TOMORROW'S CHALLENGES

STRIVING FOR STRATEGIC NIMBLENESS

COMPANIES MUST WORK TO IMPROVE THEIR VIGILANCE, VERSATILITY AND VELOCITY – THE 3VS TO SUCCESS

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The misfortunes of giants such as Kodak and Nokia have shown that deep pockets and cutting-edge research count for little unless allied to strategic nimbleness. With companies now exposed to unknown and remote competitors, game-changing technologies and sudden shifts in market conditions, being able to reinvent the core business has become critical to maintaining competitive advantage.

People often point to the fashion chain Zara or the retail supplier Li & Fung as models of strategic nimbleness. But these are misleading examples. Both companies are outstanding at reacting to market trends and reconfiguring their supply chains. But neither of them changed their business models or moved into new sectors. They are really examples of operational nimbleness, not strategic nimbleness.

A better example of strategic nimbleness is IBM, which went from selling mainframe and personal computers to providing IT-related solutions, designed to help companies meet their business objectives.[i] Today, more than half of IBM's workforce is in the services business as opposed to selling hardware or software. IBM is far more nimble than it once was, yet that transformation required a deep crisis and took over a decade to complete.

So what is strategic nimbleness? It is being able to quickly adapt to changing environments and maintain competitiveness. The challenge is to achieve strategic nimbleness faster and more proactively, without the kind of trauma endured by IBM.

The core problem for many large corporations is that the very strengths, balance and focus that drive their success can also blunt their reflexes when the environment changes. Companies grow too attached to past investments, social structures and routines and thereby lose touch with market realities, investments into the future and the need to balance flexibility with standardization.

Reducing Rigidities

Companies striving for greater strategic nimbleness must focus their transformation efforts on three dimensions: vigilance, versatility and velocity – the 3Vs of nimbleness.

Vigilance: Facing reality

The first barriers to strategic nimbleness are the "organizational blind spots" that develop over time and cause information to go unnoticed or get discounted as transient and insignificant – as when Nokia executives dismissed the first iPhone as a toy. Did it not see the strategic threat?

Common traps include misjudging industry boundaries; failing to identify emerging competition; falling out of touch with customers; over-emphasizing competitors' visible competences; and allowing corporate taboos or lack of foresight to limit the frame of reference. Any one of these mistakes will prevent senior executives from integrating the right information into their thinking or spotting unforeseen opportunities.[ii]

A lack of nimbleness often stems from a failure to devote resources to collecting information but more often it occurs from decision-making biases. It is hard to become conscious of our own blind spots. Yet there is no shortage of information, for those with the courage to look. There are entire websites and forums devoted to the complaints of disillusioned users or employees. These can be useful sources of insight into our own rigidities and vulnerabilities. Low openness to uncomfortable information, unwillingness to face conflicts or inability to listen to employees with different points of view on where the industry is heading, all indicate poor built-in vigilance.

Versatility: Creating options

Companies sometimes come up with new insights or ideas, but hesitate because of the level of resources required and the risk of failure. “Quick prototyping of business ideas” or “strategic initiative piloting” are ways past this problem.[iii] They enable the transition from thinking to productive action. Prototyping of business ideas generates knowledge and feedback that allow companies to focus on unresolved questions and to refine the approach. Piloting a strategic initiative in one part of the organization allows for exploration before reaping the benefits across the entire company.

Large companies can leverage their reach to experiment in the most relevant markets. For example, the retail giant Tesco recently opened its first “virtual store” at Gatwick airport. But the idea was first developed in its Korean market where it provided a way of driving up sales without investing in new stores. Instead, Tesco created virtual stores in subways and at bus shelters, allowing commuters to shop using their smart phones to scan products and place orders. Korea proved an ideal test market in that consumers were tech-savvy and worked very long hours – making them particularly appreciative of the time saving. Several factors contribute to the fast roll-out of a successful pilot project, but the overriding one is the choice of a credible, feasible and replicable pilot location.[iv]

To prepare for strategic shifts, companies also need people on the top team with different perspectives, experiences and talents. That way, as competitive realities evolve, companies can line up the management team or leader best equipped to tackle the next strategic challenge.

Velocity: Re-organizing for speed

Grabbing key opportunities often boils down to speed of decision-making inside the firm – and that may require changes to structures or processes that have grown too rigid. In the words of Nestlé chairman Peter Brabeck-Letmathe: “The Nestlé super tanker couldn’t become faster *and* bigger. So the only way was to break it up into a very nimble fleet of independent boats, with a common supply chain afterwards.”[v] As a result of this statement, Nestlé created smaller business units with greater responsibility and ability to execute.

This comment highlights another critical determinant of speed, which is the need to balance local adaptation and global standardization.

Companies must work at being both standardized in functions where economies of scale can be achieved and flexible when local advantages can be harvested. Finding the right balance and organizing for this speed is emerging as a competitive advantage. Looking at different activities, back-office functions like finance, procurement, and IT can often be heavily standardized. On the market-facing side – including sales, marketing, business development or government relations – the emphasis would be toward more responsive local practices.

These are not one-off choices, but require an on-going balancing act. Local initiatives or best practices can become part of the fixed standardized template – while systems that we incorrectly thought benefited everyone could become part of the flexible arena.

Nimbleness rules

The fundamental challenge in achieving strategic nimbleness is the trade-off between making commitments (usually large financial investments) and flexibility. Being nimble means being alert and responsive to external change pressures; while being strategic implies making big choices that are difficult to reverse quickly.

The real measure of strategic nimbleness is the ability of a company to keep transforming itself. A striking example is Apple, which has transformed itself from a personal computer company to a consumer electronics and mobile pioneer. The company has succeeded in transforming its core business without losing momentum.

The concept of lasting competitive advantage belongs to the past. The only route to sustained success is to keep seizing the temporary advantage.

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This article is drawn from 'Quest: Leading Global Transformations,' a new IMD book that aims to help business leaders and their organizations navigate major transformations more effectively. You can learn more about these transformation journeys at IMD's Orchestrating Winning Performance program in Lausanne, which runs from June 15-20.

References

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