OPEN
STRATEGY

MASTERING DISRUPTION
FROM OUTSIDE THE C-SUITE

CHRISTIAN STADLER

JULIA HAUTZ

KURT MATZLER

STEPHAN FRIEDRICH VON DEN EICHEN

FOREWORD BY GARY HAMEL

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Introduction: Win with Open Strategy

Why do some of the world's most successful companies manage to stay ahead of disruption, adopting and executing on innovative strategies, while their lesser competitors don't? Do these companies have smarter leaders? Do they hire better consultants? Do they apply better intellectual frameworks for analyzing their businesses? Do they have better resources and capabilities? Do they have better processes?

None of the above.

These leading-edge companies are winning because they've quietly adopted a new way of *doing* strategy, one tailor-made to fit today's faster, more volatile business environment. Rather than limiting strategic deliberations to small executive teams, they are involving a wider group of people—front-line employees, experts, suppliers, customers, entrepreneurs, and even competitors. They are "opening up" strategy just as companies have opened up other areas of the business, such as innovation and marketing. And the results have been spectacular.

In 2012, when Ashok Vaswani took over the UK retail business at Barclays, he knew the banking giant had to make some changes—and fast. Newspapers, record labels, and telecoms had all suffered at the hands of digital disruption. With dozens of fintech (financial technology) startups taking aim, soon the big banks would feel the pain. And yet Vaswani's was a sprawling legacy organization with 30,000 employees. Any new strategy he and his team adopted not only had to address looming threats to the business, it also had to galvanize the workforce and foster a sense of ownership. Somehow the bank had to wean itself from conventional ways of operating and get ahead of change.

Historically, leaders at Barclays had devised strategies the traditional way. The executive team and their consultants would gather behind closed doors and craft the strategic plan. They would communicate the plan to employees and set budgets so teams throughout the organization could execute.

Vaswani believed there was a better way. If rank-and-file employees had a hand in crafting strategy from the very beginning, they'd feel more invested in it, they'd understand it better, and they'd do their very best to execute it. Meanwhile, leaders would be able to craft more nuanced plans if they had exposure to front-line concerns, and they'd be able to communicate the strategy better. "Strategy is not a complicated thing," he told us. "It answers three basic questions: Where are you now? Where are you going? How will you get there? Those are the *only* three questions, and answers to them exist at every level of the organization. It seems unwise to say that only leaders at the top should deal with it."[1]

Rather than monopolize the strategy-making process, Vaswani and his team would have to involve everyone. They'd have to open up.[2] And that's exactly what they did. Barclays created a series of "councils" comprising twenty to twenty-five senior product people, as well as colleagues from functional units across the business, including marketing, compliance, legal, and HR. Their job was to define the business's current state, bringing to bear deep factual knowledge of products, trends, and operational capacity. In parallel, the company created working groups of several dozen front-line employees, asking them, "What should Barclays look like in 2020?" The question was open-ended, pointing participants to think not just about the digital universe but about everything that concerned Barclays' future offerings and operations.

Front-line employees were close to the bank's customers—they understood their needs and concerns. They knew Barclays' customers wanted more speed, accessibility, and transparency from the bank. Why did it take so long to get approved for a mortgage? And why couldn't the process be more transparent, so that at any given time you knew how close you were to closing on a loan? To help improve the bank's performance in these areas, front-line workers argued that the bank

should enthusiastically embrace digital platforms, making use as well of the big data that such platforms engender.

Taking these broad ideas, the work councils merged them with their own deep operational knowledge and presented a provisional strategic plan to the executive team. To fine-tune and finalize this plan, Barclays widened the conversation to include much larger numbers of front-line employees—in fact, everyone. Leaders wanted to ensure that the final strategy would be simple enough for everyone to comprehend. "A simple strategy understood by all is far better than a complex strategy understood by a few," Vaswani remarked.[3]

Over a two-month period, the bank held more than seventy town hall–style meetings throughout the UK, renting movie theaters to accommodate the entire workforce.[4] Presenting the plan as it evolved, they led lively conversations during which front-line employees explored what the plan might mean for real-life customers buying specific products and for employees selling and servicing those products. Because executives had already received input from front-line employees, they could speak in a language their people understood, making the emerging strategy seem relevant and credible—not just another initiative foisted by "corporate."

