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REINVENTING THE ORGANIZATION

HOW COMPANIES CAN DELIVER RADICALLY GREATER VALUE IN FAST-CHANGING MARKETS

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and you have tried your hand at several small ventures before. True, you have been unsuccessful, but you have learned. You are intensely curious, always seeking more information and ideas. You have a passion for helping small Chinese businesses grow, and you have a deep desire to succeed yourself. In light of your experience, you see an opportunity to connect the vast ocean of Chinese manufacturers to a globe awash in potential buyers: an infinitely large online marketplace, just waiting to be tapped. You launch your new company Alibaba.com in your apartment, energized by the vision of helping Chinese small businesses export overseas, just to begin with.

Now imagine that it is 2019. Alibaba has long been the dominant force in Chinese e-commerce. Your company has earned a market value of approximately US$490 billion, serves some 450 million customers in over two hundred countries, and offers a host of successful businesses related to e-commerce. As of today, Alibaba is one of the ten most highly capitalized business in the world.

How did you climb this high in just nineteen years?

Environment creates the space. Strategy defines the choices to fill the space. Organization makes the strategy happen. In a very dynamic environment—like China in the case of Alibaba—the key strategic challenge is to transform your company as fast as, or faster than, the environment changes. We call the ability to make these necessary choices quickly, creatively, and intelligently *strategic agility*. As the saying goes, organizations are perfectly designed to get the results they get. In the market-oriented ecosystem, strategy shapes the organization in ways that enable it to win. Sometimes, when the strategy is as powerful as Alibaba's, it even shapes the environment in which the competition is taking place. So, how do you as a leader learn from market-oriented ecosystems to become strategically agile?

Strategy Is about Choice

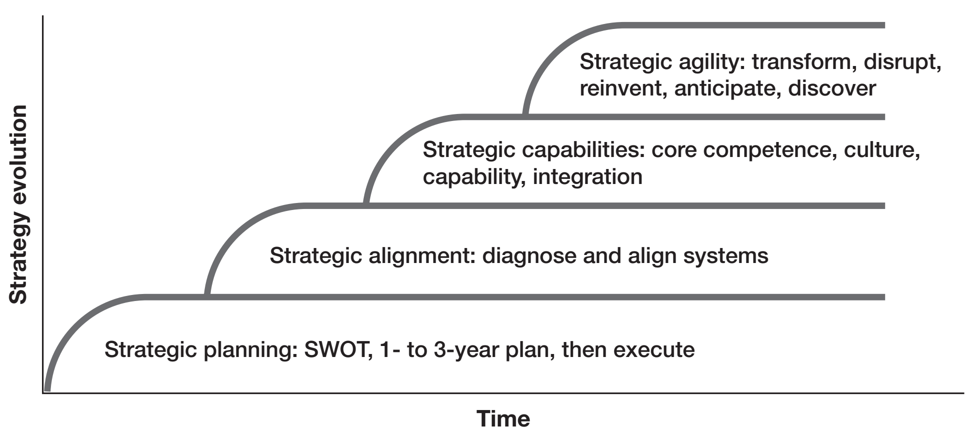
The fundamental goal of strategy is to make informed choices that help a firm win. No company has unlimited resources. Skill and judgment allocate scarce resources to capture evolving opportunities for profitable growth. Firms fail all too often because they stick around too long in a business space that is no longer profitable. In fact, as discussed in chapter 2, when you consider the list of the top ten most successful businesses in the world, most were founded to capture the rise of the great computing and communication technologies in the last few decades (see table 2-2). Microsoft was founded in 1975, Apple in 1976, and Amazon in 1994, followed by Alphabet (née Google) and Tencent in 1998 and Alibaba a year later. Facebook was founded in 2004. Where are the colossi of the twenty-first century? Not at the top. Many are not even alive.

Pivoting from Strategic Choice to Strategic Agility

If you want to reinvent your organization, you need to improve your ability to make choices that lead to strategic agility. Reflect on how your organization has approached strategy, and compare your work to the strategic agility choices made by market-oriented ecosystems to see which part of the evolutionary wave you are in (figure 3-1). Note also how this evolution of strategy matches the evolution of organizational logic and structure (see figure 1-2 and table 1-2). This connection makes sense, because structure generally follows strategy. Let's now consider the four evolutionary stages of strategy.

FIGURE 3-1

Evolution of strategic choice



Stage 1: Strategic Planning. This stage represents the traditional top-down, hierarchical (or even bureaucratic) model in which strategic work is centralized within a dedicated group in the senior ranks of the organization. This group largely focuses on serving the internal logic of the organization with little regard for external factors like competitors or even customers. The leaders often plan strategy in off-site meetings using SWOT analysis (a focus on strengths, weaknesses, opportunities, and threats). Once the strategic plan is set, the agreed-on time horizon is considered sacrosanct: one year, three years, or even five years. And the strategy is often treated like a trade secret, known only to the few. (In one case, we worked with a company that would number the printed copies of its strategic plan. Leaders had to "check out" a copy of the strategy but then had to return it.) The strategy is then enacted through objectives and performance targets cascaded through the hierarchy, with little connection to market opportunities. The organizational system is built through investing in practices, and the company seldom takes marketplace opportunities into account.

