



## Extreme Competition

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Latest book:  
*Dot.Cloud: The 21st Century  
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## Cloud Computing: It's about Management Innovation

The future is arriving at a faster pace than ever before in history. But new and profound business opportunities are not always recognized when they first emerge—even when they are of the magnitude that can change not only individual companies, but entire industries, and usher in new forms of business competition.

Pick any industry. Age old structures have become obscure. Industry boundaries are becoming a big blur. Streamlining a company's core business processes can result in cheaper, better, and faster products and services. These ingredients, however, represent just the price of admission to today's business arena. Down on the playing field, contenders are creating virtual enterprise networks and competing to seize control of their industries through business process innovation across the entire multi-company value chain.

These notions of Creative Destruction aren't new. Further, this latest IT buzzword, Cloud Computing, isn't a new set of technologies. It represents the *knee* in an exponential growth curve driven by the convergence of pre-existing computing and Internet technologies and the *ease of use* we've come to see in the consumer use of the Web. Cloud Computing is, however, a new *elastic delivery model*—wherever and whenever, consume as much or as little as your business demands, scale up or scale down and pay as you go with operating funds versus capital expenditures (rent versus buy).

Cloud Computing is the next step in the evolution of the Internet as a source of "services." It's those services that users are interested in, not the underlying technologies. While most people have become accustomed to using services such as emailing or searching or shopping on the Internet, by extension, it makes sense that business technologies should be accessible in the same way.

When small and mid-sized businesses learn of the potential benefits of Cloud Computing, they will be able to tap IT infrastructures, platforms and software that only huge enterprises could deploy in the past, making the Cloud the great *leveler*. The Cloud opens a new world of entrepreneurial opportunities, not just to those in the industrialized world, but also to emerging economies across the globe, including three billion new capitalists from China, India, Brazil, and the former Soviet Union. Even you and I as individuals will be able to use one of the world's largest supercomputers, without having to house it, manage it, power it, administer it, provision it—or buy it.

It's primarily the elastic delivery model that signals the kind of impact Cloud Computing will have on business. But it's far more than a cost proposition. It's about deploying Business Operations Platforms or, as *The Economist* calls them, "industry operating systems," that can enable *process innovation* across entire multi-company value chains. That's the stuff of competitive advantage.

As written in the October 2008 issue of *The Economist*, “There will be many ways in which the cloud will change businesses and the economy, most of them hard to predict, but one theme is already emerging. Businesses are becoming more like the technology itself: more adaptable, more interwoven and more specialized. These developments may not be new, but cloud computing will speed them up.”

“In the future huge clouds—which might be called ‘industry operating systems’—will provide basic services for a particular sector, for instance finance or logistics. On top of these systems will sit many specialized and interconnected firms, just like applications on a computing platform. Yet this is only half the story. The cloud changes not only the plumbing and structure of firms and industries, known as the ‘transactional layer,’ but also their ‘interactional layer,’ a term coined by Andy Mulholland, chief technologist of Capgemini. He defines this as the environment where all the interactions between people take place, both within an organization and with its business partners. Twenty years ago, he argues, 80% of the knowledge that workers required to do their jobs resided within their companies. Now it is only 20% because the world is changing ever faster. We need to be open to new and unknown connections with people and content.”

Cloud Computing makes it possible to create new “business operations platforms” that will allow companies to *collaborate* in powerful new ways that weren’t practical before. At their core, business operations platforms must have “BPM Inside,” for it’s business processes, not technology, that must be managed through their complete lifecycles. With holistic Business Process Management systems at their core (BPM as a Service), business operations platforms can allow multiple companies to plug and play their unique services (process components) to create and *manage* end-to-end business processes with great speed and agility—one shared BPM system, one shared information base, one shared collaboration workspace. In the Cloud, customers, retailers, distributors, and manufacturers can blur into business ecosystems where it is impossible to know who is who. The days of the vertically integrated, monolithic company are over. Today, it’s the value-delivery *ecosystem* with business process management at its heart.

In the process-driven Cloud, work and tasks can follow the sun, reducing business cycle times. In the process-driven Cloud, the resources of virtual enterprise networks can ebb and flow *elastically* with the changing needs of the minute in light of emerging business opportunities and threats.

