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Strategy shift: Integrating strategy and the firm's capability to innovate

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Abstract Innovation is a key source of organizational growth and profitability. Many organizations at the front end of innovation struggle to engender an innovation approach that is effective and lasting. This article presents a framework that defines the interdependency of innovation and strategy, and then outlines the role of top management to continuously renew the positioning of the firm. Based on a synthesis of prior research—including the Dynamic Capabilities View, Innovation Orientation, and Disruptive Innovation Theory—and our own experience working with organizations, we present an operational strategy shift framework, which allows practitioners to increase, refine, and transform their firm's capability to innovate (CTI) toward achieving their strategic objectives. This framework provides guidance that leaders can use to integrate innovation into their strategic process.

"If all you have is a hammer, everything looks like a nail."

— Abraham Maslow (1966, p. 16)

1. A new framework for organizational practice

The 2017 Front End of Innovation conference in Boston, Massachusetts featured keynote speakers from some of the world's most innovative companies—McLaren, The Walt Disney Studios, 3M, Dolby Laboratories, and Procter & Gamble. The themes revolved around innovation best

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practices and five common traits emerged, including: leadership for innovation, a culture to support innovative thinking, the freedom to fail, the ability to pivot quickly, and the capacity to test new ideas effectively. These traits are at the intersection of strategy and innovation, but how can organizations maximize this interdependency?

Innovation is proving to be a reliable platform of renewed profitability for organizations (Bessant, Lamming, Noke, & Phillips, 2005), and it is important that practitioners understand what innovation can do for their firm. Innovations can impact ecosystems, business models, technologies, and practices and every organization needs to consider where—and in what configuration—innovation can have the greatest impact for them. Yet, challenges for many organizations remain. Due to competition and ever-changing customer preferences (Christensen, 1997; Porter, 1981), firm profitability is constantly under pressure and organizations are having difficulty responding. At minimum, innovations must be planned and incremental as sustainability is contingent on a constant source of new value creation. It is undisputed that firms must adopt an innovation approach; firms that do not innovate inevitably have poorer performance (Dobni, 2010; Drucker, 1985; Schumpeter, 1911). The game of innovation can never be considered complete.

There are many examples of organizations that can be admired for their innovation practices, including Smith & Wesson, Whirlpool, Mercedes-Benz, Boeing, and 3M. All of these organizations invest heavily in innovation and it is evident. In a way, innovation has become their strategy. Firms with superior performance achieve alignment between their strategy and their innovation platform (Elenkov, Judge, & Wright, 2005; Jaruzelski & Dehoff, 2007; Theodosiou, Kehagias, & Katsikea, 2012; Zhou, Gao, Yang, & Zhou, 2005). How can other less innovative organizations achieve this alignment?

This alignment relates to the orchestrated interplay between strategy and innovation. In order to advance a viable framework, it is important to understand the challenges faced by leaders and then provide them with something that will shift the way they think and act with respect to strategy. Such guidance allows practitioners to convert scientifically founded business concepts into practices that will enhance the organization's capability to innovate (CTI; Chandy & Tellis, 1998; Danneels, 2004; Kim & Mauborgne, 2005) by emphasizing the central role of management as a catalyst to unleash dynamic capabilities of the firm. With this in mind, we present the strategy shift framework (SSF).

