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by Peter Jacobs

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Five Steps to Thriving in Times of Uncertainty

by Peter Jacobs

IN TIMES OF RAPID CHANGE and heightened uncertainty, seemingly solid business strategies can derail with astounding speed. An unforeseen competitor enters the market with a cheaper product; consumer tastes shift rapidly to a new technology; world events conspire to throttle your access to key resources. The possibilities for strategic disruption seem endless.

For a company to thrive today, its managers must find ways to increase their units' and the organization's ability to read and react to industry and market changes. Their goal: to boost the company's strategic flexibility by learning how to see potential disruptions earlier and respond faster.

For most companies, this does not come easily, note Katsuhiko Shimizu of the University of Texas, San Antonio, and Michael Hitt of Texas A&M University.

In a 2004 *Academy of Management Executive* article, Shimizu and Hitt bring into clear focus the barriers companies face in building strategic flexibility and identify several steps managers can take to overcome them. Their ideas, combined with the insights of other experts and top executives, provide a valuable framework for increasing your company's strategic flexibility.

The critical ability to confront change and uncertainty

Shimizu and Hitt define strategic flexibility as an organization's capacity to:

- Identify major changes in its external environments.
- Quickly commit resources to new courses of action in response to such changes.
- Recognize and act promptly when it's time to halt or reverse existing resource commitments.

The dynamic competitive landscape of recent years has made speed a critical component of each of these capabilities.

Consider Polaroid. The former king of instant photography took years to acknowledge and respond to the advances of digital imaging. By the time the company finally did, it was too little, too late.

Whether Polaroid was blind to industry changes, opted to ignore them, or lacked the resources to respond effectively is unclear. However, the company exemplifies what

Hitt suggests is a kind of strategic rigidity. Whatever its corporate strategy may have been, Polaroid seemed steadfastly committed to that strategy even while technological advances rendered it irrelevant.

It's easy enough to scoff at Polaroid's apparent incompetence, but how prepared is your company to deal with the unforeseen?

Five steps to maintain strategic flexibility

Because managers at every level are subject to psychological and organizational biases, maintaining strategic flexibility is seldom a simple task. The following steps, however, will help.

1. Measure and monitor outcomes.

At Dow Corning Corporation, the senior management team reviews the strategic performance of each major corporate initiative at least quarterly. "In reality, monitoring is even more fluid because we meet frequently to review and evaluate project performance against designated targets," says Scott Fuson, Dow Corning's chief marketing officer. "Dow Corning is involved in dozens of diverse markets where everything changes constantly, so close monitoring is essential to keep projects on track and within budget."

It is also important, Shimizu and Hitt note, for organizations to think hard about what they measure. For example, if your goal is to capture market share from a rival, you can't just measure total sales because the market might well have grown and, with it, your rival's sales as well. Similarly, if you are shifting focus to new growth initiatives, you can't rely on metrics meant to monitor the success of fully mature businesses.

To further boost organizational adaptability, Fuson advises companies to keep projects affordable and flexible, committing resources to new initiatives one stage at a time—especially at the beginning. "If monitoring suddenly indicates a major change in direction is likely to significantly improve project outcome but the budget is already stretched to its limit, the whole initiative could be at risk," he explains.

2. Have someone play devil's advocate.

Leaders need to be aware of their own cognitive biases, lest they get stuck in a too-rigid way of looking at the world. Designating a trusted associate—or, better yet,

more than one—to assume the role of devil’s advocate within your team is an excellent way, Shimizu and Hitt note, to uncover our biases.

What about nonteam decisions? Hitt finds that, for lack of time, managers often make key strategic decisions themselves. But even then, he says, sharing your thinking with colleagues and seeking their feedback can help you keep a truly open mind.

The main obstacle to devil’s advocacy is our natural reluctance to being viewed as a naysayer. The authors point to General Motors as a telling example. When Roger Smith manned GM’s helm, anyone who voiced a problem was quickly dubbed as negative and not a team player. Debra Meyerson, an associate professor at Stanford University’s School of Education and (by courtesy) its Graduate School of Business, and author of *Tempered Radicals: How Everyday Leaders Inspire Change at Work* (Harvard Business School Press, 2003), says companies need to encourage people to voice their views even if they disagree with the

dominant perspective. “Organizations can’t learn if everyone thinks and speaks in the same tongue,” she says.

3. Pursue external perspectives.

Listening with an open mind to the thoughts and ideas of those with differing viewpoints, whether from outside a particular business unit or outside the company altogether, is another effective way of countering management biases. Typically unnoticed, biases such as a tendency to overlook negative feedback or to act too swiftly grow entrenched over time, especially if management turnover is low. Shimizu and Hitt say obtaining fresh external insight is therefore important at every organizational level. Consider the following steps companies can take to help make it happen:

- **Routinely appoint outside board members.** New external directors are obliged to learn about the company and, in the process, tend to question policies

MAKING YOUR ORGANIZATION CHANGE-READY

To achieve strategic flexibility, organizations must embrace change as an inevitable and essential part of an organization’s growth.

