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 strategies and strategists

Market dominance and value innovation

Historically companies have created market dominance by following traditional monopoly practices that are based on limiting access, setting a high price and engaging in price skimming. . . .

In today's knowledge economy, based on ideas rather than resources, traditional monopoly practices are hardly effective. Almost everything can be replicated or imitated, often better and cheaper. Is market dominance still possible then? Yes. Just think about how Starbucks redefined the traditional coffee place or how Curves went about and challenged the highly competitive fitness industry. These companies were not built on traditional monopolist terms. . . .

What these companies – and others who created blue oceans – have in common, is that they benefited from the market dynamics of value innovation. Their strategies deviate from the norm in three important ways:

1. They shift the demand curve out by offering a leap in value.
2. They set a strategic price so that people not only want to buy the product or service but can also afford it.
3. They lower the long-run average cost curve so the company can expand its ability to profit and discourage free riding imitation.

What follows is win-win market dynamics, where companies earn dominant positions while buyers also come out big winners. The society benefits from improved efficiency as well, due to a focus on reducing costs, not only at the start but also over time. . . .

The bottom line is: Market dominance through monopolistic practices tends to come at the expense of society and consumers. Value innovation, in contrast, creates a win all around. That's why consumers tend to fall in love with companies that achieve it.

W. Chan Kim and Renée Mauborgne, "Three Steps Towards Market Domination," *Knowledge at INSEAD*, 29 March 2016, http://knowledge.insead.edu/strategy/three-steps-towards-market-domination-4605#ElYfzOjKkh1tZlb0.99

Technology and disruption

"The biggest technology transition in history"

By the time Chambers stepped down as Cisco's CEO last year, to become executive chairman, the information age had fundamentally transformed almost every aspect of society. Yet Chambers believes it's not over. . . .

If you're a leader in today's world, whether you're a government leader or a business leader, you have to focus on the fact that this is the biggest technology transition ever. This digital era will dwarf what's occurred in the information era and the value of the Internet today. As leaders, if you don't transform and use this technology differently – if you don't reinvent yourself, change your organization structure; if you don't talk about speed of innovation – you're going to get disrupted. . . . Probably 40 percent of enterprise customers around the world will not exist in a meaningful way ten years from now. . . .

. . . You want to think about the intelligence of an architecture, where you can get access to any data, any point and time you want. . . . it means you're dealing with intelligent networks – a next generation of the Internet, if you will. But connecting 500 billion devices doesn't get the job done. It's the process change behind it. So you've got technologies like cloud or mobility and cybersecurity and the Internet of Things that are very important. That's actually the easy part.

The hard part is how do you change your organization structure? How do you change your culture to be able to think in terms of outcomes for your customers? . . . which speaks to what a CEO has to do differently.

"Cisco's John Chambers on the digital era," *McKinsey Quarterly*, March 2016

Networks and earth-shattering change

"Networks" have always been a source for earth-shattering change, says Megan Smith, now the CTO of the United States. But before she started guiding America to Government 2.0, [She formerly was] Vice President of Google[x] - Google's radical "big bets" department, responsible for innovations like the Loon Balloon and Google Glass.

Think of the Erie Canal and the Silk Road: each a network, they brought enormous technological, economical, and social upheaval to the world hundreds of years ago. Now think of the Internet: not a physical channel of the past, but a digital network able to connect all 7.3 billion people on this planet, and allow them to share knowledge in an unprecedented way. So what's next?

Smith . . . asks the audience to guess at how long the first Google Glass prototype took. . . . the real answer - 1.5 hours.

Google[X]'s focus is prototyping, trying out any new idea, no matter how crazy, failing fast, and "starting with the guts of what you're trying to do." She also emphasizes that those insane ideas can only come from a starting point as diverse and far-reaching as possible. . . .

"We like the saying "2/3 yes and, 1/3 yes, but . . . "at Google[X]" says Smith.

Yes, ideas need critiquing and massaging, so spend 1/3 of your time doing that; but spend 2/3, the majority of your time building, creating, driving, innovating, and making use of the incredible networked knowledge of billions of people, and together we will make moonshot ideas a reality.

