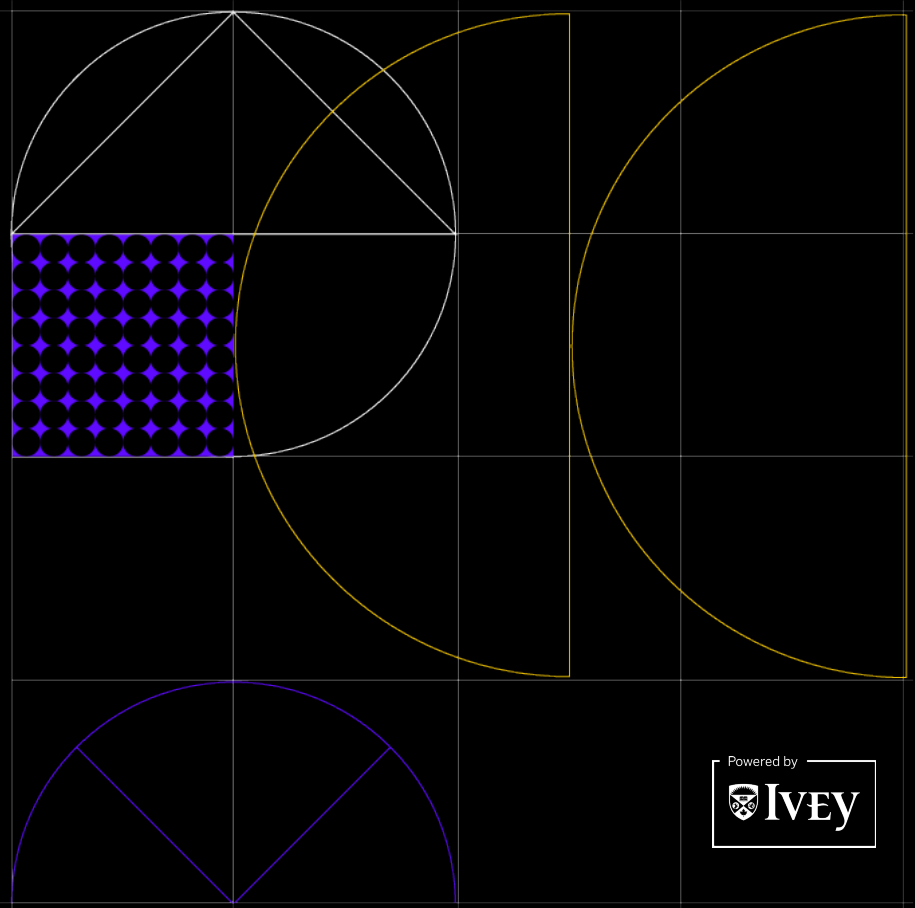
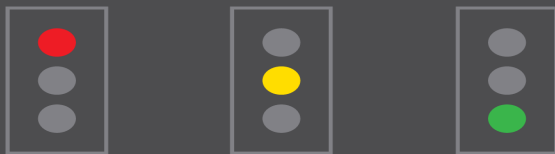


**INNOVATION
NORTH**

SESSION 17 SLIDES

SIMPLE RULES FOR A COMPLEX WORLD





SIMPLE RULES

HOW TO THRIVE IN A COMPLEX WORLD

KATHLEEN M. EISENHARDT

Pervasive change

“The only constant is that everything is changing. We have to take advantage of change and not let it take advantage of us. We have to be ahead of the game.”

