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C-print, 120 x 270 cm

The Ambidextrous CEO

Great leaders navigate the tension between new innovations and core products from the C-suite—they don't leave the battle to their middle managers.

by Michael L. Tushman, Wendy K. Smith, and Andy Binns

IN THE FALL OF 2008, Mike Lawrie, the CEO of the London-based software firm Misys, asked his senior executives to prepare a plan for weathering the global economic crisis. When they reported back, at the top of their list of recommendations was to cut the company's annual $3 million investment in Misys Open Source Solutions, a venture aimed at developing a potentially disruptive technology in the health care industry.

It's a familiar story. Although most executives acknowledge the need to explore new businesses and markets, they almost always bow to the more-pressing claims of the core business, especially when times are hard. Innovations like Misys's Open Source face an uphill battle to secure a share of the firm's capital. They lack scale and resources and are usually underrepresented at the top table. At best, the leaders of the established business units ignore such projects. At worst, they see them as threats to the firm's core identity and values.

Often, innovation's only friend is the CEO. Even so, many CEOs view the competing demands of the core businesses and the new units as a set of trade-offs to be made. They often end up trying to persuade the heads of the core businesses to support and fund the innovations housed in their units on which the company's long-term future depends. In other words, the CEO pushes the key decisions about the right balance between investment in new and core businesses down into the units, ceding much of his or her own power and creating a collection of feudal baronies.

This is a recipe for failure. Our research suggests that firms thrive when senior teams embrace the tension between old and new and foster a state of constant creative conflict at the top. We call this *leading ambidextrously.* We conducted an in-depth study of 12 top-management teams at major companies and identified three leadership principles that help firms grow their core businesses even as they cultivate new offerings that will reshape their industries: (1) Engage the senior team around a forward-looking strategic aspiration. (2) Explicitly hold the tension between the demands of innovation units and the core business at the top of the organization. (3) Embrace inconsistency by maintaining multiple and often conflicting strategic agendas.

When leaders take this approach, they empower their senior teams to move from a negotiation of feudal interests to an explicit, ongoing, and forward-looking debate about the tensions at the heart of the business. Before we look at the principles in depth, let's begin with a case study.

Open Source: The New Shark in the Water

When Mike Lawrie came to Misys, in 2006, he recruited a new management team to turn around the struggling software firm. The company, which served the financial services and health care industries, had been plagued by problems with quality, and it was losing customers at an alarming rate.

Despite the pressure to shore up the existing business, one of Lawrie's first moves was to create a stand-alone unit for open source technology, which was a key component of his vision for the company's future. He knew that open source was emerging as a serious disruptive threat in the software industry, especially in health care. It held the promise of seamless data exchange between the many players in health care delivery. Lawrie believed that Misys had an opportunity to get out in front and be the disruptor.

After securing the investment in Open Source, Lawrie and his team turned to more-immediate concerns of the core business. By 2007, they had stemmed the tide of customer defections and restored the health care business to profitability. In 2008, laying plans to weather the crisis, Lawrie put the business back into growth mode with the acquisition of Allscripts, a major proprietary electronic health records (EHR) provider. And just as Misys catapulted into an industry-leading position, the U.S. government began to inject $19.2 billion of stimulus money into upgrading IT systems for doctors and hospitals nationwide.

The postcrash outlook was a lot less rosy for the financial services sector, however. Lawrie's team needed to generate significant cost savings if they were to both keep financial services going and fund their plans for the Allscripts health care unit.

Against this background, Open Source seemed to be more trouble than it was worth. The leaders of the core units advised Lawrie to unlock capital by selling off the investment. "Cut it now," one executive told him. "You can't afford the distraction."

But Lawrie did more than just protect the investment. At the height of the financial crisis, he gave it an even stronger organizational voice: Open Source was the only Misys health care asset not folded into the core Allscripts unit. This permitted Open Source leaders to sit at the table with Allscripts top executives and compete for resources. Every strategic move involved trade-offs between more-immediate returns from Allscripts and longer-term returns from Open Source. The tensions reflected the power struggle over the firm's identity and future. For example, the head of Allscripts wanted his proprietary software to dominate, and he saw Open Source as a direct threat. His fears proved well-founded; Open Source soon started to beat out Allscripts for contracts.

Firms thrive when senior teams embrace the tension between old and new and foster a state of constant creative conflict at the top.

Idea in Brief

Balancing the needs of core businesses and innovation efforts is a central leadership task.

Unfortunately, most CEOs cede that responsibility to core-business heads, because innovation efforts are typically embedded in their units. The result is that competition for resources and attention usually gets resolved in favor of the established business.

On the basis of an in-depth study of 12 top-management teams at major companies, the authors suggest that CEOs take a very different approach. Specifically, they should:

- engage the senior team around a forward-looking strategic aspiration,
- hold the tension between the demands of innovation units and the core business at the top of the organization, and
- maintain multiple and often conflicting strategic agendas.

