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Continuous reconfiguration, not stability, is the new normal as organizations deal with transient advantages

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Dear Colleagues,

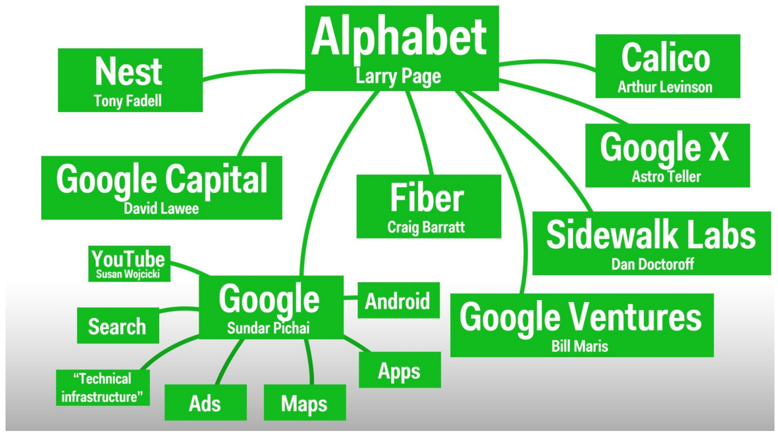
It amazes me that an awful lot of management thinking still presumes that stability is the norm, and change is the weird thing. Indeed, I just now did a search on the term "change management" and it yielded 30,900,000 results!

Believing that things will 'get back to normal' after some kind of transition can be dangerous. It tends to trap people into sticking with a business model, a plan, or an organizational structure for far too long. Indeed, it was no less a thinker than Peter Drucker who pointed out that as soon as a business had achieved its objectives, that change was likely to be underfoot. It's interesting, therefore, to see how companies are responding.

Proactively changing before you have to: The curious case of Alphabet

Alphabet

We’re all still getting used to what you might think of as our “Prince” moment. I'm thinking of the organization formerly known as Google taking on a new identity. The basic idea is that Google would become an entity of its own, with its own CEO, while the other businesses that it had once started or purchased, such as Nest, YouTube, Fiber, GoogleX and Google Capital would have their own names, corporate brands and leadership. The Alphabet reconfiguration bears watching because the change has been sparked, proactively, right at the top, before anyone forced change on the company.



The major upside claimed for the Alphabet re-branding and reorganization is to create greater focus and strategic clarity for each of the entities that are now sub-brands. It also creates “headroom” for talented executives such as Google CEO Sundar Pichai, Nest’s Tony Fadell and YouTube’s Susan Wojcicki, people who might get restless if they perceive they’ve been steamrollered by the success of the cash-printing machine that is Google’s advertising business. The company has suggested that it will allow each of the sub-entities to let their corporate identities evolve without being chained too closely to the fortunes of the others.

Alphabet’s executives have explicitly said that their model is Warren Buffett’s Berkshire Hathaway holding company, which has over many decades, proven that trusting management to make the right decisions with fairly limited oversight can produce outsize returns.

Not everybody is so enamored of the change, as not many people have successfully copied Buffett’s model! The greater transparency Alphabet has promised with respect to internal financial numbers will also make it clear to investors just how much money is going into so-called moonshots or dubious acquisitions, unlike the solid, boring businesses with ‘moats’ that Buffett and Co. like to invest in.

Less Happy Corporate Reconfigurations

Less Happy Corporate Reconfigurations

Google is in a nice situation. It has plenty of free cash flow, keeps investors reasonably happy, and enjoys a reputation as a talent magnet. They would be the envy of a number of other companies who are being forced to make changes, often as a consequence of activist investors taking an outsize interest in their strategies. The situation over at DuPont is illustrative.

Former CEO Ellen Kullman, who is one of the most effective leaders I've ever met, won her battle with activist investors Trian Partners only to depart abruptly from the company a few months later amidst board overreaction to a singular setback. Once she left, a well-known breakup expert stepped into the CEO role. Now, DuPont is planning to merge with former rival Dow Chemical, only to announce that the combined company will break itself up into even smaller pieces. You really have to wonder if all the angst and agony (and expense) of these painful restructurings will pay off over time – well, for anyone but those with a financial interest in the transactions.

Carl Icahn, one of the more prominent of activists, was also instrumental in splitting HP into pieces, with one part of the company focused on enterprise sales and another part on hardware.

Now, pundits are reporting, that Icahn is "Xeroxing" that strategy with a plan to break Xerox into hardware and services divisions. The dilemma for Xerox, as many have articulated, is that fewer people need to make photocopies in a digital world, among other issues. Current CEO Ursula Burns attempted to buy her way out of that situation by acquiring outsourcing services provider ACS. The strategy was not successful and ended up devolving into a no-growth cost-cutting exercise, with some pundits suggesting as long ago as 2014 that it was time for Burns to step down.

The Lesson: Change before you have to.

Some companies are in a club that Alphabet presumably aspires to join; one in which change occurs organically and pro-actively, before the problems are obvious to everyone. One firm that I often use as an example of how to tackle transient advantage is Cognizant Technology Solutions. For a large organization, they are extraordinarily entrepreneurial, and their CEO Frank D'Souza makes it a point of encouraging continuous change as the firm sees dramatic shifts in what its customers need. Indeed, “fixing it before it’s broke” is a phrase associated with Cognizant by many observers. It’s a shame that such a shift didn’t work out for Xerox.

Reminder: Women in Leadership Course

It’s something I’ve wanted to do for over twenty years: partner with my alma mater, Barnard College. So I am absolutely delighted to let you know that we are going to be launching our inaugural Women in Leadership course this June in New York City. It will feature both myself and my co-faculty director, Elana Weinstein for the entire program. We are also thrilled to have Nancy McKinstry, a CBS alumna and CEO of publishing giant Wolters Kluwer and Sharon John (also a CBS Alum) the CEO of Build-A-Bear Workshop joining us.

In the News

A Fortune article on how some of the hottest new startups are rediscovering some of the oldest human needs.

Rita weighs in on Alphabet’s future.

A great startup trick: Sell before you build.

The Atlantic’s “big question” series wanted to know Rita's thoughts about the greatest collaboration of all time. More here.

Round up of the 2015 Thinkers50 award winners.

Need some ideas to get your budget on track? Some suggestions.

End of Competitive Advantage reviewed and found useful by a LinkedIn blogger.

On women and the “tightrope effect”.

On why relationships and social capital can be a powerful form of next generation competitive advantage.

A lawyer has a look at what transient advantage and fading business models mean for law firms – delighted to be cited in the same piece as Peter Drucker!

More links to recent press mentions can be found on the Press section of my website.

Password for the "Tools" Section of My Website

To access the tools part of the web site (downloadable diagnostics, quizzes, spreadsheets and other cool stuff) go to the RitaMcGrath.com website and use the password - **mcgr8th!** *(the exclamation point is part of the password).*

If this newsletter has been forwarded to you and you want your own copy - please sign up for your own copy at the top of my website.

So, Conglomerate or Greater Focus?

Adding value as a diversified conglomerate is a perennially difficult proposition. I always say that being part of a larger corporation imposes coordination and transaction costs on business units, although with the advent of digitization these are lower than they were historically.

The real question is whether the corporate center can add sufficient value that it makes up for what is sometimes called the 'conglomerate discount.' Among advocates are those that suggest a bigger, more robust set of holdings are helpful for making long term investments and overcoming short term setbacks. Among critics are those pushing for the kinds of changes taking place at HP, Xerox, DuPont, Alcoa and now Dow Chemical. Only time will tell if the new playbook will work for them.

All the best,

Rita

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