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Coming Attraction

What are the big business ideas that will shape tomorrow's agenda? In every issue of business strategy review we provide an update on what some of the world's leading thinkers are currently working on.

Francesca Cornelli
Academic (London Business School)
Recent work: Co-author of The Global Economic Impact of Private Equity Report 2008 (World Economic Forum, 2008)

Two of the main projects I am working on concern private equity. The first looks at the boards of public companies that have gone through a leveraged buyout and, as a result, become private companies. We look at the presence of private equity people on the boards and whether that relates to how difficult a deal was or to the outcome. We find evidence that private equity people become more involved in the most difficult deals and have a positive impact on the final outcome.

Another thing we are looking at concerns management. There's a debate about whether managers in public companies are dismissed when they perform badly or when the industry is in crisis. There is some evidence that they're actually dismissed when the industry is in crisis – something that is clearly not their fault. This is therefore inefficient. We look at whether the firing of managers in private equity companies is more efficient. Very often the managers of companies that underwent leveraged buyouts talk about having longer-term objectives and not needing to focus on short-term profits. Contrary to such claims, we find management turnover in those companies is much higher. However, we also find that private equity companies are more willing and able to fire people based on the poor performance of the company rather than of the industry or market.

I am also looking at the entire issue of transparency. Following various corporate scandals, the argument put forward is that more transparency is better. Actually, you can argue that transparency can make matters worse. When you make more information available, managers' compensation may be affected and, therefore, the behaviour of managers may change. They will have more incentives to manipulate the additional information, since the public is more likely to rely on such information when valuing the company. Calls for transparency are usually based on present management behaviour; but this is misleading, because as managers are not currently disclosing this additional information and are not compensated on the basis of it, they are not taking into account the effect of the additional disclosure when they make decisions. If such changes will actually be implemented, managers' compensation will be affected and so will their decisions.

Richard D'Aveni
Academic (Tuck School of Business at Dartmouth College)
Recent work: Hypercompetition (Free Press, 1994), Strategic Supremacy (Free Press, 2001) and Beating the Commodity Trap (Harvard Business School Press, 2009)

I have been looking at the perils of commoditization and, in particular, what I call the commodity trap – the title of my new book. The basis of my thinking is that long-term competitive advantages are no longer appropriate, relevant or effective. In an increasingly hypercompetitive world, strategy is about sequencing lots of short-term advantages and exploring your way forward. For most companies, that means learning to live with creeping commoditization.

The trouble is that most managers approach this problem from the wrong standpoint. Conventional wisdom on how to cope with commoditization suggests there is one simple solution: differentiation. That is a misconception – and a dangerous one at that. My research shows that when you are fighting a commodity trap, even continuous differentiation will not suffice.

Let's be clear: adding bells and whistles, or augmenting products or services to differentiate your products or services from those of competitors, can be a powerful tool for escaping the commodity trap in the short run. But rivals are usually quick to follow, and there is sometimes no place to run or hide. Typically, firms pursuing continuous differentiation end up trapped in an endless race that improves products but not profits. What they need is a more sophisticated approach that gives them more long-term control of the situation. And that, I hope, is what Beating the Commodity Trap provides.

Andrew Kakabadse
Academic (Cranfield University School of Management)
Recent work: Leading the Board (Palgrave, 2007)

What I am working on at the moment goes back to an experience I had in the mid-1990s when I was invited to an outlying province of China called Hunan. I was there acting as an advisor to a multinational company setting up in the area. On arriving, I was introduced to the Chinese minister and offered a refreshing, if potent, local rice wine called Maotai. No negotiations, I was told, would take place until the local customs were complete. What I later realized was that in this particular province, strangers are required to drink 19 shots of the local liquor to prove they are worthy to be admitted to the negotiating table. Drawing on my early experiences, I drained my glass – 21 times. By still being able to walk after 21 shots of rice wine, I passed the test. The hangover was memorable, though temporary, but the metaphor remained with me.

Since then I have observed time and time again how local culture and global leadership are entwined. Every situation is different. Every country and even every province has its own unique ways and nuances. Global citizens beware. What is regarded as unprofessional in one part of the world is a test of a leader's character in another. What is seen as corruption in one place is seen as deep-seated familial loyalty in another. But it is only by navigating the differences that business leaders can operate effectively on the global stage. And when it comes to global commerce, Western leaders have as much to learn as, if not more than, their Eastern counterparts.

I am now working on a book that looks at what it takes to succeed as a global leader of a modern organization.

