

Quick takes

Larry Goodson

These brief summaries highlight the key points and action steps in the feature articles in this issue of *Strategy & Leadership*.

Strategic Agility: using Agile teams to explore opportunities for market-creating innovation

Stephen Denning

The Agile mindset and processes – small cross-functional teams, a focus on customer value and network collaboration – is increasingly part of the operational management mainstream. Firms are learning how to use this cross-functional team approach to draw on the full talents of those doing the work, involve customers at every stage of product development and generate innovations that customers value.

The Strategic Agility playbook for market-creating value propositions

The next frontier for Agile, systematic strategic thinking about market-creating value propositions establishes a basis for conceiving and developing products or services innovations that will appeal to both current and new customers. These strategic approaches include Blue Ocean strategy, Job-to-Be-Done theory and practices developed by SRI International.

Market-creating value propositions involve a shift in thinking from the known to the unknown – from

existing products to potential products, and from users to non-users of the firm's products to identify desired customer outcomes that are not being met, firm teams have to start thinking more broadly about the primary function that a product or service is performing.

Four components of a market-creating value proposition

A useful guide for practitioners is *Innovation: The Five Disciplines for Creating What Customers Want* by SRI's former CEO Curt Carlson. A section of the book, the Innovation-for-Impact Playbook, describes an organizational design and value-creation process. There are four main components – **Need, Approach, Benefits per costs and Competition (NABC)**. "They are the fundamentals, once those fundamentals are in place, the full business plan is much more efficiently developed . . . The framework is simple and fundamental. Just having every conversation in the company start with the customer's needs is transformational."

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Co-creating customization: collaborating with customers to deliver individualized value
Jordi Loef, B. Joseph Pine II and Henry Robben

When companies co-create with current and potential customers a discovery process occurs – needs invite solutions, which are then refined into prototypes that customers can experiment with so they can discern quickly which innovations offer high value and

which others only add complexity.

The customization innovation model

There is another dimension to innovation co-creation with customers – customization. The challenge is to scale the process so each customer

has a choice in what, when, where and how an offering is delivered. Customers can get more of what they truly need, want and desire and less of what they don't want but would have to settle for in any mass-produced offering.

Research shows that results from co-creation customization initiatives follow from the interaction between two stages in the process: first defining the opportunity to customize the offering and then identifying who will control what choices are available.

Defining the opportunity to customize offerings

In a *Harvard Business Review* article "The Four Faces of Mass Customization," the authors define the two features of an offering that can be customized:

- **Functionality:** the core purpose customers want to put the offering to.
- **Representation:** how an offering looks and feels, its style and packaging, marketing and branding and its terms and conditions.

Co-creation with customers can result in an offering with changed functionality, changed representation, or both changed functionality and representation.

Interview:
Thomas Stewart: what leaders need to know about the new design revolution in services
Brian Leavy

One of the well-recognized trends among the world's most advanced economies over the last several decades has been the growing shift in economic activity and output from manufacturing to services. According to Thomas A. Stewart and his co-author Patricia O'Connell in their book, *Woo, Wow and Win: Service Design, Strategy and the Art of Customer*, we are on

Practitioners have three basic ways to deliver customized value to buyers:

1. **Offerings:** A customizable solution, which may be a product, service, experience or transformation.
2. **Platforms:** Customers interact with a market system run by the company to fulfill individual needs.
3. **Collaborations:** Between company and customer to achieve individual value.

Using the authors' "Co-creating customization with customers" model as a guide, its three levels of participation –"Control of Choice": customer, company or both– and three delivery modes–"Object of Change": functionality, representation or both– yield nine distinct potential strategies.

Some companies may employ different strategies at different times or in different situations, and other implementations may incorporate multiple strategies.

Peak collaboration, peak value

Research suggests that the Creating Collaboration strategy provides customers with the strongest reasons to buy, and that companies that co-create customization in a truly collaborative process enjoy significantly more sustainable competitive advantages.

the cusp of a "design revolution" in services.

Great service design involves the willingness and ability to take an "ecosystem-wide view" of the customer experience, and should aim to identify ways in which the company and its partners "can win together," they suggest.

Strategy & Leadership: What exactly is “service design” and why is the time now ripe for a “design revolution” in services.

Thomas Stewart: The idea that services can and should be designed as thoughtfully and elegantly as products are is about two generations old, but it has gathered steam only in the last half dozen years.

S&L: Why can't we simply apply the approaches that work well in product design to the design and delivery of services?

Stewart: There are, of course, useful principles from product and industrial design that can be used to design services, but there are also fundamental differences between products and services that call for a unique approach and toolkit. The key five are:

- “The customer is always right – provided the customer is right for you.”

- “Don't surprise and delight your customers – just delight them.”
- “Great service must not require heroic efforts on the part of the provider or the customer.”
- “Deliver a consistent, coherent experience across all channels and touchpoints.”
- “You are never done.”

S&L: Finally, how can companies new to the principles and practice of service design get started?

Stewart: Management teams should start with three projects: First, they should map their customers' journeys with them. Second, they should evaluate themselves (and their competitors) on the basic elements of customer experience and technical excellence. Third, they should identify critical customer interactions. These are the make-or-break moments that differentiate – that is, they define identity and strategy—and matter a lot to customers.

Is “transgenerational response” a hidden cause of failed corporate turnarounds and chronic underperformance?
John Oliver

When organizations that have survived traumatic reversals – for example, product failures, ethical scandals or market disruption – attempt turnarounds, they usually seek a fresh start, adopting a new strategy and installing new leadership. But if this new initiative doesn't work and the firms continue to suffer from chronic underperformance, the cause could be “transgenerational response,” a potentially crippling long-term condition stemming from the trauma that occurred in the past. Transgenerational response syndrome describes a severe environmental condition that creates a negative adaptive response in an organism.

