Governing an Extended Enterprise

By Faisal Hoque

The concept of the "extended enterprise" is hardly new. Even in the early years of the 20th century, when big corporations were gathering all the means of production under their corporate roofs to exercise control, the management theorists were advancing such ideas as the "organization as community" and the "environmental complex" of a management problem.

The notion picked up steam in the 1990s as global markets took on structure, and outsourcing and partnerships became an acceptable response. Today, however, the nature of *extended* has evolved into something heretofore unimaginable.

What distinguishes the extended enterprise today, of course, is knowledge—of the customer, the supplier and new business ideas in the minds of anyone, anywhere.

And the challenge for leaders today is governing this newfangled thing that breaks most of the management rules we grew up with. Even the term *governance* seems arcane—too harsh and proscriptive for a fluid and ever-evolving enterprise. Just look at the words we use for it: *value web, network* and *ecosystem*.

I've observed the evolution firsthand, starting in the early 1990s at GE, where we were creating new and exciting business models and their enabling technology—too new, too exciting, it turned out, for the customers we had in mind at the time. And then in my own company, where the focus is on innovative management applications, research and best practices on which agile and adaptive organizations would run.

Technology, of course, makes the extended enterprise possible. And technology makes it necessary: the new markets, the globalization of business, the lower thresholds to entry for competitors, the speed of everything, the novelties in business models and products—all of these are the devilish work of technology. And managing technology wisely—within your four walls and outside across the extended enterprise—using available, proven management standards is the answer.

A few general observations will move us toward a working governance plan:

Stop, look and listen. We cannot avert our eyes from the marketplace, both current and potential, nor from the details of our customers' and their customers' activities, nor from our suppliers and their suppliers. Sticking with our current knitting may be comfortable, but it is also deadly. Assuming anything about our supplier or customers is highly risky. We must also cast a light into the far corners of our own organizations to learn whether every employee and every operation is looking outward according to plan or merely pondering its navel.

The hierarchy is dead. Get over it. When the CEO can email employees and they can respond directly, we know the old order of managing is history. When partners outside the range of our command and control are critical to our success, we know that governance has undergone a seismic shift. When employees at the edges become our biggest assets and our biggest risks, we know that guidance has moved beyond dictatorial memos. And yet all our instincts push us to retreat to the corner office and communicate through our direct reports. Today, however, the organization that moves at the speed of a memo is already behind in the game.

Technology isn't an afterthought. It's the centerpiece of most every new endeavor, from launching a new procut to streamlining a process to connecting with partners, suppliers and customers. It is strategic. It is our eyes and ears on the marketplace, and it is the connective tissue with people and organizations outside our four walls that are critical to success. It must be managed in one mind with the business, or at best it will cost us dearly and at worst it will fail us.

The chasm between business and technology is perhaps the most serious obstacle we must overcome in creating an extended enterprise.

Silos are for grain. They don't work inside or outside the enterprise for storing information or creating value. Sure, we know this, but do our divisions still operate with an "it's them or us" mind-set? Do we unconsciously treat our suppliers or customers as silos? Is the game to get as much out of them as we can? How hard is it for *you* to get in touch with a company, even one to whom you are loyal? Why do companies hide from their customers?

It's what you know, and, therefore, *whom* you know. An innovation begins with an idea in someone's mind, and there are 6 billion minds on this planet. The smartest people don't work for you. In the past, you might have tried to hire them. Today, you can rent them.

New Management Capabilities

We must turn these broad observations into operational mandates for them to do us any good. A starting point is a management framework that sets forth the capabilities necessary for business and technology convergence. These capabilities, refined by research and tested in the field, lead an enterprise to the governing procedures, organizational structures, enterprise architecture, and planning and investments that incorporate external partners as intrinsic parts of the whole.

As an example, one capability, strategic enterprise architecture (SEA), is the story of what the enterprise is trying to accomplish and a map of how it should be going about it. It is a broad picture, incorporating both business goals and the enabling technology that extends outward to encompass suppliers, customers and partners.

Properly done, an SEA will show discreet business processes end to end, with external entities at each end. The connections with external entities will be laid bare; these will include not only technical connections but also contractual agreements and statements of joint purpose with execution details. An SEA for P&G, for example, will factor in the company's practice of shifting research scientists into roles that put them in communication with innovators on the outside.

The purpose of the SEA is to be a roadmap to what I call the Transformation Triangle: abandoning activities that are no longer useful, optimizing those that still are, and using the resulting savings to fund new activities. At the center of the triangle is the customer, toward which all of these activities should be directed. These three activities never stop, because the marketplace never stops changing.

This triangle of activities is the foundation of agility. It requires an enterprise-wide perspective and decision making. And it requires factoring in external entities no less than any internal unit would be part of the whole. The only difference might be legal documents specifying ownership. Otherwise, the external entities are every bit as critical to creating value in the marketplace.

