Future of the Corporation

(TH E INSTITUTIONAL LANDSCAPE OF THE FUTURE)

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“There's something happening here, what it is ain't exactly clear.” – Buffalo Springfield

We agree. And we have a perspective that may get us closer to clarity.

There are two dominant narratives about where the institutional changes we are experiencing and neither one of them gives anyone much respite: the first is that companies will fragment to smaller and smaller entities and even down to individual providers; the second is a “winner take all” world where only the largest survive.

We believe that both these narratives are too simplistic. We see a world where both of these narratives co-exist and are mutually reinforcing rather than conflicting. Scale and fragmentation interact in a symbiotic relationship where that the growth of each is what drives the growth of the other. And our narrative changes the final outcome – we aren’t moving into dire times. Quite the opposite. We see times of abundance and increasing returns – where both the large entities and small providers thrive – assuming we find new ways to work, organize and create.

What matters then is a clearer understanding of how institutional structures will reconstitute themselves.

- Which business activities will fragment; and which will consolidate? How will they interact and reinforce each other?
- Why do we believe this to be the case? What signals do we have that gives us confidence in this perspective?
- Most importantly, what are the implications for executives of companies today? What actions should they be taking today to ensure that they can create even more value in the future?
What will the future institutional landscape look like?

- The individual is now firmly at the center not just as a consumer but also increasingly as a creator.
- Institutions will reconstitute around the individual into three segments: scale operators, niche operators and orchestrators:
  - **Scale operators** will provide the physical infrastructure, digital aggregation and mass agent capability required to support all the niche operators. Agents will become increasingly important as trusted advisors, helping individuals to connect with the resources that are most valuable to them and to accelerate talent development – these emerging advisory businesses will have powerful economies of scope that will drive significant concentration.
  - **Niche operators** will focus on providing personalized, specialized services to individuals (both as consumers and creators).
  - **Orchestrators** – From Flash Organizations to Open Source to Shaping Networks - connect individuals and niche operators with each other and with scale operators.
- Scale and niche operators have a symbiotic relationship. The niche operator’s ability to provide services is very much dependent on the support provided by the scale operators. Similarly, it is the proliferation of the niche operators that drive growing business opportunities for the scale operators.
Why do we believe in this future?

- Long-term forces are re-shaping business landscape to intensify competition, increase uncertainty, accelerate pace of change and decrease cost of coordination of activities across independent entities.
  - Exponential growth of digital technology infrastructure
  - Long-term global public policy shift towards economic liberalization
- Change is an imperative. Staying the course is not an option.
  - Increased competition: Barriers to entry and barriers to movement are lowering. Geographic and industry boundaries are blurring.
  - Declining performance: Limits to squeezing costs. Need to find ways to participate more effectively in broader, more diverse flows of knowledge as stocks of knowledge lose value at an increasingly fast pace.
- These changes in the business landscape will progressively erode scalable efficiency as a rationale for institutions and instead increase the value of scalable learning as a rationale for institutions.
  - Scalable efficiency becomes key value in more stable and predictable business environments.
  - In a rapidly changing business environment, scalable learning becomes key imperative.
  - This will require significant ‘institutional innovation’.
    - Question the rationale for the firm and reconstitute the firm around the individual with a tight focus on learning and development of that individual to drive sustained extreme performance improvement.
    - Design institutional architectures that more effectively mobilize large ecosystems of firms (as well as other kinds of institutions and independent individuals) to drive faster learning across institutional boundaries.
- This shifting rationale drives a trend towards institutional specialization in activities where there is a distinctive advantage rather than trying to go too broad.
  - Learning accelerates when people can focus on what they do best without getting distracted by other activities.
  - Scale-based infrastructure operations management very different from either creative product/service innovation or customer relationship management in terms of skills, economics and culture so attempts to keep these three activities tightly bundled in a single institution will often result in conflict and sub-optimization of performance and learning.
  - Increasing ability to access complementary deep specialization in other institutions.
- As institutions begin to specialize in activities that lead to either concentration or fragmentation, a virtuous cycle will emerge and gather force, accelerating this specialization.
  - Concentrated economic activity like infrastructure management benefits from fragmentation of customers because it increases diversity of needs and accelerates learning.
  - Fragmented economic activity like maker communities benefits from the availability of scale intensive services like logistics services, payment systems and customer advisory services.
- These trends will be further accelerated and amplified by trends towards increasing customer power that will naturally emerge from the long-term forces described earlier.
• One manifestation of customer power is the ability to demand best in class specialization, driving greater focus and learning among vendors.

