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The social side of strategy

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Crowdsourcing your strategy may sound crazy. But a few pioneering companies are starting to do just that, boosting organizational alignment in the process. Should you join them?

The problem
Strategy setting sometimes suffers from insufficient diversity and expertise, with leaders far removed from the implications of their decisions and hampered by experience-based biases.

Why it matters
Strategies developed by leaders in isolation can be flawed and sometimes aren't embraced by the people who must implement them. Such misalignment can compromise organizational health and financial performance.

What to do about it
Pull in overlooked frontline perspectives through the use of social technologies such as wikis and internal idea markets. Work overtime to bring on board executives and middle managers. Transparency, radical inclusion, and peer review are powerful tools but can be uncomfortable for leaders up and down the line.

In 2009, Wikimedia[1] launched a special wiki—one dedicated to the organization's own strategy. Over the next two years, more than 1,000 volunteers generated some 900 proposals for the company's future direction and then categorized, rationalized, and formed task forces to elaborate on them. The result was a coherent strategic plan detailing a set of beliefs, priorities, and related commitments that together engendered among participants a deep sense of dedication to Wikimedia's future. Through the launch of several special projects and the continued work of self-organizing teams dedicated to specific proposals, the vision laid out in the strategic plan is now unfolding.

Wikimedia's effort to crowdsource its strategy probably sounds like an outlier—after all, the company's very existence rests on collaborative content creation. Yet over the past few years, a growing number of organizations have begun experimenting with opening up their strategy processes to constituents who were previously frozen out of strategic direction setting. Examples include 3M, Dutch insurer AEGON, global IT services provider HCL Technologies, Red Hat (the leading provider of Linux software), and defense contractor Rite-Solutions.

While such efforts are at different stages, executives at organizations that are experimenting with more participatory modes of strategy development cite two major benefits. One is improving the quality of strategy by pulling in diverse and detailed frontline perspectives that are typically overlooked but can make the resulting plans more insightful and actionable. The second is building enthusiasm and alignment behind a company's strategic direction—a critical component of long-term organizational health, effective execution, and strong financial performance that is all too rare, according to research we and our colleagues in McKinsey's organization practice have conducted.

Our objective in this article isn't to present a definitive road map for opening up the strategy process; it's simply too early for one to exist. We'd also be the first to acknowledge that for most organizations, "social" strategy setting represents a significant departure from the status quo and should be experimented with carefully—whether that means trying it out in a few areas or creating meaningful opportunities for participation in the context of a more traditional strategy process. (For more on intelligent experimentation, see sidebar, "Collaborative strategic planning: Three observations.") Nonetheless, we hope that by sketching a picture of some management innovations under

[1] Wikimedia is the nonprofit foundation that operates Wikipedia, the Web-based encyclopedia that's created and curated in a collaborative fashion by thousands of volunteers.

way, we will stir the thinking of senior executives eager to benefit from experimenting with such approaches. If you've ever wondered how to inject more diversity and expertise into your strategy process, to get leaders closer to the operational implications of their decisions, or to avoid the experience-based biases and orthodoxies that inevitably creep into small groups at the top, it may be time to try shaking things up.

Lessons from the fringe

The best way to describe the possibilities of community-based strategy approaches is to show them in action. Two examples demonstrate the lengths to which some companies have already gone in broadening their strategy processes, as well as the degree to which the executives who participated are convinced of the benefits.

Rethinking planning at HCL Technologies

HCL Technologies, the Indian IT services and software-development company, had enjoyed rapid growth since its founding, in 1998. With growth, however, the company's business-planning process had become unwieldy. Vineet Nayar, HCL's chairman and CEO, along with his top team, were providing input to hundreds of business unit–level plans each year. Nayar realized that he and his team had neither the expertise nor the time to deliver all the detailed feedback that each business plan deserved, so he challenged his colleagues to use three key principles to revamp the planning process: make peer review a core component of strategy evaluation, create radical transparency across units, and open up the conversation to large cross-sections of the company.

