

Leadership and strategy in the news

Craig Henry

Of strategies and strategists

How SAP succeeds and how it plans to continue

The German software giant is well known for providing some of the most mature and sophisticated enterprise solutions in the world. As the saying goes, there are average industry solutions that cannot be counted on to work in practically every market, industry, and operating environment. And then there is SAP. It is a reputation that the company has burnished at every opportunity.

This expectation cuts both ways however: While it separates the also-rans from the top-tier and allows premium pricing, it also provides real delivery and customer success challenges in making sure the more advanced capabilities of SAP's platforms are actually differentiating results in reality to provide additional business value for the customer.

Enter SAP's partner ecosystem, which often provides the last mile of success, by having a large global set of delivery partners that have 1) a nuanced understanding of the history and needs of local customers and SAP products both, plus the ability to bring them together effectively, 2) built additional unique capabilities and solutions on top of SAP's many platforms, and 3) integrated all of these elements together, along with 3rd party legacy IT systems, into workable enterprise IT portfolios. ...

Perhaps the most insightful comment of the day came from Diane Fanelli, SVP and GM of SAP's Global Platform

Channels, who noted that when it comes to the IT solutions of tomorrow, "the future is small, simple applications that snap into existing landscapes. You go shopping for them on your phone. That trend will continue in the enterprise, as they become more comfortable with this kind of [informal] digital acquisition."

Dion Hinchcliffe, "How SAP's partner ecosystem is built for long-term growth," *Enterprise 2.0*, 5 February 2019 www.zdnet.com/article/how-saps-partner-ecosystem-is-built-for-long-term-growth/

Are business fads killing capitalism?

One of the most talked-about people at Davos this year is also not in attendance: Seth Klarman, a low-key but highly influential investor based in Boston, whose recent annual letter to investors represents what Andrew Ross Sorkin of the *Times*, calls "a huge red flag about global social tensions, rising debt levels and receding American leadership."

Klarman, who is 61 years old, is the C.E.O. and portfolio manager of the Baupost Group, a hedge fund with twenty-seven billion dollars in assets. ... His latest letter, a twenty-two-page report that is circulating in Davos, states that "it can't be business as usual amid constant protests, riots, shutdowns and escalating social tensions."

... For a generation of business leaders, maximizing shareholder value has been a central doctrine, a

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).

theory that is invoked to justify cutting jobs and benefits in order to reward investors with dividends and stock buybacks. But, in a speech at Harvard Business School last fall, Klarman argued that American capitalism has been damaged by the obsession with short-term stock prices. “Does anyone really believe that shareholders are the only constituency that matters: not customers, not employees, not the community or the country or Planet Earth?” he asked.

In those remarks, Klarman challenged C.E.O.s and fellow-investors to accept greater responsibility for the consequences of their actions. “It’s a choice to do things that ‘maximize profits,’ to pay people as little as you can, or work them as hard as you can,” he said. “It’s a choice to maintain pleasant working conditions or, alternatively, particularly harsh ones, to offer good benefits or paltry ones.” Also, without naming specific cases, he criticized the kind of buyouts in which private-equity investors saddled a troubled company with so much debt that it helped push the company into bankruptcy. (The collapse of Toys R Us is a recent example.) He said, “It’s a choice to leverage up your company to the hilt, to pile on non-recourse debt to pay special dividends to the owners, and then walk away if the business falters and the debt comes due. Just because you can do something definitely doesn’t mean that you should.”

Evan Osnos “The investor Seth Klarman, in a rare interview, offers a warning. Davos should listen,” *New Yorker*, 22 January 2019

Has the ground shifted for Silicon Valley Titans?

Politicians have a saying: “If you’re explaining, you’re losing.”

Facebook and other Silicon Valley giants have been doing a lot of explaining lately. Explaining that they collect your data, but only because

you have given them permission. Explaining how they do not sell your data, but merely profit from it. Often, these companies find themselves explaining away contradictory criticisms, like the one that says right-wing commentators are singled out for punishment on social networks and the one from the left that insists those sites actually encourage right-wing extremism and conspiracies to increase user engagement.

These companies will then explain that because both sides think they are biased, they must actually be fair – which is nonsense, of course. One side could be right, and the other could be peddling false information. The only thing clear from both sides accusing you of mistreatment is that nobody trusts you.

This deep mistrust of Silicon Valley is the new reality, which means even a goofy meme is not safe from conspiratorial theories, and tech leaders cannot hide behind their quirkiness and supposed good intentions...

Oam Cohen, “All this newfound cynicism is going to hamper big tech” *Wired* 29 January 2019

Did Google and Facebook change capitalism?

Silicon Valley’s Phoenix-like resurrection is a story of ingenuity and initiative. It is also a story of callousness, predation, and deceit. Harvard Business School professor emerita Shoshana Zuboff argues in her new book that the Valley’s wealth and power are predicated on an insidious, essentially pathological form of private enterprise – what she calls “surveillance capitalism.” Pioneered by Google, perfected by Facebook, and now spreading throughout the economy, surveillance capitalism uses human life as its raw material...

