

01.2007

Perfect match

Capture the high flyers with the help of a professional recruiting partner.

TOP SECRET

Are your trade secrets lost at uncautious networking and subcontracting?

Insiders

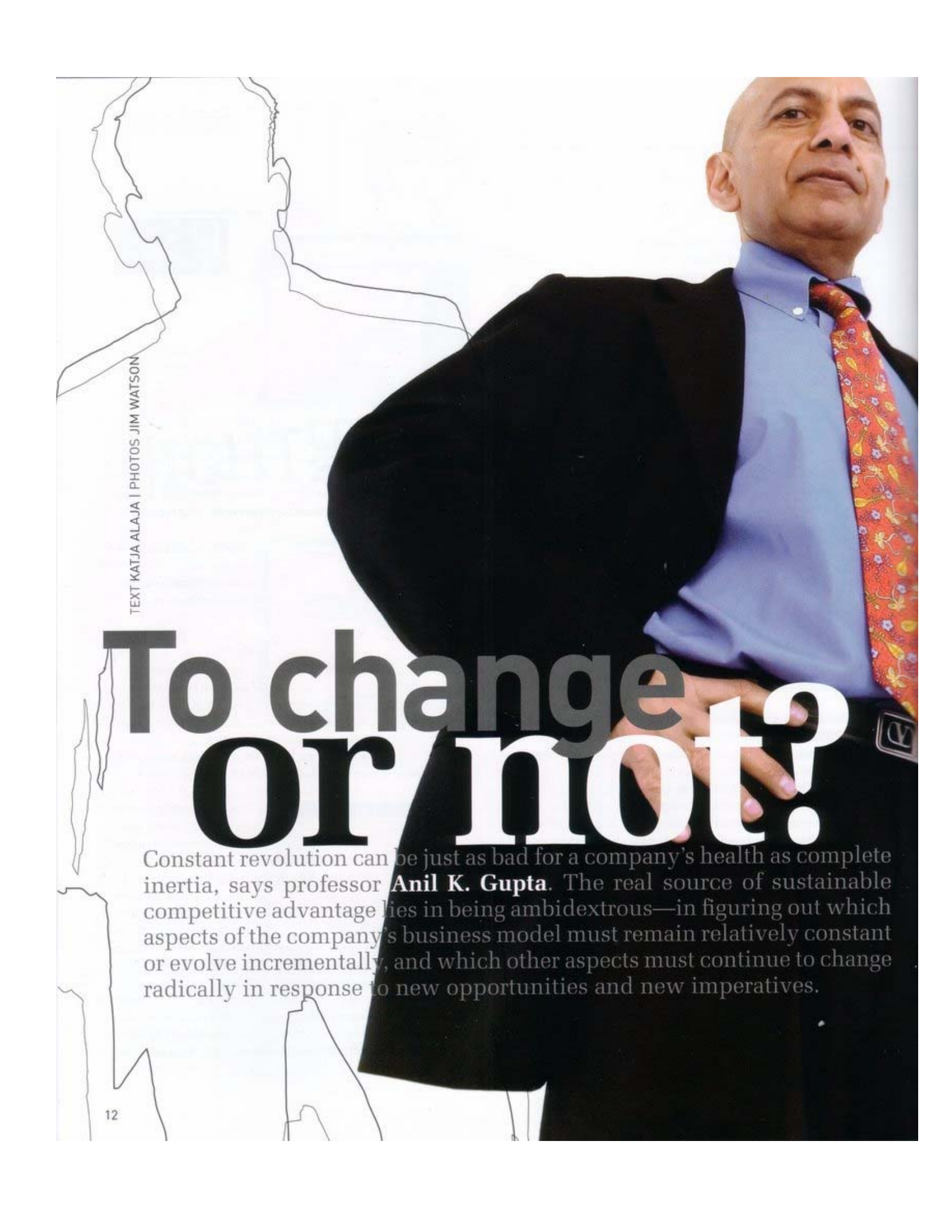
Who studied what, when and where?

