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Most Businesses Should Neither 'Pivot' nor 'Double Down'

The change-strategy advice commonly given to businesses misses the mark for two-thirds of them.

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Company leaders are encouraged to believe that they face a stark choice when it comes to change: either double down on their existing strategy or pivot to pursue some form of radical transformation. Our research reveals that this advice is appropriate for only one-third of companies. For the other two-thirds, the better response to a changing environment is to innovate the activities used to deliver value to customers and other stakeholders.

In recent articles for *MIT Sloan Management Review,* “Changing How We Think About Change” and “The Essence of Strategy Is Now How to Change”, we described how change can take three forms - magnitude, activity, or direction - and how companies can identify which form of change is appropriate for their business by evaluating their performance on two dimensions: fit to purpose (the quality of their fit with the expectations of customers and other stakeholders) and relative advantage (the vulnerability of the company's capabilities to substitution).

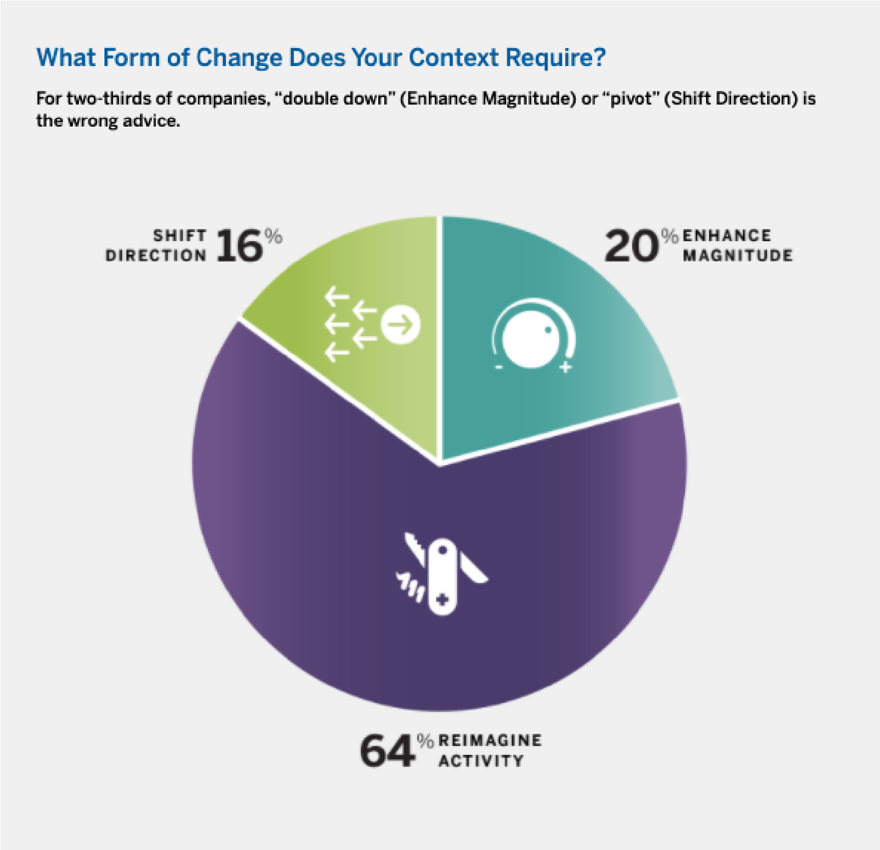
Companies with high fit-to-purpose and relative advantage scores land in the Enhance Magnitude zone, meaning that their priority is to dial up the volume on the strategies currently fueling their success - in other words, to double down. At the opposite extreme, weak performance on fit to purpose and relative advantage means that a company falls into the Shift Direction zone. For these businesses, it's time to pivot.

Companies with average scores on both dimensions - or a combination of high and low scores on the two dimensions - plot in the Reimagine Activity zone. A company in this zone has valid strategic goals but has a pressing need to innovate the means it is using to achieve those goals, whether the aim is to improve market fit or differentiate from competitors.

In a previous article, we included the link to a free self-assessment tool that readers can use to determine the appropriate change signal for their business. To date, executive teams from nearly 100 companies have completed this assessment. This article reviews three major insights that have emerged from their responses and the implications for business leaders who are looking for reliable change signals to inform the strategic priorities of their business.

Only one-third of companies should double down or pivot. Our respondent base spans companies of all sizes (ranging from fewer than 100 employees to more than 100,000) and represents more than 30 countries and all the major industry categories.

Based on their fit-to-purpose and relative advantage scores, only 20% of the companies plotted in the Enhance Magnitude zone, and just 16% fell into the Shift Direction zone of the MADStrat Matrix. (These are the zones where the advice to double down or pivot applies.)



