CEO advisory

Leadership and strategy in the news

Craig Henry

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).

Of customers and strategists

The roots of the Wells Fargo scandal

Now, there actually are businesses that do put their customers' interests first, at least almost all of the time. I used to work at one. At Guidewire Software, our primary goal in everything we did was to make our customers successful using our software. If we did that, we believed that everything else would take care of itself.

This was a sensible strategy, for a few reasons. We were selling big, expensive software systems to large property and casualty insurers – a relatively small world in which everybody knows everybody else . . .

Wells Fargo is not that kind of business.

For Wells Fargo, as for any megabank, "the customer" is not a person – it's a dataset, with means, medians, correlations, and metrics, like "cost of acquisition" and "churn rate" and "marginal profitability of product X."

... There is another, more specific reason why customers matter to Wells Fargo: they play an important role in the bank's pitch to investors. It's cheaper to market to your existing customers than to people who aren't your customers

This is what those magical words cross-selling mean to bank

executives. And the idea that you can continuously increase profits by pushing more and more overpriced junk onto the same set of suckers is music to the ears of investors ... To get those numbers, you set targets for tens of thousands of frontline employees ... and we know how that story ends

So, yes, Wells Fargo is focused on its customers – but not in the sense that they care about the people who use their products. The Customer is a story to tell Wall Street in order to prop up the stock price for as long as possible. People who have Wells Fargo accounts are the ore that has to be mined for golden nuggets of data to embellish that story. That's the only sense in which Wells Fargo puts its customers first.

James Kwak, "Wells Fargo and the Cult of the Customer," *Baseline Scenario* 22 September 2016

Leadership and competence

The inimitable Robert Moses was maybe the most powerful man in the history of New York City, responsible for building a large number of the beaches, bridges, tunnels, highways, parkways, and housing developments we all recognize today.

By the time Moses' reign was done in New York City he held some form of influential power between 1924 and 1968 he had built seven of the major bridges that connect Manhattan to its boroughs, at least a dozen major roads that would be familiar to all New York area drivers today (416 miles of parkways), over 1,000 public housing buildings, 658 separate playgrounds, scores of dams, State Parks, and beaches (including Jones Beach), Shea Stadium, the Lincoln Center . . . the list goes on. He was the dominant force behind all of them.

His physical and social mark on New York City is unmatched before or since.

Oh, and did I mention he accomplished much of this during the Great Depression, a time when no one, cities least, had any money, finding incredibly creative ways to corral Federal funds to New York and away from the country's other great cities?

That is "capital-C Competence"

Even his true enemies, people who truly did not like him or want to see him succeed, like FDR who was the Governor of New York during the Depression continued to support his rise, almost against their own will

No two men in New York would come to hate each other more than Moses and FDR, yet there was FDR, dumping more and more power and more and more work into Moses' lap. Why?

He could be trusted to get it done and do it well. It was that simple. Competence is oxygen.

Shane Parrish, "Robert Moses and the oxygen of pure competence," *Farnham Street*, 6 September 2016, www.farnamstreetblog.com/2016/09/ robert-moses-pure-competence/

GE goes digital

It may not qualify as a lightning-bolt eureka moment, but Jeffrey R. Immelt, chief executive of General Electric, recalls the June day in 2009 that got him thinking. He was speaking with G.E. scientists about new jet engines they were building, laden with sensors to generate a trove of data from every flight – but to what end?

That data could someday be as valuable as the machinery itself, if not more so. But G.E. couldn't make use of it.

"We had to be more capable in software," Mr. Immelt said he decided. Maybe G.E. – a maker of power turbines, jet engines, locomotives and medical-imaging equipment – needed to think of its competitors as Amazon and IBM.

But in 2011, G.E. also quietly opened a software center in San Ramon, Calif., 24 miles east of San Francisco, across the bay.

Today one of San Ramon's most important projects is to build a computer operating system, but on an industrial scale – a Microsoft Windows or Google Android for factories and industrial equipment. The project is central to G.E.'s drive to become what Mr. Immelt says will be a "top 10 software company" by 2020

The march of digital technology – mainly inexpensive sensors, powerful computing and clever software – into the industrial world has been underway for years under the guise of "the internet of things" or "the industrial internet." It is the next battlefield as companies fight to develop the dominant software layer that connects the machines.