The superior strategy

Both change and tradition are needed for companies to remain competitive, says professor **Anil K. Gupta**.

HELSINKI SCHOOL OF ECONOMICS EXECUTIVE EDUCATION

PROFILE



TEXT KATJA ALAJA | PHOTOS JIM WATSON

To change or not?

Constant revolution can be just as bad for a company's health as complete inertia, says professor **Anil K. Gupta**. The real source of sustainable competitive advantage lies in being ambidextrous—in figuring out which aspects of the company's business model must remain relatively constant or evolve incrementally, and which other aspects must continue to change radically in response to new opportunities and new imperatives.



Corporate leaders are constantly asking how to re-create and sustain competitive advantage in an increasingly dynamic and global environment. If we are to believe popular strategy books, the key to formulating winning strategies lies in unceasing revolution, as suggested by **W. Chan Kim** and **Renée Maubourgne** in "blue ocean strategy" and **Gary Hamel** in "strategy-as-revolution."

But **Anil K. Gupta**, Ralph J. Tyser Professor of Strategy & Entrepreneurship at the Robert H. Smith School of Business, the University of Maryland at College Park, strongly disagrees.

"Obviously, no company can rest on its laurels and assume that life will go on happily ever after. However, if a company is making constant paradigm shifts in its strategy, then it can never build the deep capabilities, knowledge base, and relationships that are essential to win customers and defeat competitors," argues Gupta.

According to Gupta, the "exploration trap" can be just as deadly for a company's future as the "exploitation trap." The trick lies in being smartly ambidextrous enough to pursue both exploitation and exploration simultaneously.

"In order to win on a sustained basis, every company must build some fortress that is hard to imitate or invade and that does not need to be dramatically re-invented every day. Some examples from the most dynamic industries are Cisco's sales and service network, eBay's established network of buyers and sellers with proprietary data on reputations, and, of course, Google's search and advertising algorithms. Once built, these fortresses need to be defended and upgraded on an ongoing basis. This is the exploitation part.

"At the same time, every one of these companies must also engage in constant reinvention in other complementary parts of the business model. Some examples are Cisco's unrelenting search for new telecommunications products that can be pumped through its commercialization engine, eBay's hunt for new markets that can leverage its auction technologies and network, and Google's

search for new information domains that can be made accessible for search, and new advertising domains that can be made accessible to merchants. This is the exploration part. Long-term winners have to be smart at both exploitation and exploration. Forgetting either is like trying to live without either your lungs or your heart."

CLIMATE VS. WEATHER. Gupta also believes that in interpreting the dynamism of the external environment, many authors and corporate leaders mistake the trees for the forest. They assume that just because many unpredictable events happen, everything must therefore be unpredictable.

"Not true at all," says Gupta and refers to our ability to predict the weather versus the climate. "Despite all of the advancements in the sciences, our ability to predict the weather even two weeks from now remains close to zero. At the same time, we are now able to predict the climate even twenty years ahead with increasing accuracy. Thus, very high unpredictability about one aspect of the external environment often co-exists with very high predictability about some other equally or even more important aspect of the same environment. I see strategy as the art and science of investing in climate-like predictions."

Gupta mentions Microsoft's strategic behavior as an example of investing in climate-like predictions. "Look at the company's multi-year effort at developing Windows Mobile, a multibillion dollar bet on the videogame console business, the establishment of a world leading software research center in Beijing, and long term investments in speech technologies. These are not turn-of-a-dime type of tactical moves. They are the result of high confidence in climate-like long-term predictions. Of course, unexpected opportunities and crises will emerge and one must address and exploit them. However, if you do not have any vision of the industry and the company's long-term trajectory, then all you will end up doing is shoot at everything that moves." →



or not?

Gupta is a great believer in the notion of strategic inflection points, a term popularized by **Andrew S. Grove**, Intel's former CEO and chairman of the board, and current senior advisor.

