Leadership and strategy in the news

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Craig Henry, *Strategy & Leadership*'s intrepid media explorer, collected these examples of novel strategic management concepts and practices and impending environmental discontinuity from various news media. A marketing and strategy consultant based in Carlisle, Pennsylvania, he welcomes your contributions and suggestions (craig_henry@centurylink.net).

Of strategy and strategists

Amazon, Alexa, and the future of music

The music business remains unconquered territory for Amazon. The company's early lead in CD retailing was undone by MP3 piracy, and during the digital downloading craze Amazon was overtaken by Apple's iTunes Store. A 2005 internal experiment with music streaming at Amazon was scuttled before it launched, creating an opening that's now filled by Spotify, with 40 million subscribers, and Apple Music, with 20 million. The company's latest bid for more eardrums is Amazon Music Unlimited, a subscription-based streaming service launched in October 2016.

Alexa, Amazon's branded digital assistant, will be the determining factor in its success. The sophisticated voice-recognition algorithm that Alexa employs has emerged during the past year as the leading technology of its kind. Having captured this lead, Bezos has been pushing Alexa hard, first through his Amazon Echo speaker, and, more recently, through its diminutive companion, the Amazon Echo Dot, which was the company's top-selling item this past holiday season. Bezos' enthusiasm has spread to the music industry, where executives speak in glowing terms of the devices. "The metric you look at more than any other to determine whether a subscriber is going to stick around is engagement," says Ole Obermann, chief digital officer of Warner Music Group. "It's still early days, but the engagement numbers we see from these devices are really, really good."

Users control Alexa with simple, natural-language voice commands: "Alexa, play 'Bad and Boujee'"; "Alexa, what's playing right now?" The service also can create complex playlists on the fly: "Alexa, play jazz fusion from the '70s"; "Alexa, shuffle trap music from last year." These commands aren't processed by the device itself, but by Amazon's massive machine-learning architecture in the cloud.

Bezos envisions multiple Echoes in each home, plus one in the car. The more of these devices Amazon sells, the more the music industry stands to earn, catalyzing a virtuous cycle. "One of the primary use cases we had in mind when we invented Echo and Alexa was making the music streaming process in the home completely friction-free," he says. "If you make things easier, people do more of it."

Stephen Witt, "Amazon's Jeff Bezos & Steve Boom on Starting a New 'Golden Age' for Music," *Billboard,* 9 February 2017.

Strategy as foreclosed options

Albert Camus famously said that our lives are the sum of the choices we make. The same holds true for organizations. . . . A decision is a choice between alternatives in

service of a desired outcome. The reality of limited resources makes this a zero-sum game: every additional thing we do subtracts attention and energy from everything else we do. Choosing a series of actions without any subtraction is just "piling it on," which, eventually, will stifle an organization, blurring its focus and sapping its resources. . ..

Steve Jobs provides a telling example. . .. Walter Isaacson, in his wonderful biography of Jobs, stresses one strength above all others: Jobs' ability to focus on very few things and exclude the rest.

Jobs would typically charge 15 teams with exploring new opportunities. Three months later each team would eagerly report its recommendations. Jobs would huddle briefly with his top team and deliver his verdict: "We will do these three things. The other 12 are off the table." No back burners, no side shows; everyone's energy would be devoted exclusively to those three things. Even today, Apple has a leaner portfolio than its competitors. It has steadfastly avoided the deadly trap of "all things to all people."

Willie Pietersen, "Great Decisions: An Art of Sacrifice," *Ideas at Work*, 15 February 2017, www8.gsb.columbia.edu/articles/ideas-work/great-decisions-art-sacrifice

Even non-profits need marketing strategies

Consider that 86 million U.S. adults were at risk of developing type 2 diabetes in 2015. That's one in three people. At the same time, some 1,000 nonprofits and community-based organizations were offering a drug-free solution to help avoid developing diabetes, but they weren't sufficiently publicizing it or engaging users to sell the service. Even though these programs were covered by insurance, making them essentially free, only 20,000 adults took advantage, or less than 1/1,000th of 1% of the at-risk population.

Great need doesn't necessarily equal great demand. When pharmaceutical companies launch a life-saving drug, they regularly spend twice as much on marketing as on the drug development. While nonprofits, often starved for general operating funds, can't match pharma's marketing budgets, a recent Bridgespan study argues that it's time they and their funders heed business findings on increasing noise in the marketplace and the need to make any new offering, even a life-saving one, stand out. In other words, they need to pay what it takes to actively drive demand. . ..