When leaders take this approach, they empower their senior teams to move from a negotiation of feudal interests to an explicit, ongoing debate about the conflicting interests on which the future of the business depends.

Lawrie wisely held this tension in his senior team, and his strategy has paid dividends. Allscripts revenues grew more than 30% in 2009, even as Misys Open Source won important contracts. The software is opening up the potential for integrated data sharing among hospitals, physicians, and insurers and could radically improve the U.S. health care system's ability to manage costs and patient outcomes. In addition, Open Source has triggered innovation in other Misys units: A new banking product was developed using open source components, and Misys's website is completely open source.

The firm's business unit leaders now recognize that Open Source is not the irritating drain on resources they had envisioned but a vital experiment aimed at securing Misys's long-term future. In fact, in June 2009 Bob Barthelmes, the executive Lawrie recruited to head the Open Source unit, received an unlikely gift from the other unit heads at the top team's annual offsite: an inflatable shark, symbolizing their acceptance of Open Source's right to swim with the sharks.

Let's look at the leadership principles that enabled Misys's success.

PRINCIPLE 1

Develop an Overarching Identity

The importance of properly framing your organization's identity is well known. In his seminal 1960 HBR article, "Marketing Myopia," Ted Levitt argued that the U.S. railway companies failed to survive the rise of the motor car and the passenger jet in large part because they defined themselves too narrowly—by the assets they had built up rather than by what they did with those assets. They saw themselves as railway companies rather than transportation companies. It's the kind of mistake companies still make.

Companies that develop overarching identities avoid this mistake. A broader identity gives units permission to engage in opposing strategies—to exploit existing products and services while simultaneously exploring new offerings and business models. In just this way, the Ball Company has been able to successfully reinvent itself over more than 100 years. Its evolution from wooden buckets to glass jars to metal cans to plastic bottles was in part rooted in the firm's overarching aspiration to be the "world's best container company."

Mike Lawrie created just such an overarching identity at Misys. The firm had grown by acquiring software assets and building a large customer base for its proprietary products. Lawrie refocused the company on its customers' mission-critical problems and embraced open source technology as a new way to help customers solve them. As the company's executives began to think of their firm as one that solved industrywide problems rather than as a vendor of software applications, new areas of innovation emerged. The banking unit, for instance, developed a product that enables retail banks to bring offerings to market faster, by challenging some of the software industry's standard approaches.

At LexisNexis's Martindale-Hubbell division, CEO Phil Livingston faced a similar tension between current and future demands. He transformed his business unit by broadening its identity from a publisher of legal directories to a web-based marketing business for lawyers. His integrative aspiration to create leads for lawyers opened up a range of new marketing-related services for law firms that has made his unit the fastest-growing one in the LexisNexis portfolio.

PRINCIPLE 2

Hold Tension at the Top

In many companies, innovation units are embedded in the core businesses, and negotiations for capital and resources take place under the radar of

PRINCIPLE 1

Are you developing an overarching identity?
Here's what to ask:

IDENTITY

Does your firm have an emotionally compelling identity that encompasses your existing products and services?

Is your identity broad enough to be aspirational?

Does your identity limit you to customer groups or solutions that may be disrupted in the future?

> When conflicts about funding old and new businesses are resolved at lower levels, innovation usually loses out.

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PRINCIPLE 2

Are you holding tension at the top? Here's what to ask:

REPORTING LINES
Do innovation business units report directly to the CEO? If not, you may be allowing your current business to starve innovation at lower levels in the organization.

OWNERSHIP
Does someone at the top own innovation? If the answer is "everyone owns it," the reality is probably that no one does. In such cases, the needs of established businesses will almost always trump those of speculative units.

LOCUS OF DEBATE
Are the fiercest strategy battles being fought among top executives? Pushing the conflict down to lower levels often means that important decisions about the company's future will devolve into turf battles.

COORDINATION
Do you know what the innovation units need from the core business to be successful?

the top team. This was the case at Hewlett-Packard, which by 1996 had built a successful franchise in the fast-growing market for flatbed scanners. As the business was rapidly scaling to meet demand, a new innovation emerged: the portable handheld scanner.

A small team, several layers down within the scanners unit, developed a portables prototype. They believed the innovation would revolutionize the market, but they couldn't get attention from managers whose focus was winning market share for the flatbed. Then senior HP executive Antonio Perez intervened with $10 million of funding to validate the portables business, but within months the scanners unit had diverted the funds to plug a hole in its budget. The portables R&D team was left with no funds and no authority.

