

Larry Goodson

These brief summaries highlight the key points and action steps in the feature articles in this issue of Strategy & Leadership. Larry Goodson, an S&L contributing editor, is a veteran strategy consultant based in St. Louis, Missouri. He is a Partner at LDGA Consulting, which offers Lean operations and strategy development services (ldgoodson@msn.com).

Interview

Rita McGrath: Anticipating and exploiting strategic inflection points
Brian Leavy

Effective strategy development in the face of uncertainty has never been more challenging or pressing. The acronym VUCA (volatile, uncertain, complex, ambiguous) has never seemed more apt, nor discontinuous change more prevalent. Rita McGrath is a pioneer of “discovery-driven planning.” Her research and experience offer corporate leaders practical perspectives and advice on how to approach strategically the great opportunities and dangers that lie ahead in this VUCA environment, which is what Professor McGrath sets out to do in her latest book, *Seeing Around Corners: How to Spot Inflection Points in Business Before They Happen*.

Strategy & Leadership: What inspired you to focus on inflection points in *Seeing Around Corners*, and how do you see this latest book building on your previous work on innovation and strategy?

Rita McGrath: The best known treatment of strategic inflection points is probably Andy Grove’s, *Only the Paranoid Survive* which was mostly about the period after an inflection point has washed over the organization. So I thought a perspective on how you might anticipate or even spark an inflection point might be useful.

S&L: An inflection point “happens when a 10X change alters the basic assumptions upon which a business is built.” Given that can happen

gradually, then suddenly” how can leaders be prepared for and then act opportunistically?

McGrath: When an inflection point reaches a tipping point, it can feel as though it came out of nowhere. The dilemma is that often the big trends that go with inflection points are so vivid and scary, companies often initially overreact.

S&L: What practices might a firm follow to enhance its capacity to pick up on emerging signals that might well have inflection implications?

McGrath: Leaders need to talk to customers, see what is really going on personally, touch base with the people in their organization.

S&L: You advocate developing “leading indicators” and imagining “different future possibilities” How can executives effectively address these related challenges?

McGrath: The executives settle on a set of key metrics that represent success and, often, get very accustomed to working with lagging indicators. They need leading indicators to determine what may well be coming.

S&L: What’s the right leadership approach for building an inflection-ready organization and how does it differ from the traditional hierarchical one?

McGrath: Traditional leadership models assume that the “top” of an

Converting strategic ambiguity to competitive advantage:
How Philips Lighting solved the challenge of LED technology disruption
Paul J.H. Schoemaker,
George S. Day and Govi Rao

organization is the only place that information all comes together. Instead, what leaders should be thinking about is pushing decision rights to the part of the organization that has the most information, regardless of formal rank.

S&L: How can executives apply the insights from *Seeing Around Corners* in their own career development?

The early signals emitted by an emerging digital technology are often weak and difficult to interpret. Routinely ignoring weak signals because they are difficult to evaluate is risky, but chasing them randomly is futile.

The case of Philips Lighting shows how management coped with the threats and opportunities of a highly disruptive emerging technology using three insight-producing approaches:

- Probe and learn widely.
- Explore creative hypotheses.
- Develop multiple scenarios.

LED disrupts the lighting oligopoly

As a case in point of how the three approaches work together in practice, Philips Lighting used the three approaches to gain first-hand experience with emerging LED technologies.

The Phillips scenarios for LED products

Circa 2005, Philips, leaders became especially interested in two key uncertainties whose outcomes could significantly shape their future business:

- How quickly the shift away from the aging technologies of incandescent and fluorescent lighting, where Philips was strong, could happen.
- Dealing with the uncertainty about the market's adoption rate

McGrath: The first implication is that the skills that got you to wherever your current job is are unlikely to be sufficient to get you through an inflection point. Secondly, there is increasing evidence that career ladders are starting to give way to career zigzags.

of integrated digital solutions for lighting applications.

The extremes of these two major uncertainties suggested four starkly different narratives about LED's future.

