

Five-Point Leaders
**Leading Innovation in
the Behavior Economy**

by

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Abstract

The behavior economy is an emerging business paradigm driven by new models for value creation, through digital platforms that shape experiences and information flow. In the marketplace new spaces for businesses to compete are emerging rapidly, enabling new engagement models, and profiting from behaviors that did not exist prior to their invention.

There is a gap in understanding what is unique about the individuals capable of maintaining foresight over time while implementing innovation daily. By investigating the companies that are at the front of the behavior economy and the individuals that built them, a framework for understanding the desired leadership qualities was developed. This Five-Point framework integrates the opposing forces of integrator and disruptor, philosopher and entrepreneur and the pilot force. The framework can be used to identify leaders with high capacity for foresight innovation and used to develop tools for personal development.

Acknowledgements

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Table of Contents:

Chapter 1: Introduction – 1
Chapter 2: Strategic Value Framework - 7
Chapter 3: Leadership – 11
Chapter 4: Case Studies – 16
Chapter 4a: Case Studies of Success
Case Study 1: Larry Page and Google – 17
Case Study 2: Elon Musk and Tesla – 26
Case Study 4: Lou Gerstner and IBM – 34
Case Study 4: George Lucas and LucasFilm – 42
Chapter 4b: Case Studies of Decline
Case Study 5: Motorola – 49
Case Study 6: Research in Motion / Blackberry – 54
Chapter 5: Leading Innovation in the Behavior Economy – 58
Chapter 6: A Proposal for Further Development – 72
Chapter 7: Conclusion - 76
Bibliography – 79

List of Figures and Illustrations

- Figure 1: Strategic Value Framework, developed by Carl Hastrich 2015 – 8
- Figure 2: Opposing Force #1: Disruptor and Integrator – 12
- Figure 3: Opposing Force #2: Entrepreneur and Philosopher – 14
- Figure 4: Binding Force: Pilot – 14
- Figure 5: Five-Point Leadership Model, developed by Carl Hastrich 2015 – 15
- Figure 6: Google Strategic Value Analysis – 19
- Figure 7: Tesla Strategic Value Analysis – 28
- Figure 8: IBM Strategic Value Analysis – 36
- Figure 9: LucasFilm Strategic Value Analysis – 43
- Figure 10: Motorola Strategic Value Analysis – 51
- Figure 11: RIM/Blackberry Strategic Value Analysis – 56
- Figure 12: Activity 1: Secret Identity – 59
- Figure 13: Activity 2: Developing a structure for your platform – 60
- Figure 14: Activity 3: Transforming Experiences – 61
- Figure 15: Activity 4: Reframing Competition – 62
- Figure 16: Activity 5: Strategic Value Framework – 63
- Figure 17: Activity 6: What can success enable – 64
- Figure 18: Activity 7: Developing metrics – 65

Chapter 1: Introduction

Introduction:

Disruptions from the Behavior Economy

We live in a behavior economy, an environment in which people no longer engage with companies just by purchasing things, but they seek engagement with services that allow them to behave, to leave a mark, and to participate in the community of others. The economic model promoted by the behavior economy is a model where behavior is the only goal of our actions, and where intrinsic motivation is the key to participation, engagement, and the satisfaction of multiple dimensions of value.¹

Value Creation in the Internet of Things by Alexander Manu

The behavior economy is an emerging business paradigm, where new models of value are created through platforms that shape experiences and information flow. In the marketplace new spaces for businesses to compete are emerging rapidly, disrupting established models as billion dollar companies are built on behaviors that barely existed a decade ago.

New ecosystems of interconnected data and platforms that transform information into desirable experiences for individuals are fundamentally disrupting the economic model of production and consumption. Generating revenue based on producing an item that someone wishes to '**have**' is no longer enough, and has not been enough for at least a decade. The behavior economy is now transforming every facet of daily life, where producing an experience that someone wishes to '**be**' part of creates value.

I want to **have** a barbecue.

Create a product (tangible, finite).

¹ Manu, A. (2015). *Value Creation and the Internet of Things* (1st ed., p. 200). Gower

² Ackoff, R. (1998). A Systemic View of Transformational Leadership. *Systemic Practice and Action Research*, 11(1), 23-36.

³ Inspiration for the Foresight Analytic came from Maneesh Mehta from the Black Box Institute

I want to cook meals outside and enjoy my rooftop patio.

I want to **be** on Facebook.

Enable an experience (intangible, open).

I want to invite my friends, share my meals, request recipes, and show off my rooftop patio.

As the economic landscape shifts from a linear industrial economy to a networked behavior economy, new thinking is required to become a business leader capable of enabling innovation. This research project investigates leaders who have built companies around visions of the future and identifies core attributes that should be developed for the behavior economy. The following questions are the focus of this research:

What are the desired leadership capabilities in the future behavior economy?

How is strategic value created in the behavior economy?

Who are the influential leaders shaping the behavior economy?

Frameworks for Future Success

There are deep shifts occurring within businesses globally. Traditional models of generating revenue from the sales of products through linear channels are being challenged. It is no longer enough to squeeze efficiencies off production lines to remain an industry leader. New forms of value must be created through engaging experiences, enabled by information flow and technology that bridges digital and physical worlds. While margins shrink in companies based on the extraction economy, companies that build and power digital platforms for individuals and businesses enjoy high margins and dominant market share.

The leadership of companies grounded in the industrial consumption economy have not needed to be philosophers making sense of the world. Proven, linear models have been refined and perfected by leaders focused on management and maintenance. Much of the

literature written on the subject of leadership focuses on the practices and skills required when building and managing teams within established companies. There is a gap of research into the innovation capabilities required of leaders that build businesses around visions of the future.

IBM transformed its business by integrating capabilities in the information technology industry that other companies almost used to push them out of business. Apple built an ecosystem of innovations and experiences that transition seamlessly between physical and digital, with each product or software further integrating and reinforcing these behaviors. Tesla approaches automotive design as if it were developing a software application, blurring the line between product and service, leveraging every innovation as a node in a network of integrated technologies. LucasFilm sold for \$4.05 billion with technology supporting a portfolio of characters and stories rich with potential. Google appears to have just begun leveraging the network of technologies and businesses it has created, seeking ever increasingly ambitious goals as it continues forward without any clear competitor to the search business it helped to define.

Behind each of the companies above are individuals with strong visions and deep capability for pulling together opposable forces of disruption and integration by sheer willpower and a desire to achieve a driving purpose. In many cases, short-term business success has been a step on a path towards deeper goals. A philosopher powered by the results of constant entrepreneurialism, Elon Musk has repeatedly sold successful companies to finance speculative longer-term technologies. Others were almost brought down by their own power to disrupt. Both Larry Page and Steve Jobs required time away from their own creations in order to evolve into leaders capable of integrative thinking. The stories of each of these influential leaders are rich with insights into what is required to be successful and influential in the new behavior economy.

There currently exists a gap in understanding the unique attributes of the individuals capable of maintaining foresight over time while implementing innovation daily. By investigating the companies that are at the front of the behavior economy and the individuals that built them, a framework for understanding the desired leadership

qualities can be developed. This framework can be used to identify leaders with high capacity for foresight innovation and used to develop tools for personal development.

Key Concept:

Leadership and Systems Thinking

In the behavior economy value is non-linear. Value is exponentially tied to the size and quantity of experience nodes across a network. The flow of experiences, and specifically the people interacting with the platform of products and services are the primary source for value extraction. The navigation and creation of emerging systems requires new tools for defining, articulating and delivering opportunity that are at conflict with the typical business narrative focused on efficiencies of exchange.

A system is a sum of multiple elements that when combined result in functions that cannot be achieved by any single element on its own. Linear businesses divided into functional units operate as weak systems, where elements (functional units) can be bought, sold and traded on the marketplace as isolated entities. In the Pharmaceutical industry, individual drugs are run as an isolated business due to regulatory and managerial requirements. This makes it possible for companies to purchase drugs from competitors with little business integration. It is only a matter of time until providing services beyond the product will disrupt this siloed structure.

In the behavior economy, value is created by the emerging functions made available by increasing the number of elements and relationships within the system. Increased value occurs through integration of technology and platforms to mobilize desired experiences. Google is currently buying businesses from diverse areas such as home appliances, artificial intelligence and energy capture, as it works to develop an integrated system of technologies focused on improving daily life for people across the world.

The iPhone, from Apple, is a defining product of the behavior economy both for what it has enabled and for how it came to existence. To develop and bring the iPhone to market, Steve Jobs and Apple required a network of partners that included traditional vendors, collaborators and even competitors who all gained direct and indirect value through the development of the product. This network included:

- AT&T, who agreed to the unique revenue model that made product affordable
- Samsung, a competitor who provided the chips to run the product
- Corning, a glass manufacturer searching for new markets through internal research and development
- Motorola, whose collaboration with the Rockr gave Apple first hand experience in what to do and what to avoid
- Apple's internal suite of products and capabilities including the iPod and iTunes

Much has been written about Steve Jobs' ability to craft the vision and bring many partners to the table. This level of vision and determination will be required more and more in a behavior economy that requires interconnected products and services as a default. Integrated innovation will be a core requirement of businesses, and future valuation of businesses will include the internal portfolio of products, services and platforms and their relationships to external enablers.

To define the ideal capabilities of a leader in the behavior economy it is first important to define what leadership means in this project as leadership can happen at many levels and scales. To differentiate leadership from day-to-day levels of management, Russel Ackoff defines three levels accordingly²:

Administration consists of directing others in carrying out the will of a third party, using means selected by the same party.

² Ackoff, R. (1998). A Systemic View of Transformational Leadership. *Systemic Practice and Action Research*, 11(1), 23-36.

Management consists of directing others in the pursuit of ends using means both of which have been selected by the manager. (Executives are managers who manage other managers.)

Leadership consists of guiding, encouraging and facilitating the pursuit by others of ends using means both of which they have either selected, or the selection of which they approve.

A fundamental difference is the ability to articulate and motivate toward desired end goals that encourage individuals to overcome challenges and roadblocks. Ackoff deliberately describes leadership as an artistic, aesthetic pursuit, reinforcing the value of intangibles and intuition.

“... visions that induce others to pursue them must be inspiring. An inspiring vision is the product of a creative act, of *design*. Inspiring visions are works of art and those who formulate them are artists.”

The leaders selected for case studies within this research have been chosen for the lessons they reveal in maintaining an intuitive vision while empowering others to implement visions in a way that generates ongoing value. The businesses are highly systemic, achieving success due to their integration of multiple technologies.

Chapter 2: Strategic Value Framework

Key Concept:

Integrated Innovation and Foresight

The behavior economy is an emerging, constantly shifting landscape. This requires senior leaders to take action without clear precedents upon which to compare the decision. Businesses driven by high strategic value are those whose products, services and platforms have actively shaped the future, and created new places in the marketplace from which to generate revenue.

The case studies in this research cover businesses and their leaders who have succeeded or failed due to their ability to integrate innovations according to visions of the future. Each of these leaders has had to respond to an emerging market, often one that they created. The core business model of IBM revolved around information technology products prior to Lou Gerstner stepping in as CEO. As IBM was disrupted by advancements of technology that focused on information technology services, it looked like they were too big to adapt to the market. Integrating internal innovation and seeking to understand the new behaviors of the market place transformed into a cohesive platform for offering value. IBM was turned around in two years from a leviathan about to be chopped into discrete parts to an integrated forward facing business that shaped the business landscape around it.

At the other end of the spectrum, Motorola failed in a market that it created. While rich with innovation capacity, the lack of integration into products and services shows the difficulty of having foresight when you are in the middle of shaping the future.

Strategic Value Framework

To assess strategic value, a foresight analytic³ was developed for this research study. This tool makes it possible to assess whether a product, service or action is focused on an emerging position, or whether it focuses on an already clearly defined position. Being able to recognize actions focused on the future makes it possible to identify opportunities for generating significant strategic value by succeeding in newly formed positions in the market.

This analytic has two spectrums that form a simple two axis comparative matrix:

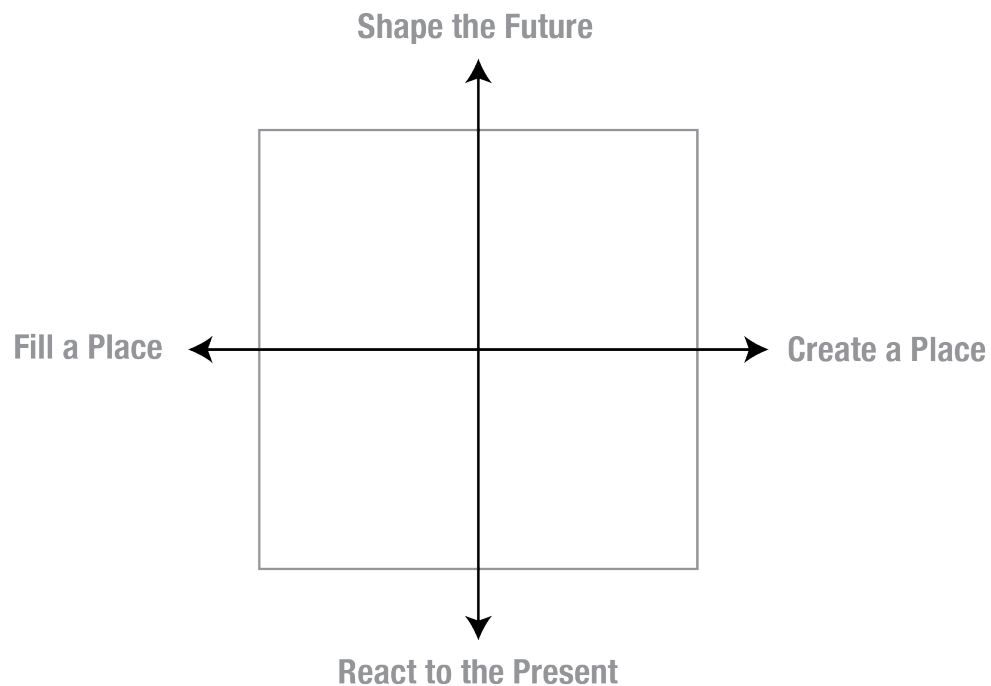


Figure 1: Strategic Value Framework, developed by Carl Hastrich 2015

Axis 1: Relationship to the Marketplace:

Fill a Place – when a competitive space is clearly defined, with well-established metrics there is low strategic value:

³ Inspiration for the Foresight Analytic came from Maneesh Mehta from the Black Box Institute

Measuring success is already defined according to industry criteria and therefore a limited long-term return on innovation is possible, as others in the market are chasing similar criteria.

Create a Place – when a competitive space is being newly defined by an emerging business action there is high strategic value

Succeeding in a new place, positions a business for ongoing return on investment and the opportunity to set the benchmarks of success that others will need to compete against.

Axis 2: Relationship to the Future:

React to the Present - when decisions are based on clearly defined and generally accepted norms, such as technical function or user needs there is low strategic value:

The insights that drive these decisions are generated through common market research or direct experience and are generally widely known across an industry.

