Quick takes

Catherine Gorrell

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

Harnessing platform-based business models to power disruptive innovation

Haydn Shaughnessy

Adopting and implementing a platform-based business model is fraught with problems and complications, many of which are poorly understood even by industry insiders. As senior managers try to sort through the best practices for operating in this new business environment, they need to carefully analyze and thoroughly understand the components of such a business model and how they interact to produce unique customer value and formidable competitive advantage.

Premise 1

There are a number of issues that contribute to making it difficult to conceptualize, design and adopt a platform strategy for a given market.

- Existing platform business models are widely misunderstood and the lessons some observers derive from them may be dangerously misleading.
- Platforms go hand-in-hand with digital "ecosystems" – complex systems that link innovators, suppliers, marketers, consumers and corporate operations – an insight that few organizations or commentators really understand.
- Most case descriptions of platform enterprises oversimplify the ecosystem component of strategy.
- Even the definition of what constitutes a fully realized platform-based business model means different things in different market contexts.

Premise 2

With the right set of concepts in hand, management can forge a new operating model for the firm, one that is designed to withstand future market disruptions. This process starts by identifying the most important components needed for success and targeting various roadblocks for removal. Throughout the process company leadership must maintain a sharp focus on current and changing customer needs and values.

The components of a platform-based business model

The platform is a new way to organize wealth-creating activity. Its essential components are:

- Changing the franchise – leading companies have taken the enormous risk of making a fundamental change in how they do business, even to the point of switching markets – such as Apple from computing to phones.
- Managing the money flow of ecosystem business partners or groupings that do the "work."
- System designs that radically reduce friction in the marketplace – for example, superior-user-experience designs that allow partners to offer products and services as a self-service activity where the customer does the work.

Catherine Gorrell is a veteran strategy consultant based in Portland, Oregon (4mcgorrell@gmail.com) and a contributing editor of *Strategy & Leadership*.

 VOL. 44 NO. 5 2016, pp. 60-66, © Emerald Group Publishing Limited, ISSN 1087-8572 DOI 10.1108/SL-08-2016-0069

- The extensive creation of new options well beyond old-fashioned concepts about core competency.
- Leveraging third party assets not only to create revenues but also to enhance service and develop and advance innovations that customers value.

There are other elements that are necessary but not sufficient to create a platform model.

1. Innovation ecosystems.
2. Open application programming interfaces (APIs).
3. Network effects.
4. Two-sided markets.

Five major characteristics of platforms

There are commonalities that an executive looking to formulate a platform strategy can capitalize on:

1. Creating new franchises around asset leverage.
2. Huge transaction engines.
3. Externalization and advocacy through ecosystems and design.
4. Breaking the scale barrier.
5. Opening up options and the flight from core competency.

How to apply the analysis to platform development

Platforms and ecosystems can redefine a whole industry. They are a new form of disruptive innovation, one that prioritizes organization. It's too simplistic to describe all platforms as marketplaces; in practice, firms developing platforms need to find the right organizational form – community, venue or a marketplace.

Bottomline

The author predicts that by 2020 some 10 percent of cross-border trade will be accounted for by 10 to 15 mega platforms. This will rise to 30 percent by 2025. In light of this impending global market transformation, the pressure executives now feel to show an improved return on assets will only get tougher.

Agile's ten implementation challenges

Stephen Denning

Although Agile methodologies have roots in software development, the adoption of Agile is now spreading to every kind of organization and every aspect of their work. Yet at the very moment of Agile's apparent admission into the pantheon of general management, managers implementing Agile face a number of challenges.

1. Agile itself continues to evolve.

Functions like HR, finance, legal, marketing and sales are still learning how to adapt to Agile.

2. A different concept of the organization.

Agile replaces management hierarchy with a system organized and managed to rapidly produce the continuous innovation that is highly valued by customers who can and will pay for it.

3. Raising the bar for business performance.

The adoption of Agile is not optional. It is the only way for organizations to cope with the 21st Century marketplace and deliver what customers expect and demand: easy, quick, convenient, personalized responsiveness at scale.

4. Technology is an enabler, not the driver.

While the new level of performance is enabled by technology, its benefits will be driven by the goals, principles and values of Agile that focus on continuously searching for ways to generate new value for customers.

5. A different management mindset.

In truly Agile organizations, leaders at every level of the organization need to have a growth mindset, not a mindset fixed on defending the status quo. Agile managers assume that survival requires rapid change in the face of abrupt shifts in the marketplace.

6. "Doing Agile" is not the same as "being Agile."

The C-suite can't have a customer-driven growth mindset, values and culture for some of its work and then a control-oriented fixed mindset, values and culture for the remaining portion. The C-suite can't have two "highest priorities" or maximize two variables; they have to choose.

7. A misguided focus on tools and processes.

Too often, managers are looking for, and buying, processes and tools, when it should be about the Agile mindset.

