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Where Innovation Happens

Covid-19:
Strategy as a Learning System

InnovationLabs White Paper #4 in the Series

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Prelude:
The IMF: "A higher-than-usual degree of uncertainty…"

In its June 2020 Update, the IMF is forecasting negative 4.9% global economic growth in 2020, 38% lower than its forecast of April. And in a fine burst of understatement, it then added, "there is a higher-than-usual degree of uncertainty around this forecast," and went on to enumerate the reasons, all of which relate the vast uncertainties regarding the pandemic.

These are indeed times of exceptional uncertainty, which of course presents huge challenges for leaders and strategists who must chart a course in this era of massive unknowns and tremendous ambiguity.

The purpose of this white paper, as with the previous three, is to help you think about what's happening, and what you should do about it for yourself and your organization. Here we examine today's challenges, offer a new framework for strategy development, and make six specific recommendations for what you could or perhaps ought to do.

Topics Covered in this White Paper

Strategy in a Time of Fundamental Change
Strategy as a Learning System
Hidden and Unspoken Meanings
A Speculation on Black Lives Matter and its Relation with Covid
The Key Questions
>> Six Essential Action Items
Change Brings New Terminology and New Data Points
Conclusions: The Next Economy May Be the "Accordion Era"
Appendix: Succeeding at Virtual Teaming

Strategy in a Time of Fundamental Change

The world was already deep in flux when Covid arrived, and thus the pandemic has accelerated the changes, but it has also altered them qualitatively. It's clear that even if you had a well-defined organizational strategy in January, you probably need to toss it out and start all over again now, because our situation has definitely changed. But furthermore, as we simply don't know what's coming next, what does the strategy change *to*?

And at the day to day level, have you noticed how many companies and governments have announced plans, actions, and decisions, only to reverse course the following day when subsequent events or public blowback revealed the flaws in their thinking? Public sporting events are on, then off, then on again. India shuts its economy and its transport systems, forcing millions to begin a long walk back to their home villages, which the government then realized would undo the intent of the shutdown, and the millions were then stopped half way.

Masks are optional, then mandatory ("AMC Theaters reverses course on masks after backlash"); Black Lives Matter masks are barred, then allowed ("Starbucks reverses its policy"); restaurants open, then reclose, and no one knows what's going to happen next. Protests arise and turn into riots, or they don't; police beat protesters, or join beside them; and all of this reveals how day to day uncertainty requires that our thinking evolve continually during the crisis.

Both of these vital factors – strategic uncertainty and day to day uncertainty – create a challenging new set of conditions for strategists and leaders.

So while it used to be the case that leaders would plan strategy every six months or once a year, now we've got to shift to a process of strategic

thinking that's a regular, even a constant process, not just a once-in-a-while thing you do at the annual offsite.

Consequently, the results, the plans, will not be written up in a binder for occasional reference, and the communications will not be the annual triumphant memo to the rest of the organization. They will be an ongoing strategic dialog among the leadership, and also involving everyone else.

The reasons for this ought to be crystal clear: the future – near, medium, and long term – holds such vast uncertainties, change is so pervasive, and the magnitude of what's happening is so great, that whatever you come up with as the best plan as of today may be valid only for weeks or months, but it will almost certainly not be valid for much longer than that. This requires a shift in perception, and a shift in practice as well.

Old Way to New Way

Please take a look at the table on the following page and see if you agree or disagree with any individual line, and with the overall "net result" message.

Do any of these shifts seem incorrectly labeled or misconceived to you? We would be very interested to have your feedback either way, agree or not.

But assuming that some, much, or all of the shifts noted on the table do make sense, then the practice of strategy-making must shift to adopting these new ways of thinking and working as described in the right-hand column.

We've previously referred to the new ways as "Agile Innovation" (the title of our 2014 book), and in this white paper we'll examine them in some new dimensions, and make some specific recommendations.