Strategic Challenge: Dealing with Change

Sources of Uncertainty

- Extreme uncertainty about future
- Blurred timing and paths
- Shifting competitive basis, from products to business models to AI



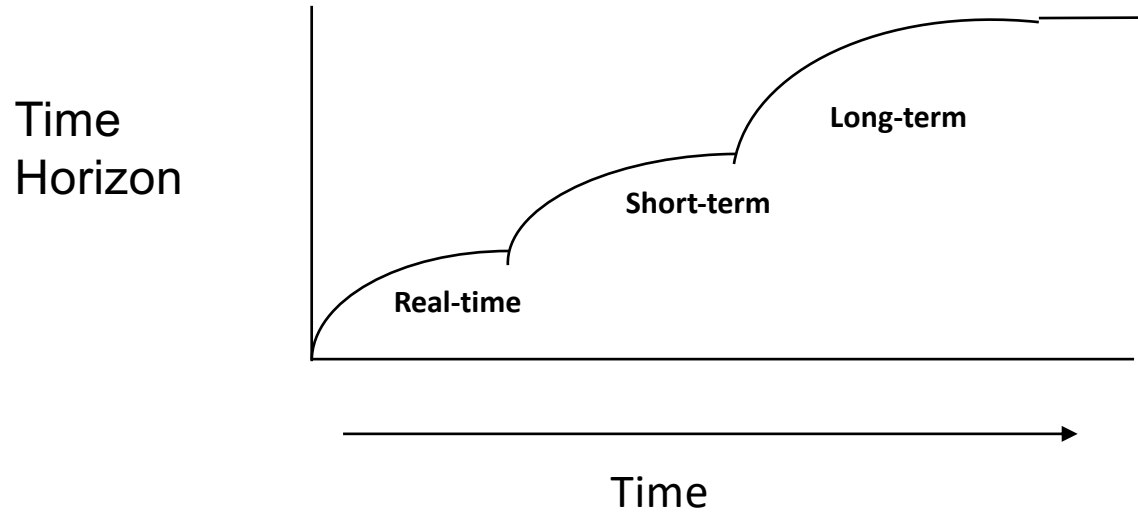
- Planning is limited
- Reacting is insufficient
- Traditional strategies of “defend a position” and “leverage core competence” are incomplete

Alternative Strategy Paradigm: Strategy as Structured Chaos

- Strategy as simple rules
 - More uncertain environments, simpler strategies
 - VIDEO GAME STRATEGY
- Time is central to strategy
 - More time metrics
 - More time horizons
 - Rhythm, NOT speed
- Organization drives strategy
 - Organization poised “on edge of chaos”
 - VELCRO ORGANIZATION



Strategy over Time



Simple rules: Real-time Growth Strategy

Common experience		Myths		Best practice
• Innovative ideas suffer from poor execution • “Analysis-paralysis” • Endless search for consensus		• Successful organizations are run by a braintrust of a few, smart senior executives • Success is driven by an army of revolutionaries • Successful organizations plan		• Focus on a few key strategic processes & a few simple rules • Simple rules are simple, 3-6 • Simple rules depend on organization & situation • Simple rules relate to repeated processes • Flexibility AND efficiency

Simple rules: Real-time Growth Strategy

Company

Key processes, simple rules



- GOOGLE HIRING
- Select people by school and gpa
- Look for eclectic people
- Priority if recommended by other Googlers



AIRBNB MANAGING HOSTS

- Take professional photos
- Always have local touches
- Make sure the soap is new



DJI INNOVATING CRITICAL COMPONENTS

Start with 2 teams of 8 people
3 prototypes over synchronized time
Pick winner, disband loser

Simple Rules

1. Pick a key strategic process that occurs repeatedly (e.g., hiring, product innovation, partnering, etc).
2. What are its simple rules?
 - - Selection
 - - Priority
 - - Process/How to
 - - Timing
 - - Exit
3. Are these the right rules? Too many? Too few?

