Continuous reconfiguration in the transient advantage economy

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The era of sustainable competitive advantage is over, and companies are going to have to learn how to survive and thrive in a new environment where competitive advantage will increasingly come and go in temporary waves. The firms that are most likely to succeed in this new context will be those that can catch each wave of advantage early, exploit it to the fullest and then shift to the next one before the current one dissipates.

For businesses leading the way in this new era of transient economic advantage, their business model reconfiguration process is the secret sauce of remaining relevant. It is through reconfiguration that assets, people and capabilities make the transition from one advantage to another. This is quite different from the thinking in the conventional strategy playbook (see Exhibit 1). Organizations that get reconfiguration right are adroit at balancing how they shape shift. They are not likely to undergo dramatic downsizings or restructurings, their managers usually do not stick with one role for long periods of time and decision making is not frozen by confusion about the company's evolutionary path. Instead, there is a consistent reevaluation of corporate offerings with the understanding that some may need to give way to new ones.

Continuous morphing rather than extreme downsizing or restructuring

Organizations that have mastered transient-advantage environments have learned to continually free up resources from old advantages in order to fund the development of new ones. For instance, Infosys moved its talent and people out of a business model that largely leveraged low-cost Indian labor into new business models that included services such as independent software testing and enterprise applications. Telephone operator Verizon extracted resources from cash-generating but low-growth arenas such as telephone books and landlines to grow businesses based on fiber optic service technology (FIOS) and wireless connectivity.

A prime example of a company in continuous reconfiguration, Milliken & Company, a privately held US textile business, managed to overcome competitive forces that have decimated its entire industry. All of Milliken's traditional competitors have vanished, victims of a surge in global competition that essentially moved the entire business of textile manufacturing to Asia. CEO Roger Milliken, who originally tried to stem the tide of imports with aggressive public relations and lobbying activities – indeed, he founded the influential ''Crafted with Pride in the USA'' campaign – eventually decided that the future lay in reconfiguration of the company's business. It had a long history of innovative activities, beginning with the establishment of its first research center in 1958 and the adoption of management practices so innovative that the company routinely won awards for its cutting-edge ideas.

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Exhibit 1 The new strategy playbook: reconfiguration

From	*To*
Extreme downsizing and restructuring	Continuous morphing and changing
Bulk of emphasis on arenas in exploitation phase	Equal emphasis on all phases of a competitive life cycle within an arena
Stability or dynamism alone	Stability combined with dynamism
Narrowly defined jobs and roles	Fluidity in allocation of talent
Stable vision, monolithic execution	Stable vision, variety in execution

In Milliken, one sees very clearly the pattern of entering new, more promising arenas even as it disengages from older and exhausted ones. Although it eventually did exit most of its traditional textile lines, it did not do so suddenly. As foreign competition launched its assault on American markets in the 1980s and 1990s, Milliken engaged in a steady number of plant closures. Despite its efforts to modernize its plants and make them competitive, one sees a gradual withdrawal from those arenas, with seven plant closings in the 1980s, several more in the 1990s, two in 2003, another in 2008 and the disposal of an automotive body cloth division in 2009. Every effort was made, as best I can tell, to reallocate elsewhere the workers who suffered as a result. At the same time, Milliken invested in international expansion, new technologies and new markets, including forays into new arenas to which its capabilities gave access. As a *Wall Street Journal* article observed in 2012, ''Milliken makes the fabric that reinforces duct tape, the additives that make refrigerator food containers clear and children's art markers washable, the products that make mattresses fire resistant, countertops antimicrobial, windmills lighter and combat gear protective.''

Milliken maintains a legendary corporate culture that is heavy on training and internal development and employee engagement. Its people have a deep pride in the company's accomplishments. If Milliken could transform its model from textiles to high-technology, there is hope for other organizations facing decline as well.

Sources of stability

One of the most notable features of the companies that have so far shown how to manage the resource reconfiguration process on a continuous basis is the remarkable dynamic balance that they are able to achieve between stability and agility.

On the stability side of the equation, firms that are able to make the transition from one business model to another have crafted stable social architectures to limit the amount of organizational uncertainty and change their people have to face. A second source of stability is the investment these firms make in creating a common identity, culture and commitment to leadership development. They pay considerable attention to values, culture and alignment. They also invest in training, training and more training. Another factor in play in companies that can move from one set of advantages to another is that they consciously set out to educate and up-skill their people. Former Infosys CEO Kris Gopalakrishnan explained that the company places a heavy emphasis on training. When I asked him how the company moves people from advantage to advantage, he said, ''We hire for learnability – we deliberately select people for their capacity to learn new things.'' Infosys is famous for its Infosys Education Center, a $120 million facility that has the capacity to train 13,500 candidates at a time.

