Business Transformation Strategies

The Strategic Leader as Innovation Manager

Oswald A. J. Mascarenhas

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Prologue

In his book, *Who Says Elephants Cannot Dance?* Lou Gerstner, who had just taken over as CEO of IBM in 1993, describes a press conference where he made a strategy statement that reverberated throughout the world of journalism: "There has been a lot of speculation as to when I am going to deliver a vision of IBM. But what I would like to say to all of you is that the last thing IBM needs right now is a vision."

The journalists lampooned Gerstner and so did academicians and politicians. In retrospect, Lou was dead right. IBM survived a close demise in 1993, as Lou helped it to reorganize and find its niche in mainframes, middleware, and software—in short, in defining and offering business information technology (IT) solutions. Gerstner did not feel compelled to pronounce a vision; he needed to *create* a vision with a *distinctive, competitive strategy* (Hamel 2000). This book is all about corporate visions and strategies.

Struggling with growing competition and globalization, more and more companies are trying to make a fundamental change in the way they operate either by introducing innovative improvements or at least by improvement programs in every business function and process. With the increasing and accelerating competitive pressure, however, radically innovative strategies of yester years quickly fade into incremental ones. Hence, companies must constantly devise new transformation strategies in order to remain on the top. This ongoing improvement and innovative process is called *revitalization or transformation* (Pascale, Millemann, and Gioja 1999). This book is about business transformation strategies with a decided focus, however, on the CEO as a strategic leader of innovation and growth management.[1]

Currently, the main problem in corporations is not lack of revitalization programs, but that the whole burden of change falls on so few people. The number of executive leaders at every level who make committed, imaginative, and innovative contributions to organizational transformation is simply too small. As a result, in the modern knowledge-based economy, any transformation strategy should not only include ongoing innovative and imaginative changes, but should also incorporate skilled, dedicated, and committed people from the bottom rank who take a greater interest, care deeply about organizational success, and have a more active role in the business. When every person in the corporation is able and eager to rise to every competitive and governmental challenge, there is revitalization and transformation in the company and the business is geared to superior performance (Collis and Rukstad 2008). Revitalization implies a permanent rekindling of individual and group activity, creativity, and responsibility—a lasting transformation of the company's internal and external relationships (Pascale, Millemann, and Gioja 1999: 57). This book also focuses on business transformation as corporate leadership strategies.

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[1] A blind peer reviewer of this book appointed by the publisher made an insightful point in this regard: the focus on CEO as the primary strategic leader is a Harvard Business School model for U.S. corporations that may not be accepted or implemented univocally elsewhere in the world. Strategic leadership may be more diffused throughout the corporation in the oriental world than in the occident.

Older definitions of corporate strategy include elements such as differentiation from the competitor, barriers to new market entry, zero-sum games, and building scarce, non-imitable, non-transferable, and market-convertible strategic resources within the company (e.g., Barney 1991, 2001a, 2001b). This approach has not taken us very far other than to price wars, cut-throat competition, predatory pricing, price gouging, and other destructive strategies. Current corporate strategies are more "dynamic" than static (Govindarajan and Trimble 2005; Porter 1991, 1996, 2008; Porter et al. 2004), more "collaborative" than competitive (Ernst and Bamford 2005; Evans and Wolf 2005; Hamel 2006; Hamel, Doz, and Prahalad 1989; Huston and Sakkab 2006), and create new uncontested market spaces or "blue oceans" than combat with competitive markets (Kim and Mauborgne 1999, 2003, 2004). Current business transformation occurs with corporate strategic alliances or joint ventures, even with direct corporate rivals, and amidst great witness of corporate social responsibility (Porter and Kramer 2006; Yaziji 2004). The book focuses on these newer approaches to corporate strategy.

We investigate major concepts and paradigms, theories and models, contexts and structures of business transformation strategies, systems and processes. Most corporate strategies were inept in transforming troubled companies or even at maintaining the vitality of the healthy ones because they never identified the external and internal factors that produce sustainable revitalization. Our focus is on the main internal and external factors that can stimulate and sustain corporate transformation.

STRATEGY AS SEEKING ADDED VALUE

Cynthia A. Montgomery is the Timken Professor of Business Administration and Head of the Strategy Unit at the Harvard Business School (HBS), Boston, USA. She runs the strategy portion of the Owner/President Management executive program at HBS. Montgomery (2008: 57) insists that the notion of added value is core to everything they teach, experiment, and do about corporate strategy. Early in the module, executives respond to the following questions:

- If your company were shuttered, to whom would it matter and why?
- Which of your customers would miss you the most and why?
- How long would it take for another firm to step into that void?

