Uncommon Sense: How to Turn Distinctive Beliefs Into Action

It's widely recognized that a company's leadership, culture and core competencies can be important to its success. But another, often overlooked, critical source of differentiation is the company's beliefs.

BY JULES GODDARD, JULIAN BIRKINSHAW AND TONY ECCLES

THE LEADING QUESTION
What role do a company's distinctive beliefs play in strategy?

FINDINGS

- Winning strategies are grounded in distinctive beliefs that ring truer with customers and prospective customers than the beliefs of rival companies.
- Managers need to re-examine their company's beliefs and challenge its 'sacred cows.'
- Successful companies adopt a conscious strategy of experimentation to test their beliefs.

ONE HALLMARK OF a successful company is that it stands out from the crowd. Perhaps its approach to customer service is groundbreaking, the opportunities it offers its employees more exciting or its products just cooler than the competitors'. In a world of fierce competition and rapid imitation, companies that dare to be different capture our attention and our admiration. Some are globally recognized, such as Apple, Google, Tata, Virgin and Zara; others are less well known, or are niche or local players.

What enables some companies to be consistently and resolutely different? Business writers have pointed to such attributes as visionary leadership, a unique corporate culture and a distinctive set of core competencies. Although there is little doubt that such elements can sometimes play a key role, we argue that, in the end, a company's beliefs — or what we refer to as its "uncommon sense" — are often the most critical source of differentiation.

With the launch of its TotalCare engine fleet management service, Rolls-Royce sought to neutralize a competitor's strategic move in the aircraft engine industry.

COURTESY OF ROLLS-ROYCE

We are by no means the first ones to highlight the role of belief systems as a major differentiator. Peter Drucker's "theory of the business" focuses on the underlying beliefs held by the organization's leaders about what the business does. Yet while many recognize that beliefs form the platform for actions and capabilities, it's less clear how managers can apply this insight. Research in this area has tended to focus, for example, on how competing businesses converge on the same set of beliefs or "industry recipes" over time, or how a company's "dominant logic" locks it into a narrow way of thinking about its business opportunities.[1] Our approach, by contrast, is to show how managers can generate a distinctive belief system — their *uncommon sense*— and translate it into action.

ABOUT THE RESEARCH

We have been studying the origins of corporate distinctiveness for the last five years through a combination of research and advisory work. In developing this article, we identified a set of 20 potentially interesting industries that (a) were going through a moderate or large amount of change; (b) included two or more viable business models coexisting in the industry; and (c) had seen changes in leadership during the last decade.

In each industry, we looked for companies that were either growing quickly or, based on observable actions, addressing the market in a somewhat different way from their competitors. For each of these companies, we then attempted to understand what had driven their success. In some cases, success was nothing more than a really successful product (e.g., Lipitor for Pfizer), or effective implementation (e.g., Samsung). In others, we saw signs that success came from a distinctive way of thinking and/or working, and we dug deeper. We interviewed executives and we read publicly available information, and through this process we narrowed our study down to a group of companies whose success was demonstrably linked to a distinctive set of beliefs. In addition to companies mentioned in the text, our list included John Lewis (retailing), Egon Zehnder (executive recruitment) and Duke Corporate Education (executive education).

In terms of our advisory work, we have provided mentorship, insight and advice to executives at six companies to help them convert their belief systems into distinctive practices, relying especially on experimentation to test out unconventional ideas in a low-risk way. This work has helped us sharpen our arguments and make the concepts developed in this article more useful to others.

The Origins of Distinctiveness

Good strategies start from a distinctive point of view: for example, an insight into evolving customer needs or about how the world is changing. However, few companies manage to develop original strategies by formulating hypotheses and then testing them out in a competitive setting. Instead, many deploy frameworks and models from the strategist's toolbox — industry analysis, market segmentation, benchmarking and outsourcing. By jumping straight to generic game plans (such as cost leadership, total quality or product innovation), companies short-circuit the real work of strategy and miss out on finding new insights into the preferences or behaviors of current or potential customers.

