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).*

Perspective

The existential mindset for corporate survival and growth: innovation and resilience

Robert J. Allio

The lifetime expectation of the average corporation continues to decline, while unicorns and small start-ups increasingly take the stage. Leadership that values and fosters a culture and practices that promote innovation and resilience may offer the best hope of long-term profitable growth for many large corporations.

For a firm listed in the S&P 500 in 1935, the expected life span was 90 years. Today, it is 18 years. At the current churn rate, about half of S&P 500 companies will be replaced over the next ten years.

The survival statistics for corporate leaders are no brighter as shareholder dismay at CEO performance and excessive compensation is increasing. So it's no surprise that recent statistics show the tenure of CEOs now diminishing to three years or less on average. As Warren Buffett wryly noted recently, bad leaders pose the biggest risk to companies.

Centuries of resilience

Nevertheless, achieving a seemingly impossible feat of longevity, the sky did not fall for a few firms that survived for centuries. But companies adopting a "built to last" strategy that eschews risk may pay the price through subpar performance. As business models in most industries adapt to the digital era, the corporate strategic imperative for potential survivors is innovation and resilience.

Invoke multiple tactics to innovate

Companies that develop a pipeline or ecosystem for introducing new products and technology demonstrate better than average performance. The rapid adoption of digital retailing by Target, Costco and Walmart are examples of how to adapt to changing customer needs.

Establish a resilient culture in the face of threats

As the interconnectedness of the world increases, "Black swans," the unanticipated anomalous disruptions, are no longer rarities. Disruption from unanticipated events can be reduced if firms prepare by continuously scanning and reviewing subtle shifts in customer and non-customer needs, unexpected competitor tactics and the advent of game-changing technology.

Today's leaders must adopt a new mindset in which bureaucracy is repudiated and responsiveness and adaptability are rewarded. As industries mature, the growth and survival of individual firms becomes more difficult. A thriving, resilient future can only be achieved by a leader's resolute dedication to innovation and to a culture that accepts change as the wellspring of opportunity.

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The digital age is transforming job descriptions, especially for CEOs

Stephen Denning

In the emerging digital age, for pioneering Agile enterprises and leading Silicon Valley firms, as well as leading businesses in Europe and China, the overarching goal of the firm is to create customers. This presents a stark contrast to the predominant mode of industrial-era management over the last 50 years. To implement a customer-centric vision in the digital era requires leadership that champions principles, processes and practices that promote customer value and corporate agility.

These principles, processes and practices, combined with the Internet and other rapidly evolving digital technologies – including the Cloud, artificial intelligence, blockchain and algorithmic decision-making – open an era requiring new ways of managing.

The digital-era CEO's new job description

A successful digital-age CEO is an entrepreneur with a passion for creating new value for customers, attracting non-customers with market-making innovation, having a preoccupation with strategic agility and discerning new business opportunities.

A user experience mindset. The difference in behavior between digital-age and industrial-era CEOs begins with how they envision the goal of the firm. The digital CEO has a customer-first mindset. By contrast, a comprehensive Harvard Business School survey noted that for industrial-era CEOs, customers are almost an afterthought, and the word, "innovation," is not used even once in the survey.

The new HR job description

In the industrial-era firm, HR staffers typically serve as agents implementing the firm's processes on behalf of the top management. However, in the digital-era organization talent drives strategy, rather than vice versa, requiring a very different job function for talent management.

Strategy dismantled and reinvented

In industrial-era firms, strategy presented itself as a master discipline that often ended up proposing to do "more of the same. In the digital-era firm, this approach to strategy has been dismantled, and it is increasingly recognized that potential insights about the present and future reside throughout the firm and leadership is needed from everywhere in the organization.

The sales function's job redefined

At leading digital-era firms, selling is about turning single transactions into life-long relationships. Salespeople understand their customers' environments and goals and make doing what's right for the customer the top priority.

From personal characteristics to formal job descriptions

Until recently, the performance of leading digital-age CEOs, managers, HR staff, strategists and sales people was seen as the extraordinary capability of exceptional individuals. These digital-era leadership characteristics need to be formalized and disseminated as standard job descriptions for the average job performance of these functions.

Haier: ecosystem leadership

Paul J.H. Schoemaker and Jeffrey S. Kuhn

Ever since Nokia's CEO, Stephen Elop, published his prescient "burning platform" memo a decade ago, digital platforms—and now, ecosystems—have become a potential new route to potent competitive advantage. In his 2011 memo, Elop lamented the precipitous decline of Nokia's vaunted cell phone business due to strategic platform moves by Apple and Google. He noted that the battle of devices had become a war of ecosystems: "Our competitors aren't taking our market share with devices; they are taking our market share with an entire ecosystem."

The incumbent handset players had been trumped by a bold new platform logic predicated on open organizational architectures and collaborative economic ecosystems, practices that have since inflicted similar damage in many other industries.

Firms organize multi-business ecosystems for a variety of reasons, from building a defensive perimeter to ward against competitors to enhancing its customer value proposition through open innovation and diverse partnerships, to capturing recurring revenues from ecosystem partners.

Platform reinvention at Haier

Haier, a highly successful Chinese multinational corporation operates as a multi-unit digital ecosystem with a customer-centered perspective. Originally founded in 1984 as the Qingdao Refrigerator Company, today it is the world's largest manufacturer and a leading marketer of large and small household appliances and consumer electronics.

In the early 2000s, as the digital economy was taking off, CEO Zhang Ruimin recognized that Haier would lose its market leadership if it did not embrace the internet and master the connectivity and dynamism of this new era.