Most executives struggle answering these questions, even though they are basic. Executives long accustomed to describing their companies by the industries they belong to and by the products/services they offer, find themselves disabled to pinpoint what is truly distinctive about their firms. In this book, we explore this trend of thinking on strategy as value augmentation.

STRATEGY CANNOT BE TAUGHT, BUT ONLY LEARNT

In their latest book, *Turning Learning Right Side Up: Putting Education Back on Track*, Russell Ackoff and Daniel Greenberg (2008) warn us that real education is not teaching but learning. Traditional education focuses on teaching, not learning. It incorrectly assumes that for every ounce of teaching there is an ounce of learning by those who are taught. On the contrary, most of what we learn before, during, and after attending schools is learned without it being taught to us. A child learns such fundamental things

as how to walk, talk, eat, dress, and so on, without being taught these things. Adults learn most of what they use at work or at leisure while at work or leisure. Most of what is taught in classroom settings is forgotten, and much of what is remembered is irrelevant.

In most schools, memorization is mistaken for learning. Most of what is memorized is remembered only for a short time, but then quickly forgotten. Computers, computer software, recording machines, cameras, blogs, and the like can do better in teaching the stuff that we normally teach in our classrooms. Most often, teachers are poor surrogates for such machines, equipment and instruments. Why should students, children or adults, do something in classrooms that computers and related equipment can do much better than teachers can? What education should focus, therefore, must be on what humans can do better than the machines and instruments they create.

When we ask those whom we taught, "Who in the class learned most?" virtually all of them say, "The teacher." It is apparent to those who have taught, that teaching is a better way to learn than being taught. Teaching enables the teacher to discover what one thinks about the subject being taught. The method adopted in schools should be reversed: students should be teaching, and the faculty should be learning.

If knowledge is the capacity for effective action (Senge 1990), then knowledge is temporary, since an action is effective only in its given context. However, learning is continuous, and we should be able to identify key attributes of strategy management and leadership that manage knowledge with the following:

a. Fostering continuous learning as part of our professional work;
b. Providing continuous opportunities for educators to continuously expand their repertoire;
c. Communicating expectations for participation and contributions among educators;
d. Establishing knowledge leadership groups to inform and refine the system by identifying priorities, needs, and resources;
e. Using technology to inform professional learning, and
f. Facilitating the transformation of data and information into knowledge that can be applied to practice.

The knowledge leader who manages the integration of people, content, and technology is a key element of a knowledge and learning system (Dietz et al. 2005). Hence, in this book we will all learn by teaching each other and learning from each other. In essence, this is the philosophy behind the BTM Lab[2]—it is not a course, it does not have a fixed syllabus or a textbook; it is not discipline oriented; it is not even a classroom. It is a learning module. The focus is student–teacher learning, and not teacher-focused teaching. It is a work in progress, a process where all of us learn together and from each other. This is where teachers and students learn via teaching each other, and challenged entrepreneurs and executives learn from us and we learn from them.

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[2] The Business Turnaround Management (BTM) Lab is a pioneering concept and learning module experimented in the required post-core, comprehensive concluding course in the BTM programs in the College of Business Administration, University of Detroit Mercy, Detroit, Michigan. The author was the prime designer and mover of the BTM masters and certificate programs, a first of its kind in the academic world of 2003–07.

There are many ways of learning, and teaching is just one of them. We learn by doing, by experimenting, by interacting with others, by listening, by reading, by reflecting, by critical thinking, by analyzing and synthesizing, by tearing things down and then building them up, and especially, by unlearning. Most of us learn from our mistakes. Good learning is risk-taking, being prepared to make "smart" mistakes as long as we learn quickly from our mistakes. Most corporate strategies were learnt and formulated after a series of costly but rich mistakes (Schoemaker and Gunther 2006).

ORGANIZING THE LAYOUT OF THE BOOK

This book explores the concepts, theory, paradigms, models, strategies, and cases of organizational transformation management from the viewpoint of the CEO as a strategic leader. Specifically, we discuss the challenges and opportunities that revitalize companies from recovery to exuberance, from normal to supernormal performance, from solvency to "built to last" (Collins and Porras 1997), from legal and social to ethical and moral corporations, and in one word, from "good to great" companies (Collins 2001). Majority of companies just remain as they are or are satisfied being "good" but aren't great. In this sense, "good is the enemy of great" (Collins 2001: 1). "Great" companies are those that make the leap from "good" results to "great" results (e.g., average cumulative total stock returns (TSR) for a decade and more are around five to seven times the general market average, indicated by S&P or Dow Jones) and sustain those results for at least 15 years (Collins 2001: 3).

