

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).

Of strategies and strategists

Bain: The transformation of strategy

Over the past three decades we've seen a transformation in how strategies are developed. There are three specific shifts:

From perfect anticipation to fast adaptation. When I joined Bain in the late 80s, many of our clients were putting together 5- and 10-year plans. . . . There was a general belief that if you developed the right fact base and anticipated industry trends, you could establish a base case projected out 10 years that would actually happen! Everyone assumed that a perfect strategy was about perfect anticipation. Today, the one case we all know won't happen is the base case. Strategy is about turbulence, scenarios, moves and countermoves. The best strategy is about fast adaptation—we set out a clear and constant destination and agree on multiple paths of approach. Strategy is more like a compass, telling you where North is, and less like a map, giving you one route.

From “where to play” to “how to win.”

Thirty years ago, some of the best strategies we worked on were about “where to play.” For example, we would help a client define their core business, direct more resources toward the core, and reduce investments in or dispose of noncore businesses. . . . Three decades later, we find that more of our work on strategy is about “how to win.”

Companies need to achieve superior execution by building the capabilities of the team and managing complexity along the way.

From push to pull. Thirty years ago, most strategies were “push” strategies. The process of developing a strategy was held tightly by the executive committee. It might take up to nine months, with all actions done in secret and all documents held closely. . . . Once the process was completed, the strategy was pushed out to the organization through the “grand tell.” Leaders would say, “This is our strategy, and we will tell you what it means for you. Thirty years later, in a time when strategy is about “how to win,” the best processes create “pull” for the strategy. Leaders want to engage the organization, particularly those employees who work directly with customers, or the front line.

James Allen, “The Changing Nature of Strategy: Reflections on Thirty Years,” *Bain Insights* February 2019 www.bain.com/insights/the-changing-nature-of-strategy-reflections-on-thirty-years-fm-blog

McKinsey: What it takes to compete with bricks and mortar

In most cases, creating a distinctively compelling customer experience will require retailers to redesign their store formats. And there's no time to lose; competitors are moving fast. Even companies that started as pure-play online retailers—such as Amazon, eyeglasses retailer Warby Parker,

sneaker brand Allbirds and luggage company Away—are opening brick-and-mortar stores so that they, too, can offer sensory experiences. So, for traditional retailers, the pressure is on; the time to invest in format redesign is now.

For speedier and less expensive format redesign that quickly yields returns on investment, we recommend an approach that marries the creativity and empathy of design thinking with the discipline and speed of agile methodologies. Such an approach focuses on continually making one-off, high-impact changes rather than department-wide or storewide remodels. . . . Format redesign should be an ongoing process of implementing solutions quickly and refining them constantly, with retailers keeping their fingers on the consumer pulse and adapting store formats to respond to evolving consumer needs. . . .

When governed by an agile design-thinking mentality, a format redesign consists of four core elements, or cornerstones: format strategy, customer-journey mapping, customer-centric ideation, and technology enablement. The middle two elements are critical to delivering a retail experience that truly meets consumers' needs and expectations—yet, these elements are often given short shrift or overlooked in retailers' approach to format redesign. . . .

Benjamin Bouraoui, Michael Eriksson, Marcus Mansjö, and Alexander Thiel. "The ever-changing store," *McKinsey Quarterly* April 2019 www.mckinsey.com/industries/retail/our-insights/the-ever-changing-store-taking-an-agile-customer-centric-approach-to-format-redesign

Technology and disruption

Artificial intelligence and the next technology revolution

A.I. will transform all aspects of our lives, from wars, crime and justice to

our jobs, society and social structures. There are many areas of A.I. that will touch us by 2032. Some examples: Already it is being used in surgery and in law. Pharmacies (and warehouses) can use robots to pick and pack medicines or stock.

Just as in any product or services, those that incorporate A.I. will go wrong on occasion, requiring specialist diagnostic tools and staff trained to do the diagnosis.

The impact on consumers and providers is likely to be high. As purchasing decisions are delegated to A.I., the way that companies reach their customers and engage with them will be transformed. . . . It will make it very difficult for companies to engage directly with their customers.

