Quick takes

Larry Goodson

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).*

Lessons learned from mapping successful and unsuccessful Agile transformation journeys

Stephen Denning

One way of understanding the future of management is to examine what happened when a few companies rejected the dominant business models of the day and went their own way taking various approaches to achieve growth through innovation, some successful and some unsuccessful.

The dominant model of 20th Century organizations: bureaucracy

When we look at organizations that originated in the 20th Century, we can see a dominance of the bureaucratic mindset. The purpose of this vertical world was self-evident: to make money for the shareholders, including top executives increasingly rewarded with lucrative stock options. The communications were top-down.

The emerging 21st Century model of post-bureaucratic management

In the 21st Century, by contrast, pioneering companies have adopted a post-bureaucratic mindset that is focused on continuous innovation. Making money is the result, not the goal of its activities. The dynamic achieved by the Agile management processes that promote the continuous innovation system is enablement, rather than control. The result is that post-bureaucratic organizations are oriented to understanding and creating the future.

The emerging post-bureaucratic mindset has three notable common features or "laws."

- Customer-obsessed.
- Small is beautiful.
- Networks.

Each Agile journey is unique

While these innovative and unconventional practices are illuminating, it's equally important to examine what is distinctive in the organizational practices of companies that have adopted this post-bureaucratic approach:

- Living a narrative.
- Unique terminology.
- Home-grown.
- Failure is frequent.

The Microsoft story

The transformation at Microsoft took time. In 2010, the Team Foundation Server team decided to "go Agile," with all their teams operating with Scrum practices and roles in three-week sprints. Several years later when the new CEO embraced Agile, it spread across the entire firm and steadily became part of the culture. So far the journey has gone well for Microsoft, a startling turnaround from 15 years ago.

The General Electric fizzle

Innovation at GE was on a roll, until it wasn't. GE is an example of a top-down Lean journey (its Agile equivalent), which turned out to be largely ceremonial. A key factor in the

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failure was the top-down approach to continuous innovation. GE, once one of the most valuable firms in the world, had to sell off iconic business units.

Amazon’s initial insight

While top-down Agile implementation can be problematic, it is not impossible. The Agile journey of Amazon started by founder Jeff Bezos is instructive. In one way, Amazon was Agile from the outset. In a statement unusual for a public company in 1997, Amazon announced its obsession with adding value to customers as the driving force of its operations. Profits and shareholder value were to be the result, not the goal, an insight that proved prophetic.

Masterclass:
Leading innovation – resolving creativity’s paradoxes

Brian Leavy

Strategy guru James Brian Quinn was one of the early authors to highlight the paradoxical challenges faced by leaders trying to manage innovation in the established organization. He famously characterized it as directing a process of “controlled chaos” in his 1985 *Harvard Business Review* classic.

Several recent studies of the innovation process provide guidance for practitioners seeking to navigate and leverage the chaos of creative tensions. In *Collective Genius: The Art and Practice of Leading Innovation*, Harvard professor Linda Hill and her research team, posed the central challenge: The “unavoidable paradox at the heart of innovation is the need to unleash the talents of individuals and, in the end, to harness those talents in the form of collective innovation that is useful to the organization.”

So what are the indispensable capabilities that leaders need to develop in their organizations to navigate and leverage innovation’s paradoxical tensions productively? Hill and her research team identify three: creative abrasion, creative agility and creative resolution.

- Creative abrasion refers to the ability to create a “marketplace for ideas.” It “involves some level of conflict to be at its most effective.
- Creative agility refers to the ability and flexibility to “develop and test different options, learn from the outcomes and try again – and in many cases again and again,” and in this way “evolve even better options” in a timely fashion.
- Creative resolution recognizes that the “best innovative solutions often combine ideas, including ideas once considered mutually exclusive.”

Ideation and critical evaluation

In *Creative Construction: The DNA of Sustained Innovation*, Harvard professor Gary Pisano highlights what he sees as the “hard truths” confronting any leader trying to build an innovation culture. His research indicated that for innovation initiatives to deliver results, every conventional practice has its more difficult flipside:

- Tolerance for failure but also no tolerance for incompetence.
- Willingness to experiment but also highly disciplined.
- Psychologically safe but also brutally candid.
- Collaborative but also individually accountable.
- Flat culture but with strong leadership.

