In the hyper-accelerated computer and software industry, time passes quickly and ancient history is last year. How can these and other companies exploit the old and explore the new while not getting stuck in the past or – equally dangerous – ignoring it? This is among the questions that Kathleen Eisenhardt, an engineer and business professor at Stanford University, and Shona Brown, a Toronto-based McKinsey & Co. consultant, explore in “Competing on the Edge” (Harvard Business School Press, May 1998).

The authors interviewed about 100 people in divisions of 12 of the largest computing and software companies around the world, believing that lessons from this volatile industry could be valuable to any company. History, they concluded, should not be relegated to dusty archives.

“In fast-moving markets, people downplay the importance of the past,” says Eisenhardt, who recently visited St. Paul. “They’re so future-oriented that they forget to use parts of their past to their advantage.”

Managers who disconnect from the past make mistakes that could have been avoided, she says, and “as the cultures of the old and new become increasingly distant,” the outcome can be an “error catastrophe.” The authors point to Apple’s personal digital assistant, the Newton.

Everything about the product was new, including handwriting recognition that had little to do with existing Apple expertise. In fact, say the authors, Newton represented a whole new product category with a consumer electronics target market in which Apple had no experience. Ultimately, the product was a disaster, diverted resources from Apple’s main business and damaged the company’s image.

When companies break with the past, Eisenhardt says, parts of the organization are left behind and there is little transfer of new ideas back o older parts of the company. She points to Saturn, the innovative business that had a whole new philosophy of operation, new plant design and all-new work force. Nothing from the General Motors experience was “brought forward” to inform the Saturn experience, she says, and “nothing from Saturn was applied to General Motors to refresh the company. It’s important to recognize that good ideas travel both forward and backward.”

The opposite occurred, says Eisenhardt, when IBM acquired Lotus Notes. That new technology was used to revitalize IBM’s mainframe business. “If everything a company does is new,” says Eisenhardt, “mistakes will multiply and it gets expensive.” Building on knowledge and experience of the past, she says, is “less risky, cheaper and faster.”
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