

HOW TO DISTINGUISH SMART BIG MOVES FROM STUPID ONES

Big moves, in the form of strategic shifts with a major commitment of resources to achieve a new goal, are pivotal points in the history of companies. When top executives make shifts in direction that go well beyond incremental experimentation or continual adaptation in terms of the resources involved, their decisions can make or break a company. The risks of making a catastrophic mis-step cannot be ignored, because longitudinal case studies show that even the most successful companies undertake stupid big moves from which they have difficulty recovering.

The classic big moves are depicted in the graph below, each corresponding to a different position on the corporate performance curve. The sequence of moves shown is arbitrary. Over time, corporate performance curves take on many different shapes that have little in common with the traditional s-curve of the product life-cycle model, since they result from the interplay of many different external and internal growth drivers. Too often big moves are misguided, especially when they are overly influenced by the egos of top corporate leaders and not subjected to rigorous strategic thinking and critiquing. To

avoid a corporate disaster and increase the chances of a smart and ultimately successful big move, six critical questions need honest, unequivocal answers.

1. What are the keys to success in your move?

Focusing on the keys to success is essential, because one of the common errors, especially in larger companies, is too many strategic projects that drain resources away from the activities that are critical for the success of the big move. *Finding a new game* is about creating a new business model to replace an existing business that is dying, or take advantage of a new technological or market opportunity. This requires substantive change on all three axes of the business model: *what* (the value proposition), *who* (the valuable customers) and *how* (the value chain of activities). The strategic key to success is *not opportunism, but entrepreneurship based on experience*. When Nokia decided to reinvent itself as a telecoms and mobile phone company in the early nineties, by divesting its other businesses, it created a new business model for itself by betting exclusively



Paul Strelbel
Sandoz Family Foundation
Professor



Anne-Valérie Ohlsson
IMD Research Associate



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on an already existing, small and fast developing telecoms division.

Going for growth is about rolling out a business model that works, developing the resources needed to adapt the value proposition to new markets and ride the growth wave. This is mainly about expanding the set of valuable customers. The strategic key to success is *not offering unvalued variety, but quickly determining exactly what will create value for the customers* in the new markets and segments. Between 1995 and 2000, Nokia rolled out its mobile phones worldwide by taking its basic second generation GSM phone, keeping as much of the technology as constant as possible and adapting the look and surface features to an increasing range of tastes and needs.

Getting into shape is about reducing costs by increasing the efficiency of the value chain of activities and thereby enhancing the value proposition through the way it is produced and delivered. The strategic key to success is *not a program of improvements, but developing the capabilities needed for greater efficiency and alignment* between the value chain of activities, the value proposition, and the valuable customers. Before Nokia rolled out its mobile phone division, it spent two years during 1993 and 1994 developing its logistics capability.

Relaunching growth is about increasing revenues by redesigning the value proposition and/or adding new lines of business to serve well-defined growing markets. The strategic key to success is *not trying to imitate the competition and beat them at their own game, but doing something that's distinctive*. This is the lesson that Nokia learned when it failed to beat existing competitors in online gaming and mobile media between 2001 and 2004, and then relaunched growth in 2005 and 2006 by adapting its value proposition and leading edge logistics to the rapidly growing emerging markets.

Restoring profitability is about turning around loss-making activities by refocusing the business model on the core money-making parts of the business. Here the strategic key to success is *not trying to escape from the problem by growing the top line, but to engage in bold restructuring*.

2. Will the move exploit / enhance competitive advantage?

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advantage that competitors cannot easily copy. This advantage may be based either on capabilities (skills plus process and related culture) and/or on a special position on either the demand or supply side of the industry. Yet, many shifts are made without a competitive advantage. With the prospect of a big move in view, top managements too frequently underrate their competitors, only to find them ahead once the move is made.

Many of the banks that invested heavily in subprime derivatives had no expertise in the evaluation of those instruments and were far removed from the origination and distribution of the underlying debt. The big banks that emerged best, like Goldman Sachs, Deutsche Bank and Credit Suisse (without special circumstances like regulations in Spain that prevented them from being involved in the first place), had people at the top with derivatives capability who understood the link between the downturn in the U.S. housing market and the value of the derivatives on their balance sheet.

3. How big is the value creating opportunity?

A large commitment of resources only makes economic sense if the opportunity is large enough. Evaluating the profit opportunity is usually easier for moves involving cost reduction, as when restoring profitability, or getting into shape. But more difficult when trying to boost top-line growth by finding a new game, going for growth, or relaunching growth. In the pursuit of higher revenues, top management can easily see a market of eager customers, which later turns out to be a mirage. And even if the market materializes, not all revenue opportunities are profit opportunities. When Nokia made a big move into computer gaming in the early 2000s, it saw a large market for its software platform in mobile interconnected gaming that never really materialized. Before making the big move, smaller bets may be needed to test the market potential.

4. Will the result be a better balanced business model?

Big moves often disrupt the balance between the resources devoted to the "what" (value proposition offered to customers), "who" (customers served) and "how" (chain of activities used to deliver the value proposition). To get focus and the best return on scarce resources, it is difficult to put equal

weight on the what, who and how. Yet, success requires that the what, who and how are mutually reinforcing. If not, another move will be needed to restore the balance.

When ABB tried to find a new game in the mid-1990s and reinvent itself as an industrial software solutions company by shedding its capital intensive power generation and railroad equipment divisions and acquiring software firms, it had neither the front-end customer consulting capability to sell solutions, nor the integrated operations needed to deliver solutions. ABB was soon forced to make another big move reorganizing into front-end customer-centric divisions, as well as a parallel big move to integrate operations with "global processes." These two simultaneous big moves created a corporate disaster of confusion and gridlock that led the company to the brink of bankruptcy at the end of 2002.