The solution was to turn the company's existing business-planning process—a live meeting called Blueprint, which involved a few hundred top executives—into an online platform open to thousands of people. The new process, dubbed My Blueprint, was launched in 2009, with 300 HCL managers posting their business plans, each coupled with an audio presentation. More than 8,000 employees (including several members of the teams that had submitted plans) were then invited to review and provide input on the individual blueprints. A surge of advice followed. The inclusive nature of the process helped identify specific ideas for cross-unit collaboration and gave business leaders a chance to obtain detailed and actionable feedback from interested individuals across the company.

This exercise quickly began yielding business results. One HCL executive we spoke with credited the new process with a fivefold increase in sales to an important client over two years. The key, the executive explained, was the detailed comments—from more than 25 colleagues, ranging from junior finance professionals to software engineers—that together highlighted the need to reframe the business plan away from an emphasis on commoditized application support and toward a handful of new services where HCL had the edge over larger competitors. The employees provided more than good ideas: several even helped assemble the materials the executive needed to deliver the successful proposal.

The high degree of transparency increased the quality of insights, not just their volume. As Nayar notes, "Because the managers knew that the plans would be reviewed by a large number of people, including their own teams, the depth of their business analysis and the quality of their planned strategy improved. They were more honest in their assessment of current challenges and opportunities. They talked less about what they hoped to accomplish and more about the actions they intended to take to achieve specific results." At the conclusion of the inaugural My Blueprint process, there was broad consensus that participatory business planning had been far more valuable than the traditional top-down review process.[2]

Red Hat's new road map

Red Hat is the leading provider of open-source software. In 2008, its leadership team began taking a new approach to strategy development. After defining an initial set of priorities for exploration, Red Hat's leaders formed teams devoted to each priority. To boost the odds they would stretch toward new solutions, the company ensured that the team leaders—all members of the company's C-suite—were far removed from their areas of responsibility. The company's chief people officer, for example, was tasked with analyzing its financial model, while the CFO explored potential operational enhancements.

The teams used wikis and other online tools to generate and organize ideas and made these "open" so that any Red Hat employee could respond with comments or suggestions. The idea generation phase lasted five months and included company-wide updates and online chats with the CEO. Over that period, the best ideas coalesced into nine strategic priorities.

[2] For more on the My Blueprint process and HCL's management philosophy, see Vineet Nayar, *Employees First, Customer Second: Turning Conventional Management Wisdom Upside Down*, Cambridge, MA: Harvard Business School Press, June 2010.

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To ensure accountability for developing the priorities further and for making them actionable, the company tasked a new group of executives to lead teams exploring each of the nine areas. These leaders were senior functional ones whose responsibilities put them a level or two below the C-suite. Each of their teams fleshed out one or two of the most important strategic initiatives and was empowered to execute the plans for them without further approvals.

This effort has reshaped the way Red Hat conducts strategic planning. Instead of refreshing strategy yearly on a fixed calendar, the company now updates and evaluates strategy on an ongoing basis. Initiative leaders use customized mailing lists and other tools to receive input continuously from employees and communicate back to them via town hall–style meetings, Internet chat sessions, and frequent blog posts. The company maintains its annual budget process, which is informed by the evolving funding needs of the initiatives.

The fresh perspectives generated by the new planning process have been instrumental in spurring value-creating shifts in the company's direction. For example, a respected Red Hat engineer used the new process to make the case for a significant change in the way the company offers virtualization services for enterprise data centers and desktop computer applications. The changes led to the acquisition of an external technology provider—a move that would have been unlikely in the days when the company used its old, less inclusive planning process.

