

California Management Review

STRATEGY

A Better Way to Forecast

Uriel Haran • Don A. Moore

The Japanese Software Industry:
What Went Wrong and What Can We
Learn from It?

Robert E. Cole • Yoshifumi Nakata

A Service Lens on Value Creation:
Marketing's Role in Achieving Strategic
Advantage

Lance A. Bettencourt • Robert F. Lusch •
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Opportunity Creation in Innovation
Networks:

Interactive Revealing Practices

Sirkka L. Jarvenpaa • Liisa Välikangas

Green Innovation Games:

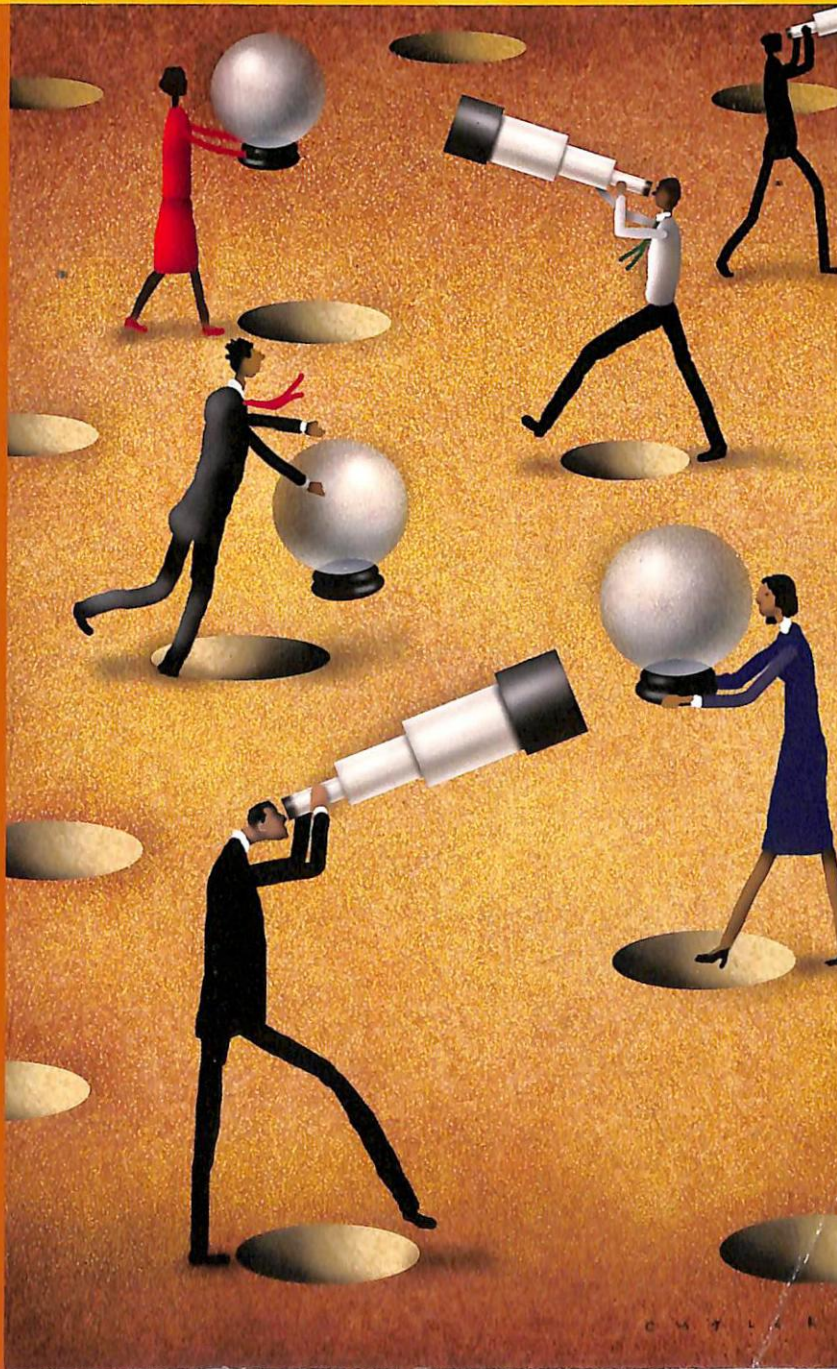
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Tommi Lampikoski • Mika Westerlund •
Risto Rajala • Kristian Möller

