

## Leadership and strategy in the news

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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](mailto:craig_henry@centurylink.net)).

### Of strategies and strategists

#### Setting strategic priorities

Strategy, at its heart, is about choice. Few companies succeed by making a single big bet. Most winning strategies are based on a bundle of choices about, among other things, the customers to serve, the scope of the business, product offerings, and capabilities that interact with one another to help a company make money.<sup>1</sup> Consider Trader Joe's Co., the U.S. grocery retailer based in Monrovia, California. It focuses on educated, health-conscious customers, which influences where it locates its stores, which products it stocks, and the type of employees it hires. The company's choices reinforce one another to increase customers' willingness to pay, reduce costs and thereby drive profitability. The dense interdependencies among the choices prevent rivals from imitating Trader Joe's winning strategy. Piecemeal imitation of a few elements — for example, the store format or the focus on private labels — wouldn't work. Instead, a rival would need to replicate the full set of interconnected choices. . . .

To set the strategic agenda and drive implementation effectively, we have found that strategic priorities need to balance guidance with flexibility, counterbalance the inertia of business as usual and unify disparate parts of the business. Crafting strategic priorities that do all of these things — and do them well — is a tall order. . . .

Seven characteristics of effective strategic priorities

1. Limit the number of priorities to a handful. . . . The best priorities serve as strategic guardrails. If they know the parameters they must work within, managers and employees can fill in the blanks based on their local knowledge and circumstances.
2. Focus on mid-term objectives. Strategic priorities act as a bridge between long-term aspirations — embodied in a vision or mission — and annual or quarterly objectives.
3. Pull toward the future. Strategy should guide how a company will create and capture value going forward, rather than codifying how it made money in the past.
4. Make the hard calls. In organizations of any size, there will be dozens or hundreds of competing and often conflicting priorities. The discipline of honing priorities down to a handful can force a leadership team to surface, discuss and ultimately make a call on the most consequential trade-offs the company faces in the next few years.
5. Address critical vulnerabilities.
6. Provide concrete guidance. A company's strategic objectives should be tangible enough that leaders and employees throughout the organization can

use them to prioritize their activities and investments (and also to help them decide what to stop doing).

#### 7. Align the top team.

Donald Sull, Stefano Turconi, Charles Sull, and James Yoder, "Turning Strategy Into Results," *Sloan Management Review* September 2017.

### An often missing link: strategic planning and organizational development

While strategic plans identify what your organization should do differently; very few provide a roadmap for how to build the skills, knowledge and processes needed to carry out and sustain the critical changes. But without building these capabilities, it's very difficult to achieve the results you want.

For example, a multi-product technology firm laid out a strategy to significantly increase business with its large enterprise customers by creating single points of contact and focusing on providing solutions as opposed to delivering products. The strategy was sound, but making it happen required many new capabilities: dozens of sales people had to learn new approaches to selling and relationship building, different sales divisions needed to share information and collaborate, new roles for coordinating enterprise accounts had to be created, financial information had to be presented and analyzed differently. These changes meant that hundreds of people in the company had to work differently in some way – but the plan said nothing about developing capabilities. So despite general agreement that the strategy made sense, the missing capabilities made it impossible to carry out.

... But strategic plans often get this simple equation wrong, for one of two reasons.

First, many strategic planners and senior executives assume that if the strategy is logical, then people will figure out what to do, and don't build capabilities development into their plans at all. ...

At the other extreme, some planners like to be prescriptive and can spend significant resources mapping out in great detail what everyone should do differently. But a "paint by the numbers" approach to strengthening organizational capabilities rarely works. Developing capabilities requires experimentation, trial and error and iterative learning to figure out what will work in each organization's unique culture, functional structure and environment. ...

Overcoming these pitfalls requires thinking of capability development in a different way: as an integral part of strategic execution. The key is to link each strategic priority to the capabilities needed to drive that opportunity, and to frame accountability for each strategic priority around both results and capability development.

Ron Ashkenas and Logan Chandler, "Your Strategy Won't Work If You Don't Identify the New Capabilities You Need", *Harvard Business Review* November 2017.

