Quick takes

Larry Goodson

These brief summaries highlight the key points and action steps in the feature articles in this issue of *Strategy & Leadership*.

SRI's turnaround: how four principles guided high-value, market-creating innovations

Stephen Denning

For most established firms, a change in organizational culture – from a focus on an existing brand or business model to one that continuously explores sustaining, market-creating innovation – is perhaps the most difficult strategy to attempt.

CEO Curt Carlson who introduced a culture of innovation at SRI International from 1998 to 2006 – defied the odds and accomplished a storied turnaround. At the time he became CEO the management challenge was immense. SRI had run out of money after being in slow decline for almost twenty years.

Its organizational culture had become dysfunctional. Carlson's predecessors had tried tighter top-down control, which crushed innovation, and bottom-up control, which led to chaos. His team eventually came up with the heart of the value proposition – a framework that starts the creation of any new innovation and answers four fundamental questions.

"The four questions are, "What is the important customer and market need? What is your approach for addressing this need? What are the benefits per costs of your approach? And how do those benefits per costs compare with the competition and the alternatives?" Carlson calls the answers "a value proposition" or "NABC" for **N**eed, **A**pproach, **B**enefits per costs and **C**ompetition. He wrote a playbook for applying the four NABC innovation principals.

The Siri story: an NABC case

One of the most spectacular and best-known SRI wins was Siri, the intelligent personal computer assistant and on-line knowledge navigator, an integral part of the iPhone since October 2011. The key element in SRI's success with Siri was not just the technology. It was getting the entire value proposition right.

"SRI was always full of brilliant people who did amazing things," says Carlson. "But it lacked a systematic value-creation process to be fully successful.

Four change success factors

A summary of the four success factors that eventually made a difference in changing vision, organizational design and spirit at SRI include:

1. You need a few really good partners who have the skills, values and credibility.
2. Change happens in logical steps. It's need, vision and plan in that order.
3. You need to find early champions to help you establish the value-creating principles and prove them out.
4. The language you use is critical. Carlson never used demoralizing

Larry Goodson, a *Strategy & Leadership* 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 to corporations, municipalities, utilities and federal agencies (ldgoodson@msn.com).

DOI 10.1108/SL-05-2017-0053

and misleading words like “culture change,” or “fail fast” in his discussions with SRI staff. Instead, he urged making a bigger impact by focusing on important customer and market needs. working smarter and learning faster.

Masterclass: Two strategies for innovating in the face of market disruption

Brian Leavy

One of the most daunting tasks corporate leaders may face is how to respond effectively to significant market shifts brought on by advances in technology, especially digitization and by disruptive new entrants, many from emerging markets, armed with innovative business models.

In *Dual Transformation: How to Reposition Today’s Business While Creating the Future (2017)*, disruptive innovation experts, Scott Anthony, Clark Gilbert and Mark Johnson offer corporate leaders a “dual transformation” template for simultaneously repositioning the traditional core business,

In *The Power of Little Ideas: A Low-Risk, High-Reward Approach to Innovation (2017)*, innovation guru, David Robertson and his collaborator, Kent Lineback, offer companies a “third way” by innovating around a core product to make it more compelling, between attempting the radical or incremental innovation of the product itself.

Dual Transformation warns established firms that disruptive competition hits a market, “making what used to be complicated, simple, and what used to be expensive, affordable.” The response should be a two-track innovation initiative.

To compete effectively, companies will have to learn how to lead two transformations simultaneously:

- Transformation A is aimed at repositioning “their traditional core organization” to enable the firm to operate profitably for several years in the face of the disruption.
- Transformation B is aimed at creating one or more new businesses to take advantage of the disruption’s stimulus to market growth. Transformation A and transformation B are very different, and need to be led separately. The two transformations can be distinguished along two dimensions: “what we do” and “how we do it”.

The Power of Little Ideas offers a “third way,” based on innovating around the core product, by surrounding it with a set of complementary innovations. The strategy of building a new growth engine around what was a company-defining legacy product has already proven to very effective.

As an innovation strategy, this “third way” has three distinguishing characteristics:

- It consists of “multiple, diverse innovations around a central product or service that make the product more appealing and competitive.”
- All of the complementary innovations operate together with the product “as a system or family to satisfy a compelling promise to the customer.”
- The family of complementary innovations “must be closely and centrally managed.”

The authors of both *Dual Transformation* and *The Power of Little Ideas* present different, but far from mutually exclusive, innovation strategies that can help many great companies respond to market disruption.

Market testing innovative ideas using a six-step crowdfunding method

Robert Charles Sheldon and Martin Kupp

When firm leaders have to evaluate the commercial potential of a new product or service, especially a truly unique offering, they face one of entrepreneurship's critical challenges: how to predict demand. It's a classic marketing dilemma: should they expeditiously commit valuable resources to the lengthy process of fully developing an exciting but untested idea that might open new revenue streams from "Blue Ocean" markets? Or should they instead first take the time to fully assess an idea's potential market size and whether it will yield a significant financial return?

The solution: the early, rapid and low-cost market testing of fledgling ideas on potential customers. The authors offer an intuitive six-part market-testing method that is based on lessons learned from crowdfunding. It can be implemented quickly, and doesn't require a major commitment of resources.

Crowdfunding mechanisms as a basis for market testing

The process of crowdfunding a potential product is widely known: an entrepreneur puts an idea up on an online platform and individuals show their support by making a financial contribution. There are six basic marketing elements in the crowdfunding model that are incorporated into the authors' method for testing just about any business idea:

- The target prospect.
- A prototype of some kind, or a representation of the idea through photos, video or other media.
- A price, or suggested contribution amount.
- A crowdfunding platform.
- A sales pitch designed to incite the prospect to contribute.
- A measure of the campaign's results–the number and size of contributions made.

