Quick takes

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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).*

Models & misadventures: the predictable machine fallacy
Roger L. Martin

Over the past half century, the model used to characterize and guide the U.S. economy has been that of a "perfectible machine." The model's machine metaphor implies that the economy can be broken down into subsystems and each subsystem can be optimized.

"Perfectible" connotes the idea that each subsystem can be perfected through pursuit of ever-greater levels of efficiency. That is, we can run each part of the machine to near-perfect efficiency. This model is mirrored in the business realm. Large businesses are divided into reductionist siloes – marketing, finance, operations – each of which is typically run by a narrowly trained expert.

The problem is that the model has desired outcomes that simply aren't being realized and unintended adverse consequences. During the period since this model began to take hold in the mid-1970s, median income has stalled, tens of millions of Americans work in jobs that pay below a living wage and the richest Americans are absorbing the lion's share of economic growth.

The Internet was supposed to be the great leveler – giving voice to and providing economic possibilities for the many not the few. It has been the opposite – a vehicle for the rise of monopolies and the multi-billionaires who own them.

A better model

To produce better outcomes, we need to design for each element – complexity, adaptability and systemic nature. Without design of this sort, nothing will meaningfully improve.

Change #1: Design for complexity

We must appreciate that the U.S. economy is too inscrutable to understand with clarity in advance. The best one can do in the face of complexity is to tweak and adjust. Grand strokes don't work. Being guided by simple proxies will disappoint. One important way to design for complexity is to adopt multiple internally contradictory proxies for success.

Change #2: Design for adaptability

The second key feature is that the U.S. economy continuously adapts to the control structure put in place. Actors in the system will begin gaming the rules for their own benefit the moment the rules are put in place. Designing for adaptability means sunsetting everything by design. Legislation shouldn't be permanent. And the goal of change should be betterment not perfection.

Change #3: Design for systemic nature

In a system, the elements are connected to each other. It is critical, in the case of both the U.S. economy and its businesses, to design for both the pluses and minuses of that connectivity. When we accentuate

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connectivity by tightly coupling systems, we can leave systems vulnerable to catastrophic failure. But it is equally problematic to ignore important connections in the desire to simplify tasks. Designing for systemic nature means seeking a combination of connectivity and separation.

Making the transition

The model of the perfectible machine is creating outcomes that are damaging and dangerous to the future of democratic capitalism in America. It is time to replace it with a model of a complex adaptive system that we continuously tweak in order to return to improving outcomes steadily over time. In doing so, we will have to keep in mind its complexity, its adaptivity and its systemic nature in order to ensure our progress.

How the C-suite is embracing Agile

Stephen Denning

As the global coronavirus crisis forces many organizations to act with unaccustomed speed, organizational agility has abruptly become a necessity. "To create a truly agile enterprise," as Bain consultants Darrell K. Rigby, Sarah Elk and Steve Berez write in an article, "The Agile C-Suite", in the May-June 2020 issue of *Harvard Business Review*, "the top officers – most, if not all, of the C-suite – must embrace agile principles too." The article coincides with the publication of the authors' book, *Doing Agile Right: Transformation Without Chaos*, which shows how agile thinking is being applied to every aspect of its business: innovation, operations, back-office functions and corporate management.

The meaning of an Agile enterprise

An Agile enterprise is a firm that embodies core Agile principles throughout the entire organization. The objective of the business must be:

- To help its customers achieve their goals.
- To help employees achieve their full potential.
- To benefit the communities that the firm serves.
- To financially maintain operations.

The role of the Agile C-suite

Doing Agile Right makes clear that agility is inspired by top leadership and is embodied in how the top conducts itself. It is the C-suite leadership's responsibility to establish and maintain a hierarchy of competence rather than a bureaucratic hierarchy of authority where decisions depend solely on the position in the chain of command and power trickles downwards.

What the Agile C-suite actually does

Doing Agile Right offers important insights on what the CEO of an Agile enterprise actually does:

- Leadership humility. "Agile, in short, requires humility from leaders.
- Leaders become coaches. "Agile enables top executives to delegate many of their activities to subordinates so that they can focus on what only they can do."

Doing Agile wrong

- Implementing Agile processes without the Agile mindset.
- Top executives failing to model Agile behavior – for example, by treating feedback as criticism.

Why aren't all firms adopting Agile management?

Creating an Agile enterprise is a considerable undertaking. "Agile enterprises often find themselves redesigning every element of their operating model – roles and decision rights, hiring and talent-management systems."

Interview
Mark Johnson: "Future-back" strategizing for beyond-the-core growth
Brian Leavy

Mark W. Johnson, Innosight co-founder and former consultant at Booz Allen Hamilton, has played a leading role in the dissemination and application of disruption theory. His latest book, *Lead From the Future: How to Turn Visionary Thinking into Breakthrough Growth*, coauthored with Innosight partner Josh Suskewicz, addresses the challenge of how to strategize for the beyond-the-core breakthrough initiatives which will be key to sustaining future growth.

