Open Up Your Strategy

Making strategy behind closed doors is a prescription for failure when disruptions are coming from all directions

Christian Stadler, Julia Hautz, Kurt Matzler, and Stephan Friedrich von den Eichen

Formulating and executing sound organizational strategy is difficult work. Strategy is often made by elite teams, and thus can be limited by their biases about competitors, customer needs, and market forces. And it can be an uphill battle convincing stakeholders across the company to channel money, time, and energy into a new and unproven direction.

Our solution to both the strategy formulation and execution challenges is radical: Open up your strategy process. Open strategy offers leadership teams access to diverse sources of external knowledge they wouldn't otherwise have, while also making individual leaders aware of their biases, and building the buy-in needed to speed up execution.

This approach is particularly valuable when companies face disruptive threats and contemplate transformational change. It's much easier to master disruptions when you're forging strategy in concert with others who view the world through a different lens than you. Progress and innovation depend less on lone thinkers with exceptional IQs than they do on diverse groups, working together and capitalizing on their individuality, as social scientist Scott E. Page has shown.[1] In short, diversity of perspective matters — a lot.

Involving people from outside the C-suite — and outside your company — in strategy making not only provides a wellspring of fresh ideas, it also mobilizes and galvanizes everyone involved. Thus, execution becomes an integral part of strategy. The best part: All this can happen without losing control over the strategy-making process.

The limitations of a closed approach to strategy making

According to a 2018 Bain survey, strategic planning is the most popular tool available to managers.[2] Yet too often, the results of that planning are underwhelming. Studies find that somewhere between 50 percent and 90 percent of the strategies devised by leaders don't work.[3] Our own 2018 survey of 201 American and European executives found that 52 percent of their strategic initiatives over the previous three years had underperformed.

These disappointing outcomes are particularly surprising considering the resources companies pour into strategy making. Each year, they spend more than $30 billion on consultants, tapping their knowledge of industries, competencies, and business models, and CEOs spent over 20 percent of their working hours, on average, focusing on strategy.[4]

At the core of this problem is the very process by which strategy is crafted. Companies have little hope of charting a reliable path forward if they limit strategic deliberations to a small group of senior executives. They can't get the best ideas that way, nor can they effectively connect strategy to execution. Yet strategic planning as practiced today is a tightly closed, secretive, and bounded process. Executives presume that keeping strategy to themselves keeps the company safe from employees or external contributors who would inject unschooled or unruly thinking, and from competitors who would steal their ideas. But they are wrong: The hoarding of strategy isn't helping their companies. It's killing them, in several distinct ways.

Isomorphous strategies. Have you ever noticed that a great deal of strategic thinking in an industry sounds the same? You're not imagining it. It's due to a phenomenon that organizational theorists call "isomorphism."[5] In essence, it means that in the process of adapting to our surroundings, we behave in increasingly similar ways. The same is true for companies, particularly as benchmarking and best practices have become a central element of strategy making. Take cable TV providers. Echoing one another, the big players have doubled down on a strategy that has failed to answer the threat posed by Netflix and other streaming services. Year after year, they try to squeeze more value from consumers, boosting subscription fees and ad time. Not surprisingly, subscriptions are in free fall. In 2021, an estimated 27 percent of American households (more than 35.5 million) planned to cancel paid cable TV, nearly twice as many as in 2020, and the trend expected to continue into the future.[6]

Unimaginative strategies. It's tough to get ideas to cross-fertilize in corporate settings. Departments and individuals compete with one another for resources or prestige and even when leaders mandate cooperation and silo-busting, the ideas still don't flow freely. In the 1990s, Sony's leaders unveiled a "Sony United" silo-busting initiative, but couldn't overcome the barriers of internal competition. One result: at the 1999 Comdex trade fair in Las Vegas, two of the company's divisions presented independently developed, nearly identical, yet incompatible digital music players.[7] Unsurprisingly, Sony eventually ceded the player market to Apple.

Biased strategies. The failure of Polaroid and Kodak to successfully navigate the transition to digital photography is well known. One of the underlying culprits was what cognitive psychologists sometimes call "the status quo trap," the tendency to favor what already exists and information that confirms it. Other common biases that can torpedo strategies include the sunk-cost trap (the tendency to irrationally support past choices that are failing), loss aversion (the tendency to give greater weight to potential losses than potential gains), and the overconfidence trap (the tendency to believe in the accuracy of overly optimistic forecasts). All of these biases represent dangerous blind spots for strategists who work alone or in small groups, where the pressure to conform can lead people to ignore negative information and disparage those who bring it up.