### The value of project leadership

Today, the very largest and most complex projects command budgets exceeding \$5 billion and require more than five years for design, planning and construction. The sheer scale of such projects brings unique complexities: multiple interfaces with stakeholders such as local communities and government bodies, new regulatory and environmental requirements and often unique technological challenges. ...

Execution of large projects has historically proved difficult. On average, projects with budgets above

1 billion are delivered one year behind schedule, and run 30 percent over budget. ...

So, how can project owners boost their chances of completing an ultra-large project successfully?

We believe a critical element for successful large project delivery has so far been neglected: specifically the "soft" issues of project delivery such as leadership, organizational culture, mind-sets, attitudes and behaviors of project owners, leaders and teams. ...

Our research kept coming back to topics included in the art of project leadership; that is, the organizational and leadership aspects—capabilities, mind-sets, practices, attitudes, and behaviors—required to deliver the largest and most complex projects. Through our interviews we have found that the art of project leadership gains greater importance with increasing project size and complexity.

Sergey Asvadurov, Tom Brinded, Trevor Brown, Mike Ellis, David Knox, and Rod Speering, "The art of project leadership: Delivering the world's largest projects," *McKinsey Insights* September 2017.

### Industry focus

#### Retail without inventory

It's not easy to be a retail brand these days. Every few weeks it seems there is yet another story about some major retailer either abandoning or downsizing multiple locations. Online shopping has fundamentally changed the way consumers buy as well as the ways brands sell. It's hard to show an industry that has been as fundamentally disrupted.

In a report from the (US) National Retail Federation, Ray Gaul, vice president of research and analytics with Kantar Retail says, "We are witnessing a transformation in which the physical environment now needs to serve three shopper missions

rather than one. The old one was a full shopper mission where the consumer discovers products, selects the products and then transports the products home. The two additional missions are buy online, pickup at store and showrooms and product information, these will require two things . . . store remodels and store closings, or both, and a new economic model to cover costs and deliver profits. Companies that have embraced this new way of shopping have begun to deliver better profit per square foot than companies that have not” . . .

In a few weeks, [Nordstrom] will launch a clothing store with no clothes for sale. Called Nordstrom Local, it will be very small, just 3,000 sq. ft. instead of the normal 140,000. Instead, customers can seek out personal stylists who will bring merchandise to the small store same-day, they can pick up items bought on-line, also same-day. An on-site tailor will handle all alteration needs, a feature for which the brand is renown, and will offer beer, wine and espresso (of course) . . .

Chris Wren, “Brand Innovation Drives New Retail Strategy,” *Branding Strategy Insider* 14 September 2017. [www.brandingstrategyinsider.com/2017/09/brand-innovation-drives-new-retail-strategy.html#.Wcu3449Swgs](http://www.brandingstrategyinsider.com/2017/09/brand-innovation-drives-new-retail-strategy.html#.Wcu3449Swgs)

## Technology and disruption

### Is the age of disruptive start-ups over?

The technology industry is now a playground for giants. Where 10 or 20 years ago we looked to start-ups as a font of future wonders, today the energy and momentum have shifted almost completely to the big guys. In addition to the many platforms they own already, one or more of the Five are on their way to owning artificial intelligence, voice assistants, virtual and augmented reality, robotics, home automation, and every other

cool and crazy thing that will rule tomorrow.

Start-ups are still getting funding and still making breakthroughs. But their victory has never been likely (fewer than 1 percent of start-ups end up as \$1 billion companies), and recently their chances of breakout success — and especially of knocking the giants off their perches — have diminished considerably.

The best start-ups keep being scooped up by the big guys (see Instagram and WhatsApp, owned by Facebook). Those that escape face merciless, sometimes unfair competition (their innovations copied, their projects litigated against). And even when the start-ups succeed, the Five still win.

Because today’s giants are nimbler and more paranoid about upstart competition than the tech behemoths of yore, they have cleverly created an ecosystem that enriches themselves even when they don’t think of the best ideas first. The Five run server clouds, app stores, ad networks and venture firms, altars to which the smaller guys must pay a sizable tax just for existing. For the Five, the start-up economy has turned into a heads-I-win-tails-you-lose proposition — they love start-ups, but in the same way that orcas love baby seals.

Farhad Manjoo, “How the Frightful Five Put Start-Ups in a Lose-Lose Situation,” *New York Times* 18 October 2017.

