

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).

Richard Rumelt: A “challenge-led” approach to creating effective strategy

Brian Leavy

Professor Richard Rumelt, Harry and Elsa Kunin Emeritus Professor of Business & Society at the University of California, Los Angeles Anderson School of Management, has dedicated much of his professional life to finding a better way to create strategy.

In his latest book, *The Crux: How Leaders Become Strategists*, his ideas on how to create effective strategy have since further crystallized into a methodology he calls the “challenged-based” approach.

He offers practical guidance on how to pinpoint the “crux,” or point of highest leverage of an “addressable strategic challenge.”

Strategy & Leadership: In *The Crux: How Leaders Become Strategists*, you advance the concept of “challenge-based strategy.” What inspired this approach?

Richard Rumelt: I developed the idea of “challenge-based strategy” after working with companies that were letting their strategy work devolve into statements of ambitions and goals.

One of the ways to break this habit is to instead concentrate on challenges, both difficulties and hard-to-grasp opportunities.

“Challenge-based strategy” – guiding principles and perspective

S&L: What are the main skills and steps involved in your new approach to strategy creation?

Rumelt: A crux-driven strategy, as I conceive it, denotes the outcome of a three-part strategic skill.

- The first part is judgment about which issues are truly important and which are secondary.
- The second part is judgment about the difficulties of dealing with these issues.
- The third part is the ability to focus, to avoid spreading resources too thinly and to not trying to do everything at once.

S&L: Why is it helpful to think of strategy work more in terms of design than analysis?

Rumelt: Very early in my career, I thought of strategy work as analysis. The truth is that gnarly challenges are not “solved” with just analysis or by applying pre-set frameworks. Rather, a coherent strategic response arises through a process of diagnosing the structure of challenges, framing, reframing, chunking down the scope of attention, reference to analogies, and insight.

S&L: Should strategists view strategy as an on-going existential journey?

Rumelt: If an organization is to persist over time, strategy is best viewed as the ongoing, much more entrepreneurial process of solving challenges and grabbing opportunities as they appear along the way.

Overcoming the preparedness paradox: five initiatives to ready businesses for an uncertain future disruption
George S. Day and Roger Dennis

Creating strategy – identifying a “critical winnable challenge”

S&L: The challenge-based approach revolves around “clear headed” in-depth diagnosis aimed at identifying a “critical winnable challenge.” What tools do you most recommend?

Rumelt: The most powerful tool is reframing. A “frame” is a way of

What happens when a credible warning of a looming problem that could disrupt an organization is sounded, but the timing and consequences are uncertain? Instead of mobilizing an organization to prepare for threats, inaction often prevails when leaders filter warning signals through eyes clouded by cataracts of self-deception, myopia, and inertia.

This was a lesson learned in 2015 when management consultants warned New Zealand businesses that their lengthy and fragile supply chains could be badly disrupted by a global disease breakout. Yet remarkably little action was subsequently taken. The report sent a stark warning that the economy of New Zealand was very exposed to the damaging consequences of a global pandemic. Leaders in New Zealand chose not to seriously consider the possibility of a pandemic.

Five years after the report was published, it was apparent that an alarming virus was emerging in China. The authors of the supply chain vulnerability study called the firms involved in the 2015 study and recommended they urgently review the report. By then it was too late to make their supply chains more resilient. By 2021 the problems with global supply chains were metastasizing; semiconductor chips were scarce, shipping costs and delays were mounting fast, and many ports were severely clogged.

looking at a situation and the frame used by senior leaders focuses their attention on some issues and measurements rather than others. A key step in diagnosis is testing, adjusting, and changing the frame or point of view.

If leadership teams are to pay more attention to the possible threats from supply chain fragility, regulatory exposure, climate change, or digital disruptions, they first need to be persuaded that potentially disrupting event warnings must be assessed and appropriate actions initiated.

The five steps that prompt preparations

Five attention-getting actions that prompt low-cost readiness for potential disruptions:

Step 1: Getting and keeping attention. The capacity of a leadership team to pay attention is like a sponge. Avoid oversaturating their attention resource.

Step 2: Start by learning from experience. The past is not necessarily a prologue to the future, but it can yield clues about persistent blind spots.

