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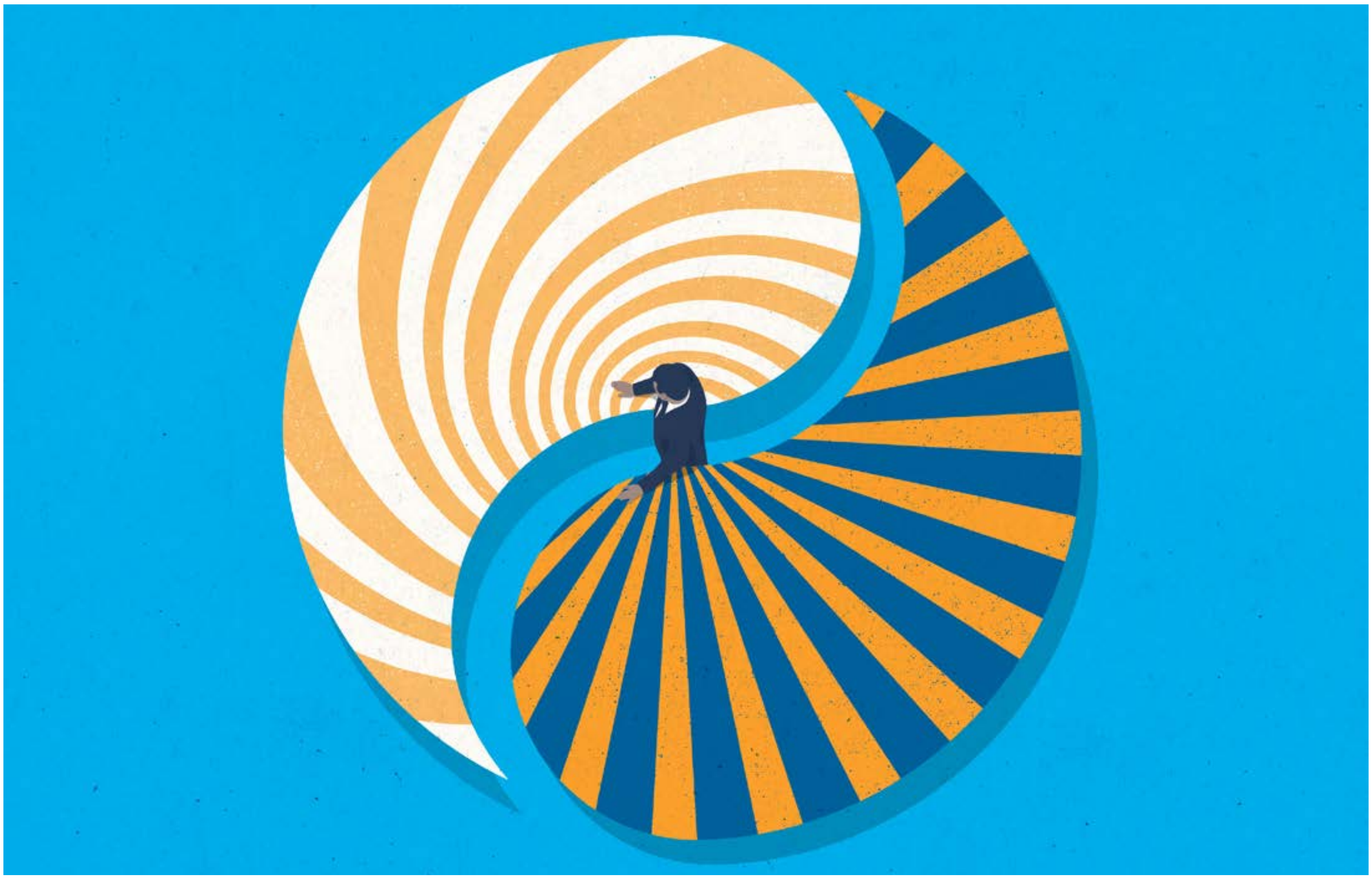

FEATURE

Ambidextrous leadership

Keystone of the undisruptable CEO

Benjamin Finzi, Vincent Firth, and Mark Lipton

DELOITTE'S CEO PROGRAM

For the undisruptable CEO, the ability to be ambidextrous is essential—and elusive. How can CEOs cultivate ambidexterity in both themselves and the organizations they lead?