More than two decades ago, Gary Hamel observed the need for companies to rethink their traditional, elitist way of creating strategy. "You can either surrender the future to revolutionary challengers," wrote the influential management thinker, "or revolutionize the way your company creates strategy."[8] Opening up the strategy-making process can help your company avoid the pitfalls that lead to isomorphous, unimaginative, and biased strategies.

Who is your nightmare competitor?

Open strategy requires new techniques for managing the complexity of internal and external views, generating and synthesizing diverse insights, and mobilizing employees. One such technique, IMP Consulting's Nightmare Competitor Challenge, is a workshop-based exercise in which participants imagine fictitious new competitors whose business models are capable of disrupting an industry and driving incumbents out of business.

This kind of workshop is designed to help leaders spot potential disruptions before they undermine a company. It also frames disruption as a threat rather than an opportunity, which increases the likelihood that leaders will act upon their findings. Rather than involving only a small, homogenous group of senior officers, the exercise includes non-managers from a variety of organizational functions and hierarchical levels *and* external participants with diverse backgrounds.

Voestalpine AG, a sophisticated steel products company, used the Nightmare Competitor Challenge to open its strategy-making process in 2016. With operations in more than fifty countries and 2016-2017 revenues of more than EUR 11 billion, Voestalpine faced an array of business challenges, including slowing demand, the growing use of steel substitutes, overcapacity, and competition from China. Regulatory pressures mounted as well, with steel producers scrambling to meet the European Union's 2030 climate and energy goals. Collectively, these trends squeezed margins and prompted the company's leaders to re-think its business models. "We wanted to identify disruptive trends that are difficult to point out internally, in a closed room, and easier to address with the help of external advocates," explains Christian Presslmayer, head of strategy in Voestalpine's steel division.[9]

Voestalpine selected a carefully chosen mix of 20 external and 15 internal participants for a four-day, in-person workshop. Initially the company considered high-profile business pundits for the external slots, but then, focused the search on candidates according to competencies, creative thinking skills, openness, and willingness to contribute. The external participants included experts from knowledge domains outside the steel industry, such as digital technologies and business models; steel industry experts; researchers in sustainability and circular business models; potential customers; suppliers; entrepreneurs who had disrupted their markets; and lateral thinkers capable of recognizing transferable patterns and solutions. In selecting internal participants, the company ignored hierarchy, focusing instead on people with functional expertise in strategy, corporate foresight, operations, sales, marketing, or R&D.

Teams composed of internal and external participants were assigned to examine pre-selected future-focused trends that could potentially disrupt the company. These included changing mobility habits, climate change, environmentally-friendly innovative production methods, recycling options, digitalization, and new materials that could act as steel substitutes.

Then, the teams spent one-and-a-half days imagining how these trends might give rise to new competitors and detailing their specific business models. One team picked the digitalization trend and imagined a nightmare competitor, whose business model replaced standard rolled steel with 3-D printed steel. A second team imagined a nightmare competitor whose business model was tailored to supplying the materials needed for emerging urban mobility concepts. A third team imagined a nightmare competitor that developed CO_2-free steel production based on hydrogen electrolysis instead of coal and coke. In each case, the team developed and pitched the business models of these nightmare competitors as if they were start-ups seeking funding from a panel that included Voestalpine's top management.

Although the idea of hydrogen electrolysis-based steel production was not a radically new idea and not an obvious winner during the workshop, participants outlined an integrated fully hydrogen-based business model and a viable path forward for using the technology, with external participants exercising a strong and decisive influence. "The externals were an important counterbalance," noted Presslmayer. "Some internals were not radical enough in their thinking. Mental barriers had been removed and new perspectives emerged that can be really intriguing." In April 2018, the company took a step on the path to CO_2-free steel manufacturing by joining an industry consortium aimed at creating the world's largest pilot facility for producing "green" hydrogen.[10] Three years later, it announced that it had received a patent for a new industrial process for carbon-neutral steel production.

Adopting open strategy

While workshops exploring disruptive opportunities can be a good start, open strategy requires more than technique. It's a fundamentally new mindset premised on transparency, collaboration, and diversity that requires nurturing over the long term. Doing so requires that leaders take the following steps:

Make a commitment as a top leadership team. Executives remain skeptical that outsiders and front-line employees can contribute to strategy deliberations in meaningful ways. But to succeed with open strategy, you must recognize that valuable strategic insights aren't limited to the leadership team and consultants. If you and your team are reluctant to limit your decision-making rights and fully commit yourselves to the outputs from open-strategy deliberations, then at least frame these outputs as helpful contributions that will inform, if not determine, final decisions.

