Quick takes

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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*).

How companies can learn to operate as co-creational, adaptive, "living" enterprises

Venkat Ramaswamy and Maarten K. Pieters

Imagine a not-too-distant future in which the most successful companies conduct business with customers, partners, and a variety of stakeholders on digital platforms that are so interactive, adaptive, and responsive that it's not hyperbole to describe them as co-creative "living" systems.

The technology to support such a transformative business model spawned the current "fourth industrial revolution," characterized by platforms for physical and digital interactions in intelligent experience ecosystems.

An example of an intelligent experience ecosystem

The COVID-19 pandemic expanded the role of "first-line" responders, home healthcare and remote access to physicians and clinicians. The digital "edge" services they required became "core" to Microsoft's Cloud for Healthcare offering. The Healthcare Bot Service, a part of Microsoft's Cloud for Healthcare offering, enabled healthcare organizations to build and deploy AI-powered virtual health assistants and chatbots that could be used to augment care provision and enhance engagement processes and patient self-service.

As Satya Nadella, Microsoft CEO noted, "From remote teamwork and learning to sales and customer service, to critical cloud infrastructure and security—we are working alongside customers every day to help them adapt and stay open for business in a world of remote everything."

Case: Signify connected lighting systems

Signify, now the world leader in connected lighting systems, software, and services, offers insights into how a company can successfully take on the quest of becoming a co-creational, adaptive, and responsive enterprise.

Signify's 'Interact' suite offers tailor-made software applications specifically designed to bring together connected lighting systems and the data those systems collect, with intelligent building, smart city and other IoT solutions. Powerful integrated experiences can be designed that can be personalized to suit each customer's unique context.

Signify now sees lighting as also creating positive societal impact. Its mission: "unlocking the extraordinary potential of light for brighter lives and a better world. With its impact-based model, Signify can make the necessary investments in efficient business models, while sharing in the energy savings of the customer.

Interactional creation with all stakeholders

The examples of Microsoft and Signify illustrate that becoming a

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co-creational enterprise requires an open, inclusive, collaborative, shared approach to organizational activities, always including the experiences of users through the direct and indirect interactions of stakeholders.

A call to action

We believe that, to increase the chance for success in a post-pandemic world, digital transformation must be purpose-driven and centered on becoming a co-creational "living" enterprise, one that sustainably expands the "Platformized Impact Ecosystems of Engagements of Experiences" of value that enhance the life journeys of experiencers.

As another M&A wave begins: three keys to success

Timothy J. Galpin

The most recent merger and acquisitions "wave," starting after the financial crisis in 2009, was brought to an abrupt halt in the first half of 2020 by Covid-19 lockdowns around the globe. As the Covid-19 crisis recedes, struggling firms will be bought by bargain hunters and suffering industries will consolidate, giving rise to another wave of M&A transactions.

But buyers beware! There is ample evidence that M&A creates significant post-deal performance issues for acquiring "buy-side" firms. However, new research shows that effectively managing three processes of acquisitions can have an outsized beneficial impact on M&A success.

Three keys to M&A success

Three mission-critical tasks that stand out as being vital to creating M&A success:

Process 1: Accurate target valuation

Accurately valuing the target is one of the top two most important issues within management's control that create M&A success or failure. There are several best practices when conducting M&A valuation that can help prevent buyers from overpaying:

- Using multiple valuation methods.
- Applying realistic assumptions.
- Involving the "Operators," those who will be responsible for running the business.
- Assigning a "Devil's Advocate."
- Incorporating "extreme shock" value assessment.

Process 2: Proficiently managing post-merger integration (PMI)

A firm's approach to post-merger integration should be skillfully managed according to a standard and repeatable method. The first step of which is to map implementation priorities, enabling management to address the highest priority integration initiatives first. Integration priorities should be those with the most impact on capturing projected deal value including the largest areas of cost savings and revenue enhancement.

Process 3: Skillfully addressing the "big-three human factors" of M&A

A survey of 124 executives across 21 industries identified the "big three human factors" that either enhance or hinder successful M&A.

- Communication.
- Retention and re-recruitment – regaining employees' commitment to the success of the combined organization – of key talent.
- Assessing and integrating corporate cultures.

