ILLUSTRATION MATTHEW BILLINGTON

Ambidexterity Inc.

Understanding an ambidextrous organisation is one thing, making it a reality is another. **Antonio Nieto-Rodriguez** provides an execution

Imagine you had to do your work using both hands; sometimes the left, sometimes the right and other times both of them simultaneously. Imagine if everyone in your organisation faced the same challenge.

Being able to use both of your hands adroitly is known as ambidexterity. And this is a phenomenon increasingly applied to companies where the tension between two different business models is described as "organisational ambidexterity". The concept was first applied to managerial contradictions by the academic Robert Duncan in 1976 and has since entered various streams of research – in strategic management as alignment versus adaptability; and in operations management as flexibility versus efficiency; or in innovation management as radical versus incremental.

Research has shown that ambidexterity leads to higher performance but at the same time it emphasises that the tension between two distinct capabilities is a key challenge.

Exploration and exploitation

The most accepted definition of ambidexterity is a balance between explorations and exploitation; organisations capable of exploiting their existing competencies while simultaneously exploring new opportunities. James March refers to this as the exploration of new possibilities and the exploitation of old certainties. Exploitation includes such things as choice, refinement, production, selection, execution efficiency and implementation. While exploration encompasses knowledge creation and analysis of future opportunities.

Organisations that engage in exploration to the exclusion of exploitation are likely to find that they suffer the costs of experimentation but without gaining many of its benefits. These companies exhibit too many undeveloped new ideas and often too little distinctive competence. A well-known example of too much emphasis on exploration is Ericsson, the telecom giant that led the development last century of the global system for mobile communications. At its peak, its R&D organisation employed 30,000 people in 100 technology centres and with considerable duplication of work. Despite its strong focus on exploration, the company's results went into steep decline. Ericsson laid off around 60,000 employees and closed most of its technology centres to put focus back on exploitation in order to return its businesses to profitability.

> Ambidexterity is a balance between explorations and exploitation

Conversely, organisations that engage in exploitation to the exclusion of exploration are likely to find themselves trapped in stable equilibrium; going nowhere fast but efficiently.

Maintaining an appropriate balance between exploration and exploitation is a primary factor in the prosperity of any corporate system.

Problem solving

Most of the academic work and research has focused on trying to explain the problem of organisation ambidexterity. Julian Birkinshaw and Cristina Gibson in their 2004 article 'Building Ambidexterity into an Organisation', (*MIT Sloan Management Review* 2004), are among the very few scholars trying to provide a framework for businesses to become ambidextrous. They describe organisational ambidexterity as the capacity to simultaneously achieve necessary alignment (exploration – excellence in daily operations) and adaptability (exploration – referring to the organisation's › ability to innovate and change in response to the changing demands in the environment). To ensure long-term success, an organisation needs to be able to master both adaptability and alignment. Focusing too much on that alignment can often make an organisation lose long-term vision, while emphasising adaptability over alignment means building tomorrow's business at the cost of today's.

Birkinshaw and Gibson explain that the two forms of organisational ambidexterity come under two categories: structural and contextual:

• **Structural ambidexterity** is all about creating separate organisations or structures for different types of activities, organisations that are either solely aligned or solely adaptive, where employees have clear mandates and then they are rewarded accordingly.

• **Contextual ambidexterity** is when individuals make choices between either the exploitation-oriented or the exploration-oriented activities in their daily work. And to allow this, it is necessary for the organisation context to be more flexible, allowing employees to use their own judgement as to how they divide their time between their adaptation-oriented and their alignment-oriented activities.

Unfortunately, in today's world, very few organisations can afford to have independent structures to focus solely on exploration. This was the case for many companies which invested heavily in R&D (such as Ericsson). These companies usually had a fairly independent organisation, with its own management and own budgets, isolated from the core day-to-day business. But after the crisis and the resulting extreme focus on efficiency and cost control most of these independent structures have been drastically reduced or dismantled.

A new view

It is clear that the structural separation focused on by much academic research is unrealistic. It is mostly focused on theory rather than practice and riddled with jargon like “exploitation, context, exploration and organic systems ambidexterity”. So it is little wonder that organisational ambidexterity often fails to resonate with executives as an important concept, and yet, it has been proven that it leads to greater returns.

