

Leadership and strategy in the news

Craig Henry

Of strategies and strategists

How the best make strategy

For a capable but average CEO, that means using performance metrics for the organization such as being the best in the industry and winning customer share. If we are number three in the market and want to move to number one, what do we do?

Those who are truly distinctive, or excellent as measured by their performance and tenure in role, play the corporate strategy somewhat differently. Their mindset is to beat the odds. Beating the odds is a theme throughout our strategy thinking and it centers on being bold in the areas that matter most. There are three practices, or habits, of excellent CEOs that we see on this dimension. The first one is reframing what winning means. . . .

The second piece is around bold moves. If you have elevated the vision sufficiently, what strategic moves will you make to realize it? It turns out there is a discrete set of bold moves that matter most. There are organizational pieces as well such as, how will you fundamentally shift the DNA of the organization?

The last piece is quite tactical, relating to the boldness with which you allocate resources. Research shows that most organizations, even if they set a bold vision, only tweak the budgets, plus or minus what they had last year. Excellent CEOs take more of a clean-sheet approach. They say, “If I were to reallocate 10 percent of my budget each year to what we say

matters most to our future, what would that look like?”

“What sets the world’s best CEOs apart,” *Inside the Strategy Room*. 18 May 2020 www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/what-sets-the-worlds-best-ceos-apart

Boeing’s engineering failure

If there were an award given for corporate recklessness, however, few would challenge mighty Boeing, the world’s largest aerospace and defense manufacturer and the nation’s single biggest exporter. Once the pride of industrial ingenuity in America, Boeing has been hypnotized by the lure of financial engineering.

Starting in 2013, the Chicago-based company decided it would make sense to commit nearly every penny of profit, and then some, to its shareholders. It sent \$64 billion out the door – \$43 billion worth of buybacks and \$21 billion in dividends – saving little under CEO Dennis Muilenberg to cushion against the industry’s expected hazards, such as manufacturing difficulties, labor disputes and recessions.

After two of its 737 MAX planes crashed within five months and the FAA grounded the aircraft in 2019, Boeing’s aggressive financial policies were exposed, and it was forced to turn to debt markets for emergency cash. The company, which had essentially no debt in 2016, ended 2019 with \$18 billion in net debt. This

Craig Henry, *Strategy & Leadership’s* intrepid media explorer, collected these examples of novel strategic management concepts and leadership 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).

March, Boeing drew fully on a \$13.8 billion credit line to contend with the grounding of air travel, and Standard & Poor's downgraded its credit rating to the lowest rung of investment-grade. . . .

"We believe that government support will be critical to ensuring our industry's access to liquidity," said Boeing's new CEO, David Calhoun, on April 29. The next day, Boeing launched a \$25 billion bond offering, eliminating the need for a direct bailout. The issuance, which includes bonds that aren't redeemable until 2060, was oversubscribed, as institutional investors no doubt assumed that Boeing's recovery was a matter of national importance to the government.

Antoine Gara and Nathan Vardi, "Inside The \$2.5 Trillion Debt Binge That Has Taken S&P 500 Titans Including Boeing And AT&T From Blue Chips To Near Junk," *Forbes* 21 May 2020 www.forbes.com/sites/antoinegara/2020/05/21/inside-the-25-trillion-debt-binge-that-has-taken-sp-500-titans-including-boeing-and-att-from-blue-chips-to-near-junk

COVID scenario planning for non-profits

We adapted Bain & Company's coronavirus scenario planning guidance and strategy in uncertainty methodology, and worked with a number of nonprofit leaders to put this approach into practice.

First comes some homework. Decision making under uncertainty starts with clarity on guiding principles for your organization. The principles reflect your organization's unique mission, values, and circumstances, and articulate how you will approach tough tradeoffs balancing your mission, finances, staff, equity, and other considerations. They'll also help you communicate the rationale behind tough decisions to key stakeholders. If you haven't already aligned on

guiding principles in your initial crisis response, you'll want to do so before embarking on the four-step scenario planning process.

