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May–June
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Build Your Personal Brand

How to communicate
your value to the world

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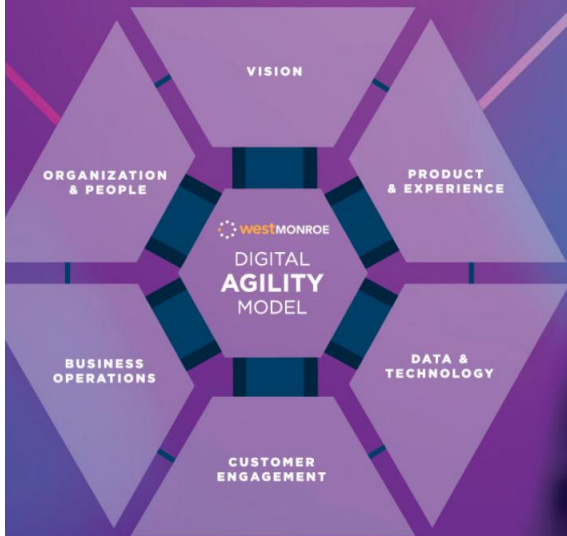
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"Companies have long treated frontline workers as commodities that can be easily replaced."

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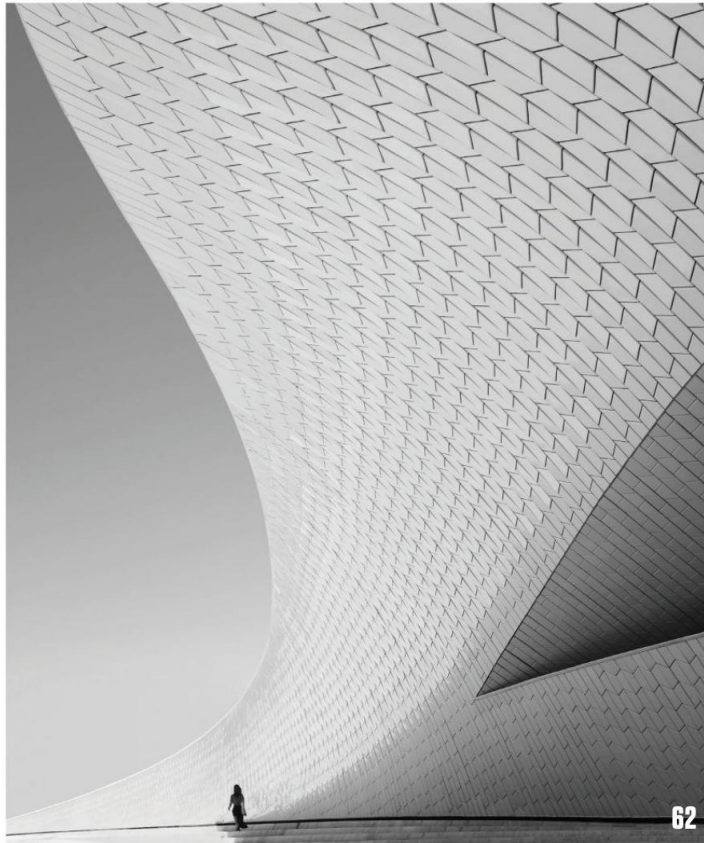
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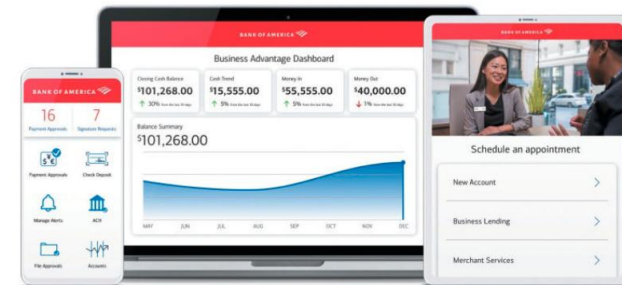
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An Alternative to Creative Destruction



Adi Ignatius

WE PUBLISH MANY articles celebrating the process of innovation, for good reason: Companies that fail to stay ahead of consumers' evolving needs are unlikely to thrive.

