Strategy as Revolution

by Gary Hamel

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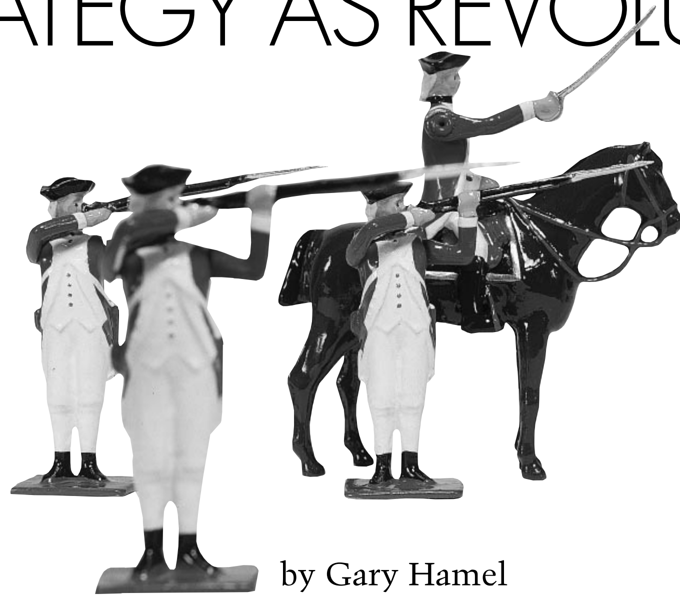

by Gary Hamel

Let's admit it. Corporations around the world are reaching the limits of incrementalism. Squeezing another penny out of costs, getting a product to market a few weeks earlier, responding to customers' inquiries a little bit faster, ratcheting quality up one more notch, capturing another point of market share – those are the obsessions of managers today. But pursuing incremental improvements while rivals reinvent the industry is like fiddling while Rome burns.

Look at any industry and you will see three kinds of companies. First are the rule makers, the incumbents that built the industry. IBM, CBS, United Airlines, Merrill Lynch, Sears, Coca-Cola, and the like are the creators and protectors of industrial orthodoxy. They are the oligarchy. Next are the rule takers, the companies that pay homage to the industrial "lords." Fujitsu, ABC, U.S. Air, Smith Barney, J.C. Penney, and numerous others are those peasants. Their life is hard. Imagine working at Fujitsu for 30 years trying to catch IBM in the mainframe business, or being McDonnell Douglas to Boeing, or Avis to Hertz. We Try Harder may be a great advertising slogan, but it's depressingly futile as a strategy. What good will it do to work harder to follow the rules when some com-

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panies are rewriting them? IKEA, the Body Shop, Charles Schwab, Dell Computer, Swatch, Southwest Airlines, and many more are the rule breakers. Shackled neither by convention nor by respect for precedent, these companies are intent on overturning the industrial order. They are the malcontents, the radicals, the industry revolutionaries.

Never has the world been more hospitable to industry revolutionaries and more hostile to industry incumbents. The fortifications that protected the industrial oligarchy are crumbling under the weight of deregulation, technological upheaval, globalization, and social change. But it's not just the forces of change that are overturning old industrial structures – it's the actions of companies that harness those forces for the cause of revolution. (See the insert "Nine Routes to Industry Revolution.")

What if your company is more ruling class than revolutionary? You can either surrender the future to revolutionary challengers or revolutionize the way your company creates strategy. What is required is not a little tweak to the traditional planning process but a new philosophical foundation: strategy *is* revolution; everything else is tactics.

The following ten principles can help a company liberate its revolutionary spirit and dramatically increase its chances of discovering truly revolutionary strategies. Companies in industries as diverse as personal care products, information services, food processing, insurance, and telecommunications have internalized and acted on these principles. Every organization, however, must interpret and apply them in its own way. These are not a set of step-by-step instructions but a way of thinking about the challenge of creating strategy – the challenge of becoming an industry revolutionary.

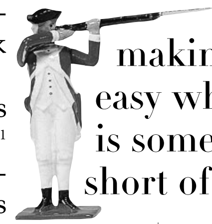
Principle 1: Strategic planning isn't strategic. Consider your company's planning process. Which describes it best – column A, on the left, or column B, on the right?

Unless your company is truly exceptional, you've probably admitted that the words in column A are more fitting than those in column B. In the vast majority of companies, strategic planning is a calendar-driven ritual, not an exploration of the potential for revolution. The strategy-making process tends to be reductionist, based on simple rules and heuristics. It works from today forward, not from the future back, implicitly assuming, whatever the evidence to the contrary, that the future will be more or less like the present. Only a tiny percentage of an industry's conventions are ever challenged, rendering strategy making largely extrapolative. An industry's boundaries are taken as a given; thus the question is how to position products and services within those boundaries rather than how to invent new, uncontested competitive space. Further, the planning process is generally elitist, harnessing only a small proportion of an organization's creative potential.