Simple Rules

	Strategic Process #1	Strategic Process #2	Strategic Process #3	Strategic Process #4
Selection	•	•	•	•
Priority	•	•	•	•
Process	•	•	•	•
Timing	•	•	•	•
Exit	•	•	•	•

Simple Rules

RULE TYPES
SELECTION
PRIORITY
PROCESS/HOW TO
TIIMING
EXIT

Best Practice

- Focus on a key strategic process(es)
- Create a few simple rules
- Include rules of every type, especially timing and exit



Objective: Create & evaluate potential RT growth strategies

Genetic evolution: Short-term Growth Strategy

Common experience		Myths		Best practice
• New businesses suffocate in shadow of legacy ones • New businesses thrive while traditional businesses languish • Roadblocks on previously successful growth paths		• New businesses succeed when isolated from traditional ones • New businesses succeed when leveraged from core competencies		• Genetic evolution – Traditional businesses (and people) are combined with new ones – New businesses refresh traditional ones – Multiple growth drivers over time – Multiple scales of change over time – Existing businesses are culled • INVERSE power law for scale of change • Old AND new

Genetic evolution: Short-term Growth Strategy

Company	“Genetics” of growth
	• Lexus entry into luxury market, built on – Discarded, experimental, midsize, Asian market product platform – New dealerships, brand, styling, technology – Rearchitected selected engineering features • Refreshed lower priced name plates with Lexus technology
	• Amazon entry into infrastructure, built on - Backend logistics and front-end UI - Changed sales channel, customer & product • Amazon into AWS, built on - Cloud infrastructure & Amazon brand - Changed customer, sales channel & product
	• Uber initially scaled on SRs to enter new metros • Uber entry into Uber Eats, built on - Marketplace algorithms (speed) - Changed buyers (diners), sellers (restaurants), product (food) & marketplace algorithms (speed, selection, driver) • Uber then scaled on SRs to add restaurants

Amazon

	Retail	Infrastructure	Web Services
GENE	GENE	GENE	GENE
Product	Books, music, etc	Pieces of fulfillment	Cloud storage, etc.
Customer	Consumers	Other Retailers	Developers & Ventures
Value Chain	End to End	Varied	End to End
Sales Channel	Internet	Biz Dev	Internet
Brand	Amazon	NA	Amazon

Gene Sequence

1. Draw the gene sequence (e.g., products, customers, channels, geographies, brands, etc) of your business.
2. Think of one “gene” change for growth. Think of two or more gene changes for growth.
3. What are the barriers to these growth strategies?

Gene Sequence

Technology
Product
Manufacturing
Customer
Channel
Geography

Best Practice

- Blends old (including people) and new
- Variety of growth drivers over time
- Variety of mutation scales over time
- Cull existing businesses
- Refresh traditional businesses with new