Rosabeth Moss Kanter
Academic (Harvard Business School)
Recent work: Confidence (Three Rivers Press, 2006) and SuperCorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good (Crown, 2009)

My new book, to be published later this year, is about a handful of companies that set a model for how values and principles can drive every aspect of a business – strategies, innovation models, sources of innovation, approaches to acquisitions and merger integration, workplaces, the new shape of careers, and influence in the workplace. It's also about their approaches to diversity, a major issue as companies increasingly globalize whether they operate outside of their home country or not. I also consider their contributions to the public sphere. At each of the companies we investigated, we conducted interviews; in many cases we did 50–75 interviews. I ended up with about 375 interviews in 20 countries.

My conclusion is that this set of companies, while not perfect, still represents a source of hope for the world; and they could potentially even serve as a buffer against oppressive governments and oppressive religions – even oppressive ideologies – because they have an interest that transcends the merely cosmetic. They have an interest in improving standards around the world, and they tend to carry these standards with them from place to place.

These companies – what I call supercorps – manage to be very large and yet highly personalized in the ways they connect to people and the ways they allow identity to be expressed. They are global in orientation and in their thinking and yet are intensely local and locally embedded in their on the-ground activities.

The changes they've made are very 21st-century. For most of the companies – which include IBM, Procter & Gamble, Cemex, ICICI Bank in India, and Omron in Japan – the emphasis on their values and principles as guidance systems for every aspect of the company is really a 21st-century emphasis. They may have had statements before that, but they were all renewed, refurbished, and updated to fit the new realities and are much more apparent as a management tool than they had been previously.

Markus Reitzig
Academic (London Business School)
Recent work: (with Joachim Henkel) "Patent sharks" (Harvard Business Review, June 2008)

If you look at all the mega trends – climate change, population growth and so on, all can be seen as threats or opportunities. Managers who view them as opportunities can, despite all the associated uncertainty, be sure of one thing: innovative solutions are needed and will sell. As a result, the study of “innovation” has gained a lot of attention. In this domain, you can talk much of people, procedures and processes, but undoubtedly the solutions will have a lot to do with technology, technology that we currently don’t have control over and that needs to be developed. How to make money through technological innovation is thus more topical than ever, and the literature on value creation through technology is rich. One thing people haven’t written so much about, however, is who gets the highest return on investment in this whole technology game and captures most value. Interestingly, these are not necessarily the most creative, technologically advanced or the most futuristic firms. Finally, we know even less about how value creation and value capture in the technology game are related; in other words, how a firm should strategically go about developing technology contingent on its appropriation strategy.

This myopia is undesired, yet easily understood. If you look at the history of strategy, everyone’s theoretically concerned with three things: value creation, value appropriation and how they are linked. Yet, because creation is the seemingly sexy part, that is what most people write about. Creation is the thing that resonates with managers, but a lot of profit differences are driven by appropriation. And innovation strategies that tailor initial value creation to the envisaged exploitation appear to be the most profitable.

Why did Motorola make more money in its GSM venture than any other firm? Not because it was necessarily more inventive, not because it had the better technology, but it participated in the technology game with an eye on what it could finally drive home. In contrast, other companies started to invest hoping that in the end there would be something for everybody out there.

IBM donated 500 patents to the open source community, basically because it understands that if you want to manage that trade-off between value creation and value appropriation, there are certain actions you need to take that can seem counterintuitive at first sight.

The biggest challenge in innovation management, and indeed strategic management, is to understand how certain firms make more money than others, despite drawing on similar resources. I am fundamentally concerned in my research with answering two questions: how do I make more money out of my technology investment than someone who is technologically equally capable? And how can I strategically tailor my early-stage value-creation activities to subsequent exploitation?

There are a number of strands to this research. First, I am looking at how companies can use all of the options that the legal system gives them to appropriate returns for their innovation investment. Particularly, I wonder how legal appropriation considerations influence early stage R&D decisions.