But there's a negative aspect to this process that we sometimes fail to acknowledge. Innovation is often a zero-sum game, in which one company's success leads to a competitor's failure, causing pain for employees, investors, and communities.

In this issue W. Chan Kim and Renée Mauborgne explore the benefits of an alternative. In "Innovation Doesn't Have to Be Disruptive," they write, "Under disruption and its conceptual antecedent, Joseph Schumpeter's 'creative destruction,' market creation is inextricably linked to destruction or displacement. But nondisruptive creation breaks that link. It reveals an immense potential...to foster economic growth in a way that enables business and society to thrive together."

Drawing on examples such as *Sesame Street*, microfinance, and Kickstarter, the authors, whose new book is *Beyond Disruption: Innovate and Achieve Growth Without Displacing Industries, Companies, or Jobs* (Harvard Business Review Press, 2023), offer ways to identify nondisruptive opportunities as an antidote to a competitive mindset based on anxiety. "The idea that we can create new markets and grow without disrupting others," they write, "suggests that business does not have to be a destructive, fear-based, win-lose game."

Thanks for reading.

ADI IGNATIUS
Editor in chief

Robyn Timoney



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STRATEGY

The boundaries between search and execution processes must be dissolved. Each employee is always both exploring and exploiting.

Embrace external complexity. In a stable context, it is efficient to strive for standardized offerings in order to achieve economies of scale and experience. However, creating optionality for an uncertain future means turning variation from an expensive inconvenience into a valuable source of information, leading to greater optionality and differentiation.

Companies need to treat the execution of routine tasks and customer interactions as opportunities for learning. Standardizing tasks or offerings becomes counterproductive since it suppresses variance, which is the grist for new ideas. Instead, firms need to leverage their digital presence and use learning algorithms to capture and process lessons from each interaction.

Take the example of call-center operations—a vast set of activities that spans many verticals, including automotive sales, telecom, software service, and energy distribution, to name a few. Each call center has a critical function: supporting clients by answering their questions, providing them with information, and registering and addressing their complaints. Simple operational stuff? No. Each call—recorded, analyzed, parsed, summarized, and encoded using algorithms that look for identifiable patterns—generates valuable data, which can be mined to inform the design of better client-support experiences, better training for call-center staff, and better offerings.

Or consider cloud storage platforms like Dropbox and Box. Even as they are under attack by Microsoft's and Amazon's cloud storage services, they continue to differentiate and thrive. They do so by providing users with best-in-class integration with common software and collaboration tools, which smooth out users' workflows by knowing the types of documents and files users store and the kinds of activities they engage in with them.

