

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.

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How design thinking opens new frontiers for strategy development

Jeanne Liedtka and Saul Kaplan

The adaptability to create organizational futures that transform existing business models is not in the DNA of most businesses. Design thinking practices and tools that identify novel innovation opportunities can help identify possible new business models. By integrating design practices into strategy development, practitioners can produce both incremental improvement in the performance of today's business model and open opportunities to completely transform it.

Five areas where strategy practitioners can benefit from design practices are:

1. **Seeing opportunity: design practices help businesses look in new places.** Too often, strategy development processes view the opportunity horizon only through the lens of a company's current portfolio of products and services.
2. **Learning in action: prototyping and experimentation.** Once a company has begun identifying new opportunities through the experience of users, partners and employees, design thinking practices can produce novel insights using prototyping and testing to specify and refine the capabilities needed for delivery.
3. **Managing a portfolio: design practices focus on attention to new strategies and offerings as bets.** Traditional dimensions like market share and growth are less helpful

in portfolio management when the goal is to invent markets.

4. **Making change happen at scale: design practices foster engagement and alignment.** Envisioning strategies – seeing opportunities, testing them at small scale, and managing them as a portfolio – even testing them and managing them as a portfolio of bets – can be the easy part: scaling is notoriously more difficult.
5. **Moving from tweaks to transformation: design practice and disruption.** The highest and best use of design thinking may be helping strategists imagine, design, prototype and commercialize entirely new business models.

Getting started

To effectively integrate design practices into the strategy development process, consider these suggestions:

1. **Broaden the conversation.** Perhaps the easiest place to start is by creating a collision between some of your strategists and designers.
2. **Rigorously build literacy in basic design practices throughout the organization.** Design skills are teachable and scalable.
3. **Think beyond training.** However you choose to proceed, consider

mindset changes that encourage active use of the tools, once learned.

4. **Don't be afraid to start small.** One attractive feature of design is its willingness to start small. Nimble

design champions, with little funding, can accomplish significant impact without waiting for permission.

Interview

Alibaba strategist Ming Zeng: "Smart business" in the era of business ecosystem
Brian Leavy

As early as 1993, Professor James Moore heralded "the end of industry as a useful concept in contemplating business" and urged the adoption of the business ecosystems model as a potentially more insightful alternative.

Ming Zeng sets out to examine how Artificial Intelligence and machine learning (network coordination and data intelligence) are transforming the ecosystem model. In his new book, *Smart Business: What Alibaba's Success Reveals about the Future of Strategy*, Zeng, as Chief of Staff and strategy adviser to Alibaba founder Jack Ma, has a ringside seat to watch the future unfold.

Strategy & Leadership: Give us a brief overview of Alibaba itself and the three or four key milestones and turning points in its evolution to date.

Ming Zeng: Alibaba's businesses are core commerce, cloud computing, logistical services, micro financial services and various innovation initiatives, such as digital entertainment. Today, Alibaba is the largest retail commerce company in the world. To fulfill our mission to make it easy to do business anywhere, we enable businesses to transform the way they market, sell, distribute and operate.

I believe that Alibaba, as it has evolved, now exemplifies a new

kind of Internet-era phenomenon, the advent of what I call the "smart business," that business strategists everywhere increasingly need to know about. Alibaba today presents a vivid picture of the new business world emerging, one that operates using the data generated by the network of participants, as processed by machine learning, to automatically respond to customer behavior and preferences in real time.

S&L: Finally, what primary messages do you want readers to take away from your book?

Zeng: Three primary messages are:

- *The core logic of business is changing to reflect the two new drivers of value creation – network coordination and data intelligence;*
- *Businesses seeking to operate with those two drivers must make profound changes in their strategic thinking and operations; and*
- *Smart strategy is experimental and self-tuning, and smart business primarily embraces the "enabling" rather than controlling principle in its approach to organizational structure and culture.*

Post-bureaucratic management goes global
Stephen Denning

Radical innovations in organization structure, management processes and mindsets – post-bureaucratic management – are being adopted by U.S. companies seeking the rapid-paced, customer-focused

continuous innovation needed to survive in today's dynamic marketplaces.

Important instances of post-bureaucratic management outside the U.S. are also coming to light, as

evidenced in presentations at the November 2018 Drucker Forum by the French group, Vinci and the Chinese group, Haier.

Xavier Huillard, CEO of the Vinci Group

The Vinci Group is a French concessions and construction company founded in 1899. It employs almost 200,000 people.

