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*).

Why top managements must change their fundamental assumptions
Stephen Denning

"There is only one purpose that consistently wins," writes management guru Fred Reichheld in his new book, *Winning On Purpose: The Unbeatable Strategy of Loving Customers*. "The most resilient and sustainably successful firms consistently select one primary purpose: enrich the lives of their customers."

This game plan, however, is still rare. "Only 10 percent of business leaders believe that the primary purpose of their firm is to maximize value for customers." Many firms are trying to become more customer-centric. "But they aren't willing," says Reichheld, "to elevate customer happiness to become their primary purpose."

Customer primacy also delivers stronger financial returns

The firms committed to customer value—the internet titans Amazon, Apple, Microsoft and Google—have the most powerful brands and are a magnet for original thinkers. Since talent drives innovation and adaptation, the ability to attract top talent is another key driver of performance.

Customer-driven capitalism

As a result, the most valuable and fastest growing firms are paving the way for an era of customer-driven capitalism. As evidence, in the current digital age, an obsession with delivering value to customers is proving to be the key driving force behind the success of firms like the most successful internet titans. Other firms are not blind to the riches being heaped on these digital winners.

The challenge of changing fundamental assumptions

For companies that have been pursuing shareholder value for many decades, it will often have become a taken-for-granted assumption as to how members of that organization should perceive, think about and deal with situations and issues. When the basic assumptions of an organization have gotten out of sync with the context, as they have in firms being run with industrial-era management, it is the necessary function of top management to initiate the vital actions and conversations to bring the management and the context back into alignment.

Five further needed actions from top management

Committing to customer primacy is just the beginning of a transformation, which will include the following steps:

- Top management must institute and continuously support a value creation process that works backwards from the future.
- The top management must make clear that the goals of individual divisions and units are subordinate to the organizational

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goal of creating more value for customers and users.

- Compensation throughout the firm must be aligned with these goals.
- Finally, the top management must shift the organization itself from a steep hierarchy of authority to a network of self-organizing teams, units or microenterprises.

Leadership transformation reading list: insider guides to customer-centricity, Agile management and visionary innovation
Stephen Denning

The transition from shareholder value primacy to customer-centricity is a multi-dimensional challenge. Fred Reichheld's book, *Winning On Purpose* (Harvard Business Review Press, 2021) highlights some aspects of what's involved. Five other new books provide guidance.by insiders.

Multi-business value-adding strategies – reconsidering the options
Brian Leavy

In his classic 1987 *Harvard Business Review* article, Michael Porter examined the diversification programs of 33 major U.S. corporations from 1950 to 1986 and found that the acquisition track record was appallingly poor, with up to 70 percent of diversification moves failing to live up to expectations or failing altogether. His sardonic quip about the prospects of multi-business ventures: moving "from competitive strategy to corporate strategy is the business equivalent of passing through the Bermuda Triangle."

The high failure rate of diversification moves and the struggles faced by corporate managements in multi-business companies in trying to live up to shareholder expectations on a sustained basis is still a perilous drama playing out in the business press. So leaders need to reconsider their strategic options and how they assess all aspects of a deal. Corporate strategy, which is "what makes the corporate whole add up to more than the sum of its business unit parts," is primarily concerned with two different issues: a portfolio question and a corporate management one.

Four concepts of corporate strategy and their enduring effectiveness

In his 1987 article, Porter also laid down what we might now call the basic principles of Corporate Strategy 101.

- The attractiveness test:
- The cost-of-entry test:
- The better-off test:

His study clearly showed "that when companies ignored one or two of them, the strategic results were likely to be disastrous." Porter's study also identified "four concepts of corporate strategy" each capable of adding value in the multi-business firm. These are portfolio management, restructuring, transferring skills and sharing activities.

How value is created and destroyed in the parent-business relationship

By 1995, Andrew Campbell and colleagues at Ashridge Strategic Management Centre had developed an acquisition analysis tool called a "parenting framework." Multi-business companies create value by influencing – or parenting – the businesses that they own. A parent organization "is an intermediary" in the relationship "between investors and businesses" and, like all other types of intermediaries, must continue to earn its position by the economic value it continually adds to this relationship.

The parenting opportunity. An element in the framework is an assessment of the parenting opportunity that the target business presents. "Most businesses have parenting opportunities and could improve their performance if they had the parenting organization with exactly the right skills and experience.” The model makes an assessment of the would-be acquirer’s own parenting characteristics to determine if it has “the skills, resources, management processes” to take full advantage of the deal’s opportunities.

Diversifying effectively through building and borrowing, not just buying

More recently, corporate development expert Laurence Capron found that too few companies consider the full range of “build, borrow and buy” growth mode options in their corporate strategies. The most effective corporate strategies will aim for an optimum mix of all three modes.