The New Approach to Strategy:
Strategy as a Learning System

Old Way		New Way
Situation changes periodically	→	Situation may change daily (& hourly…)
Once-a-year strategy offsite event	→	A continuous strategy conversation & process
Executive team does the strategy	→	Entire business ecosystem engages in strategic dialog
We largely follow formulas and templates	→	It's a fluid learning process
Strategy is set and then followed	→	Execution of strategy adjusts on a near-constant basis
Plans are agreements and artifacts	→	Planning is process and a conversation
Meeting face to face	→	Occasionally face to face, but often remote and virtual
We can anticipate a measure of stability	→	We know to expect major turbulence
Centralized decisionmaking	→	Distributed decisionmaking
Hierarchical organization	→	Networked organization
Business built around stability	→	Business built around adaptation
Focus on business execution	→	Focus on business learning to enable adaptive execution
Products and services innovation	→	Products and services innovation yes, but also business model innovation

**The net result: The game has changed, the way you play the game must also change.
Strategy is now a learning system.**

The new way to play the game requires that strategy development shifts from being an intermittent (once a year) *event*, to an ongoing *process*. This is "Strategy as a Learning System," for as change never stops, learning never stops.

As a quite timely example, *The Economist* reports (June 13, 2020) that, "Every Thursday at 5 pm three dozen of Germany's most prominent economists brush their hair, clear their throats and Zoom into the finance ministry for 90 minutes of debate on whatever is on its officials' minds. The sessions, which emerged from an informal discussion about the covid-19 crisis in March (2020), have inspired several policy measures."

In Germany, economic policy debate and policy making has thus, quite appropriately, shifted to become a real time endeavor.

Perhaps you've already adopted some of these new practices; now you should consider doing all of them (although not necessarily with 36 German economists…).

A bit further down in this white paper we'll describe six recommended actions to implement this new approach.

Hidden and Unspoken Meanings

Are you familiar with the iceberg model? It was developed by anthropologist Edward T. Hall, who suggested in his 1976 book *Beyond Culture* that while the overt actions are visible above the surface, what's more important is what's hidden below.

The purpose of the German economic debates is precisely to discern what's going on in the deeper layers, and to identify the consequences for the German government and the German central bank. (And due to Germany's importance as the strongest economy in Europe, these consequences will significantly impact the entire EU.) Events, it turns out, impact on mental models, and so there is a loop of social change.

Now that change is accelerating, and now that we've reached the fork in the road labeled "Covid-19," mental models are shifting, and the sooner you figure out what the new models are going to be, the better off you are.

By "fork in the road" we mean that prior to January we seemed as a society to be headed in a particular direction, but Covid has forced us onto a much different path, a sharp change in direction. This is amply illustrated by the recent wave of support for Black Lives Matter.

A Speculation on Black Lives Matter and its Relation with Covid

BLM is an example of the power and relevance of changing mental models: Have you wondered why the Black Lives Matter movement reignited with so much force in the last month?

Here's an interesting hypothesis as to why: The broad social response to Covid brought people throughout their communities to new levels of engagement with one another. Covid caused us
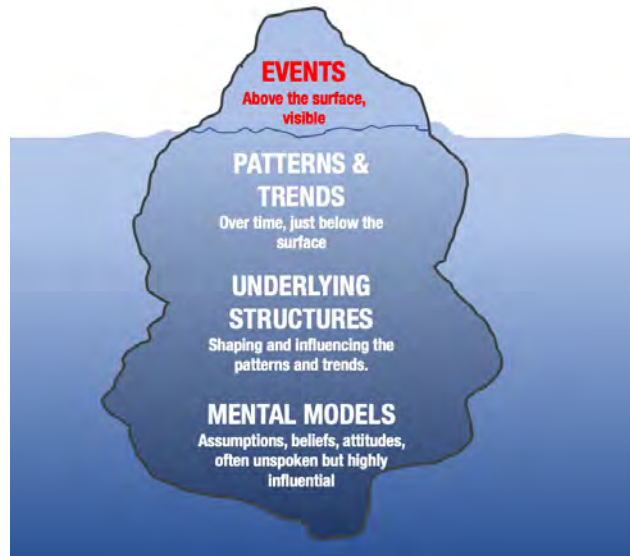
all to discover a new dimension of caring for self *and* caring for neighbors, wearing masks for protection, and staying home to protect ourselves, our neighbors, and health care workers, thereby sacrificing our economic situation because of a health crisis.
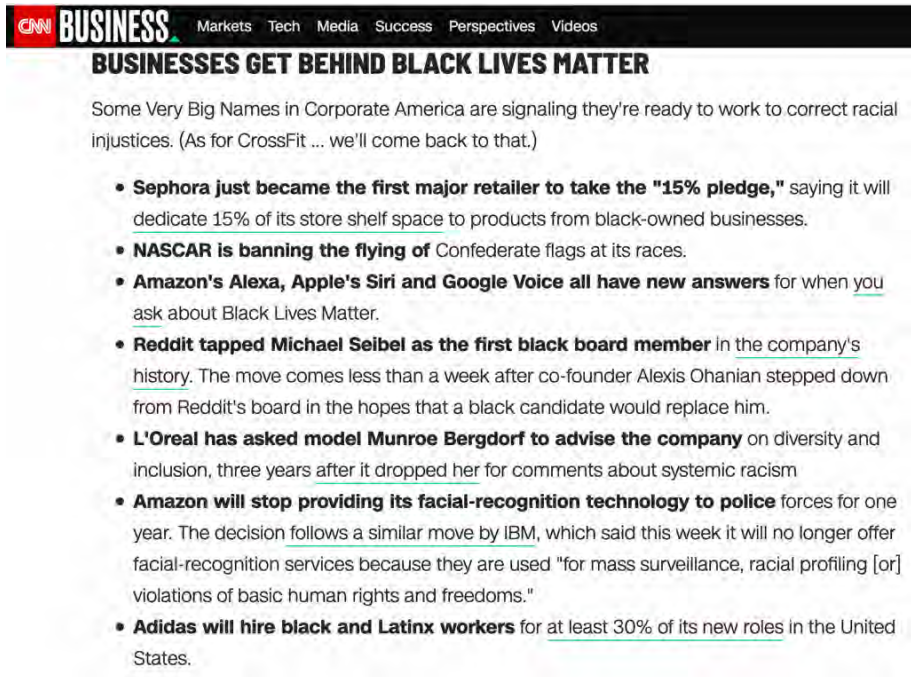
Business closed, but also gave away many tons of food, restaurants offered free meals for "essential workers," food banks expanded rapidly, companies donated protective equipment to clinics and hospitals, all at a scale that was unimaginable just a few months before.