Elizabeth Salazar, "Yes and yes but," *StartupGrind*, 14 March 2016, https://www.startupgrind.com/blog/yes-yes-but-usa-cto-googlex-vp-on-innovation-in-the-age-of-internet/

How data can drive disruptive innovation

Historically, the place we've looked for hints of oncoming disruptions has been in the low end of the market. Because disruptive products were cheaper, more accessible, and built on new technology architectures, they tended to be crummier than the existing highest-end solutions. Their cost advantage allowed them to reach customers who'd been priced out of an existing market. Apple originally made a computer that was cheap enough for students to learn on, a population that wouldn't have dreamt of purchasing a DEC minicomputer. Sony famously made the transistor-based television popular based on its "portability." No one knew that you could reasonably do that prior to the transistor. New technologies, combined with business model innovation, provide the structural cost advantage necessary to take large chunks of the market over time.

But if you return to the definition above, the fact that low-end entry was typical of a disruptive approach was never core to the phenomenon. Instead, it was a byproduct. Why? Because any new entrant is hard pressed to deliver superior value to a mature market, where products have been refined over decades.

But although the low-end approach was pretty common, it wasn't what was holding incumbent firms captive. It was their own cost structures and their focus on driving marginal profit increases that kept those companies headed down the wrong paths. As long making the right decision on a short-term basis (trying to drive more value out of outdated infrastructure) is the wrong decision on a long-term basis (failing to adopt new technology platforms), CEOs are destined to struggle.

Unfortunately, the focus on the low-end approach of disruption is actually clouding our ability to spot the things that are: cheaper, more accessible, and built on an advantaged cost structure. . . .

Uber built a platform in a fragmented limo market that let it come into transportation and logistics more broadly. . . . The waste laid to the taxi industry by Uber is example that the new solution had extraordinary cost advantages and that they couldn't respond.

Maxwell Wessel, "How big data is changing disruptive innovation," *HBR Blogs*, 27 January 2016, https://hbr.org/2016/01/how-big-data-is-changing-disruptive-innovation

Culture and innovation

Digital tools have the potential to reshape the relationship between organizations and retiring employees in two ways. First, when used for collaboration, advanced social media platforms can record all interactions between employees and preserve them for later use. This "digital trace" can be used to preserve knowledge possessed by the employees as they perform their day-to-day work, making this knowledge available to others at a later time even after these employees have left the organization.

For example, the German chemical company BASF discovered that when teams used these social media platforms for collaboration, they experienced less disruption when employees left the team. The knowledge embedded in their previous interactions with team members allowed their replacements to get up to speed far more quickly than was possible otherwise.

Second, digital platforms introduce the possibility of redefining the relationship with retired employees. Retirement need not be an all-or-nothing proposition. Rather than having employees sever ties to the organization completely, companies could begin to offer "emeritus" roles to employees with valuable knowledge that may benefit the company in the future. . .. Digital platforms increasingly allow companies to source knowledge only when it is needed.

Gerald C. Kane, "Halting the corporate brain drain," *Improvisations*, 7 March 2016, http://sloanreview.mit.edu/article/halting-the-corporate-brain-drain/

Leadership, diversity and curiosity

At the MIT Leadership Center, I recently spoke with Guy Wollaert, chief exploration officer at Loggia Strategy & Design, about experiences he encountered at Coca-Cola. During his 20-plus year tenure with the global beverage brand, most recently serving as its chief technical and innovation officer, Wollaert made it a point to seek – and surround himself with – new ideas and people who challenged him to reflect and question first, then act later.

When stakes are high, it can be difficult for leaders, especially senior ones new to their roles, to pause before acting. . . .

Create a questioning ecosystem through diverse teams. Successful leadership isn't just about the leader, it's about the team. For initiatives to take hold, leaders must purposefully create diverse teams internally while seeking unique perspectives externally, whether from business partners or customers.