Step 3: Stay alert to anomalies. The route to preparedness starts when the leadership team is collectively curious about anomalies in the business market, emerging technology, or social environment.

Step 4: Engage the organization. Preparing an organization for a major change means that key implementers understand why the change is needed and accept their responsibility for making it happen. Immersion in role playing or simulations will help them get there.

How to design an organization to enable the implementation of the company's sustainability agenda
Herman Vantrappen and Michael Wagemans

Step 5: Learn from the future. Preparations against possible threats can be stimulated with scenarios.

On reflection

"Be prepared" is a useful motto for corporations, but it falls short as a call to action.

When the prescient pandemic alert didn't capture the attention of influential leaders in New Zealand in 2015, the goal to create more resilient organizations with robust

Recent research published this year by the IBM Institute for Business Value found that 53 percent of organizations will position environmental sustainability as a top business priority by 2024. Their findings evidence corporate aspiration and urgency, but what gets less attention, is the need for a nitty-gritty analysis of organizing for sustainability. This requires carefully defining and assigning the roles and responsibilities for carrying out the activities required to implement the company's sustainability strategy.

Among the many organization design choices that eventually may have to be made for sustainability, the stand outs are:

- **The nature of the verticals in the organization structure:**
Should Sustainability be a distinct and integrated function, or combined with another function – or split into sub functions.
- **The role of the corporate center.**
- **The distribution of activities across hierarchical levels.**
- **The lateral coordination of activities between verticals.**
- **The governance of activities.**

supply chains that could surmount the paradox of preparedness was not realized. To be effectively actionable, the consultant's data dense report should have been accompanied by an attention-capturing video on the consequences of inaction, an image-rich executive summary and a press release that trumpeted likely future newspaper headlines and TV chyrons to highlight the warning message.

Once the organization's design choices in these primary areas have been made, secondary choices – for example, regarding business processes, performance indicators, staff profiles, team size, and management systems – can be made more easily. We offer a framework derived from the combination of two sets of considerations to help managers make design choices for their company's Sustainability organization:

1. **Sustainability focus:** The substantive focus of the company's sustainability agenda.
2. **Organizational philosophy:** The principles by which the company is organized in general.

For example, a company that focuses on compliance with ESG regulation and traditionally operates through a strong corporate center is likely to have a Sustainability organization that is quite different from that of a company that focuses on offering sustainable solutions to its customers and traditionally grants much management autonomy to its business units.

Dimension 1: The focus of the company's sustainability agenda.

The underlying idea is that companies progress through ever more

advanced stages on their journey toward a fully sustainable business.

Dimension 2: The principles by which the company is organized in general.

An organizational philosophy rooted in its founders' predispositions or its seminal events such as a merger. Therefore, when making a change to the design, it is important to ensure that it is aligned with that overall philosophy.

Combining the two dimensions to make design choices

The "sustainability focus" and "organizational philosophy" dimensions can be combined into a grid to inform an intelligent debate within the top management team and board of directors about alternative designs.

- Should Sustainability be an integrated or distinct function?

As the digitalized transformation of businesses has accelerated rapidly, the confluence of a number of game changing digital technologies that produce individualized experience is revolutionizing industries. In this new economic era of value, which we call the "eXperience-verse" – companies deliver customer outcomes across multiple fulfillment channels, engage employees with remote ways of working, manage suppliers' operational discontinuities, collaborate with partners in business networks, and rapidly develop digital offerings of smart connected products and processes in interactive ecosystems, all the while co-creating experiences of value with individuals.

The revenue growth rate data

In a landmark study, Accenture surveyed more than 8,300 global executives in 2019, and then followed up with another survey of over 4300 executives in 2021, to explore how companies were investing in and

- Should a Chief Sustainability Officer be appointed to the top management team?
- Should the board of directors have a dedicated Sustainability committee?
- How should roles be distributed between the Sustainability function and the businesses?
- How should we coordinate company-wide sustainability initiatives?

The bottom line

Design the organization based on your company's specific strategic priorities and on what has a fair chance of delivering results given your company's organizational philosophy.

creating value from enterprise IT systems.