Shape the Future – when decisions are based on a need that is expected to occur in the future, or with the intent of actively creating a desired future there is high strategic value:

Insights that drive these decisions emerge from abductive thinking (pattern recognition) which requires intuition and a vision being sought after.

When strategic value is low, differentiation occurs through increased performance that can be directly evaluated against competitors. When strategic value is high, it is difficult to clearly articulate differentiation as the playing field has yet to be defined and direct comparisons between businesses are not yet possible.

It is important to note that high strategic value does not ensure immediate financial success. It is always possible to profit as a late-adopter competing on price and additional features, especially in industries with high risk involved in fundamental

innovation. Within the behavior economy, the first to market in new spaces with an engaged audience is often the one to define that space for the future. Apple, IBM, Facebook, Netflix and Google all dominate in spaces that they defined. Each of these companies have sustained positions as the industry bench-marks in their categories.

Tesla might be an automotive company, an energy producer or a technology services company depending on what space is created in the next few years, and the current market valuation of over \$30 billion despite limited sales is a sign that investors feel strongly about the long term strategic value. LucasFilm is a company defined by the creative spaces it has built internally. Technological and creative intellectual property is interwoven in an industry leading position.

There are no signs that industry-impacting change will slow in the near future. As the diversity of tools for creating experiences continue to grow, so does the demand. Strategic value is increasingly required for integrating the various threads of new technologies and emerging behaviors. The strategic value framework offers a structure for articulating whether ideas and actions are positioned within existing or future markets.

Chapter 3: Leadership

Introduction:

Five-Point Leadership

The Five-Point Leadership model was developed for this research to capture key capabilities shown by individuals capable of maintaining foresight over time while implementing innovation daily. A Five-Point Leader is motivated to build relationships between people and ideas to achieve a driving vision. They are capable of capitalizing on markets that don't yet exist by building an enterprise from an ecosystem of ideas; products, services and people, that shape a desired future. A rare breed, a five-star leader is a unique blend of opposing forces, disruptive and integrative, entrepreneurial and philosophical, held together by a desire to pilot through stormy uncertainty.

Opposable Forces:

Opposing Force #1: Disruption and Integration

Disruptors are hungry for new ideas, especially anything that breaks an established norm. For Larry Page at Google this passion could almost have been his downfall, as his disruptions within the company structure backfired and his desire to “kill the advertising industry”⁴ could have removed the primary income source for Google. Lou Gerstner will never be celebrated as a disruptive innovator of products, but it was his comfort at challenging what IBM could be that made it possible to transform the company quickly

⁴ Carlson, N. (2014, April 24). The Untold Story Of Larry Page's Incredible Comeback. Retrieved July 18, 2014, from <http://www.businessinsider.com/larry-page-the-untold-story-2014-4>

and successfully. Elon Musk's design brief to his car designers demand that every opportunity be leveraged and any assumptions of car categorizations are to be challenged. Disruptors can be dangerous, they can be compelled to break and destroy, and get so lost in the pleasure of pulling something apart that they forget to reassemble something of value at the end. A lack of disruption encourages commitment to obsolete ideas and beliefs. Senior leadership at Blackberry, then Research in Motion, failed to challenge internal assumptions and quickly found themselves followers in a market they had assumed to lead.

Integrators focus on connections between ideas, building ecosystems that enable the core idea. Steve Jobs was able to build an ecosystem of products and services that enabled many different disruptions to work together. George Lucas built a sprawling physical space to enable the many different research and development arms to work together and leverage one another's value. As Larry Page becomes CEO he is emphasizing the value of collaboration rather than competition in an increasingly non-linear business space. Integrators rarely get the same celebration as the dynamic force of disruption, but it takes the integrator force to assemble things of value, especially in uncertain market spaces.

Disruptors and *Integrators* are both **builders**, but what they construct is very different:

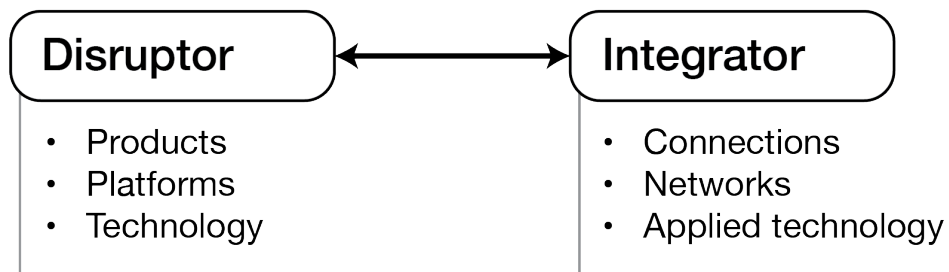


Figure 2: Disruptor and Integrator Force

Example:

Where George Lucas was compelled to build a company to achieve a creative passion, leaders driven by technological innovation founded Motorola. All three leaders of the Galvin family dynasty at Motorola were enablers of technology, active at disrupting the

marketplace, but poor at integration. Bob Galvin was well known for creating a highly competitive internal environment, it was often called the era of warring tribes, where division heads and functional managers fought one another openly for lucrative financial rewards. While the digital network was being developed and licensed by research and development, the mobile handset department remained analog, arrogantly ignoring the start up companies who would take over the market by embracing the competitive technology.

Opposing Force #2: Entrepreneur and Philosopher

Philosophers are concerned by the end state of a vision. Elon Musk worries about the future of mankind, George Lucas worries about creative freedom and Larry Page literally dreams of how to make sense of the world's information. These end goals are ambitious, aggressive and most importantly sustained over time. That the vision itself is non-negotiable is one of the core factors that makes a Five-Point Leader so valuable and difficult to work against. When a philosophical dream is made plausible others are empowered to tackle impossible challenges and realize them.

Entrepreneurs are nimble and opportunistic, with the ability to capitalize on the services, products and technologies that emerge around them. Lou Gerstner was capable of adapting IBM's strategies as new opportunities emerged through internal growth and restructuring, George Lucas built an empire of industry leading services out of the technology developed for his own creative purposes, and Steve Jobs was able to craft unique business models to capitalize on emerging behaviours made possible through Apple's product development. The opportunistic flexibility and passion of entrepreneurs makes it possible for them to activate and capitalize on ideas.

Entrepreneurs and *Philosophers* are both compelled by **vision**, but the scope is different:

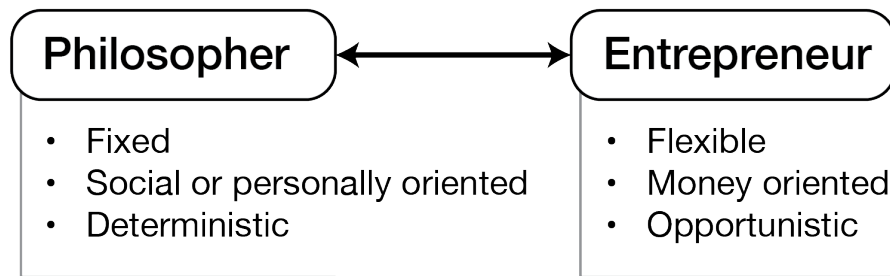


Figure 3: Opposing Force #2: Entrepreneur and Philosopher

Binding Force: Pilot

Pilots are required to navigate through uncertainty and lead with quick decisions that have long term consequences. They will always need the engineers and mechanics to build and manage the craft being piloted, but they aren't afraid of getting hands on. The Pilot is this final force, and it is the one that pulls at the other forces and prevents them from being locked in opposable tension. When Tesla faced financial and technical crises it was Elon Musk who positioned himself as CEO, investing his own money and building solutions at every level of the enterprise. Steve Jobs was famous for working directly with ideas, obsessing and sweating every detail and leading from the front. Lou Gerstner transformed IBM by leading the change personally, his physical presence at management meetings proved that that traditional practice would no longer be acceptable.

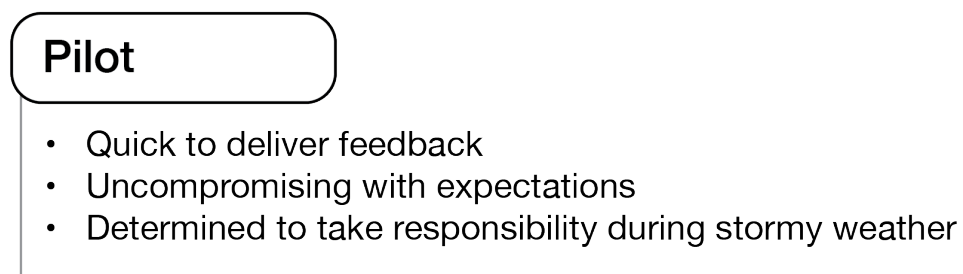


Figure 4: Binding Force: Pilot

Example:

A gap in Pilot leadership has been central to the decline of Motorola Mobility. Since splitting from the core company, there have been four senior leaders and the focus has consistently been on finding the big fix to return Motorola to its glory and therefore focus on the vision of the past. As a result, there has been a vacuum of vision to see what possibilities exist over the horizon and a lack of a pilot to take control and really drive the business.

Five-Point Leadership model:

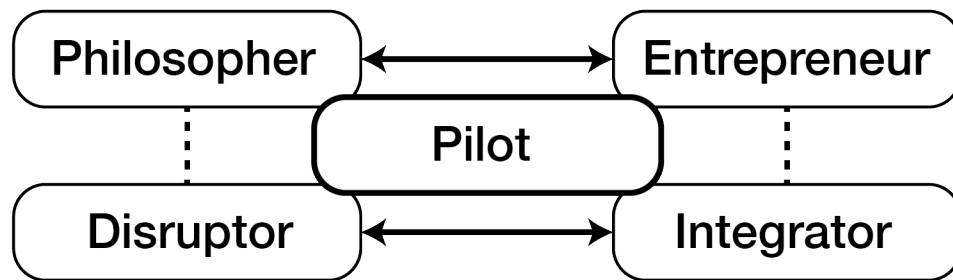


Figure 5: Five-Point Leadership Model, developed by Carl Hastrich 2015

Chapter 4. Case Studies

Introduction Notes:

The following case studies reveal insights into the creation of strategic value by *Five-Point* Leaders. Included are four extended case studies highlighting different approaches of achieving success in the behavior economy:

4a: Case Studies of Success

- Larry Page and Google
- Elon Musk and Tesla
- Lou Gerstner and IBM
- George Lucas and LucasArts

Also included are two case studies of companies that have been unable to transition to the behavior economy. Both companies were contributors to the shift, generating products and innovation, but were unable to build sustainable businesses as the behaviors shifted around them:

4b: Case Studies of Decline

- Motorola
- Research in Motion/Blackberry

All success relies on more than a single individual, and each of the case studies could include founding partners, other key executives or decision makers. During the research to develop these case studies a recurring theme emerged that at defining points, there was a clear *Pilot* steering the business. Therefore the focus of these case studies will be on the core leader who shows the *Five-Point* leadership balance between holding a clear philosophy while entrepreneurially generating revenue, encouraging and enabling both disruption and integration and ultimately being the inarguable *Pilot* to grab the control when decisions and actions are required.

Chapter 4a. Case Studies of Success

Case study #1:

Larry Page and Google

The Business that Enables the Behavior Economy

Google is the most important enterprise in the behavior economy. The digital world is an extension of most people's daily lives due to the simple, free service, of search. The company name has become a verb to describe the service it provides, slipping into conversations of individuals at any age. There is no other Google, no competitor to the core business and none more engaged in the enabling the emerging behaviors fundamentally shifting the economy.

Google is powered by the internet⁵ and in turn powers the internet for others. It is synonymous with searching for answers to questions and should also be synonymous with the behavior economy as the growth of Google is directly linked with the behaviors enabled by digital platforms. The growth and success of Google enables the growth and success of countless users of the internet who rely on the freely accessible services provided by Google. Methods of revenue are shared, making it possible to earn a living generating the content that drives Google's success. Using Google to search for people who have made millions of dollars by posting videos to YouTube⁶ can generate revenue for Google. The more content generated on the internet, the more interactions between people, and the more touchpoints generating revenue for Google.

⁵ Carr, N. (2008). *The big switch: Rewiring the world, from Edison to Google*. New York: W.W. Norton &.

⁶ 10 Self-Made YouTube Millionaires. (2013, December 12). Retrieved October 15, 2014, from <http://www.therichest.com/rich-list/world/10-richest-self-made-youtube-millionaires/?view=all>

A Leader Finding Balance

Nikola Tesla is often cited as the role-model for Larry Page's philosophy. Not just as inspiration to invent, but also as motivation to build businesses that capitalize on those inventions in a way that Tesla never could. Naturally gifted as a *Philosopher* and *Disruptor*, Page has needed to very publicly develop the opposable forces of *Entrepreneur* and *Integrator* in order to become the leader of the enterprise that literally emerged from his dreams.

The famous "adult supervision" hoisted on Larry by early investors was required as a buffer to curb Larry Page's Disruptor instincts. A younger Page once laid out the plans to destroy the advertising industry that would ultimately earn around \$14 billion dollars a quarter⁷, sending leadership into a flurry to prevent the ideas leaking and scaring away investors. The older Page is now using that revenue to build a network of diverse capabilities from power generation, to robotics, and artificial intelligence. His focus now is on fostering a culture of co-operation in order to integrate these capabilities.

Where once competition and aggression was encouraged to drive creative thinking and inspire problem solving, Larry Page as *Pilot* is aware that Google as a company is now tackling challenges that are too complex for simple didactic arguments.

