Thinking differently

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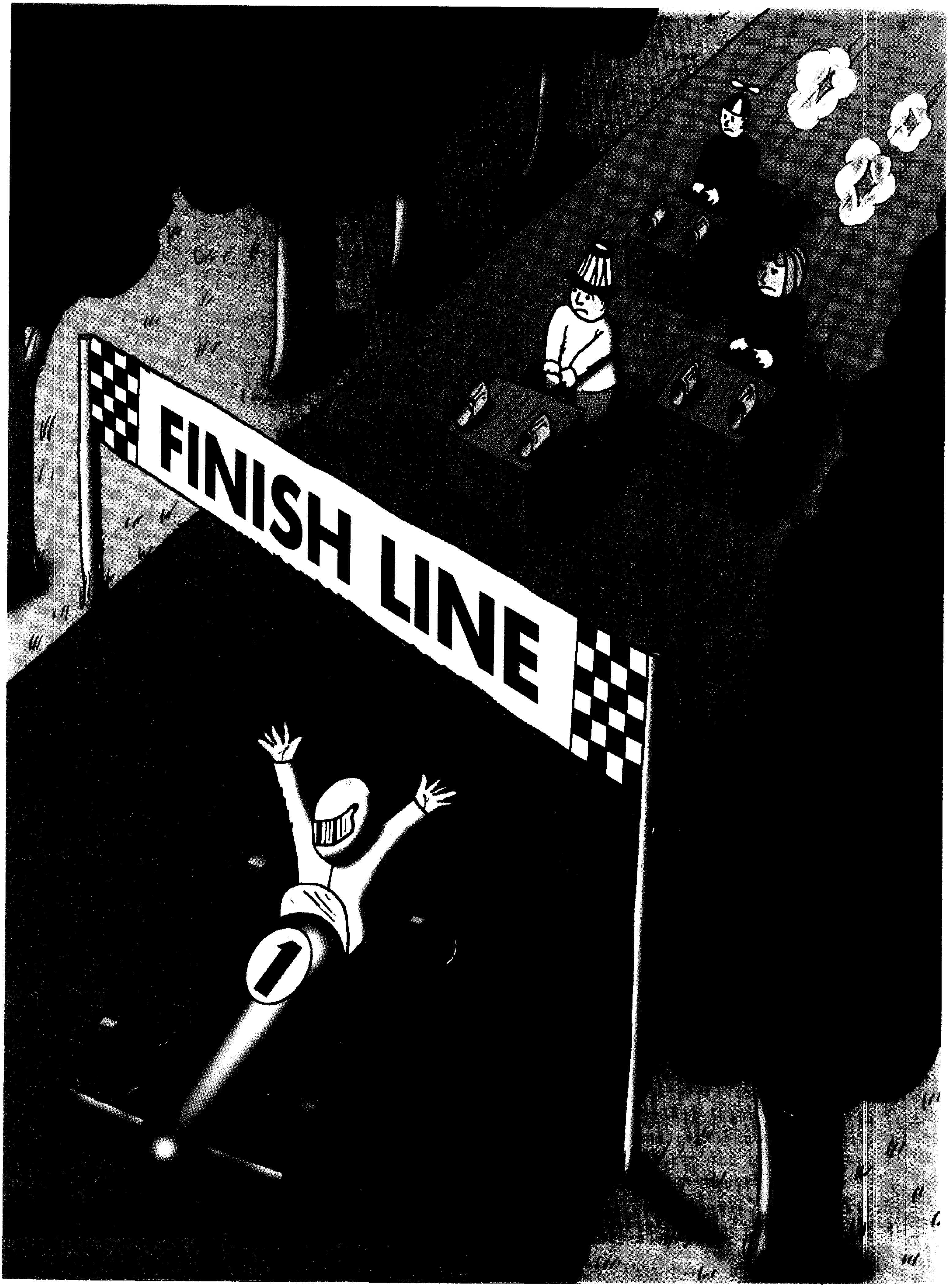

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Thinking Differently

Companies that take a leadership position in their industries break out of the boundaries of existing competition and amaze their customers with innovation

If a company's goal is industry leadership, then restructuring and reengineering are not enough. To build leadership, a company must be capable of reinventing its industry; to rebuild leadership, a company must be capable of regenerating its core strategies. It is not enough to get smaller and better; a company also needs to have the capacity to become different. But to ultimately be different, a company must first think differently. To have a share in the future, a company must learn to think differently about three things; the meaning of competitiveness, the meaning of strategy and the meaning of organizations.

