



Audio-Tech Business Book Summaries

The Company of the Future

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A summary of the original text.

In this issue:

- **Understand...**
why, despite the bust in Internet stocks, the Web is continuing to revolutionize the nature of business.
- **Learn...**
how to develop the eight essential leadership skills to succeed in the new type of company that is emerging.
- **Discover...**
how to exploit Internet technologies to manage knowledge and to make fast, yet flexible decisions.
- **Maximize...**
your company's performance by focusing on your most profitable customers and rewarding your most talented employees.
- **Achieve...**
dramatic cost reductions by using the Internet to widen your range of potential suppliers and to deepen your relationships with existing suppliers.

Back in the 1990s, managers could focus on running their companies well: on making cars or selling insurance. They had to control costs, develop and launch new products, and perhaps negotiate a merger or acquisition.

Today, the demands on managers have become more challenging, and the questions have become complex: Who are our competitors? Where do our core skills lie? Should we abandon our successful, long-standing business?

At least eight capabilities are critical for surviving what may be the most revolutionary period in corporate history. Managers must be ready and able to:

1. Manage knowledge effectively.
2. Make fast, yet flexible decisions.
3. Focus on the best

customers and "fire" unprofitable ones.

4. Recruit and retain talented people.
5. Create a sense of community.
6. Exploit the Internet's impact on purchasing and suppliers.
7. Build a more flexible organizational structure.
8. Develop the right leadership skills for success.

Armed with these essentials, managers in the company of the future should see the challenge ahead for what it is: The most revolutionary period this generation has ever experienced in corporate life. For many managers painfully learning to make the best use of Internet technologies, it will be frightening and exhausting, but it will also be enormously exciting.

But before we explore these

eight rules in greater detail, let's discuss how the Internet is creating this new revolution.



THE IMPACT OF THE INTERNET ON MANAGEMENT

Why should a new group of information and communications technologies that have evolved around the Internet confound us so? After all, the way most firms use the Internet is not particularly revolutionary. They generally use it to perform familiar functions more cheaply and flexibly than its predecessors could. The e-mail message, for example, does not really differ from the paper memo or fax.

However, new technologies often start by mimicking what has gone before and only later change the world. Therefore, it would be a mistake to underestimate the potential impact of the Internet, which, despite the recent dot-com bust, is ultimately immense.

What aspects of Internet technologies make them so important? The broad answer is that, over and over again, their uses dovetail beautifully with current trends. They provide solutions to many of the problems companies want to tackle. In particular, five aspects of these new technologies make them an extraordinarily powerful force for change.

The first aspect is that ***these new technologies are driving down the cost and***

speeding up the rate of processing, transmitting, and storing information.

Almost every business process involves information in some form: an instruction, a plan, or a blueprint. Businesses can handle and share all of this information more cheaply than ever before. And the speed at which prices have dropped outpaces that of any previous technology revolution. Over the past three decades, the cost of computer processing power has fallen by an average of 35 percent per year.

The falling price of a new technology is one of the main forces that persuade people to adopt it. In the year 2000, only seven years after the Internet's commercial launch, one survey found that 57 percent of medium-sized American companies already used it for some of their sales, more than twice the number that used it only a year earlier. Nearly all of the companies surveyed were already using the Internet to buy supplies and services, recruit employees, and research markets and industry trends.

The second aspect is that ***the astonishing fall in the cost of transferring information around the world is a powerful force for globalization.*** It is not just big companies that have an incentive and a means continually to rearrange production globally in whatever mode is most efficient. Now, small companies can also reach a global market and "look" like big firms. One result is the emergence of "sliver" companies, specializing more

intensely than ever before in ultra-high-tech areas and other niche markets.

The third aspect is that ***the innumerable applications of Internet technologies make the change it brings more pervasive and varied than any that have gone before.*** Its qualities will allow it to boost the efficiency of virtually everything a company does. The Internet is not simply a new distribution channel or a new way to communicate. It is many additional things: a marketplace, an information service, a means for manufacturing goods and services, and a computing platform in its own right.

The fourth aspect is that ***the Internet makes all kinds of work better because it increases access to information, thereby fostering new decision-making processes and tools.*** Even the smallest businesses use the Internet for research. They check on prices, availability, and potential outlets so they can drive tougher bargains with suppliers. By improving the efficiency of decision making, Internet technologies also reduce one of the main costs of doing business.

The fifth and final aspect is that ***the Internet speeds up the dissemination and adoption of new techniques.*** As computers grow ever more powerful, it becomes easier to design new products. Wider competition increases the pressure to innovate. The Internet allows companies to connect

teams of designers or engineers in different parts of the world, enabling them to hand off work to each other and use time zones to accelerate research and testing.

