



Annabelle Gawer on the surprising sources of leadership in interdependent environments.

This interview with Annabelle Gawer was conducted just days before her wedding in Paris. We considered postponing the interview until the actual wedding day, when we could join the reception MTV-style by helicoptering onto the lawn to ask our questions. We thought of this as a way of broadening the Ubiquity audience and taking the publication to the next level. However, we eventually decided, with considerable regret, that we just couldn't maintain that kind of excitement week after week, because we have such a small queue of Ubiquity interview subjects ready to be married soon in Paris. However, it's an idea we might revisit in the future, because it has such appeal to us.

But we were delighted that Annabelle gave us some of her busy time in the hectic days of wedding preparations. She was wonderful -- and even composed. As you'll find out from the following interview, she is Assistant Professor of Strategy and Management at INSEAD, and co-author of the new book, "Platform Leadership: How Intel, Microsoft, and Cisco Drive Industry Innovation" (Harvard Business School Press). The book's co-author is Michael A. Cusumano, Professor of Management at the MIT Sloan School, Chairman of the Board of the MIT Sloan Management Review, and coauthor of the bestseller "Microsoft Secrets."

UBIQUITY: Before we begin talking about your new book, tell us about INSEAD.

GAWER: INSEAD (European Institute for Business Administration) was created in 1957, three months after the Treaty of Rome, which was one of the first political treaties establishing the European community. A group of professors from Harvard, who were all of European extraction, wanted to develop a new school in Europe based on the Harvard model. The ambition was to become the training place for what would be the pan-European manager. It was the first time anything looking like an MBA appeared in Europe. It's an educational, not-for-profit institution that relies on the participants' tuition to operate. The flagship product is probably the MBA program, which has 700 MBAs coming through every year.

UBIQUITY: Other than the MBA, what programs does INSEAD offer?

GAWER: Besides the MBA, we have all sorts of company-specific education programs. For example, IBM might send us a bunch of its people and we would design a program especially for them. I'm a director of a middle management program for SAP AG, the German software company. We have a lot of executive programs, just like any top business school.

UBIQUITY: Do the old-line traditional universities, such as the Sorbonne, have technology or management programs?

GAWER: Not really. The typical MBA participant usually is 28 - 30 years old, has a few years' of working experience, and wants to go back to school for a couple of years. Until recently, the idea of going back to school was quite unusual in Europe. The traditional universities didn't offer an MBA program. Now, with globalization, the labor market has become more uniform in terms of career paths, especially for multi-national corporations, and even for corporations purely based in France or in Europe that want to attract talented employees. Some other schools have started recently -- say, in the past 10 years -- to create programs that they call MBA, but they're starting from being an engineering school, for example, and offering a couple of management classes. They don't have full-fledged management faculty for teaching and research.

UBIQUITY: Let's talk now about your book. How did you become interested in writing about platform leadership?

GAWER: It started when I was working on my Ph.D. at the Sloan School of Management at MIT in Boston. I got my doctorate in management of technological innovation. My background was as an engineer working for a telecommunications equipment manufacturer. I became fascinated with the fact that in the telecom industry many products have to work together, or interoperate, in order for the end user to have a functioning service or product. Working for an equipment manufacturer, I quickly realized that it was very important for companies not only to compete with each other, but also to collaborate with each other, because their products are but individual pieces of a larger jigsaw puzzle. That started me thinking about the complexity of business relationships. When I got to MIT, I became interested in how Microsoft influences other companies. I was particularly interested in how the scope of Microsoft's operating system had expanded over the years by absorbing the functionalities of other products -- for example, the browser -- which used to be developed and commercialized by other companies as standalone products.

UBIQUITY: Some people object to that as anti-innovation.

GAWER: I think it's a bit too simple to say anti-innovation, but it's also wrong to say it promotes innovation. The ideas I developed in the book could shed some light and make the debate less simplistic. One has to realize that there are

very simple concepts that are basic to understanding the business forces driving this industry, which is this concept of modules or components, and a larger system or platform.

UBIQUITY: Explain what you mean by the title of your book, "Platform Leadership"?

GAWER: When I talk about platform leadership, I use platform in the sense of a system made of inter-dependent products or components. That's the way people at Intel, for example, translate the word platform. It's important to explain that because the word platform has many different meanings, which can lead to some confusion. One thing that is clear is that you have a set of different sums that make a product. Each of them fit as a component in a larger system or larger platform. The question that this book asks, and tries to provide answers to, is this: How can one firm succeed when it is established in a network of interdependence on other firms and products? What is the meaning of leadership in a context of interdependent systems of which you are a part?

UBIQUITY: How do you answer those questions? What does it mean to lead?

GAWER: An example of this kind of leadership would be what we have seen with Intel and Microsoft -- not only because of the big share of the overall profit that these companies take in, but also in terms of the product design decisions that other companies make. When Intel comes up with a new version of its chip, everybody else in the industry changes the design of their product accordingly. So, the influence of an Intel or Microsoft is that when they decide to change their product, everybody else redesigns their product to ensure compatibility. That is an expression of leadership. It is not a cause of leadership, but it's how you can recognize leadership. The word leadership in the title of my book refers to a leader who is the head of a team who drives the direction of everybody else.

UBIQUITY: When you started looking at the issues from this point of view, where you surprised by anything?