A	B
Ritualistic	Inquisitive
Reductionist	Expansive
Extrapolative	Prescient
Positioning	Inventing
Elitist	Inclusive
Easy	Demanding

Perhaps most disturbing, strategy making is often assumed to be easy, especially in comparison with implementing strategy. But

PHOTOS BY TONY RINALDO/TOY SOLDIERS: WILLIAM HOCKER, BERKELEY, CALIFORNIA of course strategy making is easy when the process limits the scope of discovery, the breadth of involvement, and the amount of intellectual effort expended. Of course the process is easy when its goal is something far short of revolution. How often has strategic planning produced true strategic innovation? No wonder that in many organizations, corporate planning departments are being disbanded. No wonder that consulting firms are doing less and less "strategy" work and more and more "implementation" work.



Not surprisingly, strategy making seems easy when its goal is something far short of revolution.

The essential problem in organizations today is a failure to distinguish *planning* from *strategizing*.[1] Planning is about programming, not discovering. Planning is for technocrats, not dreamers. Giving planners responsibility for creating strategy is like asking a bricklayer to create Michelangelo's *Pietà*.

Most executives know a strategy when they see one. Wal-Mart has a clear strategy; so does Federal Express. But recognizing a strategy that already exists is not enough. Where do strategies come from? How are they created? Strategizing is not a rote procedure – it is a quest. Any company that believes that planning can yield strategy will find itself under the curse of incrementalism while freethinking newcomers lead successful insurrections.

Principle 2: Strategy making must be subversive. Galileo challenged the centrality of Earth and man in the cosmos. The American colonists challenged the feudal dependencies and inherited privileges of European society. Picasso and other modernists challenged representational art. Einstein challenged Newtonian physics. Revolutionaries are subversive, but their goal is not subversion. What the defenders of orthodoxy see as subversiveness, the champions of new thinking see as enlightenment.

If there is to be any hope of industry revolution, the creators of strategy must cast off industrial conventions. For instance, Anita Roddick, the founder of the Body Shop, turned Charles Revson's hope-in-a-bottle formula on its head. Instead of assuming, as the cosmetics industry always had, that women lack self-confidence and will pay inflated prices for simple formulations if they believe that they will make them more attractive, Roddick assumed that women have self-esteem and just want lighthearted, environmentally responsible products. Roddick wasn't kidding when she said, "I watch where the cosmetics industry is going and then walk in the opposite direction."

Identify the 10 or 20 most fundamental beliefs that incumbents in your industry share. What new opportunities present themselves when you relax those beliefs? Consider the hotel industry's definition of a day, which begins when you check in and ends at noon, when you must check out. But if you check in at 1 A.M. after a grueling journey, why should you have to check out at the same time or pay the same amount as the person who arrived at 5 the previous afternoon? If a rental-car company can manage a fleet of cars on a rotating 24-hour basis, why can't a hotel do exactly the same with a fleet of rooms?

Rule makers and rule takers are the industry. Rule breakers set out to redefine the industry, to invent the new by challenging the old. Ask yourself, What are the fundamental conventions we have examined and abandoned in our company? Can you think of more

Nine Routes to Industry Revolution

Unless you are an industry leader with an unassailable position – a status that, given the lessons of history, not even Microsoft would be wise to claim – you probably have a greater stake in staging a revolution than in preserving the status quo. The opportunities for revolution are many and mostly unexplored. How should a would-be revolutionary begin? By looking for ways to redefine products and services, market space, and even the entire structure of an industry.

Reconceiving a Product or Service

1. Radically Improving the Value Equation. In every industry, there is a ratio that relates price to performance: X units of cash buy Y units of value. The challenge is to improve that value ratio and to do so radically – 500% or 1,000%, not 10% or 20%. Such a fundamental redefinition of the value equation forces a reconception of the product or service.

Fidelity Investments, for instance, wondered why a person couldn't invest in foreign equity markets for tens or hundreds of dollars rather than thousands. On a recent flight, I heard one flight attendant say to another, "I just moved some of my investments from the Europe Fund to the Pacific Basin Fund." Such a comment would have been inconceivable a decade or two ago, but Fidelity and other mutual-fund revolutionaries have redefined the industry's value equation. Hewlett-Packard's printer business and IKEA are other value revolutionaries.

2. Separating Function and Form. Another way to challenge the existing concept of a product or service is to separate core benefits (function) from the ways in which those benefits are currently embodied in a product or service (form). Any organization that is able to distinguish form from function and then reconceive one or both has the opportunity to create an industry revolution.

