How to keep your strategy moving as fast as your business

Business

The End of competltlve Advantage: How to Keep Your strategy Moving as Fast as Your Business by Rita Gunther McGrath Critique In the book, The End of Competitive Advantage: How to Keep your Strategy Moving as Fast as Your Business, by Rita Gunther McGrath, the author Introduces the Idea that in the current business environment, simply managing a business is insufficient to remain a leader among competitors. McGrath argues that without significant Innovation, the current business environment no longer permits companies to attain a leadership position in an industry and then continue to dominate for years.

From a personal standpoint, the book provides valuable insight and key points on weathering the effects of transient advantages when designing a strategy. McGrath reiterates that investing in new advantages and building a business around flexible resources is a fundamental requirement to adjust to the rapidly-changing business environment. When competitive advantages do not last, companies must be active in strategy-building and re-design.

The resonating subject in the book is that companies must position themselves in a way that resources are easily re-allocated and quick to react to change.

In the book, McGrath mentions that access to assets, instead of ownership, provides flexibility without having to commit valuable resources to acquire or operate these assets. If a company owns its assets, then its capital is tied up, liquidity Is compromised, and a change in direction becomes more difficult and time-consuming. McGrath mentions that acquiring flexible assets is part of building an effective “ disengagement plan”; consequently, an effective disengagement plan can evolve to become a competitive advantage.

Also, McGrath reiterates that companies must have an effective plan of how to compete in a world here advantages are transient and ephemeral.

McGrath argues that companies must abandon the traditional model of developing products and services across market sectors, fooling themselves into thinking that competitors are only those companies within the same industry. Instead, McGrath advises that businesses should focus their competitive strategies on “ arenas”, which are specific target markets more closely-tied to consumer groups and directed toward specific geographical areas where the products or services are being offered.

McGrath advises that management should keep a continuous focus on reconfiguration and ealthy disengagement to be effective in exploiting one temporary advantage, while being agile to prepare to take advantage of another. McGrath states that businesses must practice “ continuous freeing up of resources from old advantages In order to fund the development of new ones” (697). Also, McGrath mentions that companies must be able to recognize when performance of a temporary advantage is Olmlnlsnlng.

At nls polnt, McGratn aavlses tnat management snou10 Degln disengaging, reducing investment, and start shifting resources to the next advantage.

In the final chapter of the book, McGrath’s explores the meaning of transient dvantage as an individual. In this chapter, McGrath encourages individuals to view their skills as a transient advantage that is subject to decline. Similar to the way companies invest in new advantages, as individuals, we must also strive to invest in ourselves and continuously improve our skills to remain relevant in the changing business environment. In my work experience, I have successfully applied much of McGrath’s advice when devising our fiscal year financial plan.

The capex (capital expenditures) planning process is an essential part of an annual business plan that etermines how capital will be used to acquire or upgrade physical assets such as property, industrial buildings or equipment. The initial part of the process involves identifying those items which need to be purchased. Secondly, the proposed purchases are evaluated from a financial standpoint; each goes through a lease vs. buy analysis based on the asset’s financial benefit as well as the company’s financial constraints. In a year when cash flow is restricted, companies opt for leasing equipment rather than buying it.

Leasing gives companies access to assets without having to spend the capital to buy them. McGrath states that “ the reason access, rather than ownership, is increasingly attractive is that it allows firms to adjust their structures and assets quickly as competitive dynamics unfold” (1649). In many instances, “ competitive dynamics” is not necessarily the deciding factor between buying or leasing. Many times, capital needs to be allocated to more relevant projects that could potentially have a grater impact on business results. Leasing can also serve as a method to mitigate risk.

Many times, companies make large investments in projects that turn out to be financial losses.

