EXECUTIVE BRIEFING

STRATEGIC
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INNOSIGHT

# The Strategy Confidence Gap: Results From Our Survey on Strategic Readiness and Disruptive Change

## Executive Summary

Disruptive change is accelerating, driven by the rapid emergence of new technologies, the blurring of lines between industries, and competition from both traditional and nontraditional players. As a result, corporate lifespans are shrinking. On average, a company drops out of the S&P 500 list and is replaced once every few weeks. If current trends hold, *about 75% of companies on today's list* will fade away or get acquired by 2030.[1]

How does the shifting landscape affect enterprise strategy and corporate innovation efforts? To see how organizations assess their ability to anticipate and respond to disruptive change, Innosight recently surveyed more than 800 executives across 20 industries. The results shed new light onto the challenges and opportunities that leaders face in crafting strategies to steer their companies in both the near and long term. Top-level findings include:

- Fully 85% of respondents say their organizations need to transform in response to disruptive change – yet only 49% say that feel very confident or confident that their organizations are prepared for transformation in 3 to 5 years. That number drops to 42% in a time frame of 5 to 10 years.

- Large companies face an even greater "strategy confidence gap." 83% of respondents from companies with over $1 billion in revenue agreed with the need to transform, and only 36% say they are confident to do so in a 5 to 10 year time frame.

The confidence gap suggests that organizations lack both the long-term orientation and the tools to plot long-term strategy. The survey bore this out:

- Only 12% of organizations have a formal growth strategy with at least a 5+ year time horizon.

- The remaining 88% either have no formal growth strategy or it is shorter term.

This short-term bias has implications for the ability of companies to develop disruptive or transformational innovations—the kind that open new markets and attract new customers—and which typically require a longer-term perspective.

1. Source: Creative Destruction Whips through Corporate America: An Innosight Executive Briefing on Corporate Strategy; *Strategy & Innovation,* Feb. 2012

# The Confidence Gap: The Desire – But Not the Ability – to Transform

Transformation can be defined as changing your core product offerings or business model over time. An example is how IBM over a period of 15 years reshaped its computer hardware business—which faced severe disruption and decline—while it scaled up its services business to become a majority of its revenue. The result is a transformed and highly successful enterprise that doesn't look like the old IBM.

An overwhelming majority of respondents agreed on the need for transformation, with about 85% stating that they agree or strongly agree that their organization needs to transform. Among large enterprises (those with $1 billion or more in revenue), the result was about the same, 83%.

We also asked executives "how confident are you that your organization is prepared to change in response to disruptive trends?" We posed the question over different time frames to see if their confidence levels increased or decreased over time. Among all respondents, 42% were "very confident" or "confident" that they are prepared to transform within a 5 to 10 year time frame. That percentage was just 36% percent among respondents at large enterprises. A significant percentage (27%) of those at big companies said they are "not at all confident."

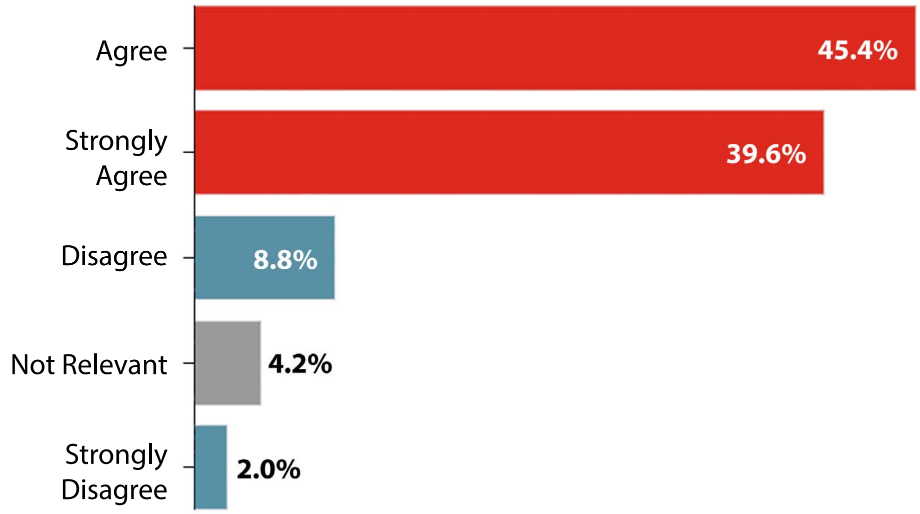
Individual responses revealed a range of reasons why the prospect of transformation is so challenging at large enterprises. "We have the information but not the impetus," said one executive. Another said that "innovation is limited to small changes in existing product lines."

