

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).

Why maximizing shareholder value is a threat to U.S. business *Stephen Denning*

What are senior executives to do now when faced with this conundrum: Maximizing shareholder value is either the guiding principle of business success that provides a rightful reward for investors or a corrupting influence that thwarts investment in employee talent, sustaining innovation, and product quality and customer loyalty.

Many long-established public corporations in the U.S. have chosen to bow to the power of shareholders and reward them instead of attempting risky initiatives that might create new customers or enhance customer value. Preferential treatment for shareholders is the norm. *The Economist* has recently declared that the goal of maximizing shareholder value is “the biggest idea in business.”

But there are dissenters who see maximizing shareholder value as a threat to business sustainability in the longer term. For example, former GE CEO Jack Welch warns: “Shareholder value is a result, not a strategy. . . your main constituencies are your employees, your customers and your products.” In other words, shareholder value is a result of a company’s enlightened management of its sustainable business opportunities.

There are now two schools of thought

- The goal of business should be to reward stockholders above all other stakeholders.
- Shareholder value is a result of a company’s enlightened management of its sustainable business opportunities.

The degraded form of shareholder value thinking

The critics of shareholder value point out that it has “increased the power and influence of certain types of shareholders over other types without establishing any corresponding responsibility or accountability on the part of shareholders who exercise that power.”

The failure of shareholder value thinking

As a result shareholder value theory has not only failed on its own narrow terms of making money for shareholders. It has been steadily destroying the productive capacity and dynamism of the entire economy.

- Manufacturing jobs were steadily sent to other countries with cheaper labor costs.
- In the process, public corporations, while presenting

themselves as job creators, became net job destroyers.

- The pursuit of short-term shareholder value has also led to firms allocating almost all the gains that flowed from workers' improvements in productivity to shareholders, including executives.

What is to be done?

What is to be done? Some CEOs have already spoken out against preferentially rewarding stockholders instead of investing to sustain the organization.

There are thus powerful rational arguments as to why maximizing shareholder value is financially, economically, legally, socially and morally wrong.

Business leaders must move beyond being simply *practitioners* of capitalism and become its *stewards*, working to enhance the sustainability of the market system. Practicing leadership in the interest of all stakeholders instead of just the few is a critical part of that stewardship.

A tool for creating breakthrough choices: integrative thinking methodology
Brian Leavy

Roger Martin, strategist and former dean of the Rotman School of Management, University of Toronto first introduced the powerful concept of “integrative thinking” in his highly influential 2007 book *The Opposable Mind*. That book provided cases of exceptional leaders who intuitively solved dilemmas and other difficult decisions by creating a third, better choice for their organizations.

His new book, *Creating Great Choices: A Leader's Guide to Integrative Thinking*, co-authored by Jennifer Riel, endeavors to make formulating and testing such creative solutions to “wicked problems” a teachable process. His interviewer, Brian Leavy asked him to explain the rationale behind the methodology offered by the new book.

Roger Martin: I am still happy with the definition provided ten years ago in *The Opposable Mind*. “The ability to face constructively the tension of opposing models and instead of choosing one at the expense of the other, to generate a creative resolution of the tension in the form of a new model that contains elements of the individual models

but is superior to each.” I came to the conclusion that this way of thinking was the centrally defining feature of highly successful leaders.

S&L: What are you seeking to accomplish with your new book, *Creating Great Choices*?

Martin: The primary rationale was to make up for the central weakness in *The Opposable Mind*, which is that it turned out to be hard for many readers to be able to put the theory in the book into practice without further guidance.

S&L: You maintain that the creativity required for integrative thinking “isn't a gift” or “a solitary act,” but rather a collaborative process that all of us can get better at with the right mind-set and approach.

Martin: What we have found in our work is that such creativity is the product of mixing existing models in new ways. So working together promotes creativity because others can share their models. By exposing your model to other models through interaction, together you can utilize pieces of those models to generate a new one.

Using Agile approaches for breakthrough product innovation

*Mitch Beaumont,
Ben Thuriaux-Alemán,
Prashanth Prasad and
Chandler Hatton*

Breakthrough innovation aimed at delivering disruptive impact, or creating new market spaces or step-changes in product, process or business-model performance – is increasingly challenging. However, many organizations, especially those with complex engineered products and longer development lifecycles, struggle to achieve the rapid leaps in innovation that have been more common in startups, especially in the software industry.

An Agile approach to product development – self managed teams making rapid innovations experiments with customer involvement at every stage–has been a mainstay of the software industry since the turn of the century.

The challenges of breakthrough innovation

Arthur D. Little's eighth Innovation Excellence Survey revealed that leading companies expect their share of revenue from breakthrough, as opposed to incremental, innovation to double over the next five years. The survey also found that 88 percent of business leaders were dissatisfied with their company's breakthrough innovation performance.

