

Only the Paranoid Survive

By Andrew S Grove

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Introduction

New techniques, new approaches, new technologies and upset the old order and change the rules of the game. This is what trucking and air transportation did to railroads, what container shipping did to traditional ports, what superstores did to small shops, what microprocessors continue to do to computing and what digital media might do to entertainment.

Andrew Grove calls a very large change in one of the competitive forces in an industry, a “10X” change, suggesting that the force has become ten times what it was just recently. In the face of such “10X” forces, a company can lose control of its destiny. Things happen to the business that did not before. The business no longer responds to the company’s actions as it used to in the past. What such a transition does to a business is profound, and how the business manages this transition determines its future. Grove describes this phenomenon as a strategic inflection point.

Put another way, a strategic inflection point is when the balance of forces shifts from the old structure, from the old ways of doing business and the old ways of competing, to the new. Before the strategic inflection point, the industry simply was more like the old. After it, it is more like the new. It is a point where the curve has subtly but profoundly changed.

These are the important points made by Andrew Grove in his fascinating book, “Only the Paranoid Survive.”

When an industry goes through a strategic inflection point, the established players may have trouble. On the other hand, a 10X change provides an opportunity for outsiders to join and become part of the action.

Grove offers some useful insights to cope with the situation. When a technology break or other fundamental change comes their way, companies must grab it. The first mover and only the first mover, has a true opportunity to gain time over its competitors. Getting ahead of the others is the surest way to gain market share. Companies must also show discipline by pricing for what the market will bear, then work hard to cut costs so that they can make money at that price.

Identifying inflection points

When is a change really a strategic inflection point? Changes take place in business all the time. Some are minor, some are major. Some are transitory, some represent the beginning of a new era. They all need to be dealt with but they do not all represent strategic inflection points.

Most strategic inflection points, instead of coming in with a bang, appear slowly. They are often not clear until we can look at the events in retrospect. Later, when we ask ourselves when we first had an inkling that we were facing a strategic inflection point, our recollections are about a trivial sign hinting that the competitive dynamics has changed.

So how do we know whether a change signals a strategic inflection point? Grove offers useful guidelines. First, we must figure out who our key competitor is. When the answer to this question is not as clear as it used to be, it’s time to sit up and pay special attention. Does the company that in past years mattered the most to us and our business seem less important today? Does it look like another company is about to eclipse them? If so, it may be a sign of shifting industry

dynamics. Do people seem to be “losing it” around you? Does it seem that people who for years had been very competent have suddenly gotten decoupled from what really matters?

The Cassandras in the organization are a consistently helpful element in recognizing strategic inflection points. Although they can come from anywhere in the company, Cassandras are usually in middle management. Often they work in the sales organization. They usually know more about upcoming change than the senior management because they spend so much time “outdoors” where the winds of the real world blow in their faces.

The most important tool in identifying a particular development as a strategic inflection point is a broad and intensive debate. How will it affect our business if we make a dramatic move? How will it affect it if we don't?

The more complex the issues are, the more levels of management should be involved because people from different levels of management bring different points of view and expertise to the table. The debate should also involve people outside the company, customers and partners who not only have different areas of expertise but also have different interests. They bring their own biases and their own interests into the picture. But that according to Grove is acceptable. A business can succeed only if it serves the interests of outside parties as well.

This kind of debate is daunting because it takes a lot of time and intellectual energy. It also takes a lot of guts; to enter a debate we may lose, in which weaknesses in our knowledge may be exposed and in which we may face the disapproval of our coworkers for taking an unpopular viewpoint. Nevertheless, this comes with the territory and when it comes to identifying a strategic inflection point, unfortunately, there are no shortcuts.

Fear should be used to counter of complacency. Complacency often afflicts precisely those who have been the most successful. It is often found in companies that have honed the sort of skills that are perfect for their environment. But when their environment changes, these companies may be the slowest to respond properly. A good dose of fear of losing may help sharpen their survival instincts.

