

Arthur D Little PRISM



The CEO - Lost in space and time?

A new paradigm for today's business leaders

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The average tenure of CEOs has been falling steadily, down from nine years in 2000 to five years in 2017. Simultaneously, there has been a revolution in the nature of business itself: today only two of the world's top 10 global companies by



market capitalization are the same as 10 years ago, while the business space leading companies occupy has radically changed. Being a CEO today is a very different experience to a decade ago. In the past the new CEO would have known pretty clearly the space that his or her business occupied, and would be given at least a few years' time to effect change, but for today's CEO, space has expanded while time has contracted. In this new "extended space, accelerated time" universe, the CEO's role has become a lot

more challenging – how can they navigate the right path for their organization and avoid getting "lost"? In this article we explore the changes and propose a new framework to help CEOs map the right course.

Being a CEO today is a very different experience than it was even a decade ago – in the past a new CEO would know the space where their company operated and be given time to effect change. This has been transformed – space has expanded, while time has contracted dramatically. How can CEOs understand this new landscape and successfully plot courses through it?

The new space and time environment for business

The challenges of leading a large organization in an uncertain environment have always existed in the business world. However, it was not until the 1990s that this began to attract attention in terms of leadership tools and approaches. The acronym VUCA was borrowed from the US military to characterize the issues: volatility, uncertainty, complexity and ambiguity. Since then CEOs have been urged to develop better resilience in their organizations to cope with VUCA. For example, building in float or slack to cope with volatility, developing better intelligence to mitigate uncertainty, restructuring or bringing in special resources to address complexity, and using more experimentation to reduce ambiguity¹.

1. [ref HBR What VUCA really means for you, 2014].

That said, even taking VUCA into account, until recently businesses were still, for the most part, managed with similar basic aims and assumptions, such as:

- There would be a clear business vision and strategy, often with a five- to 10-year time frame, with an accompanying strategic plan cascading in a logical way down through the company to set multi-year priorities at business unit and operational levels.
- There would be continuity of a company's core business, even if a degree of diversification was part of the strategy.
- Success would be achieved through aligning processes, resources and organization with the strategy, and driving productivity and efficiency in a disciplined and systematic way.

For a new CEO coming in to lead a large organization in this environment, expectations were well-established

- In the first year, conduct a strategic review to develop the vision and strategy – and deliver enough visible, quick wins to pass the “first 100 days” test.
- In the next two to three years, implement the strategy, including top-line growth, productivity and efficiency initiatives, improving business alignment and, where necessary, taking measures to adapt culture.
- In the following years, hopefully reap the benefits in terms of performance and shareholder value.

However, in today's business world these traditional strategic approaches are increasingly inadequate. This is because of significant changes in two basic dimensions in which companies operate. First, there is an unparalleled requirement to consider potential extensions to the scope of the business (space); and second, there is a huge acceleration in the required pace of the business (time).

There are many examples of space extension and time acceleration across industries:

Industry	From	To	Space extension	Time acceleration
Automotive manufacture	Production of vehicles and components based on multi-year planning cycles	Electric self-driving vehicles used on demand	New technologies (e.g., digital, batteries), value chain roles, partners	Faster life cycles for vehicles (e.g., 24 months for electronics, even faster for digital)
Television manufacture	Production of CRT hardware and surrounding electronics	Connected display devices	Convergence with ICT, new ecosystems and partners	Accelerated innovation cycles (e.g., agile approaches for digital innovation)
Food & beverage manufacture	Growing strong brands with established products for retail customers	Delivering tailored benefits such as health and nutrition, including direct-to-consumer	Convergence with healthcare (e.g., sensory science), new consumer channels (e.g., digital)	Accelerated innovation cycles (e.g., fast prototyping – in weeks rather than months)
Software manufacturers	Closed product development, selling it, licensing it and updating it periodically	Software-as-a-service, continuous evolution incorporating collaborative updates	Open software convergence creating new, end-to-end solution models (e.g., integrated service management)	Accelerated delivery cycles (e.g., agile approach providing tangible outcomes in weeks rather than months)

