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Strategy as Improvisational Theater

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Rosabeth Moss Kanter

New technologies pose uncertainties for businesses, including the possibility of radical change. Some companies seize the opportunity to outpace competitors while others fall behind, as history clearly demonstrates. That in itself is unremarkable; the important question is, What distinguishes the pacesetters from the laggards?

In my research on how established companies have incorporated the Internet into their businesses, I found that laggard companies tended to be less open to new ideas, less willing to permit employee initiative, and more likely to wait for top management decisions. They appeared paralyzed in the face of uncertainty. Many laggards ignored the Internet at first and then spent heavily to catch up. They often spent more but reaped less, as their efforts were frequently isolated and disconnected from the mainstream business.

By contrast, pacesetter companies tended to act before they had a complete plan, to empower innovators to run experiments and prototype projects, to adjust rapidly to user or customer reactions and to connect projects to ongoing businesses. Pacesetters got more members of the organization involved, used their technology more effectively and creatively, and emerged from the experimentation period with a clear model indicating how the technology could help the company. They did not wait to act until they had a perfectly conceived plan; instead, they created the plan by acting. In short, they improvised.

Compare the improvisational model of strategy development with the more traditional scripted model. In the latter, the company seeks to craft the best possible plan so that it can be handed off for a predetermined course of execution involving a predictable set of events and a specific final goal. The scripted model resembles traditional theater: The play is painstakingly written. Parts are cast and rehearsals start. The actors practice their roles, repeating the words from the script until they meet expectations for quality and predictability; only then do they appear before an audience. The play's action comes to an unvarying conclusion in each performance. After the play has had a good run, a new one, also tightly scripted and controlled, takes its place.

The improvisational model throws out the script, brings in the audience, and trusts the actors to be unpredictable — that is, to innovate. Innovation has an inherently improvisational aspect, and writers have long used the metaphor of improvisation in jazz or rock music to describe the actions of innovators on project teams. The metaphor of improvisational theater takes this idea a step further. It shifts attention from the dynamics among members of a project team to the way in which an organization as a whole can become an arena for staging experiments that can transform the overall strategy.

As an evolutionary approach to making strategy, the improvisational model has several advantages. For starters, the improvisation must gain business-unit sponsorship and be performed before audiences of actual customers; it cannot be an ivory-tower discovery process hidden from view in a laboratory. Other advantages accrue from the incremental nature of the model. It can save the company money and reduce waste because investments are made project by project rather than all at once. It also helps the company avoid the rancor that can accompany high-level debates about major strategic change; people buy in one project at a time. Similarly, the model is less disruptive to the organization overall because it builds in time for everyone to adjust to change. By the time the company's leader issues a major pronouncement about strategic change, the organization has already executed it.

This approach may sound too conservative to some because it does not advocate a big plunge into something totally new or the abandonment of current, possibly outdated, commitments. The actual effect, however, is anything but conservative. Companies that engage in continual improvisation through innovative projects of all sizes and shapes are much better equipped to explore highly threatening disruptive technologies and embrace quite radical changes.

Evolving Strategy

In my book "The Change Masters," I observed that grass-roots innovations often precede strategic change and become the basis for new strategies. In companies that stay ahead of competitors, change begins well before authorization by top management; it takes shape through adventurous projects led by corporate

entrepreneurs. These departures from tradition accumulate until they move from the periphery to the core and become the organization's new direction.

Williams-Sonoma, for example, one of the most profitable retailers in the e-commerce arena, went through several rounds of improvisation before deciding to take the Net seriously enough to create even preliminary plans. Internal champions who wanted to add an Internet channel to the company's physical stores and catalog divisions faced skepticism from top management. With the sponsorship of a key marketing executive, teams overcame that skepticism by engaging in the corporate equivalent of street performances, improvising their way through three successful proof-of-concept demonstrations. These trial-and-error improvisations showed that customers would use the new channel, that the brand would be protected, and that the Net could be used to create new customer propositions that would benefit existing channels, too. By the time the company announced a new three-channel strategy, it had already been transformed.

To get a better sense of how improvisational theater begins incrementally but eventually produces a major shift in strategy, consider examples from Sun Microsystems and Reuters. Between 1994 and 1999, dozens of projects converged at Sun to transform what had been a workstation company into a networking company. In some cases, top management and the board helped initiate a project, often without knowing exactly what would result; in other cases, innovators in the field conceived an idea and sold it to the organization.

