CEO advisory

Leadership and strategy in the news

Craig Henry

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).

Of strategies and strategists
Understanding "Best Practices"

Executives tend to take the value of best practices as a given. We have an abiding faith in the idea that the most direct route to improved performance is to study what successful companies do and copy them.

Best practices certainly do have their benefits. In Bordeaux, France, for instance, many wineries now follow practices recommended to them by winemaking consultants, such as micro-oxygenation, a technique that involves injecting controlled doses of oxygen into wines during fermentation. Micro-oxygenation softens tannins, which minimizes the need for long-term storage and makes wines easier to drink young. For most vintners, this leads to an improvement in quality. But there is a downside: Micro-oxygenation also makes wines taste more similar, and thereby reduces brand distinction and competitive advantage. . ..

Managers often assume that everything a successful company does is a best practice. But many such practices aren't actually critical to the success of the organizations that embrace them.

To reduce the risk of adopting the wrong best practice, begin by considering how similar your organization is to the businesses that follow the practice. Most best practices are situational.

Should you outsource a process or perform it in-house? My research suggests that outsourcing is a best practice when the activity is surrounded by a lot of uncertainty, but not when it offers the potential for competitive advantage and the supplier is likely to behave opportunistically. For instance, Apple Inc. outsources manufacturing because production does not generate a competitive advantage in computers and consumer electronics. On the other hand, design is crucial to Apple's success, so the company performs that activity in-house.

Jérôme Barthélemy, "Why best practices often fall short," *Sloan Management Review,* February 2018

Brands, relevance, and the new era of marketing

Consumer research we've worked on at Accenture shows that in the U.S. market alone, companies are losing $1 trillion in annual revenues to their competitors because they are not consistently relevant enough.. . . The future of many businesses depends on serving a customer's most relevant needs in the moment. In this way, companies need to become like more like living businesses, building and sustaining symbiotic ties with their customers as if those relationships are with a concierge, butler or friend.

To become this kind of living business, with a new understanding of customer needs, we need a new definition of relevance. Abraham Maslow's oft-quoted "hierarchy of needs" provides a good start. Maslow sought to map the psychological

needs of humans and their motivations. But his framework also offers a model for rethinking the traditional four P's of marketing: product, price, place, and promotion. Most companies today are guided by these four facets of engagement.

The problem, however, is that brands using the four P's exclusively often target a static customer archetype. . .. The reality is that there is no such archetypical customer. Everyone's needs vary depending on time and context. And with today's technologies, companies now have the ability to see and act on these fluctuations in the moment. . ..

To become a living business, companies should expand their thinking to include the following five P's as well: purpose, pride, partnership, protection and personalization. These form a simple and comprehensive test of relevance. . ..

John Zealley, Robert Wollan, and Joshua Bellin, "Marketers need to stop focusing on loyalty and start thinking about relevance," *Harvard Business Review* March 2018.

Making the right fast decision

We often think that collecting as much information as possible will help us make the best decisions. . .. Many of the most successful people adopt simple, versatile decision-making heuristics to remove the need for deliberation in particular situations.

One heuristic might be defaulting to saying "No," as Steve Jobs did. Or saying no to any decision that requires a calculator or computer, as Warren Buffett does. Or it might mean reasoning from first principles, as Elon Musk does. Jeff Bezos, the founder of Amazon.com, has another one we can add to our toolbox. He asks himself, is this a reversible or irreversible decision?

. . . Reversible decisions can be made fast and without obsessing over finding complete information. We can be prepared to extract wisdom from the experience with little cost if the

decision doesn't work out. Frequently, it's not worth the time and energy required to gather more information and look for flawless answers. Although your research might make your decision 5% better, you might miss an opportunity.

Start-ups making quick decisions have an advantage over incumbents. That advantage is magnified by environmental factors, such as the pace of change. The faster the pace of environmental change, the more an advantage will accrue to people making quick decisions because those people can learn faster.

Shane Parrish, "Go fast and break things: the difference between reversible and irreversible decisions," *Farnam Street*, April 2018, avilable at: www.fs.blog/2018/04/reversible-irreversible-decisions/

Leadership the (new) Microsoft way

Microsoft CEO Satya Nadella is one of the most transformative leaders on the planet. He understands that success doesn't happen overnight. Rather, you must think long-term, plant seeds for the future and start reinventing today while building tomorrow. This means rethinking everything in your organization from culture and operations to strategy and talent.

Here are Nadella's three winning rules for great leadership.

1. Think Day 1. A Day 1 Company makes the decision that every day will be a new day where experimenting, innovating and iterating is the norm. For Nadella this means asking three powerful questions.

    ■ How successful are we at creating new products, services or business models?

    ■ How effective are we at adapting to new changes or disruptions?

