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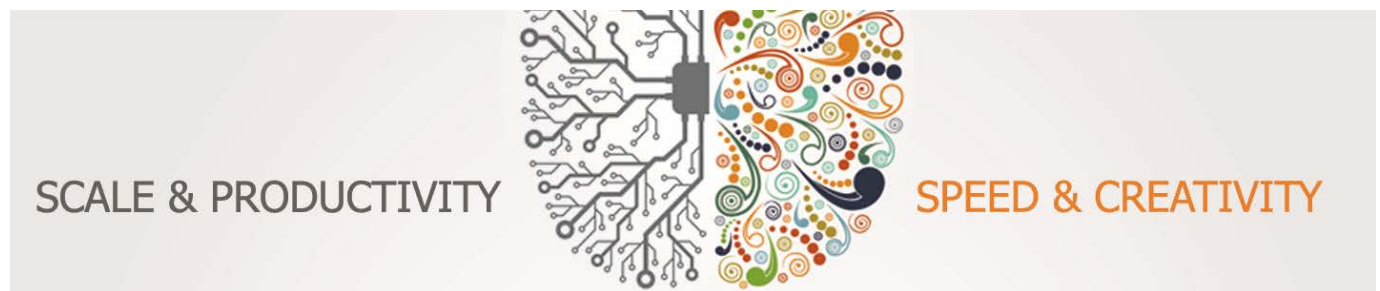
Ambidextrous Organizations – Build sustainable organizational advantage

Achieve a tailored organizational equilibrium that delivers speed & creativity as well as scale & productivity!

SCALE & PRODUCTIVITY   SPEED & CREATIVITY

Today's competitive and highly volatile environment calls for a new kind of flexibility that is not covered by conventional organizational wisdom. Corporate strategies specifically address implications of changing customer requirements, market developments, digitalization, etc., but most often lack tangible guidance on the organizational capabilities needed to address these challenges. As a result, organization development is typically one-dimensional and short-term focused, targeting to either become "fast & creative" or alternately fostering the "scale & productivity" dimension. Winning requires organizations to embrace both dimensions. If a sound balance is achieved, it constitutes one of the rare opportunities to build a competitive advantage of sustainable character, even in today's era of disruption and hypercompetition.

Ambidextrous as a new organizational archetype

Following our framework, companies are defined as "ambidextrous" when continuously solving the trade-off between being "fast & creative" and "scale-driven & productive". As such, they establish an equilibrium characterized by a high emphasis on both dimensions . The vast majority of companies focus on either dimension, but those that manage to excel in both are rare. Companies with emphasis on "speed & creativity" possess strong capabilities that enable anticipation, innovation and adaptation. These capabilities translate into corporate attributes such as "insight & foresight", "inspiration & passion" or "trial & error". On the contrary, companies excelling in the "scale & productivity" dimension show strong capabilities in planning, optimization and leveraging, resulting in characteristics such as "formalization & compliance", "controlling & monitoring" and "history & experience". (See Figure 1.)

An illustrative example combining these capabilities is Amazon. Always searching for the most innovative business ideas, Amazon strives to explore customers' desires before people realize them themselves. This search is promoted by a well-established culture of invention, curiosity and a bias for action. In addition to its creative side, Amazon has also proven itself to be a champion of productivity. Not only its logistics, but also its internal processes of scaling new business models are

tailored for pure efficiency and standardization. In case a new business approach has proven to be successful, it will be rolled out rapidly, formally established, monitored and aligned for full productivity. Successfully balancing these two dimensions over the last years, Amazon was able to build a sustainable competitive advantage that grew into best-practice across industries.

Ambidextrous framework

Source: Arthur D. Little

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1   Please refer to O'Reilly III, C. & Tushman, L. (2004). The Ambidextrous Organization. *Harvard Business Review*, [online].

A new thinking on organizational development

Building a tailored, fit-for-purpose organizational equilibrium requires a new thinking on organizational development:

1. **First, the new paradigm has to go beyond a normative imperative.** There is no silver bullet for organizational development anymore, as companies' answers to VUCA (Volatility, Uncertainty, Complexity and Ambiguity) challenges have to be very specific. They should not follow generic, high-level target pictures, which often overemphasize single aspects. Corporate organizational developers have to identify very specific areas, which require changes that are consistent with strategic requirements and the individual organizational pattern. Despite the current domination of an "agility imperative" for a company's development, these fine changes might relate – with the same likelihood – to the "scale & productivity" dimension.

2. **Secondly, development requires a modular approach** consisting of organizational capabilities building a system of self-reinforcing elements that can selectively be developed or "exchanged". The one-dimensional development path is replaced by the need to develop multiple capabilities that create a balanced system specifically for the company. Only this approach allows a company to purposely change its equilibrium towards the one dimension or the other.

3. **Thirdly, organizational development requires a much more elevated link with strategy development.** We observe that implications from a strategy process for the operating model and organization development are often weak and blurred. In the future, strategy and organizational development need to form a coalition among equals, with a strategy exercise deriving results that are precise enough to identify specific areas for improvement and develop a set of relevant measures.