One group within Sun, for instance, had inherited a small acquisition based in the United Kingdom that made fault-tolerant computers applicable in telecommunications. The unit's leaders saw an opportunity to expand Sun's peripheral presence in the networking industry by developing actual network infrastructure. Their project, Netra, required start-up style improvisation. The leaders devised a flexible implementation plan that accommodated an evolving marketplace and feedback from potential customers on each round of product prototype. The troupe took customer requests for additional features and functions to staff meetings with engineering and marketing, changing the tune to fit audience response but repeating the chorus of "We've got to find a way to do this" every time anyone said something couldn't be done. Time was tight: the team was trying to complete its work in half the time usually allotted to a project. In the end, from a set of legacy products with revenues under $25 million a year, the group created new products for new customers that brought in more than $150 million per year less than two years later, with a projected annual revenue of a billion dollars. Netra helped make Sun a central player among builders of converged network infrastructure.

Reuters, the global news and financial information company, also transformed itself between 1994 and 1999. Until the mid-1990s, Reuters was in the practice of commissioning projects from small technology companies (a classic scripted approach), but its leaders began to see that this approach stifled the company's potential to innovate while generally giving it yesterday's knowledge. Instead of telling

technology companies what to do via contract work, they realized it made better sense to follow start-ups to new discoveries by forming partnerships with them. When something new developed, Reuters could then determine how to use it within the company.

The vehicle for improvisation was an internal venture-capital fund and nurturer of start-ups, the Reuters Greenhouse Fund. The Greenhouse created a network of partnerships with more than 50 young companies. As Greenhouse founder John Taysom put it once, "We dream our worst nightmares and then invest in them." The Internet is now at the center of Reuters' overall strategy. By improvising through the Greenhouse, Reuters was able to experiment with new technologies —including those that might have put Reuters out of business if successfully deployed independently — to create product lines that begin with milestone-based 100-day and 200-day projects, a set of short-cycle quick wins and rapid prototypes.

The Elements of Improvisational Theater

Strategic improvisation takes shape using six elements: themes, theaters, actors, audiences, suspense and successive versions. Senior managers who are aware of these components can create an atmosphere in which improvisational theater thrives. In such conditions, change becomes an organic process rather than a painful reaction to circumstances beyond the company's control.

Themes

Improvisation is just chaos and messiness unless it is driven by a clear theme — a topic, a headline or a direction that engages imaginations and gets the action started. It should be an expression of "what" and perhaps "why" but not "how." If a theme is encumbered by too many stage directions, creativity is stifled and the actors don't have the freedom to adjust to the audience's response. As research has long shown, serendipity, chance and discovery often contribute to successful innovations; conversely, forbidding deviations from a plan can seal off the possibility of innovation.

In an organization, a theme might take the form of a leader's statement about a future destination ("Let's target emerging markets") or a topic of interest ("Let's explore technologies that could put us out of business"). A theme should be broad enough to encompass a range of ways of proceeding yet focused enough to stimulate the launch of several projects in the same company domain. At Sun, a desire to explore network computing cascaded from top management down to the rest of the company. Business units, development groups and ad hoc teams of entrepreneurs sought to incorporate that theme into their disparate businesses and functions. At Reuters, the Greenhouse invested in themes based on each of the company's specified Internet domains: navigation, security, software performance, mobility and unique niche content.

Because themes are broad statements of interest, they cut across existing business lines and require attention above and beyond the needs of current operations. To keep themes visible and ensure that they are supported, some companies appoint "theme owners." At the Greenhouse, theme owners act like theater producers, supporting new developments with funding but also advising new businesses and brokering relationships between Reuters and its partners.

Theaters

You can't create the future in a structure designed to repeat the past. Innovators need a place to develop the play, a space of their own in which to rehearse and perform and then show their work to an audience.

Once called skunkworks, these new business theaters frequently come in the form of internal venture-capital funds and incubators. Other theaters allow teams to engage in hands-on experimentation and learning without being constrained by the daily work required to maintain ongoing operations. Washington State Digital Government Applications Academy, for example, brings together agency staff, private-sector experts and lead users to design, build and launch Web-based public services; it then disseminates the applications to multiple agencies. But the theater need not always be a formal location on the organization chart; in companies especially open to innovation, street theater is sanctioned. In other words, the actors can simply start performing (that is, spontaneously developing a project) in the hope of attracting attention and support.

Nor should companies necessarily limit themselves to one venue. Those with several theaters can develop more projects, and they can also create dramas with different time horizons —some that look far into the future, others that seek a near-term impact. At Honeywell, senior managers asked cross-sectional teams of emerging leaders to envision the world from 2005 to 2010 and to create scenarios for futuristic themes such as "agile pharma" in biotechnology, asset management in an increasingly dangerous world, and aviation enterprise. For nearer-term projects, Honeywell had two venture capital funds, one for projects within established businesses and another for those that fall outside existing divisions.