Consider credit cards, which perform two functions. First, a credit card inspires a merchant to trust that you are who the card says you are: your name is embossed on the front, your signature appears on the back, and your photo may even appear in the corner. Nevertheless, credit card fraud is a rapidly escalating problem. In what form will "trust" be delivered in the future? Probably through biometric data: a handprint, voiceprint, or retinal scan. Any credit card maker that is not investing in those technologies today may be surprised by interlopers. Second, a credit card gives you permission to charge up to your credit limit. What new opportunities appear if you distinguish permission as a general function from the particular case of permission to charge? In many hotels, a card with a magnetic stripe gives guests "permission" to enter their rooms. Did credit card makers see the opportunity to use the cards in this way? No, the card security market is owned largely by newcomers.

3. Achieving Joy of Use. We live in a world that takes ease of use for granted. The new goal is joy of use. We want our products and services to be whimsical, tactile, informative, and just plain fun. Any company that can wrap those attributes around a mundane product or service has the chance to be an industry revolutionary.

What's the most profitable food retailer per square foot in the United States? Probably Trader Joe's, a cross between a gourmet deli and a discount warehouse, which its CEO, John Shields, calls a "fashion food retailer." Essentially without competition, its 74 stores were averaging annual sales of $1,000 per square foot in 1995 – twice the rate of conventional supermarkets and more than three times that of most specialty food shops. Customers shop Trader Joe's as much for entertainment as for sustenance. The store stocks dozens of offbeat foods – jasmine fried rice, salmon burgers, and raspberry salsa – as well as carefully selected, competitively priced staples. By turning shopping from a chore into a culinary treasure hunt, Trader Joe's has more than doubled its sales over the last five years to $605 million.

Redefining Market Space

4. Pushing the Bounds of Universality. Every company has an implicit notion of its served market: the types of individuals and institutions that are – and are not – customers. Revolutionary companies, however, focus not just on their served market but on the total imaginable market.

A few years back, who would have considered children a likely market for 35-millimeter film? Would you have given your $500 Nikon to an eight-year-old? Probably not. Parents today, however, think nothing of giving a disposable camera to a child for a day at the beach, a birthday party, or the family's vacation. The single-use camera has made access to photography virtually universal. In 1995, the single-use-camera market reached 50 million units, worth close to $1 billion at retail. From class to mass, adult to child, professional to consumer, and national to global, the traditional boundaries of market space are being redefined by revolutionary companies.

5. Striving for Individuality. No one wants to be part of a mass market. We'll all buy the same things – but only if we have to. Deep in our need to be ourselves, to be unique, are the seeds of industry revolution.

A woman who wants a perfect-fitting pair of jeans, for example, can now get measured at one of Levi Strauss's Personal Pair outlets, and a computer will pick out exactly the right size. The woman's specifications are sent to Levi's by computer, and her made-to-order jeans arrive a few days later. The price? Just about $10 more than an off-the-shelf pair. Levi's plans to introduce the Personal Pair system to nearly 200 stores in the United States by the end of the decade. The company is counting on its revolutionary approach to put a considerable dent in the growing market for private-label jeans.

6. Increasing Accessibility. Most market spaces have temporal and geographic bounds: customers must go to a specific store at a specific location between certain hours. But market space is becoming cyberspace, and every day industry revolutionaries are resetting consumers' expectations about accessibility.

Consider First Direct, a bank that can be reached only by telephone. The fastest-growing bank in Great Britain, First Direct was opening 10,000 new accounts per month in mid-1995 – the equivalent of two or three branches. The professionals and workaholics who make up First Direct's half million customers carry, on average, a balance that's ten times higher than the average balance at Midland Bank, First Direct's parent, while overall costs per client are 61% less. One of the first U.S. banks to experiment with so-called direct banking estimates that it will ultimately be able to close at least half of its branches.

Redrawing Industry Boundaries

7. Rescaling Industries. As industry revolutionaries seek out and exploit new national and global economies of scale, industries around the world – even office cleaning and haircutting – are consolidating at a fearsome pace. Any industry that was local, such as consumer banking, is becoming national. Any industry that was national, such as the airline business, is becoming global.

Every minute and a half, Service Corporation International buries or cremates someone, somewhere in the world. Performing 320,000 funerals per year, SCI has become the world's largest funeral operator in an industry that traditionally has been very fragmented. Most funeral operators have been family businesses. By buying up small operators, SCI has reaped economies of scale in purchasing, capital utilization (sharing hearses among operators, for example), marketing, and administration.

Of course, an industry can be scaled down as well as up. Bed-and-breakfast inns, microbreweries, local bakeries, and specialty retailers are the result of industries that have scaled down to serve narrow or local customer segments more effectively.