Objective: Create & evaluate potential ST growth strategies

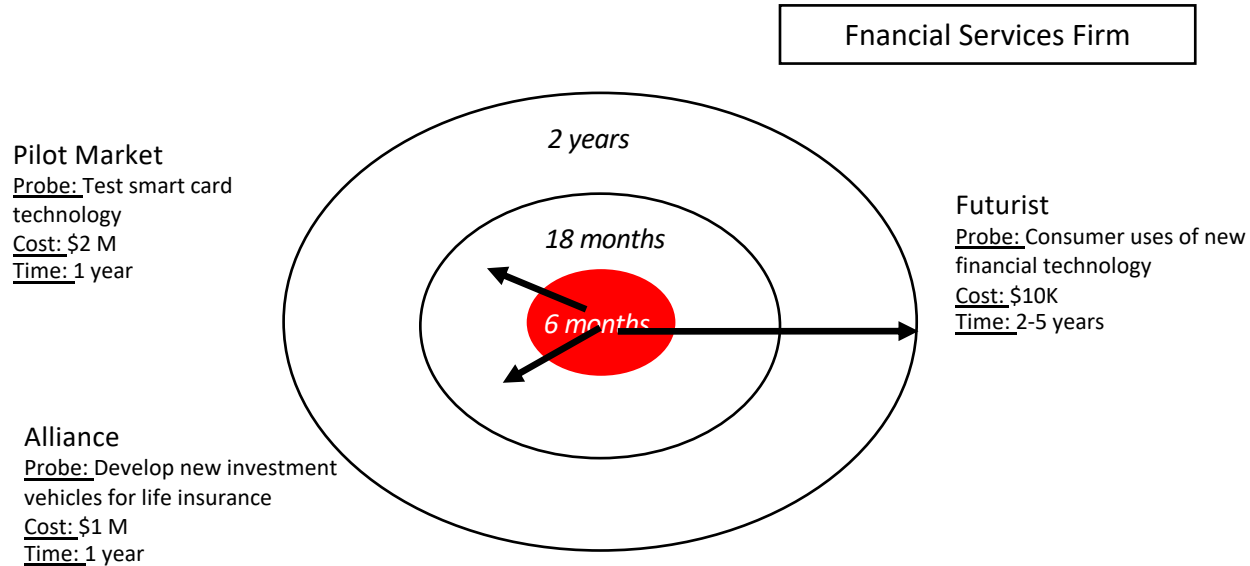
Probing: Long-term Growth Strategy

Common experience	Myths	Best practice
• Strategic plans are created, then ignored • Strategic plans are wrong • Short-term performance takes priority over future thinking	• Planning predicts the future • Planning is a waste of time, just react	• Probe the future – Wide-variety of low-cost probes – Hypotheses • Manage NUMBER of probes, not just type. More probes, more variety with more uncertainty

Probing: Long-term Growth Strategy

Company	Varied, low cost probes
	• MICROSOFT • Machine learning experiments • Small investments in 3 video compression technologies • Internal “Blue Sky” projects
	• UBER - In house futurists - UberEats pilots in LA & TO - Electric bike prototypes - Autonomous vehicle research
	• AMAZON • New machine learning (SAGE) beta products • Drone delivery UK • GoStores Seattle • Lighthouse JV w/JP Morgan in healthcare • Small robotics acquisition

Probe Screen



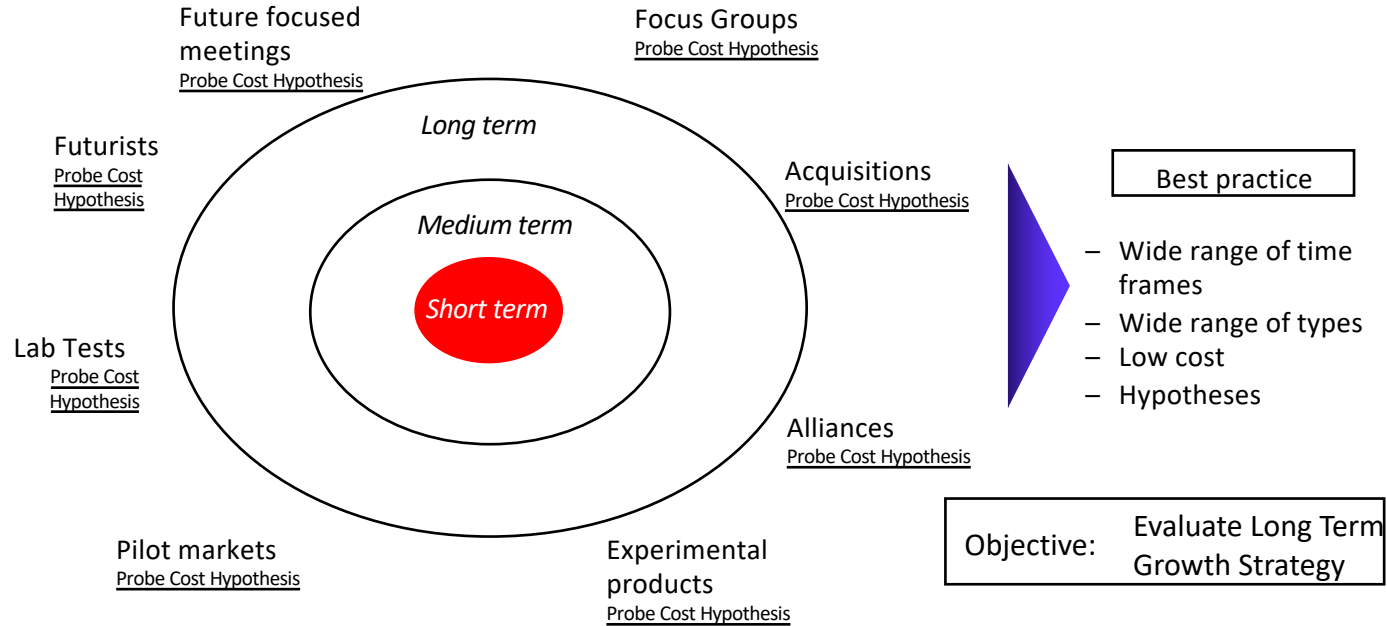
Some mix of time frames and types, but relatively few probes.