2. The strategy shift framework

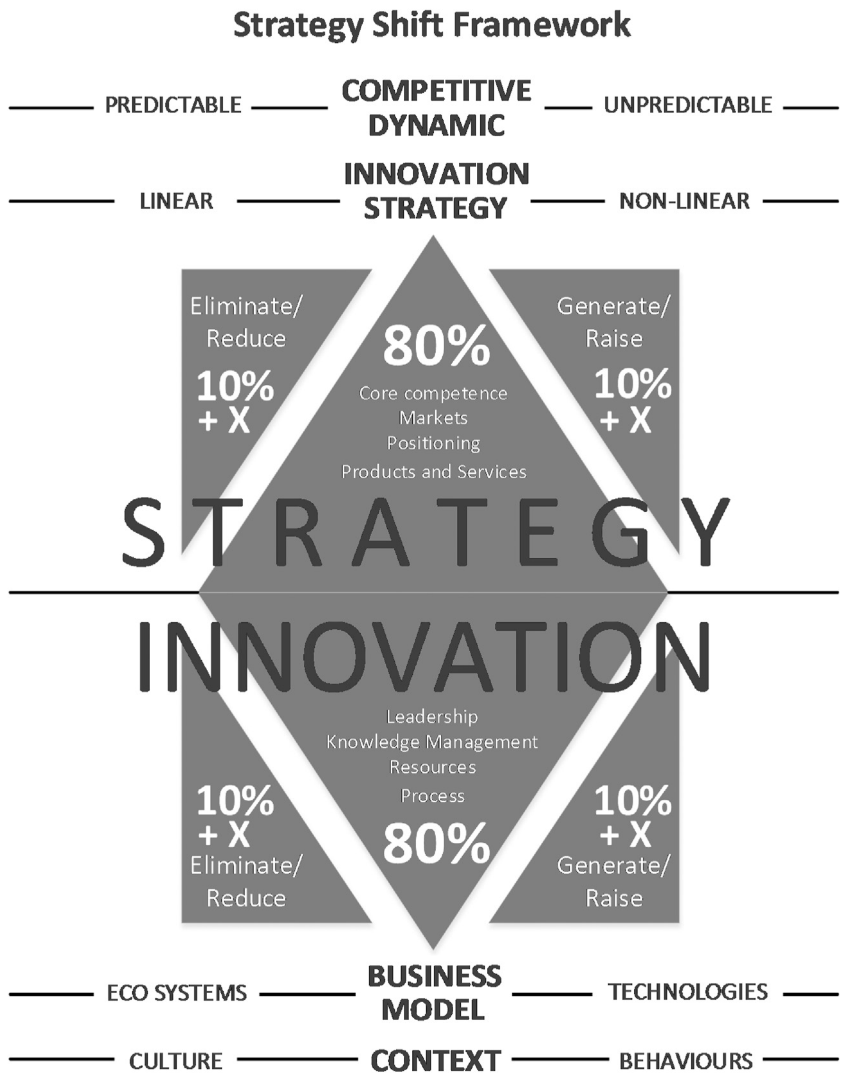
The SSF (see Figure 1) considers strategy and innovation as two sides of the same coin: conceptually exclusive yet interdependent. The key to integrating them most effectively and maintaining superior firm performance despite the increasing level of dynamism is the dynamic capability encompassed in informed management activities orchestrated to elevate the firm's CTI. Consequently, management activities are grouped around (1) the strategic positioning of the firm within the environment it chooses to operate in and (2) fostering the proper ecosystem for innovation to inform strategy.

Having identified this, it is time for change that is comfortable yet palpable and transformative. The SSF's primary contribution revolves around how an organization thinks and acts with respect to its strategy. In a sense, it comfortably disrupts traditional strategy approaches for which innovation is often an intangible tag-a-long and not a foundational dependency. For years, organizations have struggled to integrate employee insight and action into strategy formulation and execution. New approaches are long overdue.

The *strategy zone* of the SSF acknowledges that strategy setting is influenced heavily by the competitive dynamics of an environment and allows management to choose a path that involves linear and/or nonlinear innovations to achieve strategic objectives. There is no standard optimal strategy per se, but rather one that best fits the unique situation of the firm. However, it is paramount for managers to make these choices in full awareness of all opportunities to be considered. The strategy zone considers decisions regarding leveraging core competencies, market involvement, classical positioning tactics, and product and service offerings. For many organizations, this has become a routine process, one that draws from old-school fundamentals of strategy formulation and implementation. In our experience, nearly 100% of the effort in many organizations is focused on the current with little effort given to setting up strategy that is transformative, nonlinear, or potentially disruptive.

We propose that a firm direct a minimum of 10% of its efforts toward the elimination and reduction of redundant, non or limited value-added activities and an additional 10% minimum toward uncovering and tapping novel innovation opportunities. While it is central to this article that we leave it to management

Figure 1. Strategy shift framework



to determine the optimal allocation of firm efforts in this respect, we contend that these dimensions need to be addressed and efforts allocated properly based on the overall strategy of the firm.

Innovation, on the other hand, is a way of thinking about strategy. It also entails developing a context to support the desired behaviors of employees as well as adjusting underlying ecosystems and technologies to foster the execution of the firm's business model. The SSF's *innovation zone* is underpinned by the leadership for innovation, knowledge management, availability of resources, and processes to support the context for effective and systematic innovation. As with strategy, organizations need to break away from stagnant environments that suppress progress. Here, also, a minimum of 20% of the firm's efforts must be directed toward consciously taking actions to reduce non-value-add and add/renew innovation enhancing mechanisms. This intersection of the way an organization thinks about strategy—and how that eventually shapes strategy— determines performance in competitive environments.

