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The end of competitive advantage

How to stay responsive, flexible, fast-moving and resilient: a new book by Columbia professor Rita Gunther McGrath

This is bold, clear and thought-provoking: a strategy book that may be even more interesting on how to set up organisation, culture and leadership to win in today's tough, unpredictable and fast changing world. McGrath challenges head-on the approach to strategy most famously taken by Michael Porter and his 'five forces' and which forms the basis of decades of work by the big management consultancies (such as BCG and their growth/share matrix) and well-known gurus (such as Hamel and Prahalad and their core competencies).

The New Logic of Strategy

McGrath says the search for 'sustainable advantage' creates a bias toward stability - deadly in today's competitive dynamic environments. She says that her research underlines that today, a state of change is normal, and stability is abnormal. So a presumption of stability creates all the wrong reflexes – including the conditions for turf wars and organisational rigidity and fostering denial rather than proactive approaches to strategic next steps. And yet, "change management" is seen as a special act requiring special attention, training, resources and specialist experts - rather than normal working that applies to everyone. She credits her thinking to years of working with clients such as Dupont, 3M, Nokia, Intel and IBM who, she observed, had begun to recognise that standard good practice in strategy and planning were not keeping up with the speed of change in their markets, and in the world.

The research basis for evidence

McGrath's book is based on solid evidence. Her research team looked at all companies with capitalisation over $1bn, on global exchanges, that had grown by 5 percent every year for the ten years to 2010. They were not interested in total growth over the period, but in those companies that had steady annual growth year in year out through a turbulent period. The reason they put the bar at 5%+ per year is that global GDP growth averaged 4% during that period and so those growing faster than that were not simply growing with the economy. Only 10 of the 4,793 $1bn+ companies (an astonishingly low 0.25%) achieved all this, and McGrath researched them all, calling them the *growth outliers* - their steady performance was so unusual in the face of change and uncertainty. The companies include: Cognizant (US – IT and outsourcing); HDFC Bank (India); ACS (Spain – construction); KrKa (Slovenia – pharmaceuticals); Infosys (India – consulting, IT, outsourcing); Tsingtao Brewery (China); Atmos Energy (US).

The 'transient advantage' strategy playbook – implications for organisation and leadership

This is how she describes characteristics of these *growth outliers*. We have focused in particular on the leadership and organisational issues more than the pure strategy and innovation ones.

1. Continuous reconfiguration: achieving the balance between stability and agility

McGrath found fewer dramatic downsizings, re-organisations or big changes in these growth outliers than you would find in most businesses. What she found was more continual change, more fluidity. People did not stick with the same role for long periods, but everyone understood the evolutionary path. Everyone knew that there would be ongoing re-evaluation of current activities, and that some would give way to new ones.

Compare that with most large businesses, where short-to-medium term stability is the norm: people become quite dysfunctional when facing extreme uncertainty. In contrast these *growth outliers* have found ways to be agile and change fluidly, while limiting the level of uncertainty and the unknown that people have to face.

Agility is reinforced through stretch ambitions that are designed around a clear common direction and purpose and outcomes, but not too rigid on *how*, so that plans can be changed through year in seamless ways.

A sense of stability is created by serious investment of time and effort in two areas:

- *Creating a common identity, values and culture*: people are committed to their organisation and know the organisation is committed to them. They know how everyone is expected to behave. This is re-enforced by a commitment to training and development – which is an important proof of loyalty to the employee and a way of ensuring employees are continually re-thinking their capabilities. In Infosys, for example, when people have any spare time not fully deployed, they are expected to take advantage of a wide array of education and training opportunities.

  The growth outliers also invest in sustained engagement between the organisation and its people. Everyone knows what is going on, what is changing and what progress is being made.

- *Downplaying the importance of structures and leadership roles*: so leaders change roles regularly. Senior leadership as a whole seems to stay very stable in these 10 companies – all being promoted from within, with no external hires.

  In most cases it is also true that senior leaders kept a fairly low external profile. Although visible in the media, and playing some public roles, they did not seem to be seeking the limelight. McGrath also says that, compared to some senior business leaders she has met, these were courteous, low key and attentive when met in person.

For the average manager, the key appears to be knowing that particular roles are transitory, and that the career path will not be linear and always upward. Everyone is flexible around where the organisation goes next. They know that as long as they continue to contribute and add value, they will have an interesting and worthwhile career.

2. Healthy disengagement from successful markets or businesses as they start declining

In a world of transient advantage, *stopping* things is every bit as critical as *starting* things. These companies seem to do so gradually rather than suddenly. “We slow down on allocating resources over a period of time ... you don’t need to chop it off, you need to let it live its life”, says a leader at Infosys. This is about mindset as much as about financial planning: it is unrealistic to expect managers, whose careers depend on “their” area of the business, proposing an exit – unless it is seen as a normal positive step, and as good for the career, by everyone.

