

Leadership and strategy in the news

Craig Henry

Of strategies and strategists

How Boeing lost its way

The flight that put the Boeing Company on course for disaster lifted off a few hours after sunrise. It was good flying weather . . . but oddly, no one knew where the 737 jetliner was headed . . .

In the plane's trailing vortices was greater Seattle, where the company's famed engineering culture had taken root; where the bulk of its 40,000-plus engineers lived and worked; indeed, where the jet itself had been assembled . . . Boeing's leaders, CEO Phil Condit and President Harry Stonecipher, had decided it was time to put some distance between themselves and the people actually making the company's planes.

Once the plane was airborne, Boeing announced it would be landing at Chicago's Midway International Airport. Boeing's new corporate home: the Morton Salt building, a skyscraper sitting just out of the Loop in downtown Chicago. Boeing's top management plus staff—roughly 500 people in all—would work here . . . But the nearest Boeing commercial-airplane assembly facility would be 1,700 miles away.

The isolation was deliberate. "When the headquarters is located in proximity to a principal business—as ours was in Seattle—the corporate center is inevitably drawn into day-to-day business operations," Condit explained at the time. And that statement, more than anything, captures a cardinal truth about the

aerospace giant. The present 737 Max disaster can be traced back two decades—to the moment Boeing's leadership decided to divorce itself from the firm's own culture.

For about 80 years, Boeing basically functioned as an association of engineers. Its executives held patents, designed wings, spoke the language of engineering and safety as a mother tongue. Finance wasn't a primary language. Even Boeing's bean counters didn't act the part. As late as the mid-'90s, the company's chief financial officer had minimal contact with Wall Street and answered colleagues' requests for basic financial data with a curt "Tell them not to worry." . . .

The business scholar Jim Collins told me back in 2000. "There's one thing that made Boeing really great all the way along. They always understood that they were an engineering-driven company, not a financially driven company. If they're no longer honoring that as their central mission, then over time they'll just become another company."

Jerry Useem, "The Long-Forgotten Flight That Sent Boeing Off Course," *The Atlantic*, 19 November 2019
www.theatlantic.com/ideas/archive/2019/11/how-boeing-lost-its-bearings/602188/

McKinsey and consulting at a crossroads

McKinsey has grown fast. Partners now number 2,200, up from 1,250 about a decade ago and it employs

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).

30,000 people worldwide, up from 17,000 in 2009. Many of these are different from the buttoned-down business graduates of yesteryear. It has diversified into new business lines and some of its most valuable work is now outside America . . .

Complicating things further, management consultancy itself is changing, too. Six years ago, Clayton Christensen of Harvard Business School warned that it was an industry “on the cusp of disruption.” Now that disruption is in full swing. According to Tom Rodenhauser of ALM Intelligence Consulting, which analyses the industry, clients want consultants to provide and install products, including new technologies, that transform them from top to bottom and keep disrupters at bay. Advice on strategy, which used to be meat and potatoes for firms like McKinsey and its peers, Bain and the Boston Consulting Group, is now a side dish; it accounts for about a tenth of revenues . . .

McKinsey has also made advising on technology more integral to its business. It worked with 1,200 companies on digital and analytics issues last year. It creates and sells tools for companies to use in their businesses, which generates new sources of recurring revenues. And it has bought a dozen companies since 2011, including QuantumBlack, a British startup that developed advanced data analytics for Formula One. Nonetheless, industry-watchers say McKinsey is often outspent by the technology offerings of the Big Four, as well as by firms like Accenture.

“Rethinking McKinsey,” *The Economist* 21 November 2019

Strategic planning and the dangers of inertia

Strategy decisions are irregular, long-term decisions made under a lot of uncertainty, which is exactly the opposite of what our brains were designed to do. For example, the

average person is exceptionally good at driving a car, and that’s because you do it every day and you get instant feedback. Strategy, not so much. Even the most seasoned executives might have done at best four or five big strategic changes over their careers. That’s not much practice.

