

Brief

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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 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 'Porter' approach to strategy taken by big consultancies and gurus.

The New Logic of Strategy

McGrath says the search for 'sustainable advantage' creates a bias toward stability - deadly in today's competitive dynamic environments. 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. "Change management" is seen as a special act rather than normal working.

McGrath's book is based on solid evidence. She looked at all companies with capitalization over \$1bn, on global exchanges, that had grown by 5 percent every year for the ten years to 2010. Only 10 of 4,793 achieved this, and McGrath researched them all as *growth outliers* - their steady performance was so unusual in the face of change and uncertainty. This is how she describes their characteristics – as they demonstrate 'transient advantage'.

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

People become quite dysfunctional when facing extreme uncertainty. So 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. So while agility is reinforced through stretch ambitions, stability is created by:

- investing heavily in creating a common identity, values, culture, and commitment to training and development and sustained engagement between the organisation and its people
- downplaying the importance of roles and structures – so leaders change roles regularly

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. This is about mindset as much as about financial planning: it is unrealistic to expect managers whose careers depend on "their" business, proposing exit – unless it seen as a normal positive step by all.

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

How resources are allocated shapes behaviour. In most companies, 'important' people have lots of assets and staff (reinforced by Hay points). Annual planning is built on the previous year. In growth outliers, careers are driven on ability to adapt, rather than build empires. At Infosys budgets are adjusted to support new growth on a rolling four quarters, with no hidden data. All is transparent: "In God we trust, everyone else brings data".

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

In growth outliers, there is more focus on planning, governance and roll-out, than on 'creating' innovation itself. The result is a balanced range of initiatives to keep the business evolving and learning quickly through pilots. Intelligent failures are seen as good - although always challenged. Trial and error learning, and discovery, is key practices – rather than trying to plan 'certainty' in advance.

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 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." 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.