

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](mailto:ldgoodson@msn.com)).*

## **Innovating how innovation works at Procter & Gamble**

*George S. Day and Gregory P. Shea*

Why were some companies better prepared – with their innovation pipelines full and refreshed when the demand shocks during the pandemic rewarded their readiness?

To be ready, Procter & Gamble had started years earlier with a systematic program of changing the system through which the work of innovation gets done – The Work Systems approach. This system has eight action levers that collectively shape a supportive and productive work environment.

1. The Organization lever
2. The Task lever
3. The People lever
4. The Measurement lever
5. Rewards lever
6. Information Distribution lever
7. Decision Allocation lever
8. Workplace Design lever

Activating these levers in a coherent, coordinated fashion at P&G changed the operating environment and the company's innovators adapted their behavior to the new system. This work system was key to P&G transforming its innovation practices from a slow-paced, cautious incremental process toward a leaner, more entrepreneurial model able to make bigger and riskier long-term bets.

## **Understanding work systems**

Two basic tenets capture the essence of The Work Systems approach:

- Envision stories from the desired future – based on the strategy – and focus on the behavior wanted from the people who are living these stories.
- Design their work environment to activate those behaviors.

## **How P&G changed how its innovation works**

During 2016, P&G began “innovating how they innovated,” supported by a strong leadership commitment to working differently. Kathy Fish, the Chief Research, Development and Innovation Officer, began this initiative by studying what innovation practices had produced “irresistible superiority” in the past. She developed a convincing narrative about a future in which P&G delivered a customer experience so much better than competitors, that it was indeed “irresistible.” Functional superiority was not enough; the innovation had to make an emotional connection. The newly envisioned future included P&G exploring many smaller scale innovations within and across business units, with quick learning, conducted in close collaboration with consumers and driven by their problems and needs.

To make this happen, P&G embarked on an ambitious initiative dubbed

## Generating market-creating innovation by working backwards from the future

Stephen Denning

“*GrowthWorks*,” which evolved an approach to changing P&G as mapped out by the Work Systems Model. This evolution reflected the challenges they faced in changing such a large, siloed organization, rich with its own traditions.

Even before the COVID-19 pandemic, the gap in terms of profit and market capitalization was widening between those firms that had mastered the dynamics of the digital economy and those that were still being managed in an industrial-era manner. Winning in the digital age requires not only superior digital capabilities and technology, more agile delivery and a tech-savvy C-suite.

Most digital transformations are failing because the strategic thinking about innovation is still conceptually anchored in improving on past performance. Instead, what is required to deliver innovation that meets evolving customer needs is a different way to learn from the future.

Firms not only have to improve the existing business: they have to develop the capability of generating market-creating innovations.

### Market-creating innovations

Market-creating innovations open up markets that didn't previously exist. Yet to accomplish market-creating innovation, top management needs to wholeheartedly endorse a firm-wide mindset that explores continuous market change—working backwards from unmet customer needs and thinking through what meeting those needs would entail.

### A value-creation process for the firm

Amazon has developed a highly productive value-creation approach called the PR/FAQ process. It starts by imagining the customer's needs in

### Looking ahead to a turbulent future

P&G will have to continue to learn and evolve to sustain its innovation momentum, to capture emerging opportunities, to cope with the threats of a rapidly changing market place, and to meet new expectations for corporate citizens.

the future and then describing in detail the offering that would meet those needs. Then the process works backwards to identify how that need can be met by a unique product or service solution.

### Working backwards from the future

The implementation of this approach is explained in detail in an illuminating management book: *Working Backwards: Insights, Stories, and Secrets from Inside Amazon* by Colin Bryar and Bill Carr. These former members of the Amazon leadership team have the background and hands-on experience that allows them to speak with authority.

### How the PR/FAQ process maps the future

The “product” of Amazon's thinking backwards from the future approach to innovation is a PR/FAQ document. It first imagines a finished product, describing it in a 6-page paper, a combination of what would be a “press release” and a set of “frequently asked questions” for an actual product. The PR/FAQ anticipates how it expects the product to be received by customers and how it will make customers' lives better. The PR/FAQ also includes metrics showing how customer behavior is expected to change and what actions and resources Amazon will need to undertake to make those behavior changes happen.

The thinking underlying this process has fostered an astonishing array of major innovations: Cloud services with

AWS in 2006, Amazon's Kindle in 2007, video on demand in 2008, Amazon Studios in 2010, Amazon Echo in 2015 and Amazon groceries in 2017 and many others.

Amazon's PR/FAQ is not the only effective strategic planning process

## The Virtual Enterprise: enterprise transformation enabled by strategic digital acceleration

*Jean-Stéphane Payraudeau,  
Anthony Marshall, Jacob Dencik and  
Stephen Ballou*

New digital ways of working are becoming the norm, giving high technology adopters an edge within their industries. But among these advanced companies, which are the leaders? What makes them enjoy greater success?