Fish Friendly Farming:

Water, Wine, and Fish—Sustainable
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Ernest Gundling



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5 A Better Way to Forecast

Uriel Haran and Don A. Moore

Every business decision depends on making a forecast of the consequences of the decision. Although most organizations do forecasting, most do so badly. They ask either for a point prediction—a single “best guess” forecast, when everyone knows that this is an oversimplification of the truth, or for a simple range forecast, which is likely to result in biased predictions more often than not. In this article, we propose a better approach, one that takes seriously the uncertainty in forecasting and the most common errors in the way people think about this uncertainty.

16 The Japanese Software Industry: What Went Wrong and What Can We Learn from It?

Robert E. Cole and Yoshifumi Nakata

Recent findings indicate that the Japanese IT sector increasingly lags the U.S. IT sector in software innovation and that this underlies Japan’s weakening competitive performance vis-à-vis U.S. IT. This article explores alternative explanations for this outcome and analyzes what explains the Japanese software industry’s trajectory. The sources are found in the late understanding of the transformational role of software and its value-creating potential as well as in the evolution of the industry’s structure. Finally, this article considers what policy makers in other nations might learn from the Japanese experience in building a more vibrant software industry.

44 A Service Lens on Value Creation: Marketing’s Role in Achieving Strategic Advantage

Lance A. Bettencourt, Robert F. Lusch, and Stephen L. Vargo

Marketing needs a new mindset to fulfill its proper role in creating and sustaining strategic advantage. To extend its influence beyond the boundaries of current offerings, the firm, and conventional practice, marketing and markets must be viewed through a service lens. This lens allows marketing to take a lead role in assisting the enterprise to become an enabler of value co-creation by customers who have jobs to be done. This article offers four new premises to guide marketing thought and practice and draw out implications of these premises for achieving and sustaining strategic advantage.

67 Opportunity Creation in Innovation Networks: Interactive Revealing Practices

Sirkka L. Jarvenpaa and Liisa Välikangas

Innovating in networks with partners that have diverse knowledge is challenging. The challenges stem from the fact that the commonly used knowledge protection mechanisms often are neither available nor suitable in early stage exploratory collaborations. This article focuses on how company participants in heterogeneous industry networks share private knowledge while protecting firm-specific appropriation. It goes beyond the prevailing strategic choice perspectives to discuss interactive revealing practices that sustain joint opportunity creation in the fragile phase of early network formation.

88 Green Innovation Games: Value-Creation Strategies for Corporate Sustainability

Tommi Lampikoski, Mika Westerlund, Risto Rajala, and Kristian Möller

This study builds on insights from 49 sustainability leaders in the U.S. by examining green innovation from the game perspective. It explores how corporate sustainability can advance

environmentally friendly innovations, and what managerial roles and activities are required to enable the transformation. It identifies four green innovation games characterized by different underlying value creation logics and organizational and mental barriers. The article suggests ways that can help managers to overcome these barriers and incorporate three decisive managerial roles into their corporate agenda and culture to advance corporate sustainability.

117 Fish Friendly Farming: Water, Wine, and Fish—Sustainable Agriculture for a Thirsty World
Ernest Gundling

This case study focuses on Fish Friendly Farming, part of a nonprofit organization, the California Land Stewardship Institute. The FFF program is an example of an innovative model for cooperative public-private environmental collaboration and stewardship. The case provides a history of FFF and its ability to create networks and collaborations between parties that typically find it difficult to work together. This case focuses both on sustainability issues related to land and farming, and on challenges related to scaling up a successful nonprofit organization.