1. Thinking Differently About Competitiveness

Competition occurs not just among individual product or service offerings, but among firms and coalitions of firms. Top management teams compete in the acquisition of foresight about a broad new opportunity arena such as genetically engineered drugs. Companies compete in building core competences that exceed the resources of individual business units. Coalitions compete to create new competitive space. These forms of

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competition are all examples of extramarket, or non-market, competition. That this competition takes place outside a market does not make it any less real. An insensitivity to this broader scope of competition can prevent a company from adequately preparing for the future.

The primary lessons of competitive strategy are: find an attractive industry segment, buy low and sell high. Easier said than done. Attractive industries – that is, those with above-average profitability – are attractive because they are surrounded by sizable entry barriers such as scale and scope economies, government regulation or research intensity. Likewise, any firm making above-average profits can be assumed to have competitive advantages that are not easily imitated. The only avenue open to a firm confronting insurmountable barriers to entry is to redraw industry boundaries so that what is now attractive lies outside the former barriers. Redrawing is done by radically shifting the basis for competitive advantage, as CNN did in news broadcasting, or creating entirely new industry space ideally suited to one's own strengths, as Sharp did with pocket electronic organizers. In either case, whether the company can prosper from its ingenuity will depend on whether it can construct unique and nonimitable competitive advantages.

Industry structure analysis is well-suited to describing the what of competitiveness, that is, what it is that makes one firm or one industry more profitable than another. As new whats have been uncovered, companies have been exhorted to compete on time, become customer-led, strive for six-sigma quality, adopt simultaneous engineering and pursue a host of other desirable advantages. Yet with all the attention given to understanding the particulars of cost, quality, customer service and time-to-market advantages, the question of why seems to have gone largely unanswered: Why do some companies seem able to continually create new forms of competitive advantage while others seem able only to observe and follow? Why are some firms net advantage creators and others net advantage imitators? There is a need not only to keep score of existing advantages – what they are and who has them – but to discover the engine that propels the process of advantage creation. The tools of industry and competitor analysis are much better suited to the first task than to the second.

LAGGARDS WILL REMAIN LAGGARDS

As long as our diagnosis stays focused on the what rather than the why, there is little chance that companies that have fallen behind in the advantage-building race will ever regain the lead. Laggards will remain laggards. Worse, the strategies of such companies are likely to be apparent to their faster-moving competitors. They can predict which advantages the laggards will have to work on next and about how long it will take to master the new skills. If the race for global leadership is a race to create new competitive space and new forms of competitive advantage ahead of rivals, there is little chance of leadership for a firm whose understanding of the what of competitiveness lags the already constructed capabilities of rivals by a decade or more. Understanding the what of competitiveness is a prerequisite for catching up. Understanding the why of competitiveness is a prerequisite for getting out in front.

The why of competitiveness is more than the why of advantage creation; it is also the why of industry restructuring and transformation. Just as it is not enough to benchmark the advantages of competitors, it is not enough to understand the existing structure of an industry. Typically, the existing industry structure works to the disadvantage of everyone save the industry leader, and most especially to the disadvantage of aspiring entrants. Needed is a capacity to transform the structure of an industry, as Wal-Mart did in mass merchandising and Canon in copiers.

Industries do not evolve. Instead, firms eager to overturn the present industry order challenge accepted practice, redraw segment boundaries, set new price-performance expectations and reinvent the product or service concept. An explanation of how an industry has been transformed is not the same thing as a capacity to reshape an industry. In searching for the wellspring of sustained competitiveness, it is not enough to account for competitive outcomes after the fact, to understand in hindsight the evolution of an industry or to keep score of relative competitive advantages at a particular point in time. Understanding industry structure is not the same as reshaping it; keeping score of competitive advantage is not the same as inventing new advantages. Foresight, stretch and leverage provide the energy and rationale for proactive advantage building and industry reengineering.