Do the effects of a firm's previous trauma linger?

Practitioners who have lived through one or more corporate crises have

noted that the struggling firms tend to become risk averse in: strategy, policies, processes and procedures. It's standard practice in such a “turnaround” situation for newly appointed executives to take swift action to rescue the staggering firm from potential failure. However, when successive CEOs fail to overcome the obstacles to sustainability, then one possible diagnosis is that the firm is suffering from transgenerational response.

With this perspective, they will be able to examine and respond to the inherited harmful attitudes, behaviors and adaptive cultural routines that contribute to the firms' chronic dysfunctionality.

Applying the theory to business practice

The hypothesis, that transgenerational response is a

significant factor in corporations that have undergone existential crises in the past, is based on exploratory research into a number of such corporate situations. The syndrome has these three defining variables:

1. Identifying a critical corporate incident.
2. Defining a corporate generation.
3. Measuring chronic corporate underperformance.

Research documented a number of cases where all three indicators of possible transgenerational response were present. These companies with a history of existential crisis had experienced a number of years of chronic corporate underperformance and unproductive turnaround attempts.

How Chinese executives view economic challenges and global opportunities

Steven Davidson, Wei Ding and Anthony Marshall

As global markets increasingly drive competition, China is experiencing the tidal surge of new technologies fundamentally reshaping traditional industry definitions and value chains. To better understand the challenges and opportunities facing China, the IBM Institute for Business Value in cooperation with Oxford Economics surveyed 1,150 executives from across China.

The executives see the current economic environment in China as encompassing five main challenges – immature services sector, declining domestic consumption growth, lending decisions creating over investment in some sectors, declining export growth and environmental issues impact economic development. In addition to challenges, the survey results reveal strategic opportunities for China to sustain its economic power, as well as ways to accelerate economic growth.

Chinese executives are optimistic about the country's economic

Taking action

The literature is full of turnover advice—change the strategy, change the culture, hire a CEO from outside the industry – but if the hidden cause is transgenerational response, it would be hard to justify prescribing one of these conventional solutions. We can hope that the provocative diagnosis – transgenerational response – will enable strategists to review the advice available in the literature with a new understanding and then experiment with better ways to mitigate damage from the trauma in the firm's past and move on to recovery.

growth prospects. In fact, 93 percent of executives believe China will maintain stable to high growth of more than 5 percent over the next five years. And almost a quarter of them believe China will be able to return to its recent very high growth rates in excess of 8 percent. Asked to select the biggest areas of opportunity for the Chinese economy in the next five years

Five roles China can play:

1. Leading producer of high-value-added products and services.
2. Leader in sustainability initiatives.
3. Consumption center with growing purchasing power.
4. Global leader in R&D.
5. Technology innovator.

Prioritizing growth accelerators

The Chinese executives identified six principal accelerators that could hasten China's economic progress:

1. **Build ecosystems:** According to 80 percent of executives, Chinese organizations should assume a leading role in building new business ecosystems to accelerate growth and economic change.
2. **Promote innovation:** Eighty percent of executives surveyed also indicate that Chinese organizations need to aggressively expand and promote innovation.
3. **Transform workforce skills:** Workforce transformation and skills improvement are essential to accelerating economic change, according to 78 percent of Chinese executives.
4. **Promote new technologies:** Seventy-eight percent of executives believe that organizations should aggressively deploy new technologies.
5. **Rethink education:** Seventy-eight percent of Chinese executives believe that traditional education structures require fundamental rethinking.
6. **Encourage entrepreneurship:** Seventy-seven percent of executives conclude that promoting entrepreneurship is fundamental to the growth and development of their organizations and the economy in general.

Interview:

How David Cooke implemented corporate social responsibility at Konica Minolta Australia
Gayle C. Avery and Narelle Hooper

Symbolic acts are powerful drivers of cultural change. When David Cooke was appointed the first ever non-Japanese managing director at Konica Minolta Australia in 2013, he moved out of his predecessor's big corner office into a smaller space near the employee lunch room and kept his office door open. He also had the walls knocked down in the Human Resources department so it made the area open plan.

It was an effective way of demonstrating that he meant to replace four decades of hierarchical leadership and closed communications with an open and collective leadership style. He also changed the firm's internal and external outlook by introducing a program of social investment.

Four years on, the program continues to boost employee and customer engagement. The firm's financial performance has also improved, a correlation that research has noted in other firms that have adopted Corporate Social Responsibility programs.

S&L: What was the key strategic management or leadership problem that needed to be addressed when you took over as Chairman and Managing Director?

Cooke: The core issue was staff engagement. Not being engaged meant that people were not really customer-focused.

S&L: What did you do?

Cooke: I asked the 400 people who worked here what sort of a company they wanted us to build together. . . . I started to write to staff several times a month, including full disclosure of our financial results.

S&L: Was it difficult to get the staff to come on the journey with you?

Cooke: While I'd like to see volunteer participation rates higher, the main objective was to change Konica Minolta. As a byproduct, I wanted to benefit not-for-profit partners and through them, society.

S&L: What about customers and suppliers, have they reacted to the changes?

Cooke: Recently I was asked at a conference in Tokyo why our business had continued to grow in a declining market. The only thing I can put my finger on is that we have

changed our culture and that flows through to all customer interactions on the phone or face-to-face. We've developed a reputation as a company that cares about society.