Open strategy initiatives that lack this commitment have much lower chances of success. Some years ago, a mid-sized German specialty machine manufacturer approached us, eager to know whether open strategy might help craft a new service-based value proposition to counter low-cost, global competitors. The CEO seemed willing to revamp the company's strategy-making process. "We must generate fresh ideas about services and how to deliver them," he said, "and they won't come from me alone."

Unfortunately, his senior team did not fully agree. While some executives recognized the potential of opening up strategy to explore new business opportunities, one large faction was unfamiliar and uncomfortable with the idea of a service-based business. The core business remained strong, they argued, and new service offerings were simply a way to bolster it. These executives also opposed the strategy-making process that had given rise to this new idea. Swayed by the majority, the CEO had a change of heart. Opening up to new ideas seemed smart *in theory*, but also meant uncertainty, change, and to some extent, loss of control. Ultimately, the prospect of a fundamental shift in strategy became too daunting and the company declined to transform its strategic deliberations.

Open up gradually. The promise of open strategy notwithstanding, conventional strategy-making processes still serve companies well in certain situations, particularly when core businesses don't face imminent threats of disruption. Instead of immediately opening strategy across your business, consider your business portfolio. Identify which businesses are already acting as disruptors, which face looming threats from disruption, and which don't face serious threats. Introduce open strategy in businesses in the two former categories and leave the current strategy process in place in the latter businesses.

The Oetker Group, a family-owned, diversified German multinational with an annual revenue of about EUR 7.3 billion, offers a good example. In 2021, the company decided to try open strategy in its German cereal business, which has been in steady decline for several years despite consistent investment in new product line extensions. Starting with the kind of workshop described earlier, its leaders opened up strategy making to a mix of front-line employees and outsiders (including entrepreneurs and experts from areas such as food, artificial intelligence, and digital platforms). Mixed teams envisioned competitors that could revolutionize cereal business, based on trend scenarios and drivers, such as convenience, individualized health optimization, data-driven product development, and community building. Among alternative business models that emerged was one that aimed to propel fast-paced (as quickly as weekly) "drops" of strictly limited quantities of new cereals at selective selling points without prior announcement. With this initial success in a smaller business unit under its belt, the company is now introducing open strategy in its frozen pizza division, its largest business.

Set up new structures and develop capabilities. All too often, open strategy yields new initiatives that everyone loves in principle, but which cannot be achieved within the company's existing structures. When this reality goes unrecognized, new initiatives tend to die a slow death from underfunding, turf wars, and/or missing capabilities. As Clayton Christensen argued, radical new business models require separate structures with new KPIs inside a company.[11]

In fact, open strategy can help you to identify existing smaller initiatives within your company that can be combined to gain momentum. In 2006, IBM conducted a strategy jam — think of it as an online conference involving different discussion streams — with 150,000 participants, including clients and business partners from sixty-four different companies. The goal was to create new businesses by combining existing initiatives. Ten new businesses were created which soon were generating $750 million in annual revenue.[12]

Amplify external voices and balance them with internal voices. Industry-changing ideas almost always come from outside the industry. Nevertheless, most leaders still need to work hard to convince their companies to practice analogical reasoning, that is, drawing and adopting insights and ideas from similar things in other domains,. Although industry boundaries are fast disappearing, few executives look beyond their industries for new thinking and new ideas.

Openness to external participants increases the breadth, depth, and applicability of analogical reasoning.[13] Research shows that if individuals have access to one analogy from a different domain, such as Linux's crowdsourcing inspiring Goldcorp to seek help from the public to find new ways of drilling for Gold. , they become 10-30 percent more successful in their attempts to address a problem; access to two analogies from very different fields improves the odds of success to 80 percent.[14] So, in pursuing open strategy, involve externals who are loud enough and plentiful enough, and back them up with a strong facilitator or sponsor.

Complementing external voices with the views of insiders is just as important. It raises the chances that new strategies and business models will be practical given your company's capabilities and culture. It helps to pre-empt internal resistance to outside ideas. And, a balanced combination of internal and external participants ensures that dominant groups cannot silence new, radical, or minority perspectives.

In 2012, Gallus Holding AG, a Swiss manufacturer of high-tech label and packaging printing presses that was being challenged at both the high and low ends of its markets, enlisted three mixed groups of internal and external participants to explore strategic solutions. Among the ideas the teams generated was a new, entry-level digital printer and more radically, a digital platform on which the company could market print services. In June 2018, the company launched the printer — an inexpensive, easy-to-operate printer named Smartfire. It also plans to launch the digital platform (after a 2020 postponement due to COVID-19). "With the open approach, we were able to integrate external expertise in a structured way while simultaneously having our internal employees with us on board," explained CEO Klaus Bachstein. "This made it much easier for us to enter the implementation phase."[15]

Don't treat open strategy as a "fair weather" approach. Embracing open strategy across a large enterprise takes time, and it can be tempting to revert to old strategy-making ways, especially during tough times. When economic downturns or unexpected shocks like the COVID-19 pandemic occur, leaders often put their plans for open strategy on hold. This is a mistake: open strategy can make its most meaningful contributions during disruptions. When you're straining to see around the next corner, trust the power of the crowd.