And so the key point is that we all became much more highly sensitized to the importance of, and the meaning of, mutual care, and mutual respect.

And when black people in multiple cities were murdered by police, and these events were captured on video and displayed universally, instead of resigned acceptance of still more police brutality, the sensitized public suddenly experienced it as an unacceptable breach of the new normal of caring, and the outrage was not only immediate, it was universal. Marches occurred spontaneously in conservative Midwestern towns as well as in Europe and Asia.

I am thus suggesting an underlying hypothesis that Mental Models all across society had shifted, and that the response to Covid was a significant contributing factor in that shift.

White House; this year it seems entirely fitting to use this method to communicate an important message to a president who seems intent on a different message.

In this view, the outpouring of Black Lives Matter protests during Covid is thus in part a *consequence* of our experience of and response to Covid, not merely a *coincidence*.

It will take some time to know if this interpretation holds up to deeper scrutiny, but it does seem cogent as of now.

But assuming the connections between Covid, BLM, and our mental models of society are real, then these are key questions which the leader or strategist must now ask:

Our understanding of the meaning of "society" and our roles in it had shifted over the course of just a few months, and so up the iceberg the repercussions ran, from Mental Models to Underlying Structures, and then to Patterns, and then the stunning Events: Huge protests everywhere, statues destroyed, defund movements, names of schools changed, etc.

Or in the words of Ford Foundation President Darren Walker, "Everyone is riveted… the murder of George Floyd has gripped the psyche of white Americans like nothing I've seen in my lifetime." (He's 60 years old, so he's seen a fair amount.)

He makes an important point, that it's level of the engagement of white Americans in BLM that's particularly different now. Indeed, a year ago, no one would have even considered painting "Black Lives Matter" on the street in front of the

The Key Questions

1. **Is this a temporary or permanent change in our mental models?**
   (We believe it is likely permanent.)

2. **If it's permanent, what does it mean?**
   (It will have enduring consequences. We think that Covid is a fork in the road, and we will now begin down a new path. See below for more on this…)

3. **And what else is going to change?**
   (Yes, there will be further changes.)

4. **What does this mean to our organization?** (See below also…)

Six Essential Action Items

A fantastic way to find the answer to question 4 is the engage in an ecosystem-wide learning process. Specific learning efforts should take many forms; here are six we highly recommend:

Knowledge to Action

Set up an organization-wide knowledge capture system to enable many, many people to jointly build shared awareness, and to stimulate even more people to participate as well, and to take action also. This is of course exactly what you want – people learning actively and transforming learning into action: this is organizational adaptation.

