**Don't stop thinking about tomorrow**

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# FT Summer School

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**Simon London** opens our month-long summer school with a look at the twin challenge that today's executives face – to deliver efficiency gains while creating new sources of growth

It is almost 30 years since Peter Drucker made the distinction between efficiency (doing things right) and effectiveness (doing the right things).

The great sage of management said that managers needed to pay attention to both dimensions: "Even the healthiest business, the business with greatest effectiveness, can die of poor efficiency. But even the most efficient business cannot survive, let alone succeed, if it is efficient in doing the wrong things. No amount of efficiency would have enabled the manufacturer of buggy whips to survive."

Yet, as every executive knows, when times are hard and pressure is intense, it is tempting to focus almost exclusively on the "quick wins" that can be achieved from cost-cutting, downsizing and retrenchment – the power tools of efficiency. For many companies, these have been the dominant themes of the past two or three years.

Sooner or later, however, the pendulum of management attention always swings back towards effectiveness. The quest resumes for new products, markets and business models. And there have been recent signs that this is starting to happen as managers think again about how to create, to borrow another Druckerism, "the business of tomorrow".

Evidence for this sweeping claim is mainly anecdotal. Chief executives seem more interested in growth and innovation than they were a year ago. Acquisition activity has shown tentative signs of revival. Bain & Co's latest annual survey of the management tools used by companies suggests that mission and strategy are at the top of the management agenda for many.

If correct, this shift of focus is good news for managers and employees alike. Retrenchment is no fun. Nor does excessive focus on cost and efficiency amount, in itself, to much of a strategy.

Consider the handful of companies that did manage to keep growing through the downturn of the past three years. Examples include Dell in computers, JetBlue and Ryanair among airlines, Capital One in financial services and, of course, the mighty Wal-Mart in retailing.

In each case success is based not on efficiency (although this certainly plays a role) but on what Adrian Slywotzky, the Mercer management consultant and author, described a few years ago as "business model innovation". By doing the right things, not just by doing things right, these companies found ways to transform the economics of their respective industries. They are both efficient and strikingly effective.

So, how do you make organisations more "effective" in the Druckerian sense? How do you make sure that they remain focused on doing the "right" things, not just optimising products and processes that were already in place?

> Companies with an eye to effectiveness are thinking again about how the internet may change their business

Notwithstanding the hard labour of Prof Drucker and others, the answers are barely understood. All we can say with certainty is that effectiveness has something to do with strategy, innovation, change, leadership, organisational learning and much more besides.

The essays in this year's FT Summer School deal with many of the topics that today's newly downsized, newly refocused companies will have to tackle as they look for the success formulae for growth.

W. Chan Kim and Renée Mauborgne of Insead, France, will argue for a fundamental rethink of what corporate strategy is all about. Ever since the 1970s, strategy has been framed in terms of "competitive strategy", the title of Michael Porter's seminal 1980 book. Yet Profs Kim and Mauborgne argue that excessive focus on competitive advantage leads companies to think too narrowly about their strategic options.

The net result is industries that converge on a single paradigm. The strikingly similar business models of the large airlines are one clear example of this "convergent" thinking.

The danger is that companies become blinded to opportunities for fundamental innovation in the way customers are served. And so the likes of JetBlue, which dared to think outside the paradigm, continue to suck value away from the big carriers.

The advice of Profs Kim and Mauborgne? Forget your competitors for a moment. Ask, instead, questions such as: what factors can we eliminate that the industry has taken for granted?

Henry Chesbrough, newly appointed to the faculty of the Haas School of Business at the University of California, Berkeley, considers how companies should pursue innovation when knowledge and talent are widely distributed among countries and competitors.

His answer? Get connected. Replace the old model of industrial R&D with a new philosophy of "open innovation". Thus Procter & Gamble, the consumer products group that was once as famous for its closed corporate culture as for its brand marketing prowess, now aims to source half of its innovations from outside the corporation.

In a related article, the London Business School's Julian Birkinshaw revisits corporate venturing – the much-maligned practice of taking stakes in promising companies with the aim of gaining privileged access to important innovations.

The failure of many dotcom-era venturing initiatives – has given corporate venturing a bad name. But this does not mean that it should be abandoned, argues Prof Birkinshaw, only that it needs to be used carefully. Nor, he believes, should the activities of a corporate venturing unit be regarded as a substitute for innovation and entrepreneurship across the corporation.

Then there is the thorny question of information technology.

At the start of the 1990s, US companies spent less than 20 per cent of capital budgets on IT. By the end of the decade this had risen to more than 50 per cent – at a time when capital investment was high by historical standards. Yet how much of this expenditure on bits, bytes and bandwidth has yielded a real economic return? The answer is unknowable. Suffice to say that almost all companies have had to re-examine the role of technology in business.

It is against this background that Mohanbir Sawhney, a professor at Kellogg School of Management and a rising star in the world of business scholarship, describes the way the internet is enabling companies to outsource business processes (such as basic human resource and finance processes), redefine strategy and buy IT on the pay-as-you-go model of a utility.

In other words, rumours of the death of IT have been greatly exaggerated. Emerging technologies such as "web services" standards, which hold the promise of easy dialogue between hitherto isolated computer systems, are allowing new levels of integration between companies, customers and suppliers.

Companies with an eye to effectiveness are thinking again about the power of the internet and how it might redefine their business.

Another dotcom-era notion that refuses to die is the concept of "viral" or "buzz" marketing. Marketers across all consumer industries are facing up to the fact that the demographic landscape is changing – and the media industry, too.

Nirmalya Kumar and Sophie Linguri of IMD, Switzerland, consider the state of the marketing art with particular reference to Red Bull, the highly caffeinated but alcohol-free drink that started life on the Austrian ski slopes and has since created "buzz" across the world.

As these sneak previews suggest, while many companies have spent the last two to three years cutting costs and hunkering down, others have not. Best practice across a wide range of management disciplines continues to be redefined as the search for "next practice" goes on.