Yet others are succeeding by using a number of methods to drive demand, or "diffuse innovation," as academic researcher Everett Rogers called it. He sought to explain how, why, and at what rate innovations spread, and a wide range of for-profit companies continue to draw on Rogers's theories. The takeaways from Rogers's work for nonprofits include three principles:

- Design your service or program for "spreadability," not just effectiveness.
- Narrow in on a subgroup most likely to participate rather than identifying a broad group of potential beneficiaries.
- Develop and fund a sales and marketing capability from the outset.

Taz Hussein and Matt Plummer, "Even Life-Saving Innovations Don't Sell Themselves," *Harvard Business Review*, February 2017, https://hbr.org/2017/02/even-life-saving-innovations-dont-sell-themselves

Strategies for the era of disruption

Startup founders can reimagine a new way of doing business without the burden of how things "used to work" in their organization. Yet even startups today will accumulate similar legacy burdens.

So how can both established and relatively new organizations find new ways to be nimble and adaptive? How can organizations avoid the trap of becoming saddled with legacy processes, legacy technologies or legacy ways of thinking?

Here are three more meaningful strategies:

1. Reward delivering results differently and better: Instead of striving to change organizational cultures (plural) head-on, an organization's C-suite should visibly give permission – and reward – to those parts of the existing organization that deliver results differently and better. . ..
2. Adapt the practiced values and goals of an organization to the changing world instead of attempting to change mission statements: Organizations that remain nimble and adaptive do so by explicitly recognizing that outcomes matter, and what an organization aims for and values on a regular basis in practice is much more important than any mission statement. . ..
3. Champion everyone across the organization to be positive change agents: . . . Meaningful change happens across an organization when everyone realizes that anyone in an organization can be a change agent. David A. Bray, "Three Meaningful Strategies for Managing Rapid Change," *Sloan Management Review*, February 2017, http://sloanreview.mit.edu/article/three-meaningful-strategies-for-managing-rapid-change/

Technology and transformation

AI on Wall Street

At its height back in 2000, the U.S. cash equities trading desk at Goldman Sachs's New York headquarters employed 600 traders, buying and selling stock on the orders of the investment bank's large clients. Today there are just two equity traders left.

Automated trading programs have taken over the rest of the work, supported by 200 computer engineers. Marty Chavez, the company's deputy chief financial officer and former chief information officer, explained to attendees at a symposium on computing's impact on economic activity held by Harvard's Institute for Applied Computational Science.. . .

The experience of its New York traders is just one early example of a transformation of Goldman Sachs, and increasingly other Wall Street firms, that began with the rise in computerized trading, but has accelerated over the past five years, moving into more fields of finance that humans once dominated.. . . Goldman Sachs . . . has found consistently that four traders can be replaced by one computer engineer, Chavez said at the Harvard conference. Some 9,000 people, about one-third of Goldman's staff, are computer engineers.

Next, Chavez said, will be the automation of investment banking tasks, work that traditionally has been focused on human skills like salesmanship and building relationships. Though those "rainmakers" won't be replaced entirely, Goldman has already mapped 146 distinct steps taken in any initial public offering of stock, and many are "begging to be automated," he said.

Reducing the number of investment bankers would be a great cost savings for the firm. Investment bankers working on corporate mergers and acquisitions at large banks like Goldman make on average $700,000 a year, according to Coalition, and in a good year they can earn far more.

Nanette Byrnes "As Goldman Embraces Automation, Even the Masters of the Universe Are Threatened," *Technology Review*, February 2017.

Fostering creativity in a time of disruption

MIT Media Lab is a creative nerve center where great ideas like One Laptop per Child, LEGO Mindstorms, and Scratch programming language have emerged.

Its director, Joi Ito, has done a lot of thinking about how prevailing systems of thought will not be the ones to see us through the coming decades. In his book *Whiplash: How to Survive our Faster Future*, he notes that sometime late in the last century, technology began to outpace our ability to understand it.

Ito's ideas are not specific to our moment in history, but adaptive responses to a world with certain characteristics:

1. *Asymmetry*: In our era, effects are no longer proportional to the size of their source. The biggest change-makers of the future are the small players: "start-ups and rogues, breakaways and indie labs."
2. *Complexity*: The level of complexity is shaped by four inputs, all of which are extraordinarily high in today's world: heterogeneity, interconnection, interdependency and adaptation.
3. *Uncertainty*: "Not knowing is okay. In fact, we've entered an age where the admission of ignorance offers strategic advantages over expending resources– subcommittees and think tanks and sales forecasts – toward the increasingly futile goal of forecasting future events."

