

BY JERRY WIND, LAUDER PROFESSOR,
THE WHARTON SCHOOL
AND ALFRED P. WEST, JR.,
CHAIRMAN AND CHIEF EXECUTIVE, SEI CORPORATION

Reinventing The Corporation

Business in the future is taking shape now. The 21st-century enterprise can be seen in the direction taken by current trends. CEOs, borrowing our telescope, are looking ahead, and reporting what they see in the questionnaire accompanying this study.

Recent years have witnessed the business environment being unceremoniously dunked into a global information age. How many of us could have predicted in 1980 or even in 1985 that the 90s would start with events such as the surge of privatization of state-controlled organizations throughout the world, the emergence of vast regional trading blocs, the increased acceptability of outsourcing even critical corporate functions, the proliferation of strategic alliances even among such traditional business rivals as IBM and Apple Computer or GM and Toyota, and finally the dramatic advances in computer systems and communications networks. The global information age, and its attendant changes require a reexamination of the

Directed by Edward H. Bowman, the Reginald H. Jones Center of the Wharton School focuses on "CEO concerns," drawing on diverse faculty of the University of Pennsylvania to study leadership and strategic issues.

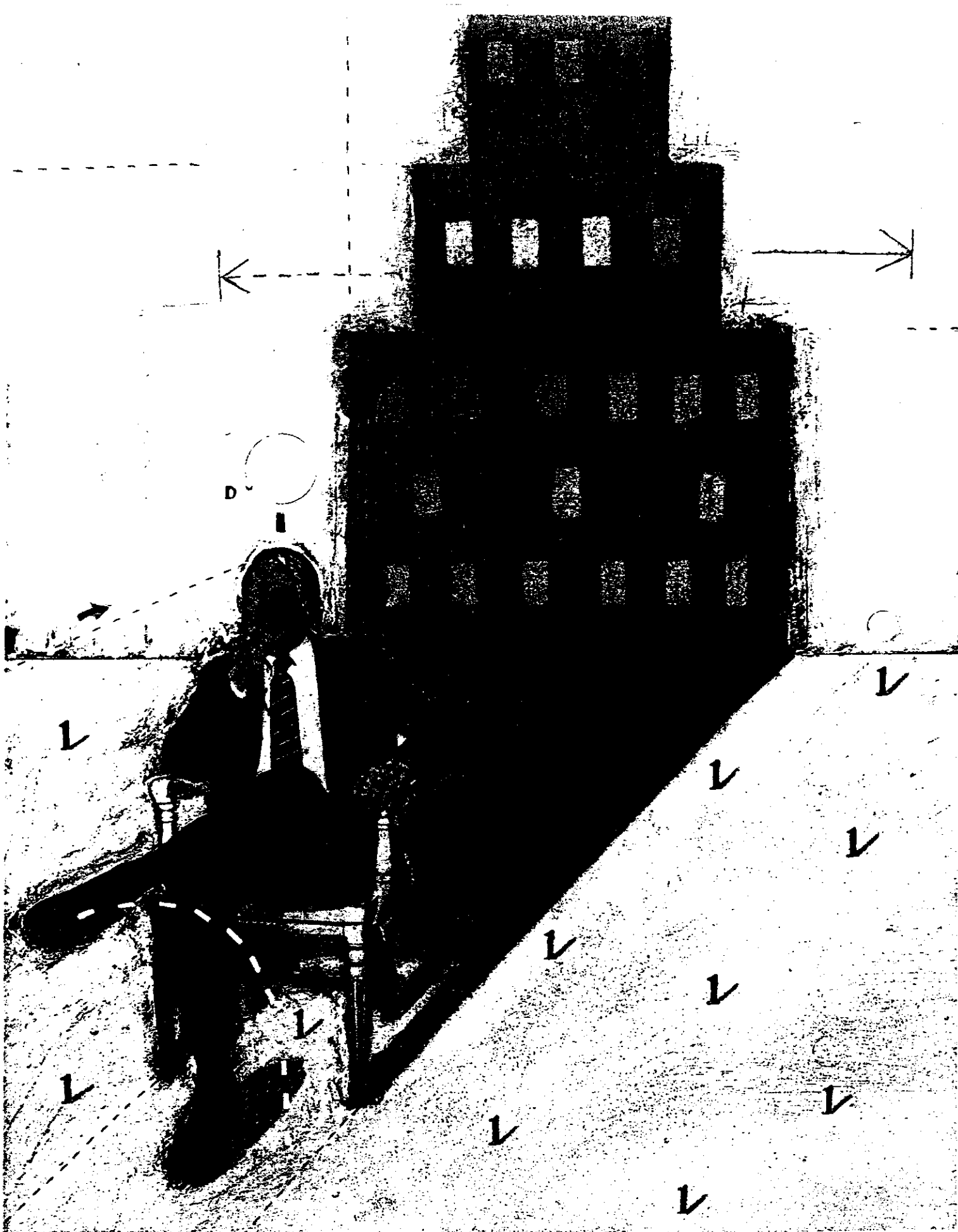
traditional business paradigm. Additionally, your active participation in this endeavor by means of the related survey questionnaire accompanying this issue of *Chief Executive*, is requested. Your input is an important measure of the changes you see looming in the distance.

