Great
It is a truth universally acknowledged that innovation is core to competitiveness. But much strategic planning undertaken by firms drives out the very creativity that is so vital to successful innovation. Peter Brews advocates looking at strategy as creative fiction to spark new ideas to transform the crippling blank sheet of paper into profitable, innovative products.

Expectations

Strategy as creative fiction
What should go into a business plan? Any manager worth their salt will probably start with a mission statement and a plan of strategic intent, augmented by more specific goals and objectives that are to be accomplished through achievable, realistic action plans. Finally there will be specific programmes tied to specific budgets intended to achieve specific bottom-line increases.

These are all worthy, sincere statements of intent that fit well with ongoing business operations and keep the people in the blue pinstripe suits content. And all are entirely antithetical to innovation.

For innovation to be fostered, developed, implemented and managed successfully, a different approach to strategy and how it is formed is required. Yet despite widespread acceptance of the belief that innovation is fundamental to sustainable competitiveness, few organisations really understand how to foster innovation.

One thing is clear, however. Innovation does not emerge from the tightly planned, carefully budgeted business plans that we are used to seeing.

The way we live now

If imagination and creativity are the starting points to successful innovation, it does no harm to consider strategy as creative fiction. Fiction is an invented story – and what better way to get the creative juices going than to consider an imaginary situation, and wonder what it would be like if it became reality? The pinstripes can worry about how many beans make five later on – first, we want to imagine a brave new world that might have wonders in it.

The challenge is to move from a blank page, a sharpened pencil and a lot of head-scratching to a model that becomes reality. Strategic fiction needs to be transformed from imaginative thoughts into real products or services that connect with customers. For our purposes, strategy implementation is no longer about drawing a graph that shows where we want to be compared to where we are now. Instead it is more accurately described as the process through which fictional ideas move from abstract conception to profitable reality.

A work of creative fiction starts with a clear and accessible description of the new product, service, solution or idea that is to be created. And, instead of starting with “Once upon a time”, the starting point could be, “Imagine in the future where a customer, faced with problem X, utilises product/solution Y, which helps achieve Z.”

Once it’s understood that any strategy document must reflect the substance of an innovative idea which waits to be created, it becomes easy to disqualify language that does not represent such ideas. A statement like “Our mission is to be the highest quality provider of XYZ in ABC markets” does not contain any creative fiction. Nor does it provide any insights into the future products, services or solutions that are to be developed. As a result, it is a stagnant, uninspiring platitude that is unlikely to stir employees, shareholders – or customers.

Similarly ineffective are objectives framed in terms of “doubling sales by 2006” or “achieving an ROI of 15 per cent by 2007”. They may well be realistic, achievable and timebound – but they’re also uncreative and rather dull. Would anyone want to read David Copperfield if, after stating “I am born” he then went onto declare what return on investment the reader would get by reading up to page 500? Of course not, because that’s not what we read a work of fiction for.

The same is true of a business strategy. Financial goals provide measures to evaluate strategy outcomes at best. But at worst, they represent operational goals more suited towards achieving efficient operations than promoting creative strategy. The important question is not how sales (or earnings or market share) will be increased, but with what product/service, offered to which customers, with which characteristics? In fact, until these questions are answered, no strategy exists. Any estimates of financial outcome are estimates – made mostly for control purposes.

Three important questions must be answered when reviewing strategy proposals:

- Does the plan describe an innovative product/service/solution that does not yet exist?
- Will customers value and adopt the offering if we create it?
- Assuming the product/service/solution is new and customers will rush to adopt, is the innovation easy to replicate?

If replication is easy, caution is needed. Second movers have huge advantages because they can copy innovative ideas without the upfront cost of idea generation. They can also learn from any mistakes made by the first mover.

The doctor’s dilemma

An example of creative fiction as strategy was Sam Walton’s vision to build a discount retailer that
offered a wider and cheaper selection of goods to small town residents than rivals Sears and Kmart. Conventional wisdom in the 1960s held that full-line discount stores were only feasible in large cities. By imagining things differently, Walton conceived Wal-Mart – today the world’s largest retailer.

Siemens Medical Solutions’ evolution from a manufacturer of medical devices to a provider of healthcare solutions was also formed by imagining strategy as a creative fiction. Siemens’ innovations have enabled doctors, healthcare workers and hospital administrators to navigate patient data and update healthcare information electronically from anywhere that has access to the hospital’s network. Siemens continues to develop strategy from creative fiction. Expected in the future are advanced diagnostic and imaging systems that diagnose and treat disease with little human intervention required – or even none at all.

Boeing is pioneering network-centric operations where soldiers on the battlefield will be linked across a single communications network to manned and unmanned ground and airborne military assets.

All these innovations came from imagining something that was fictitious. However, the progression from creative fiction to profitable reality involves more than visionary ideas. The resources needed to produce the innovation must be identified and accumulated, and there must be prototypes, testing and scaling. Only then can competitive advantage be achieved. Siemens’ experience of pioneering the networking of clinical workflow is instructive of the cost and time it takes to build new competences. As far back as 1994, years of software development and many tens of millions of dollars were invested to build syngo, the software platform that today provides the common architecture, user interface and set of applications from which different kinds of medical diagnostic equipment operate.