Critical pitfalls and best practices

The Oxford M&A Insights Project surveyed 337 "C-Suite" executives over 40 countries, about the critical pitfalls and best practices across the

M&A process. The main findings of the project are:

- Companies generally perform the pre-deal stages of M&A well.
- However, firms need to improve their "post-deal" M&A capabilities reporting.
- The "human factors" of M&A need much more attention.

Takeaways

Business resurgence in the wake of the Covid-19 pandemic will likely give rise to another wave of M&A around the globe. Accurately valuing targets, proficiently managing post-transaction integration and skillfully addressing the "big three human factors" of M&A are three key means of making acquisitions work.

Why management models are crucial to the success of business models

Stephen Denning

Although executives seeking growth opportunities usually consider adopting a new business model as the most difficult innovation initiative, the more important challenge in business today is understanding and embracing the 21st century management model that makes customer-focused innovation possible. Successful 21st century management models are very different from those that succeeded in the 20th century.

Business models

A business model determines how an organization creates, delivers, and captures value. A firm can have different business models for different parts of its business.

A management model, by contrast, is a complex set of assumptions and implicit understandings about the firm's structure, practices and goals within which business models may emerge.

The 20th century management model

In this management model the firm has a goal of enhancing short-term shareholder value, which is achieved by focusing on efficiency and minimizing risk. Its bureaucratic organization doesn't enable its business units to readily adapt to the turbulent, continuous innovation world of the digital age.

21st century leadership and management

The winners in the emerging digital economy tend to have a different set of management assumptions – in effect, a different management model.

In the 21st century management model, the firm's goal is to create customers. The structure of work focuses on enabling talent, typically with small self-organizing teams, not bureaucracy. It has a dynamic of a horizontal network of competence, rather than a vertical hierarchy of authority. Leadership tends to be inspirational, rather than authority based. Strategy works backward from customer needs. Innovation is both incremental and transformational. HR turns into talent enablement. Sales and marketing aim at meeting the needs of customers and users. Budgets reflect decisions already taken in strategy. Finance focuses on assuring long-term shareholder value. The model is coherent and internally consistent.

In the digital era, an obsession with delivering value to customers is proving to be the key driving force behind the success of firms like Amazon, Apple, Google, Facebook, Microsoft, Spotify, Tesla and Zoom.

These firms are showering benefits on customers and users and have already transformed how we work, play, shop, access knowledge, learn, entertain ourselves, communicate, move about, and stay healthy.

Spurred by the success of these winners, other firms are pouring money into the new technology with digital initiatives and Agile transformations. Yet without addressing needed changes in the 20th century management mindsets, organizational hierarchies and practices designed to maximize shareholder value, those initiatives and attempted transformations are unlikely to generate much benefit. Success in the digital age requires a 21st century mindset based on an obsession with delivering value to customers.

Bryant and Sharer: seven challenges most likely to make or break leaders
Brian Leavy

Much of the on-going outpouring of leadership literature tends to focus on the personal qualities and characteristics of the individual leader. Less studied are the dynamics of the relationship between the leader and the led.

A notable new book with this perspective on leadership, *The CEO Test: Mastering the Challenges that Make or Break All Leaders*, by Adam Bryant and Kevin Sharer, offers insight into the central role that building and losing trust can play in the ebb and flow of leadership effectiveness.

Strategy & Leadership: Given the extensive literature on leadership, where did you see the need and opportunity to offer something different in your new book and how and where do you see it adding most value?

Adam Bryant and Kevin Sharer: We are asking and answering foundational questions such as, "What are the challenges that make or break all leaders?" and "What is the playbook for how to lead others effectively?"

Effective leadership – six defining "must do" challenges

S&L: You identify six major "must do" challenges and one major "must be" challenge facing CEOs. The first "must do" challenge: Can leaders develop a simple plan for their strategy that will get everyone moving in the same direction?

Bryant and Sharer: When you ask some people about their strategy, they may offer generalities about what the company does. What is often missing is the answers to the simple questions of where are we going and how are we going to get there? It's the leader's job to boil down the strategy to just a handful of memorable ideas so that everyone understands, remembers and knows how to contribute to its success.

Who a leader must be - the seventh defining challenge

S&L: Your seventh and final test shifts the focus onto who leaders "must be" to be successful.

Bryant and Sharer: Our overarching framework to mastering the inner game of leadership is to embrace it as a series of paradoxes. The most common paradoxes we see are that leaders need to be confident and humble; urgent and patient; compassionate and demanding; optimistic and realistic.