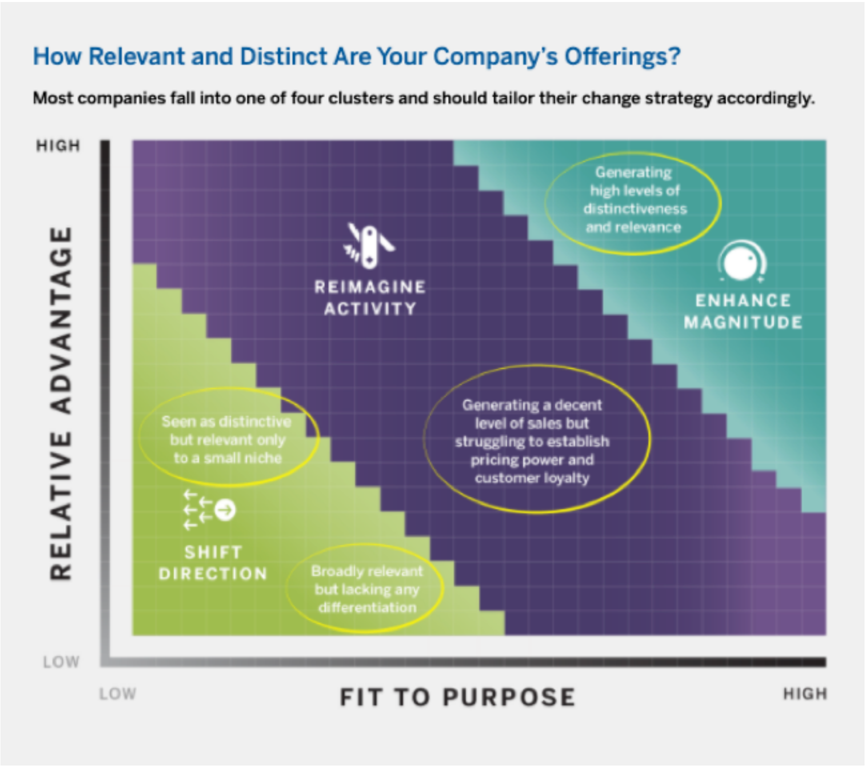
The other 64% of the companies plotted in the Reimagine Activity zone, where heeding advice to stay the course or engage in radical transformation would cause them to focus their efforts in the wrong place. For companies in the Reimagine Activity zone, the priority is to identify ways to improve how their products, services, and delivered value align with customer and other stakeholder expectations (their fit to purpose) and to reduce their vulnerability to substitution either by direct competitors or by alternatives (relative advantage).

It is not enough to meet a need. You must do so distinctively. The second key finding from the responses was that 85% of companies scored higher on the questions relating to fit with stakeholder expectations than those relating to whether the company enjoyed a competitive advantage.

This finding was reinforced by analysis of the text responses. Companies demonstrated a strong appreciation of the macro forces affecting their market environment and, specifically, of the importance of understanding how the needs of their customers were changing. In contrast, their responses about their sources of uniqueness in meeting those customer needs were far less insightful.

In other words, most companies were doing a good job of being relevant but failed to notice that a strong position in the market required that they also be distinctive.

This challenge was especially common among the companies in the Reimagine Activity zone, where almost all companies reported fit-to-purpose scores that exceeded their Relative Advantage scores, often by a wide margin. Their shared dilemma is the commoditization of quality. These companies offer quality products and services that are tailored to customer needs - but their competitors do, too. Despite achieving high customer satisfaction scores, these companies have very limited pricing power and are uncertain about the loyalty of their customers, reporting that price is the most likely reason that their customers would switch to an alternative.



Companies in the Enhance Magnitude category - those scoring high on both fit to purpose and relative advantage - provide an interesting contrast. Nearly 40% of these companies have relative advantage scores that are greater than their scores on fit to purpose. These are the companies about whom customers are most likely to say, "They fit my needs better than anyone, and I'm confident they'll continue to do so in the future" - demonstrating that they are being effective in achieving both relevance and distinctiveness.

Companies that fall into in the Shift Direction zone are of two types. Those in the first group have a decent fit with the market but score very low in terms of relative advantage, indicating that they are offering a commodity product and leaving them with no alternative but to compete on price. Members of the second group are those that have decent scores on relative advantage (indicating that they have established some level of distinctiveness) but are clearly struggling to find a market for their goods and services. They are different, but not in ways that matter to a significant number of customers.

A more holistic approach to strategy is required. At the conclusion of the assessment, respondents indicated which stakeholders were explicitly considered during the strategic planning process. We presented them with a list that included five specific groups - customers, employees, partners, communities, investors - and also invited them to name any other stakeholders (such as regulators) relevant to their specific business.

It was surprising that only 11% of respondents indicated that their strategic planning process explicitly considered the perspective of all the identified stakeholder groups. While consideration of customer needs was nearly universal, only 58% of respondents said that the needs of employees were explicitly considered, 35% said that partners were considered, and 27% considered their communities.

Restricting your focus solely to the needs of customers is like trying to solve a puzzle with many of the key pieces missing. A strategy development process that overlooks the interests of all relevant stakeholders creates blind spots about the relevant stakeholders creates blind spots about the viability of your strategy – a point that the sponsors of soccer's proposed European Super League can attest to, having had to withdraw their plans in the face of protests from the fans and communities in which the member soccer clubs were located.

Implications for Strategy Development

The goal of strategy has always been to create value for customers and investors in a way that cannot be easily copied and that enables a business to earn an attractive margin. But business leaders now face two additional requirements: the need to consider the interests of a broader range of stakeholders, and the ability to do so under conditions of change rather than stability.

Our research indicates that the majority of companies should ignore the siren voices urging them to either double down or to pivot. For these companies, the priority is rather to focus their innovation and leadership efforts on reimagining the activities used to deliver value to customers and other stakeholders in order to improve the relevance and distinctiveness of their strategy. Then do it again.

ABOUT THE AUTHORS

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