SAMI Consulting, "Megatrends and How to Survive Them: The Next Technology Revolution," 10 April 2019 <https://samiconsulting.wordpress.com/2019/04/10/megatrends-and-how-to-survive-them-the-next-technology-revolution/>

Cyber roadblocks for smart cities

Smart cities are the future of urban living, harnessing the power of three Ds—digital technologies, data, and design thinking—to boost the efficiency and effectiveness of city services. However, this new wave of digital transformation also brings new cyber risks that could fundamentally impact the existence of smart cities. Cyber threats have been on the rise for years, but the last few years have seen an explosion in cyberattacks that target both data and physical assets. . . .

In March 2018, the city of Atlanta faced a ransomware attack that hit some of its customer-facing applications. At one point, the city had to shut down its free Wi-Fi network at the Hartsfield-Jackson Airport as a precautionary measure. Overall, the attack hit 5 out of 13 city departments, and it took the city

weeks to get back to normalcy. Such attacks are also growing in frequency: According to a 2016 survey of chief information officers of cities and counties, about a quarter of local governments were facing attempted cyberattacks every hour. . . .

It is critical for city leadership to realize that securing cities from cyber risk is not a one-time event where cyber strategy evolves as cyber threats evolve; instead, it is also important to be able to recover when a cyberattack happens. Also, this is not a battle that cities can or should fight alone, but instead with an ecosystem of city governments, academia, the private sector and startups. Technology can be one part of the cybersecurity solution, but the latter also needs a comprehensive governance model toward data and assets. More importantly, cities need an integrated approach to managing cyber risk with cybersecurity principles baked into every stage of the smart city development process from strategy and design to implementation and operations.

Piyush Pandey, Deborah Golden, Sean Peasley, Mahesh Kelkar, "Making smart cities cybersecure," *Deloitte Insights*, 11 April 2019 www2.deloitte.com/insights/us/en/focus/smart-city/making-smart-cities-cyber-secure.html

Capturing value from breakthrough innovations

When Steve Jobs came up with the idea for a device that would hold "a thousand songs in my pocket," it wasn't technically feasible. There was simply no hard drive available that could fit that much storage into that little space. Nevertheless, within a few years a supplier developed the necessary technology and the iPod was born.

Notice how the bulk of the profits went to Apple, which designed the application and very little to the supplier that developed the

technology that made it possible. That's because the technology for developing hard drives was very well understood. If it hadn't been that supplier, another would have developed what Jobs needed in six months or so.

Yet today, we're on the brink of a new era of innovation. New technologies, such as revolutionary computing architectures, genomics and artificial intelligence are coming to the fore that aren't nearly as well understood as digital technology. So we will have to spend years learning about them before we can develop applications safely and effectively.

For example, companies ranging from Daimler and Samsung to JP Morgan Chase and Barclays have joined IBM's Q Network to explore quantum computing, even though that it will be years before that technology has a commercial impact. Leading tech companies have formed the Partnership on AI to better understand the consequences for artificial intelligence. Hundreds of companies have joined manufacturing hubs to learn about next generation technology. . . .

While the need to explore technologies long before they become commercially viable is increasing. . . . it is crucial to build a continuous pipeline of problems to solve. Most will be fairly incremental, either improving on an existing product or developing new ones based on standard technology. Others will be a bit more aspirational, such as applying existing capabilities to a completely new market or adopting exciting new technology to improve service to existing customers.

However, as the value generated from digital technology continues to level off, there will be an increasing need to pursue grand challenges to solve fundamental problems. . . . There's no magic bullet, but it is generally accepted that the 70/20/10 principle

for incremental, adjacent and fundamental innovation is a good rule of thumb.

Greg Satell "We Need to Re-engineer Our Organizations for a New Era of Innovation," *Innovation Excellence*, 1 April 2019 www.innovationexcellence.com/blog/2019/04/01/we-need-to-re-engineer-our-organizations-for-a-new-era-of-innovation/

Facebook's existential crisis

The hard truth is that Facebook's own interests diverge — in some cases, wildly — from those of its users due to three major predicaments.

First is Facebook's business model, which rests on the need to keep consumers engaged in its services on the one hand and the need to monetize the data it gathers by targeting those users with new services and advertising on the other.

Time. Attention. Data. If you are a consumer, that's what Facebook wants out of you. And yet users generally don't seek out Facebook's services with an explicit sense of the scale of the data they're giving up; nor are they fully aware that what tech companies often call "stickiness" is, in practice, more like addiction. Instead, Facebook's users come to the service looking for meaningful social connections, news, and entertainment. That's what allows the company to make sweeping claims like its 2017 pledge to create a "social infrastructure. . . to build a global community that works for all of us." It's language like that that masks the core transaction Facebook requires from its users: your time and your data for our services.

