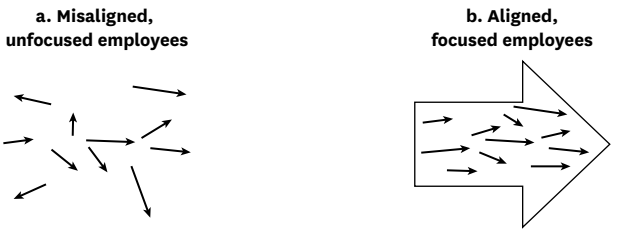
You need to get your people working together in the same strategic direction. If I were to depict the challenge graphically, it would be going from figure 23-1a, where the employees are working in different directions, targeting different priorities, to figure 23-1b, where employees are aligned and heading toward the same objective—what I call "the Big Arrow."

The conundrum is how to get from the first graphic to the second one. Most organizations rely on communication plans to make that shift. Unfortunately, strategy *communication*, even if you do it daily, is not the same as—and is not enough to drive—strategy *execution*. Because while strategy development and communication are about *knowing* something, strategy execution is about *doing* something. And the gap between what you know and what you do is often huge. Add in the necessity of having everyone acting in alignment with each other, and it gets even bigger.

FIGURE 23-1

The Big Arrow

Move from (a) to (b) to align your team with the most important work that drives strategy.



The reason strategy execution is often glossed over by even the most astute strategy consultants is because primarily it's not a strategy challenge. It's a human behavior one.

To deliver stellar results, people need to be hyper-aligned and laser-focused on the highest-impact actions that will drive the organization's most important outcomes. But even in well-run, stable organizations, people are misaligned, too broadly focused, and working at cross-purposes.

Aligning people isn't critical only for a changing company in a changing industry like Paul's. It's also imperative for fast-growing startups. And companies in turnaround situations. And those with new leadership. Any time it's critical to focus on strategy—and when isn't it?—the most important strategy question you need to answer is: *How can we align everyone's efforts and*

help them accomplish the organization's most important work?

That's the question Paul reached out to ask me. Below is the solution we implemented with him at Maxreed. This is the Big Arrow process, and it represents my best thinking after 25 years of experimenting with this very challenge.

Define the Big Arrow

We worked with Paul and a small group of his leaders to identify the most important outcome for Maxreed to achieve over the following 12 months. Their Big Arrow had to do with creating a strategy and product roadmap that was supported by the entire leadership team. The hardest part of this is getting to that *one* most important thing, the thing that would be a catalyst for driving the rest of the strategy forward.

Once we defined the Big Arrow, we tested it with a series of questions. If you answer yes to each of these questions, it's likely that your Big Arrow is on target:

- Will success in the Big Arrow drive the mission of the larger organization?
- Is the Big Arrow supporting, and supported by, your primary business goals?
- Will achieving it make a statement to the organization about what's most important?
- Will it lead to the execution of your strategy?
- Is it the appropriate stretch?

- Are you excited about it? Do you have an emotional connection to it?

Along with that outcome clarity, we also created behavioral clarity by identifying the most important behavior that would lead to achieving the outcome. For Maxreed, the behavior was about collaborating with trust and transparency. We determined this by asking one key question: *What current behavior do we see in the organization that will make driving the Big Arrow harder and make success less likely?* We then articulated the opposite, which became our Big Arrow behavior.

Identify the Highest-Impact People

Once the Big Arrow was clear, we worked with Paul and his HR partner to identify the people who were most essential to achieving the goal. Doing this is critical because you want to focus your efforts and resources on the people who will have the most impact on the Big Arrow. In the case of Maxreed, we identified 10 people whose roles were core to the project, who already had organizational authority, and who were highly networked. With other clients, we've identified many more people at all levels of the hierarchy. As you think about who might be the appropriate people, ask the questions: *Who has the greatest capacity to affect the forward momentum of the arrow? Who is an influencer in the organization? Who has an outsize impact on our Big Arrow outcome or behavior?* Those are the people you should choose.

Determine What They Should Focus On

Once we established the key people, we worked with each of them and their managers to determine their:

- Key contribution to moving the Big Arrow forward
- Pivotal strength that will allow them to make their key contribution
- Game changer—the thing that, if the person improves, will most improve their ability to make their key contribution

One of the things that makes this process successful is its simplicity. It's why we settled on *one* pivotal strength and *one* most critical game changer. Strategy execution needs to be laser-focused, and one of the biggest impediments to forward momentum on our most important work is trying to get forward momentum on *all* our work. Simplicity requires that we make choices. What will have the biggest impact? Then we make that one thing happen.

Hold Laser-Focused Coaching Sessions

Once we made sure the right people had the right focus, we coached in laser-focused, 30-minute one-on-one coaching sessions. Coaching is often used in organizations to fix a leader's flaws, but that is not the focus of this kind of coaching. Here, individuals were coached to focus on making clear headway on their key contribu-

tion to the Big Arrow. These conversations only focus on larger behavioral patterns to the extent that they are getting in the way of the task at hand.

Collect and Share Data

Because we were coaching multiple people, we were able to maintain strict confidentiality with the individuals being coached while collecting data about trends and organizational obstacles they were facing, which we reported to Paul and his leadership team. This wasn't just opinion survey data; it represented the real obstacles preventing Maxreed's most valuable people from driving the company's most important priorities forward.

One of the main challenges we uncovered was a lack of cross-functional collaboration. Armed with that insight, Paul was able to address this issue directly, getting the key people in a room together and speaking openly about the issue. Eventually, he initiated a new cross-functional Big Arrow process that included leaders from the groups that weren't collaborating. Identifying what they needed to achieve together broke down the walls between the groups.

Amplify Performance

While Paul removed organizational obstacles, coaches continued to help Maxreed's most critical people tackle the particular obstacles and challenges they faced as they delivered their key contribution. Coaches addressed the typical challenges people struggle with when executing strategy: how to communicate priorities, how to deal with someone who is resistant, how to influence someone

who doesn't report to you, how to say no to distractions, and so on. The coaching prioritized helping people build relationships on their own teams and across silos, which was supported by the data and the Big Arrow key behavior of collaborating with trust and transparency. Individuals aligned with the goals of the organization to drive continued growth and success.

While the Big Arrow process was ongoing, we sent out a survey to people being coached as well as others outside the program to assess progress being made by the key contributors. Compared to before the coaching, are they more effective or less effective at making their key contribution, achieving the outcomes of the Big Arrow, and addressing their game changer? There were 98 responses to the survey:

Key contribution: 90% said either more effective or much more effective.

Big Arrow: 88% said either more effective or much more effective.

Game changer: 84% said either more effective or much more effective.

In other words, the key contributors were getting massive traction in moving the organization's most important work—its key strategy—forward. This data was confirmed by Paul's own observations of the progress they've made on their Big Arrow outcome, a strategy and product roadmap that is supported by the entire leadership team. Maybe most important, the broader organiza-

tion was noticing. Which, of course, is how you start a movement.

Paul is still working hard to continue the momentum of the strategic shift. That's the point, really: Strategy execution is not a moment in time. It's thousands of moments across time. But now, at least, it's happening.

Peter Bregman is CEO of Bregman Partners, a company that helps clients get massive traction on their most important work through the Big Arrow process and as a coach and adviser to CEOs and their leadership teams. He is the best-selling author of *18 Minutes*, and his most recent book is *Four Seconds*.

CHAPTER 24

How to Excel at Both Strategy and Execution

by Paul Leinwand and Joachim Rotering

For decades, we've often thought of leadership profiles in unique buckets—two popular varieties were the "visionaries," who embrace strategy and think about amazing things to do, and the "operators," who get stuff done. We intuitively knew that there must be leaders that span these areas, but in fact, few do. According to a global survey of 700 executives across a variety of industries conducted by Strategy&, the strategy consulting division of PwC, only 8% of company leaders were said to excel at both strategy and execution.

Adapted from "How to Excel at Both Strategy and Execution" on hbr.org, November 17, 2017 (product #H040X2).

You Can't Choose Strategy *or* Execution

You may think that success can be achieved by excelling at either strategy or execution individually—that great visionaries can change how we see the world, or that amazing operators can wind up outperforming competitors. But our experience and research suggest that the days of keeping strategy and execution as separate topics are ending: We need leaders who can make big promises to customers *and* help their organizations deliver on those promises.

Take Starbucks: CEO Howard Schultz created a very ambitious aspiration for the company, far more than just being a seller of coffee. He wanted Starbucks to be a "third place" for conviviality beyond home and the workplace. Visit a Starbucks anywhere in the world, and you will find the same consistently comfortable and welcoming ambiance. But he didn't get there simply by telling his staff to "be warm and friendly."