Mapping "Ambidextrous" into a framework

The starting point of our organization development framework are six major dimensions, which form mutually enhancing pairs. These pairs of design dimensions (see illustration 2) are:

- Transformation and Steering – the organization "engine" that drives performance and change
- People and Culture – "the glue" that holds an organization together
- Structure and Processes – "the hardware" of an organization

Each of the dimensions can be further broken down into "design elements", each clustering a set of capabilities. Capabilities are the smallest element we see in organizations. They constitute how the organization looks, thinks, feels and acts. Organizations can be analyzed on the basis of these capabilities to make their organizational set-ups tangible and understood, as well as serve as a starting point to define a target picture.

Organizational Capability Canvas with "as-is" and "to-be" pattern

CASE EXAMPLE

As-is: Established lean business system

To-be: Development of strong disruption building block

Design dimension	Design element	Capabilities Building blocks			
Steering	Direction Setting	Autocratic	Strategic Clarity	Iterative Collaboration	Shared Vision
	Decision Making	Data & Rational	History & Experience	Intuition & Emotions	Conviction & Belief
	Performance Mgt.	People Performance	Group / Team Performance	Peer Performance	Guidelines & Values
Transformation	Mentality	Defensive	Reactive	Proactive	Evolutionary
	Mechanism	Temp. Structures	Virtual Teams & Tools	People	Embedded Routines
	Motivation	Benefits	Professional Management	Personal Advancement	Inspiration
People	Roles & Responsibilities	Narrow	Controlled	Guided	Autonomous
	Knowledge Mgt. & Learning	Technology-based	Expert-based	Trial-based	Collaboration-based
	Competences	Professional Skills	Inter-personal Skills	Self-management Skills	Self-development Skills
Culture	Leadership	Transactional	Incentivized	Empowered	Transformational
	Corporate Climate	Rules & Discipline	Values & Relations	Innovation & Market	Creativity & Disruption
	Corporate Purpose	Shareholder Value	Stakeholder Value	Sustainable Development	Societal Engagement
Structure	Organization Set-up	Scale / Function-centric	Layered / Modular	Competence-centric	Market / Customer-centric
	External Collaboration	Information Gathering	Knowledge Generation	Value Creation	Co-opetition
	Internal Collaboration	Hierarchy	Cross-functional Teams	Collaboration Platforms	Collaboration Environment
Process	Process Management	Heterogeneous	Standardized	Multi-Lane	Adaptive
	Process Governance	Business-driven	IT-driven	Process-Dept.-driven	User-driven
	Systems & Technology	Report. & Decision Support	Efficiency & Automation	Effectiveness & Collab.	Insight & Foresight

xxx = does not apply   xxx = applies partially   xxx = does fully apply

Within each design dimension we see two patterns:

1. the **scale & productivity pattern**, constituted by capabilities that support increasing efficiency and optimization along the scale & productivity axis

2. the **speed & creativity pattern**, constituted by capabilities, that support innovation and disruptive capabilities along the speed & creativity axis

One pattern is not better than the other. The question is which capabilities fit with the company, its environment and its purpose. For example, a nuclear power plant is not supposed to foster a creative and disruptive culture; it should be based on rules and disciplines. On the other hand, start-ups in the digital sphere more likely follow a shared vision than an autocratic direction setting. In addition, this framework allows a mapping of the new organizational archetype of ambidextrous organizations characterized by strongly established capabilities in both dimensions.

Illustrative pattern of an ambidextrous organization

CASE EXAMPLE

		Scale & Productivity	Speed & Creativity
Steering	Direction Setting / Decision Making / Performance Mgt.	66% Fulfillment	
Transformation	Mentality / Mechanism / Motivation		62% Fulfillment
People	Roles & Responsibility / Knowledge Mgt. & Learning / Competences	69% Fulfillment	72% Fulfillment
Culture	Leadership / Corporate Climate / Corporate Purpose		
Structure	Organization Set-up / External Collaboration / Internal Collaboration	65% Fulfillment	60% Fulfillment
Processes	Process Management / Process Governance / Systems & Technology		

Source: Arthur D. Little

For some companies, a direction towards more creativity might be the right path to succeed, while for others, it might be moving up the productivity axis.

However, in the end, the art is to combine different systems under the same overarching steering and transformation umbrella. Mastering these opposing organizational systems is what makes ambidextrous organizations outstanding.

Coca-Cola – How to elevate "speed & creativity"

For most of its history, Coca-Cola was a brutally productivity-centered company, completely standardized with one brand, one product, one package, in one size, with one price: five cents. Its aim was to scale the business as much as possible, representing a clear guiding principle in all business issues.

Pressured by changing market trends, Coca-Cola decided in 2001 to become a "total beverage company", aiming to diversify its business. This meant it needed a hybrid approach to keep world-class productivity up, but at the same time enabling it to innovate, develop and launch a range of completely new products – for the first time in its history.