It promises to be a huge market for new products, improved service and efficiency gains in industries like energy, transportation and health care. By 2020, the industrial internet market will reach \$225 billion, G.E. executives predicted in a recent meeting with analysts.

Steve Lohr, "G.E., the 124-Year-Old Software Start-Up," The *New York Times* 28 August 2016

Strategy and knowledge workers

Increasingly, the best sources of insight about strategy – specifically, strategy for your company – lie dormant within the company itself, in its employees. Ironically, companies often expend significant resources on external advice while employees with the best strategy ideas are ignored and thus may walk out the door.

Consider The Walt Disney Co. in the early 1980s. During this period, John Lasseter – a young animator working for Disney – was lobbying heavily for the company to take computer animation seriously. Historically, Disney's advantage lay in producing animated movies and characters, which it then leveraged into its theme parks and product licensing. Lasseter felt that the new computer animation technology would be central to Disney's future. But Lasseter's pitches to top management about the importance of computer animation fell on deaf ears - and he was, in fact, fired.

Lasseter left and joined Lucasfilm's computer graphics group - the company that later became Pixar. While Michael Eisner created tremendous value for Disney as CEO over a two-decade period, from the mid-1980s to the mid-2000s, it quickly became clear that the computer animation Lasseter had pushed for in fact was central to Disney's future. Disney even tried to lure Lasseter back. But it was too late. Pixar quickly became the animation powerhouse that Disney once was - and should have become again. In 2006, some two decades later, Disney purchased Pixar for \$7.4 billion, and Lasseter is now chief creative officer of Walt Disney and Pixar Animation Studios.

... The mobility of employees – whether they are fired or leave of their own volition – can be seen as a leading indicator of the future prospects of a company. Teppo Felin, "When Strategy Walks Out the Door," *Sloan Management Review* Fall 2016

Why business leaders ignore business professors

Like many business leaders, Donovan Neale-May routinely seeks out information on business innovation and management trends. ... But he rarely bothers with academic business journals.

"Academic research can be helpful, but it tends to be overly complex, hard to digest, and not backed by real quantitative insights from customer populations or engagements," says Neale-May, executive director of the Chief Marketing Officer (CMO) Council, a global affinity network of more than 10,000 senior marketing executives based in San Jose, California. "There is often a disconnect between practitioners and academics, who tend to be far removed from operational complexities and market dynamics."

... So why aren't more scholars at business schools striving to make their work practically relevant? One reason is that for many, working on relevant problems has little impact on faculty members' academic success. When it comes to making tenure, budding professors are evaluated in part on the number of papers they publish in peer-reviewed journals. Primarily written for and read by other academics, many of those journals tend to reward novelty over applicability.

In academia, "basic" research sets out to increase general knowledge of how the world works, while "applied" research sets out specifically to address a practical problem, with the intent of solving it.

That poses a potential dilemma for scholars who want to influence business practice and achieve the requisite journal publications for a successful academic career. Carmen Nobel, "Why Isn't Business Research More Relevant to Business Practitioners?", HBS *Working Knowledge*, 19 September 2016

http://hbswk.hbs.edu/item/why-isn-tbusiness-research-more-relevant-tobusiness-practitioners

Microsoft and the frontiers of workplace diversity

Microsoft had brought Adickman and 16 others to join the third cohort in a year-old program crafted especially for autistic applicants.

The program, which began in May 2015, does away with the typical interview approach, instead inviting candidates to hang out on campus for two weeks and work on projects while being observed and casually meeting managers who might be interested in hiring them. Only at the end of this stage do more formal interviews take place.

The goal is to create a situation that is better suited to autistic people's styles of communicating and thinking.

... Could the third-largest corporation in the world make the case that hiring and employing autistic people, with all their social and intellectual quirks, was good, not bad, for business ... given the right setting, autistic people can not only thrive but can show off skills and traits that non-autistic people are less likely to have.