⁷ 2014 Financial Tables – Investor Relations – Google. (n.d.). Retrieved December 1, 2015, from <https://investor.google.com/financial/tables.html>

Google: Strategic Value Overview

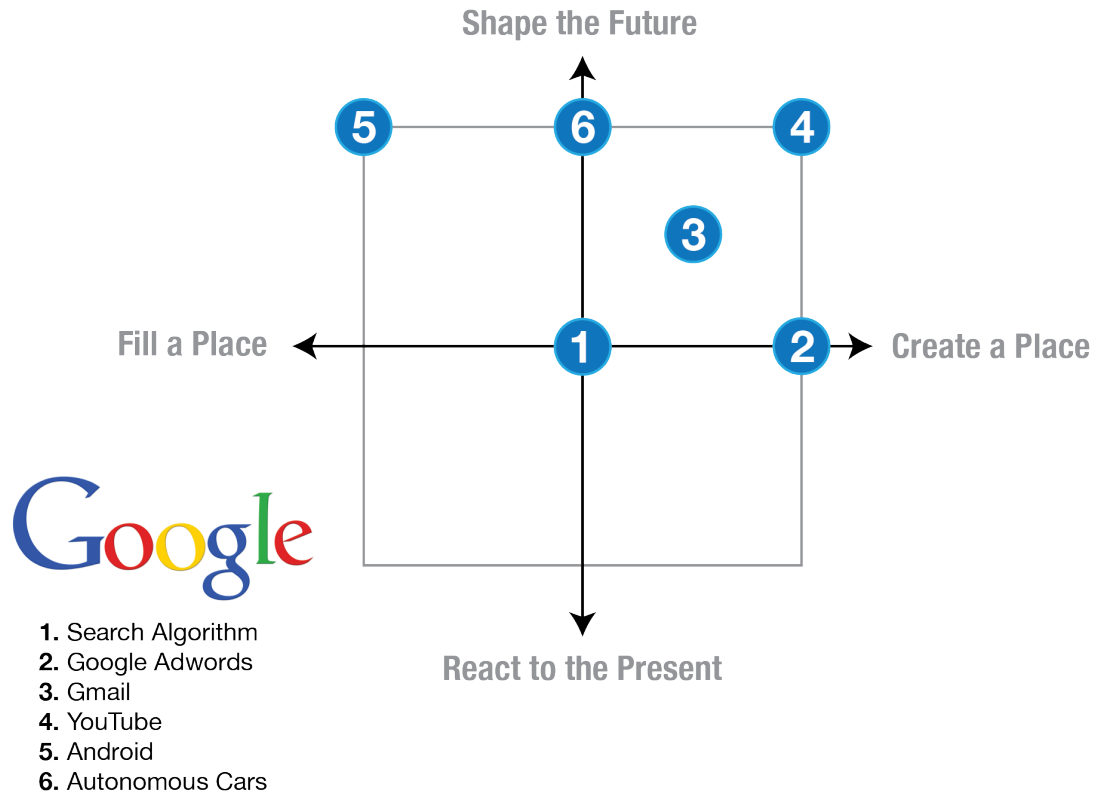


Figure 6: Google Strategic Value Analysis

1. The Google Search Algorithm

The algorithm that ranks web pages according to the way they are linked and accessed came to Larry Page in a dream. In the dream he was able to “see” the whole internet and understand how it was connected, exposing how an algorithm could be used to identify content that is more valuable according to how it is linked to by other sources. From the very beginning, search was never seen as a tool, but as an entire way of thinking. Larry Page never aimed to develop a useful tool, but rather a way for navigating the entire world of information, which he succeeded in doing and continues to challenge further.

“[T]he perfect search engine would understand whatever your need is. It would understand everything in the world deeply [and] give you back kind of exactly what you need.”⁸ Larry Page

Respond to the present (50%) – Shape the future (50%)

The page-ranking algorithm is positioned directly in the middle of the axis between the present and the future. This ever-evolving piece of software was developed both as a response to existing clunky tools and a vision of a desired future. While there was a recognized need for new search tools, there was no vision regarding the scale and potential for how this search algorithm could impact daily life.

Fill a place (50%) – Create a place (50%)

Google, or BackRub as it was originally called, filled a place that was emerging through tools such as Altavista and Yahoo. Building a business around search moved it out of academia and into the entrepreneurial landscape where it was challenged to prove its commercial value. This decision created a new place that Google would ultimately shape, develop and own.

2. Google Adwords

Adding value to the activities of individuals generates revenue in the behavior economy. The dotcom bust was fueled by a naïve expectation that the digital marketplace would behave like the brick and mortar marketplaces of existing businesses. Google pioneered the approach of generating revenue as a reward for providing value when enabling emerging behaviors for the user. There is an incentive at Google to refine the search algorithm to always ensure desired results appear, including those that generate revenue,

⁸ Carlson, N. (2014, April 24). The Untold Story Of Larry Page's Incredible Comeback. Retrieved July 18, 2014, from <http://www.businessinsider.com/larry-page-the-untold-story-2014-4>

so that they do not disrupt the desired behavior of the user in the way that pop-ups and flashy banners do.

Fill a place (0%) – Create a place (100%)

Google built the search advertising competitive space, continues to refine and push itself to improve, and is rewarded with highly profitable returns. 70% of Google's total revenues continue to come from search ads⁹. The networked nature of the service means that it can continue to grow with limited demand on new infrastructure to drive up costs. The deep integration of Google's search platform highlights that deep disruption through a new service or a dramatically different set of behaviors will be required in order to break Google's dominance in the search advertising market.

Respond to the present (50%) – Shape the future (50%)

Adwords responded to the present, differentiating Google from annoying ecommerce advertising and pop-up banners by focusing on being a valuable tool to users searching the internet. As a pioneer of creating value through networked behavior, Google's revenue generating engine depends on successfully helping users. The pay-per-click model ensures that advertisement with little value receives little return.

3. Gmail

Gmail was the first new significant product at Google, and was given away free. It was the first early sign that a platform was emerging and this could only be a success in the behavior economy. Gmail extended the search business model by providing useful tools that generate revenue through services rather than product sales or service charges. Chris Anderson, the former editor of Wired Magazine, would go on to claim that the

⁹ Carlson, N. (2014, April 24). The Untold Story Of Larry Page's Incredible Comeback. Retrieved July 18, 2014, from <http://www.businessinsider.com/larry-page-the-untold-story-2014-4>

“future is free”¹⁰, suggesting that the greatest business opportunities would be linked to providing valuable services for free and finding ways to generate revenue from premium or active use. Google is the pioneer of this practice, that continues to disrupt services across the world.

Fill a place (25%) – Create a place (75%)

Similar to other innovations by Google, an emerging market already existed with Microsoft providing Hotmail free to users. Where Microsoft saw Hotmail as an additional service to the core products linked to the Windows operating system, Gmail was built entirely for the web browser and would become part of a suite of products that would integrate Google search.

Respond to the present (75%) – Shape the future (25%)

As with the other previous examples, much of focus was on improving something that already existed and bringing it into Google’s vision of the future. In this case, Larry Page was aggressive that Gmail would only launch when the ease and efficiency of the product truly differentiated it from competitors. Only when it was deemed truly useful was it released.

4. YouTube

The creators of YouTube were disruptive innovators who made a web platform that allowed low quality content to be uploaded by amateurs without any clear audience. Science fiction had long predicted constant streaming of video to the masses, but no one predicted the chaotic and democratic nature of the initial offering. Beyond Google, very few saw the commercial value of this emerging behavior of content production and

¹⁰ Anderson, C. (2008, February 25). Free! Why \$0.00 Is the Future of Business. Retrieved February 1, 2015, from http://archive.wired.com/techbiz/it/magazine/16-03/ff_free?currentPage=all

sharing. Google's purchase of YouTube for \$1.65 billion sent ripples through the market with wild speculation and fear for buying a web platform that generated no revenue¹¹.

Traditional valuation of YouTube was never possible, as the value of a network had not been recognized. In hindsight, after the multi-billion dollar purchases of Instagram, WhatsApp, Twitter and more, YouTube's value was clearly underestimated. But it took Google to show how to integrate new behaviors into a rich network of platforms to show how to realize the potential. Google paid directly for a network of engagement and has since turned it into both a revenue generator and a network creator, an integrated platform in the ongoing development of partnerships with content providers.

Respond to the present (0%) – Shape the future (100%)

YouTube was purchased to directly shape the future. Nothing like it existed before, and it took Larry Page and Google to understand how important it could be. As a generator of disruption it has influenced how media is produced and consumed. It is now used by families sharing baby movies, kids showing off skateboard tricks, music artists launching careers and everything in between.

Fill a place (0%) – Create a place (100%)

Through YouTube, Google developed a new position in the market place for connecting individuals' activities and revenue generation. The most obvious is the evolution of media campaigns that span digital and traditional media, but the deepest impact has been the enabling of amateur content producers. It is now possible to make a living by generating content whenever there is an audience ready to engage. There is no need for the middle layers of producers, agents and distributors. There is no cost to entry and as a result, the ideas that emerge vary wildly in quality and subject matter. Success drives success as Google shares advertising revenue with the content generator, motivating

¹¹ Smith, D. (2014, August 12). The 11 Most Important Google Acquisitions Ever. Retrieved October 14, 2014, from <http://www.businessinsider.com/important-google-acquisitions-2014-8?op=1>

more producers of content and drawing more viewers to the general audience pool. While ratings and market research continues to drive traditional media production, Google's approach enables anyone to be a contributor capable of capturing a return on their personal investment.

5. Android

Android is the most ambitious platform developed and provided for free by Google. The project began in 2005 when Larry Page was searching for big impact ideas. His goal was to put a handheld computer with access to Google in the pocket of everyone in the world. Bought for \$50 million, Android was set up as a separate entity at Google with full development autonomy to chase an ambitious behavioral goal without sales targets.

Fill a place (100%) – Create a place (0%)

While Apple and Blackberry built positions in the market place that focused on tightly curated ecosystems of integrated services with products, with Android Google has committed to the approach of being open in order to reach the largest audience possible. Android now has dominant market share, and while more people still access Google search from Apple iPhones, Google has ensured that its products are the default behaviors for the majority of mobile internet users.

Respond to the present (0%) – Shape the future (100%)

With Android, Google continues to show that it is playing the long game. Expansion of the network of users is the core driver, including those generating and contributing content into the platform and the end users accessing services.

6. Autonomous Vehicles

The Autonomous Vehicles project is one of many that can be used to highlight the massive ambition of Larry Page. Only a company with an obsessive vision and a deeply established, highly profitable revenue stream can commit to so many ambitious, visionary projects. These range from Calico, innovation in healthcare with the goal of extending the lives of humans across the world, Google Brain, innovation in artificial intelligence with the goal of creating a smart and responsive internet, to autonomous vehicles which aim to shape the way people move and could influence the workplace, cities and more.

Fill a place (50%) – Create a place (50%)

The concept of autonomous vehicles has existed in science fiction for decades. Google has the leadership and resources to make it a reality. It reveals the depth of the utopian dreams that drive Page and the desire to do good in the world. It will be an enormous challenge and will put Google's powers of integration to the test. When Page discusses the need for Google executives to work together, there are few examples that will require more cross industry internal and external collaboration or more levels of systems change.

Respond to the present (0%) – Shape the future (100%)

It is possible to fear a certain scale of megalomania at Google when the scope of grand projects are combined. If not for the deeply utopian vision it is easy to fear Google as the future global company that controls and manipulates the world as seen in the many Hollywood contemporary fairy tales. Larry Page is honest and open about the driving goals. There is no hiding the desire for Google to be the default interaction of all individuals using these future services, but the current track record is that the value would be directly linked to behaviors of value to individuals. As long as Google continues to enable desired emerging behaviors, it is unlikely there will be any push back against the future being shaped.

Case study #2:

Elon Musk and Tesla

"I would like to die on Mars, just not on impact."

The Physical Behavior Economy

The impact of the behavior economy is not limited to digital experiences, it extends to all products and services that can be networked. Business success from digital innovation is transforming how ideas are developed and prototyped, with partnerships across within different industries.

Tesla was founded and is led by Elon Musk who made his early success building and selling digital platforms, such as Zip2.com and paypal.com. Defined as an automotive company, Tesla is positioned as a platform for energy transformation within the automotive industry. At the core is a vision that vastly outstrips the business goal of selling electric vehicles, a goal not to be underestimated as Tesla is the first successful automotive start up company in America in 90 years¹².

At the core of Tesla is a perspective that information, flexibility and systemic change is not only a key to business success but vital to transforming the world away from a 19th century mode of energy consumption. For Elon Musk the development of a successful electric vehicle company is a proof point that humanity can move away from fossil fuels. While grandiose, it is this scale of vision that compels Musk in all his endeavors and provides scope to the expectations of Tesla.

Driving the Future

Tesla vehicles have been described as an “app on wheels” as they are always connected to the internet, with a steady stream of live updates to system software to improve energy

¹² Davis, J. (1925, September 10). How Elon Musk Turned Tesla Into the Car Company of the Future | Magazine | WIRED. Retrieved July 20, 2014, from http://www.wired.com/2010/09/ff_tesla/all/

economy, and track general wear and tear. This new breed of vehicle has engaged a unique audience seeking to engage in new behaviors being offered to them. Early adopters were seen as alpha-testers, which is the language of digital development rather than traditional production. These individuals were eager to pay a premium to buy an unfinished product that would be refined according to their initial use¹³. The early Roadster vehicles built a passionate customer base that has allowed a highly complex and relatively conservative product to be released “unfinished” in the same way that digital products are.

While sales are still limited and financial sustainability of the company is not guaranteed, Tesla has been able to finance itself through partnerships with potential competitors, Daimler and Toyota, selling lithium batteries and acting as a partner for empowering a broader systemic change towards adoption of electric vehicles.

Tesla is an excellent case study of a company driven forward through a focus on foresight and actively building a new future. The strong learning is that the ambitious, forward focused vision has a pragmatic business plan that is being actively achieved through a network of active strategies.

A Balanced and Compelled Pilot

Elon Musk is the most balanced case study of a Five-Point Leader. When Tesla was in a financial crisis, Musk took over the reigns as pilot to ensure success. His innovation drive shows both a passion for challenging the accepted norms, while looking for ways to generate revenue. Musk has a track record of building winning businesses that fund further speculative developments, such as Tesla and SpaceX.

¹³ Barnett. (n.d.). Tesla and The Chasm - a day with a group of Model S owners. Retrieved July 20, 2014, from <http://oppositelock.jalopnik.com/tesla-and-the-chasm-a-day-with-a-group-of-model-s-own-747762917>

Tesla: A Grand Vision of Change

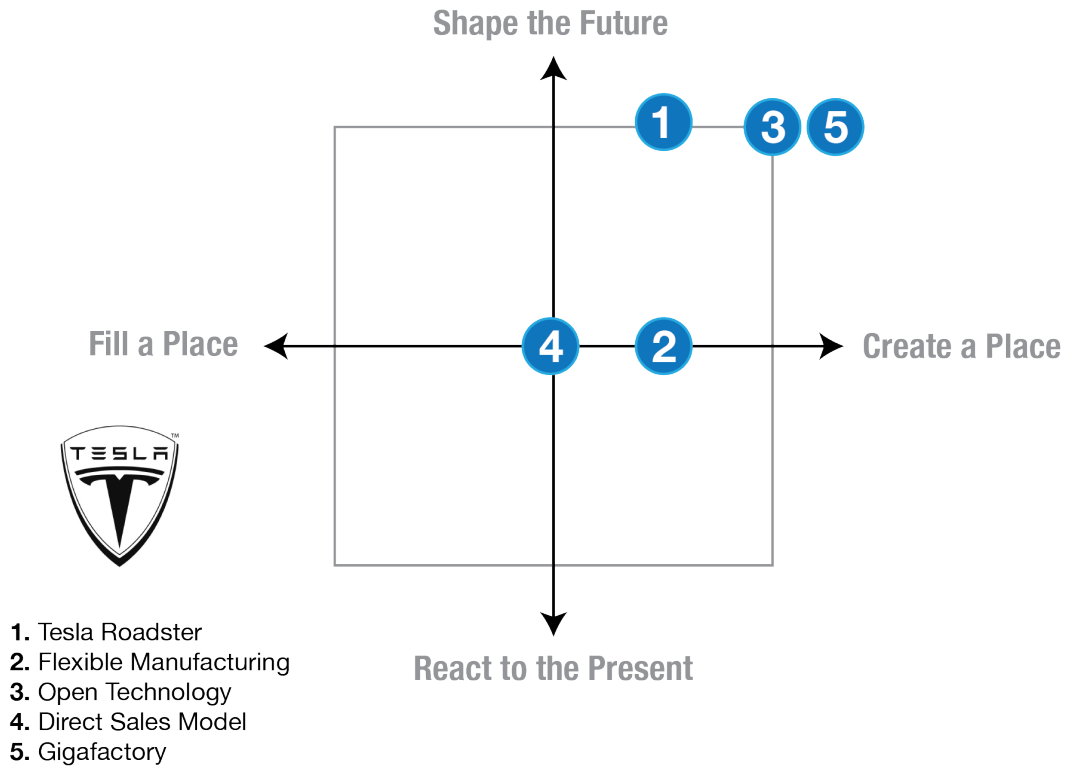


Figure 7: Tesla Strategic Value Analysis

1. The Tesla Roadster

The Tesla Roadster was developed as a high-end electric vehicle (EV) with a focus on speed and sportiness. Tesla was the first EV developed and marketed to a technology savvy audience with a focus on performance, differentiating itself significantly from a marketplace that had previously been focused on consumers motivated by environmental sustainability.

