Competing on 'the place'

It is tempting for companies to define themselves solely by what they do but competing on how they do it, and therefore how they are organised, may turn out to be even more important, suggests Dr Leandro Herrero

The Great Place to Work Institute has yet again published a list of the 100 best places to work. Unlike other lists, it takes good methodological care in assessing the candidates through a complex process. In the US they do this in collaboration with *Fortune Magazine*, and in the UK with *The Sunday Times*, supported by the UK government's Department of Trade and Industry. There are two drug companies in the top 50 of the UK list and five in the top 50 of the US. Only one of them is quoted in both lists. I strongly believe that this type of contest is going to have a much greater profile in years to come.

The history of management ideas is like a big supermarket with all its perishable products (management fads and fashions) sitting alongside the long-life ones, all of them replaceable at one point or another. We have had management theories on 'competing on capabilities', 'competing on cost', 'competing on product innovation' 'competing on time', 'competing on resources', etc. Each of these concepts has purported to be a discrete key to success at some time, and most were launched in the *Harvard Business Review*.

Investing in a 'great place to be', in a proper organisational architecture, has a direct impact on the bottom line

If you ask people in business organisations what they think their competitive edge is based on, you will get a variety of answers which can be broadly grouped into three categories. There are the 'product lovers', who say that unless you have a good, distinctive product, you are nowhere. Most high-tech professionals fall into this category. Others are convinced that the key is cost (for example, selling affordable products, which entails the capability of producing them cheaply). And there are those who stress the need for 'muscle' (for example, being global and having a critical mass that allows them to do things that others can't do).

Of course, there are some who fall between these extremes, but generally they are all 'defining themselves by what they do'. This output image of themselves, a focus for their identity, is only natural. After all, when asked, we would probably answer in a similar way. In other words, for most companies (and individuals) the identity of the organisation is largely associated with 'what it does'. So it is not surprising that the main national associations of drug companies call themselves 'pharmaceutical manufacturers' associations'.

However, this choice of identity, and therefore lexicon, has its problems. It fails to recognise, or at least highlight, other important pillars of their identity. For example, an intriguingly invisible one is 'what they know'. People may say that this is implicit but this is exactly my point, the lack of overt declaration. Can you imagine an 'association of companies that know more than anybody else about biology, diseases, life sciences'? Or an 'association of health and disease knowledge organisations'? This is what the biopharmaceutical companies are when one puts them all together, although they have chosen the output image – manufacturers. The other, almost forgotten, third and fourth pillars of an organisation's identity are 'how they do it' and 'how they are organised'.

Secret of competitiveness

These may represent the best-kept secret for competitive advantage, so secret that many firms fail to recognise them. It is precisely this 'how' that contains the highest potential for differentiation. This 'how' is directly linked to the kind of workplace they have created. An environment where people work with high levels of trust, with high respect for the employee, and where management behaviour is consistent with the declared value system, is likely to generate greater commitment and foster greater innovation and creativity. Investing in 'a great place to be', in a proper organisational architecture, may pay off with direct impact on the bottom line.

Unless we agree that all organisations have either breakthrough products or the critical mass – geographical or financial – of the Microsofts of this world, we have to accept that most rely on competitiveness that may lie somewhere else. It may be its marketing, or its cleverness in some market strategy, or luck, or customer honeymoons or combinations. But, ruling out these extremes of the spectrum and primarily looking at the long term, the 'great place to work' strategy makes a lot of sense. 'Competing on how you do it', and therefore on how you are organised, may turn out to be more important than competing on what you do. I know, the techies may not like it.

The 1980s and even early 1990s saw the cult of 'lean and mean' promoted by market fundamentalist gurus, such as Michael Hammer. Everybody cut costs. Although the chainsaw hacked back the costs, it cut through other things as well, such as trust, company IQ, company memory, and other structures that may have seemed superfluous even if they were not. It is what Hamel and Prahalad call denominator management. That is to say, when you have a ratio, such as return on investment (ROI), a way to increase the ratio is to cut the denominator – this is what re-engineering did. It was unfashionable to focus on the increase of the denominator, the returns in this case. In the life of a company, there is no doubt that cost-cutting strategies risk impacting on its fabric. Denominator management is still the strategic focus of many companies that are solely driven by delivering a particular price to earnings (P/E) ratio to the City or Wall Street. Many of them will of course not admit in public that this is their real goal, but that is a different matter.

While these moves damaged the organisational fabric, they drew attention to cost-effective ways to organise the company. New 'ways of doing things' were invented as a result of a thorough analysis of processes and systems within the corporation. Structure was high on the management agenda but this led to tunnel vision in the short term.

Organisational architecture

Now we have arrived in the dot.com era, another myth has invaded the market. The new economy is about one idea, two guys, a telephone (attached to a modem) and venture capital. We were told that the bricks and mortar economy with all its large corporate buildings and structures was over, that the next thing is 'clicks and mortar' (the internet economy) or even 'all-clicks-no-mortar', for the semi-virtual nature of the new (paper) billionaires. Many of these 'only clicks' now seem to shout, 'I want my bricks back'. Interestingly, Amazon.com has always been the father figure of the so-called new economy. But, far from 'two guys and a telephone', Amazon.com not only owns huge warehouses, it is planning to marry 'the mother of them all', Wal-Mart.