Starbucks has been able to deliver on its promise because that promise is tightly linked to the company's distinctive capabilities. The feel of Starbucks stores isn't created merely by the layout and the décor—it exists because the people behind the counter understand how their work fits into a common purpose, and recognize how to accomplish great things together without needing to follow a script.

Over many years, Starbucks has built a capability to foster a relationship-driven, "employees-first" approach. It was Schultz who famously said, "You can walk into

[any type of retail store] and you can feel whether the proprietor or the merchant or the person behind the counter has a good feeling about his product. If you walk into a department store today, you are probably talking to a guy who is untrained; he was selling vacuum cleaners yesterday, and now he is in the apparel section. It just does not work."

Schultz made sure that Starbucks would be different: Workers are called "partners" rather than employees, and even part-time staff (in the United States) receive stock options and health insurance. At the height of the global financial crisis, when other companies were cutting HR costs wherever they could, Starbucks invested in staff training, including coffee tastings and courses that ultimately qualified employees for credit at higher education institutions. Beyond employees, much of what you will see and experience at Starbucks has been well thought out to accomplish the company's mission, from the music played to the furniture selected. Even the bathrooms are strategic at Starbucks, because they play a part in allowing customers to spend time in the "third place."

Leaders like Howard Schultz don't just have both the visionary and operator skills—they deeply value the connection between the two skill sets. They see them as inextricably linked, since a bold vision needs to include both a very ambitious destination *and* a well-conceived path for execution that will get you there. This is ever more important today, when differentiating your company is so difficult. Differentiation increasingly requires more innovative thinking and the use of very specific areas of expertise (like Apple's winning design, a capability that

wouldn't have been prioritized in most technology companies before Steve Jobs did so).

Leaders who master both strategy and execution start by building a bold but executable strategy. Next, they ensure that the company is investing behind the change. And last, they make sure the entire organization is motivated to go the journey.

Ask What Your Company Is Already Great At

Developing a bold but executable strategy starts with making sure leaders have addressed the questions of "What are we great at?" and "What are we able to achieve?" rather than coming up with lofty plans and asking functional and business-unit teams to do their best to execute. Indeed, they spell out the few differentiating capabilities that the company must excel at to realize the strategy.

Ensuring that the company is investing behind the change means that leaders recognize that the budget process is one of the most important tools in closing the strategy-to-execution gap. Cost isn't an exogenous variable to be managed; it is the investment in doing the most important things well. But rarely are budgets linked closely to the strategy. If your company is merely incrementalizing the budget up or down by a few percentage points, ask yourself whether the investments really reflect the most important tasks.

Motivating individuals is a hugely underleveraged tool to close the gap between strategy and execution. Great leaders know that success stems from specific skills that

come together in unique ways to do the challenging tasks in executing the strategy. But, today, most employees don't even understand how they are connected to the strategy. In a recent survey of 540 executives, managers, and nonmanagers by Strategy&, only 28% of employees said that they feel fully connected to the purpose and identity of their organization. Articulating the strategy in human terms—what capabilities the company will need to build and what skills are required to do so—not only helps the company focus on how to develop the right talent, but it allows individuals to understand how their role fits into the overall strategy and to see their work in a much more fundamentally connected way.

Questions for Bringing Together Strategy and Execution

How do you combine strategy and execution? Below are some questions to ask yourself that cover all three stages of the strategy-to-execution continuum. Getting these three areas right allows leaders to make a big step forward toward closing the gap between strategy and execution:

1. **Build the strategy.**

    - Are you very clear about how you add value to customers in a way that others don't, and about the specific capabilities that enable you to excel at that value proposition?
    - As strategies are being developed, are you using the classic approach of "build the

strategy, then think about execution," or are you asking yourself the question, "Do you have the capabilities needed—or can you build the capabilities needed—to execute the strategy?"

- As you're dealing with disruption, are you shaping the world around you with your given strengths, or are you waiting for change to happen and therefore playing by someone else's rules?

2. **Translate the strategy into the everyday.**

   - Are you diligently following through on what you have decided? You need to be very clear about what the strategy is and what it takes to succeed—and to communicate it so that everyone in the organization understands what they should be doing.

   - Are there visible programs (for example, specific new technologies, new processes, or training programs) to build the key capabilities your organization needs to win with its strategy?

   - Are you building specific connections between strategy and the budgeting process so you're reallocating funds to where they matter most? And do you have mechanisms in place that translate the strategy into personal goals and rewards for managers and employees?

3. **Execute the strategy.**

    - Are you motivating employees every single day to understand how what they're doing connects to the important strategic levers that you have focused on?
    - Are you enabling employees to work together across organizational silos to tackle the cross-functional challenges that allow the company to win?
    - Are you keeping track not just of your performance, but of how you're building and scaling up those few key capabilities that enable you to create value for customers in ways that others cannot?
    - Is your management team engaged in how you are executing the strategy, not just by measuring results, but by constantly challenging the organization and supporting it in improving its key capabilities? Are you setting your team's sights high enough for what they need to accomplish, and by when?

We believe there's a tremendous upside for companies that can succeed at strategy through execution. The leaders who are able to be both visionaries and operators, and switch between these two mindsets, are the ones who can turn their organizations into supercompetitors.

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CHAPTER 25

How the Most Successful Teams Bridge the Strategy-to-Execution Gap

by Nathan Wiita and Orla Leonard

The strategy-to-execution gap is an enduring problem with no easy solution. As the Japanese proverb goes, "Vision without action is a daydream. Action without vision is a nightmare." Paul Leinwand and his coauthors, in chapter 24 of this guide and elsewhere, have outlined what senior leaders must do to close the strategy-to-execution gap. We built on this research by going beyond

Adapted from "How the Most Successful Teams Bridge the Strategy-to-Execution Gap" on hbr.org, November 23, 2017 (product #H0414W).

the lens of the individual leader to investigate how the most successful teams bridge the gap. We wanted to unpack the *how* by identifying what sets these teams apart in terms of how they spend their time and the critical behaviors they engage in. To do this, we examined how 49 enterprise leadership teams spend their time and also looked at their perceived effectiveness on critical behaviors of a senior team. They also responded to items that corresponded to the Leinwand et al. framework, as detailed below.

Commit to an identity. The first tenet of their framework is that an organization must commit to an identity through a shared understanding of its value proposition and distinctive capabilities. In short, the organization must commit to focus on what it is good at and then go after it. We found that the key differentiators for high-performing teams are:

- They spend nearly 20% more time (compared to low-performing teams) defining strategy (i.e., translating a high-level vision into clear actionable goals).
- They spend 12% more time aligning the organization around that strategy through frequent internal communications and driving a consistent message downward into the organization.

Indeed, our experience with senior teams corroborates this data. That is, we've found that teams that excel in this arena are those that break strategy into clear, prac-

tical deliverables and then cascade those deliverables downward through frequent messaging.

Translate strategy into everyday processes and capabilities. Our analysis of how senior teams spend their time shows that, for this dimension:

- High-performing teams spend over 25% more time focusing the enterprise than their lower-performing peers. That time is spent establishing financial and operational metrics, aligning goals with overarching strategy, allocating resources, and reviewing key metrics.
- High-performing teams spend 14% more time checking their progress against strategic goals by reviewing key metrics and shifting resources accordingly.

The most successful senior teams create a permeable membrane between the organization's mission and its day-to-day activities. They are also agile in correcting course when the needs of the business change and are more easily prepared to shift organizational resources to ensure that the strategy is executed.

Concentrate on the unique cultural factors that fuel success. Implicit in this assumption is resisting the temptation to drive traditional change programs based on addressing gaps or weaknesses. This is an area where the data presents a more complex picture.

- High-performing teams spend 28% more time engaging the organization in ongoing dialogue about cultural enablers and barriers to execution. This includes forums for employees to voice concerns via surveys (for example, employee engagement) and actual dialogue.

- Those same teams invest almost one-third more time in optimizing talent capabilities by reviewing development plans, ensuring that succession plans are in place, and evaluating compensation plans to be competitive.

Our data suggests that the approach of leveraging cultural strengths is both commendable and efficient, but organizations that continue to monitor and challenge their cultural and leadership biases are those that have the edge. Simply focusing on strengths is not enough.

The academic literature as well as our consulting experience suggest that the ability to prioritize is a key ingredient to an enterprise leadership team's success. This is no small task, given the constant and overwhelming demands on most teams. What does our data suggest about *how* teams go about this?