**Only 36% of respondents from large companies say they are confident they can transform their organizations in 5 to 10 years.**

But there are some bright spots, at least anecdotally.One executive said: "We are in constant transformation, and we are tackling new trends in emerging markets." Said another: "We have been aggressively pursuing change and tracking the way the market is headed in order to position ourselves to be a continued leader."

**QUESTION**
**Our organization recognizes the need for transformation in response to rapidly changing markets.**

## STRONG AGREEMENT ON THE NEED TO TRANSFORM



## A Struggle to Keep Pace: A Sense of Falling Behind the Market

The pace of disruptive change can seem overwhelming at times, and strategic confidence levels could be affected by how executives perceive their organization's ability to keep pace with shifts in the market.

To probe more deeply into how companies assess their ability to change, we asked a series of questions about the pace at which companies believe they can respond to disruptions and new growth opportunities. Since measuring the pace of change within a company is difficult, the survey instead asked executives to benchmark their organization against the overall market.

The results suggest that few organizations believe they are moving faster than their competitors or the overall market. About 30% of companies of all sizes say they are "changing at about the same pace as the market." Another 30% reported that they are "changing somewhat slower than the market."

But large enterprises (again, those with over $1 billion in revenues) report an even more difficult time keeping pace, with 48% saying they are responding to marketplace disruptions "somewhat slower" or "much slower" than the market. In a related question, 44% said that they are responding to new growth opportunities "somewhat slower" or "much slower" than their competitors.

Only 21% of big companies say they are changing "much faster" or "somewhat faster" than the overall market in response to disruptive change.

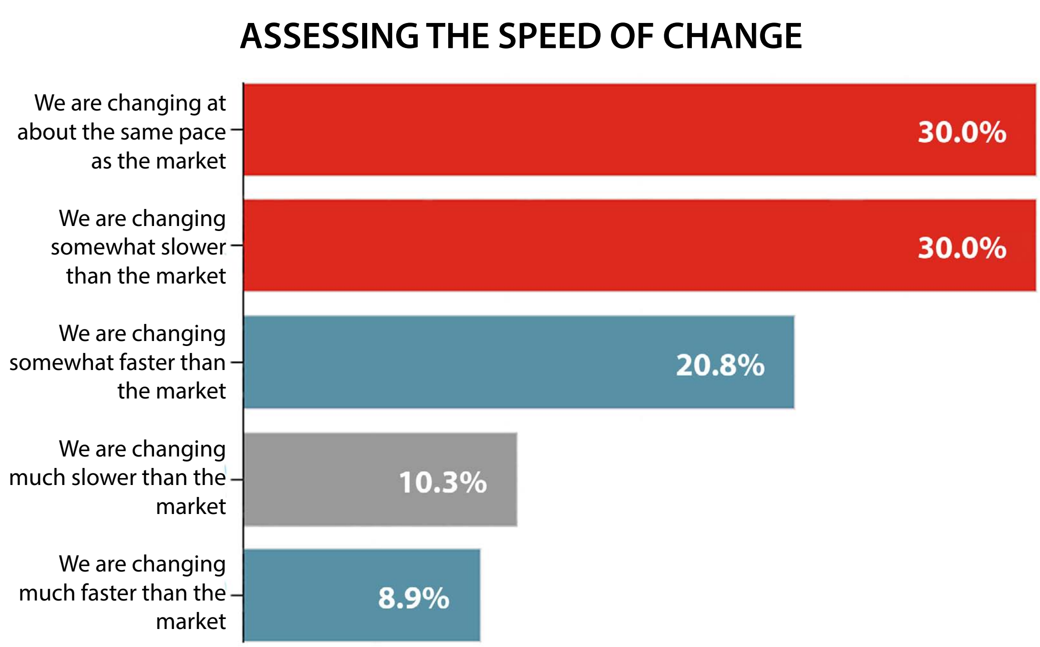
These results show how difficult it is to capture competitive advantage in a world where customer needs and expectations often shift at the same pace that technology is advancing.