Grove emphasizes it is important for senior management to break down the walls between those who possess knowledge power and those who possess organization power. The salesperson who knows his territory and the computer architect and engineer who are steeped in the latest technology possess knowledge power. The people who marshal or shuffle resources, set budgets, assign staff and remove them from projects possess organizational power. One is not better than the other in managing strategic change. Both of them need to give their best for the corporation to get good results.

Let Chaos Reign

The sequence of emotions associated with grief is denial, anger, bargaining, depression and, ultimately, acceptance. In the case of a strategic inflection point, the sequence is: denial, escape or diversion and, finally, acceptance and pertinent action.

Denial is prevalent in the early stages of almost every strategic inflection point. Escape, or diversion, refers to the personal actions of the senior manager. When companies are facing major changes in their core business, many CEOs plunge into what seem to be totally unrelated acquisitions and mergers. They do so to occupy themselves respectably with something that dearly and legitimately requires their attention day in and day out, something that they can justify

spending their time on and make progress on instead of quietly reflecting on the repercussions of major discontinuity in the environment.

Senior managers have got to where they are by having been good at something. It's not surprising that they will keep implementing the same strategic and tactical moves that worked for them during the course of their careers. And that is precisely why they falter when they face a strategic inflection point.

Grove points out that many companies fall into the trap of saying one thing and doing another while they are in the midst of coping with a strategic inflection point. Grove calls this divergence between actions and statements, strategic dissonance. It is a clear sign that a company is struggling with a strategic inflection point.

Resolution of strategic dissonance comes through experimentation. The level of control in the organization must be loosened. People must try different techniques, review different products, exploit different sales channels and go after different customers. Much as management may like to make and keep order in the company, at times like this they must become more tolerant of the new and the different. Only stepping out of the old runs will bring new insights.

The dilemma is that we can not suddenly start experimenting when we realize we are in trouble unless we have been experimenting all along. It's too late to do it once things have changed in our core business.

Rein in Chaos

Taking an organization through a strategic inflection point is a march through unknown territory. The rules of business are still not clear. People lack a mental map of the new environment, and even the shape of the desired goal is not completely clear. Grove calls this hostile landscape through which the company must struggle – or else perish – the valley of death. It is an inevitable part of every strategic inflection point. A company cannot avoid it. It must learn to do a better job of dealing with it.

To make it through the valley of death successfully, the first task is to form a mental image of what the company should look like when it gets to the other side. This image not only needs to be clear enough for the company to co visualize but it also has to be crisp enough so the company can communicate it simply to the staff.

As Drucker suggests, the key activity that's required in the course of transforming an organization is a wholesale reallocation of resources from what was appropriate for the old idea of the business to what is appropriate for the new.

Assigning or reassigning resources in order to pursue a strategic goal is an example of strategic action. Corporate strategy is formulated by a series of such actions, far more so than through conventional top-down strategic planning. Strategic plans are statements of what we intend to do. Strategic actions are steps we have already taken or are taking which suggest our longer-term intent. Strategic plans sound like a political speech. Strategic actions are concrete steps. They can be the assignment of an up-and-coming player to a new area of responsibility. They can be the opening of sales offices in a portion of the world where the company has not done business before. They can be a sharp cut in the development effort that deals with a long-pursued area of our business. All of these are real and suggest directional changes.

While strategic plans are abstract and are usually couched in language that has no concrete meaning except to the company's management, strategic actions matter because they immediately affect people's lives. They change people's work. They cause consternation and raise eyebrows. Strategic plans deal with events that are so far in the future that they have little relevance to what we actually have to do today. So they don't command true attention. Strategic action, however, takes place in the present. Consequently, it commands immediate attention.

But strategic actions must be timed just right. Strategic actions, especially those involving redeployment, are like the actions of runners in a relay race. Runners need to pass the baton at precisely the right moment. Being even a little bit early or a little bit late will slow down the team.