So what’s behind space extension and time acceleration? We can identify some key trends driving these changes (Figure 1):

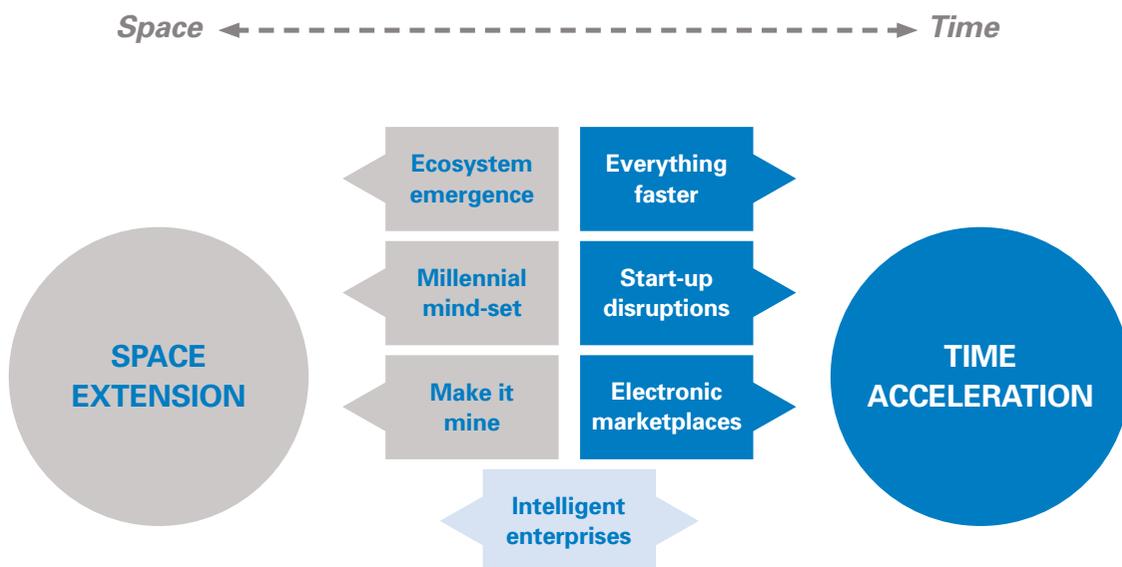


Figure 1: Key trends driving space extension and time acceleration

Space extension

First of all, as standard products are being replaced by “experience and services” and new technologies are becoming increasingly ubiquitous and pervasive, industries are converging and traditional business boundaries are blurring. This has led to a new **ecosystem emergence** in which previously unheard-of parties are jointly experimenting and collaborating to innovate and match customer and consumer appetites and imaginations – not just companies, but also customers, communities and crowds. Secondly, there is a sea change in consumer mind-sets driven by the millennial generation. The **millennial mind-set** places a high value on the authenticity of a company’s long-term purpose, while simultaneously demanding responsiveness and adaptability to change. Millennials are increasingly comfortable without permanent employment and do not feel the same need to own the assets they make use of – whether houses, cars, bicycles or technology. This has major implications for the business scope of companies that make assets. Millennials also increasingly want to **“make it mine”** – to stand out, make a statement, have an opinion, and trust in themselves to “do it their way”. Full personalization of products and services is now enabled by digital technologies. Innovative companies such as Nike are reinventing themselves to provide new experiences and associated services, not just standard products in an established business space.

Time acceleration

There are many drivers accelerating the pace of business. First of all, there is an underlying trend of **everything faster** in all aspects of life, both in the context of our personal lives and in business, driven by technology, globalization, social norms and economics. For business this implies expectations of more rapid decisions, faster and continuous innovation, ever more rapid time to market, and shorter ownership and/or alternatives to ownership. Second, we are seeing **start-up disruption** in a way never seen before – the examples of Uber, Airbnb, Amazon and Netflix need no explanation in terms of their effects on the global taxi, hotel, bookstore and premium content markets. What is new is how technology allows start-ups to gain scale and achieve global reach within weeks or months instead of, for example, the decades it

took McDonald's to disrupt the restaurant business in the 1950s. Third, the advent of **electronic marketplaces** and platforms has substantially accelerated the dynamics of business for consumers and producers alike. This has impacted how we buy and source, how we create and consume, and ultimately how we engage and choose, leveraging global and technology-based interactions between parties and peers.