So the aim of corporate strategy should always be to develop “the right blend of options” that “will help you take speedy advantage of emerging opportunities, while minimizing the cost of doing so.”

Changing the business narrative: a guide to successful experience offerings

J. Robert Rossman and Mat Duerden

Fully positioning an organization for success within the experience economy remains a strategic issue that many executives have difficulty solving. The seminal book *The Experience Economy* first made business leaders aware of experiences as a fourth sector of the economy more than two decades ago.

Over a decade later, Pine and Gilmore lamented that business leaders and policy makers still do not understand that goods and services alone cannot sustain an organization’s economic growth over time.

The narrative needs to change

Organizations now need to adopt a new narrative to guide restructuring that focuses employee line of sight around experience engagements.

Defining experiences and how they differ from services

Pine and Gilmore have noted that a primary distinction between services and experiences is their relationships to time, with services representing time well saved and experiences time well spent. There is a good rule of thumb to differentiate in practice between services and experiences. If a person would willingly hire someone to do the action for them, it is likely a service. If hiring someone to do the action seems preposterous, it is likely an experience.

Narratives and narrative change

All stakeholders should become familiar with the story of how and why they produce and stage their experience value propositions for customers. To craft a narrative, an organization must identify all the stakeholder characters – front-line employees, customers, designers, managers, IT providers and leaders – and explain their roles in the story.

Recent work in positive psychology and experience design suggests that experiences co-created with customers deliver, high-value, memorable outcomes and possibly transformations, the most valuable transaction outcomes of the experience economy.

The production process

In the experience economy, customers may seek opportunities for their own transformation through a co-created experience, such as a career-changing course of study or a skills-enhancement camp. To engage customers in this type of experience, organizations need to consider:

- What do our customers want from their interactions with us?

- What motivates them to engage, and what outcomes are they seeking?

Intended outcomes

The desirable outcomes of the experience economy—valued skills and memories and even transformations—are inextricably embedded in the process of people doing something, not in something being done to or for them. Repeated exposure to these positive experiences can alter people and their needs over time.

Implications for a strategic direction

Delivering these unique engagements and outcomes is what it takes to be a player in the experience economy.

How the leading Chinese real estate brokerage transformed into a digital platform business

Yanli Zhang and Lixia Yao

The power of digital platforms has fundamentally changed today's economy. Currently successful platform companies such as Google, Facebook, Microsoft or Amazon have won top positions in the list of the world's most valuable companies. Now digital platforms are also transforming a growing number of traditional industries. An example is the Chinese real estate broker, Lianjia, which successfully transformed itself into Beike - China's leading digital platform for housing transactions and services.

Beike: From brokerage to housing transaction platform

Unlike platforms, like Zillow in the U.S. or Fang.com in China that focus on providing housing information and make most of their revenue from advertising or referrals, the Beike platform also supports housing transactions. This bold move to launch Beike initially met with resistance from management. However, CEO Zuo Hui was determined to move forward despite the risks.

Why the transformation

Why was Zuo Hui so confident that launching Beike was the right move even though it may help competitors to compete with Lianjia's brokerage business? Three key considerations supported his confidence to venture into a platform transformation.

1. To preempt the threat from potential platform competitors.
2. To overcome the growth ceiling and reduce asset risk.
3. To create value by elevating industry standards.

Beike after the transformation

Beike became extremely successful after its launch. Its revenue increased by 60.6 percent from 2018 to 2019 and by 53.2 percent in 2020 to US$10.8 billion. Most notably, the launch of the new platform has significantly increased the service standards of an industry that was plagued by a lack of quality and trust.

Lessons from the Beike case

Four key factors that underlie the success of Beike's platform transformation offer important lessons for other companies thinking about moving into platforms:

1. Beike's example highlights the importance of data in the success of digital platforms.
2. Industry knowledge and experience also played an important role in Beike's platform transformation.
3. Beike's platform governance is also a fundamental value creator as it enables better transparency, collaboration and fair competition

in the real estate brokerage industry.

4. Beike's platform transformation derives higher efficiency from cutting-edge digital capabilities such as SaaS, virtual reality and AI, which form the backbone of the platform infrastructure and help unleash the full potential of the platform.

Beike's successes can help executives in traditional service industries think about how to expand growth via digital platforms and how to use digital platforms to elevate the service quality of traditional industries.

To succeed in the long term, Beike needs to strike the right balance and ensure fair competition for the players in its platform ecosystem so that the value it creates for them continues to exceed the drawbacks.