Rather than working to discover knowledge for its own sake, the lab works . . .through start-ups and physical creations. This was expressed in the lab's motto "Deploy or die," but President Barack Obama suggested they work on their messaging, and Ito shortened it to "Deploy."

Shane Parrish, "Principles for an Age of Acceleration," *Farnam Street*, 10 January 2017, www.farnamstreetblog.com/2017/01/principles-age-acceleration/

Industry focus

Why Silicon Valley keeps winning

Despite the East Coast roots of technology entrepreneurship and venture capital (VC), it is well documented that, by the 1990s, Silicon Valley had stolen a march on the Cambridge-Boston area. . .. With an almost 50% share, the Bay Area now towers over New England, whose share has stayed put at around 10%. . ..

What factors account for Silicon Valley's growing divergence from the Cambridge-Boston area during the last 20 years? We propose three mutually reinforcing hypotheses.

First, digital transformation is rapidly engulfing almost all industries. The transformation which started from retailing, music, and movies in the 1990s has now spread to education, financial services, autos and trucks, transportation services, energy and environment, hotels and lodging, life sciences, all types of manufacturing, and even shipping. . ..

Silicon Valley dominates these platform technologies. . .. This is also why Silicon Valley has become the go-to place for the digital labs of

companies from a diverse array of "traditional" industries (such as GE, Walmart, Goldman Sachs, Daimler-Benz, and the like). . .. The result is a growing agglomeration effect in Silicon Valley.

Second, as the LinkedIn cofounder Reid Hoffman has persuasively argued, Silicon Valley has developed a comparative advantage in the art and science of scaling up. Once Silicon Valley surged ahead of New England and other regions in creating and growing new ventures, it found itself with an ever-larger pool of experienced entrepreneurs and senior executives who were ready to start, join, invest in, or otherwise help other new ventures. . ..

Third, as the market for private capital has grown and matured, new ventures can increasingly raise extremely large sums of capital without the necessity of a public listing. Witness the case of Uber, which has a market valuation exceeding $60 billion and is still a privately held company.

Anil K. Gupta and Haiyan Wang, "What Silicon Valley's Growing Divergence from Cambridge-Boston Area Tells Us about Emerging Trends in Technology Entrepreneurship," *Thinkers 50*, 24 January 2017, http://thinkers50.com/blog/silicon-valleys-growing-divergence-cambridge-boston-area-tells-us-emerging-trends-technology-entrepreneurship/

Wells Fargo: the continuing crisis

In recent months, the number of new consumer checking accounts had fallen sharply, which is no surprise for a bank that paid a hefty fine in September for opening accounts of all sorts without customers' permission. Just for good measure, it's trying to force customers who want to sue to take their disputes to mandatory arbitration.,,,

To many consumers, Wells Fargo deserves a kind of death penalty: In the same way one might never buy a car again from the cheaters at Volkswagen, it makes little sense to do business with Wells Fargo either.

But an equally good reason to steer clear might be this: Its products and services are mostly middling. The bank rarely is a leader on pricing or rewards. It specializes in ubiquity, with storefronts in all 50 states, and it hopes that we'll be too lazy to find better deals elsewhere. . ..

Consider Wells Fargo's basic savings account offerings. Or don't, lest you be insulted by the interest rates. How does 0.01 percent sound to you? But if you have more than $100,000 that you need to keep safe for a while, the bank will increase that amount tenfold, to a whopping 0.1 percent!

. . .That flair for mediocrity may no longer work. Consumer credit card applications declined by a stunning 43 percent in December, 2016, compared with the same month a year earlier.

Ron Lieber, "You Don't Want What Wells Fargo Is Selling. What Should It Do Now?," *The New York Times*, 13 January 2017.

A wider perspective

The perils of meritocracy

When you can't understand why people behave in a certain way, the easiest thing to do is to convince yourself that people do not know what they are doing. This is what European political, business and news media leaders have done in response to the populist wave that is sweeping the old Continent. They are shocked that many of their compatriots are voting for irresponsible demagogues. They find it difficult to understand the sources of the rage against the meritocratic elites best symbolized by the well-trained, competent civil servants in Brussels.

But Europe's meritocratic elites aren't hated simply because of populists' bigoted stupidity or the confusion of ordinary people.

Michael Young, the British sociologist who in the middle of the last century coined the term "meritocracy," would not be surprised by the turn of events. He was the first to explain that even though "meritocracy" might sound good to most people, a meritocratic society would be a disaster. It would create a society of selfish and arrogant winners, and angry and desperate losers. The triumph of meritocracy, Young understood, would lead to a loss of political community. . ..