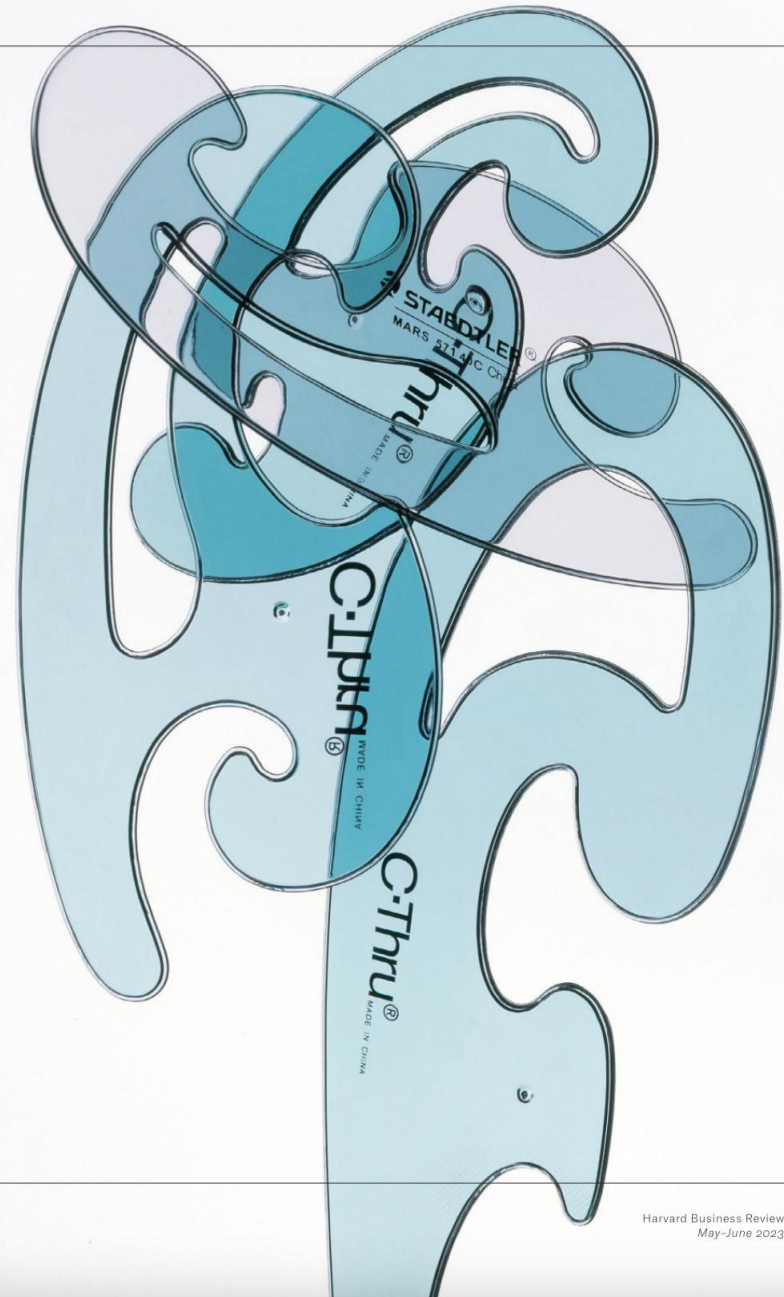
Simultaneously search and execute. Improving the economics of optionality requires firms to achieve simultaneous search and execution, not just a tighter integration of the two. The spatial and temporal boundaries between them must be dissolved. The aim is to achieve one continuous dynamic process; each employee is always both exploring and exploiting. That will require embedding components of search into execution and using the resulting insights to guide the search. Going beyond mining information from

natural variation, companies can create artificial variation by leaving room in scripted processes for employees to test out new possibilities. This needs to be coupled with a thorough analysis of which deviations were successful, and why, and evolving the script accordingly. Companies can also utilize structured experimentation: For example, companies like Booking.com and Microsoft conduct thousands of online experiments a year to identify potential improvements to the user experience.

At the same time, companies must continuously feed ideas from search into execution to validate hypotheses and accelerate iteration (or attrition). One way to do this is to recruit field testers, as the New England-based apparel company Smartwool does. They buy and test new products, providing the company with crucial insights about their performance, suggestions for improvements, and ideas for new products. Another option is for companies to get customers involved earlier in their ideation process. For example, video-game studios often publish playable demos—essentially vertical slices of the core gameplay—early in the development process to gather feedback and stir up interest. In recent years some studios have even begun approaching customers with little more than a concept for a game or outlining their intentions on a crowdfunding platform to receive investments as well as feedback. Those lessons can shape the production process and enhance the popularity of the final product.

As companies transcend the barrier between search and execution, the delay between idea and realization is significantly reduced. Ultimately it may be eliminated, as firms integrate processes on timescales that are accessible only to machines, with small- and large-scale decisions being made by algorithms, based on a detailed and up-to-date understanding of customer desires and the current context. Think of Netflix's recommendation engine, which constantly updates its suggestions based on an evolving understanding of individual users' tastes.

Facilitate, shape, and monetize the customer's exploration process. Most firms focus on satisfying the immediate and explicit needs of customers. Some go further and try to predict future needs using the techniques detailed above. But few companies interact directly with the customer's own process of exploration.



Short-term perspectives will always undervalue optionality. Thus new metrics are required that go beyond the traditional focus on market share and profitability.