In his presentation, Xavier Huillard noted that for more than 30 years, Vinci has been implementing the concept of the inverted pyramid. As he explains it, the basic assumption is that people want to do their best. The mission of everyone else, including the corporate office, is to support and help the employees on the front lines.

“Decentralized management,” Huillard said, “is the only way to grow without becoming fat and strangled by increasing processes. I hate processes and procedures.”

Zhang Ruimin, CEO and Chairman of the Haier Group

The Haier Group is a Chinese collective multinational consumer electronics and home appliances company. In 2005, Haier inverted the traditional management pyramid and organized into some 2,000 self-managed teams.

Zhang Ruimin saw the need to disrupt Haier’s traditional mode of operation and disrupt the firm, without waiting for it to be disrupted

by competitors. The focus is on maximizing everyone’s value. The goal is to align Haier’s people and the value they can create for customer users. The need is to unleash people’s potential so as to maximize value to users.

The goal is to mobilize and liberate people’s ability, rather than achieve balance and harmony. Haier employees are not merely exhorted to become entrepreneurs.

The problem of how to get to the future

At this Drucker Forum, a fairly clear idea emerged of what the post-bureaucratic organizational model looks like. Yet today, overall, relatively few large, long-standing companies are implementing it. As management visionary Gary Hamel pointed out in his presentation, it’s not that we lack role models. The “what” has now become apparent. The question for the lumbering 20th Century bureaucracies is “how” and “when” they will transform themselves?

This is confirmed by a Deloitte survey of more than 10,000 senior executives that reports that more than 90 percent give high priority to becoming “agile and collaborative,” yet less than 10 percent see their current organization as highly agile. CEOs of traditionally managed firms are frustrated, said Hamel, because they often don’t know how to make an agile leap into the future.

How the human-machine interchange will transform business operations *Karen Butner and Grace Ho*

Machine learning is beginning to transform the way businesses organize their operations and benefit from technology investments. And intelligent automation – the use of machines that understand their environments, interact with humans and other machines, learn from these experiences and apply what they learn to future decisions – is accelerating due to this change.

The intelligent automation outlook

Today, intelligent automation is transforming the way humans interact with and benefit from technology and the way businesses operate. To learn more about how far along organizations are in deploying intelligent automation and in developing plans and strategies for its adoption, the IBM Institute for Business Value, in collaboration with

Oxford Economics, surveyed and interviewed 550 technology and operations executives

The results of IBM's study show that intelligent automation is moving toward the mainstream, and that executives recognize its potential to provide value.

Ease of use. Over half of operations executives anticipate that natural language processing will allow human-to-device and device-to-human understanding. In fact, 75 percent indicate intelligent machines will have a meaningful impact on their business performance within the next three years.

The rise of intelligent automation

The application of cognitive automation to augment human intelligence is one of the most promising uses of the technology. Investment in intelligent automation is expected to pay off substantially over the coming years, delivering business value in functions ranging from customer service to product and service optimization and quality control.

Putting smart machines to work

Automation is not a plug-and-play solution: companies cannot just buy the technology, flip the switch and watch robots run the business without any human intervention. Work with intelligent machines is complex and requires a learning process

The human-machine interchange

The primary purpose of intelligent automation is to augment employees' skills, experience and expertise, extending the human mind in ways that allow for higher productivity, creative problem-solving and more engaging jobs for employees.

Recommendations

Adopting the foundational set of technologies requires a forward-looking approach to investment and implementation, careful organizational planning and a commitment to training and development.

Invest with intention. Leadership must continually evaluate the landscape of emerging technologies.

Rebuild the business for automation.

Layering new technologies on top of old business processes is apt to be less productive – and less cost-effective – than rethinking processes to make the most of intelligent automation.

Educate to automate. Human employees will remain critical in the age of intelligent automation. Leadership must build agile, innovative workforces, which means hiring employees who fit the organization's culture.

Assessing General Motors' innovation strategy over three decades using the "Three Box Solution"

Vincent Barabba

Optimizing an already existing business that is struggling to meet changing consumer preferences while creating a unique new business poses two daunting and fundamentally different management challenges. In his 2016 book *The Three Box Solution*, innovation researcher Vijay Govindarajan offered a guide to successfully managing this dual challenge. He suggested that corporate leaders sort the activities involved in the transition from the current business to the new business into three boxes:

- Box 1: The present – Strengthen the core.
- Box 2: The past – Let go of the practices that drive the core business but hinder the new one.
- Box 3: The future – Invent a new business model.

The three-box sequence

"Box 1. "The Present – Strengthen the core.

In the early 1990's, GM was working itself through a version of what Prof.