Probe Screen

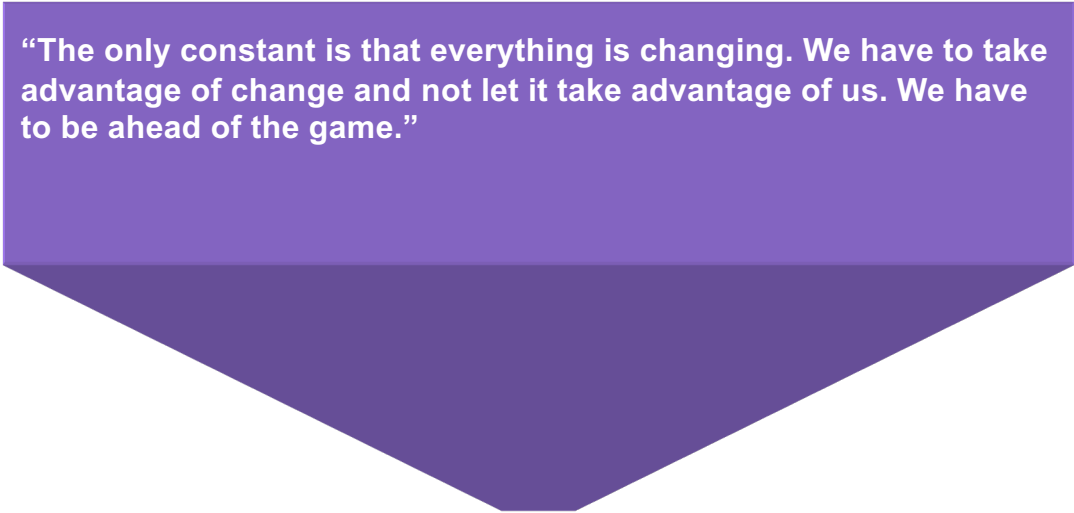
Create a probe screen

1. Draw 3 concentric circles representing t3 time horizons (e.., 3 months, 9 months, 18 months).
2. At points of the clock, fill in different types of probes/experiments (e.g., product prototype, futurists, small acquisition, R&D project, focus group, brainstorm offsite, etc).
3. Draw arrows from the center to relevant time horizon and probe type
4. Evaluate your probe screen (e.g., #, variety of times and types)

