SideBoard

Conversations that matter for non executive directors

Advantage is transitory: we'd better get used to it

Leading business thinker and Professor at Columbia Business School, Rita McGrath argues that in today's turbulent operating environment, the notion of 'sustainable competitive advantage' is irrelevant. Instead, companies must keep their strategies moving as fast as their businesses are changing. She spoke with the NED community about her ideas, and the role boards can play in helping business adopt a new strategy playbook.

Q. Why is 'sustainable competitive advantage' irrelevant?

For many years, this has been the Holy Grail for company strategy – find an attractive industry, build an attractive position in that industry and then defend it like crazy.

On paper it makes sense, but in today's world, where technology can turn the competitive landscape upside down in a moment, it doesn't work. Blackberry, for example, thought it had a sustainable advantage with its transformative devices; Nokia believed its dominance of the phone market was unassailable. Then came iPhone and Android and completely decimated those erstwhile giants.

The fact is we live in a world where change is accelerating, and advantage is transitory, lasting for shorter and shorter periods of time. Yet most of our strategies, tools and systems are built with the assumption that things exist in a steady state.

Q. So what's the new paradigm?

First, don't think of strategy as something that's stable. For some companies, strategy is akin to nostalgia – it's worked so well in the past they don't want to give it up. But in a world of transitory advantage, you need a different strategy playbook.

Second, companies need to think less about 'industries' and more about 'arenas.' An arena consists of a particular customer job to be done, or a certain customer need to be met. The competitor that best meets this need will win, regardless of the industry they're in. Uber would not consider itself as part of the transport industry, yet it has disrupted it. So if you're in financial services, for example, it may not be another bank you should be worried about.

Q. What does the new playbook look like?

1. **Be prepared to reconfigure your strategy continuously.** You don't have to toss your strategy out every three months, but you do need to engage in an ongoing process of thinking about the investments you are making.
2. **Adopt a mindset of 'healthy disengagement' toward your strategy.** This means taking a very clear-eyed view of whether a business is delivering expected value and have a plan about what to do when it's not. I know of one company that forces it's executives to put a 'sell by' date on every business that they run.

Don't think of strategy as stable – technology can turn everything around in a moment

Think less about 'industries' and more about 'arenas'. What is the job the customer is trying to get done?

What does the new strategy playbook look like?

- *Continuously reconfigure your strategy*
- *Healthy disengagement toward your strategy*
- *Agile allocation of resources*
- *Innovation proficiency*
- *Discovery-driven leaders*
- *'Tours of Duty' are becoming the norm.*

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3. **Be deft in the allocation of resources.** You need the ability to move resources quickly, away from declining businesses and towards growth businesses. You need someone in the company who has line of sight across the whole portfolio to make those decisions.
4. **Be proficient in innovation.** Ideas are not the problem; the challenge is incubation and acceleration. You need to adjust the skill set as you move along the innovation trajectory.
5. **Have a discovery-driven leadership mindset.** Increasingly, we are valuing leaders who can facilitate a discovery process in the business. For example, by creating a framework so people can make decisions fast at the point of contact with customers and suppliers.
6. **Recognise that career management is becoming more entrepreneurial.** We're moving into an economy where people's roles are increasingly project-based; 'Tours of Duty' are becoming the norm. People will have to invest more in their development and continually renegotiate their roles.

What can Directors do?

- *Look for early warning signs*
- *Focus on leading indicators*
- *Listen to what you don't want to hear*
- *Understand the entire business portfolio*

Q. Sounds good, but how do boards start?

Strategy starts with the future and works backward. So take some time, step back and look at what's going on around you, and talk to people who interact with customers. Open a crisp dialogue at the board level and look for the early warning signs. Boards typically concentrate on lagging indicators like financial performance, but they need to be more focused on leading indicators such as net promoter scores. A lot of boards simply 'don't want to hear' about changing and challenging trends, but they do need to hear it. Kodak, for example, was aware of digital photography for some time, but didn't heed the warnings and failed to take decisive action. Critically, boards need a better understanding of the entire business portfolio.

Q. How can boards speak up against the pressure of the quarterly forecast?

Put simply; it takes courage. In 2015 Verizon had a good look at their portfolio and concluded that its core business would not cut it in the future, so it sold it. The press and analysts complained, but the [CEO?] at the time said effectively 'you run your business, and I'll run mine.' The fact is that investors aren't that loyal: in the US shares are held, on average, for seven days. Leading companies are being fussier about aligning investors with company strategy. But you do need a good business case – and a compelling way of communicating it.

There are three kinds of failures:

- *Dumb failure*
- *Intelligent failure*
- *Honest failure*

There are lessons in all three.

Q. What about communicating failure?

That depends on what kind of failure you're talking about, and in my experience, there are three kinds;

- **Dumb failure**, in which case investors won't support you in any scenario.
- **Intelligent failure**, where the company did something with high uncertainty that didn't work out, but they learned from it and have continued to grow and experiment.
- **Honest failure**, where the company thought it was very important to try, even though there was a 50/50 chance of success. In the last two scenarios, it's critical that the company communicates openly about what it's doing and why it's doing it.

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