On the verge of something extraordinary

According to the global guru ranking, the *Thinkers 50*, published by *The Times*, C.K. Prahalad is “the most influential living business thinker in the world”. Prahalad believes that business leaders need to start thinking about their marketplace as *all* six billion people on the planet. Des Dearlove talked to him about his latest thinking and how it was influenced by his early years in India.

Born in the town of Coimbatore in the Tamil Nadu state in India, Coimbatore Krishna Rao (C.K.) Prahalad studied physics at the University of Madras (now Chennai), followed by work as a manager in a branch of the Union Carbide battery company. Prahalad then went to the Indian Institute of Management, before earning a doctorate in business administration from Harvard. He taught both in India and America, eventually joining the faculty of the University of Michigan, where he is now is the Paul and Ruth McCracken Distinguished University Professor of Strategy at the Ross School of Business at the University of Michigan.

Prahalad’s *Harvard Business Review* article “The core competence of the corporation” (May-June, 1990) introduced the term “core competencies” to the management lexicon. His book *Competing for the Future*, written with Gary Hamel, became a bestseller and set the strategy agenda for a generation of CEOs. In 2004, he published two books, *The Future of Competition*, written with Venkat Ramaswamy, introduced the notion of “co-creation”; while *The Fortune at the Bottom of the Pyramid* argued that the world’s poor (the “bottom of the pyramid”) represented an untapped market worth up to $13 trillion a year. In his most recent book, *The New Age of Innovation*, Prahalad continues his remarkable intellectual journey, describing a new competitive landscape that is based on two simple principles, “N=1” and “R=G”.

You grew up in India as one of nine children. What did those early experiences teach you?
Growing up in India is an extraordinary preparation for management, for three reasons. One, you grow up in large families so you always have to make compromises; you have to learn to accommodate. And India is a very diverse culture, in terms of languages, religions and income levels – so you start adjusting and coping with diversity at a very personal level as a child.

The second point is that I was lucky because my parents were academically oriented. My father was a judge and a great scholar. He told us very early in life, there is only one thing that when you give more, you have more – and that’s knowledge. That has stuck with me.

Then, in the plant in Union Carbide, I had to work with communist unions. I had to set rates – I was a young industrial engineer – and negotiating rates with the unions taught me a lot. They’re very smart people, they’re very thoughtful; and if you’re fair and honest, you could deal with them in an interesting way. So it taught me not to think of these groups as adversaries, but to collaborate, be honest, be fair.

You topped the latest *Thinkers 50* ranking of business gurus – the first time the ranking has been won by an Indian thinker. It made the front page of the *Times of India*. How did that make you feel?
First, I would say anyone would be happy to be in that slot: if you're going to be in that list, it is better to be number one. But it's also a very humbling situation; because, if you're number one, people think you know the answers to everything. You must have the humility to say, no, I don't. And, therefore, I think I've become a lot more humble and, more importantly, a lot more cautious about what I say.

Running through your recent work is the idea of co-creation. Can you explain what it means and how it is developed in your latest book, *The New Age of Innovation*?

Co-creation is an important idea. What it says is that we need two joint problem solvers, not a single problem solver. In the traditional industrial system, the firm was the centre of the universe; but when you move to the new information age, consumers have the opportunity to engage in a dialogue and be active and, therefore, they can shape their own personal experiences. So, with co-creation, consumers can personalize their own experiences and the firm can benefit. And this is becoming much more common and possible today.

What would be an example of that?

Let's take Google; everybody Googles now. But if I look at Google, it does not tell me how to use the system; I can personalize my own page, I can create iGoogle. I decide what I want. Google is an experience platform. Google understands that it may have a hundred million consumers, but each one can do what he or she wants with its platform. That is an extreme case of personalized, co-created value. In the new book our shorthand for that is “N=1”.

On the other hand, Google does not produce the content at all. The content comes from a large number of people around the world – institutions and individuals. Google aggregates it and makes it available to me. That is the spirit of co-creation, which says that even if you have a hundred million consumers, each consumer experience is different because it is co-created by that consumer and the organization, in this case Google. So resources are not contained within the firm but accessed from a wide variety of institutions; therefore, resources are global. Our shorthand for that is “R=G”, because resources are now coming from more than one institution.

So, N=1 and R=G are going to be the pattern for the future.

Then I can go one step further and put some sensors on the tyres, so I know the tyre pressure, I know the braking speeds, the terrain in which you drive, and so on. And with a global positioning system, I can also see what routes you take. So now I have a much better understanding of how you use the tyres. Therefore, I can now tell you to please check your tyre pressure and rotate your tyres, because tyre pressure and rotation can dramatically improve usage and reduce the cost for you as a fleet owner. The sensors on the tyres give me a tremendous amount of knowledge about how people really use the tyres or run their vehicles.

And the tyre seller and the fleet operator are co-creating value that way?

We're co-creating value. But I can go one step further: say, you have 500 drivers. Now let me take Joe as one driver, and I can look at his driving habits and give him advice on improving safety and tyre usage to make him a better driver. So what used to be an arm's-length transaction, mostly based on price, can be converted into a personal relationship with a driver and a relationship with the fleet owners so that I provide extraordinary service and get compensated very well. And I also get tremendous ideas for product development, because now I have real-time data (not data from focus groups) coming to me. That is the kind of transformation all firms can go through.

What does that sort of transformation mean for how managers think and act?

Managers must shift from a firm-centric view, in which the firm is the critical unit of analysis, to...
accepting the centrality of the individual consumer as the critical unit of analysis. That’s a very important first transition.

