1 Introduction – what are strategic conversations?

> A great part of the machines . . . were originally the invention of common workmen, who, being each of them employed in some very simple operation, naturally turned their thoughts towards finding out easier and readier methods of performing it. Whoever has been much accustomed to visit such manufactures, must frequently have been shewn very pretty machines, which were the inventions of such workmen, in order to facilitate and quicken their own particular part of the work.
>
> Adam Smith, *Wealth of nations*[1]

Many organizations are sitting on an untapped mother lode of sustainable competitive advantage and don't know it. We're talking about a massive amount of energy and imagination, informed by deep industry knowledge. It has the potential to help companies keep their business models fresh and vital. It's already paid for, but rarely deployed.

Where is this rich vein of untapped value? Right at hand, begging to be used: it's the business' own people. Many studies show employees want to make a difference.[2] They are eager to use their talents, domain knowledge, and energy to help grow their organizations. Too often, however, this potential is buried by management practices that stifle employee enthusiasm. Peter Drucker put it well, "So much of what we call management consists of making it difficult for people to work."[3] Most companies don't know how to ask employees to think about making the business stronger, don't have the processes to channel this energy, and don't know how to recognize and reward it. But just like Adam Smith's pin factory workers, today's employees have what Clay Shirky calls "cognitive surplus,"[4] time and mental space not tied directly to their day-to-day work lives. This uncommitted employee energy and imagination is available to the organizations, if only they knew how to harness it.

Wasting this talent is unacceptable today. In the world of globalization and cheap, near-instantaneous information flows, where the business landscape changes almost daily, companies need all hands on deck working constantly to renew their competitive advantage. They can no longer expect to grow and prosper with employees who just take orders. Engagement is an absolute requirement for staff as well: global competition does not treat withdrawn employees kindly. When their employers go out of business, disengaged employees find themselves on the street with atrophied skills and tarnished reputations.

Our book is a guide for leaders who want to develop an engaged and entrepreneurial workforce dedicated to creating value for the organization. It shows how what we call 'strategic conversations' – carefully designed dialogs between management and employees that engage the workforce to explore opportunities for, and constraints to, company growth – can unleash this employee energy. Through strategic conversations employees can contribute substantively to strategy development and business model innovation, activities that used to be the exclusive purview of the C-suite, and in so doing create substantial competitive advantage.

The promise of strategic conversations is already being realized by many leading organizations. These organizations have been able to:

1. strengthen decision-making under uncertainty;
2. develop and promote an entrepreneurial workforce; and
3. accelerate business growth.

As we'll see, they have done this at low or no incremental cost.

While there are ample examples of how to achieve the benefits of strategic conversation, there is no formula. Modern business is complicated – managerially, competitively, legally, technologically, and emotionally – for most people really do care about what they do at work. There is no clearly structured business model that identifies the resources, skills, and arrangements that make competitive success certain. The complexity of modern business also means senior management cannot have all the answers or achieve total control. Like us all, they depend on the advice and support of others with specific skills and connections.

The business teachers and financial press all too easily brush these inconvenient truths under the carpet as they watch from the sidelines and presume that business and managing can be reduced to a quantitative science. Managers know different. So our book is about how to share the burdens of business leadership practically between those with authority and those with important knowledge about how the business might best proceed. We argue that talk, respectful conversation between managers and engaged knowledgeable people, is the key to business success. From this point of view strategy and direction are not developed in isolation and delivered to the business as tablets of truth. They are best developed collaboratively, combining administrative needs with the facts of best practice.

While there is no single path for achieving the benefits of strategic conversations, both experience and theory provide clear guidance on key success factors as well as pitfalls. Our book's goal is to smooth your path to achieving the benefits of strategic conversations by giving you a solid understanding of what works and what doesn't. Because of the uncertainties of real business situations and processes, we know there is no single approach to strategizing, or to a business model, or its innovation. In the absence of such theory-claims we argue for respectful conversation – democratic dialog – between those that are engaged; the objective is to get many different contributions from many different people and turn them into collaborative practice.

Chapter 2, The strategic conversations imperative, explains why developing and implementing strategy and business model innovation is so difficult in today's environment, and why effective employee engagement gives the business a leg up. It also works to debunk many of the common objections to bringing employees to the strategy-making table. Given that strategic conversations are themselves a creative act of business model innovation, it's not surprising that they are employed in many different ways. Chapter 3, Strategic conversations in the wild, helps show that there are plenty of examples around already. We provide an overview of the myriad forms we have observed – often in combination – and analyze their relative effectiveness.