2.1. A focus on context and new practices

The SSF is instinctive. It begins by asking two questions: (1) What outcomes—financial and other—does the organization seek in consideration of the competitive dynamic? and (2) what kind of organizational practices and employee behaviors do we need in order to achieve these outcomes? The focus is then shifted to the context and business model required to support these behaviors. This is an alternative to the process of considering strategy first, outcomes second, and context later if at all. Once the firm adopts this approach, it begins to ask different questions in pursuit of outcomes. These questions will lead to the elimination of old practices that yield marginal returns and to new drivers that create differential value. The SSF does not signal the abandonment of long-standing approaches, but it employs a different lens by simply shifting focus; innovation becomes the foundation for strategy and not simply an incidental outcome.

The drivers supporting strategy will evolve from the alignment of the innovation model or approach with the strategic outcomes desired, in consideration of the competitive environment. The ecosystems and technologies that evolve will support the strategy of the organization, not only by helping to define it but also through efficient execution. This alignment results in an increased CTI. At its best, the alignment remains fluid, in constant need of refinement as annual check-ins are no longer effective in competitive environments. This iterative, conscious approach stretches the importance of dynamic capabilities transported by active management in its responsibility to continuously challenge, enhance, and inspire the strategy of the firm and the way it is executed through its innovation infrastructure.

When properly balanced in an organization, the SSF will contribute the following:

- The engendering and reinforcement of an inclusive and pervasive innovation culture that promotes dynamic capabilities in support of continuous change. This will increase confidence in the firm's CTI;

- Employee understanding of the drivers of value and how they can personally contribute to value generation. This will increase focus on and execution of key value drivers by employees, and eliminate low-value projects;

- Acute alignment of processes, systems, and technologies to support the CTI, including the firm's market orientation with an emphasis on current customers and/or future market opportunities. This alignment will drive the elimination/reduction of ill-conceived, outdated, or ineffective processes and business plans, and quicken the conceptualization and decision-making cycle;

- Managing the ongoing value portfolio, including resource allocation and interdependencies to support open-innovation capabilities. This will support dynamic capabilities and cross-functional thinking; and

- Establishing accountability, governance, and ongoing senior executive support for the strategy shift objectives, including the delivery of palpable innovation outcomes. This will embed innovation culture into the organization, and make innovation tangible.

In our experience consulting with firms, we discovered two certainties related to strategy and innovation. First, organizations are not prepared to abandon their current strategy frameworks for something that may offer disruption. Instead, they tend to work around the edges of it, implementing best practices and leaving the core positioning intact (Zook, 2007). Strategy disruption is simply not in their DNA, as most managers do not understand it and fear what they do not know. Second, innovation does not work well as a standalone initiative. It needs a reason to exist, and strategy is the vehicle. This poses a contradiction for many leaders as they also view innovation as risky, yet by not pursuing meaningful innovation they are actually putting the firm at greater competitive risk.

Simply put, this disruption requires an organization to spend less time on basic strategy practices in favor of more time considering what no longer provides sufficient value and what might generate transformative value in the medium to longer term. In doing so, it considers the context necessary to support an innovation culture. This context is shaped and supported through leadership that will embed innovation into the organization's fabric. This context needs to engender new strategy—the tenets of which include the capacity to generate and test new ideas, the ability to pivot quickly, and the freedom to fail without recourse. In doing so, it also needs to respect old-school fundamentals.

3. Obstacles to effective innovation

A strategy shift is necessary and organizations face common obstacles in this pursuit. Guided by our research on innovation and strategy from over 1,500 global leaders (Table 1), we organized these obstacles around three general themes. In our experience, organizations that are cognizant of these obstacles find greater success.