In its purest form, a distinctive belief system manifests itself in a "blue ocean" strategy—a market position in which the business has no obvious competitors.[2] If the bottom of the food chain in strategy is competing for share of a commodity market (where price is the only real differentiator), then the top of the food chain is inventing a market where the uniqueness of one's offering is protected by seemingly insurmountable barriers to competition.

Sam Walton famously credited Wal-Mart's success to a single heretical assumption: that there was an unrecognized opportunity in placing "good-size discount stores into little one-horse towns that everybody else was ignoring."[3] Other examples of blue-ocean thinking can be found in the strategic innovations of Cirque de Soleil, which blended the artistry of a live circus with the refinement of a Broadway production, and Southwest Airlines, which developed a fresh new model for low-cost, no-frills air travel.

However, blue-ocean opportunities are rare. We have conducted research on corporate distinctiveness for five years, and in most cases distinctiveness manifests itself in smaller ways. (See "About the Research.") For example, HCL Technologies, an IT services company, based in Noida, India, has found that by putting "employees first, customers second" it can generate greater value in its customer relationships than its competitors.[4] Arup, a leading global engineering consultancy, is dedicated to the principle that work should be "interesting and rewarding" to employees rather than purely for financial gain.[5] Such beliefs may not result in the creation of entirely new lines of business, but they have a pervasive influence on the way employees behave.

Pursuing competitive advantage is a process of corporate "individuation."[6] It goes beyond the more conventional notions of market positioning and product differentiation because it works at the level of beliefs rather than just actions or capabilities. As a result, it is woven into the fabric of the organization and its vision of itself. In psychological literature, individuation is a process of self-actualization. In business, it implies that success flows to organiza-

tions that authentically operate idiosyncratic, self-discovered and coherent belief systems.

Our perspective is built on two core premises: 1) that companies need a unique set of beliefs to stand out from the crowd, and 2) that some beliefs ring truer with customers and employees than others. Beliefs can take many forms, but the three most important ones are:

- those that predict how the market will respond to the company's strategic choices, such as a new technology or service offering;
- those that predict how employees will respond to organizational and managerial choices, such as a more flexible or empowered working environment; and
- those that predict how the future will be different, for example in terms of emerging consumer needs, new technological possibilities or shifts in the geopolitical system.

Within a given industry, all companies (even the most idiosyncratic ones) share many of the same beliefs and assumptions. They serve many of the same customers, read the same media and interact with the same consultants. However, it is the distinctive beliefs — not the shared ones — that account for success or failure.

Not all of a company's beliefs are actually true. Although a unique belief system is necessary to having a winning strategy, it is not sufficient. To be wealth-creating, the truth content of a company's belief system must be greater than that of its competitors. Winning strategies, in other words, are grounded in theories that ring truer with customers and prospective customers than those of rivals. In our words, winning strategies exhibit *uncommon sense*: sense because they are true, and uncommon because they are proprietary to the winning company. The winner knows something that competitors do not know. Using the same logic, *common* sense is the set of true beliefs that are shared by competitors; common *nonsense* is the set of false beliefs shared by competitors; and *uncommon nonsense* is the set of distinctive beliefs held by one company that are actually not true (See "Types of Beliefs in an Industry.")

The theories that inform one's actions are inevitably a blend of truths and falsehoods. No one is in possession of the whole truth. What's more, propositions that may once have been true almost always become less true or even false over time. Market tastes and preferences change. Technology makes new things possible. Values and features customers once found attractive lose their luster. Companies steal ideas from successful competitors. Pioneering practices become best practices, which in turn become accepted standards. The playing field is forever being leveled. Thus, there is an ongoing need for thoughtfulness, reflection, experimentation and discovery.

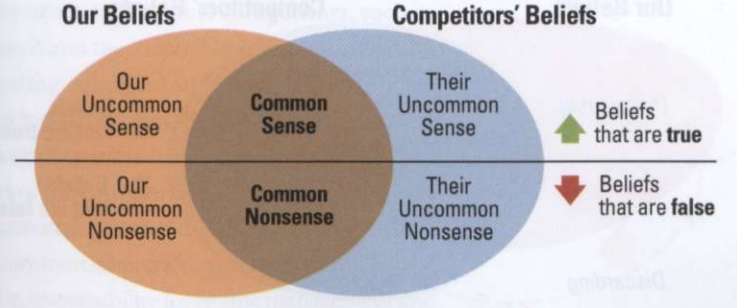
Separating Truths From Falsehoods

Managing a business is a journey of discovery, uncovering falsehoods and formulating new hypotheses. Learning to meet the evolving needs of customers is as much a process of purposeful forgetting as it is intentional discovery. Managers need to eliminate falsehoods with the same discipline and zeal that they bring to the search for new truths. This effort requires creativity and courage, qualities that are difficult to nurture in corporate environments.

