



Book-review

The End of Competitive Advantage

Rita Gunther McGrath

Haward Business Press 2013.

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This play-book on strategy is a practical endorsement of Alvin Toffler who stated some four decades ago that 'the age of permanence is dead.' Conventional thinking on strategic management has been based on the concept of long-term sustainable competitive advantage. Rita Gunther McGrath, based on her extensive teaching and consulting exposure, tells us through this book, that today's business environment is extremely volatile and uncertain, and hence focusing on long-term sustainable competitive advantage is like waiting to quench your thirst from the mirage; or simply it is like waiting for Godot. Instead, the author advises us to focus on the transient, short-term competitive advantage that may exist fleetingly. Did not Keynes say that in the long run we are all dead?

Transient Competitive Advantage is about exploiting at short notice, the opportunities thrown open by the dynamic environmental factors of all businesses today. The author articulates the need for a new *strategic logic* that alerts a business about 'when, where, what and how' to surf the emerging space of transient competitive advantage as a means of survival and growth.

Today the customer-preferences, purchase-behaviours and buying channels are changing faster than the time a business takes to articulate sustainable competitive advantage in place. Porter, Prahalad and Hamel based their theories and prescriptions on the bedrock of sustainable competitive advantage. Their relevance is becoming increasingly questionable in the face of volatile markets and opportunities of today. So businesses would do well to develop a new paradigm to adopt transient competitive advantage to be the winner. This has to be done with speed and precision. Says McGrath, "*Diverse clients like DuPont, Nokia, Intel and IBM were all beginning to recognize the*

traditional approaches to strategy and innovation weren't keeping pace with the speed of the markets in which they were competing". The same argument is echoed by Rich D'Aveni (Hyper Competition – Managing the Dynamics of Strategic Manoeuvring, Free Press 1994) when he said '*the competitive advantages of firms would fast be competed away.*'

The author attributes the failure of a long list of firms (Sony, Blockbuster, Circuit City etc) to their inability to realign to this new paradigm. Within the industry, a firm must be able to move from one arena to another to take advantage of the short term and short lived opportunities. Successful firms were able to migrate from one product segments to another at phenomenal speed and agility. The advent of iPhone in 2007 has totally transformed the mobile phone segment though mobile phone industry remains the same. There are any number of examples to prove this point, almost in all industries where the industry remains relevant but the arena is fast changing. How to compete and win in the fast changing short lived business opportunities? Experience of many firms indicates that embracing transient competitive advantage is a powerful solution. Some of the tactics engaged by these firms in the re-alignment process are:

- Critical resources are controlled by an exclusive group within the firm to scout for short term opportunities and deploy the resources without much of procedural wrangles.
- The firm should be able to move quickly out of an established opportunity to take advantage of short term gains that may be more lucrative.
- Should be able to exit a business without much adherence to systems and procedures.
- Disengagement to be seen as a part of normal business process without much of excitement or sentiments.



- Failures are to be anticipated and experiences gained out of the failures should pave way for future successes
- The planning process should be flexible to accommodate the flow of new information
- There should be enough flexibility in asset utilization
- Should take the risk of pulling the resources out of a successful business to fund the more risky business.
- Should be easy to access senior leaders and be candid with them.

Continuous Reconfiguration: Firms that can reconfigure their assets, people and capabilities quickly are capable of benefiting from Transient Competitive Advantages. Reconfiguration of people's skills is perhaps the most critical capability in achieving the re-alignment in the fastest possible time. A few of the critical areas where reconfigurations required are, *moving from extreme downsizing and restructuring to continuous morphing and changing, balanced emphasis on all the phases of the competitive cycle, stability with dynamism, flexible deployment of resources, single vision with variety in execution.*

The book is replete with cases of such firms. Infosys commenced operations in 1981 with the competitive advantage of low people-cost inherent in India, has been able to move to services such as independent software testing and enterprise applications with the right dose of reconfiguration. Milliken which was started with the focus on Textiles and Chemical has been able to transform in to making speciality materials and high IP speciality chemicals. Companies like Netflix, HDFC Bank, Yahoo Japan, Cognizant technologies have also been cited as the ones that were successful in reconfiguration. Firms that deftly handle seemingly incompatible situations, consistent in their core strategies, cultural norms, deploying multiple capabilities and customer relationships are best suited for benefiting from transient competitive advantages.

