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Competitive instinct

Getting—and staying—competitive is a permanent challenge in business. But while the pressure to secure sustainable competitive advantage may be constant, a few tricks of the trade can help smooth the battlefield. Take the argument posed by Loizos Heracleous (Official Fellow of Templeton College and Reader in Strategy at Said Business School, both part of Oxford University, and Visiting Professor at CIIM). Competitiveness, he says, derives from core competencies, strategic alignment and innovation, rather than, for example, copious resources. So no matter how humble the outfit, there's hope for everyone… but only if you're good. Really good.

CMR: Your work focuses on strategic management from an organisational point of view. How is that different from other perspectives on strategy?

LH: I'm interested in issues such as organisational culture, change management, innovative strategising and strategies, and organisational development and learning—as opposed to, for example, strategy from an economic perspective or a finance perspective. But whatever your take on strategy, the key question remains the same: what enables one organisation to out-perform others?

CMR: And is it always a question of out-performing, rather than a company being in the lead because… well, its competitors are simply underperforming?

LH: That can be the case in markets that are highly regulated or closed to outside influences, or where a company or cartel has built up a hold on the market—in effect stuffing all distribution channels and establishing virtually insurmountable relationships, so that competitors find it difficult to get in. But in the longer term and in open markets, mediocre companies cannot outperform superior competitors.

CMR: The word strategy is used to cover an extremely wide range of issues...

LH: That's an interesting thing. Many people perceive strategy to be a high level endeavour, and something abstract. That is a mistake: strategic direction without operationalisation is useless, and operationalisation without a clear direction is also useless. A good way to think of strategy is as a multidimensional concept that includes long-term direction, core competences and organisational factors, all of which must be aligned with market demand—or latent demand.

CMR: Meaning?

LH: Meaning that a company could create demand for a previously unknown product or service, to fulfil unexpressed demand.

CMR: The idea of strategic alignment is of course a core concept in strategy, but there seems little agreement on what it actually is.

LH: It has been expressed in many ways. One way is as a quadrant of culture,

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structure, process and people, all of which relate to organisation but need an overarching strategy: that is, the strategy should be aligned with the organisation. Another way is the well-known McKinsey 7-S model—strategy, structure, systems, skills, staff, style and shared values. A third way, suggested by Michael Porter, is in terms of a value chain. Here the idea is that a company's value chain, which includes basic and support functions, should be consistent with its strategic direction. A good example is IKEA's strategy of cost leadership: acceptable quality at the lowest cost. If you look at distribution, for example, IKEA products are in flat boxes, making them cheaper to distribute and transferring the cost of assembly to the customer. IKEA stores are in cheaper locations and have less people working on the floor. They use internal designers and their products are easy to assemble and use interchangeable parts. Their marketing is very simple: they don't spend big money on ad campaigns, relying instead on in-store communication and on their brand. All of these items in the value chain are consistent—strategically aligned—with one theme: cost leadership.

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CMR: Your work with Singapore Airlines, outlined in your most recent book, led you to a fourth way of conceptualising strategic alignment…

LH: Yes. There we used activity maps, as a way of demonstrating how a range of company activities are aligned with a company's core competence, which in turn supports its strategy. In the case of Singapore Airlines, for example, company activities are aligned with cost-effective service excellence [see page 4]. The key for any company is to figure out how to get activities and organisation—or functions—to be complementary to and to support each other, creating virtuous circles feeding off one another to create a larger whole.

CMR: How many companies really know what their core competences are? If asked, wouldn't most senior managers just assume their core competence is whatever they happen to do?