Consider the case of Ikea, the Swedish furniture retailer that continues to be highly distinctive almost five decades after its founding in 1963. Built on Ingvar Kamprad's belief that he could "create a better everyday life for the many people" by providing affordable, good-quality furniture, the company grew internationally in the late 1960s and early 1970s by replicating what worked in Sweden.[7] However, Kamprad and his colleagues didn't fully understand which parts of their offering people actually cared about: Was it the expansive and customer-friendly showrooms? Was it the low prices and the products requiring relatively easy assembly? Was it the quirky Swedish product names

TYPES OF BELIEFS IN AN INDUSTRY

The beliefs you hold about your business can be divided into four types, depending on a) whether your share those beliefs with your competitors, and b) whether those beliefs are true or false.



and blue-and-yellow branding? Ikea's repeated success in new markets it entered made executives wary of changing any part of the original formula. It was only when the company experienced problems in Japan and the United States that executives undertook to sort out the truths and falsehoods and create a more flexible business approach.

Enhancing Your Distinctiveness

Our approach provides an analytical tool that allows strategy making to become more systematic and coherent. You cannot 'fake' a distinctive set of beliefs, and there is no substitute for creative leaps and far-sighted thinking. However, there are ways of generating better ideas for enhancing your distinctiveness, and there are also ways of testing out those ideas in an organized fashion. Our framework suggests that becoming distinctive isn't just about coming up with novel beliefs and enlarging the size of one's domain. It's also about undermining the competitive positions of competitors. The framework is based on four strategic steps: discovering, discarding, marooning and neutralizing. (See "Tactics for Changing the Belief Structure in an Industry.") We will examine each activity below.

Discovering The goal of discovering is to create new value for the company by expanding its uncommon sense — adding a dimension to the company's offering that competitors don't have. Metro International is one such example. In 1995, it launched the first free mass-market newspaper in Stockholm. Despite widespread skepticism from competitors and industry observers, the newspaper managed to generate enough advertising revenue to become profitable. *Metro* grew rapidly, and by 2010 it had more than 17 million readers spread across 20 countries.

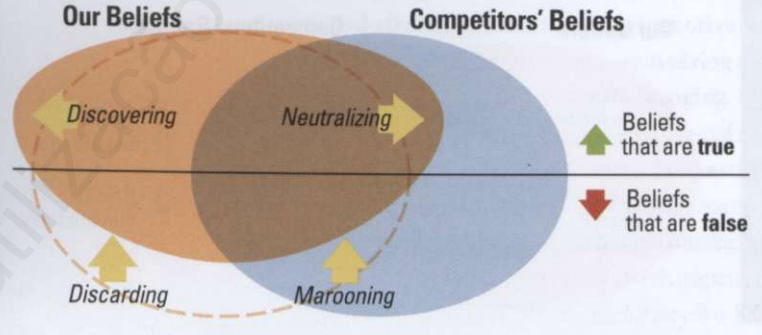
Like Metro, Petrofac, a fast-growing oil services company that operates extensively in the Middle East, has built its success by following a distinctive set of beliefs within its industry. Ayman Asfari, the company's CEO and main shareholder, saw an opportunity to move away from the traditional contracting model of the energy industry toward one in which the service provider became an equity partner and assumed some of the overall performance risk. The London-based company achieved a major milestone in 2000 by winning a $ 1 billion development in southern Algeria with two much larger partners. Key to winning the contract was Petrofac's offer to be a 10% equity partner in the development — a move that competitors had not considered. As a partner, Petrofac was able to complete the project ahead of schedule and within budget.