- High-performing teams, compared to lower-performing teams, spend 54% more time first setting direction, crafting a vision that serves as a guiding light for decisions regarding resources.

- When it comes to execution, lower-performing teams spend an astounding 83% more time fire-

fighting and dealing with issues at a tactical rather than strategic level.

Our high-performing teams in this dimension also rated themselves 36% more effective at prioritizing and sequencing initiatives than the lower-performing cohort. Our experience suggests that a critical piece in prioritization can be as simple as determining when the team comes together and what topics it discusses. Ensuring that the top team is sufficiently elevated and creating a consistent drumbeat around priorities will prevent distractions and cement the close link between strategy and execution.

Shape the future. High-performing teams successfully shape the future, rather than always being in a reactive mode in the present. How do they do it?

- They spend 25.3% more time influencing high-level stakeholders by identifying their needs and managing their expectations.
- Unsurprisingly, though easier said than done, the high-performing teams spend 13.2% more time planning for the future by setting direction, creating a vision, and defining their strategy.
- Finally, they shape the future by responding to change in the present (20.7% more effectively than lower-performing teams), positioning the enterprise for future success. This is consistent with much of the existing literature on the importance of agility in high-performing teams.

How might you close the strategy-to-execution gap in your own company? We believe that being intentional about the best and highest use of the team's time is the key lever in getting results.

Where should you start? As we look across our findings, teams that performed well across the strategy-to-execution dimensions did the following:

- Spent more time strategizing and translating that strategy into actionable goals
- Spent more time engaging the organization, surfacing barriers and unmet needs and communicating direction and behavioral guardrails
- Spent more time interacting with key stakeholders to ascertain and anticipate roadblocks and opportunities
- Spent less time fighting fires

Take a glance at the agendas of your team meetings over the last 6 to 12 months. Then, ask yourself the following questions:

- What percentage of the team's time was spent firefighting or dealing with issues that could have been dealt with at the next level down? How much time was invested on the big-ticket strategic items?
- How much time did the team spend thinking proactively about the future of our industry, our business model, the regulatory landscape, and our consumers?

- What percentage of time did the team spend engaging and aligning with the organization? How about key stakeholders? Does the team have a decent pulse check on its blatant and latent needs?

Perhaps most important, ask yourself, "Have we successfully executed our strategy?"

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CHAPTER 26

Get Your Team to Do What It Says It's Going to Do

by Heidi Grant

Say you're in the early stages of planning your department's budget for the next fiscal year. Your management team meets to establish short-term priorities and starts to think about longer-term resource allocation. You identify next steps and decide to reconvene in a week—but when you do, you find that very little progress has been made. What's the holdup? Your to-dos probably look something like this:

Step 1: Develop a tentative budget for continuing operations.

Reprinted from "Get Your Team to Do What It Says It's Going to Do" in *Harvard Business Review*, May 2014 (product #R1405E).

Step 2: Clarify the department's role in upcoming corporate initiatives.

Those steps may be logical, but they're ineffective because they omit essential details. Even the first one, which is relatively straightforward, raises more questions than it answers: What data must the team gather to estimate requirements for continuing operations? Who will run the reports, and when? Which managers can shed additional light on resource needs? Who will talk to them and reconcile their feedback with what the numbers say? When will that happen? Who will assess competing priorities and decide which trade-offs to make? When?

Creating goals that teams and organizations will actually accomplish isn't just a matter of defining what needs doing; you also have to spell out the specifics of getting it done, because you can't assume that everyone involved will know how to move from concept to delivery. By using what motivational scientists call *if-then planning* to express and implement your group's intentions, you can significantly improve execution.

If-then plans work because contingencies are built into our neurological wiring. Humans are very good at encoding information in "If x, then y" terms and using those connections (often unconsciously) to guide their behavior. When people decide exactly when, where, and how they will fulfill their goals, they create a link in their brains between a certain situation or cue ("If or when x happens") and the behavior that should follow ("then I will do y"). In this way, they establish powerful triggers for action.

We've learned from more than 200 studies that if-then planners are about 300% more likely than others to reach their goals. Most of that research focuses on individuals, but we're starting to uncover a similar effect in groups. Several recent studies indicate that if-then planning improves team performance by sharpening groups' focus and prompting members to carry out key activities in a timely manner.

That's an important finding, because organizations squander enormous amounts of time, money, ideas, and talent in pursuit of poorly expressed goals. If-then planning addresses that pervasive problem by sorting out the fine-grained particulars of execution for group members. It pinpoints conditions for success, increases everyone's sense of responsibility, and helps close the troublesome gap between knowing and doing.

Overcoming Obstacles to Execution

Peter Gollwitzer, the psychologist who first studied if-then planning (and my postdoctoral adviser at New York University), has described it as creating "instant habits." Unlike many of our other habits, these don't get in the way of our goals but help us reach them. Let's look at a simple work example.

Suppose your employees have been remiss in submitting weekly progress reports, and you ask them all to set the goal of keeping you better informed. Despite everyone's willingness, people are busy and still forget to do it. So you ask them each to make an if-then plan: "If it's 2 p.m. on Friday, I will email Susan a brief progress report."

Now the cue "2 p.m. on Friday" is directly wired in their brains to the action "email my report to Susan"—and it's just dying to get noticed. Below their conscious awareness, your employees begin to scan the environment for it. As a result, they will spot and seize the critical moment ("It's 2 p.m. on Friday") *even when they're busy doing other things*.

Once the "if" part of the plan is detected, the mind triggers the "then" part. People now begin to execute the plan without having to think about it. When the clock hits 2 on Friday afternoon, the hands automatically reach for the keyboard. Sometimes you're aware that you are following through. But the process doesn't have to be conscious, which means you and your employees can still move toward your goal while occupied with other projects.

This approach worked in controlled studies: Participants who created if-then plans submitted weekly reports only 1.5 hours late, on average. Those who didn't create them submitted reports eight hours late.

The if-then cue is really important—but so is specifying what each team member will do and when (and often where and how). Let's go back to the budgeting example. To make it easier for your team to execute the first step, developing a tentative budget for continuing operations, you might create if-then plans along these lines:

> *When it's Monday morning, Jane will detail our current expenses for personnel, contractors, and travel. If it's Monday through Wednesday, Surani and David*

will meet with the managers in their groups to get input on resource needs.

When it's Thursday morning, Phil will write a report that synthesizes the numbers and the qualitative feedback.

When it's Friday at 2 p.m., the management team will reassess priorities in light of Phil's report and agree on trade-offs.

Now there's less room for conflicting interpretations. The tasks and time frames are clearly outlined. Individuals know what they're accountable for, and so do the others in the group.

Does the if-then syntax feel awkward and stilted? It might, since it doesn't reflect the way we naturally express ourselves. But that's actually a good thing, because when we articulate our goals more "naturally," the all-important details of execution don't stick. The if-then construction makes people more aware and deliberate in their planning, so they not only understand but also complete the needed tasks.

Solving Problems That Plague Groups

Beyond helping managers get better results from their direct reports, if-then planning can address some of the classic challenges that groups face when working and making decisions together. Members often allow cognitive biases to obscure their collective judgment; for example, falling into traps such as groupthink and fixation on sunk costs. New findings suggest that if-then

planning can offer effective solutions to this class of problems.

Groupthink

In theory, teams should be better decision makers than individuals, because they can benefit from the diverse knowledge and experience that each member brings. But they rarely capitalize on what each person distinctively has to offer. Rather than offering up unique data and insights, members focus on information that they all possess from the start. Many forces are at work here, but primary among them is the desire to reach consensus quickly and without conflict by limiting the discussion to what's familiar to everyone.

Even when team members are explicitly told to share all relevant information with one another—and have monetary incentives to do so—they still don't. When people are entrenched in existing habits, paralyzed by cognitive overload, or simply distracted, they tend to forget to execute general goals like this.

Research by J. Lukas Thürmer, Frank Wieber, and Peter Gollwitzer conducted at the University of Konstanz demonstrates how if-then plans improve organizational decision making through increased information exchange and cooperation. In their studies, teams worked on "hidden profile" problems—which required members to share knowledge to identify the best solution. For instance, in one study, three-person panels had to choose the best of three job applicants. Candidate A was modestly qualified, with six out of nine attributes in his favor—but every panel member knew about all six at-

tributes. Candidate B also had six attributes in his favor, but every panel member knew about three of them, and each had unique knowledge of one additional attribute. Candidate C, the superior candidate, had nine out of nine attributes in his favor, but each panel member received information about only three attributes. To realize that Candidate C had all nine, the members of a panel had to share information with one another.

