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).*

How Tesla's management innovations operationalize its "Deep Purpose" to save the planet

Stephen Denning

In the last year a number of leading strategists have flagged the potentially crucial importance of corporate "deep purpose." Harvard Business School professor Ranjay Gulati defines the concept in his book, *Deep Purpose*, as "an authentic purpose that enables firms to operate with heightened passion, urgency and clarity."

However, few of the firms that are cited as potential exemplars of the pursuit of deep purpose – such as Mars Inc. or Danone – meet what observers believe are the necessary conditions for successful implementation of a deep purpose strategy. Such firms have merely added a socially approved purpose on top of their existing goals and systems.

The unfortunate result? A typical example is Unilever, which aspires to "make sustainable living commonplace, but has consistently underperformed the S&P500 over the last five years. Analysts believe Unilever allowed its corporation mission to distract from the necessary goal of creating value for its principal stakeholders, its customers.

Ten transformative management innovations integrate Tesla's purpose and workplace

By contrast, a close look at the workplace at Tesla, the California-based maker of electric cars, highlights its revolutionary management concepts and practices in action. Ten transformative management innovations are central to Tesla's approach to realizing its deep purpose:

1. Integration of mission, goal and workplace.
2. The astonishing boldness, courage and execution of CEO Musk's vision.
3. Exponential innovation through innovative management practices.
4. The role of AI in the workplace is being realized.
5. The transformation of Agile management.
6. A pervasive sense of urgency.
7. Preoccupation with modularity in accelerating innovation.
8. The power of "less."
9. The central role of design.
10. Why at Tesla everyone must come to work.

Opinions about Tesla differ sharply

The praise of Musk from his admirers can be extravagant. The brilliance of Elon Musk is that he knows you cannot outsource the manufacturing: in order to have an end to end control of the product, you've got to build the factories.

How replicable is the Tesla story?

There is always a risk that Musk may bite off more than Tesla can chew.

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Tesla's achievements have prompted a torrent of books and articles as its remarkable story unfolds.

Making sense of Tesla's leadership and management practices requires distinguishing two different but related stories:

- What are the facts of the Tesla/Musk story?
- The more important question is: To what extent is the Tesla management model replicable?

Although Tesla has many vociferous critics of its many weaknesses, Tesla's integration of mission, goal and workplace, its relentless pursuit of innovation, its empowerment of employees and its focus on design, have solidified its position not only as an industry leader but also as the creator of a radically new pattern of management.

Three avenues of innovation for new market creation and growth

W. Chan Kim and Renée Mauborgne

Leaders ideally choose a path to market creation where their current business is not disrupted by the initiative and where economic growth and social good are not trade-offs. While new market creation often involves some level of displacement, such a non-disruptive path is also possible. We call it "nondisruptive creation," and it can be thought of as the flipside of, but also a complement to disruption. It occurs when companies create a new market where there once wasn't any, so there is no existing market or players to disrupt.

So what elicits non-disruptive rather than disruptive new market creation? And how does nondisruptive creation differ from the "blue ocean strategy" approach to market creation?

Three paths to market-creating innovation and their growth consequences

1. Offer a breakthrough solution to an industry's existing problem.
2. Identify and solve a brand-new problem or create and seize a brand-new opportunity beyond existing industry boundaries.
3. Redefine an industry's existing problem and solve the redefined problem.

1. The path to disruptive creation

When an organization creates a breakthrough solution for an existing industry problem, it strikes at the core business of existing firms and markets. The result is displacement of the old by the new, whether at the outset or over time, as the new market is created within the existing boundaries of the industry.

In other cases, while the breakthrough solution may be devastating to the core of the existing industry, the displacement may be incomplete.

Regardless of whether the displacement is complete or incomplete, the breakthrough solution triggers disruptive growth as existing demand and jobs shift from the incumbent industry to the new market.

2. The path to nondisruptive creation

Organizations that identify and solve brand-new problems or seize brand-new opportunities outside the boundaries of existing industries unlock nondisruptive creation.