### Nearly half of large enterprises say they are changing more slowly than the overall market.

Respondents raised big questions about how rapid change affects their firm's ability to compete: "How can we transform culture at a time when customer expectations are undergoing rapid change?" asked one. "How can we establish an entrepreneurial culture in a large, risk-averse organization?" asked another.

Many executives pointed to cultural issues at their organizations: "We have high institutional rigidity and resistance to change," said one executive. "Rapid technology changes (i.e. mobility and cloud) are impactful before they are understood," said another.

**QUESTION**
**Please describe the pace at which your organization is currently able to respond to marketplace disruption.**



## Strategy Shortfall: Growth Plans Focus on Near-Term

To understand how companies plan for innovation and growth, we asked companies to describe the time horizons of their growth strategies.

A surprisingly low percentage of organizations reported having a long-term strategy for growth. According to our survey, only 12% of organizations have a formal growth strategy with at least a 5+ year time horizon.

The remaining 88% say they either have no growth strategy or that it's shorter term, with a full 29% saying they have only an informal growth strategy.

One senior leader who understands the importance of investing in long-term, new growth businesses—the kind that typically require five or ten years to pay off—is Jeff Bezos of Amazon.com

Bezos recently showed a concept video of unmanned drones delivering packages to doorsteps. When pressed how long it would take to get there, he said more than five years. While drones may seem like a far-out idea for a retail business, that kind of innovation and strategy horizon is no different than the many other disruptive ventures that Amazon has invested in and launched over its history. For instance, the company is now a dominant force in cloud computing services, even though that business was a non-core area five years ago.

As Bezos explained recently, "The long-term approach is rare enough that it means you're not competing against very many companies. Most companies want to see a return on investment in, one, two, three years. I'm willing for it to be five, six, seven years. So, just that change in timeline can be a very big competitive advantage."

**"The long-term approach is rare enough that it means you're not competing against very many companies."**

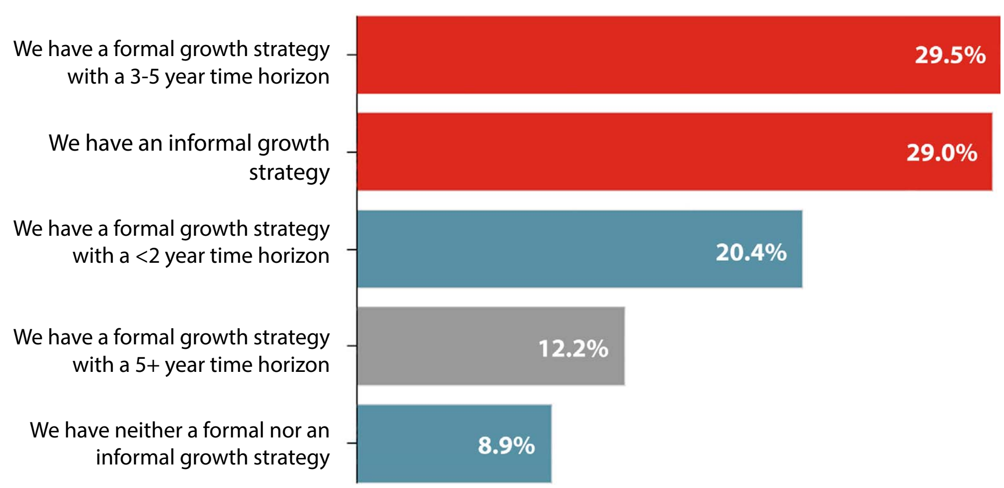
**– Jeff Bezos, CEO Amazon.com**

When organizations lack a long-term strategy that guides day-to-day work, executives can often experience frustration. A common set of struggles are suggested by these statements from respondents: "We're kept in the short-term focus trap," said one. "Putting out fires is our main challenge," said another.