Discarding Discarding involves challenging the company's 'sacred cows' when examination exposes them as falsehoods; this will reduce the amount of nonsense — common or uncommon — the company believes. A famous example is Apple's decision in the 1990s to relax its vertically integrated business model and begin selling personal computers compatible with the Microsoft operating system and Intel microprocessors. Although the merits of that decision are still being debated, it represented a clear recognition by Apple management that the old strategy was failing and that the company needed to take drastic steps to reverse its decline.

On a more micro-level, Ikea has adapted its business model to adjust to changing market conditions. During the dotcom boom, the company refused to consider online selling for fear that its unique value proposition would be undermined. But gradually it acquiesced, and it now does a significant share of its business over the web. The company also experienced problems selling its standardized product lines in certain markets. This, too, has changed with the introduction of larger

TACTICS FOR CHANGING THE BELIEF STRUCTURE IN AN INDUSTRY

Based on the logic we have developed, we see four possible tactics for changing the belief structure in an industry: 1) discovering new truths that customers and employees value; 2) discarding old truths that are no longer valid; 3) marooning your competitors within an outdated way of working; and 4) neutralizing the distinctive beliefs of your most dangerous competitors.



beds and kitchen cabinets in the U.S. market. Ikea stores must conform to company-wide values and operating principles, but today there is considerable freedom within these guidelines.

Marooning As a company challenges the orthodox thinking of its industry and replaces it with a fresh, market-tested approach, it leaves competitors isolated, or marooned, with an outdated business model.

Consider the case of Thomson Reuters' governance, risk and compliance business, which sells information services to corporate compliance officers, regulators and lawyers. The standard approach to risk management is to encourage clients to move slowly. However, Thomson Reuters takes a different approach. "We believe risk management can be agile: You can move quickly and still manage your risks," says David Craig, president of the governance, risk and compliance unit. "So we have built our services to help clients accelerate the development of their business, rather than slow it down."

Another example: In the hotel industry, the standard checkout time for guests is noon, and check-in is typically after 3 p.m. This schedule is designed to accommodate cleaning shifts, but for those who travel across many time zones it is highly inconvenient. Yotel, a recently opened hotel chain, challenges this convention. Located at airports and in major city centers, Yotel offers quiet, no-frills rooms at affordable prices, no matter what time of day or night. What's more, guests aren't required to pay for a full day; they only pay for the hours they need.

Marooning is similar to discovering in that it involves defining products and services based on beliefs that are distinct from those of competitors. But it differs in an important way: The new belief boldly repudiates an existing orthodoxy, rather than simply being a new way of thinking. This makes it harder for competitors to reposition their offering.

Neutralizing Companies that embrace the uncommon sense of a competitor and incorporate it into their own belief system can reinforce their own market position and neutralize their competitor's uncommon sense. A good example of this has occurred in recent years in online media. One of the important ways the Internet revolutionized the media industry was that it allowed readers to comment on articles in real time. When web-only media like the *Huffington Post* offered this option, traditional newspapers faced a dilemma: readers wanted to comment, but many writers were strongly resistant to the idea. Gradually, newspapers relented. For example, in the United Kingdom, the *Guardian* was the first established publication to allow readers to post comments on its online articles. This gave it a temporary advantage against competitors, such as the *Telegraph* and the *Times*. However, the introduction of online comment ultimately brought little long-term benefit because nearly everyone else very quickly began to offer it as well. Indeed, it has become part of the common sense of the industry.

But neutralizing moves can also be strategic. Consider the commercial aircraft engine industry. Until the early 1990s, responsibility for engine management and

HOW TO TAP INTO UNCOMMON SENSE

In our experience working with companies, there are structured ways for rethinking your basic assumptions and beliefs, and for identifying potential new directions. Here are some approaches we have used:

1 Assemble a group of employees who are deeply familiar with how you do business — some who have been around a very long time, and some who are new to the company. Particularly useful are those who have worked for close competitors, as well as those who are known to be a little contrarian.

2 Ask them individually to articulate their basic assumptions — about your business model (who the customer is, what the customer values, how you make money), about your management model (how people are motivated, how decisions are made and resources allocated, how objectives are set), and about the future of the industry.