So in the growth outliers, exits from markets are seen by all as a regular way of doing business – not a failure, or crisis, or abnormal event. Key to this is to ensure no chance of hanging on to the bitter end. Take the film market, for example: compare Kodak with Fuji, as one headed for bankruptcy despite repeated warnings and the other evolved in an orderly way to be stronger than ever in a digital age. (For more examples of this type of failure see our Brief summary of *How the mighty fall* - Jim Collins’ book on the risk of decline facing all large successful organisations from hubris, the undisciplined pursuit of more, and the denial of peril.)

3. Using resource allocation to promote agility over assumptions of continuity

It is well researched that the way that resources are allocated is one of the most powerful ways to shape behaviour in an organisation. In most companies, ‘important’ people are those that have managed to build and hold on to lots of assets and staff. Indeed in a traditional business dedicated to exploiting markets and resources, then size and scale are usually a sign of success. This standard approach is reinforced by systems such as the Hay Group points allocation in which pay and seniority are totally tied to size and scope of operation. McGrath quotes one publishing company trying to move to be more agile and fast growing, as saying that this way of rating people was their biggest single obstacle.

The other key attribute of most standard companies is that annual planning is built on the numbers of the previous year - until there is a decision for some major upheaval, leading to winners and losers. Instead, these growth outliers drive management and leadership careers built on the ability to continually adapt, instead of how well they build empires. At Infosys, budgets are adjusted to support new growth on a rolling four quarters. They would adjust budgets more frequently but have decided that quarterly creates the right pay-off between the gain from opportunities and the cost of disruption. The analysis and decisions on these regular adjustments is based on widely understood and openly accessible data – nothing is hidden: "In God we trust, everyone else brings data". At a publishing company, they have a rule of thumb that at any one time 60% of investments are put into markets that are currently growing more than 5%, and adjust frequently to keep this in line. No leader has the 'right to expect' when it comes to investment and resource.

4. ***Building innovation proficiency: piloting, trial and error and supporting intelligent failure***

In growth outliers, there is a different approach to innovation, compared to most businesses. There is much more focus on planning, governance and roll-out, rather than focusing mainly on the actual 'creation' of the innovation itself. The result of having a more complete process is a balanced range of initiatives: chosen from the point of view of the organisation as a whole, which keep the whole business evolving, and are based on a clearly articulated and widely understood idea of what the broad purposes of innovations should be.

Key to this is a mindset, and set of supporting processes, that assumes that it is better to learn quickly through trying something through pilots, rather than assume that there is any certainty that comes out of long-term analysis and planning. It also means ensuring enough time for the piloting and testing phase to actually learn and develop and get things working well when they come into contact with real customers – while also resisting any urgency of demands to deliver profit and growth.

In growth outliers, intelligent failures are seen as good - although always challenged to see what lessons can be learnt. Trial and error learning, and discovery, are key practices.

It also means being able and willing to move very fast when new ideas go well and can be ramped up fast to gain advantage of success.

5. ***Leadership and mindset: diversity, speed of decisions and the challenge of a 'dentist visit'***

If a senior team is homogeneous, it limits the mental territory that they can cover. Diversity of attitude, experience, or background is essential. A common sense of urgency is vital: slow decision-making can be very costly. Challenge is open, constructive, and the norm: at India's HDFC Bank, the CEO says: "Treat the CEO visit as a dentist visit. There will be pain. While you will get a lot of encouragement, my job is to tell you what's working and what is not." The CEO of Cognizant behaves in a very similar way according to a colleague: "Any recommendation that goes to him will be challenged. The conclusion will be challenged, the reasoning behind the conclusion will be challenged, and the source of the data will be challenged. And, on a bad day, the methods and motives of the source will be challenged...It makes everyone think and look at alternatives dispassionately."

It requires a mindset of listening, learning, and adjusting. Ban words such as "projection", and "target" and replace with "assumption", "feedback", "checkpoints". All of this has significant implications for how leaders are identified, trained, developed, and deployed.

Stonecourt view: this is a well researched and clearly written description of the characteristics of agile, fast-moving companies who assume that they can never rest on their laurels and do not stand still. Probably the most interesting aspects are around how these growth outliers reduce uncertainty and cement in loyalty while engaging in more frequent changes than most.

One might question whether so much can be built on 10 examples, especially when a good number of those are heavily IT based. And McGrath does tend to write about 'old' and 'new' organisations in rather a binary way. There are clearly 'old' ones who are doing perfectly well at the moment.

But ultimately, McGrath does do a very good job of answering the very good question: in today's fast-moving and unpredictable world, how do you lead and organise your business to stay ahead and thrive? In this book she confirms what a range of other research does: that too many organisations are set-up for stability, not enough for being nimble.

