Leadership and strategy in the news

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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).

Strategic leadership and implementation

GE changes its mental models

The mental model behind GE has been rooted in manufacturing for decades. That's why Jeff Immelt, CEO of GE, is working so hard to change his own mental model of the industrial giant that he runs, along with his hundreds of thousands of employees, customers, suppliers and shareholders. His approach to changing his mental model is simple: State the obvious. Digital platforms and virtual networks are changing everything – customer purchasing (think Amazon), employment (Uber), investments (Betterment and Wealthfront) and value creation. Based on this digital reality, Immelt is creating a compelling future state for GE that is exciting for all his stakeholders. In the process, he is also distancing himself from the predecessor company Jack Welch created.

"We can't be an industrial company anymore," Immelt said in a recent interview with McKinsey & Co. "We need to be more like Oracle. We need to be more like Microsoft. . . . We want to treat analytics like it's as core to the company over the next 20 years as material science has been over the past 50 years. We can hire the talent. We can evolve our business model accordingly. We need to treat our service agreements to share outcomes with our customers the same way an IT company might approach that in the future. So, in order to do that, we have to add technology, we have to add people, we have to change our business models. We have to be willing to do all those things."

But this is not just about GE or its strategy. This is about the emerging war among business models – where organizations of the past are facing digital networks and platforms of today and tomorrow. According to research from McKinsey and others, 15% to 20% of the S&P 500's valuation consists of consumer internet stocks that didn't exist 15 or 20 years ago. The legacy consumer companies that were in this space didn't see these new business models and therefore didn't capture any of the excess customer surplus that was available to them.

> . . . Immelt is determined to pivot GE's business model to compete in a digital and networked world by . . . selling major portions of GE's assets – including its famed financial services arm – so he can free up capital to compete in a world dominated by Google, Apple, Facebook and Amazon.

"How industrial firms can pivot to digital business models", *Knowledge@Wharton*, 25 July 2016 http://knowledge.wharton.upenn.edu/article/industrial-firms-can-pivot-digital-business-models/

The hidden danger of organizational debt

Organizational debt . . . accrues when a company does not hire the right leaders in functions who can grow and scale as a firm expands and reaches its next stage of size and complexity. This debt can either come from not making a hire that would own certain tasks so that it would free other people to accomplish needed goals, or it can come from hiring people who are too junior to handle added convolutions that arise as a company grows and scales.

When I ran my first startup 18 years ago, one of the most important lessons I learned was that my ability to scale as the CEO was most powerfully impacted by the quality of my direct reports. . . .

I lived through this experience when I joined GE in 2004 to run the Video Surveillance division of GE Security. After I arrived, it was clear that before I could spend time working on the product road maps of converting our analog video products to the next generation digital solutions, I needed to overhaul the team that was already there. I spent about 80% of my time in the first nine months having to "coach out" some team members who needed to find new challenges that better fit their skills; I had to move some people into new positions that were better suited for their talents, and I had to hire several new people who could help our organization make the transition required by our customers. The process was long, painful and necessary before we could focus the division on addressing the products and services needed for our changing market.

Robert Siegel, "This is every CEO's most insidious liability", *Fortune* 28 July 2016

Strategy and double-loop thinking

Strategic leaders are skilled in what organizational theorists Chris Argyris and Donald Schön call "double-loop learning." Single-loop learning involves thinking in depth about a situation and the problems inherent in it. Double-loop learning involves studying your own thinking about the situation – the biases and assumptions you have, and the "undiscussables" that are too difficult to raise.

Your goal in reflection is to raise your game in double-loop learning. Question the way in which you question things. Solve the problems inherent in the way you problem-solve. Start with single-loop learning, and then move to double-loop learning by taking the time to think: Why did I make that decision? What are the implications? What would I do differently next time? How am I going to apply this learning going forward?