8. Compressing the Supply Chain. The cognoscenti use the word *disintermediation* in its literal sense: the removal of intermediaries. Wal-Mart, for instance, essentially turned the warehouse into a store, thus disintermediating the traditional small-scale retailer. And Xerox hopes to reinvent the way companies distribute printed documents by disintermediating trucking companies from the printing business. Why, Xerox asks, should annual reports, user manuals, catalogs, employee handbooks, and other printed matter be hauled across the country in trucks? Why not send the information digitally and print it close to where it is needed? Xerox is working with a variety of partners to stage this revolution.

9. Driving Convergence. Revolutionaries not only radically change the value-added structure within industries but also blur the boundaries between industries. Deregulation, the ubiquity of information, and new customer demands give revolutionaries the chance to transcend an industry's boundaries.

For example, a consumer can now get a credit card from General Motors, a mortgage from Prudential or GE Capital, a retirement account at Fidelity Investments, and a checkbook from Charles Schwab. Innovative hospitals "capitate" lives, guaranteeing to provide an individual with a full range of health services for a fixed sum per year. Insurance companies, such as Aetna, respond by refashioning themselves into health care providers. Boston Market offers hot family-style meals for takeout, and supermarkets respond by offering an ever wider selection of prepared foods, further blurring the boundary between the grocery and fast-food industries.

Industry revolutionaries don't ask what industry they are in. They know that an industry's boundaries today are about as meaningful as borders in the Balkans.

than one or two? Can you think of any at all? If not, why not? As a senior executive, are you willing to embrace a subversive strategy-making process?

Principle 3: The bottleneck is at the top of the bottle. In most companies, strategic orthodoxy has some very powerful defenders: senior managers. Imagine an organizational pyramid with senior managers at the apex. (It has become fashionable to draw the pyramid with customers at the top and senior managers at the bottom. But as long as senior managers retain their privileges – corporate aircraft, spacious suites, and so on – I prefer to leave the pointy end at the top.) Where are you likely to find people with the least diversity of experience, the largest investment in the past, and the greatest reverence for industrial dogma? At the top. And where will you find the people responsible for creating strategy? Again, at the top.

In industry after industry, the terrain is changing so fast that experience is irrelevant and even dangerous.

The organizational pyramid is a pyramid of experience. But experience is valuable only to the extent that the future is like the past. In industry after industry, the terrain is changing so fast that experience is becoming irrelevant and even dangerous. Unless the strategy-making process is freed from the tyranny of experience, there is little chance of industry revolution. If you're a senior executive, ask yourself these questions: Has a decade or two of experience made me more willing or less willing to challenge my industry's conventions? Have I become more curious or less curious about what is happening beyond the traditional boundaries of my industry? Be honest. As Ralph Waldo Emerson wrote, "There are always two parties, the party of the past and the party of the future; the establishment and the movement." To which party do you belong?

Principle 4: Revolutionaries exist in every company. It is often said that you cannot find a pro-change constituency in a successful company. I disagree. It is more accurate to say that in a successful company you are unlikely to find a pro-change constituency among the top dozen or so officers.

Make no mistake: there are revolutionaries in your company. If you go down and out into your organization – out into the ranks of much maligned middle managers, for instance – you will find people straining against the bit of industrial orthodoxy. All too often, however, there is no process that lets those revolutionaries be heard. Their voices are muffled by the layers of cautious bureaucrats who separate them from senior managers. They are isolated and impotent, disconnected from others who share their passions. So, like economic refugees seeking greater opportunity in new lands, industry revolutionaries often abandon their employers to find more imaginative sponsors.

No one doubts that Jack Welch of General Electric, Percy Barnevik of ABB Asea Brown Boveri, and Ray Smith of Bell Atlantic are pro-change leaders. But rather than celebrating the exceptions – the few truly transformational executives who populate every tome on leadership – isn't the greater challenge to help the pro-change constituency that exists in every company find its voice? Sure, there are some radical corporate leaders out there. But weren't they always revolutionaries at heart? Why couldn't they have had a much greater impact on their companies earlier in their careers? Perhaps they, too, found it difficult to challenge the combined forces of precedence, position, and power. It would be sad to conclude that a company can fully exploit the emotional and intellectual energy of a revolutionary only if he or she succeeds in navigating the tortuous route to the top. How many revolutionaries will wait patiently for such a chance?

As a corporate leader, do you know where the revolutionaries are in your own organization? Have you given them a say in the strategy-making process? One thing is certain: if you don't let the revolutionaries challenge you from within, they will eventually challenge you from without in the marketplace.