Red Hat's vice president of strategy and corporate marketing, Jackie Yeaney, cites three key benefits of the company's new approach: first, the process generated "more creativity, accountability, and commitment." Second, "By not bubbling every decision up to the senior-executive level, we avoided the typical 50,000-foot oversimplification" of issues. And third, "We improved the flexibility and adaptability of the strategy." With the responsibility for planning and execution now in the hands of the same people doing the work, responsiveness to new opportunities or shifts in the market has increased dramatically.[3]

Closer to home

Some leaders may wonder about borrowing approaches from Red Hat, Wikimedia, or other companies that consider crowdsourcing a part of their institutional DNA (and for which confidentiality issues may be less pressing than they are for many organizations). For these executives, we would note the experiments of more traditional companies, such as 3M, AEGON, and Rite-Solutions. A look at how these organizations are introducing a social side to strategy can help senior executives determine how much further they want to go in their own companies.

Market-based strategy at Rite-Solutions

One way of experimenting with more open strategic direction setting is to create internal markets where legacy programs and new perspectives compete on an equal footing for talent and cash. Rite-Solutions, a Rhode Island–based software provider for the US Navy, defense contractors, and first responders (such as fire departments), is pioneering a game-based strategy process whose foundation is an internal stock exchange it calls Mutual Fun.

Would-be entrepreneurs at Rite-Solutions can launch "IPOs" by preparing an Expect-Us (rather than a prospectus)—a document that outlines the value creation potential of the new idea—as well as a

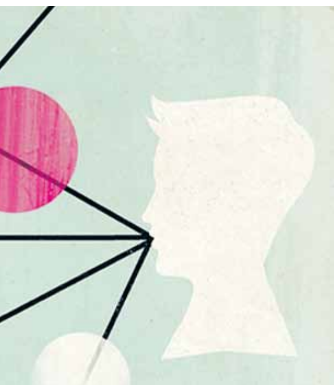
[3] To read more about Red Hat's open approach to strategy development, see Jackie Yeaney, "Democratizing the corporate strategy process at Red Hat," managementexchange.com, November 2011.

Budge-It list that articulates the short-term steps needed to move the idea forward. Each new stock debuts at $10, and every employee gets $10,000 in play money to invest in the virtual idea market and thereby establish a personal intellectual portfolio. The money flows to ideas that are attracting volunteer effort and moving steadily from germination toward commercialization. A value algorithm revalues each stock, based on the number of Budge-It items completed, inflows and outflows of employee money, and opinions about the stocks expressed in an online discussion board. When an IPO gains momentum and breaks into the company's Top 20, the initiative is funded with seed money; more is awarded depending on the ability to meet various stage gate milestones. What's more, when ideas help Rite-Solutions make or save money, those who have invested intellectual capital and contributed to the idea's realization receive a share of the benefits through bonuses or real stock options.

The internal market for ideas has bolstered the company's pipeline of new products, and the 15 ideas the company has thus far launched as a result now account for one-fifth of Rite-Solutions' revenues. Some of the blockbusters were generated in unexpected places—including Win/Play/Learn, a Web-based educational tool licensed by toy maker Hasbro. The source of the idea: an administrative assistant.[4]

Improving market analysis at 3M

In April 2009, 3M decided to reinvigorate its Markets of the Future process—a critical input to the company's strategic planning. Previously, says Barry Dayton, the company's knowledge-management strategist, this process had "consisted of a small group of analysts doing research [about] megatrends and resulting markets of the future."[5] The company invited all of its sales, marketing, and R&D employees to a Web-based forum called InnovationLive, which over a two-week period attracted more than 1,200 participants from over 40 countries and generated more than 700 ideas. The end result was the identification of nine new future markets with an aggregate revenue potential in the tens of billions of dollars. Since then, 3M has held several additional InnovationLive events, and more are on the way.



[4]To read more about Rite-Solutions' internal market for ideas, see Jim Lavoie, "Nobody's as smart as everybody—Unleashing individual brilliance and aligning collective genius," managementexchange.com, September 2011.

[5]To read Dayton's full description of the experience, see "InnovationLive: Engaging 3M's global employees in creating an exciting, growth-focused future," managementexchange .com, September 2011.

Many organizations struggle with strategic alignment: even at the healthiest companies, about 25 percent of employees are unclear about their company's direction.

