The Ambidextrous CEO

**KEY LEARNING SUMMARY**

featuring **Michael Tushman and Andy Binns**

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The Ambidextrous CEO

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OVERVIEW

Corporate success can create enormous long-term challenges. As firms scale and age, they acquire cumbersome structures and lore that prevent them from innovating and moving into the future. Internal forces lead to inertia, and blind market leaders to shifting consumer preferences and other threats. Paradoxically, the very success of many great firms has been their undoing.

To sustain success, companies must adapt and innovate, which requires exploring and experimenting. Yet the “explore” activities needed to invent the future require structures and a culture that are incompatible with the “exploit” activities that are required to execute in core markets. To manage in this environment, companies and leaders need to become ambidextrous, simultaneously excelling at both “explore” and “exploit” and resolving the tensions between them. The solution involves structural changes and requires leaders who understand and accept what is required of them.

CONTEXT

The speakers discussed themes from their June 2011 Harvard Business Review article, “The Ambidextrous CEO,” including why companies need to master exploration of new markets even as they exploit existing ones.

KEY LEARNINGS

There is something pathological about corporate success.

Many successful companies have tracked a common course. They were highly innovative market leaders, they created an entire product class, they grew to scale, and they enjoyed great success. Then something happened to change that. Either customer preferences shifted, blindsiding the market leader (as occurred when Blockbuster was done in by digital distribution of video) or the company saw market shifts coming but failed to adapt (as was the case with the now bankrupt Borders, which failed to adapt to e-commerce).

In some cases, companies even had the technology that customers would later flock to but never offered it. Polaroid is a classic example; it had digital imaging technology but “did all they could not to use it.”

This has happened to companies large and small, public and privately held, in various industries and countries, decades ago and recently. A sampling to show the diversity: Levi Strauss, AT&T, Kirin, Marks & Spencer, Kodak, U.S. Steel, DEC, Anheuser-Busch, Encyclopedia Britannica, AIG, Bausch & Lomb, Xerox, Saab, Circuit City, Sanyo, JAL, Royal Bank of Scotland, and Lego. All have either gone bankrupt or recreated themselves as a result of the paradoxical pathology created by success.

The more successful a company is, the greater are the internal forces tethering it to past and present.

That is the paradox. The more success an organization experiences, the stronger that internal forces pushing for stability become. This is true both for large firms and small ones as they start to grow to scale. The reasons:

- **Size leads to structural inertia.** As successful firms grow to scale, they need to build structures, procedures, metrics, and systems. These are all designed to help the company deliver on the promises of the successful products and services. But as these structures become more complex, they become hard to change. They inhibit the organization from adopting whatever new processes, metrics, structures, and systems might best serve next-generation innovations. A reason firms don’t innovate even if they have the technology to do so is that they get locked into the structures of their past. So the act of scaling up promotes inertia.
Age leads to social inertia. The very act of aging also promotes inertia. As successful firms grow older, they accumulate myths, heroes, sagas, lessons, and values. These promote pride in the company, and people become wedded to the culture’s lessons, perspectives, approaches, and ways of thinking—which makes it hard to change.

Success leads to arrogance. A “cultural pomposity” sets in. Hubris leads to denial of the importance of market shifts, and blindness to the implications. There is an underlying incredulity that markets could shift radically enough to mar the organization’s success.

“Notice that structural and social inertia only comes when you’re the best. It goes part and parcel with growing to scale.”
—Michael Tushman

These forces create pathologies including:

- Cultural lock-in, or inability to move out of the past.
- Blindness to disruptive technologies.
- Failure to align for executing new strategies, even if future trends are recognized.
- Underestimation of the scale of change necessary to lead the newly changed market.

These are the reasons that market defenders often lose in the face of disruptive change. Tethered to the past, they can’t move forward.

To move successfully into the future, companies need two inherently conflicting capabilities: “explore” and “exploit.”

The challenges that accompany this pathology of success are particularly salient today, given the rapidly escalating pace of change. Digital disruption is reshaping multiple industries. The standards of the future are uncertain; no one can predict them amid the rapid adoption of new technologies like mobile and cloud computing.

“If you’re HBO, you see the subscribers you built over 30 years equaled by Netflix in just three.”
—Andy Binns

Market defenders must adapt and innovate to survive, now more than ever before. They need to explore and experiment to better understand their fast-changing markets. Yet they must struggle against the internal forces of inertia to do so.

Some leading companies recognize the need to reinvent themselves proactively in the face of market change, before disaster strikes. IBM did so three times in 100 years, once nearly too late. Its focus shifted from providing mainframe computing, to IT outsourcing, to creating business value for customers. Internal realignments accompanied these shifts.

How do companies proactively build the capability to explore new market opportunities while continuing to exploit existing markets’ opportunities? How do they become ambidextrous, excelling at both “exploit” (current) and “explore” (future)?

The solution: Building an ambidextrous organization.