Step 1. Identify key drivers at risk. With guiding principles in hand, you'll start scenario planning by identifying the drivers of your organization's economics and impact. These are the elements or variables that animate your day, or keep you up at night, typically in three categories – programs, operations, and funding.

Step 2. Develop and model scenarios. Develop best-, moderate-, and worst-case scenarios that reflect the full spectrum of possible outcomes for your organization. Your scenarios should anchor on the key drivers – the ones that are high importance and high risk – that you prioritized in Step 1. As you assessed the level of risk for each, you probably thought about external factors – for example, government social distancing rules, the pace of economic recovery, unemployment rates, school closures, and public attitudes about engaging in certain kinds of activities (like volunteering, seeking health services, or going to a cultural institution) – that are beyond your control. Now, it's time to build scenarios around those external factors, focusing on how the few that are most relevant to your organization play out in best, moderate, and worst cases.

Step 3. Create a portfolio of actions. Next, you want to develop a set of actions that would allow you to effectively manage against each scenario – or across all of them.

Step 4. Determine key trigger points. This last step involves identifying clear trigger points that will prompt decision making and action on the part of your leadership team. At what point would you have to let which staff go? When should you press pause on certain employee benefits? What will prompt you to shut down a program

delivery site or open a new one where needs are increasing?

Lindsey Waldron, Robert Searle, Alexandra Jaskula-Ranga, "Making Sense of Uncertainty: Nonprofit Scenario Planning in the COVID-19 Pandemic," *Bridgespan Insights* 27 May 2020 <https://www.bridgespan.org/insights/library/strategy-development/nonprofit-scenario-planning-covid-19>

Big tech finds opportunity in the crisis

Even with the global economy reeling from a pandemic-induced recession and dozens of businesses filing for bankruptcy, tech's largest companies – still wildly profitable and flush with billions of dollars from years of corporate dominance – are deliberately laying the groundwork for a future where they will be bigger and more powerful than ever.

Amazon, Apple, Facebook, Google and Microsoft are aggressively placing new bets as the coronavirus pandemic has made them near-essential services. . . . The skyrocketing use has given the companies new fuel to invest as other industries retrench. . . .

"I've always believed that in times of economic downturn, the right thing to do is keep investing in building the future," Mark Zuckerberg, Facebook's chief executive, said in an investor call last month. "When the world changes quickly, people have new needs, and that means there are more new things to build."

In doubling down on growth in a time of economic pain, the largest tech companies are continuing a pattern. In previous recessions, those that invested while the economy was at its most vulnerable often emerged stronger. In the 1990s, IBM used a recession to reorient itself from a hardware

company into a software and services company. . . .

Apple, whose iPhones now dominate computing, doubled its research and development budget for two years during the downturn in the early 2000s.

Mike Isaac, "The Economy Is Reeling. The Tech Giants Spy Opportunity," New York *Times*, 13 June 2020

Making business intelligence useful

What intelligence community analysts should understand is, in business, the chief executive assumes significant power in determining the right perspective and quite often rejects other perspectives. . . .

The second crucial variable found to significantly impact executive judgment was whether management asked for big picture context of the specific information. Intelligence can be tactical and factual yet miss the bigger context to decisions such as structural changes in the industry. Context in business is often subjective, and the policymaker may have a very different context than the intelligence professional. Thus, managers inside General Electric warned Jeff Immelt, its former chief executive, that acquiring Alstom's power business – a financially troubled French company – was a recipe for disaster. However, for Immelt, the context was trying to shift General Electric away from its dependence on financial assets and back to its industrial roots. . . . Context can be king, but the ability of professional analysts to understand the top decision maker's context or the decision maker's interest in a broader context can often be very limited. . . .

Intelligence community analysts should understand that business leaders will tend to be impatient, more focused on immediate results, more confident in their own strategic

judgment, and more attached to their perception of reality. They will easily ignore intelligence that doesn't fit their needs.

