Strategic Leaders Manage Assumptions

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Strategic leadership is a shared responsibility of many from across the organization coming together to exercise their particular leadership responsibilities in a distributed, integrated and systematic fashion. This is a hallmark in an organization where strategic focus has reached maturity.

To accomplish this level of strategic maturity takes time, well-placed effort and transparent communication by all members of the strategic leadership team. Integral to this process is developing an effective strategy grounded in a *realistic understanding* of the market environment as it intersects the core capabilities of the organization. Very often leadership teams do not have all the facts to make these precise determinations. As a result, leaders and leadership teams make assumptions about present realities, based on past experience, without actual proof. This "fact gap" results in varying degrees of risk depending on the nature of the assumptions being made.

In the course of daily affairs we all make assumptions or we wouldn't be able to function. This is natural. However when leaders, regardless of their role, depend on lessons learned from historical experience to guide their decision making they take on risk and this risk must be carefully managed. Why? Today's opportunities and challenges may look and feel similar to those faced in the past, but they are never the same as the environment is always changing and what was true then may no longer be valid now. Let's look at an example. Remember Blockbuster? Blockbuster assumed the movie rental market demanded immediate access to movie, and, as a result, continued building brick and mortar stores which were open around the clock, and they depended on late fees to drive margins. Then along came Netflix who assumed there was a good chunk of the market willing to wait a few days to receive a movie via mail and pay a low-cost subscription for this service. Unlike Blockbuster who acted on "if it ain't broke…don't fix it" assumptions, Netflix charged into the market as an innovating and disruptive force and today dominates the rental movie market. Netflix continues to disrupt by moving to cloud-computing and direct streaming of movies on a mobile basis.

So how do strategic leadership teams manage the risk inherent in making erroneous assumptions? Three things:

1. The board of directors and executive leadership team must be clear about recognizing the strategic assumptions they are making. They must take time to be explicit by writing down, challenging, modifying and, to the extent possible, validating the assumptions on which decisions are being made. Blockbuster is a textbook example of a leadership team not recognizing the Internet's long range impact was to have on the rental movie market. Had they done a better job of confronting their assumptions through assessment of technological changes occurring around them, they might very well be in business rather than a case study.

2. <u>Always</u> assume the forces of disruptive innovation are <u>always</u> at work. Effective leadership teams constantly scan the strategic landscape for signals that disruptive innovations may be occurring or are about to occur. This can be done by developing an early warning system or what we refer to as "listening posts" within the organization. The listening posts we refer to aren't physical sites but working parts of a process for <u>continuously</u> monitoring the environment to identify, recognize and assess the inherent opportunities and risks associated with new disruptive innovations. The work of Clayton Christensen around what he refers to as the "Innovators Dilemma" is instructive in this regard.

   "Well-managed companies often fail because the very management practices (i.e. assumptions) that have allowed them to become industry leaders also make it extremely difficult for them to develop disruptive technologies that ultimately steal away their markets." [i]
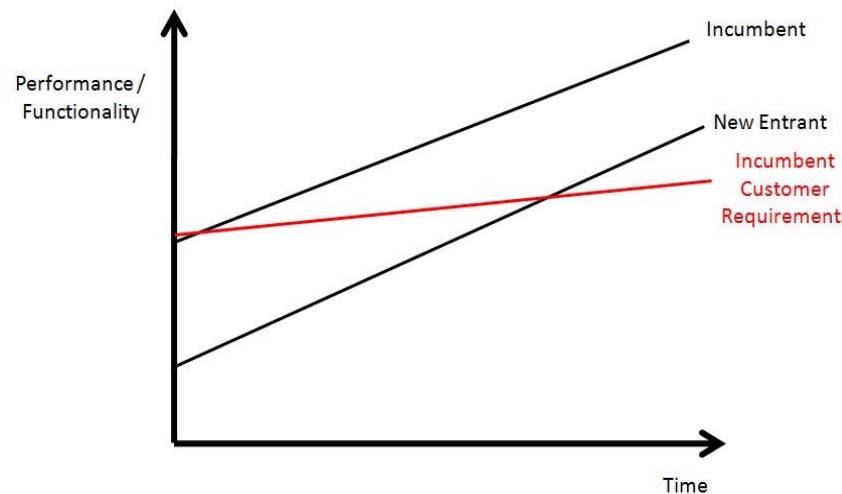
When new technologies begin to emerge, leadership teams can minimize their "assumption-based" risks by looking for disruptive technologies to embed in experimental projects within their organization whose focus is on non-core customers who need them. Where would Blockbuster be today had they experimented with a subscriptions rather than building more storefronts? Organizations who out learn their competitors to see what is on the horizon are able to gain a sustainable competitive advantage over those looking in the rear view mirror.

3. Work to keep your strategic options open in order to be agile and enduring. In his book *The Strategy Paradox*, Michael Raynor makes this point by emphasizing the need for strategic flexibility. He argues the more committed an organization becomes to one specific strategy; the more likely that organization is to be successful or unsuccessful depending on whether the assumptions being made are correct. By developing a portfolio of strategic options an organizational leadership team is able to adapt as the environment continues to change.[ii]

Finally, it is the role of the executive leadership to insure that all leaders in the organization are sensitized to the dangers of assuming. It is the strategist who must take primary leadership for identifying explicit and implicit assumptions, then probing on an iterative basis to test the veracity of these so called "truths."

As you move forward to maintain the strategic focus of your leaders consider these questions. Has your leadership team recently challenged the underlying assumptions that underpin your organization's future? Are listening posts evident in your organization? What's been your experience in challenging status quo thinking?

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[i] The Innovator's Dilemma – When New Technologies Cause Great Firms to Fail, Clayton Christensen

[ii] The Strategy Paradox, Michael Raynor

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