To further engage employees, Barclays held a one-week "strategy jam," using an IBM digital tool to bring all 30,000 employees into the conversation, along with senior leaders. A moderated online discussion around several main themes identified by the work groups, the strategy jam helped senior leaders understand which ideas were truly worth pursuing and which needed more work. Just as important, it increased awareness about the strategy inside the company, getting employees everywhere talking about it in much more detail than they previously had.

At one point, for instance, Domino's Pizza became part of the discussion on what speed and transparency mean for customers. Observing that Domino's had started giving people trackers for pizzas, Barclays employees wondered why Domino's could tell you that they've put the salami on the top of the pizza and whether it's gone in the oven, but Barclays couldn't tell its mortgage customers whether it had appraised the property in question, approved them for a certain loan amount,

finalized the loan, or sent out checks. Conversations like this brought the bank's strategy to life in a way that a typical speech or letter from the CEO never could.

A month after the strategy jam, the bank began executing. The Consumer Lending department pioneered a new app that allowed customers to apply for loans with just a few clicks. Consumer Banking allowed consumers to customize their accounts, incorporating their preferred features. And the entire bank adopted a mobile banking platform, taking it live shortly after the jam. The strategy was a success. The number of users quickly surpassed one million, and today over 9 million customers use the app, making it one of the UK's most popular fintech products.[5] "We took a 320-year-old analogue bank and made it digital," Vaswani said.

As a result of this effort, the bank is more relevant, "younger," and more successful than ever. Some 17 percent of customers at Barclays' UK retail operation are millennials, and over 70 percent are digitally active. Barclays also claims the greatest market share among millennials.[6] In a highly competitive market that is disrupted by fintech, Barclays UK's retail business has boosted return on equity from 15 to 17 percent.[7] As for Vaswani, he's been promoted three times and today serves as a member of the Barclays Executive Committee and CEO of Consumer Banking and Payments, overseeing the execution of plans for the Group's consumer banking, private banking and payments businesses across Asia, UK, Europe, and the United States.

Instead of falling prey to disruption, Barclays proactively embraced it with the blessing and participation of its workforce. Executives didn't have to spend much time communicating and implementing strategy because implementation had already begun while executives were finetuning their plans, via the town halls and strategy jam. Afterward, frontline colleagues naturally adopted behaviors consistent with the strategy, driving speed and transparency, promoting access, and leveraging consumer data to improve service. As one executive reflected, "There probably wasn't a single one of our 30,000 colleagues who would not have known what [our strategy] was and would not have known what we were trying to get done and how we're trying to drive it forward."[8] By opening

up, the bank had moved its strategic deliberation and execution along much more quickly and effectively than it otherwise would have.

At a glance, taking strategy deliberations out of the boardroom and engaging employees might sound like a perfectly reasonable and even unremarkable thing to do. "Transparency" and "openness" have become corporate buzzwords in recent years, applied to numerous areas from research and development to supply chain operations, marketing, and human resources. Meanwhile, traditional strategy-making clearly doesn't work. Companies spend over $30 billion each year on strategy consulting, yet, according to some studies, between half and 90 percent of all strategies fail.[9] Why wouldn't companies make strategic planning more collaborative and open?

And yet the vast majority of senior leaders have declined to do so, for any number of reasons. Many leaders think of strategy as "their" role, as opposed to execution, which managers and employees are supposed to handle—a belief that helps justify leaders' high salaries. Many leaders also harbor serious concerns about privacy. How can they possibly open up strategy to thousands of people without divulging trade secrets or alerting competitors to their plans? Finally, and most important, many leaders don't know how to engage thousands of employees as Barclays did, and fear that the whole process will devolve into chaos.

Barclays didn't lose its competitive edge by engaging staff from all levels of the corporate hierarchy in strategy deliberations. Unlike many of its peers, it saved itself from disruption and put itself on track to thrive going forward. While superficially the bank's move toward digital might seem to have been inevitable, actually executing on the strategy required that leaders make numerous small decisions, gain the support of its legacy network of retail bank branches, and maintain the legacy business while aggressively pursuing digital—none of which was preordained. Only because the bank's strategic planning process was so carefully conceived did the digital strategy unfold smoothly.

Barclays is by no means alone in adopting an open strategy approach. In recent years, the Canadian mining company Goldcorp and the Swedish telecommunications company Ericsson have engaged not merely

nonexecutive employees but also outsiders to solve a range of strategic puzzles. So has adidas, the European steel producer voestalpine, the hearing aid manufacturer WS Audiology, Telefónica and, perhaps most unexpected on this list, the US Navy and the US intelligence community as well as NATO.