3.1. Obstacle #1: Understanding the relationship between strategy and innovation

There is a tendency to confuse strategy with innovation. This is particularly the case with organizations at the front end of innovation. Organizations

Table 1. What business leaders are saying about innovation and strategy

Innovation nation? Innovation inside the *Fortune* 1000 (Dobni & Nelson, 2013)	The U.S. Conference Board insights from highly innovative companies (Assad et al., 2017)
Primary objective: To determine a benchmark score for innovation across the 12 drivers of innovation culture assessed by the InnovationOne Health Index (IHI) that could be used for comparative purposes. Also, to gain insight with respect to making innovation tangible.	**Primary Objective:** Building on the findings of the 2013 F1000 study, to determine what strategic tools and approaches are prevalent in highly innovative companies.
Methodology/approach: Survey of 1,127 F1000 executives. Employees in management through to the C-suite completed the IHI as well as responded to a number of open-ended questions.	**Methodology/approach:** Survey of 407 Conference Board member companies. Organizations were clustered into high and low innovator status based upon their IHI score, and then practices from each group were subjected to correlation analysis.
Top five findings: 1. Internal governance supporting innovation in organizations is lacking. 2. Creativity in F1000 organizations is not the barrier to innovation. Empowerment poses the biggest barrier. 3. There is a gap between creating knowledge for innovation and the ability to disseminate it organization wide. This leads to missed opportunities. 4. There is an innovation perception gap between levels of management. Executives overwhelmingly score innovation success in their organizations higher than others. This leads to organizational malaise when it comes to innovation imperatives. 5. Along with empowerment, the biggest barriers to innovation included culture, risk adversity, resistance to change, and difficulty breaking away from the status quo.	**Top five findings:** 1. High innovating companies think of innovation as a strategic imperative for the whole enterprise, and not just belonging in the R&D department. 2. High innovators report more use of all the available innovative methodologies and technologies than lagging innovators. 3. High innovators use culture management to promote internal collaborative cultures. This is one of the biggest factors distinguishing them from low innovators by a margin of nearly 2 to 1. 4. High innovators use metrics to measure innovation. 5. Highly innovative companies report the most advantage from understanding the customer experience and developing a strong culture of innovation to deliver customer value.
Takeaways: F1000 organizations had an average score of 68% when considering innovation health. Leadership will be fundamental in advancing innovation platforms in organizations, particularly as it concerns the development of an innovation strategy and new models to support innovation processes.	**Takeaways:** There are distinct strategic differences between high innovating organizations and low innovating organizations including practices, processes, and methods employed. Strong and adaptive cultures and new approaches are critical to integrating innovative capability with strategy.
Strategy shift implications from the research: 1. Executives embrace innovation, create an innovation strategy, and relentlessly communicate it. 2. Employee creativity is unleashed. 3. A clear process with supportive technology and measures exists to move ideas forward. 4. An innovation knowledge management system is in place for innovation. 5. Investment are made in resources, skills, time, space, and organizational learning to support innovation. 6. Performance management systems encourage, align, empower, measure, and incent innovation.	

find out quickly that the process of doing—with all of its budgets, levels, and timelines—stifles innovation. Managers first have to understand that innovation is accomplished through a culture internalized by employees and not as a strategic planning initiative. A firm's innovation platform then "determines to what degree and in what way a firm attempts to use innovation" (Gilbert, 1994, p. 16) to achieve its overall business objectives (Dobni, 2010).

To further emphasize this point, here are some more distinct differences between the two. Innovation can be either exploitative (i.e., dealing with the enhancement of current propositions) or explorative (i.e., largely unpredictable, dealing with unprecedented propositions in which market needs are speculative). Specifically, it is the way employees think about opportunities and threats to the firm. An innovation culture produces mavericks while, on the other hand, the strategy process often rewards the bureaucratically inclined given its historical focus on planning and control. Strategy involves budgets, schedules, time frames and cycles, and reporting hierarchies that lead to desired outcomes. These lockstep practices are the very things that stifle and even run counter to innovation. Second, strategy formulation is analytical and intuitive, often forcing organizations to forecast the future based on the past. These configurations are often easy for competitors to decode and copy. Innovation works quite differently: organizations define a desirable future state (not trying to predict it) and then working toward it, regardless of corporate history. Innovation is not bound by a schedule, monopolized by a few, or corralled by boundaries, structure, and rules. The capability to innovate is very difficult for competitors to imitate.

In short, if both sides of the coin are not properly understood and aligned, an organization's CTI becomes increasingly paralyzed by limitations, often communicating what is not possible instead of removing the obstacles to make strategy happen through innovation with well-informed management in the role of the catalyst. This affects employee culture and the organization's innovation orientation (Jassawalla & Sashittal, 2003). More often than not, organizations seeking innovation fail to introduce a context to support innovation. Introducing innovation as a strategic initiative with a budget line to be channeled through the strategy process is commonly met with frustration.