This unprecedented combination of qualities explains why the Internet is affecting corporate life more profoundly than any previous technology. And the greatest benefits from the new technologies will come only to companies that have the right people and the right structure.

The success of a company's Internet strategy therefore depends on how managers run the firm. This means that a company's skill in knowledge management will become ever more crucial, as we will discuss in the next part of this program.



RULE 1: MANAGE KNOWLEDGE EFFECTIVELY

The value of a business increasingly lies in intangibles: brands, patents, software, ideas, and expertise. "Knowledge" assets such as these account for perhaps six out of every seven dollars of corporate market value.

Managing any of these assets is difficult, but the hardest ones to deal with are those that the employees carry around in their heads. And while it's easy to bandy about terms like "knowledge management" and "intangible assets," few clearly articulate what either concept means.

So let's spell out a useful

definition of knowledge management: It involves *efficiently connecting those who know with those who need to know, and converting personal knowledge into organizational knowledge.*

And, to explain what we mean by intangible assets, here are the three kinds:

1. Employee competence.
2. Patents, concepts, models, and computer systems.
3. Brand names, trademarks, reputation, and relationships with customers and suppliers.

The company of the future will concentrate on managing people and intangibles more than on managing physical assets. It will focus on trying to get the best from its knowledge capital. That will require understanding what knowledge resides with its employees as well as its other knowledge assets. The importance of pooling the skills of the work force will grow, and new ways of building on the learning that goes on in companies will be discovered.

One of the keys to accomplishing this is to get workers to share ideas. Companies need their workers to share more than ever before. There are three key reasons for this. Let's look at each reason in turn.

- First, ***expertise is now relatively more expensive.*** Given the widening premiums for

skill, companies must pay more for top talent, so they need to find frugal ways to use it.

- Second, ***the incessant innovation and refinement of new products and services require an endless stream of fresh ideas.***
- Third, ***workers in an office need to communicate and cooperate to build a service,*** just as workers in a factory work together physically to build a machine.

Getting workers to share knowledge entails both the management of experts and the management of collaboration. Both tasks require special skills. But both are as much about creating the right incentives for talented individuals as about designing software.

Companies must balance two potentially conflicting aims: rewarding their most talented people enough to keep them on board, and at the same time developing pay structures that emphasize teamwork rather than individual effort.

They must also think creatively about sharing knowledge with other companies. Success will depend not just on maximizing the amount of knowledge shared between companies, but also on establishing the right degree of openness between them.



RULE 2: MAKE FAST, YET FLEXIBLE DECISIONS

Managers who are constantly blitzed with new information need strong nerves. They have to focus on the data that matters and ignore the rest. They must frequently make decisions about new and unknown competitors, customers, and technologies. And because production cycles are shorter, companies will often need to do things in parallel that they used to do in sequence.

These are among the many factors that are speeding up the decision flow. Managers must be willing to make decisions that are roughly right, rather than postponing a decision that may be exactly wrong.

In general, it's best to avoid big-bang decisions. Instead, make small incremental moves that leave room for flexibility and for changing course if circumstances change.

Internet technologies can help improve the quality of decision making in five key ways:

1. They increase the amount of information available to managers.
2. They accelerate access to information so that decisions can be based on more up-to-date data.
3. They allow managers to quickly reach people who can offer advice and expertise, and to do so from any location.

4. They bring people together to discuss a tricky point.
5. They allow managers to search for previous decisions made in similar circumstances.

Internet technologies may also encourage more people to get involved in a group decision. People who normally hesitate to voice a view in a meeting, or who are on the road or located in another office, may now add their ideas from their computers. Shy participants can add their views anonymously through group-decision software.

Of course, anonymous feedback should be treated cautiously and is open to abuse. But when it is used wisely, it can give a corporate community a greater sense of democracy. On some issues, group software enables voting over the corporate intranet.

In addition, software offers managers increasingly sophisticated tools to help understand the reasoning processes, and it can do calculations based on rules, algorithms, and game theory that would be well beyond the capacity of an individual to handle.

But both the Internet and the software have an obvious limitation: They are not responsible for the final outcome. Managers are. As a result, managers will need strong skills in such areas as recognizing patterns. The reason is that much of the

additional information that managers will receive from Internet technologies will be conflicting and wrong, and more data comes in all the time.

Thus, it is more important than ever for managers to be able to spot trends, pick out what matters from data that is constantly being updated, and to know when they must change the company's strategy to stay aligned with the needs of customers.



RULE 3: FOCUS ON THE BEST CUSTOMERS

Most companies tell themselves that their customers are their lifeblood. Many, however, do not behave as though they believe it. In many cases, managers thought that Internet technologies would offer new ways to reach the customer, but then they seized the opportunity to hide behind a Web site and to automate customer contact.