Pushing the conflict down to lower levels is a common pathology. It shields the top leadership team from the pain of making tough choices about how to fund innovation while maintaining the core business. Typically, nobody on the senior team carries the responsibility for innovating. Senior management time is dominated by operational problem-solving, with only occasional flashes of interest in the future. The tension gets resolved at lower levels, and innovation usually loses out. As we saw at HP, the new units starve or are suffocated by the core business.

Another result of pushing innovation down into the business unit is a lack of coordination among initiatives. In 2002, BT was a collection of powerful telephony-focused business units, nominally held together by a 25-person management committee. Innovation efforts were housed within the units, which meant that debate around emerging trends was ceded to lower-level management. Owing to this senior-team abdication, BT launched two competing broadband products, both of which were underfunded. As a consequence, only 40% of the UK population had service—well below aspirations.

Our research shows that decisions about the firm's present and future must be made at the senior-executive level. We've identified two equally successful but vastly different approaches to holding tension at the top.

Hub and spoke. The first approach we call hub and spoke: The CEO (or general manager) sits at the center of a wheel surrounded by business unit leaders, each of whom confers and communicates only with the CEO, not with one another. The CEO manages each spoke of the wheel separately, and each business unit relies heavily on the leader. Analog Devices has thrived for more than 40 years using this method of management. Each time the organization developed a new stream of revenue, it created a new unit with its own leaders, engineers, and local culture. Cofounder Ray Stata took personal responsibility for the integration across these revenue streams so that his other leaders could focus on their own products. That didn't mean that Stata made decisions alone. Key to his model was a COO who shared responsibility for the integration; Stata even had a soundproof room built off his office for their fighting matches.

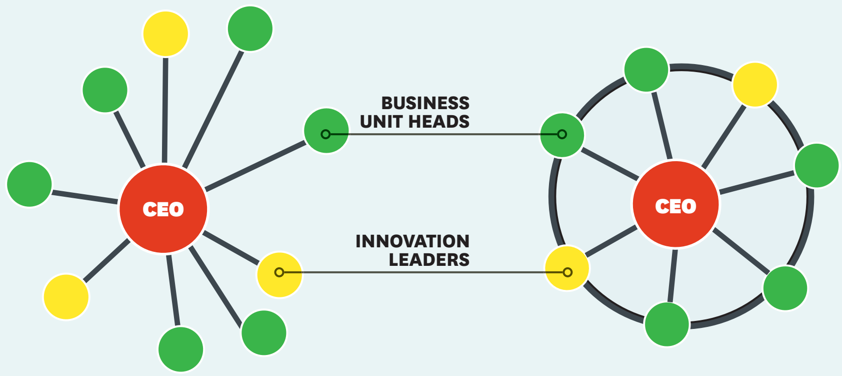
Many hub-and-spoke teams manage through an inner circle of two or three individuals. Unit leaders interact extensively with the inner circle to learn, advocate, and report progress, but they rarely deal with other unit leaders. Cross-team meetings serve primarily as informational updates. Resolution between exploitative and exploratory strategies takes place in the senior leader's office.

Ring-team model. In stark contrast to the hub-and-spoke approach, a ring-team model brings unit leaders together in the CEO's key circle. Decisions are made collectively by the senior team about how to allocate resources and make trade-offs between the present and the future.

Pete Ungaro, CEO of Cray, adopted this approach when he was brought in to lead a turnaround at the legendary supercomputer firm. Cray defined the first era of the IT industry, but its fortunes sank as the market commoditized. Ungaro's strategy was to redefine the firm as a seller of technology solutions, leveraging its engineering excellence, not just its

How to Hold Tension at the Top: **Two Approaches**

HUB-AND-SPOKE TEAM members each have a mission to optimize their units in the service of a shared strategic intent. The CEO, with an inner circle of advisers, negotiates tension among units, insulating innovation from short-term pressures and making trade-offs across the business.



RING TEAMS own innovation as a strategic responsibility and make dynamic trade-offs as a collective unit. Team meetings focus on contentious, high-stakes issues and find resolutions that serve the overall needs of the business over the short and long term.

computer hardware. To that end, he unveiled a new unit called Custom Engineering. However, he knew the sales team would be a major barrier to scaling the business. The team was well-drilled in selling supercomputers, but not in the art of solution sales. Ungaro laid out the dilemma to the unit heads and together they decided "to bite the bullet to create a separate business unit organization," Ungaro told us. "That was a pretty big decision for us," he added. The top team knew this would hurt short-term financial performance, but they recognized and supported the investment in the future.

In most ring teams, the business unit leaders are compensated on the basis of total company performance—not individual P&Ls—and there is a clear focus on the long-term drivers of growth. Because team members make decisions as a group, higher degrees of collaboration are required. Extensive communication is a must, as is a leader who is able to deal with the complex dynamics associated with juggling contrasting time frames.