Benjamin Gilad, "When the Consumer of Intelligence is a CEO, Does it Matter?" *Strategy Bridge* 12 May 2020

Technology and disruptions

Business model transformation in the midst of a pandemic

In our research, one area of the restaurant industry offers hope and even growth. As restaurants shuttered during social lockdowns in March and April, food delivery soared. An increasing number of those deliveries originated from recently established "cloud kitchens." More remarkable, most of the restaurants left standing became virtual cloud kitchens themselves, literally overnight.

What is a cloud kitchen? Cloud kitchens are commercial facilities purpose-built to produce food specifically for delivery. They do not have brick-and-mortar dine-in areas and consist of shared kitchen space with culinary staff preparing meals that are then delivered to customers at home or at work, typically through online delivery companies. . . .

It's an interesting turnabout. Delivery services started out supplying a service to restaurants; now cloud kitchens are supplying a service to delivery firms. . . .

Cloud kitchens are much cheaper to set up than brick-and-mortar restaurants; there's no need for them to be in prime locations, no need for cool designs, and no need for seating space. One estimate we heard was that a brick-and-mortar restaurant in New York City costs \$1 million to \$1.5 million to set up, while a cloud kitchen can get up and running for \$100,000.

It is still an emergent business model with lots of variations. Cloud kitchen operators such as New York's Zuul Kitchens and Pasadena's Kitchen

United act like landlords, renting kitchen spaces to multiple third-party restaurant brands. There are also pure play virtual restaurants in the category that exist solely as cloud kitchens that deliver via online delivery platforms. Some virtual restaurants can run multiple brands completely virtually. Rebel Foods in India runs separate virtual-only brands out of the same facility, with each brand focused on a specialized cuisine such as North-Indian, Chinese, biryani and burgers.

Lena Ye and Geoffrey Jones, "Coronavirus Careers: Cloud Kitchens Are Now Serving," HBS *Working Knowledge* 2 June 2020 <https://hbswk.hbs.edu/item/coronavirus-careers-cloud-kitchens-are-now-serving>

Not just data, the right data-driven

I see way too much of people rushing willy-nilly into designing surveys or interview protocols without clearly identifying what they hope to learn from it, and what evidence they'll need to support their conclusion. . . .

For instance, years ago, Ian MacMillan and I designed a survey for a division of General Electric that made a lot of deliveries by truck. . . . Two of the questions were about timeliness of deliveries and about their accuracy – in other words, how quickly was the delivery made and was what was in the shipment what the customer ordered. Customers reported that they weren't that satisfied with timeliness and were borderline happy with most of the other business elements.

So we did what seemed logical, and encouraged the company to invest in improving speed-to-deliver. Six months later, the program was implemented and everybody stood back to hear the applause. Unfortunately, sales didn't budge. So we took the heretical step of actually going and talking to some customers.

Well,” they reported, “slow deliveries aren’t such a problem if you let us know in advance, but when the stock is wrong it causes major operational headaches, and that would lead us to look for an alternative source of supply.” We were stunned – we had made the assumption that satisfaction would correlate with purchasing behavior. . . .

But incrementally improving satisfaction often takes you into a “zone of indifference” where customers are happier, but they aren’t buying more, providing you with more word of mouth or otherwise helping you out strategically. To get real results, you have to get all the way over to the right – where satisfaction picks up sharply and customers reward you for it.

Back to the drawing board on the survey. This time, we asked relative questions – relative to our competitors, or relative to your expectations, how was our performance? And we included the variable we really cared about, which was “what percentage of your ordering in the next six months will you plan to place with us?”

This time, we got much more actionable data. It turned out that customers felt our group was at just about the same level of performance on timeliness, but not nearly as good on accuracy, which allowed us to direct budget to where it would create a competitive difference.

