Extreme Competition

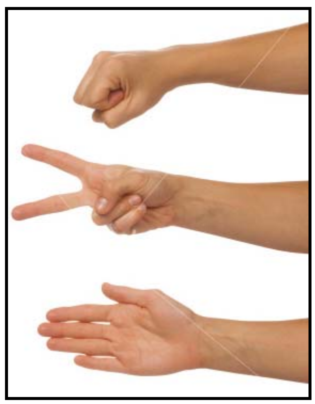
Peter Fingar
Executive Partner
Greystone Group

pfingar@acm.org

Latest book:
Enterprise Cloud Computing: A Strategy Guide for Business and Technology Leaders Meghan-Kiffer Press
www.mkpress.com/ECC

BRICs, Innovation and Blowback

Some games have been around for centuries and have changed little. Remember the hand game, "Rock-Paper-Scissors?" Some historians say the game could date back to the time of the Chinese Han dynasty (手势令). Kids on all major continents continue to play the game, and play it according to long-established rules.



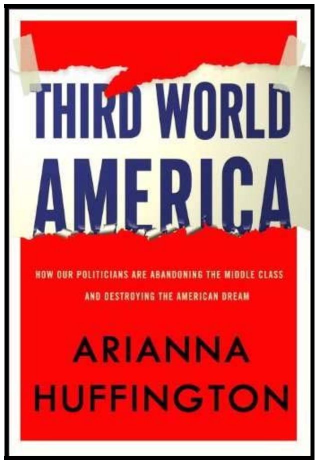
Sometimes long-standing games do change. They not only change the rules, they change the very game itself. Well there's a new game in the business world, it's called "BRICs-Innovation-Blowback."

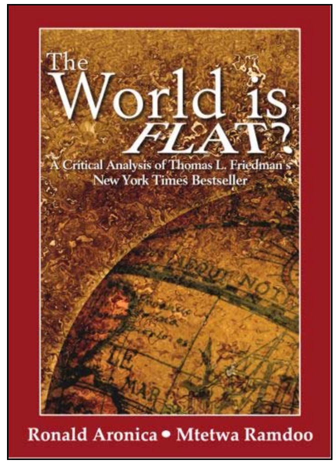
Did You Know?

Let's start with the mathematics behind the new game of business. If you want to look at the discontinuous shift in the next 25 years consider the emerging markets. Just take India and China as examples ... shift happens:

- Today, in India the GDP is $700 billion.
- China is twice as big, with a GDP of $1.3 trillion.
- Between India and China we have a GDP of $2 trillion and the world-wide GDP is $40 trillion.
- Both of these countries contribute about 5 % of the world GDP today.
- But as they represent 30% of the worlds population, they are poor today.
- The situation in the U.S. is the reverse. The GDP is $12 trillion. So, the U.S. represents 30% of the worlds GDP, but accounts for only 5 % of the population. That is why the U.S. is "rich."
- China has grown 10% every year in the last 5 years, India has grown 6-8% in the last 5 yrs. Most respected analysts predict that India and China will grow more aggressively in the next 5 years.
- Suppose you take a $2 trillion base and apply a factor of 10% to an exponential growth curve: the GDP by 2030 of these 2 countries would be $40 trillion—the size of the world-wide GDP today.

- Meanwhile, the world's consumption engine, America, is running on fumes after the Great Recession of 2008-9. Compared to China and India, many economists forecast slow growth of 1-3% in the U.S. post Great Recession economy. As Aronica and Ramdoo write in *The World is Flat?*, "Globalization is the greatest reorganization of the world since the Industrial Revolution." They also go on to describe "America's former middle class" (http://www.mkpress.com/Flat).

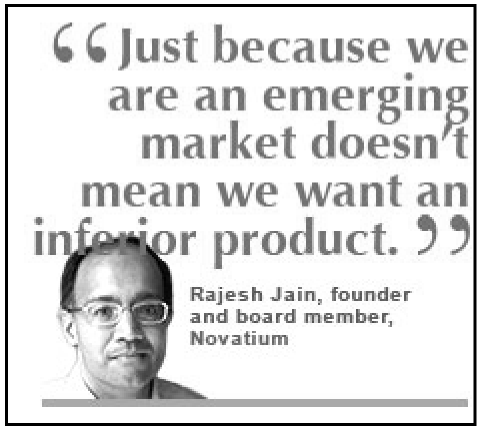




- Over 50% of GE's revenue is now from international sources. Hmm? Is GE still an American company? And what about the renowned Thomas Edison labs in New York? That's now just one facility; the others are in Shanghai, Bangalore and Rio De Janeiro. What GE Global Research is doing at these facilities is innovating at the *bottom of the pyramid*, meeting local needs versus adapting Western innovations for selling stuff to poor countries. And when GE succeeds, as it did with a $1,000 portable EKG machine developed for the rural Indian market, GE will bring its innovations back to America to disrupt markets. It's called *blowback*, and GE knows that if it doesn't innovate at the bottom of the pyramid, the hoards of Chinese and Indian PhDs and engineers will—and they will go global with their innovations.