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SUMMARIES

- 5 Social Capital, Sensemaking, and Recovery: Japanese Companies and the 2011 Earthquake
George Olcott and Nick Oliver
The earthquake that hit East Japan in March 2011 caused massive damage. While widespread disruption to global supply chains was predicted, production resumed with remarkable speed. This article describes how resources from the networks of damaged companies were rapidly mobilized and deployed, enabling rapid restoration of production. It uses the concepts of social capital and sensemaking to explain the speed of recovery. Social capital facilitated rapid mobilization, and strategies to build shared mental models permitted effective coordination under complex and rapidly evolving conditions. The ability to mobilize and focus resources is crucial to disaster recovery.
- 23 Managing Value in Supply Chains: Case Studies on the Sourcing Hub Concept
Anupam Agrawal, Arnoud De Meyer, and Luk N. Van Wassenhove
A firm's raw material sourcing knowledge can be a strategic resource. This article explores how firms can capture and use this knowledge. It examines the sourcing experiences of four firms in four different countries in the automotive industry and identifies the raw material sourcing knowledge-related parameters. Synthesizing the findings from these case studies, it proposes the concept of the sourcing hub, a collaborative center involving the firm, its suppliers, and raw material suppliers, which can effectively capture and deploy the raw material sourcing knowledge for managing value in upstream sourcing.
- 55 Retail Inventory: Managing the Canary in the Coal Mine
Vishal Gaur, Saravanan Kesavan, and Ananth Raman
Retail inventory is a statistic that is closely watched by retailers as well as their investors, lenders, and suppliers. Retailers not only benefit from inventory, but also bear the cost of excess inventory. Investors, lenders, and suppliers interpret this statistic for signs of the retailer's health, future sales prospects, and impending costs. This article synthesizes the perspectives of investors, lenders, and suppliers on inventory. Moreover, the article shows that inventory turns, a commonly used metric to identify excess inventory, has important limitations that reduce its utility for all these stakeholders. It then presents a new metric, adjusted inventory turns, which can be effectively utilized by all stakeholders to assess whether a retailer is carrying too much or too little inventory.
- 77 Coping with Open Innovation: Responding to the Challenges of External Engagement in R&D
Ammon Salter, Paola Criscuolo, and Anne L.J. Ter Wal
Open innovation often requires wholesale changes to the nature of R&D. However, academic research and managerial practice have paid little attention to the challenges that individuals face in the daily pursuit of open innovation. As a result, there is little understanding of how individuals cope with open innovation, and which organizational practices can support them in this role. Drawing on the experiences of R&D professionals, this article identifies four specific challenges and coping strategies of individuals engaged in open innovation. It proposes a range of open innovation practices that organizations can implement to better equip their staff to undertake effective external engagement.

95 Employee Contributions to Brand Equity

Betsy DuBois Gelb and Deva Rangarajan

Viewing employees as elements of a brand or as "brand ambassadors" means that almost any policy can affect brand equity. Resource allocation for brand-building requires understanding what differentiates "our brand" in order to focus resources on the employees who provide that difference. Employees' commitment to the brand increases when they know how they can contribute. Management actions matter—from small issues like free coffee to large issues like mass layoffs.

113 Culture Change at Genentech: Accelerating Strategic and Financial Accomplishments

Jennifer Chatman

This case study describes the culture change process and positive outcomes at one of Genentech's largest divisions, Immunology and Ophthalmology (GIO). Senior Vice President Jennifer Cook worked with her team to develop a culture that would tie together four brands that previously were not in the same division. Despite various challenges along the way, Cook pursued a culture change approach with definitive and relatively rapid outcomes. This is a story of the role that leaders have in undertaking and inspiring major culture change.

130 Contesting the Value of "Creating Shared Value"

Andrew Crane, Guido Palazzo, Laura J. Spence, and Dirk Matten

This article critiques Porter and Kramer's concept of creating shared value. The strengths of the idea are highlighted in terms of its popularity among practitioner and academic audiences, its connecting of strategy and social goals, and its systematizing of some previously underdeveloped, disconnected areas of research and practice. However, the concept suffers from some serious shortcomings, namely: it is unoriginal; it ignores the tensions inherent to responsible business activity; it is naïve about business compliance; and it is based on a shallow conception of the corporation's role in society. [Michael Porter and Mark Kramer were invited to respond to this article. Their commentary follows along with a reply by Crane and his co-authors.]