TREAT THE DISEASE, NOT THE SYMPTOMS

In recent years process reengineers in leading consulting companies have superseded industry analysts as the high priests of strategydom. Companies know they are sick and do not want one more recitation of the symptoms. They are after relief and what they have received, more often than not, is relief from the symptoms rather than relief from the causes. The truth is that most patients have many symptoms.

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That is what makes over-weight, out-of-breath corporate patients so attractive to hungry consulting companies – there are just so many problems to fix! A sclerotic product development process, a tumorous corporate bureaucracy, rolls of excess management fat and a host of anti-customer attitudes all cry out for attention.

There are enormous benefits of simplifying work flows, working out unnecessary activities and collapsing management layers, but these activities seldom point to new advantages or opportunities to transform industry structure. At best, they are still in the category of catching up. The deeper questions still remain: Why did this patient get sick in the first place?

Why does this patient seem so prone to get sick? What could be done to make it more resistant to disease in the future?

LIFESTYLE VERSUS GENETIC CODE

Although the impact of lifestyle on health has become a major focus of medical research, the story by no means ends there. How can one explain the jogger who expires mid-stride or the sedentary desk jockey whose more active peers die first? Why do leaders often end up as laggards in the very industries they pioneered, despite having substantial resource advantages? What possible institutional advantage did IBM lack in its position as the world's leading computer company? How is it that other firms can overcome resource disadvantages and successfully challenge industry leaders? What possible institutional advantages did Yamaha have in its quest to become the world's premier musical instrument company?

Beyond lifestyle lies genetics, and it is here that one finally uncovers the hidden cause of competitiveness. For many diseases, the population of individuals who are genetically predisposed to contract a certain disease is not the same population as those who are disease prone as a result of lifestyle. The population distribution of some maladies are determined almost exclusively by genetics. Disentangling lifestyle and genetic causes of disease is one of medicine's greatest challenges. It is no less a challenge for the student of competitiveness.

The starting point for competitive revitalization is an understanding of a company's genetic code. In the managerial context, genetics has no biological component but is concerned with the way that managers perceive their industry, their firm, their roles and the ways in which these perceptions cause them to behave in particular circumstances. The concern here is over the way managers are genetically encoded to think.

Any process of competitive revitalization that does not ultimately address the issue of genetics is likely to produce only symptomatic relief. Making industry and company conventions explicit, understanding how those conventions could imperil the firm's success in the future, delving deeply into industry discontinuities, establishing a process for extending industry foresight and working collectively to craft strategic architecture are the means for genetic reengineering on a large scale.

2. *THINKING DIFFERENTLY ABOUT STRATEGY*

A company needs a point of view about the future and should construct a blueprint for getting there. Our focus is the creation of future-oriented corporate strategy. Yet we recognize that strategy has a credibility crisis. In many companies the very notion of Strategy – with a capital S – has become devalued.

Why, we ask ourselves, in so many companies are strategic planning departments being disbanded or dramatically downsized? Why do senior managers seem relatively unperturbed that they spend so little time thinking about strategy and plotting a course into the future? Why have so many consulting companies largely abandoned the high ground of strategy-making for the day-to-day grind of operational improvement? Is it because most companies already have a clear-eyed and creative view of where they are headed and their problems are only ones of implementation? Unlikely. Is it that strategy just never really seems to make much of a difference, never really seems to pay off? More likely, but why?

The problem is not with strategy but with the particular notion of it that predominates in most companies. What is being rejected is not strategy in the sense that we define it, but strategy setting as a pedantic planning ritual on one hand or a speculative and open-ended investment commitment on the other. In many companies strategic planning is essentially incremental tactical planning punctuated by heroic, and usually ill-conceived, investments. The risk is that the devaluation of strategy will leave many companies rudderless in a world of turbulent seas and force-ten gales. To avoid this situation, we need a concept of strategy that goes beyond form filling and blank cheque writing.

