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 leadership 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

Achieving the important in the face of the urgent

So how does a company tackle the urgent and the important while also delving into sufficient detail to achieve a step change in performance and value creation? In recent years, we've seen several organizations achieve these goals through a structured, sprint-based approach we refer to as "road-mapping."

Road-mapping's premise is simple: initiatives with different levels of urgency, importance, and complexity often require different planning and implementation horizons. To meet this challenge, road-mapping organizes initiatives into a series of themed "sprints"—time-bound planning and implementation efforts aligned with the organization's priorities.

We typically see groups of sprints focused on one or more of the following themes:

Impact timing and complexity. Sprint 1 focuses on initiatives meant to have an impact in the first year. Subsequent sprints address long-term or complex initiatives, such as those requiring more capital or up-front testing.

Impact type. Sprint 1 focuses on one or more major impact types, such as cost, growth, margin, working capital, or capital expenditures. Subsequent sprints address one or more of the remaining impact types.

Business segment. Sprint 1 focuses on a specific part of the business (such as a business unit or division), and subsequent sprints focus on other parts.

After setting the themes and sequence of the sprints, the organization turns the proposed initiatives of Sprint 1 into comprehensive plans and begins to implement them; meanwhile, the planning process for Sprint 2 begins.

Darius Bates, David Dorton, Seth Goldstrom, and Yasir Mirza, "Transformation in uncertain times: Tackling both the urgent and the important," *McKinsey Quarterly* February 2021

https://www.mckinsey.com/business-functions/transformation/our-insights/transformation-in-uncertain-times-tackling-both-the-urgent-and-the-important

Why less is often more in retail

Changing customer behavior and increased costs related to safety have led retailers and restaurants to pare down offerings. Nielsen reports that grocery store SKUs are down by 7% since March 2020. The pandemic is just showing us what has always been true: Less can actually be more for customers, employees, investors, and the environment.

Prior to the pandemic, a typical traditional supermarket carried between 15,000 and 60,000 SKUs.... That amount of variety drives waste, mistakes, and training costs; reduces employee productivity; and makes it harder for employees to be

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knowledgeable enough to deliver great service. . . .

A simplified offering has been a winning strategy all along for a subset of retail and restaurant chains, including Trader Joe's, Costco, In-N-Out, and Texas Roadhouse. These consistently rank among the best in the supermarket and restaurant industries for customer satisfaction and have financially outperformed competitors.

Before the pandemic, several other companies that had carefully reduced their offering saw strong results. . ..One overlooked benefit of a simplified offering is higher wages and better jobs for employees and thus lower employee turnover for companies. When Sam's Club simplified its offering as part of a journey that included several other changes (such as simplified processes and new technology), associates became more productive — for example, restocking shelves was faster and easier. Higher productivity made possible higher wages.

Sarah Kalloch and Zeynep Ton, "Why Reducing Your Offerings Pays Off," *Harvard Business Review* 28 February 2021

https://hbr.org/2021/01/why-reducing-your-offerings-pays-off

Professional sports looks at its future

Studio thinking. Pro sports have long been primarily staged for the fans in the stands, with cameras showing up to capture the action for viewers at home. That's backward from the way other TV and video programming tends to work. Most shows are produced for the screen, and if there's a live audience, it's just to provide some energy and natural laughter or applause.

Ted Leonsis, the tech-savvy majority owner of the Washington Capitals, points out that during the pandemic, when pro leagues play games with no one in the stands, "in essence, we're playing in a big studio." That realization is nudging leagues to twist their thinking and ask: What might be different if an NHL or NBA game were produced in a studio primarily for off-site viewers?

Microgaming. Sports betting is now legal in more than two dozen states in the U.S. and in many other countries around the world. The pandemic has hurt budgets, which makes it likely that even more places will try to boost revenue by legalizing sports betting. . ..