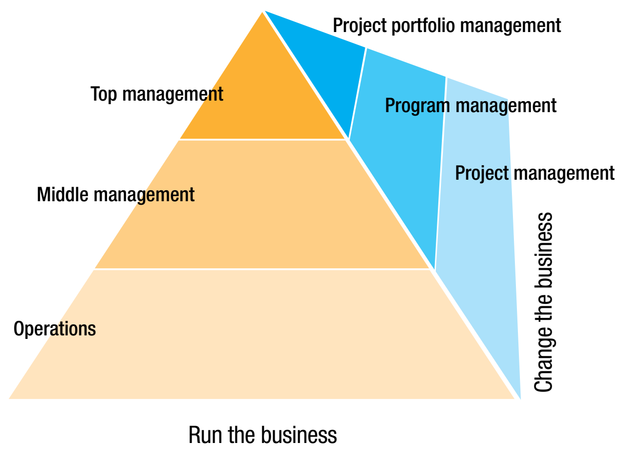
As a practitioner I have had to develop an effective means to communicate and execute these concepts. And to do so, I describe this concept of organisational ambidexterity as the tension between two different business models: running-the-business versus changing-the-business.

• **Running-the-business** is the alma mater of the organisation. It includes the core processes, such as operations, sales, customer services and finance. Most of the revenues generated by any given firm will come from the running of business activities. Running-the-business keeps the company alive, if you stop running it, the company will quickly die. And the focus of running-the-business is a short-term one; objectives are mainly commercial, financial and performance-driven; it is about efficiency, productivity, speed; in academic terms it is about exploitation. It is akin to writing with the right-hand.

• **Changing-the-business** is the future of the organisation. It includes all the initiatives, projects and the strategic and tactical programmes. Organisations often have hundreds and thousands of initiatives running in parallel. Changing-the-business creates future value for the organisation; the objectives are often more strategic and closer to the vision, but the benefits are only achieved in the medium and long-term, and, as such, are less tangible and quantifiable than operational objectives. These targets aim at transforming the business to significantly increase its growth and its profitability. In addition, it is highly risky and there is no certainty that benefits will be achieved at all. In academic terms this is exploration. It is akin to painting left handed.

Ambidexterity in an organisation

Two different business models.... that need to stick together



The main trouble that senior executives have in practice is that it is very difficult to focus on both dimensions at the same time. If you focus too much on the short-term objectives, the competition will soon catch up as market conditions evolve. On the other hand, if you put too much into changing-the-business, you sacrifice today in the hope of a better future.

“Changing-the-business is the future of the organisation. It includes all initiatives, projects and tactical programmes”

And, to make it even more complicated, being successful in a single dimension is also extremely difficult. Revealing research by Manuel Hensmans and colleagues investigated 215 of the largest publicly listed UK firms over a period of 20 years, from 1984 till 2003. First they looked at how well companies could run their business over a long period. Out of the 215, only 28 of the companies were able to consistently perform at the frontier of their sector over the two decades. Of this 28, only three were able to make major strategic changes while still performing consistently over the 20 years.

Ambidextrous real time

So, how does all of this affect strategy execution and the management of the business?

To better understand the dichotomy between running and changing-the-business and the implications in terms of strategy execution, I looked at the strategies of 40 of the Fortune Global 500 in 2010. I assumed that when defining their strategies, most companies do not differentiate between their operational and their strategic objectives. As an illustration, listed below are the strategic objectives of three of the top companies in the world. In parentheses I assess whether those strategic objectives will be achieved through either running-the-business, changing-the-business, or both:

Walmart

Rank: 1

2010 revenues: $408,214m

• Dominate the market wherever Walmart has a presence. (Run-the-business).

• Grow by expansion in the US and internationally (Change-the-business).

• Create widespread name-recognition and customer-satisfaction with the Walmart brand, and associate the retailer with the reputation of offering the best prices. (Both run- and change-the-business).

• Branch out into new sectors of retailing such as pharmacies, automotive repair, and grocery sales. (Change-the-business).

Royal Dutch Shell

Rank: 2

2010 revenues: $285,129m

• Reinforce position as a leader in oil and gas to provide competitive shareholder return while helping to meet global energy demand responsibly. In a new period of growth sharpen performance and achieve a reduction in overall costs. (Change-the-business).

• In Upstream, explore new oil and gas reserves and develop projects where the company's technology and know-how add value to the resource holders. Assessing more than 35 new projects from some 8 billion barrels of oil equivalent resources, which should underpin Upstream growth to 2020. (Change-the-business).

• Downstream continues to focus on profitability, with plans to exit 15 per cent of refining capacity and 35 per cent of retail markets and growth investment to enhance the quality of manufacturing and marketing portfolios. (Both run- and change-the business).

“If you focus too much on short-term objectives, the competition will soon catch up”

Toyota

Rank: 5

2010 revenues: $204,106m

• Increase supply of low CO_2 / fuel-efficient vehicles (HVs and compact). (Both run- and change-the business).

• Improve profitability through cost reduction. (Change-the-business).

• Expand all operations in resource-rich countries and emerging markets – full entry into the Indian and Brazilian markets. (Change-the-business).