Our ambition in this book is to explore, review, and analyze great transformation strategies that transform and empower companies from being just "good" to being "great" and lasting (Collins 2001; Collis and Rukstad 2008). Our primary focus throughout the book is on the CEO as the strategic leader of transformation that takes place through creativity, innovation, and corporate growth. Accordingly, our treatment of Business Transformation Strategies has two parts: the first six chapters' deal with the general aspects of a strategic leader of business transformation strategies. The following six chapters deal with specific aspects of the strategic leader that brings change and corporate growth through creativity and innovation.

Thus, as a background for understanding corporate recovery as long-term transformation strategies, the Prologue sketches a preface for business transformation strategies and a general plan of this book. The first two chapters relate to strategy in general—Chapter 1 provides the fundamental concepts, constructs, and contexts of business transformation strategies, and Chapter 2 attempts a general philosophy of corporate strategy. The next four chapters focus on the role of the Chief Executive Officer (CEO) in corporate transformations. Chapter 3 analyzes the role of the CEO as a strategic leader. Chapter 4 proposes the CEO as a systems thinker. Chapter 5 features the CEO as a critical thinker and solver of simple strategic problems, and Chapter 6 presents the CEO as a critical thinker and "tamer" of "wicked" strategic problems.

Part 2 focuses on the CEO as a strategic leader of innovation, growth, and sustainable competitive advantage. Accordingly, Chapter 7 deals with the CEO as a strategic leader of creativity and innovation management, Chapter 8 proposes the CEO as a leader of corporate-wide innovation management, Chapter 9 focuses on the CEO as a strategic leader of innovative sustainable competitive advantage, and Chapter 10 presents the CEO as an innovative manager of corporate growth. The last two chapters shift the spotlight back on the CEO as a spiritual leader: Chapter 11 features the CEO as a person of

self-mastery won through executive spiritual development, and lastly, Chapter 12 models the CEO as a leader of shared personal and corporate vision.

Organized thus, this book is uniquely designed for high-potential business students, intermediate business leaders, business scholars and business practitioners alike, and especially, young business entrepreneurs who enjoy innovative management. In a typical MBA program, this book could be useful for the capstone courses in business strategy, particularly at the graduate level. As its title suggests, this book is primarily meant for all corporate executives and institutional leaders that are engaged in transforming their organizations from being good to great.

This book is also positioned for consultants concentrating on business turnaround and transformation management (BTTM), particularly for those pursuing Certificate and/or Masters in BTTM, for managers preparing for Certified Turnaround Professionals (CTP), Certified Insolvency and Restructuring Advisor (CIRA), Risk Management Association (RMA), and for Turnaround Management Association (TMA) members requiring professional updates, and the like. Business transformation executives and experts could profit from any chapter, especially the second part of this book.

As in my other recent book (Mascarenhas 2008), I safeguard five critical features of modern integrated business management.

1. Each chapter updates and blends recent concepts, theories, paradigms, models, cases, and strategies in that field of corporate strategy.
2. Each chapter integrates the traditionally compartmentalized silos of management education such as economics, accounting, finance, marketing, personnel (HRD), business law, production, and operations management.
3. Each chapter is built from ground zero and is based on recent journal articles from top tier journals such as the *Harvard Business Review*, *Sloan Management Review*, *California Management Review*, *Journal of Accounting*, *Journal of Finance*, and the *Journal of Marketing*. Thus, the material covered represents the mind and works of the best scholars in the field.
4. Each chapter is appended with executive Business Transformation Exercises (BTE) where the more challenging concepts, theories, paradigms, models, and strategies of corporate strategy are translated to ready review, application, and implementation.
5. Each chapter provides critical thinking and ethical principles that can enable and empower readers to address current ethical and moral challenges of a given corporate strategy.

The content of each chapter is best learnt and internalized against real-time, "live" cases of current market problems, episodes, "disruptive changes" (Christensen and Overdorf 2000; Christensen et al. 2002; Collins 1999) and "market busting" strategies (Gunther and MacMillan 2005) as they unfold during the academic semester of learning. This is best done by challenging students with take-home, structured and unstructured, linear and circular, problem-centered exams that invite team learning of three to four weeks in problem identification, formulation, specification, alternatives exploration, and the final choice assessment.