Rita G. McGrath, “Designing Business Experiment,” *RGM* 14 May 2020 www.ritamcgrath.com/2020/05/designing-business-experiments/

Culture and innovation

Crisis spurs new ways to innovate

The intense innovation activity ignited by the global pandemic shows that some elephants can dance when they must. Companies are moving faster and taking bigger risks than could have been

imagined a few months ago. . . . The lock-down has brought forward a shift to on-line work practices and team-sharing platforms while creating new opportunities. For example, 3D printing is getting a boost by helping to replace faraway suppliers with nearby 3D printing contractors and make supply chains more resilient. To capitalize on this shift, HP accelerated their “3D as a service” business model innovation, where customers pay only for what they print. . . .

As uncertainty abates, there is a pressing need for guidance on which changes to innovation approaches to prioritize, and how to decide which opportunities to grasp. . . .

The three drivers will be familiar to innovation practitioners. . . . They serve as so-called simple rules. . . .

- Investing in innovation talent. The leadership team signals its commitment to innovation with high-profile investments of resources and time.
- Adopting an outside-in approach to innovation that starts by scouring widely for trends and searching for deep insights into customers’ emerging needs.
- Encouraging prudent risk-taking. Innovative organizations foster a tolerance for risk-taking by endorsing fast-to-fail experiments and learning from their innovation disappointments.

Companies applying these innovation drivers faster and better will have an advantage that rivals won’t easily overcome. Growth leaders are already emphasizing them to get further ahead.

George S. Day and Gregory P. Shea, “It’s Time to Rethink How You Innovate,” *Knowledge@Wharton*, 10 June 2020 <https://knowledge.wharton.upenn.edu/article/time-rethink-innovate/>

Speeding innovation by repurposing

As organizations and experts scramble to innovate [Covid-19] therapies, they are also redefining innovation. . . . The conventional approach to innovation in the pharmaceutical industry is to conduct a lengthy process that starts with the discovery and generation of potential drug compounds and moves through a meticulous refinement and selection phase toward gradual development, clinical testing, and market approval. . . it is now being complemented with an ultrafast approach to innovation centered on the repurposing of readily available ideas, knowledge and technologies. . . . The specific repurposing logic underlying these ultrafast innovation initiatives can be summarized in five principles:

1. Get a grasp on your innovation problem. First, managers need to quickly assess and understand the problem that the innovation should target, be it tackling the ventilator shortage, supporting health care personnel, or developing a vaccine for the coronavirus.
2. Make a rapid inventory of your knowledge and resources. To make repurposing work, you need to rapidly develop an inventory of “useful stuff,” including existing products, facilities, databases, software, talent, and expertise.
3. Use emerging technologies. Cloud computing, data analytics, artificial intelligence, and other emerging technologies offer two benefits for ultrafast innovation.
4. Encourage open and cross-disciplinary collaboration. To quickly grasp the innovation problem and identify possible solutions, it is crucial to encourage

and support open and cross-disciplinary collaboration.

5. Rapidly integrate end users. To meet the urgent needs of end users through ultrafast innovation, you cannot wait for market research to tell you what these needs are.

Georg von Krogh, Burcu Kucukkeles, and Shiko M. Ben-Menahem, "Lessons in Rapid Innovation From the COVID-19 Pandemic," *Sloan Management Review* June 2020 <https://sloanreview.mit.edu/article/lessons-in-rapid-innovation-from-the-covid-19-pandemic/>

Life after a pandemic: the no-touch economy

'Belief-scarring' and the New Normal

Laura Veldkamp, Columbia Professor of Finance & Economics . . . puts the aftermath of the coronavirus in context of "belief scarring," or the effect of a persistent change in a normal business environment due to a shock. . . .

"Belief scarring means we won't evaluate risks the same way again," Veldkamp says.

"Historically, life is different after we've had these transformative events. . . .

For guidance, Veldkamp thinks it is important to examine the lives of those who lived through the Great Depression, to which the current crisis has been compared.