Using the same model for comparing progress of a leader and a laggard company, Accenture's analyses revealed a 5X revenue growth rate of leaders – top 10 percent – over laggards – bottom 25 percent – in terms of systems strength. Accelerated adoption of digital technology has been found in several other studies, including that of McKinsey.

Also, particularly striking in the findings of the 2021 Accenture study was the emergence of "leapfroggers," a significant number of companies, representing 18 percent of the entire sample, who were turning the COVID-19 crisis into opportunity and growing at 4x the rate of Laggards between 2018 and 2020.

Such leapfrogging has been powered by the emergence of "industry clouds," from hyperscalers – Amazon Web Services, Google Cloud and

Into the eXperience-verse: the strategic frontier of cloud business innovation and value co-creation
Venkat Ramaswamy and Krishnan Narayanan

Microsoft – and other business technology providers – such as Oracle and SAP – as well as system integrators and a vast network of software and application partners.

The experience ecosystem revolution

Two recent *Strategy & Leadership* articles posited that the world is at the cusp of a new experience ecosystem revolution, which is fundamentally transforming the way we live, work, play, and learn. Innovation is powered by digitalized interactive platforms of engagements, and experience value overshadows technology.

Harnessing the power of interactive experience ecosystems

The “eXperience-verse” offers a universe of such experiences and experience environments co-created by the experienter and interactive ecosystems.

Unlocking new eXperience-verse value ecosystems

In order to unlock new eXperience-verse value, enterprises need to first

visualize opportunities through the **PIE X Ecosystem lens – Platforms, Impacts, Engagements, eXperiencers, and Ecosystems**, and then co-create value with stakeholding individuals.

Enterprises need to empower all stakeholding individuals in eXperience-verse ecosystems to become innovators. This requires giving those closest to the experience – customers, employees, partners, and other stakeholders – the capacity to redesign new meaningful experiences and valuable transactions.

The power of eXperience-verse innovation and value co-creation

The co-creative enterprise has the power to transform relationships among individuals and institutions. Emerging technologies are leveraged at the moment of engagement between the enterprise and the experienters. The goal is to engender value to the individual-as-experienter.

Rethinking business transformation: how multiple technologies interact with intelligent workflows to produce exponential value
Jacob Dencik and Anthony Marshall

Transformation and reinvention have become the twin themes favored by many corporate leaders and business consultants. But some important questions have emerged. Does transformation actually help companies grow and become more profitable? And if it does, how?

Recent surveys of C-suite sentiment conducted by the IBM Institute for Business Value suggest that a growing number of executives are frustrated by the outcomes of some their recent technology investments and transformation efforts.

As many as 31 percent of business leaders say that their organization’s cloud implementation journey has stalled. And another 37 percent of executives report they are “done” with planned cloud adoption, even

though the majority of their IT system remains entrapped in aging legacy systems.

What’s holding organizations back

According to multiple IBM IBV C-suite executive surveys, the problem is that many transformation efforts are often disconnected from business value. Targeting low hanging fruits instead of attempting to transform high value areas has produced limited impact on overall business performance at many corporations.

In companies focusing relentlessly on the immediate quick-wins, the small initiatives advanced are often done in isolation with little or no broader view as to how they come together into a transformative whole. As a consequence, the role of operational business drivers and

complementarities between different technologies in enabling business value are often unstated.

Advantages of a workflow perspective

Companies that are successful at business transformation look for change opportunities that matter. Workflows provide an end-to-end perspective of what scaled transformation will look like while enabling identification of appropriate areas of immediate transformation. This means that organizations should first identify the high value workflows and focus on what it takes to transform them.

And this is a certainty: Transformation must mean actual transformation. To release value, transformation demands real change. This involves looking at all the elements required to drive success across the workflow.

Moving forward

Embracing a workflow perspective is vital to unlocking the full potential of employing digital technology to achieve business transformation. In practical terms, the following approaches will be crucial to successful business transformation:

- Think holistically.
- Invest in the right technology mix.
- Develop the necessary operational enablers, including talent.
- Open your enterprise and extend capabilities outward to encompass ecosystems to enable workflow transformation at speed and scale.
- Integrate capabilities and technologies across functions and with your ecosystems to achieve workflow transformation.