Govindarajan's system refers to as "Managing the Present," but which the company called "Stop the Bleeding." In 1992 GM reported financial and market share losses, and there was little evidence that enough was being done to reverse the problems facing the enterprise.

The first Box 1 initiative: vehicle development – GM's MS2000 Program

MS2000 was designed to accomplish two important objectives:

- To assure that the vehicles GM develops satisfy the specific needs of its customers in the midsize market.

Right after completing the new design for the car portfolio in 1993, GM began planning revamp its full size pickup truck program for a targeted rollout in 1998.

By 2003, as a result of several Box 1 initiatives, vehicle sales and profitability were improving.

Box 2 -The success paradox: when times are good again in the basic business, resistance to change grows

GM did a good job of identifying the elements of a strategic plan to overcome the predicaments it faced in its core business. However, because the core business had rebounded, some of the executives whose careers were tied to the traditional vehicle program found it difficult to let go of some of the practices that drove the core business but, to some extent, hindered the new one.

The case of "Med-Global": IT-enabled innovation and implementation by non-IT business unit leaders *U. Yeliz Eseryel*

In helping their organizations adopt cutting edge Information Technology, Chief Information Officers typically focus on first developing a strong and highly-skilled digital (IT) workforce and then later involving business managers in IT decisions.

Box 3: innovation is now continuous at GM

A variety of new service opportunities were emerging based on revolutionary digital technology that could deliver experiences that could increase GM's relationship with its customers after the vehicle was sold. The OnStar customer service was a dealer-installed product that connected the vehicle to a live advisor at a call center, even in areas where normal handheld phones could not get service.

Improving global vehicle design and manufacturing. General Motors has entered into an agreement with Chinese automaker Shanghai Automotive Industry Corp to develop a new family of small vehicles with a common architecture that can be modified.

Driverless vehicles. GM Cruise's pilot project in San Francisco is testing autonomous vehicles.

Maven. GM established a car sharing service called Maven in late 2013 and now operates in 15 cities.

GM's current management team has demonstrated its ability to continue to build and market cars that generate profits and to aggressively innovate to meet customer's future needs.

It is becoming clear that although today GM stands for General Motors, in the not too distant future the transformed "Box 3" GM is likely to also stand for: "General Mobility" . . .moving people and items. . .sometimes even without a driver.

There's a better way – challenging IT executives to enable the non-IT workforce to become successful IT leaders capable of transforming the organization. This is the strategic hurdle that IT executives face when they implement Enterprise Resource

Planning (ERP) systems. This case illustrates how CIOs of mid-size companies can lead a successful ERP system implementation by skillfully empowering their mid-level non-IT managers.

The case of “Med-Global,” a global mid-size organization, offers an example of how CIOs and other senior IT executives successfully teamed up with their non-IT business managers. The lessons learned from this case study are the three strategies that CIOs and C-level executives can utilize to successfully involve non-IT managers to achieve IT-enabled business transformation.

Lesson 1: Create buy-in for a compelling IT-enabled transformation vision. Med-Global executives pointed to the increased competition in the medical-device industry and increased requests for data about diagnostic products by the Food and Drug Administration to emphasize that the IT-enabled transformation was not only a profit-based initiative, but was critical to company’s survival.

Lesson 2: Develop a strong, centralized organizational change management function. The team took the following key initiatives:

Communication: The team started off by distinctively branding the ERP effort as the “SAP Impact Project” to emphasize the difference it would make for the organization.

Training: The decision was made to have the business managers deliver the training to their staff, and to be thoroughly trained for their new role.

“Super user” organization

development: The “super users” in each function helped identify and expedite action to resolve urgent issues.

Role development: Individualized training plans for employees were developed based on their roles.

Documentation: The change management team coordinated the documentation of all of the business processes and procedures.

Lesson 3: Develop a strong non-IT business leadership team.

Effective non-IT leader selection: Med-Global selected its best middle managers to be its non-IT leaders.

Leader team location: After the decision was made to have the best middle managers work exclusively on organizational change management, to facilitate communication Med-Global relocated all these team leaders and the project’s consultants into a single large room where everybody sat around long tables.

IT skill optimization decisions: From the start of the IT project, one of Med-Global’s challenges was that the skills of many of its IT personnel were obsolete. To solve this issue creatively, Med-Global hired a consulting company as its ERP integrator and had an agreement with this firm to hire and re-train its IT staff.

Not long after the ERP system installation was complete “Med-Global” was named by *Fortune* in its list of “The 100 Best Companies To Work For.”