Disruption breeds ambidexterity

CEOs know firsthand that today's business environment has dramatically evolved. Even in the relatively recent past, disruptions were radical but episodic. But in today's fluid, digitally connected business ecosystems, disruption has become the norm rather than the exception, as wave after wave of upstarts-become-incumbents topple under yet newer competitive threats.

This continuous flow of disruption has changed investor attitudes and expectations. Once focused almost exclusively on increasing profits by enhancing efficiency, financial markets and boards now expect CEOs to simultaneously optimize the current business model *and* inspire the company to search for the next one. In doing so, CEOs face the challenge not simply of steering companies through occasional monumental events, but of navigating *constant* turbulence with unerring agility—and empowering and inspiring their C-suites and organizations to do the same.

As the environment has evolved, so, too, has the successful CEO, meeting the challenges of relentless disruption by becoming what we have termed "undisruptable." The Deloitte CEO program's research in this sphere, initially described in *Can CEOs be un-disruptable?*, asked a fundamental question of 24 seasoned chief executives: "How can a CEO avoid being disrupted in today's turbulent markets?"

Of the attributes this research identified as inherent to undisruptable CEOs, the ability to be *ambidextrous* is perhaps the most essential—and the most elusive. But how can CEOs cultivate ambidexterity both in themselves and in the organizations they lead? In the pages that follow, we'll explore three key principles for developing this ability that CEOs can adopt to make ambidexterity an integral part of their organization's culture.

Understanding ambidexterity

At its core, ambidexterity is the ability to *exploit* present conditions by optimizing the current business model's operations while *exploring* opportunities to redefine that business model by taking pioneering risks. When a business executes well on both fronts, it is positioned to experience rapid and sustained enterprise growth.[1]

Ambidexterity is exemplified by the CEO who shows a hunger for taking risks that could redefine how the business creates value while simultaneously squeezing out operational inefficiencies and implementing leading practices in the current business model. Unsurprisingly, pursuing innovative new ventures while still seeking to maximize present efficiency often puts the ambidextrous CEO in the middle of the tensions associated with executing on both fronts.

In-the-field academic research strongly suggests that ambidextrous leadership is positively associated with firm performance, improving outcomes for both early-stage *and* incumbent firms. And yet, true ambidexterity is uncommon. It requires CEOs to perform a precarious balancing act. Leaders who successfully model this leadership style embrace uncertainty, ambiguity, ambivalence, tension, and even conflict. *They evince comfort with discomfort*.

This is key. Without effective guidance from the CEO, organizational discomfort may trigger organizational traps—vicious cycles that lead to an increasingly one-sided focus. Absent a disciplined approach to both, exploitation drives out exploration—and vice versa. Established firms gravitate toward uniformity, and many develop mindsets and practices far more aligned with one philosophy over the other. In this way, they escape the tensions generated by a dual imperative.

The effects are predictable. Optimizing current capabilities may bring a spike in immediate profits, but optimization alone eventually fosters stagnation, leaving firms vulnerable to faster-moving market and technological changes. Conversely, pursuing business model innovation without a corresponding focus on operational excellence can cause a company to lose its foothold in a market it may once have pioneered as it is overtaken by businesses better equipped to execute.

Three principles of ambidexterity

Ambidextrous CEOs weave the exploitation-exploration tension throughout the organization until it becomes culturally embedded on three fronts. It forms a central part of the CEO's personal *mindset*, which the CEO then translates into an expansive vision for action and communicates broadly throughout the organization. It permeates the CEO's approach to *leadership* of the entire C-suite, where he or she makes sure that the necessary tensions are acknowledged and actively balanced. And it is embodied in a carefully crafted *organizational design* that eschews silos and enables a bifurcated, simultaneous focus on exploitation and exploration at every corporate level and division.