And then you are in the whole world of social dynamics where you have even unintentional competition, information asymmetry, and misaligned incentives. When you put all that together, you get this complex soup.

The outcome is inertia, as the norm. The social side of strategy is very, very good at keeping companies stuck where they are. And that’s why we are so interested to . . . resolve the inertia that stops executives from making the big moves that our evidence shows they really need to make . . .

Our research has found that the correlation between the capital budget from one year to the next is 90 percent. In other words, the people who have the capital get the capital. So, if strategy is about decisions where to compete but the actual experience of companies is inertia that keeps them stuck where they are.

“Measuring your strategy’s odds of success,” McKinsey *Insights* November 2019

Technology and disruption

What happens when Moore’s Law stops working?

For the past few decades, agility in the technology sector has largely meant moving faster and faster down a predetermined path; innovation has largely been driven by our ability to cram more transistors onto a silicon wafer. With every new generation of chips came new possibilities and new applications. The firms that developed those applications the fastest won . . .

We will have to manage three profound shifts that will force us to widen and deepen connections between talent, technology and information rather than just moving fast and breaking things.

Shift 1: From A Digital To A Post-Digital Age. Moore’s Law is approaching theoretical limits and will most likely come to an end in the next decade . . . New computing architectures, such as quantum and neuromorphic technologies, have great potential to further advancement, but will be far more complex than digital chips.

Shift 2: From Rapid Iteration to Exploration. Over the next decade or two the challenge will be to advance technology that we don’t understand well at all. Quantum and neuromorphic computing are still in their nascent stages.

Shift 3: From Hypercompetition to Mass Collaboration. This new era will be one of mass collaboration in which government partners with academia and industry to explore new technologies in the pre-competitive phase. For example, the Joint Center for Energy Storage Research combines the work of five national labs, a few dozen academic institutions, and hundreds of companies to develop advanced batteries.

Greg Satell, ‘Why ‘Move Fast and Break Things’ Doesn’t Work Anymore,’ *Harvard Business Review* 10 December 2019 <https://hbr.org/2019/12/why-move-fast-and-break-things-doesnt-work-anymore>

Seeing the future in turbulent times

The costs of being slow to sense threats and opportunities on the competitive horizon can be devastating . . . Businesses can avoid such perils by spotting directional shifts ahead of their rivals. In our research on 118 companies in

the past decade, we found that what sets the most vigilant ones apart are not the tools and methods they use but their systematic approaches to determining where to look and how to explore. They tend to take four basic steps.

Step One: Scope to Decide How Widely to Look. In most companies, managers limit their scanning to familiar places and sources within their comfort zones. This approach generates a wealth of data . . . but that's an illusion, because weak signals of transformative change often enter from left field, outside management's focus.

Step Two: Focus Attention With Guiding Questions. Leaders must pose questions that reveal the limits of the company's current knowledge so that they can flag areas of collective ignorance and sensitize the organization to emerging issues. For example, Google cofounder Larry Page challenges the company's development teams to anticipate the future . . . by asking themselves what could be true, even if it's totally unexpected.

Step Three: Actively Scan to Explore. The specific explorations managers launch should change, as well, as new insights about the competitive environment emerge and give rise to new opportunities.

Step Four: Decide Which Signals to Amplify and Clarify. Through active scanning, organizations frequently identify many more signals than they can possibly digest. So leaders need to develop ways to highlight the most interesting signals. Useful approaches include canvassing the wisdom of the crowd and soliciting input from your network of partners and collaborators.

George S. Day and Paul J.H. Schoemaker, "How Vigilant Companies Gain an Edge in Turbulent Times," *Sloan Management Review* November 2019

The tech boom and regional inequality

The explosion of top-tier tech jobs has clustered in a handful of coastal hubs, expanding the wealth and innovation differential that's draining talent from the rest of the nation, new research shows.

Just five metro areas—Boston, San Diego, San Francisco, San Jose and Seattle—snapped up 90 percent of the 256,063 tech jobs created from 2005 to 2017, according to a joint report released Monday from the Brookings Institution and the Information Technology and Innovation Foundation. The remaining 10 percent was divvied up among 377 urban areas.