In this case, a rapid disengagement is crucial in preventing further losses. McGrath mentions that ” if you think you have a candidate for divestiture or otherwise ramping down, you should move quickly because the passage of time will destroy any remaining value rapidly’ (1127). Liquidating large, expensive assets can be time-consuming and costly for a business. Also, in the book, McGrath mentions that “ a company must always have a “ balanced portfolio of initiatives that support the core, build new platforms, and invest in options” (1767).

Previously, I worked for a company that specialized in ffering proprietary petrochemical technologies. The industry of petrochemical technologies is a prime example of an industry where the lack of innovation translates to inevitable business failure.

Basically, when petrochemical and refining complexes are built, they employ certain processes to “ crack” or breakdown the different chemicals running through the facility. These processes are known as petrochemical technologies and are sold to the chemical producers and refiners in exchange for royalty fees.

The development of these processes is capital-intensive and requires extensive research. To be a leader in this industry, our company was involved in continuous research and development, and although we possessed some of the superior technologies in the market, the advantages were transient and simply managing those that were high performers was not sufficient. During our fiscal year planning, we evaluated a portfolio of initiatives, prospective technologies, which we wanted to pursue for development.

As McGrath mentioned in the book, we tracked tne Inltlatlves programs separate Trom tne rest 0T tne Duaget, ana we evaluated t results on a quarterly basis.

In the book, McGrath mentions that “ good companies ut serious investment into soft factors, such as training and reinforcing their corporate values, which are backed by meaningful symbolic actions on the part of their leaders” (1023). I have seen this concept applied in the most successful way at my current Job. My company dedicates a vast number of resources to developing the knowledge and skills of employees.

We have standardized nearly all business decision-making processes within the company, and employees are required to attend numerous training sessions to learn these. Almost every function within project management or capital investments follows a standardized set of steps that eflect the corporate values of the company.

Safety is also at the core of our company’s values. Each employee is required to make a monthly observation outlining potential risk factors in the surrounding environment and ways to mitigate them.

Every meeting, regardless of the purpose, is initiated with a “ safety moment”; we share safety tips and actions to identify potential safety hazards. Many of these procedures may seem insignificant, but it is our company’s way of investing in human capital. Coincidentally, our company remains a leader in our industry, and our employees consistently rate our company as one of the best places to work.

In the book, McGrath indentifies the importance of a company's duty to invest in its identity and culture.

McGrath mentions successful companies " are comfortable with moving executives and staff from one role to another" (1033). At first glance, this may seem like a good idea because this allows different individuals to look at the business from different vantage points; however, this creates a different type of problem. At my current Job, rotation within the corporation's operating companies is highly encouraged; in fact, we hold a bi-annual process in which a large number of internal ositions are posted on our intranet for internal candidates only.

In some instances, the ability to rotate within the company is beneficial, but in most instances, this concept is applied unsuccessfully.

This process tends to create a bias in which internal candidates are given preference over external candidates. In many instances, unqualified individuals are awarded positions for which they do not meet the minimum requirements. I have personally witnessed individuals dealing with great difficulty to adjust to their new roles because they lack the skills and experience. A situation like this can put a strain on a high performing team and limit work quality.

Ultimately, the corporation will suffer from a lack of talent by favoring internal candidates. The book contains insightful knowledge that I will be able to apply directly in my professional career.

The book has instilled in me that individuals and organization must be actively innovating to remain competitive. The book will remind me that current advantages are temporary; any benefits from our current labor force, suppliers, and technologies are temporary. I must be active in searching or an alternative to replace the current advantages, and rapid to adapt to the changing business environment.

Also, a very important lesson to take from the book is the concept of smart disengagement. As a finance professional, I must be aware of the early signs from a deteriorating investment, and active to take quick action to prevent further losses.

Also, the book will prompt me to strategize and analyze resource allocation on a continuous basis rather than annually. The book made me aware tnat I must not allow my Knowledge ana SKIIls to Decome stale Decause “ stability, not change, is the state that is most dangerous in highly dynamic ompetitive environments” (McGrath 306).