The alignment advantage

Spend a few minutes talking with the senior executives involved in any of the initiatives described earlier, and it's immediately apparent how powerful it is when thousands of people are deeply engaged with a company's strategy. Those employees not only understand the strategy better but are also more motivated to help execute it effectively and more likely to spot emerging opportunities or threats that require quick adjustments.

Reviewing the data

Research we've conducted using McKinsey's organizational-health index database suggests that none of this should be surprising. That database, which contains the results of surveys collected over more than a decade from upward of 765,000 employees at some 600 companies, facilitates analysis of the nature of organizational health, the factors contributing to it, and its relationship with financial performance. One thing we and our colleagues have seen over and over again through our work is that many organizations struggle with strategic alignment: even at the healthiest companies, about 25 percent of employees are unclear about their company's direction. That figure rises to nearly 60 percent for companies with poor organizational-health scores.[6]

Similarly, we've found that the actions companies can take that are most helpful in aligning individuals with the organization's direction are moves like "making the vision meaningful to employees at a personal level" and "soliciting employee involvement in setting the company's direction." If that's right, it suggests that making more

[6] For more, see Scott Keller and Colin Price, *Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage*, Hoboken, NJ: Wiley, June 2011; Scott Keller and Colin Price, "Organizational health: The ultimate competitive advantage," mckinseyquarterly.com, June 2011; and Aaron De Smet, Mark Loch, and Bill Schaninger, "Anatomy of a healthy corporation," mckinseyquarterly.com, May 2007.

employees part of the strategy process should be a powerful means of aligning them more closely with the company's overall direction. The payoff for such cohesion is significant: companies with a top-quartile score in directional alignment are twice as likely as others to have above-median financial performance.

Mobilizing middle management

Of course, adopting social-strategy tools doesn't automatically create alignment. Companies must create it actively, particularly among middle managers, who as the guardians of everyday operations bear the brunt of making any company's strategy work.

One airline saw its efforts to mobilize the workforce impaired by the silent noncooperation of middle management in several departments. Closer inspection revealed that middle managers didn't disagree with the discussion that was under way but felt they deserved a bigger voice in it—and should have been included earlier. They also felt uneasy with the level of transparency in a dialogue involving some 2,000 people, accustomed as they were to managing on a need-to-know basis.

The Dutch insurer AEGON sidestepped problems such as these by breaking its strategy discussion into manageable topics related to everyday operational practices. That allowed middle managers to assume responsibility for the discussion and contribute their expertise. In the words of Marco Keim, CEO of AEGON The Netherlands, "We started a digital-networking platform called AEGON Square and got the conversation going. People gathered in communities of practice and started sharing ideas on how to make the new strategy work. Dialogue really helped in fostering organization-wide alignment."

Ultimately, middle managers were among the effort's most enthusiastic supporters—both as contributors themselves and as active recruiters of participants. (In the end, 3,000 employees, 85 percent of the total, participated over 12 months.) Keim acknowledged, though, that building this alignment required a significant cultural change toward more openness, which took time to take hold and required regular reaffirmation by senior executives.

The evolution of strategic leadership

It takes courage to bring more people and ideas into strategic direction setting. Senior executives who launch such initiatives are essentially using their positional authority to distribute power. They're also embracing the underlying principles—transparency, radical inclusion, egalitarianism, and peer review—of the Web-based social technologies that make it possible to open up direction setting.

Taking these principles to their logical conclusion suggests a shift in the strategic-leadership role of the CEO and other members of the C-suite: from "all-knowing decision makers," who are expected to know everything and tell others what to do, to "social architects," who spend a lot of time thinking about how to create the processes and incentives that unearth the best thinking and unleash the full potential of all who work at a company.[7] Making this shift doesn't imply an abdication of strategic leadership. The CEO and other top executives still have the right—indeed, the responsibility—to step in if things go awry, and of course they continue to be responsible for making the difficult trade-offs that are the essence of good strategy.

