

Is this the end of *Competitive Advantage?*



CAN WE SUSTAIN ADVANTAGE?

Joseph Schumpeter argued that 'creative destruction' is a good thing¹. It is the means whereby a society or economy dismantles an enterprise that no longer serves it well, and then re-distributes its resources to other more deserving causes. In this way, the economy encourages and facilitates innovation for the ultimate benefit of the society.

It stands to reason, then, that the enterprise is compelled to change (or be changed) if it is no longer relevant to the needs of the market it serves. And because most enterprises face competition to serve their chosen markets, they strive for some form of advantage over their competitors. This is the nature of *competitive advantage*, and, in turn, is the *purpose* of strategy.

For many years, enterprises and their leaders have strived to achieve a form of competitive advantage that is *sustainable* - ie that continues to produce the benefits of profitability and survival. Traditionally, we have valued these enterprises more highly than those that produce 'flash in the pan' results in the short term. And so, the practice of strategic management has focused on developing *sustainable competitive advantage*.

But we have to ask - is this possible in complex, unpredictable and rapidly changing markets? Creative destruction occurs more quickly in these times, and venerable brands are as vulnerable to failure as new startups. What might have represented a significant

¹ *The economic imperative*, Joseph Schumpeter, 1946

advantage in one period can rapidly deteriorate in the face of intense competition, new technologies and the changing preferences of customers.

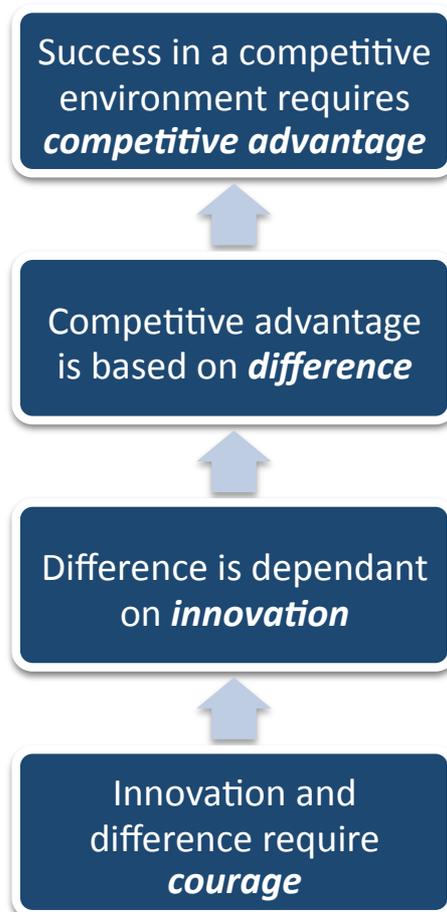
So, does this mean that competitive advantage is only transient?² Is it even relevant any longer? Or do we have to explore the traditional approaches to competitive advantage and question their relevance in today's conditions?

It is interesting to note a recent McKinsey study³ that reveals how few enterprises actually have a real competitive advantage. Even more interesting is the fact that few of those without a compelling advantage do anything about it!

WHAT IS COMPETITIVE ADVANTAGE?

In its simplest form, competitive advantage is the reason why a customer chooses to buy from you rather than your competitor. It is, therefore, at the heart of most strategy. We understand that the concept applies even to those not traditionally engaged in competition (such as public sector or not-for-profit organisations), since they too have to demonstrate that they represent the best value for their funders' money.

Here's a quick proposition about the way competitive advantage works:



² *The end of competitive advantage*, Ruth McGrath, 2013

³ *Get the strategy you need - now*, Michael Birshan and Kurt Strovink, November 2013

The implication is that the achievement of competitive advantage requires leaders to be courageous about innovation and building some form of *difference* in the way they operate or what they offer to the market.

There are several forms of competitive advantage, each dependant upon a *difference* that leadership has been able to inject into the organisation and the way it operates. Some of these are outlined in the table below:

Forms of competitive advantage

Source of competitive advantage	Organisational features
Superior resources and capabilities	<ul style="list-style-type: none"> • Better raw materials, facilities, locations, funding • Better people or culture
Creation of new markets	<ul style="list-style-type: none"> • The ability to open up new niches where no one competes
“Locking in” of customers	<ul style="list-style-type: none"> • Developing proprietary standards and complementary products • Being perceived as the “safest” bet in risky or intangible purchases
Creation of a new business model	<ul style="list-style-type: none"> • Developing new ways to go to market through new segmentation, value propositions, business definitions or value chains
Strong relationship architecture	<ul style="list-style-type: none"> • Developing strong relationships through the supply chain, with customers, and with a range of stakeholders
High level of organisational focus	<ul style="list-style-type: none"> • Making organisational tradeoffs to achieve a disproportionate focus on low cost, speed to market, innovation or customer intimacy

So, given the unpredictability of markets and the speed with which they change, how sustainable are these various approaches to competitive advantage? Given the time taken to build superior capabilities, develop loyalty or make the difficult tradeoffs to produce low cost efficiencies, are these viable strategies to ensure the longer-term profitability or success of your organisation?

