The greatest threat to managers, then, may well be inside the firm. Years of success have the potential to breed complacency or arrogance. Both can plant the seeds of decline and make it more difficult to foresee and respond to change. In fact, steady growth and profitability are likely to encourage firms to become more bureaucratic and less attentive to detail and innovation as they transition to managing a larger number of people, more complex products and services, and a bigger scale of operations. And the more competent managers become at doing certain things well, the more difficult it is for them to think “outside the box” or recognize when they are losing their edge.

This admittedly difficult challenge—to identify fundamental principles of management that may help managers create competitive advantage and staying power for the firm—is the primary purpose of *Staying Power*. Surely one obstacle to sustaining any market position is that managers find it difficult to anticipate change or adapt quickly to change. Whatever “secrets of success” or “best practices” that a firm has mastered for one point in time, these advantages are likely to become obsolete or less effective as conditions and technologies evolve and as competitors improve what they are doing.
Innovation at work

Every company and every market will experience ups and downs. Even the best firms are subject to lapses and may encounter disasters due to chance or mistakes of their own making. Moreover, the practices that lead a company to become number one may be vastly different from the skills and mindset needed to stay there. This seems especially true if, indeed, long-term success does breed complacency, arrogance, or inward thinking, and thus the seeds of eventual decline. Many companies have survived product disasters as well as deterioration in their businesses because of radical changes in markets and technologies.

The best way to survive and thrive in such an uncertain, competitive world—particularly in an age of technological disruptions as well as global economic catastrophes—is to understand how best to prepare firms to perform well over years and decades. This means distinguishing short-term fads in management thinking from more lasting principles that can help managers create and re-create value for customers. But, to do so, organizations must be able to respond quickly and effectively to change—such as when dealing with new quality problems, rapidly declining prices, or subtle but steady shifts in value from hardware to software and services.

My research has mainly looked at how managers can balance efficiency and flexibility in strategy, operations, and product development. In reflecting on what I have learned, I concluded that a handful of principles appear to have been essential to the effective management of strategy and innovation over long periods of time.

1. PLATFORMS, NOT JUST PRODUCTS

With so much unpredictable change, managers must surely wonder which practices, firms, industries, and geographies will dominate two or three decades from now. Who and what have staying power—or not? I argue that it is possible to identify a few fundamental principles that can stand the tests of time and help managers overcome both internal and external challenges to their business. I believe these principles will prove especially effective in markets subject to rapid and unpredictable change, even if the companies that pioneered the practices I cite have stumbled somewhere along the way or end up being surpassed by their competitors. To construct these principles, I have looked back on 30 years of my research and personal experiences as a teacher, as well as a consultant, director, or advisor for some 100 firms across the United States, Japan, Europe, China, India, and elsewhere, small and large, high tech and low tech.

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1. PLATFORMS, NOT JUST PRODUCTS

Managers (at least in industries affected by digital technologies as well as “network effects” more broadly) should move beyond conventional thinking about strategy and capabilities to compete on the basis of platforms, or complements to another firm’s platform. A platform or complement strategy differs from a product strategy in that
it requires an external ecosystem to generate complementary product or service innovations and build “positive feedback” between the complements and the platform. The effect is much greater potential for innovation and growth than a single product-oriented firm can generate alone.

2. SERVICES, NOT JUST PRODUCTS (OR PLATFORMS)

Managers (at least in product firms or service firms that offer standardized or automated services treated as products) should use service innovations to sell, enhance, and even “de-commoditize” products or standardized services. Services can also be new sources of revenues and profits, such as an ongoing maintenance or subscription stream. The goals of most firms should be to find the right balance between product and service revenue, and then “servitize” products to create new value-added opportunities and pricing models as well as “productize” services to deliver them more efficiently and flexibly, such as by using information technology and service automation.

3. CAPABILITIES, NOT JUST STRATEGY

Managers should focus not simply on formulating strategy or a vision of the future (that is, deciding what to do) but equally on building distinctive organizational capabilities and operational skills (that is, how to do things) that rise above common practice (that is, what most firms do). Distinctive capabilities center on people, processes, and accumulated knowledge that reflect a deep understanding of the business and the technology, and how they are changing. Deep capabilities, combined with strategy, enable the firm to offer superior products and services, as well as exploit foreseen and unforeseen opportunities for innovation and business development.

4. PULL, DON’T JUST PUSH

Managers should embrace, wherever possible, a “pull-style” of operations that reverses the sequential processes and information flow common in manufacturing, as well as product development, service design and delivery, and other activities. The goal should be to link each step in a company’s key operations backward from the market in order to respond in real time to changes in demand, customer preferences, competitive conditions, or internal difficulties. The continuous feedback and opportunities for adjustment also facilitate rapid learning, elimination of waste or errors, and at least incremental innovation.

5. SCOPE, NOT JUST SCALE

Managers should seek efficiencies even across activities not suited to conventional economies of scale, such as research, engineering, and product development, as well as service design and delivery. Firms usually pursue synergies across different lines of business at the corporate level. But scope economies within the same line of business can be an important source of differentiation in markets requiring efficiency and flexibility, and responsiveness to individual customer requirements. These deeper economies of scope require systematic ways to share product inputs, intermediate components, and other knowledge across separate teams and projects. Firms can also eliminate redundant activities and other forms of waste, and utilize resources more effectively.

6. FLEXIBILITY, NOT JUST EFFICIENCY

Managers should place as much emphasis on flexibility as on efficiency in manufacturing, product development, and other operations as well as in strategic decision making and organizational evolution. Their objectives should be to pursue their own company goals whilst quickly adapting to changes in market demand, competition, and technology. Firms also need to be ready to exploit opportunities for product or process innovation and new business development whenever they appear. Moreover, rather than always requiring tradeoffs, flexible systems and processes can reinforce efficiency and quality, or overall effectiveness, as well as facilitate innovation.

PAUSE FOR REFLECTION: SOME COMMENTS ON THE RESEARCH

Whilst I have tried to describe big, enduring ideas, they are relatively high-level abstractions. Managers must still figure out how to apply these concepts and lessons from the different cases to their particular situations. The contexts can vary widely, such as by timing (early or late mover, before or after imitation); stage of the industry or technology life cycle (early, mature, end of life); nature of the technology or innovation (software versus hardware, product versus process, incremental versus disruptive); “clock speed” of the industry and other differences (fast moving, R&D intensive, or capital intensive); and the environmental or institutional setting (regulated or not, “Japan, Inc.,” or “China, Inc.”).

Managers also need to be aware that each of the six principles comes with different potential tradeoffs, and they need to manage these as well in order for the principles to work for them. I am convinced that the six principles are of enduring importance and transcend specific company examples precisely because they derive from relatively high-level abstractions and detailed cases that cut across very different industries and settings. 

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