While the Roadster was the draw card to generate awareness, the lithium batteries may become the core business of Tesla. While there were numerous challenges with building the vehicle, which pushed Tesla to the brink of collapse, the batteries provided a revenue stream and incentive for partnerships with Daimler and Toyota.

Fill a place (75%) – Create a place (25%)

Electric vehicles have existed since the birth of the automobile, but the Roadster was the first EV to focus on high performance and actively compete with other sports cars. A new competitive place in the market has since emerged as Mercedes, BMW, Audi and even Ferrari are all experimenting with high performance vehicles that integrate electric motors to generate improved high performance.

Respond to the present (0%) – Shape the future (100%)

Everything about the Roadster has a deliberate strategic focus towards building a desired future, with a core vision that extends beyond the initial goal of building a profitable business. The Roadster, and the battery development behind it, made enormous ripples in the automotive industry by establishing the business case, technological viability and consumer desire to competitors such as GM for EVs.

2. Flexible Manufacturing

The Tesla Factory is located in Fremont California and occupies a space that was once joint owned by Toyota and GM. Bought for a relatively low purchasing price at a time when the American automotive industry was facing significant challenges, Tesla refurbished the entire factory from scratch using engineers who had developed the SpaceX manufacturing facility¹⁴.

There are around 160 robots on-site and rather than the traditional focus on efficient robots linked to singular functions, there is a focus on flexibility and the ability for a single robot to be reprogrammed to enable constant process refinement. A single robot is used to install both the seat and the windshield, switching tools mid way to pick up the

¹⁴ MacDuling, J. (2014, June 9). The future of “Made in America” is Tesla, not Ford. Retrieved July 20, 2014, from <http://qz.com/197241/the-future-of-made-in-america-could-be-tesla-not-ford/>

glass after the seat has been placed¹⁵. This flexibility allows the factory to run on information, allowing customization between vehicles and integration of updates as new operational efficiencies are learned.

Fill a place (25%) – Create a place (75%)

The Tesla factory quite literally fits within an existing space that once produced vehicles, but the new space is barely recognizable and actively seeks to change the possibilities of manufacturing in the USA. The investment in technology, open invite for Silicon Valley to participate and the shared learning with practices at SpaceX all lead to a more open manufacturing environment than the traditional closed door facilities wrapped in secrecy. The Tesla Factory has the capacity to constantly adapt and evolve with a broad scope of resources in the region to inform the growth.

Respond to the present (50%) – Shape the future (50%)

Tesla is actively countering the trend of a declining manufacturing industry in America and is doing it through deliberate investment in technology that differentiates itself from the low cost production facilities internationally. The American government is investing in this vision of the future with loans and tax incentives.

3. Open Technology

Tesla is more often referred to as a technology company than an automotive manufacturer, lumped together with companies like Facebook and Google, because at the core of its business offering is an investment in innovation. The automotive industry has traditionally been highly protective regarding the use of its intellectual property and has focused on innovating from within. Tesla has further differentiated by opening its intellectual property for use by competitors and potential partners in order to stimulate

¹⁵ Lavrinc, D. (2014, July 13). Peek Inside Tesla's Robotic Factory | Autopia | WIRED. Retrieved July 19, 2014, from <http://www.wired.com/2013/07/tesla-plant-video/>

broader adoption of electric vehicles. This reinforces the ambitious scope and scale of Elon Musk's ambition to transform the energy landscape, highlighting that Tesla is committed to long term change, not short term sales. Tesla has been rewarded in the marketplace, with stocks rising immediately after the announcement and a market valuation that far exceeds its current revenue stream.

Fill a place (0%) – Create a place (100%)

The move to open technology highlights humility from Tesla and recognizing that it cannot transform the automotive industry on its own. By making the intellectual capital openly available, other start up companies can develop new places that further establish the EV market.

Respond to the present (0%) – Shape the future (100%)

Everything about this decision is forward focused and strategically shapes a desired future. Tesla highlights a confidence in their internal capacity by allowing internal intellectual property to lead the way, while admitting the need for partners and competitors to achieve the broader vision. The core business objectives continue to be empowered, while further opportunities are opened.

4. Direct Sales Model

Elon Musk has shown repeated commitment to exploring every opportunity for innovation within the business model of Tesla by actively pursuing the opportunities and implications triggered by the innovation of their product. The cars are sold as high-end technology products, with retail stores designed by George Blenkinship, who worked with Apple to develop their innovative retail layout. And as of July 2014, Tesla's biggest opponent is the American Automotive Retail Association who is protesting Tesla's sales model that cuts out the dealership model of supplying ongoing servicing to vehicles. Tesla vehicles don't require oil changes and as frequent service as combustion engines.

They are always being internally monitored by the onboard software that checks for issues, keeps everything up to date and can inform owners if there are issues that need to be addressed. Musk is pioneering a direct sales model that allows Tesla to build relationships directly with their consumers, cut down costs and potentially establish new sales behaviors.

Fill a place (50%) – Create a place (50%)

Cutting out the standard service business model actively disrupts a chain of middle-men in the sprawling automotive ecosystem. The outcry from the AARA¹⁶ is comical, as they are currently celebrating the ban of the direct sales business model in New Jersey, where only a handful of Tesla vehicles have been sold. Tesla's move creates new opportunities to develop business models as the direct sales model and release of open innovation opens the door to potential start ups that may find ways to modify, improve or add functionality to Tesla and other EV vehicles that come onto the marketplace.

Respond to the present (50%) – Shape the future (50%)

Elon Musk is clearly aware of the marketplace that he is actively opening by disrupting sales models and technology ownership. It is possible to see these actions as a bridge between older traditional practices and emerging opportunities. Tesla hopes competitors will focus on building from the opportunities being released into the ecosystem, rather than fighting to protect the existing market place.

5. The GigaFactory

On the horizon is an opportunity that highlights the adaptability and scope of vision at Tesla. It is clear that the advancement of battery technology is at the core of the energy

¹⁶ Wohlsen, M. (2012, March 14). Car Dealers Are Terrified of Tesla's Plan to Eliminate Oil Changes | Business | WIRED. Retrieved July 20, 2014, from <http://www.wired.com/2014/03/car-dealers-fear-teslas-plan-end-oil-changes-forever/>

and industry transformation desired at Tesla. Batteries are the highest margin product from Tesla, with the core vehicles still operating at tight margins and slow production rates. It is possible that vehicles evolve into a side product at Tesla, as the primary method for prototyping and show casing battery technology, while electric batteries became the main offering. The GigaFactory is a large scale manufacturing facility being proposed by Elon Musk that focuses on production of lithium batteries in a dedicated, state of the art facility¹⁷. Speculation has already peaked that this could impact everything from the cell phone industry to large scale energy storage as the facility would not be limited to producing batteries for electric vehicles. This proposal squarely positions Tesla as a technology company actively focused on building towards a desired future and adapting accordingly.

Fill a place (0%) – Create a place (100%)

In 2020 Tesla may have literally created an entirely new industry in America around production of lithium batteries. Combined with the other strategic activities this may be an engine that drives local innovation, increases domestic manufacturing production and impacts the energy consumption from fossil fuels. It is not difficult to see new business form around these emerging innovations as new service models, recycling facilities, software development and portable devices come into the market.

Respond to the present (0%) – Shape the future (100%)

The GigaFactory represents a proposal from a company willing to shape the future and adapt to what emerges. While the grand vision of energy transformation and moving away from the internal combustion engine is clear, the business objectives are adaptable according to what is required. The GigaFactory is a stepping stone in the goal of achieving a mass consumer electric vehicle, but it may also be a turning point that transforms Tesla into something entirely different.

¹⁷ Wohlsen, M. (2014, February 14). Why Apple Could Win Big With Tesla's Giant New Battery Factory | Business | WIRED. Retrieved July 20, 2014, from <http://www.wired.com/2014/02/teslas-giant-battery-factory-save-apple/>

Case study #3:

Lou Gerstner and IBM

IBM was the first large corporation to transform its source of value from a traditional production model to a network of integrated services. This shift makes it one of the earliest contributors to the behavior economy.

The IBM-360 computer model, launched in the 1960s, was the first range of computers that had integrated and scalable components suitable for a wide spectrum of needs. Over time, multiple platforms and software solutions were developed to meet the emerging demands of every category of customer possible. The IBM-360 series included consumer level products, the model-20 minicomputer with 24KB of memory, all the way to the model-91 supercomputer used to run the North American missile system¹⁸.

Once recognized as too big to fail, by the 1990s IBM had become a bloated company disconnected from customers' needs. The mainframe business had shifted from a service model, where products were leased, to a sales model, where customers bought products directly. This had increasingly commoditized the computer business, reinforcing a narrow focus on sales and minor modifications to win over customers.

As the mainframe sales business declined, IBM realized that many layers of inefficiency had built up over time, driven by internal competition that lacked effective collaboration around resources. In 1993 the giant IBM company was losing money rapidly and Lou V. Gerstner was brought in as CEO to manage the break up and sale of Big Blue.

The Value of Integration

A strong Pilot, Gerstner directly engaged in the key activities at IBM to understand how best to proceed. As the first CEO not developed internally, Gerstner provided an outsider's perspective, questioning all established behaviors within the company. Unlike

¹⁸ L. (n.d.). IBM 360/370/3090/390. *Computer History*:. Retrieved October 20, 2014, from <http://www.beagle-ears.com/lars/engineer/comphist/ibm360.htm>

other leaders reviewed in this research, Gerstner was not a philosopher of innovation with a vision of the future, but rather a driven entrepreneur focused on integration of capabilities and the generation of value to customers.

Gerstner transformed IBM rapidly by recognizing that the capabilities existed internally to meet emerging needs of customers caused by a shift in the technology and business landscape. IBM was responsible for the increased complexity that had emerged in the technology marketplace, with many products and services disconnected from one another and that large businesses now needed solutions that focused on integration. A true systems thinker, Gerstner was able to recognize that IBM was worth more as the sum of its parts. Reducing inefficiencies and integrating technologies within IBM would establish a unique position to assist customers facing similar challenges.

In the behavior economy, developing networks creates value. Gerstner was able to transform IBM from a producer of the components in a network, to the producer of the network.

IBM: The Engine of Integration

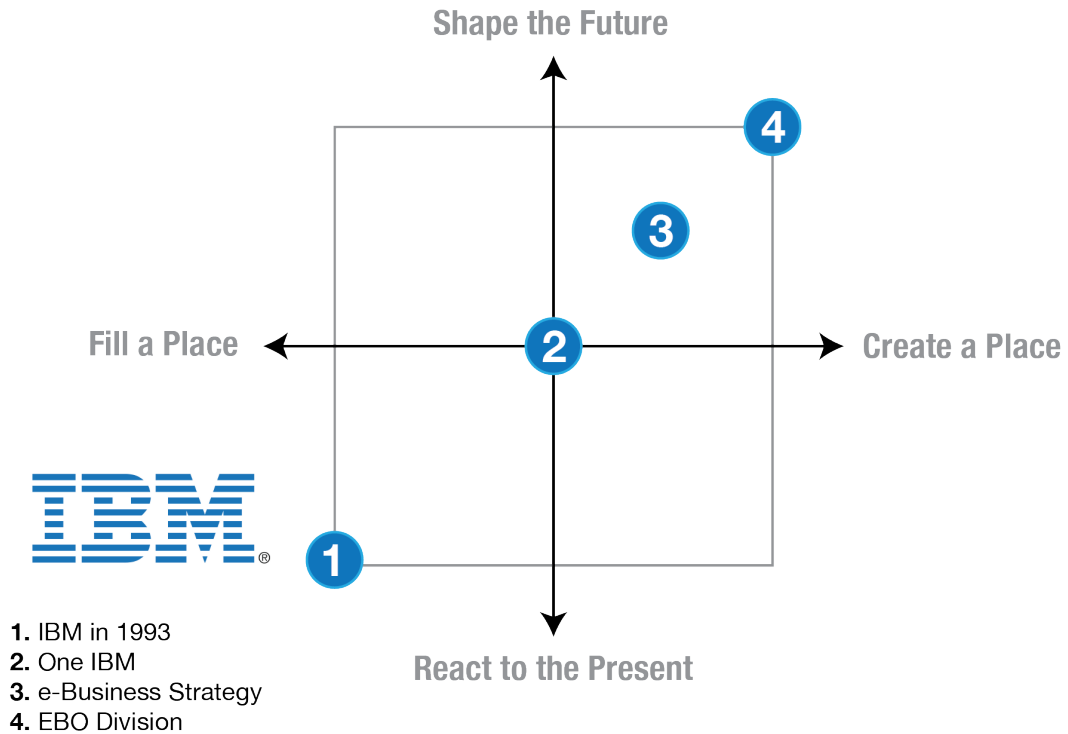


Figure 8: IBM Strategic Value Analysis

1. IBM in 1993

Between 1991 and 1993, IBM lost \$16 billion¹⁹. It had transitioned from a lease-oriented business that sold integrated services for mainframe computers to a sales-oriented business in 1980s with many internally competing business units. These competing units had become so divided from one another that when Lou Gerstner became CEO, it was assumed he would break up the company into divisions to sell.

Fill a place (100%) – Create a place (0%)

¹⁹ Lynda M, A., Robert D, A., & Elizabeth, C. (2005). IBM's Decade of Transformation: Turnaround to Growth. *Harvard Business School Case, 805-130*, 31-31.

IBM has been an industry changing company since the early 1960s. In 1993, IBM was filling a place it had created over the previous decades and was quickly becoming the old dinosaur of the Information Technology marketplace. Other companies, such as Microsoft and Apple, were producing new products that were redefining the personal computer and creating new spaces on the IT product landscape. IBM was in the perfect position to be disrupted as it dominated a specific place while new places were being developed externally.

Respond to the present (100%) – Shape the future (0%)

As a business broken into a series of internally competing divisions, much of the focus of IBM in 1993 was internal and highly reactive. Innovation at IBM was highly reactive and piecemeal, leading to 5,000 hardware products and 20,000 software products with many of these including components that achieved similar functions but integrated into different systems²⁰. The lack of a central vision allowed each of the 20 separate business units to respond directly to their customers in isolation with very little foresight for how they could integrate together into a desired future.

