

Larry Goodson

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).

Masterclass

Cost innovation – a value-creation strategy to transform over-priced industries

Brian Leavy

One of the most exciting developments in the strategy field over the last two decades has been the renewed emphasis on value creation, which brings innovation and entrepreneurship right back to the heart of the strategy development process.

Among the pioneers of this movement are INSEAD professors, W. Chan Kim and Renee Mauborgne who, in the late 1990s, developed the concept of “value innovation” as a new logic for crafting strategic moves aimed at the creation of new market demand.

Butt their “blue ocean” approach is not the only way to achieve such a quantum leap in value. Putting the primary emphasis on innovative cost breakthroughs is another, and one that remains underutilized in practice.

Two recent books have valuable insights to offer company leaders and strategists on how they might go about pursuing transformative cost innovation opportunities.

- In *Costovation: Innovation That Gives Your Customers Exactly What They Want and Nothing More* (2018), marketing gurus Stephen Wunker and Jennifer Luo Law highlight the potential of cost innovation in helping to create new market demand and transform the competitive dynamics in any industry sector,

and they offer guidance on how to develop such a strategy.

- In *Reverse Innovation in Health Care: How to Make Value-Based Delivery Work* (2018), strategy and innovation researchers, Professors Vijay Govindarajan and Ravi Ramamurti highlight the potential for cost innovations in emerging markets to help transform health care delivery in the West, enhancing patient outcomes, while also making health care more accessible and affordable.

“Cost innovation” strategy – What it is and how to make it work

The notion of cost as a potential target for breakthrough innovation in its own right is still not widely recognized. Wunker and Luo Law point out in *Costovation*: innovation and cost are still most often seen as “magnetic opposites,” and sets out to identify patterns that others can learn and highlights core traits that successful cost innovators share.

Healthcare – an industry ripe for cost innovation strategies

Govindarajan and Ramamurti highlight seven exemplars in Indian health-care that are already pioneering value-based competition and argue that Western health care providers have much to learn about how to pursue imaginative, and urgently needed, cost innovation

The role of the C-suite in Agile transformation: the case of Amazon

Stephen Denning

from pioneers in the developing world. The catalyst will come through “reverse innovation” which “refers to the case in which an innovation flows from a poor country

As the pace and complexity of change in the marketplace has increasingly required *organizations* to become nimbler and more innovative, the concepts and mindset of “Agile software development” have been morphing into “business agility” and “strategic agility.”

Recent surveys by Deloitte researchers and others show that more than 90 percent of senior executives now give high priority to being agile.

The role of the C-suite

Given these developments, the role of the C-Suite has become central. A recent report from the Business Agility Institute (BAI) indicates that the maturity – or success – in achieving business agility correlates positively with the executive level at which the journey is being led.

What a highly-agile CEO actually does

We can learn much about how a CEO can generate and sustain business agility from examining the role of Jeff Bezos, the CEO of Amazon—arguably the world’s most-agile large organization.

There are seven key dimensions to Bezos’ success:

1. A customer-first mindset.
2. A focus on the road-map for the future.
3. Continuous creation of new businesses.
4. Creating multiple paths to yes.
5. Acting as “chief slowdown officer” for big bets.

to a rich country rather than the other way around.”

6. A willingness to take risks and acquire new institutional skills.
7. Turning institutional skills into new businesses.

Entrepreneurs vs. administrators

Bezos is the quintessential entrepreneur with a founder’s mentality. In a stark contrast to his approach to continuous innovation, a study by Harvard professor Michael E. Porter, and Nitin Nohria, dean of Harvard Business School, describes in detail how a group of 27 CEOs in mainly public firms averaging \$13 billion in revenues, allot their time.

The CEOs in the HBR survey are portrayed as cautious administrators, overseeing and tending the existing business and preoccupied with satisfying the multiple constituencies that seek their approval and time.

Because firms like Amazon that have mastered both operational and strategic agility can act and respond faster than their competitors, they are taking over the world. They are creating a world in which people, insights and money interact quickly, easily and cheaply.

By contrast companies with steep hierarchies headed by administrators continue to miss game-changing opportunities for transformations in industry after industry. For these big old hierarchies, the choice is dire: change or fail.

What Is Agile?

1. **The law of the customer** – Agile practitioners are obsessed with delivering value to customers.
2. **The law of the small team** – In Agile organizations, there is a

presumption that big complex problems should be descaled into small pieces that can be handled by small autonomous cross functional teams.