And finally, the digitalization of our society and economy is generating a more-than-exponential increase in the volume of data, profoundly affecting both the scope and the dynamics of business. Increasingly, **intelligent enterprises** make use of new technologies that collect and process that data, and thereby identify and exploit, in an instant, new and/or unexpected relationships across data sets. Artificial intelligence (AI), robotic process automation (RPA), blockchain, and advanced (predictive) analytics are well-known examples. Effective and rapid deployment of these technologies, usually requiring new or specialist competences outside the core business, can provide rapid and sometimes disruptive competitive advantage.

What are the challenges for the CEO?

This business environment poses some tough challenges for the CEO, for example:

- **How to set a strategy that is more dynamic and adaptive to change?** Setting the direction and strategy is a core responsibility of the leader. However, in the new world setting, a strategy against a three- to five-year planning cycle is no longer appropriate. The CEO needs to find a different way of formulating and communicating strategy that still provides clear overall direction and focus, but is much faster at showing results, and more dynamic and adaptive to change.
- **How to decide what new business spaces to focus on?** Conventional diversification around a stable core does not work if that core business can be easily disrupted. The CEO of today needs a much broader perspective of the company's business models, how value can be created and what this means for the overall scope of the business

portfolio. However, at the same time the CEO needs to maintain tight control of today's core business to ensure short-term performance and license to operate.

- **How to align resources to meet rapidly changing needs?** Maintaining competitive advantage by having unique competences is key for any company. But what competences do you need for your future business, and what do you need in-house versus what should you leverage from your partner ecosystem?
- **How to organize the business to drive more creativity as well as maintain control?** The CEO needs to design an organization with enough explicit or implicit hierarchy to maintain control while empowering staff, breaking down silos and removing barriers towards creativity. Finding the right structures and models to support both objectives is often challenging.
- **How to lead in order to create an agile culture in your organization?** Today's businesses need cultures that encourage experimentation, support "fail fast, learn fast", and are tolerant of early failure as long as lessons are learned. The CEO needs the right leadership style to encourage this culture. Some CEOs rose to the top through being great entrepreneurs, and others through being great controllers, but the qualities needed for leading the organization today may be different.

The new CEO space and time paradigm

To meet today’s challenges the CEO needs a new paradigm to bridge effectively across control and creativity, and to be able to meet the challenges of space extension and time acceleration. The key is to focus on five leadership priorities covering Why, What, Who and How (Figure 2):