2. One IBM

Between 1991 and 1993 the focus was primarily on cost cutting, and little focus on generating strategic value, which caused further internal disruption and revealed a deeper need for change. Reducing the inefficiencies and confusion within the many redundant and overlapping products and services at IBM required a giant restructure.

As the first outsider CEO in the history of the company, Gerstner took it upon himself to heavily invest in engaging with the customers to understand what they were looking for

²⁰ Lynda M, A., Robert D, A., & Elizabeth, C. (2005). IBM's Decade of Transformation: Turnaround to Growth. *Harvard Business School Case, 805-130*, 31-31.

and how they saw IBM. This sent a wave of implications throughout the company as senior executives were pushed to increase their external facing engagement with customers. By the end of 1993, Gerstner realized that there was more value in IBM as a combined company than the sum of its many parts. He would go on to dramatically turn the company around through a go-to market strategy of “One IBM”.

Fill a place (50%) – Create a place (50%)

The corporate strategy “One IBM” drove a reorganization that focused on combining divisions into bigger business units that could restructure internal processes to leverage resources and reduce inefficiencies. Lou Gerstner made it clear that the new integrated IBM would focus by driving home his expectations of “putting the customers first”. At a two-day sales meeting, he sided with major customers in front of senior executives, volunteering direct action from individuals who previously would not have even participated in the workshop. An aggressive position was made where IBM would begin to create a new place for itself in the market as a customer oriented collaborator, focused on removing the internal barriers that would prevent the capacity to change and adapt to market needs.

Respond to the present (50%) – Shape the future (50%)

The “One IBM” strategy shifted IBM into a position that it could shape the future with a shared vision connected with its customers. A single vision was being formed at IBM that would influence how the company would interact internally to position itself in the present. The vision was both a response to the present and an aspirational goal that IBM could move towards.

3. e-Business Strategy

A quarter of the \$82 billion revenue earned by IBM in 1998 was internet related²¹. This was a remarkable turnaround for a company labeled as a “dinosaur” and a “has-been” only a few years prior. Where IBM had once been seen as the company being disrupted by new entrants in the market, Lou Gerstner turned this around with his “e-business” growth strategy²². This strategy focused on reinforcing the “one IBM” corporate vision by further clarifying a singular position to strive towards. The implications of this position were increasingly clear when core internal focus shifted to open technology platforms that encouraged open competition in the marketplace and “middleware” software that focused on interconnecting different data sources, applications and computers.

Fill a place (25%) – Create a place (75%)

“Internet” and “Strategy” had not yet become accepted concepts with executives of major companies, making “e-business” a dramatic position for IBM to hold in the market. Shifting from propriety to open technology forced IBM to respond to the existing market, driving a need to be best-in-class or risk obsolescence. This drove innovation, with IBM ultimately being one of the largest generators of intellectual property in the world, posting the most US patents for 14 years in a row until 2007.

Respond to the present (25%) – Shape the future (75%)

With the e-business strategy, Lou Gerstner had reinforced his vision of the future. Implications on day-to-day activities were clear as this vision drove the purchase of new businesses and the development of core capabilities internally. This vision help to bind internal forces at IBM that had traditionally competed with one another, to focus on overcoming external competition and create technologies that would help differentiate IBM in the future markets.

²¹ Lynda M, A., Robert D, A., & Elizabeth, C. (2005). IBM's Decade of Transformation: Turnaround to Growth. *Harvard Business School Case, 805-130*, 31-31.

²² E-business. (n.d.). Retrieved April 21, 2015, from <http://www-03.ibm.com/ibm/history/ibm100/us/en/icons/ebusiness/>

4. Emerging Business Opportunity (EBO) Division

“If we attempted to start a potential business and it didn’t fall within a natural line of business, it was hard to develop.” Paul Horn, senior vice president of Research.

The Emerging Business Opportunity (EBO) Division was established to encourage an entrepreneurial mind-set where strategic foresight could be developed. While IBM was generating a world leading number of patents, there was a low conversion into new business opportunities. The success of “One IBM” had led to standardized internal pipelines for the development of businesses and technologies that allowed greater integration within divisions internally, but success was defined by established industry metrics. Forcing emerging innovation to benchmark against established markets killed off ideas that could not generate fast proof-of-concept, preventing break through technologies to mature into new businesses.

Fill a place (0%) – Create a place (100%)

The Emerging Business Opportunity (EBO) division was developed to provide a safe space for new businesses to be developed²³. Success could be customized for each project rather than measured against established competitive spaces. Confirming an assumption or clarifying market demand could become a project goal, allowing new benchmarks to be developed in parallel to technology innovation. The EBO was responsible for high-growth development internationally such as China, India and Russia, where no prior metrics existed. IBM was able to challenge technology platforms, developing industry-changing innovation such as blade servers and Linux that would become standards in the marketplace.

Respond to the present (0%) – Shape the future (100%)

²³ O’reily, C., Harreld, K., & Tushman, M. (n.d.). Organizational Ambidexterity: IBM and Emerging Business Opportunities. *California Management Review*, 75-99.

Structuring the EBO was difficult as there was a risk of being pulled in multiple directions by committees, or isolated and generating innovations that no business division would use. It became clear that strong leadership with a clear vision was required. Lou Gerstner created an internal leader who was directly responsible for the EBO, and to whom reported the Corporate Strategy group and the Corporate Technology and Manufacturing group. This dramatically repositioned the division to have clear sight internally and externally. EBO reviews focused on progress through an innovation process, reviewing against project based milestones rather than financial based performance. Integration with other business was achieved through rigorous forecasting within the strategy and technology groups.

Case study #4:

George Lucas and LucasFilm

“I’ve never been that much of a money guy,” Lucas says. “I’m more of a film guy, and most of the money I’ve made is in defense of trying to keep creative control of my movies.”²⁴

Entertainment and the Behavior Economy

The entertainment industry has always been part of a behavior economy, as stories, experiences and interactions are the core currency. The industry is highly networked, with many vendors collaborating and competing through technology innovation. George Lucas took this to the extreme, building a billion dollar enterprise as a system of interconnected elements that combine to generate stories and experiences.

George Lucas invested in technology that would go on to impact the industry, develop new markets and incubate creative teams that continue to build further visions. After Star Wars and the three Indiana Jones movies, George Lucas largely abandoned making movies and committed his resources and creative energy on digital experiments. His hunch, which turned out to be hugely correct, was that his digital experiments would be part of a transforming entertainment industry.

LucasFilm is one of the largest entertainment service companies in the world, celebrated for creative and commercial success. Until recently, George Lucas was the primary owner of the company that had a broad range of subsidiary businesses focused on the production of specific entertainment output; special effects, software, video games, sound production and responsible for the development and incubation of the technology and personnel behind Pixar. In 2012 LucasFilm was sold for \$4.05 billion to Disney,

²⁴ George Lucas. (2008, October 10). Retrieved July 20, 2014, from <http://www.entrepreneur.com/article/197664>

ending George Lucas's reign as the leader of the empire he had built in order to achieve his own personal vision.

The Pilot Philosopher

George Lucas is the strongest example of a *Pilot*, obsessively compelled to control his own future. His strong vision pushed him to take on more and more creative control, while balancing both extremes of the disruptor/integrator force. Every key decision as an *entrepreneur, disruptor* or *integrator* was to position himself as the *pilot* and bring his visions to life.

LucasArts Strategic Value through Creative Vision

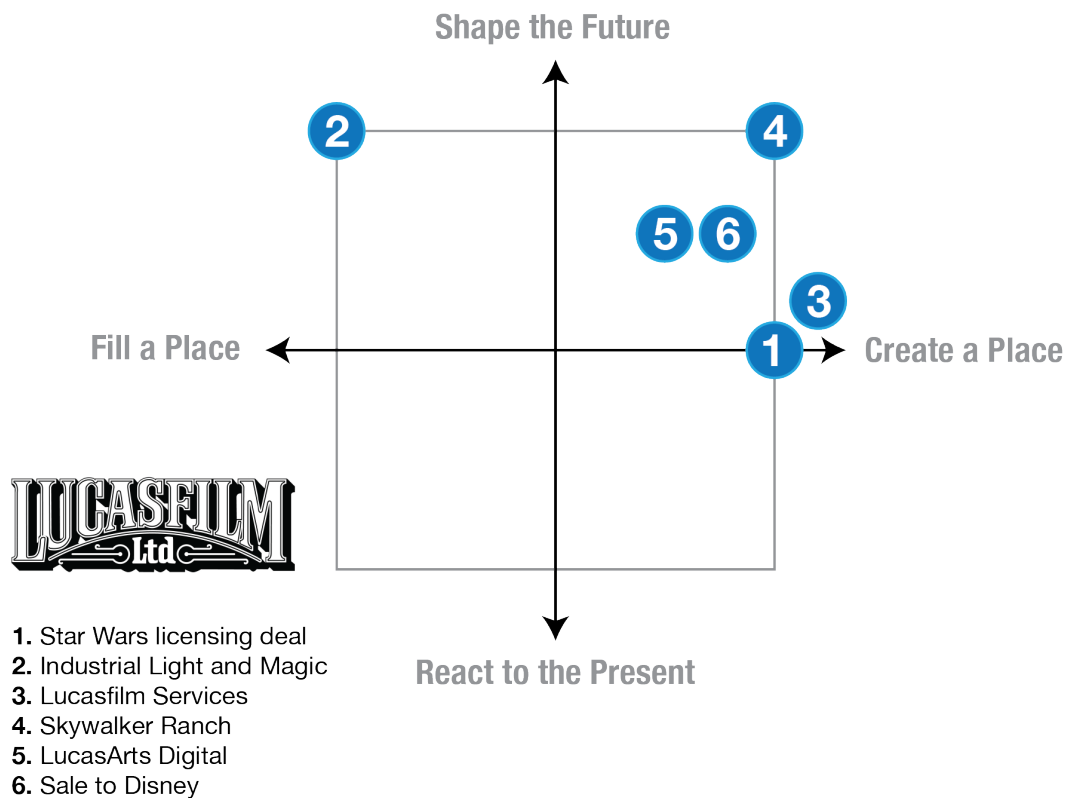


Figure 9: LucasFilm Strategic Value Analysis

1. Negotiating the Star Wars licensing deal

George Lucas was personally offended when his early films were edited outside of his control. This established a core drive for creative control that would influence his actions for the rest of his career. The first step was to reject a \$500,000 contract for writing the screenplay for Star Wars and negotiate a \$50,000²⁵ contract that included ownership of the rights to sequels and sales from merchandise. This was considered a significant gamble, as toy sales had never generated significant revenue prior to Star Wars and there was little certainty that a science fiction space opera would become a mass commercial success.

Fill a place (0%) – Create a place (100%)

The negotiation of this contract was a conscious and deliberate act to create a new commercial place for George Lucas, who sought creative control over short-term finances. This was the first of many commitments to a larger vision beyond the immediate opportunity at hand.

Respond to the present (50%) – Shape the future (50%)

The contract was a direct response to existing experiences and challenges faced by George Lucas, and a deliberate act to shape his own creative future. After experiencing what it was like not to be the pilot of his own creative ventures, Lucas wanted to move himself into the driver seat for all opportunities moving forward.

2. Industrial Light and Magic

²⁵ Lucasfilm Ltd. History. (n.d.). Retrieved July 20, 2014, from <http://www.fundinguniverse.com/company-histories/lucasfilm-ltd-history/>

In 1975 George Lucas founded Industrial Light and Magic (ILM) to produce the special effects for Star Wars. Concern had been raised regarding some scenes in the screenplay, but Lucas was so confident of what was possible that he established ILM to implement his vision. It was an aggressive move by Lucas who believed that Star Wars would become a franchise of movies.

Fill a place (100%) – Create a place (0%)

A special effects studio was always going to be required to make Star Wars possible, and there was nothing unique from a business model perspective about ILM outside of the risk and commitment shown by George Lucas. It would have been standard practice to work with an external vendor, but Lucas would never have been satisfied if he wasn't the direct *pilot*.

Respond to the present (0%) – Shape the future (100%)

To execute on the vision, ILM threw out the rule book on generating special effects, experimenting and challenging every existing practice available to them, eagerly inventing new tools wherever required. There was a collective awareness that the studio was pioneering a new future of production. The philosophical and entrepreneurial commitment encouraged no expense or effort to be spared, hoping that the underlying innovations would go on to influence special effects for years to come.

3. LucasFilm as a Service Company

A significant turning point that shaped LucasFilm as a business, was the recognition that it was possible to provide services to the broader entertainment industry, not solely a production company for executing discrete tasks. As the entertainment industry increased its appetite for special effects, inspired in part by the Star Wars franchise, LucasFilm and ILM broadened the scope of developing and applying its production

capacity with enormous successes such as Indiana Jones, ET: The Extra Terrestrial and more.

Fill a place (0%) – Create a place (100%)

LucasFilm became a unique business offering, with limited competition due to the advanced internal capabilities built through prior work within an emerging marketplace that had not yet been established. Consistent re-investment in technology and personnel inspire a culture of rapidly adopting new ideas.

Respond to the present (50%) – Shape the future (50%)

LucasFilm was deliberately positioned to meet existing industry needs, while developing capabilities that would lead new demand for services. The balance of internal development and external services directly fed Lucas's creative philosophy while building an entrepreneurial engine.

4. Skywalker Ranch

In the early 1980s George Lucas literally built his own facility to house his business interests, enabling a center for research and innovation that he could completely control. He withdrew from the established Hollywood industry and the various guilds, unions and associations, in order to build his own ecosystem according to his own rules. This laid the foundation for an ecosystem that could benefit from internal and external partnerships and the synergies created.

Fill a place (0%) – Create a place (100%)

The Skywalker Ranch was a new physical space and a new competitive place that attracted talent, investors and collaborators. Anyone willing to engage with the vision

and philosophy of Lucas had a home. Separation from the Hollywood industry made it possible to experiment with revenue models to achieve and support creativity.

Respond to the present (0%) – Shape the future (100%)

Skywalker Ranch was a facility that housed and enabled experimental thinking. Many of these would become major revenue streams and stand alone businesses, the most famous being the digital animation lab – Pixar – that would go on to become a power house on its own.

5. LucasArts Digital

Driven by internal digital capacity to generate high quality interactive content, LucasArts Digital was established to focus on video games, which at the time was a relatively new form of entertainment. The results were highly successful, producing two of the highest selling CD-Rom video games in history.

Fill a place (25%) – Create a place (75%)

Video games were an emerging phenomenon without an established competitive marketplace. As computer processing power advanced, LucasArts Digital focused on building interactive experiences that brought movie scenes to life. Emulating the effects generated for movies as interactive experiences became a strong stand alone service unique at the time.

Respond to the present (25%) – Shape the future (75%)

As with the other LucasArts services, internal projects based on Lucas's creative vision pushed the development of core capacity. Broader services would be available to other game developers, as LucasArts collaborated on external projects as a vendor while using Star Wars games as opportunities to push internal capabilities.