The premise of this essay, based on three years of continuous discussion with senior executives worldwide, is that the current management paradigm is inadequate. A new paradigm leading to the establishment of a new type of business firm called "the 21st-century enterprise," is required. Given this premise, management must address three critical questions, which we take up sequentially. Our goal is to portray the characteristics of a successful "21st-century enterprise," to provide management with a means of determining whether or not such an enterprise is required, and finally to suggest how an effective transformation can be accomplished.

THE SHAPE OF THINGS TO COME

Twelve key interrelated characteristics will help function in the successful 21st-century enterprise. These characteristics, which occasionally can be found in some of today's more successful corporations, are discussed under their individual headings.

- *The integrated, cross functional organization.* The traditional functional organization—with separate areas for marketing, production, R&D, and so forth—will disappear. The 21st-century enterprise will take the form of a matrix because there are no business decisions that do not



involve integration and coordination of a number of company functions and disciplines.

- *The flatter, and empowered organization.* As the organization becomes flatter and less hierarchical, it will empower employees, both as individuals and in groups, to assume greater responsibilities and to work more independently. The major benefit of a flatter and empowered organization is increased interest, involvement and responsiveness on the part of employees, which leads to greater responsiveness to clients and other stakeholders.

- *The vision-directed organization.* As the organization will count on rapid, independent, responsible actions from more of its employees, a clear sense of vision commonly shared by all employees will serve as an overall guide to decision-making. The shared vision, and its accompanying culture will necessarily provide employees with a sense of identification around which they can focus their efforts. A shared vision and culture is especially critical as organizations have to manage culturally diverse groups both within and across countries.

- *The global organization.* The increased opportunities around the world and the globalization of consumer and resource markets require a global orientation and operation. The firm will not merely operate in or export to other countries, but rather have a global strategy that can encompass operating in any number of countries at any phase of the value-added chain. Human resources, financing, and raw materials, for example, can be found anywhere in the world. And, similarly, R&D, manufacturing, and markets can be located in a number of countries. Companies will have to take into account the idiosyncratic market, competitive, and environmental conditions in each country while achieving synergy of operations across countries.

- *The networked organization.* Unlike its predecessors, the enterprise of the year 2000 will find that it does not necessarily have to engage in the full range of business activities from R&D to marketing and distribution. Firms will contract with other firms to perform certain functions through outsourcing or strategic alliances.

Customers and suppliers will also be a part of this network, and their input will be invaluable to the organization.