When Wollaert was asked to create a new function called the Global Juice Center, he literally followed the oranges from the groves to the consumer, speaking with stakeholders along the way, to understand every step of the juice-making process and to identify where there was opportunity for change. Unlike Coca-Cola's traditional products that have a formulaic recipe, its juice products are reliant on Mother Nature for ingredients, which can vary sharply in quality from year-to-year. Through Wollaert's hands-on experience in the field, he learned that to win in the unpredictable beverage business, extreme flexibility throughout the operations and within the team was essential.

A self-described "strong believer in diversity of thinking and diversity of personalities," Wollaert made it his quest to bring varied perspectives to his team. His frequent field observations combined with the creation of a diversified team not only improved the Global Juice Center's procurement process, but helped it do so in a more sustainable manner.

Stay curious. Curiosity shouldn't end when you find one solution to a problem. Leaders must constantly explore new ideas themselves, seek out new thinking from those around them, and create partnerships. Seeking serendipitous connections across ideas – and people – brings new opportunity.

Hal Gregersen, "When was the last time you asked, 'Why are we doing it this way?'," *Harvard Business Review*, April 2016

Driving cultural change

The quest to better understand how our business society advances and adapts in a digital age is a common conversation these days. We tend to compare large, global organizations to the nimbler, more agile entrepreneurial ones as a way of saying that these younger businesses and their respective models will wildly disrupt the way we have always done things. To some extent, this is true. We see many traditional business models being subverted by clever uses of technology and finer detail around customer experience . . . .

To make this more practical, let's get specific and consider an area in all businesses where innovation and entrepreneurialism are supposed to happen but often fall short – product management (development). No single role in the company has the impact to drive an entrepreneurial culture as much as this one. For years, the dilemma of solving the alignment of business and IT has existed in this one area and has gone almost unnoticed.

As Harvard Professor and author of the *Innovators Dilemma,* Clayton Christensen reports: "Over 60% of all new-product development efforts are scuttled before they ever reach the market. Of the 40% that do see the light of day, 40% fail to become pro table and are withdrawn from the market. By the time you add it all up, three-quarters of the money spent in product development investments results in products that do not succeed commercially."

Why does this happen? Simply because large, traditional organizations remain stagnant and aren't as deliberate around introducing the learning and skills that will modernize the way they manage and develop products. Areas like exploring and sizing the market, understanding feedback, prioritizing value, designing experiments and validating a hypothesis using modern principles – are all neglected or underutilized.

It's important to note that organizational strategies are not going to solve the problem. The entrepreneurial mindset that many seek, especially in large businesses, isn't going to be resolved by changing an org chart, decentralizing or centralizing people or services or even by introducing a new methodology. It's all about the need to drive change in how people think about their work, not only how they behave or do the work. This is the elusive culture topic many of us talk about in our companies. The three-legged stool here is mindset, mechanics and measures. It's how we think that leads to what we do that leads to how we measure its value.

Alex Adamopoulos, "Mindset, mechanics and measures," *Drucker Forum,* 30 March 2016, www.druckerforum.org/blog/?p=1162

Innovation: when losing means winning

Invention has another mother: failure. It may seem counterintuitive, but repeated failures can, and often do, lead to success. Every time we try something new and fail, it provides valuable information about what went wrong and, as important, what went right. From that, we can make small changes and try again, continually learning and innovating. "If you're trying to solve a problem there are potentially hundreds of possible pathways to take, but only a few are going to lead to the appropriate solution. And the only way to discover that is to try and fail and try again," says Baba Shiv, a professor at Stanford Graduate School of Business whose research focuses on innovation in the workplace. . . .

Still, for all the startups that follow the mantra of "fail fast," there are many corporate leaders who see failure as something to be avoided, not embraced. Shiv has categorized this fear-of-failure mindset as Type 1. An innovative point of view, one that perceives failure as exciting because of the opportunities it presents, he labels a Type 2 mindset. "For Type 2 people, the challenge is to keep experimenting and learning until they get to what works," says Shiv.

In corporate hierarchies there is a tendency to give greater weight to the opinions of leaders rather than their subordinates. However, those opinions are usually based on instinct rather than information. The one thing that can trump a higher-up's opinion is data, and repeated experimentation and failure lead to a lot of it, says Shiv . . . .