Principle 5: Change is not the problem; engagement is. Senior executives assume two things about change that squelch revolutionary strategies. The first assumption is that "people" – that is, middle managers and all the rest – are against change. The second assumption follows from the first: only a hero-leader can force a timid and backward-looking organization into the future. All too often, change epics portray the chief executive dragging the organization kicking and screaming into the twenty-first century. Enough of top-management grandstanding. Humankind would not have accomplished what it has over the past millennium if it was ambivalent about change or if the responsibility for change was vested in the socially or politically elite.

Imagine that I coax a flatlander to the top of a snow-covered mountain. After strapping two well-waxed skis onto the flatlander's feet, I give the nervous and unprepared nonskier a mighty push. He or she goes screaming over a precipice; I'm booked for murder. One could well understand how the novice might not appreciate the "change" I sought to engineer. Now imagine that the nonskier takes lessons for a few days. The now fledgling skier may ascend the same mountain and, though full of caution, voluntarily point the skis downhill. What has changed? Even with a bit of training, skiing is not without risks. But in the second scenario, the skier has been given a modicum of control – an ability to influence speed and direction.

All too often, when senior managers talk about change, they are talking about fear-inducing change, which they plan to impose on unprepared and unsuspecting employees. All too often, *change* is simply a code word for something nasty: a wrenching restructuring or reorganization. This sort of change is not about opening up new opportunities but about paying for the past mistakes of corporate leaders.

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The objective is not to get people to support change but to give them responsibility for engendering change, some control over their destiny. You must engage the revolutionaries, wherever they are in your company, in a dialogue about the future. Does your strategy-making process do this? Do you secretly believe that change is better served by a more compliant organization than by a more vociferous one? When senior managers engage their organization in a quest for revolutionary strategies, they are invariably surprised to find out just how big the pro-change constituency actually is.

Principle 6: Strategy making must be democratic. Despite years of imploring people to bring their brains to work, to get involved in quality circles, process reengineering, and the like, senior managers have seldom urged them to participate in the process of strategy creation. But if senior managers can't address the challenge of operational improvements by themselves – witness their reliance on quality circles, suggestion systems, and process-improvement task forces – why would they be able to take on the challenge of industry revolution? After all, what do a company's top 40 or 50 executives have to learn from one another? They've been talking at one another for years. Their positions are well rehearsed, and they can finish one another's sentences. In fact, there is often a kind of intellectual incest among the top officers of a large company.

The capacity to think creatively about strategy is distributed widely in an enterprise. It is impossible to predict exactly where a revolutionary idea is forming; thus the net must be cast wide. In many of the companies I work with, hundreds and sometimes thousands of people get involved in crafting strategy. They are asked to look deeply into potential discontinuities, help define and elaborate the company's core competencies, ferret out corporate orthodoxies, and search for unconventional strategic options. In one company, the idea for a multimillion-dollar opportunity came from a twenty-something secretary. In another company, some of the best ideas about the organization's core competencies came from a forklift operator.

To help revolutionary strategies emerge, senior managers must supplement the hierarchy of experience with a hierarchy of imagination. This can be done by dramatically extending the strategy franchise. Three constituencies that are usually underrepresented in the strategy-making process must have a disproportionate say. The first constituency is young people – or, more accurately, people with a youthful perspective. Of course, some 30-year-olds are "young fogies," but most young people live closer to the future than people with gray hair. It is ironic that the group with the biggest stake in the future is the most disenfranchised from the process of strategy creation.

My definition of success in a strategy-creation process is exemplified by an executive committee spending half a day learning something new from a 25-year-old. Recently, a young technical employee in an accounting company explained the implications of virtual reality to the senior partners. His pitch went like this: "Think about a complex set of corporate accounts. How easily and quickly can you uncover the subtle relationships among the numbers that might point to a problem or opportunity? Virtual reality will allow you to 'fly' over a topography of corporate accounts. That big black hole over there is a revenue shortfall, and that red mountain is unsold inventory. A few small companies are already working on applying virtual reality to financial accounts. Are we going to get on board or risk getting left behind?" The partners actually learned something new that day. When was the last time a Generation-X employee in your company exchanged ideas with the executive committee?

When was the last time a Generation-X employee in your company exchanged ideas with senior managers?

The people at an organization's geographic periphery are the second constituency that deserves a larger say in strategy making. The capacity for strategic innovation increases proportionately with each mile you move away from headquarters. For a U.S. company, the periphery might be India, Singapore, Brazil, or even the West Coast. For a Japanese company, it might be Indonesia or the United States. At the periphery of an organization, people are forced to be more creative because they usually have fewer resources, and they are exposed to ideas and developments that do not conform to the company's orthodoxies. Remember the old Chinese defense of local exceptions to central rule: The emperor is far away and the hills are high. But again, in many companies the periphery has little say in the strategy-making process. If a company aims to generate 40% or 50% of its revenues in international markets, international voices should have a say in the strategy-making process to match.