8. Failure to get to "done."

A key Agile principle – doing work in small iterative cycles with customer feedback at the end of each cycle – is a transformative idea.

9. The need to achieve positive customer impact.

Market research is ineffective because what customers say they want or what engineers think they want is often quite different from what they need. Agile shows the customer the product as it develops, modifying it as learning progresses, thus improving the chances of building an innovative product or service that people will actually buy, use and like.

10. Beyond maximizing shareholder value.

Giving highest priority to satisfying the customer is the first principle of Agile. This is in contrast to an internally-focused hierarchical bureaucracy focused on delivering value to shareholders.

Bottomline

When the customer is truly number one, the firm must adjust everything – goals, values, principles, processes, systems, practices and date structures – to generate continuous new value for customers and ruthlessly eliminate anything that doesn't contribute. That's being Agile.

How successful firms guide innovation: insights and strategies of leading CEOs

Saul J. Berman, Steven Davidson, Kazuaki Ikeda, Peter J. Korsten and Anthony Marshall

How are the most successful trailblazing CEOs guiding their organizations through this period of tumultuous technological advances? A report by the IBM Institute for Business Value probes the perspectives of the 818 CEOs to find out what they think the future will bring and how they're positioning their organizations to prosper in the "age of disruption."

Key findings

1. CEOs say technology is the chief external influence on their enterprises. Torchbearer CEOs, heads of firms that are both tech and financial return leaders, place more weight on contextual mobile and cognitive computing, whereas Market Follower CEOs stress the importance of cloud and the Internet of Things.

2. CEOs expect to engage more digitally with customers and partners, as traditional industry value chains morph into ecosystems.

3. CEOs are preparing their organizations to embrace cross-industry ecosystems.

- They're starting with the big picture because they understand that focusing on operations can only solve the problems of today, whereas focusing on strategy can change the entire future of their businesses.
- Two-thirds of executives surveyed plan to explore novel, non-traditional forms of growth. This includes playing a new or different role in the ecosystems they inhabit.

4. More than two-thirds of all CEOs anticipate adopting a more individualized approach to customers.

5. CEOs see the transformation impact of cognitive computing.

6. Torchbearer CEOs put more emphasis on agility and experimentation because they know these are prerequisites for disruptive innovation.

7. Torchbearer CEOs are more willing to take the long view and to wait for returns on innovation.

8. Torchbearer CEOs realize operating as part of an ecosystem requires different skills. The most important one is the ability to cultivate and manage a diverse set of relationships.

Torchbearer CEOs provide guidance

1. What to do: Sharpen your strategy. Pursue disruptive innovation; experiment with new revenue models that could provide additional sources of value and a stronger customer interface. When launching something new, ensure your whole ecosystem is also ready to launch.

2. How to do it: Energize your engagement. Use predictive and cognitive analytics to investigate new trends, identify new customer segments and make smarter business decisions. Share customer feedback with everyone in your ecosystem. Draw on the diverse resources within your ecosystem to take advantage of market opportunities you can't realize alone.

3. What you need to do: Turbocharge your transformation. Build a culture of rapid experimentation and prototyping to accelerate the release of new business models, products and services. Make long-term investments in innovation, not just the sort of investments that deliver better quarter-to-quarter financial performance. Communicate your plans and payback horizons clearly to shareholders. Define the skills your enterprise will need in the future, as industries converge and ecosystems predominate.

Interview

John C. Camillus: discovering opportunities by exploring wicked problems

Liam Fahey

It is almost impossible to anticipate how the forces of change interact to shape the future. As a consequence, assumptions about the future, even going out one year, often prove unreliable. John C. Camillus, author of *Wicked Strategies: How Companies Conquer Complexity And Confound Competitors,* is a long-time believer that the challenges of change can't be reduced to clearly specified problems for which "best" solutions can be crafted. Instead he offers a process to learn from complexity that allows firms to explore growth opportunities.

His multi-level approach starts by discerning unique "wicked problems," then applies a "feed-forward" process that analyzes stakeholder interests and develops scenarios to discover and test possible opportunities and strategies.

Questions and answers:

S&L: What are some of the environmental factors that foster wicked problems?

Camillus: The inevitability of globalization, the imperative of innovation and the growing importance of shared value among stakeholders are three forces that act in concert to create most wicked problems.

S&L: What are the characteristics of a wicked problem?

1. Is the problem one that is substantially without precedent?
2. Are there multiple, significant stakeholders with conflicting values and priorities?
3. Are there several causes and are they interactive and tangled?
4. There is no sure way of knowing you have the right answer.
5. The understanding of what the "problem" is changes depending on the "solution" being considered. The problem and the solution are interactive.

S&L: Why pick this problem?

Camillus: Understanding the roots of wicked problems helps in developing strategic responses – "wicked strategies" – that have an increased probability of being effective and successful.

S&L: What's the distinction between resolving and solving a wicked problem?

