

Creating a competitive edge: the value of cross-industry knowledge

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When companies need to hire a chief executive, team member or consultant, they usually look for people with industry-specific experience. Sometimes this decision means they will get the same old perspectives they have always had. Similarly, when organizations purchase new software or hardware, they generally limit their search to technologies designed specifically for their own industries. Again, the question arises: how innovative can a company truly be when it is using the same tools as every other company in its sector?

The fact is, leaders whose experience is limited to a single industry's strategies, processes, techniques and tools cannot deliver what the marketplace demands of companies today – nothing short of extraordinary and sustained creativity and innovation.

Leadership: it's about process, not product

Many business professionals – whether leaders, human resource managers or consultants – still believe success is most easily accomplished through specialization. While this may be accurate for technical experts, such as engineers, accountants or medical professionals, it is a false assumption at the corporate executive level.

The truth is, specialization in a particular industry is unnecessary, particularly at the leadership level. What leaders really need to know is how to choose and develop the right people, run and grow a business, and especially how to manage change. These skills are a matter of universal processes, such as defining goals and strategies and identifying customer needs and wants, rather than intimate knowledge of how to manufacture the company's specific product, a sphere that is best left to engineers and other technical experts.

Among the greatest business leaders today are those who have crossed industry boundaries. Their varied experience has given them a broader perspective and the fresh thinking to go beyond traditional approaches to competitive challenges and corporate, product, marketing and demand fulfillment strategies.

"Perhaps the most famous example of a leader who has successfully crossed industries more than once is Louis Gerstner, Jr., first the CEO of American Express, then CEO of RJR Nabisco, and then Chairman and CEO of IBM where he was not only successful, but achieved cult status," says Lou Kacyn, a Chicago-based partner at executive search firm Egon Zehnder International, a leading global executive search firm that interviews over 200,000 executives a year.

Kacyn has been directly involved in placing executives out of one industry and into another. "When people discuss great CEOs, Gerstner will always be included," says Kacyn. "When he transformed IBM from a product company into a rapidly growing services company, he drew upon a customer service perspective he had acquired at Nabisco, together with his

When companies want to fill an internal vacancy or if they need expertise that does not reside within the company, they often look for people who have experience in their industry. Sometimes this decision means they will get the same old perspectives they've always had. On the other hand, companies that recognize that competency and capability come in the form of skill sets, including creativity, innovation, analytical and adaptive skills and a proactive orientation have a competitive advantage. These individuals can use their acquired skills and techniques to develop tactics and strategies that can be modified and applied to any industry.

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Gerstner is responsible for keeping IBM together by repositioning its corporate strategy rather than splitting the company apart as others had suggested. His historic turnaround of the company from the brink of bankruptcy and mainframe obscurity back into the forefront of the technology business is chronicled in his book *Who Says Elephants Can't Dance* (Gerstner, 2002).

In his introduction to that book, he states that when he was first approached to lead IBM, he could not conceive of running the company given his lack of technical background. However, he changed his mind when members of the search committee made a passionate appeal that the board was not looking for a technologist, but rather a broad-based leader and change agent.

Another example is Geoffrey Frost, whom Egon Zehnder International brought from Nike, where he was global director of advertising and brand communications, to Motorola to serve as executive vice president and chief marketing officer: “Before his recent death of a heart attack, Frost transformed Motorola’s marketing efforts from an engineering-run ‘any color as long as it’s black’ model (famous Henry Ford quote) into a customer-centric and hip ‘Moto’ rejuvenation,” says Kacyn. “He drew upon his experience at Nike where he was in charge of advertising and strategic marketing. In fact, Motorola’s current Chairman and CEO, Ed Zander, called Frost a ‘marketing genius.’” Upon Frost’s passing, Zander recalled, “From the start, he shared his infectious enthusiasm for breaking from established norms and challenged all of us to see the world in a new way.” Prior to Nike, Frost was executive vice president at Foote, Cone & Belding, one of the top global advertising agencies.

Kacyn is responsible for bringing Greg Lucier from GE Medical to Invitrogen Corp., where he serves as Chairman and CEO. “Invitrogen is a rapidly growing company in the biotech and pharmaceutical ‘tools’ market,” says Kacyn. “While GE Medical is also in the ‘life sciences’ space, Invitrogen presented a complete change of size, environment and customer set for Lucier.”

Since Lucier came to Invitrogen in 2003, the company has acquired business worth over \$1 billion, has hired 100 new managers and has begun moving into the molecular medicine space. At his former GE business unit, Lucier had been equally successful. He helped boost annual sales from \$700 million to \$1.8 billion in three years. Lucier had learned about the value of marketing at International Paper Co., where he began his career as a marketing recruit fresh out of Harvard Business School.

Kacyn also cites the example of Mike Zafirovski, whom he brought from GE Lighting to Motorola in 2002. After joining the GE financial leadership program in 1975, Zafirovski was promoted to the GE corporate audit staff in 1978. For the next three-and-a-half years he conducted financial and operational reviews at nine of the company’s businesses spanning five continents. Zafirovski spent a total of 25 years at GE, including 13 years as president and CEO of five businesses in the industrial (e.g. GE Lighting) and GE Capital businesses. After serving as president and CEO of Motorola until 2005, he became president and CEO of Nortel.