The e-models of this world emphasise the agility of the organisation, the relatively small size in terms of body count and the large bank accounts. Good ideas have been in abundance. But failure frequently arises from the short supply of a very old fashioned word – management. Competing on e-anything requires as much organisational architecture, including sound management process and systems such as resource allocation, priority setting and decision making, as any other form of competition.

'Competing on how' plus 'a great place to work' is a win-win tandem. It may be less glorious than 'competing on breakthroughs' or 'competing in Coca-Cola mode' but in the long term it will pay off in attracting and retaining key personnel and generating high organisational IQ.

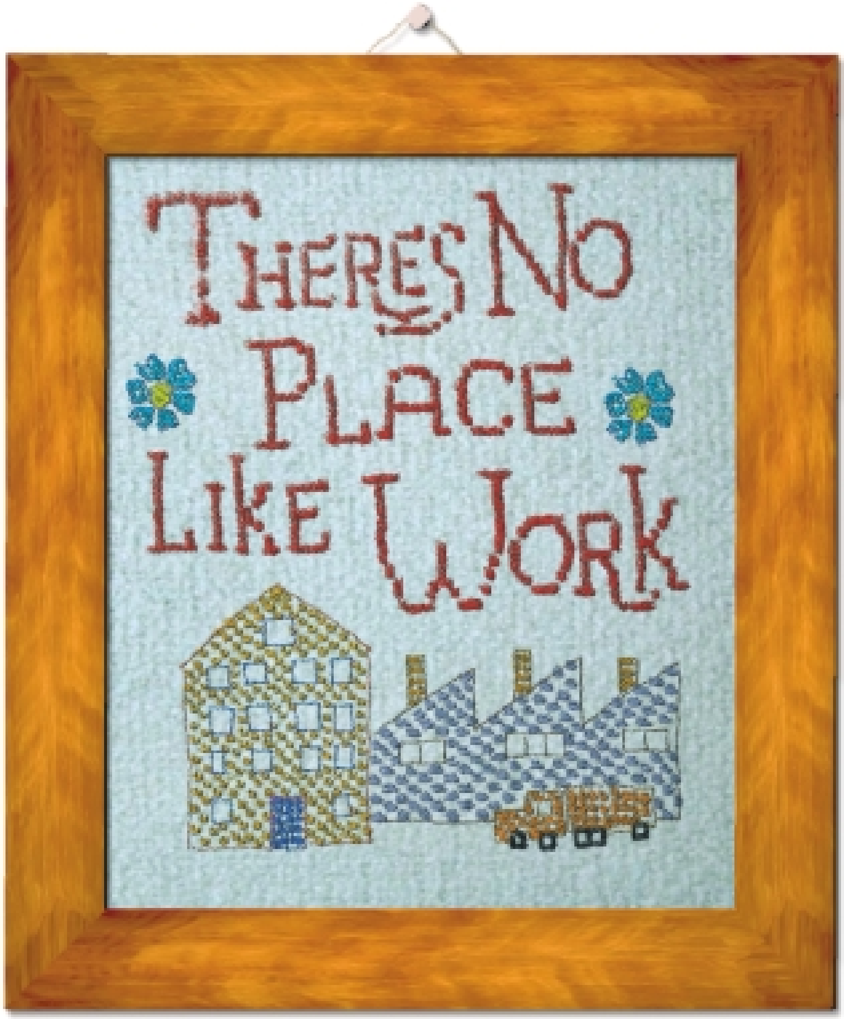

Illustration by Rob Wilcockson

That is why the way people are organised, the agility of decision making, the innovation of the organisational structure, the real nature of the teams or the way people are hired, for example, do matter a great deal. These are not 'HR issues', as many managers would put it. Organisational life is human resources life, period. CEOs who do not pay attention to human capital and the way it is organised may succeed in denominator management but will ultimately fail in the long term.

The 'people advantage' works

The problem with market fundamentalism and P/E ratio life is that it that has created a 'senior management environment' where no CEO that I know has ever been hired or fired for his ability or failure to create 'a great place to be'. The connection between this and the company's financial performance is still confused in many minds, which is not surprising as the literature seldom looks at this link. The exception is Stanford's professor of organisational behaviours, Jeffrey Pfeffer, who demonstrated that the 'people advantage' is not a naive, fuzzy, intuitive concept, but a serious profit-making one.

Historically, 'how to do it' and its cousin 'how to be organised' have been a question of organisation chart management, a deployment of boxes in a graph and the establishment of some machinery

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that 'works'. Indeed, the 'it works' fallacy is a risky strategy. Why review an organisational architecture that works?

Well, here is the answer. A man was walking along a road somewhere remote while throwing rice into the fields. Surprised by this behaviour, another man asked, "Why are you walking along this road throwing rice away?" The walker answered, "To keep the tigers away." The other man was even more surprised and said, "But, there are no tigers here!" and the other man retorted, "You see, it works."

Yes, many organisations work but that in itself is no guarantee they are not harbouring a time bomb. Things may just start to fall apart, with staff leaving *en masse* to the astonishment of the manager who thought things were going so well on the project. He may never have asked, 'at what cost'? One of the challenges of leadership is to try to escape the 'it works' fallacy while at the same time maintain stability in the organisation, particularly when things are working well.

There are no real rights and wrongs in organisational design, but this relativistic approach cannot vindicate lack of attention to 'how we do things' and 'how we are organised'. Investing in these issues may be something to which the CEOs of this world should pay attention. If only the market could invent a ratio and performance indicator for 'great places to be'. For the time being, we have just a contest and a few company lists. SM

Further reading and resources

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