The third constituency that deserves a disproportionate say is newcomers, people who have not yet been co-opted by an industry's dogma. Perhaps you've looked outside your company or industry for senior executives with fresh perspectives. But how systematically have you sought the advice of newcomers at all levels who have not yet succumbed to the dead hand of orthodoxy? Think about last year's strategic-planning process. How many new voices were heard? How hard did you work to create the opportunity to be surprised?

Inviting new voices into the strategy-making process won't work if senior managers drown them out.

Inviting new voices into the strategy-making process, however, is not enough. Senior executives must ensure that they don't drown out people who are overly inclined to deference. In one company, the young representative of a strategy-creation team presented the group's findings to the management committee. When the anxious young employee showed up at the appointed place and hour, he was confronted by a daunting spectacle: 12 executives, most with more than 20 years of seniority, ensconced in high-backed leather chairs arranged around an enormous boardroom table. The brave young manager never stood a chance. Less than five minutes into the four-hour talk, he was being pelted with disbelief and skepticism. The management committee demonstrated its capacity for (unwitting) intimidation and learned little.

After this fiasco, the people attempting to facilitate the dialogue saw to it that the setting for the next meeting was very different. First, it was held off-site on neutral territory. Second, all 25 members of the strategy-creation team were invited; thus they outnumbered the executives. Third, the management committee sat in ordinary chairs arranged in a semicircle – they had no table behind which to hide. Finally, the management committee was asked to hold all comments during the presentation. Afterward, each member of the management committee was assigned two members of the team for a four-hour discussion that focused on how the team had arrived at its conclusions. The next morning, the executives were willing to admit that they had learned a lot, and they were able to give helpful advice to the team members about where they should deepen and expand their work.

That is strategy making as a democratic process. People should have a say in their destiny, a chance to influence the direction of the enterprise to which they devote their energy. The idea of democracy has become so enervated, and the individual's sense of responsibility to the community so feeble, that they can both be summarized in the slogan One Person, One Vote. That notion represents not the full ideal of democracy but its minimal precondition. If one exercises the rights of citizenship only once every 1,461 days, can one claim to be a citizen in any meaningful sense? In the corporate sphere, suggestion schemes and town hall meetings are but the tender shoots of a pluralistic process. Democracy is not simply about the right to be heard; it is about the opportunity to influence opinion and action. It is about being impatient and impassioned, informed and involved. The real power of democracy is that not only the elite can shape the agenda. One's voice can be bigger than one's vote. Susan B. Anthony, Martin Luther King, Jr., Ralph Nader, Rush Limbaugh, and Jesse Jackson have all had an influence on political thought and action that has gone far beyond a single vote.

Democracy is not simply about the right to be heard; it is about the opportunity to influence opinion and action.

What percentage of the employees in your company have ever seen a copy of the corporate strategy, much less participated in its creation? No wonder that what passes for strategy is usually sterile and uninspiring. Saul Alinsky, one of the most effective social revolutionaries in the United States this century, wrote this about the output of top-down, elitist planning: "It is not a democratic program but a monumental testament to lack of faith in the ability and intelligence of the masses of people to think their way through to the successful solution of their problems.… the people will have little to do with it." That which is imposed is seldom embraced. An elitist approach to strategy creation engenders little more than compliance.

Principle 7: Anyone can be a strategy activist. Perhaps senior managers are reluctant to give up their monopoly on the creation of strategy. After all, how often has the monarch led the uprising? What can so-called ordinary employees do to ensure that their company becomes or remains the author of industry revolution? Plenty. They can become strategy activists. Today frontline employees and middle managers are inclined to regard themselves more as victims than as activists. They have lost confidence in their ability to shape the future of their organizations. They have forgotten that from Gandhi to Mandela, from the American patriots to the Polish shipbuilders, the makers of revolutions have not come from the top. Notwithstanding all the somber incantations that change must start at the top, is it realistic to expect that, in any reasonable percentage of cases, senior managers will start an industry revolution? No.

In one large company, a small group of middle managers who were convinced that their company was in danger of forfeiting the future to less conventional rivals established what they called a "delta team." The managers, none of whom was a corporate officer, had no mandate to change the company and asked no one for permission to do so. Over several months, they worked quietly and persistently to convince their peers that it was time to rethink the company's basic beliefs. This conviction gradually took root among a cross section of managers, who started asking senior executives difficult questions about whether the company was actually in control of its destiny. Did the company have a unique and compelling view of its future? Was the company ahead of or behind the industry's change curve? Was it at the center or on the periphery of the coalitions that were reshaping the industry? Ultimately, senior managers conceded that they could not answer those questions. The result was a concerted effort, spanning several months and hundreds of employees, to find opportunities to create industry revolution. Out of this effort came a fundamental change in the company's concept of its mission, a score of new and unconventional business opportunities, and a doubling of revenues over the next five years.