3.1.1. The SSF as it relates to Obstacle #1

What has brought organizations success in the past may actually be hindering their ability to compete in markets in which dynamic capabilities and the ability to pivot quickly become the new imperative (Leonard-Barton, 1992). Fresh thinking will involve ditching stale practices in favor of generating dynamic ecosystems, technologies, and methodologies that will support nonlinear thinking. This will involve nurturing a context to support the desired behaviors and related actions of employees.

The SSF is a first step in breaking old habits to make room for fresh approaches. It delineates the relationship between strategy and innovation and forces organizations to consider the types of outcome behaviors they need to support strategy. For example, if having maverick employees who constantly come up with new ideas and solutions proves to be the competitive differentiator, it leads the organization to consider the context needed to support this creativity and independence on a consistent basis. The SSF advocates spending as much or more time on eliminating strategy that no longer supports meaningful value creation as is spent on the generation of transformative strategy. We have suggested a 10%—80%—10% as an initial approach, however organizations need to be comfortable with the pace of change, and as a result the allocations of time and resources could be less—or more—initially.

Adoption of the SSF will break the status quo, whether it be by 5%, 10%, or more; it is systematic and incremental, allowing organizations to scale up as their comfort level with new approaches increases. The objective is to subtly disrupt models, systems, and technologies currently used in efforts to move to the next level. Overcoming this obstacle will make innovation tangible for everyone in the organization. To achieve this, employees need to understand what the organization's innovation goals are and how they can personally facilitate and attain them and the C-suite needs to be front and center in support of them (Practice Box 1).

3.2. Obstacle #2: Strategies are context specific, but that context may be constantly evolving

It has been said that change is the only constant thing. The primary function of strategy is to select

Practice Box 1.

Leadership for innovation

Salesforce.com, is a cloud-based company that started in 1999. Over the past 3 years, the company's market value more than doubled, from $33 billion to $70 billion. Innovation drives its strategy and every employee knows how they can contribute to it. It is a Future 50 company, topping the list of *Forbes* World's Most Innovative Companies. Marc Benioff, its founder and CEO, is a leader in innovation. He has created a context that supports the concept of free-agent employees who are allowed to work on projects they are interested in regardless of what they were hired to do. Employees are also encouraged and empowered to figure things out and constantly explore value-added ideas. He seeks to hire people who are keenly interested in changing the world, as this kind of thinking supports the attributes and behaviors required to support the firm's strategy.
Source: Fortune (2017)

and implement a set of decisions that most adequately adheres to the firm's unique situation as prescribed by its context (Dobni & Luffman, 2000, 2003; Gilbert, 1994; Jaruzelski & Dehoff, 2007; Ward & Lewandowska, 2008). As each firm ultimately faces a unique set of determinants, there is no optimal strategy per se, but rather one that is selected to achieve best fit (Berthon, Hulbert, & Pitt, 2004; Jaruzelski & Dehoff, 2007; Zhou et al., 2005).

Many contextual challenges are found in the competitive landscape: in changing technologies, customer preferences, fundamental shifts in product demand, and the supply chain (Berthon et al., 2004; Li, Zhou, & Si, 2010; Ward & Lewandowska, 2008). However, it is often the subjective perception and interpretation of environmental conditions that carry the most weight with strategy makers, whose perception of reality is influenced by their mental models (Senge, 1990) and by the culture of their firm (Schein, 2010).