These six mechanisms can be formulated into a market testing process that works just as well offline as online, and for any type of business activity.

The six-step market testing method

Enterprises that want to gauge potential demand for a new product or service idea should:

- Choose a target prospect and positioning: In a sense, the archetypal target prospect is really the innovator's hypothesis about who will want or need the new idea. The testing is also intended to yield information about how prospects' see the idea positioned.
- Create a prototype: On a crowdfunding platform prototypes typically consist of photos, videos, drawings and written descriptions of the idea.
- Set a price based on value: Innovators can estimate what price the foreseeable commercial market will put on the value proposition.
- Locate the target prospect: A variety of online platforms and offline venues and communications methods could be adopted for testing idea prototypes.

Offline, face-to-face testing of new ideas enables entrepreneurs to ask prospects about their "Job-to-be-done."

- Communicate with prospects: deliver an effective pitch: The presentation of the prototype to the prospect requires clarity, customer empathy and conviction if the innovator is to successfully sell the idea.

- Measure results through advance commitments: On a crowdfunding platform, commercial ideas are validated when prospects pay in advance for a product or service in sufficient number. Non-contractual commitments may also be used to measure the results of a market testing effort.

Maximizing the strategic value of corporate reputation: a business model perspective

Qiaoling "Amy" Ma and Oleksiy Osiyevskyy

How exactly can a company strategically utilize its reputation? Which component of reputation should it emphasize: quality, as in the case of Apple and BMW? Or should it seek to be known for social responsibility, which is the approach chosen by Whole Foods? Or perhaps a firm can do well by keeping both just at legally acceptable levels as Walmart does.

Consensus among management researchers and practitioners suggests the importance of corporate reputation in securing and maintaining a firm's competitive advantage. It signals the company's future likely behaviors; such positive signals reduce stakeholders' uncertainties and foster consumer loyalty and trust in the firm. Favorable corporate reputation can also improve the firm's cost position and allow it to charge premium prices.

In the era of digital media and user-generated content on the Internet, the corporate system for fostering and maintaining its reputation is always on display and is always open to challenges by customers and other stakeholders.

Corporate reputation within the business model framework

A corporate reputation is an evaluation of the degree of favorability that stakeholders hold toward the company, measured on a continuum from negative (unfavorable) to positive (favorable):

Utilitarian. This dimension of corporate reputation reflects a stakeholder's assessment of the company's ability to serve his or her personal needs through delivering tangible outcomes.

Social. In contrast, this dimension of corporate reputation–also called reputation for Corporate Social Responsibility (CSR) or "Social Ethicality" reflects the evaluation of the company's ability to address the needs of all stakeholders and society in general.

Both dimensions of corporate reputation – utilitarian and social – can affect the success of a business model, enabling a firm to charge higher prices in some cases, or attract and retain additional customers. Having a mediocre CSR or utilitarian reputation is increasingly risky. This increases the likelihood that the distribution of possible reputation levels will become increasingly bimodal– either high or low, with almost nothing in between–and can be properly mapped on a 2x2 matrix delineating four strategies: nonstrategic reputation management, social (CSR) emphasis, utilitarian emphasis and double emphasis (both on the offering and social good). The linkage of a firm's corporate reputation strategy and its business model is charted in a typology of approaches for reaping the rewards of corporate reputation.

Guidance for leaders

Corporate reputation is a key intangible firm asset. The benefits of corporate reputation do not follow automatically; rather, "the reputational rent" is created and appropriated through a deliberately designed business model and strategic responses to reputational challenges.

How India can be essential to the global ecosystem economy
Namit Agrawal, Madhuri Banda, Anthony Marshall, Nipun Mehrotra and Clifford Patrao

India has a set of strengths that make its businesses uniquely equipped to succeed in a global ecosystem economy. Widespread entrepreneurial culture, strong investor confidence, vibrant diaspora, skilled workforce, supportive government initiatives and strengthening institutional engagement all go to support India's global aspirations.

For India, rapid development of ecosystems presents a compelling new opportunity. India has major advantages in the ecosystem economy – key qualities that align closely with how ecosystems operate. Indian cultural and economic factors supporting ecosystems include:

- *Startup India*: Entrepreneurship is at the heart of India's economy.
- *Investment India*: Investors are optimistic about India's growth prospects.
- *Global India*: India's economy is uniquely open and interconnected.
- *Skilled India*: India is expected to have the largest skilled resource pool of any country globally.
- *Transformed India*: Indian government is also seeking to accelerate economic transformation through innovation.
- *Engaged India*: Indian businesses and universities are collaborating closely to create more relevant curricula and more explicit job training opportunities for students.

Disrupting disruption

Indian executives recognize the disruption that ecosystems will bring.

- New economic structures will enable non-traditional competition.
- Ecosystems will lead to greater scrutiny by regulators and others.
- They foresee the possibility of new regulation and compliance challenges,

However, despite these concerns, a majority of Indian executives remain convinced of the importance and potential rewards of working in ecosystems, with 66 percent stating that ecosystems are the most effective way to access new markets.

Steps to success and value creation

There are specific steps that Indian businesses, universities and governments can take to realize India's full potential at the center of rapidly evolving global business ecosystems.

- Identify opportunities to collaborate and participate in ecosystems.
- Develop capabilities to create value from ecosystems.
- Build structures that promote ecosystem connectivity.

Can leadership leverage the advantage?

India benefits from significant advantages that position it to excel in a rapidly evolving ecosystem economy. By seizing these benefits, Indian organizations can play a central role in a new generation of economic exploration and success.