This approach begins by asking two questions:

- Are there brand-new problems we can solve beyond existing industry boundaries?
- Are there brand-new opportunities we can unlock outside those boundaries?

As company focus shifts to answering these questions, so do the opportunities innovators see to create new markets that threaten neither the margins nor the core of existing industries and established players. In this way, virtually all the demand created is new, resulting in nondisruptive growth.

3. The path to blue ocean strategy

Between solving an existing industry problem and identifying and solving a brand-new problem or creating a brand new opportunity outside industry boundaries lies the path to "blue ocean strategy."

In this approach, innovators redefine the problem an industry is focused on and solve the redefined problem by looking across, not within, industry boundaries in new and creative ways. The result is a more balanced blend of nondisruptive and disruptive growth.

Generating non-zero-sum wins

Ongoing economic vitality in a free enterprise society will always require some level of displacement. But our research indicates that market-creating strategies generating non-disruptive, non-displacement growth are not being sought at a rate that reflects this pathway's full potential in new and creative ways.

From manager to inclusive leader: traits and tactics for success

Shehla Malik

As organizations rely on their leaders to steer them through challenging times – such as technological disruptions, economic discontinuity, environmental adversities or pandemics – it is becoming clear that dealing with such complex situations may not be possible using conventional, hierarchical leadership styles.

Moreover, multiple competitive and social challenges are provoking an unprecedented demand to create more diverse and inclusive organizations.

New challenges for managers

Persistent leadership challenges range from adjusting to a hybrid work culture, maintaining and improving upon the innovation and creativity outputs of the team, to motivating a diverse, new-age "millennial" workforce while delivering to an ever demanding global customer base. Providing workable solutions to such challenges involves:

1. Adjusting to the hybrid work culture
2. Unlocking innovation and creativity
3. Embracing generational diversity
4. Motivating, engaging and retaining millennials
5. Understanding customers
6. Outperforming competitors

Leaders who practice inclusion by making it a strategic priority are better able to leverage the diverse perspectives of their team members and of course, drive better outcomes.

The solution: winning through "Inclusive Leadership"

By fostering a culture where everyone feels valued and respected, inclusive leaders can better overcome challenges and drive better outcomes for the organization as well as its employees.

Leadership development programs

To reap the benefits of inclusivity at work and to ensure that it is reflected in managers' actions, organizations can start by developing a cluster of six key behavioral traits in managers:

1. Curiosity
2. Cognizance of bias
3. Cultural intelligence
4. Collaboration
5. Courage
6. Commitment

Elements of well-designed development programs and initiatives

The organizations can facilitate the development of these six essential traits in managers through a series of well-designed programs and initiatives focused on building a diverse yet inclusive workplace that include:

- Creating safe space and inclusive environment.
- Encouraging cross-functional collaboration.
- Providing opportunities for growth and development.
- Providing resources and tools.
- Establishing recognition programs.

How to make the traits work for leaders?

So how do managers practice these traits once they are introduced to them? Managers need support systems and advisory groups to continually improve their inclusive leadership skills.

- Establishing a D&I (Diversity & Inclusion) task force.
- Establishing a diverse Personal Advisory Board (PAD).
- Promoting diversity in hiring decisions.
- Learning lessons from inclusivity champions.
- Sharing learning journeys about identifying and addressing biases.
- Entering and immersing into unfamiliar situations.
- Setting up helplines for employees to reach out.

There are also noteworthy benefits to organizations that prioritize the development of inclusive leaders. Inclusive leadership is not a feel-good effort but a strategic imperative that drives innovation, performance and results. So, leaders who practice inclusion by making it a strategic priority are better able to leverage the diverse perspectives of their team members and of course, drive better outcomes.

Factors that make open innovation more successful than traditional approaches

Jacob Dencik, Lisa-Giane Fisher, Lisa Higgins, Anthony Lipp, Anthony Marshall and Kirsten Palmer

Leading organizations are increasingly embracing open innovation as a critical component of innovation strategy and investment.