Serving the exploration needs of customers offers various avenues toward value creation. By facilitating the customer's search for products or services, companies can learn more about the customer's needs, which can serve as crucial input for their own search process (akin to Google's approach). Helping customers find the best solutions to their explicit needs has become the core business for some firms—think of metasearch engines that let users compare offerings, such as the travel firm Kayak. Others have found ways to enhance their core offering. Nike, for instance, has introduced a "Fit" function in its app that allows customers to measure their foot size and shape, helping them find the right shoe size, which may differ among sneaker models. Customers feel more secure in their purchasing decisions, and Nike improves its inventory management and reduces the number of costly returns.

By interacting with the customer's search process directly, companies can also shape it. For example, fashion e-commerce websites like Zappos, through their "wear it with" or "complete the look" recommendations, nudge customers to purchase other items complementing a selected piece. In this way, companies can increase the potential yield of all options they are pursuing by increasing the probability that they will be desired by the customer. It has been reported that about half of all products sold on Amazon are presented to customers by its personalized recommendation engine (see "The Next Great Digital Advantage," by Vijay Govindarajan and N. Venkat Venkatraman, HBR, May–June 2022).

Some companies have turned the customer's search process into a product by providing search-as-a-service. NZXT, a computer-hardware manufacturer, offers a custom-PC building service, which differentiates itself from the competition by allowing customers to specify, alongside their budget, which games they want to play and what graphical performance they expect, before recommending a set of components that fits those requirements. This enhances convenience, as customers don't have to navigate confusing third-party performance benchmarks or reviews to select the appropriate hardware.

A customer's exploration—a journey of self-discovery and personal growth—can even be monetized directly. For example, purchasing a bottle of wine may be not only the expression of a desire to taste the beverage but a learning

journey in winemaking and culture. The Raj Parr Wine Club is a subscription service that offers biannual shipments of six bottles of wine for a fee of \$500. While it is more expensive than some competing services, it includes sommelier Raj Parr's phone number and an encouragement to discuss the world of wines with him, which appeals to aspiring wine connoisseurs.

ORGANIZATIONAL IMPLICATIONS

Strategy is not the only thing that is traditionally tailored toward maximum fit and alignment. The organization itself is most often designed for static efficiency—with employees in set roles following set processes. Organizational design must also reflect the new strategic approach. Thus firms pursuing radical optionality will be characterized by the following:

1 Organizational fluidity. To embrace external complexity and variation in their strategies, firms must reflect those traits in their organizational setup. This is consistent with the biological law of requisite complexity, which posits that the internal complexity of a system must match the complexity of the environment it confronts, if it is to adapt successfully. It doesn't need to become as structurally complex as its environment—that would dwarf its metabolic functions. But it needs enough complexity to allow it to make changes that matter to its survival. In a situation in which the nature, number, and importance of environmental variables change quickly, organizations cannot be structurally inert—as most hierarchical organizations are. Rather they need to be organized as networks of networks that are rapidly reconfigurable.

Take the example of Alphabet's approach to machine-learning development: There are several hierarchically independent groups within Alphabet (such as DeepMind and Google Brain) that alternately compete and collaborate to bring solutions to a rapidly evolving market for predictive and causal inferences. This approach not only keeps many options open, but it also increases the potential for creating options by leveraging learnings from different groups. Organizations cannot be designed as top-down, static

hierarchies but must become continuously evolving models, leaving room for roles, structures, and processes to emerge bottom-up, tailored to the shifting context.

2 Human-technology partnerships. As boundaries between thinking and doing and exploring and exploiting are torn down, more will be required of employees, who will be asked not just to execute but to innovate around their tasks.

They will need help from machines, which can take over routine tasks based on pattern recognition or optimization as well as assist in more creative efforts. Generative AI tools can, for example, spark new ideas for graphic designers or, through clever prompts, simulate likely responses to a marketer's communications drafts. That will let employees focus on tasks requiring human cognitive abilities, such as imagining entirely new possibilities or conducting activities requiring ethical reasoning or empathy. Amazon, for example, has automated decisions such as inventory management and pricing under a philosophy known as "Hands Off the Wheel." The company focuses its human talent on coming up with new ideas, such as cashier-less grocery stores.