Blowback

There is a tectonic shift taking place in the world. The East is rising. And with a reverse brain drain of talent taking place from the West, innovations are now starting to flow from the world's emerging markets—with the potential to blowback to the developed nations. Today's non-consumers in Brazil, Russia, India and China (BRIC) are becoming the new battleground—because their delight will shed light on the economic future of all nations. With $.09 an hour factory workers and $20,000 per year PhDs in science and technology innovation engines are roaring in the BRIC countries. They disrupt established industries by weaving a tapestry of business processes with trading partners that allow them to offer unprecedented convenience and affordability to their customers, especially those who were *nonconsumers* before a game-changing innovation was introduced. For the pioneering Indian company, Novatium, with its slogan, "computing for the next billion," the market for affordable computing for the masses ($100 PCs) in BRIC countries, and the working poor in developed countries is the computing world's next frontier and biggest pot of gold. Meanwhile, the Brazilian government established Brazil IT+ (www.brazil-it.com) with a consortium of 200+ Brazilian companies. According to Gartner's Ian Marriott, "If Brazil is able to keep up its evolution it will be part of the Top 3 World IT Services Providers Pack alongside with India and China." And don't forget the Chinese Chery luxury car coming to America—for $10,000!



Highly educated innovators in the BRIC countries seek the late C.K. Prahalad's fortune at the bottom of the pyramid. Prahalad is author of *The Fortune at the Bottom of the Pyramid*. While most companies continue to focus on the wealthy Western markets for selling their goods and services, India's Tata Group is selling the $3,000 car. From the $100 PC to the $3,000 car, innovations that allow companies to make a profit in underserved markets will no doubt find their way to even the wealthiest nations. Companies that miss this trend will not only miss out on the emerging markets in Asia, the Middle East, Africa, and Latin America, they will come to find fierce new competitors landing on their shores and wreaking havoc in established markets regardless of a country's wealth—blowback. Necessity truly is the mother of innovation.

These new competitors are the *post-industrialists.* The first wave of the Industrial Revolution saw the rise of the factory as the way human work activity would be organized and wealth produced. Factory workers became a new "middle-class" supplanting the farm workers and encroaching on the wealth held exclusively by the merchant class. With the need for huge amounts of capital, industrialization brought with it the rise of the "corporation" circa the 1800s, the emergence of the first multinational companies, intellectual property rights, limited liability companies, trade unions, commercial banks, B-schools, and jobs outside the home for women.

Indeed, there is a new competitor on the block, ready to engage your company in extreme competition. It's no longer "business as usual," nor is this new competitor your father's competitor. As the late Peter Drucker once explained, "One thing is almost certain: in the future there will be not one kind of corporation but several different ones. The modern company was invented simultaneously but independently in three countries: America, Germany and Japan. It was a complete novelty and bore no resemblance to the economic organization that had been the ‘economic enterprise’ for millennia: the small, privately owned and personally run firm. As late as 1832, England’s McLane Report—the first statistical survey of business—found that nearly all firms were privately owned and had fewer than ten employees. Forty years later a new kind of organization with thousands of employees had appeared on the scene, e.g., the American railroads, built with federal and state support, and Germany’s Deutsche Bank. Eighty years ago, GM first developed both the organizational concepts and the organizational structure on which today’s large corporations everywhere are based. It also invented the idea of a distinct top management. Now it is experimenting with a range of new organizational models. It has been changing itself from a *unitary corporation* held together by control through ownership into a group held together by management control, with GM often holding only a minority stake. GM now controls but does not own Fiat, itself one of the oldest and largest car makers. It also controls Saab in Sweden and two smaller Japanese car makers, Suzuki and Isuzu.”