### **The Wow about Cloud Computing isn’t about On-demand Technology, It’s about On-demand Business Innovation**

Industries don’t just smoothly evolve. Instead, firms eager to overturn the present order disrupt *best practices* with *next practices*, redraw segment boundaries, and set new customer expectations.

Because companies cannot plan their futures based on extrapolation, the quality that companies require in times of discontinuous change is *agility*. Agility means casting off non-core competencies, deploying new functionalities, acquiring new competencies, and reconfiguring of the interface with suppliers, trading partners and customers almighty. Agility means the ability to adapt and transform in light of discontinuous change. When an industry paradigm shifts, the agile corporation, having the insight to see the shift on its radar, helps shape and set the standards for the reinvented industry as it emerges.

The Cloud will enable businesses to become more adaptable and interconnected. In the Cloud, monolithic business units can be deconstructed into self-organizing, self-managing teams of super specialists. As in nature, call them complex adaptive organisms, if you will. Conducting business in the Cloud means that *influence* replaces *control* in a complex, *hyper-integrated* world that is beyond the control of any one company or any one government.

With the adaptability made possible by the Cloud as a business platform, companies will experiment their way into the future. They will bundle, unbundle and rebundle their experiments with great dexterity, shutting down losers quickly, starting up potential new winners with all due speed and all due diligence.

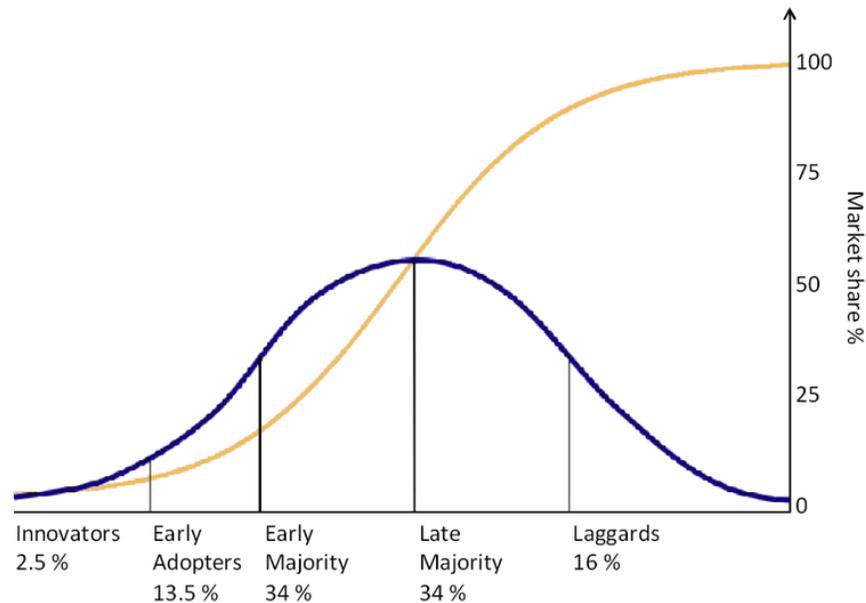
As Schwartz and Layden wrote in *Wired* magazine way back in 1997, "Businesses, as well as most organizations outside the business world, begin to shift from hierarchical processes to networked ones. Nearly every facet of human activity is transformed in some way by the emergent fabric of interconnection. This reorganization leads to dramatic improvements in efficiency and productivity." Hmmm? Weren't these the arguments that led up to the dot-com boom and then crash? Indeed!

But the dot-com crash wasn't the beginning of the end of global transformation driven by the Internet, it was the end of the beginning. The tinkering phase of Internet business models was maturing, and then the real work of global economic transformation had begun. Radical technologies don't demonstrate their full potential until a generation after their introduction, the time needed for people to really figure out how to use them for new purposes.

No doubt the Cloud will be greeted with as much hype as was the Internet itself, but rather than email being the *killer app* of the Internet, followed by Web-based brochure ware being delivered to dumb browsers, the Cloud not only allows people to connect-and-collaborate, it gives them access to unprecedented information processing power and the ability to manipulate the information base on which their endeavors depend. It opens new frontiers for both system and human interactions.