Another industry switch from GE was Robert Nardelli, who now serves as chairman, president and CEO of The Home Depot, following his tenure as president and CEO of GE Power Systems, where he leveraged technology, innovative products and services, as well

as strategic acquisitions to transform the company into a \$20 billion worldwide leader in the energy industry.

Nardelli had switched industries before, to GE from global construction equipment manufacturer Case Corp., where he was first executive vice president of the Worldwide Parts and Components group, and then led Case Construction Equipment's global business.

"When a leader comes from outside the industry, he or she brings a fresh outlook and no baggage," says David Spitulnik, Principal with Braydon Partners, Corporate Development Outsourcing Services. "That's why Steve Jobs of Apple picked John Sculley who was President of Pepsi-Cola." Sculley's adventures upon switching industries are chronicled in his memoir (Sculley, 1987).

Ralph Gidwitz, managing partner of Capital Results, a Chicago-based boutique investment bank, cites the example of John Edwardson, who as chairman and CEO turned CDW from a mail-order company into a distribution powerhouse. "He was president and COO of UAL and United Airlines, then became chairman and CEO of Burns International Service, one of the largest securities firms in the US and is now with CDW, the leading U.S. computer and information systems reseller in this hemisphere," says Gidwitz.

"In these industries, he learned how to manage big companies, service customers and turn a profit and has left a path strewn with success." Gidwitz himself is no stranger to industry switches. Before founding Financial Capital LLC, Capital Results' original name, he served as CEO of Rich Ladder Co., a major manufacturer of wood ladders.

There is much emphasis today on the requirement that leaders be flexible and adaptable. What better way to acquire and practice those skills than by switching industries? It takes a flexible individual to grasp and control knowledge from a variety of industries and apply intelligence gained in one for the benefit of the other.

Global people for a global economy

What goes for leaders is also true for other employees. Companies usually limit their personnel recruiting efforts to searches within their own industries. However, human resource professionals who understand the value of cross-industry knowledge, and ideally have experienced it themselves, will look beyond traditional boundaries for the most talented individuals, regardless of industry experience.

Similarly, while marketplace knowledge may be important in some cases when hiring advisors, the most innovative solutions often come from consultants who possess a functional skill set that can bring a unique perspective and fresh set of eyes from outside.

Taking cross-industry knowledge one-step further, a global economy also demands cross-cultural knowledge. People who appreciate, respect and have personal experience with differences between cultures and nations are the most valuable assets to companies that do business internationally. They are not only better team players, but find it easy to embrace change and transfer ideas and businesses processes from culture to culture, leading to greater innovation and competitiveness.

Look outside the industry – avoid trade secret litigation

Intellectual property considerations may be another reason to think outside the box and go outside the industry for new talent, according to Richard Kaplan, a trial lawyer specializing in patent, trade secret and related antitrust, unfair competition and contract matters at the Chicago office of the law firm of Brinks Hofer Gilson & Lione.

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“Like it or not, targeting other companies in your own industry for the next addition to your team can invite legal problems,” says Kaplan. “The pool of executives within your industry is likely to be bound by legal obligations that may seriously impair their ability to move from one company to another, in the same industry. Therefore, from a legal standpoint, looking in your own neighborhood can be risky.”

Trade secrets can encompass a wide range of technical and business information, and are a front-and-center consideration for many key executives changing jobs, Kaplan explains. Courts favor the protection of trade secrets and are receptive to efforts to keep employees from using or disclosing trade secrets when they go to work for a competitor.

On the other hand, courts loathe restricting someone’s right to make a living and will protect people’s ability to use their general skills and knowledge and to rely on their industry experience for the benefit of any employer for whom they choose to work. This can make it quite difficult to draw the line between what is permissible and what is not. One person’s trade secrets may be another person’s general skills, and reasonable minds often differ.

“Companies differ in how aggressive they are in protecting their trade secrets,” says Kaplan. “Some just require their employees to sign non-disclosure agreements while others expand their zone of protection by using non-solicitation agreements. The latter are designed to prevent personnel who interact with the outside world from trying to work with customers or clients upon changing jobs.

Still others require their employees to sign non-competition agreements that preclude them from taking jobs in the same industry with competitors for a certain period of time within certain geographic locations. For these reasons, going after such industry-specific talent may invite time-consuming and expensive trade secret litigation.”

Going outside the industry goes a long way to avoiding such disruptions, Kaplan suggests. “A strong argument can be made that trade secrets are not at risk when an employee has changed industries, not just jobs.”

Finding switch-hitting talent

How can companies identify leaders and team members who are likely to be successful upon making a cross-industry switch? “The best determinant of ability to switch industries is having made such switches before,” says EZI’s Kacyn. “While this sounds obvious, it is in fact the best criteria.” Kacyn refers back to his examples of people who switched from GE to other companies. “They had all previously moved within and between business units at GE, thus having demonstrated their ability to do so successfully and achieve results,” he observes. “That is one of the main reasons that all manner of companies are so interested in bringing GE people to their companies.”