Networked Governance Model

The organizational structure must be adapted to nourish true coordination within and without. It must enable the firm to exploit technology-enabled opportunities such as virtual integration, direct access to customers, and cross-divisional or business-unit integration. For example, at Cisco the executive management team considered customer advocacy and relationships to be the strategic drivers of its business model. Cisco management focused on the coordination of business technology and customer-centric capabilities by having the CIO report to the senior executive responsible for customer advocacy, and by linking business and technology executives' compensation to customer-centric innovation using business technology.

An extended enterprise needs a networked governance model. This model emphasizes that four categories of stakeholders are important: the board and the top management team, business management, technology management, and external vendors and partners. Among these

stakeholders, three kinds of relationship networks are important: visioning, innovation and sourcing.

Visioning networks involve senior business and technology executives and the board. They foster collaboration for creating and articulating a strategic vision about the role and value of business technology. Visioning networks help top management teams describe their perspectives on the role of business technology, their strategic priorities for its use, and the links they see between it and drivers of the business strategy. One of the mechanisms for establishing a visioning network is to have the CIO as a formal member of the top management team. Other mechanisms include the establishment of a Business Technology Management Council and a Business Technology Investment Board.

Innovation networks involve business and technology executives. They foster collaboration for conceptualizing and implementing business technology applications. These applications are often aimed at enhancing the firm's agility and innovation in customer relationships, manufacturing, product development, supply chain management, or enterprise control and governance systems. An example of organizational mechanisms that promote innovation networks is a corporate and divisional project approval committee. Whereas visioning networks engage the board and the top management to shape overall enterprise perspectives about the strategic role and value of business technology, innovation networks focus on specific innovations and strategic applications.

Sourcing networks are relationship networks between business technology executives and external partners. Their purpose is to foster collaboration between these internal and external parties when they are negotiating and managing multi-sourcing arrangements, joint ventures or strategic alliances. Sourcing networks can help companies not only lower their costs but also augment their capabilities and business thinking about innovative uses of business technology. Attention to sourcing networks must be emphasized in key organizational units that deal with the technical architecture and infrastructure (e.g., Office of Architecture and Standards), and the management of technology investments (Enterprise Program Management Office).

Governing an extended, ever-evolving, knowledge-based enterprise will occur in four dimensions:

Process. Is someone responsible for each process from beginning to end as it crosses divisions and bridges to outside entities? Where are the strengths and weaknesses in the process? How does it mesh with others? How many bridges are there to the outside? Are they coordinated? Are these processes and bridges maximized for the benefit of the customer, or for internal benefit? By what metrics do you know?

Organization. Which people or groups make which decisions? Do they have enterprise-wide information if they need it? Do they have an enterprise-wide perspective? Are incentives in place to encourage this? Do they have proper authority? Who is empowered to step outside of traditional roles and boundaries to make a stand for the customer? To make a stand for the supplier?

Information. What information do the various players need to perform the preceding actions? What should you know about suppliers and customers, and how can you get this information? At what level should it be collected? When collected, how is it processed—does it go to people who can make decisions to change how the organization operates? What incentives discourage the "not invented here" syndrome?

The really critical information will appear on the outer periphery of the extended enterprise: with your customers' customers, their markets and new technologies they may be considering. It will appear in the commodities markets and technological innovations that fuel your suppliers. It may appear in think tanks or universities or in someone's garage. Is your radar picking up these signals?

Technology. Not only must the technology be managed as one with the business internally, it must be planned for, purchased and managed with the outside world in mind, as well. Look to standards, to Web-based applications, to open architectures and to the new social networking technologies for the appropriate tools. Closed, proprietary technologies do not fit an organization seeking to be part of a larger community. Look also to component-based architectures and computing "clouds" for the agility needed to sense and respond. All is in flux today; you can't be tied down.

Two principles should guide a governing strategy.

Everyone is invited to the party. This is an enterprise-wide endeavor, a rethinking and re-creation of the organization as a whole. It is not a project for customer service, or procurement or the technology department. As my co-authors and I stressed in *Winning the 3-Legged Race*, not only must the c-suite be engaged, but boards of directors must also be engaged in technology beyond the CIO's annual PowerPoint show. The board must relate its knowledge of the wider world with the internal doings of the organization. A seemingly random event somewhere in the world may in fact be the next big thing or the next big threat.

This is not your father's outsourcing. This is not about transactions. It is about relationships. Nailing those service-level agreements is not the answer. The strategic plans of your suppliers and the aspirations of your customers are the new playing field. Your communications, decision-making processes and technology must tie in. Your people will need new skills, marching orders and incentives to make it work.

Transformation, personal relationships, common vision, collaboration, trust—radical ideas, indeed, and what comprises the face of governance in the age of the extended enterprise.

Faisal Hoque is the founder and CEO of BTM Corp. He is an internationally known entrepreneur, and thought leader and was named one of the Top 100 Most Influential People in Technology. A former senior executive at GE and other multi-nationals, Hoque has written five management books, established a research think tank, the BTM Institute, and become a leading authority on convergence, innovation and sustainable growth. His latest book, The Power of Convergence*, is now available.*