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).*

Interview

Driving growth, productivity and engagement through "good jobs strategy"

Brian Leavy

The approach that business leaders take to managing front line employees can have a major impact on their success. For example, a key element in the effective turnaround led by Hubert Joly at Best Buy over the 2012-2019 period was the commitment to view front line employees as an asset and invest in them significantly.

Few have examined this important topic more closely than Zeynep Ton, a professor at MIT Sloan School of Management, best-selling author of *The Good Jobs Strategy: How the Smartest Companies Invest in Employees to Lower Costs and Boost Profits*. Her latest book is *The Case for Good Jobs: How Great Companies Bring Dignity, Pay & Meaning to Everyone's Work.*

Strategy & Leadership: What was your message for leaders in *The Case for Good Jobs* and how does it build upon your earlier work?

Zeynep Ton: *Leaders can either view their employees as a cost to be minimized, invest little in them and operate with high turnover, or they can see them as drivers of profitability and growth—investing heavily in them, designing their work for high productivity and contribution.*

S&L: What is most distinctive about the mindset guiding companies pursuing a good jobs strategy?

Ton: The mindset of those who lead with good jobs is more customer-centric. In their minds if you can get everyone focused end to end on improving the value for the customer and maintain discipline in doing the fundamentals of your business well, you will create value for your shareholders. And once you are customer-centric, then you must be frontline-centric. Frontline employees are the ones face-to-face with the customers and drive differentiation, growth and profitability.

Raising full awareness of the low pay/high turnover trap

S&L: You argue that a successful transition to a high-productivity good jobs strategy must begin with pay and the recognition that low pay "is a two-pronged problem." What does that mean?

Ton: We have yet to come across a low-wage company that could successfully reduce employee turnover without increasing pay. Job simplification makes it possible to raise pay, because fewer labor hours are needed when fewer are being wasted. Simplification also improves customer service, reduces costs by reducing errors and makes employees' work better.

S&L: What are some of the main shortcomings that companies with high frontline turnover typically suffer that undermine performance and competitiveness?

Ton: They can't hire the right people and train them well, trust frontline employees to solve problems for customers or to engage in improvement, manage capacity so supply matches demand, develop or retain strong unit managers and hold employees to high expectations.

Beginning the transition and building momentum

S&L: What are the most important considerations involved in successful implementation?

Ton: The most important ingredient for success is to get various corporate functions—finance, marketing, product design, supply chain, operations, HR—to recognize the need for system change and to center the implementation journey around winning with the customer.

Interview

Rethinking the role of middle management for the new world of work

Brian Leavy

Nearly two decades ago in his best-selling book, *The Future of Management*, Gary Hamel highlighted what he viewed as the three most formidable challenges facing 21st century companies: “dramatically accelerating the pace of strategic renewal in organizations large and small,” “making innovation everyone’s job, every day” and “creating a highly engaging work environment that inspires employees to give the very best of themselves.”

To meet these daunting challenges, the need for a fundamental rethink of the role of management in today’s organizations seems now more urgent than ever. McKinsey partners, Bill Schaninger, Bryan Hancock and Emily Field set out to address this need in their new book *Power to the Middle: Why Managers Hold the Keys to the Future of Work*.

Strategy & Leadership: Why do you see the need to reimagine the role of management as particularly pressing?

Bill Schaninger: For too long, middle managers have been grossly underappreciated and too easily mocked and lampooned as narrow, box-checking bureaucrats. Middle managers deliver the most value to the organization when they can serve as coaches, connectors, talent managers and strategists.

Undervaluing and misapplying our middle management talent

S&L: Given their increasing importance, why do we find too many middle managers today so frustrated in their current roles?

Bryan Hancock: In all types of industries today managers remain mired in low value activities that undermine their ability to perform their most important task which is managing talent. A recent McKinsey survey found that middle managers are spending, on average, almost three-quarters of their time on tasks other than managing their teams.

Transforming middle management as a top priority

S&L: One of your strongest recommendations is that middle managers be incentivized to see the role as a career rather than primarily as “a way station” to higher executive ranks. Why so, and how might companies go about it?

Hancock: Many of the best middle managers are most fulfilled and valuable when they’re at the center of the action putting their skills to work, fostering talent and connecting people across teams. The problem comes when senior leaders reward great middle managers by promoting them out of the position—taking away what they do best and enjoy most.

S&L: Why has training middle managers “to be better coaches” become a top priority for senior managers in the new world of work, and how should they go about it?

Emily Field: Great middle managers help to recruit and retain top talent and rally their teams around a shared sense of purpose, even in the most chaotic moments. Senior leaders need to give middle managers the resources and training to develop these skills and help them hone them through on-the-job coaching and feedback.

Leading hybrid teams in a transition to the future knowledge workplace

Jodi Detjen and Sheila Simsarian Webber

As organizations navigate the challenges of employee expectations post-pandemic, many are finding it necessary to rethink and adapt their return-to-work approach. Employee demands for flexibility are prompting a shift of return-to-work strategies.