Open innovation: a growth powerhouse when integrated with dynamic digital technologies

Anthony Lipp, Anthony Marshall and Jacob Dencik

The more recent emergence of advanced digital technologies and the acceleration of process digitization, combined with rising stakeholder expectations, have created an urgent imperative for organizations to embrace open innovation. Organizations that embrace open innovation experience a 59 percent higher rate of revenue growth compared to those that don't. But successful open innovation requires ecosystem engagement.

Expanding the purview of innovators

Over the past 15 years, organizations expanded the concept of innovation into processes, operations and business models. As recent as 2019, half of the organizations we surveyed cited low levels of trust between ecosystem partners as a barrier to open innovation. However, the past 18 months have revealed new potential and value for open innovation.

Three examples illustrate this new imperative of organizations tapping into ecosystems and partnerships to enable innovation and collaboration:

- Vaccine development through open innovation and collaboration – Pfizer collaborated with BioNTech on their highly effective vaccine against COVID-19.
- Accelerating the development and production of ventilators – Ford worked together with the United Auto Workers, GE Healthcare and 3M to build ventilators.
- Expanding production of critical Personal Protection Equipment Kits – Nike's manufacturing and product teams worked with Oregon Health & Science University (OHSU) to produce PPE equipment.

Open + internal – not open alone

Open innovation is not a replacement for other types of innovation, nor is it a simple substitute for investing in internal innovation capabilities. It is in combination with other approaches to innovation that an organization can gain most value from open innovation.

Open technology – hybrid-cloud blockchain and AI – for open innovation

Companies that integrate digital transformation with open innovation see dramatic results. In fact, open innovation and digital technologies are becoming more intertwined, with new technologies such as hybrid-cloud and blockchain creating vastly improved opportunities for trusted and secure collaboration and co-creation, with shared and accessible data as the key ingredient.

Blockchain provides the security, transparency, trust and efficiency necessary for interactions and transactions between many participants in multiple roles in an ecosystem, and functions as a shared system of record for and between all participants.

Open innovation operating model

Open innovation now constitutes a completely new operating model for organizations, one that harnesses the collective intelligence of employees, partners, vendors and customers in the pursuit of innovation and value. Successfully realizing and gaining value from platforms and ecosystems will require a change in how companies view risks and rewards.

Interview

Jonathan Brill: The "ROGUE" method for leveraging risk and enhancing resilience

Brian Leavy

The rapidly escalating digital revolution and the Covid-19 global pandemic have rudely awakened us to the pressing need for more effective frameworks for strategizing for an increasingly volatile, uncertain, complex and ambiguous (VUCA) business world.

In his new book*, Rogue Waves: Future-Proof Your Business to Survive and Profit from Radical Change*, futurist and a leading advocate for "probability-based" thinking and strategizing, Jonathan Brill offers his own unique and valuable perspective on how to leverage risk and enhance resilience in the face of such uncertainty and volatility.

Strategy & Leadership: Your recent book is about how to strategize for a volatile and non-linear world that is moving ever faster and getting more connected. What does its central metaphor, the "rogue wave," mean?

Jonathan Brill: In the deep ocean, individually manageable, overlapping waves collide to become deadly rogue waves. The same thing happens in business, whether it's COVID or the 2008 financial crash.

It's easy to dismiss these as "Black Swan" events, incalculable risks. But the changing likelihood of Rogue Waves can often be forecast. This means that you can take advantage of them — if you have the right process.

S&L: The "ABC"s of your overall approach to transitioning toward a resilient growth mind-set and operating agility are awareness, behavior change and culture change. How do they work?

Brill: There are four major types of disruption that companies face, what I call the Four FOES: Financial, Operational, External and Strategic. We need to get managers thinking about the potential likelihood and impact of such "rogue wave" compounding disruptions.

This thinking starts with Awareness. If people don't understand the changes they face, specifically the multiplier effect of those changes, it's unlikely that they will be ready for them. The second step is Behavior Change. If you first see the tsunami from the beach, it's too late to react. The third is Culture Change. Unless the right hard and soft incentives are in place, it is nearly impossible to innovate around the future and raise alarms about concerns for which there isn't yet enough evidence.

Building more intuitive cultures and implications for leadership

S&L: While you note there "are no set processes for handling the unexpected," how can companies "build a more intuitive culture that can innovate its response in real time"?

Brill: Companies need to build the hard and soft incentives into their organizations that make it possible to act in advance of all of the data becoming available. There are three generic standard operating procedures (SOPs) that can provide valuable guidance if you want to shift your culture to be more resilient:

SOP #1: Actively listen to all your team members' ideas. The information that you need is probably already there in your organization.

SOP #2: Involve your entire team when building systems models.

SOP #3: Make robust lateral communication a part of company policy.