6. Selling to Disney

It took 5 months of negotiation for George Lucas to feel comfortable that Disney would enable the ongoing growth of Star Wars while maintaining the creative vision. With a personal goal to retire, George Lucas had considered simply shutting down the Star Wars universe so as not to see it taken in a direction he was uncomfortable with²⁶. He changed his mind when recognizing the value of Disney as a large and capable entertainment business ecosystem, such that he had built with LucasFilm. How Disney had managed the integration and development of the Marvel universe gave him the confidence that the creativity he had sought his entire career would not be wasted.

Fill a place (75%) – Create a place (25%)

The sale repositions Star Wars and the network of capabilities Lucas developed into the Disney ecosystem. The sale extends and leverages the network of Disney channels for developing and generating revenue from the Star Wars universe.

Respond to the present (25%) – Shape the future (75%)

“I sold LucasFilm to Disney to protect it.” The way Disney has managed the integration and expansion of the Marvel franchise, with a series of blockbuster hits critically acclaimed by mass audience and geek super-fans, reinforced the potential for growing Star Wars through Disney while maintaining creative integrity.

²⁶ Leonard, D. (2013, March 7). How Disney Bought Lucasfilm-and Its Plans for 'Star Wars' Retrieved July 20, 2014, from <http://www.businessweek.com/articles/2013-03-07/how-disney-bought-lucasfilm-and-its-plans-for-star-wars>

Chapter 4b: Case Studies of Decline

Case study #5:

Motorola

The Platform of the Behavior Economy

Motorola is a case study that highlights how technology developers can become commodity businesses. New entrants in the market have used Motorola's technology innovations to leap frog into positions of high strategic value. Apple, Nokia and Google owe much of their success to innovations developed and supplied by Motorola.

During Motorola's storied history, there have been two clear leadership visions. The founder, Paul Galvin, had a strong philosophy of integrated, iterative innovation that emphasized technology development. During this time, foundational platforms were invented in radio communications that shaped military, police, commercial and consumer mobile communications. Product development focused on rapid implementation and commercialization of any new technology advance. Features such as increased bandwidth, two-way communications, mobility and security could be rolled out immediately to a captive audience reliant on Motorola as the sole supplier of technology.

The second leadership vision valued entrepreneurialism above all else. Bob Galvin, CEO from 1959-1990, fostered a culture of internal competition and drive. While piloting Motorola, Bob Galvin saw enormous technological innovations, including the cell phone. The focus on entrepreneurship led Motorola to generate significant revenue streams

from licensing technology and building large markets internationally. After decades of fostering a culture pushing external sales, internal disconnect caused product development to lag significantly behind technological innovation. Motorola ultimately disrupted itself as international markets and emerging competitors embraced the latest generation of technology, exploring new behaviors, while internal development and sales focused on maximizing profit by extending the life of established products.

Evaporation of Leadership

“The one regret I have is that I should have taken myself out of the CEO job and run the [phone] division [myself].” Ed Zander, CEO 2004-2008²⁷

In the last two decades a vacuum of leadership vision was reinforced by repeated attempts to fix Motorola, rather than focus on strategic value. CEOs with weak pilot drive meant that no champion of a vision or direction emerged to help guide the business into the behavior economy. The last consumer product success, the Droid smart phone, ended up as a showcase for the Android operating system from Google, who stole all headlines from Motorola.

In the last two years, Motorola has been split into two companies, with Motorola Mobility first sold to Google for over \$12 billion and then sold to Lenovo for a little over \$2 billion²⁸. Despite the dramatic mark down, the sale is considered a success²⁹ as Google has retained the rights to an enormous patent portfolio which will help it compete against Apple and Microsoft. Motorola will therefore continue to be a significant enabler of the behavior economy, but is unlikely to play a direct role in shaping the future.

²⁷ Fishman, T. (2014, August 25). What Happened to Motorola. Retrieved September 20, 2014, from <http://www.chicagomag.com/Chicago-Magazine/September-2014/What-Happened-to-Motorola/>

²⁸ Lenovo. (n.d.). Lenovo to Acquire Motorola Mobility from Google. Retrieved September 23, 2014, from http://news.lenovo.com/article_display.cfm?article_id=1768

²⁹ Wohlsen, M. (2014, January 14). Google Still Wins by Selling Motorola for Cheap | WIRED. Retrieved October 28, 2014, from <http://www.wired.com/2014/01/google-moto/>

Motorola: The Separation of Technology and Product

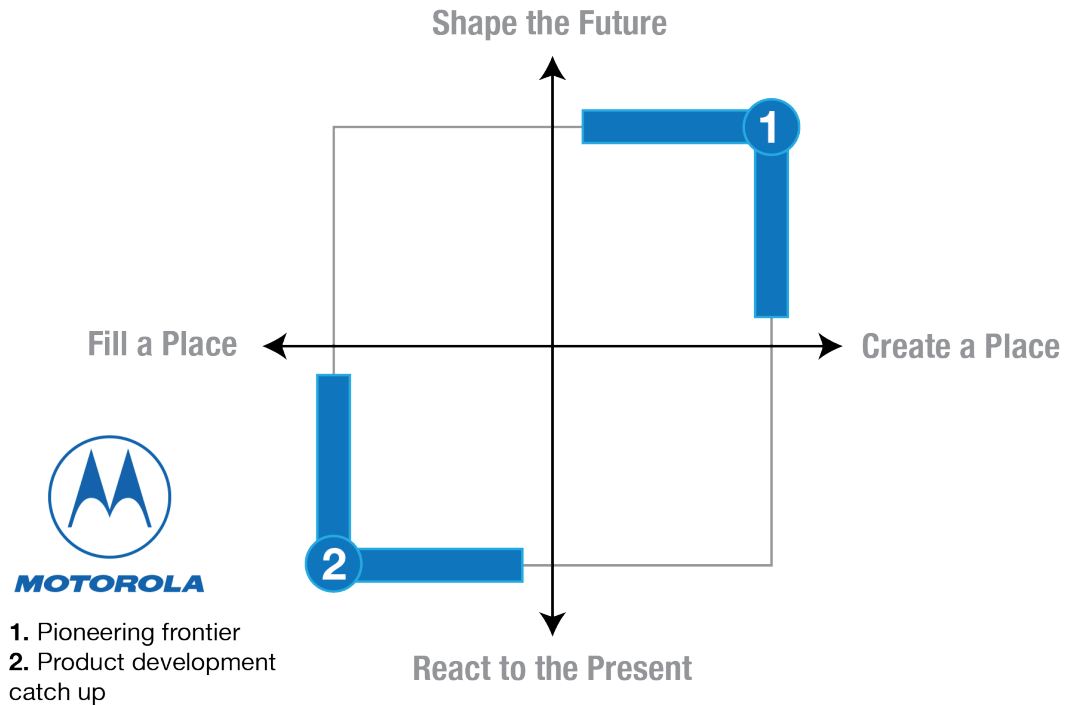


Figure 10: Motorola Strategic Value Analysis – 51

1. The pioneering frontier

Motorola has a significant portfolio of innovations that fundamentally shaped the future and built new places in emerging markets. At the core is the invention of Radio, Analog and Digital mobile communications. Motorola is the company that invented and defined mobile communications, including walky-talkies used by military, police radio communications and speaking to the astronauts who walked on the moon.

The technology innovations extend to processes of manufacturing and integration into new global markets. Six Sigma was an innovation in manufacturing processes that became standard practice in the market place, and Motorola was the first American business to partner with China to build domestic infrastructure. The result of this

pioneering frontier is a patent portfolio valued at \$10 billion, and bragging rights to the mobile industries that emerged from Motorola technology. The digital network and the cell phone are the backbone of the behavior economy and Motorola was the creator of the pivotal platforms.

Fill a place (0%) – Create a place (110%)

Respond to the present (0%) – Shape the future (110%)

2. Product development catch up

Since Motorola Mobility separated as an independent business, the last four major products launched ended Motorola's success as a mobile product pioneer. Razr was an enormous commercial success even as a late entrant to the digital market, but rather than adapt and evolve over time, the product stayed on the market unchanged for years by dropping in price until no longer relevant.

Rokr was a disaster for Motorola, but an enormous enabler for Apple. Developed in partnership, Rokr essentially taught Steve Jobs how to manufacture a cell phone, which led to the industry changing iPhone. The Droid phone, developed in partnership with Google in response to the iPhone, put Google on the map and transformed Motorola into a commodity provider no longer recognized as an innovator.

The Moto X, received significant industry praise for its thoughtful technology innovation and attention to detail. But in the behavior economy, this is no longer enough, with consumers caring less about the product than the ecosystem it connects with. The Moto X sales have lagged, with Motorola now resorting to dropping price to remain competitive³⁰.

³⁰ Winkler, R., & Knight, R. (2013, November 11). Motorola Plans Low-Cost Phone; Sales of Moto X Disappoint. Retrieved October 28, 2014, from <http://blogs.wsj.com/digits/2013/11/11/motorola-plans-low-cost-phone/?mg=id-wsj>

Each of these failures have been examples of chasing markets and responding to competitors. When CEO Ed Zander was reviewing the new mobile handsets being developed, there was no smartphone with a full qwerty keyboard despite Motorola owning the patents to keyboards being used by rivals with dominant market share.

Fill a place (100%) – Create a place (0%)

Respond to the present (100%) – Shape the future (0%)

Case study #6:

Research in Motion/Blackberry

“The problem wasn’t that we stopped listening to customers,” said one former RIM insider. “We believed we knew better what customers needed long term than they did. Consumers would say, ‘I want a faster browser.’ We might say, ‘You might think you want a faster browser, but you don’t want to pay overage on your bill.’ ‘Well, I want a super big very responsive touchscreen.’ ‘Well, you might think you want that, but you don’t want your phone to die at 2 p.m.’ “We would say, ‘We know better, and they’ll eventually figure it out.’ ”

Feature Drift

In the behavior economy, value is created through enabling desired activities in end users and not through isolated product features. The core to success is to understand why individuals use your products and what the experiences are they demand. The identity of Blackberry was lost the moment product innovation focused on competing against the features of the upstart iPhone. The new products lacked the productivity behaviors desired by the core user platform and the experience became confused.

Angry backlash during a showcase to Fortune 500 executives in 2010 revealed that executives didn’t care about the new camera, or apps that mimicked consumer products. They didn’t want personal applications on corporate phones and were disappointed that all products seemed to converge towards a singular direction³¹. Meanwhile consumers didn’t care about battery life or security, features that Blackberry had hoped would differentiate them in the market place, consumers wanted something fun. In the end, Blackberry fell short, with a confused behavior offering that didn’t satisfy a business or consumer experience.

Leadership insight

³¹ Silcoff, S., McNish, J., & Ladurantaye, S. (2013, September 27). How BlackBerry blew it: The inside story. Retrieved September 24, 2014, from <http://www.theglobeandmail.com/report-on-business/the-inside-story-of-why-blackberry-is-failing/article14563602/?page=all>

Sharing the pilot role is impossible if it is unclear which leader will take control of key decisions and guide direction. When Jim Balsilie began to push for a dramatic shift towards becoming a service provider that integrated across multiple platforms, he was not empowered to make the push, but nor was anyone else empowered to clearly dismiss the debate. Never ending internal discussions led to critical delays in development.

Multiple philosophies muddied the water at Blackberry. They delayed decisions and confused development. Where Steve Jobs committed resources to a singular mission with clear guidance, Jim Balsilie, and Michael Lazaridis repeatedly split resources over multiple fronts while internal debates continued. Putting in place a singular CEO did not help significantly, as Thorsten Heins lacked a strong philosophy, which reinforced the uncertainty.

Two Pilots Too Many Divisions

Fractured leadership pulling in multiple directions, led to confusion at almost every level. Blackberry has always split leadership duties between Michael Lazaridis, the inventor of the paging technology who focused on engineering and Jim Balsilie the founding business partner who focused on the sales. While at the top the relationship was amicable, it created a split within the company that limited any exchange of insights from customers to developers.

While Sales would propose required timelines and product features, there was limited accountability for Production to maintain schedules. This worked smoothly when Blackberry owned the dominant market share, as it was almost a monopoly, but once competition emerged, the internal structure was unable to adapt. Core decisions to guide development and respond to a changing market were delayed, transforming Blackberry from a leader to a follower in two years; 2010 to 2012.

Rim: Misplaced Identity

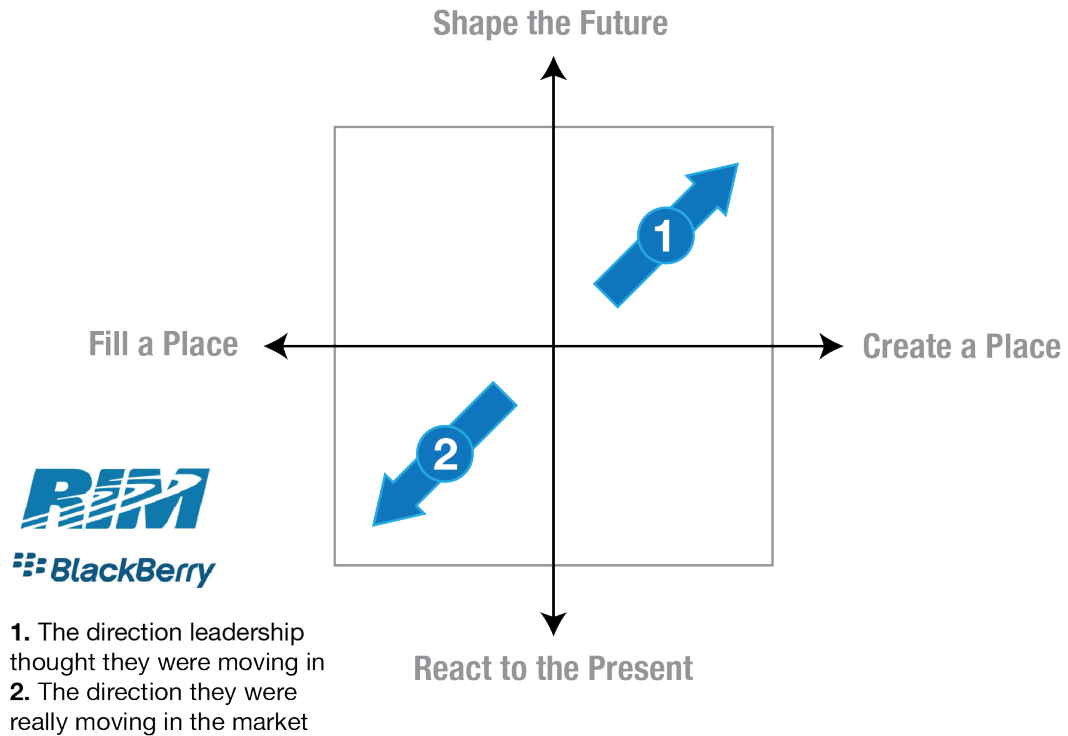


Figure 11: RIM/Blackberry Strategic Value Analysis

1. How Leadership Saw Themselves in the Market

Blackberry (then RIM) believed they had built the smart phone market. While they had developed an incredibly successful product that spoke directly to the business audience, their overconfidence with their position in the market place made them believe that competitors were forced to catch up to them, rather than recognizing how new behaviors were emerging that their products did not speak to.

