

OUTSIDE-IN THINKING CRUCIAL BUT UNNATURAL

by Willie Pietersen

Recently John Chambers, CEO of Cisco, said something that caught my eye: “We have moved from selling boxes to partnering with customers on their outcomes.” What got my attention was the word *outcomes*. Outcomes are what customers get, not what we sell. But note that Chambers’s formulation embraces the idea of *partnering* with customers—a process of co-creation. This reverses traditional thinking and envisions a business model as a consumption chain rather than a supply chain. Cisco’s success formula is to view customer outcomes in terms of the total customer experience, created from the outside in.

John Chambers understands the crucial importance of outside-in thinking. But he is not alone. The CEOs of both General Motors and IBM are repeatedly stressing the same imperative—to become a customer-focused company or fail. In a company I worked with recently, the CEO implored me, “Please help us transform ourselves from an inside-out to an outside-in company.”

The amazing thing about these calls for an outside-in approach is that this is age-old thinking. The legendary Harvard marketing professor Theodore Levitt laid out the compelling logic for this in a 1960 trailblazing *Harvard Business Review* article called “Marketing Myopia.” And in 1999 Stephan Haeckel, in his excellent book, *Adaptive Enterprise*, summed up the challenge by saying that to compete, successfully companies must shift their mentality from “make and sell” to “sense and respond.”

All this is dead simple, right? I can’t find anyone who disagrees that outside-in thinking is a key to success, particularly in today’s turbulent competitive environment. And yet most organizations lament that they are not good at it. Why is it so hard to pull off?

I think there are four reasons for this gap between aspiration and reality: human psychology, misleading advice, organizational barriers, and confusion about the relationship between strategy and planning.

Why is it so hard to pull off?

1. Human Psychology

The psychological factor is intriguing. Research shows that during informal conversations when there is no agenda, most discussions lapse naturally into internal thinking. Hence, there is a strong tendency for conversations within companies to be about the internal workings of the organization, gossip about its people, rumors of reorganization or downsizing, fears of a takeover, and so on. Rarely will these interactions spark a meaningful exchange of ideas about the key trends in the competitive environment or the hierarchy of customer needs.

Even CEOs fall prey to this internally focused mind-set. Recently a financial services company asked me to help them develop a winning strategy. At the beginning of the workshop with their senior leaders, I asked the CEO to describe their current strategy. His reply: "Our competitive advantage is that we are a multidisciplinary firm." In essence he was claiming that the firm's internal organizational design was in and of itself a benefit to clients. In a friendly role play (I played the role of a client), I pushed back: "How you organize your firm is of no concern to me. I care only about the benefits I receive. Can you please describe these?" Only after this challenge and much discussion did a real customer benefit emerge, which was to leverage the multidisciplinary structure to create an integrated package of outsourcing effectiveness and tax efficiency for clients.

Along the same lines, when Citicorp merged with Travelers Group in 1998, they saw the main benefit of the merger as a self-serving one: the ability to "cross-sell" their respective offerings. However, most often customers regard cross-selling as an irritant

rather than a benefit. Not surprisingly, the merger was not successful, and Travelers' property and casualty business was spun off in 2002.

Based on my work with a broad array of clients, I can testify that this inside-out mind-set is pervasive. It is the default condition. This is where we find comfort and security in a world we know. The truth of the matter is that outside-in thinking is an unnatural act. Without a forcing mechanism, it hardly ever happens.

Carl von Clausewitz, the famed nineteenth-century expert on military strategy, reminded us that as much as anything else, strategy is a method of thinking. To take hold, outside-in thinking needs to be systematically cultivated as a way of life, with senior management showing the way. A practice I strongly recommend is quarterly strategy retreats, where executive teams spend a couple of days off-site to discuss an aspect of the external environment. Some years back, I facilitated a number of such retreats with the senior team at Aviva, the British insurance group. It was impressive to see how this practice helped the business enhance its insights into the competitive environment and the needs of its customers, and thereby improve its ability to make decisions from the outside in.

Ad hoc approaches and sporadic efforts are not enough. Like any other skill, excellence at outside-in thinking needs to be honed through continuous practice. The moment that stops, the skill will atrophy.

2. Misleading Advice

This is a sorry tale. A number of concepts and analytical frameworks promoted by outside "experts" have pulled companies in exactly the wrong directions.

Strategy is a method of thinking.

Over many years, executives have been fed a steady diet of inside-out thinking by some influential consulting firms and strategy gurus. These have served to entrench inward-looking mind-sets that then become what the Harvard educational theorist Howard Gardner called “engravings in the brain” requiring a process of “mental bulldozing” to clear them out of the way. The list of popular frameworks is a long one. Among them: SWOT (strengths, weaknesses, opportunities, and threats) analysis; the product matrix of cash users, stars, cash cows, and dogs; the core competency philosophy; values workshops; management by objectives (MBO); the balanced scorecard.

What’s wrong with these, you might ask? Nothing intrinsically. They can all be useful if applied in the right sequence. *But they all start in the wrong place: inside.* The element that informs the best answers is missing: insights about the external environment as the *first* order of business.

