

Quick takes

Larry Goodson

These brief summaries highlight the key points and action steps in the feature articles in this issue of *Strategy & Leadership*.

MasterClass

Customer-centered innovation: improving the odds for success

Brian Leavy

The past two decades have seen the development of a range of exciting new methods and models that add significantly to the innovation tool-kit, including design thinking, open innovation, value co-creation and discovery-driven planning. Yet, many corporate leaders continue to approach their innovation efforts with trepidation, viewing the likelihood of success as still too much a matter of chance.

Two recent books offer some valuable insights to leaders and strategists on how to improve the odds for innovation success in an increasingly complex and uncertain business context.

The first book, *Competing Against Luck: The Story of Innovation and Customer Choice (2016)*, disruptive innovation guru, Clay Christensen and co-authors demonstrate how the concept of “Job to Be Done” can improve a company’s track record at new product or service introduction.

Identifying a well-defined Job to Be Done offers “a kind of innovation blueprint” which is “very different” from the traditional marketing concept of “needs” because of the “much higher degree of specificity” required to identify precisely what it is you are trying to solve for in particular use-case contexts.

Jobs Theory revolves around the observation that “customers don’t

buy products or services”, but rather “pull them into their lives to make progress” in some way that is particularly valuable to them. Jobs theory is inspired by “two of the most important marketing insights of the last century,” the first from Theodore Levitt that “people don’t want to buy a quarter-inch drill – they want a quarter-inch hole” and the second from Peter Drucker that “the customer rarely buys what the company thinks it sells him.”

In *Sense & Respond: How Successful Organizations Listen to Customers and Create New Products Continuously*, design and innovation experts Jeff Gothelf and Josh Seiden, believe digital technology is changing the game throughout the business world.

The authors offer five main principles to guide the development and application of their new management playbook for the digital era. The five are:

- Create two-way conversations with the market.
- Focus on outcomes, not outputs.
- Embrace continuous change and continuous processes.
- Create collaboration.
- Create a learning culture.

In the digital era, the “management playbook emerging in the technology sector will have much to offer the management world, as

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The next frontier for Agile: strategic management
Stephen Denning

more activities in value chains become increasingly tied to software. The heart of the new playbook is a “continuous feedback cycle.” These organizations will “continuously try new things in the market, testing and rapidly adjusting based on what they learn.

The Agile mindset and process—a team-based approach to rapid and effective innovation and product development – is increasingly entering the management mainstream. Used successfully to speed software innovation in dynamic markets and address rapidly changing customers’ needs, Agile offers an effective alternative to “industrial age” management that emphasizes efficiency through bureaucracy.

Today, the practice of Agile management—and its analogs, such as “Lean” and “design thinking”—still reflects a pre-occupation with achieving operational agility – enabling a team or a unit of an enterprise to nimbly upgrade its existing products and services to adapt to rapidly changing technology and dynamic markets. Such efficiency gains or quality improvements achieved by Agile teams may, however, only provide temporary competitive advantage.

The next frontier: Strategic Agility

A few leading firms have discerned an emerging opportunity to give Agile a bigger role: to merge the Agile approach with strategic management concepts for mastering market-creating innovation.

Agile teams using proven strategic management processes like “Blue Ocean” strategy or “Jobs to be done” theory for finding and developing new products could generate large financial gains, opening up markets that didn’t previously exist. Firms that

It is evident from the two books and the case histories they cite that success in the new digital era will be the ability to combine unremitting customer-benefit focus with the courage to lead continuous change in the market and in the workplace.

have successfully experimented with such strategic management techniques have found:

- Sometimes they transform products that are complicated, inconvenient and expensive into things that are so much more affordable, convenient and accessible that many more people are able to buy and use the product.
- Sometimes the new products meet a need that people didn’t realize they had and create a “must-have” dynamic for customers.

A first step toward achieving Strategic Agility is through gaining experience with operational Agility.

The path to operational Agility

Over the past decade, as more firms have successfully implemented Agile software development, units of leading adopters learned to master the three laws of Agile: “the law of the small team,” “the law of the customer” and “the law of the network.” But the full gains of operational Agility will only come when the whole firm embraces its methodology and mindset.

The path from operational Agility to Strategic Agility

Ideally, after these lessons are learned, there is a natural progression to Strategic Agility.

- A firm may start experimenting with operational Agile with one or a few teams.
- As more and more teams take on Agile, eventually a whole unit champions Agile.
- Then multiple units and the whole firm may embrace Agile with major enhancement of the capacity to make quality improvements and efficiency gains.

- The new-found operational Agility at the enterprise level then finds its natural evolution in strategic shifts that open up new markets.

Strategic Agility is needed to deal with the 21st Century reality that sector boundaries are collapsing and market makers are endlessly evolving. Companies in all industries will need to stretch their horizons beyond their existing businesses.

Becoming global leaders: innovation challenges for five large Chinese firms
Bala Chakravarthy and David Yau

Chinese corporate leaders Ren Zheng Fei at Huawei, Liu Chuan Zhi at Lenovo, Zhang Rui Min at Haier, Jack Ma at Alibaba and Ma Hua Teng at Tencent have led their companies on to the international stage, building on their epic success at home.