• But there will be a further trend among individuals – a shift in identity from consumer to co-creator – that will also shape the institutional environment.

  o This shift is driven by two trends:
    ▪ Pressure that all individuals will feel to rapidly develop their own talent and to integrate passion and profession
    ▪ Democratization of production tools that make it feasible for individuals to create innovate new products and services and compete more effectively with larger scale entities

  o This shift in turn will help to spawn many of the newer institutional forms like customer/talent agents, maker communities, retailing communities and domain expert services designed to enhance the ability of the individual to become a more effective co-creator and learn faster in the process.

  o Once again, a virtuous cycle will emerge – the shift in identity will drive the growth of these newer institutional forms and these new institutional forms in turn will make it more feasible and attractive for individuals to become successful co-creators.

• This is a fundamentally new game.

  o At first glance this may seem like a simple recalibration of the institutional landscape and of institutions themselves. But, this is not so.

  o The physical, governance, technical, and social dimensions of the institutions of the future and how they knit together as a landscape are fundamentally different from what they are today.

When will we see this transformation take place and what may speed or slow its progress?

“The future is already here – it’s just not evenly distributed” – William Gibson

• We already can see early examples of many of these institutions emerging today
  o Niche operators
    ▪ Maker communities: TechShop, MakerFaire
    ▪ Retailing communities: Apple stores with growing range of events to engage users, not just sell products
    ▪ Domain experts: Location advisors for bricks and mortar retailers
    ▪ Incubator communities: Y-combinator, 500 start-ups
  o Scale operators – Agent businesses
    ▪ Consumer agents: recommendation engines on Amazon or Netflix
    ▪ Talent agents: executive coaches
o Scale operators – Aggregation platforms
  ▪ Social: Facebook, Twitter
  ▪ Data: Axiom
  ▪ Content: Verizon
  ▪ Finance: TBD
  ▪ Broker/Market spaces: eBay, Etsy

o Scale operators – Infrastructure providers
  ▪ Manufacturing - Flextronics
  ▪ Logistics – Federal Express
  ▪ Digital Tech Infrastructure – Amazon Web Services
  ▪ Facilities Management – Building management companies in large cities
  ▪ Back Office - SWIFT

o Orchestrators:
  ▪ Flash organizations: Occupy Wall Street
  ▪ Creation spaces: World of Warcraft, Big wave surfing
  ▪ Communities of action: Code for America
  ▪ Process networks: Li & Fung
  ▪ Infrastructure standard setters: ICANN
  ▪ Shaping networks: Google Android
  ▪ Open source networks - Linux

• Two fundamental forces will continue to intensify competition, drive mounting performance pressure and punish those who cling to traditional institutional models.
  o Exponential improvement of the technology foundations for digital technology infrastructures
  o Long-term public policy shifts toward economic liberalization

• While the shift to a new institutional structure is well in progress, stickiness and inertia in the current institutional structure will make this transition a series of punctuated disruptions rather than a smooth one.
  o We will likely see an increasing number of ‘black swan’ events that destabilize the current structures, and a set of new institutions that rapidly scale from obscure edges to new cores to replace the old with the new.

• Employment mobility – the speed of change is predicated to some extent on individual’s ability to start new employment or move from one job to another.
  o Healthcare benefits – policies that make it easier for people to maintain healthcare coverage when switching jobs will allow greater employment mobility.
  o Employment contracts – non-competes and other restrictive contractual stipulations for employment will limit mobility.
  o Housing markets – collapse of housing markets in some geographies may limit mobility to move to other parts of the country for financial reasons (greater debt than value of house).

• Public policy – at the national and local level – will have significant impact in either accelerating or dampening the pace of change.
- At the national level, policies supporting greater flexibility in healthcare coverage and immigration, for example, will empower job mobility and hasten the transition to a new world.
- At the local level, cities have the ability to encourage and support the development of ‘spike cities’ – aggregations of talent within particular domains - that will attract individuals who are excited and energized about that domain, which in turn will create a flywheel effect to further accelerate change.
- Financial system – the current financial system will have a similar role in either slowing or accelerating the pace of change.
  - Financing the needs of the emerging institutional structure will demand institutions and instruments that support both small (niche) and large (scale) funding.
  - Emerging breed of crowdfunding (e.g., Kickstarter, Indiegogo, Kiva) are introducing new models of small scale funding.
- Education and accreditation – current educational system is built for times of stability and predictability.
  - Employers continuing to focus solely on traditional forms of accreditation for individual ability will limit their opportunity to attract the best people.
- Personal and social narratives – prevailing narratives and role models giving ‘permission’ for change
  - Threat-based narratives tend to entrench existing practices and institutions. Opportunity based narratives tend to motivate people to move beyond their comfort zone and develop new capabilities – for example, luring a third-generation auto worker or inner city urban youth to learn coding or pick up a new craft.