"Corporate leaders must be on the lookout for and be prepared to create and exploit strategic inflection points. However, one must also remember that, as in the case of Intel, Microsoft, and Google, strategic inflection points do not come about every day or even every year. History is always a combination of evolutionary as well as revolutionary periods," says Gupta.

FOCUS ON ASIA. According to India-born Gupta, corporate leaders in the rich countries also need to develop a much deeper and broader understanding of China and India if they want to be successful on a global scale. But are corporate leaders not already doing that?

"Yes and no. Many medium-sized and big companies do not have China and India strategies, even though they should. In addition, most companies build their China and India strategies from narrow rather than broad lenses," states Gupta.

Gupta says that both China and India represent four stories rolled into one. The first one is that, for most products and services, they are emerging as mega-markets by global standards. Every big company needs to have a strategy to build a defensible market position

in each country; not doing so will eventually make the company vulnerable in its own home markets.

The second story, which most corporate leaders are conversant with, is about leveraging the cost efficiencies that China and India can help create in manufacturing operations as well as business support services.

The third story is about China and India as the producers of the largest numbers of scientists and engineers in the world. As a result, developed country multinationals (MNCs) also have the opportunity to leverage China and India to significantly boost the company's technology and innovation base on a global basis. This is the story that is still somewhat below the radar for many Western MNCs.

"The fourth, and perhaps the most neglected story is that both China and India are becoming the launching pads for a new generation of global competitors who are likely to be more aggressive and more fearsome than companies, such as Toyota, Sony, and Samsung that emerged from Japan and South Korea two to three decades ago.

"Just look at the speed with which companies, such as Huawei Technologies and Lenovo from China and Infosys, Wipro, and the Tata Group from India have emerged as global giants. Unlike the Japanese and Korean MNCs, the emergence of global leaders from China and India will be driven heavily by mergers and acquisitions and will happen much more rapidly," explains Gupta.

FORGET NATIONALISM. Gupta claims that Western companies should start thinking about China and India not as "foreign" markets but as their "home" bases. The best foundation for competing with Chinese and Indian companies is to compete for the Chinese customers in China and for the Indian customers in India.

"Consider IBM. Two years ago, IBM had some 9,000 employees in India. Today, the figure is 50,000 and rising. Quite rightly, they want to take on the Indian IT services giants on their home ground."

Still, Gupta's idea of becoming "Chinese in China" and "Indian in India" does not mean that Western corporate leaders should

STEPS TO IMPLEMENTING SUCCESSFUL STRATEGIES

Professor Anil K. Gupta says that 50% of the problems in implementing strategies stem genuinely

forget their national origins. Rather, Gupta argues in favor of cultivating a global mindset.

“The first step in cultivating a global mindset is to assume that cultures differ and that no culture is superior or perfect in every respect. The second step is to develop not just respect but also deep knowledge about the key values, assumptions, and behavioral routines of the different cultures. The third and hardest step is to develop an integrated set of global values that pick the best ideas from the diverse cultures that define the company’s own corporate culture. As **Thomas Middlehoff**, the former CEO of Germany’s Bertelsmann astutely observed, “there are no German or American companies. There are only successful or unsuccessful companies.”

According to Gupta, Procter & Gamble represents one of the leading examples of a company with a global mindset. Although the company’s roots and its headquarters location are American, Procter & Gamble views the entire world as their home market and as the source of leading edge talent and ideas.

“My advice to any young European or American manager is to find an opportunity to work for a couple of years in China and India. For the other way around, young Indian and Chinese managers should spend time working in Europe and the United States. It will be a huge career and business advantage in ten years,” says Gupta. •

from poor implementation, and the rest, maybe more surprisingly, from lousy strategies. Many strategies are so unrealistic that a better term for them would be fantasies (like turning sand into gold), rather than a game plan to achieve targeted goals. Here is Gupta’s advice on how to avoid these mistakes.

1 **Involve middle management**

Good strategy design requires a solid understanding of developments along all key elements of the value chain.