Coca-Cola proactively adapted its business and organization paradigms. In its early years, Coca Cola had had a clear "less-is-more" mentality, building a totally integrated system, as exemplified by its strict product standardization. This drove operational efficiency and eased decision-making through limited complexity, but on the other hand made it hard to react and adapt to changing customer needs or local specifics. Coca-Cola changed this defensive mentality to a more evolutionary one, which can be characterized by another famous brand: Lego, which is based on pure modularity. Coca-Cola applied this approach to its business system: It differentiated its integrated business logic in small, proven-to-work modules that could be exchanged without the need to adapt other elements.

This change is well exemplified by the company's distribution methods: In line with its total standardization approach, Coca-Cola's distribution network was historically a relentlessly execution-focused system. The well-known big, red trucks delivered Coke to large department stores as well as "mom-and-pop" stores, on perfectly optimized routes with clockwork precision, with usually about a week's inventory in one consignment. This approach works well in developed countries with good infrastructure. But now imagine driving such trucks through the small alleys of Addis Ababa or a slum in the outskirts of Johannesburg – it doesn't work. But around the '00s, those places have been the developing markets that offered Coca-Cola growth opportunities.

In South Africa, Coca-Cola therefore pioneered a new distribution system based on a franchise principle: It installed small, independent distribution businesses that serviced regions of about one kilometer in circumference, with up to 150 shops.

Those small distributors then used whatever local transport means were available – pushcarts, bicycles, donkeys, boats – to deliver small consignments of a day's inventory or less to small shops.

After several feedback loops in an iterative collaboration process with local experts and researchers, the concept proved to be a major success because it made the distribution process adaptable to local needs. Today, in some countries, up to 99 percent of Coca-Cola products are delivered through such distributors, which has unlocked enormous business growth.

3M – How to embrace "scale & productivity"

3M – famously being one of the most innovative companies in the world – faced a different challenge: It has innovation implanted in its culture. It embraces the innovative potential of every employee and gives them 15 percent of their work time to pursue their personal "pet" projects. The leadership purposely does not manage new inventions in early stages, in order to give them space to flourish and flexibility to be tested for different applications before a management plan decides their fate.

Over the years, this culture has allowed 3M to disrupt several different industries, following a mantra of "*finding problems for solutions – not solutions for problems*". Most innovations at 3M have proven their true value only in such unexpected applications that may never have been imagined in other company cultures – often after having failed their original aims. However, despite its being one of the most innovative companies, 3M's profitability was struggling. The company needed to develop effective productivity capabilities while maintaining its innovation-oriented company culture – it needed to become ambidextrous.

In 2001, a new CEO was brought in to increase profitability. He introduced a strict six sigma toolset throughout the whole company. Positive profitability effects did not materialize as strongly as expected and product developers were annoyed by requirements to adhere to six sigma rules in their research processes. In their view, six sigma was introduced with insufficient adaption to the specific needs and purposes of business units. The approach treated the whole company as a "productivity machine", when half of it was supposed to be exploring the world to find creative new products.

3M recognized its need for a more ambidextrous set-up and changed its approach in two ways: First, its six sigma initiatives were reduced to a selected set of core components. Second, some discretion about which tools to use was delegated to the units and teams themselves. Product developers could now try and find out themselves what really helped their productivity and what merely hindered their creativity.

This led, for example, to a globally standardized format for review meetings to assess new developments, which where historically defined locally and not standardized. The new format

tremendously eased collaboration between 3M employees in different countries and cultures, as it set a common language that fostered mutual understanding. With this kind of ambidextrous organization, 3M managed to preserve its creative capabilities while improving its productivity.

Making organizational development tangible

We have created a 360-degree organizational development approach, enabling organizations to evaluate themselves along capability building blocks and to find their paths towards their individual organizational equilibrium.

The approach is based on three successive steps:

1. Conduct an organizational assessment to analyze the "as-is" organizational pattern

2. Define a target picture that best fits the future business strategy and related organizational purpose

3. Derive measures to build up required capabilities to evolve towards a tailored organizational equilibrium

Applying our capability canvas and assessment will result in a clear picture of the "as-is" and "to-be". Using our repository of proven, real-life measures and methods for the development of each(!) organizational capability is a shortcut to deriving a very tangible transformation roadmap.

Conclusion

Organizational development is a key source of competitive advantage and therefore should be a top priority on every CXO agenda. A new breed of leaders acknowledge that winning requires organizations that embrace both the scale & productivity as well as the speed & creativity dimensions of organization development towards an ambidextrous paradigm.

Our project experience confirms that the vast majority of organizations have not found their new equilibrium yet – most have not even initiated the journey. Consequently, most companies have untapped upside potential. Finding your unique organizational equilibrium requires a new thinking towards organizational development:

1. First, the new paradigm has to go beyond a normative imperative. There is no silver bullet for organizational development anymore.

2. Secondly, development requires a modular approach consisting of organizational capabilities that build a self-reinforcing system.

3. Thirdly, organizational development requires a much more elevated link with strategy development.

Leveraging our proprietary 360-degree organizational capability canvas and repository of proven, real-life measures and methods is a pragmatic, yet comprehensive, shortcut to deriving a roadmap and initiating your journey to adding sustainable organization advantage to your competitive skill set.

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Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organizations.

Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. Arthur D. Little is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

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