Quick takes

Larry Goodson

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

An integrative methodology for creatively exploring decision choices

Jennifer Riel and Roger Martin

A decade ago, *The Opposable Mind* identified the ability of outstanding CEOs, such as A.G. Lafley of P&G, GE's Jack Welch, Red Hat's Bob Young and others to use integrative thinking in their search for solutions to seemingly irresolvable dilemmas. In the book's case examples, leaders faced difficult decisions that took the form of an unsatisfying either-or choice. Some leaders found a way to dodge such sub-optimal trade-offs. They opened new avenues for their organizations by intuitively integrating opposing ideas in ways that produced new value for their stakeholders.

Though *The Opposable Mind* identified this integrative approach to problem-solving and described its distinguishing characteristics, it left a tantalizing question unanswered. Was integrative thinking an innate skill practiced by exceptionally talented leaders, or could it be developed as a leadership competency?

The challenge: could the concept of integrative thinking be translated into a repeatable methodology, supported by a set of tools for thinking through difficult or "wicked" problems. Some seemingly either/or problems:

- After a merger, the combined sales organization is riven by dissension between proponents of two opposite approaches – one using direct sales and the other channel partners.
- At Unilever, how might CEO Paul Polman build for the long term in the face of shareholders demanding short-run returns?

After several years of testing the authors have designed a replicable process that leaders and managers can use for artfully designing and testing optimum choices when they face seemingly irresolvable decisions.

The integrative methodology

The integrative thinking process model has four primary stages.

- The first stage - is to **articulate the models** – to frame the problem and tease out two opposing models for solving it.
- The second stage - is to **examine the models** – to make a thoughtful analysis into how the opposing models would work by holding them in tension with one another.

The goals of these first two stages are to understand the nature of the problem, to parse your own thinking about it, and to understand how others might think about it differently.

Stages 3 and 4 shift away from seeking to understand the opposing models and toward generating new models, creatively building from both opposing models to design an answer that is ultimately superior to either one.

- The third stage is to **explore the possibilities** – an exercise that considers a number of different resolutions.
- The fourth and final stage is to **assess the prototypes** – working with others to develop new answers and test them with users.

The process of choice

In sum, those are the four phases that make up the integrative thinking process. As you work your own way through this process, remember that it is intended to be a guide to integrative thinking rather than a simple, surefire recipe. But applied thoughtfully, this methodology gives leaders and managers a fighting chance at solving challenging problems and creating innovative, high-potential choices. The authors provide a lengthy case example of the decision process; a senior executive uses integrative thinking to determine the optimum design of a corporate-wide learning program.

Interview: The four personalities of corporate builders: identifying and nurturing different types of entrepreneurial leadership

Brian Leavy

Where the 1960s and 1970s was the era of the manager, and the 1980s and 1990s the era of the leader, this is now the era of the entrepreneur. So what do we know about the kind of entrepreneurial talent most suited to lead and thrive in this new era? This is the subject of the new book by Chris Kuenne and John Danner, *Built for Growth: How Builder Personality Shapes Your Business, Your Team, and Your Ability to Win* (Harvard Business Review Press, 2017). The interviewer is Brian Leavy, emeritus professor of strategy at Dublin City University Business School and a *Strategy & Leadership* contributing editor

Strategy & Leadership: The central premise in your book, *Built for Growth,* is that the personality of the leader "is the driving force" in building and scaling any new business. What prompted you to make builder personality your primary focus?

John Danner: First, we are both fascinated by the twin issues of how businesses grow and innovate, whether as freestanding start-ups or established companies.

S&L: What uncharted opportunities for corporate growth follow from the insights gained from your research?

Danner: Strategy is about survival and growth. Our work helps corporate leaders make that critical judgment in ways that can improve their odds of realizing the growth to which they aspire.

Four Builder personalities: strengths and weaknesses

S&L: You label four main "Builder" personality types: drivers, explorers, crusaders and captains. How do they differ?

Danner: "Drivers" are almost destined to be entrepreneurs. They are commercially motivated, highly self-confident and fixated on the products or solutions they bring to market. "Explorers," on the other hand, tend to be more fascinated by the puzzle or problem they encounter. They bring a systems-thinking approach to entrepreneurship. "Crusaders" are motivated by a long-range mission or vision, one that often involves making the world a better place in their view. Frequently charismatic, they inspire like-minded followers, customers and investors. "Captains" are intrigued by the potential of the teams around them and how they can best unleash that collaborative power.

S&L: You identify two main development paths for business builders: 1) help them further develop their capabilities and 2) enhance their effectiveness. The first is the "expert-builder" strategy. How does this work?

Danner: The expert Builder strategy fundamentally means polishing your natural strengths while not worrying too much about your offsetting weaknesses.

S&L: Your second path, the "master-builder" strategy, is likely to be more challenging for most builders, but also potentially more rewarding. How does it differ from the "expert-builder" strategy, and how might a typical "driver" enhance her or his mastery using this approach?

Danner: A Builder of one type can choose to adapt certain elements from other archetypes of our builder quartet. In doing so, they do not become a different personality; instead they borrow techniques from their successful counterparts and make them their own.