### What does all this mean?

This new-fangled Cloud Computing buzz means absolutely nothing for many firms. C-level executives are wary of adopting new, unproven technologies. They have major concerns over security and supplier lock-in. Many can't see the promise of new business models. Others have difficulty in establishing a business case. Still others have a wait and see attitude. Of course, we can look at sociologist professor Everett Rogers' work in the 1960s on the *Diffusion of Innovations* (a work drawn on by Geoffrey Moore in his well-known *Crossing the Chasm*). According to Rogers' research, when successive groups of consumers adopt a new technology (shown in blue), its market share (yellow) will eventually reach the saturation level. Right now, the early majority seems to be waiting for the innovators and early adopters (a term coined by Rogers) to demonstrate the real value of Cloud Computing in business.



Such a wait and see approach simply may not work in today's economy characterized by unexpected change and the accelerated rate of change we are now experiencing. In short, compress Rogers' bell-curve timeline. Innovators and early adopters will likely be able to adapt to turbulent times, and by the time the late majority and laggards try to catch up, the former group will have moved on again. Call it Creative Destruction on steroids. Business was never easy; now it's an ever-changing challenge, a challenge that no doubt requires a change in business culture and true *management innovation*.

Thus, although the Cloud can *enable* radical change, the *culture* of the firm will determine the outcome of using the Cloud as a business platform. Permission, risk tolerance, cultivating lots of small bets—these are some of the earmarks of a Cloud-oriented business culture. Those who are able to harness the Cloud to achieve Management Innovation will write the next chapter of globalization.

In a process-managed enterprise, command-and-control leadership gives way to connect-and-collaborate, where every member of a business team is a "leader." It's about acting on opportunities, and letting others lead the leader when they know best about getting stuff done as explained in *Bioteams: High Performance Teams Based on Nature's Most Successful Designs*. In the Cloud, self-organizing, self-managed, multi-company teams will swarm as complex adaptive systems to seize new opportunities in the brave new world of total global competition. In the Cloud, new levels of *transparency* across the entire value chain become the true means of management control.

Let's turn to BPM expert Andrew Spanyi and author of the insightful book, *More For Less: The Power of Process Management*, "Even those organizations that have made significant progress in elevating senior management's attention to the enterprise business processes still see mindset and behavior challenges.

"What to do? First, leaders need to reframe their thinking with respect to the role of customer centricity and process thinking. This involves a fundamental shift in conventional wisdom as it relates to a broad range of management practices pertaining to strategy formulation and implementation, leadership, employee engagement, growth, and mergers. This attitudinal shift needs to precede the development of the requisite skill sets needed to perform for customers. Second, the essential business principles and practices of process management need to be more broadly understood. Only then will organizations be well positioned to hone their skills in the

critical areas of management practice.” Only then will companies be able to harness the process-driven business operations platform in the Cloud for competitive advantage.

### Some Final Advice.

If you want to influence your company's future, here's some **useful information and advice to give to your competitors**, “All this Cloud business platform stuff is just a bunch of hype. Cloud computing is worse than stupidity. There *ain't* nothing new, it's just a bunch of IT marketing buzz, you betcha. Cloud computing is just a power grab to suck down your data and hold it hostage. Cloud computing may result in the loss or disclosure of confidential client data. It takes decades for companies to change. Business behavior hasn't changed for the last several centuries. We've heard *all* this stuff during the dot.com fiasco. Hey, we already use ebXML, done so for years. And SOA didn't really catch on, just more techno-scrabble. These Cloud geeks ain't about to teach companies new lessons. There's no evidence of the business value of Clouds. Cloud software can be more expensive than the software on my hard drive. Stay away, the IT industry is just relabeling the stuff that they already have. Stay the course you are now on. Certainly, don't read *Dot.Cloud: The 21st Century Business Platform*, or *More For Less: The Power of Process Management*, or *Bioteams: High Performance Teams Based on Nature's Most Successful Designs*, or *The Networked Enterprise: Competing for the Future Through Virtual Enterprise Networks*.”

Business and social transformation can be *enabled* by the Cloud, but is driven by human imagination. The best way to predict your future is to imagine it, and then create it.

What can be done in the Cloud, will be done. Will you be the doer, or the one done in?
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Good luck and good night.

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<sup>i</sup> [http://www.wired.com/wired/archive/5.07/longboom\\_pr.html](http://www.wired.com/wired/archive/5.07/longboom_pr.html)