Simulated games. In the spring of 2020, when all pro sports suddenly halted, NBC Sports and Leonsis's company tried giving fans something to watch by using the video game NBA 2K20 to simulate Wizards games and NHL 20 to do the same for Capitals games. . ..

Esports. The spring shutdown of U.S. leagues made sports-hungry fans look for alternatives. A lot found one in esports — watching video games played by pro gamers. . . . And PwC's most recent annual Global Entertainment & Media Outlook shows that esports revenue is growing faster than that of any other media and entertainment category. . ..

Beyond broadcast. Broadcast TV made pro sports the monster businesses they are today. But the marriage is eroding. Fewer people are tuning in — especially young people. . . . For pro leagues looking to build their fan base, the pandemic is likely to push them to where they can lure young audiences.

Kevin Maney, "The future of sports fandom." *strategy+business*, 25 January 20-21

https://www.strategy-business.com/blog/The-future-of-sports-fandom

Technology and disruption

Why AI initiatives fail

Advanced analytics and artificial intelligence promise to generate insights that will help organizations stay competitive. Their ability to do that is heavily dependent on the availability of good data, but sometimes organizations just don't have the data to make AI work. . ..

In AI, machines rather than humans are the primary consumers of data. They process data to generate the insights that will be used by humans (such as an analyst or a businessperson) or another machine. Data quality encompasses four dimensions: intrinsic (accuracy), contextual (completeness), representational (interpretability), and accessibility (availability or easily and quickly retrievable). To be considered high quality, data must satisfy all four dimensions.

Data accessibility is not about the properties of data itself; it is about having the required elements in place for machines to get the data. Although organizations are inundated with data, access to it remains a challenge that is exacerbated in the context of AI development and operations for two interrelated reasons. First, AI programs usually involve diverse groups of stakeholders with diverging interests regarding data accessibility. Second, a typical AI development life cycle tends to undermine the importance of data accessibility.

At the core of most data accessibility issues is the fact that AI initiatives involve vastly different groups of actors who have divergent interests, views, and influence on the nature and the role of data accessibility. For instance, business leaders typically engage at the beginning and end of the process — helping to define the use cases for AI and taking advantage of the final product — but they tend not to think about how the data is accessed. "Businesses always think they have [the data they need for AI]," said the vice president of product delivery at an AI consultancy. "They want to start fast, and then we open the hood," he noted, laughing.

Gregory Vial, Jinglu Jiang, Tanya Giannelia, and Ann-Frances Cameron, "The Data Problem Stalling AI," *Sloan Management Review* December 2020 https://sloanreview.mit.edu/article/the-data-problem-stalling-ai/?use_credit=fb567f305d2c559d77410e28b4b49bf0

Culture and innovation

What makes an organization resilient?

In the wake of a tumultuous 2020, Deloitte Global's fourth annual readiness report explores the concept of organizational resilience. . ..

We identified five characteristics of resilient organizations that enable and promote nimble strategies, adaptive cultures, and the implementation and effective use of advanced technology. Businesses that can bounce back from unexpected challenges typically are:

Prepared. Most successful CXOs plan for eventualities, both short- and long-term. More than 85% of CXOs whose organizations successfully balance addressing short- and long-term priorities felt they had pivoted very effectively to adapt to the events of 2020, whereas fewer than half of organizations without that balance felt the same.

Adaptable. Leaders recognize the importance of having versatile employees, especially after a year like 2020. To that end, flexibility/adaptability was, by far, the workforce trait CXOs said was most critical to their organizations' futures.

Collaborative. CXOs indicated the importance of collaboration within their organizations, noting that it sped decision-making, mitigated risk, and led to increased innovation. In fact, removing silos and increasing collaboration was one of the top strategic actions CXOs took before and during 2020.

Trustworthy. CXOs understand the challenge of building trust. More than a third of responding CXOs were not confident their organizations had succeeded in developing trust between leaders and employees. Those who are succeeding are focusing on improving communication and transparency with key stakeholders, as well as leading with empathy.