All the panels were instructed to do so before coming to a final decision and were told that reviewing the bottom two candidates' positive attributes would be a good way to accomplish this. Half the panels made an if-then plan: "If we are ready to make a decision, then we will review the positive qualities of the other candidates before deciding." (All study participants knew that the if-then plans applied specifically to them—and that the task needed to be done at that moment—so they didn't spell out the who and the when, as they would have in real life.)

A panel that focused only on commonly held information would choose Candidate A—one of the inferior candidates—reasoning that he had six attributes as opposed to Candidate B's four and Candidate C's three. A panel whose members broke free of groupthink and successfully shared information would realize that in fact Candidate C had all nine attributes and choose him instead.

Not surprisingly, panels that made no if-then plan chose the superior candidate only 18% of the time. Panels with if-then plans were much more likely to make the right decision, selecting the superior candidate 48% of the time.

PLAN FOR THE UNEXPECTED

If-then planning is particularly useful for dealing with the inevitable bumps in the road—the unforeseen complications, the minor (and major) disasters, those moments when confusion sets in. Studies show that people who decide in advance how they will deal with such snags are much more resilient and able to stay on track.

Begin by identifying potential risks, focusing on those that seem the most likely. If the new project management software you purchased turns out to be buggy or the new review process you've implemented is too cumbersome, what will you do? If a

Clinging to Lost Causes

Further studies by Wieber, Thürmer, and Gollwitzer show that if-then plans can help groups avoid another common problem: committing more and more resources to clearly failing projects. As the Nobel laureate Daniel Kahneman and his collaborator Amos Tversky pointed out decades ago, we tend to chase *sunk costs*—the time, effort, and money that we have put into something and can't get back out. It's irrational behavior. Once your team realizes that a project is failing, previous investments shouldn't matter. The best you can do is try to make smart choices with what you have left to invest. But too often we stay the course, unwilling to admit we have squandered resources that would have been better spent elsewhere. Groups, especially, tend to hang

major supplier goes out of business or has a factory fire, will you have sufficient reserves on hand?

To create contingency if-then plans, you identify what action to take should one of those risks turn into a reality. Suppose your business unit is market testing two new product lines. Rather than assume that at least one of them will merit further investment, make an if-then plan that allows for a less optimistic outcome. For instance: "When we have third-quarter sales figures in hand, Carol will calculate ROI and build a business case for next-phase funding."

in there when it would be best to walk away, sometimes doubling down on their losing wagers. And the more cohesive they are, the greater the risk.

The dangers of identifying too much with one's team or organization are well documented: pressure to conform, for instance, and exclusion of atypical group members from leadership positions. When being a "good" team member is all that matters, groups often (implicitly or explicitly) discourage diverse ways of thinking, and they're loath to acknowledge their imperfections and errors of judgment. Hence the blind spot when it comes to sunk costs.

However, by taking the perspective of an independent observer, a group can gain the objectivity to scale back on its commitments to bad decisions or cut its losses

altogether. In other words, by imagining that some other team made the initial investment, people free themselves up to do what's best in light of current circumstances, not previous outlays.

Wieber, Thürmer, and Gollwitzer hypothesized that if-then planning might be a particularly good tool for instilling this mind-set, for two reasons. First, studies showed that if-then plans helped individuals change strategies for pursuing goals, rather than continue with a failing approach. Second, additional research by Gollwitzer demonstrated that making if-then plans helped people take an outsider's view (they assumed the perspective of a physician when seeing blood in order to reduce feelings of disgust).

To test the effectiveness of if-then plans in scaling back group commitments, a study led by Wieber put subjects into teams of three and asked them to make joint investment decisions. Each team acted as a city council, deciding how much to invest in a public preschool project. During phase one, the groups received information casting the project in a very positive light, and they allocated funds accordingly. In phase two, they received both positive and negative information: Construction had begun and a local store was donating materials, but the building union wanted a substantial raise and environmental activists had voiced concerns about the safety of the land. Rationally, the teams should have begun to decrease funding at this point, given the uncertainty of the project's success. Finally, in phase three, the groups received mostly negative information: Oil had been found in the sand pit, parents were outraged, and fixing

the problems would be time-consuming and expensive. Further scaling back was clearly called for.

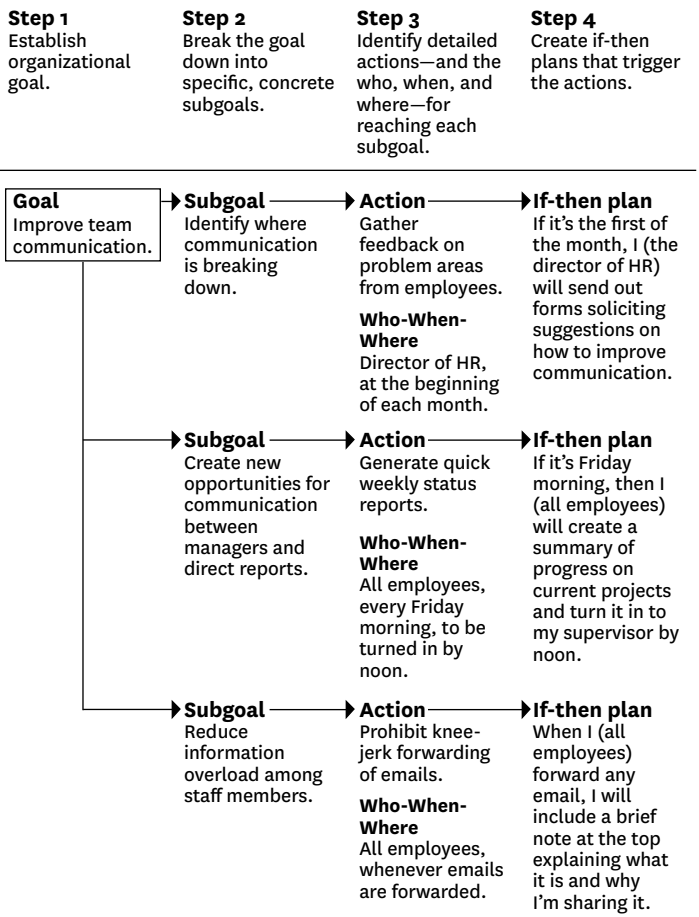
So what did the teams do? Those that had made no if-then plans showed the typical pattern of commitment. They slightly increased the percentage of budget allocated to the project from phase one to phase three. In contrast, teams with if-then plans ("If we make a decision, we will take the perspective of a neutral observer that was not responsible for any prior investments") reduced their investments from phase one to phase three by 13%, on average.

When teams and organizations set goals, they tend to use sweeping, abstract language. But it's easier to frame your plans in if-then terms if you first break them down into smaller, more concrete subgoals and then identify the actions required to reach each subgoal. (See figure 26-1, "How to design if-then plans.") If you were trying to improve your team's communication, for example, you might set "Reduce information overload among staff members" as one subgoal. And after some brainstorming, you might decide to accomplish that by asking members who are forwarding any email to explain up front why they're doing so. (The rationale: People will be more selective about what they pass along if they have to provide a reason.) The if-then plan for each team member would be "If I forward any email, I'll include a brief note at the top describing what it is and why I'm sharing it." One manager I spoke with found that this if-then plan put an immediate end to the knee-jerk forwarding

FIGURE 26-1

How to design if-then plans

This flowchart shows how to translate a high-level ambition (in this instance, better communication) into detailed plans for execution



that had clogged everyone's inbox with unnecessary information. It also increased the value of the emails that people did forward.

Specifying the who, when, and where is an ongoing process, not a onetime exercise. Ask team members to review their if-then plans regularly. Studies show that rehearsing the if-then link can more than double its effectiveness. It also allows groups to periodically reassess how realistic their plans are. Is anything harder or taking longer than expected? Are there steps that the team didn't plan for? If circumstances change, your if-then plans need to change, too—or they won't have the desired impact.

Though the research on if-then planning for teams and organizations is relatively new, the early results are promising, and social psychologists are examining several uses and benefits. (For instance, I'm studying whether it can be used to shift group mindsets from what I call "be good" thinking to "get better" thinking that fosters continuous improvement.) What's already becoming clear is that if-then planning helps groups frame their goals in a way that's achievable, providing a bridge between intentions and reality. It enables them to do more of what they mean to—and do it better—by fostering ownership and essentially reprogramming people to execute.

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SECTION EIGHT

Navigate Strategic Thinking Challenges

CHAPTER 27

When You Think the Strategy Is Wrong

by Amy Gallo

Chances are that at some point in your career you've been asked to implement a strategy that was developed by someone else. A manager's job is to execute that strategy, and to be sure that their team, unit, or department is aligned as well. But what if you believe the strategy you've been asked to implement is flawed? Perhaps you think the strategy won't achieve the intended result—or worse, that it will put the company at risk.