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Smart companies recognize that continuous training and development is a mechanism to avoid having to fire people when competitive conditions shift, and they invest in training even as they pursue deployment. The point is that when companies realize that

Successful shape shifting – the growth ''outliers'' who are showing how to win

In researching *The End of Competitive Advantage*, I set out to find companies that have figured out how to cope, even to thrive within the new transient advantage economy, and that manage the ''wave of transient advantage'' well, delivering ''steady-as-you-go'' growth in an increasingly dynamic and uncertain competitive environment. In searching for such firms, my research team and I analyzed nearly 5,000 companies, a group that included every publicly traded firm on any stock exchange with a market capitalization of over $1 billion. Of that whole population, only ten companies were able to grow their net income by at least 5 percent a year for ten years in a row. These ten ''outliers'' – ranging from a Chinese beer company, to an internet service provider, to a massive Spanish construction oriented firm – are dissimilar in many respects. Yet they all have out-performed competitors while adapting to rapidly changing market forces, and have done so by identifying and implementing ways of combining internal stability while motivating external agility, particularly in terms of business models.

shifts are inevitable, training people to be able to move from advantage to advantage becomes a cost of doing business. Investing in people's capacity to move around removes a tremendous barrier to change and suggests a redirection of emphasis from pure deployment to creating transition capability.

So even in firms that embrace change and appear to manage it well, there are elements of tremendous stability in their businesses. How, then, do they preserve the dynamism that highly competitive markets require? To answer this question, one needs to look also at what does change. In other words, where do we see these firms behaving in a dynamic and agile way?

Sources of agility

In contrast to the internal systems and structures that created stability over time in vision, strategy, culture and leadership, leading firms were also notable for their well-developed and sophisticated approaches to fostering strategic agility – in other words, to sparking change routinely and consistently. Surprisingly, the most successful firms, over the entire study period, had no dramatic downsizings, restructurings or sell-offs.

Shape shifting, not dramatic restructuring

When I first started the outliers study, I expected to find that firms that were able to survive in spite of ephemeral advantages would have great processes for downsizing, restructuring and otherwise dramatically exited declining areas. So I spent an entire summer torturing my student researchers to find instances of how these firms exited segments, canceled projects or otherwise got out of business areas. The increasingly frustrated students searched in vain.

Instead, it seems that the outlier firms, relative to competitors, embed change in their normal routines. They reallocate resources flexibly and on an ongoing basis, rather than going through sudden divestitures or restructurings. Despite our best efforts, we found almost no instances of a sudden, wrenching exit. What we found instead was a tendency to redeploy resources and shift emphasis. We also noted that the firms seemed to accept industry evolution, especially regarding technologies, and embrace the changes in order to enter newer markets instead of cutting costs and divesting, just as we saw with Milliken. They use industry change as an opportunity to exit old businesses and enter new, higher-growth segments.

One of my research assistants observed that exit information for these firms was ''elusive'' and that the five companies she researched seemed to have a knack for integrating their old technologies into new waves, accepting the evolution of their industries but taking them into new markets rather than divesting completely. Another researcher came to the same conclusion, that is, ''instead of divestiture and disposal, they choose to upgrade in order to

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move up the value chain. Rapid upgrading is a common feature among all three companies – Infosys, HDFC and FactSet [. . .].''

The interesting thing about how these companies exited areas is that they followed a far more evolutionary path than their competitors. Sanjay Purohit, the head of strategy for Infosys, explained it to me this way: ''When we decide to get out of something, we slow down on allocating resources to those things. They find their way to insignificance in a period of time [. . .] You don't need to chop it off, you need to let it live its life [. . .] It's easy for us to repurpose the leadership and the talent, to look at some other area. We are a company that never fires its people. We transition the customers out of it, and people take other responsibilities.'' I thought that was a brilliantly succinct description of how people in a firm that is comfortable with transient advantage think.

Budgeting is fast, flexible and not held hostage by powerful executives

One of the more subtle implications of this transformation-without-wrenching-change approach is that the best-practice firms manage major resource allocations centrally. So that resources are not trapped and ''held hostage'' at the divisional or business unit level. Budgeting also happens far more in real time than in many organizations.

Sanjay's function, which is corporate planning, does the recasting and reallocating. In a very transparent way, Infosys makes it obvious to everyone when a business does not need as many resources. Indeed, a business unit head might actually call Sanjay and ask to give some resources back because its business will not support that size this quarter. Can you imagine that conversation in a typical hierarchical company? High-quality data systems and absolute transparency help with the process. Sanjay tells me that there is no concept of hidden data in the company – everything is as transparent to the business units as it is to corporate, and there is only one version of the truth. ''Our chairman has a great phrase for this,'' he says. ''In God we trust, everybody else brings data.''

It is hard to imagine a business unit leader in a typical company coming to the head of strategy and asking for resources to be taken away. It certainly does not happen in those cases in which people and assets under management are the measure of corporate importance.