Responsible. Most CXOs acknowledge that the business world has a responsibility beyond the bottom line. Eighty-seven percent of surveyed CXOs who said they have done very well at balancing all of their stakeholders' needs also felt that their organizations could quickly adapt and pivot in response to disruptive events. That's nearly 50 percentage points more than the proportion of CXOs who said the same at organizations that haven't done well at balancing their stakeholders' needs.

Most resilient organizations focus on all of these traits to some degree, not just one or two of them. . ..CXOs who said their organizations had done very well in cultivating resilient cultures were about three times more likely than those lacking resilient cultures to say they weathered the events of 2020 well.

Punit Renjen, ""Building the resilient organization," *Deloitte Insights* 25 January 2021 https://www2.deloitte.com/us/en/insights/topics/strategy/characteristics-resilient-organizations.html

Efficiency as the enemy of resilience

We challenge business leaders to consider the following:

Improving resilience doesn't have to come at the expense of shareholders. If you don't get ahead of the challenge of becoming more resilient, expanding government regulations or restrictions-such as forgoing dividends or stock buybacks in return for bailouts-may further limit your options.

How did we land in this predicament? The stability of recent decades enabled the fastest growth in profits since the middle of the 20th century; from 1990 to 2018, the profit pool of companies in developed economies grew at more than double the rate of GDP. Through this period, the relative predictability of the business environment enabled firms to pursue efficiency that helped fuel this exceptional profit growth.

Yet this focus on efficiency has come at the cost of increasing structural fragility. Firms bulked up on leverage-with US nonfinancial corporate debt-to-GDP ratios rising from around 30% in the 1980s to just shy of 50% today-and used debt to ratchet up cash payouts to shareholders, which in turn have risen from 78% of net income in 1999 to over 100% today. At the same time, many firms consolidated supply chains to drive increased bargaining power and introduced just-in-time and redundancy-free operations to eliminate waste. . ..

At a macro level, the fixation on streamlining and efficiency has steadily increased risk. Comparing the periods 1980–1999 with 2000–2018, we found that the volatility of the aggregate profit pool in developed economies increased by 60%. At the firm level, this volatility is coinciding with a higher probability of failure. Looking at public US firms, the bankruptcy rate tripled between 1980 and 2018. Both aggregate volatility and business failure rates would have been far higher if not for an unprecedented level of government support.

Dunigan O'Keeffe, Hernan Saenz, Andrew Schwedel and Thomas

Devlin, "Getting Business Resilience Right," *Bain Insights* 7 January 2021

https://www.bain.com/insights/getting-business-resilience-right/?utm_medium=email&utm_source=mkto&utm_campaign=OPT-bain-insights

Novelty and breakthrough innovation

Analyzing more than 2,500 firm-level innovation histories spanning 30 years, this study shows that breakthrough innovation requires organizational capabilities for both exploration and exploitation. Managers should therefore question the frequent advice to put exploration- and exploitation-related innovative efforts into different organizational units.

Over the past few decades, a consensus has emerged that breakthrough innovations emerge from exploration of novel terrain while more routine innovations are the product of exploitation. In this paper, we revisit this explore versus exploit dichotomy with an analysis of over two and half thousand firm-level innovation histories spanning three decades. Our data and a novel measure of search (Technological Focal Proximity) enable us to characterize at a detailed level the search strategies of firms and to examine breakthroughs and non-breakthroughs are associated with different search strategies. Using our novel firm-level data and method, we find (contrary to the existing literature) that breakthrough innovations evolve through a process involving both exploration (initially) and exploitation (subsequently). The breakthrough innovation process appears to evolve through phases. In the early phases, firms explore unfamiliar terrain. However, as the process unfolds, firms shift their search strategies to focus on exploiting cumulative knowledge. Our findings call into question the strong dichotomy between exploration versus exploitation that has played such a prominent role in thinking about the origins of breakthrough innovation, and have potential implications for strategy, organizational design, management practice and corporate culture.