In some cases, changes in leadership can result in abandoning long-term strategies. "A good strategic plan was developed two years ago, but then the executive changed, and he didn't see the value in the existing strategic plan. The result: demoralization, no new ideas, no strategic focus, conflict, low performance."

### GROWTH STRATEGY TIME HORIZONS

**QUESTION**
**Which choice best describes your organization's growth strategy?**



# Process Shortcomings Undermine Long-term Planning

More than 60% of enterprise executives surveyed said that they do not use scenario planning or other strategy tools to identify trends 7 years or further into the future.

The most common reason for not doing scenario analysis was, somewhat surprisingly, not an organizational bias toward the short-term but the lack of a reliable tool for long-term planning: 41% of respondents said "we don't have a good process for confidently envisioning the future."

This response was twice as popular as the next most common answer, where 19% of respondents said that the market was too unpredictable to spend time doing scenario analysis. Meanwhile, 15% said "we spend most of our time fighting fires and don't have time to think about the future." Another 14% said "our leadership doesn't have a long-term focus."

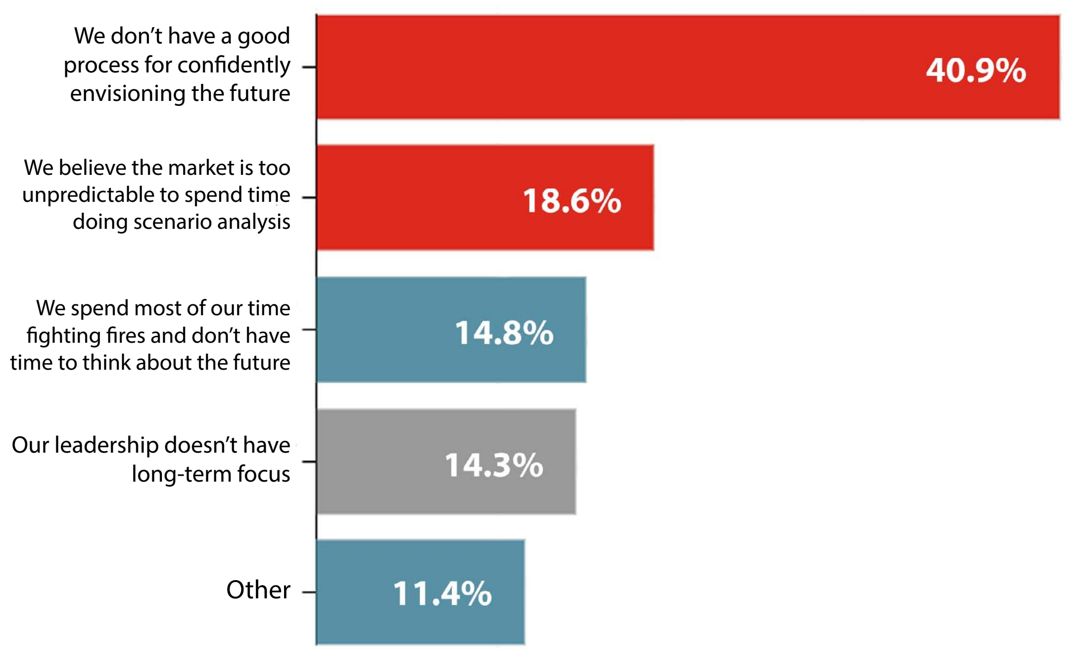
Of those who do use these kinds of strategy tools, about 38% reported that they are "incredibly useful" and 56% said they are "moderately useful." This suggests that while the process might be difficult, more robust and precise tools typically do improve outcomes.

## While strategic planning is difficult, more robust and precise tools typically improve outcomes.

Moreover, companies that use these tools report greater confidence to respond to longer-term marketplace disruptions. Fully 50% said they were "confident" or "very confident," compared with 37% who don't use planning tools.