"People who lived through the Depression behaved systematically differently throughout the rest of their lives," she says. "They saved more, they used less materials. Shocking events sear these memories and these persistent behaviors into us in ways that regular times do not."

Stephen Chupaska, "How Will Business Behave in the New Normal?," Columbia *Ideas at Work* 19

May 2020 <https://www8.gsb.columbia.edu/articles/ideas-work/how-will-business-behave-new-normal>

A wider view

COVID: Governmental failure and the need to define problems correctly

In his 2007 book *The Honest Broker*, political scientist Roger Pielke, Jr. characterized two different idealized styles of decision-making: Tornado Politics and Abortion Politics. In the case of an impending tornado, citizens are bound together by a common purpose: survival. And simply acquiring information whether through science or direct observation drives the negotiation about how to respond. In contrast, Abortion Politics is characterized by a plurality of values, and new scientific information only contributes additional complexity to the divergent goals and motivations.

Yet what has been striking is how many people seem to insist that the Covid-19 pandemic be treated as a case of Tornado Politics, as if it were a cyclone bearing down on us. But it hasn't been this kind of case. Every day, its politics has come more and more to resemble that of abortion, as scientific information about the virus has become weaponized for partisan ends.

Could things have turned out differently? Had officials recognized that Covid-19 was not a case of Tornado Politics, policies to make our society more flexible and amenable to pandemic controls would have been debated months ago. We are just now discussing alternative work schedules like four days on, ten days off, which might ensure self-isolation of anyone infected on the job. . . . Cities could have geared up to ration access to parks, beaches, and other open spaces, restoring some semblance of normal life.

What matters is . . . that people affected by the shutdown are actually included in the process and workable accommodations and tradeoffs are discovered and implemented. The fanaticism of lockdown resistance is the product not only of a declining trust in official institutions but also of the uncompromising way that pandemic controls were implemented.

Taylor Dotson, "Radiation Politics in a Pandemic," *The New Atlantis* 10 June 2020 www.thenewatlantis.com/publications/radiation-politics-in-a-pandemic

From the Internet of Everything to an irreversible Thucydides trap

Everybody agrees that there is the beginning of a Cold War between the U.S. and China. I was in Beijing in November of 2015, with a delegation that met with Xi Jinping in the Great Hall of the People. And he spent the first 15 minutes of his remarks speaking, unprompted, about why the U.S. and China will not get caught in a Thucydides trap, and why there will actually be a peaceful rise of China.

Since then, Trump got elected. Now, we have a full-scale trade war, technology war, financial war, monetary war. . . . And if the United States argues that 5G or Huawei is a backdoor to the Chinese government, the tech war will become a trade war. Because tomorrow, every piece of consumer electronics, even your lowly coffee machine or microwave or toaster, is going to have a 5G chip. . . . Once we declare that 5G is going to allow China to listen to our communication, we will also have to ban all household electronics made in China. So, the decoupling is happening. We're going to have a "splinternet." It's only a matter of how much and how fast.

And there is going to be a cold war between the U.S. and China. Even the foreign policy Establishment – Democrats and Republicans – that had been in favor of better relations

with China has become skeptical in the last few years. They say, “You know, we thought that China was going to become more open if we let them into the WTO. We thought they’d become less authoritarian.” Instead, under Xi Jinping, China has become more state capitalist, more authoritarian, and instead of biding its time and hiding its strength, like Deng Xiaoping wanted it to do, it’s flexing its

geopolitical muscle. . . . I’m just saying, as a matter of fact, we are in a Thucydides trap. The only debate is about whether there will be a cold war or a hot one. Historically, these things have led to a hot war in 12 out of 16 episodes in 2,000 years of history. So we’ll be lucky if we just get a cold war.

Eric Levitz “Why Our Economy May Be Headed for a Decade of

Depression,” *New York* 22 May 2020
<https://nymag.com/intelligencer/2020/05/why-the-economy-is-headed-for-a-post-coronavirus-depression-nouriel-roubini.html>

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