Syngo is also an example of how innovation cannot be seen only in terms of short-term profits. It only became profitable in early 1999. But by 2003 over 13,000 licenses were installed, so that hospitals with multiple vendor equipment, from companies such as GE or Philips, could link and process data across a common interface regardless of the origin of the installed base.

Transforming creative fiction into profitable reality is a time consuming, arduous task.

There are four ways to control any journey from creative fiction to profitable reality:

- control through human resources
- control through mandate
- control through planning
- control through risk management.

Control through human resources

This ensures that the strategy is developed by the right people. They must have the right background and qualifications, come from the right level of the organisation and be motivated by the right incentives. Typically, those who have a strong understanding of the company’s customers and their needs should form the core of the group assigned to the task. Individuals comfortable with abstract thinking, theory building and testing, risk taking, and experimentation should be involved.

As things stand, strategy is often developed on an ad hoc basis by over-stretched workers who are expected to develop strategy whilst simultaneously meeting their ongoing operational responsibilities. This is a mistake. Under pressure the immediate day-to-day issues receive most attention and the time devoted to strategy and the quality of the ideas that emerge suffer. Transforming creative fiction into profitable reality is a time consuming, arduous task and is worthy of full-time, dedicated resources.

Another mistake is underestimating the length of time the innovation will take to come to fruition. If the estimated duration of a strategy project is five to seven years, the core of the team should not be within seven years of retirement. This does not mean that managers close to retirement have no role to play. Their most important function is to select and empower those tasked with creating the future, based on a correct understanding of what creating the future involves and based on the appropriate incentives.
Changing core team members unnecessarily can be just as disruptive. Valuable learning may be lost as new members sweep in without appreciation of the learning already acquired. This is especially likely if new leadership is drawn in from the outside – innovation is unpredictable enough as it is.

Control through mandate
Assign an appropriate mandate under which the teams will operate. Make sure responsibility for formulation and implementation is not divided; and ensure the terms of the mandate are correctly specified.

When formulation is separated from implementation, an initial group is mandated to generate ideas that a second group implements. This can be disastrous the moment the first roadblock is encountered. Each party blames the other and, while the respective teams fiddle, strategy burns. Formulation and implementation take place concurrently and should not be allocated to different groups.

Those charged with strategy development must understand that their mandate is to remain at work until a prototype has been developed that can be scaled, or until the project is abandoned due to problems that cannot be overcome.

And the specific terms and conditions of the mandate itself are important as well. Canon formed a 200-person cross-functional team to develop the personal photocopier. The team was assigned a clear mandate: to develop a photocopier that would not require maintenance, that cost less than $1,000, was ten times as reliable as the nearest Xerox equivalent, and that could sit on a desk.

Correctly devised, mandates provide valuable guidance to organisations as they set out to develop creative fiction. Incorrectly devised mandates cause serious damage. Special care must be taken to ensure that more specific mandates (such as that assigned for Canon’s personal copier) contain ideas that are viable.

Control through planning
Travellers embarking into the unknown need a map. The role of planning is to provide such a document. Once suitably staffed teams are formed and mandated, the plan communicates the creative idea and identifies the resources required to achieve the vision. Information on which customers are likely to adopt the product/service/solution, and consideration of competitor offerings (actual or intended), and why replication of the idea is likely to be difficult should also be included. And at this stage there should be some estimate of how long the project is likely to take and how much it is likely to cost.

But instead of arguing about the value of the sales that might emerge when the idea eventually becomes reality, early discussion should focus on the quality of the idea. More precise financial estimates are appropriate later in the cycle.

Finally, plans also provide benchmarks that permit progress to be tracked along the way.

That uncertain feeling
Given the uncertainties involved in creativity, any precise business case for an innovation that is likely to be offered years in the future will be guesswork. Arguments about whether sales will multiply by 150 per cent or 200 per cent are, frankly, irrelevant. Early on, only two financial questions are important: can we afford the maximum investment required to build a feasible prototype; and if the venture fails, can the loss of this sum be absorbed without significantly impacting on the company’s solvency?

If the answer to either question is “no” looking for a partner might be the next stage. If no potential partners are interested, the innovation should be shelved. But, apart from this early financial decision, innovations should be judged on the viability, quality, and compelling nature of ideas themselves, and on the confidence surrounding the ability of the organisation to accomplish the vision.

The cycle of creative fiction to profitable reality is often years in the making and involves considerable risk.

This is much more important that reaching conclusions based on guessing the value of potential sales.

Control through risk management
The cycle of creative fiction to profitable reality is often years in the making and involves considerable risk. But there are at least two steps that can be taken to manage this risk. The first categorises the extent of the risk embodied in an idea, and the second helps manage the risk independent of its extent.

Two conditions must be present for sustainable innovation to emerge. First, a visionary creative idea must be formed. Second, unique resources that competitors are unable to match must either be present or be accumulated.

