

# LIVING ON THE FAULT LINE

Managing For Shareholder Value  
in the Age of the Internet

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**MAIN IDEA**

*What should an established company which rose to prominence prior to the age of the Internet know and do about its stock price now the Internet has arrived?*

The answer is disarmingly simple to describe – *Do whatever is required to make the stock price go up, not down.* – and at the same time frustratingly difficult to achieve. At the end of the day, however, it always comes back to the issue of competitive advantage. While it is true that competitive advantage is changing dramatically in the age of the Internet, it is also equally clear the market rewards highly those businesses which successfully enhance their competitive advantage.

To build competitive advantage:

- Have a realistic understanding of the challenges of business in the Internet era.
- Use your current stock price as a lever and a feedback mechanism.
- Understand and work in with the technology adoption life cycle, even if you're not yet in a technology based industry.
- Embrace new and revolutionary technologies intelligently and enthusiastically.
- Create and nurture a company culture which periodically discards context and refocuses on core activities.

In short, be intensively and unerringly focused on competitive advantage as the creator of additional shareholder value.

**1. The Challenge of the Internet Era . . . . . Page 2**

The Internet moves the sources of competitive advantage away from where they have historically resided for most business organizations. In particular, the Internet compels business leaders to repeatedly refocus on “core activities” – where the organization creates shareholder value – and to outsource everything else (the “context activities”) so the company can focus resources where they produce the greatest results.

**2. Creating Shareholder Value . . . . . Page 3**

A company's stock price is never driven by past performance in the Internet era. It is a continuously updated forward-looking measure of the strength of the company's competitive advantage. Thus it is a feedback mechanism of how effectively the company is focusing on its core activities.

**3. The Sources of Competitive Advantage . . . . . Page 4**

In the Internet business era, competitive advantage in a technology market has a five layer hierarchy:

1. Technology wave – new paradigms and capabilities
2. Value-chain domination – end-to-end systems and alliances
3. Market segment leadership – dominating market niches
4. Company execution – different value disciplines
5. Differentiated offerings – unique customer solutions

This can be used as a framework for corporate strategic decisions and comparisons between competitors.

**4. The Dynamics of Evolving Markets . . . . . Page 5**

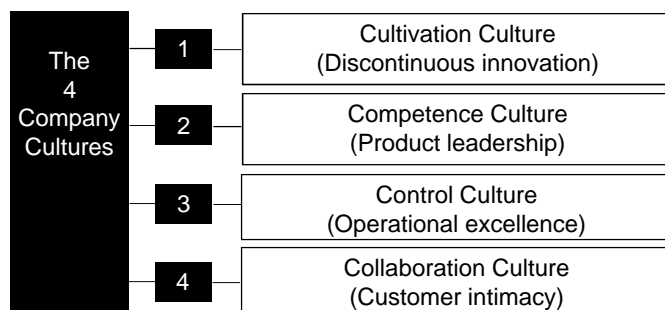
In the high-tech business sector, managers are familiar with the demands of rapidly evolving markets and how competitive advantage can be secured in different stages of that market evolution. This same technology adoption cycle is currently working its way through the entire economy, powered by the Internet. Therefore, management teams should take some guidance from what has proven to succeed in the high-tech field, and apply the same strategies in their own business fields.

**5. Avoiding the Innovators Dilemma . . . . . Page 6**

In an era of discontinuous change, traditional corporations tend to resist the introduction of new technologies. Taken to an extreme, this can even cause the downfall of the entire organization. To overcome that internal resistance and embrace change, organizations need to refine and enhance their skills at taking new technologies across the chasm (Stage 2).

**6. Managing the Company's Culture . . . . . Page 7**

The only way a business organization can endure the challenges of multiple technology adoption life cycles and create shareholder value in the Internet era is by building a strong company culture. There are four basic company cultures, each of which is aligned with a different key value discipline:



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