STRATEGY SETTING IS NOT FORM FILLING

In many companies defining strategy means turning the crank on the planning process once a year. Yet the fact that a company goes through the motions of an annual planning cycle and that weighty plans adorn executive bookcases, provides no clue to whether a company has a truly unique and stretching point of view about the future. Typically, the planning process is more about making the numbers add up than it is about developing industry foresight. The foundation for planning is more often a set of assumptions about what the stock market expects than a point of view about what tomorrow's customers may expect. The focus is on marketing strategy, sales strategy and manufacturing strategy. The units of analysis are the existing businesses, each with its own product-market mandate. Corporate strategy is simply an amalgamation of individual business unit plans. The competitors analyzed are those that compete head on – who play by the same rules. Not surprisingly, planning is almost always incremental – a few percentage points of market share gain here, a modest reduction in costs there and a slightly more profitable niche discovered somewhere else.

Planning typically fails to provoke deeper debates about who we are as a company or who we want to be in 10 years. It seldom escapes the boundaries of existing business units. It seldom illuminates new white space opportunities. It seldom uncovers the unarticulated needs of customers. It seldom provides any insight into how to rewrite industry rules. It seldom stretches to encompass the threat from nontraditional competitors. It seldom forces managers to confront their potentially out-of-date conventions. Planning almost always starts with what is. It rarely starts with what could be.

Such planning in a world of profound change is unlikely to add much value. It works well when the foundations of planning – assumptions about what is our industry, what business are we in, who are our competitors, who are our customers and what are their needs – remain unshaken. But in many industries these foundations are being shaken – by new competitors who have no stake in the past and by seismic shifts in technology, demographics and the regulatory environment. Planning, as it is generally practised, is well-suited to the challenge of extending leadership – adding a storey or two atop the old foundation. It is not well-suited to the challenge of regenerating leadership – building new foundations. No wonder strategic planning has lost its lustre.

To extend industry foresight, companies need a new perspective on what it means to be strategic. They need to ask new questions – not just how to maximize share and profits in today's businesses, but who do we want to be as a corporation in 10 years, how can we reshape this industry to our advantage, what new functionalities do we want to create for customers and what new core competences should we be building? Companies need a new process for strategy making, one that is more exploratory and less ritualistic. They need to apply new and different resources to the task of making strategy, relying on the creativity of hundreds of managers and not just on the wisdom of a few planners.

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3. *Thinking Differently About the Organization*

The need to think differently about strategy cannot be divorced from the need to think differently about organizations. Mobilizing employees at all levels around a strategic intent, leveraging resources

TWO APPROACHES TO STRATEGY MAKING

	Strategic Planning	Crafting Strategic Architecture
Planning goal	• Incremental improvement in market share and position	• Rewriting industry rules and creating new competitive space
Planning process	• Formulaic and ritualistic	• Exploratory and open-ended
	• Existing industry and market structure as the base line	• An understanding of discontinuities and competences as the base line
	• Industry structure analysis (segmentation analysis, value chain analysis, cost structure analysis, competitor benchmarking, etc.)	• A search for new functionalities or new ways of delivering traditional functionalities
		• Enlarging opportunity horizons
	• Tests for fit between resources and plans	• Tests for significance and timeliness of new opportunities
	• Capital budgeting and allocation of resources among competing projects	• Development of plans for competence acquisition and migration
	• Individual businesses as the unit of analysis	• Development of opportunity approach plans
		• The corporation as the unit of analysis
Planning resources	• Business unit executives	• Many managers
	• Few experts	• The collective wisdom of the company
	• Staff driven	• Line and staff driven

across organizational boundaries, finding and exploiting white space opportunities, redeploying core competences, consistently amazing customers, exploring new competitive space through creative marketing and banner brands all require new ways of thinking about the organization. Just as the current language and practice of strategy is not up to the challenge of competition for the future, neither is the current language and practice of organizational change.

Over the past few years many companies have been working hard to transform their organizations. Companies have devolved traditional head office functions such as planning and human resource management to individual business units; they have sought to enlarge the sphere of operating freedom for employees at all levels; they have divested tangential operations and concentrated on core businesses; they have attempted to encourage personal risk taking; they have emphasized individual responsibility; they have inverted the organization chart and put the customer at the top. The watchwords for the would-be engineers of the modern corporation are devolution, empowerment, focus, entrepreneurship, personal accountability and customer focus.