Second is Facebook's scale, which has thrust upon the company an enormous responsibility that even Zuckerberg now admits is unsustainable. As of December, the company boasted 2.32 billion monthly active users, almost one in three people on the planet. That same

month, the company employed a mere 35,587 employees, a ratio of roughly one employee for every 65,000 users. How can a company so small effectively govern and protect such a large digital environment? The answer is it cannot. Massive failures — related to cybersecurity, privacy, propaganda, and more — are simply inevitable at these scales.

Last is a cultural problem, which explains Facebook's consistent but needless privacy missteps. From unwarranted requests for sensitive data to audacious violations of user privacy, Facebook as a whole has simply not prioritized the security or privacy of its users for reasons than can only be ascribed to culture — to a rush to get new features to market perhaps. . . . These unforced errors, in turn, have steadily eroded the trust it would take for the company to fix either of the above core problems.

Andrew Burt, "Can Facebook Ever Be Fixed?," *Harvard Business Review* 8 April 2019 <https://hbr.org/2019/04/can-facebook-ever-be-fixed>

Legendary investor has second thoughts on Facebook

Roger McNamee, a high-profile Silicon Valley investor, has become an urgent and sharp-tongued critic of the tech world's largest and most influential companies.

Most notably, his ire is focused on Facebook, a company he helped launch with an early investment and then served as adviser to cofounder and CEO Mark Zuckerberg.

His criticism extends to the fundamental business model of Silicon Valley — it treats consumers as "fuel" — and more broadly to the economic environment of the United States.

"We have deregulated for 40 years," he says. "We've gone from a version of capitalism where government sets rules and enforces them so it is fair for everyone." But now there are

very few rules and little enforcement of the ones that remain, so businesses are encouraged “to grab whatever they can grab,” he says. . . .

Saying that consumers are treated as “fuel” for Silicon Valley is an apt metaphor. The collection and sale of personal data, including location, is at the heart of the business models of Facebook, Google and many smaller companies that live on advertising. McNamee describes a rather Faustian bargain in which consumers trade their data for services.

“We’ve always said services are free, but that’s not true. It’s a barter of personal data for services. The price in data has been rising at a steep slope,” he maintains. Data collection, he says, is no longer just a passive technique; it’s become much more sophisticated and is a form of behavioral manipulation or modification.

Bill Snyder, “Roger McNamee: ‘Facebook Is Terrible for America,’” Stanford Graduate School of Business *Insight*, 24 April 2019 www.gsb.stanford.edu/insights/roger-mcnamee-facebook-terrible-america

Culture and innovation

Embrace learning not failure

Not long ago, it became fashionable to embrace failure as a sign of a company’s willingness to take risks. This trend lost favor as executives recognized that what they wanted was learning, not necessarily failure. . . .

Instead, companies should focus organizational energy on hypothesis generation and testing. Hypotheses force individuals to articulate in advance why they believe a given course of action will succeed. A failure then exposes an incorrect hypothesis — which can more reliably convert into organizational learning.

What Exactly Is a Hypothesis? A hypothesis emerges from a set of underlying assumptions. It is an articulation of how those assumptions are expected to play out in a given context. In short, a hypothesis is an intelligent, articulated guess that is the basis for taking action and assessing outcomes.

Jeanne Ross, “Why Hypotheses Beat Goals,” *Sloan Management Review* 1 April 2019 <https://sloanreview.mit.edu/article/why-hypotheses-beat-goals/>

A wider perspective

Paying the price for climate change

The case of Pacific Gas & Electric illustrates the complexity of assigning responsibility in cases where pre-existing problems are exacerbated by a changing climate. The origin of the Camp Fire, in November, which was one of the worst fires in California’s history and led to the deaths of eighty-five people, is still being investigated. . . . Still, the intensity of the wildfires was not entirely the company’s fault. P.G. & E. is legally required to provide power to residents in rural parts of the state; as conditions have become drier, the damage wrought by individual mistakes has increased. It may now be impossible for utility companies to operate in California under the current conditions, given the risks.