**QUESTION**
**You've indicated that you do not use scenario planning or long-term planning tools. Please explain why.**

### REASONS FOR NOT DOING SCENARIO PLANNING



## Technology and Changing Consumer Preferences Expected to Be Most Disruptive

Markets can be disrupted by a number of different but inter-related forces, including new technologies, changing consumer behaviors, globalization, and lower cost solutions.

When asked to assess how strongly these forces would affect their business in the next 5 years, 93% said changing "disruptive, lower cost solutions" would have significant to moderate impact. That was closely followed by 92% of respondents who said "new, enabling technologies" would have significant to moderate impact.

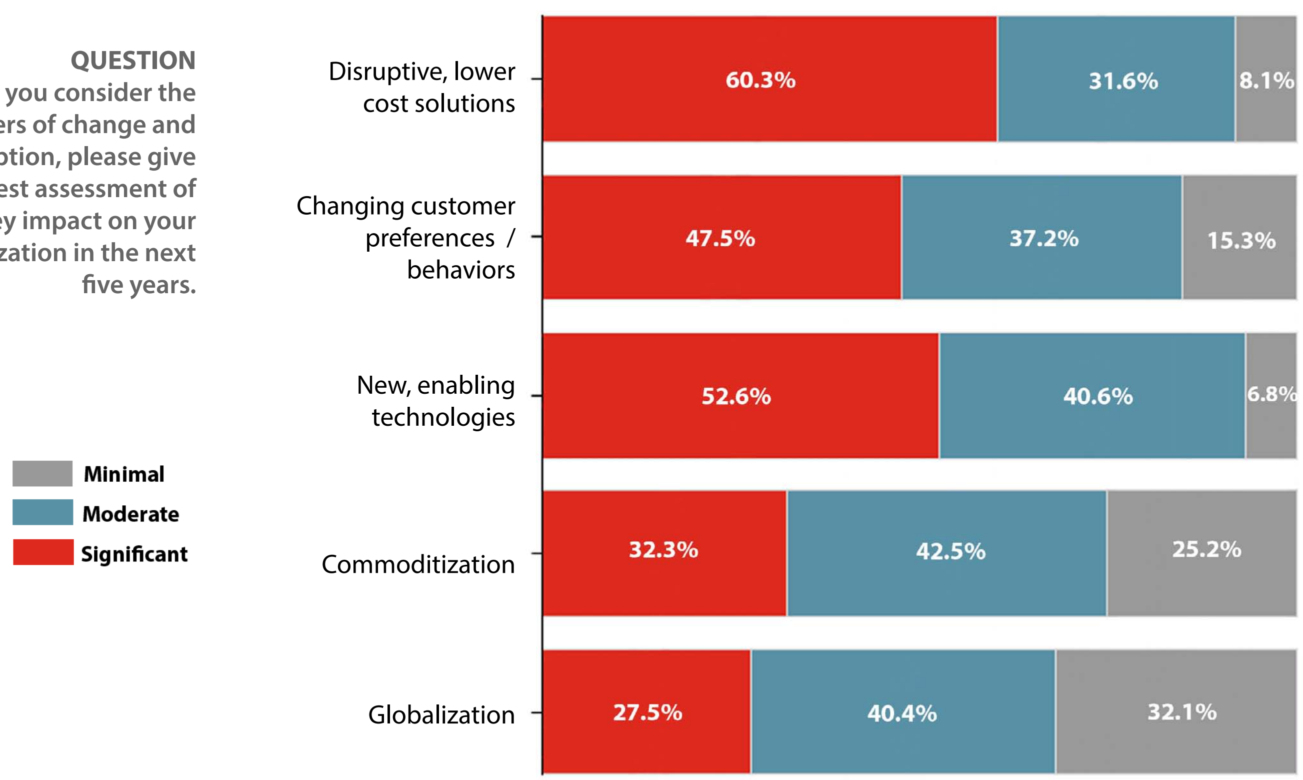
Interestingly, commodization and globalization are expected to bring the least amount of change. 75% of respondents said commodization would have significant to moderate impact, while only 68% said globalization would. Meanwhile, a full 32% said globalization would only have *minimal* impact. (Respondents to this question were able to choose all answers that apply.)