In many companies one cannot speak meaningfully of a corporate strategy because it is little more than the aggregation of the independent strategies of stand-alone business units. Where the corporate role has been largely devolved, corporate officers have no particular responsibilities other than investor relations, acquisitions and disposals and resource allocation across independent business units. In such firms one has to question just what the value added by the top team is anyway. Why not have unit managers report directly to the shareholders? Where top management's view of the company is one of a portfolio of unrelated businesses, suboptimization is almost inevitable. White space opportunities will go unexploited, existing core competences will fragment and erode, new core competences will go unbuilt, and R and D and brand budgets will splinter as divisional executives pursue independent strategic agendas.

VALUE IN LINKAGES

Rather than seeing the corporation as either a single entity or a collection of unrelated businesses, senor managers should seek to identify and exploit the linkages across units that could potentially add value to the corporate whole.

There is often substantial hidden value buried in the linkages among business units. This value is realized when units identify and jointly explore white space opportunities, when competences are redeployed from one unit to another or combined in new ways across units or when units cooperate in building strong banner brands serving multiunit customers. There is a risk that in the pursuit of devolution and decentralization, the substantial value that can be derived from collective action across units is inadvertently lost.

The potential for extracting value out of the management of linkages only becomes visible when unit executives from across the company participate in a horizontal strategy development process. The identification and management of linkages emerge not from a corporate staff exercise but from a process where line managers from across the company come to recognize the potential value added of collective action. Needed is enlightened collective strategy. Because the value of managing linkages better is seldom if ever quantified, no vice president is likely to feel responsible for it or is anyone pained when the value goes unrealized. Nevertheless, even General Electric, a company where the prerogatives of unit managers have been more jealously defended than perhaps in any other company, has come to recognize the potential value in being a boundaryless organization. Likewise Hewlett-Packard, a company that has thrived on individual entrepreneurship, has come to recognize that there are some cross-unit opportunities that are just too attractive to sacrifice on the altar of absolute unit autonomy.

The development of collective strategy requires managers to adopt a more cooperative and less competitive posture with their peers. They must recognize that for every instance of resource sharing, cross-unit support or sacrifice to the greater good, there may not be an immediate *quid pro quo*. They must also have reason to believe that cooperative behavior will be rewarded and that career advancement depends as much on taking responsibility for collective progress as on making one's own numbers.

BUREAUCRACY CAN KILL INITIATIVE

Bureaucracy and a rigid sense of hierarchy kill initiative and creativity. In response, companies have

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been seeking to cut the number of managerial layers. But managers often forget that reducing the layers of management is not the same thing as reducing the dysfunctional consequences of hierarchical behavior. Hierarchical behavior avoids an active multilevel dialogue on critical issues and uses power to settle issues rather than broad debate and high-quality analysis. The conservative, idea-strangling, time-wasting phenomenon of managing upward can be observed in many organizations, whether they have three organizational levels or a dozen.

The goal is not simply to reduce organizational levels or the propensity of corporate staff to second-guess line managers. The goal is to grant individuals the freedom to design their own jobs, fix their own processes and do whatever it takes to satisfy a customer. Yet are there limits to empowerment? Empowerment without a shared sense of direction can lead to anarchy. While bureaucracy can strangle initiative and progress, so too can a large number of empowered but unaligned individuals who are working at cross-purposes. Of course, every employee should be empowered, but empowered to do what? Empowerment implies an obligation and an opportunity to contribute to a specific end. The notion of a shared direction reconciles the needs of individual freedom and concerted, coordinated effort. As tempting as it might be, senior management cannot abdicate its direction-setting role. Employees want a sense of direction just as much as they want the freedom of empowerment.

A company full of highly socialized, like-minded clones is unlikely to create the future; neither is a company full of self-interested renegades. Needed are community activists, individuals who are not afraid to challenge the *status quo*, not afraid to speak out, but who also have a deep sense of community and a desire to improve not only their personal lot but that of others as well. The notion of a community of activists brings together the seemingly contradictory ideas of common cause and individual freedom.