New-venture groups that are disconnected from mainstream businesses rarely play a role in changing the company's strategy. But experimental theaters aimed at mainstream audiences can create new value for existing businesses while setting major changes in motion. That's why Sun's development labs made a point of seeking sponsorship from established business units, and why the Greenhouse refused to invest in a new partnership unless Reuters had an internal customer for the technology. At the same time, the Greenhouse funded projects to encourage broad incorporation of new technologies in the Reuters mainstream. For example, it paid for a project that developed a technology to watermark sports pictures on the Web as a

means of preventing copyright infringement. The broader goal of this support was to show the wide applicability of the process to other parts of Reuters; the technology could also be used, for example, to authenticate the authorship of stories filed by journalists over the Web.

Actors

Improvisational roles can demand more of actors than traditional parts. The players must be willing to take on unfamiliar roles, think on their feet, pay attention to several things at once, walk into situations for which they are not prepared, and ad lib. They must be attuned to one another, taking cues from their peers and continuing in directions that others have started. Improvisation requires the confidence to perform under pressure. It's not a job for amateurs.

In an improvisational setting, actors must shed attitudes and behaviors that stop the action. People can't be rigid about the right way to do something — "This is how it's always been done." They have to avoid knee-jerk "no's" when a particular idea can't be articulated well until it has been demonstrated in action; nor can they endlessly drag out arguments after decisions have been made. Innovating companies establish cultures that encourage action. A Sun norm requires people to commit to a project after it has been argued out, even if they disagree about its merit. "Disagree/commit" is common parlance in the company. This informal rule doesn't close off improvisation; instead, it forces action on a project that may change dramatically over time. As one person at Sun expressed it, "We don't feel like we have the right of infinite appeal. People don't necessarily have to agree, but we do like them to say 'I will support this.' "

Improvisers must be willing to take action without having all the information they need. "To improvise, you take a group of people and enter a situation with their collective knowledge, with the best information you have to date, knowing that the second you enter, change begins," observes Robin McCulloch, an actor-turned-consultant who teaches improvisational acting to companies. As a long-time Sun leader explained about one venture, "When you're on a freight train with a well-defined schedule, you don't have the luxury of getting as much information as you'd like. In fact, with this venture the information wasn't out there anyway, because it was a first for the company. Sometimes when you've got 60% of the information you're going to need, you have to go ahead."

As many analysts have observed, new ventures in established companies always require a degree of passion and faith not generally seen in ongoing operations. Effective improvisation requires dynamic visionaries whose belief is unwavering. At Sun, authorization from top management to implement a proposal does not guarantee that others within the company will support it; they have to be convinced one by one. "You can put together a proposal," an innovator explained, "and go up the chain and sell it. Let's say somebody way

up top says, 'OK, this is a good idea, let's do it.' But that's all that happens — you have to start all over again with a whole different set of characters to try to convince people one at a time." To do that kind of work, you have to be completely convinced that what you are attempting is right for the company.

Leaders of new ventures often emerge from among the actors after they have started performing. Who volunteers to put in extra time? Who has the idea that is right for the moment? Who earns the respect of peers? The key roles in improvisations cannot always be captured in advance assignments or job descriptions. At the pacesetter companies in my research, decisions affecting new ventures tended to be made by people with the most information rather than those with the highest status.

Audiences

Audience involvement is an important component of improvisational theater. Business dramas have always had multiple audiences, and companies have always had to think about their customers, suppliers, employees, investors, regulators, partners and critics. Internal audiences — decision makers, immediate bosses and peers — can also make or break a drama. Members of all those audiences should be brought into the action as it unfolds, and improvisers should adjust quickly to their reactions. The process must be much more interactive than market research or other arm's-length one-way information gathering.

Improvisers shouldn't just react to their audiences; they must also invite them to participate in the action. Customers can become design partners, users the best source of ideas for the next move, critics the most important commentators on successive versions. Leaders of Sun's improvisational troupes went right to the audience for ideas about how to shape their plays. As a member of the Java television project put it, "We formed groups of experts to help us define where the products should be going. We pulled together a very broad set of companies: cable TV, the broadcast networks, developers of TV shows, advertisers. Over the course of about a year we had customers directly engaged in helping us to define the shape this technology should take for the television industry." Similarly, potential customers served as Netra's consultants and helped pull it through difficult phases in the middle of the development process, when challenges outweighed accomplishments. One customer became engaged enough to deploy hundreds of the products worldwide as a fundamental part of its wireline and wireless networks.

