

01/09/2002

New rules for hypercompetition

Jeff Ooi

RECENTLY, the media carried blizzards of news about the government commissioning McKinsey & Co to conduct an in-depth study of Mimos' business model. Subsequently, Mimos management came out with a new mantra: 'Why split up an organisation that is working fine? Give us the money and we'll show you the results.'

Can Mimos metamorphose into a real R&D powerhouse and profitable business entity if it were allowed to employ personnel at international market rates? Interesting, but debatable.

To start with, allow me to introduce David Grossman and John Patrick of IBM, Ken Kutaragi of Sony, and Georges Dupont-Roc of Shell. These are four mavericks who saved their companies from obsolescence, as featured in Gary Hamel's book *Leading the Revolution* (2000). They share a common trait: With the help of sympathetic seniors, they redrew business concepts of their companies in their capacity as junior executives and rebels rolled in one.

In 1994, IBM had lost US\$15 billion over three years and its market capitalisation dropped by 70 per cent, eliminating US\$73 billion of shareholder wealth. That was when Grossman, a programmer stationed at an IBM outpost in Ithaca, New York, together with staff executive Patrick, came out with the radical idea to persuade IBM into acknowledging Internet's importance, into building a visible Web presence, and ultimately into becoming an e-business powerhouse. Louis V. Gerstner Jr, then IBM CEO, believed in them and, as history came to pass, abstractions turned into real-world success.

Sony Corp engineer Kutaragi faced years of criticism hurled at the series of digital devices his team developed. He persevered to co-opt and neutralise opposition, find sympathetic support from senior management to help bridge rebels and the establishment, and finally 'infiltrate' the highest echelons in Sony to garner the right resources on his side. That led to the immensely successful PlayStation now accounting for 40 per cent of Sony's annual profits.

Hamel also mentions in his book about how he directed Royal Dutch/Shell, with the participation of rank-and-file like Georges Dupont-Roc, to spur innovation in weekly, company-wide brainstorming sessions called 'Game Changers' that have generated more than 320 revenue-producing ideas. One of those ideas helped Shell find some 30 million new barrels of oil in Gabon, 1999.

The examples could go on, but they all centre on bosses who have the proper listening skills, and rightly, who understand the importance of continual, radical innovation as the competitive advantage in the new millennium.

Hamel's business concept is made up of four major components each with several sub-components. The key components are Core Strategy, Strategic Resources, Customer Interface and Value Network (complemented through suppliers, partners and coalitions), a central thesis that entails the complete value chain of upstream-downstream equation. Hamel sums up his observation by stating, 'The fundamental challenge organisations face is reinventing themselves and their industries not just in times of crisis, but continually.'

Many may find Hamel's theories differ little from Michael Porter's, though. If you remember, Porter taught us to be low-cost providers, adopt

a highly differentiated position, or focus on a particular niche in order to identify and migrate to a position of sustainable competitive advantage.

However, Porter's pre-cyberspace strategic framework has since been complemented with newer ones. For example, Hamel's 'Leading the Revolution' deals with non-linear ideas in managing corporate businesses. This warrants our giving it some thought as Malaysia eagerly awaits the parting words from Prime Minister Datuk Seri Dr Mahathir Mohamad, the chief architect who crafted the building blocks for Vision 2020.

The PM's grand vision of an industrialised Malaysia is built on moving the country towards K-economy, making it a global hub for communications and multimedia, particularly in ICT innovation. The Multimedia Development Corporation (MDC), National IT Council (NITC) and Mimos stand out among government agencies as they make the important cogs-in-the-wheel that power the engine of ICT growth. How will they fit in a changed scenario after Dr M? Has McKinsey dispensed a good prescription for Mimos to move forward?

Interestingly, in the last five years, McKinsey have had their very own 7-S Framework challenged by new paradigms in the U.S.

McKinsey's 7-S Framework, unveiled in the 1980's, says that competitive advantage arises from creating a proper fit among key organisational characteristics and focusing them on a clearly defined purpose or mission. (Sounds familiar to Hamel's?) Externally, this requires a fit between the organisation's strategy and the environment around which the organisation operates. Internally, the organisation must find a perfect fit in seven key factors: Structure, strategy, systems, style, skills, staff and superordinate goals.

