IS YOUR APPROACH TO STRATEGIZING MAKING YOUR ORGANIZATION FUTURE FLUENT?

STRATEGY

By Dr. Michael E Nagel

Is your approach to strategizing making your organization more agile and capable of executing into the future? How can leaders effectively establish strategic direction during constant change? What approach might they use? Does your strategizing approach affect the type of leadership behaviors your executives demonstrate, and if so, how?

Having a clear strategy has a multitude of organizational benefits. For starters, strategy clarifies how an organization intends to create future value, including its outcomes and drivers. A clear strategy is a filter. It serves to rationalize decisions on the allocation of scarce resources. It legitimizes what an organizaiton and its people will and will not do.

Without clear strategic direction, efforts to achieve organizational alignment and commitment don't get off the ground. When strategy is practiced as an integrative cross-functional discipline (as it should be), it is where questions about the kind of change, culture, leadership and talent an organization needs to move into the future get answered. If an organization is challenged in these, or other areas, it is often because strategic clarity is lacking.

Center for Creative Leadership (CCL) has long recognized linkages between enterprise strategy, leadership strategy and the longer-term performance outcomes of an organization. For instance, the DAC (direction, alignment and commitment) leadership construct is framed within a larger external / internal context and is in service of desirable organizational outcomes.[1] Within the DAC construct, the production of direction is consistent with the notion of strategy (i.e., the clarification of mission, aims and the plans an organization has for creating future value).

Moreover, CCL's Crucial Imperatives of an executive team explains that a primary responsibility of an executive leadership team is to produce strategic focus. [2] This means spending time at the strategic level, anticipating future opportunities and needs, balancing innovation and risk, establishing a vision, working out an enterprise strategy and overseeing its execution. Both the DAC and Crucial Imperatives constructs assume organizations need enterprise and leadership strategy that are connected and work together to generate organizational performance.

Yet the designers of strategy face a list of challenges: global instability, turbulent business environments, disruptive new competitors, changing ecosystems, expanding customer choices, rival business models, disruptive technologies, shrinking IP advantages, etc., which make the task of devising a winning, long-term strategy immensely difficult. [3] Such challenges are a primary reason for the startling forecast that about 50% of current Fortune 500 firms are expected to be displaced over the next ten years, as the tenure of large successful companies continues to shrink.[4][5] Clearly the pace of disruption happening outside the firm needs to be matched with a similar creative and learning aptitude on the inside, so firms are able to make way for more relevant models and strategies.

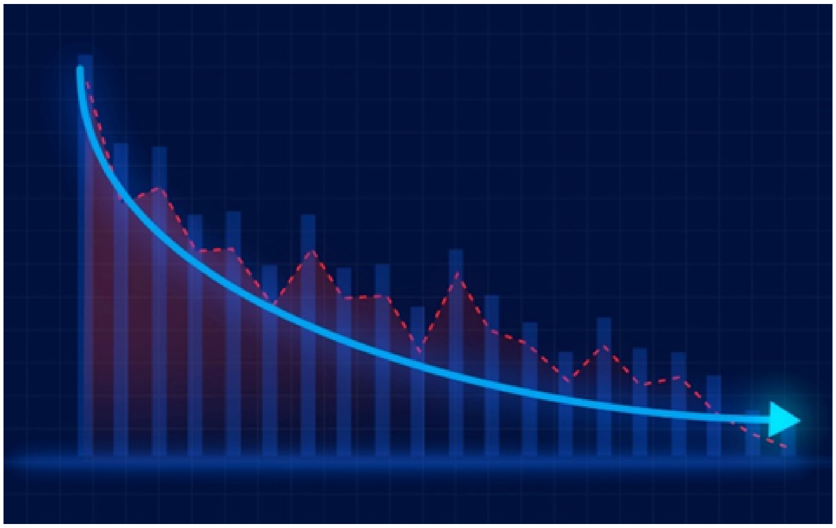
Explanations for why organizations fail to remain relevant center around two seemingly contradictory perspectives; 1) organizational inertia and the complacency it produces and 2) a lack of organizational discipline.[6][7]

Organizational inertia is the tendency of a mature organization to become conservative and bureaucratic as it continues on its current path, with insufficient attention given to redirecting, creating, innovating or transforming in the face of changing market conditions.