Smaller companies that have experimented with open strategy include Gallus (a business unit of Heidelberger Druckmaschinen and one of the world's leading producer of printing presses for label manufacturers), SSM (a leading producer of textile machinery), and BPW (Europe's leading axle and suspension manufacturer). Even very small companies such as Saxonia Systems (software development), EGT (energy services), Ottakringer (a family-owned brewery), and Buffer (a startup providing software applications services to manage social media accounts more effectively) have opened up their strategic deliberations.

As these companies and a number of others have found, taking a more collaborative approach to strategy helps executives and owners move the organization in new directions that would have been impossible otherwise. Quite profitable directions, we might add. A survey of 201 senior leaders we conducted found that the majority of them opened up less than one-third of their strategic initiatives. And yet these initiatives accounted for 50 percent of their revenues and profits. Companies in which leaders collaborated on strategy with people outside the executive team—both employees and external stakeholders—assessed their business options more fully, formulated more realistic strategies, and implemented their strategies more quickly and effectively. In some cases, companies created entirely new businesses they wouldn't have thought of had they not invited people from outside their management teams to participate. Clearly, open strategy is an approach whose time has come. Imagine if most large and small firms forged their strategies the way Barclays did! We'd see smarter, more responsive planning, far better execution, and better performance across the board.

We first discovered the possibilities of open strategy ten years ago. Two of us, Julia Hautz and Kurt Matzler, were conducting academic research on open innovation, while Kurt Matzler and Stephan Friedrich

von den Eichen were working with companies to apply open innovation tools through Stephan Friedrich von den Eichen's consulting firm, Innovative Management Partner (IMP). They had an idea: What if we applied similar tools to help companies not merely develop new products but also to forge their strategic plans and help them design and implement new business logics?

Kurt and one of his graduate students set up a pilot case, using digital technologies to open up strategy discussions in a midsized company. That led to published articles and presentations, which in turn generated great enthusiasm from managers.[10] IMP began to offer open strategy as a service for clients, moving beyond digital crowdsourcing to develop tools for offline, workshop-based processes as well as digital formats. Since then, IMP has helped many of the companies mentioned above and dozens of others deploy open strategy in over two hundred initiatives. For its efforts, IMP has been recognized as Germany's leading consulting firm in the fields of strategy, disruption, business model innovation, and growth and has won prestigious industry and consulting awards.

To document the efficacy of open strategy, in 2014 we embarked on rigorous, wide-ranging academic research into the approach, funded by the Austrian Science Foundation. Reviewing the relevant academic literature, we worked with IMP to analyze its open strategy projects and fine-tune its tools. Through interviews with more than a hundred involved clients, managers, employees, and consultant teams, we sought to understand their experiences with the process—what worked and what didn't. We also collected data on open strategy initiatives other than those developed by IMP, connecting with other academics and reaching out to entities such as IBM, Ericsson, Telefónica, Barclays, Red Hat, Steelcase, the US Navy, and other organizations that had developed helpful tools. Finally, we conducted two surveys, one that collected input about open strategy from more than two hundred senior leaders and a second that surveyed 347 managers and executives about their individual mental takes on openness. All this work has given us a unique understanding of open strategy tools, how they work, and how companies can best deploy them to obtain exceptional results.[11]

How to Use This Book

Open Strategy is the first general business book dedicated to helping leaders and senior managers implement an open approach in their own businesses. Offering case studies from leading-edge companies large and small from many different industries, we present open strategy not as a mere tweak to the traditional strategy process but as a new business philosophy, a fundamental shift in thinking that, involving people outside the executive team, will better position you to meet change and build radically new business models. Traditional, "closed" approaches can certainly help leaders fine-tune their core businesses. Making important assumptions about predictability and stability, they allow leaders to guide and constrain activities within the organization. But those very assumptions render traditional strategy-making inadequate for leaders seeking not to incrementally adjust existing businesses but to create entirely new ones that will help the enterprise survive in rapidly evolving markets.