3. The law of the network – Agile practitioners view the

organization as a fluid, interactive and transparent network of players that are collaborating toward a common goal of delighting the customer.

Interview

Barbara Kellerman: There's a better way to train leaders

Robert J. Allio

Harvard professor Barbara Kellerman, in her new book, *Professionalizing Leadership*, argues that the leadership training industry has failed, but there are ways to do it better. Interviewed by *Strategy & Leadership* contributing editor Robert J. Allio she offers a bold prescription for training effective leaders. Some samples of her provocative assessments:

- Surveys indicate that about half of all leaders and managers are still judged a disappointment.
- To be effective, the leadership development process must adopt and achieve three specific and different goals: educate leaders, train leaders and develop leaders.

In this interview she is challenged to explain the basis for her radical new approach to resolving dysfunctional leadership training.

Strategy & Leadership: You've been a steadfast critic of an industry – businesses, universities, consultants, book sellers – that professes to teach leadership and train good leaders.

Barbara Kellerman: Why is it that we educate and train our doctors and lawyers with great care and competence, but not our leaders? Leadership has no body of knowledge, core curriculum, or skill set considered essential. Leadership receives no attention from federal, state or local officials who tend otherwise to regulate the different professions and vocations.

In the US there is a single institution that, in my view, teaches how to lead with care and competence, with insight

and intelligence, with duty and diligence – the American military. It recognizes that to be effective it must educate leaders, train leaders and develop leaders.

Bad leadership

S&L: We continue to see pervasive evidence of inept or corrupt leadership, often enabled by the failure of followers to effectively react and respond. Doesn't power produce an inevitable leadership disability?

Kellerman: There was a time when I was baffled, even distressed, that the leadership industry, even leadership as an area of intellectual inquiry, was so wilfully ignorant of bad leadership. Now I know it is because leadership is a business, a money-making operation that depends nearly entirely on its claim to be able to teach how to lead wisely and well.

The leadership training industry

S&L: You have excoriated most leadership programs for their failure to produce any discernable improvement. However leadership training is one of the growth businesses of our times.

Kellerman: Despite the remarkable proliferation, driven by individuals and institutions that readily pay big money to be taught how to lead – there is precious little evidence that the leadership industry has in any meaningful, measurable way benefited society.

Developing good leaders

S&L: Aren't leadership theories underdetermined by our lack of data to validate them?

Evaluating potential transformational leaders: weighing charisma vs. credibility

Deana Raffo and Ralph Williams

Kellerman: There are too many variables to develop a leadership pedagogy that applies in across the board.

S&L: Arguably, teaching about leadership is easy, but learning how to lead is not.

Kellerman: Leadership can be taught – to a point. You want to grow good

Why is charisma so often extolled as a core part of leadership, yet so much less attention is given to credibility? Transformational leaders, in particular, influence us through their inspirational visions and charismatic personalities.

Transformational leadership

For some insights, consider how competency and charisma are both required to effectuate significant organizational change. In James McGregor Burns' renowned 1978 book, *Leadership*, he proposed two approaches: transactional and transformational leadership.

Transactional leadership represents exchange-based relationships often managed through punishments and rewards, transformational leaders proactively consider the needs and aspirations of followers, seeking to motivate them and other stakeholders through higher-level needs.

Transformational leaders emphasize moral values and beliefs, focus on organization mission and vision, make group interests a priority and motivate followers to transcend self-interests.

Burns based transformational leadership on four foundational components: (1) idealized influence; (2) inspirational motivation; (3) individualized consideration; and (4) intellectual stimulation.

Charisma

Charismatic leaders utilize their energy, self-confidence, assertiveness, ambition and opportunities to demonstrate

leaders in your organization? Leaders who are as ethical as effective? If the answer is "Yes," let me repeat my mantra: Think leadership education. Think leadership training. Think leadership development. Each of these can be adapted to your organization's special situation.

leadership style to shape and grow their audiences. But charismatic leaders can, by nature of their potent communication skills, distract their followers from fully evaluating challenging or opposing views.

Credibility

Leaders with credibility exhibit two basic attributes: authenticity and being worthy of trust. Indeed, some observers propose that "credibility is the foundation of leadership." Transformational leadership must be grounded in principles that are "captured in the virtues of authenticity, integrity, truthfulness and credibility."

Non-charismatic transformational leaders with credibility

Bill Gates is one of the most recognizable transformational business leaders in the world. As Microsoft's founder he became one of the most successful and richest men in the world, Yet Gates is not considered to be charismatic.