. . . Some reflection is more productive than others. Psychologists warn about "rumination," or dwelling on deceptive messages about your own inadequacies or the intractability of problems in a way that reinforces your feeling of being stuck. To avoid this pattern, deliberately give yourself a constructive question to reflect on. For example, what are the capabilities we need to build next? How can I best contribute? Human capital teams can help by training individuals in these practices and ensuring that all managers support their team members who take the time to reflect.

Jessica Leitch, David Lancefield, and Mark Dawson, "The 10 principles of strategic leadership", *Strategy+Business*, 18 May 2016

The "chicken-egg" problem for start-ups

New businesses often struggle finding their first customers. The challenge is even more difficult with startups in the sharing economy that launch as platforms connecting independent service providers with consumers. Take Uber. Its platform is two-sided, connecting people who need rides with people who have rides to offer. . . .

"When you have a two-sided platform, you have to acquire both the customers and the services," says Harvard Business School's Thales Teixeira, Lumry Family Associate Professor of Business Administration.

"It's the classic chicken-and-egg problem," he says. You can't have one without the other, but which one do you find first – the customer chicken or the service egg? "As a small company you cannot afford to focus on both with the same amount of effort. You may need to prioritize one side." . . . Spoiler alert: it's the egg that needs incubating.

As Teixeira reports in a new HBS case, "Airbnb, Etsy, Uber: Acquiring the First Thousand Customers," all three platforms concentrated on getting the service side of the equation first, customers second. But there's a catch. "It's not just the chicken and the egg, you also want to select the right eggs," explains Teixeira. "If you acquire the wrong eggs and ostriches come out, then you are in trouble. The chickens will run for the hill. . ."

From the beginning, it was clear to the founders of apartment-sharing site Airbnb that they'd need to find people willing to list their homes before finding people interesting in staying in them. Once they had apartment owners on the hook, the Airbnb founders realized they had a problem: the subpar photos that property owners were taking for Craigslist on their iPhones would never work for customers looking for an alternative to a hotel. . . .

In order to do that,[Airbnb founders] Chesky and Gebbia did something that would never be scalable: hired professional photographers to go to property owners' homes to take inviting pictures. The gambit worked, making the site much more attractive than the competition, and setting a standard for photography that later property owners rose to match in order to compete against other homes.

"How Uber, Airbnb, and Etsy attracted their first 1,000 customers", *HBS Working Knowledge*, 13 July 2016 http://hbswk.hbs.edu/item/how-uber-airbnb-and-etsy-attracted-their-first-1-000-customers

Market disruption

The rise of digitally native vertical brands

The Dollar Shave acquisition signals something bigger than a mere improvement in shaving – it also underscores a consumer products revolution that would not have been possible without technology.

Hilarious online ads passed along social networks allowed Dollar Shave to create instant customer recognition – in other words, a brand – far more quickly, and for far less money, than a shaving company could have managed a decade ago. Online distribution allowed it to get products into consumers' hands without a costly retail presence. In fact, by cutting out on retail, and shipping products to people's homes on a subscription basis, the company made buying shaving products more convenient than going to a store.

The same forces that drove Dollar Shave's rise are altering a wide variety of consumer product categories. Together, they add up to something huge – a new slate of companies that are exploring novel ways of making and marketing some of the most lucrative products we buy today. These firms have become so common that they have acquired a jargony label: the digitally native vertical brand. . . .

These firms could become an emerging problem for consumer products conglomerates like Procter & Gamble, and they might also spell trouble for television, which relies heavily on brand advertising for its revenue. . . .

By cutting out the inefficiencies of retail space and the marketing expense of TV, the new companies can offer better products at lower prices . . . if companies don't have to market a single brand to everyone on TV, they can create a variety of items aimed at blocs of consumers who were previously left behind.

Farhad Manjoo "How companies like dollar shave club are reshaping the retail landscape", *New York Times*, 27 July 2016,

Coping with the risks of digital transformation

Technology is synonymous with the modern bank. From the algorithms used in proprietary trading strategies to the mobile applications customers use to deposit checks and pay bills, it supports and enhances every move banks and their customers make.