These organizations are increasingly relying on teams to develop innovative approaches to complex challenges. But the difficulty of the team leader role has expanded beyond traditional group processes and decision making to include hybrid work challenges, ambiguous and shifting organizational priorities and team member frustration.

The five paths to an effective workplace

From work on recent consulting assignments and reports in the business media, five diverse strategies senior leaders are utilizing to create the future workplace can be identified.

- The full time return-to-office approach attempts to promote clarity and consistency, maintain culture, as well as assert the authority and decision-making typically expected by senior leadership.
- The remote-only strategy makes the determination that virtual work is effective and provides a key cost savings.
- In some firms, senior leaders have simply halted all plans for a post-pandemic work environment.
- Organizational leaders seeking some level of structure for the workplace amid the continuous challenges of COVID-19 choose an emerging hybrid structured approach. The strategy is to set specific days of the week for full teams to be in the office.
- In contrast to the hybrid structured approach, in a hybrid fluid model, senior leaders have decided that there will be some rotation of employees in the office, yet the days of the week are completely decided by team leaders.

Fostering a hybrid fluid/structured team building culture

Top management now has the opportunity to adopt a hybrid team building approach to take advantage of the changing work environment.

Enabling this requires a shift in thinking where hybrid team structure is not a fixed concept but instead is an organizational mindset of how to most effectively meet its objectives at the organizational, team and individual levels.

Four steps to a more effective hybrid culture.

A framework of four steps enables the formation of the hybrid structured culture: Empower Candor, Facilitate Inclusion, Develop Boundaries and Create a Decision-Making Protocol.

Advice for senior leaders

To be successful in hybrid work, organizations must provide the supporting approach – the training and guidance – for the teams across organizational, team and individual levels. The supporting structures include access to responsive leaders, transparent technology and systems for management renewal and adaptation.

Action steps for senior management

- Hybrid work as an operational strategy has transformed from an exception to the mainstream.
- The goal: to help each team be effective, rather than create a process that is standard but does not address the specific challenges and work requirements for a given team.

Strategic scenario planning in practice: eight critical applications and associated benefits

Lance Mortlock and Oleksiy Osiyevskyy

Scenario planning is a practical way to adaptively manage an organization's change rate and growth strategies in new and different ways to stay competitive. When performed strategically, it can help organizations proactively plan for, react and adapt to exogenous forces in ways that preserve or enhance their competitive position.

Scenario planning is a structured way for organizations to think about potential futures as an integrated part of the strategic planning process.

In the classic process, teams research to identify the two most critical forces that might impact their firm and then draft a two-by-two model of the four scenarios of the future that could develop, given the combinations of the forces.

Academic studies have validated the positive relationship between scenario planning, progressive learning, innovative mental models and insightful decisions that impact performance in practice. Scenario planning also helps organizations recognize key sources of predictability and uncertainty, aids in identifying factor "causality," and helps explain why observed business environment patterns happen and how they might be managed.

Eight strategic scenario planning applications

Based on an extensive academic and practitioner literature review, we posit that corporate scenario planning involves eight different practical applications and associated benefits.

1. Risk identification
2. Assessing uncertainty
3. Organizational learning
4. Option analysis
5. Strategy validation and testing
6. Complex decision making
7. Nimbleness/strategic flexibility
8. Innovation

A novel model

We offer a novel typology and propose a more complete and holistic model of the scenario planning application and its intended outcomes. The model sequences the eight applications and associated benefits and associated inputs, processes and outputs.

In a world of increasing access to information and the proliferation of data, the ability to interpret the information via process steps like learning, options analysis and stress testing strategy using scenario planning is critical to firm success.

Process applications of scenario planning get at the organization's inner workings and support "strategizing." Output applications represent the final part of the model and typically result in action. The organization uses the insights from the input and process stage to decide.

In summary, the novel typology proposed illustrates the practical applications of scenario planning in one complete model. Furthermore, by fully understanding the associated applications and benefits of scenario planning, organizations can achieve enhanced value and beneficial outcomes from the tool.

Managing the emerging role of generative AI in next-generation business

Jacob Dencik, Brian Goehring and Anthony Marshall

In the business media, AI has reached a new inflection point, driven both by excitement about a new world of unmatched capabilities and fears of unintended technological results. Since the release of ChatGPT by OpenAI in November 2022 – with its ability to create compelling, relevant content through new large language model (LLM) technology – business leaders, especially CEOs, are being pressured to accelerate new generative AI investments.

Executives sitting on the fence

Adoption of generative AI is still in its very early stages. Most organizations are only beginning to figure out how and where to make use of it. As few as 6 percent of executives in new surveying conducted by the IBM Institute for Business Value say they are operating generative AI in their enterprise today. Only 38 percent of C-suite leaders surveyed say there is a need for their organization to quickly adopt generative AI to keep up with the competition.

Showing the value

Where and how are organizations seeking value from generative AI? To drive benefits, organizations are positioning generative AI to augment capabilities that enhance human endeavor. In contrast to many peoples' expectations about AI, automating tasks is not the top priority for executives. Improvement in quality and expansion of capabilities are principal drivers.