Activists are not anarchists. Their goal is not to tear down but to reform. They know that an uninvolved citizenry deserves whatever fate befalls it, as do cautious and cringing middle managers. People who care about their country – or their organization – don't wait for permission to act. Activists don't shape their opinions to fit the prejudices of those they serve. They are patriots intent on protecting the enterprise from mediocrity, self-interest, and mindless veneration of the past. Not every activist ends up a hero. Shortly after he became president of the Supreme Soviet, Nikita Khrushchev gave a speech to a large group of Communist Party leaders in which he denounced the excesses of Stalin. During a pause, a voice rang out from the back of the hall, "You were there. Why didn't you stop him?" Taken aback by such impertinence, Khrushchev thundered, "Who said that?" The questioner slunk low in his seat and was silent. After a long, uncomfortable minute in which his eyes raked the audience, Khrushchev replied, "Now you know why." It is often safer to be silent. The corporate equivalent of Lubyanka is an office without a telephone or a window. Dissenters aren't shot for treason; they're asked to take a "lateral career move."

Listen to Thomas Paine: "Let them call me rebel and welcome, I feel no concern from it; but I should suffer the misery of devils, were I to make a whore of my soul." In a corporate context, this sounds like hyperbole. But think of the great companies that have fallen hopelessly behind the change curve because middle managers and first-level employees lacked the courage to speak up. To be an activist, one must care more for one's community than for one's position in the hierarchy. The goal is not to leave senior executives behind. The goal is not to stage a palace coup. But when senior managers are distracted, when planning has supplanted strategizing, and when more energy is being devoted to protecting the past than to creating the future, activists must step forward.

Principle 8: Perspective is worth 50 IQ points.[2] Without enlightenment, there can be no revolution. To discover opportunities for industry revolution, one must look at the world in a new way, through a new lens. It is impossible to make people smarter, but you can help them see with new eyes. Remember when you took your first economics course? I do. It didn't make me any smarter, but it gave me a new lens through which to look at the world. Much that had been invisible – the link between savings and investment, between interest rates and exchange rates, and between supply and demand – suddenly became visible.

A view of the corporation as a bundle of core competencies rather than a collection of business units is a new perspective. A view of discontinuities as levers for change rather than threats to the status quo is a new perspective. A view that imagination rather than investment determines an organization's capacity to be strategic is a new perspective.

Any company intent on creating industry revolution has four tasks. First, the company must identify the unshakable beliefs that cut across the industry – the industry's conventions. Second, the company must search for discontinuities in technology, lifestyles, working habits, or geopolitics that might create opportunities to rewrite the industry's rules. Third, the company must achieve a deep understanding of its core competencies. Fourth, the company must use all this knowledge to identify the revolutionary ideas, the unconventional strategic options, that could be put to work in its competitive domain. What one sees from the mountaintop is quite different from what one sees from the plain. There can be no innovation in the creation of strategy without a change in perspective.

Principle 9: Top-down and bottom-up are not the alternatives. The creation of strategy is usually characterized as either a top-down or bottom-up process. Strategy either emerges as a grand design at the top – think of Jack Welch's famous "three circles," which defined GE's future business focus – or bubbles up from lone entrepreneurs, such as the man who invented Post-It Notes at 3M. But all too often, top-down strategies are dirigiste rather than visionary. And in all too many companies, the entrepreneurial spark is more likely to be doused by a flood of corporate orthodoxy than fanned by resources and the support of senior executives. In my experience, new-venture divisions, skunk works, and the musings of research fellows are no more likely to engender an industry revolution than is an annual planning process.

Just as a political activist who fails to influence those with legislative authority will make little lasting difference, a strategy activist who fails to win senior managers' confidence will achieve nothing. Senior managers may not have a monopoly on imagination, but they do have a board-sanctioned monopoly on the allocation of resources. To bankroll the revolution, senior executives must believe, both intellectually and emotionally, in its aims. So although the revolution doesn't need to start at the top, it must ultimately be understood and endorsed by the top. In the traditional model of strategy creation, the thinkers are assumed to be at the top and the doers down below. In reality, the thinkers often lie deep in the organization, and senior managers simply control the means of doing.