While banks have greatly benefited from the software and systems that power their work, they have also become more susceptible to the concomitant risks. Many banks now find that these technologies are involved in more than half of their critical operational risks, which typically include the disruption of critical processes outsourced to vendors, breaches of sensitive customer or employee data, and coordinated denial-of-service attacks. Cybersecurity alone can account for 10 percent of total information-technology spending, which is now growing at three times the rate of the budget of the technology being secured.

. . . Big banks must manage hundreds or even thousands of applications. Many are outdated, having failed to keep pace with the radically changed processes they are supposed to support. Even banks that have successfully upgraded their infrastructure face upgrade-related risks – from project and data management to security problems that persist after the migration is complete. . . .

To manage these risks, many banks simply deploy their considerable IT expertise on patching holes, maintaining systems, and meeting regulations. Some have set up specialized teams to cope with particularly acute problems, such as cybersecurity. But these half-measures are unlikely to afford sufficient protection. An IT-oriented approach, furthermore, may be unable to account for wider business implications and operational interdependencies. Institutions focused on compliance could ignore vulnerabilities outside the purview of the regulator and overlook applications critical to the business, with implications for business risk down the road.

Muddling through is no longer an option. The adequate mitigation of technology risk requires a coordinated effort that goes beyond IT-centered remedies.

Oliver Bevan, Saptarshi Ganguly, Chris Rezek, and Piotor Kaminski, "Technological risks are becoming more prominent – and more dangerous. Six principles can guide banks as they manage them", *McKinsey Insights*, July 2016 http://www.mckinsey.com/business-functions/risk/our-insights/the-ghost-in-the-machine-managing-technology-risk

Industry focus

The limits of Uber-ization

The on-demand economy is more complicated than merely applying a clever business model to different service sectors. None of the many startups that adopted Uber's business model has managed to make it work as magnificently as Uber. Instacart ("Uber for groceries") has had to reconfigure its staff and change its pricing to try to make its business work. Zirx ("Uber for valet parking") shifted focus from consumers to businesses and will live another day. Other startups with less consumer appeal or operations prowess have simply shut down. "As eventually happens with any popular category, there is a phase shift from crowding to culling," says Simon Rothman, a VC at Greylock Partners who has invested in both Lyft and Sprig.

Some pundits deem it the "on-demand apocalypse." But what's going on here is not so much the thinning of an oversaturated market as its maturation. On-demand companies use their networks and mobile technology to achieve a competitive advantage (and their traditional rivals are catching on quickly). But delivering food, it turns out, is not the same as dispatching cars. And providing child care is different from delivering food. This should not be a surprise: One can learn from a successful business model, but copying it verbatim almost never yields a similarly stellar result. . . .

So last year, when Iyer cofounded Trusted, an on-demand babysitting service in San Francisco, he didn't even try to compete on price, the way that Uber and Lyft do with traditional taxi and car services. Instead, he hired employees who he knew he could count on. Before Trusted sitters begin work, they must undergo an extensive in-person interview, three reference calls, and a training session. "The value has to be 10 times better than anything else out there," Iyer says, citing Trusted's $25-per-hour fee. "It's not like, 'Let's just try to do the best job we can in matching people."

Sarah Kessler, "The on-demand economy hits the reset button", *Fast Company* July 2016.

Understanding brand loyalty and its value

The push to gather consumer insights quickly leads many to that hunt for recurrence. If we have people continuing to buy from us, the argument goes, they must be loyal.

Not necessarily. Consumers may choose to buy a brand for reasons that have nothing to do with affinity. They may buy because of price. They may buy because of time. They may buy because of features. And none of these factors is a marker for unerring commitment because each of them can be superseded by a competitor, and that shift can prompt an immediate change in preference.

Some will argue of course that brand loyalty doesn't exist; that it is a myth created by marketers basically to give them something to chase. As Philip Graves puts it, "Describing someone's repeated use of a brand as 'loyal' is a projection of emotions that simply aren't being experienced." Steve Kesselman goes further, suggesting that marketers shouldn't even expect to be able to lock consumers into a single relationship. On the contrary, brands should look to be part of a choice set. "People seek variety, exploration and discovery, yet we define loyalty as a monogamous customer-brand relationship."