Fill a place (0%) – Create a place (100%)

Respond to the present (0%) – Shape the future (100%)

2. Where they Really were

Apple changed the game with the iPhone, expanding the definition of a smart phone into a platform for multiple experiences. To BlackBerry the product differentiation was confusing, as they focused on product to product comparisons, ignoring the broader Apple ecosystem with iTunes and Mac integration. The focus switched to developing an “iPhone killer” with a touch screen interface, rather than focusing on the core vision as a business user oriented, full-keyboard product.

While Apple was making a splash with new experiences that attracted new audiences to the smart phone category, there was a large population who still desired different experiences. BlackBerry had continued to compare themselves to the wrong competitors, and when Google and Motorola partnered to develop on the Droid smart phone, it stole market share from Blackberry, Microsoft and Palm, rather than Apple. The battle in the market place is now between operating systems and platforms, rather than the products.

Fill a place (100%) – Create a place (0%)

Respond to the present (100%) – Shape the future (0%)

Chapter 5: A Tool-kit for Strategic Value and Five-Point Leadership in the Behavior Economy

This chapter is the early development of a tool-kit that presents key themes regarding the behavior economy, Strategic Value and Five-Point leadership, in a format suitable for individual or group workshops. Due to the personal nature of leadership, the questions are first person and encourage reflection and action to:

1. Reframe business activities to align with the emerging Behavior Economy
2. Use the Strategic Value Framework to self-assess and provoke innovation
3. Use the Five-Point Leadership Framework to provoke professional development and business strategy

Section 1:

How do I frame my business in the Behavior Economy?

1. Reframing your business:

My product has a secret identity:

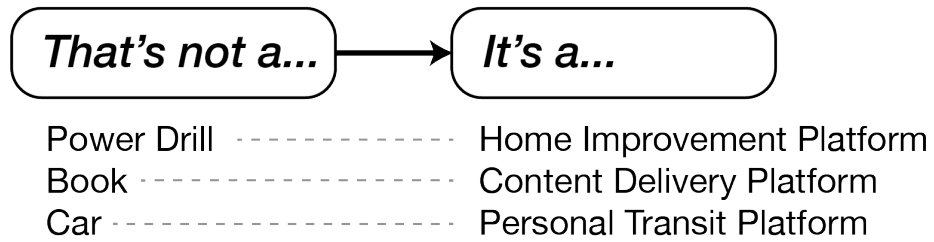


Figure 12: Activity 1: Secret Identity

2. Developing a structure for your platform

Centralized vs. Distributed: Your platform can be tightly controlled and curated, using a centralized platform to ensure high quality control, such as LucasArts. Alternatively, an open and flexible platform can distribute and integrate across multiple channels, the core strategy of Google with the Google Search Bar and Android platforms.

Hard vs. Soft: Hard platforms are fully integrated into the physical devices used to access them, ensuring a consistent experience throughout; Apple is the biggest driver of hard platforms. Soft platforms live on any physical device, such as Facebook.

These make up four potential opportunities for platform design:

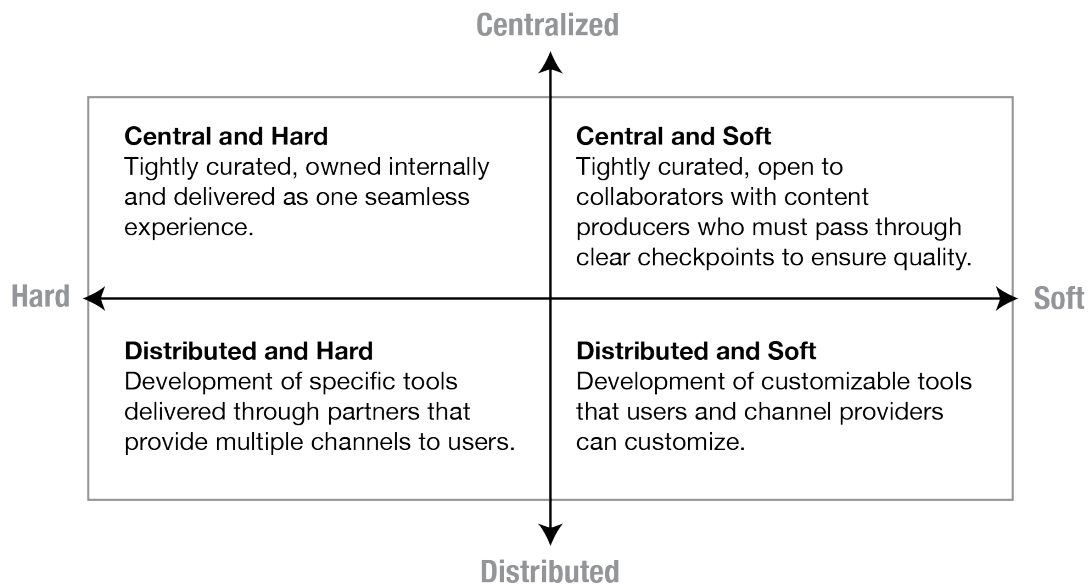


Figure 13: Activity 2: Developing a structure for your platform

3. Reinforcing your innovation pipeline

Delivering strategic value through platform innovation requires thinking beyond product features that compete in the marketplace, and focusing on enabling behaviors that build market places. To stay away from feature comparison when the central questions must be: *What behaviors are being reinforced or created by my innovation?*

The behavior economy encourages investigation into how people interact and engage through platforms – what individuals can “be” – rather than what consumers “have”. This can build from your product’s *super powers*.

4. Reframing your competition

Focusing on competitors’ rival technology specifications comes at the expense of understanding emerging behaviors. You will be disrupted when a competitor, new or existing, provides experiences that transforms core behaviors, not by new technology innovation. As new super powers come into the market, behaviors will be transformed

and it may come from unlikely sources of change. New sensors are transforming peoples' commutes into personal competition by making walking to work a fitness workout. That's not a new function; it's an *enhanced experience*, and it will impact more than just personal fitness instructors.

Investigate how your competitor is transforming experiences:

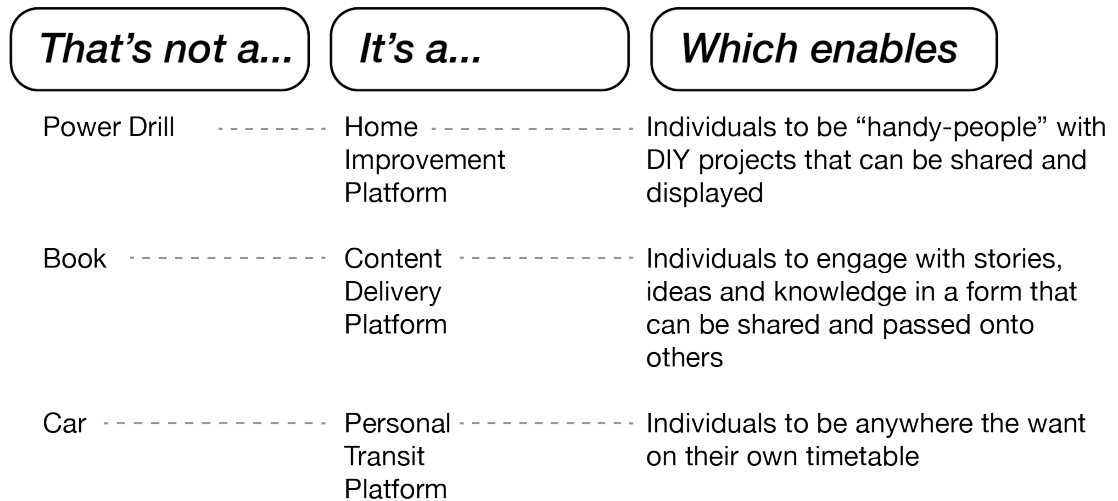


Figure 14: Activity 3: Transforming Experiences

Questions to consider:

- *How does the new behavior compete with your offerings?*
- *What behaviors could you transforming with your innovation?*

Reframing collaboration:

When everything is interconnected the line between competitor and collaborator is extremely thin. Individuals don't care who provides the experience, but they will remember the strongest story. Strategic value requires a balance between being a trusted collaborator and being recognized for your position in shaping the market. Using your strength to enable or integrate a competitor's platform can develop new places for you to

achieve value. If BlackBerry had launched their messaging platform on Apple they could have been recognized for offering the experience of security on trust.

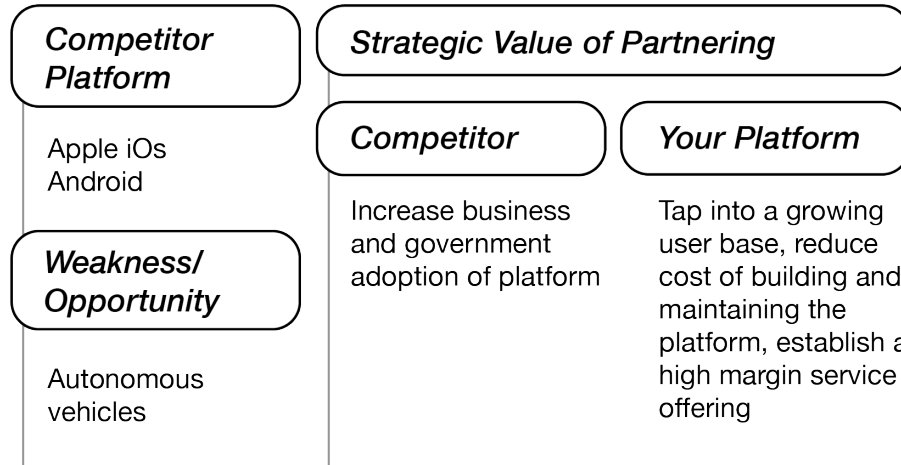


Figure 15: Activity 4: Reframing Competition

Questions to consider:

- *How can you and your competitor partner to create a combined experience?*
- *How does it extend your core story?*

Section 2:

How do I assess the strategic value of my products and services for the future?

1. Using the Strategic Value Framework

A clear vision of strategic value requires clarity over your desired position and relationship to the future. The ability to concisely articulate how your product positions in the marketplace and how key activities will shape a desired future is required for

strong leadership. The strategic value framework provides a structure to have this dialogue and establish a position.

Strategic Value Framework:

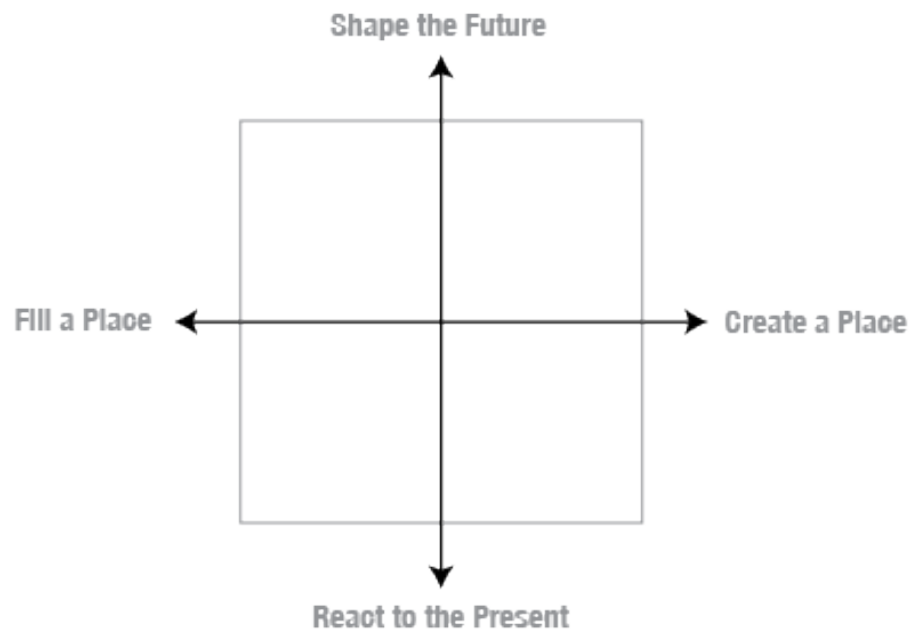


Figure 16: Activity 5: Strategic Value Framework

Questions to consider:

- Where do key ideas and actions position in the strategic value framework?
- How does this build a story for your future success?

2. Identify what success can enable:

“Creating a place” and “Shaping the future” requires a forward focused mindset that understands what success can enable. During development of ideas and activities, success is often a moving target that needs to be refined over time. The deepest challenge is to be comfortable with the ambiguity involved and openly encourage debate on interpreting success. Rather than hard metrics, vision requires clarity of purpose and opportunity.

For George Lucas, increased capacity in producing special effects enabled increased creative control. LucasArts created its own place in the market in order to deliver on personal vision. If the vision is creative control; new criteria for measuring success could include reducing the number of partners and decision makers required to deliver on innovative new projects.

For Elon Musk, every iterative technology development within electric vehicles is an opportunity to differentiate in the market. Removing the fuel tank provides an opportunity to add more seats in a sedan, blurring the line between mini-van and sports car. A strong vision seeks to maximize the potential of every iteration, small and large, to deliver on the core purpose.

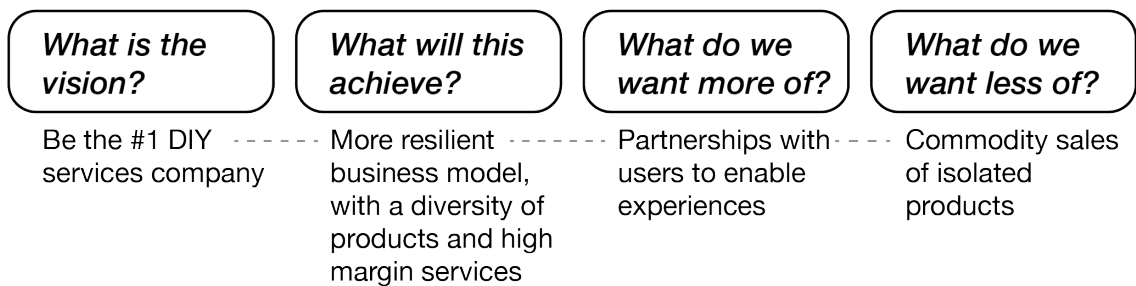


Figure 17: Activity 6: What can success enable

Questions to consider:

- When describing your vision, how do you describe what success will enable?
- How are individuals being rewarded for identifying opportunities to reinforce the strategic value during development?

3. Encourage a safe space to develop metrics

What you measure to define success influences what your team will pursue or avoid, and clarifies your strategic value position. If there are clear, linear metrics for measuring

your offerings against competitive products or industry benchmarks it falls on the “Fill a place” category and has low strategic value. If success is defined by specific comparison against competitors, there is a clear place being filled and therefore little strategic value. Developing an “X-Product” killer reinforces a follower’s mentality.