You can gamify this to make it fun as well as meaningful. Bring forth interesting and surprising discoveries, and share them widely. Connect people together who observe similar or related events, and encourage them to explore the deeper levels of meaning. Engage people in collaborative discussions to anticipate what's next, and to create innovations in anticipation of these emerging needs and opportunities. (See "Active Experimentation," below.)

And even better than capturing knowledge from within the organization is to capture it from the broader ecosystem of partners, customers, and suppliers, thus becoming an ecosystem-wide knowledge-to-action base.

The lesson: The more and faster you learn, the better your responses will be. 1000 people learning is better than 10 or 100 people learning.

Explore Alternative Futures

The purpose of the scenario planning technique is to open our eyes to new possibilities, to get us out of our mental ruts, and to face the unpredictabilities and uncertainties of the future with fresh and attentive eyes.

Scenario planning, or really any type of futures-oriented thought experiment, should yield early warning signs, items of interest for renewed study, topics to follow in detail, and imperatives that your organization must address immediately.

As we saw with the first and third of our recent white papers (see the Appendix for a summary, or download them here), if you haven't done scenario planning you may find it quite worthwhile to do so. Especially now.

Other techniques to consider include Backcasting (the subject of the recent book "Lead from the Future" by Mark Johnson of Innosight), Trend Safaris, and Collaborative Future-Making.

The lesson: Find ways to look at the world through different eyes.

Active Experimentation

In our rapidly changing environment, it's mandatory to constantly test to discover what's working now and what's not working any more. Tests have to take place at many

levels – services design, product design, business model design, brand identity, market channels, customer communication, operating model ...

Throughout your organization, people should be constantly testing, exploring, probing, trying new things. Many of these will be minor or incremental tweaks, but some will be major initiatives, big ideas, bold moves.

To facilitate this you should consider setting up a new brand or two that you can use as "experimentation brands," where you can try new ideas without taking risk with your core brand. (This is a big topic, for sure, and worthy of its own white paper; we'll discuss it in more depth later this year.)

And as noted in the prior white paper, be particularly alert to threats to existing business models, and opportunities for business model innovations. While breakthrough technologies can take years to develop, business model transformations can be achieved in mere months, and can transform irrelevant business forms into renewed successes.

The lesson: Experiment constantly to discover the boundaries of possibility, and the spaces in which there are new risks and new opportunities.

Data Collection & Analysis

Some of your new knowledge will be conceptual and topical, but you should also collect quantitative findings, data, and then analyze that data extensively.

Massive amounts of data are now readily available, and AI systems can comb through these giant data sets to yield important insights.

Such data analytics tools should be available and in use quite broadly throughout your organization, and so should the skill to use them well. It may be that widespread training in analytic methods is necessary.

The lesson: Invest in data collection and analysis to get early warnings on market shifts.

Core and Edge Exploration

"Core" refers to existing markets and customer sets; "Edges" are the places where you have no presence, and probably weak knowledge. But as markets are changing, and quickly, core customers often desert you, and you're left scrambling.

Hence, it's necessary to always be alert to what's happening on the edge, as that's where your new customers will come from, and that's also where a lot of new ideas come from. (Steven Johnson's 2010 book "Where Good Ideas Come From" addresses this quite well.)

In our diagram below, the core is the heart of the bell curve distribution, and this has been your target market. But new ideas and behaviors are usually evident on the edge long before they reach the core, so by engaging with the edges you can learn important lessons early on.

The lesson: Don't just focus on your core, look to the edges as well.

And New Initiatives

These five learning techniques empower you to succeed at the sixth:

Do new things!
Big and bold things.

Change Brings New Terminology and New Data Points

Changing times like these bring new language that describes new realities. In case you missed them, here are some new terms as reported in *The Economist* and other sources that have been recently invented, or which have new meanings, and which describe important aspects of our new situation:

1. **Conduits of Economic Pain**
   Demand destruction spreads quickly through supply chains to bring second level economic suffering to otherwise unaffected industries.