A new economics of AI: benefits and risks

Many executives are concerned that technological and organizational requirements to effectively apply generative AI may be too resource intensive relative to the benefits achievable. Our survey also suggests that business leaders are already keenly aware of the potential risk exposure associated with rushed adoption of generative AI despite its transformative potential.

A thoughtful approach to generative AI

In the experimentation phase of generative AI, organizations can either look to applications or third parties that already have embedded generative AI into their toolsets, or develop capabilities, models and tools in-house. With either path, organizations need to tailor and adapt the technology to their particular needs and ensure the appropriate governance to manage any third party.

Shared intelligence

When assessing the AI path after experimentation, organizations need to look beyond the build or buy dichotomy to shared capabilities through ecosystems. Active participation in ecosystems allows an organization to create, capture and share value from generative AI in a way that would not be possible solely through a buy-or-build approach.

Taking the leap

To advance through a generative AI journey and lay the groundwork for a more strategic approach to AI, organizations need to:

- Be strategic about generative AI.
- Set direction, put guard rails and governance in place.
- Build the in-house data and generative AI capabilities.
- Activate ecosystems for shared capabilities and value.

M&A: The process of planning to achieve deal synergies

Mark L. Sirower, Chris E. Gilbert, Jeffery M. Weirens and Jacob A. VandeVanter

Successful M&A deals deliver synergies beyond the value the two firms were already expected to achieve separately. Operational synergies take the form of cost reductions, revenue growth or capital efficiencies. But to achieve anticipated synergies, acquirers regularly pay a 30 percent surcharge to sellers—the average premium—on top of the current market value. In other words, premiums are the price of admission.

To fairly inform investors, acquirers need to provide credible and trackable guidance to justify their bet. Most of that information gathering, analysis and strategizing should have been developed during due diligence, before the board approves the deal and it goes public. This sets the stage for the process of actually delivering synergies.

Three phases for identifying and achieving synergies

In our experience, there are three distinct phases for achieving synergies: top-down synergy targets that drive or support the valuation before signing, bottom-up synergy planning from sign-to-close and post-close synergy validation and reporting. Based on first-hand experience guiding the three stages, we can offer some time-tested advice to avoid predictable pitfalls and achieve successful M&A results.

Realizing synergies is an outcome of hitting initiative milestones in the workplan and achieving their value driver targets. Failures are most often very easy to trace all the way back to the deal beginning where acquirers failed to sufficiently prepare and respect some basic synergy rules of the road.

M&A can and should produce enduring value, providing investors with good reasons to raise their expectations of the growth value of the acquirer. Too often it's the other way around.

> **Establishing an Integration Management Office**
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> Senior management cannot be fully involved in the many thousands of non-routine decisions, large and small, that must made during acquisition integration planning. Instead, the Integration Management Office (IMO), a temporary function, is launched as soon as possible after deal announcement that that governs what must get done for a successful Day 1. Ultimately, the IMO facilitates the end-state vision and synergies for the combined organization. It remains separate from running the ongoing businesses by design.

Auditing safety leadership: three railroad catastrophes

Russell Craig and Joel Amernic

It is not uncommon for CEOs to profess that "safety is our number one priority" but fail to take determined action to address safety concerns or to vigorously champion safety through their communications. For their part, CEOs need to "write, speak and behave in a way that shows their substantive concern for safety and their engagement with the establishment of a rigorous safety culture.

One effective way of doing this is by commissioning an annual, independently conducted audit of safety leadership and ensuring that results are reported fully, without redaction. An annual safety leadership audit should be an integral part of the governance and management systems and processes that are designed to increase the likelihood a company will achieve its safety goals. One logical choice of personnel to conduct a safety leadership audit would be the auditors of a company's financial reports – usually a "Big 4" multinational accounting firm.

Three advantages of enlisting external financial auditors

At least three benefits are likely to arise from involving external financial auditors in a safety leadership audit.

First, external financial auditors are well-placed to assess whether a company and its officers have made false and misleading statements about the effect of safety on the company's profitability, liquidity and financial strength.

Second, dialogue between a company's external financial auditors and its internal operational safety experts and ERM consultants would help to quantify the contingent risks posed by potential safety incidents.

Third, external financial auditors can promote the establishment of a "Provision for Safety" account in the company's balance sheet.

The link between safety and executive remuneration

Executive remuneration schemes based on financial-based incentives should be audited to assess whether they encourage senior executives to defer requests for safety improvements to cut costs and reduce profits, directly affecting executive bonuses.

The case for stakeholder scrutiny

The case for public disclosure of the results of an annual audit of safety leadership is particularly strong for companies in industries with high operational risks, such as transportation, construction and mining.

There are three key questions to be addressed in performing a safety leadership audit:

1. Is there a climate of "psychological safety"?
2. Are meaningful safety performance indicators reported?
3. Do senior managers communicate with a "vocabulary of safety leadership"?

In all industries, but especially in safety-critical industries such as railways, safety must be an embedded part of a company's governance and management control systems.