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- 13 Strategic Agility in MNEs:
Managing Tensions to Capture Opportunities across Emerging and Established Markets
Sebastian P.L. Fourné, Justin J.P. Jansen, and Tom J.M. Mom
Traditional sources of sustainable competitive advantage are very rare in today's heterogeneous and hypercompetitive global business environment. This article identifies and illustrates three dynamic capabilities—sensing local opportunities, enacting global complementarities, and appropriating local value—by which MNEs are able to operate successfully across emerging and established markets. For MNEs in these markets, strategic agility is a meta-capability that enables them to create and deploy these three capabilities in a dynamic balance over time. Doing so demands embracing the tensions between these capabilities effectively.
- 39 How Do Different Types of Mergers and Acquisitions Facilitate Strategic Agility?
Nir N. Brueller, Abraham Carmeli, and Israel Drori
Firms struggle to create an agile organizational system since it requires the development of three enabling capacities: to make sense quickly, make decisions nimbly, and redeploy resources rapidly. While the study of strategic agility is of growing interest as a prime means of organizational growth, the ways by which key mechanisms of growth such as mergers and acquisitions (M&As) help in building this capability remain elusive. This article highlights the differences between platform acquisitions and bolt-on acquisitions (most bolt-on acquisitions in high technology industries can further be separated into product acquisitions on the one hand, and educational, technological and/or talent acquisitions on the other hand). These different forms of acquisitions can enhance strategic agility in distinct ways along different time horizons. When properly managed, acquisitions can enhance the gradual accumulation of the capabilities underlying strategic agility. This article presents a more complex picture of a non-linear reinforcing dual path between M&As and strategic agility.
- 58 Paradoxical Leadership to Enable Strategic Agility
Marianne W. Lewis, Constantine Andriopoulos, Wendy K. Smith
Strategic agility evokes contradictions, such as stability-flexibility, commitment-change, and established routines-novel approaches. These competing demands pose challenges that require paradoxical leadership—practices seeking creative, both/and solutions that can enable fast-paced, adaptable decision making. Why is managing paradox critical to strategic agility? And which practices enable leaders to effectively manage tensions? This article describes the paradoxical nature of strategic agility. Drawing from data from five firms, Astro Studios, Digital Divide Data, IBM Global Services Canada, Lego, and Unilever, it proposes leadership practices to effectively respond to these challenges.
- 78 How to Tell which Decisions are Strategic
Ram Shrivakumar
How can one tell which decisions are strategic? This article proposes a framework that helps distinguish strategic decisions from non-strategic ones. Whether a decision is strategic or non-strategic depends on how a decision ranks along two dimensions: its influence on the degree of commitment and its influence on the scope of the firm. Four distinct types of decisions

emerge: strategic, neo-strategic, tactical, and operational. This categorization of decisions can help the firm prioritize decisions, allocate resources, and develop capabilities.

98 Developing and Diffusing New Technologies: Strategies for Legitimization

Jeremy Hall, Vernon Bachor, and Stelvia Matos

Drawing on cases in agricultural transgenic technology and genomics in forestry, this article provides a framework to help managers develop strategies for more efficient technology development and diffusion. Strategies that fail to consider legitimization processes, especially in controversial social environments and/or varying institutional settings, could result in costly delays or promising technology left sitting on the shelf. Technology developers need to identify key technological, commercial, organizational, and societal uncertainties during the early phases of the technology's development, allowing them to shape the technology for more efficient diffusion.

118 What Impact? A Framework for Measuring the Scale and Scope of Social Performance

Alnoor Ebrahim and V. Kasturi Rangan

Organizations with social missions, such as nonprofits and social enterprises, are under growing pressure to demonstrate their impacts on pressing societal problems such as global poverty. This article draws on several cases to build a performance assessment framework premised on an organization's operational mission, scale, and scope. Not all organizations should measure their long-term impact, defined as lasting changes in the lives of people and their societies. Rather, some organizations would be better off measuring shorter-term outputs or individual outcomes. Funders such as foundations and impact investors are better positioned to measure systemic impacts.

142 Maersk Line: B2B Social Media—"It's Communication, Not Marketing"

Zsolt Katona and Miklos Sarvary

The case describes the launch of a social media platform by the largest container shipping company in the world. Maersk Line garnered over 1 million fans on Facebook, 40,000 followers on Twitter, and 22,000 on Instagram. They also launched and became active on other social media networks such as LinkedIn, Pinterest, and Google+ and created a social media home base for Maersk Line called Maersk Line Social that published articles and stories about the company in a less formal manner. The case discusses the organizational aspects of the program launch, as well as pressure from the marketing department to better integrate the largely independent social media operation into the company's broader marketing efforts.