Starting with Chapter 4, Engaging employees in management's agenda, we move from describing strategic conversations to explaining how to put them into practice, sometimes by showing what they are not. Many organizations have used variations of the suggestion box to gather employees' views, and many corporate intranets have been created to do just this. But they have a poor track record. Understanding how strategic conversations operate helps clarify why they always beat trying to implement a theory. Contrary to what many assert, there are no theoretical bases for a successful business model or for optimal strategizing.[5] The image of the off-site brainstorming session that seeks such 'silver bullets' is burned into most executives' minds. Understanding strategic conversations helps explain why these seldom produce useful results. Chapter 4 provides techniques and guidance for leaders so that they can shape the conversation to ensure that it is grounded in the organization's goals and realities.

If there is no science or theory here, what is a strategy and how is it decided? We argue it only exists as real-world practice, a collaborative imaginative activity that adds value by engaging the business situation's uncertainties. Good strategy adds value, bad does not. The practice does not get 'designed' or 'decided' as much as it gets built, through dialog among people who know what they are talking about, as a matter of successful practice. Of course, it is meetings all over again – and why meetings are both inevitable and necessary, and sometimes productive. Leaders must learn how to set up and run productive meetings, especially about how to act when the facts are unclear and information about them is not widely shared. Increasingly effective communications mean these conversations can be 'real' or 'virtual.' At best, though, technologies merely facilitate what people choose to do. Chapter 5, Strategizing and the leaders' role, tackles these thorny questions and explores leadership's and employees' responsibilities to each other. It asserts that strategizing is continuously guiding practice rather than a discrete formalized decision process. And it's an activity that is uniquely human, fired by imagination, informed by personal and organizational values, and, by its very nature, ethically burdened.

Chapter 6 drills down on a particular mechanism for having a strategic conversation, what we call innovation communities. Showcasing this particularly rich type of strategic conversation will help deepen the reader's understanding of strategic conversations as a workable corporate practice. Strategic conversations are just that, conversations. How organizations carry on these conversations matters. Chapter 7 talks about the speech etiquette required for conversational success and why the way organizations hold conversations is much more important than the organization's structure.

Conversation is a dialog between two or more people that, to be effective, needs to be direct, meaningful, and have an impact on behavior. But how to have such conversations in large, global organizations? Cynics will insist large organizations are marred by infighting, turf wars, willful interference and other dysfunctions. Everyone has these stories to tell; but it is like a glass half empty. There is the complementary story of people helping each other without requiring or receiving benefit, for a business is not a perfect market in which everything has a price. The business only persists because it is a community. In practice, organizations function because people collaborate beyond what their instructions demand and so become members of a community, sometimes grudgingly and complaining, but a community nonetheless, like a family. Strategic conversations treat these aspects of organizational life as absolutely crucial and help bring them to higher fruition.

Chapter 8, Strategic conversations across geographies, generations, and the multitude shows how organizations can overcome these challenges and manage to have rich conversations, even under difficult circumstances.

Strategy needs to be influenced by an organization's internal resources and capabilities, as well as by external market forces. This means that effective strategic conversations involve the outside world as well. Chapter 9, Engaging the outside world in the firm's strategic conversation, shows how organizations can bring outsiders into the conversation to enrich the organization's understanding of the outside world, strengthen strategy, and stimulate business model innovation.

The benefits of strategic conversations don't stop with better strategy and more business model innovation. Chapter 10, Creating a self-reinforcing innovation platform – collateral benefits, shows how strategic conversations strengthen employee engagement, talent development, organizational learning, change management, and branding. It will show how new leaders joining the organization can use effective management of strategic conversations to supercharge their transition.

How do you know if strategic conversations are providing value? Chapter 11, Measuring the future, illustrates the various ways organizations have measured the impact of strategic conversations and offers suggestions for creating a simple but effective measurement regimen that will help instrument your strategy and business model innovation creation process.

Strategic conversations bring new requirements and responsibilities for leaders. The concluding chapter, Epilogue – on managing, explains how strategic conversations create deep human relationships that replace the more transactional ones found in command and control environments, and how, when managing is effective, many hands are brought to the pumps. This chapter explores how strategic conversations are morally freighted in ways that we're just beginning to understand.

2 The strategic conversations imperative

Global businesses, from GM to PwC, are facing increasingly complex problems. We need to expand the sources of solutions for everything from capital "P" problems like where do we find that next $100 million line of business to little "p" problems like how do we satisfy a particular client. Big or small, all these issues are amenable to engaging the diverse source of intelligence available from employees.

Sheldon Laube, Chief Innovation Officer at PricewaterhouseCoopers (retired)[1]

Often when we introduce the notion of employees having an important place at the table of strategy development and business model innovation, we are met with incredulity. "Wouldn't that just introduce chaos?" "You'll have the inmates running the asylum." "Employees just want to be heads down in their own jobs – they don't have time or interest for thinking about the organization as a whole."