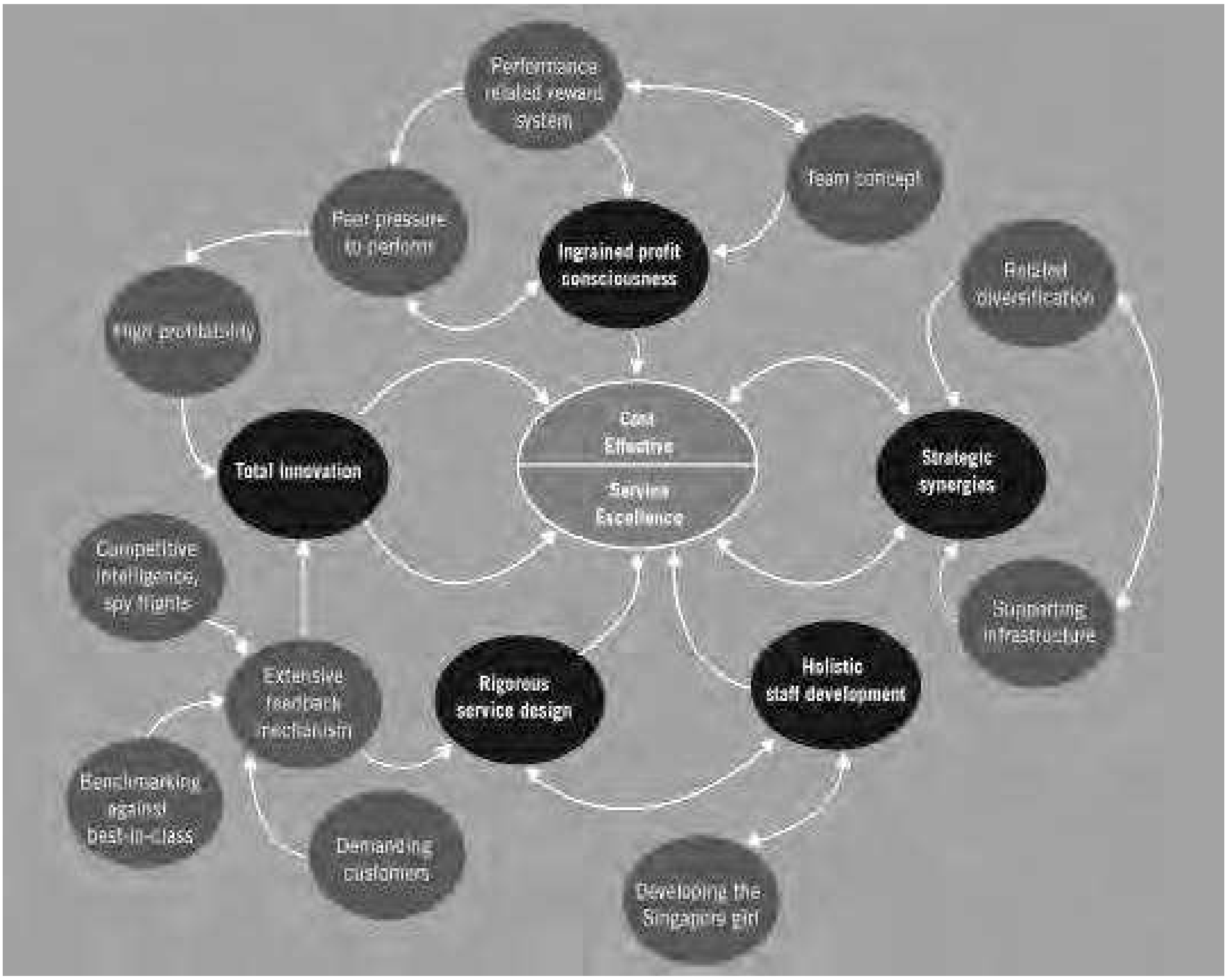
LH: That's a big organisational question and I think it depends to some extent on what stage of development a company is at. Most large companies will have given thought to their core competences. But the way each company defines core competences will differ. It is true that most managers think their core competences are what they do well and where most of their pay comes from—their core business. In fact, competencies are types of capabilities that can be applied to a range of businesses. A core competence is defined by four features: it is something that is rare in the industry; valuable to the customer; hard-to-imitate and hard to substitute with something else. Most managers will look at their capabilities—that is, the capacity to do something—and think it is a core competence. It's not. Because a core competence is rare by definition, *Continued*

there won't be many companies that have a core competence. Those that do will outperform the market.

CMR: And the number of companies that outperform the market is, of course, tiny.