- *The information-technology based organization.* The firm will depend heavily on information technology for efficiency, effectiveness, and to achieve sustainable competitive advantage. Computers, information systems, artificial intelligence, expert systems based decision-support systems and communication systems will alter the organization, and the performance of work. The new firm's information technology strategies will allow it to integrate its internal processes with its client's processes and achieve a sustainable competitive advantage similar to the one achieved by the innovators in this field, such as American Hospital Supply, Bergen Brunswick, and a few others.

- *The customer-driven organization.* Market orientation and customer satisfaction will continue to be king in the 21st century. Firms will accept this philosophy not in a superficial manner, but as a way of driving most of their business decisions. Integrating customer requirements into the new product and service development process of the firm will become a must. Similarly, an increasing number of firms will follow the lead of Xerox and other pioneers and base a significant part of their incentive and compensation system on the degree of customer satisfaction.

- *The stakeholder-focused organization.* A company will not be able to operate as a closed entity cut off from society's needs and demands. Firms will take a more active role in supporting and leading cultural and other traditional "non-profit" organizations. Increasingly, governments, environmental organizations, ethnic and minority groups, and other bodies will hold firms accountable for their actions. Related to this is the issue of ethics and the conduct of business in other countries. For U.S. firms, any discussion of ethics has always taken place in a U.S. context. In the 21st century, the issue will be standards for the global corporation seeking to operate ethically in all countries.

- *The value-added, quality organization.* To be competitive, companies have to make sure that their activities provide added value. This requires concentration

on those areas in which the firm has distinct competencies and the ability to offer value-added quality output. This will require an increasing emphasis on quality, not only in the design and delivery of products and services, but throughout the organization. Quality guidelines, similar to those outlined by the Malcolm Baldrige award, will become a standard for business operations.

- *The time-based organization.* Time-based competition is a relatively new, but increasingly important, dimension of business strategy. It is critical in speeding the development and launch of new products. A recent study by McKinsey & Co. highlighted the enormous impact a delay in new product entry can have. For a product that has a 20 percent growth rate, 12 percent annual price erosion, and a five-year life, a six-month delay can lead to a loss of a third of the total life cycle profit after taxes. As product life cycle is becoming shorter for most products and services, the impact of speeding up the new product development process and the product launch becomes an increasingly critical objective. Similarly, it is important to speed up all other activities of the firm, including the time it takes for management to respond to constant changes in the environment.

- *The innovative entrepreneurial organization.* There is a great deal of concern that large organizations are not innovative or entrepreneurial enough—also, that innovations tend to happen in small firms outside traditional industry. This will have to change. In a rapidly changing environment, innovation is a must. Related to this is the concept of time-based competition, which, as we have seen, requires significantly cutting the time it takes to develop new products and to introduce them.

- *The flexible, adaptive, and learning organization.* The organization of the 21st-century will rapidly adapt to changes in its markets and operating environment. This continuously adapting nature will be created by providing and encouraging life-long educational experiences for its employees, and by building self-analysis into all of its processes. As part of its learning nature, the organization will en-

gage in continuous experimentation, and employ sophisticated means of measurement, particularly for the "softer" measures of success.

HOW NEED IS DETERMINED

To decide if one's firm is ready to capitalize on the opportunities and avoid the pitfalls of the changing environment, one can benchmark the philosophy, objectives, strategies, and operations of the firm against the profile suggested above. Management should prepare a customized benchmark questionnaire in order to assess its own position for each category, and to compare it with both the conceptual "ideal" and the "best practice" available. This will help ready the firm for the determination of whether it should aim to change with regard to any of the selected benchmarking dimensions. In general, the larger the gap between the current profile of the firm and the "ideal," the greater the need to consider transforming the firm toward the target of becoming a 21st-century enterprise.

