Why is strategic IQ so important in today’s marketplace?

It’s no secret that change takes place faster today than ever before, and certainly technology has played a key role in accelerating the pace of change. As a result, companies are forced to adjust at a fundamental level, and this makes them uncomfortable.

A company’s strategy is a series of choices that, to be effective, must remain consistent with what’s happening in its competitive environment. As this environment changes constantly and quickly, a company that is not prepared to keep pace will ultimately fail. Still, many companies find it difficult to adjust their strategies. If a measure of intelligence is the ability to adapt to an evolving environment, then these companies can be said to lack strategic IQ. They are unable to respond in a timely fashion to the need for change. Others that are capable of responding more quickly to change when the economy is robust are able to pull ahead, and therefore have a much higher chance of survival when challenges arise in the marketplace.

What dangers face a company that is not designed to evolve?

When a company chooses a long-term strategy without incorporating the ability to change on an ongoing basis, it is putting itself at risk. Essentially, the company is committing to a strategy and moving forward as if wearing blinders. Even if it executes its strategy effectively, it may soon find that it is effectively executing a strategy that’s outdated or flawed.

In time, failure to change at a fundamental level is reflected in the company’s performance, and the natural reaction is to simply work harder rather than revise the strategy. Unfortunately, this approach actually works in the short term: greater effort brings the company closer to maximum operational efficiency and results temporarily improve, which only reinforces its flawed approach. Before long, however, performance declines again, and then the company has to try something else. So, it reduces overhead costs to try to become even more efficient. All the while, the company is postponing major strategic change, which causes it to gradually lose the ability to change. By the time the company recognizes the need to adjust its strategic course and is ready to act, the process has become extremely difficult and expensive.

The fundamental mistake in the company’s approach is that it frames the issue as “When should we change?” In reality, the company should be changing all the time. So, the question is not “When?” but rather “How?”—the process should be gradual, ongoing, and designed to benefit from the current strategy.
What are the key traits of companies that succeed rather than fail?

Successful companies can be identified in terms of their strategy, structure, and people.

The most successful companies are never satisfied with their current strategy. This means, of course, that they actually have a strategy—it’s difficult to change something that isn’t defined. So, successful companies have a clear idea of what they’re trying to achieve, and they’ve laid out a model for success. At the same time, they’re always trying to improve their approach—to push for greater customer satisfaction, drive down costs, and widen the gap between price and cost. They’re always trying to become even more competitive.

Successful companies are also somewhat revolutionary. They imagine what could destroy them and consider various ways of delivering value. They’re creative in identifying alternative models, and they actively test these models to see which ones are feasible. When they find a new model that works more effectively, they commit themselves to rolling it out.

Best Buy is a classic example of a revolutionary company. Several times it has identified a new model and transitioned the entire organization to it in two to three years. The company completely reinvents itself on a regular basis. Today, it seems that Best Buy has hit the wall because Amazon and Wal-Mart are competing aggressively. So, I’m looking forward to seeing how the company adjusts over the next few years. Can it reinvent itself again?

On the structural side, successful companies are the ones that design themselves to change. Capital One is a great example. Although the company is in the credit card business, it’s actually in the business of change. Capital One generates and tests 50,000 new ideas each year, and many of them are successful. It does this to stay ahead of the competition. When its competitors catch up with an idea, Capital One moves on—because the company knows that it can’t make money if it’s not doing something unique. So, Capital One has designed a structure for continuously identifying new ideas, as opposed to a more conventional structure in which every idea has to progress slowly upward through channels to be approved.

In terms of people, some companies hire administrators and behave in a hierarchical way, but the more successful ones hire entrepreneurial people who essentially are driven to deliver results. In the latter group, power is not determined by position but rather by persuasion—the data, reasoning, and strength of the argument. At Capital One, it’s entirely reasonable for an employee to disagree with the chief executive, but at other companies an employee who does this may not be employed for long.

How can a leader better position an organization for change?