But few corporate leaders do. Indeed, even in unpredictable business climates, managers tend to focus almost all their energy on successfully executing the current strategy. What they also should be doing is preparing for an unknown future.

The essential first step in this effort is to ensure the company is change-ready at all times—that is, to ensure that the people within the organization are prepared for and capable of shifting what they do, how they do it, and with whom they do it.

If such a mindset is not already in place in your company or unit, there are certain steps you can take.

Challenge complacency

It’s difficult to motivate people to change when they are satisfied with their current situation. Explain why change will inevitably be necessary and provide the relevant information to make employees understand.

Give your employees a voice

Employees who can freely express their ideas—and who think you will listen to them—will feel more empowered to act. Encourage open discussions about the change program, and work to understand resistance by exploring people’s concerns. When people believe their voice matters, they are more apt to mobilize for change.

Encourage participative work

Develop more participative approaches to how everyday business is handled, specifically:

- Bring decision making down to the lowest levels possible.
- Keep the lines of communication open.
- Share information freely.
- Familiarize yourself with the issues faced by frontline employees.
- Focus on building collaboration through cross-functional teams.

Drive fear out of your group

Fear encourages people to avoid risks, become internally focused, and stop communicating. It also costs organizations real money in terms of reduced productivity and diminished quality of work. Aim to reduce fear, but do not deny the challenges that come with change. Employees at all levels in the organization must feel free to identify problems and suggest solutions. They must also feel free to experiment and try new things without fear of retribution if they fail.

—Siobhan Ford

Adapted from Harvard Business Essentials: Manager’s Toolkit—The 13 Skills Managers Need to Succeed (Harvard Business School Press, 2004) and Harvard ManageMentor.

and practices long taken for granted.

- **Limit top executives' tenure.** “Arrival of a new outside CEO,” the authors say, “provides an opportunity for an organization to revisit old assumptions and correct mistakes in past strategic decisions.” For example, despite their outstanding performance, the last two CEOs of Toyota stepped down after four and six years, respectively.
- **Rotate managers routinely.** Many organizations rotate certain managers and executives as part of their training programs, but other companies leave the same people in the same positions for years. Stale thinking and inertia inevitably result. Conversely, cross-training not only broadens an organization's knowledge and skills but it also energizes and motivates participants.
- **Exploit partner alliances.** Alliances with other firms have become popular strategic moves, usually as a way to mutually capitalize on complementary resources. However, such alliances can also be excellent sources of fresh ideas, insight, and learning.
- **Create ad hoc advisory groups.** A CEO or business unit leader will often assemble an informal group to help analyze and assess the potential outcomes of important strategic decisions—for example, whether and what the firm should outsource and to which vendor. Leaders must be clear on their expectations for what the group will provide and in what form. Advisory-group participants are most often managers chosen to reflect a broad cross section of expertise.

Shimizu and Hitt concede that their suggestions involve some disadvantages and risk. New executives and managers, for instance, might reshape currently effective strategies simply to add their own distinct mark. The learning curve for anyone in a new job also must be a consideration.

“Be careful about external viewpoints,” cautions Steve Odland, chairman and CEO of Office Depot (Delray Beach, Fla.). “Those who don't fully understand your organization can lead you off track and destroy your brand proposition. Strategic inconsistency can confuse customers and, ultimately, destroy shareholder value. Maintaining balance is therefore critical.”

4. View decisions as a portfolio of options.

Organizations usually have multiple projects and initiatives under way simultaneously, and it's critical that leaders

not let one or two dominate their attention. As markets shift, seemingly less significant initiatives may quickly become the most valuable.

One way to maintain a balanced perspective, Shimizu and Hitt note, is to periodically review the organization's projects and initiatives as a portfolio of options. Doing so makes it easier to reallocate resources from one project to another offering even greater promise given the state of the market.

Smaller organizations tend to have fewer initiatives under way simultaneously but can easily expand their decision portfolios by including small variations and experiments.

5. Analyze outcomes and apply learning.

Flexibility stems from the ability to learn. But do companies learn all they can from the strategic initiatives they undertake? Probably not. Managers tend to overlook the negative and emphasize the positive. However, only by carefully examining what has led to negative outcomes as well as positive ones can managers maximize their learning experience.

If a corporate acquisition performs poorly, for example, but management learns a lot from the experience, the company can divest the asset and apply its newfound knowledge to make future acquisitions more successful. Or, if the company's executive team senses the problem stems from ineffective integration, it can postpone divestiture until it better understands the problem.

Determining the specific value of such learning may not be possible, but companies ought to consider it as part of every project's return on investment. Often, it will change their perspective significantly.

A good example, Shimizu and Hitt note, is Cisco Systems. The company has grown considerably through a series of successful acquisitions. The authors found Cisco makes a concerted effort to learn as much as possible from each acquisition, and takes great care to avoid the departure of key personnel who possess significant knowledge about the acquired company, its industries, and its markets. These employees can become powerful teachers, helping organizations to see their business and their markets in a new light. The ability to adopt such new perspectives is, of course, a critical element in building strategic flexibility. ♦

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