How the scenarios influenced decision making

To better understand the strategic implications of the four scenarios Philips:

- Launched a comprehensive environmental scanning system to monitor newly emerging market segments as well as carefully tracking LED penetration in the industry's traditional segments.
- Formed a task force to review Philips' current patent position in LED and explore ways to broaden its patents in terms of applications and stronger legal protections.
- Gave special senior attention to China's growing role in the world-wide supply of lighting products, as well as various moves being made by new Asian players.
- Started a major effort to spot early signs of new functionalities being launched, especially those protected by strong patents or complex software platforms from which further intelligent solutions could emanate.

By 2017, LED had become 24 percent of Philips' lighting sales,

How management is being transformed: Drucker forum insights

Stephen Denning

putting the company in the lead position compared to its traditional rivals. The LED case illustrates how companies can use scenario planning to accelerate their understanding of

Presentations at the eleventh annual Global Peter Drucker Forum confirmed that a large-scale movement to transform management is under way. The management practices of the most successful companies today are taking a very different approach to foster continuous innovation even as many of their rivals are struggling to achieve meaningful breakthroughs.

Julian Birkinshaw, Professor of Strategy and Entrepreneurship at the London Business School, a discussion leader, noted that the practice of management is changing. "We are seeing a lot of experiments with new ways of working. It's not just a story of digital innovation. It's a story of new business imperatives, causing companies to do different things." Among the firms he cited were Haier, Tencent and Pixar.

The case of Haier

Zhang Ruimin, CEO of Haier declared that unless firms transform into ecosystems, they won't survive. In its organization model, Haier aligns its employees with the needs of the users, while also aligning the value the employees create for the customers with the gains to be shared with those employees.

The case of Tencent

Tencent used "ecosystem logic" to redesign its organization. The large design studios were broken into small autonomous units. They were fully empowered so that rather than waiting for a lot of approvals they became agile, spurred by bottom-up initiatives.

new technologies or markets without betting the farm on any single future narrative.

The case of best buy

About ten years ago, Best Buy was being left for dead as customers flocked to Internet sites. Best Buy's stores were basically showrooms for other people's products that could be bought more cheaply online. After serving as a front-line employee to get first-hand experience, the CEO resolved to use his understanding of the customer and the customer's experience to establish an ecosystem that served customer needs and benefited suppliers and Best Buy.

"Ecosystem" as a new paradigm for management

Presenters drew three principal conclusions:

- Mindsets are shifting from competition to collaboration, from centralization to decentralization, from power through authority to power through influence.
- There are lots of new best practices emerging from day-to-day experiments in serving customers. The single most important common theme of these experiments is that "the value of a firm no longer resides in its existing physical assets and resources."
- Firms are now exploring alternatives to bureaucracy but in different ways.

Bottom line

The conference discussions reflected dramatic changes in the practice of management in the most successful firms today, along three main dimensions:

An Entrepreneurial Management System for established companies
Oleksiy Osiyevskyy,
Amir Bahman Radnejad and
Hossein MahdaviMazdeh

- A shift from the goal of the firm to make money for itself towards an obsession with creating more valuable experiences for customers.
- A shift from top-down bureaucracy towards small autonomous teams.
- A shift from vertical, hierarchical modes of organization towards more flexible, horizontal networks or ecosystems.

No corporation can thrive in the long term if it neglects to build the basis for innovative responses to changing customer needs and new market realities, even if this means taking the risk of evolving from its current business. But, how can management teams turn disruptive threats in their industries into value-creating opportunities, putting their companies on sustainable long-term growth trajectories without compromising short-term returns? Given the spectre of constant disruption from new technologies or business models, management teams will be judged on how they proactively respond to these challenges by turning them into value-creating opportunities. To do so, we believe they need to adopt a company-wide continuous innovation system.

