How agile is your strategy process?

Some companies are more strategically agile than others. Of course there is no panacea, but recent research demonstrates the value of three key enabling capabilities. By **Yves Doz** and **Mikko Kosonen**

Two major forces call for constant agility. The first, obviously, is speed. The more virtual, information-rich and service-based a business model is the faster change happens. The second, perhaps less obvious force, is change. Change is now much more systemic among interdependent or convergent industries, where the consequences of change in one industry may have ripple effects on many others.

Most companies are ill-prepared to face these twin challenges and to rejuvenate their strategy process. Put simply, as with human beings at risk of a heart attack, many companies suffer from strategic sclerosis without their CEOs and strategy staff knowing it. Companies are often victims of their own success. They die not because what they did was wrong, but because they kept doing it for too long.

Furthermore, the strategy process itself may well have decayed, from a healthy substantive approach to strategic choices into a routine yearly exercise where form wins over substance.

An extensive research programme within leading incumbents in the information and communication technology industry resulted in the identification of three sets of enabling capabilities in strategically agile companies: strategic sensitivity, leadership unity and resource fluidity.

Each of these capabilities is rooted in a series of management practices highlighted in figure 1 and summarised below.

Open strategy process

Strategic agility requires superior information, strong real-time insight and good judgement. Active and purposeful dialogues with key stakeholders allow companies to borrow their insights. The more parties that are involved in such strategic dialogues, the more opportunities there will be for breakthrough ideas and well-informed judgements. Practically, the companies we researched pursued a variety of approaches to open their strategy process, both internally and externally.

For example, over the past 15 years IBM has used a variety of approaches to involve its customers more intimately in its strategy development. It started with regular meetings with CEOs of client companies and then it began working directly with its clients' researchers to help them develop IT-based solutions to complex and specific innovation problems.

Other companies have built significant internal intellectual resources devoted to strategy. SAP's corporate strategy team, for instance, is composed of about 30 senior consultants and investment bankers hired from outside. After a few years supporting the strategy process, they move into line management positions and infuse them with a corporate strategic perspective.

As well as greater and more open intellectual strength, there needs to be a more experiential – and experimental – attitude towards strategy development, as we observed in the role of new venture groups at IBM and Nokia. In a fast-changing environment, characterise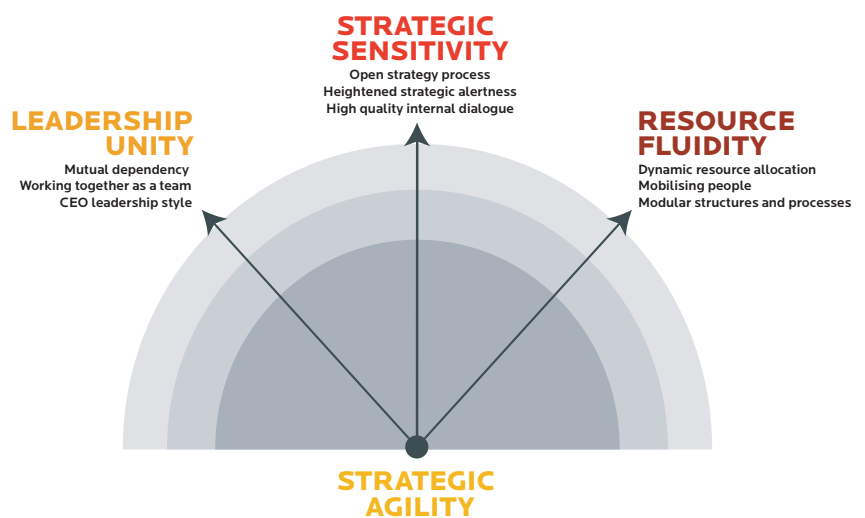d by systemic changes that are hard to anticipate or even comprehend, experiencing rather than just hypothesising becomes a must. Thought experiments need to give way to true experiments.

Heightened strategic alertness

Remaining strategically alert while successful is perhaps one of the most challenging capabilities required for strategic agility. Andy Grove's call to 'be paranoid' when he was CEO of Intel and staying so in the face of success is well known. Some companies, such as SAP or Cisco, have CEOs who keep making public promises about new products and functionalities that they know will stretch their organisation to the limit (and occasionally beyond). Beyond stretch goals, creative tension through contradictory goals helps to keep people attentive, intellectually mindful and intensely preoccupied.

At SAP or IBM, for example, providing more services, and even distributing software products, through the internet has been perceived as reflecting contradictory goals with respect to customer intimacy and efficiency. Maintaining an active dialogue about difficult choices and commitments, involving many in the organisation, can genuinely lead to a 'right vs right' framing because they reflect contradictory goals. This is another way to help exploit external connectedness, learning from experiments and playful modelling.