To achieve diversity of perspective and unity of purpose, the strategy-making process must involve a deep diagonal slice of the organization. A top-down process often achieves unity of purpose: the few who are involved come to share a conviction about the appropriate course of action and can secure some degree of compliance from those below. A bottom-up process can achieve diversity of perspective: many voices are heard and many options are explored. But unity without diversity leads to dogma, and diversity without unity results in competing strategy agendas and the fragmentation of resources. Only a strategy-making process that is deep and wide can achieve both diversity and unity.

Bringing the top and bottom together in the creation of strategy will help bypass the usually painful and laborious process whereby a lowly employee champions an idea up the chain of command.

Managers, many of whom may be more intent on protecting their reputations for prudence than on joining the ranks of the lunatic fringe, are likely to shoot down any revolutionary idea that reaches them. There are many ways of linking those on the bottom with those in the officer corps. Senior executives can sponsor a process of deep thinking about discontinuities, core competencies, and new rules that involves a cross section of the organization. Senior managers can participate as team members–together with secretaries, salespeople, and first-level engineers – in the search for revolutionary opportunities. An executive committee can devote one week per month to keeping up to speed with the revolutionary ideas that are gestating deep in the organization.

In the quest for revolutionary strategies, a senior executive must be more student than magistrate.

What senior executives must not do is ask a small, elite group or the "substitute brains" of a traditional strategy-consulting firm to go away and plot the company's future. With neither senior managers nor a substantial cross section of the organization involved, the output will likely be considered a bastard by all except those who created it.

Of course, senior managers must ultimately make hard choices about which revolutionary strategies to support and what resources to commit, but they must avoid the temptation to judge prematurely. In the quest for revolutionary strategies, a senior executive must be more student than magistrate. In one company, the CEO believed that the strategy-making team was responsible for convincing him that it had come up with the right answers. That is the wrong attitude. It is the CEO's responsibility to stay close enough to the organization's learning process that he or she can share employees' insights and understand their emerging convictions. In the traditional planning process, outcomes are likely to cluster closely around senior managers' prejudices; the gap between recommendations and preexisting predilections is likely to be low. But that is not the case in a more open-ended process of strategic discovery. If the goal is to ensure that the resource holders and the revolutionaries end up at the same place at the same time, senior executives must engage in a learning process alongside those at the vanguard of industry revolution.

Principle 10: You can't see the end from the beginning. A strategy-making process that involves a broad cross section of the company, delves deeply into discontinuities and competencies, and encourages employees to escape an industry's conventions will almost inevitably reach surprising conclusions. At EDS, such a process convinced many in the organization that it was not enough to be a business-to-business company. As the dividing line between professional life and personal life was blurring, EDS realized that it had to become capable of serving individuals as well as businesses. After an open and creative strategy-making process, EDS installed automated teller machines in many 7-Eleven stores. Months earlier, few would have anticipated, much less credited, such a move.

Not everyone enjoys surprises. Senior managers cannot predict where an open-ended strategy-making process will lead, but they cannot go only part of the way to industry revolution. If nervous executives open up a dialogue and then ignore the outcome, they will poison the well. In one company, senior managers articulated their reluctance to staff a strategy-making team with a cohort of young, out-of-the-box employees. The CEO was convinced that he needed to set clear boundaries on the work of the eager revolutionaries. Defending his desire to impose prior restraint on the strategy-creation process, he asked, "What if the team comes back with dumb ideas?" The response: "If that is the case, you have a bigger problem – dumb managers." Senior managers should be less worried about getting off-the-wall suggestions and more concerned about failing to unearth the ideas that will allow their company to escape the curse of incrementalism.

Though it is impossible to see the end from the beginning, an open-ended and inclusive process of strategy creation substantially lessens the challenge of implementation. Implementation is often more difficult than it need be because only a handful of people have been involved in the creation of strategy and only a few key executives share a conviction about the way forward. Too often, the planning process ends with the challenge of getting "buy-in," of getting what is in the heads of the bosses into the heads of the worker bees. But when several hundred employees share the task of identifying and synthesizing a set of unconventional strategic options, the conclusions take on an air of inevitability. In such a process, senior managers' task is less to "sell" the strategy than to ensure that the organization acts on the convictions that emerge. How often does the planning process start with senior executives asking what the rest of the organization can teach them about the future? Not often enough.

To invite new voices into the strategy-making process, to encourage new perspectives, to start new conversations that span organizational boundaries, and then to help synthesize unconventional options into a point of view about corporate direction – those are the challenges for senior executives who believe that strategy must be revolution.

1. Thanks to James Scholes, my colleague at Strategos, for suggesting this distinction.

2. I owe this aphorism to Alan Kay, a research fellow at Apple Computer. Kay's point that new thinking depends more on perspective than on raw intelligence is as apropos to strategy innovation as it is to new-product innovation.

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