How tech-savvy organizations are outperforming their peers during the pandemic

Jean-Stephane Payraudeau, Anthony Marshall, Jacob Dencik, and Rachna Handa

Recognizing the necessity to transform to cope with the discontinuity caused by the COVID-19 pandemic, 60 percent of executives surveyed in an IBM Institute for Business Value study indicated that they are using this time to dramatically accelerate their company's digital transformation. And fully two-thirds said that the pandemic has allowed them to advance specific transformation initiatives that previously had encountered resistance.

The large study used research interviews and financial performance data to answer four key questions:

- Are some industries more sensitive to technology adoption than others?
- Are there some key technologies that provide greater impact on performance?
- Do different technologies play different roles in different industries?
- How has the mix of differentiating technologies in each industry changed during this time of crisis?

Some of the major takeaways from analysis across 18 industries are:

- Technology adoption has become a far more important performance differentiator during the COVID-19 disruption.
- Tech-savvy organizations outperformed their peers in revenue growth across the 12 industries where technology acted as a performance differentiator.
- The "technology mix" recipe for success is changing. Increasingly, cloud and AI are becoming performance differentiators.
- Not only does technology adoption vary greatly across industries, but the relationship between technology adoption and financial performance varied significantly among industries.

Action guide

The pandemic has given visionary business leaders an incentive to fundamentally rethink their business. In a pandemic, when nothing is normal, the challenging can become the everyday.

But change requires a reassessment of an organization's purpose, culture, markets, core business and operating model. It requires new ways of working, new processes, and new organization. We call this revolutionary change "The Cognitive Enterprise." Leaders have started to rethink and redesign their Cognitive Enterprise transformations for a changed world that is now predominantly virtual.

In this new Cognitive Enterprise, high-value experiences are delivered virtually not only to customers, but also to employees and partners, necessitating major re-wiring, new organization, and new ways of working.

In the post-COVID-19 business environment the need and the opportunity for digital transformation will be clear-cut. This report can help leaders understand how and where to apply digital transformation to leverage their key business capabilities in their industry. The race to determine the next generation of outperformers in each industry has started.

Five strategy shifts for innovation

C. Brooke Dobni, Mark Klassen, and Grant Alexander Wilson

The strategy shift framework, a new model for the practice of strategy, considers strategy and innovation as two sides of the same coin – conceptually exclusive, yet interdependent. At the core of the strategy shift framework is the 10 percent rule. Companies should reduce or eliminate activities of low value by 10 percent and increase value-added activities by 10 percent.

Traditional strategic tools will always be needed. However, our research, based on two Global Innovation Surveys of 843 companies, has shown that highly innovative organizations combine innovative practices within their strategic processes.

The recommended strategy shifts that follow were derived from the two research studies and represent the five most polarized areas between high and low innovative organizations.

1. Shift 1: Manage innovation culture to lead strategy

The strategy shift is about leadership taking ownership of the innovative culture.

1. Shift 2: Move outside to strategically collaborate

Highly innovative organizations integrate external input into their processes.

1. Shift 3: Incorporate advanced technologies

Technologies such as data analytics and artificial intelligence are more widely adopted by high innovators.

1. Shift 4: Utilize innovation methods and tools

High innovators have invested in methods and tools to move ideas forward and create space and time for ideation and innovation.

1. Shift 5: Measure innovation

High innovators have a much better innovation measurement platform and are not afraid to invest in the long-term and measure accordingly.

Operationalizing a strategy shift

Strategy shift involves a permanent change in thinking, and therefore it requires a long-term perspective. We refer to them as shifts, not as changes to the way strategy is executed. This is an important distinction as businesses do not have to abandon existing approaches but will have to modify them. Simply put, strategy shift requires an organization to spend less time on basic strategy practices in favor of more time on considering two things: what no longer provides sufficient value and what might generate transformative value in the medium to long term.

Takeaways

Since the origin of strategic management as a discipline, many of its tools and frameworks have not been revisited for relevance, despite the dynamically changing business environment. Strategy shift proposes such updates and changes.

This includes reorienting approaches to strategy. As much as the current market necessitates changes and requires pivots, so too does the current strategic frameworks. The time is now for an update to strategy, the time is now for a strategy shift.