The solution is a structural one. Structural ambidexterity involves separating out the core business, which is focused on executing well to exploit existing market opportunities, from the future-facing, innovation-focused “explore” activities. This means having different people, internal structures, and processes as well as different cultures, R&D groups, and other functions. An example is USA Today’s separate print news (“exploit”) and dot.com (“explore”) businesses.

Without such separation, exploiting the current business will invariably siphon resources from exploring the future, crippling innovation. That is because there is inherent tension between the two contradictory types of business activity.

“If [the tension] is driven into the organization, the ‘exploit’ crowd will, on average, kill the ‘explore’ crowd. . . . You protect the ‘explore’ by separating it out.”
—Michael Tushman

There is a huge cultural divide. Exploration requires the capability to fail quickly and cheaply and learn from mistakes. Resources might be spent on experiments yielding no productive results, which is anathema to the results-focused “exploit” mindset. Moreover, exploration success could lead to innovations that actually threaten the core business.
An ambidextrous organization recognizes where functions must be separated out and where integration is beneficial. Five key success factors:

1. **Vision and values that promote a common identity, but separate cultures.** The Ball Corporation’s many businesses are united by a common strategic aspiration: to be the world’s best container maker.

2. **A senior leadership team that explicitly owns the ambidextrous strategy, managing with shared goals and incentives.** There are two possible structures for holding the “explore/exploit” tension at the top: 1) hub and spoke, where the CEO negotiates tensions and tradeoffs that arise between “explore” and “exploit” business units; or 2) ring teams, where each unit leader owns innovation responsibilities and makes “explore/exploit” tradeoff decisions for their units, aligned with corporate strategic objectives.

3. **Separate units for scaling the “explore” businesses.** Because inertia forces are so strong, the tension needs to be managed at the top only; not owned by everyone in the organization. The business units devoted to “explore” and “exploit” should be highly differentiated.

4. **Integration points that allow “explore” businesses to leverage the assets of the core, such as brand or mission.** “Explore” and “exploit” businesses are integrated where integration makes sense (e.g., the two sides of USA Today share news).

5. **Ambidextrous leadership, with the ability to resolve conflicts and allocate resources in line with corporate goals.** This requires a healthy senior management team. Often top teams are not healthy, but are under-managed, under-resourced, inefficient, and overloaded. Managing “explore/exploit” tensions brings substantial pressures. Teams frequently run from the challenges. Once they understand and accept the mandate to manage two contradictory activities, however, the job gets easier.

**The ambidextrous CEO must drive proactive organizational transformation.**

CEOs need to raise awareness about these issues and their stakes, and chart the move into the future with the help of other leaders. That means:

- **Engaging senior leaders in a dialogue about how to move forward.** Together, the senior leadership team needs to dig deeply into what the ambidextrous solution would look like in their organization. A way to convince them to accept their tension-managing roles is get these issues on the table.

- **Creating a common language for that analysis, to build a basis for action.** Boards and shareholders need to give permission, so they must understand the issues and stakes. Business unit leaders also need language for explaining the company’s future strategy to their people.
BIOGRAPHIES

Andy Binns  
Managing Principal, Change Logic LLC

Andy Binns is Managing Principal of Change Logic LLC, a firm that works with CEOs and their teams to help them lead change and innovation in their markets. He focuses on the link between a company’s strategic aspirations—what it wants to do—and its approach to strategic execution—how it gets it done. Previously, Andy was with McKinsey & Co and IBM where he was a part of the Emerging Business Opportunity program, a highly successful application of Professor Tushman’s work on building new businesses within existing organizations. His publications include “The Ambidextrous CEO” in the June 2011 edition of HBR with Professor Tushman and Dr. Wendy Smith.

Michael Tushman  
Professor of Business Administration, Harvard Business School

Mike is internationally recognized for his work on the relations between technological change, executive leadership, and organization adaptation. Mike is an active business consultant and educator, working with CEOs and senior teams around the world. Mike worked closely with IBM on the design and execution of their Emerging Business Opportunity program and led their “Strategic Leadership Forum” for five years. Mike was previously on the faculty of the Graduate School of Business, Columbia University and a visiting professor at MIT and INSEAD. Mike is a director of Change Logic. Mike's publications include “The Ambidextrous CEO”; Winning Through Innovation: A Practical Guide to Leading Organizational Renewal and Change; and, an article in California Management Review on IBM and the Emerging Business Opportunities and, most recently, Ambidexterity in Action.

Jeff Kehoe (Moderator)  
Senior Editor, Harvard Business Review Press

Jeff Kehoe joined Harvard Business Review Press in 2000. Prior to that, he was a history and social sciences editor at Harvard University Press, a U.S. Marine, and professional musician. He has a broad range of interests at the Press including innovation, strategy, technology, social media, and leadership, and he has edited many successful books, including: The Ultimate Question 2.0 by Fred Reichheld & Rob Markey, Fixing the Game by Roger Martin, Being the Boss by Linda Hill & Kent Lineback, Does IT Matter? by Nicholas Carr, The Future of Management by Gary Hamel, A Sense of Urgency by John Kotter, The First 90 Days by Michael Watkins, and many others.

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