In 2010, in the aftermath of the Great Recession, German software house Saxonia Systems faced an existential crisis as its customer base shifted to larger, lower-cost providers and its largest customer declared bankruptcy. Within months, Saxonia's revenues shrank by 40 percent.

Arriving at a new, more powerful value proposition wasn't easy, in large part because of Saxonia's siloed structure. People seemed unable to pull together to develop a unified strategy and execute on it. The company solved the problem by first introducing "strategy sprints" that brought senior managers together every four months and then, expanding the typical sprint until it included about 20 percent of the company's workforce. Gradually, a strategy of specializing in the higher-value work of project management emerged. From its near-death experience in 2010 to 2019, Saxonia's revenues nearly tripled from EUR12.9 million to 35.2 million.

Conclusion

Voestalpine, Oetker, Gallus, and Saxonia are by no means alone in adopting an open strategy approach. Telecommunications giants Ericsson and Telefónica have engaged non-executive employees and outsiders to solve a range of strategic puzzles. So have Adidas, Lufthansa, Linde, and SulAmérica. These companies and others have found that a more collaborative approach to strategy helps them identify and move in new, quite profitable directions that would have been impossible otherwise. Our survey of 201 senior leaders found that the majority had opened up fewer than one third of their strategic initiatives. Yet, these initiatives accounted for 50 percent of their companies' revenues and profits.

We've found that companies in which leaders collaborate on strategy with people outside the executive team assess their business options more fully, formulate more realistic strategies, and implement their strategies faster and more effectively. Clearly, open strategy is an approach whose time has come.

End Notes

---

[1] S. Page, "The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies," Princeton, NJ: Princeton University Press, 2008.
[2] D. Rigby and B. Bilodeau, "Management Tools & Trends," Bain & Co., 2018, https://www.bain.com/contentassets/f8361c5cd99e4f40bbbf83c17d6a91b9/bain_brief-management_tools_and_trends.pdf.
[3] C. Cândido and S. Santos, "Strategy implementation: What is the failure rate?" Journal of Management & Organization, 21(2), 237-262, 2015.
[4] E. Mazareanu, "Size of Global Consulting Market from 2011 to 2020, by Segment," Statista, December 10, 2019, https://www.statista.com /statistics/ 624426/global-consulting-market-size-by-sector; M. Porter and N. Nohria, "How CEOs Manage Time," Harvard Business Review 96, no. 4 (07/08 2018): 42-51.
[5] P. DiMaggio and W. Powell, "The Iron Cage Revisited: Collective Rationality and Institutional Isomorphism in Organizational Fields," American Sociological Review 48, no. 2 (1983): 147-60.
[6] "New Survey Shows 27 Percent of U.S. Households Plan to Cut Cable TV Subscriptions in 2021," Business Wire, January 12, 2021, https://www.businesswire.com/news/home/20210112005291/en/New-Survey-Shows-27-Percent-of-U.S.-Households-Plan-to-Cut-Cable-TV-Subscriptions-in-2021.
[7] G. Tett, "The Silo Effect: The Peril of Expertise and the Promise of Breaking Down Barriers," New York: Simon and Schuster, 2015.
[8] G. Hamel, "Strategy as Revolution," Harvard Business Review, July-August, 1996: 69-82. p.70.
[9] Author interview with Christian Presslmayer, Voestalpine, May 7, 2018.
[10] "H2future on Track: Baustart Der Weltgrößten Wasserstoffpilotanlage," Voestalpine press release, April 16, 2018, https://www.voestalpine.com/group/de/media/presseaussendungen/2018-04-16-H2FUTURE-on-track-baustart-der-weltgroessten-wasserstoffpilotanlage/.
[11] C. Christensen, T. Bartman, and D. Van Bever, "The Hard Truth about Business Model Innovation," MIT Sloan Management Review 58, no. 1 (2016): 31– 40.
[12] Author interview with Liam Cleaver, IBM, August 24, 2018.
[13] G. Gavetti and Jan. Rivkin, "How Strategists Really Think," Harvard Business Review 83, no. 4 (2005): 54–63.
[14] S. Johnson, "Where Good Ideas Come From: The Natural History of Innovation," New York: Penguin, 2011.
[15] Author interview with Klaus Bachstein, Gallus, August 11, 2017.