Adapted from "When You Think the Strategy Is Wrong" on hbr.org, February 4, 2010 (product #H004A5).

Regardless of the depth of your concern, you have an obligation to speak up. But immediately pressing the strategy panic button isn't always useful, and may brand you as an alarmist. It's important to find ways to express your concerns productively. By acting cautiously and thoughtfully, you can make your concerns heard while perhaps saving your team—or the company—time, energy, and money.

What the Experts Say

Strategy development is a difficult, time-intensive, and often messy process. The end result is never perfect. However, as a good citizen in any organization, you have an obligation to act if you see something wrong with your organization's strategy. Linda Hill, Harvard Business School professor and author of *Becoming a Manager*, says, "Anyone with a deep commitment to the organization owes it to that organization to ask questions and clear up confusions." However, you need to proceed cautiously. Don Sull, author of *The Upside of Turbulence*, cautions, "Saying 'this is stupid and wrong' isn't helpful." Before you cry "wrong strategy," follow these three steps to understand what is truly at stake and explore your motivations.

Step 1. Diagnose: Understand the full picture

An organization's strategy is often steeped in complex political issues. Before you speak up, try to understand the situation in which the strategy was developed. As Gary Neilson, executive adviser at the consulting firm Strategy&, points out, "Too many people view themselves

as a self-appointed strategist for the company." Don't assume you know how or why the strategy was developed. Use your network to find out more about the process and the assumptions used. According to Hill, a good network will return useful information and advice if it includes a diverse set of people who have differing perspectives—what Hill calls, "a personal board of directors." Send out feelers to get more background about what went into the strategy and what its intended purpose is. Aim to find out what problem the company's leaders are trying to solve with the current strategy or if there is a shift in priorities that you don't know about. Gaining a perspective on what went into the strategy can help you to reflect on what is underlying your concerns.

Step 2. Reflect: Contextualize your concerns

When it comes to strategy, right or wrong is in the eye of the beholder. Sull points out that a "good enough strategy excellently implemented will trump a perfect strategy lukewarmly implemented nine times out of ten." Because no strategy is infallible, it's likely that there are things you feel should be different, but these things don't necessarily require you to cause a mutiny. Neilson urges that concerned employees ask themselves, "Is it that you would have expected a different direction or do you believe that the analysis, facts, or process that the company used [were] flawed?" It's your job to understand what about your unease is critical to raise and what is simply the result of a difference of opinion.

It's also important to ask yourself if you are using your objections as a reason not to do something difficult.

Sull says, "Middle managers may use imperfect strategy as an excuse not to take initiative." It may be that your unease is rooted in your resistance to change or resentment about not being included in the strategy development process. It's better to know the true source of your concerns before speaking up. After you've done your research and reflected on your motivations, if your concerns remain, it's time to verbalize them.

Step 3. Speak up: Proceed carefully

Start by going to your direct manager to share your apprehensions. Your manager may or may not have been involved in the development of the strategy, but they may know more about the background. This conversation should happen in private. Ask questions and enlist your manager's help in understanding why the company has chosen this strategy. You can use questions such as, "What are the assumptions behind the strategy?" "Could you explain to me why this particular piece is important?" or "What leeway do we have to adjust the strategy to the realities of the local market?"

It is important when sharing your concerns that you provide data that supports why you're raising questions in the first place. If you've done your research, you should have this information ready. You can make this conversation more successful by proposing alternative solutions that would help mitigate the risks you see. Don't accuse your manager or hold them responsible. Make it clear that you are not questioning their authority but trying to better understand the strategy you've been asked to implement.

When to let it go—and when not to

After taking the above steps, if your concerns have been shrugged off or disputed, you may need to choose your battles. "Skepticism is hugely helpful in organizations but bloody-minded obstinacy is not," Sull says. People have very little respect for someone who ruthlessly fights over imperfections. You may have to trust your boss or other superiors especially because there may be issues they are not at liberty to disclose. "In those cases, you may want to say, 'If you truly think this is the right direction, I will do it,'" Hill suggests.

Sull points out that there are rare cases where the strategy is putting the company at such risk that you may want to consider leaving the organization. These are cases where there are ethical concerns or the company may fail if the strategy is pursued in its current form. If faced with a strategy that is severely flawed or that you can't comfortably support, quitting may be the best option. And if you do leave, don't bury your concerns. Write a letter to the CEO, no matter where you are in the organization, explaining your decision and the risks you see in the strategy.

Principles to Remember

Do:

- Understand the root cause of your concerns
- Research the inputs and assumptions underlying the strategy
- Express your concerns to your immediate boss first

Don't:

- Insist that your concerns be heeded
- Assume you know the assumptions or reasoning behind the strategy
- Question the strategy in a public setting

Case Study: When the Competitive Advantage Is a Disadvantage

Laura Casela (some details, including her name, have been changed) joined a strategic communications firm started by two former consulting colleagues. Laura was brought in as the director of business development to help grow the year-old firm, and was excited about her new role and about the company's future. The firm was founded on a unique premise. Most communications firms rely on freelance writers to do a lot of their work, and clients have little knowledge about who these writers are. Laura's colleagues decided to change that by hiring stay-at-home moms who had left the industry to have more time with their families; they felt this was an untapped and experienced resource and, if leveraged appropriately, could be a competitive advantage for the young firm. The firm built its brand around this hiring approach and had success with it in its first year in the market.

However, soon after taking the job, Laura discovered that the leads she was pursuing were not converting into business. She was able to capture referrals, but when new leads went to the website, they seemed to lose inter-

est. She asked a few would-be clients what turned them away and they explained they weren't looking for a business of stay-at-home moms. Many said it just didn't feel like "a right fit." Laura realized that "clients wanted the best writers they could get and they were hiring a communications firm to do the hiring for them. They didn't care who did the work, as long as the work was great."

Laura was conflicted; she believed in the brand and, like the founders, thought it would help the organization stand out in the crowded New York market. But the evidence showed something different. Laura shared what she learned with her colleagues and explained that despite how much she believed in the principle, this was an angle they should drop.

The founders were surprised, but they were open to what Laura had to say, primarily because of the evidence she provided, including client feedback and emails. Laura's speaking up had a huge impact, and the firm's founders, together with Laura, ended up working with a strategy consultant to rethink their branding.

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CHAPTER 28

When Your Boss Gives You Conflicting Messages

by Len Schlesinger and Charlie Kiefer

Managers routinely give employees conflicting messages with respect to their objectives: "Be innovative" and "Follow established protocol." "Take risks" and "Don't expose the company to bad press." "Focus on the company's number-one initiative" and "All of these projects are a priority."

At an organizational level, conflicting goals can be conquered by a carefully set execution plan, as outlined

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Adapted from "When Your Boss Gives You Conflicting Messages" on hbr.org, November 27, 2014 (product #H01QBD).

in chapter 18. But on an individual basis, navigating conflicting instructions can be both difficult and confusing. And while some managers may acknowledge the inconsistencies and ambiguities in these objectives, others may not. As an employee, how do you respond if your manager doesn't recognize the impossible position they've put you in?

People who find themselves in such a double bind have pretty predictable responses. Frustration and anger are most common. Less obvious reactions are the tendency to withdraw, shut down, and wait for clear direction that may never arrive. If you're feeling any of these reactions to your boss's requests, there's a good chance that a double bind is the cause. So, what can you do?

Don't Pretend the Conflict Doesn't Exist

When you're faced with priorities that are in direct conflict, it can be a natural instinct to just put your head down and try to get everything done. In his book *Flawed Advice and the Management Trap*, business theorist Chris Argyris describes the sequence of events that happens when individuals ignore tension between objectives: Organizations and their leaders craft messages that contain inconsistencies. They then make the problem worse by acting as if the messages are consistent—and they make it nearly impossible to resolve issues by labeling the inconsistent messages as "undiscussable."

It's not that you can't deal with conflicting messages; people do it all the time. But leaders put people in an impossible situation when they pretend that the mes-

sages don't conflict and preempt any discussion of the matter.

When this happens, you face a dilemma with two related consequences—one psychological and the other actual—that can be addressed separately.

Use humor

Dealing with the first consequence is straightforward. Remember, psychologically, the central problem is not the dilemma itself, but the fact that you can't confront it. So see it for what it is—a crazy-making situation. Be mindful of when it's affecting you. Laugh about it with friendly colleagues. Over time, you can remove many of the negative psychological aspects and ensure that the double bind doesn't play with your head. But it can, and perhaps should, still affect your behavior, so you must think strategically.