The flip side is that fit implies a sense of permanence and predictability. Given the formulaic configuration of the 7-S, the capabilities and weaknesses of an organisation can be read easily. If an organisation is too rigidly tied to a single objective it becomes less flexible. The organisation becomes an easy target for competitors if it cannot swiftly change strategy, or many of the 7-S components, to meet new market needs.

On this domain, Richard D'Aveni, the author of 'Hypercompetition: Managing the Dynamics of Strategic Manoeuvring' (1994), provides several challenging but no less refreshing views about corporate survival. D'Aveni says today's fit has become obsolete and easy to outmanoeuvre. He cited the cola war between Coca Cola and Pepsi, the rivalry between celluloid and digital imaging industries (Kodak vs. Polaroid, Sony vs. Kodak and Canon vs. Kodak), and the rivalry between Quartz/Digital watchmakers and Swiss watchmakers, and later Swatch (Swiss) vs. Timex (U.S.) to illustrate his observations on competition in highly dynamic environments.

D'Aveni's fundamental model states that competition is war. He says: 'The new code of conduct is an active strategy of disrupting the status quo to create a series of sustainable advantages. This is not an age of defensive castles, moats, and armour - it is an age of cunning, speed, and surprise. Welcome to the world of hypercompetition.'

D'Aveni's studies show how corporate manoeuvres and counter-manoevres escalate so ferociously that the traditional sources of competitive advantage can no longer be sustained. As a result, organisations must continuously create competitive advantage through leadership and supremacy in four arenas of competition: Price and quality, timing and know-how, stronghold creation/invasion, and deep pockets.

He further argues that old sources of advantage must be destructed (no apologies if Hamel sounds conspicuously familiar here, again) to enable the organisation to dynamically create a stream of short-term advantages.

Drawing almost wholly from secondary sources, D'Aveni proposed a new framework aimed at catching competitive opponents 'flat-footed'. His 'new' 7-S Framework, extended from McKinsey's, focuses on seven attributes: (superior) Stakeholder Satisfaction, Strategic Soothsaying (i.e. good sense of where the world is headed), (positioning for) Speed, (positioning to) Surprise rivals, (ability to) Shift the rules of competition, Signalling strategic intent, and making Simultaneous and Sequential strategic thrusts.

In summary, D'Aveni advocates strategic supremacy achieved through disruption and dominance. If, in the past, Mimos used to focus primarily on outplaying competitors at a fixed game, as in ISP dominance between Jaring and TM Net, the new line of competition has shifted to the understanding of relationship between an environment's turbulence and the companies' choice of strategy. If Mimos' board and senior management team so wish to challenge the status quo to improve its position, it might as well consider changing the rules of the game. How?

D'Aveni offers some hints in his 'Four Arena Analysis'. He introduces the concept of organisations finding ways to move up the 'escalation ladders' as advantage is continually created, eroded, destroyed, and re-created through strategic manoeuvring of the four arenas of competition. In other words, survivalists in hypercompetition must have the art to neutralise the opponent's previous advantage by making it 'obsolete, irrelevant, or non-unique'.

Wisdom can be gained if ideas are juxtaposed for clarity of thoughts. For instance, Mimos talks about segmenting its for-profit businesses and making them profitable. D'Aveni, on the other hand, maintains that instead of maximising profits as the sole goal of corporations, hypercompetition will necessitate new goals. These may take the form of maximising the opponents' losses while minimising one's own losses, or living with low profits while aiming at maximising market share for businesses.

In a globalised economy, many organisations must have realised fully that competition extends across national boundaries. D'Aveni stresses this aspect in his newest book 'Strategic Supremacy: How Industry Leaders Create Growth, Wealth and Power through Spheres of Influence' (2001), by focusing on growth, geo-product portfolios, positioning on the global chessboard, and creating strategic supremacy over part of the competitive universe. Without a doubt, hypercompetition is most intense in ICT innovation where strategic supremacy rules, and D'Aveni's approach is by reinforcing the importance of time.

But sometimes, it is much easier to discard the textbooks and recall what boxing legend Muhammad Ali once said about survival in the ring: 'You've got to float like a butterfly and sting like a bee.' This is corporate altruism as a KO can be inflicted even before the first bell of a 15-round bout.