Yet repeated failure can be tough to justify to management because of the money and time – yours, your team members', your manager's – involved. Experimentation often takes resources away from other areas of the organization that need them, which is why managers feel obliged to see results, although there may be nothing to show yet for the work. "Employees have to justify the investment being made now, even though they don't know if they will have anything to show for it and if they do, it will be in the future," says Shiv.

Eilene Zimmerman, "Baba Shiv: failure is the mother of innovation," *Insights by Stanford Business*, 2 March 2016, www.gsb.stanford.edu/insights/baba-shiv-failure-mother-innovation

Measuring management value

We all have our boss horror stories. The underminer. The bad communicator. The credit hog. The snake. Then again, if we're lucky, we've all had those amazing bosses as well – the supervisor who encourages all employees to take their work up to the next level; the manager who makes everyone around them look better.

But how much of an effect does a good or bad boss have on workers, really? Harvard Business School Assistant Professor Christopher Stanton sets out to ask that question in "The Value of Bosses," a paper recently published in the *Journal of Labor Economics* – and finds out the answer is, quite a lot.

Academics and practitioners alike are interested in how to construct the best teams to get the most productivity out of people working together. But comparatively little attention has been placed on those people supervising teams. In part, that's because it's difficult to separate the performance of the boss from the performance of the individual workers he or she oversees. . . .

In order to isolate the effects of bosses on workers, Stanton and coauthors worked with a technology-based services company that tracked all of its workers' transaction times. Importantly, supervisors were rotated on an ongoing basis, so workers would have different bosses every few months. Looking at the company's data, Stanton and colleagues discovered a wide range of worker performance.

"There was tremendous variety in the productivity of workers doing the same task compared to other workers who looked similar at the start," Stanton says. But for particular workers, their individual performance fluctuated in a predictable pattern according to which boss they worked with at a given time – with some bosses just clearly better than others. "In our setting, idiosyncratic effects of bosses on certain workers were quite small – on average, Boss A was uniformly better than Boss B for everyone."

Measuring boss quality

To measure boss quality, the researchers looked at transaction times for the workers under them on any given day. . . .

When they examined all of this data, they concluded that replacing a boss who was in the bottom 10 percent of the distribution with a boss who was in the top 10 percent had the same effect as adding another whole worker to a nine-person team – a huge effect for such a small variation in quality.

Michael Blanding, "What's a boss worth?," *HBS Working Knowledge*, 28 March 2016, http://hbswk.hbs.edu/item/what-s-a-boss-worth

Industry focus

E-books and Big Data may change publishing

Andrew Rhomberg wants to be the Billy Beane of the book world.

Mr Beane used analytics to transform baseball, famously recounted in *Moneyball*, a book by Michael Lewis. Now Mr Rhomberg wants to use data about people's reading habits to radically reshape how publishers acquire, edit and market books.

"We still know almost nothing about readers, especially in trade publishing," said Mr Rhomberg, the founder of Jellybooks, a reader analytics company based in London.

While e-books retailers like Amazon, Apple and Barnes & Noble can collect troves of data on their customers' reading behavior, publishers and writers are still in the dark about what actually happens when readers pick up a book . . . Mr Rhomberg's company is offering publishers the tantalizing prospect of peering over readers' shoulders. Jellybooks tracks reading behavior the same way Netflix knows what shows you binge-watch and Spotify knows what songs you skip.

Here is how it works: the company gives free e-books to a group of readers, often before publication. Rather than asking readers to write a review, it tells them to click on a link embedded in the e-book that will upload all the information that the device has recorded. The information shows Jellybooks when people read and for how long, how far they get in a book and how quickly they read, among other details. . . .

For the most part, the publishers who are working with Jellybooks are not using the data to radically reshape books to make them more enticing, though they might do that eventually. But some are using the findings to shape their marketing plans . . . Publishers might also use the data to learn what type of reader a book appeals to, and market it accordingly. One of the novels that Jellybooks tested was written for teenagers but proved surprisingly popular with adults.

"Moneyball for Book Publishers: a detailed look at how we read," *New York Times*, 15 March 2016.