The share of those jobs shrank dramatically in would-be hubs such as Chicago, Durham, N.C., Philadelphia, Dallas and Wichita, researchers found, with the bottom 90 percent of U.S. metro areas collectively losing one-third of these positions in the same period.

The research by Mark Muro and Jacob Whiton of the Brookings Metropolitan Policy Program, and Robert Atkinson of the Information Technology and Innovation Foundation, looked at employment in 13 "innovation industries," which they defined as fields where at least 45 percent of the workforce has STEM degrees . . .

Taylor Telford, "Explosion of U.S. tech jobs concentrated in just five metro areas, study finds," *Washington Post* 9 December 2019

Culture and innovation

Innovation: Emergent vs. directed systems

Our understanding of superclusters is just emerging. These initiatives are large, national-level innovation programs, built around specific industries to accelerate system-level innovation at scale. They have a

global outlook, extend beyond national borders, and, over time, become magnets attracting in capital, talent and companies. Canada, India, China, France and the EU all have supercluster initiatives at various stages of development, from fully funded and operational in Canada to early exploratory discussions in the EU . . .

One ecosystem, let's say Beijing, may count 30 – 100 clusters. Today, you would expect to find clusters on clean energy, biotech, AI, gaming, education tech, mobility, electric vehicles, energy storage and advanced materials in the greater Beijing region. While the clusters are funded, built and led by a management team, the ecosystem surrounding them is a collection of many stakeholders loosely collaborating . . .

Innovation clusters, of any size, are the result of active government programs, long-term industry leadership and hands-on organizational development. China has a national Torch program for developing new and high-tech industries that debuted in 1998. The origins of Norway's national cluster program date back to the early 1990s.

A cluster will always have an operating organization, a (small) management team, a board or steering committee, an operating budget, members and reporting. No matter what size, from early "baby clusters," to growth clusters and superclusters, these traits are always in place.

Christian Rangen, "On superclusters and ecosystems," *Global Drucker Forum*, 27 November 2019 www.druckerforum.org/blog/?p=2409

From skills to capabilities

Everyone is talking about the need for re-skilling workers. The unstated assumption behind this discussion is that, if we don't reduce the workforce

as routine tasks get taken over by machines, we need to re-skill them so that they can move into other parts of the institution and perform a different set of tightly specified and highly standardized tasks.

We've come to believe that there's another missed opportunity: to expand our horizons beyond skills and to focus in addition on human capabilities. So, what's the distinction?

For us, skills are practices that are valuable in specific contexts, like how to operate a certain kind of machine in a particular environment or how to process certain types of paperwork in a particular business process. In contrast, human capabilities are practices that are valuable in any context – practices like curiosity, imagination, creativity, emotional intelligence and social intelligence.

But there's another set of capabilities that need to be developed – we don't all have them at the outset. Capabilities in this category include practices like critical thinking and leadership.

Once again, these capabilities – whether innate or developed – are valuable in all contexts. They are also very valuable in terms of helping people acquire necessary skills more quickly and more effectively. People who have exercised innate capabilities and acquired developed capabilities will be much better positioned to acquire whatever skills they need to be successful We believe this is another significant untapped opportunity – to expand our horizon beyond skills and to pay more attention to cultivating capabilities.

John Hagel III, "The Quest for Capabilities," *Edge Perspectives* 19 November 2019 https://edgeperspectives.typepad.com/edge_perspectives/2019/11/the-quest-for-capabilities.html

What it takes to find useful new ideas

Existing business models place far more emphasis on exploiting existing ideas than they do on discovering new ones But for your emphasis to change to focus more on exploring rather than exploiting, a couple of things must change:

First, your organization must recognize the shift in power from exploiting to exploring. If you look at the high tech industry, almost every handheld device manufacturer has recognized this shift. Product development cycle times are now longer than shelf lives.