• Accelerate PHV and EV development (Change-the-business).

• As it can be seen, the leading companies in the world mix short with long-term objectives and they lack a clear finish line. Most of the time it is a mix of running and changing the business's activities; more proof that organisations need to build ambidexterity capabilities, especially considering that strategic objectives of organisations competing in the same industry are very similar.

The dominant context

The trouble is that while the mix is the thing, the organisation context (all of the systems, processes, governance, values, culture, rewards and so on that make up an organisation) tends to focus on running-of-the business as explained in the table (right), and yet, the company's future value is mostly created by changing-of-the business: ›

Elements	Evidence
Organisational Leadership & Culture	Today, the culture of the company is very much focused on running-the-business. Top management's main priority is to deliver short-term commercial and/or financial results, monthly or quarterly. Most companies lack an execution culture.
People & Skills	The majority of the people working in today's organisations are busy working in processes. Career paths are defined for staff working in running-the-business. For example, marketing, sales and finance staff have more chances of climbing the corporate ladder than staff working in projects. Finally, rewards, yearly bonuses, are linked to the results of running-the-business. Companies don't have a defined way to reward people delivering successful projects.
Structure & Governance	Businesses' organisational charts still strongly reflect their processes and the run-the-business activities. Each of the core and supporting activities is represented in the form of a department, with the responsibilities, resources and budgets managed by the respective department heads.
Processes & Methods	In order to make processes more efficient and less costly, businesses have documented and standardised all of their core and supporting activities. Most quality standards, like ISO 9000, focus on standardising operations. Large companies, in particular, have a strong need for standardisation. Another clear example is the accounting rules and the budgeting cycle, which are solely oriented to cover the run-the-business/operations dimension.
Systems & Tools	Most of the important systems have been implemented to manage and to monitor run-the-business/operations, in particular the core activities. For example, the main goal of the Enterprise Resource Planning (ERP) systems, which every business now has in place, is to automate sourcing production, distribution, and finance.
Performance Management	Today most of the top management performance monitoring models and applications solely cover the run-the-business/processes dimensions. Reporting is mainly done on the progress and the outcome of the execution of the processes.

ILLUSTRATION MATTHEW BILLINGTON

Six pillars

Building organisational ambidexterity requires a radical change in every single element that composes a company (the organisational context). I have developed and road-tested a framework that addresses these six critical pillars:

1. Leadership and culture

Leadership is where everything starts and ends in a company. Although the company's culture and values are defined over time and can remain unchanged for decades, the CEO and top management can alter these elements at any point with their messages and actions. In an ambidextrous organisation, the CEO is the main driver of change; thus, he or she needs to be the first one to adopt the culture and values and to gain top management's support in transmitting these principles to the rest of the organisation. Top management needs to be aware of how run-the-business and change-the-business activities operate independently as well as being aware of how they interact (Jack Welch at his time as General Electric's CEO is the perfect example).

2. People and skills

The biggest challenge to the People and Skills pillar of an ambidextrous organisation is often to seamlessly align two different sets of HR models. The organisation must first define the change-the-business aspect and then integrate it fully with the run-the-business model. Highly motivated employees will gain experience in both dimensions alternately, for example, spending two years in a marketing position and then moving on to manage a CRM implementation project. Employees cannot become managers if they have not previously managed a large project (which is the case in the Dutch company, Philips) . It is important that HR management is aware of these different models and that it takes them into account when defining the organisation's HR policies.

3. Structure and governance

Having the right organisational and governing structure is probably the biggest challenge of becoming ambidextrous. Making changes within an organisation is extremely complicated and this is for two fundamental reasons: those that pertain to history and those relating to human behaviour.

> "Individuals that make up an organisation have their habits, and they are reluctant to change"

First, organisations are built over many years; and over time, they become rusty, expensive to run, and out of touch with reality. Second, the hundreds and sometimes thousands of individuals that make up an organisation have their old habits, which they are often reluctant to change. Some of these individuals are also influenced by decision-making power, which often means who has the largest department, the highest budgets, and the biggest salary.

This pillar is one of the most difficult business elements for which to find the right balance, because both the organisation and the external environment are constantly evolving and changing. (Microsoft has recently announce a large reorganisation to adjust its imbalance and become more agile) Implementing the right connections between the change-the-business and the run-the-business activities is fundamental for the execution of the strategy.

If this optimal balance is achieved, the organisation will become extremely responsive to the changed environment and able to quickly react to the competition. Eventually, the organisation can become a trendsetter in its industry. (Companies that excel in execution establish a Strategy Execution Office that connects both dimensions. Harvard Professors Kaplan and Norton refer to it as the Office for Strategy Management.)