The underlying issue for these organizations is usually that they are applying phase-gate approach (also known as a stage-gate or waterfall process) to all of their innovation efforts. They have made significant investment in the design and adoption of such an approach. As a result, they have created the perfect environment for incremental innovation.

Unfortunately, this well-honed model is not conducive to breakthrough innovation, which is inherently exploratory and risky.

Arthur D. Little's research reveals that companies that have successfully added Agile methods to their toolboxes and tailor their innovation approaches by the type of innovation – incremental or breakthrough–perform significantly better

The Agile method

Iterative process: The heart of the Agile method is the use of a series of rapid, iterative learning loops. At the early “exploration” stages of the development lifecycle, each loop focuses on answering a key question that is determined to have a high degree of importance.

Teams: Clear roles and responsibilities and the right balance of authority and accountability are important for team success in an Agile product development.

Governance: While governance is not often identified as a key element of Agile software development, it is critical within product development and serves to mitigate interference by parts of the organization that compete with Agile teams for resources.

Embracing Agile as part of a holistic innovation approach

The phase-gate and Agile approaches are distinct in their implementation, and generally suited to different innovation objectives. Ultimately, many companies may wish to evolve more complete Agile development pathways which also include these downstream activities.

Insights for executives

The slower, risk-mitigating approaches that have been successful over the last 30 years are now holding back organizations that need to quickly deliver goods highly valued and existing customers with rapidly changing needs.

The enticing promise of cognitive computing: high-value functional efficiencies and innovative enterprise capabilities

Glenn Finch, Brian Goehring and Anthony Marshall

Cognitive computing augments human decision making capabilities and helps generate insights for organizations to act and respond to rapidly changing market dynamics.

An increasing number of CEOs have recognized its immense potential; seven out of ten global Chief Executive Officers surveyed now believe cognitive computing will play an important role in the future of their organization. Fifty percent of those top leaders interviewed either have adopted cognitive computing within their businesses or intend to do so by 2019.

Cognitive computing offers companies an opportunity to dramatically improve the efficiency of business functions throughout the enterprise.

It also supports not only faster, more cost effective modes of operation, but it can also enable entirely new capabilities that promise dramatically expand revenue opportunities and competitive advantages.

Cognitive systems will transform the workings of individual business functions, but it will also create breakthrough opportunities for interactions between various functions of the organization. Understanding the full potential of the overall impact of cognitive computing starts by considering how it can speed up and empower specific company functions.

In the front office, self-learning cognitive systems are enabling data-rich customer engagement in which the technology recognizes,

learns and improves with every interaction.

In the middle office, cognitive computing is already empowering employees to easily handle large volumes of data with dynamic automation.

In the back office, cognitive computing is empowering and improving employee productivity by automating arduous, repetitive tasks.

Achieving new capabilities

While cognitive computing significantly improves speed, accuracy, efficiency and effectiveness of functions and processes across the enterprise, its potential benefits to the organization go beyond a simple summation of functional advantages. New forms of innovation will emerge, and cognitive computing will enhance the capability of the enterprise to rapidly realign in response to new opportunities.

Building a cognitive strategy

Cognitive systems are creating a new partnership between humans and technology. This partnership allows businesses to see, use and naturally interact with virtually all data. But effectively employing cognitive systems in business requires a strategic approach.

A three-phase approach and associated detailed steps described in the article are recommended to implement cognitive computing initiatives that foster competitive advantage: strategy and visioning, targeting and incubation.

Strategic choices for managing potential crises

Helio Fred Garcia

Why do some leaders and the organizations they lead overcome potentially catastrophic crises without any meaningful harm to their

reputation? Leaders who guide their organizations successfully through crises are those who can make smart choices in a timely way.

Crisis communication is a subset of crisis management that focuses on engaging stakeholders when their trust, confidence and cooperation are at risk. But communication by itself is rarely enough. Effective crisis response pairs smart action with smart communication.

Crisis means choice

Understanding crises as a moment of decision or choice in which destiny is determined is a key to effective crisis management. Getting it right requires a rigorous learning process that begins with asking the right questions at the right time. The most productive way to choose is to consider options always in connection to their likely outcomes – intended and unintended, positive and negative. But how do we choose among the possible options/outcomes?

Trust, expectations and caring

Because trust is the consequence of fulfilled expectations, the right question to ask when determining the best course of action in a crisis is to think of the stakeholders who matter to your organization.

There are many ways to identify such expectations. To start, if there are legal or regulatory requirements, reasonable people would appropriately expect a responsible organization or leader to meet those requirements.