And does that apply across the globe? Does that apply in China and India and cultures that aren’t quite so individualized?
Actually, I think, everybody wants to be treated as unique. We all want to have an opportunity to express ourselves. I believe less-industrialized societies, emerging markets, can move there directly. They don’t have to go through the process that the West has gone through. For example, think about telephony: why should they go through landlines before they go to wireless? They don’t have to go through the same process of getting old television sets before they go to plasma TV – they can go directly there and the costs are going down anyway. So one of the things that I’m arguing is that N=1 and R=G works across the globe.

More importantly, when people are connected around the world, they want to have the same things. They don’t want to be treated in China and India as if they’re still in the Stone Age or at the beginning of the Industrial Age, where you get what we produce for you. Suddenly, in the US and Europe, you can get highly personalized experiences. So why can’t we create the same individualized experiences worldwide?

So there is a paradox here, because at the same time that people want the same things, they want them to be unique – uniquely their own things. That’s right. So the first principle that managers need to grasp is the centrality of the individual.

The second principle is the interdependence of institutions, that you do not try to do everything yourself. The reality is that you cannot; even if you’re IBM or GE or P&G or Unilever, you still have to depend on a large number of other institutions. Therefore, in this new world, ecosystems compete, not individual companies. There’s the second principle – the R=G.

And the third, which is even more interesting, is how value is created. The traditional way of thinking about value creation was as a value chain that was captured by the supply chain. So value was created and captured in a product, which the consumer paid for. In this traditional type of transaction, the consumer played no part in creating the value. But if the consumer is involved in co-creating value, then you have to recognize that in your pricing. You have to recognize that a portion of the value is created with the consumer at the point of interaction. You have to take account of that in how you price and charge for that value. So that is the third transition.

Do you find that most managers find these transitions daunting?
These are not difficult transitions, but they are hard to do in one leap. So, you must have a point at which you aim to transform your company. But that doesn’t mean you have to go from A to B in one fell swoop; you can migrate systematically. So I say small steps, directionally consistent steps, are what companies need to take.

We’ve talked about management. But what do these new ways of thinking mean for the way we lead?
How do they change leadership?
I would say there are three very important distinctions. First, leaders must lead. You cannot lead unless you’re future-oriented. Leadership is about the future; leadership is about a point of view about that future; and leadership is about hope.

So that’s the first point. And the other changes for leaders?
The second point about leadership is that it’s not about the leader. The metaphor I like to use is that of a sheep dog, not a shepherd. A sheep dog has to respect some rules. Number one, you always lead from behind. Number two, you can bark a lot, but don’t bite. And, number three, don’t lose any sheep.

Even if you have a hundred million consumers, each consumer experience is different because it is co-created by that consumer and the organization.

So, in other words, a leader is somebody who can bring out the best in you, not the best in themselves. That is a very different view. It’s what Gandhi did. If you really think about Gandhi, looking at him, looking at his physical stature, looking at his clothes: nobody would have said he would have left a fundamental imprint on human history. But he was a great innovator – his leadership was about change, it was about hope, it was about freedom, it was a very personal thing. He made every Indian realize his own personal ability to contribute to that effort. And, very importantly, he set some non-negotiables. It was not an armed struggle; it was a peaceful struggle, and that was
non-negotiable. So that would be my third principle: some things are non-negotiable. Moral authority comes from having clear non-negotiables. And that takes courage.

So for me, leadership is a point of view, the ability to mobilize people and make them achieve their very best and to have moral direction. It’s not technological capability and economic strength; it’s morality as well.

Your previous book, _The Fortune at the Bottom of the Pyramid_, discussed how business, including big business, can actually work with emerging markets and, in doing so, alleviate some poverty. How does that fit with your new ideas about innovation? Are these ideas all linked?

I think they’re very closely linked. Actually, my last three books – _The Future of Competition_, where the co-creation idea was born; _The Bottom of the Pyramid_, looking at five billion under-served consumers; and _The New Age of Innovation_, the N=1 and R=G idea – are parts of a larger argument. But I had to separate them into bite-sized concepts, so the message didn’t get confused. But now I’ve told you, and you can see how they fit together.

If you look at the opportunity for companies, I’m making three simple points in all three books. One: look at six billion people as your market, not just the billion at the top of the pyramid. Look at six billion people as potentially micro-producers, micro-innovators and micro-consumers. Today companies are starting to say we want to straddle the pyramid, not only be at the top, not only at the bottom, but we can take our products to all. You see this with a company such as Unilever: whether it’s Dove or Sunsilk or any of its other branded products, Unilever is looking for ways to make them affordable all the way from top to the bottom. So we can package it in a sachet for poor people in India who can afford only a small quantity at a time; and, for more affluent buyers, we can give them big bottles, if that’s what they want at the top of the pyramid. So straddling the pyramid is becoming a fairly common idea.

The second thing I’m saying is, if you want a good way of serving the consumers and, therefore, retaining consumers, then you have to understand the uniqueness of each one and create a unique personalized experience. That means you cannot just give them a product and think of the relationship as a transaction. You have to build a relationship that is more enduring. That’s the whole co-creation idea.

And third, in _The New Age of Innovation_, I’m taking these two ideas and then saying, how do you do it operationally? _What is the glue?_ The glue is information architecture, or IT architecture, and the social values that you create are the social architecture, in terms of skills, training, approach to talent and so on.

So they all come together, and I believe that we are on the verge of the largest growth opportunity that any firm has ever seen. Just imagine: even if you don’t take six billion people as your market, if you can just go from one to three billion, that’s still the biggest growth opportunity people have ever seen. So I think we are on the verge of something extraordinary.

Books by C.K. Prahalad