4. Processes and methods

Processes, methods, and standards are necessary to ensure that work is performed consistently throughout the organisation. Each process has a specific objective, which requires the performance of certain activities to produce the desired output. Not only do processes help to gauge performance and efficiency, they also facilitate continuous improvements and they give management better control over the company. Nevertheless, most organisations have mature run-the-business processes. This is not so with the change-the-business dimension, whose processes are not fully developed and which are also much less embedded in the organisation, or for the link between the two dimensions.

Project- and programme-management are the central change-the-business processes. This methodology comprises a set of standards, templates, roles, responsibilities, and governing bodies whose objectives are to always ensure consistency in management and execution of projects.

The layer that rests on top of all project and programme management activities is project portfolio management. And this is the cockpit of the change-the-business dimension. It should be a structured approach for collecting all of the new project ideas; a procedure to prioritise and select the new project ideas.

> "The all-embracing strategy execution tool has not yet been invented"

Ongoing projects must also be prioritised, particularly the first time the prioritisation process is implemented. The selection process has to be fair and transparent, based on criteria against which the new proposal is assessed. Some of the common criteria for analysing the new ideas are net present value (NPV), return on investment (ROI), payback period, strategic alignment, as well as risk and complexity, and interdependencies. One very important selection criteria involves ensuring that the company has the right competencies to deliver the project; this is determined by performing a capability check. I recommend not developing formulas that automate the process of prioritising and selecting the projects. The exercise is mainly to provide management with different orientations and viewpoints, but the ultimate decision has to be made by management based on human intelligence.

To become an ambidextrous organisation, the run-the-business and the change-the-business processes and methods must interconnect at certain critical points. If these connection points are missing, the company will remain very strongly unbalanced in the direction of its run-the-business side, as this is generally its dominant dimension.

5. Systems and tools

None of the improvements above can be achieved without a set of critical systems and tools that support the execution and management of both the run- and change-the-business components. Organisations today are composed of an amalgam of applications. Each dimension has specific applications that are needed to efficiently perform its role in the business. If we consider that strategy execution is the combination and integration of the run and the change, then we can conclude that companies today don't have any software to plan and to execute their strategies.

This is one of the reasons why strategy execution is so difficult; and although many IT vendors claim to have produced a strategy execution tool, this is not the case. In fact, there is no single tool that can cover both sides of the business and consolidate the information to allow management to follow up the execution of their strategies. The all-embracing strategy execution tool has not yet been invented. On the other hand, being regularly confronted with the lack of such a tool has led me to find a temporary solution that I believe should form the basis for its future development.

This temporary solution involves building a strategy execution system based on a dynamic enriched data warehouse with simulation functionalities. The data warehouse connects to all the relevant systems used in the run- and the change-the-business dimension and extracts only the relevant data needed for management to build and follow up on the strategy. The tool also establishes controls on the quality of the data, monitoring the accuracy of the information but ensuring that the data is corrected at the source.

6. Enterprise performance management

Enterprise performance management is the name given to a framework (e.g., processes, tools, performance indicators) that manages performance and measures it against predefined operational, commercial, and strategic goals. Some of the very well-known strategy execution management methodologies include something called total quality management (TQM), Economic Value Added (EVA), Six Sigma (6∑), and Activity Based Costing (ABC); but the one that is most widely used is the Balanced Scorecard, developed in 1992 by Robert Kaplan and David Norton. The main drawback of the Balanced Scorecard, and the other enterprise performance management methodologies, is that they address only the run-the-business dimension, thus failing to account for a large and key element of strategy execution. Enterprise performance management should always be a top-down framework that focuses on managing the execution of the firm's strategic goals. It should cover both run-the business and change-the-business dimensions and monitor the execution of commercial and operational goals with the company's strategic roadmap. ■

Antonio Nieto-Rodriguez (antonio.nieto-rodriguez@gmail.com) is Head of Transversal Portfolio Management at BNP Paribas Fortis. He teaches Strategy Execution at Solvay Business school, Vierick, Instituto de Empresa and Duke CE. He has an MBA from London Business School and is author of *The Focused Organisation* (Gower, 2012).

Resources

Paul Adler, B Goldoftas and DI Levine, 'Flexibility versus efficiency?', *Organization Science* 10 (1) (1999); Michael Tushman and Charles O'Reilly, 'Ambidextrous organizations', *California Management Review* (Summer 1996); Sebastian Raisch and Julian Birkinshaw, 'Organizational ambidexterity', *Journal of Management* (March 2008); Manuel Hensmans, Gerry Johnson and George Yip, *Strategic Transformation: Changing While Winning*, (Palgrave Macmillan, 2012); A Nieto-Rodriguez, *The Focused Organisation* (Gower, 2012)