    ■ Does our culture reward risk and failure?

2. Lead with culture. A winning culture means moving from a "know it all" mindset to a "learn it all" one. One of Nadella's first bold moves was to change the mission to the customer-focused aim of "empowering every person and organization on the planet to achieve more." Teams are encouraged to focus on passion related projects and think of Microsoft not as a 42-year-old company but as a challenger organization with Day 1 in its DNA.

3. Act quickly, think slowly. Nadella is a long-term thinker who embraces new trends and weak signals early to stay ahead of the curve. He values high-speed decision-making where 80% confidence is enough to act. In a VUCA world (volatile, uncertain, complex and ambiguous) he understands that waiting for 100% certainty before making a decision is simply too slow.

"Want to be a better leader? Follow Satya Nadella's 3 rules for disruption", *Thinkers, 50*

http://thinkers50.com/blog/want-better-leader-follow-satya-nadellas-3-rules-disruption/

Technology and disruption

Big Data and the law of unintended consequences

The incipient surveillance economy is dominated by a duopoly: Google and Facebook. According to estimates, the two companies control somewhere between half and three-quarters of spending on digital-advertising throughout the world. . .. Thanks to Google's failure to develop a strong social-media platform. . .their services are largely complementary, so both can continue to grow smartly without raiding each other's revenues and profits.

The concentration of market power, and its possible abuse, is one of two broad and growing concerns the public has. . . . The other is the control over personal information wielded by the duopoly.

But, with Europe's General Data Protection Regulation set to go into effect in a month, it's suddenly becoming clear that the reality is going to be very different from what's been assumed. New privacy regulations are likely to give Google and Facebook even more market power. Far from being weakened, the duopoly will end up competitively stronger, better insulated from new and existing rivals. . . .

The reason is simple. It costs a lot of money and time to comply with regulations, particularly the kind of complex technical regulations that affect digital commerce, and the compliance costs place a far greater burden on small or fledgling competitors than they do on big incumbents. Google and Facebook already have armies of lobbyists, lawyers and programmers to navigate the new rules, and they have plenty of free cash available to invest in compliance programs. They'll be able to meet the regulatory requirements fairly easily.

Nicholas Carr, "When a regulatory burden is a competitive boon," *Rough Type,* 24 April 2018, available at: www.roughtype.com/?p=8378

Disruption comes to the rental car industry

Turo is a peer-to-peer car-sharing company – think Airbnb for cars. Like Uber versus the taxi industry before them, this fight is a clash between an old-school business model and a modern technology platform inspired by the sharing economy. . . . While each offers a way to rent a car, the ultimate factor in their long-term success might actually depend on changing attitudes about the value of car ownership. . . .

Turo, and other car-sharing companies, say they offer car owners a way to maximize the value of expensive assets – or even help to pay for them – by earning money off them when they might otherwise sit parked. For drivers, they offer flexibility and convenience.

Jon Norris, 42, a former rental-car company employee . . . explains the growing appeal of Turo, a peer-to-peer car-sharing network that he's been using since November to rent out two Audis he owns. He often meets his customers at the airport, handing them the keys to their rental as soon as they walk outside. There's no paperwork, no credit cards and no hassle, Norris said.

"When I do curbside delivery, everything is downloaded to the app beforehand, and, literally, within two or three minutes, they're in the car and on their way," said Norris, who earns about $1,500 a month renting out his vehicles. "At the airport, people want to get the car and go."

Peter Holley, "Airbnb for cars is here. And the rental car giants are not happy," *Washington Post*, 30 March 2018

Industry focus
Peak oil (demand)

The emergence of self-driving electric cars and travel sharing are set to dent oil consumption by 2040, oil and gas giant BP said, forecasting a peak in demand for the first time. In its benchmark annual Energy Outlook, BP forecast a 100-fold growth in electric vehicles by 2040, a world in which we travel much more but instead of using private cars, we increasingly share trips in autonomous vehicles. . . .

Under BP's Evolving Transition scenario, some 30 percent of car kilometers are powered by electricity by 2040. At the same time, the number of EVs is set to increase from 3 million today to over 320 million by 2040, representing roughly 15

percent out of a total car fleet of 2 billion.

BP expects autonomous vehicles to become available in the early 2020s. Their initial high cost means the vast majority of the cars will be bought by fleets offering shared mobility services.

"What we expect to see in the 2030s is a huge growth in shared mobility autonomous cars . . . Once you don't have to pay for a driver, the cost of taking one of those share mobility fleets services will fall by about 40 or 50 percent."

The vast majority of the shared mobility is expected to be EVs because of their lower maintenance costs. Car makers including General Motors (GM.N) and high-tech giants such as Google Waymo and Uber Technologies have poured billions into the autonomous vehicles industry hoping gain a first-mover advantage.