S&L: What tools have you developed to help builders benefit most from the primary insights generated in your study?

Danner: We offer a 10-question Builder Personality Discovery quiz. Everyone who completes it receives a customized profile by return email that provides several specific suggestions for boosting strengths and buffering weaknesses. Our book contains several tools and frameworks that can help practitioners address issues every Builder faces, like whether to build with a co-founder, what kind of team to assemble, or which type of investor to recruit.

Two efficiency-driven networks on a collision course: ALDI's innovative grocery business model vs Walmart

Sayan Chatterjee

Businesses can use a systematic process to develop and iteratively refine the core strategy powering their business model. It starts with identifying an initial target segment of customers.

This case study tracks how the retailing behemoth Walmart became vulnerable to Aldi, a privately owned foreign grocery chain that over time designed and refined an innovative business model to out-compete its rival on price. Aldi, now an increasingly important competitor in the U.S. grocery store market, has repeatedly followed a systematic four-step process as it adapts to competitive opportunities and its rivals' strategies.

1. Select an initial target segment, a process of identifying a set of potential customers and how the product or service should be positioned in that market relative to the competition.
2. Decide what type of business model is appropriate for the target segment.
3. Define a value capture (profit) logic for the chosen type of business model.
4. Customize the profit logic for the business and identify a set of deliverables (core objectives) that follow from the profit logic.

How Aldi is successfully challenging Walmart and others in the grocery business

Aldi has experienced steady growth in the U.S. since opening its first store in Iowa in 1976. Because the U.S. grocery market was not growing rapidly the primary goal that Aldi focused on in the 1970s was to expand market by lowering prices dramatically. When it first entered the U.S., market, Aldi was perceived to only appeal to customers who desired low price, but effective merchandising of the private label products has produced increasing acceptance of Aldi's product quality.

Around 1999, Walmart became worried about Target and its slightly more affluent customer base. Walmart tried to upgrade its offerings, "rationalize" – translation: reduce the number of its offerings – and increase the percentage of private label products that they carried in the stores. Walmart lost the trust of its core customer base, opening the door for more focused retailers like Aldi and Dollar Stores.

Recent changes to Aldi's business model

Aldi is now moving more into the mainstream grocery business. It is possible to infer that Aldi would have stayed on as a niche grocer had it not been for the opening from Walmart, which now faces a well-funded competitor. In today's supermarket skirmishes Aldi's on-going expansion is backed by its €50-billion parent company, ALDI Einkauf GmbH & Co. oHG of Germany, which now operates 10,000 stores in 18 countries.

How will "Supermarket Wars" end?

Analysts note that 18 companies in the U.S. retail grocery segment have gone bankrupt since 2014. Aldi's expansion has provoked Wal-Mart to respond with price cuts. Some analysts expect a significant number of supermarket war casualties–an acceleration in grocery store bankruptcies and liquidations over the next few years.

Lessons from the steel industry: If you can't compete on price, innovate your way to value-added differentiation

Amy Blitz

Threats from low cost competitors are a fact of markets, a trend likely not just to continue in coming years but to accelerate. The fundamental strategic question then – for business leaders everywhere – is how best to compete when competing on price alone is not a realistic option. The steel industry provides a useful guide. Particularly hard hit by falling prices, the steel industry has seen a glut in markets due in large part to China's increased production by 540 percent from 2000 to 2014.

Differentiate to best low-cost threats

During the same period, however, Korea's POSCO has managed not just to survive but to thrive. POSCO has successfully pivoted from competing on price to competing on innovation.

It introduced new revenue-generating offerings as well as innovative cost-saving processes while also improving its environmental footprint and overall performance. To address this, POSCO launched a series of innovation initiatives – starting with internet-based ERP and related IT systems, followed by Six Sigma, then Quick Six Sigma (QSS) and now POSCO's own QSS+.

These programs have led to effective collaboration throughout the company's extended enterprise – employees, customers, suppliers and other strategic partners – and have generated levels of efficiency, productivity and profitability that consistently exceed industry averages, even after the 2008 global financial crisis that hurt so many companies in steel and other sectors worldwide.

POSCO's innovation process

STEP 1: Foster internal collaboration

STEP 2: Collaborate with customers

STEP 3: Drive innovation throughout the supply chain

STEP 4: Establish strategic partnerships with leading innovators

Going forward

This case shows how POSCO managed to identify and address a host of unmet customer needs, introducing new revenue-generating offerings as well as cost-saving new processes, while also improving the company's environmental footprint.

It has achieved these results by creating a culture of innovation that embraces both continuous and radical breakthroughs.

There is good news and bad news in all of this. The good news is that opportunities for potentially game-changing innovations in steel and other mature industries are growing today.

But, there is bad news too: failure to keep up is not a viable option, nor is clinging to the past via tariffs and isolationism.

Three views of China's economic future

Jonathan Brookfield

Where is China's economy headed? While some observers see the likelihood of a decade of continued rapid growth ahead, others see major economic challenges on the horizon. To better understand the forces at play, consider the rationale underpinning three experts' different perspectives on the future of China's economy.