Camillus: You cannot truly and definitively solve a wicked problem. The problem morphs because it interacts with the response, so there is always something more that needs to be done.

Resolving a wicked problem is an ongoing process. It requires a management system that generates, supports and implements what I call "wicked strategies." My approach is a management system – a Feed-Forward Framework – that has three components that craft and support wicked strategies.

S&L: How should a company develop a response to the wicked problem?

Camillus: On two levels. First, using the Feed-Forward Framework to define the organization's identity, then implementing a modular and dynamic approach to organizational structure and finally adopting feed-forward processes and a real options approach. Second, using the framework-based process to manage the wicked problem.

Masterclass: Two approaches for sustaining growth: re-introducing the "founder's mentality" and implementing "The Three Box" solution

Brian Leavy

Two recent books offer company leaders and strategists valuable insights on how to build resilience and sustain growth.

#1. In *The Founder's Mentality: How to Overcome the Predictable Crises of Growth* (2016), Chris Zook and James Allen, argue that the main obstacles to sustaining growth are internal, not external, and they offer a strategy for overcoming them based on consciously embedding "the founder's mentality" into the culture, the organizational elixir that brought the organization success in the first place.

Over 90 percent of the challenges to sustaining growth turn out to be internal, according to Zook and Allen, and to be intimately related to a central paradox: "growth begets complexity, and complexity is the silent killer of growth." The solution is to tap into the ongoing vitality and resilience that springs from the three main traits of the "founder's mentality":

- An "insurgent's mission" – waging war on an industry and its standards on behalf of an underserved customer, or creating an entirely new industry altogether.
- A "front line obsession" – an obsession with customer-facing employees, the customer and the business details.
- An "owner's mindset" – employees become so invested in the company that they feel and act like owners.

Together, they represent a "frame of mind" that is "one of the great and most undervalued secrets of business success." A visual two-by-two matrix ("the founder's mentality map") helps CEOs chart their growth trajectories, take stock of when and why they might be drifting off course and determine timely and appropriate course correction (see Figures 1-3).

#2. For strategy and innovation guru, Vijay Govindarajan, sustaining growth increasingly requires being able to pursue simultaneously two very different types of activity and mindset – exploiting a legacy business while exploring new business opportunities. He offers a very practical framework for approaching this challenge in *The Three Box Solution: A Strategy for Leading Innovation*.

The idea behind his Three Box Solution is that leaders must be prepared to build their future continually in the present, "day by day."

- The Three Box Solution is how to manage the natural tensions among the values of preservation (Box 1), destruction (Box 2) and creation (Box 3). "You are always preserving the present, destroying the past, and building the future," and the process is best viewed as cyclical – "the business models, products and services that you create in Box 3 will at some point become your new Box 1."

By using the Three Box Solution as a framework for developing an active innovation culture, a firm can apply a discipline of "planned opportunism" and help create "a change-ready" organization.

Bottomline

Both thinking frameworks offer promising ways to go about driving sustainable growth and enhancing agility and resilience.

Masterclass: The ultimate leadership challenge: a unique corporate theory of value-creating growth

Oleksiy Osiyevskyy

"The hard reality is that a competitive advantage just isn't enough," warns Todd Zenger, in his new book *Beyond Competitive Advantage: How to solve the puzzle of sustaining growth while creating value*. Why? The profit potential from an existing or clearly achievable competitive advantage is already reflected in the stock price. In other words, according to Zenger, "Investors reward companies only once for discovering, occupying and defending a valuable market position."

In the eyes of analysts, maintaining the profitable sustainable status quo is not an option for creating shareholder value.

Instead, senior management's attention must move from the pursuit of a competitive advantage – which still remains an existential foundation of every business-level strategy – towards a broader goal of managing the organizational assets and activities for sustained value creation. It means creating an overall corporate theory.

Corporate theory

A well-developed corporate theory enables top managers to engage in fruitful thought experiments and to use it as a meta-strategy to guide the selection of business strategies that are more likely to succeed.

A corporate theory of sustained value creation comprises the three "sights":

1. Foresight – a clear picture about the future transformation of the relevant industries, technologies and customer preferences. It should be both quite specific and significantly different from the conventional wisdom.
2. Insight – an objective assessment of the company's sustainably unique activities, resources and assets. Insight makes the corporate theory company-specific and fine-tuned at leveraging the company's strengths to exploit the opportunities from the foresight.
3. Cross-sight – a recognition of possible complementarities between activities, resources and assets within and outside the firm.

The Disney company's corporate theory is given as an example.

The task of strategic leaders

Considering the importance of crafting and implementing a corporate theory, the strategic leaders at all organizational levels must perform these three roles, usually in the consecutive order: (1) composing and testing powerful theories that reveal the value-creation path; (2) communicating and "selling" their theories to important stakeholders; (3) sequencing the organizational attention and focus to build the envisioned value.