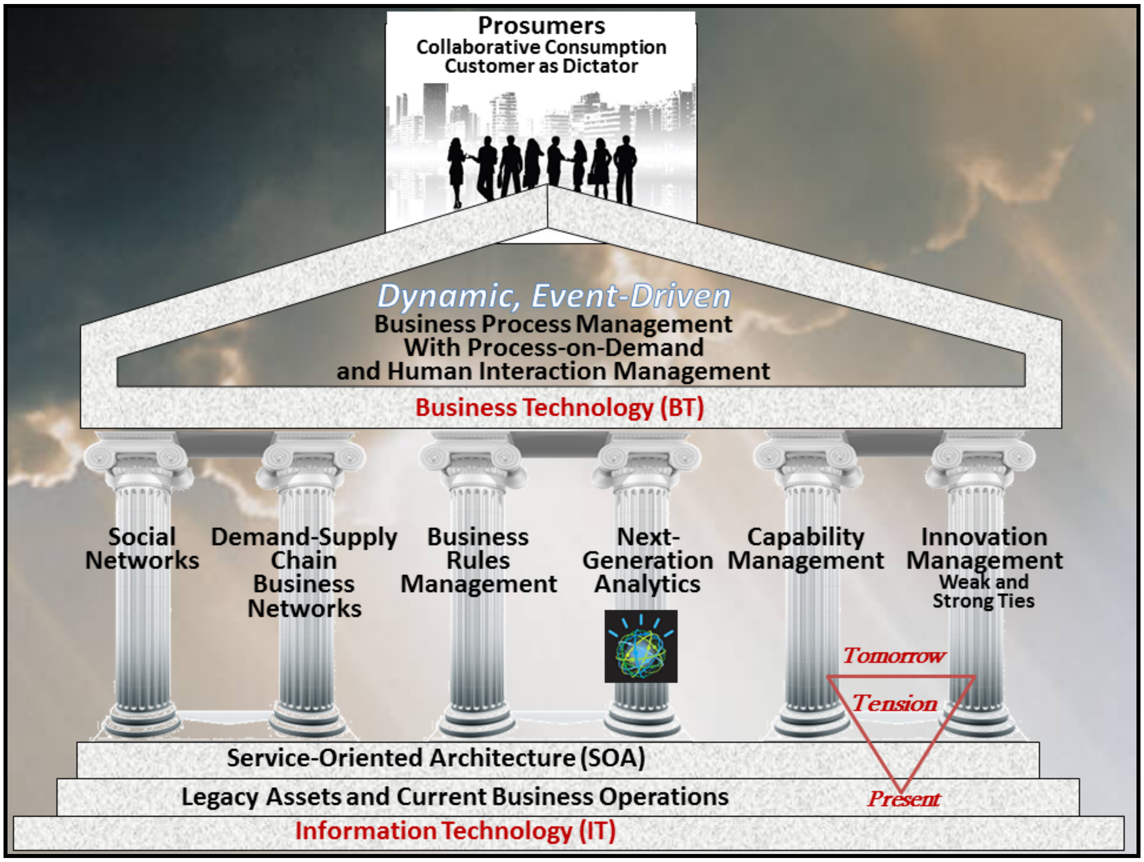
The vertically integrated company serving a specific market, within a specific industry, with a specific product, is obsolete—dead, gone. Good bye to the vertically integrated company; hello to the company of the future and the new game of BRIC-Innovation-Blowback.

Building the Company of the Future—Now!

Incumbent organizations excel at the current game they are really good at. But, as we’ve discussed, it’s now game-over. There’s no turning back globalization. The Dean of the Harvard Business School, Nitin Nohria, provides an apt summary of the changes and something worrisome, “Globalization, enabled and accelerated by technology, has had a greater impact on business (and, indeed, on society) than any other development in the past decade. The western dominated economy and society of the past century has yielded way to a new global century, in which no one country or region enjoys an undisputed advantage. Instead, we are seeing multiple players competing on a world stage, including emerging economies like China, India, and Brazil. This list will continue to grow. A by-product of the intertwining of globalization and technology enabled networks is that events are no longer isolated, the impact of which was on vivid display during the global economic crisis and the recent uprisings in Tunisia and Egypt. Going forward, we are entering into a time of limitless possibilities when it comes to the role of business in the world. Yet we also face serious societal challenges that, if not addressed, will limit the extent to which we can realize those opportunities.”[i]

If Nohria is right, he’s telling us that we can take our “strategic business plans” and toss them out the window. It's now all about operational agility and how fast businesses can seize opportunities or ward off threats. Forget the annual planning cycle. It’s now about changing plans weekly or hourly—or by the minute if need be. That’s the stuff we see in nature where complex adaptive systems continually adapt to the environment.

The shift is from return-on-assets to return-on-opportunities as the goal. Now the focus must be to build the illusive capability called “Business Agility.” How does one do that? To gain the capability to rapidly adapt to unexpected change means building a new kind of organization. Just as Ford pioneered the assembly line and GM gave us a business structure with “top management,” it’s time to rethink the very structure of our companies today, as shown below.