Stage 2: Strategic Alignment. In the next advancement, business leaders try to think through the impact that the strategy has—or could have—on the inner workings of the organization: its structures, systems, and culture. Strategic work is not considered complete until the organization is aligned around delivering it. The alignment decisions are based on the judgments of a few key people at the top who manage the integration. Classic frameworks like the star model (from the 1970s), the 7S model (developed in the early 1980s), or organizational health (an updated alignment model) provide checklists of organizational levers to be synched in ways that are, one hopes, mutually reinforcing of the strategy. Employees may or may not understand why they are being "aligned," and factors outside the firm are not considered in most alignment models.

Stage 3: Strategic Capabilities. In more recent work, a number of scholars, such as C. K. Prahalad and Gary Hamel, have redefined strategy as *core competences* or *capability* in recognition of the need for organizations to provide their customers with key intangible know-how or other intangibles: important competitive qualities that mattered to customers, like innovation or customer responsiveness. Capabilities result from the collective skills, abilities, and expertise of an organization—and represent the ways that people and resources are brought together to accomplish work. They form the identity and personality of the organization by defining what it is good at doing and, in the end, what the organization *is*. In a capability model, strategy work is not done until the systems are aligned around a few key organizational (internal) capabilities. The key strategic question in this organization is, What capabilities do we require to win?

Stage 4: Strategic Agility. What these high-performance, high-growth firms we studied share is their focus on strategic agility, or the ability to move quickly to define, anticipate, and penetrate new market opportunities. They focus on the outside more than the inside, on stakeholders more than processes, and on moving with agility even more than perfect accuracy. These agile organizations are guided by their mission and broad strategy. They are informed by their own external orientation and are held together by their common capabilities (more on this in chapter 4). Agile organizations take advantage of the tools of instant and ubiquitous information and data sharing. Your key leadership question for strategic agility is, How can we as an ecosystem make exceptionally good and dynamic choices through swift and self-initiated experimentation (like the riptide rescuers)? Strategy and execution occur simultaneously in close iterations, not preset in clearly laid-out annual plans.

This strategic agility comes from a mindset positioned to win in the future. Table 3-1 lists the mindset shifts you can use to achieve strategic agility. From this list, pick the two or three mindsets your organization must shift to make progress.

The evolution of strategic choices is clearly driven by the business context in which the company is operating. When one of us (Arthur) worked as head of human resources in Acer Group in the 1990s, the

TABLE 3-1

Strategic agility mindset in the market-oriented ecosystem

Shift from	Shift to	How to do it	Priority (pick 2 or 3)
Industry expert	Industry leader	Create a reputation as the innovator, not a follower, in the industry.	
Market share	Market opportunity	Appreciate and act on trends in the environment (see chapter 2).	
Who we are	How we are known by future customers	Define internal identity (reputation, values, culture) through the eyes of future customers.	
Our goals or ideas	How customers respond to our goals or ideas	Cocreate goals and outcomes with targeted customers' goals and outcomes.	
Penetrating existing markets	Creating new, uncontested markets	Experiment often with new ideas.	
Beating competition	Moving ahead of competition by focusing on customers	Strive to leapfrog competitors and to worry less about competitors' current opportunities.	
Blueprints for action (SWOT analyses, followed by strategy and key performance indicators)	Dynamic processes for agile choices guided by mission and broad strategic direction	Assume strategic agility by not locking into a definitive agenda	

Note: SWOT, strengths, weaknesses, opportunities, and threats.

PC industry had been going through major radical strategic changes every ten years. During that time, strategic alignment or strategic capability was adequate to handle the competitive environment Acer was facing. However, demand for strategic agility grows as the environment becomes more volatile, uncertain, complex, and ambiguous (VUCA). When he was working as senior adviser at Tencent in the last ten years, he witnessed radical changes for the internet industry every three years. Embrace the change, or meet your doom. Many leading internet players in China fell behind or died, simply because of their failures to make the right strategic choices in today's VUCA world. Some ventured into the wrong space (e.g., Baidu's entry into food delivery), remained in the shrinking market too long (e.g., Sina's focus on a PC portal), or moved too aggressively into new markets beyond their capabilities (e.g., Ofo in bike sharing service, Groupon in group-coupon purchasing). Knowing which stage best reflects your strategy and which mindsets have to shift will help you reinvent the organization in ways that help you win.

Alibaba's Strategic Agility

To illustrate strategic agility, look at how rapidly Alibaba grew in nineteen years, from 1999 to 2018, by basing its choices on a belief in the power of the internet and a shared mission. From the start, Alibaba's overall mission was "to make it easy to do business anywhere."[1] Here are some key business milestones for Alibaba that demonstrate the strategic agility of a market-oriented ecosystem:

1999 Jack Ma founds Alibaba.com to create China's first online B2B marketplace.

The vision: Use an online business platform to give small Chinese export companies global reach.

2003 Company adds C2C Taobao Marketplace.

New vision: Enable Chinese small and medium-sized enterprises to catch business opportunities in the Chinese consumer market.

2004 Company releases Alipay (secure payment system) and AliWangwang (instant messaging between buyer and seller to negotiate terms).

New vision: Build the online business infrastructure in a way that improves consumer trust and security in online transactions.

2010 AliExpress, an online retail service enabling Chinese companies to offer products to international buyers, is established.

New vision: Globalization!

ABOUT THE AUTHORS

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