The timing of the transfer of resources from the old to the new has to be done with this crucial balance in mind. If we move resources from the old business, the old task, the old facility far too early, we may leave a task only 80 percent finished. With a little bit more effort, we could have reaped the full benefit. On the other hand, if we hang on to the old business too long, the opportunity for exploiting a new business opportunity, to add momentum to a new product area, to get aligned with the new order of things, may be lost. Companies must arrive at the best compromise, which is investing enough in the old business that it has momentum to get the company through the period of transition while the company transfers resources to the new target area.

In times of change, managers almost always know which direction they should take, but usually act too late and do too little. Grove suggests that the pace of the actions must be advanced and their magnitude increased. We'll find that we're more likely to be right.

The best moment to act varies from company to company. Some companies recognize that their key strengths are rapid response and fast execution. Such companies may wait for others to test the limits of technological possibilities or market acceptance and then commit to following, catching up and passing them. Grove describes such a strategy as a "taillight" approach. When driving in the fog, it is a lot easier to drive fast if we are chasing the taillights of the car ahead of us. The danger with "taillight" strategy is that, once we catch up and pass the car ahead of us, we will find ourselves without a set of taillights to follow. And we may not have the confidence and competence to set our course in a new direction.

Being an early mover also involves risks. The biggest danger for an early-mover company is that it may have a hard time distinguishing a signal from a noise. It may start responding to an inflection point that isn't one. Moreover, even if it is right in its response, it is likely to be ahead of its market.

Successful navigation through strategic inflection points involves a good dialectic between bottom-up and top-down actions. Bottom-up actions come from the ranks of middle managers, who by the nature of their jobs are exposed to the first whiffs of the winds of change. These managers are located at the periphery of the action where change is first perceived. But, by the nature of their work, they can only affect things locally. The production planners can change the production schedule but they can hardly affect marketing strategy. Their actions must meet halfway the actions generated by senior management. While those managers are isolated from the winds of change, once they commit themselves to a new direction, they can affect the strategy of the entire organization.

Top management must alternately let chaos reign and then reign in chaos. When top management lets go a little, the bottom-up action will drive toward chaos by experimenting, by pursuing different product strategies, by generally pulling the company in a multiplicity of directions. It is up to senior management to rein in chaos. A pendulum-like swing between the two types of action is the best way to work through a strategic transformation.

The wisdom to guide a company through the valley of death cannot as a practical matter reside solely in the heads of top management. If senior management is a product of the legacy of the company, its thinking will be molded by the old rules. If they are from the outside, chances are they really do not understand the evolving subtleties of the new direction. They must rely on middle management. Yet the burden of guidance also cannot rest solely on the judgment of middle management. They may have the detailed-knowledge and the hands-on exposure but their experience is specialized and their outlook is local, not company-wide.

What is needed is a balanced interaction between the middle managers, with their deep knowledge but narrow focus, and senior management, whose larger perspective could set a context. The dialectic between these two often results in intense debates. Though such debates, the shape of the other side of the valley becomes clear earlier, making a determined march in its direction more feasible.

Conclusion

An organization that has a culture that can deal with these two phases – debate (chaos reigns) and a determined march (chaos reined in) – is a powerful, adaptive organization.

Such an organization has two attributes:

1. It tolerates and even encourages debates. These debates are vigorous, devoted to exploring issues, indifferent to rank and include individuals of varied backgrounds.
2. It is capable of making and accepting clear decisions, with the entire organization then supporting the decision.

Organizations that have these characteristics are far more ready to deal with a strategic-inflection-point than others.

The other side of the valley of death represents a new industry order that is hard to visualize before the transition. Getting through the strategic inflection point means going through a period of confusion, experimentation and chaos, followed by a period of single-minded determination to pursue a new direction toward an initially nebulous goal.

Going through the valley of death that a strategic inflection point represents is one of the most daunting tasks an organization has to endure. But when dealing with “10X” forces, the choice is taking on these changes or accepting an inevitable decline. So really speaking, there is no choice at all.