Recent research by the IBM Institute for Business Value (IBM IBV) reveals, for example, that as many as 84 percent of executives now view open innovation as important for their organization's future growth.

Open innovation through ecosystems becomes even more critical when organizations face disruptive environments. IBM IBV analysis indicates that organizations that don't prioritize open innovation practices by actively engaging with ecosystem partners can expect inferior financial performance and more limited contribution of innovation to financial and growth metrics.

But while there is growing recognition of the need for enterprises to work with partners more extensively on innovation, many businesses still struggle to convert open innovation into value.

Four key practices of open innovation

Embracing open innovation is not only about strategy. It has broad implications for organizational operating models. Four management capabilities for successfully operationalizing open innovation are:

- **Strategy and culture:** Clarity on open innovation strategy, its alignment to business strategy and the fostering of an open innovation culture.
- **Ecosystem capability:** Active engagement with ecosystem partners and extension of innovation and business processes.

- **Internal capability:** Internal capacity to undertake, participate in and absorb innovation as a key driver of business value.
- **Technology enablement:** Open technology capabilities required to accelerate discovery, co-creation and co-execution of innovation.

Surveying more than 1,000 executives on current open innovation practices and capabilities, IBM IBV was able to identify how the different operating model capabilities interact and complement each other to drive better innovation and business performance.

The reward – open innovation capabilities and performance

IBV analysis found that organizations that are more advanced in developing the four building blocks see significantly better performance across key financial and innovation metrics.

Investment case for open innovation

The importance of incorporating open innovation into innovation investment portfolios is made particularly clear by segmenting the impact of innovation on revenue generation between traditional and open innovation. For every dollar of investment, the proportion of direct revenue attributed to open innovation is four times higher than for traditional innovation.

IBM IBV analysis reinforces the conclusion that open innovation is a strategic business decision that requires an organization to be clear about what specifically it is seeking to achieve.

Setting objectives for open innovation

What do organizations look to achieve when engaging in open innovation? Interestingly, the number one priority is reducing and optimizing costs.

To maximize potential from open innovation, organizations need to build required capabilities from a strategic perspective.

1. Get clear on your organization's strategic objectives.
2. Align capabilities to objectives.
3. Integrate capabilities across enterprise and ecosystems.
4. Don't forget governance and orchestration.
5. Align technology investments with your open innovation strategy.

"Four management capabilities for successfully operationalizing open innovation are: strategy and culture, ecosystem capability, internal capability and technology enablement."

Visioning strategy through the "Johari window": discovering critical "unknowns" in a rapidly evolving context

James Welch

A risk-oriented version of the Johari window, which is a well-known tool of competitive intelligence practitioners, has been adapted for envisioning and evaluating business risk and opportunity and can be a very useful starting point for strategy formulation. It incorporates the analytical techniques of "known knowns, known unknowns, unknown knowns, and unknown unknowns" to identify and categorize known risks as well as blind spots.

The risk-oriented Johari window and strategy formulation

The foundation of business strategy formulation rests upon a crucial premise: a set of valid hypotheses about the future can focus a firm's competitive intelligence. Developing a business strategy requires organizations to make informed assumptions and predictions about the future business environment.

These hypotheses enable organizations to anticipate change, identify key drivers, engage in scenario planning and allocate resources effectively. In hypothesizing about the future, strategy formulation is intricately connected to process of investigating "known knowns, unknown knowns, known unknowns, and unknown unknowns." Probing these "knowledge domains" can reveal crucial gaps in information and concerning uncertainties that influence the strategic decision-making process.

Johari window: Quadrant 1

Quadrant 1 examines the "known knowns"; these are issues and outcomes of which we have both knowledge and awareness.

Johari window: Quadrant 2

Quadrant 2 represents the "known unknowns"; these are opportunities and threats of which we are aware, but for which there is limited or incomplete knowledge. These uncertainties should be acknowledged as potential risks or opportunities and actively pursued for further clarification or resolution.