Discuss the undiscussable

Since the second consequence, undiscussability, is often one of the unwritten rules of the game, proceed with caution. Remember that the ultimate remedy is to make the organizational habit of undiscussability a topic of investigation and overt dialogue on the part of everyone in the system. It takes subtlety and time; going at it very directly early on can get you in deep trouble.

Start with a situation or dilemma that you immediately face. Talk to your manager about the bind you are in, and have them help you navigate that specific instance. Bring it up in a lighthearted way; for example: "OK, so I need to do something and not do it at the same

time. Can you give me any insight or advice on how to pull that off? Or how to balance the two? Or trade them off? How have you navigated this kind of situation successfully in the past?" Helping you is your boss's job, and hopefully, to be a good coach.

Identify the Challenges and Move Forward

Regrettably, you may be met with "Of course we want you to do more, faster, with less. Grow up and get over it." Awareness of the reality you're facing is always a good thing, and at least you will have confirmed the challenges you face. There are two big ones that you need to consider:

1. What, specifically, can you do to be effective in this situation, when you're clearly being asked to do two contradictory things?

2. Can you figure out a way to make your boss more eager to help you?

To address the first challenge, you need to get as creative as you can, and then just do your best. Publicly building a strategy that attempts to manage through the contradictions with a positive spirit will likely provide an opportunity for your boss to be in a more active listening mode as you confront the inevitable issues.

For the second challenge, enroll your boss to support your efforts, even if they aren't instinctively eager to help. Explain why you're committed to this effort, and offer action items and tasks for your boss to contribute. Get

them excited about investing in you. This enrollment is likely to be facilitated by your manager's belief that you are actively trying to succeed on the agenda as defined. Over time, they are likely to be more open to working with you to find ways to both navigate the conflicting messages and possibly bring awareness to the dysfunctional behavior.

Of course, there is no guarantee that this will work, but since you have released yourself from the psychological aspects of this issue through personal awareness, you will be able to play this game to the best of your ability. In the most severe cases, it may well be a game you simply choose not to play—by leaving the organization altogether.

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CHAPTER 29

When the Strategy Is Unclear, in Flux, or Always Changing

by Lisa Lai

It's one of the few facts in business everyone agrees on: *Without a clear and compelling strategy, your business will fail.* From MBA programs, to business book jackets, to the last keynote you attended, you've heard it repeated again and again.

Despite this, we frequently find ourselves managing in situations of strategic ambiguity—when it isn't clear where you're going or how you'll get there. Why does this happen? Market conditions shift rapidly. Customers

have more choices than ever. Resources are constrained. Executives leave, interims are appointed, and searches drag on. The list continues, and even if your company is nimble enough to set strategy effectively at the top, keeping the entire organization strategically aligned is an entirely different challenge. Your company might have a clear strategic imperative, but your unit or team might not.

In my consulting practice, I work with leaders all over the world on strategy and execution, and they shift uncomfortably in their chairs every time I broach this topic. Strategic uncertainty can feel like slogging through mud. Leaders avoid investments. Decisions are deferred. Resources are frozen. Fear, uncertainty, and doubt drive bad behavior and personal agendas. Even so, companies often succeed or fail based on their managers' ability to move the organization forward precisely at times when the path ahead is hazy.

The best managers find ways to provide steady, realistic direction and to lead with excellence, even when the strategy isn't clear. Push your leaders for clarity, yes. In the meantime, be productive. There are three things you can do today that will put you in a better position to manage strategic ambiguity: Take pragmatic action, cultivate emotional steadiness, and tap into others' expertise.

Take Pragmatic Action

I'm a proponent of practical approaches to dealing with uncertainty. Doing something, anything, in support of your company's success makes you and your team feel better than doing nothing.

Get back to basics. Deliver value. First, focus on what you can control. You owe it to the organization and to your team to deliver value every day. What clientele does your team serve today and what do they expect or need from you? How can you perform better, faster, or smarter to deliver on the promise of excellent service? What matters to the organization's mission or vision? How can your team contribute to that? When uncertainty comes, first and foremost do good work. You'll put the company in the best possible position to navigate new strategic choices.

Place intelligent bets. What's likely? When the strategy is uncertain, the best managers acknowledge what's unknown, but also look ahead to what *is* known and what is *likely* to happen. What do you know about the dynamics impacting your company? What options are being discussed? What does your boss think will happen? What can you do today to prepare yourself, your team, and potentially your clients for change? In almost every case, managers can place intelligent bets and start to work toward a future state—even when the complete landscape remains out of focus.

Operate in sprints: Embrace short-term strategies. Once you've focused your team on delivering value and started to explore what's possible, you're prepared to move forward with a discrete set of priorities. Take a note from organizations that use agile methods and create your own strategic sprint. What can you do personally to contribute to strategic clarity for your part of the business?

What projects can your team execute in 30, 60, or 90 days that will benefit the organization regardless of which direction the strategy takes? Strategy isn't only the work of senior executives—any work you do to further the company's capabilities and position your team for the future is a great investment. Don't stand still, awaiting the "final" answer on strategy. Move your team and the company forward.

Cultivate Emotional Steadiness

Strategic ambiguity pushes you out of your comfort zone. When there's clear, unwavering direction, you can focus on defined targets and deliver results. When strategies shift, or are hinting toward a shift, it's normal to feel unsettled, and you'll see this in your team too. Here are three steps you can take to help yourself and your team navigate the emotions of strategic ambiguity.

Be proactive. Learn more. One of the reasons I suggest pragmatic action is because doing something concrete helps you move beyond your raw emotions. But there's more to emotional steadiness. Questions arise naturally: How will this impact my group? What if everything we're doing today alters? What if this involves job changes, layoffs, or lost resources? Learn as much as you can so you're informed, not just reacting to rumor and innuendo. Use your internal network and ask others in the organization for insight, context, and clarity. When you've done the hard work of sense-making, you'll be able to anticipate the questions your team will ask and prepare the most effective answers you can.

Acknowledge and navigate emotions. Emotional steadiness requires that you be intentional about the way you show up in the workplace. Your role is to be calm, transparent, and steady, all while painting a vision for the future. Acknowledge your emotions and talk to a peer or your boss if you need to work through them. Play out the worst-case scenario in your mind and then move on to the more likely outcome. Chances are the reality isn't as bad as what you might conjure up when your emotions are heightened. Commit to avoiding stress responses, frustration, rumors, or other nonproductive behavior. Your team members are watching and taking their cues from you.

Keep team communication open. Strategic uncertainty can cause managers to communicate with team members less frequently and less openly. "If I don't have clarity to provide, why not wait?" the thinking goes. But in truth, ambiguous situations require you to communicate even more than normal. To demonstrate emotional steadiness, share your own emotions and acknowledge those of your team in productive ways. Let team members know that what they feel is okay. But talk with them about your commitment to being emotionally steady even during times of uncertainty. Ask them to do the same and come to you if they are frustrated or concerned. Maintaining open dialogue will keep your team engaged and aligned until a clear direction emerges.

Tap into Others' Expertise

Leading through periods of uncertainty and change can be isolating for managers. Remind yourself that you are

not alone. You have a network of people who have likely faced similar challenges and you can tap into their experiences. Here are three ways you can tap into the expertise of others for support.

Imagine your most respected leader's approach. What would they do in your situation? How would they handle the ambiguity or state of flux? How would they view the way you're handling yourself? This exercise can be incredibly powerful in helping you stay calm and emotionally steady, exercise your critical thinking, and take pragmatic action even in the most uncertain circumstances. Those we most respect have demonstrated traits we admire. Tap into their strengths to inform your own.

Engage other managers. Managers often believe they need to "be strong" and go it alone to demonstrate managerial confidence and competency. That's not true. My executive clients reach out to peers and former colleagues regularly for advice, counsel, and emotional support. If someone you know reached out to you to ask for your advice, you'd happily provide support and feel valued as a peer. Your network will feel the same. Start the conversation with "I could really use another point of view" and you'll be surprised how quickly others engage.

Embrace the wisdom of thought leaders. Your network becomes global when you expand beyond those you know personally to those you can access in today's digital environment. The greater your understanding of how others think about strategic agility and change leader-

ship, the better you'll be able to navigate ambiguity in your company. The brightest and most inspiring minds are at your fingertips—read books and articles, listen to podcasts and interviews, and watch instructive videos, webinars, and more to expand your thinking and learn new approaches relevant to your specific situation.