3 Their beliefs or assumptions can typically be separated into two groups: the beliefs or assumptions that almost everyone agrees about — the common beliefs; and those that only a few people identify — the uncommon beliefs (some of which are likely to look a bit odd, some plain wrong and others potentially profound).

4 For the commonly held beliefs, consider how you would know if they were true. Don't just presume that because everyone says "we are in a commodity industry" that this is necessarily a hard fact. What experiment could you do to verify or falsify this statement? The purpose of this exercise is to identify the "common nonsense" — the beliefs everyone holds that are actually not hard laws of nature.

5 For the uncommon beliefs, consider why some people believe them to be true. What information or experience are they drawing on? What experiment could you do to verify or disprove it?

6 Finally, it is worth reassembling the original group of people to brainstorm about possible beliefs that you might want to consider about your business model, your management model or your industry's future. Can you identify beliefs that are quite possibly wrong, but worth experimenting with anyway?

7 The net result of this process is typically a list of possible experiments to conduct. Some can be done in the regular course of business; others may need a special team and a budget. In our experience, it is worthwhile to agree on a process for conducting and reviewing the experiments over a period of time (usually three to six months). This is your pipeline of potential advantage.

maintenance belonged to the airlines that owned the aircraft or to a third-party provider; the assumption was that the financial and operational risks were best carried by the operator. However, by acquiring British Airways' repair and overhaul facility in South Wales in 1991, GE Aviation challenged this belief. It saw growth in selling maintenance services to airlines, irrespective of which manufacturer built the engines. The move was intended to hurt competitors such as Rolls-Royce and Pratt and Whitney. However, Rolls-Royce, for one, quickly recognized the threat and sought to neutralize it by integrating the sale of new engines and the aftermarket. Through an offering called TotalCare, it introduced a long-term service agreement that transferred the technical and financial risk of engine fleet management from the airline to Rolls-Royce. Airlines pay a fixed dollar amount per flying hour, thereby aligning the incentives of both the operator and the OEM in the pursuit of maximum reliability and use.

By neutralizing its key competitor's move and improving on it, Rolls-Royce has benefited greatly. Since 2000, Rolls-Royce has seen the TotalCare segment of its installed user base grow from 3% to over 65% in 2010, and almost all its new engine orders include the service agreement as a fundamental element of the deal. Neutralizing is not about blindly imitating competitors: Many of the competitors' beliefs are either wrong or don't add value. Instead, it is about carefully figuring out which parts of a rival's beliefs to pick up on, and which parts to ignore.

Metro International exhibited uncommon sense when it launched a free mass-market newspaper in 1995; by 2010, *Metro* had more than 17 million readers in 20 countries.

Putting New Ideas Into Practice

So how do companies put ideas they develop through our process into action? Based on our experience, successful companies don't just talk about their novel beliefs or make risky bets on unproven ideas. Instead, they rely on a deliberate process of experimentation. They turn one of their novel beliefs into an operational hypothesis and then test it in as low-risk a way as possible. The feedback they get from the market informs their further testing, ultimately shaping the company's decision to make a tangible change.

The real world, of course, doesn't allow businesspeople to test ideas as thoroughly as research scientists or academics can. But the basic principles of inquiry and experimentation can be enormously helpful. The case of a growing provider of business-to-business customer service solutions called 24/7 Customer, based in Campbell, California, provides an excellent example of how the process can work. The company was founded in 2000 on the belief that customer expectations for customer service would change dramatically with the Internet and that the customer experience should be intuitive. Whereas most players in the industry were pushing bigger and more complex call centers, 24/7 Customer developed "online predictive experience solutions" to anticipate what a customer wanted and improve future interactions. For example, when a customer visits an airline website, 24/7 Customer's software monitors the clicks; if it seems that the person needs help, a pop-up window offers suggestions and a number to call. For mobile phone service providers, 24/7 Customer offers a feature where individuals can preview their first month's phone bill online. "More than 80% of mobile phone customers call when they receive their first bill because they are surprised at how large it is," explains founder and CEO RV. Kannan. "This service anticipates their concerns, and explains the tariff in detail before it becomes a problem." The result, he says, is increased customer loyalty and retention.