Research over the last five years suggests that these traditional approaches can actually diminish competitiveness and destroy value in your enterprise.

By building up power bases around the existing business model, inertia builds up within the organisation. Not only does the organisation lose the ability to respond rapidly to changing circumstances, leadership often loses the ability to perceive and recognise that significant change is occurring!

CAN WE MAKE COMPETITIVE ADVANTAGE SUSTAINABLE?

So, is there an approach that can offer the possibility of sustained competitive advantage? Arie de Geus⁴ argues that “***..learning faster is the only sustainable competitive advantage..***”. Only through an ongoing process of learning and adaptation, can an

⁴ *The Living Company*, Arie de Geus, 1997

organisation perceive, understand and appropriately respond to the unpredictability of its operating environment.

My own research and consulting experience suggests that there is much lip-service paid to this maxim. Many leadership teams talk of the importance of learning and adapting to changes in the market, but they continue to use their 'tried and tested' approaches to business planning, market intelligence and organisation design. And they come up with the same answers, using the same types of information and decision-making processes.

Indeed, we often find that the willingness to approach the 'strategy' question differently occurs only when the enterprise is in difficulty. And then the challenge is made so much more difficult due to the urgency and need for quick fixes!

The evidence today⁵ suggests that the strategy - execution - review process should be cycled more rapidly and that leaders should be actively engaged in learning from the experience and adapting accordingly. Indeed, we should collapse the artificial distinction between "planning" and "executing" and treat it as a continuous process⁶.

We suggest a three stage process to ensure ongoing learning and adaptation:



Overhaul your strategy process: Recognise that the strategy process you use *will* influence the outcome you achieve. Every process has an inbuilt bias that shapes the way the information is collected, decisions are made and outcomes are produced. Change your process to change the outcomes produced. If you want to explore innovative responses in an unpredictable market, use scenario planning or other approaches that don't make assumptions (predictions) about the future state of the market. Acknowledge that you face a range of alternative futures - dependant on what you do, what your competitors do, and how the customers decide.

Test your new strategy: The only way to know how something will work is to test it. Try out the new approach with a few customers or a section of the market. Test the reaction you get. Be honest with yourself - does this offer a competitive advantage? Are your current resources appropriate? What further changes do you have to make? Refine the

⁵ *Never let a good crisis go to waste*, Mladen Fruk, Stephen Hall and Devesh Mittal, McKinsey Quarterly, October 2013

⁶ See my previous article *Bridging Strategy and Execution*, Norman Chorn, November 2013

approach and improve your strategy. But don't wait until it's perfect - it won't ever be! Acknowledge that you will have to operate in 'beta' mode in certain parts of the business. And then be prepared to launch the new thinking through the organisation.

Execute decisively: Speed and conviction are the keys here. Move quickly and don't hesitate to reallocate resources in order to execute the new strategy effectively. You don't have to 'bet the business' and make wholesale changes every time you have a shift in strategy. But don't starve the new strategy of the leadership focus and attention it needs in order to be successful. And keep monitoring the results you achieve so you can fine-tune your approach. Importantly, there is little evidence that ongoing reallocation of resources produces diminishing returns in unpredictable markets⁷. In other words, keep making adjustments until you believe it's almost right. Most leaders fail to do enough or move quickly enough, rather than the other way around.

And then, it's time to have a look at your strategy process again and consider whether you achieved the different thinking you were after in the first place. The strategy cycle begins again!

LEARNING AND ADAPTATION ARE VITAL

My argument is that no single form of competitive advantage will be sustainable. Instead, it is the ability of leaders and organisations to actively learn and adapt to change that will provide the best chance of success.

This is by no means a new message. But it is time that we acknowledge that learning and adaptation cannot be achieved by using the same cautious approaches to strategy, planning and organisation design. We need to critically evaluate our strategy processes, test the less-than-perfect strategies, and then execute with speed and conviction. And then start again.



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⁷ Burshin and Strovink, op cit