“My own experience has taught me that in high-level positions, experiences gained in one industry can often be put to good use in new or different industries,” says Gidwitz. “Many business management practices are held in common across all industries at the highest levels of management. Even though some highly technical fields including medicine and technology startups may call for unique skill sets, at the level of general manager and above, knowledge is generally transferable.”

Gidwitz suggests that in looking for talent, a sense of urgency and enthusiasm for the task or job at hand are good indicators of the likelihood of success. “In small organizations, it is also very important for the individual to have the ‘right chemistry,’” he adds. “That is to say, the

ability to work well with the rest of the team is perhaps the most important attribute, assuming the individual has the appropriate skills at the required performance level.”

“Success upon switching industries depends on personality, function, the expectations of the new industry and particularly the individual’s openness to new ways of thinking and perceiving,” says Spitulnik.

A proven track record of innovation or creativity, having spearheaded change management initiatives, analytical and proactive thinking and sensitivity to cross-cultural issues are also good indicators of future success. Whether or not they also have specific industry experience, these are the types of people companies can count on to deal with ambiguity and the unknown. They are also the ones who are able to hit the ground running in new environments and overseas operations.

Transferring tools and technology

Leaders who have cross-industry knowledge, or are at least open to solutions from outside their sector, are also the most innovative when it comes to transferring technologies, tools and processes from outside their industry. Because these leaders go a step beyond looking outside the proverbial box, their companies tend to be more innovative and competitive. Entrepreneurs, in particular, even create new companies and entirely new industries by taking an existing industry’s products, tools, technologies or services to a new level.

Many tools and technologies are easily adaptable from one industry to another with only little modification. Why reinvent the wheel when a cutting-edge solution to a problem or need for greater efficiency is only a minor modification away? Why not change the lens a company is looking through, transform a concept and thus create and innovate?

Look at Starbucks and its transformation of the concept of having a cup of coffee! The company created a whole new experience out of a simple habit people had for years. A portfolio management company, for example, recently transferred a customer relationship management process from the airline industry. It established the equivalent of airline frequent-flyer clubs and VIP lounges in order to better segment, reach and serve its clients, as well as grow its client base and cross-sell new services to existing clients. Depending on their investment balances, clients are assigned to virtual clubs and treated differently. For instance, the various club levels earn different rates of interest, pay different interest rates for loans, and are charged different fees for services.

Similarly, a hardware and software platform developed for homeland security has been successfully used by hospitals and airports. It enables the sharing of information among multiple agencies, sites and centers and includes a unique security communication system.

While at first glance two industries may appear to have nothing in common, closer examination usually reveals many shared needs. How many different industries, for example, serve business clients and could learn innovative client service processes from each other or use each other’s client service software? How many companies manufacture consumer products, no matter how different, and might be able to benefit from each other’s manufacturing innovations and software? How many companies face the same security and privacy issues?

Market research processes, product technologies, educational programs and new process improvement techniques all can be transferred from one industry to transform another. Rather than concentrating on differences, look at the big picture: what do two industries have in common? What are their goals, and how do they go about achieving them? Innovation is rarely the creation of a totally new idea. More often, it is a matter of looking in new places for new solutions.

The global challenge

With regard to both talent and technologies, cross-industry application provides viable solutions to global business challenges. Innovative organizations identify and adapt successful processes and tools from other industries for competitive advantage. They also

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hire leaders and team members who possess the cross-industry knowledge, people who are not afraid to make changes and create a new paradigm. That knowledge is essential for flexibility and adaptability – two characteristics that are critical in dealing with the rapid change and ambiguity of today’s business environment. These individuals are adept at transferring successful applications from other industries in order to develop and sustain a competitive advantage. As organizations become more global in their reach, their people and tools, too, must reflect more expansive capabilities.

References

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Appendix. Finding a winner

Rather than technical expertise in a specific industry, leadership competence is about proficiency in universal processes that are applicable to any company. Whenever flexibility and adaptability are desirable attributes in new leadership talent, look for people who have demonstrated their ability to apply the following core competencies across industries or at least in different divisions of the same company:

- strategic planning;
- change management;
- creativity and innovation (creating new products, modify existing ones, and opening new markets);
- business acumen, finance;
- customer focus (internal and external); and
- people skills, such as motivating, conflict management, relationship building and coaching.

In addition, look for leaders who fit the profile of “Level 5” leaders described in Chapter 2 of Collins (2001). Every good-to-great company had Level 5 leadership during the pivotal transition years. “Level 5” refers to the top of a five-level hierarchy of executives’ capabilities. These are leaders who:

- embody a paradoxical mix of personal humility and professional will;
- are ambitious, but first and foremost for the company, not themselves;
- set up their successors for even greater success in the next generation;
- are modest, self-effacing and understated;
- are fanatical drivers, infected with an incurable need to produce sustained results;
- display a workmanlike diligence – more plow horse than show horse;
- attribute success to factors other than themselves; and
- take full responsibility when things go wrong.

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