Despite the availability of recipes and solutions ranging from stage-gate innovation processes to having chief innovation officers in place, the reality of most established organizations prevents them from employing such a system for three reasons:

- First, existing standard solutions do not always pay equal attention to entrepreneurial culture and processes.
- Second, knowing the essential entrepreneurial processes – generation, development, execution – does not guarantee the right choice of tools to help each process for the specific context.
- Third, the firms may be unprepared for the real embracement of entrepreneurial management due

to a lack of executive training in analytical thinking that is supportive of opportunity identification or a scarcity of necessary innovation leadership competencies and skills.

Entrepreneurial Management System

We propose the Entrepreneurial Management System (EMS), which delineates a strategic process within an organizational context that is aimed at encouraging and supporting the pursuit of opportunities that have the potential to create value through innovative strategic actions.

Entrepreneurial orientation

Companies successful in corporate entrepreneurship tend to share one common feature, a high level of entrepreneurial orientation – the culture, strategy-making practices and processes that put innovative corporate venturing at the cornerstone of short- and long-term business development.

Entrepreneurial support processes: best practices from innovation leaders

In addition to a general entrepreneurial orientation, the company must have activities, policies and practices to ensure support for creative ideas, from inception to implementation. Ideally, the company should have an office responsible for continuous innovation throughout the organization.

There are three sets of best practices that are unique to each step of the EMS innovation model:

- Idea generation processes.
- Development processes.
- Execution processes.

Idea generation processes

These processes aim to prepare employees to think creatively about how to better meet current customers' needs as well as to discover new possible opportunities beyond their existing responsibilities.

Development processes

These processes document and record employee-generated ideas and then vet and refine them for the next stage.

Execution processes

Execution is perhaps the most challenging of all entrepreneurial

support processes for several reasons. It is more costly, it requires commitment from the top management team, its benefits will likely be manifested over the long term and its failures are common.

The system-level approach to an effective entrepreneurial ecosystem

From a broad perspective, an Entrepreneurial Management System allows a firm to "internalize" the marketplace's evolutionary processes so that a company can generate, develop and implement ideas that will have value for customers.

What makes a chief digital officer successful?

Saul Berman, Carolyn Heller Baird , Kevin Eagan and Marshall Anthony

The Chief Digital Officer (CDO) position was heralded in 2012 as "the most exciting strategic role in the decade ahead." But in some organizations the achievements of CDOs, the business executives responsible for creating and executing strategies for digital solutions across their enterprise, fell short of expectations.

A new IBM Institute for Business Value (IBV) study has now found that the appointment of a CDO – along with a robust digital transformation program – is strongly correlated with stronger corporate financial performance.

Who was interviewed

IBV surveyed more than 1,500 senior business executives – 750 of them CDOs – in 23 countries and across eighteen industries.

CDO responsibilities and professional preparation

Almost two-thirds – 65 percent – of the CDOs surveyed indicate that they are the primary "owners" of their organization's digital program.

The survey asked CDOs what they believe are the most important skills required for them to be successful in their role as a CDO. Three skills rose to the top: innovation at 96 percent, technology at 93 percent and business strategy development at 73 percent.

The optimal CDO

Of course, it is useful to know what combination of CDO attributes and corporate structures align with the highest potential job performance.

Reporting structure for the CDO turns out to be a significant factor determining success. The data indicates there is a higher positive financial impact when a CDO reports to the Chief Information Officer—not

when they report to a CEO. CDOs are also more successful when they have the resource muscle of direct reports—specifically, an organization’s Chief Innovation Officer and its data scientists.

It is understandable if business leaders assume that a new CDO has to be a digital aficionado. However, survey analysis indicates top CDOs’ strongest characteristic is actually business strategy, not technology. Also, recognizing the vital role of good design—for customer and employee experiences, processes, products and services—is also a differentiating characteristic of top CDOs.

Reaping the rewards – CDOs and ROI

The results are telling. When a CDO is present, and when optimal attributes based on performance and digital maturity analysis exists, there is a clear association with a higher ROI for large- and medium-sized organizations.

Action guide

- Ensure the CDO’s scope matches the needs of the business.
- Prioritize the strategist.
- Prioritize the importance of good design.