By removing the tangible product from the center of commerce, surveillance capitalism upsets the equilibrium.

Whenever we use free apps and online services, it is often said, we become the products, our attention harvested and sold to advertisers. But, as Zuboff makes clear, this truism gets it wrong. Surveillance capitalism’s real products, vaporous but immensely valuable, are predictions about our future behavior – what we will look at, where we will go, what we will buy, what opinions we will hold – that internet companies derive from our personal data and sell to businesses, political operatives, and other bidders. Unlike financial derivatives, which they in some ways resemble, these new data derivatives draw their value, parasite-like, from human experience.

Nicholas Carr, “Thieves of experience: how Google and Facebook corrupted capitalism,” *LA Review of Books*, 15 January 2019 <https://lareviewofbooks.org/article/thieves-of-experience-how-google-and-facebook-corrupted-capitalism/>

Technology and disruption

It is about customers, not technology

If women wanted to shake up their makeup regimen 10 years ago, Sephora was the place to go. Beauty product junkies loved Sephora’s candy store-like display of sample-size face creams, glittery lip glosses, and eyeshadows in every shade imaginable, allowing them to test out new products at non-committal prices.

That is, until Birchbox came along in 2010 with an innovative offer: Pay a monthly fee and receive a curated box of beauty samples by mail.

“They said, ‘We’re going to start off doing this one part of the customer value chain, which is helping you identify the better products, and we’re going to do it more conveniently,’” says Harvard professor Thales S. Teixeira, author of the new book *Unlocking the Customer Value Chain: How Decoupling Drives Consumer Disruption*.

Many established companies lament the disruption they are facing at the hand of technologically savvy startups. But Teixeira, the Lumry Family Associate Professor of Business Administration, argues that these newcomers simply spotted and served an emerging customer need faster, taking market share from established companies that didn't see them coming. . . .

Thales Teixeira: In many industries, both the disrupter and the disrupted had similar technologies and similar amounts of technology. The common pattern was that the majority of customers in those markets had changing needs and wants, and their behavior was changing. . . .

Danielle Kost, "What's really disrupting business? It's not technology," HBS Working Knowledge, 17 February 2019 <https://hbswk.hbs.edu/item/what-s-really-disrupting-business-it-s-not-technology>

How digital will drive a revolutionary transformation

Three converging technologies are changing the way many businesses will approach the next wave of digital transformation. . . .

The main struggle generally stems from the fact that IT is often regarded as a separate, siloed monolith and managed as such within the organization. But that isolated approach to thinking about, and investing in, technology may no longer be sufficient. We should no longer look at this range of popular, emerging technologies in the same way we have always looked at new IT advancements.

These new technologies are beginning to converge, and this convergence enables them to yield a much greater value. Moreover, once converged, these technologies form a new industrial infrastructure, transforming how and where organizations can operate and the ways in which they compete. Augmenting these trends is

a third factor: the blending of the cyber and the physical into a connected ecosystem, which marks a major shift that could enable organizations to generate more information about their processes and drive more informed decisions. . . .

The new industrial infrastructure comprises three specific capabilities that each fulfills critical business functions: connectivity, computing, and transacting. Together, they facilitate and manage information flows – generation, storage and processing, and secure exchange – creating a foundation upon which business and commerce can operate.

Connect: Wi-Fi and other connectivity enablers. Wi-Fi enables perhaps the most critical part of a connected technology infrastructure: the connectivity itself. It is also a key piece of blending the digital and the physical across geographies and uses.

Store, analyze, and manage: cloud computing. The cloud has revolutionized how many organizations distribute critical storage and computing functions. Just as Wi-Fi can free users' access to the internet across geographies, the cloud can free individuals and organizations from relying on nearby physical servers. The virtualization inherent in cloud, supplemented by closer-to-the-source edge computing, can serve as a key element of the next wave of technologies blending the digital and physical.

Exchange and transact: blockchain. If cloud allows for nonlocal storage and computing of data – and thus the addition or extraction of value via the leveraging of that data – blockchain supports the exchange of that value (typically via relevant metadata markers). As a mechanism for value or asset exchange that executes in both a virtualized and distributed environment, blockchain allows for the secure transacting of valuable data

anywhere in the world a node or other transactor is located.

Jason Killmeyer and Brenna Sniderman, "Navigating a new industrial infrastructure," *Frontiers blog* 31 January 2019, <https://sloanreview.mit.edu/article/navigating-a-new-industrial-infrastructure/>

The startup model and established competitors

Executives are often told they need to think like entrepreneurs. Stay lean. Drive innovation. Bring a garage mindset to the c-suite strategy meeting.

But is this really the best strategy? Should CEOs adopt the culture and habits of a startup? Is it necessary for mature companies to go "back to the garage" to innovate?

According to Joe Dwyer and Sean Johnson, adjunct professors of innovation at the Kellogg School and partners of Founder Equity, a Chicago-based VC fund, executives would be better off thinking like venture capitalists than scrappy startups.