Healthy Disengagement : 'When to stop doing an existing thing' is as critical as 'when to start doing a new thing' while embracing transient competitive advantage. Some activities may have to be stopped almost abruptly as they

may not contribute to significant growth or in some cases they may become a commodity in the backyard. In such cases, a radical and rapid disengagement is mandatory. In a declining phase of the firm's life-cycle, *the business drops off faster than expected.* The leading indicators of disengagement are diminishing returns to innovation, increasing commoditization and diminishing returns to capital employed. The author cautions: While disengaging, the firm

- should move from defending an advantage to-the-bitter-end to ending advantages frequently, formally and systematically;
- should draw and document critical lessons learnt from such disengagement;
- should exit steadily and subjective early warnings should take precedent over objective analysis.

Using Resource Allocation to Promote Deftness:

Identifying the right and critical resources, allocation and quick redeployment of resources depending on available business opportunities are crucial to exploit transient competitive advantages. *A transient advantage oriented firm allocates resources to promote what I call deftness-the ability to reconfigure and change processes with a certain amount of ease and quickly says the author.* In a firm aligned to transient competitive advantages, the assets are continuously redeployed; they are not owned by any department permanently. Assets are organized around opportunities than squeezing opportunities to existing assets. Leveraging external resources are preferred to building assets. By partnering with other companies and leveraging resources proved to be much more profitable and less time consuming; this became apparent in the joint venture (Avanade) between Accenture and Microsoft that began in the year 2000. Accenture was good at building alliances with its own industry expertise and skills at scaling operations. This has helped to create Avanade using Microsoft technology. The growth achieved by Avanade is mind boggling. The joint venture was announced in the year 2000 and in just a year the JV was operating in ten countries and has captures 120 of its high value customers awarding 150 projects. By 2010, 11000 people worked at Avanade and the company had completed thousands of projects and achieved sales of \$1 Billion.



Building Innovation Proficiency: The author argues that the primary focus of a firm should be on following transient competitive advantage and innovation should be seen as an ongoing systematic process with dedicated human resources, budget and governance process in that direction. She further argues that the assumptions of innovation should be tested at work place irrespective of the outcome. Failure should be studied and analyzed with as much precision and priority as success. Only then will the firm learn to avoid mistakes in its core processes. This is the basic premise on which the nurturing of innovation is built upon. The sub-processes of ideation, discovery, incubation, acceleration and commercialization follow only the basic premise. Cognizant is cited as one of the firms that supports this framework with a heavy dose of technology.

The author lauds the partnership of HDFC Bank Mobile Bank Account and Vodafone m-paisa as one of the latest in successful innovations in the area of financial inclusion that would help millions of rural Indians with access to banking and money transfer. This partnership is considered a pioneering innovation as it had the potential to connect rural people from remote areas to the bank through Vodafone network. This is an example of transient competitive advantage by the partnership given the fact that there are only 89,000 bank branches to serve 600,000 habitations.

The Leadership Mind-Set of firms facing Transient Competitive Advantages: Firms that follow the path of transient competitive advantage and their leadership acknowledge that existing competitive advantages would not last forever, and hence encourage discussions that question the sustainability of current status. Leadership of such firms focuses more on scanning of the external environment to scout for signals of disruptions. A classic example to this phenomenon is the initiative of Jack Welch, close to the millennium, to engage teams in each SBU to explore the prospects of disruptions to its own line of business; in fact he encouraged such teams to innovate new ideas to disrupt their own businesses with the sole intention of keeping control of the future businesses

within the firm. Jack Welch created an exclusive website www.dyb.com (dyb stood for 'death to your business') to promote and popularize this initiative.

What does transient advantage mean for Individuals? If the era is characterized by accelerating changes, individuals too should make themselves agile and adaptable to short-term opportunities thrown open to them. Individuals, instead of depending on organizational systems, should up-skill themselves to be in sync with the industry trends so that they can remain in the competitive advantage space. Broadly, the individuals should look for series of enhancing engagements than a career path in the same organization. Instead of looking for hierarchical growth in the same firm, individuals would do better to become individual super stars to be engaged by any company that takes advantage of transient competitive advantages.

The book has a racy style, full of case-histories to make it very readable. It has tried to have a simple narration of things that are complex. When Alvin Toffler talked about changes happening at an increasing pace it sounded futuristic. Today, after almost half a century, when the impact of such a continuing transition on products, processes, systems, organisations, businesses, economies and above all on individuals are beginning to be experienced, it is no more a prophecy. Rita Gunther McGrath's narration is about this transition and the competitive realities; the author has attempted to give us a prescription for survival. Clayton Christensen sums up the essence of the book thus: *"It acknowledges the competitive realities but shows a clear path forward. It is one of the most illuminating takes on how to deal with disruption that I have ever read."*

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