Some claim that we confuse the motives of consumers not because of what they do but because of what we would like to think they do. According to Help Scout, while brands believe that customers want to have relationships with them, the reality is that 77 percent don't. And while many believe that an increase in interactions is always the answer, customers quickly suffer from overload.

So if convenience and loyalty both play out as repeat transactions, how are they different? I think it's because they get there from very different consumer mindsets. This might suggest they represent responses to different value equations.

Loyalty is about access, sharing, joy, maybe even devotion (in the case of sports or tech brands for example). Brand platforms that inspire loyalty are built around ideas that people find intrinsically attractive and that they want to deliberately interact with.

Convenience is about speed, predictability and ease. Most consumers buy convenience brands to achieve something quickly and well. That doesn't necessarily make those consumers loyal. . . .

The value of a convenience brand doesn't necessarily lie in what you get directly, but rather in what buyers don't have to keep doing or what they get to do with the time they would otherwise have spent inconveniently.

Mark Di SommaBrand, "Loyalty Versus Brand Convenience," *Brand Strategy Insider* 25 July 2016, http://www.brandingstrategyinsider.com/2016/07/brand-loyalty-versus-brand-convenience.html#.V5tm7dIrJKc

Culture and training

Why organizational education efforts fail . . .

Most training programs focus on developing and changing behavior of individuals and teams. Beer and his colleagues say the problem needs to be examined through a broader lens.

Our collective practice has led us to understand that the individual development has to take place in the context of a larger change process motivated by the senior team. Just calling HR to say we have a strategy, we want to be more safe, do training, is not going to work, Beer says. . . .

Take the example of Swedish industrial conglomerate Cardo. The CEO commissioned a training program for managers in two business units. The goal was to teach managers how to lead change that improved performance. One unit dramatically boosted its performance while the other did not. . . .

The unit with poorer results already had been relatively profitable, but the CEO thought it could do much better. The unit manager didn't share that sense of urgency so didn't organize the senior team around fixing the issues – training for that unit wasn't going to stick.

"The overall argument [we make] is that the system of organizing and managing is so powerful that individuals and teams returning from training will not be able to be more effective unless the system enables them to apply their learning," Beer says. "So, efforts to change the system must come first."

Roberta Holland, "Who is to blame for 'the great training robbery'?", *HBS Working Knowledge* 25 July 2016 http://hbswk.hbs.edu/item/whose-to-blame-for-the-great-training-robbery?

. . . and how one company made them work

Consider, for example, the challenges that one telecommunications company faced with high turnover in its retail stores. New employees joined, tried to learn about all the product and service plans, became intimidated, and then quit. Almost two-thirds left within the first 60 days.

The traditional solution is to build a fantastic training program. You'd send the new employees to a two-week class and teach them everything they need to know about mobile phones, service plans, and pricing. . . . And once the two-week course ended, the employees would still only know a fraction of what they needed – and they'd soon forget most of that.

The telecomm company used design thinking to come up with a different approach: Rather than inject "training" into employees, it studied the job of a retail sales agent over the first nine months and developed a "journey map" showing what people need to know the first day, the first week, the first month, and then over the first few quarters.

What this process revealed is that there are some urgent learning needs that must be addressed immediately, and then there are people to meet, systems to learn, products to understand, and many other processes to master over the first year. And of course, much of this involves getting to know customers, product experts, and fundamentals of sales and customer service.

. . . the company built an app, which looks more like a game than a learning system. It is designed to give people the basic information they need before they even come to work, then later add social connections, coaching sessions, and videos that help them on the job, and even encourage them to share what they've learned online. Essentially, it mirrors and supports the journey map created during the design-thinking process.

Josh Bersin, "using design thinking to embed learning in our jobs", *HBR Blogs* 15 July 2016 https://hbr.org/2016/07/using-design-thinking-to-embed-learning-in-our-jobs

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