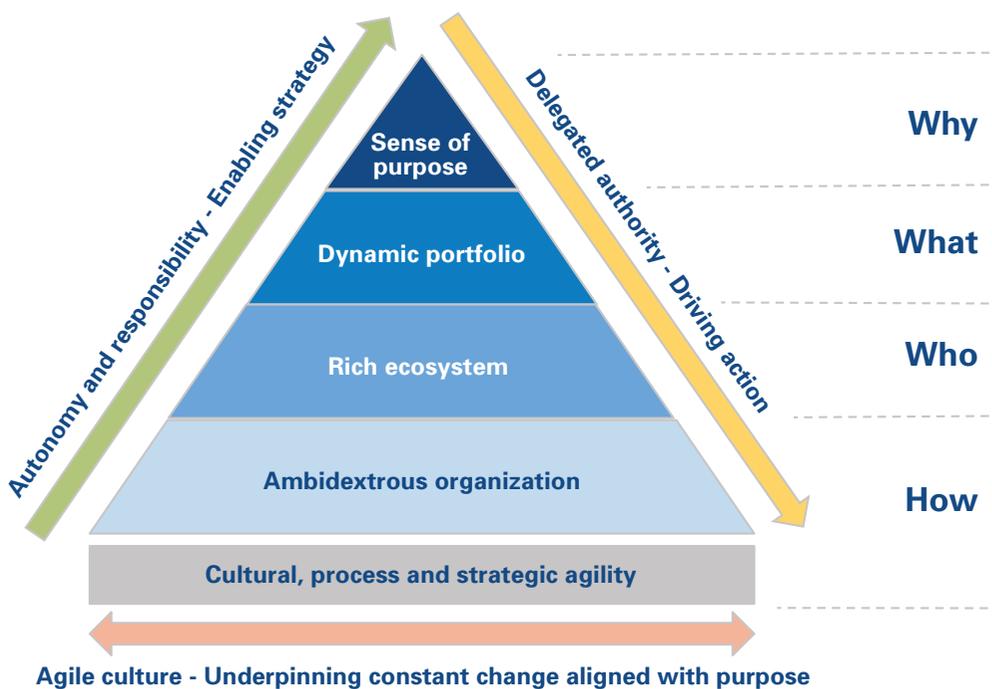


Figure 2: The new CEO space and time paradigm

Let’s examine each of these in turn:

Sense of purpose

Extending space	Accelerating time
Redefine the playground, starting from the company’s overarching purpose and how it creates a unique competitive advantage that can be leveraged and applied across converging industries	Take back control over the time dimension by clearly defining the immutable long-term purpose of the company and its implications on decision-making, thereby enabling strategy to focus on the short-term decision cycles

Contrary to popular wisdom, the proper first response to a changing world is not to ask, “How should we change?” but rather to ask, “What do we stand for and why do we exist?” This should never change. [Built to last, J. Collins & J. Porras]

As uncertainty increasingly shortens the time horizon for which traditional strategies and core products and services remain relevant (for example, due to rapid commoditization, convergence and obsolescence). The sense of purpose is now used by CEOs at leading companies – such as Apple, Nike, Danone – to define an immutable reason for clients and employees to connect with it. Purpose-driven strategy (or WHY strategy) starts with clarifying **why** the company is, and will remain, relevant. It then focuses on **the way** it can create a sustainable competitive advantage, and only then does it focus on **what** products and services it will provide. For example, when Satya Nadella became CEO of Microsoft in 2014, he recognized that Microsoft had lost its sense of purpose by becoming closed to the concept of open source and focusing on license growth. He subsequently set about making Microsoft products open to other technologies and desirable to end consumers. Elon Musk, founder and CEO of SpaceX, is renowned for his purpose-driven philosophy – for example, he had a number of strategic setbacks with his Falcon 9 rocket technology before successfully launching a car into space on the back of “Falcon Heavy” in February 2018. His vision of achieving interplanetary space transportation remains unchanged.

Purpose-driven strategy and transformation focus on ensuring strategic differentiation and relevance, strengthening customer stickiness and leveraging people’s motivation. The CEO needs to replace cumbersome and often very rigid decision-making processes with an aspirational driver for change. This has to harmonize strategic thinking around the core of the company and empower short-term, action-driven, strategic decisions. Success will depend on the ability to identify the core purpose of the business, define the internal and external activation, find a common language and create stakeholder alignment. In a nutshell, CEOs revisiting their companies’ sense of purpose are actually taking a step back to watch the world from a different perspective. This enables them to define why and how their companies and all their actions will forever remain relevant to all stakeholders.