MINDSET: ARTICULATE A STRONG VISION THAT EMBRACES COMPETING TENSIONS

Ambidextrous CEOs not only tolerate but are attracted to ambiguity. Rather than try to tame tensions between competing focal points or mindsets within their teams, they use them to generate and hone new ideas. They hold a *paradoxical mindset* that allows them to take huge gambles while tending the fires of operational efficiency, plan for the future while focusing on the present, and create tidy efficiencies while simultaneously making a mess in pursuit of innovation.

The effective ambidextrous CEO not only holds a paradoxical mindset, but also articulates and continually reinforces it to establish ambidexterity as a common vision and value across the organization's explorative and exploitative units. Within this vision must be a compelling strategic intent that clearly justifies the story that *both* exploration and exploitation are central to the business's goals. When successfully communicated, this vision helps to create a shared organizational culture that knits together the business's various subcultures, enhances information and resource-sharing, and builds trust.

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This shared culture—which both the CEO and the rest of the C-suite should actively promote—should be both "tight" and "loose." Common norms needed for innovation, such as autonomy, initiative, risk-taking, and openness, should be broadly held throughout the organization, but different units and groups can be permitted to express them in their own individual ways depending on the extent, type, and methods of innovation required of them. A successful "tight and loose" culture can allow organizations to knit multiple subcultures together in a way that, without being too regimented, keeps the entire business pulling in the same direction.

Perhaps most importantly, an ambidextrous business's vision and culture should establish an emotionally compelling identity that gives people a common purpose, yet embraces constant change in the way they pursue that purpose. For instance, a company that bases its identity solely on specific customer groups or solutions is at high risk of future disruption and is more vulnerable than a company that is willing to quickly enter new markets and abandon old, unproductive ones.

LEADERSHIP: BUILD A C-SUITE TEAM THAT LEADS AMBIDEXTROUSLY

In January of 2014, General Motors was in crisis. Still reeling from the aftermath of a faulty ignition recall that cost the company more than US$1 billion, the company was stewing in bureaucratic paralysis. The firm's actions were guided by a culture that seemed allergic to finding opportunities to either exploit or explore—both of which, it turned out, were necessary to yield growth.

Enter Mary Barra. From day one, Barra threw a wrench into the company culture, ousting seven high-level executives, claiming responsibility for the ignition problem, dismantling a system based on inward-facing metrics, and implementing a customer-focused system of accountability combined with open debate.

Barra saw GM's inability to learn from failure and assembled a senior leadership team that worked to correct it. Her philosophy in choosing the team: "You want opposing views to come to the table. You bring a diverse group together to look at a challenge, and you have a much higher probability that you're solving it correctly." Working together, this new C-suite has built the resources to take risks and aggressively pursued opportunities such as ride-sharing, automation, and electric capabilities, all while keeping the optimization machine humming. Growth and profit followed, with GM now on a course to pursue a renewed organizationwide value proposition.

Barra and other CEOs who have faced similar challenges create balance in their C-suites by surrounding themselves with both exploiters and explorers—those who seek order and optimization as well as those who question givens. Perhaps most valuable of all is the C-suite executive who, being ambidextrous themselves, can bring the paradoxical mindset to their *role*. CEOs can further imbue their immediate teams with ambidextrous values by rewarding each C-suite executive for explicitly owning the strategy for achieving exploration and exploitation within the business units. The CEO should amplify the need to relentlessly communicate this strategy across the entire organization to enhance cooperation, avoid unproductive conflict, and encourage constructive discussion of different viewpoints. Common-fate reward systems at the C-suite can help CEOs implement this approach in a compelling and actionable manner.

ORGANIZATIONAL STRUCTURE: EMBED AMBIDEXTERITY IN THE ORGANIZATION'S DESIGN

Ambidexterity isn't just about a mindset, and it can't stop at the C-suite. Rather, ambidexterity must be embedded in a company's very design and infused into every team, group, and division.