Dominika K. Sarnecka and Gary P. Pisano, "The Evolutionary Nature of Breakthrough Innovation: Re-Evaluating the Exploration vs. Exploitation Dichotomy," *HBS Working Knowledge* 25 January 2021 https://hbswk.hbs.edu/item/the-evolutionary-nature-of-breakthrough-innovation

A wider view

The value of trust

One key lesson we can derive from the book *Bowling Alone: The Collapse and Revival of American Community* is that the less we trust each other—something which is both a cause and consequence of declining community engagement—the more it costs us. Mistrust is expensive.

We need to trust the people around us in order to live happy, productive lives. If we don't trust them, we end up having to find costly ways to formalize our relationships. Even if we're not engaged with other people on a social or civic level, we still have to transact with them on an economic one. We still have to walk along the same streets, send our children to the same schools and spend afternoons in the same parks. . . .

As community engagement declines, Putnam refers to the thing we are losing as "social capital," meaning the sum of our connections with other individuals and the benefits they bring us.

Being part of a social network gives you access to all sorts of value. Putnam explains, "Just as a screwdriver (physical capital) or a college education (human capital) can increase productivity (both individual and collective), so too can social contacts affect the productivity of individuals and groups." For example, knowing the right people can help you find a job where your skills are well utilized. . . .

Both individuals and groups have social capital. Putnam also explains that "social capital also can have externalities that affect the wider community, so that not all of the costs and benefits of social connections accrue to the person making the contact . . . even a poorly connected individual may derive some of the spillover benefits from living in a well-connected community." A well-connected community is usually a safer community, and the safety extends, at least partly, to the least connected members.

Shane Parrish, "The High Price of Mistrust," *Farnam Street* January 2021 https://fs.blog/2021/01/mistrust/

Disinformation moves into the private sphere

First, at least 14 Twitter accounts posing as telecommunications experts, writers and academics shared articles by Mr. Vermulst and many others attacking draft Belgium legislation that would limit "high risk" vendors like Huawei from building the country's 5G system, according to Graphika, a research firm that studies misinformation and fake social media accounts. The pro-Huawei accounts used computer-generated profile pictures, a telltale sign of inauthentic activity.

Next, Huawei officials retweeted the fake accounts, giving the articles even wider reach to policymakers, journalists, and business leaders. Kevin Liu, Huawei's president for public affairs and communications in Western Europe, who has a verified Twitter account with 1.1 million followers, shared 60 posts from the fake accounts over three weeks in December, according to Graphika. Huawei's official account in Europe, with more than five million followers, did so 47 times.

The effort suggests a new twist in social media manipulation, said Ben Nimmo, a Graphika investigator who helped identify the pro-Huawei campaign. Tactics once used mainly for government objectives — like Russia's interference in the 2016 American presidential election — are being adapted to achieve corporate goals.

> "It's business rather than politics," Mr. Nimmo said. "It's not one country targeting another country. It looks like an operation to promote a major multinational's interests — and to do it against a European state."...

Graphika discovered the pro-Huawei effort after spotting suspicious posts about Belgium's 5G policy from Twitter accounts used in an earlier pro-China operation. The Belgian magazine *Knack* and Michiel van Hulten, director of Transparency International in Brussels, also identified suspicious efforts to spread pro-Huawei information. . ..

Phil Howard, the director of the Oxford Internet Institute, said operations like this would become more common as disinformation became increasingly commercialized. In a recent report, Oxford University researchers identified 63 instances in which public relations firms were involved in online disinformation operations in 2020. The work is typically on behalf of political figures or governments, he said, but can be applied to businesses.

> "The flow of money is increasingly there," Mr. Howard said. "Large-scale social media influence operations are now part of the communications tool kit for any large global corporation."

Adam Satariano, "Inside a Pro-Huawei Influence Campaign," *New York Times* 21 January 2021