Dynamic portfolio

Extending space	Accelerating time
Aligning the portfolio with a sense of purpose that goes beyond just “product”. Considering new step-out business as a key part of business portfolio management	Using agile approaches to new product/service development, maintaining multiple pilots, design before technology

“There is nothing so useless as doing efficiently that which should not be done at all.” [Peter Drucker]

In pursuit of the sense of purpose, the CEO needs to ensure that the business portfolio is managed in a truly dynamic way. This means, first and foremost, having a strong and active business portfolio-review approach. As well as building value from the core business, this should focus proactively on creating new growth opportunities, identifying possibilities for disruption, and innovating around new ways of creating customer value – not just developing new products. For example, life sciences company DSM requires each business unit leader routinely to consider ways to disrupt the current business as part of the annual planning cycle. Creating new growth requires more than just identifying an internal team to think “outside the box”, setting up a start-up incubator, or encouraging one or more “skunk works” to pursue speculative propositions. Most businesses already have one or more of these mechanisms, and many fail not because of a lack of ideas, but because of difficulties in scaling up and mainstreaming new non-core businesses.

The CEO needs to establish a full, end-to-end step-out growth capability to incubate, commercialize and integrate new businesses that are genuine step-outs from the core, building on excellent foresight and customer intelligence, and bringing to life the sense of purpose. Increasingly, leading companies are looking to external partners as an effective way to deliver new step-out businesses. For example, one of the world’s major food and beverage companies regularly uses an external incubator model to develop and prove new step-out businesses, which provides

major benefits in terms of speed, cost and immunity to rejection by internal company “antibodies”².

Diverse ecosystem

Extending space	Accelerating time
Create an ecosystem of delivery partners in which the combined competencies drive competitive advantage greater than the sum of the parts. Unlock new value creation opportunities with non-obvious collaborations	Nurture mutual trust in your resource ecosystem, and use new collaboration tools to rapidly deploy and engage the best resources from a wide network

“Alone we can do so little; together we can do so much.”
 [Helen Keller]

Determining the competencies of the business to drive competitive advantage has always been an important role for the CEO. Now more than ever, it is possible for companies to create ecosystems of delivery partners in which the combined core competencies unlock new opportunities and competitive advantages. For example, Volvo’s turnaround by CEO Hakan Samuelsson is partly credited to his recognition of the importance of establishing a wider network of specialized partners to complement Volvo’s core car production capabilities. Key characteristics of effective ecosystem leadership include: collaboration between “non-obvious” cross-industry partners (e.g., to enable “convergence” for truly novel solutions); engaging many partners with diverse capabilities to provide reach and flexibility; promoting open-source data and a culture of sharing, supported by clear IP principles; leveraging the potential of digital and other rapidly evolving collaboration technologies; being responsive to changes as partners evolve (for example, Microsoft began as a start-up supplier to IBM); and encouraging multiple levels of collaboration, from strategic alliances through to grass-roots interactions.³

2. [ref to The Breakthrough Incubator, How to create and rapidly launch new step-out businesses, <http://www.adlittle.com/en/insights/prism/breakthrough-incubator-how-create-and-rapidly-launch-new-step-out-businesses>]

3. [ref to “Ecosystem innovation – The growth of hyper-collaboration in a fast-moving world”]

Ambidextrous organization

Extending space	Accelerating time
Blend productivity organization systems and creativity organization systems in order to simultaneously manage existing business lines and...	
... expand the portfolio with disruptive initiatives	... rapidly launch and scale new businesses

“I’m an advocate for whole-brain thinking. I’m not an advocate for the right brain or the left brain.” [Jill Bolte Taylor, neuroanatomist]

Corporate strategies specifically address the implications of factors such as changing customer requirements, market developments and digitalization. However, most lack tangible guidance on the organizational capabilities needed to address these challenges. As a result, organization development is typically one-dimensional and short-term focused, aimed at either becoming “fast & creative” or alternately fostering the “scale & productivity” dimension. Winning today requires CEOs to embrace both of these.

Successfully balancing these two dimensions over the last years, companies such as Amazon were able to build sustainable competitive advantage that grew into best practice across industries. Always searching for the most innovative business ideas, Amazon strives to explore customers’ desires before people realize them themselves, promoted by a well-established culture of invention, curiosity and a bias for action. Simultaneously, Amazon has also proven itself to be a champion of productivity. Not only its logistics, but also its internal processes of scaling new business models, are tailored for pure efficiency and standardization. If a new business approach has proven to be successful, it is rolled out rapidly, formally established, monitored and aligned for full productivity.