LH: A few years ago McKinsey looked at 208 large companies in various industries, to establish how

SIA's self-reinforcing activity system



> ‘The ideal is that structure follows strategy. Ideally you know what you want to achieve and you align your structure and capabilities to make it happen’

many had outperformed their competitors over a 10-year period. Using a basket of measures—not just share price or profits—they found that the answer was three. Just three companies—less than 1.5%—had consistently outperformed competitors over a 10-year period. That shows how difficult it is to remain successful in competitive markets, and why it makes sense for a company to identify whether they have any core competences, or any capabilities that could be built up beyond those of their competitors.

CMR: Which means that in a way, strategy comes after core competences? The word ‘strategy’ suggests a guiding plan…

LH: The ideal—as suggested by Alfred Chandler—is that structure follows strategy. Ideally you know what you want to achieve and you align your structure and capabilities to make it happen. But even Michael Porter, who is an economist and a realist, has admitted that the opposite is often true—you have a certain organisation, you have certain capabilities, and the most you can do is to try and extend your capabilities to achieve a certain strategy. So strategy is actually constrained by your capabilities and organisation, and the trick is to have alignment among all of these and what the market wants. Of course, blue ocean strategy-types would argue that strategy requires thinking up something entirely new, breaking new ground, and then creating the capabilities to match. That is possible, if you have the right leaders to bring the organisation forward, to inspire, to motivate.

CMR: Your recent work outlines a fifth approach to strategic alignment, which applies to multi-business, multi-divisional corporations, like GE.

LH: Successful companies that work across industries should ideally also have corporate level, cross-divisional alignment. And that is why companies with related diversification tend to outperform corporations with conglomerate diversification, because they can achieve synergies, share resources, between divisions. For example, if you are GE selling nappies and shampoo—related products—you can share a distribution channel. Of course, if you are Virgin and you have planes and a radio station, it’s hard to have operational synergies…

CMR: Of course there are also times when a product or service takes off despite carefully crafted company strategy, rather than thanks to it.

LH: Absolutely. Take the luxury skincare product SK2, part of a Max Factor Japan portfolio acquired by Procter and Gamble. SK2 was extremely popular in richer Asian countries but virtually unknown in the west, until P&G finally discovered—after several years—that it had taken ownership of a top-grade face cream with a cult following that could

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achieve worldwide success. P&G decided to invest in the product and take it global, and SK2 is now a business worth hundreds of millions of dollars, sold as a speciality product in Harrods—something of a break with the P&G tradition of stack it high and sell it cheap…

CMR: … which makes something of a mockery of strategy…

LH: You could say there is a distinction between emergent strategy and planned strategy. Another example is Caterpillar, which has a fast-growing business selling reconditioned engines for their machines—something they were reluctant to get into when a big US client first asked them. But once they had set up the infrastructure, the high margins and increased customer loyalty made it a worthwhile investment. It's worth being flexible enough to carry out strategic experiments of acceptable risk and to let strategies emerge—and to have a good idea of where you are going. That helps set the boundaries of what you will and will not do—the scope of your activities. But it does not preclude the possibility that at some point it may become obvious that the scope of activities should change.

CMR: Given the chance, is there a particular organisation you would really like to work with?

LH: Cirque du Soleil—an excellent example of an organisation redefining the rules of the game. They provide entertainment, which is, if you like, the basis for competition in their sector. But they do it in an entirely different way. No animals, great costumes, great acrobatic acts, creative clowning, live music—an orchestra, singers—and all working to a given theme. It is a totally different experience than conventional circuses.

CMR: So they are going for quality and certain values—in having no animals, for example. Circus as 'high art'.

LH: That's a good way of putting it. And it raises interesting questions. What is Cirque du Soleil's strategy and how does it fit with what the market wants? What are its core competences and how is it organised to deliver so effectively? It is certainly a good example of redefining the rules of the industry, and a good example of strategic alignment.

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Flying High in a Competitive Industry: Cost-Effective Service Excellence at Singapore Airlines *by Loizos Heracleous, Jochen Wirtz and Nitin Pangarkar, is published by McGraw-Hill (2006)*