In thinking through possible audiences, keep in mind potential critics as well as likely fans. The audience that reacts most strongly might not be the one that the company was hoping to attract. When Monsanto developed genetically modified seeds in its laboratories, it was conscious of its direct customers (farmers) and even its customers' customers (food processors). But it was late in noticing the growing audience of environmentalists who were mobilizing opposition to food containing genetically modified ingredients.

Suspense

Improvisational theater requires a tolerance for suspense, as no one, not even the actors, knows exactly how the drama will end. Possible conclusions become clearer only as the action proceeds. In a business, the outcome may not be revealed until the strands of many projects come together to reveal the strategy that lay under the surface all along.

The biggest difference between the scripted model and the improvisational model is the need to allow action without knowing where it will lead. When Sun mounted a project called e-Sun, company leaders just said to do it, whatever "it" turned out to be. Although in the beginning top management couldn't say exactly what they wanted e-Sun to be, each month over the course of a year it became clearer to them what they wanted done. Today if you asked a senior manager about the goal of e-Sun, you'd get a precise answer.

Innovations operate according to Kanter's Law that "everything can look like a failure in the middle." Development projects inevitably hit roadblocks and obstacles midway that were not predicted because no one had been down that path before. Suspense sometimes brings conflict and controversy. John Taysom was fired by his immediate boss when he first directed the Greenhouse to explore new kinds of innovation partnerships, but he was invited back by Reuters' CEO soon thereafter.

It takes organizational courage to live with the suspense of improvisation and to trust that actors will do the right thing without clear guidelines. IBM's Reinventing Education partnerships with public schools are often started without clear plans or budgets. As the partnerships demonstrate, even public bureaucracies can learn to appreciate improvisation. One of IBM's partners in this program, Doug Walker of the Vermont Department of Education, describes the importance of being able to tolerate suspense: "We'd be completely paralyzed if we weren't willing to act without knowing the end of the story or where all the resources were going to come from."

Successive Versions

The slogan for the total quality movement, "Do it right the first time," is not viable in companies trying to develop new things for which what is "right" is not yet clear. A new set of management slogans has emerged in the Internet era — sense and respond, launch and learn, try and trash — all reflecting the need to start without a script and then to create successive versions that improve on previous attempts.

Improvisational theater tolerates false starts and wrong moves as long as the incorporation of audience feedback is rapid. The ability to make quick corrections is a hallmark of improvisational theater. Companies that rely on constant innovation and evolving business models often attempt to establish a "no penalty" culture in which people can admit they had a dumb idea and move on to the next one.

Rapid prototyping helped IBM's Reinventing Education project teams create breakthrough technologies for public school systems, including voice recognition tools for teaching reading and software that allows high school teachers greater flexibility in scheduling their courses. Development teams from IBM central research laboratories established themselves in the schools, often in makeshift facilities, so they could interact with teachers — every day, if necessary — to create variations of products that incorporated their feedback. The Commonwealth of Pennsylvania's Office for Information Technology also seeks to direct innovative projects through successive versions. It identifies projects called "Energy Bursts" that can be completed in 90-day increments. The goal of the first iteration is a product with minimal functionality but demonstrated value; upgrades are meant to appear in 90-day increments. Such rapid prototyping builds support for an innovation, demonstrating possibilities as it improves performance.

Options on the Future

When circumstances make it impossible to craft a scripted plan, improvisational theater allows companies to take options on the future. Through project-by-project improvisation, an organization can constantly reinvent itself. An internal marketplace of ideas in which innovators initiate and sell projects replaces the usual decision-making hierarchy. As results from a portfolio of projects accumulate, the organization's direction changes —slowly at first but significantly over time.

Periods of technological change have always required companies to run numerous creative experiments; such times are then followed by consolidation and the establishment of common standards that reduce uncertainty until the next wave hits. We have not yet seen the end of the technological tsunami created by the Internet. Until that happens, companies that foster improvisational theater can lay the foundation for change and stimulate successful new strategies without going through the trauma of revolutionary upheaval.

ABOUT THE AUTHOR

Rosabeth Moss Kanter is the Ernest L. Arbuckle Professor of Business Administration at Harvard Business School. She is the author, most recently, of "Evolve! Succeeding in the Digital Culture of Tomorrow," from which this article is adapted. Contact her at rkanter@hbs.edu.

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