FROM STRATEGY TO TOTAL DESIGN:

7 PRINCIPLES FOR A NETWORKED WORLD.

An Occasional Paper from:

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Everyday, we see or hear variants of three fundamental stories with respect to the economy and today's competitive environment. The first type of story celebrates advances in technology driven product, the leapfrog competition it generates and the demise of hitherto untouchable business models. The second mourn the loss of 'old industry' and the need to create mostly undefinable new jobs. The final group, report on the next wave of restructures, mergers and acquisitions as powerful incumbents seek to gain new value or advantage in existing market structures.

What each of these stories has in common is that the 'old' rulebook seems to have been torn up and thrown away. No longer do accepted concepts like 5 Forces and Competitive Advantage seem relevant, in a boundary-less world, where the very idea of 'industry' creates an illusory sense of security. No longer do interminable SWOT analyses and the annual strategic retreat seem to generate sufficient wisdom from the crowd, to drive next year's strategy. No longer does strategic change that favours measured and incremental progress seem to work, in a world where everything is connected, where the costs of transactions are declining rapidly, speed counts and anyone anywhere can access the resources they need in almost real time. What all of this suggests is that what we understood as competitive advantage is either dead or very close to it. If that is the case then a new set of assumptions and principles are required, for those that wish to have some control over their own futures, rather than have them defined for them.

I. From Sustainable Competitive Advantage to Transient Collaborative Advantage.

The strategic wisdom of the 1980's has cast a long shadow over conversations about what was thought of as sustainable advantage. Both Michael Porter and Jim Collins (*Good to Great*) developed prescriptive approaches that if followed would set anyone and everyone on the path to excellence. Others followed, including Hamel, Prahalad and Rosabeth Moss Kanter, who added core competency, strategic intent, agility and culture into the mix. For a while, even with the dawn of the digital age, all of this seemed just fine, especially if it was combined with a total obsession for mechanistic efficiency, or latterly its modern incarnation, lean thinking. Now this recipe for competition and success appears to be crumbling despite the best efforts of highly skilled managers. In summary, as the World Economic Forum declared, "*to survive and prosper business must be ready and able to collaborate effectively.*"

What is distorting the long shadow of sustainable competitive advantage is more that just new products and services, emerging through network technologies and platforms. It is vital to understand that, as powerful as these technologies are, they are simply 'enablers' for those who create or release new value through different ways of thinking or behaviour.

At the core of this reframing is a preference for collaboration over competition and an understanding that power has shifted to the customer or the demand side. This shift of power, what Jeremy Owyang describes as Me-cosystems, together with the movement of information at hyperspeed, means that any advantage is likely to be short lived. Hence attention should be on creating collaborative advantage and accepting that these collaborations will often be transient.

This new way of thinking about advantage rests on three important ideas:

- o Organisations are prepared to confront how they currently think or what is often called Dominant Logic and find ways to undermine it.
- o The 'I' word – Innovation is a necessity, not a nice option. GE in a recent survey found that what Clayton Christenson calls disruptive innovation, happening in ever decreasing periods of time, is a major anxiety with global CEOs.
- o The greatest threat and the next opportunity often requires a rethinking of business models or in jargon–less terms - the process through which value is created and released.

2. From Knowledge Economy to the Networked Society and Distributed Capitalism.

The 1990's digital revolution propelled humanity into a different kind of reality, a place where all kinds of new products and services came through, or were modified by, either knowledge or information creation. Some called this the Knowledge or Information Revolution or the Digital Age. But as profound as the shift was, an exponential uptake of mobile devices and network technologies has ushered in another version of reality, a time that is fostering a bewildering number of pathways, where incumbency offers little protection. Even before the promise of new convergences are realised, it is clear that it is vastly more disruptive than the first digital wave. This tsunami has been called by some, including Jeremy Rifkin, "distributed capitalism."

Three ideas help in understanding both what Distributed Capitalism is and why it will soon supplant conventional models. The first is simply that it facilitates value being created through networks (or ecologies) with low barriers to entry. These networked collaborations are becoming an easy and preferred way of doing business, because (and this is the second point) the cost of exchanging information, within these ecologies, is far less than it is in traditional organisations. This radical shift in the cost of information exchange has profound implications for how we structure and shape every public and private organisation or institution. Thirdly, many of these distributed networks are designed to co-create value with customers in contrast to traditional supply driven models which seek to own or control value.

The emergence of a deeply networked global society and distributed capitalism requires a fundamental philosophical shift. It will transform the form and shape of a considerable part of our entire socio-economic fabric. Mechanistic approaches will be replaced with modular interconnected ones and the great utility engines that drove the 20th century - oil and electricity will rapidly give way to energies produced at the source of consumption.

3. From Economies of Scale to Economies of Scope.

One of the patterns of thinking rarely challenged in organisational thinking is that advantage lies with those who are focused on core business and have scale. This logic relies on the Nobel prize winner, Coarse's 1937 work, *The Nature of the Firm.* What this theory argues is that organisations are the size and shape that they are because this is the most efficient way to manage the cost of transactions, in whatever way it is that is being done. But in this world, where transaction costs between entities can be close to zero, can we rely on this logic going forward?

Leaving aside the interesting debate that argues there is little of no evidence that economies of scale have ever worked in many sectors, the evidence now suggests that the knowledge you think you own is not nearly as important as the knowledge you can access. The new talent therefore is to be part of networks focused on access and scope not scale. These knowledge networks are often created in the cloud and as such form another layer of business value; the semantic economy. This creation of scope is part of a new industrial revolution that is reframing everything, including 3D printing, health, education, finance, retail, marketing and design.