Some firms pursue the twin endeavors of exploration and exploitation through an organizational design strategy we call *structural ambidexterity*. In this approach, company activities are managed in silos; teams operate in relative isolation, with each group (and, usually, each group member) fulfilling a specific role. And this approach can work, especially in times of stability. An organization that has its skunkworks team innovating and designing new products in Silicon Valley, its management leads checking in weekly from Ohio, and its production facility putting it all together very efficiently in Kansas may indeed be both exploiting and exploring.

But while relatively straightforward to implement, structural ambidexterity can fail to equip businesses to respond adequately to rapid market changes. It tends to discourage fresh insight from salespeople in the field, stymie design insight from those in production, and slow the trickle of communication from one department to another. The frequent result: while some moderately innovative products may make it to market, truly transformative ideas tend not to emerge, either because of a lack of integrative creativity or because they don't survive the bridge between skunkworks and core operations. Moreover, the transformational value to the organization of an intense internal debate is likely never fulfilled.

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An alternative adopted by many more-agile organizations is *contextual ambidexterity*—an approach in which optimization and exploration exist within every individual and team, from the C-suite to the production line. Within contextually ambidextrous companies, people with execution responsibilities continuously interact (whether via collaboration or confrontation) with others with exploratory mandates. Employed by many ambidextrous CEOs, this construct involves a dynamic that enables the entire firm to move easily between the two modes at all levels and across all functions.

One organizational structure companies may use to enable contextual ambidexterity is to embed innovation units into most or all of the core businesses. This can be a good way to facilitate the needed interaction between the "exploiters" and the "explorers." However, a frequent danger is that, if negotiations for capital and resources take place under the top corporate team's radar, the needs of the current businesses can be allowed to starve innovation at the lower organizational levels. To help circumvent this, the CEO should consider putting structures in place to maintain the creative tension between exploitation and exploration. One possibility is to have the innovation units report directly to the CEO, while another is to make clear the expectation that the businesses into which the innovation units report give them the appropriate leeway and resources to pursue the top team's vision.

The conflict between exploitation and exploration can also be addressed by adopting a portfolio approach. Companies may focus on one set of activities to generate cash (or support cash generation in the short term), its sources for survival; simultaneously, but separately, it should also support another set of activities aimed at developing new products, services, and/or business models. These sets of activities may, over time, gradually move from an innovation focus to efficiency focus or vice versa, meaning that the organization's portfolio as a whole remains balanced at any given point. The portfolio can also be balanced by acquiring assets (or organizations) with a focus complementary to that of the acquiring organization—for example, acquisition targets may have an innovation focus when the acquiring organization's focus is on becoming more efficient.

The ambidextrous CEO in action

Following these principles is not always easy. Often, it means that a CEO must simultaneously manage two seemingly contradictory approaches to strategic differentiation. How CEOs behave will be significantly influenced by their firm's chronological age and how it achieved success in the past. Witness two extremes:

THE DANGER FOR NEWCOMERS: UNDEREMPHASIZING OPTIMIZATION

Newly established businesses often run afoul of emphasizing growth at the expense of operational discipline. Initially successful, high-growth startups that fall prey to this risk may lose ground in their markets to others that may be more efficient. Their CEOs may then be pressured to grow market share through the same kinds of innovation that previously yielded positive results. These CEOs often have limited bandwidth, however, and they may have little internal expertise to also concentrate on strengthening execution capabilities.

Consider the evolution of one food company that entered the market as a startup in 2012. The company grew at a breakneck pace for several years, reaching a valuation of more than US$1 billion. But by 2016, this rapid scaling had put tremendous pressure on its operations. Margins were razor-thin, and there was little room for error in execution. On one coast, for instance, a production facility hired a staggering *2000 percent* more workers in just 12 months, leading to a slew of workforce and performance issues. On the opposite coast, rocky attempts at automating manual operations led to a series of mistakes and missteps that drove many customers away. All the while, critical resources were being diverted from marketing, which had previously been an important engine for growth.