P.G. & E. may be the most high-profile company to date to face collapse for reasons linked to climate change, but it won’t be the last. Coastal real estate is likely to be one of the first sectors of the economy to see values plummet due to rising seas and damage from storms. This hasn’t happened yet, because insurance companies are still willing to insure coastal properties, which means that property owners won’t have to bear the cost of the damage. . . . At some point, insurance and reinsurance companies will

decide that writing policies in high-risk areas no longer makes financial sense, which could trigger a sharp decline in real-estate prices.

Sheelah Kolhatkar, “The P.G. & E. Bankruptcy and the Coming Climate-Related Business Failures,” *New Yorker* 26 February 2019

A green energy breakthrough

Scientists at KU Leuven in Belgium have developed a device that combines incoming solar energy and water vapor from the surrounding air to produce a record-breaking daily average of 250 liters (66 gal) of hydrogen throughout the year. According to the researchers’ estimations, an array of 20 such panels paired with an underground pressurized tank could provide the totality of a household’s entire electricity and heating needs for a modest price.

“We wanted to design something sustainable that is affordable and can be used practically anywhere,” says Martens. “We’re using cheap raw materials and don’t need precious metals or other expensive components.”

The researchers estimate that an array of 20 panels and four cubic meters of pressurized storage would meet the energy and heating needs (in Belgium) of a household throughout the year, with the assumption that the reserves will build up during the summer months and last through the winter.

A prototype of this setup will soon begin field testing on a property in the rural Belgian town of Oud-Heverlee. Over the next two years, the researchers are will be focusing on testing the panels for household, agriculture and retail applications, with the eventual goal to mass produce and commercialize the system.

Dario Borghino, “March 5th, 2019 “Record-breaking device uses

sunlight to produce hydrogen at 15% efficiency,” *New Atlas* 5 March 2019 <https://newatlas.com/hydrogen-panel-record-efficiency/58645>

Will Europe decide the future of Big Tech?

If you want to understand where the world’s most powerful industry is heading, look . . . to Brussels and Berlin. While America dithers the European Union is acting. This week Google was fined \$1.7bn for strangling competition in the advertising market. Europe could soon pass new digital copyright laws. . . .

Today’s giants are accused not just of capturing huge rents and stifling competition, but also of worse sins, such as destabilizing democracy (through misinformation) and abusing individual rights (by invading privacy). As AI takes off, demand for information is exploding, making data a new and valuable resource. Yet vital questions remain: who controls the data? How should the profits be distributed?

In fact, Europe has clout and new ideas. . . . For now it has dismissed the option of capping tech firms’ profits and regulating them like utilities, which would make them stodgy, permanent monopolies. It has also rejected break-ups: thanks to network effects, one of the Facebabies or Googlettes might simply become

dominant again. Instead the EU’s doctrine marries two approaches. One draws on its members’ cultures, which, for all their differences, tend to protect individual privacy. The other uses the EU’s legal powers to boost competition.

The first leads to the assertion that you have sovereignty over data about you: you should have the right to access them, amend them and determine who can use them. This is the essence of the General Data Protection Regulation (GDPR), whose principles are already being copied by many countries across the world. . . .

Europe’s second principle is that firms cannot lock out competition. That means equal treatment for rivals who use their platforms. The EU has blocked Google from competing unfairly with shopping sites that appear in its search results.

“The future of big tech” *The Economist* 23 March 2019

The platform economy challenges the power of local governments

From Nashville to New Orleans to Honolulu, Airbnb is battling local officials over requests to collect occupancy taxes and ensure that the properties listed on its site comply with zoning and safety rules. In the past five months alone, the company has spent nearly \$1 million to overturn

regulations in San Diego and has sued Boston, Miami, and Palm Beach County over local ordinances that require Airbnb to collect taxes or remove illegal listings. . . .

Airbnb has grown into a lodging colossus, offering more than 6 million places to stay in more than 191 countries. Its listings outnumber those of the top six hotel chains combined, helping the company reportedly generate more than \$1 billion in revenue in the third quarter of 2018. It is valued by investors at \$31 billion, making it the country’s second most valuable startup, after Uber.

Airbnb maintains that, in most cases, it’s not responsible for collecting occupancy taxes required of hotels and other lodgings or for ensuring the rooms and homes listed on its sites comply with zoning or health regulations. The company says it follows local and state laws but considers itself a “platform,” serving merely to connect hosts and visitors, rather than a lodging provider—more akin to Facebook than Marriott.

Aris Martineau, “Inside AirBnb’s ‘guerrilla war’ against local governments”, *Wired* 20 March 2019

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