2. **De-globalization** (also called, in consultant-speak, **"reshoring"**)
   Recognizing now that globalization has limited their ability to respond to demand shifts, many firms and nations are initiating de-globalization efforts, bringing production back locally even when the operating costs may be higher.
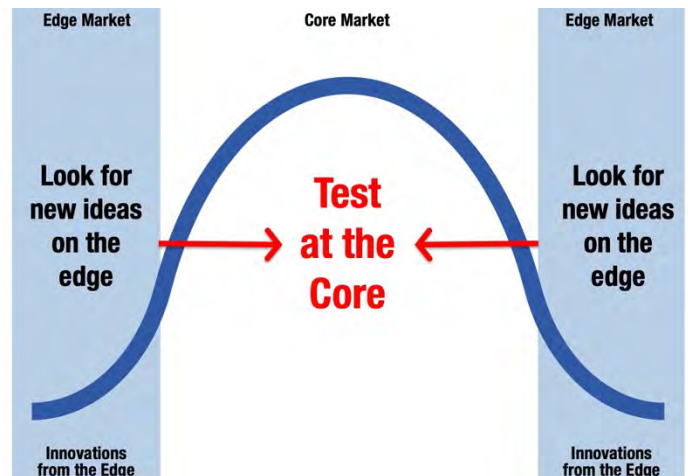
3. **Infodemic**
   The epidemic or pandemic of misinformation about Covid, particularly as sourced by less-than-forthright governments. It debilitates social response and leads inevitably to poor outcomes.

4. **Isolation Economy**
   This is what happens when large numbers of people are in prolonged lockdown. The result is ...

5. **Demand Destruction**
   People stop buying, either because they're locked in at home or their incomes have plummeted (or both), which causes overall demand to drop, all quite abruptly.

6. **Pantry-Loading**
   But the opposite of Demand Destruction also occurs when people stock up on essentials by bulk-ordering pasta, toilet paper, hand sanitizer, etc. This was prevalent during March, when TP could not be found in many cities. (The fact that two contradictory trends emerged as a

result of a single event nicely highlights the confusing nature of these times.)

7. **De-Urbanizing** vs. **Logic of Agglomeration**
Cities thrive due to density, as density enables them to achieve the higher productivity of ideas and knowledge. Covid, however, is precisely anti-density because social distancing and density are antithetical. How this will play out in the world's cities will tell us a lot about our shared future; if there is widespread de-urbanization, this will put the budgets of cities in a precarious position. Oh, wait, they're already there; it will make the precariousness even worse.

8. **Stimulus Fatigue**
Just how much debt can governments take on to fight the recession / depression. In Japan, stimulus spending is already 40% of GDP, a figure recently thought to be inconceivable. Covid has made the inconceivable into the commonplace, but how far can it go?

9. **Travel Bubble**
Places that are Covid-free become free travel zones, excluding those coming from Covid hot spots.

10. **Virtual Walkout**
What you do when you want to protest, but everyone is already at home anyway.

11. **Zoomers**
Those who spend major portions of their days working on Zoom. (They're the one doing the virtual walkouts….)

12. **Vaccine Nationalism**
Competition between nations in the search for a vaccine, or hoarding vaccine for their own citizens without regard for those in other nations. An extension of …

13. **Vaccine Tariff Warfare**
What happens when a nation has a vaccine (this is theoretical, since none does at present) and it doesn't share: other nations slap on huge tariffs to try to force changes in behavior, i.e., sharing. [This was not in *The Economist*; we made it up based on #12.]

14. **Essential Workers**
It used to be that everyone was essential. Now, suddenly, you're "essential" only if you save lives or operate vital infrastructure. Otherwise, please stay home. Wow, what a switch!

15. **Perspex / Plexiglass**
Clear plastic sheets that separate customers from cashiers in retail stores. Two months ago it was strange to see them; now it seems strange when they are absent.

16. **Design Hacks**
Improvised changes in our physical environment to remind us, for example, of the need for social distancing by painting spacing lines and directional arrows on the floor of the grocery store, or painting nicely-spaced circles across the lawn at the public park.

17. **Rescripting**
Design hacks "rescript" how we use public spaces: responses to Covid are changing the landscape of the city.

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A simple but highly productive action item is to pay attention to the new terms you notice in daily life. This is harder to do than it sounds, because we absorb these new concepts so readily, especially when they give us a way to describe what we've been noticing or feeling. But if you pause to note the words we're inventing, you're also likely to gain insights into how we're also living and thinking.

Conclusions:
The Next Economy May Be "The Accordion Era"

An *"annus horribilis"* is a horrible year, and 2020 has all the makings of one. We're now in a recession, and within a few months it may be an out-and-out depression.