Organizational discipline on the surface sounds like an idea that serves to perpetuate existing business models and strategy, not adapt it. However, from a strategizing perspective organizational discipline is the ability to pair opportunism with consistent decision-making excellence. Such discipline prevents what Collins describes as undisciplined overreaching in pursuit of more. Disciplined decision-making excellence keeps leaders focused on those opportunities where distinctive capability can be achieved, that match the organization's values and resourcing realities and don't jeopardize core businesses. Together, these perspectives point to a disciplined style of opportunity creation practiced by strategic leaders that enables their organizations to continually renew.

The challenge of remaining relevant during changing social and market dynamics is felt by leaders in most sectors, public and private. For instance, in the financial services sector, Deloitte explains that economic and regulatory conditions for transformation are more favorable than any time in the last decade. Yet changes such as industry convergence, shifting international trading patterns, digital transformation, etc. are real. A critical capability cited for future success in this volatile environment is adaptability. The ability to evolve firmwide mindsets so they can envision and execute initiatives faster than the speed of change is likely to become the new operating model. [8]

Consider higher education. A McKinsey study estimates that, by 2030, up to 375 million workers globally might need to change occupations or acquire new skills, including up to 54 million U.S. workers. This challenge presents opportunity for colleges and universities to play a lead role in strengthening US global competitiveness. [9] Yet many American institutions are entrenched and face serious enrollment declines as they attempt to extend or go beyond traditional education models. [10]



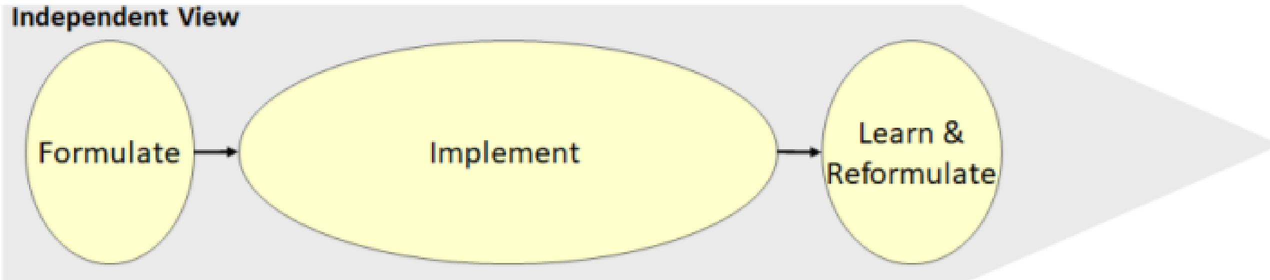
For instance, Chair of Minnesota State Colleges and Universities Board of Trustees, Michael Vekich, wrote "Our responsibility for the long-range sustainability of Minnesota State inspired me to ask a fundamental question:

How does the Minnesota State Board of Trustees enable a large, complex, risk- and change-averse organization to transition itself into a more nimble, responsive, and dynamic enterprise centered on enhancing student success?" 11]

Consider healthcare and its current period of consolidation and business model transformation. Two of its biggest priorities are transforming the sector to advance value-based care models that are capable of delivering superior patient outcomes at significantly lower total cost. How to execute these system-wide delivery and payment model strategies is not entirely clear and is an ongoing process of learning and adjustment for providers and payers. [12] In fact organizations in most sectors (e.g., cities, manufactures, retailers, social services, religious institutions, etc.) are wrestling with the forces of change and how to continually flourish in the midst of accelerating life cycles. Sustained performance in this environment requires a dynamic strategizing approach, one capable of executing an agile strategy. [13] In response, executives are adopting strategizing approaches which enable their organizations to be strategy-focused AND increasingly fluid.

Recognizing that an executive leadership team ought to produce strategic focus in the thick of this swirl is not the same thing as grappling with how this can be done. What is less clear is the approach leaders and their organizations might adopt as a means for establishing their strategic focus.Let's look at two approaches (i.e., the independent and interdependent viewpoints) for how executives might do strategy in their organization.

The independent view is a conventional approach that treats strategy formulation and implementation as separate, distinct, sequenced activities that progress in linear fashion. In this paradigm, formulation is a comparatively shorter, deliberate, early-stage exercise in exploring pathways, clarifying intent and establishing strategic focus.