In 1987, Warren Bennis and Burt Nanus first used the term VUCA to describe how the world has become more vulnerable, uncertain, complex, and ambiguous after the end of the Cold War.[12] That era seems like a period of stability and calm compared with what leaders today must face. On average, companies take half as long today to scale up to Fortune 500 status as they did a generation ago, but these companies also stall faster once they become large. In 1994 the fifty largest companies posted a compounded annual growth rate of –4 percent. In 2014 it was –10 percent.[13] Few industries seem stable today. The highly regulated taxi industry is dominated by Uber, which owns no taxis and has drivers who no longer need to know the city in which they're driving. Major car manufacturers worry that Google and other software giants will outplay them as we move toward self-driving cars. Retailers like Walmart are hardly in a better position as Amazon draws ever more customers online.

We could go on, but the general picture is obvious: the pace of change has increased dramatically in most industries, and the boundaries between industries have become foggier.[14] In this context, organizations feel immense pressure to consider disruptive trends, act before

they are disrupted, and enter new businesses. With so little time to make decisions, leaders fall back on their own experience—and they fall prey to their own cognitive biases.

Gary Hamel, one of the world's most influential management thinkers, observed more than two decades ago the need for companies to rethink their traditional, elitist way of creating strategy. "You can either surrender the future to revolutionary challengers," he wrote, "or revolutionize the way your company creates strategy."[15] Open strategy helps, giving leadership teams access to external, diverse knowledge they wouldn't otherwise have while also making individual leaders aware of their biases so that they can overcome them. Open strategy can certainly enable leaders fine-tune their core businesses, but the approach becomes most valuable in companies facing fundamental changes. In these situations, open strategy provides leaders with a way to reach beyond their industry boundaries and grasp powerful new business opportunities.

Of course, *how* leaders open up strategic discussions matters. Doing so haphazardly or unthinkingly might only create new problems.[16] Involving wider audiences might reduce the speed and flexibility of strategy-making while also yielding unpredictable ideas, discussions, and contributions.[17] A broad set of participants might arrive at conflicting interpretations because of their different frames of reference and vocabulary.[18] Sharing information with larger audiences can create competitive concerns and subject participants to information overload. Participants' diverging expectations could create tensions, leading to dissatisfaction and frustration.[19]

As Gary Hamel and his coauthor Michele Zanini put it in their new book, "an open strategy process is messier and more time consuming than the top-down alternative, but the benefits are worth the efforts."[20] To reap open strategy's considerable benefits, companies must deploy specific tools and techniques that allow them to handle the complexity of internal and external views, generate specific kinds of strategic insights, and mobilize employees in desirable ways—without compromising secrecy unduly. Our book describes these tools in detail and provides corporate executives, entrepreneurs, small-business owners, board
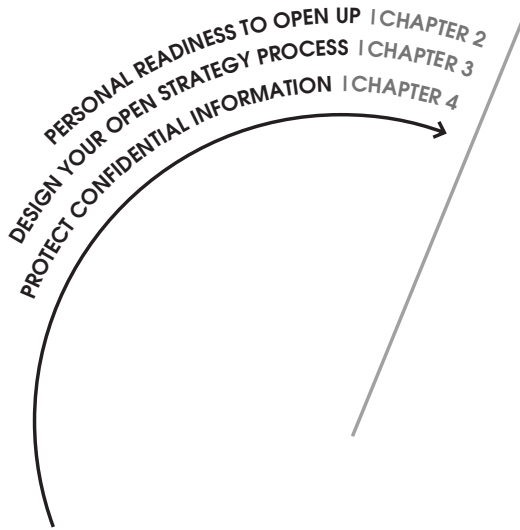
members, consultants, business school students, and others with the step-by-step advice that has helped IMP's clients outmaneuver the competition, master disruption, and lay the foundation for sustained growth. In the chapters that follow, we address the key challenges that open strategy can present and show you how to avoid and overcome them.

We've organized the book to make open strategy clear, accessible, and as easy to implement as possible (see figure 0.1). In chapter 1, we cover the limitations of traditional strategy-making in more detail. Chapters 2, 3, and 4 help you to prepare yourself and your organization for this new business philosophy. Chapter 2 helps you to understand whether you are personally ready to open up strategy, and to what extent. Chapter 3 provides a framework for pinning down what exactly you hope to achieve through an open process, how to open up and whom it makes the most sense to involve. Chapter 4 shows you how you can to manage open strategy deliberations without revealing sensitive information.

We then present tools relating to the three phases of strategy-making: idea generation, plan formulation, and implementation. In chapters 5, 6, and 7, we introduce proven tools that help you generate the foundation of a successful strategy, a breakthrough vision of the organization's future direction, or what we call a "strategic idea." These tools include two purely digital tools, strategy contests and strategy communities, that allow you to engage a very broad set of participants, and two hybrid digital plus in-person tools that enable you to identify specific trends affecting your business (the IMP Trend Radar exercise) and to confront an imaginary competitor (the IMP Nightmare Competitor Challenge).