"Startups exist in a symbiotic relationship with venture capital," Dwyer says. "Neither can exist without the other. So, if you are in an established company, you shouldn't innovate like a boss. You should innovate like a venture capitalist."

In other words, CEOs should think of themselves as funders, not founders, of startups within their own companies. This VC mindset involves thinking big, taking risks, and adopting a broader, more objective view of opportunities based on insights pulled from data. Nurturing an innovative culture company-wide is fine, but it will not necessarily propel growth the way farsighted investment can.

"Your role as executive is not to run these startups," Dwyer says. "Your role is to allocate resources to identify strategies that work to steer capital and resources towards the things that are most likely to create value."

Dwyer and Johnson advise a portfolio approach to innovation: investing in a range of ideas based on key insights into opportunities and needs. "Instead of going to your board and saying 'We're going to do ten initiatives,' say, 'We're going to start an innovation group. We're going to put small amounts of money in XYZ.' If you think like a venture capitalist, you're just reporting your portfolio, rather than the success or failure of each initiative."

"Looking to innovate? Ditch the startup mentality and adopt a venture capitalist mindset," *Kellogg Insight*, 4 February 2019 <https://insight.kellogg.northwestern.edu/article/looking-to-innovate-ditch-the-startup-mentality-and-adopt-a-venture-capitalist-mindset>

Disruption and the transportation eco-system

Regulating the future of mobility is a complex challenge, involving uncertain timing, authorities at multiple levels of government, and a host of issues that extend far beyond a vehicle's ability to safely navigate city streets. The rapid pace of developments and the idiosyncrasies of any given regulator's mandate, authority, political constraints, and resources only add to the uncertainty and complexity. . . .

Many transportation agencies were caught flat-footed by the rapid emergence of on-demand ride-hailing, which upended cities' relatively staid taxi and hired car markets seemingly overnight. In New York, ride-hail trips now significantly outnumber taxi trips. In London, ridesharing has displaced passengers from buses, leading to lower revenues from fares and raising questions about the levels of subsidy for some routes. Reacting to concerns ranging from the treatment of workers to the impact on cab drivers and the potential for increased congestion, national and local regulators have hastened to take steps, ranging from new licensing requirements (London)

and per-trip fees (Chicago) to caps on the number of vehicles (New York) and even outright bans on some types of service (Germany). As with the broader sharing and gig economies, regulators have had to balance consumer wants, worker welfare, and the interests and innovations of the private sector. And even as they are coming to grips with ride-hailing, new options such as e-scooters and dockless bikesharing have grown dramatically, shifting the mobility landscape once again. Too often, regulatory authorities are reacting, rather than proactively defining what mobility goals are a priority and assessing how new technologies might help (or hinder) achieving them.

Derek M. Pankratz, et al. "Regulating the future of mobility," Deloitte *Insights* February 2019 www2.deloitte.com/insights/us/en/focus/future-of-mobility/regulating-transportation-new-mobility-ecosystem.html

The varied threats to foreign trade

Today's trade tensions are compounding a shift that has been under way since the financial crisis in 2008-2009. As we explain, cross-border investment, trade, bank loans and supply chains have all been shrinking or stagnating relative to world GDP (see Briefing). Globalization has given way to a new era of sluggishness. Adapting a term coined by a Dutch writer, we call it "slowbalisation".

The golden age of globalization, in 1990-2010, was something to behold. Commerce soared as the cost of shifting goods in ships and planes fell, phone calls got cheaper, tariffs were cut and the financial system liberalised. International activity went gangbusters, as firms set up around the world, investors roamed and consumers shopped in supermarkets with enough choice to impress Phineas Fogg.

Globalization has slowed from light speed to a snail's pace in the past decade for several reasons. The cost of moving goods has stopped falling. Multinational firms have found that global sprawl burns money and that local rivals often eat them alive. Activity is shifting towards services, which are harder to sell across borders: scissors can be exported in 20ft-containers, hair stylists cannot. And Chinese manufacturing has become more self-reliant, so needs to import fewer parts.

This is the fragile backdrop to Mr. Trump's trade war. Tariffs tend to get the most attention. If America ratchets up duties on China in March, as it has threatened, the average tariff rate on all American imports will rise to 3.4 per cent, it is highest for 40 years. (Most firms plan to pass the cost on to customers.) Less glaring, but just as pernicious, is that rules of commerce are being rewritten around the world. The principle that investors and firms should be treated equally regardless of their nationality is being ditched.

Evidence for this is everywhere. Geopolitical rivalry is gripping the tech industry, which accounts for about 20 per cent of world stock markets. Rules on privacy, data and espionage are splintering. Tax systems are being bent to patriotic ends – in America to prod firms to repatriate capital, in Europe to target Silicon Valley. America and the EU have new regimes for vetting foreign investment, while China, despite its bluster, has no intention of giving foreign firms a level playing-field. America has weaponised the power it gets from running the world's dollar-payments system.

"The steam has gone out of globalization," *Economist* 29 January 2019

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