Implications for business leaders

In practice, what does the process of transformational leadership and the attributes of charisma and credibility, mean for business decision makers?

Here's the bottom line – for transformational leaders to be effective, they must be credible. Followers need to learn to distinguish between credible charismatic communication and hypocritical self-promotion.

Realizing your strategy's potential: A seven-step model for its effective execution

Timothy J. Galpin

As any experienced executive understands – and has likely learned the hard way – the full potential value of even the most advantageous strategy is only achieved through effective implementation. Research indicates that poor execution often squanders the value companies anticipate from innovative strategic initiatives.

So the process of execution needs to be a management priority. As the former Chairman and CEO of Honeywell International, Larry Bossidy emphasizes, “Execution is a specific set of behaviors and techniques that companies need to master in order to have competitive advantage. It’s a discipline of its own.”

To minimize the likelihood of mismanagement, companies need a repeatable process that provides an integrated and actionable approach to effective strategy execution. A practice-oriented model, consisting of seven steps is presented. Managers can apply the process to strengthen the strategy execution competence of their organization and learn valuable lessons from each application.

The seven-step strategy execution process actions, deliverables and application

1. **Identify potential strategic initiatives** – The key deliverable from this step is a list of potential strategic initiatives and the specific goals of each.
2. **Map implementation priorities** – Management must target the few highest priority initiatives and identify any others that need to be abandoned or deferred.
3. **Establish an “implementation infrastructure”** – To surmount

the roadblocks, a “strategy implementation infrastructure” facilitates coordination across silos, enabling the organization to implement strategic initiatives with greater speed and agility.

4. **Apply “agile implementation management”** – requires management process, which includes on-going coordination between teams, issues identification, decision-making and course corrections.
5. **Develop implementation action plans** – using a shared set of program planning and management tools across teams to develop detailed implementation plans provides a visible roadmap to guide the direction of strategy execution.
6. **Align organizational culture with strategy** – organizational culture is the key determinant of success or failure for firms' strategies. To address this, an actionable culture-management model is essential.
7. **Build momentum and continually adjust-** Two key activities have a major impact on building and maintaining momentum for successful strategy execution – visible “quick wins” and continuous communication.

Takeaway

Organizations that are able to execute their strategies as a well-managed, integrated process improve the likelihood of realizing the full potential of their plans.

The four executive challenges of project-based strategy

Carsten Lund Pedersen and Thomas Ritter

C-suite executives execute a growth or sustaining strategy by identifying, designing and initiating a number of projects to implement a formulated

strategic plan. A key skill for any executive or strategist today is the ability to manage a portfolio of interrelated projects in a way that

ensures the success of the organization's strategy.

Executives need to first decide on which projects to invest in, including project scope and objectives, as a part of their strategy formulation. Second, executives need to actively manage the interrelationships of the projects in their portfolio as a part of their strategy execution.

Manage a dynamic portfolio of projects

Seeing strategy through a project-based lens involves keeping a watchful eye on inter-project dependencies, which can be determined by asking two questions. First, are the projects complementary, such that together they form a coherent strategic path? Second, do the projects compete for the same resources, such that they conflict with each other and prevent concurrent execution?

The four strategic challenges

The four project scenarios, which have different underlying causes and strategic implications, need to be fully understood in order to be managed successfully.

1. **Project Symbiosis:** This scenario describes a situation in which projects fit nicely together and do not compete for the same resources. In this case, the projects in the portfolio can be executed and they can be combined to achieve the organization's strategic goals.
2. **Project Trap:** This scenario describes a situation in which projects fit together but they compete for the same resources. Managers are constrained by the

shortage of resources, and the most likely outcome is a wait-and-see position where projects stall and strategy execution is delayed.

3. **Project Maze:** This scenario describes a situation in which projects do not complement each other and they do not compete for the same resources. Therefore, the projects in the portfolio can be executed. However, because they are not complementing each other the projects do not effectively promote the strategic intent.
4. **Project War:** This scenario describes a situation in which projects do not complement each other and they compete for the same resources. As such, the projects in the portfolio are fragmented and their management teams skirmish with each other,

Takeaway

The adoption of a project-based lens for understanding and managing strategy substantially challenges the conventional way of thinking about strategy as a sequence of analyses, decisions, planning and execution. An understanding of this project-strategy match based on the four scenarios can help executives manage these intricate relationships in a straightforward manner and with a common language. Strategic execution will depend on how well the leadership team deals with the challenges and conflicts that arise as an organization attempts to implement its projects in a dynamic competitive environment.