A few years ago, Anthony Mayo and Nitin Nohria from Harvard Business School tackled a big question: What will be the most important competency for sustaining competitive advantage in the twenty-first century? Their research identified a survival imperative they called “contextual intelligence,” defined as “an enterprise’s ability to make sense of the forces shaping the business environment and seize on the resulting opportunities.”

The truth of this became all too real for me when I was invited to advise a study group that had been asked to reexamine an out-of-date aspect of national industrial policy and recommend changes. For three months they had toiled away and then, in their own words, they “hit a wall.” It quickly became apparent to me that their problem was that they were asking themselves the wrong question: “What should we do?” (This is a variant of management by objectives.) The harsh reality is that the world does not care what we do; people care only about the value they receive. So we turned the process around and asked a set of outside-in questions, starting with an analysis of the interests of the beneficiaries this policy was designed to serve.

In rapid order the group came up with four “value gaps”—that is, the gaps between what the beneficiaries

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valued most and what the current policy was offering them. These value gaps represented the roadmap to a new policy, and the recommendations were unanimously approved by the policy makers. The pivotal factor was simply turning the question from inside-out to outside-in. Organizations asking inside-out questions will invariably “hit a wall” or end up pursuing misguided strategies.

One of the most important leadership qualities is the ability to ask the right questions. We will never have all the right answers, but we must have the right questions. Over and over we see the sterile nature of inside-out questions as opposed to the power of understanding the world from the outside in. Consider for a moment the differences among the following examples.

Inside-Out Questions

- What should be our goals?
- Do we have the right organization structure?
- Do we have the right competency model?
- How can we sell more/raise our prices?
- How should we leverage information technology?

Outside-In Questions

- What are the key trends in our industry, and how are they changing the rules of success?
- What do our customers value most?
- How will we create superior value for our customers?
- How are our competitors striving to create value?
- Why should the communities in which we operate welcome us into their midst?

The point here is not that these inside-out questions are inherently wrong. My argument is that they are simply the wrong place to start. Getting our thinking back to front is a dangerous practice. Look again at these examples. I suggest that answering the outside-in questions first will provide the vital insights necessary for producing good answers to the internal questions.

3. Organizational Barriers

The division of organizations into different functions is calculated to serve a useful purpose: to ensure that there are deep skills in the activities that drive performance. But this structure also carries the risk that these functions become hard-walled, inward-looking silos. This happens all too often. What gets lost as a consequence is the ability of an organization to operate holistically, as one integrated system. To quote the *Tao Te Ching*, "The parts of a chariot are useless unless they act in accordance with the whole."

For an outside-in mind-set to have any potency, it must be acted on by the total system working in concert. Instead, we often hear one of two things: that this external perspective is the exclusive job of marketing and sales or that it is the preserve of senior management. In staff functions such as human resources, finance, operations, and R&D, an understanding of the external environment is frequently undervalued, or we simply hear the deadening phrase, "That's not my job."

I am not arguing that all staff functions should become experts at market research and environmental scanning techniques. But as Peter Drucker reminded us, success occurs outside the boundaries of a company; inside is where we mobilize the necessary resources and count the money. If staff functions are to establish priorities with the ultimate customer in mind, then this requires at minimum a working knowledge of industry trends, the needs of these customers, and the actions of competitors.

Here is the process I recommend for staff functions as they go about their planning.

- First, establish a line of sight to the needs of the company's customers and the realities of the external environment.

Success occurs outside the boundaries of a company.

- Second, clarify how the company is aiming to win the competition for value creation for the customers it seeks to serve.
- Finally, establish a winning proposition and priorities for your own domain of responsibility in alignment with these corporate goals.

It is common for staff functions to think of themselves as cost centers. This is a purely internal perspective. Though efficiency is necessary, it is not sufficient. Instead, I urge staff functions to think of themselves as "value centers." This clarifies the strategic mission for every function in an organization: to create greater value than the costs it incurs. This will happen only if these functions operate with an outside-in approach as the essential prerequisite for understanding how they will help their organizations to create competitive advantage.

4. Confusion About the Relationship Between Strategy and Planning

A major source of confusion concerns the difference between strategy and planning. Many executives struggle to distinguish between the two. In fact, there are fundamental differences between the aims and outputs of strategy and those of planning, and confusing the two can compound the problem of inside-out thinking.

Let's examine the differences.

Strategy is about doing the right things. It harnesses insight about the external environment to make the most intelligent choices about where to compete