But it also may be increasingly important for strategists to lead in different ways. For example, to convey the message that the contribution of employees is of vital importance, top executives should constantly confirm that it is and set the example themselves. This approach requires a more direct, personal, and empathetic exchange than a traditional town hall meeting allows. For a mass digital dialogue to succeed, people need to express themselves openly, which may leave some participants feeling exposed. Leaders can help by demonstrating vulnerability as well—peeling off the layers of formal composure.

Another important element of social-strategy leadership is honestly assessing the readiness of the organization to open up and, in light of that, determining the best way to stimulate engagement. This sounds simple, but overlooking it can be costly. As part of a new strategy dialogue, the leaders of one mutual insurance company enthusiastically called upon its workforce to share reflections on an innovative, soon-to-be-launched life insurance product. Despite the leaders' expectation that the open call would generate a torrent of endorsements, it was met with a deafening silence. Closer inspection revealed that people were acutely aware of the strategic importance that senior management attached to this innovation. And nobody wanted to wreck the party by openly sharing the prevailing doubts, which were widespread. The doubts proved well founded: within a few months of being launched, the new product was declared a failure and shelved.

[7]For more about the changing role of senior leaders, see Gary Hamel, *What Matters Now*, San Francisco, CA: Jossey-Bass, February 2012.

This cautionary tale points to a final element of strategic leadership: figuring out ways to encourage dissenting voices. Enabling employees to communicate through ambient signals instead of relying on words and elaborated opinions is an effective way to lower the threshold and still catch the prevailing mood. Familiar examples of ambient dialogue include polls, "liking,"[8] and voting—simple functions that allow participants to express an opinion without being exposed. More powerful and sophisticated forms of ambient dialogue include prediction markets (small-scale electronic markets that tie payoffs to measurable future events) and swarming (the visually aggregated representation of the emergent mood or motion within an organization).[9]

Consider how a prediction market might have helped the mutual insurer. The opening market quotation for the new life insurance product would probably have taken a steep dive, revealing the negative assessment of the internal market. This would have immediately alerted managers to potential weaknesses, without exposing the employees who had the courage to reveal the problems.

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While these are still early days for social strategy, its potential to enhance the quality of dialogue, improve decision making, and boost organizational alignment is alluring. Realizing that potential will require strategic leaders to flex new muscles and display real courage.

[8] Users of a Web site—Facebook, for example—click on a button to say that they "like" something on it ("John Smith and five others like this").
[9] For more on prediction markets, see Renée Dye, "The promise of prediction markets: A roundtable," mckinseyquarterly.com, April 2008.

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Collaborative strategic planning: Three observations

Olivier Sibony

Social-strategy tools can provide real value to a company whose executives know how to use them.

There are some fascinating interdependencies between the experiments described in "The social side of strategy," the challenges inherent to strategic planning, and the impact that cognitive biases have on decision making. Because the latter two issues are central to my own research and work,[1] I would like to hazard three observations about the role that community-oriented strategy tools can play.

1. Rounding out the strategist's tool kit

Social-strategy initiatives represent valuable tools, but they're not a replacement for the entire strategic-planning edifice. As the examples in the previous article show, the crowdsourcing of strategy can be particularly useful for activities such as generating ideas, prioritizing them (through prediction markets, for example), and challenging operational plans. On the other hand, social-strategy tools are less likely to help the strategist identify the need for radical shifts in direction, wrestle through difficult trade-offs between options that seem similarly attractive, or develop plans for working through intensely competitive circumstances. Most importantly, a strategist—not a tool—should decide, at the end of the day, what to do.

One of the main gripes people have with strategic plans is that they are not strategic enough. In the words of one chief strategy officer I know, "Our strategic sessions are budget meetings with the word 'strategic' thrown in here and there to add emphasis.” There are also significant confidentiality issues around strategy—most companies believe that keeping a plan shrouded in secrecy until it gets implemented is critical to its success. Consider the implications these two issues have for social-strategy tools: leaders concerned about confidentiality might well limit the use of these tools to more operational planning—which in turn could reduce the likelihood of their leading to real strategic breakthroughs and breed disenchantment with them. The wise leader will look for steps in the strategic-planning process that can be tackled in unconventional ways, without pretending that taking those steps implies wholesale replacement of the process or that it will magically transform their strategy.