Flexibility

Just as in budgeting, a factor that appears to support the shape-shifting approach to change is that our study firms make considerable investments in flexibility. So rather than heavy annual budgeting processes and efficiency-oriented values, the successful firms invest in increasing their flexibility, even if this might lead to a small degree of suboptimization. The Slovenian pharmaceutical company Krka, for instance, has among its five core values ''speed and flexibility'' – the others are partnership and trust, creativity and efficiency. It goes so far as to create an annual award in which the employees who best exemplify these attributes are rewarded.

At the outlier companies, adjustments to strategy and changes in resource allocation were not annual exercises. They were far more likely to be quarterly. This applies to promotions and personnel evaluations as well. At Yahoo! Japan, Makiko Hamabe, the head of investor relations, described a quarterly target and evaluation system, combined with a 360-degree evaluation that would determine whether a person would be promoted or not.

Innovation is the norm, not the exception

At firms skilled at maintaining transient advantage, innovation is continuous, mainstream and part of everyone's job. Innovation and the opportunity recognition process appear unendingly on the companies' websites, feature in their recruitment materials and are reinforced by investment. All of the firms proudly list how much they are investing in new activities such as R&D or international expansion. It is also worth noting that these companies have processes for managing the entire innovation pipeline that cut across business units.

At Yahoo! Japan, for example, Hamabe explained that the company is pursuing four growth strategies: first, what it calls ''Yahoo! everywhere,'' which is to facilitate access to the site from any kind of device; next, user-oriented social media, which means adding information from users to other data that can be found on the Yahoo! Japan site to make it more valuable; third, personalized local information that focuses on developing offerings for specific individuals based on their interests and needs; and finally, open network partnerships, which seek to offer businesses solutions to problems such as accepting online payments. Within each of these areas, managers are regularly given opportunities to identify where they think the next set of promising opportunities will be, coupled with a process of dedicating resources to the opportunities that appear most compelling. At the same time, the company's leaders continually monitor the usage of key services and their impact on relations with key partners to determine when a service should no longer be offered.

An options-oriented pattern to market exploration

Relative to competing firms, the firms in our sample appeared to share an options-oriented pattern to exploring new opportunities. The essence of this approach is that they make small initial investments to explore opportunities, following up later with more substantial investments as the opportunity warrants. They are also willing to abandon a particular initiative if it does not appear to be developing effectively. Overall, the firms tended to move earlier than competitors into spaces that appeared attractive, even if their ultimate market size was not clear. Further, the firms seemed to be more active overall in pursuing a constant stream of new initiatives.

In contrast to their competitors, the outlier firms also appeared to have fewer big, high-risk all-or-nothing bets, which is also consistent with an options orientation.

Finally, the companies had diverse, but related, portfolios. Each of the companies appeared to maintain enough diversity in its portfolio that it could simultaneously invest in the renewal of its core businesses while exploring new alternatives. Their consistent performance is partly a reflection of the fact that when one segment goes into decline, others can be leveraged.

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The paradoxical combination of stability and agility in continuous reconfiguration

Leading companies navigate seemingly incompatible demands deftly. On the one hand, they exhibit tremendous stability. Their values, cultural norms, core strategies, capabilities, customer relationships and leadership are remarkably consistent over time. Although they do change and adapt, the changes are evolutionary and the adaptations rapid and generally modest. They put serious investment into ‘‘soft’’ factors such as training and reinforcing their corporate values, which are backed up by meaningful symbolic actions on the part of their leaders.

Against this platform of stability, however, is a tremendous amount of experimentation and innovation. The firms are developing and deploying new technologies, moving into new markets, exploring new business models and even opening up new industries. They take on acquisitions and aggressively seek to obtain external inputs from people and organizations not at all like their own. They rapidly adjust and readjust resources and are comfortable with moving executives and staff from one role to another.

Rather than being contradictory, as an initial look might suggest, the twin abilities to maintain coherence and alignment while at the same time innovating and challenging the status quo are deeply interdependent.

A stable organizational environment with transparent values is conducive to employees’ feeling confident that they can take the risks that experimentation requires. Norms of high performance and bold ambitions prevent stability from degrading into complacency. Strong values enforced symbolically help maintain reasonable ethical standards. Continual small changes refresh the organization and keep it from becoming stale, while at the same time avoiding the ‘‘big bang’’ risks of massive restructuring. Continuity of management allows for the formation of informal internal networks, which research has long shown are associated with successful innovation. Consistent corporate rhythms and internal practices free up time and energy for doing new things that would otherwise be spent sorting out how old ones should be happening.

The leadership and management challenge is thus maintaining an organizational system that can manage the complementary forces of innovation and stability. Too heavy a shift in the direction of innovation, and corporate coherence and the benefits of integration break down. Too heavy a shift in the direction of stability and innovation and change can suffer.