Strategy & Leadership: What was the main inspiration for your book and why do you consider it "the capstone of Innosight's thinking about enterprise sustainability and growth?"

Mark Johnson: The origins of my thinking on vision, strategy and long-term planning date back to the 1990s, when, as a consultant at Booz Allen Hamilton, I worked with Harvard Business School's Professor David Garvin on what we called "learning-based strategic planning." After starting Innosight with Clayton Christensen in 2000, this work formed the foundation of what we came to call the "future-back" way of thinking and planning. Essentially, we were trying to address why so many innovative ideas fall short of their transformative potential at big organizations.

The only sure path for sustainable growth is to have the ability to reinvent the enterprise when needed by finding and developing opportunities for new, "beyond the core" growth.

S&L: Why do too many organizations seem to remain "stuck" in the present-forward mode of thinking?

Johnson: Basically, there are three roadblocks to future-mindedness: The first is the rewards, incentives and influences that predominate in our business system and that most organizations use internally. "Most incentive systems are backwards," Intuit's Scott Cook told us. "They pay for last year's successes."

And finally, there are a host of cognitive biases that keep us focused on the short-term. They tend to keep us on the same path when what we need is to find a new and better one.

S&L: Future-back thinking is "refined through a process of iterative learning" and a central concept is the "Learning Loop." How does it work?

Johnson: Future-back entails a learning mode that geared to exploration, envisioning and discovery. It can be depicted graphically as a generative loop.

S&L: The biggest implementation challenge in future-back strategy lies in developing and scaling beyond-the-core "breakthrough" growth initiatives.

Johnson: The key is to make sure to follow the principles of the programming phase for supporting beyond-the-core efforts in the right way as they are implemented:

- They are managed separate from the core business.
- The right venture team leaders are selected with the right mix of talent for the team.
- Senior leadership stays close to the "breakthrough" initiatives throughout the process of developing and scaling, providing the appropriate governance and sponsorship.

Guidelines for open innovation success with external product development firms
Michael K. Allio

The rush for innovation as an engine of growth and a source of competitive advantage has accelerated as consumer habits, values and expectations change at breakneck speed and brick and mortar marketplaces, digital commerce and corporate value chains are transformed. A recent McKinsey survey reports that only six percent of senior executives are satisfied with their innovation performance – yet believe innovation is critical to their future!

The “open innovation” model, a term that emerged in the mid-2000’s, describes an alternative approach to pursuing innovation. It’s “a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as they look to advance their technology,” as Henry Chesbrough characterized it in one of his seminal books.

This approach is now often used with external product development firms, a form of outsourcing. In the best cases, external collaborators offer:

- New toolkits, skills and perspective.
- Speed.
- Consumer intimacy and fluency.
- Agility and risk tolerance.

Institutional barriers

Open innovation steered by partners or teams that include consultants may be just as difficult to manage well as fully internally-sourced and led initiatives. Given the differences in points of view and culture between corporate leaders and innovation entrepreneurs, and mounting pressures to deliver, such engagements can be challenging to sustain. Partnering with external teams to drive for breakthroughs offers an alternate path that can circumvent the internecine squabbles between corporate divisions and functions.

Designing for success

How to do it right? Here are some suggestions/guidelines, hard-won by experience, for innovators and their sponsors:

1. Validate and justify the need and fit, based on customer evidence.
2. Scope the innovation assignment/engagement in three strategic steps.
3. Secure C-level/senior sponsors/champions whom you update along the way.
4. Forge and engage a talented, nimble, innovation team.
5. Seek synergies as opportunities to bolster rationale, relevance and alignment.
6. Frame the open innovation program as a strategic investment in a portfolio.
7. Boost alignment with innovation partners.

Some takeaways

Innovation is an imperative, but success requires sophisticated leadership. Open innovation can deliver breakthrough, timely results – if it’s structured, resourced and managed well. Some guidelines:

- Frame and guide open innovation programs strategically, just as you manage any critical corporate initiative.
- Create a portfolio of innovation bets, and vigilantly capture new value produced, which may extend beyond a single product or technology solution.
- Pay close attention to communications within and across teams and organizations; strive to secure at least one senior-level sponsor.
- Align with providers/collaborators/partners to build long-term commitment.

Brand authenticity, employee experience and corporate citizenship priorities in the COVID-19 era and beyond
Denise Lee Yohn

Economic strain, geopolitical tensions and public health issues are challenges that will persist long after the COVID-19 epidemic has peaked. Given the severity of the consequences of failing to act proactively, business leaders need to identify and implement practices that elevate brand authenticity and responsible citizenry as strategic priorities.

Pandemic poured fuel on the fire

For many enterprises, the crisis has served as a litmus test of the true character of the company, the authenticity of its brand and the sensitivity of its leaders.