Their five companies compete in very different industries, and yet have shared a common journey of unprecedented growth by offering exceptional customer value at a low price. The agility to take advantage quickly as opportunities emerge—by practicing frequent experimentation, promptly divesting failed projects and rapidly scaling up investments in successful ones—has been an important ability that has contributed to the success of the five companies.

Key competencies emphasized by the founders of the five firms include:

- Quality.
- Customer-centricity.
- Service.

The next challenge will be to expand this competence base and to build the design, development, operational and marketing competencies that are needed to serve higher-end segments in advanced economies. These companies need to go beyond “reliable” products and services to innovate industry-leading offerings. In order to be a true global leader, Chinese firms must be able to be trailblazers in both emerging and advanced markets. Breakthrough product innovation will be an important competence for the future.

Four approaches for staffing and structuring a product development team to identify the crucial unmet needs of B2B customers
Chandler Hatton, Michael Kolk, Martijn Eikelenboom and Mitch Beaumont

Obtaining a deep understanding of customer needs is central to any new product development process. Over the last decade, tools and techniques for obtaining customer intelligence in B2C industries have become increasingly sophisticated.

In practice, however, finding the best way to organize and manage customer interaction during the

new product development process is anything but simple.

To help find the best approach, Arthur D. Little, conducted in-depth interviews with more than 30 product development leaders in 15 companies across multiple sectors to identify effective approaches to gathering, understanding and synthesizing information related to customer needs.

Organizing teams for customer-needs intelligence

In order to decide how to best translate customer needs in successful products, two questions should be asked:

- Are customer needs expressed or latent?
- Are technology needs expressed or latent?

Choosing the optimum organizational approach

Companies can utilize a four-quadrant “Customer Needs/Technology Needs” analysis framework to help make informed decisions about how best to organize their teams.

1. Expressed customer and technology needs: Indirect single-channel approach.
2. Expressed customer needs, latent technology needs. Direct R&D approach.
3. Latent customer needs, expressed technology needs. Indirect multichannel approach.
4. Latent customer needs, latent technology needs. Hybrid approach.

Insights for leaders

The research shows that using the model to staff the team with the right design skills to address specific customer needs can be both strategically and financially significant.

Responding to the global skills crisis *Michael King, Anthony Marshall and Dave Zaharchuk*

In an operating environment of continuing technological advances, traditional industry value chains and business models are morphing in unexpected ways and destabilizing traditional job roles. Employers’ initiatives are increasingly hobbled by a workforce whose skills have not kept pace with changing requirements. If left unresolved, this emerging global skills shortage will have profound effects on businesses and economies worldwide. How can business, education and government leaders work together to deepen the talent pool and equip the workforce with the skills today’s organizations need?

How leaders see the skills challenge

To gauge current skills challenges and assess future needs, the IBM Institute for Business Value surveyed more than 5,600 global executives representing 18 industries and 48 countries.

Some critical issues that surfaced:

- 60 percent of executives struggle to keep workforce skills current

and relevant in the face of rapid technological advancement.

- Only 55 percent of leaders believe the current education system in their country provides programs to ensure lifelong learning and skills development.
- 55 percent of leaders believe inadequate investment from private industry is the most fundamental challenge in addressing skill development issues.

Charting a new course

As industry, education, government and public sector leaders join forces to build a robust global talent pool, there’s a role for each stakeholder group in implementing three high-level strategies:

- Strategy 1: Build regional ecosystems.
- Strategy 2: Prioritize and invest in proven, innovative solutions.
- Strategy 3: Enable and advocate for individual responsibility.

Stretch collaboration: how to work with people you don't agree with or like or trust
Adam Kahane

Collaboration in the workplace, as in politics, can be challenging, even risky. We are trying to get something done that we think is crucial. To do this, we need to work with others. These others may include people we do not agree with or like or trust. And so we think that we must work with these others, and also that we must not. Under such conditions, collaboration seems both imperative and impossible.

To manage such dilemmas we need to rethink our conventional understanding of collaboration; that it requires us all to be headed in the same direction, to agree on what has to happen and to get people to do what needs to be done.

This article introduces a new process, "Stretch collaboration," which requires three fundamental shifts in how we think about acting collaboratively in contentious situations.

- **Stretch 1:** Instead of focusing narrowly on the collective goals and harmony with other collaborators, we need to embrace both conflict and

connection within and beyond the team: fight and talk.

- **Stretch 2:** Instead of insisting on clear agreements about the problem, the solution and the plan, we experiment systematically with different perspectives and possibilities.
- **Stretch 3:** In terms of the role we play, instead of trying to change what other people are doing, we must enter fully into the action and be willing to change ourselves.

Practice and learn

Most people find these three collaborative stretches counterintuitive and uncomfortable because they require changing ingrained behaviors. The way to learn such new approaches is to practice them while improvising a way forward amid uncertainty. Deng Xiaoping, former leader of the Chinese Communist Party, used a memorable image to describe taking such an approach: "We are crossing the river by feeling for stones."