Metrics must stretch thinking and create aspirational challenges and may need to be developed over time. The e-business strategy emerged at IBM from capabilities developed internally in a safe space to explore new ideas. The Emerging Business Opportunity Division was set up to understand how different markets could be approached, allowing leaders to debate and speculate over what metrics would define success in the new area and how to plan according to new information. An iterative process that adapts with each milestone encourages broad engagement with the vision.

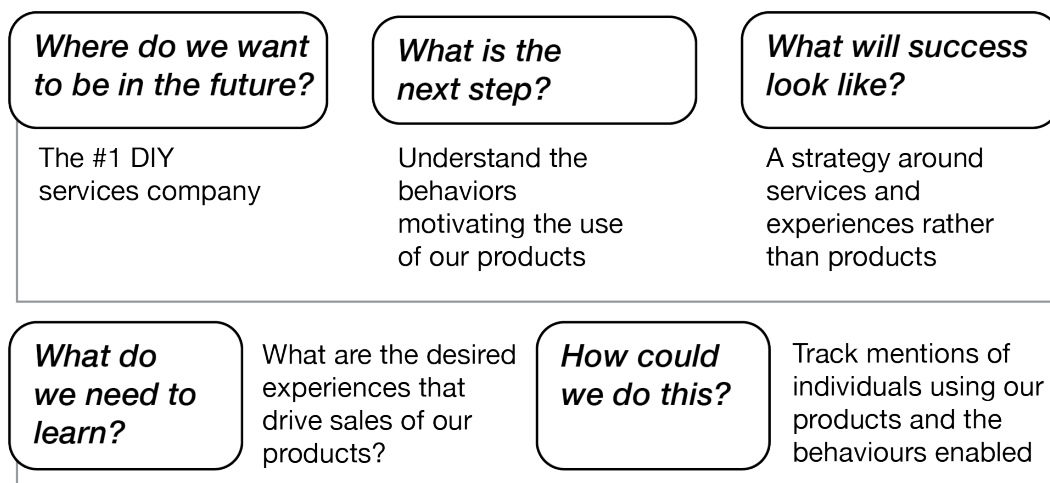


Figure 18: Activity 7: Developing metrics

Questions to consider:

- Can your metrics encourage learning?
 - Instead of using sales metrics, can you capture information about how your product or service is being used: number of users, frequency of use, duration of use, is it possible to understand the purpose of the user and their motivation?

- Can your metrics show where the market is moving?
 - Instead of market share, which can reinforce a narrow focus, can you capture information about the shape of the market: size of overall market, health of overall market, and identify peripheral and overlapping markets that may play a greater role in the future?

4. Fostering a culture to shape an ideal future:

At the core of generating strategic value is an active pursuit of a desired future. This will require ideas and actions that “React to the present” and “shapes the future”. While Larry Page’s search algorithm was a reaction to the poor tools available to early web users, it was also a desire to shape the future according to a deeper vision of wanting to make the world’s information more accessible. Creating a desired future requires a clear vision while recognizing that multiple ideas that solve existing problems in the present will be required to create the desired destination.

Making search faster and more likely to identify relevant results (Google search) is actually about transforming data into quick and enjoyable daily experiences (Gmail, YouTube), which reinforces the core revenue platform (Adwords).

The leaders of Blackberry have been confused for some time whether their products are future shaping or market following and have suffered accordingly. Motorola failed to link the development and product divisions and lost its position in the market.

Systems diagramming can be a messy exercise when trying to map complicated information. As a leader, your role must be to clearly identify the core activities and ideas of value and articulating their synergies and combined value.

Tesla Roadster > high profile proof of lithium battery technology, a product that can be sold to competitors

Flexible Manufacturing > develop capacity to test new technologies and generate intellectual property

Open technology > increase number of competitors to expand the marketplace, increase the opportunities to sell batteries, increase user base for car sales

Direct sales model > increase control over relationship with consumer, develop opportunities for new service offerings in the marketplace

GigaFactory > increase capacity to produce lithium batteries to the emerging marketplace, increase resilience by producing batteries beyond automotive industry

Questions to consider:

What value is created by the sum of the parts, integration of products and services, rather than each isolated function?

Section 3:

How do I build leadership capacity?

It is easy to fixate on the individual who makes the tough calls, turning high-risk into high-returns with products and services that revolutionize the game. It has been reinforced multiple times that the path is never linear; Steve Jobs was kicked out as the leader before truly returning as the pilot that everyone now celebrates, Larry Page has grown into this position and Elon Musk was forced into the role when Tesla was in a dire financial condition.

To rely on finding an individual that encompasses the entire five-points is dangerous and unrealistic. Tim Cook is never going to fully replace Steve Jobs, and Apple is showing that successful leadership can involve a team of individuals that play core roles.

Five-Point Leadership takes time to develop, requiring a balance of strong individuals and capable teams. It is a concern that many CEOs are introduced to their position with relatively brief onboarding and expected to steer businesses to success in less time than it has taken the problems to emerge.

1. Opposable Force #1: Disruption and Integration

Pull it apart, put it back together, repeat ad infinitum.

The recurring theme of all Five-Point leaders has been the ability to constantly embrace change, feeling free to challenge the core business model according to emerging technology and capabilities internally and externally. In all cases, senior leadership has been the bridge between Research and Development to Sales and Marketing. Whenever there is a gap between these two departments, businesses have collapsed. Steve Jobs took it to the extreme, building a highly protected bunker where strategy discussions for the long term of Apple could occur with the latest ideas, surrounded by the latest prototypes.

Business Strategy:

- What would disrupt your core business? How could you integrate it as a new service or platform?
- What would disrupt your industry? How could your services and platforms shift into different markets?

At Tesla it is not yet clear whether they are an automotive manufacturer, an energy provider or a technology service provider. This is why they are valued in the market at over \$32B despite generating limited revenue. Investors believe Tesla is rich in potential due to the many different innovation fronts (disruption) with a leader with a track record of transforming opportunities into success (integration).

Internal Innovation Integration:

A culture that defends the status quo will always be blind to new ideas.

- *Can your sales and marketing units position and respond to new ideas?*
- *Is there a pipeline for transforming insights into opportunities?*
- *Who is incentivized to look at the long term?*
- *Who is rewarded for making these connections?*

2. Opposable Force #2: Philosopher and Entrepreneur

Tell a story, dare to dream and speculate, but be ruthless at delivering something of value immediately.

Google is growing stronger as the internal divisions increasingly work together. The enormous and ambitious vision by senior leadership is actively engaging how each division works with one another. Android, the Autonomous Vehicle and Calico (the emerging health services division) are ambitious visions that the company must work together on in order to deliver. The primary visions often sound more altruistic, but during the journey, multiple business opportunities are emerging and Google will need to capitalize on these.

Business Strategy:

- *What is the dream?*
- *What are the first steps to achieve the dream?*
- *Who could benefit by those first steps?*
- *What revenue streams can be created in the first steps?*
- *What do you want to be doing less of, more of?*

Without a dream, Motorola struggled to integrate innovation and sales. An aggressive entrepreneur culture focused on generating immediate value reinforced revenue generation through licensing technology that ultimately empowered emerging competitors with a vision to transform the marketplace.

Internal Innovation Integration:

A narrative is required to foster alignment and encourage participation.

- *What is the human story?*
- *How do people internalize the dream?*
- *How is the dream connected to day-to-day activities?*
- *Who are the champions for reinforcing this connection and revealing the implications of drifting away from the vision?*

3. The Binding Force: The Pilot

Turbulent times calls for clear vision, quick decisions and someone compelled to take control.

It is clear that a Pilot is required to steer the company through difficult times. This needs to be someone with a clear capacity for holding on to the vision, while making quick decisions that impact the present. Without a leader who clearly owned product development, Motorola was unable to develop a market position. The split leadership at Blackberry led to stalled decisions during key, difficult times with catastrophic outcomes. Apple drifted without Steve Jobs to pilot a clear direction as competitors pushed ahead and Google has always supported Larry Page as a pilot, providing a safety net through Eric Schmidt's role as CEO.

Pilot Assessment Questions:

- *Who will set the direction and the criteria for success when there are multiple paths forward?*
- *Who will hold everyone accountable to high standards and expectations, while inspiring individuals that the hard work is important?*
- *Who will get hands on and take control when the company hits turbulence?*
- *Are there Pilots in place at key levels internally?*

Chapter 6: A Proposal for Further Development

Introduction:

Creating a new dialog

The insights generated from this research highlight an opportunity for further development and exploration. Below is a proposal for a semester long course, “*Five-Point Leadership in the Behavior Economy*”, with the goal of developing Five-Point Leadership capabilities through active learning. The course is designed for those interested in managing and leading innovation within businesses, individuals looking to build start-up companies and innovation pioneers seeking to identify ideal partnerships for bringing their visions to life. It could be positioned with an MBA program for business leaders, or a Masters of Arts or Design, for future design leaders.

Teaching a course provides an opportunity for students to contribute as researchers, building case studies, while prototyping and refining tools that can be used by others in the future.

Course description

Five-Point Leadership in the Behavior Economy prepares candidates to be leaders in the emerging behavior economy. In the behavior economy value is non-linear. Value is exponentially tied to the size and quantity of experience nodes across a network. The flow of experiences, and specifically the people interacting with the platform of products and services are the primary source for value extraction. The navigation and creation of emerging systems requires new tools for defining, articulating and delivering

opportunity that are at conflict with the typical business narrative focused on efficiencies of exchange.

A new leader is required capable of balancing opposing forces by holding a strong vision of a desired future. Students will be challenged to develop capacity as *integrators* and *disruptors*, *philosophers* and *entrepreneurs* and *pilots*. This course will require active participation, using “*Design Thinking*” methodologies that focus on generative prototyping. Students will work in teams to identify opportunities for strategic value through leadership case studies, with individual projects focused on personal leadership capabilities, culminating in a strategic business proposal. Emphasis will be placed on new behaviors facilitated through emerging technologies, services and platforms.

Course goals

The primary goal of this course will be to expand your leadership capabilities by:

- Building an understanding of foresight as a core to business leadership
- Recognizing shifting and emerging behaviors in a variety of markets
- Recognizing that value in the future economy comes from an understanding of behaviors not products and features
- Developing and applying methodologies to identify and articulate opportunities for strategic value
- Developing and applying tools for creating value in the behavior economy
- Designing leadership plans to create an adaptive, learning business based on the Five-Point leadership framework

Projects

One-day workshop: Flash Foresight

This primary activity builds awareness and alignment within the class on core concepts of foresight and the emerging behavior economy. Students will identify

the “super powers” of products and ideas, identify how forces of change across industries can be inter-related and speculate on how markets may be shaped by the future.

Group project: Five-Point Leadership Case Studies

Using the Strategic Value Framework, students will develop two case studies, one of an enterprise that is succeeding in the behavior economy and a second one that has failed to transition to the emerging economy. Focus will be on the core leader, *Pilot*, and how success was enabled or prevented. Students will be challenged to tell a systemic story of how core ideas and philosophies were integrated or disconnected.

Individual project: Building a Business on a Behavior

Starting with a disrupted or stagnated industry, each student will develop a proposal for tapping into new behaviors to generate monetary value in the market. The proposal emphasizes balancing the core opposing principles of *philosopher* and *entrepreneur*, *disruptor* and *integrator*, generating business ideas and management activities. Success will focus on creative approaches for generating new awareness and empowering ideas, over developing isolated solutions to narrow problems.

Individual project: Building a Five-Point Leadership Plan

Building on previous lessons learned, students will develop a proposal for building an adaptive enterprise that is structured to shape and succeed in a future position in the market. An interactive workshop will introduce disruptions that students will use to develop scenarios of the future that emphasize their role as *pilot* in navigating through uncertainty.

Overview of key lectures

From product to experience – key concepts of the behavior economy, and the shifting needs of businesses

Synergies and opposition – key concepts of systems thinking, and the need for Five-Point leadership

Behavior and value – deep dive into platforms, services, disruptions and the differences of Apple and BlackBerry, Google and Motorola

The rise of uncertainty – key concepts, tools and the need for foresight

Chapter 7: Conclusion

Introduction:

Insight summary

The behavior economy is taking shape as companies generate more value through interconnected networks, rather than discrete products or services, challenging existing definitions. Ownership is no longer king; access and connectivity now dominate the landscape. Every product or service is expected to be constantly updated through networks monitoring user behavior, individuals' feedback and business-to-business communication.

The newness of the behavior economy means all spaces that businesses inhabit are in flux. Relationships between companies shift between competition and collaboration on different fronts. Samsung is a competitor to Apple, going head to head with products, but also a collaborator that supplies chips and components for the iPhone. The decline of Motorola and rise of Google reveal that product innovators are being consumed by the creators of networks. Revenue streams built on behaviors of use and connectivity are new and benchmarks for success are yet to be defined.

The Strategic Value framework was developed to assist in the process of assessing how an idea, product or service relates to the future. This evaluation tool helps provide a snapshot of the relationship to the market and the future. Strategic Value is created when actions are focused on potential opportunities for developing and owning an emerging position, rather than reacting to and competing over an existing, clearly defined space. Foresight requires analytic tools such as the Strategic Value framework to

provoke debate and discussion regarding potential value, and to challenge how actions may contribute to a desired future.

New leadership capabilities are needed to navigate the evolving behavior economy. Creating, fostering and stewarding strategic value focused on evolving business positions requires a compelled *pilot* who is quick to deliver feedback, uncompromising with expectations and determined to take responsibility during stormy weather. A *philosopher* with an ambitious vision of the future is required, but this must also be balanced with the vision of an *entrepreneur* who sees immediate opportunities on which to capitalize. And finally, leaders need to be builders who balance the forces of *disruption* and *integration*, capable of both pulling something apart to challenge the status quo, and connect the insights to assemble something of value. Innovation research has often focused on the ends of the extreme, looking at disruption, integration, philosophy and entrepreneurship in isolation. What is clear from the leaders succeeding in the emergent behavior economy is that all elements are vital.

Next steps:

Further development

Chapters 5 and 6 of this research focus on next steps to further advance and apply this research. Chapter 5 explores a tool-kit suitable for consulting or internal workshops and some of this thinking is already being applied within professional practice. Chapter 6 proposes a university level course where further research would focus on expanding the range of case studies, using the lens of the behavior economy to generate ideas with high strategic value, and individual leadership development using the opposing and binding forces of Five-Point Leadership.

Action to advance this thinking is already being pursued as key concepts regarding the Strategic Value and Five-Point Leadership frameworks will be published in *Value Creation and the Internet of Things, How the Behavior Economy will Shape the 4th*

Industrial Revolution by Alexander Manu, thesis advisor to this research. This text will be available in August 2015 and will be used by Alexander Manu as course material in his teaching for OCAD University and Rotman at University of Toronto, ensuring that insights will be shared with and applied by design and business students. Published through Gower, this book will be widely available to other education institutions. providing an initial audience for further writing, public speaking and workshops. Next steps to advance this research will focus on expanding core ideas through further writing, public speaking and workshops, including seeking feedback on the course proposal and tool-kit.

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