However, Internet technologies have a higher potential. They dramatically cut the cost, not only of delivering some products and services to customers, but also of a host of other key tasks. These tasks range from retaining the minority of customers who account for the majority of profits, to developing new ways to sell products on the basis of service. Taking advantage of these opportunities and building customer loyalty will make the difference between success and failure.

Customer loyalty is critical because it is far less expensive to keep an existing customer than to recruit a new one. It is the power of these technologies to reinforce a relationship, even more than their power to reach out to new markets, that will be a company's greatest strength.

There is no doubt that training customers to place orders on-line can bring enormous savings. When customers have problems, companies can also realize savings by persuading them to find the answers on-line. But companies must make sure that they are not so overzealous in their quest for savings that they ignore customers who need to talk to a human being on the phone.

When companies collect and store customer information efficiently, they learn more about which customers generate the most profit. This is a vital task, because companies must keep their most valuable customers and shake off the unprofitable ones.

A wide range of studies support the famous "80-20" rule, which asserts that a small minority of customers produces most of a company's profits. Charging all customers the same means, in effect, getting the profitable to subsidize the unprofitable. Thus, managers must learn to focus on the profitable minority. Fortunately, the Internet, with the wellspring of customer data it collects, often makes this task easier.

With this information,

companies can use two segmentation strategies to offer their best customers special benefits. One strategy is to create customer clubs, in which frequent purchasers pay lower prices or gain a higher level of service than other customers. The other strategy is to bundle offerings together; the best customers could receive free travel insurance when they book a first-class flight, or receive free text messaging when they buy a cell phone contract.

By contrast, when customers are clearly unprofitable, companies must learn to "fire" them. Two ways to do this are to raise the rates unprofitable customers pay, and to restrict the services they can use.

The notion of firing customers makes many managers squirm. But the fact is that a company that loses money on most of its transactions will not be in business for long.



RULE 4: RECRUIT AND RETAIN TALENTED PEOPLE

Like customers, some employees add more value than others to a company. There are the best, and then there are the rest. The difference is the best employees generally know their value.

Many companies find they can get along with plenty of staff in the "adequate" category as long as they have a few first-rate performers who can provide the product ideas, the strategy, the

inspiration, and the drive. One really talented person is worth a half-dozen mediocre ones.

But the "adequate" workers will need excellent training to keep their skills at the top end of their potential. And the first-rate performers will know to the nearest cent what they could command elsewhere. Even in bad times, they will call the shots in the job market. In fact, when the economy is gloomy, the power actually shifts to the best performers because that is when they are in the greatest demand.

So managing people will remain a demanding, time-consuming business. Already, good managers spend about a third of their time finding the right people. But as important as finding and keeping talented people is today, it will become even more critical in the future.

Internet technologies have made it easier to locate highly skilled people, but it has also made it easier for them to leave your company. Also, because there are more bidders for their services, the price of hiring and retaining the most talented people is rising.

Some imagine that the company of the future will be a mere talent broker, employing few people directly but outsourcing most activities to free agents. They argue that the market for talent will come to resemble more closely the market for other desirable and scarce commodities.

In the company of the future, markets for talent will be not only external, but also internal as well. Many companies already store the details of an employee's work experience in a database. Using a password, a manager can call up and examine a potential recruit's work experience, past assignments, and willingness to relocate. The manager can also look at a candidate's latest job review.

Managers can search the database for a particular set of skills instead of turning to the Human Resources department, as he would have needed to in the past. Yet, the HR staff can still play an important role by ensuring that the information for the database is collected and structured in a way that gives it true value.

Once employees are recruited and hired, technology can also be a powerful tool for training these individuals. Yet, it would be a mistake to think that all employee training can be done on-line. In practice, smart companies are using a combination of traditional teaching and on-line delivery.

As one manager at Dell Computer puts it, on-line learning is like a microwave oven: It is not a complete replacement for the traditional model, but it does some things better. In many cases, the most effective training blends classroom learning with computer-based courses.

Ultimately, one of the biggest potential benefits of electronically delivered training is

that it can be tailored precisely to the needs of the individual. At Dell, employees are tested on what they know, and then their on-line training is adjusted accordingly.



RULE 5: CREATE A SENSE OF COMMUNITY

Few employees still work in the same office, week in and week out, for years at a time. Instead, they travel constantly, or they work on projects in teams that disband when a project is done. Many people no longer work next to their closest colleagues; their colleagues may be half a continent away. And their working and home lives constantly overlap: They finish a project at home, and book a vacation while at work.

