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The Art of Strategic Renewal

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The Cisneros Group, a Spanish-language media company with operations across the United States and Latin America, assembled teams from across the organization to explore new ventures.

[LEADING CHANGE]

The Art of Strategic Renewal

What does it take to transform an organization before a crisis hits?

BY ANDY BINNS, J. BRUCE HARRELD, CHARLES O'REILLY III AND MICHAEL L. TUSHMAN

In recent years, we have seen well-established companies such as Kodak, Blockbuster, Nokia and BlackBerry pushed to the brink by smart competitors and changes in their industries. In each case, there were opportunities to act before a crisis engulfed the organization. At Kodak, for example, CEO George Fisher attempted to move the company into the digital era in the 1990s. However, he was unable to change course quickly enough. Fisher had an opportunity; his successor had a crisis.

What can leaders do before the depth and scope of their companies' crises come into focus? How can they initiate major transformations proactively? As researchers and managers who have been involved in numerous corporate transformations in recent years, we have learned that applying standard formulae to corporate transformations is, at best, ineffective and, at worst, dangerous. What's needed is a new approach that enables executives to transform organizations proactively without resorting to fear.

Is Strategic Renewal Right for You?

Strategic renewal is neither an event nor a detailed program. Rather, it's a set of practices that can guide leaders into a new era of innovation. Because strategic renewal involves making changes ahead of a crisis, the efforts can be extremely difficult to initiate, fund and lead; many companies, including Xerox, Kodak and Firestone, attempted but failed to move ahead of their respective crises. The role of senior management is to build strategy, experimentation and execution into the day-to-day fabric of the organization. Here are four tests for deciding whether your company is ripe for strategic renewal:

1. Your profits are dominated by maturing businesses in which you see limited opportunities for growth. Nothing breeds complacency like success, and the right time to be paranoid is when you are at the top of your game. In 2007, Nokia

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COURTESY OF ADRIANA CISNEROS

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was the number one mobile handset manufacturer, and BlackBerry was the "killer app" for mobile email. Now, Nokia's handset business has been sold off to Microsoft, and BlackBerry is struggling for survival. Executives at both companies were seduced by their success into thinking they had time to react. Although they saw their respective threats as serious, they made the mistake of assuming that the threats were all part of normal competition rather than an existential danger. Both companies didn't grasp, in time, that the smartphone introduced a fundamentally new capability to the market and thus represented a different type of competitor.

2. There is a direct threat to your core source of profits. Regional newspapers in the United States have seen their profits dry up as classified advertising has largely left print media and moved online. We have passed the point where incremental innovation (for example, better printing techniques) will matter; local listings can be posted on Craigslist for free. New digital business models have put the profits of incumbents at risk. Whether the threat is digital technology, emerging markets reshaping economics, foreign competition or breakthroughs in genetic medicine, if it has the potential to redistribute profits, beware.

3. The opportunity (or threat) is outside your core markets. One thing that made the introduction of the iPhone and Android difficult for Nokia to anticipate is that they both came from players that had not previously been involved in the mobile phone industry. Nokia executives had been bracing for incursions from Ericsson, Samsung and Motorola, not Apple and Google. They were focused on the industry as it was, and they didn't anticipate the extent to which the newcomers would break the rules. Dramatic change is often driven from the outside, challenging the very basis of an industry and stimulating an immune response from the incumbent.

4. New ways of making money are a threat to your core capabilities. Nintendo's introduction of the Wii video game console in 2006 was a masterstroke of innovation that enabled it to regain market leadership. It opened up a whole new market for computer gaming by introducing a simpler interface that made it possible for parents (and grandparents) to play alongside their children without having to memorize a list of arcane commands. However, the next wave of innovation may be more problematic, as it will put one of Nintendo's fundamental rules about only producing software for its own consoles to the test. Popular Nintendo games like Super Mario Brothers and Donkey Kong operate exclusively on Nintendo devices. But the overall market is changing. Starting in 2011, consumers began moving from game consoles to smartphones and tablets in droves. So far, Nintendo has refused to make its games for other platforms. If the company maintains this position, it could miss the next wave, a decision that would put the company's entire future at risk.

The Strategic Renewal Playbook

Though strategic renewals are often more difficult to pull off than corporate turnarounds, they can result in positive outcomes if they are initiated early enough. IBM's experience is instructive. In 1999, IBM concluded that while it was once again a stabile business following a near-death experience five years earlier, it had lost its ability to innovate, something dozens of new competitors (including Cisco and Akamai) didn't hesitate to seize upon.

Yet over the past 14 years, IBM has become a new company. It has successfully moved away from hardware and software and refocused itself around consulting, analytics and industry-specific solutions. Based on this experience (one of the authors of this article, Bruce Harreld, reported to IBM CEO Sam Palmisano from 2001 to 2008) and our work with other organizations including Ciba Vision, Analog Devices and Ball Corporation, we have developed a set of principles for strategic renewal that we believe can be applied to other organizations aiming to renew themselves *ahead* of market disruption.