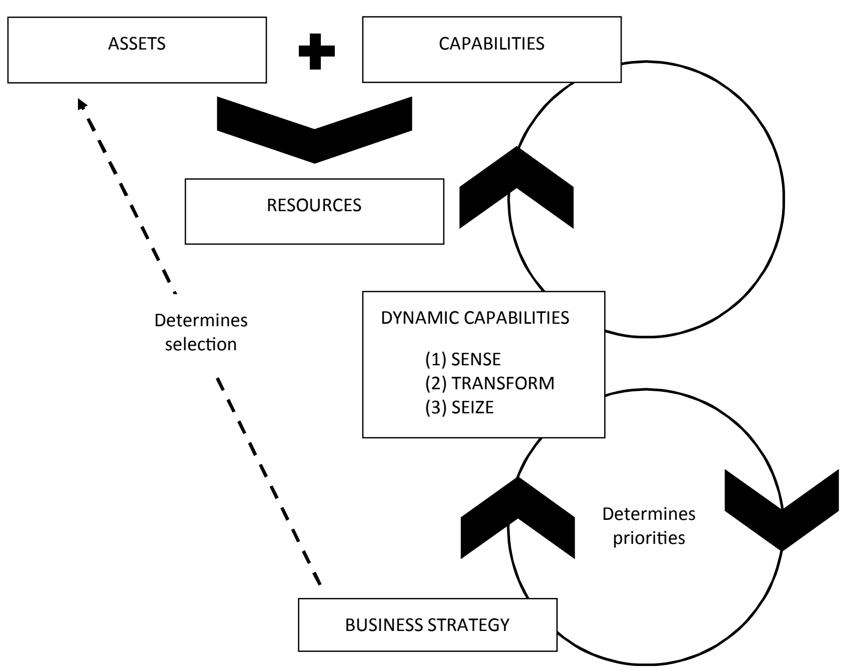
This fast-paced contextual change will become the organization's greatest challenge in the next 5 to 10 years. A 30-year review of the BCG matrix (Reeves, Moose, & Thijs, 2014) made three conclusions: (1) an increased speed of change between the innovation of an organization and adoption, (2) less predictability in the marketplace (based on 5-year EBIT margin volatility), and (3) market share's reduced significance (i.e., the probability that the share leader is also the profit leader no longer holds). It shows that the share of profits from cash cows has decreased from 53% in 1982 to 40% in 2012 and continues to fall, while share of profits from stars increased from 6% to 22% over the same time period. In short, markets are becoming less predictable, and the ability to pivot quickly from idea to market has never been more important.

To maintain one's CTI, firms are required to adapt and maintain fit with their evolving context. This ability to pivot is best supported by a dynamic capabilities approach, which emphasizes the essential role of conscious management activities. This approach helps firms avoid adverse effects of maintaining status quo or incremental approaches (e.g., Leonard-Barton, 1992; Teece, Pisano, & Shuen, 1997).

3.2.1. The SSF as it relates to Obstacle #2

The dynamic capabilities framework is based on the understanding that firms possess tangible assets (e.g., technological, complementary, financial, reputational, structural) and intangible capabilities (e.g., integrated organizational routines, processes, patterns) that make up their unique stock of resources. Superior resources are the foundation from which firms may derive superior performance (e.g., Baker & Sinkula, 2005; Barney, 1991; Day, 1994; Easterby-Smith, Lyles, & Peteraf, 2009; Hult & Ketchen, 2001; Menguc & Auh, 2008; Priem & Butler, 2001; Teece, 2007; Teece et al., 1997). In order to enhance the advantages that can be drawn

Figure 2. Dynamic capabilities to renew resource base of the firm



Source: Sand (2015)

from its resources, firms must upgrade their capabilities regularly. The upgrade and renewal of existing, lower-order capabilities is contingent on higher-order dynamic capabilities, such as the change agents present in well-informed top management utilizing the SSF.

As highlighted in Figure 2, dynamic capabilities are defined as "a firm's behavioral orientation constantly to integrate, reconfigure, renew, and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment" (Wang & Ahmed, 2007, p. 35). Dynamic capabilities provide the firm with the ability to gather and share knowledge, to regularly challenge and upgrade fundamental assumptions and processes, and, most importantly, to pivot based upon this knowledge.

Dynamic capabilities reside in employees and need to be nurtured, supported, and reinforced. Empowering employees in this way is viewed as a risky behavior; however, the omission of a dynamic perspective is evident when firms that were once industry leaders and disruptors stumble (de Geus, 2002; Peters & Waterman, 2006; Tushman & O'Reilly, 2002). For example, both Nokia and Dell were praised at one time as highly innovative but each widely failed when faced with disruption in their marketplace. IBM, GM, Blockbuster, Quantas Airlines, and Kodak met similar fates (Dobni, Klassen, & Sands, 2016; Tushman & O'Reilly, 2002) because they did not adapt quickly enough when the rules of the game changed. For these organizations, their traditional strategy focus forced them to protect market share or focus on incremental improvements instead of considering what might generate new value in the industry. These organizations had the ability to adapt, but not the capability. Their nemesis was their culture and they lost the ability to innovate effectively (Leonard-Barton, 1992).

The SSF promotes the role of informed top management as a carrier of higher level dynamic capabilities. Not only does it establish a platform for new thinking, but it also forces organizations to consider processes and methodologies to advance ideas in a planned and incremental approach as opposed to ad hoc and random models that have generally evolved. This progressive and consistent support provides the foundation of dynamic capabilities that will be sustained through practice, trust, and experience—resulting in both successes and failures.