Ring team members share an obligation to debate and express dissent over critical issues. They are expected to identify problems and call one another out in a transparent manner. Ben Verwaayen, formerly of BT, told us that shortly after he joined the firm as CEO, he challenged an executive who had come to present to the top team. "When I pressed him, he admitted that he didn't agree with anything that he'd just said and that he was just presenting what he was told to present," he said. Verwaayen promptly informed the team members that if they couldn't talk frankly about the business, he was not interested in listening to them. This is a classic ring-team approach—get the issues on the table and hammer them out. The goal is not to reach a compromise, but rather to discover together the best way to advance the company's agenda in both the short and longer term.

Giving the innovation units such a powerful voice in the senior team and such a substantial claim on time and resources is stressful. As Cray Computer's Pete Ungaro told us, "We had to convince ourselves that spending 50% of our time on something that is delivering 5% of the company's revenues was worth the effort." Nonetheless, the results speak for themselves. Once near death, Cray has fought back to profitability, and in 2010, revenues grew by more than 6%.

PRINCIPLE 3

Embrace Inconsistency

In many companies, innovation units find themselves measured against the performance standards of the core business. This puts the innovation unit at a disadvantage as it struggles to match up to a well-established business that has proven itself.

The successful top teams we studied did not fall into this trap. They held core and innovation units to different standards, demanding profit and discipline for some and encouraging experimentation in others. They look at each unit on its own merits so that they can focus on what's important for a business at its particular point in its growth cycle.

Take former *USA Today* president Tom Curley, who grew his company's online business even as he scaled the newspaper into a publishing phenomenon. Curley's expectations for everything from financial performance to dress code were markedly different for the two channels. In the newspaper, deadlines were daily, and professional journalists relied on their well-tended sources to break fresh content. In the online business, 600 deadlines a day were met by a young, web-savvy team who packaged wire service content. Curley created two fundamentally contrasting units, kept them physically and culturally distinct, and each reported directly to him.

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PRINCIPLE 3

Are you embracing inconsistency? Here's what to ask:

MANAGEMENT SYSTEM
Are your innovation businesses measured and rewarded against the same metrics as established ones? If so, you are probably setting those units up for failure.

DECISION MAKING
Are you continually shifting resources (financial investments, talent) between core businesses and innovation units? If not, you may be limiting the value your resources offer your firm.

When a CEO embraces inconsistency in this way, the company's mission and strategy can seem incoherent, with different parts of the business focusing on sometimes conflicting time horizons and metrics. A CEO and his team might support a given strategy in one part of the business yet seek to cannibalize it in another. For example, Analog's Ray Stata continued to build out and invest in a fab for manufacturing analog chips even as he was aggressively investing in research for digital chips. At Cray, Pete Ungaro managed the core business tightly on revenues and profit, but "we would celebrate if somebody went for a cup of coffee with their partner in an exploratory business," he recalls.

Similarly, at Zensar Technologies, a midsize Indian IT services firm, CEO Ganesh Natarajan built a distinct business unit, reporting directly to him, for a potentially disruptive software solution when he saw that the firm's product-oriented general managers were ignoring the innovation. In 2005, Natarajan pushed his senior team to attend to the tensions between their known technologies and this new platform. Today, much of Zensar's growth is rooted in the new solutions platform.

"I hear they call you the hard copy guy."

CARTOON: P.C. VEY

Supporting core businesses and innovation units requires leaders to be consistently inconsistent. They must live with a dual agenda. The approach runs counter to conventional thinking on leadership, but we believe that too much consistency in a company's strategy is a danger sign, indicating that the company has run out of ideas or is relegating innovation to lower levels.

It's not always possible to give both innovation and core units everything they need—resources are scarce. Successful top teams, therefore, move resources between businesses as shifting needs demand. They may tilt capital investments in favor of the core business at one moment, and soon after may ring-fence funds for the innovation unit. Top talent also moves flexibly between the units to make sure that the best people are placed where they're needed most. For example, in IBM's software group, general manager Janet Perna created sales SWAT teams to sell a new content-management system. Perna saw this as a way to focus resources on launching the new product for a short time, before pulling them back into an integrated sales team.

IN LATE 2010 Curley's successor at *USA Today*, David Hunke, announced that the paper was shifting all operations to the web, shedding 10% of the print workforce in the process. The firm was also planning to launch a new, all-digital, *USA Today Sports* offering, focused on winning share in the tablet and mobile phone news market. As once-great newspapers like the *Washington Post* struggle for survival, *USA Today* has positioned itself for reinvention. It could do this because Curley embraced inconsistency and tension at the top levels of the company.

When leaders take an ambidextrous approach, they force their senior teams to abandon feudal battles and engage in forward-looking debate about the tensions at the heart of the business. Their capacity for taking advantage of the opposing objectives, needs, and constraints of core businesses and innovation units enables them to deliver extraordinary performance, time and again.

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