**What are the implications of this future?**

- For large institutions:
  - Most large institutions today need to make fundamental choices about where and how to play in this new institutional landscape – shedding a large part of their current activities and doubling down in one of the more specialized institutional roles described above.
    - The good news for large institutions is that there are still powerful forces driving economies of scale and scope. The bad news is that these economies of scale and scope can only be captured by shedding significant activities. Straddling approaches will be increasingly untenable.
    - Economies of scale and scope tend to favor those who can get to critical mass most quickly so there are significant penalties to delay in making these difficult restructuring decisions.
  - A key driver in building scale and scope in this new institutional landscape will be the ability to mobilize large ecosystems of more fragmented players, so building the skills and practices required to manage these ecosystems effectively will be an urgent imperative
    - Large institutions will only be sustainable if they effectively serve the diverse and rapidly evolving needs of much more fragmented players.
For small institutions:
  o Survival in an increasingly competitive environment will hinge on increasing the ability to connect with larger institutions that can provide scale and scope benefits so that the small institutions can more effectively leverage their specialized expertise and learn faster to more rapidly refresh that expertise:
    ▪ The only way to stay small and survive is to connect with others who can provide scale and scope.
  o If the goal is to scale to a very large institution, there must be an explicit strategy to move from the center of the institutional landscape described above (niche operators) to edges where scale and scope economies can be harnessed (infrastructure, aggregation, agent or orchestrator).

For all institutions:
  o Ecosystems will become more and more central to value creation and competitive advantage. No matter how good an individual institution is, the health of its ecosystem will increasingly drive performance potential.
    ▪ Choices about which ecosystems to participate in and the skills required to participate effectively in ecosystems will increasingly determine success or failure.
    ▪ Companies need to make these choices explicitly and systematically and regularly reassess these choices in a rapidly evolving institutional landscape.

For individuals:
  o Most of us today work in institutions that are rapidly becoming obsolete and this is a key source of the mounting stress that most of us experience – we either have to have a strategy for helping to restructure the institution as described above or move quickly to institutional homes that can offer more sustainable platforms to develop our talent
  o We increasingly have an opportunity to strike out on our own and become niche operators but, if we make this choice, we will be far more likely to be successful if we connect into robust communities (makers, incubators and/or retailing) that can help us to learn faster by working together as well as connecting to scale players who can leverage our capabilities

Small moves smartly made can set big things in motion
  o While big change is required, that doesn’t translate to big bets. Technology and connectivity allow us to make small investments with big potential impact.

What are the benefits of this future for firms?

• Opportunity to move from diminishing returns to increasing returns
  o Moving from a landscape of institutions driven by scalable efficiency to one driven by scalable learning will mark a transition from diminishing returns to increasing returns.

• Opportunity to scale with agility
  o Today, scale and agility are contradictory terms. However, we are moving to a world where we can scale the size and scope of operations while maintaining agility through larger and more diverse ecosystems of participants enabled by new generations of technology.
• Opportunity to disrupt rather than be disrupted
  o Institutions that understand the forces of change and influence the direction and pace of change within their industry will likely be the disruptors rather than the disrupted.

_Can you help us refine this point of view?
_This is emergent work – very much a work in progress. We would welcome your feedback and help in molding this into a more comprehensive, plausible, and persuasive point of view.

• Fundamentally, do you agree with this point of view?
  o What parts resonate the most, and what parts do you disagree with?
  o What have we missed?
  o Is the future we describe plausible?
  o Is our perspective compelling?

• More specifically, we’d like to schedule some time to discuss the following questions:

  1. What can we do to refine our perspective on where and why concentration and fragmentation will emerge in the institutional landscape?
  2. What do you see as the most significant forces either accelerating or blocking the evolution of this institutional landscape? What could be done to strengthen the accelerating forces and to overcome the blocking forces?
  3. How would this point of view apply to non-commercial institutions - education, civic, non-profit, political, etc.? What would we need to modify to make it relevant in those institutional environments?
  4. How would this extend to a global perspective? Would developing economies see similar institutional landscapes as developed economies or would there be significant differences?
  5. Will inequality (financial and social; institutional and individual) increase or decrease with the new structures? Will the power curve shift up or stretch further?
  6. What are the social implications of this perspective? Are there segments of the population that will be left behind (skill mismatch, lack of relevant narrative) as this new framework sets into place?