Case: “Creative selection” at Apple - The iPhone touchscreen keyboard

Former Apple tech executive Ken Kocienda’s recent reflective memoir, *Creative Selection: Inside Apple’s Design Process During the Golden Age of Steve Jobs*, offers some valuable insight into how the kind of conflicting tensions identified by academic researchers were productively harnessed. An emphasis on demos is central to Apple's creative process. At Apple, the demo was the "basic fact" on which they built their creative output. Demo-review meetings "served as the primary means to turn ideas into software," Kocienda recalls. Even though he was a high-tech CEO, at the demo meetings Steve Jobs could put himself in the shoes of the customer.

Avoid M&A assimilation heartburn: an actionable model for cultural due diligence and integration

Timothy Galpin

The maxim "Culture eats strategy for breakfast" has been attributed to the late management guru Peter Drucker. The warning is especially germane now that M&A has become the go to strategy to drive growth for many firms across the globe.

Many observers have cautioned that mismanagement of cultural aspects during M&A significantly contributes to value destruction. For example, 92 percent of respondents to a McKinsey survey on M&A performance said their transactions would "have substantially benefitted from a greater cultural understanding prior to the merger" and 70 percent acknowledged "too little effort focuses on culture during integration."

An actionable culture comparison and integration model

Firms may intend to pay more attention to culture during their pre- and post-deal M&A activities, but little information exists concerning how to go about it. As a guide for practitioners, the field-tested Culture Comparison and Integration Model (CCIM) offers firms a methodology for comparing and integrating the organizational cultures of combing firms using twelve "cultural levers."

A mobilizing jolt of energy

A typical reaction from executives considering the approach is that at first it appears to be overly bureaucratic. Some ask, "Can we just put everyone through a culture training program?" Applying all twelve levers of the CCIM simultaneously to compare and integrate combining firms' cultures can seem like an intimidating task to most managers. But doing so sends "a mobilizing jolt of energy through the company."

Applying the model

There are seven key steps for applying the CCIM to conduct pre-close "cultural due diligence" and post-close "cultural integration," A crucial first step in the process of applying the model is to determine the degree of cultural integration desired.

Why the model works in practice

The CCIM addresses how individual behavior is driven by a person's environment. Moreover, a behavioral measurement approach to managing organizational culture enables clear tracking of progress. The key premise of the CCIM is: an integrated set of environmental levers that shape collective workforce behavior provides management a pragmatic approach to conduct pre-deal due diligence and post-deal integration of organizational cultures.

Takeaway

Too often, when conducting transactions, M&A professionals focus only on the financial and operational aspects of the combining firms, ignoring organizational culture because it appears so difficult to assess and manage. The CCIM offers a proven management model.

On a growth track with startups: how establish companies can pursue innovation
Rudolf Freytag

Apart from traditional approaches to innovation and growth, many large established businesses undertake collaborations with startups as an important tool for exploring emerging markets and advancing the digital transformation of their core business. A critical question that has been neglected by the business literature is: how can this collaboration systematically yield innovative growth for the bigger partner – in a significant magnitude, within the usual planning periods of just a few years and within manageable limits for capital investment and risk?

From a purely financial standpoint, investing in startups would not seem to be a promising growth strategy for large firms. For established companies with revenue in the multiple hundreds of millions or even several billion dollars, the maximum direct contribution to revenue that a startup can make – even if it is unusually successful – is far too little for a conventional growth strategy, given the usual planning time frame of two to three years.

There needs to be a leverage effect

A startup can become relevant to an established company's revenue within a few years only through the "leverage" effect of growth through learning. The collaboration between the established company and the startup must cause a significant stimulation of revenue in the large partner's core business or it must advance the digital transformation of the core business.

The Startup Toolbox for established companies

Industry leaders can gain systematic access to innovative growth through startups only if they clearly distinguish between two fundamentally different objectives:

1. Exploration to develop the growth strategy.
2. Execution to carry out the growth strategy.

Because of their different objectives, exploration and execution differ significantly in their operational configuration. A case illustrates how this works in practice.

Scouting and collaboration

Startup scouting is an excellent exploration tool for getting an overview of the constellations of startups in an industry. Collaboration includes any form of activity between established companies and startups.

Minority investments – "venture capital investments" – and collaboration

Established companies frequently combine collaboration with startups with a minority investment, usually less than 25 percent – a "venture capital investment".

Majority investments

In contrast to a venture capital/minority investment, majority investments yield not just an influence over the investee, but control over it.