These trends were fairly consistent across different size companies, though there were a few interesting differences. For example, respondents from large companies showed more concern about commodization than any other size company, with 44% of those respondents saying it would have "significant" impact, compared with 35% from the next highest group (companies with revenues between $500 million and $1 billion).

In some cases, failures to anticipate and plan for disruption can be catastrophic. "Failure to detect global changes and connect the dots is critical," said one respondent. "In our case the company collapsed into bankruptcy."

### ASSESSING THE IMPACT OF DISRUPTION

**QUESTION**
**When you consider the drivers of change and disruption, please give your best assessment of their likey impact on your organization in the next five years.**



## No Lack of Ideas, But Difficulty Getting Through Innovation's "First Mile"

Since the ability to innovate reliably and repeatedly is critical to achieving sustainable growth, we wanted to understand the innovation bottlenecks inside organizations. Asked what their company's biggest innovation challenge is, only 11% cited "developing ideas."

Meanwhile, about 20% cited "commercializing ideas" while 22% cited "scaling new ideas in the market."

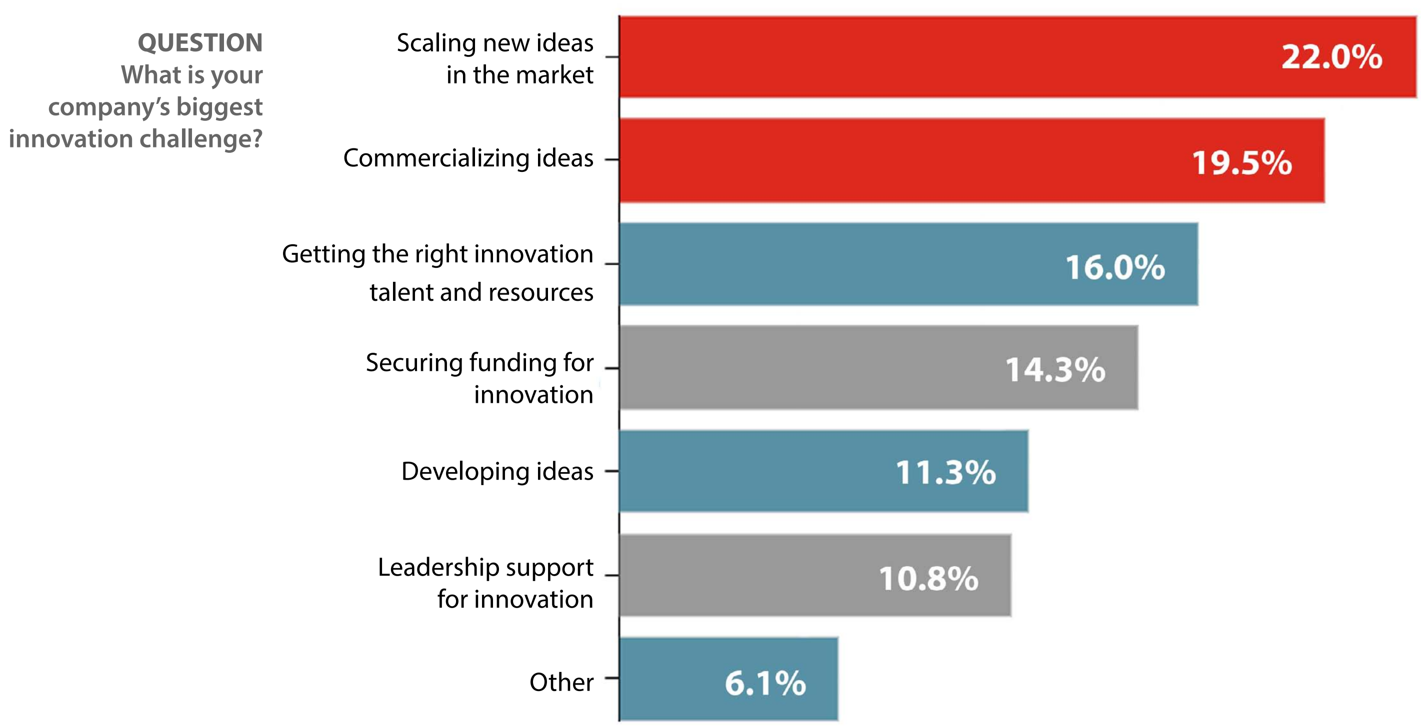
These were the two most popular replies, which is consistent with what we've found working with corporations throughout the entire innovation lifecycle. The most critical stretch of that lifecycle is what we call the "the first mile," where an innovation moves from being an idea on paper into the market. In general, companies that adopt an approach of trial-and-error experimentation do a better job of navigating the financial, human capital, and business model challenges that make this stage of innovation so complex, says Scott Anthony, Innosight's managing partner, who explores this topic in his new book from Harvard Business Review Press.