At this tumultuous time, a new CEO came on board with a quintessentially ambidextrous playbook for managing operations with the precision to serve customers effectively—while also constantly pursuing innovations in delighting customers. He introduced tools and metrics to precisely measure customer satisfaction in near-real time, and he had his HR team adapt the performance management system so that customer-facing and corporate employees became more accountable. At the same time, while he was creating systems to incentivize optimization, he didn't want to lose the drive for innovation that had been responsible for the firm's torrid growth. For this, he leveraged the power of symbols by creating public events to celebrate teams that had taken a risk on a well-planned initiative, even if they had ultimately failed. Rather than marginalize those responsible for failure, he honored them at pop-up events and held them responsible for transmitting to others what they had learned from the experience. He was firm that risk for the sake of risk would never be in his playbook, but—through such symbolic acts—he also made clear that a reasoned risk that happened to fail presented unique opportunities for collective learning. Tension between exploration and exploitation became a palpable characteristic of the company's culture; yet in a seeming paradox, everyone felt more confident in their *understanding* of the tension. This retooled and refined strategy has been fruitful. For now, it looks like this company is back in the game.

THE TEMPTATION FOR INCUMBENTS: LOOKING FOR INNOVATION IN ALL THE WRONG PLACES

For incumbents, a different tension is at play between optimization and experimentation. CEOs of incumbent companies often gravitate towards the latest innovations—in optimization, that is. In the mid-2000s, for example, many CEOs focused on implementing the latest ideas from six sigma and kaizen to optimize manufacturing and eliminate waste, respectively. These disciplined approaches had a remarkably positive impact on firms that previously had few frameworks for optimization, enhancing performance and prompting higher stock prices. Indeed, many companies that put these continuous improvement systems into practice experienced shorter process cycles, fewer manufacturing defects, lower expenses, enhanced product quality and customer satisfaction, decreased waste, and reduced excess inventory. But then, at many of these companies, performance unexpectedly slipped, resulting in their stellar earnings coming back down to earth.

Over time, it became increasingly evident that an overreliance on optimization through formal processes such as six sigma reduced the level of risky experimentation, eventually making firms allergic to initiatives that could produce profoundly new products or processes.[2] The out-of-the-box creativity needed to develop next-generation business processes was stifled by risk-averse organizational cultures and the understandable temptation to apply "innovation" to the cause of efficiency, rather than to the generation of potential new business models. While innovation remained a core value on paper, managers were rewarded for large wins in achieving efficiency metrics, incentivizing repeated efforts toward attaining these objectives. Many once-iconic innovators were now derided as also-rans. Where they once maintained a cadence of introducing new products to welcoming markets, they became hyperefficient production machines without a pipeline of new products that tapped into consumer desires.

The danger in perpetual optimization is that little room is left for taking risks or making mistakes, both of which are essential to learning. Staged-gate systems with rigid step-by-step principles and procedures seem to punish failure. The message is that mistakes are to be avoided at all costs, which can both be wrongheaded and reductive. As Geoff Tuff and Steven Goldbach argue in their book *Detonate*, business innovation requires an element of risk-taking and learning from potential, if not inevitable, mistakes that can be managed to reduce uncertainty.[3]

A CEO's checklist for ambidexterity

To maintain resilience in the face of disruption and remain competitive in a rapidly shifting marketplace, we suggest that CEOs adopt a more robust approach to ambidexterity. Actions to consider include:

- Engage the senior team around an ambidextrous strategic aspiration by defining an overarching vision that requires both exploratory and exploitative behaviors.
- Aim to establish an emotionally compelling identity across the business that encompasses existing products and services, yet legitimizes and encourages forward-looking thinking. This energizes employees, encourages the coexistence of competing agendas, and demands creativity.
- Maintain creative tension within the C-suite between innovation units' needs and those of the core business. It's particularly important to hash out innovation strategy at the top; the fiercest strategy battles should be fought among the company's most senior executives *in the presence of the CEO*. Pushing the conflict down to lower levels means that important decisions about the company's future can devolve into turf battles. Keep these difficult debates at the C-suite level.