Vauhini Vara, "Microsoft Wants Autistic Coders. Can It Find Them And Keep Them?" *Fast Company* September 2016

Technology and disruption

Digital changes everything

From supply chains to production to customer experience, digitization is transforming the way industry functions – and unleashing global opportunities for value creation. Early signs of the digital revolution are already here. Amazon Business, a B2B e-commerce platform launched in April 2015, turned over \$1 billion in sales in its first year, growing at an impressive 20 percent per month. B2B buyers increasingly prefer digital, with 94 percent conducting some form of online research before purchase.

Further changing the rules of the game are the decreasing costs of new processing technologies such as additive manufacturing and advanced robotics. For example, 3-D printing costs came down by 60 percent between 1990 and 2014, and industrial robot costs decreased 5 percent annually between 2000 and 2012 . . .

In manufacturing, repetitive, strenuous, and complex tasks are performed by robots working alongside operators on the shop floor. The operators themselves spend less time waiting for goods or processes or filling in routine documentation, because information systems optimize materials flows and track key performance indicators. Real-time analytics and advanced process control enable errors and quality lapses to be picked up immediately, minimizing rework and scrap, and automated inventory systems - such as wireless-connected boxes with cameras that automatically reorder when their fill level drops below a certain limit - ensure that inventories are accurate, goods can be easily located, and safety stocks are adequate but not excessive.

Paul-Louis Caylar, Kedar Naik, and Olivier Noterdaeme. "Digital in industry: From buzzword to value creation," *McKinney Quarterly,* September 2016

The limits of AI and Big Data

The 1980s at the MIT Computer Science and Artificial Intelligence Laboratory seemed to outsiders like a golden age, but inside, David Chapman could already see that winter was coming. As a member of the lab, Chapman was the first researcher to apply the mathematics of computational complexity theory to robot planning and to show mathematically that there could be no feasible, general method of enabling Als to plan for all contingencies. He concluded that while human-level Al might be possible in principle, none of the available approaches had much hope of achieving it.

In 1990, Chapman wrote a widely circulated research proposal suggesting that researchers take a fresh approach and attempt a different kind of challenge: teaching a robot how to dance. Dancing, wrote Chapman, was an important model because "there's no goal to be achieved. You can't win or lose. It's not a problem to be solved Dancing is paradigmatically a process of interaction." Dancing robots would require a sharp change in practical priorities for AI researchers, whose techniques were built around tasks, like chess, with a rigid structure and unambiguous end goals . . .

It turned out that chess is easy for fast-enough computers. Early work neglected tasks that are easy for people: making breakfast, for instance. Such easy tasks turned out to be difficult for computers controlling robots.

Uri Bram, "The Limits of Formal Learning, or Why Robots Can't Dance," *Nautilus* 11 September 2016

http://nautil.us/blog/the-limits-offormal-learning-or-why-robots-cantdance

Culture and innovation

Innovation in a global context

Each year INSEAD team up with the World Intellectual Property Organisation (WIPO) and Cornell University to produce an innovation league table for the countries of the world. It's designed to rank the infrastructure and support environment for innovation around the world.

The 2016 rankings have just been published, and given the desire of the EU to support 'open science, open data and open to the world', it is perhaps no surprise to see European nations in the top 5 spots, and 7 in the top 10.

The top 10 most innovative nations 2016

- 1. Switzerland
- 2. Sweden
- 3. United Kingdom
- 4. United States
- 5. Finland
- 6. Singapore
- 7. Ireland
- 8. Denmark
- 9. Netherlands
- 10. Germany

The report also highlights the importance of investing in innovation, even during challenging economic times. Just as a slump is the right time for companies to innovate, the same logic applies to nations, with the report highlighting that a sustained investment is far better than stop/start splurges . . .

The report also makes the argument for an integrated framework between nations to support innovation in areas such as the mobility of researchers, the funding streams for that research and the intellectual property that underpins it all.

Adi Gaskell, "What Makes a Country Innovative?", *Innovation Excellence* 28 August 2016, http:// innovationexcellence.com/blog/201

6/08/28/what-makes-a-countryinnovative/

The entrepreneurial society and its enemies

In 1985 Peter Drucker argued for a shift toward an entrepreneurial society, one where "executives in all institutions . . . make innovation and entrepreneurship a normal, ongoing everyday activity." This intentionally broad view requires a fundamental change in mindset. Drucker was pushing us to think and act less like employees taking orders and more like free agents, alert and responsive to opportunities whether we work in a startup or in a large corporation

For the entrepreneurial society to properly take hold, we need three things as individuals: means, motive, and opportunity.