There is no lack of creativity or desire among employees in support of dynamic environments. We did find a lack of understanding and subsequent empowerment. Consider our survey on the innovation culture (Table 1) of over 1,500 business leaders globally (Assad, Dobni, Colby, & Ozyildirim, 2017; Dobni & Nelson, 2013), in which employee skills and creativity scored the highest, while the perceived empowerment to act and the processes to support this action scored the lowest. The desired behaviors are present in an organization but they are capped. This paradox cripples dynamic capabilities as there is little incentive or context to support it and there is no opportunity to fail—in fact, failure is often punished. Our results also indicate that this issue is magnified in larger organizations.

This contradiction may prove to be the largest obstacle to firm innovation and it has to be addressed accordingly. The business model and its ecosystems to move from ideation to successful implementation need to be well defined, adopted, and understood by all. The SSF we present has a strong process in place to support new ideas, and to test and execute them effectively (Practice Box 2).

3.3. Obstacle #3: The belief that innovation is risky

Innovation is viewed as risky and lacking in short-term returns, yet growth is simply not possible without some degree of risk. Combine this truth with the organizational values that evolve around risk aversion and the favoring of short-term returns over the longer term, and we find another paradox. Similar to Obstacle #2, it is not the creativity of employees that needs to be emphasized, but the process in place to harness and test ideas efficiently. This requires leaders to accept risk as a positive

Practice Box 2.

Transformational pivot

One of the most famous pivots in social media history was the transformation of Odeo into Twitter. Odeo began as a network where people could find and subscribe to podcasts, but the founders feared the company's demise when iTunes made a play in the podcast niche. This threat was turned into an opportunity when Odeo employees were empowered to come up new ideas. After giving the employees only two weeks to consider options, the company decided to make a complete 180 degree pivot when it ran with the idea of a status-updating microblogging platform conceived by Jack Dorsey and Biz Stone. The rest is history.
Source: Wolan (2011)

position. Employees learn from both successes and failures, but organizations are not well designed to promote failure or celebrate risk.

Doing nothing is riskier than pursuing innovation. Consider this question: Will your firm's current strategy provide it with the desired growth in increasingly competitive environments? From a strategy perspective, the status quo option is the riskiest of all and leads to an attitude that cycles are inevitable, and organizations should simply manage for downswings and then ramp up when necessary. The combination of the obstacles we identify put a majority of organizations on the wrong side of the cycle. Generally, organizations are reactive, often responding to threats instead of taking advantage of opportunities. In order to get on the right side of the cycle, strategy must be presumptive and proactive. Decision makers must buy in to how the mechanics of innovation can work in their favor.

In fact, the value of innovation ultimately should be measured in the firm's market capitalization, as a properly executed innovation platform will increase the top line and decrease the bottom line. The result—increased revenues and net income, combined with enhanced efficiencies and continuous improvement—is undeniable. Yet, when evaluating innovation opportunities, organizations use an array of proven tools (e.g., NPV, IRR, EPS) that do not adequately quantify and assess transformative concepts and ideas.

3.3.1. The SSF as it relates to Obstacle #3

We argue that strategy informed by innovation will, over the longer term, lower the risk profile of the firm. What may seem as risk taking at first will eventually lead to a comfortable and certain cycle of value creation. Our rationale is fundamental: As organizations create real and consistent value, they begin to break away from the pack. They become industry leaders. Innovation works to reduce standard risk profiles, including market risk, income risk, and expense risk. A reduced risk profile works to increase firm value. As the innovation context is embedded into the strategy process, this profile becomes more elastic. In a sense, innovation becomes the organization's strategy.

The key consideration in strategy is the degree to which the value of a firm increases over a period of time. Strategic options that create the most net profit and growth with the least amount of risk—or, even better, reduce the risk profile—should be chosen over lesser alternatives. The SSF addresses risk by first accepting risk as a platform to grow and learn, and then by viewing failure as a probable outcome that will be used as a stage for learning and improvement. As organizations become more comfortable with innovation and have success with it, this will work to reconcile the antipathy toward risk in the executive suite.