### Could Apple fall to a disruptive competitor?

To understand the future of phones, it helps to look at the history of phone innovation. We have seen this movie before. When focal dimensions of innovation change, incumbents often get left behind. More specifically, as we shift from hardware-based innovation to differentiation around AI-driven technologies, market leaders like Apple should be on high alert.

Innovation in technology product categories tends to proceed along a specific dimension—a “vector of differentiation.” Players pursue innovation along a vector of differentiation until the vector runs out of steam. . . .

The physical dimensions of the phone constituted the first vector of mobile phone differentiation. . . . With the advent of the BlackBerry, Palm device, and others in the mid- to late-1990s, the emphasis shifted to data capabilities, especially email and text messaging. . . . Fast-forward to 2007, when the vector of differentiation shifted once again with the debut of Apple’s iPhone. Now it was about display and apps. In a revolutionary move, Apple eliminated the physical keyboard to maximize real estate for glass. It also created the App Store, a thriving ecosystem of applications that contributed to Apple’s breathtaking market success. . . .

As we have seen, when the vector of differentiation shifts, market leaders tend to fall by the wayside. In the brave new world of AI, Google and Amazon have the clear edge over Apple. Consider Google’s Pixel 2 phone: Driven by AI-based technology, it offers unprecedented photo-enhancement features and deeper hardware-software integration, such as real-time language translation when used with Google’s special headphones. . . .

The history of mobile phones suggests that when vectors of differentiation shift, so does market leadership.

Mohanbir Sawhney, “The iPhone X Is the Beginning of the End for Apple,” *Fortune* 2 November 2017.

## The case against speed and agile

Leaders today face a particularly consequential need to question conventional wisdom. They must wean their companies away from three ideas that have anchored

technological decision-making for over a decade, but which have become dangerous for our current age. Making this shift will be difficult because the costs will be immediately apparent, while the benefits may not come for years. The three ideas that must go are:

- Agility, which prizes the ability to rapidly change established strategies, assets, or processes.
- First-mover advantage, which decrees that whoever introduces a new product or service or technology first will almost inevitably win.
- Minimum viable product, which encourages the release of early versions of products or services.

The collective output of these ideas is a very strong bias toward accelerating a project's speed to market. But the broad acceptance of these ideas, which are pronounced sacrosanct by academics and consultants who are mesmerized by startups, is incomprehensible.

The spontaneous fires of the Samsung Galaxy Note 7 smartphones, which led to the recall of over a million devices, illustrate the danger. . . .

In the near future, every "minimally viable product" developed with "great agility" to seize "first-mover advantage" will carry within it the potential to harm not just a company, but the economy. The internet of things will connect products and services to other products and services, systems to other systems, and companies to other companies. Consequently, our ability to diagnose and fortify failure points will be challenged so much that Samsung's one-company-and-its-partners crisis will seem like child's play.

Amit S. Mukherjee, "The Case Against Agility", *Improvisations* 26 September 2017. <http://sloanreview.mit.edu/article/the-case-against-agility/>

## Traffic jams and the global economy

How to improve mobility and make our cities cleaner, greener, more livable, and efficient.

Last year, McKinsey and Bloomberg New Energy Finance published An integrated perspective on the future of mobility, which outlined four trends that are rapidly changing passenger transport: electrification, autonomy, connectivity, and sharing. The same four trends will, to a large degree, shape the future of commercial urban transport, which is the focus of this report. . . .

Of all the solutions we studied, two stand out; both already exist but could be deployed much more widely, to great effect.

Urban consolidation centers (UCCs) are locations, typically on the outskirts of cities, where deliveries are brought, sorted, and then dispatched. Goods from multiple suppliers can be consolidated into fewer shipments, because it is possible to optimize loads and truck sizes. While UCCs have been around for years, success has been spotty.

Second, night deliveries shift traffic to off-peak hours; this reduces congestion during the day and allows suppliers to use bigger trucks, reducing the number of deliveries. In dense, developed cities, we estimate that shifting to night could speed up commercial deliveries by half and cut costs by up to 50 percent. For all the potential, though, the use of night deliveries in cities is limited, largely because of noise concerns; eventually, the use of EVs could help because they are quieter—and would also sharply reduce related emissions.