- **Confidence in steady growth:** Justin Lin, founding director of the China Center for Economic Research and former chief economist of the World Bank, bases his optimism on China's continuing "latecomer advantage" and its plentiful investment resources.
- **Cautionary warning:** Michael Pettis, a professor of finance at Peking University, is more pessimistic, based largely on his perception of China's debt load and structural economic limits to consumer spending.
- **Why you shouldn't bet on pessimism:** Nicholas Lardy, senior fellow at the Peterson Institute for International Economics, takes exception to much of the reasoning underpinning gloomy growth forecasts.

Confidence in steady growth: the latecomer advantage endures

Economist Justin Yifu Lin seems "confident that growth could roll along at 8 percent a year for another 20 years, with the right mix of economic overhauls to oil the wheels. Developing countries possess a "latecomer advantage, and after 1979, China tapped into the advantage of late entry by importing existing technologies and harnessing low-cost labor to manufacture and export products that the rest of the world wanted.

Cautionary warning: debt and limits to consumer spending

Professor Michael Pettis argues that distortions and imbalances in China's growth model have become so severe that, unless corrected, China's growth spurt will soon come to an end. According to Pettis, "every country that has followed a consumption-repressing, investment-driven growth model like China's has ended with an unsustainable debt burden caused by wasted debt-financed investment.

Why you shouldn't bet on pessimism: the rebuttal

In 2012, economist Nick Lardy wrote that: "China's economic growth has now slowed for seven consecutive quarters" and some think that "a further sharp slowdown in China's economy is inevitable." Lardy forecast that "it is more likely that we will see growth over the next two to three years in the 6.5 percent - 8 percent range." His forecast was on target, and his continued optimism, serves as a counterpoint to alarmist views.

Red light, green light

Overall, in thinking about China's economic future, there are a number of important indicators that may signal significant changes in key trends:

- Taken together, a weak *renminbi*, low interest rates, and restrained wage growth would signal efforts to maintain the viability of China's "latecomer" economic model.
- In addition, rapid credit creation coupled with a deteriorating real estate market could be an indication that China's economy was beginning to spin out of control.
- Worries about China's economic future could be substantially ameliorated by evidence of rapid increases in the quality and value of Chinese products.

Viewed together, the three expert perspectives provide a set of logics to consider indicators that could produce insights into China's economic future. That said, it is hard to understand China's economy without some understanding of the country's politics. Consequently, a range of expert views regarding China's economic future from a political perspective will be presented in a forthcoming issue.

Masterclass: Shapeholders: managing them as allies, partners and significant constituents

Oleksiy Osiyevskyy and Vladyslav Biloshapka

Since the 1984 publication of Edward Freeman's seminal book *Strategic Management: a Stakeholder Approach,* the critical importance of recognizing and incorporating the interests of corporate stakeholders into strategic decision making is now accepted.

The label "stakeholders," as used to refer to all entities that are essential for business' survival and prosperity, is misleading. Although employees, customers, partners and shareholders have an economic stake in the company's success, there is a broad group of other players – activists, lobbyist, community organizers–that can substantively influence it.

The recently published *Shapeholders* by Mark R. Kennedy focuses on the success in working with this group of players who have no direct financial stake in a company but have a powerful ability to shape its future. Smart business leaders proactively engage with shapeholders, and by promoting win/win outcomes that allow both the company and the shapeholder to achieve their aims, they create enormous opportunities for their firms.

So, what are the shapeholders' agendas?

To understand the shapeholders' motivation, it is crucial to note that their interests are different and distinct from those of businesses. They measure their success in media attention, funds raised, petition signatures, public opinion polls, bills sponsored, votes, laws enacted, regulations issued, government agencies created, and in the end, businesses mending their ways.

Opportunities created by partnering with activists

The first three steps in effective shapeholders management – Align, Anticipate, and Assess–set the company up to achieve success in the long-term:

Align. This requires business model planning to leverage the strengths of the business to deliver both profit and social benefit.

Anticipate. Foreseeing shapeholder concerns that might emerge from the business's operations is of crucial importance.

Assess. This translates to frank, no-nonsense analysis of each issue that emerges.

Selecting the course of action

The proper assessment step allows picking an optimal strategy in response to a possible shapeholders attack or the emergence of a win/win opportunity to work with them.

The Advance strategy

Advancing mutual interests is the most sought-after strategy, when the company's shapeholder engagement strategy functions in coordination with its market strategy.

Time to Avert?

When the legitimate shapeholders concerns do not create potential benefits for a company, Kennedy suggests it should follow the **Avert** path. Proactively averting means choosing the solution most palatable for the company.

Opportunities created by partnering with activists

Yet, not all situations where a company encounters problematic pressure and threats from shapeholders are destined to be losing battles in the long run. In some cases the right tactic may be to graciously Acquiesce, being careful not to compromise aspects of the business model. This could be followed by the tactic Assemble, a process of putting together a new and more potent coalition of partners.

The way forward

Undeniably, Kennedy's book is a major building block on the way to embracing the shapeholders' perspective in the theory and practice of management.