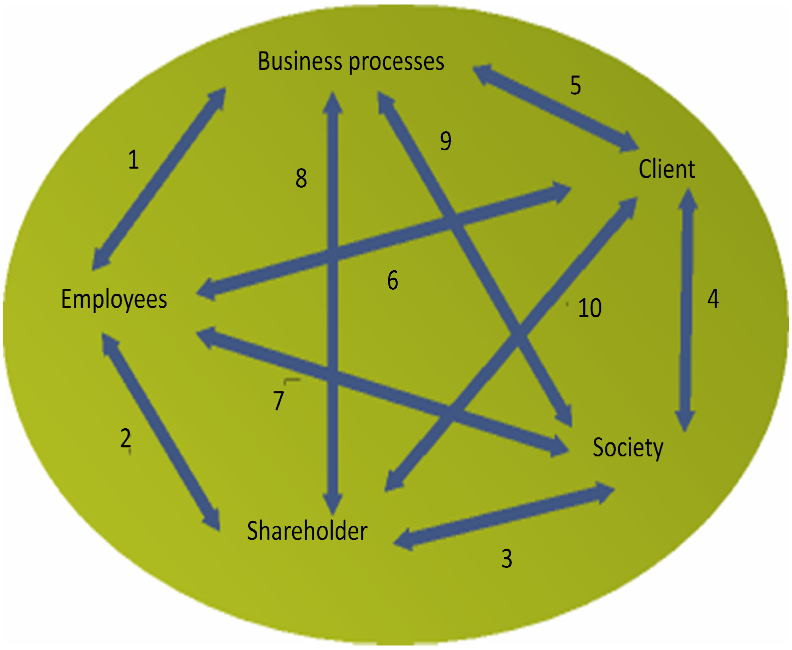
Second, in the area of open source, I’m trying to understand how it can happen that firms apparently turn the system of intellectual property rights around by making their costly exclusion rights accessible to the public. What my co-authors and I appear to find in the data we’re currently collecting is that benefits accrue to firms that are trying to shape an open movement so that it perfectly suits their corporate purposes. This is a very sophisticated approach to managing the trade-off between the creation and appropriation of value.

Another research project I’m working on with several partners is trying to understand how to custom tailor corporate idea generation so it will yield the highest number of actually useable ideas. Behind this, we always have an eye on the fact that innovation is about more than just generation of value. It is about the generation conditional on the expected exploitation of value. Firms do not care about making the pie as big as possible, they do not care about getting the biggest slice of any given cake – they care about how much finally ends up on their plate.

Fons Trompenaars
Founder of Trompenaars Hampden-Turner, an Amsterdam-based consultancy.
Recent work: Author of the bestselling Riding the Waves of Culture (Nicholas Brealey, 1997) and Riding the Whirlwind(Infinite Ideas, 2007).

Our next book will be on the integral organization, in which we will discuss sustainability and reconciling what we call the 10 Golden Dilemmas. This is an enormous piece of work, and that’s why the book has already been simmering in the background for seven years. In our database we have about 8,000 dilemmas which we have captured via our client work. We have categorized them and have come out with 24 succinct and distinct families of dilemmas, of which global versus local or equal opportunity versus positive discrimination are examples. We are still in the process of conducting research.

There are five stakeholders in a business – business processes, clients, employees, shareholders and society:



The value of an organization is created by how one reconciles the tensions when the 10 Golden Dilemmas interconnect these five stakeholders. These dilemmas exist because resources are scarce: what is given to one segment of the cycle must be taken from another. The solution to these dilemmas exists with created value, in many cases a new value, making a company highly sustainable. This also ties to our most recent book, Servant-Leadership Across Cultures (Infinite Ideas, 2008), whereby servant-leadership is a form of sustainability on an individual level.

The other thing we are doing with the dilemmas is measuring where companies position themselves on each dilemma, including the viewpoints of a selection of the other stakeholders. What we have found up until now is that there is a high correlation between the companies' capability to reconcile dilemmas and the future value of their organization. This allows us to create an assessment of the organization, not looking back as most accountants would do, but predicting the sustainability of the organization. And that's what the book is about – explaining the dilemmas, assessing the sustainability and providing a practical guide on how to reconcile that dilemma, providing best practices and linking it to the value of an organization – not looking backward but looking at future performance. A great tool, especially in these tough times.

Kim Warren
Academic (London Business School)
Recent work: Strategic Management Dynamics (Wiley, 2008)

Given the gratifying early interest in Strategic Management Dynamics, I now find myself on the demanding treadmill of keeping it up to date, both to ensure the content stays current and to improve and extend its coverage. Although primarily intended as a core MBA strategy textbook, it is also proving popular with strategy professionals in consulting and corporate staff positions.

Early feedback suggests that the book is proving popular because it addresses some long-standing concerns among the strategy community – the limitations of qualitative strategy tools, low popularity with students of MBA strategy courses, and recruiters' concern about limited capability among their new hires. Teachers and professionals alike find the book offers rigorous, quantitative frameworks that work and so provide the basis for truly professional analysis, recommendations and management of strategy.

The second edition will feature two major developments. First, it will make more of the fundamentals of strategy. Why, for example, are most strategy tools based on research into profitability levels (for example, return on invested capital) when investors value growth in free cash flow? And why do most strategy tools focus so heavily on firms' choice of competitive position, rather than how to manage strategy over time once that choice has been made? The other key development for the book will be a further extensive section on corporate and international strategy.

Interviews by Stuart Crainer and Georgina Peters