Most of what goes on in an organization is not in its formal architecture. Instead, it’s more informal—and this can make it difficult to design a plan for change. But there is a way.

First, change the reward system. When people are rewarded for strategic success, the organization’s structure isn’t as important, because motivated employees will find a way to deliver good results regardless of the current structure.

Second, ease up on formal, company-wide processes—they can be too restrictive. Empower people to change and define processes for themselves, and they will create a system that works for their needs.

And third, recognize that independent processes will break down the organization into lots of mini-businesses—components that are relatively independent. This is good. It creates an internal market of smaller businesses, and leaders should hire people who can run those businesses effectively as internal entrepreneurs. Again, the reward systems must encourage entrepreneurship, and the information systems must support more independent internal businesses. This type of structure—an internal market, as opposed to an internal hierarchy—is much more adaptive.
While structure can be shaped somewhat easily, changing people is a bit trickier. Some people are more open to change than others. So, it’s important to pick the right ones. But it’s also important to create an environment that encourages change, openness, and learning. In the right environment, any group of people is likely to be somewhat more open to change.

**What types of intelligence are most important in an organization?**

Interestingly, there are multiple forms of intelligence, and four of them are particularly important in business:

1. Clearly, rational intelligence is essential. This is the ability to think your way through a problem in a rational way, the sort of intelligence that’s relevant in IQ tests. All MBAs do well in this area.

2. Also important is creative intelligence—the ability to break out of your current thinking and look at things in different ways. The good news is that this can be taught.

3. The third type is emotional intelligence. The vast majority of decisions we make are based on our emotions. And then we try to rationalize them afterward, because this is what we’ve learned to do. It’s the way we’ve genetically evolved. Human beings basically move toward things that give them pleasure, and away from things that cause them pain.

4. Finally, there’s social intelligence. Like a virus, emotions are catchy. And learning to motivate others—to use their emotions in order to drive them in a given direction—is important.

Someone who has all four forms of intelligence, along with the commitment and courage to learn, will truly drive results. Simply hiring the smartest people isn’t usually beneficial, because smartness is measured in terms of rational intelligence. A group of people with above-average rational intelligence may have little or no emotional and creative intelligence.

Fortunately, all four forms of intelligence can be boosted significantly. Although people are limited by their capacity in each area, each individual can be trained to make the most of his or her ability. As an example, consider a group of children who are all failing at high school math. If you tell half of them that their brain is a muscle that will grow if they work it hard, and you say nothing to the other half, the first half will rise out of the bottom quartile while the others will remain there. Why? The first half received stimulation across several levels of intelligence. While they didn’t necessarily become better rational thinkers, they behaved more intelligently because they were motivated effectively. This same approach works with corporate executives.

**What is the Strategic IQ program, and how can it help business leaders?**

In essence, the Strategic IQ program is a wake-up call. It challenges executives to examine whether they have their organizations on the right path. Is their current success genuine and enduring, or is it masking strategic inertia that’s eroding the foundation and that ultimately will deliver a fatal blow to the organization?

This program analyzes the behavior patterns that demonstrate low, medium, and high strategic IQ. It explores how to improve an organization’s IQ level in terms of strategy, structure, and people—and it gives executives the tools to make their companies much more competitive in the long run. At the end of the program, I hope and expect that participants will return to their organizations with a few clear initiatives that they are prepared to implement.
The reason this program is so important right now has to do with the current financial situation. We've gone through a painful period, but it's not over yet. Above all, every company needs to be adaptive and agile. Adopting a new static strategy to deal with a changing environment may work for a few years, but at the same time it will only ensure strategic inertia and doom the company in the long run.

Who should attend this program?
This program is best suited for executives who are truly motivated to make a difference in their organizations—those at various levels who are running or are about to run a division and have general management responsibility. It’s also ideal for those who are trying to encourage the development of general managers, such as senior human resources executives, and for those who are concerned about certain behavior that they see in organizations regarding the management of earnings. And, just as important, it can be beneficial in helping a CFO to identify the difference between long-term competitive advantage and short-term results.

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