Finding their unique organizational equilibrium requires CEOs to adopt new thinking towards organizational development. First, the new paradigm has to go beyond a normative imperative – there is no silver bullet for organizational development anymore. Second, development requires a modular approach consisting of organizational capabilities that build a self-reinforcing system. Third, organizational development requires a much closer link with strategy development.⁴

4 . [ref “Ambidextrous organizations – How to embrace disruption and create organizational advantage”, Arthur D. Little Prism S1 2018]

Cultural, process and strategic agility

Extending space	Accelerating time
Lead a culture that accepts complexity and expects constant change and realignment, including strategy and portfolio, to enable the sense of purpose and vision to be achieved through alternative paths	Delegate authority, empower the organization and encourage autonomy to enable rapid decision-making – but within the guiding principles of the sense of purpose and vision

“Agility within and of itself is a strategy.” [Pearl Zhu]

Culture underpins and ultimately enables all of the previous dimensions to allow a CEO to help drive the sense of purpose and effect change. By delegating authority (or agency), the CEO emphasizes that it is the organization that will ultimately enable the strategic roadmap, not the executive. Through the CEO, the organization is empowered to take responsibility and work autonomously under the guiding principles outlined in the vision and sense of purpose. Ensuring the organization understands and buys in to the sense of purpose is critical, and it is the CEO’s ultimate responsibility to ensure that everyone understands the rationale for change, as well as the risks of keeping the status quo. The more agile a culture becomes, the more receptive the organization can be to constant change (large or small), disruption and strategy realignment – in other words, “strategy as a verb”, the ability to change tack to ensure the vision can still be realized by different means using a different path.

Insight for the executive

Today’s environment of extended space and contracted time is significantly different to the environment of a decade ago. New CEOs taking over leadership of companies, as well as existing CEOs looking to effect major transformation, need to reflect carefully on how their organizations measure up to the five priorities of sense of purpose, dynamic portfolio, diverse ecosystem, ambidextrous organization and cultural, process and strategic agility. In practice, this means rapidly reviewing the current status of the organization, identifying where change is needed, and taking the right approach to bring about transformation:

1 Review the current status of the organization versus the space and time paradigm

Conduct an honest, objective review of where the organization is today versus the space and time paradigm, for example:

- Is there a clear, enduring and inspiring **purpose** for the company, above and beyond its products and services – and is this purpose activated in practice, both internally and externally?
- Does the company take a truly dynamic approach to business **portfolio** review, and is non-core growth effectively addressed?
- Has the company leveraged the full potential of the innovation **ecosystem**?
- Does the company operate both productivity- and creativity-based **organizational models** ambidextrously?
- Is there a culture of **agility**, in which complexity is embraced, autonomy is encouraged, and constant change is accepted across strategy, processes and ways of behaving?

2 Identify gaps and leverage points

Based on the results of the review, identify the main gaps across each of the five priorities across the business:

- Where gaps exist, hold further discussions to understand the **root causes**, including the “**unwritten rules**”, as well as more explicit factors.
- Identify **points of leverage** which could be harnessed to bring about change, such as distinctive and unique aspects of vision and mission, examples of successful diversification, fruitful external partnerships, pockets of creativity which could be used as exemplars, and potential champions in terms of agile thinking.

3 Engage and empower the organization for change

Lead the implementation of a program of rapid transformational change, adopting agile principles and working simultaneously across all five priorities:

- Spend some time **personally ensuring** that a sense of purpose is clearly articulated and actuated in practice.
- **Engage** the organization in the change, and **empower** key individuals to take it forward.
- Focus on **rapid experiments** to test feasibility and demonstrate progress, and be prepared to change direction quickly as progress develops over time.

Many decades ago Einstein discovered that the previously held Newtonian certainties about space and time were no longer valid, transforming the way scientists thought about the cosmos. At the rather more prosaic level of business in the 21st century, we believe CEOs should also have a rethink.

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