This reframing will redefine the nature and shape of every organisation. It is a step well beyond simply offshoring or outsourcing non-core activities. It requires being the kind of entity people want to partner with. It demands transparency, a very different cultural orientation and a set of values that reflects the reality of a networked world. Finally it is important to recognise that the forces driving this reshaping of organisation form and the idea of work itself, leave few options for those who don't understand them.

4. From Industries to Missions

The shift to transient collaborative advantage, distributed capitalism and economies of scope make the idea of industry not just redundant but dangerous. It also turns traditional strategic

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planning and an obsession with operational excellence on its head. In a fast changing world, attention shifts to a defined portfolio of missions. These are often developed through exploring opportunity spaces that are close by. Clearly the oft quoted standouts Apple and Google have transformed and still are transforming a number of sectors, including robotics and driverless cars, but so too are many smaller entrants including: Oravida Group from the food mecca New Zealand, Kogan, Milan Direct and Catch of the Day in retail and Lockheed Martin, whose missions span defence, new energy systems and medicine.

What all these entities have in common is that they have moved from a supply push mentality to a demand driven future. With the aid of what is now known as *big data,* these and other organisations can determine with high levels of granularity what particular customer groups, in defined geographies, want. At the same time these same customers can use exactly the same processes to source preferred suppliers. As value flows reorient around this demand (the mission), the logic for industry coherence and supply push disappears. In long established sectors like food this requires a profound reorientation of every value flow.

To ensure that there are few distractions to the mission, some companies like Zappos.com have even totally separated operational performance from governance. Using a process known as holocracy they replace top down command and control with distributed power, thus changing structure, decision making and management. Others are taking a bet both ways with activity based work processes. As this future evolves, as Gary Hamel said in 2005, *"we are now witnessing the end of management as we have understood it. "*

5. From Strategic Planning to System Design.

Organisations are systems. Like all systems they must change as fast or faster than their environment or they die. This is challenging in a world where the pace of technological change is exponential. It suggests that all organisations need to have an acute sense of their context and it

requires an acceptance that the old ways of strategic planning are simply too slow, and too rigid. What is needed instead are constant and evolving conversations. These must identify missions that strengthen the organisational DNA, help people learn in profound ways (doing the wrong thing less often) and increase the ability to navigate complexity.

In this world, separating out strategy from organisation culture, usually run by the HR team and resource efficiency, run by the Ops team, from business models simply won't do. Everything is connected to everything else. Hence the idea that every entity must be able to define its DNA and how it will design everything it does to strengthen that. Core strands of DNA include;
  - o a sense of direction and space,
  - o what the portfolio of networks of purpose look like,
  - o understanding what is old value and what is new value,
  - o having clear steps about how capacity and networks will be developed through business models,
  - o how identity will be shaped and adapted (brand resonance).

6. From Contractual to Interpersonal Relationships.

Core to the DNA of total design is that interpersonal systems are a preferred way of relating. They are essential to making networks work. What this means is that organisations and communities of the future are built primarily on interpersonal, rather than contractual, relationships. This of course is challenging to a society where contractual relationships seem to have infused almost every part of our fabric.

The reality is that human existence has and probably always will be organised on three kinds of relationships; compulsory, contractual and interpersonal. At any given point in history, one or other has always been dominant. For most of history, compulsory relationships have ruled. However, clearly in our western organisation systems contractual relationships are the de facto standard. In the mechanistic world, endless

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resources are devoted to the contractual effects of; performance, safety, risk, probity, reporting and so forth. Often there is so much attention on these matters, and this is certainly the case for company directors, the missions get lost in a haze of compliance. In a networked world the way we think about and design relationships, as with everything else, changes.

This is a future where interpersonal relationships rule. Therefore the form and shape of work spaces and work itself is changing and will change further. Gone, are the days of workers sitting in uniform rows, under the steely gaze of supervisors. In, are culture and hospitality spaces. Gone, are systems that simply focus on inputs. In, is a focus on outputs and outcomes, but with a twist. The twist is that real value can often be found by focusing on what might be termed *between-ness*, the spaces and places where the flow of interaction occurs. That part of the organisation activity often characterised as somewhere where *things just seem to have slipped between the cracks!.* This is in contrast to our traditional focus on the units of activity themselves.

7. From Change Management to Reinvention and (rapid) Evolution.

Everywhere, incumbents are experiencing fundamental disruptions to their business. Often these disruptions strike at the very heart of how value is created. In almost very instance, disruptors have managed to redesign the value flow in a way that at the very least uses half the resources to create double the value. Some have done this by a factor of 10! So often is this occurring, some argue that by 2020, every organisation in every sector will need to fundamentally rethink its business model.

Central to the notion of reinvention is having the humility and courage to challenge one's previous success models and to be willing to rethink and redesign everything. Rosabeth Moss Kanter in Evolve(again) wrote *"Companies that don't evolve*

have believed their press, clinging to the business models that got them to the top. The head of a

technology company that dominates its market confessed to me that engineers and managers are so enamoured of their success that they shut out ideas incompatible with the current model."

This path away from traditional strategic thinking to reinvention and total design requires authentic leadership. Authentic leaders know about or have access to networked intelligence, futures thinking, deep design, strategic navigation and identity (brand) resonance. Above all they understand that leadership that is simply focused on just todays success imperils all those that have invested in that particular purpose. They know that results are just one part of what is required and that attention must be given to processes that accelerate the organisation's metabolism, together with recruiting a band of believers, who are prepared to go on the journey with them. In short, real leadership and total design are really two sides of the same coin.

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