This was, unusually, a self-induced recession, a consequence of our response to Covid, and the first recession ever that wasn't caused by systemic breakdown in the financial sector. (The finance people are quite happy not to be the cause of the problem, for once!)

We have never been in a situation such as this, and consequently even the economists don't know exactly how to get out of it, which is why the Germans meet each Thursday, rather than each quarter, 10x more frequently than in the past.

And as noted above, by locking ourselves in our homes and out of the market we have induced "demand destruction" on a mass scale, and this has crippled some of the world's major industries:

> Retail (non-food)
> Education
> Restaurants
> Travel & tourism
> Entertainment

Essentially, wherever people would have normally gathered, they've mostly not done so for 90+ days, and no one knows how soon they'll feel that it's safe to do so again. The collapse in these sectors has dragged otherwise healthy sectors of the economy along with them, including:

> Commercial real estate
> Manufacturing
> Energy
> Shipping

A pressing question now is whether the struggling industries will now drag the entire world economy all the way into a depression (see Conduits of Economic Pain, above), or if people will resume enough of their former economic behaviors to keep that from happening. As of today, again, no one knows.

China reopened almost entirely in May, and business had resumed nearly to pre-Covid levels for domestic markets until a new outbreak forced Beijing to close down. Will that now occur elsewhere?

Outbreaks in other nations, regions, and states are still expanding in their first wave, and no one knows if Covid will make a significant second wave reappearance later in the year or next year that will require a return to lockdowns, or if there will ever be an effective vaccines or treatments that alleviate the need for lockdowns.

We thus propose that we may thus be entering into an **"Accordion Era,"** wherein we close, and then open, and then must close again, and then reopen, etc. This will be an exceptionally difficult economy to manage, and many nations will do it poorly.

Lockdown fatigue and distancing fatigue will likely have roles to play here, as people will become impatient with the restrictions (which Americans in many cities are already demonstrating through their refusal to adopt protective measures). The virus may welcome these lapses, and spread the more aggressively.

And just as Covid was requiring us to learn a new vocabulary when the terms *social distancing, lockdown, flattening the curve, masks, PPE,* and *ventilators* came into everyday use, a massive awakening occurred upon the murders of George Floyd, Breonna Taylor, Ahmaud Arbery, and others, and the global reaction that it provoked.

Suddenly racism in America surged to the forefront of white awareness, the Black Lives Matter movement became meaningful to a much broader set of engaged supporters, and ideas and behaviors that had recently been controversial became widely accepted. Black Lives Matter signs are now displayed in windows and on lawns of people of all races in all communities, while President Trump's response provoked the mayor of Washington DC to paint a huge Black Lives Matter sign on the street directly in front of the White House.

Taking a knee was no longer an unusual act of defiance, but an accepted social statement of solidarity, and an expression of the urgent need for change; members of Congress knelt in the Capitol rotunda while police joined side by side with marchers and protesters in many cities.

It seems, therefore that we have arrived at a turning point, an economic one as well as a social one. Change is piling upon change, and what will happen tomorrow? No one knows …

But if you lead an organization, you must still be prepared.

It's a new game with new rules now, but we're still figuring out what the game is, and what the rules are. And we realize that the rules may not be fixed – they may change, as nothing much is fixed anymore. Events at the top of the iceberg have inspired change at the bottom, now percolating upward, deep and fundamental changes that have major consequences.

So we have to play differently and coach differently too, we have to do both based on a learning strategy first, on acute perception and rapid adaptation.

This is not something for just a few to engage in, as the more voices and perceptions that inform our understanding, the more clarity we're likely to attain, and the better our actions will be.

Hence our six suggested action items are various forms and facets for this purposeful and managed learning > to > action cycle:

> **Knowledge to action**
> **Explore alternative futures**
> **Active experimentation**
> **Data collection and analysis**
> **Core and edge exploration**
> **New initiatives.**

Together they will yield critical insights into the emerging models, structures, and patterns, and thereby enable you to anticipate events, rather than just reacting to them, and will lead to better action still. This is what we mean by "Strategy as a Learning System."

…

Stay well!
As always, we welcome your feedback, comments, and questions.
Please let us know if you've been successful implementing any of these action items, and any others that have worked for you as well.

*Please contact Langdon Morris at LMorris@innovationlabs.com*

Appendix

This is the fourth white paper in our Covid series, which began in March.