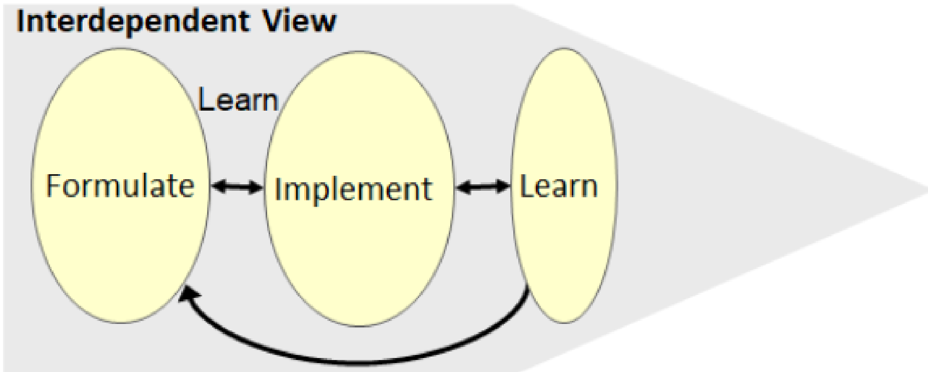


The process that accompanies the independent paradigm to strategy formulation is purposely deliberate, formalized, controlled and generally limited in participation. [14] Strategy is derived through a rational/analytical thought process.Perspectives and decisions on strategy belong to and are made by the participants (usually the top executives and perhaps strategic planning advisors).

This approach results in a fully articulated strategy, which has worked out the set of strategic actions and perhaps key tactics the organization will implement. This strategy rests on point-in-time conclusions about strategic ends and means.

The independent view holds that there is a sharp point of demarcation where the cognitive attention and human energy of participant’s shift from formulating to a comparatively longer period of doing. The strategy is often communicated and cascaded to the organization. In turn, business lines, functions and staff are aligned for the purpose of executing the strategy. Efforts to learn about the efficacy of strategy implementation trails execution and may or may not revisit the assumptions upon with the strategy was originally conceived.

In contrast, **the interdependent view** is an alternative approach which treats strategy formulation and implementation as connected reinforcing activities. As such, formulation is approached as an ongoing activity with implementation. Given realities such as complex, rapidly changing environments, dispersed knowledge bases and cognitive limitations, the task of formulating a fully articulated strategy at one point in time is seen as difficult and potentially risky. In this paradigm strategy formulation provides deliberate direction for implementation but implementation also provides emergent insights that further clarify or reshape strategy.



While aspects of strategy making in this view may be formalized and controlled, there is an acknowledgement that the broadly participative and idiosyncratic nature of strategy implementation can produce informal learning and insights, which if people remain cognitively engaged in strategizing, allow for ongoing clarification of and dynamic adaptation to the stated strategy. As such strategy is communicated and cascaded for the purpose of alignment and execution (but with a less prescribed tone, more adaptable mindset). Strategic intent is made clear AND it is held more loosely. In addition to the informal impromptu learning, which happens between forming and implementing, there are also formal deep-dive learning activities, which supply causal analysis into implementation results and permit leaders to regularly reexamine underlying assumptions.

A criticism of the independent view is that it embeds significant lag into the strategy process. Leaders wait too long for feedback and learning, preventing them from making more rapid adjustments or investments to a strategy that may or may not be a winner. Comparatively, this puts an organization behind relative to competitors who question, learn and adapt in more real-time, accelerated fashion. Moreover, when the independent view is adhered to as a regular course of procedure, it may lead to the curtailment of new thinking for prolonged periods. This is because leaders become inured to the prevailing strategy, rather than external and internal realities. Marketplace descriptions like VUCA (Volatility, Uncertainty, Complexity and Ambiguity) and RUPT (Rapid, Unpredictable, Paradoxical, Tangled) together with the related emphasis on organizational agility help explain why the interdependent paradigm is increasingly relevant.[15]

Let's now ground this discussion with an example. Consider the case of Netflix, the company that displaced the once dominant brick and mortar video giant Blockbuster. [16] Founded in 1997, its original strategy was designed to drive revenue from DVD sales.Selection and implementation of that model provided insights. Leaders remained perceptive and creative. The original strategy morphed into an internet selection / mail delivery model where revenue flowed from monthly rental subscriptions and late fees. Learning and further experimentation followed. Renters were allowed to keep DVD's indefinitely. The strategy morphed yet again as the firm shifted from being solely a DVD distributor to also being a streaming platform.