Johari window: Quadrant 3

Quadrant 3 represents the "unknown knowns"; these are issues which we know or should know but of which we are not aware, or do not choose to be aware. This refers to information that is held by individuals or organizations but is not widely recognized or acknowledged or even information that is ignored.

For example, during a comprehensive analysis, an organization might uncover a new opportunity that was previously underappreciated by them or might clarify the significant ramifications of a known, but disregarded weakness.

Johari window: Quadrant 4

Quadrant 4 represents the "unknown unknowns"; these are issues or events of which we possess neither knowledge nor awareness. These events, where potential threats materialize unexpectedly, include the sudden onset of natural disasters, pandemics or other global health crises.

Organizations can prepare by engaging in scenario planning to consider a range of potential risks, diversifying revenue streams and partnerships and staying informed about market trends and emerging technologies.

Better knowing

During current periods of uncertainty, or in expectation of future periods of uncertainty, companies, strategic planning can be made more comprehensive if it is viewed through the Johari window model of "known knowns, known unknowns, unknown knowns and unknown unknowns,"

By being aware of all four categories of knowledge, and developing investigatory and future scenarios to identify and evaluate risks and opportunities, an organization can adapt to changes and uncertainties in the business environment and make informed decisions based on a fuller picture of the situation.

Value destruction at Marvel, and how to manage customer alienation risk

Joseph Calandro, Jr.

On June 2, 2023, the stock of Disney—owner of Marvel Entertainment (Marvel)—closed at $90.77, approximately 54 percent less than its March 12, 2021 close of $197.16 sixteen months earlier. Identifying possible reasons for such a sharp decline offers insight into the causes of the value destruction, including Marvel's missteps that seem to have contributed to it.

Marvel overview

Marvel effectively began in 1939 under the auspices of Timely Publications. Over the years, Marvel created and produced comic book stories for a pantheon of super heroes such as *The Avengers*, *Captain America*, *Iron Man*, *Spider-Man* and the *X-Men*.

After a historic comic book “boom” in the mid-eighties-to-early-nineties, a later “bust” occurred, which resulted in bankruptcy. Marvel emerged from bankruptcy, and began the production of its first set of modern movies that included *Spider-Man* and the *X-Men.* The firm did so well that, in 2009, Disney acquired it for $4 billion.

Marvel’s movie performance

From May 2008 to June 2023, Marvel released 32 movies (pre- and post-acquisition), which generated worldwide revenue of $29,491,477,978 against a total production budget of $6,428,500,000 for a portfolio production margin of approximately 78 percent. This is impressive, but what does it reveal about Disney’s stock decline?

To assess this, consider the performance of Marvel’s movies before and after the popular *Avengers: Endgame* (2019), which is Marvel’s highest grossing movie to date. Marvel released 21 movies before *Endgame; o*f these, nine had production margins greater than the portfolio production margin of 78 percent. Ten movies have been released since *Endgame*, only three of which have production margins greater than 78 percent.

However, the strategically significant observation here is that the most recent four movies released as of June 2023 all generated margins lower than 78 percent. These movies were not as faithful to the “source material” of comic book stories that have worked for each character/character team-up over the years and the kinds of stories that did not work. When many post-*Endgame* movies did not follow the authentic stories, customers were alienated and many did not patronize the movies to the extent they did earlier films.

Managing customer alienation risk

Marvel’s experience offers lessons that have relevance across industries. To understand why, consider that a super hero paradigm is effectively a brand. The more customers personally identify with a brand, the greater the likelihood customer alienation will occur if a firm disrespects that bond.

Four best practices can help to mitigate customer alienation risk:

1. Start by protecting strong brands.
2. Manage brands cross-functionally.
3. Guard against incremental branding misstates.
4. Creativity is context dependent.

Lessons for active brand management

Continuously active brand management under intensive, astute executive oversight is critically important across industries. Failing to do it thoughtfully, with careful attention to established brand paradigms, risks customer alienation and the resulting value destruction.