Probe Screen



Pervasive change



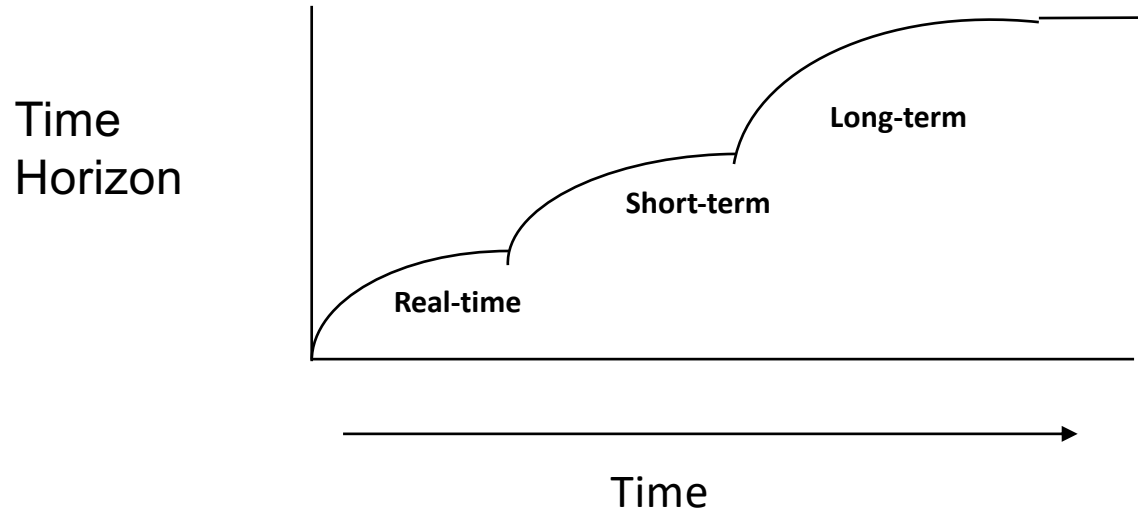
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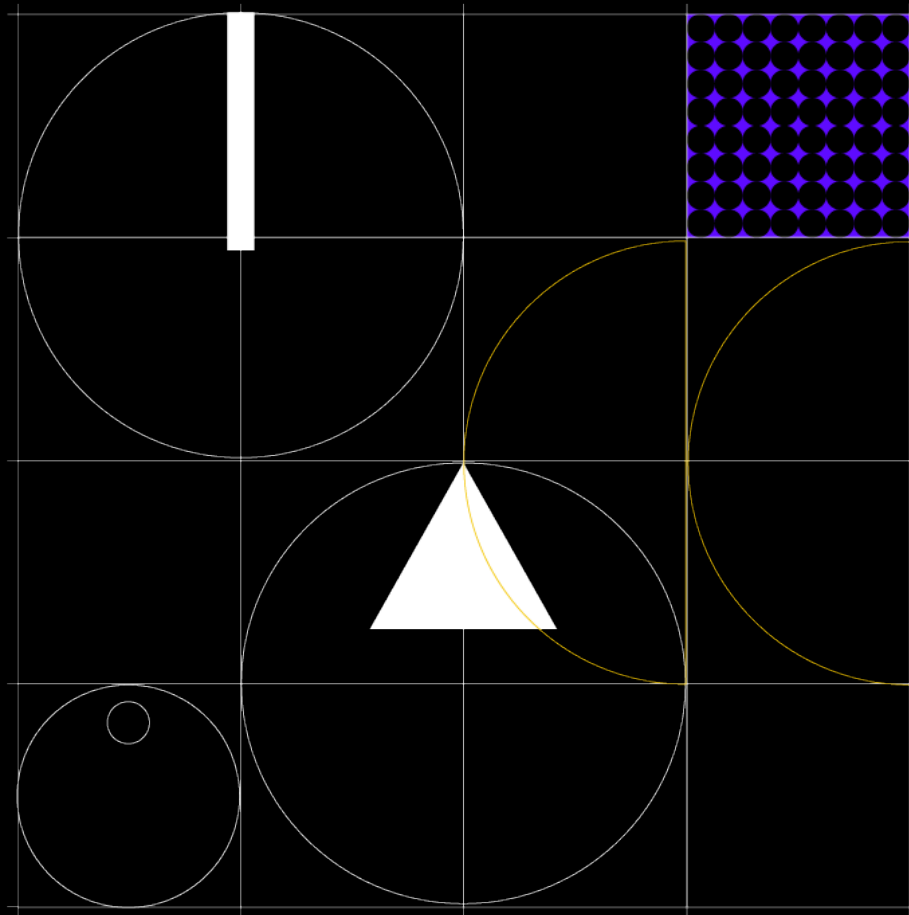
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Strategy over Time





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