To tear down the walls and create zero distance between the company and users, Zhang introduced the "*Rendanheyi*" model in 2005 which loosely translates as "employees and users become one." Under the new model, Haier employees fell into three categories – platform owners, micro-enterprise owners and entrepreneurs – who served as team members of the micro-enterprises. Haier embarked on its ecosystem-based strategy for a host of reasons. Most notably, its ecosystems enabled it to maintain a direct, curated relationship with end customers and protect its flanks against direct competitors and digital interlopers.

Zhang instituted a handful of simple rules to create a self-propagating enterprise with a common language, lens and business logic within and across individual micro-enterprises to assure sufficient cohesion and unified action. Examples include:

- Microenterprises must transform transactional, one-time customers into life-long users.
- All new offerings must be co-created with users.
- The marketplace must validate offerings through advance orders and external funding before Haier provides seed capital.
- Ecosystem revenues must eventually exceed those from the revenues of the product.
- Economic value must be shared with ecosystem partners.

The Haier case illustrates how this "open" business logic was mastered over time, by harnessing digital technologies to co-create value with a constellation of users and partners beyond the walls of the enterprise.

Business success in the platform economy depends on the right ecosystem strategy and execution
Golnar Pooya, Nathan Cheng, Anthony Marshall, Jacob Dencik and Namit Agrawal

Ecosystems – digitally enabled networks that enhance corporate value propositions by linking corporate units, suppliers, distributors, partners, customers and other stakeholders – have become the engine that drives performance and strategic impact across economies.

But success is likely only if firms pursue the right ecosystem strategy for their situation, with the right business partners, executed the right way. This is because economic value is not automatically produced by an ecosystem, though it may have other benefits.

Only by cultivating a value-focused ecosystem strategy—managing a portfolio of value opportunities and assessing their risks—can an organization fully capitalize on ecosystems' transformative value.

A new IBM Institute for Business Value (IBV) survey of 700 executives involved in decision-making about their organizations' ecosystem growth and partnering reveals that the companies most focused on ecosystem engagement consistently generate higher growth and more business value.

Choosing the right ecosystem strategy

The key is to identify a strategy that fits both the enterprise and the market environment. The IBV research identified two principal dimensions for ecosystem strategies:

- The value capture expectations for an enterprise participating in an ecosystem.
- The maturity level of the enterprise within that ecosystem, defined as its experience and capabilities for engaging with the ecosystem.

Analysis of the executive responses identified four distinct strategic approaches for ecosystem activity that are—Accelerate, Expand, Ignite and Reposition. Enterprise participants in each of the four groups can generate and capture value from their ecosystems, but from different sources and with different investments.

Capturing ecosystem value

All four of the ecosystem strategies can generate successful value capture. But converting sources of value to business benefit requires a differentiated alignment of value sources and business priorities.

Alignment to the business

For enterprises engaged in multiple ecosystems, they may be pursuing multiple strategies in multiple places at the same time. In fact, even in single-ecosystem-focused situations, the alignment factor is critical in optimizing value capture.

Tech-proofing ecosystem activity

The modern business ecosystem is built on technology and open, trusted, innovative engagement provided by digital platforms. More than half of the executives surveyed – 53 percent– cited cybersecurity risk as an impediment to ecosystem strategy implementation.

Action guide for ecosystem success

This IBV research confirms that more firms are adopting ecosystems and are finding that:

- They can be core to driving business performance.
- That tailoring an ecosystem strategy to a specific corporate situation unlocks business value.
- That aligning activities and goals is key to capturing that value.

Interview
Startups – Tom Eisenmann analyzes the most prevalent failure patterns and how to avoid them
Brian Leavy

In the early 1990s management guru Tom Peters argued that "innovation, in the end, and no matter how well thought out, is a numbers game." *The Fail-Safe Startup*, a new book by entrepreneurship researcher Tom Eisenmann sets out to help improve the odd by looking closely at the most prevalent causes of startup failure and how to avoid them.

Strategy & Leadership: Given what we already knew about the exciting but precarious nature of startups, where did you see the need and opportunity to offer some fresh insight in your new book?

Tom Eisenmann: Much has been written about how to succeed as an entrepreneur—and much less about the recurring patterns behind startup failure and how to avoid them.

S&L: The three major early stage failure patterns that your research has identified you call "good idea, bad bedfellows," "false starts" and "false positives." What's the "good idea, bad bedfellows" pattern, and how is it manifested in practice?

Eisenmann: Some entrepreneurs identify an attractive opportunity but never assemble the resources required to capitalize on that opportunity. The founders may lack necessary industry experience, or may squabble over who will be CEO. Team members may have the right skills, but lack the "can-do" attitude required in an early-stage startup.

S&L: You warn that the second major early-stage failure pattern, "a false start," typically "occurs when a startup rushes to launch its first product without conducting enough consumer research." What are the most common ways that entrepreneurs tend to fall into this trap?

Eisenmann: Entrepreneurs have a bias for action, and they are convinced that they can see around corners and have found the right solution to a big problem.

How to fail better, if it becomes inevitable

S&L: Finally, while *The Fail-Safe Startup* sets out to improve the odds for startup success. How can entrepreneurs close a failing venture down in a way that is timely, least costly and least damaging?

Eisenmann: Most entrepreneurs wait too long to shut down their struggling venture. Founders can preserve their reputation and relationships if they time the shutdown so that enough cash is left in the bank to pay everyone who is owed money.