Until recently, these types of responses would have been typical. But today we're at an inflection point. Organizational leaders have become acutely aware that the old ways of managing just aren't working. The digital revolution of ever cheaper information is changing the rules of the game. Since the 1960s, several related long-term trends, independent of economic cycle, have come to dominate the business world:

- The pace of innovation has increased.
- Competition has radically intensified, as reflected in both a reduction in the concentration of industries (meaning there are more competitors in a given market space) and an increase in topple rates (companies in the Fortune 100 are less likely to still be there five years hence).

- Overall, corporate returns on both assets and equity have steadily declined. On the demand side, with more information about pricing and quality, consumers are able to make better decisions that cut into margins once protected by brand. On the supply side, knowledge workers better understand their worth and are taking advantage of greater career mobility. The result: winners are barely holding on to what they had and laggards are taking it on the chin.[2]

For reasons we'll explore fully in this chapter, leading organizations are addressing these very problems by increasingly giving employees a seat at the strategy table – and often in unexpected places. PricewaterhouseCoopers (PwC), a huge, global partnership in a highly regulated industry with roots going back to the nineteenth century, would seem an unlikely candidate for this type of employee engagement, and yet even here thousands of employees have been involved in helping to architect the business. If strategic conversations can work here, they can work anywhere.

We'll return to PwC's story soon, but first we need to set the stage as to *why* organizations need to move strategy and business model innovation out of the C-suite and open it up to employees too. In order to do this, we'll need to carefully define what we mean by 'business model' and 'strategy.'[3]

First we'll look at the notion of the business model. The term has come into general usage only quite recently. It is now used regularly on the financial pages and in finance discussion on TV and among executives. Yet it has been difficult to know exactly what is meant. A great deal has been written on it. The core thought is that every business needs a business model, and the quality or potential of its model has a huge impact on the business' possibilities. According to economist David Teece:

> a business model describes the design or architecture of the value creation, delivery, and capture mechanisms it employs. The essence of a business model is in defining the manner by which the enterprise delivers value, entices customers [or donors] to pay for

> value, and converts those payments to profit [or public goods]. It thus reflects management's hypothesis about what customers want, how they want it, and how the enterprise can organize to best meet those needs, get paid for doing so, and [achieve its mission]. Whenever a business enterprise is established, it either explicitly or implicitly employs a business model.[4]

A business model embraces factors such as the supply chain, how products are marketed, how interactions with customers are managed, intellectual property policies, and the company's posture towards government and its regulations. It also includes internal factors such as hiring, business processes, outsourcing practices, and plant, office, and distribution locations.

Business models come in all shapes and sizes and it makes no sense to say there is some fundamental formula that all must follow. Our society and economy offers those who wish to be entrepreneurs an amazing variety of alternative ways of doing business and making a profit. This openness is one of our most treasured political achievements. It makes choosing precisely how to do business both interesting and demanding. Those who suggest that business models must have some common architecture miss the point. It is precisely because our economy is so open that choosing how to proceed is so tricky and demands such attention to detail. The essence of the business model lies in these details. This also means that the business model is the very opposite of the 'helicopter view,' some bland generalization about the business. The business model guides the attention of everyone involved on what details matter and which do not. It is a profoundly practical and empirical notion, the very opposite of any general theory about firms. Since so much of the detail is tied up with effective practice, it is probably impossible for anyone to appreciate the business model's essence unless they have worked in the firm's specific situation – as the academics say, 'inhabited' it. This is exactly why involving employees in the creation of the business model through strategic conversations is so vital; no one inhabits the business model more than the employees who work within its constraints.[5]

Nonetheless, we can make some general comments about business models and the choices made as they are constructed. The effectiveness of these choices is shaped by two factors: the organization's ability to execute on the business model and the business model's suitability to the business environment. The combination of the business model, the organization's ability to execute upon it, and the detailed structure and process of the external environment defines what we can call the organization's 'opportunity space.' These factors are never exactly the same for any two companies, so each business model is unique, and this is why managers sense their firms are different. Everything in this equation is dynamic and constantly changing, and so with it the business model.

The opportunity space is the company's market potential given its environment, including such factors as the demand for its products, the cost and availability of inputs, and the legal and legislative climate. In Figure 2.1, the opportunity space is represented by the space inside the solid lines. The different lines represent the constraints on the business model coming from multiple directions. Financial constraints are in one dimension, the firm's culture lies in another, while the status of its body of technical knowledge suggests a third. Empirical research shows most private sector opportunity spaces can be pretty well framed using around a dozen dimensions. Many of these are characteristic of an industry, though some will be reflections of the firm's own specific nature, founders, and history.[6]

Often, a business model doesn't fully exploit its opportunity space. For instance, without changing its business model at all a business might have the opportunity to expand into a geographic region – say Ikea into Beijing – to meet unfilled demand.

A company's opportunity space is constantly shifting and is often under attack from competitors as well as other forces, such as laws and regulations that might be imposed by governments. At the same time, the business may be able to shift some of the relevant