Three strategies to ensure brand authenticity and responsible citizenship

Business leaders need to ensure their organizations pass the test of brand authenticity and responsible citizenry that customers now regularly apply to companies. To fulfill these requirements, executives should engage three strategies:

1. Fuse external brand identity and internal organizational culture.
2. Design and manage the employee experience.
3. Evolve corporate social responsibility into creating shared value.

Fuse brand and culture. A company's external brand identity – how it is perceived and experienced by customers and other external stakeholders – should not be disconnected from its internal organizational culture. To fuse brand and culture, executives should:

- Identify and clearly articulate a single overarching purpose and one set of core values to unite, focus and guide the organization.
- Conduct a culture audit to uncover the gaps between how employees currently think and behave and how they should if the company is to achieve its brand aspiration.
- Implement an organizational design and manage the company's operations to provide the structure and processes necessary to align the company culture with its stated ideals.
- Use employee brand engagement tactics – approaches that cultivate understanding of the desired brand identity among all employees, motivate them to align their attitudes and behaviors with that identity, and equip and empower them to interpret and reinforce it in their daily work.
- Develop and institute a values-based code of conduct that promotes the integration of brand, culture, core values and ethics through cohesive guidelines and clear expectations.

Employee experience. The experience that a company provides for its employees must be as deliberately designed and managed as its customer experience:

- **Segmentation** – uncovering employee wants and needs through rigorous research and empathy.
- **Journey mapping** – identifying the steps employees go through, from recruiting to retirement, and defining the desired outcomes for the company and for the employee.
- **Experience design** – ideating, prototyping, testing and ultimately implementing experiences to produce the desired outcomes.

Create shared value. Corporate social responsibility needs to evolve into creating shared value. that benefits all stakeholders. To create shared value, executives should consider how their company can serve a diverse but related set of interests:

- **Community** – the needs of the company's community, whether that is a geographically-defined local or regional community or a socially-defined one, such as a group of people with common interests or needs.
- **Industry** – the causes and priorities that impact the company's industry
- **Ecosystem** – the needs of the other companies, groups and people involved in the delivery of the company's products and services such as employees, suppliers and distributors.
- **Brand** – the requirements of fulfilling the company's brand promise and advancing its competitive positioning.
- **Core values** – the ways the company can express and exhibit its core values.

The language of leadership in a deadly pandemic

Russell Craig and Joel Amernic

In early May 2020, when approximately 265,000 deaths had been attributed to the COVID-19 virus across the world, many countries were in various stages of lockdown, unemployment was increasing rapidly and most employees who had jobs were working remotely. In the early months of the pandemic, some leaders used their communications with stakeholders to exercise accountability, effect transparency and develop a tone of positivity intended to promote trust. But this pandemic, with its "known unknowns" and its "unknown unknowns" made uninformed positivity – often in defiance of expert medical knowledge – a potentially compromising approach. As the virulence of the virus became apparent and the death toll grew, uninformed optimism was clearly inappropriate.

The politics of pandemic speech

Before the actual dangers of the virus were fully apparent, President Trump chose to act as Optimist-in-Chief, vowing that the virus was not a threat and urging that the economy reopen as soon as possible – with devastating results. The spoken words of political leaders of some other nations also had a "cheer leader" quality. But the capacity of the COVID-19 pandemic to "eviscerate a business, its workforce and its profitability within a single month" soon became evident.

The risks of pretending to be knowledgeable

Corporate CEOs have made their share of inappropriate "unknowing" declarations too. On March 19, 2020 Tesla CEO, Elon Musk, predicted that there would be "close to zero new cases in the U.S. by the end of April, a prediction the proved painfully inaccurate.

When leaders don't know what they don't know

When a crisis arises, especially a novel one, leaders should use language that reflects humility, authenticity, honesty and transparency.

What are the lessons for CEOs?

The best communications policy for a CEO is to acknowledge bad news, plainly, humbly and calmly. In doing so, they should present a narrative that includes some aspects of a strategy to survive an existential crisis.

How JPMorgan Chase CEO Jamie Dimon frames the dialog

Chase CEO Jamie Dimon's letter to shareholders, published in early April 2020, has been praised for dispensing with the usual template for a CEO letter in order to address the coronavirus crisis. As the pandemic was spreading, Dimon's letter depicted COVID-19 as the cause of "hardships," "fears," "turmoil" and of "creating further inequities in society." Dimon adopted the high moral ground by calling for "non-partisan solutions."

Effective pandemic-speak: be less self-serving and more strategic

We should be ever more conscious that the language of leaders, particularly CEOs, is "not merely words that evaporate into thin air . . . [but that we should] monitor the language used by CEOs and hold them accountable for [it]".

The lessons that can be drawn from examples of the notable communication miscues some leaders have made in the crisis are simple: forsake false optimism, avoid confected boosterism, honestly acknowledge "known unknowns" and offer realistic plans for safely moving ahead.