24/7 Customer continues to spin out new ideas to help clients improve customer service, and it is constantly involved in experimentation. It has its own innovation lab, staffed with 100 computer scientists, data engineers and consumer behavior specialists dedicated to proposing new service ideas and test sites. If a new idea works out, it is then packaged as an offering for the client, and eventually it can be made available more widely. Although Kannan concedes that not every experiment leads directly to a useful idea, even the ones that don't pan out can result in insights into what customers may be looking for.

Finding a distinctive place in a competitive marketplace can be extremely challenging. Studying and working with dozens of companies across a range of industries, we have found that it frequently requires willingness on the part of top management to examine and re-examine the prevailing industry norms — and from a variety of perspectives. For example, Paul Marsden and Adrian Kinnersley, founders of Twenty, a rapidly growing recruitment consultancy based in London, had seen many established recruitment firms rise and fall over the years.[8] One thing they knew was how little loyalty most recruitment profes-

sionals had for the agencies they worked for. So, as Kinnersley recalls, the issues they decided to focus on when contemplating starting a new firm involved thinking about the business from the employee's perspective: What did they want the business to feel like for people who worked there? Given what they had seen elsewhere, what should its underlying values be? One thing they decided was that the new firm should go against the grain of the recruitment industry and be quirky. For example, most recruitment firms were secretive about what individuals earned, so Twenty decided that one of its core values was to be "crystal clear" with its employees: Detailed information about the compensation and bonus system was provided online, and the firm's financial results were updated monthly, for all employees to see. In addition, senior employees were given a significant equity stake in the new enterprise.

Companies such as 24/7 Customer and Twenty were founded on the premise of doing things differently from other players in their industries. But distinctive beliefs need to be tested out — sometimes through a process of formal experimentation, sometimes through iterative conversations between founders and the employees. This form of experimentation requires a high level of trust in employees, a lot of give-and-take and an acceptance that mistakes will be made.

Many of the companies we have talked about here are entrepreneurial and are still founder-led. Entrepreneurs are by nature unorthodox thinkers, so it is not surprising that many examples of uncommon sense come from this subset of companies. Still, there is plenty of scope for established companies to use this framework. In particular, the techniques for neutralizing and marooning competitors, as well as discarding beliefs that are no longer true, have been adopted by major companies including Rolls-Royce and Thomson Reuters. Yes, it is challenging to get executives thinking in this unorthodox and experimental way, but the potential rewards are enormous. (See "How to Tap Into Uncommon Sense," p. 37.)

Many discussions about strategy development begin in the wrong place. They start by examining the competitors or the needs of existing customers or specific strategic goals such as the need for focus or low cost. However, we think there are advantages to beginning at a different point — with a company's underlying beliefs and with the explicit recognition that some of those beliefs are smart and others aren't. Real strategy making is about developing a process for consistendy pushing beliefs forward — adopting the good ones and discarding the bad ones. Many companies exhibit common sense in the way they pursue market opportunities, but only a few have the uncommon sense on which long-lasting success is built.

***Jules Goddard is** a fellow of the Centre of Management Development at London Business School. **Julian Birkinshaw** is a professor of strategy and entrepreneurship at London Business School. **Tony Eccles** is a fellow of the Centre of Management Development at the London Business School. Comment on this article at http://sloanreview.mit.**edU**/x/53317, or contact the authors at smrfeedback.mit.edu.*

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5. This quote is from the "key speech" of Arup's founder, Ove Arup, available online at www.arup.com/Publications/The_Key_Speech.aspx.

6. Individuation, according to Carl Jung, is the process by which an individual personality is developed:" It is the development of the psychological individual as a being distinct from the general, collective psychology." (C.G. Jung, "Psychological Types" (Princeton, New Jersey: Princeton University Press, 1971).

7. The material on Ikea is taken from two sources: C.A. Bartlett and A. Nanda (1990), "Ingvar Kamprad and Ikea," Harvard Business School case study, 390132-pdf-eng; and A. Jonsson and N.J. Foss, "International Expansion Through Flexible Replication: Learning From the Internationalization Experience of Ikea," Journal of International Business Studies 42, no. 9 (December 2011).

8. The Twenty case study can be found at: www.managementexchange.com/story/twenty-building-better-model-ground.

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