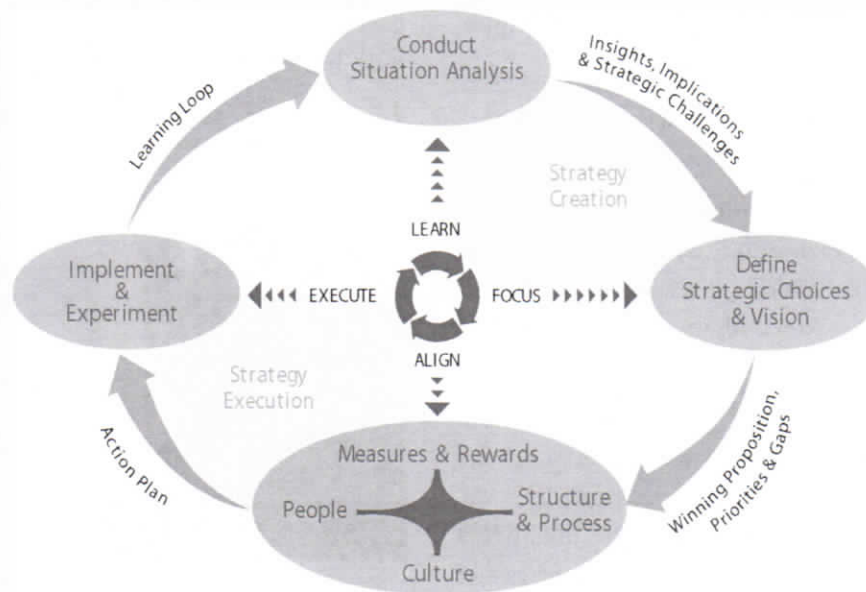


FIGURE 1. LEADING THROUGH STRATEGIC LEARNING

and how to win the competition for value creation. Its primary role is to create an intense focus on the few things that matter most for the achievement of competitive advantage. It is quintessentially outside in.

Planning is about doing things right. It flows from the choices made in the strategy process and provides orderliness, discipline, and logistical rigor. Its purpose is not to create breakthrough thinking, but to produce predictability through forecasts, blueprints, and budgets. Its orientation is largely internal.

A good way to understand the difference between strategy and planning is to think about running a railroad company. Strategy defines where you will lay the railroad tracks. Planning ensures that the trains will run on time.

I am not arguing that planning is unimportant. Both strategy and planning are vital, but one is not a substitute for the other. Because their outputs are so different, we produce a toxic mixture when we combine strategy and planning in one process (and then dodge the issue by calling it “strategic planning”). The evidence suggests that such a combination is likely to produce 90 percent planning and only 10 percent strategy. Planning then becomes a substitute for strategy, and companies allowing this

to happen eventually lose their ability to think and act strategically.

To instill this crucial outside-in capability the golden rule is, strategy first, and planning afterward.

Let’s return to our original question. How can organizations effectively overcome the four barriers described in this article and become successful outside-in companies?

I suggest that the only way is to create a core process that will force *systematic* outside-in thinking.

This won’t happen by simple exhortation or sporadic ad hoc exercises. Invoking Howard Gardner once again, we need to employ “mental bulldozers” to clear away those stubborn engravings on the brain.

To create a successful process, we must start with the outputs we want that process to deliver. I suggest that the right outputs stem from the following four questions that a sound strategy process must answer for us:

1. What are our customers’ needs and the key features of the market in which we must compete for advantage?
2. What do we aim to achieve and what few things must we do outstandingly well to win the competition for value creation in this environment?

3. How will we align our business system and inspire our people to achieve superior execution?
4. How will we continue to learn and adapt as the environment changes?

Note that the process is outside in, and that the questions build on each other sequentially. And also that there are actually three questions—the fourth question is the ability to refresh the answers to the first three.

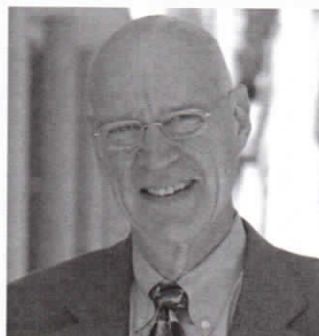
Based on these governing principles, I have translated these four questions into a dynamic four-step process called strategic learning: *Learn, Focus, Align, Execute*. (See Figure 1. The essential starting point of this process (the Learn step) is accomplished through what I call a “situation analysis” that is designed to create penetrating insights into the competitive environment and needs of customers. This first step is designed to cultivate the kind of contextual intelligence defined by Harvard professors Mayo and Nohria. All else follows from there.

Conclusion

Strategy as a concept was born in the military, and all its great precepts can be derived from military thinking. Over the years I have done a number of workshops at the Army War College in Carlisle, Pennsylvania. I have learned a great deal from these learning sessions. One of the paramount principles that is emphasized by the military is that “intelligence precedes operations.” Quoting numerous examples, the military academy stresses that if superior intelligence is not completed prior to launching operations, “people will die.”

Exactly. And so will companies. To avoid this fate, we must learn the unnatural act of outside-in thinking.

To quote Sun Tzu, “Tactics without strategy is the noise before defeat.”



Willie Pietersen is a professor at Columbia Business School. He specializes in strategy and the leadership of change. He developed the strategic learning method for creating breakthrough strategies and is an advisor to numerous Fortune 500 companies and not-for-profit organizations. Pietersen is a Rhodes Scholar. Prior to his appointment at Columbia, he served as CEO of multibillion-dollar businesses such as Lever Brothers Foods Division, Seagram USA, Tropicana, and Sterling Winthrop's Consumer Health Group. His latest book is Strategic Learning: How to Be Smarter Than Your Competition and Turn Key Insights into Competitive Advantage (Wiley, 2010).