"Urban commercial transport and the future of mobility," *McKinsey Quarterly* September 2017

## The future of urban transportation

In 2010, for the first time, more people lived in urban than rural areas. Our rising urbanization shows few signs of abating.

. . . Saddled by legacy infrastructure and limited budgets, many urban areas are struggling to keep pace with increased populations and growing volumes of freight, leading to increased congestion, lower quality of life, lost economic potential and negative health outcomes.

. . . More recently, and partially in response, a dizzying array of mobility-related innovations have emerged that could address many of those challenges. While still a small fraction of the overall mobility landscape, many urbanites are flocking to an expanded array of transportation options—carsharing, ride-hailing, bike sharing, greenbelts and pedestrian paths, and others—in many cases substituting for existing outmoded, inconvenient and inaccessible transit systems. With the emergence of shared autonomous mobility, connected infrastructure, and smart cities technologies, the prospects for an urban intermodal transportation ecosystem that is faster, cheaper, cleaner and safer appear closer than ever.

Realizing this vision, however, is likely to require more than a series of one-off, point solutions. . . . But there could be a way to achieve a Pareto-improving, more efficient outcome in the near term by overlaying onto today's transportation system a citywide digital platform to facilitate transparency, interoperability, coordination, and control: a mobility operating system (mOS).

Scott Corwin, Jeff Hood, Anant Dinamani, Derek M. Pankratz, "Toward a mobility operating system," *Deloitte Insights*, 9 October 2017

## Culture and innovation

### Why transformation efforts fail

When companies decide to embark on a major transformation, whether to take out cost, jump-start sluggish growth or respond to disruptions in their core markets, they often follow a well-worn path. . . .

Consider the track record of change programs in the corporate world. A Bain & Company survey of 250 large companies executing transformations found that only 12% actually achieved what they set out to accomplish. Some 38% failed by a wide margin, capturing less than half of the value they initially targeted. And 50% settled for a significant dilution of results. The disturbing implication: Over time, too many organizations unwittingly wind up accepting mediocre performance.

Where classic change programs fail to deliver their full potential, the disappointing results often tie back to the fact that the changes were not owned by the front line. . . .

Highly centralized efforts also do not capture the many ideas for improvement initiatives that frontline employees have, and often fail to consider employee knowledge that's vital to the well-being of the business. For example, as part of a centralized approach, headquarters executives at an oil and gas

company looked to wring short-term savings from their pipeline operation. They changed the specifications for equipment in new production processes, which later led to operational shutdowns, requiring costly repairs. In another case, a major retailer trying to cut costs reduced the hours worked by staff in stores, leading to long lines at the checkout and widespread annoyance among customers.

Lodewijk de Graauw, Marco D'Avino and Simon Henderson, "When the Front Line Should Lead a Major Transformation", *Bain Brief* 26 September 2017.

### A wider perspective

#### The Dutch agricultural miracle

Almost two decades ago, the Dutch made a national commitment to sustainable agriculture under the rallying cry "Twice as much food using half as many resources." Since 2000, van den Borne and many of his fellow farmers have reduced dependence on water for key crops by as much as 90 percent. They've almost completely eliminated the use of chemical pesticides on plants in greenhouses, and since 2009 Dutch poultry and livestock producers have cut their use of antibiotics by as much as 60 percent.

One more reason to marvel: The Netherlands is a small, densely populated country, with more than 1,300 inhabitants per square mile. It's bereft of almost every resource long thought to be necessary for large-scale agriculture. Yet it's the globe's number two exporter of food as measured by value, second only to the United States, which has 270 times its landmass. How on Earth have the Dutch done it?

. . . The brain trust behind these astounding numbers is centered at Wageningen University & Research (WUR), located 50 miles southeast of Amsterdam. Widely regarded as the world's top agricultural research institution, WUR is the nodal point of Food Valley, an expansive cluster of agricultural technology start-ups and experimental farms. The name is a deliberate allusion to California's Silicon Valley, with Wageningen emulating the role of Stanford University in its celebrated merger of academia and entrepreneurship.

Frank Viviano, "This Tiny Country Feeds the World," *National Geographic* September 2017.

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