THE BOARD MINDSET™

The vital attribute of exceptional boards

WISE DIRECTORS PIVOT

What happens when new and fast-improving technologies create opportunities to unleash untapped sources of revenue that have been trapped by market inefficiencies? That's the question Omar Abbosh, Paul Nunes, and Larry Downes asked when they began their research about how to turn disruption into opportunity. They introduced the term "wise pivot," a replicable strategy for harnessing disruption to survive, grow, and remain relevant into the future.

When companies pivot at the right time, they release trapped value that allows them to simultaneously reinvent their legacy, current, and new businesses. This allows them to turn the existential threats of today and tomorrow into sustainable growth. Directors at these kinds of organizations have the courage to understand that a wise pivot strategy cannot be a one-time event. Instead, it should be a commitment to a future of perpetual reinvention, where one pivot follows the next and the next.

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Before these multiple pivots can occur, however, directors must understand how they trap value through their decisions, and learn how to become the *disruptor* rather than the *disrupted* in any industry. It starts with an examination of their strategic principle, costs, customer responsiveness, and positive externalities.

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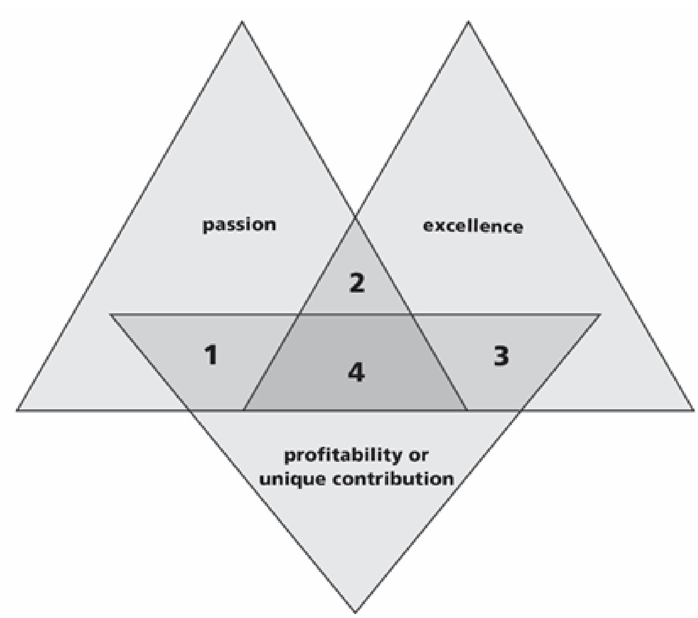
What if directors saw every disruption as an opportunity to innovate? Whether the opportunity is born of an entrepreneurial spirit or a response to a worldwide crisis, the ability to innovate during times of disruption can be the very thing that redefines the future of a given leader, company, or industry. Too often, however, companies trap value in the day-to-day management of their core activities and strategic forces. These artificial constraints, in turn, frequently raise unintended barriers to the company's growth and profitability.

The strategic forces of a given organization decisively affect its nature and direction, but they frequently inadvertently trap value too. The categories of strategy components are numerous, but the first question an executive team would want to ask goes back to basics: "What are we about?"

Value starts with a strong strategic principle—a shared objective about what the organization wants to accomplish. The strategic principle guides the company's allocation of scarce resources—money, time, and talent. The strategic principle doesn't merely aggregate a collection of objectives. Rather, this simple statement captures the thinking required to build a sustainable competitive advantage that forces trade-offs among competing resources, tests the soundness of initiatives, and sets clear boundaries within which decision-makers must operate.

A well-thought-out strategic principle pinpoints the intersection of the organization's passion, excellence, and profitability, or in the case of not-for-profit organizations, its unique contribution.



Organizations that have passion and profitability but ignore excellence often experience some short-term success, and star performers will find themselves drawn to work there—initially. But if the company doesn't offer the best of something and make money, competitors will soon surpass it.

Passion and excellence without profitability won't even allow a short run. This undisciplined orientation—to do what you like and are good at—without consideration of the market, won't provide anything other than some short-lived fun, which should last right up until the time the bills come.

A lack of passion provides a recipe for burn-out. People can work hard at something they're good at and that makes them significant money, but they won't excel at it for long unless they feel some appetite for it. Star performers don't dip their professional toes in the water; they show up to make waves. If they don't feel passion for the work, they won't do either.

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Therefore, the sustained value of any company lies at the intersection of passion, excellence, and profitability. These companies have high-quality products and services that consistently encourage them to develop newer and better value their competition can't match.

When companies face disruption—of their own making or in response to that of others—the strategic principle acts as a beacon that keeps the ships from running aground. It helps maintain consistency but gives managers the freedom to make decisions that are right for their part of the organization. Even when the leadership changes, or the economic landscape shifts, the strategic principle remains the same.

To think about the strategic principle in another way, consider the world *with* the organization versus *without* it. The difference defines the unique added value—what would be lost to the world if the organization disappeared. *Defining* the company's value-added principle, therefore, is the first step, *releasing* trapped value the second. Value can become ensnared by transition costs, consumer surplus, or a failure to create positive externalities. Directors release the trapped value of positive externality when they make decisions to protect the environment, their communities, and their industries.

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While risk mitigation can often prove painful and feel unnatural, effective risk-management processes depend on it. The challenge to establishing a new risk culture depends on directors encouraging leadership teams to kill the sacred cows of the status quo. Only then will they be willing to put aside their comfortable decision-making process to begin to think and talk about what could go wrong. This will demand that leaders encourage their teams to go beyond the checklists, procedures, and protocols that have become their security blankets to challenge, discuss, and debate best options for the changing environment. People will grouse and complain about *immediate* pain, but this pain will pale in comparison to the *eventual* pain of being stuck where the company doesn't belong—and maybe where it never did belong.

We no longer consider disruption a once-in-a-career event or problem. It has become a constant cycle many have begun to call "the new normal." Only those leaders who quickly spot and leverage opportunities related to trapped value and then pivot can close the gap between what's possible and what's likely.

Helping Define Your Company's Future Success