There is no closure to this book. The content of each chapter is continuously evolving and emerging. Hence, a book that captures the real-time process of forming strategic leaders of corporate transformation experience and accomplishment must be a "work in progress" that needs constant updates, upgrades, revisions, and restatements. In other words, this book is not about immutable and frozen

conceptualizations and theories, paradigms, models, and strategies. It feeds and expands on the real, day-to-day corporate world of transformation management. The real world of corporate strategy problems is rarely simple, structured, and linear in their content and solutions. They are complex, unstructured, non-linear (i.e., often circular and spiral) and "wicked" (Rittel and Webber 1973) problems that need creative, innovative, resilient (Hamel and Välikangas 2003), analogical (Gavetti and Rivkin 2005), experimental, and entrepreneurial resolutions. We hope this book will challenge students and readers, teachers and executives to this great world of strategic leadership and organizational learning (Senge 1990, 2006) of business transformation management (Hammer 2004).

Acknowledgments

My academic background is philosophy, theology, marketing, e-business and Internet marketing, and currently, business turnaround and transformation management, with over 30 years of teaching and research experience. Several professors have molded me during my management studies. I am especially indebted to Russell Ackoff, Paul Green, Len Lodish, and Howard Perlmutter of the Wharton School of Business, Philadelphia, Pennsylvania, where I obtained my MBA and Ph.D.

This book represents my latest research and thinking in the critical domain of business transformation management, especially with a focus on revitalization strategies. This work has taken over five years from conception to execution. The origin of this book is linked with the business turnaround management (BTM) program that we designed in 2002, with the active collaboration of several business turnaround executives who were members of the BTM Steering Committee and MBA Advisory Board of the College of Business Administration, University of Detroit Mercy, Michigan. From its early beginnings, the BTM program was uniquely conceived, developed, and delivered in continuous partnership with the turnaround industry. The BTM Steering Committee of over 24 senior executives of turnaround companies formed the industrial backbone for the formulation and implementation of the Certificate and Masters level BTM programs.

In its early stages, I designed a course (BTM 500) that covered both business rescue and transformation strategies. Within a few years, the course rapidly grew in content depth and breadth, so that it gave birth to a Certificate, and then to a full Masters level program in BTM, a pioneering program, the first of its kind in the business academic world in 2007. As a part of this BTM program, this book focuses only on business transformation. A successor or sequel to this book will focus on business turnaround (rescue) strategies. The plan and contents of this book were discussed with the BTM Steering Committee members at different stages. I am grateful for their incisive comments.

When this book was nearing completion, I wanted to test its contents by teaching it. Meanwhile, Rev. Abraham Enthemkuzhy SJ, Director of Xavier Labour Relations Institute (XLRI), a premier business school in Jamshedpur, India invited me to give a keynote address for the annual Association of International Jesuit Business Schools (AIJBS) Conference hosted by XLRI in June 2009, and I readily accepted the invitation on the condition that I could teach this course after the conference. Professor Pingali Venugopal, Dean (Academics) of XLRI was enthused with the idea, and the rest is history. I had over 30 brilliant Business Management and Personnel Management students, all engineers with over three years of work experience in big multinational companies. who took this elective course titled, Global Business Transformation Strategies. They read all the chapters, discussed them in class, dialogued on their direction and prospects, and provided other considered comments. I am grateful for their passionate participation in class and for their great pre-reviews.

While at XLRI, Fr. Abraham encouraged me to get the book published, and enabled me to contact various publishers. SAGE Publications undertook a peer blind review of the book, based on which the book was accepted for publication. I am very grateful to the reviewers, and to the management of SAGE Publications for their expeditious and professional production of this book.

Several of my graduate research assistants at the University of Detroit Mercy have helped me in the work in progress: Sundaresan Balasubramaniam, Preethi Venkataraman, and Raoul Pinto provided technical assistance in formatting the entire text, in developing the table of contents 'in brief' and 'in detail', and in constructing the author, company, and subject indices. Several of my current junior and senior MBA students at Aloysius Institute of Management and Information Technology (AIMIT), Beeri Campus, Mangalore, India have generously devoted their time and talent for proof reading the entire text, and for organizing the subject, author and company indices, and I greatefully acknowledge their assistance. The chapters of this book were used for teaching "Creativity and Innovation Management" to both junior and senior MBA students at AIMIT this year, and their comments have been useful and encouraging. I am deeply grateful for their dedicated assistance.

This book is lovingly dedicated to Mary Victoria Basile of Havertown, Pennsylvania. Mary and the Basile Family were my emotional, intellectual, and financial support all through my Wharton Business School Years and thereafter. Mary Basile, in particular, by her simple but persistent ways, was a strategic leader and innovation manager of my academic years since the early 1970s.

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