To the extent that other key success factors may be required, they should be added to the profile provided. Criteria can be modified, with some deleted and others added, to reflect the idiosyncratic needs of the firm and its expected environment. When deciding how to customize the categories and their measurement, it is helpful to determine the expected environment the firm and its industry are likely to face ten or twenty years ahead. It is also important to supplement the "ideal" benchmark with a benchmark related to companies that are currently close to the ideal. The companies are those that represent today's "best practice" regardless of their industry and nationality. The assessment should be done by a number of the firm's key employees and executives. Whenever possible, this subjective assessment should be supplemented with "hard" data, such as information on customer satisfaction and other stakeholders' perceptions and preferences.

As with all benchmarking efforts, to be of value requires that the measurement effort be integrated in the firm's ongoing monitoring system and decision support system. The strategic conclusion on how best to improve the firm's position should be integrated in the firm's strategic process. The goal means that moving toward the benchmark should be counted as part of the incentive and reward system of the firm. If your corporate profile lags behind the "best practice" and "ideal" position on

any of the key benchmarking dimensions, a concerted effort should be made to transform your firm.

TRANSFORMATION IN PROCESS

Undertaking a number of new initiatives includes creating and implementing a corporate vision and mission that is consistent with the desired profile of the 21st-century enterprise. A vision to become a leading 21st-century enterprise today, if inspirational, can be created as a key to identification with the corporate ideals, and for the development of objectives and strategies that can lead toward the transformation of the firm.

The firm must design and implement any number of programs and associated processes which force the organization to aspire to new heights and which require for their achievement a rethinking and re-engineering of current practices. These should be focused particularly on four critical areas: quality, time-based competition, market-driven innovation, and information strategies.

Common to successful efforts in these areas is setting high "stretch" objectives. Consider, for example, the goals of (1) achieving the Malcolm Baldrige award, (2) Hewlett-Packard's goal of improving its performance by a factor of ten during the decade of the 80s, and (3) IBM's AS400 objective of developing and launching a new computer in half the time it usually takes. These ambitious targets of performance cannot be achieved by following current business practices, and require drastic rethinking and redesign of current mind-set and ways of doing things.

The achievement of these objectives requires effective incorporation of market requirements as part of the process. The development of innovative new products and services in half the time it usually takes requires, for example, the design of processes for getting continuous inputs from customers and the formation of "partnership" with "lead users" for the joint development of innovative new products and services. And the design of new processes for assuring quality, time-based competition, and market-driven innovation requires effective information technology strategies.

The transformation of an organization to a successful 21st-century enterprise cannot be done by reorganization alone. It does require a more basic change in corporate vision, culture, and values that permeates all aspects of the firm's life and activities. This means changing the role of

the Board to conform to the new reality. To reinvent the corporation as a 21st-century enterprise, it is important to expand the traditional role of the board to include: (1) Participation in determining the corporate mission and vision, and, to the extent necessary, challenging management to have higher achievable goals. The Board must encourage and enhance management's ability to take needed strategic initiatives. (2) The board must be able to challenge the firm to take a truly global perspective, following the principle of "Think globally, but act locally," and provide the added expertise needed for the firm's dealings with its environment and multiple stakeholders.

AMBITIOUS EXPECTATIONS

Using the outlined benchmarks and guidelines, SEI Corp. has embarked on an ambitious program designed to offensively and defensively position itself for success in its rapidly changing environment. This reinvention process involves massive individual and organizational change that must be backed by leaders at all levels of the organization. Similar transformation, at the management education level is also taking place. Concern about the relevance and value of MBA programs has been increasing. The Porter and McKibben study has concluded that "management education and development activities in the U.S. are in danger of casually drifting toward the 21st century—unless a more concerted and more powerful thrust can be provided by both university business schools and the corporate community." Our training must prepare the firm for change that has no end, in concert with the learning nature of the 21st-century enterprise. ■



Jerry Wind is Lauder Professor, and Professor of Marketing at the Wharton School, and Director of the SEI Center for Advanced Studies in Management.



Alfred P. West, Jr. is chairman and chief executive of SEI Corporation, a leading provider of software, and information services to the financial services industry in the U.S. and Canada.