Built on the existing foundation of legacy assets and current business operations, powered in large part by our current use of Information Technology (IT), the task at hand is to design a new business structure based on the six pillars shown in the drawing, and integrate existing assets via Cloud Services and Service-Oriented Architecture (SOA).

The big shift is from IT for transaction management, back office recordkeeping and backward looking business intelligence to Business Technology (BT) for systems of venture and conducting business. This new structure isn't "built to last," it's "built to change" —and that's what business agility is all about.

It's about going beyond business intelligence and on to Next-generation Analytics that are predictive and can be used to adjust and optimize end-to-end business processes while in flight. Think "Watson" to get a glimpse what of the next-generation of analytics will bring to the table in our current world of information overload(http://www.youtube.com/watch?v=dQmuETLeQcg).

It's about next-generation Business Rules Management where once siloed Business Rules Management Systems (BRMS) evolve into distributed policy management systems in large-scale dynamic networks in the Cloud. Such next-generation systems will no doubt involve the underpinnings of fractals whose properties of self-similarity allow them to propagate to *glocal* users and markets that were largely unintended at the inception of a given digital business system. Next-generation Business Rules Management must provide flexibility and reuse of business rules across distributed rule engines, across the globe.

It's about Capability Management to address the *tension* between the present and tomorrow's organization where new thinking and new people and different kinds of metrics come into play. Capability management aims to balance current operational requirements, with the sustainable use of current capabilities, and the development of future capabilities, to meet the sometimes competing strategic and current operational objectives of an enterprise. Capability management can help organizations understand, integrate, re-align and apply the total enterprise ability or capacity to achieve strategic and current operational objectives.

It's about Innovation Management where innovation moves from the realm of creativity to innovation as a repeatable process that taps the power of weak ties in Social Networks for new ideas and then encapsulates the strengths of strong ties using methods such as TRIZ to transform those ideas into business innovation. While continuous process improvement is needed for current operations, game-changing innovation is needed for tomorrow's competitive advantage. The winning organization must become a serial innovator and that requires transforming innovation from an exotic art to science.

It's about the event-driven organization. Participants in multi-company business networks publish-and-subscribe to events and they sense-and-respond with Process-on-Demand—right here, right now. To have the dynamic business processes needed for true business agility, Human Interaction Management must rise to the top of the technology stack for it's humans, not machines, that drive change.

It's about multiple trading partners coming together in a community Cloud with a shared firewall and using process transparency and orchestration to create Demand-Supply Chain Business Networks—Value Webs, if you like. When all participants are in the same virtual environment they can synchronize their decision making and actions to drive waste out of the system and pull value back in. Forget traditional supply chains for it's now demand-driven, multi-company Value Webs that power the marketplace and deliver value to customers.

The vast majority of today's global population will never achieve the so-called middle class because we will simply run out of the energy and raw materials to make all the toys they will want to buy. So, it's about societal changes that could be based on economic models of sharing, swapping, bartering, trading or renting that have been enabled by advances in social media and peer-to-peer online platforms. Such Collaborative Consumption could have a huge impact on business and companies such as Home Depot may be renting more and more of its products, for, after all, the customer wanted a "hole" not a drill. Don't forget, the customer is no longer king; the customer is now a fully informed crowd—and a dictator. Driven by Social Networks, this trending could result in Smarter Businesses serving a Smarter Planet.

In short, the company of the future will use BT to become a self-organizing, self-managed complex adaptive system. The human components will interact according to the protocols of Ken Thompson's "Bioteams" (http://www.mkpress.com/bioteams) in Virtual Enterprise Networks (http://www.mkpress.com/tne). Knowledge workers will be supported by Human Interaction Management Systems (http://www.mkpress.com/hi) where the work isn't predefined but instead is an emergent process. All this action will take place in the Cloud for today business is "digital business" and cloud computing levels the playing field for all: one shared world, one shared computer, one shared information base.

"Times are a-changing." —Bob Dylan, 1960s.

Update to Dylan, "Times *have* changed." The game of business has changed, changed utterly. For companies that want to remain competitive, change is already here and winning companies are "a-changing" *how* they do *what* they do.

[i] Harvard Business School Working Knowledge, http://hbswk.hbs.edu/item/6639.html?wknews=02222011.

BPTrends Linkedin Discussion Group

We recently created a BPTrends Discussion Group on Linkedin to allow our members, readers and friends to freely exchange ideas on a wide variety of BPM related topics. We encourage you to initiate a new discussion on this publication or on other BPM related topics of interest to you, or to contribute to existing discussions. Go to Linkedin and join the **BPTrends Discussion Group.**