The ability to thrive during periods of strategic uncertainty separates the great managers who go on to become exceptional leaders from the rest. Don't allow a lack of clarity at your company to cast a shadow over your confidence or performance. Even in the most challenging and ambiguous of situations, you put yourself in a position to succeed when you commit to taking pragmatic action while demonstrating emotional steadiness and drawing on the expertise of others.

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APPENDIX A

Questions to Inspire Strategic Thinking

To be an effective strategic thinker, you must regularly ask questions—both of yourself and others—to better understand how your work fits into your company's big-picture objectives and the competitive forces in your industry. The following questions are drawn from the chapters of this book and are grouped together according to specific situations or problems you may face. By regularly referring to this list, you'll be able to see challenges from new angles and shape your work to maximize your contribution while better aligning your team with organizational goals.

Understand Your Organization's Strategy

What's our strategy—and my role in executing it?

Reflect on these questions yourself and reach out to others in your organization—including your boss, peers, and employees—to better understand your company's strategic objectives.

- What are the company's major strategic objectives right now?
- What is our company already great at?
- What are the major needs, challenges, and opportunities we're facing over the next six months? Year? In the long term?
- How does my team fit into this picture?
- What are the top priorities for my group? What are the big needs, challenges, and opportunities that we should tackle in the next six months? Year? In the long term?
- What role should I play in carrying out this strategy?
- What are the major needs, challenges, and opportunities I should take on in the next six months? Year? In the long term?
- What are my boss's and colleagues' major objectives right now within the organization? How can I support them?

- What is the strategic intent of the leaders at the level above mine?
- What are the key choices that I make in my jurisdiction?
- With what strategic logic can I align those choices with those above me?
- How can I communicate the logic of my strategy choices to those who report to me?

What are the risks to our strategy—and to me?

Considering strategic objectives, ask yourself where the biggest risks are for your team and your own professional life.

- What are the major sources of uncertainty in my team's future?
- What are the external risks (for example, funding, competition with other units, potential reorganization)?
- What are the internal risks (for example, personnel changes, team dynamics, office politics)?
- What are the major sources of uncertainty in my own future?
- What are the professional risks to my success (for example, professional goals; experience, training, and accreditation; work logistics)?
- What are the personal risks to my success (for example, health, family, finances)?

Develop a Big-Picture Perspective

What is the purpose and role of my organization?

Reflect on these questions regularly, so you're keeping organizational priorities front of mind.

- Why does the organization exist, and what is its purpose?
- If the organization didn't exist, what difference would it make to the world? What would be missing?
- What does the organization offer our customers—and what does it *not*? How and why does this offering deliver value to these customers?
- What does this offering produce for the business and for shareholders?
- How do the people within the organization behave—toward customers, other stakeholders, and each other?

Who are my organization's key stakeholders?

Brainstorm a list of people your company serves. Then answer these questions about each one to narrow down your list into a focused group of stakeholders.

- Does the stakeholder have a fundamental impact on the organization's performance? *(Required response: Yes)*

- Can we clearly identify what we want from the stakeholder? *(Required response: Yes)*
- Is the relationship dynamic—that is, do we want it to grow? *(Required response: Yes)*
- Can the organization exist without or easily replace the stakeholder? *(Required response: No)*
- Has the stakeholder already been identified through another relationship? *(Required response: No)*

Where are opportunities for change in my organization?

Interview or survey your colleagues to better understand their fundamental beliefs and assumptions about your company's current situation. Use their answers to identify areas that could be changed.

- What are some key assumptions inherent in your day-to-day activities—the established "rules" under which the organization generally operates? What core values are "givens"?
- What are some of your own beliefs about the organization? What makes it perform effectively at present? In what areas does the organization devote too much—or too little—time and resources?
- What is the organization's competitive space? Are there ways it might be redefined?

What trends are happening inside my company?

Use these questions about your company's people, processes, products, and strategy to note any early signals of change.

- Have there been any new hires or departures of key employees in the company? Has there been an increase in external hires?
- Have there been important changes in relationships and power dynamics that could impact my and my team's efforts?
- Are my employees engaged? How might that impact the speed and quality of my and my department's initiatives?
- What key process or technology changes are occurring in other departments?
- Are there patterns in the types of requests I am receiving from key stakeholders? What might these requests signal?
- Has my team experienced a change in the service they receive from internal colleagues?
- How might the introduction of a new product, service, or geography by my company impact my line of business? Does a series of new products signal a change in direction?

- Are there signals that a drop in sales of a key product might be due to internal factors?
- Does a series of acquisitions signal a new direction for the organization?
- Are there changes in resource allocation across the company?
- Are there signals that stakeholder priorities have changed?
- Given all these trends, what do these changes signal for my department or my own work?

Align Decisions with Strategic Objectives

How do I make a strategic decision?

When faced with a tough issue or problem, the following questions will help you understand the impact of your choice.

- What preexisting company goals or priorities will be affected by the decision?
- What are realistic alternatives to the choice I'm facing?
- What are the pros and cons of each alternative?
- What important information am I missing?
- What are the potential short- and long-term ramifications of my choice? What impact will my decision have one year in the future?

- What perspectives should I consider from stakeholders? What cross-functional considerations should I take into account?
- What trade-offs seem most appropriate to make in this situation?
- Why and how much does the team support my decision?
- *(One to two months in the future)* How did this decision pan out? Where should I make corrections, and what can I learn from what's happened?

Set Priorities and Manage Trade-Offs

How do I create a plan to execute multiple goals?

When organizational goals don't mesh, define a way to meet them by asking these questions.

- Can I work on all of the strategic goals at the same time? If not, what do I need to tackle first?
- Are there resources or knowledge that can be gained from an early opportunity that could help another objective later?
- How much can I and my team do at once? Do we have the resources to focus on more than one major strategic project at a time?
- What will it take to keep the current business going while we are driving new strategic initiatives?

- Do I have people in place that have the skills and know-how to move into new strategic territory?
- Will I need to hire new people or train existing staff? What's the extent of this investment, and how will it be integrated with the current team?
- If the market or our resources change during planning, should our original assumptions about how to compete still prevail?
- Have our investigations suggested specific learnings that would substantially alter those assumptions?
- Are there serious disagreements between key stakeholders about executing the strategy? What's the root cause of the opposition?
- Are skeptical colleagues raising legitimate concerns that might call for refashioning the way forward?

Align Your Team Around Strategy Goals

What key objectives should my team be focusing on?

Define your most important work with your team and align them toward it.

- Will success in this outcome drive the mission of the larger organization?
- Is it supporting, and supported by, our primary business goals?

- Will achieving it make a statement to the organization about what's most important?
- Will it lead to the execution of our strategy?
- Is it the appropriate stretch?
- Are we excited about it? Do we have an emotional connection to it?

How can I inspire strategic thinking in my team?

Ask your team these questions to drive clarity, alignment, and strategic insight.

- What are we doing today?
- Why are we doing the work we're doing? Why now?
- How does what we're doing today align with the bigger picture?
- What does success look like for our team?
- What else could we do to achieve more, better, faster?
- How are we doing things differently than our competitors?
- What methods should we use to find out more about industry trends and innovations?

How do I communicate a vision to my team?

When the strategy changes, carefully consider how you'll communicate the change by thinking about each of these questions.

- What does my team care most about? What do they know about the current status of our project, goal, or bigger strategy? How do they feel about the team and organization right now, and what are they expecting?
- How is the vision relevant to them? How would they challenge the vision? What would make them resistant?
- What are specific, measurable goals and deadlines? How can I help my team achieve them?
- How will they benefit in the end? What problems am I trying to solve that will make their lives better in some way?

APPENDIX B

Organizational Strategy: A Primer

This guide has focused on the day-to-day aspects of strategic thinking—understanding your company's objectives, setting priorities, and aligning your team—and has mostly taken as a given that your company already has a clear and defined strategy.

However, the further you advance in your career, the more you'll be a participant in *developing* your company's strategy. And even if you're a new or midlevel manager now, understanding how and why your leaders set the organizational strategy will help you execute it with your team.

This appendix explains what strategy *is*, how to formulate it, and what leaders should be thinking about when they set and update company strategy.

Adapted from *Harvard Business Review Manager's Handbook* (product #10004), Harvard Business Review Press, 2017.

What Is Strategy?

Bruce Henderson, founder of Boston Consulting Group, wrote that "strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it." Competitive advantage, he continued, is found in differences: "The differences between you and your competitors are the basis of your advantage." Henderson believes that no two competitors can coexist if they seek to do business in the same way. They must differentiate themselves to survive.