Based on these requirements three permutations are possible: new ideas accomplished through existing core competences; new ideas accomplished through both existing and new competences; and
new ideas accomplished through competences that have yet to be created.

When Philip Morris acquired Miller it redefined how beer was marketed. This is an example of a new idea/existing competence combination. Philip Morris’s knowledge of multi-purchase consumer marketing – know-how that it accumulated from marketing cigarettes – changed the beer industry significantly.

Canon’s development of the desktop copier falls in the second category. Canon’s existing optics, precision mechanics and electronics competences were combined with new photocopying competence (developed to circumvent Xerox’s patents) to produce the desktop copier.

Wal-Mart exemplifies the third category. New logistics/supply chain competences were devised to build a discount retail chain based in small towns. This new/new combination possibly represents the most risky of the three examples mentioned.

The second methodology is based upon the simple notion that the best way to control the risk of any innovative idea is to break it down into a series of smaller bets. Once the vision to move from a manufacturer of medical devices to the provider of healthcare solutions was formed, Siemens Medical Solutions chose to develop the software that would integrate its existing machines across a common platform. Only when the software was beta tested and ready for scaling was the project widened to include other elements such as competitor equipment. Five years after that stage, a profit centre was formed to license syngo.

When smaller bets are undertaken in an incremental fashion the strategy process becomes a series of options where resources are invested sequentially, so that risk and financial exposure are reduced. But this does place an additional burden on strategy teams. After developing an idea, and specifying the resources that will be required to accomplish it, an important part of planning includes outlining the various stages that might be required to move from the abstract idea to tangible reality. Estimates of costs to accomplish each stage and the risks faced each time may also clarify and manage the risk.

### Table 1. Survival of different types of venture units

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<th>Operational efficiency</th>
<th>Strategic efficiency</th>
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<tr>
<td><strong>What is it?</strong></td>
<td>Focuses on how efficiently existing products/services are produced, sold, delivered,</td>
<td>Focuses on how efficiently new products/services/solutions are developed.</td>
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<td></td>
<td>and maintained. Often includes business process re-engineering, and downsizing/rightsizing.</td>
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<tr>
<td><strong>Who provides it?</strong></td>
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<td>Developed in-house and is not shared with others. Relies on unique resources owned by firms, and is not outsourced.</td>
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<tr>
<td><strong>Cycle duration</strong></td>
<td>Typically a year or shorter, sometimes medium term, i.e. 1-3 years in duration. Returns typically are proximal in time.</td>
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</tr>
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<td><strong>Overall effect</strong></td>
<td>Reduces operating costs and enhances operational efficiency. However because competitors perform similar processes, an increase in operational efficiency rarely leads to much (if any) enduring competitive advantage. Makes firms more efficient but not more different.</td>
<td>Provides valuable and hard to replicate differentiation through innovative new products/services/solutions, and delivers competitive advantage. Defines a firm’s core business and delineates the unique and valuable resources owned by the firm. Makes firms more different.</td>
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**Operational efficiency**

- Focuses on how efficiently existing products/services are produced, sold, delivered, and maintained. Often includes business process re-engineering, and downsizing/rightsizing. Involves refinement of existing ideas, technologies etc.

**Who provides it?**

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Implementing strategy as creative fiction

- Recognise that forming strategy is different from managing operations.
- Ensure that the appropriate people, with the appropriate backgrounds and operating under the correct mandate are empowered to form strategy. Assign a dedicated group to the task.
- Just because creativity is risky and to some degree random does not mean it cannot be controlled.

The failure of so many innovations can be attributed to the fact that, all too often, creativity and ongoing business operations are managed in the same way.

However, efficient operations require precision, standardisation, and precise performance according to plan. But strategy in the form of creative fiction requires freedom, experimentation and even tolerance of failure. All too often the same operational routines are employed to manage both, resulting in strategic plans that are nothing more than devices to control ongoing operations with little or no creativity.

Having said that, every creative idea that reaches profitable reality does become, sooner or later, a business venture that must be efficiently managed. Once a prototype is operating and the product/service/solution is ready for scaling, more stringent calculations become appropriate to test the implementation of the tangible and tested creative idea (e.g. precise capital budgeting based on market research.) At this stage the project leaves the strategic domain and enters the operational one.

And from here on more traditional planning and control becomes appropriate – sales targets, monthly operational budgets, six-sigma, benchmarking etc.

Efficient operations that produce free cash flows available for investment are key enablers of strategic efficiency – however, there is no value in investing for tomorrow if current operating costs are higher than competitors’ costs today. Here, curing the disease likely to kill first is advisable. But remember that operational excellence alone will not sustain competitiveness.

Our mutual friend

It’s not stretching the imagination too much to claim that the ability to imagine futures that do not yet exist, and then to bring these to life in the face of competition that wish to create better versions, will be the deciding factor in most competitive battles in the early twenty-first century.

Stories are there to be written – which companies will have the imaginative focus to bring them to life? ■

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