Our objective is to fuel the value engine in an organization so it is constantly improving its yield from strategic activities. Innovation can play two roles in this: it can drive better approaches to execution or harness the innate creativity of employees to deliver differential value. In fact, well-oiled value engines accomplish both simultaneously. The SSF promotes a context that identifies and supports new value creation. Once all members of a firm start to make the connection between their actions and resulting outcomes, the exception becomes the norm (Practice Box 3).

4. Role of management in shifting strategy

We now face a situation in which advantage is more about managing unpredictability than fortifying a strategic position. Strategic frameworks must change to accommodate this. Many either do not

Practice Box 3.

Embracing risk

In December of 2017, Amazon started discounting certain items sold by sellers—some by nearly 10%—with Amazon absorbing the amount. Many would say this is a risky approach as it cuts into its bottom line. However, Amazon would argue that they are doing this to attract new customers and cement loyalty among existing customers. Regardless of the rationale, this move embraces risk as a key component of Amazon's strategy. Strategy is all about making decisions that concern an uncertain future and risk should play a significant role in that process. Complementing this approach, Amazon's recent purchase of Whole Foods also represents a departure from its core positioning tactics by investing in brick and mortar. Since its birth, the basis of Amazon's strategy has been to reduce or eliminate intermediaries. However, on the other side of this risk is the opportunity to innovate: to capture customer data and expand its distribution reach, including for private label brands. Although risky, this nicely plays into Amazon's goal of further vertical integration and transformation over the longer term.
Source: Petro (2017)

facilitate dynamic capabilities or are too slow to the mark. The emphasis management places on innovation influences the thinking and activities pursued to achieve superior performance (Theodosiou et al., 2012; Zhou et al., 2005). The role of top management leaders is to (1) understand how strategy and innovation are connected and (2) to act as higher-order dynamic capability catalysts to transform their organization.

Leadership for innovation is the linchpin to the strategy shift approach, and a change of this nature will only be achieved via a change in context. Leadership adoption of definitive models has proved to be the single most important factor in igniting new approaches to strategy. In order to make the strategy shift concept work, leaders need to come to terms with the challenges of making their firm dynamic and adaptive; innovation will involve setting the right vision and structures and then letting go of old approaches, especially if the goal is to drive disruptive and nonlinear innovation (Christensen, 1997). In fact, leaders may need to draw on current profitability to fuel the future, something only leaders can do. It involves a shift in thinking, and one which may not sit well with shareholders in the short term.

Management must develop the tenets of an innovation program and clearly communicate these across the organization until it is pervasive. This needs to be achieved in concert with the adoption of fresh approaches to thinking and employee empowerment, and supported with employee development, time commitment, and systemic initiatives that are adequately resourced. For many organizations, this will involve turning rhetoric into action.

Management must also prepare the organization for a paradigm shift, and this may be the biggest challenge. This shift has to occur in the minds of leaders and employees alike. The organization will need to expect and reward failure. Management will also need to be patient and change its focus on results in the medium and long term versus the short term. This will prove to be a protracted horizon, but one worth waiting for. It will also require adjustments or further linkages to performance management and management control systems to support desired behaviors.

5. Final thoughts

In a time when businesses must accelerate constantly, their strategic architecture is slowing them down. Given that there is a trade-off between strategic agility and the amount of control and risk an organization desires, risk-averse mindsets are becoming increasingly dangerous. Top management has a significant influence on the firm's orientation toward innovation and any new approaches must be born in the C-suite. The firm's ability to create the greatest shareholder value at the most acceptable level of risk will be facilitated through the alignment of strategy and innovation. This shift in thinking and approach will prove to be the greatest challenge to leaders, and those who achieve this alignment will lead their industry. Yet it is safe to say that many organizations do not have an innovation approach.

While there is no universally accepted approach to innovation, leaders need to consider what role it will play in their organization and how they intend to introduce and support an innovation culture. It begins by considering how employees should think and act—this is the classic definition of culture—in order to achieve desired organizational objectives. Management needs to make conscious choices to select a framework that optimizes the relationship between strategy and innovation. Such choices may be met with resistance at first, and in fact may have adverse effects on the efficacy of current organizational processes in the short term. In the mid to long term, they will inevitably lead to enhanced adaptive and dynamic capabilities. In our view these choices are no longer an option, they are a necessity.

Appendix. About the research

The insights presented in this article are based on our research and consulting experience over the past 10 years with companies across a variety of sectors. These industries include mining, manufacturing, financial services, IT, telecommunications, and survey feedback on strategy and innovation from two research projects that included over 1,500 global business leaders.

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