GAWER: I was surprised by the fact that a component maker -- say, an Intel that makes the chips that nobody sees, a sub-component of a larger system -- at the end of the day makes a ton of the profit and has a strong influence on the design decisions of everyone else in the industry. I was puzzled by how one maker of only a sub-part of a larger system can get to that position. If you think about the computer industry, 35 or 40 years ago IBM was the king of the game by far. IBM designed everything. It made every component in-house. It designed the architecture of the overall system and dictated its will to sub-suppliers as well. A few years ago, the developers of the components, in particular the operating system component, which is Windows, became very powerful.

UBIQUITY: Is this a phenomenon unique to the technology industry?

GAWER: This problem of having systems and components exists not only in computers and telecoms. It also applies to automobiles, for example, where you have General Motors Corporation and DaimlerChrysler as the integrators or assemblers -- they put everything together. And then you have developers of parts that go into an automobile. The surprising thing that I realized is that, contrary to what one might think at first glance, the people integrating everything do not always have the most power and do not necessarily dictate the rules of the game. It can very well change from a situation where the leader in the industry is the assembler or the integrator, to a situation where the developers of components become the platform leaders. This phenomenon can happen in many industries, and that's why it's interesting to understand the dynamics.

UBIQUITY: What's another idea that you discuss in the book?

GAWER: Another point that the book makes is that we now live in a world where many people can innovate. You don't have to be a big firm to have good ideas and be able to develop a product or distribute it with powerful software and communications over the Internet. It's very important to realize the power of innovation that can exist outside of your own turf. In an old system, people in companies that wanted to invest in innovation were very secretive about what they did so that they could reap the benefits of their own innovation. But today, if you think about, one of the reasons you want to buy a Windows operating system is because there are so many applications that are compatible to it. The value of the product depends upon the creativity of many developers that are outside Microsoft. One of the points this book makes is to try to help managers think about how can you best tap into the innovative capabilities of a market that is outside of you.

UBIQUITY: What would your thoughts be on open systems like Linux compared to Windows?

GAWER: If you have a spectrum about protecting intellectual property on the one hand or opening it up on the other, Windows and Linux are at the extreme opposite ends of that spectrum. It's an interesting case because it shows both the power and the limits of relying on external innovation. The process by which Linux was developed tells us many things. One of them is that one should not underestimate the innovative capabilities of a bunch of talented individuals. The second point that the Linux story tells us is how crucial an intelligent treatment of intellectual property is for creating or destroying incentives to innovate. In the case of Linux, Richard Stallman came up with this idea of the general public license, which completely takes the opposite stand of a traditional copyright mechanism. The idea is that when someone writes code using an open-source, previously written code, it becomes contagious, in a way. It makes the new code also open, so it forces openness in a transitive way, from one individual to the next innovator.

UBIQUITY: What is the effect of openness on innovation?

GAWER: It increases tremendously innovation that complements what was previously written. The old school of thought about innovation was that you had to protect everything in order to prevent substitute innovation. If you protect your innovation by a patent, it becomes unlawful to come up with a substitute during the time of the patent. The idea is a fundamental insight of economics, which is that you should protect the incentives of the innovator, because it's very hard work to innovate. There's a lot of trial and error, but once you're done it's easy for someone else to imitate you. If there were no protection then the innovators would stop trying to innovate because they would not have economic benefit. This philosophy underlies our whole patent system. Now, what the Linux story uncovers in a blatant way is that there are other kinds of incentives to innovate. It shows that you can open things up and not stop innovation. It might stop competitive innovation, but it doesn't stop collaborative innovation. Those are the pluses of the Linux story.

UBIQUITY: What are the minuses to the Linux story?

GAWER: The minuses are: How do you maintain such a product over the long run? Who is going to ensure the maintenance, which is less exciting than being a wonderful hacker inventing genius code? You need to have sound commercial organization behind it, and for that kind of thing to happen you need to have the traditional business incentives and therefore you need to protect from imitation. How do you reconcile openness and closeness? How to reconcile creativity and maintenance over the long run hasn't been resolved yet. But I think the Linux story has expanded our understanding of the phenomenon of innovation.

UBIQUITY: Talking about economics and technology and innovation at this particular time in history, 2002, when the stock market is very jittery and technology industry is in a slump, what are your thoughts? Do you think this will be a long-lasting phenomenon, or will there be a quick turnaround?

GAWER: The first thing is, as everybody has said for many months now, the bubble has burst. That's more of a transient, temporary thing. I don't believe that the current state of the job market indicates that there will be much less investment in technology over the long run. What's more troubling long-term is a diminishing of ambitious investment in science and technology. It used to be that AT&T, the Bell Lab and other research efforts were somewhat sponsored by government. There was a big effort, for example, during the Cold War towards military technology and research in universities. There were some ambitious programs that were developed. The Internet, as we all know, came from the development of military communications. Today, our markets are much more efficient at capturing profit from a good idea, but what's not clear and what's very worrisome is who is going to invest the large sums to build the new technologies that will be important in 10, 15, 20 years? Organizations don't have the same staying power that they used to. We have a much more fluid

environment. Venture capitalists and entrepreneurs and startups are fine, but I'm a bit afraid they will bias investments or technologies towards the short-term.

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