For example, two men's clothing stores on the same block—one featuring formal attire and the other focusing on leisure wear—can potentially prosper. But if the two stores sell the same things under the same terms, one or the other will perish. More likely, the one that differentiates itself through price, product mix, or ambiance will survive. Harvard Business School professor Michael Porter, whose work inspires modern corporate strategy, concurs: "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value." Consider these examples:

- Southwest Airlines didn't become the most profitable air carrier in North America by copying its rivals. It differentiated itself with a strategy of low fares, frequent departures, point-to-point service, and customer-pleasing service.
- Toyota's strategy in developing the hybrid-engine Prius car was to create competitive advantage

within two important customer segments: People who want a vehicle that is environmentally benign and cheap to operate, and those who covet the latest thing in auto engineering. The company also hoped that the learning associated with the Prius would give it leadership in a technology with huge *future potential*.

Strategies may center on low-cost leadership, technical uniqueness, or focus. Porter also argues that you can think about them in terms of strategic position, "performing *different* activities from rivals' or performing similar activities in *different* ways." These positions emerge from three, sometimes overlapping sources:

- **Need-based positioning.** Companies that follow this approach aim to serve all or most of the needs of an identifiable set of customers. These customers may be price sensitive, demand a high level of personal attention and service, or may want products or services that are uniquely tailored to their needs. Target's focus on image-conscious shoppers is an example of this type of positioning.

- **Variety-based positioning.** Here, a company chooses a narrow subset of product/service offerings from within the wider set offered in the industry. It can succeed with this strategy if it delivers faster, better, or at a lower cost than competitors. Walmart's past decision not to stock big-ticket items like appliances and electronics is an example of this type of positioning.

- **Access-based positioning.** Some strategies can be based around access to customers. A discount merchandise chain, for example, may choose to locate its stores exclusively in low-income neighborhoods. This reduces competition from suburban shopping malls and provides easy access for its target market of low-income shoppers, many of whom don't have automobiles. Target's decision to locate stores in urban environments is an example of this type of positioning.

Simply being different, of course, won't keep you in business. Your strategy must also deliver value. And customers define value in different ways: Lower cost, greater convenience, greater reliability, faster delivery, more aesthetic appeal, easier use. The list of customer-pleasing values is extremely long. As you evaluate your own company's strategy for gaining competitive advantage, ask yourself these questions:

- Do we differentiate ourselves based on need, variety, or access?
- How does our positioning attract customers away from rivals? How does it draw new customers into the market?
- What value does our strategy aim to provide? Does it deliver?
- What tangible advantage does this strategy provide for our company?

Understanding your company's approach here will hone your ability to think strategically. And it will also allow you to formulate your own group's strategy from the ground up.

Developing Strategy

If you haven't had much experience developing strategy, know that most managers are in the same position. That's because it isn't an everyday activity. "Executives hone their management capabilities by tackling problems over and over again," notes Harvard Business School professor Clayton Christensen. "Changing strategy, however, is not usually a task that managers face repeatedly. Once companies have found a strategy that works, they want to use it, not change it. Consequently, most management teams do not develop a competence in strategic thinking."

Whether you're revitalizing your team's business model or building a new business unit from scratch, you need to analyze how your company's external circumstances relate to its internal resources. That's the essence of strategy building: finding unique links between the opportunities and threats that present themselves to your business and your particular capacity to respond.

The order in which you perform this analysis is important. It yields the best results when you begin by identifying a problem out in the world, then work toward a solution inside your company. The process rarely succeeds in the opposite direction: A strategic initiative that's not grounded in a real business need is likely to make you *less* competitive rather than more.

Over the past few decades, many frameworks for building strategy have emerged, from the work of Porter and others. The following steps are a generalized outline of these processes, which may prepare you to contribute to your company's strategy, as well as ensure your team's plans are well constructed.

Step 1: Look outside to identify threats and opportunities

There are always threats in your organization's outer environment: new entrants, demographic changes, suppliers who might cut you off, substitute products that could undermine your business, and macroeconomic trends that may reduce the ability of your customers to pay. Opportunity also lurks in a new-to-the-world technology, an unserved market, and so forth.

Deepen your understanding of this landscape by gathering the views of customers, suppliers, and industry experts you may interact with in your role. Have conversations with others in the organization to identify current threats and opportunities. Some firms, particularly in technological fields, enlist teams of scientists and engineers to analyze markets, competitors, and technical developments. It's their job to look for anything that could threaten their current business or point toward new directions that their business should follow. Gain exposure to this work if possible.

Whether you're contributing directly to strategy development in your role or simply trying to understand the environment in which you operate, consider the following questions:

- What is the economic environment in which we must operate? How is it changing?
- What will our customers want/expect from us in 5 to 10 years? How will the world have changed?
- What major threats do we face now or are we likely to face soon? What aspects of the current environment are our competitors struggling to adapt to?
- What opportunities for profitable action lay before us? What are the risks associated with different opportunities and potential courses of action?

Step 2: Look inside at resources, capabilities, and practices

Internal resources and capabilities can either frame and support or constrain your company's strategy, especially for a larger company with many employees and fixed assets. And rightly so. A strategy to exploit an unserved market in the electronics industry might not be feasible if your firm lacks the financial capital and human knowledge to carry it off. Likewise, a strategy that requires entrepreneurialism from your employees probably won't get off the ground if your company's management practices reward years of service over individual performance.

These internal capabilities—especially the human ones—matter greatly, but strategists often overlook them. To whatever degree you participate in organizational or team strategy development, consider questions like:

- What are our competencies as an organization or team? How do these give us an advantage relative to competitors?
- What resources support or limit our actions?
- What attitudes and behaviors do our employment practices encourage?
- What is our workforce good at, and what does it struggle to accomplish?
- What does it take to implement real change here?

Step 3: Consider strategies for change

Once you have a picture of how the changing external world affects your business and what the company or your team looks like right now from the inside, it's time to think about directions for change. Christensen has advocated that strategy teams first prioritize the threats and opportunities they find (he calls them "driving forces" of competition) and then discuss each one in broad strokes. Like all idea-generation sessions, these conversations will be most successful if you push your team to create many alternatives. There is seldom one way to do things, and in some cases, the best parts of two different strategies can be combined to make a stronger, third option.

As you're working with your boss, your peers, or your own team, don't be too attached to your new ideas at this stage. Check your facts and question your assumptions. Some information is bound to be missing, so determine where your knowledge gaps are and how to fill them. As

your options start to take shape, vet the leading strategy choices with others, including longtime employees, subject-matter experts, and other industry players in your network. (You'll have to be careful how much information you share with each person, of course.) Collecting a wide range of reactions will help you counter groupthink.

Step 4: Build a good fit among strategy-supporting activities

Good business strategies, according to Porter, *combine* activities into a chain whose links are mutually supporting and lock out imitators. Take the rise of Southwest Airlines as an example: As Porter describes, the company's breakthrough strategy was based on rapid gate turnaround that allowed Southwest to make frequent departures and get the most out of its expensive aircraft assets. The emphasis on gate turnaround also dovetailed with the low-cost, high-convenience proposition the airline offered its customers. Critical activities across the company's operations supported these goals: the highly motivated and effective gate personnel and ground crews, a no-meals policy, and no interline baggage transfers. All made rapid turnarounds possible. "Southwest's strategy," wrote Porter, "involves a whole system of activities, not a collection of parts. Its competitive advantage comes from the way its activities fit and reinforce each other."

To systematize the strategy in your own organization, focus on these issues:

- What activities and processes are involved in carrying out our strategy? Which are most (and least) important to the success of the strategy?

- How could we modify each activity and process to better support the strategy? How can we organize these changes to compound our advantages?

- What resources and constraints should we plan for? How will we implement the highest-priority and highest-impact changes?

Step 5: Create alignment

Once you've developed a satisfactory strategy, your job is only half done. The other half is implementation. You'll need to create alignment between your people and operations, and your strategy. This is critical for managers at any level. Ideally, employees at every level in your company will understand (1) what the strategy is; (2) what their role is in making it work; and (3) what the benefits of the strategy will be to the organization and to them as individuals. Only when your people have a strong grasp of all three points will they be able—and willing—to carry out their work.

Managers like you play two roles in this process. As a *coordinator*, you must organize work in your department so that those everyday efforts support the business's strategic intentions. That means drafting assignments, streamlining processes, and reshaping roles so that no one's time is wasted and everyone feels connected to the

shared sense of purpose. And as a *communicator*, you must help people understand the strategy and how their jobs contribute to it. Even your entry-level employees should be able to articulate the goals of the organization and explain how their efforts every day fit in.

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