The influence of politics on the future of China's economy is a drama that can be interpreted from many perspectives. Several potential paths forward can be considered, including some less noted possibilities.

Given the uncertainty associated with China's evolving political

Effective crisis response begins with a timely demonstration of caring. And it continues with a persistent demonstration that the organization and its leader continue to do what needs to be done for stakeholders. What it takes to show we care may vary across time, across stakeholder groups, and across forms of crisis. But that we need to show we care does not change.

Of course, the best way to control the communication agenda is by being the first to fully define the crisis, your motives and your actions. But what if that's not possible when something happens unexpectedly. In such circumstances it's important to understand the concept of the Golden Hour of Crisis Response.

The Golden Hour doesn't refer to a particular number of minutes but rather the observation that incremental delays in controlling the communication agenda lead to greater-than-incremental harm. The longer it takes to show we care, the harder it becomes to ensure a minimal loss of trust.

It is relatively easy to make smart choices by asking just a handful of questions in the early phases of a situation that potentially could become a crisis. And as each question is answered, leaders get closer and closer to seeing clearly the most productive path forward, and the best timeline for taking that path.

story, some China experts see change as unlikely. Others see China's political system primed for substantial change. To better understand the factors at work, consider the logic undergirding four experts' different views of the unfolding interplay of China's politics and its economy.

Four political perspectives on China's economic future *Jonathan Brookfield*

- **A post-democratic future:** Eric Li, a venture capitalist, is optimistic that today's Chinese Communist Party can successfully meet the country's challenges going forward. He believes "Beijing will be able to meet the country's ills with dynamism and resilience." In sum, Li suggests that electoral democracy is not the only legitimate and effective system of political governance, and China "demonstrates that successful alternatives exist."
- **China's trapped transition:** Minxin Pei, a professor of government at Claremont McKenna College, worries that political inertia may be coupled with an extended period of economic stagnation. Pei believes that the Chinese state "is severely limited by its incoherence, internal tensions, and weaknesses," and that the regime has, over time, become "more brittle and less capable of withstanding crises"
- **Reform, innovation and growth:** Yasheng Huang is a professor of global economics and management at MIT with deep knowledge of China's economy and Chinese business. He is relatively optimistic, seeing political reform as a potential springboard for continued economic dynamism. But he believes "China is hitting the wall of diminishing returns" with

its growth model. In Huang's view, while the opacity of China's banking system reinforces government guarantees, which should preclude a sudden loss of confidence, bad loans still have consequences.

- **The coming communist party crackup:** David Shambaugh, a professor of international affairs and director of the China policy program at George Washington University, suggests the increasing possibility of a coup and worries about the potential political and economic turmoil associated with such an action. Shambaugh sees the possibility of a crackup in the Communist Party leading to a messy, violent period. He suggests that "the endgame of Chinese communist rule has now begun" and argues "Communist rule in China is unlikely to end quietly."

A combination of political and economic constraints

There are many "black swan" scenarios not addressed here – radical technological change, epidemics or religion. Yes, the future is likely to produce surprises, but structured thinking about China's future from a political perspective provides a critical point of view for understanding emerging economic news.

Machine reengineering: robots and people working smarter together
Prashant Shukla, H. James Wilson, Allan Alter and David Lavieri

To discover the true potential of artificial Intelligence (AI) to empower their business, corporate leaders need to completely rethink the relationship between workers and smart machines. Leading companies are embracing the concept that smart robots and computers capable of learning can complement employees and

endow them with new capabilities, according to a recent survey by Accenture Research. The research focused primarily on the subset of AI known as "machine learning" – the most commercial application of the technology.

Machine learning, a state-of-the-art subset of computer science,

enables adaptive computers to employ an algorithm to sort data, make decisions and continuously assess and improve their functionality. They can power robots that work synergistically with people. The study found that across almost all industries, some 45 percent are seeing 10X improvements in key performance indicators (KPI) in at least one machine learning-enabled process.

The disruptive potential of machine reengineering

Research findings indicate there is an opportunity for business leaders to adopt a mindset of “creative destruction” that requires blowing up existing processes and looking past the business assumptions that underlie them. Given the potential for strategic advantage, companies should embrace machine reengineering, which uses machine learning to add value to the work product of their employees, increase their skill level and enhance

corporate capabilities. Three case studies are cited.

The three elements of machine reengineering

- Reimagining business process.
- Redesigning the human-machine relationship.
- Unlocking the value of data.

The way forward

Machine reengineering is not simply a technology transformation. It is a new perspective encompassing technology, strategy and work. Executives and managers must foster cultures of creativity, collaboration and data competency. They must also establish a culture that empowers employees to thrive alongside intelligent machines and adaptive robots while at the same time encouraging workers to maintain a healthy skepticism of machine-generated outcomes.