2. Killing bad ideas

The old brainstorming adage “There are no bad ideas” does not apply to strategy. Terrible ideas abound for new markets to explore, acquisitions to make, products to invest in, and the like. Prediction markets and other similar mechanisms hold the alluring promise of pinpointing bad ideas before companies invest too much in them.

The objection I have heard most often to prediction markets is that they place sponsoring executives in a very difficult position. Asking large numbers of employees for their input on strategy ideas already requires a healthy measure of humility. Doing so by asking them to vote through a public mechanism that will price ideas and make transparent—perhaps even amplify—collective sentiment about them calls for extraordinary courage. Simply put, it is extremely embarrassing to float the stock of an idea (a new product launch, for instance) and see its price fall to zero. One company I know had exactly this experience and subsequently recognized that prediction markets were the best prediction mechanism they had—but decided to drop them for that reason!

That decision may seem irrational: if a product is going to fail, wouldn’t you want to know sooner rather than later? But the CEO believed that success does not depend solely on the product’s intrinsic appeal; it is also a function of how convincingly people will sell it—which in turn requires them to believe in it. This point of view may sound oddly paternalistic (“let some people fail trying to sell something they don’t believe in, because making that disbelief transparent would demoralize others who are foolish enough to believe in it and who will try harder based on that belief”). But it is widespread, and, at least in industries

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where the sales process plays a key part, it can be justified. What this experience suggests to me is that strategists hoping to embrace market-based mechanisms should investigate not just the mechanics of those approaches but also how the leaders employing them muster the courage to do so.

3. Avoiding anchoring and groupthink

An important problem to keep in mind for leaders considering the application of social-strategy tools is how to improve the odds of generating productive debate instead of groupthink. Certainly, these approaches hold the potential to promote dissent. For example, it's easy to imagine them helping to overcome one of the trickiest problems in strategic planning: the inertia that often keeps capital, people, and other resources "stuck" in similar allocation patterns year after year (for more on this problem, see "How to put your money where your strategy is," on mckinseyquarterly.com). On a small scale, I have seen executives break such inertia by using poker chips to simulate reallocation across businesses. The same should be possible—arguably even easier—on a larger, more anonymous basis.

But one could also argue that crowd-based mechanisms are a powerful engine to produce groupthink on a grand scale, encouraging people to stick to predefined anchors that become more and more powerful as other contributors appear to confirm them. Consider, for instance, a couple of the most common crowd-based feedback mechanisms: reader comments on online articles and product reviews on e-commerce Web sites. Empirically, some turn into heated debates, while others result in massive agreement. The explanation for this could simply lie with the facts of each case: some articles and products are universally liked or hated; others are polarizing. But the outcome could also be influenced by the way you orchestrate the debate. Amazon.com, for instance, highlights the “most helpful favorable” and “most helpful critical” reviews. Intuitively, that seems like a sensible way to stimulate debate and dissent rather than conformity.

More broadly, for each mechanism that would-be social strategists consider employing, I suggest they think carefully about whether the intent is to generate dissent or build alignment. You are either mobilizing people toward something a large majority will agree on, or asking them to generate new ideas and challenge existing ones. Most companies, in their strategy process, aim to build consensus and to shake up the status quo. But at any given time, it should be one or the other.

[1] For more on behavioral economics, decision making, and strategic planning, see Daniel Kahneman, Dan Lovallo, and Olivier Sibony, “Before you make that big decision,” *Harvard Business Review*, June 2011, Volume 89, Number 6, pp. 50–60; Dan Lovallo and Olivier Sibony, “The case for behavioral strategy,” mckinseyquarterly.com, March 2010; and Renée Dye and Olivier Sibony, “How to improve strategic planning,” mckinseyquarterly.com, August 2007.

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