5. Will the move complement existing capabilities?

Making a big move happen requires a major commitment of human and financial resources. The supporting capabilities cannot simply be acquired overnight. They have to be developed incrementally. Even an acquisition takes time to integrate into the existing corporate organization. The less experience the organization has with the new capabilities that are needed, the greater are the chances of failure. The closer the new capabilities are to what the organization already knows how to do, the greater the chances of successful implementation. Prior to many big moves, smaller moves may be needed to develop the experience required to close the capability gap.

ABB was an engineering products manufacturing company. The capabilities needed for industrial software solutions were hardly complementary. The attempt to acquire these capabilities through a series of acquisitions failed, because the acquisition integration process was ineffective, nowhere near to providing a bridge between the existing and required new organizational culture.

6. Do you have the right implementation process and leadership?

A smart implementation process and leadership capitalizes on and adapts to the forces of change and resistance. It doesn't try to battle needlessly

against these forces. For example, big moves with a small window of time for execution demand faster implementation than those that leave more time for deliberate execution. Big moves that face strong resistance require a top-down process to break through the obstacles, whereas when people are able and willing to make the move, a bottom-up process creates commitment.

The big moves attempted at ABB faced so many obstacles and resistance that, even if they had been appropriately focused in terms of capability development and acquisition integration, they could not have succeeded without very strong leadership. But ABB's leadership was undermined by the tensions between Percy Barnevik, the previous CEO who was chairman of the board and the new CEOs who followed, Göran Lindahl and Jörgen Centerman, neither of whom was strong enough deal with the situations they faced. Their attempt to drive massive organizational change with an incremental series of task forces failed dismally.

Answering the Questions: Beware of Ego-Traps

Making big moves requires leadership, ambition and self-confidence, but these often accompany hubris (presumptuous pride fed by prior success) that make leaders overestimate their abilities and underestimate the challenges involved. The line between confidence and arrogance is easily crossed. Each of the five big moves is associated with a related form of hubris that often traps successful ambitious leaders into avoiding reality: Those trying to find a new game often think they can run any business – all they need to find is a great opportunity. They fall into the trap of *opportunistic hubris* – *we can seize any opportunity, run any business*. The banking boards and top teams who knew little about subprime and credit derivatives fell into this trap without even realizing the extent to which they were altering their business model. Those going for growth often overestimate their understanding of the market and believe they know what the market wants. They fall into the trap of *inside-out projection* – *we know what customers need*. This often happens to initially successful hi-tech companies that are so in love with their technological prowess that they keep launching new products the market doesn't want, like Apple did in the early days with the Lisa and the Newton. Those trying to redesign the value proposition to relaunch growth, often believe they can emulate

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and beat successful competitors at their own game. They fall into the trap of *me-too imitation—we can beat the competition no matter what they do*. The banks that came late to the subprime party and thought they knew what they were taking on believed they could match and beat the competition. This was especially reflected in the attitude of the CEOs of CitiGroup, UBS and Merrill Lynch.

Those trying to get back into shape often believe they are doing better than they are, in a state of denial that anything is fundamentally wrong. They fall into the trap of *narcissistic denial – we're the best, there's nothing seriously wrong with the business*. When Apple ran into difficulty after the failed diversification into consumer electronics in the early nineties, they had difficulty admitting there was anything fundamentally wrong and tried to reduce costs with an improvement program.

Those trying to restore profitability often believe they can avoid the pain of restructuring by growing their way out of the problem. They fall into the trap of raising the stakes – *we never admit defeat, we always move forward*. At Apple, when the improvement program failed to deliver, instead of bold restructuring, they tried to stay in consumer electronics and make a big move into business computing, which resulted in large losses in the mid-nineties.

Calling for greater self-discipline, exhorting executives to be open to facts that don't fit their preconceptions, or open up time in their agendas to see, hear and understand what's going on, are good suggestions, but likely to be futile. The adrenalin and energy needed to drive big moves make it almost impossible to calmly weigh the risks involved. More pointed checks and balances are required.

The school of hard knocks

The most effective source of self-discipline is the painful memory of a previous failure. In Silicon

Valley, venture capitalists like to say that the safest managerial bet is an entrepreneur with two previous failures. When he came back to Apple, Steve Jobs had been chastened by his experience outside and was much more realistic, not trying to create new markets, but addressing those that already existed. By contrast in the banking industry, careers are so short that each new generation of managers seems to have to learn that you can't lend money to people who can't pay it back. One of the reasons Credit Suisse did much better than UBS in avoiding the subprime disaster was that those at the top had more recent memories of previous investment and lending excesses.

Powerful sparring partners with red flags

The most effective antidote to the ego-traps is sparring partners with sufficient personal and institutional power to block big moves that don't add up in terms of their strategic logic. The banks that did best in avoiding the sub-prime crisis on average had boards of directors with more expertise in financial services. Powerful sparring partners on the board or executive level that can raise the red flag are essential. In the words of a global company's CEO, "If I have one yes-man on my team, I have one too many. I will fire him." When it comes to avoiding corporate disasters and increasing the chances of a smart big move, the credit meltdown has highlighted once again the need for real feedback at the top.

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Detailed examples and analysis of the five types of big move and the strategic antidotes to the ego-traps can be found in the authors' new book "Smart Big Moves: The story behind strategic breakthroughs", published in June 2008 by FT Prentice Hall.

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Chemin de Bellerive 23
P.O. Box 915, CH-1001 Lausanne
Switzerland

central tel: +41 21 618 01 11
central fax: +41 21 618 07 07
info@imd.ch www.imd.ch