Figure 1: The vectors of strategic agility

STRATEGIC SENSITIVITY
Open strategy process
Heightened strategic alertness
High quality internal dialogue

LEADERSHIP UNITY
Mutual dependency
Working together as a team
CEO leadership style

RESOURCE FLUIDITY
Dynamic resource allocation
Mobilising people
Modular structures and processes

STRATEGIC AGILITY

"Companies are often victims of their own success. They die not because what they did was wrong, but rather because they kept doing it for too long."

High-quality internal dialogue

People of different sensitivities, areas of expertise, cultural origins, age, gender and types of intelligence need to be brought together in a structured, purposeful dialogue. By dialogue (as opposed to debate), we mean a conversation where participants articulate assumptions and explain the logic of their thoughts, rather than defend conclusions and present arguments. This, of course, is not easy in a corporate context. Corporate leaders are used to, and trained for, oratory tournaments, where the most forceful argument – not always grounded in the most thoughtful considerations – wins.

Expressing difference or dissent in a corporate hierarchy is often difficult, and potentially costly, yet it is essential to strategic sensitivity. When divergent and different views are suppressed without being examined, or self-censored before they are even expressed, valuable perspectives are silenced and sources of insight are lost. By calling for participants in a strategy dialogue to systematically reveal their underlying assumptions, and ensuring others understand them, the dialogue builds on common ground and fosters the development of a common language.

Language also conditions what management sees or doesn't see, how it interprets what it sees, and whether or not what it sees provides a useful relationship to reality. The quality of language is a precondition for the quality of dialogue. A highly contextual language may prevent companies from registering weak signals and interpreting them correctly.

Anticipation based on foresight is difficult in the absence of a concept-rich language; a language that allows systemic modelling of trends and the ways they unfold, and of potential discontinuities and their consequences. However, situated learning based on insight is difficult and potentially hazardous in the absence of contextual sensitivity. (Situated learning is a model that suggests that all learning is contextual, embedded in a social and physical environment.) Both contextual sensitivity and conceptual richness of language are needed for high strategic agility.

Mutual dependency

Enhancing strategic sensitivity is of little use if top management cannot agree on critical strategic redirections and make strong, unified commitments. The most basic mechanisms for enhancing collective commitments are interdependent action agendas and incentives. Most of the companies we studied have recently increased shared corporate incentives relative to business unit-specific rewards. For instance, SAP's top team members now have 100% common incentives, and senior managers of less fully integrated companies have around 50%. This fosters a sense of 'cabinet responsibility'.

Companies also enhance mutual dependency by distributing corporate roles among key line executives. This helps shift the criteria for team participation away from the size of the units a person represents to the quality of that person's contribution. The key principle in designing these roles is to make a clear distinction between a person's unit responsibility and corporate-wide responsibility. Adoption of a true corporate perspective is not possible if the corporate role is subordinate to the 'primary' line role.

Organisational interdependency gives substance to a shared strategic agenda: all top team members become deeply dependent on each other in practically all matters. They become interdependent contributors to an integrated corporate strategy, instead of independent subunit 'barons' pursuing separate business strategies and agendas. The shared agenda may be fully operational, strategic or centred on learning and experience.

Creating a multidimensional organisation into which multiple perspectives are structurally embedded is a way to break the blind alignments of the strategic and the operational. Combining customer-facing and channel-management organisations, product

groups, platforms for areas of technology, core competencies, standards and so on, provides a way to embed multiple perspectives that have to be reconciled and organisational units that have to work harmoniously together to achieve results.

Working together as a team

Integration of responsibilities at the top can quickly prove dysfunctional if the right collaborative processes and practices are not in place. Unfortunately, a constructive, open dialogue is not natural for many well-established top teams. The main way to contain the risk of public agreement and private dissent is to embrace conflicts and address them via substantial dialogue in the top team. Senior executives in integrated companies need to become comfortable with direct, informal dialogue.

Beyond substance, the transparency of top team members' personal motives has a big impact on the quality of dialogue. One of the main reasons for misunderstandings and personal mistrust among top team members is that they do not fully understand each other's deeper motives, personal values and drivers in life. This may even be the case between top team colleagues who have worked side by side for years.

Getting a deep enough understanding and appreciation of these differences takes time, and this is difficult to achieve in the course of normal management team work. Taking extra time as a group to share each other's personal values and drivers strengthens the basis for dialogue. Henning Kagermann, CEO of SAP, for example, makes a point of holding quarterly offsite meetings with the executive board.