**Only 11% of respondents cited "developing ideas" as their biggest innovation challenge.**

In our survey, other hurdles also stand in the way of innovation efforts, including gaining "leadership support for innovation" (11%), "securing funding for innovation" (14%) and "getting the right innovation talent and resources" (16%).

Different companies have different innovation strengths and weaknesses. But any one of these bottlenecks can slow down or block an innovation initiative. Taken together, all of these challenges are important parts of a complete innovation system that organizations need to put in place if they aim to reliably produce new products and business models that lead to growth.

### BIGGEST INNOVATION CHALLENGES



## Key Takeaways and Conclusions

1. Organizations closing the confidence gap between the desire and the ability to achieve business transformation are **investing in planning methods that help align senior leaders on long-term growth strategies.** Without a dedicated effort, and a process that guides decision making and innovation, leaders will be overwhelmed by short-term demands, despite the best intentions.

2. **Having a long term growth strategy can be a source of competitive advantage.** It may seem paradoxical to invest in a long-term strategy when rapid change seems to make planning obsolete. But without a vision of where markets and customers are heading long-term, and without a road map for anticipating disruptions that lie ahead, organizations are essentially flying blind in some of the most turbulent conditions imaginable.

3. **Transformational innovation takes time to pay off, sometimes as long as 5 to 10 years.** While shorter-term innovation can yield incremental improvements to existing products, the kind of innovation that leads to new business models, opens new growth markets, and attracts new customers typically starts out as small, uncertain projects that are susceptible to being shut down in organizations that aren't guided by a long-term growth strategy.

4. Emerging technologies will provide opportunities for incumbents to develop new products but also continue to give rise to disruptive startups. Across industries, **companies that invest in new digital services, products and business models and products will be better positioned to harness disruptive change.**

5. You can't predict the future, but you can see where the market is headed by paying close attention to customer behaviors. **Companies need to continuously reprioritize which consumer needs will be important in the future** by closely observing and listening to their customers and understanding their most important "jobs to be done." By focusing on the fundamental problems people need to address, particularly those that are not being adequately satisfied, you can better anticipate shifts in your existing customer base and also envision new opportunities to create value for potential customers in the future.

## Methodology and Participant Profile

Innosight surveyed 823 *Strategy & Innovation* subscribers online in January 2014 and fielded approximately 100 open-ended responses.

Sixty percent of respondents were in senior management (with the largest category being CEO/ Managing Director). Fully 53% were in strategy or general management roles, and 15% were in marketing or product development. Twenty-three percent of respondents worked in organizations with revenues exceeding US $1 billion, while 19% worked in organizations with revenues between $50 million and $1 billion. Respondents spanned more than 20 industries, including financials and insurance, health care, telecommunications, and consumer goods.

## About Innosight

Innosight is an innovation consulting firm that helps organizations navigate disruptive change and manage strategic transformation. Cofounded by disruptive innovation pioneer Clayton Christensen, we work with leaders to create new growth strategies, build innovation capabilities, and accelerate new ventures. Discover more about who we are at www.innosight.com.

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