The analysis of a new survey of more than 7000 C-suite executives conducted by the IBM Institute for Business Value (IBV) provides new and striking insights into these questions.

### Introducing the Virtual Enterprise

The Virtual Enterprise re-imagines how and where work is done, re-evaluating the necessity for physical assets, infrastructure and talent. The model expands potential for extreme digitalization, extended value chains and intelligent workflows, along with new partnership and ecosystem approaches.

The single most important characteristic of the Virtual Enterprise is "openness," which brings value at three levels:

- Inside the enterprise, connecting divisions and functions in more collaborative and agile workflows.
- With partners outside the enterprise who become ever more critical to delivering the core purpose of the business.
- With the wider ecosystem that allows true platform economics to

for the digital era. But is it one of the best. However, its success was also dependent on the overriding priority of the whole organization to creating value for customers.

play out and the enterprise to take advantage of all those who wish or need to connect with its intent.

### The power of ecosystems

An open, dynamic Virtual Enterprise depends on ecosystems and the business platforms that encompass them. Recent IBV research reveals a much greater reliance on platform business models and partner networks going forward, with 70 percent of executives planning significant partnering activity inside their industry and 57 percent looking.

### Open innovation, open opportunities

Tech adopters can see viable rewards from investing in open innovation. To that point: current IBV research shows that innovating within an ecosystem provides exceptional results: open innovators with strong ecosystem engagement achieve 58 percent higher rates of revenue growth relative to other organizations actively pursuing open innovation.

### New ways of working

Extending the enterprise through platforms and ecosystems can radically drive innovation and value creation for both employees and external stakeholders.

But even as organizations embrace intelligent workflows, data-driven innovations and virtualization, they must also address new challenges. How to lead, inspire, engage and connect in a remote digital age requires savvy adoption of technology

and sophisticated data analysis—as well as creativity.

### Becoming a Virtual Enterprise

Digital transformation needs to be holistic, comprehensive and strategic. It requires focus and the ability to drive toward clearly defined objectives in a concerted fashion.

### Action guide: Six building blocks of the Virtual Enterprise

Concerted action across each of six areas is critical for converting the promise of digital acceleration into value and competitive differentiation:

1. Open your organization with market-making platforms and ecosystems
2. Practice strategic innovation at scale
3. Implement intelligent workflows
4. Integrate purpose, societal impact and sustainability
5. Foster inclusive human-technology partnerships
6. Establish open, security-rich hybrid cloud and networks as the technology foundation

### Interview

#### Felix Oberholzer-Gee: The formula for keeping your strategy simple and focused

Brian Leavy

Strategic effectiveness requires being very clear about which potential opportunities to pursue and which not to, and failure to make this choice in a disciplined fashion is an almost certain recipe for profitless growth. In his new book *Better, Simpler Strategy: A Value-Based Guide to Exceptional Performance*, Harvard professor Felix Oberholzer-Gee offers business leaders and strategists guidance on how to select the right value drivers in order to pull ahead of the competition.

**Strategy & Leadership:** *Better, Simpler Strategy* opens with the assertion that the field of strategic management “faces an attractive back-to-basics opportunity.” What has led you to this view?

**Felix Oberholzer-Gee:** Even for seasoned executives, the question, “What is your strategy?” can be surprisingly difficult to answer. The most successful executives are very adept at saying “No.” They select fewer projects that make a bigger difference; they avoid strategic overload.

The basic idea could not be simpler: unless an initiative creates value for customers, employees or suppliers, it is a waste of time and resources.

**S&L:** How does your approach to value-based strategy work in practice?

**Oberholzer-Gee:** Value-based strategy is entirely data-driven. To measure value for customers, we look at the difference between customer willingness to purchase (WTP)—the most someone would pay for a product or a service—and price.

Finally, value for suppliers is the difference between the price they charge and willingness to sell (WTS), the lowest price they would accept in negotiations with their customer.

**S&L:** Why do you believe that strategizing based on a “think value, not profit” approach has the potential to open up a “sea of opportunities” typically overlooked by more traditional perspectives?

**Oberholzer-Gee:** In nearly every business segment and corner of the world, there are companies that dramatically outperform their peers. They show what is possible if value creation serves as the guiding principle.

### Implementation challenges

**S&L:** What are the most common implementation challenges executives

typically face in putting your value-based approach to work?

**Oberholzer-Gee:** When I assist companies in developing their strategy, we often start by creating value maps. We rank the value drivers from most important to least important and indicate for each of them how good the company is at meeting customer expectations. If you add the performance of competing firms to a value map, you have a blueprint for desirable changes in your value proposition and an overall strategic direction.

So in sum, when I observe brilliant strategists at work, I see them making

three critical choices:

- From among many options, they invest in a small number of value drivers to pull ahead of the competition.
- For each of the critical value drivers, they develop a deep understanding of how they influence WTP or WTS.
- They often use smart visuals, like value-maps to help cascade their strategy throughout the organization.