The next set of tools, described in chapters 8 and 9, focuses on how to turn strategic ideas into detailed plans. We present a workshop tool—the IMP Business Logic Contest—that gamifies the business model development process, and explore how to use prediction markets to pinpoint the most promising strategic focus among many. In chapter 10, we discuss how tools such as strategy jams and employee social networks can help you implement your strategic plans, sustain open strategy efforts over time, and build a culture that embraces openness.

PREPARING FOR OPEN STRATEGY

PERSONAL READINESS TO OPEN UP | CHAPTER 2
DESIGN YOUR OPEN STRATEGY PROCESS | CHAPTER 3
PROTECT CONFIDENTIAL INFORMATION | CHAPTER 4

OPEN STRATEGY TOOLBOX

TREND RADAR

CHAPTER 6

COMPETITION/COMMUNITIES

CHAPTER 5

NIGHTMARE COMPETITOR

CHAPTER 7

STRATEGIC IDEAS

SOCIAL MEDIA

CHAPTER 10

STRATEGY EXECUTION

OPEN STRATEGY

STRATEGY FORMULATION

CHAPTER 8

BUSINESS MODEL LOGIC

CHAPTER 10

STRATEGY JAMS

CHAPTER 9

PREDICTION MARKETS

Figure 0.1
Preparing for open strategy—the open strategy toolbox.

Although open strategy can enhance all phases of strategy-making and execution, you can also deploy it in partial ways to imagine the future and generate strategic ideas. According to our research, firms used open strategy in all phases of strategy-making and execution for about 25 percent of their open strategy initiatives. For 70 percent of their open strategy initiatives, they used the approach to imagine the future and generate strategic ideas, and for 46 percent they used it to frame a strategic plan based on those ideas. In more than 55 percent of open strategy initiatives, firms used the approach to help the organization execute on the plan.[21] Open strategy delivers on these objectives. In a survey we fielded of senior executives, 69 percent stated that openness increased the number and diversity of strategic ideas and 73 percent stated that opening up their strategy facilitated implementation substantially.[22]

Chapter 3 will help you to decide which phase of the strategy process to address using open strategy and which specific tools you should select, based on your specific goals. Our tools work in organizations of any size—from a ten-person startup to a global multinational with 100,000 employees. Some organizations deploy expensive technology when using these tools, but as you'll see, many others mobilize inexpensive platforms and offline solutions. It can be expensive to involve outside experts in open strategy conversations, but you don't need to— consulting with front-line employees can cost little, while making a big difference. We profile one struggling company with fewer than two hundred employees that embraced open strategy in a low-cost way and succeeded. Within a few years, the company's revenues had tripled. It wasn't struggling any longer.

The time has come for companies to end the secrecy around strategy and take a more collaborative approach. Relegating planning to executives and board members worked back when markets were stable and predictable, but today such secrecy hamstrings companies, preventing them from arriving at and deploying effective strategies. Leaders are too cloistered, their perspectives confined to their own industries and painfully removed from the perceptions of customers, employees, suppliers, technical experts, and others. Even when companies do manage

to devise smart strategies on their own, they can't implement them well because employees feel little stake in plans they had no hand in designing. This is not to say that strategy-making should become democratic. It shouldn't. Under open strategy, senior leaders still make the final decisions about company strategy. But they can do so with the benefit of far more input than they had before, in a way that renders implementation far more inclusive and fine-grained.

You can stay ahead of change in your industry by engaging with customers, suppliers, technical experts, front-line employees, and others. Solicit their help to analyze your options and craft the strategic plan, using digital collaboration tools as well as in-person meetings. Continue to collaborate when you're implementing the plan, asking employees for *their* reflections on the operational tactics that will best deliver on the strategy. We're not arguing you should disavow all secrecy. You can and should decide which information to divulge. Conducted carefully and thoughtfully, an open strategy process won't compromise your business but rather enable it to spot potentially destructive market changes and adapt to them more quickly.

Barclays UK used an open strategy approach to rejuvenate its existing business. Your company can, too. Experiment with the tools in this book. Instead of fearfully erecting walls, take a risk and invite in people from outside your management team. Listen to what they have to say. You won't regret it.