1. Select growth aspirations that connect with people emotionally. Renewal needs to be tied to a growth aspiration that connects to the company's sense of identity — what motivates employees to come to work every day. For example, at Nissan Motor Co., when the company's future was on the line, CEO Carlos Ghosn established the goal to "renew Nissan." This provided a rallying cry that encouraged dispirited employees to get behind the turnaround effort.

Without a crisis, the emotional energy needs to come from somewhere else. A goal that anticipates success and speaks to the core identity of employees can be more compelling than fear of loss. For example, compare how Ciba Vision, a global contact lens manufacturer, framed its program for strategic renewal in the eye-care solutions business around "healthy eyes for life" with how one British manufacturer defined its goals around 5/10/2010: 5% revenue growth and 10% profit growth by 2010. While that mantra had a catchy ring, the only person it inspired was the CEO. Not only did the company miss its numbers, it suffered a major contract loss, whereupon the stock plunged, in part because of the relentless focus on short-term results.

2. Treat strategy as a dialogue as opposed to a ritualistic, document-based planning process. Turning an aspiration into reality requires going beyond highly formatted planning processes and having tough, fact-based conversations.

In this spirit, some companies are looking beyond PowerPoint presentations in an effort to find new ways of engaging managers in their strategy process. A European-based publishing company we worked with, for example, created a set of posters that displayed market data, competitor analysis and benchmarking information as a way to spark a dialogue. During a strategy meeting, the senior team was invited to discuss the data during a "gallery walk." At Nedbank Group, a bank holding company in South Africa, CEO Ingrid Johnson, who had been frustrated by the pace of change as she sought to capture mid-market customers, discovered that one way to gain traction for an ambitious transformation following a major management overhaul was to conduct what she called "pause and reflect" sessions. These sessions provided a safe space for the leaders to explore her expectations for them and start to make connections to their daily priorities.

3. Use experiments to explore future possibilities. Strategic dialogues can help organizations grow new businesses through experimentation. Experimentation practices — adapted in many cases from the venture-capital world — create opportunities for established businesses to explore the future. For example, the Cisneros Group, a Spanish-language media company with operations across the United States and Latin America, decided in 2010 to expand its presence in digital media. However, since it wasn't clear what the best business model would be, management initiated several pilots. The goal was to identify a viable value proposition, then invest in the ventures that showed promise. One of the new businesses was Adsmovil, a service that helps companies target Hispanic audiences on their mobile devices. The service was so effective that it was retained by the Obama campaign in 2012 to target Hispanic voters.

4. Engage a leadership community in the work of renewal. Strategic renewal must be rooted in the senior team's collective commitment to a transformation agenda. However, successful strategic renewals also need to be broadly based so they can engage managers one or two levels down in the organization. Creating leadership communities around the renewal project allows leaders to learn about the future by doing and win over potential resisters. IBM, for example, found that earmarking resources for experimentation, while continuing to hold operating units to tight cost disciplines, led to resentment, even resistance. Instead, the company's "Strategic Leadership Forums" brought together groups of up to 100 executives to work on how to make new ventures successful. Rather than forcing people to help in the new ventures, the forums helped to build a social network of leaders who would decide to advocate for the new projects on their own.

At Cisneros, managers were wary of entering technology businesses, which were very different from the core of broadcasting. So the company assembled teams from across the organization to explore ideas for new ventures. Each team focused on a different idea and was asked to follow a specific evaluation process. "We needed these teams to go beyond managing the day-to-day and reconceive of the future of the firm by actually showing us what we needed to do," says the CEO, Adriana Cisneros.

5. Apply execution disciplines to the effort. Management needs to bring as much focused execution to strategic renewals as it brings to other projects that are vital to business performance. Here we disagree with other experts who have argued that this effort can be assigned to enthusiastic volunteers, who pursue it in addition to their day-to-day responsibilities. Although the idea of volunteer efforts is certainly appealing (if for no other reason than its cost), our research and experience suggest that a company's strategic renewal shouldn't have to compete with the pressures of day-to-day. Rather, it requires a full-fledged commitment and the necessary funding and resources.

The experience of Cisco speaks directly to this concern. Realizing the imperative to create new revenue streams as its router business matured, Cisco launched a new initiative in 2007 that was designed to get multiple levels of executives involved in identifying and investing in new business opportunities. But the approach, which was dubbed "boards and councils," was weak on accountability, and the effort was later dismantled. Strategic renewal can't be viewed as a night job; it is core to the work of leaders, who must be able to keep the tension between short- and long-term priorities in balance.

Strategic renewal takes guile. After all, the corporate immune response is extremely powerful: Leaders find it much easier to resist change than to embrace it. Strategic renewal acknowledges this: It is about "both, and" rather than "either, or." The practices we propose can enable senior leaders to build a bridge to the future without burning the bridges from the past.

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