Poor strategy selection and implementation errors were also present. Remember the misjudged price increase strategy? How about the requirement to hold accounts for both streaming and DVD service? Both of these strategies led to immediate objections from subscribers and investors.Yet its leaders continued to learn and ideate, the strategy evolved and the organization adjusted. [17]

Today its campaign for global expansion exceeds 190 countries and is a significant source of subscriber and revenue growth. It's model has also shifted from exclusively renting licensed content to also creating original content in the form of new shows and movies. Along the way, Netflix has accumulated a massive amount of valuable user data. It's continual efforts at leveraging this rare asset helped Netflix's become a pioneer in learning technology, which it uses to pinpoint and present unique content suggestions based on individualized viewer preferences. [18] Just as important as the strategy shifts themselves, the metrics behind these business model changes (e.g, global subscriber growth, original vs. licensed content viewership, hit ratio, viewer selection of recommended content, etc.) look nothing like the metrics used when the firm began.

However, competitive headwinds have been intensifying for Netflix, making growth from the current model harder. For example, streaming services from well-resourced rivals such as Hulu, Disney and Amazon Prime threaten pricing power and subscriber growth. Moreover, the cost of producing original content and licensing 3rd party content is rising faster than revenue and subscribers. [19]

Across this story, competitive realities, both past and present, call attention to the need for ongoing creative breakthroughs in strategizing. The Netflix story appears to achieve this more by interdependent strategizing (i.e., the result of an iterative continuous process of creative experimentation, learning, adjustment and reformulation) than by an independent approach (i.e., the result of a brilliant master plan well executed).

When executives are considering their strategizing approach an important issue to resolve is participation. Leaders are smart to consider questions like “where does winning strategy comes from?”, “who are the strategists?” and “who ought to contribute?” for their organization. Traditionally, strategy formulation, even in large firms, has been the prerogative of a comparatively small set of top executives (e.g., a founding leader, senior most executive or top executive team) who determine the strategic direction of the organization.

There is growing evidence which suggests that by inviting broader participation in formulation, organizations not only benefit from a wider range of perspective, they also make more informed / appropriate decisions. [20][21] The time and procedural concerns, often cited in the past, of gaining and sifting broader input can largely be overcome through the skilled use of strategizing frameworks, technology and skilled facilitation. Moreover, the effort it takes to invite and consider wider perspective is often returned by gains in understanding, change readiness, commitment, speed and agility during implementation.

So, what does it mean for leaders to take an interdependent approach to strategy?

When considering how an executive leadership team ought to behave, so their organization carries out strategy, the traditional method is to examine the content of strategy to reveal critical leadership behaviors. While this is necessary, it is not sufficient.What is generally not apparent and therefore missed in this method is the nature of the strategy process itself and what it requires of leaders. The implications for how leaders behave given the “interdependent view” are considerable.

What the interdependent view introduces is the need for sustained receptivity. Here the role of executive leadership is to ensure ongoing strategic learning and decision-making discipline is taking place within management and governance routines. This is so existing strategic assumptions are tested, nascent strategy might emerge and deeper clarification and adaptation of strategy can take place. As such, strategy becomes a continual learning process.

Traditional implementation modalities such as confidence, control, commitment and accountability, which are inherent in the independent approach, are not displaced. Afterall, leaders need to demonstrate attention in making sure resources are.

well used and expectations are being met vis-a-vis the strategy. Rather they now live in greater balance with other behaviors such as **openness, habitual scanning, creative problem solving, creative ideation, real-time learning and adaptation** behaviors that modify the default settings of the strategy and organization.

It is this duality that keeps an organization future fluent. Who else in the organization has the latitude and responsibility to model these behaviors, if not the executive leadership team? A key moderator in this balancing act is the pace of industry change / dynamics and the extent to which the organization apprehends a need to strategically transform or intends to maintain continuity.

In summary, the two key reasons organizations don’t remain strategically dynamic and competitive are 1) the absence of an increasingly interdependent approach for strategizing, capable of working against organizational inertia and 2) low proficiency at the corresponding leadership behaviors, as discussed above, which keep the organization on the path of becoming future fluent. The future winners, who will continue to flourish in the midst of constant churn, are more likely to be those who master interdependent strategizing as a lead-the-organization capability.