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SUMMARIES

5 Leanwashing: A Hidden Factor in the Obesity Crisis

Aneel Karnani, Brent McFerran, and Anirban Mukhopadhyay

Medical research consensus is that a poor diet is a much greater determinant of obesity than lack of exercise. However, the authors' primary research shows that only about half of lay people believe that diet is the primary cause of obesity. People who mistakenly underestimate the importance of a poor diet are in fact more overweight than people who correctly believe that it is the primary cause of obesity. The marketing, public relations, and corporate social responsibility campaigns of food and beverage companies consistently overemphasize the lack of exercise as the cause of obesity—the authors call this "leanwashing."

31 Winning in Rural Emerging Markets: General Electric's Research Study on MNCs

Fabio Ancarani, Judy K. Frels, Joanne Miller, Chiara Saibene, and Massimo Barberio

In 2010, General Electric launched an investigation into how multinational corporations (MNCs) were adapting to rural emerging markets. A team of 33 executives and three academics examined models ranging from Toyota's vehicle servicing program in East Africa to Nokia's localized mobile handset financing in India to Egis Pharmaceuticals' worker retention incentives in Eastern Europe. The project included 15 case studies from India, China, Africa, and Eastern Europe. This article presents common tactics that these MNCs have used to successfully adapt to rural markets in emerging regions across five key organizational functions: product development, distribution, service, financing, and human resources.

53 Is Revenue Sharing Right for Your Supply Chain?

Mehmet Sekip Altug and Garrett van Ryzin

Many firms have enjoyed remarkable success using revenue sharing contracts to improve supply chain performance. Video rental industry and its pioneering deal with movie studios is one such example. At the same time, other firms have struggled to make it work. What accounts for this difference? When can revenue sharing create significant value and what are implementation costs? By comparing and contrasting several case examples—including our own experience working with a major semi-conductor manufacturer—we develop a general framework that helps answer these questions, which is based on the fundamental sources of added value and added costs.

82 Managing Ambiguity in Strategic Alliances

Rajesh Kumar

Alliances have become a core component of many firms' strategy, but they are often characterized by a high level of instability that can lead to failure. Ambiguity is an intrinsic aspect of strategic alliances and effective management of it determines how well the partners are able to make the alliance work. Alliances are subject to three types of ambiguity—partner, interaction, and evaluative—that are important at different stages of alliance evolution. Partner-related ambiguity is most prevalent at the formation stage of the alliance, interaction ambiguity at the operational stage, and evaluative ambiguity at the outcome stage. This article examines the mechanisms by which firms can best manage these different types of ambiguity to achieve a successful alliance.

103 Managing Crowds in Innovation Challenges

Arvind Malhotra and Ann Majchrzak

Crowdsourcing for innovation is typically conducted as an "innovation challenge." Despite the popularity of innovation challenges, there appears to be a growing consensus that innovation challenges do not succeed at generating solutions with competitive advantage potential. This article presents three ways in which managers can assure that their innovation challenges are fruitful: foster different crowd roles to encourage contribution diversity; offer knowledge integration instructions and dual incentives; and offer explicit instructions for sharing different types of knowledge.

124 Social Media: A Tool for Open Innovation

Matthew Mount and Marian Garcia Martinez

Despite the exponential rise of social media use in external stakeholder engagement, academic research and managerial practice have paid little attention to how it can be used for open innovation across the entire innovation funnel, spanning ideation, R&D, and commercialization. As a result, there is little understanding of how companies can organize for and implement social media for open innovation. Utilizing a multiple case study design, this article examines its application across the entire innovation process. It proposes a range of organizational and technological adaptations that managers can implement to ensure they realize the innovative benefits of social media application.

144 Chez Panisse: Building an Open Innovation Ecosystem

Henry Chesbrough, Sohyeong Kim, and Alice Agogino

The case study provides a history of Chez Panisse and Alice Waters. Throughout Chez Panisse's history, Waters and her team had built a local and now global ecosystem using an "open innovation" strategy with stakeholders such as suppliers, alumni chef and staff, food writers, and others. The Chez Panisse ecosystem case study uses an open innovation framework to analyze how Chez Panisse grew. The case study examines how a small firm thrived and became a business success based on building a successful business ecosystem that shares knowledge, encourages individuals' growth, and embeds trust among participants.