Second, decide who is going to do exploration. While there are many people who are good at and appreciate the work in exploitation, there are far fewer people who are good at and enjoy exploring You've got to find the right people and incentivize them in the right ways to improve exploration, and those people are very likely not working for you now.

Third, rework your financial models. Determine to make money from better exploration, rather than from better exploitation. There are no longer long product cycles, except in industries that can protect products with long patents (pharma) and we can expect that these protections will be chipped away. Learn how to make money from shorter exploitation cycles and how to renew or even replace and destroy your own products more rapidly. Decide how to gain more revenue and profit from the insights and ideas you discover. You don't have to commercialize your discoveries yourself – leverage the innovation ecosystem to generate licensing or even IP sales revenue for ideas you cannot exploit yourself. Be ready to change your revenue and business models.

Fourth, be ready for resistance. The existing business as usual (BAU)

won't appreciate these changes one bit and will fight back, mostly through resistance and inertia.

Finally, do it now. We can argue about how fast this impending shift in explore:exploit will occur, but you can't change an existing organization as fast as the markets and technologies will thrust change upon you.

Jeffrey Phillips, "Winning the Explore and Exploit Game," *Innovation Excellence* 11 December 2019 www.innovationexcellence.com/blog/2019/12/11/winning-the-explore-and-exploit-game/

What really drives employee engagement?

It's a common misconception, both in businesses and in management articles and books, that a sense of purpose is what matters most when it comes to engaging employees. Many leaders concerned with attracting and retaining top talent believe that nothing motivates people as much as the larger good they might be doing or the chance to change the world. Accordingly, they extol the higher virtues of their companies' missions and the meaning of the work they offer.

For all its success, it's doubtful that Silicon Valley-based Workday would win a "most inspiring mission" contest. The company, after all, is a developer of software as a service (SaaS) solutions for financial management, human resources, and planning. But you would never get that impression inside this \$2.8 billion, 11,000-employee company: Of the companies we studied, it had the most engaged workforce. When we interviewed people from the top of the house to the front lines at Workday, we found a consistent, clear sense of commitment to reinventing enterprise software, and a level of energy and enthusiasm that was missing in many other companies with very noble missions.

Workday's leaders place a high premium on interpersonal collaboration. "It's part of the fabric of how we hire people," says senior vice president Greg Pryor, the company's people and performance evangelist. "We look for people who are already oriented toward being empathetic and seem like they would be able to put themselves in service to colleagues and customers."

The effort to build collaboration among Workday's employees begins on their first day on the job, with technology-enabled curated connections that pair each new hire with a veteran employee called a workmate. One of the tasks assigned to workmates is to help new employees "find their tribe"—that is, to identify and connect with other employees who have similar values and interests. Our research shows that this bridging of networks (helping people make connections across an organization) is a highly predictive factor in employee retention.

Amy Edmondson, and Wendy Murphy, "A Noble Purpose Alone Won't Transform Your Company," *Sloan Management Review* Winter 2020

Industry focus

A better picture of bank risk

Banks whose default rates are more volatile, and banks that are less diversified across loan categories, are at greater risk of being blindsided by surging default rates in economic downturns The new study, based on data from more than 500 bank failures from 2003 through 2017, identified two largely overlooked risk factors that greatly magnify a bank's problems when things begin to go bad.

The first is the volatility of the default rates in its main categories of lending: How much do default rates in the bank's main loan categories vary from quarter to quarter? It turns out that the

volatility of the default rate for a given loan category is a bigger red flag than its average default rate.

The second big risk factor is whether a bank's main loan categories have correlated default rates that are likely to spike up in unison, even though the loan types are different.

Taken together, the researchers found, the combination of volatile and correlated default rates becomes a combustible mix that can go very badly very suddenly.

Edmund L. Andrews, "Are bank regulators missing the big picture?" Stanford GSB *Insights*, 2 October 2019 www.gsb.stanford.edu/insights/are-bank-regulators-missing-big-picture?sf110540677=1

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