In the first paper, "Covid-19 and Scenario Planning," written just when the first impacts of Covid were beginning to be felt outside of China, we used scenario planning to explore how the crisis might unfold via twelve key variables and 20 different possible outcomes.
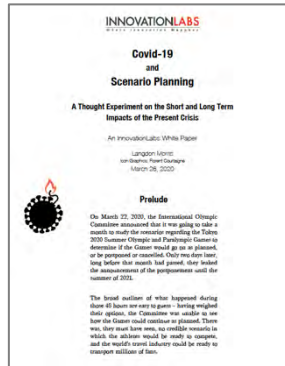
The second, "Responding to Covid-19: The Next Normal," was written in mid-April, by which time the situation had become clearer, although there were still major open questions. It thus focused on understanding the changing economy and its likely social impacts.
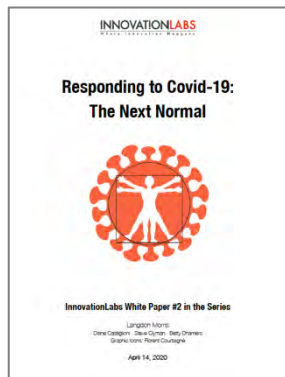
The third, "Covid-19: Business as Un-Usual," was completed in early May and focused on the likelihood of a global economic depression, examining how that might unfold, and suggesting how to prepare.
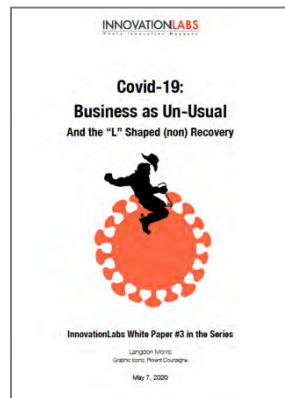
(You may download them all at the links provided on the cover images. While our system requires you to enter your name and email for each paper, it's smart enough not to pester you with multiple messages subsequently. Our apologies for the inconvenience of this.)

These papers have found their way around the world, as readers from dozens of nations shared thoughts and impressions with us. We are grateful for their input, and we welcome yours.

PS: Succeeding at Virtual Teaming

In the past you would have done your preparations in meetings and offsites, but by now you're learning how to do it remotely. A large and growing suite of online tools is available to support all aspects of the creative process, although you should also keep these guidelines in mind as well:

1. The rhythm of working when you're working virtually is different. Communicating with one another virtually is slower than face to face because we lack the physical cues that we're so highly attuned to in face to face settings. The creative gestation process is also slower, because looking for order among small images on a screen just isn't the same as looking for patterns on a wall covered with post-its. Consequently, you have to structure virtual creativity and strategy sessions differently.

2. Facilitation of the online workflow is also different, both because the rhythm and timing are different, and because the specific requirements of online moderation are also different. Facilitation by pros can really help.

3. Empathy and patience are needed, as working parents are home-schooling and parenting while working, handling third grade math support and corporate strategy design in alternate hours (or minutes) of the day.

4. People are comforting and caring for sick loved ones, or worrying about them from a distance, or mourning loved ones whom they could not comfort. These family worries, especially combined with the

overwhelm of this unprecedented Covid situation, create mental loads that slow down the thinking process. So again, we must be patient.

5. One of the key benefits of working face to face is that it enables immersion in problems, discussions, and ideas, but virtual immersion is different and harder to achieve. A room full of colleagues debating big ideas is not the same as tiny heads stacked in Zoom rows, and this has to be considered when you design the process. Design Thinking, virtual style, has to be reconceived.

6. For example, ideation is different. Instead of groups at tables, consider seeding ideas in briefing documents sent ahead for study, because ideation goes more slowly in virtual settings. Think about a daily work cycle such as a group brainstorming session followed the next day by synthesis (instead of the next 20 minutes...).

7. Implementation will be different as well...

Please note that InnovationLabs is now preparing a new "Virtual Facilitation Guidebook" as a companion to our well-known guidebook for face to face sessions. Please share any tips and tricks or effective methods with us so we can be sure to include them, and we'll let you know when it's available.

We're also now preparing a complete online video course on *Innovation Mastery*. More to come on this in July.

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At InnovationLabs we stand ready to support your learning, your strategy, and your innovation efforts. We're recognized globally as one of the leading consulting firms in innovation and strategy, and for the last twenty years we have supported small, medium, and large firms, non-profit organizations, and governments around the world with consulting and training services to help them adapt to change and thrive through innovation.

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Please let us know how we can support your organization.