

Column: Best Practices Get You Only So Far

by C.K. Prahalad

Companies identify best practices, particularly those of market leaders, and try to implement them. Such benchmarking has a role to play in business, but I'm not exactly a fan of the process. It may allow enterprises to catch up with competitors, but it won't turn them into market leaders. Organizations become winners by spotting big opportunities and inventing next practices—as I've pointed out to CEOs for over two decades now.

Next practices are all about innovation: imagining what the future will look like; identifying the mega-opportunities that will arise; and building capabilities to capitalize on them. Apple's Steve Jobs and Tata Motors' Ratan Tata do just that.

Most executives believe it's tough to identify breakthrough opportunities. However, several are pretty obvious; Peter Drucker once said that the best opportunities are “visible, but not seen.” I help executives unearth opportunities by focusing them on big problems that their companies will benefit from by tackling. They must ask six questions:

- Is the problem widely recognized?
- Does it affect other industries?
- Are radical innovations needed to tackle the problem?
- Can tackling it change the industry's economics?
- Will addressing this issue give us a fresh source of competitive advantage?
- Would tackling this problem create a big opportunity for us?

Inclusive development is an obvious mega-opportunity by this (or any) yardstick. About 4 billion people on three continents are trying to join the organized economy. By focusing on low-income consumers in China, India, and elsewhere, smart companies have come up with inexpensive products and services such as \$2,000 cars, \$100 laptops, \$30 cataract surgery procedures, \$20 hotel rooms, and cell phone calls that cost \$0.002 per minute.

Sometimes, the sheer size of the market for an innovation creates fresh capabilities. For instance, an unprecedented 5 billion people will be using cell phones by 2015, and ubiquitous mobile connectivity is transforming industries such as financial services, retailing, media, education, and health care. It has fostered the development of mobile applications—such as financial transactions that can be executed by text messaging and remote diagnostics in developing countries.

Not surprisingly, multinational giants are rethinking their geographic focus. Unilever and Procter & Gamble, for instance, each project that by 2020, poor people in the developing world may account for around 50% of their global revenues.

The focus on microconsumers and microproducers is forcing companies to confront the link between inclusive growth and sustainability. If the planet is in peril because of an industrial system that has served some 1.5 billion people for two centuries, adding 4 billion consumers and producers will place unsustainable stresses on it in the future. Sustainable development is therefore another mega-opportunity.

Sadly, many companies fail to “see” these “visible” opportunities. They view inclusive development as a corporate social responsibility—not as a path to growth. They don't try to use connectivity as an enabler of new business models or as infrastructure for engaging people in

collective innovation. And they insist on treating sustainability as a problem rather than an opportunity to innovate.

If you look for ways to develop next practices, opportunities abound. In fact, executives are constrained not by resources but by their imagination.