Need to Amaze Customers

Many companies have recently emphasized the need to become less product- or technology-driven and more customer-driven. There is a danger in posing the choice as a dichotomy. The pursuit of technological leadership when it is uninformed by customer needs is a waste of resources. But likewise, no firm will find the future first if it waits around to get directions from existing customers.

The goal is not simply to be led by customers' expressed needs; responsiveness is not enough. The objective is to amaze customers by anticipating and fulfilling their unarticulated needs. Companies that create the future are companies that are constantly searching for ways to apply their competences in novel ways to meet basic customer needs.

Core Competences Hold Business Together

Unrelated diversifaction was the rage during the 1970s and early 1980s. Companies judged their capacity for growth more by the strength of the balance sheet than by the strength of their development efforts. Many of these acquisitions are now being unwound. Dozens of studies have shown that acquisitions destroy shareholder wealth more often than they create it. Managers who lack the foresight and imagination to grow their core businesses are unlikely to have the foresight and imagination to grow acquired businesses. Diversification into areas where a company lacks knowledge and capability invites disaster.

Retrenching around the core business, when core is defined in terms of a particular product or market focus, may leave managers with fewer headaches but may also result in lacklustre growth. Not every market grows forever and not every product or service category expands endlessly. Sticking to the core business limits a company's opportunity horizon and its potential for creating new competitive space. The dichotomy between unrelated diversification versus core business is ultimately sterile.

Core competences are the connective tissue that holds together a portfolio of seemingly diverse businesses. Core competences are the *lingua franca* that allows managers to translate insights and experience from one business setting into another. Core competence-based diversification reduces risk and investment and increases the opportunities for transferring learning and best practice across business units.

Getting Off the Treadmill

Look around your company. Look at the high-profile initiatives that have been launched recently. Look at the issues that are preoccupying senior management. Look at the criteria and benchmarks by which progress is being measured. Look at the track record of new business creation. Look into the faces of your colleagues and consider their dreams and fears. Look toward the future and ponder your company's ability to shape that future and regenerate success again and again in the years and decades to come.

Now ask yourself: Does senior management have a clear and broadly shared understanding of how the industry may be different 10 years in the future? Are its "headlights" shining further out than those of competitors? Is management's point of view about the future clearly reflected in the company's short-term priorities? Is its point of view about the future competitively unique?

Ask yourself: How influential is my company in setting the new rules of competition within its industry? Is it regularly defining new ways of doing business, building new capabilities, and setting new standards of customer satisfaction? Is it more a rule-maker than a rule-taker within its industry? Is it more intent on challenging the industry *status quo* than protecting it?

Ask yourself: Is senior management fully alert to the dangers posed by new, unconventional rivals? Are potential threats to the current business model widely understood? Do senior executives possess a keen sense of urgency about the need to reinvent the current business model? Is the task of regenerating core strategies receiving as much top management attention as the task of reengineering core processes?

Ask yourself: Is my company pursuing growth and new business development with as much passion as it is pursuing operational efficiency and downsizing? Do we have as clear a point of view about where the next $10 million, $100 million or $1 billion of revenue growth will come from as we do about where the next $10 million, $100 million or $1 billion of cost savings will come from?

Ask yourself: What percentage of our improvement efforts (quality improvement, cycle-time reduction and improved customer service) focuses on creating advantages new to the industry, and what percentage focuses on merely catching up to our competitors? Are competitors as eager to benchmark us as we are to benchmark them?

Ask yourself: Am I more of a maintenance engineer keeping today's business humming along, or an architect imagining tomorrow's businesses? Do I devote more energy to prolonging the past than I do to creating the future? How often do I lift my gaze out of the rut and consider what is out there on the horizon?

And finally: What is the balance between hope and anxiety in my company; between confidence in our ability to find and exploit opportunities for growth and new business development and concern about our ability to maintain competitiveness in our traditional businesses; between a sense of opportunity and a sense of vulnerability, both corporate and personal?

These are not rhetorical questions. Get a pencil. Rate your company. BQ

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