"BP sees self-driving electric vehicles crimping oil demand by 2040," *Reuters,* 20 February 2018

Culture and innovation
Building resilience by building teams

Sooner or later, every team faces an unexpected crisis: technology breaks, a competitor makes a disruptive move, a promising project fails, a key employee quits, consumers have a negative reaction to a new product – the list goes on. . . .

Over the past five years, we have studied dozens of unexpected crises in all sorts of organizations and interviewed a broad swath of people – executives, pilots, NASA engineers, Wall Street traders, accident investigators, doctors, and social scientists – who have discovered valuable lessons about how to prepare for the unexpected. . . .

Some teams, such as film crews and SWAT teams, face surprises all the time. If the layout of a house that a

SWAT team enters is different from what the officers expected, they still press on. When the power goes out at a filming location, film crews figure out how to resume shooting as soon as possible. How do they do it?

According to researchers Beth Bechky and Gerardo Okhuysen, one critical factor that enables these teams to handle surprises is that members are familiar with everyone else's work and understand how their various tasks fit together.

In the film industry, this knowledge comes from how people progress through their careers. Many rookies start as production assistants and work on tasks that cut across different departments, from costumes to lightning and sound. SWAT teams achieve something similar through cross-training.

This is an unusual approach; most organizations emphasize deep specialization in one's work rather than familiarity with everyone else's. But cross-training helps teams change their plans on the fly because it allows team members to shift responsibilities and step into each other's roles. It also means that people know how the jobs of different team members fit into the bigger picture. This gives teams a better understanding of what kinds of changes to a plan are advisable – or even possible – when a crisis strikes.

Chris Clearfield and András Tilcsik, "How to prepare for a crisis you couldn't possibly predict," *Harvard Business Review,* March 2018

A wider perspective

Tech's unintended consequences

The promise of the Internet, the smartphone, social media and virtual and augmented realities is of enrichment and improvement of our lives by the additional choices they offer. But it is a mirage. Though the Internet may seem to offer an endless range of applications, content and communication tools, the unhappy reality is that the options available are rapidly decreasing in utility and reward and increasingly herding us into habits of mindless consumption.

Witness what has become of Google. The search engine that originated as a means of finding the most relevant answers to search queries has degenerated into a massive online advertising medium that heavily prioritizes whatever others pay it to. A search on a mobile phone – say, for the best hotel in Mumbai – yields a handful of results of which every one of the top 10 has either been paid for specifically or represents a giant media or hotel company. . . .

Economists are even suggesting that the very technologies that we suppose make all of us so productive have, through their distractiveness, instead become responsible for a plateau in the growth of worker productivity in the past decade. . . .

The raw truth is that smartphones and applications foster psychological addictions without consideration of the human cost or of design principles that might be less profitable for them but healthier for people in the long run.

Vivek Wadhwa, "Is Facebook causing the end of happiness?," *Drucker Forum*, 27 April 2018, available at: www.druckerforum.org/blog/?p=1717

Tech's new challenge

Software businesses are disrupting generations-old industries, from agriculture to entertainment. Programming wizards are amassing billion-dollar fortunes. . . .

Unfortunately, a huge section of the workforce cannot capitalize on these opportunities. In 2015, there were 7 million jobs that required some level of coding skills, and programming jobs are growing 12% faster than market average. But to meet this demand and address income inequality, we have to provide better access to technical learning for those who work in lower-paying industries . . .. Three key initiatives can help:

Supplementing K-12 with vocational training programs

By 2020, 65% of all jobs will require some college training. At current graduation rates, the U.S. will fall short of this goal by 5 million workers. Vocational Technical (VoTech) training programs for high school students are key to helping them specialize in in-demand technology-related fields, and be ready for the job market.. . .

Generation, a 3-year old non-profit created by McKinsey, uses a bootcamp model to train and place underserved youth in careers in over 63 cities and across 20 professions.

Increasing access to job retraining programs for adults

We are currently experiencing intra-generational job disruption, where the job you trained for at age 20 may not exist at age 40. So now we need to retrain workers mid-career. As a start, we should support job-retraining programs to help transition low-income, lower-skilled workers into well-paying technology jobs. To scale this model successfully, employers must broaden their screening criteria to accept applicants who have taken accredited tech courses, not just those with four-year college degrees. . . .

Empowering lower-skilled workers to continuously upskill on the job

AT&T's efforts to re-skill their 280,000 person workforce is a good example of the role corporate America can play in bridging the gap. An estimated 140,000 people, or half of AT&T's workforce, are currently retraining to get the skills they need to get ahead.

Kausik Rajgopal and Steve Westly, "How tech companies can help upskill the U.S. workforce," *Harvard Business Review,* February 2018