

# Rational numbers don't always add up

**Roger Martin** says business strategy is undergoing a historic shift with renewed emphasis on creativity.

What do Cirque du Soleil, Apple and Procter & Gamble have in common, besides being the most successful global players in their respective fields? Each has played a critical part in showing that analytics is not the only way of driving and measuring business success. We are seeing the reversal of a century-long pendulum swing, and design now sits at the heart of a rising number of innovative companies.

For the past century, dating back to the stopwatch-wielding days of Frederick Winslow Taylor, an American engineer and arguably the first management consultant, business has moved towards ever more intensive scientific management. From Statistical Process Control to Six Sigma to Supply Chain Management to Decision Support Software, business has become ever more quantitative, analytical and algorithmic.

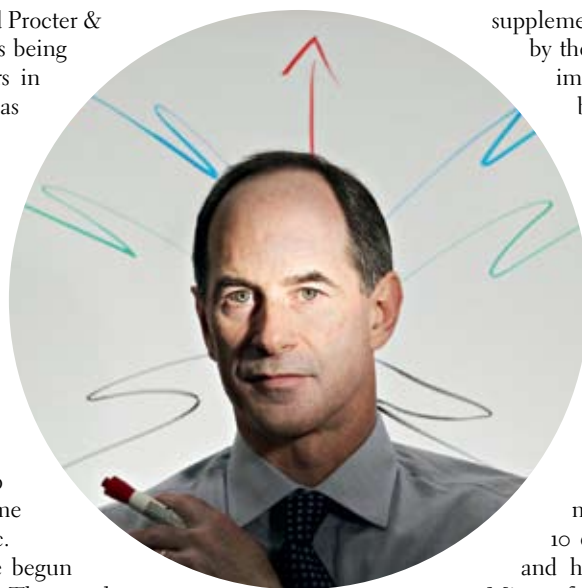
But forward-thinking business executives have begun to recognise that this approach has overreached. They read the crisp reports that spit out of their enterprise resource planning systems and while they know exactly how many widgets they shipped last week, that isn't helping them figure out the next great thing that customers want.

While their customer-relationship management system lets them quantify the profitability of every buyer and then serve up a perfectly customised offer, buyers don't necessarily see the value and have an eerie feeling that Big Brother is watching them shop. While executives can draw on research that is statistically significant without a doubt, they wonder why their products or services don't grab the targeted consumers.

These executives are realising that we can't turn every aspect of business into an algorithm and are leading a shift from analytics towards judgement, from crunching towards creativity. They are moving from the world of algorithms to that of heuristics, where rules of thumb help them understand the complex and ambiguous world around us, but stop short of being a formula and leave room for people to collaborate, to use judgement and create the future.

This is the world of Apple's Steve Jobs, Cirque du Soleil's Guy Laliberté and Procter & Gamble's A.G. Lafley. Each understands that he could turn any aspect of the business into an algorithm, but to do so would leave so much out that they would turn iPods into generic MP3 players and global destination entertainment events into, well, circuses.

These and other business designers like them recognise that while they need to utilise the core tools of scientific management, which are the deductive logic of what must be and the inductive logic of what is operative, they need to



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supplement the scientific with the creative, which is powered by the abductive logic of what might be. They need to imagine possibilities that don't exist. They need to balance the desire for reliability – a consistent replicable outcome – with imperative of validity – the production of an outcome that is exactly what is needed and wanted.

For shareholders, the embrace of design means that they need to accept striking failure as the natural co-product of smashing success. Apple shareholders have come to understand that to get the stunning breakthrough that the Macintosh represented, they needed to accept the abject failure of the Lisa that preceded it.

And that the Newton was an important precursor to the iPhone. While a wild ride, that is not a bad deal. Despite a series of errors that would daunt many companies, Apple has become one of the top 10 companies in the world by market capitalisation, and has closed to within a stone's throw of toppling Microsoft as the most valuable technology company.

Revived by its 2000-2009 CEO, business designer A.G. Lafley, Procter & Gamble has also climbed into the top 10 companies in the world. Throughout his entire tenure as CEO, Lafley insisted on in-home visits with consumers – or stream-side visits in rural China – wherever he travelled. Lafley didn't make billion-dollar decisions on the basis of a few such visits. He understood full well that what he saw wasn't a representative and statistically significant sample. But by delving into the mysteries of how his products interacted with customers' lives, he learnt things that a big quantitative, algorithmic survey would never reveal.

Appreciation of this approach is also building momentum in Australia. A new type of strategic innovation consultancy, Second Road, is working with leaders from both private sector blue-chips and government agencies to help them lead the shift towards this more productive balance.

In the modern economy it is these forward-thinking chief executives that are winning, and that is why I believe that the pendulum is swinging away from the extremes of scientific management towards a different way of thinking, typically named design thinking. By delving into the mysteries that define the future of its businesses and developing the heuristics for understanding them, the new generation of business designers is seizing the high ground for the future.

Roger Martin is dean of the Rotman School of Management in Toronto, a board member at Thomson Reuters and Research in Motion (creator of the BlackBerry) and the author of *The Design of Business: Why design thinking is the next competitive advantage*.