Developing strategies with the Startup Toolbox

The strategic Startup Toolbox is a time-tested approach that enables established companies to make systematic use of collaboration with young companies in order to develop and implement an innovative growth strategy and thus generate growth in suitable fields of innovation, with a relevant magnitude and with acceptable risk.

Identifying a set of line manager personas to guide new product introduction strategy

Karla Straker, Genevieve Mosely and Cara Wrigley

What action should a company's top management take when innovative new products designed with careful attention to the needs of customers sell in some stores, but not others? The designers of the products were familiar with a chronic cause of new product failure identified by pioneer software programmer Alan Cooper: designers "canvass the user community, collect their requests for functions, and then provide them a product containing all of those functions. . ." It rarely turns out well. Cooper's novel solution, which he described in a chapter of his book *The Inmates Are Running the Asylum*, published in 1999, was a methodology for researching and creating customer personas.

A persona represents a target customer or user, external to an organization that shares common behavioral characteristics. The firm's product designers, knowing how different personas would interact with the innovative product and service bundles were able to design them so that they were "user friendly" in a variety of specific contexts.

A case in point

While personas are extremely effective tools for businesses to employ to understand their target user and customer, to date they have not been developed into a tool for internal use within an organization. A global franchise organization elected to use the persona methodology to address its vexing new product introduction problem. To understand the franchise owners' perceptions and management styles, interviews were conducted with franchise owners.

The manager persona

Manager personas identify key leadership and management styles, as well as behavioral and cultural characteristics, to effectively target who will trial, launch and roll out new products within the organizational structure, in this case, franchise managers.

Case study

Due to a lack of acceptance in some markets, several launches of bundled innovative products and services failed, leading many franchise owners to be reluctant to sell anything but the company's standard products in their stores.

Following a design innovation and user-centered approach, franchise owners' insights were gained through interviews prior to the final development of a new and innovative product. By grouping together attitudes toward innovation, similar backgrounds, attributes, motivations and challenges among franchise owners the interviews identified four personas. These results and all the manager personas' positions on three key issues – competition, risk of implementing new products and technology implementation – were presented to the company.

Strategic takeaway

In the case study, the senior leadership team saw the manager persona as a strategic aid to, "Help target the implementation of new products in stores, select franchise owners for potential new roles and to deeply understand the motivations, challenges and attributes of their middle management contributing to the competitive advantage of the organization."

Mapping technology roadblocks and opportunities in the transportation revolution

Amy Blitz and Khurram Kazi

When technological breakthroughs disrupt industries, organizational structures and the broader macroeconomic environment they also generate opportunities for new business models. A paradigm shift toward "machine-to-machine services" is fast emerging, setting off a revolution in many areas including transportation. As an example, the advent of autonomous electric vehicles (AEV), piloted by artificial intelligence and serviced by other "intelligent" machines, poses vast implications for business strategy in many industries.

The future of autonomous vehicles: a case study in navigating breakthrough technologies

As one major factor in a scenario exploration, smart machines are creating new market frontiers throughout the economy. .A key limitation facing AEVs, however, is in charging, specifically access to charging stations nationwide and the time required to recharge.

The combination of AI and AEV

The concept outlined in this scenario is a smart grid of autonomous charging stations capable of communicating with each other and with autonomous AEVs in order to optimize the buying and selling of recharging services.

The grid could optimize charging markets along multiple dimensions such as pricing, distance, availability, timing, traffic and prioritization. Overall, a smart grid presents business opportunities to create solutions for optimizing markets at every stage of the charging process. Solutions required from tech, energy, operations, finance, marketing and policy include:

- New power generation business models throughout the grid.
- Autonomous auction-based station selection and scheduling.
- Autonomous recharging.
- Autonomous and secure payment.
- Autonomous stations networks.

Toward a smart future with machine-to-machine services

All together, the emerging AEV transportation revolution can be envisioned as a scenario of breakthrough innovations and investment pathways for business leaders to navigate in coming years. It opens opportunities for new business models in other industries, for example:

- In the insurance industry, new approaches to liability will need to be established.
- In retail, mobile shops located in AEVs are envisioned as a way to deliver goods and services to travelers.

Moreover, AEVs are expected to free up more than 30 billion hours per year in the U.S. alone currently spent driving, sitting in traffic or searching for a parking space. As AEVs gain viability, they will transform the way we live and work, creating further business opportunities as yet unimagined. Smart strategy will not only anticipate such change, it will embrace and perhaps even help create it.