To realize synergies between machines and humans, companies will need to fundamentally rethink organizational design to segment cognitive tasks appropriately, to create effective governance for algorithmic processes, and to create machine-human interfaces that are matched for the very different processing bandwidth and comprehension functions of each. Only by doing so will the full potential of what has been called the "bionic company" be achieved.

3 Forward-looking performance metrics. The value of options will only be apparent in certain states of the world, and usually over the long term. For this reason, short-term perspectives will always undervalue optionality. Thus new metrics are required that go beyond the traditional focus of exploitative proficiency, such as market share and profitability.

Although most companies don't do this, it is certainly possible to place greater emphasis on future option value. For example, 3M owes part of its innovative success to its "new product vitality index," a metric that tracks the share of sales from products that didn't exist five years ago.

Thornton Tomasetti, the leading civil-engineering firm, offers another example. It leverages a vitality scorecard to assess and manage its growth potential and capacity for reinvention, relative to those of its competitors. This is complemented internally by a metric that rates project proposals on their contribution to overall firm vitality.

There are, of course, limits to numerical quantification. Making decisions today on the basis of potential events in the far future is something that both organizations and markets have trouble with: There is no market for Caribbean cruise berths in December 2098. To bridge this gap of imagination, organizations can focus on developing technologies that are maximally evolvable—so that they work in as many conceivable worlds as possible. In a world in which probabilities become poor bases for predictions, we should use *conceivability* as a guide to possibility. In fact, we can make a strong argument for imagination being a competitive advantage.

THE NEXT ERA of competition is at hand. To succeed in an environment of high uncertainty, greater short-term pressure, and tighter resource constraints, firms must become even better and more efficient at developing options for future advantage while continuing to perform in the present. To achieve a state of radical optionality, firms must overturn some of the core tenets of strategy—by thinking while doing, exploring while exploiting, and striving for flexibility rather than fit. They must embrace complexity, learn to search and execute on ideas simultaneously, and engage with customers in their personal journeys. Accomplishing that will require new organizational forms and work practices, deeper integration between humans and technology, and next-generation performance metrics. ©

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STRATEGY

11 TOP INTERIM MANAGER



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BRAND
MANAGEMENT



PHOTOGRAPHER BARTON LEWIS

How Brand Building & Performance Marketing Can Work Together

With the right metrics, you can increase the return on both.



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BRAND
MANAGEMENT

IDEA IN BRIEF

THE PROBLEM

Marketers often worry that performance marketing and its focus on short-term sales is crowding out brand-building activities aimed at enhancing customer perceptions of their brand—and sometimes works against brand strategy.

WHY IT HAPPENS

Brand-building activities are typically measured using metrics that have no predictive or retrospective connection to financial returns.

THE SOLUTION

To achieve performance-accountable brand building and brand-accountable performance marketing, firms need to upgrade their brand metrics in a way that allows the two to work together.



ABOUT THE ART

Barton Lewis photographs the found and accidental art of New York City subway stations, where print advertising is displayed and removed over time, creating collagelike effects.

Over the past 20 years,

performance marketing has become the dominant approach companies use to connect with consumers. It is defined by the Performance Marketing Association as paying for results from marketing campaigns—like sales, leads, or clicks—conducted through third-party channels such as direct mail providers, search engines, and social media sites. It's easy to see why the approach is so compelling: It enables companies to run highly targeted marketing campaigns that deliver measurable ROI, solving the century-old Wanamaker problem, named after the department store retailer who's credited with saying about advertising, "Half the money I spend is wasted; the trouble is I don't know which half."

But many executives worry that performance marketing is crowding out brand-building activities—such as novel packaging, new products, distinctive services, innovative distribution, and creative advertising—aimed at enhancing customer awareness of, attitudes toward, and affinity for their companies' brands. A while ago, the CEO of a B2C/B2B tech company said to one of us, "We are great at performance marketing, but our brand sucks." More recently, executives at a global electronics giant told us that performance marketing had taken over their



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