- Teach C-suite executives (and, ultimately, all employees) to handle tension and even conflict in ways that are not destructive to mutual trust and productive relationships.
- Articulate clear and differentiated goals, and apply distinct objectives and metrics specific to the different agendas of exploitation and exploration. Left to their own devices, the needs of established businesses will almost always trump those of speculative units. Formulating explicit goals and metrics for each type of activity can help harness this tendency.

While ambidexterity requires that all organizational levels adopt and manage the tensions between optimization and innovation, how these tensions are managed and leveraged is modeled by the CEO, who is ultimately responsible for disseminating ambidexterity throughout the business. Only if the CEO does so effectively can a company rise above merely reacting to competitive disruption and, instead, continually and intentionally enhance its business model.

ARE YOU AN AMBIDEXTROUS CEO?

CEOs and other C-suite executives who can honestly respond to each of these statements with "Yes! We consistently do this" are likely succeeding in pushing an ambidextrous agenda through their organizations.

Overall

1. When confronting new strategic information, we are not afraid to critically reflect on the shared assumptions we have about our organization and discuss how the new information may influence our balance of exploitation and exploration.
2. Beyond the C-suite, any manager across the firm is able, willing, and excited to discuss the "tension" inherent in striking a balance between exploration and exploitation.

Exploration

3. We hold ourselves and others accountable for looking for novel ideas by thinking "outside the box" while fully committing to improve quality and lower costs.
4. We regularly and systematically search for and approach new clients in new markets, whether or not our current product or service fits their needs.
5. We commercialize products and services that are completely new to us.

Exploitation

6. We introduce improvements to existing products and services as we better understand our customers' needs.
7. We find ways to increase economies of scale in existing markets, and we constantly seek ways to lower the cost of internal processes.

Endnotes

1. See Lutfihak Alpkan and Evrim Gemici, "Disruption and ambidexterity: How innovation strategies evolve?," *Procedia: Social & Behavioral Sciences* 235 (2016): pp. 782–787; Kyootai Lee, Han-Gyun Woo, and Kailash Joshi, "Pro-innovation culture, ambidexterity and new product development performance: Polynomial regression and response surface analysis," *European Management Journal* 35, no. 2 (2017): pp. 249–260; Jing A Zhang et al., "The interactive effects of entrepreneurial orientation and capability-based HRM on firm performance: The mediating role of innovation ambidexterity," *Industrial Marketing Management* 59 (2016): pp. 131–143; and Eva M. Pertusa-Ortega and Jose F. Molina-Azorin, "A joint analysis of determinants and performance consequences of ambidexterity," *BRQ Business Research Quarterly* 21, no. 2 (2018): pp. 84–98.

2. See, for example, Betsy Morris, "New rule: Look out, not in," *Fortune*, July 11, 2006.

3. Geoff Tuff and Steven Goldbach, *Detonate* (Wiley & Sons, 2018). The authors discuss how organizations can manage uncertainty via a series of minimally viable moves (MVMs) that allow for learning and course-correction.

About the authors

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About Deloitte's CEO program

Deloitte's CEO program is dedicated to facilitating the long-term success of CEOs and the organizations they lead. The role of the CEO exists at the intersection of the external environment and the internal organization. In today's disruptive marketplace, CEOs have learned that they can no longer shield their organizations from ambiguity. The CEO program offers unique insight and immersive experiences to help CEOs conquer a new leadership imperative: to embrace ambiguity as a means to survival and growth, while also defining and articulating a clear vision to mobilize and unify the organization.

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Deloitte's US CEO program invites CEOs who are facing or embracing change, challenge, and disruption to participate in a "Next Lab." The "Next Lab" is a custom one-to-two day experience focused on helping CEOs establish a personal vision for digital transformation, explore emerging ecosystems, and discover new value propositions for the long-term growth of their organizations. To learn more, email the CEO program at USCEOProgram@deloitte.com.

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