References

[1] Darth, W., McCauley, C., Palus, C., Van Velsor, E., O'Connor, P., McGuire, J., 2008, Direction, alignment, commitment: Toward a more integrative ontology of leadership, The Leadership Quarterly, Vol. 19, 635–653

[2] Cahill, A., Quinn, L., McEvoy, L., 2017, Are You Getting the Best Out of Your Executive Team?, Center for Creative Leadership

[3] Mitchell, C., Maselli, I., Ray, R., Ark, B., 2019, C-Suite Challenges 2019: The Future-Ready Organization, The Conference Board, Research Report 1676

[4] Mochari, I., 2016, Why Half of the S&P 500 Companies Will Be Replaced in the Next Decade, https://www.inc.com/ilan-mochari/innosight-sp-500-new-companies.html

[5] Perry, M., 2018, Only 53 US companies have been on the Fortune 500 since 1955, thanks to the creative destruction that fuels economic prosperity, https://www.aei.org/carpe-diem/only-53-us-companies-have-been-on-the-fortune-500-since-1955-thanks-to-the-creative-destruction-that-fuels-economic-prosperity/

[6] Miller, D., Friesen, P., 1984, A Longitudinal Study of the Corporate Life Cycle, Management Science, Vol. 30, No. 10, p. 1161-1183

[7] Collins, J., 2009, How the Mighty Fall, HarperCollins Publishing, New York, NY

[8] Deloitte, 2019, Banking and Financial Markets Outlook: Reimagining Transformation

[9] Manyika, J., Lund, S., Chui, M., Bughin, J., Woetzel, J., Batra, P., Ko, R., Sanghvi, S., 2017, Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation, McKinsey Global Institute, November

[10] Crow, M., Dabars, W., 2015, Designing the New American University, John Hopkins University Press

[11] Vekich, M., 2019, Reimagining Public Higher Education Systems, The Association of Governing Boards of Universities and Colleges, Volume 27, Number 3, May/June

[12] Appold, K., 2019, Top 4 Challenges Healthcare Executives Face in 2019, Managed Healthcare Executive

[13] McQuire, J., Palus, C., 2018, Vertical Transformation of Leadership Culture, Integral Review, Vol. 14, No. 1

[14] Mintzberg, H., Ahlstrand, B., Lampel, J., 2009, Strategy Safari: Your Complete Guide Through The Wilds Of Strategic Management, Prentice Hall, Harlow, England

[15] Horth, D., 2019, Navigating Disruption with RUPT: An Alternative to VUCA, Center for Creative Leadership

[16]Randolph, M., 2019, That Will Never Work: The Birth of Netflix and the Amazing Life of an Idea, Hachette Book Group, New York, NY

[17] Taylor, B., 2017, How Coca-Cola, Netflix and Amazon Learn from Failure, Harvard Business Review, November 10

[18] McFadden, C., 2019, How Exactly Does Netflix Recommend Movies To You?, https://interestingengineering.com/how-exactly-does-netflix-recommend-movies-to-you, June 3

[19] Trainer, D., 2019, All the Reasons Why Netflix is Doomed, https://www.forbes.com/sites/greatspeculations/2019/08/20/all-the-reasons-why-netflix-is-doomed/#2946c52d465e, August 20

[20] Gast, A., Zanini, M., 2012, The Social Side of Strategy, McKinsey Quarterly, May

[21] Miller, P., Wedell-Wedellsborg, T., 2013, Innovation as Usual: How to Help Your People Bring Great Ideas to Life, Harvard Business School Publishing, Boston MA

Collective Breakthroughs

Unlock power to achieve what's next

Collective Breakthroughs advances Breakthrough Intelligence (BIQ) - the missing science that explains why some collectives achieve exponential results while others plateau despite exceptional talent.

In an era of disruption and division, leaders need the capability to work across divides and engage the causal forces that generate breakthrough- not just individual heroics.

We develop leaders and organizations in the capability to recognize and engage the hidden dynamics that determine collective outcomes. Through research-backed assessments, learning solutions, and organizational interventions, we help teams, organizations, and movements develop breakthrough capability.

Collectives working with BIQ science unlock the power to achieve results others thought impossible.

Learn more at collectivebreakthroughs.com