CEO leadership style

Like instinctive team behaviour, 'adaptive leadership' skills are rare among typical top team members. Senior executives are used to 'knowing better' and thus when approached for advice they make decisions using their wide experience and expert judgement. This works when operating within a known and stable market, but not when the company faces increasing ambiguity and needs to choose a new course, or perhaps even construct a new business model, in the face of unforeseen discontinuities.

Leaders in this situation should not try to

provide answers, as nobody is likely to know these for sure, but rather set a context for and guide the search for a feasible answer to the challenge at hand. The role of the leader in this situation is to provide a foundation for collective work. In the search process, individual members transcend their initial position, reframe their understanding and gain personal commitment to the collectively developed solution. This applies to all work throughout the organisation, from top to bottom, when in search of strategic agility.

Adaptive leadership starts at the top, and the behaviour of the CEO makes the difference between a real team and a 'non-team' at the top. CEOs set the context, provide meaning and pick the leadership team they want to work with in different roles. It is hard for the rest of the top team to adopt new kinds of interaction patterns and roles if their CEO does not appreciate and practise collaborative behaviour.

Dynamic resource allocation

Without resource fluidity, strategic sensitivity and leadership unity are useless. Intelligence and commitment without rapid resource deployment in fast-developing strategic situations bring no advantage. Yet in many companies both capital and human resources are often locked in support of existing activity systems, leaving little leeway for redeployment.

In established companies where leadership unity has decayed, rapid changes in resource allocation patterns are difficult to achieve. Continuous resource constraints and creeping doubts about the fairness of corporate-level resource allocation lead managers to hoard resources within their units. The more successful, powerful and autonomous the business units are, the more of a problem this becomes.

Of course, portfolio management models addressed this issue long ago, suggesting that strategic business units should be decoupled from operating business units. Ironically, though, conventional planning systems and budgeting practices only deepen resource imprisonment in many companies.

Formal bureaucratic management processes leave little room for adjustment and change. Instead of challenging, they protect the interests of core businesses by seldom questioning the history and existence of the

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legacy. Management systems in hierarchical organisations often compound this problem as they are typically designed to support resource allocation within divisions, not across them.

To overcome these shortcomings companies need to establish more strategic and dynamic resource allocation processes. Nokia, for instance, has replaced annual planning and budgeting with a more adjustable, assumption-based planning process. To increase the flexibility of its capital resources allocation, instead of conventional budgeting the company uses continuous planning with six-month, short-term plans supported by monthly latest estimates. Most people's incentives are tied to the six-month plans, but they can also be tied to longer-term projects.

Together the strategic planning, short-term planning and individual incentive planning make up what is called the 'Integrated Planning Process' at Nokia. The main benefit of this process is improved timeliness of actions, but it also helps the company to allocate capital resources in a more flexible way.

Mobilising people

Like investment resources, people can also be imprisoned in 'silos'. Tough performance targets make it difficult for managers to let their best people go as this might have a negative impact on their performance. Individuals may also be afraid of moving out of their comfort zone.

Many companies, including IBM, Nokia and Cisco, have developed lists of behaviour and value-driven attributes describing the way in which performance is expected to be achieved. In such companies managers' values-based behaviour is regularly measured. To support personal development IBM, for instance, has established special improvement programmes, such as 'help my manager to become a better manager', to address the behavioural elements of performance management.

Modular structures and processes

An organisational design consisting of modular business processes and IT systems enables greater agility in establishing and scaling up (and down) new businesses. This offers higher and faster redeployment

potential, in the same way as products. In practice this means that business process modules originally designed for a specific activity, but with flexibility in mind, can be reused in another business configuration with the same activity.

Modularity enhances innovation and adaptability at both the subsystem and system levels. At HP, for example, corporate-wide councils for balancing resources allow the company to differentiate 'horizontal' corporate-wide and 'vertical' business-specific activities.

The principles of modularity can also be applied at the job design level. In many companies, intranets are being transformed into comprehensive workflow and people management environments. When formalisation of tasks is possible, and roles can be well defined, these new work environments enable individuals to disassociate themselves from roles and tasks. This kind of structured working environment allows companies to dispense with many of the local hierarchies and controls linked to roles and tasks that were previously needed for managing individuals.

Good news ... and bad

So how agile is your strategy process, really? The good news, based on our research, is that achieving strategic agility is not black magic. First, it is attention to strategic sensitivity. Second, it is collective commitment and discipline in the working of a top team and a CEO who has the courage to lead. Third, it is building organisational infrastructure, resource allocation processes, people management, and modular structures and business processes that can be reconfigured fast and provide resource fluidity.

Now for the bad news: strategic agility is not a piecemeal 'to do' list. All three dimensions – strategic sensitivity, leadership unity and resource fluidity – are important. Being good at one, or even two, or working hard to rebuild selectively some capabilities and not others, will not help much. It may even lead you to a dead end. ■