In Europe, the meritocratic elite is a mercenary elite, not unlike the way the best soccer players are traded around to the most successful clubs across the Continent. Successful Dutch bankers move to London; competent German bureaucrats move to Brussels. European institutions and banks, just like soccer clubs, spend colossal amounts of money acquiring the best "players."

But what happens when. . . the economy slows down? Their fans abandon them. That's because there's no relationship connecting the "players" and their fans beyond celebrating victories.

Ivan Krastev, "The Rise and Fall of European Meritocracy," *The New York Times*, 17 January 2017.

Politics and technological disruptions

The Fourth Industrial Revolution (4IR) confronts governments with a good news, bad news scenario. On the upside, 4IR helps governments foster an open, flexible, knowledge- and skills-based economy, promotes trade outside traditional trading

blocs, improves efficiency and effectiveness of health and social care systems and offers a "first mover" advantage in defense and security sectors for those that make best use of emerging technologies.

But there's another side to 4IR: Governments could find themselves increasingly powerless against megacorporations – the Exponential Organizations described in Salim Ismail's book of the same name. Regulating the activities of these global behemoths (and raising taxes from them) may be beyond the grasp of all but the largest countries, such as the United States and China.

Citizens, either individually or in communities of interest, will increasingly use technology to seek greater autonomy, which will challenge the power of government and institutions. For example, blockchain technology could foster new approaches to banking and personal finance. People might choose to trade with each other in unofficial currencies such as bitcoins rather than in fiat currencies run by central banks. . ..

If government agencies are too slow to adopt new technologies, they will both fail to generate the efficiency gains needed to keep public services going, and damage the reputation of government. Doctors in the UK reported in a study I carried out last year that one of the most common complaints from patients now is the inability to access quality Wi-Fi in hospitals and clinics. A tech-savvy population will have no patience with analog public services.

If the disruptive effects of technology are too great and too rapid, or if governments fail to mitigate them, rising unemployment and inequality could lead to serious social unrest – especially if the middle classes. . ., find that the status quo is working against them. What robots did for industrial workers in the 1980s and 90s, artificial intelligence might do for large swathes of office workers and professionals in the next 20 years. When the middle classes turn on governments, revolution can happen. The unforeseen political events of 2016, and the rise of populist leaders probably have more to do with the fallout from the financial crisis of 2008-2011, but the adverse effects on employment of 4IR could add to the momentum moving away from the post-1989 liberal, globalization consensus.

David Lye, "The Fourth Industrial Revolution and Challenges for Government," *Brink News*, 2 February 2017, www.brinknews.com/the-fourth-industrial-revolution-and-challenges-for-government/

An aviary full of black swans

Pity the overwhelmed American who tuned into the Super Bowl looking for a few hours of relief from a disorienting world. Unlike politics, business, and psychology, football is governed by rules and statistics, and it seemed reasonable to assume that this Super Bowl, like the 50 ones preceding it, would unfold in a predictable manner. Maybe it would be a blowout, maybe it would be a squeaker, but within a couple of quarters the overall shape of the contest would be clear, and the conclusion would naturally follow from that premise.

At the end of the first half, we seemed to be comfortably in blowout territory. But then, the seemingly impossible occurred: The Patriots went on to win the game in overtime. It was a thrilling moment, undercut with a vague sense of unease. We had seen this before. In June, we watched the Cleveland Cavaliers become the first team to rebound from a 3-1 deficit to win the NBA championship. In November, after falling into a 3-1 hole of their own, the Cubs came back to take the World Series – a feat that statisticians gave only a 15 percent chance of happening. And a few days later, of course, Donald Trump would overcome similarly unforgiving odds to win the presidential election. Now, it was happening again. Once again, we had been black swanned – stunned by an event that had almost no chance of occurring. . ..

Watching yet another sure victory dissolve into defeat contributed to a sense that the world is fundamentally lawless and unpredictable.

Here's the thing: That sense is absolutely correct. Unlikely events happen all the time. People win the lottery twice. . .. If something has a non-zero chance of happening, it will – at some point. "Even something that's one-in-a-million will happen to 300 people," says Jessica Utts, a statistician at UC Irvine. And that's just in the United States!

In other words, the more data you have, the greater the likelihood you'll see wildly improbable phenomena. And that's particularly relevant in this era of unlimited information. "Because of the Internet, we have access to billions of events around the world," says Len Stefanski, who teaches statistics at North Carolina State University. "So yeah, it feels like the world's going crazy. But if you think about it logically, there are so many possibilities for something unusual to happen. We're just seeing more of them."

Jason Tanz, "The Super Bowl and the Black Swanning of America", *Wired, 8* February 2017, www.wired.com/2017/02/super-bowl-black-swanning-america/

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