Consider our means first . . . Internet technology has essentially democratized entrepreneurialism. To be a freelance worker today, you need an internet connection and a service to sell, whether it is coding, copywriting, or cartoon drawing. To be a taxi driver, you need a car and a GPS. To be a hotelier, you need a spare room. And if you need access to money, crowdfunding platforms and microfinance options make that easier than ever.

In the developed world, at least, the means of the entrepreneurial society are in place – and the developing world is catching up fast

But despite all these improvements, much remains to be done before the entrepreneurial society truly arrives.

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We are using industrial-age rules to oversee information-age business practices, and that is what is holding us back An equally pressing need is for institutional innovation at a societal level so that today's would-be entrepreneurs have the means, the motive, and the opportunity to succeed.

Julian Birkinshaw, "The 3 Preconditions for an Entrepreneurial Society," *Global Drucker Forum*, 12 September 2016

Electric cars and secondary innovations

With the electric-car revolution perhaps just a few years off, automakers face a looming question: what do you do with all the spent batteries? One answer: turn a huge pile of them into a grid-scale power plant.

Barring a much-needed breakthrough in battery technology, it looks as if we're going to be stuck with lithium-ion chemistry for a while yet . . .

But like any batteries, they wear out. The rate at which they currently decline puts their lifetime for powering electric vehicles in the neighborhood of eight to 10 years

So BMW has spent a fair amount of time figuring out how to give spent batteries a second life

By strapping together batteries from 100 cars, BMW has just completed a grid-scale storage facility in Hamburg, Germany If electric cars really are about to go mainstream, the rise of used-battery power plants may not be far behind.

Michael Reilly "BMW Built a Power Plant from Old Electric-Car Batteries," *MIT Technology Review,* 26 September 2016, www. technologyreview.com/s/602469/ bmw-built-a-power-plant-from-oldelectric-car-batteries

A wider focus

The lasting effects of 9/11

Here are three significant markers of how we've changed in the last 15 years and areas in which executives need to continue to press forward to better identify and address emerging threats and their aftermath.

Appreciate the complexity of risk. In 2001, a mass-casualty attack was a rare thing in the United States. Today, unfortunately, it is not. Whether the perpetrator is an organized terror group or a lone wolf with a range of motives, violent extremism is an increasing concern for business leaders because of the risks to their people, their customers, and their ability to operate. And violence is only one of the risks on the radar. The Great Recession saw the global economy on the brink of chaos. The Arab Spring reverberated far beyond the Middle East. Infectious diseases such as the H1N1 influenza, Ebola, and Zika sow uncertainty. Extreme weather events such as floods, droughts, wildfires, and storms such as Katrina and Sandy contribute to volatility. Cyber breaches of major companies and government agencies add new dimensions to the puzzle.

Chief risk officers were originally focused on financial risk and regulatory compliance. Now that is just one component of the job. . . .

Commit to employees and values.

The tired bromide "Our people are our greatest asset" is being tested as never before because events present novel challenges to policies that never anticipated 9/11 or what would follow.

I spoke with an executive who lost many colleagues on 9/11. While the company hung in the balance and there was great uncertainty, the company kept paying salaries and providing benefits to the families of employees who had been killed. He told me that the more they attended to the human factors, the more rapidly the business issues seemed to resolve

Serve the community. I don't think it is coincidental that stakeholder capitalism has seen a resurgence after 9/11. The shareholder-centric view of operating a company holds that executives should focus on profit-making and leave charity and addressing society's ills largely to the government and nonprofit agencies. However, societal resilience has been demonstrated when individuals, community organizations, and companies have pulled together in the aftermath of so many unexpected violent events and natural disasters.

Eric J. McNulty "Three Lessons from 9/11, 15 Years On," *S+B blogs*, 9 September 2016, www.strategybusiness.com/blog/Three-Lessonsfrom-911-15-Years-On

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