People who have the best understanding of how technologies and markets are evolving often operate in the trenches rather than at corporate headquarters. While senior leaders have to make the final decisions, the quality and the implementability of the strategies depends crucially on the extent to which senior leaders actively seek input from the rest of the organization. Aside from the quality of the strategy, involving middle managers is also crucial from a motivational point of view. Research tells us that people work harder at implementation when they have been involved in the decision-making process, even if they do not entirely agree with the decision.

2 **Have the courage to invest in your convictions**

The conversion of strategic intentions into reality requires that the senior leaders allocate resources in line with the new strategy’s priorities, and also realign the company’s structure, systems, and business processes within the demands of the new strategy. However, only a small fraction of business leaders persist courageously in transforming ideas into hard on-the-ground reality, even if they are hired to do just that.

3 **Accept imperfection and learn rapidly**

Nobody can predict the future with complete accuracy.

As time unfolds, at least some of the assumptions that guided strategy design will prove incorrect. No strategy can ever be implemented with perfection. In fact, perfect implementation is a sign that the strategy creators were not ambitious enough. A good approach is to assume that we do not know in advance what mistakes we will commit. Thus, corporate leaders must accept imperfection and remain alert to new knowledge so that the strategies can be modified (and, if needed, even radically transformed) during the course of implementation.

SKATE TO WHERE THE PUCK WILL BE

According to professor Anil K. Gupta, successful companies design their strategies by looking at the future from the lense of the future, rather than as a trend line projection from the past. The main idea is to achieve some predictive clarity about the continuities as well as the discontinuities of the dynamic world. Gupta echoes the observation made by the Canadian ice hockey player **Wayne Gretzky**: "Skate to where the puck will be, not where it is now."

Gupta's global consulting

CASE: DELL

The first clever strategist Gupta mentions is Dell, which was founded to serve the experienced PC user. Unlike novice buyers, experienced buyers were likely to be much more comfortable placing orders over the phone and, later, the Internet, without seeing the product or having face-to-face assistance. So, for the first ten years, Dell targeted the smaller segment of experienced buyers, while its competitors, including IBM, HP and Compaq, focused on the much larger segment of first time buyers.

But as was entirely predictable, over the next ten years, the prominence of the different segments shifted dramatically. When it came to the second purchase, every buyer was an experienced rather than novice buyer. As larger and larger chunks of the market moved towards Dell, it merely had to refine its strategy.

In contrast, IBM, HP, and Compaq realized that their strategy was designed for yesterday. They also discovered that making radical changes in business strategies is much harder than being ready for the market as it moves in your direction.



ANIL K. GUPTA.

India-born Anil K. Gupta, 57, is the Ralph J. Tyser Professor of Strategy and Entrepreneurship at the Robert H. Smith School of Business, The University of Maryland at College Park, USA. He received his Bachelor of Technology from the Indian Institute of Technology, his MBA from the Indian Institute of Management, and his doctorate from the Harvard Business School.

Gupta has won numerous academic awards, including the Glueck Best Paper Award in Business Policy and Strategy from the Academy of Management, and recognition as one of the Top 20 North American Superstars for research in the field of "strategy and organization."

CASE: METSO MINERALS

Gupta also highlights the strategic choices of Metso Minerals over the last fifteen years. In the early '90s, the corporate leaders realized that three long-term predictions could be made—the timely was uncertain, however.

The first prediction was that mining and construction customers would become larger and more global. Thus, the future would belong to those machinery suppliers who were global rather than local. The second prediction was that future economic growth in the developing countries would far exceed that in the developed world. Thus, depth of market presence in the major developing economies, such as Brazil, China, and India would become increasingly critical to revenue growth as well as economies of global scale. The third prediction was that as customers become more professional, they would look for total solutions rather than just discrete single machines. Thus, the future winners would be broad-scope companies that were strong not just in a narrow line of original equipment but that could also provide an increasingly broader array of services and solutions.

Not surprisingly, Metso's leaders became pioneers in shaping the evolution of their industry. In the process, they also transformed a small Finland-based domestic company into the world's clear leader in rock and mineral processing technologies, equipment and solutions.