Because of all of these changes, companies need new ways to bind the workforce together and promote a sense of loyalty and community.

More than any previous technology, the Internet allows companies to ensure that every employee has access to the corporate news, views, and vision. But its sheer availability can mislead managers into believing that communicating effectively is easier than is the case.

In fact, effective communication will be crucial in the company of the future. Chief executives should think of themselves as "chief communicators" who must be able to write clearly and persuasively. After all, they will

frequently need to carry an audience with whom their main link may be the written word.

Communication also requires an ability to come across on video effectively. A chief executive may be a brilliant strategist, but some of the brilliance must emerge on camera if it is to inspire confidence in employees, customers, and investors. The leaders of big companies will need to be more like effective politicians, who are able to inspire and lead from a distance.

Of course, if messages travel only from the top down, they will have modest impact, and sometimes may do more harm than good. True employee commitment will depend upon creating a sense of belonging to a community or a team. In order to be secure and productive, most people need to feel they belong to a group.

How, then, can managers create that sense of belonging? One answer is to create smaller units to which people can feel they belong. Few people can remember the names of more than 100 colleagues, so many creative companies like Idealab organize people in groups of 100 or less. Smaller teams are often even more effective. As Jon Katzenbach and Douglas Smith point out in *The Wisdom of Teams*, the best teams consist of between two and 25 people.

Team members work harder because they do not want to let down the other members.

If pay is tied to team performance, peer pressure will inspire people to work for the good of the team. As workers become more dispersed and disconnected, they increasingly need to participate in teams.

The Internet not only allows teams to talk to each other around the world. It also makes it easier for several teams to behave as though they are a single large one, collaborating to gain the benefits of size. The Internet fosters lateral communications between people within a company, and even between people in different companies.

The Internet also helps to solve another challenge that managers of the company of the future will face: how to manage people who are increasingly mobile. People who work from home or from their cars cannot share information and ideas with their colleagues as easily as they might when they work side by side.

To a large extent, the task of managing mobility involves recognizing the importance of the company's intranet as a way of keeping mobile workers up-to-date. Companies put boundless imagination into designing the on-line face they show to their customers. Few devote as much energy to the face they show on their intranets.

Companies must design their intranets with far-flung workers in mind. Most important of all is reliability. Many telecommuters log on

using dial-up connections on ordinary telephone lines that cannot transmit elaborate features rapidly.

With a corporate intranet, the manager's role is to filter and structure information. As with knowledge management, the task of deciding what appears on the intranet is vital, but once there, the information should be available to everyone. To get across a common goal and message, companies must quickly move to pull together all the internal communication they want to post.

Furthermore, a successful portal must provide a mix of information that employees need to do their jobs, as well as information they need for their lives outside work. In this, it must reflect corporate acceptance of the need to tolerate the way many employees now mix work with home life and vice versa.

To persuade employees to look at the home page frequently, companies must think up various cunning inducements. They know that they are often competing with the rest of the Web for their employee's attention, so they must keep the portal full of compelling content. Otherwise, they run the risk of having their employees wander to eBay.

The company of the future must use the Internet to give a common purpose to all of its employees, from the CEO to a maintenance worker. Even more important, they must use it to provide

employees with a sense of community so powerful that their best staff will not want to work anywhere else.



RULE 6: EXPLOIT THE INTERNET'S IMPACT ON PURCHASING

Now we'll examine the ways that Internet technologies are helping to transform purchasing policies. This is one of the areas of corporate life where new technologies are having the greatest impact. The reason is that, unlike many other executives who are struggling to introduce Internet technologies into established firms, purchasing managers can deliver real and rapid savings.

Purchasing is one of the early areas to demonstrate the Internet's potential benefits. Yet, if you had asked almost any industry guru at the end of 1999 how the Internet would transform on-line purchasing, the answer undoubtedly would have included a reference to electronic marketplaces and on-line auctions. Since then, some of the shortcomings of those approaches have become apparent.

However, it would be a mistake to think that this way of doing business is going to fall by the wayside. Because electronic marketplaces offer a genuinely revolutionary way of doing business, they will eventually bear fruit. The most successful exchanges will create a sense of trust, establish a reputation for reliability, and promote a

common set of standards so that purchasers can easily compare all suppliers' offerings and prices.

Companies will never buy everything on the Internet, but they will buy more and more. As they do, they will gain speed, consistency, efficiency, accuracy, and staff savings. Many companies will find it a revelation to see for the first time what they buy, from which suppliers, in what quantities, and at what cost.

When companies buy from other companies, they have opportunities to save money in three ways:

1. By combining purchases from across the company and buying in bulk.
2. By streamlining the whole process of purchasing.
3. By seeking out new, lower-cost sources of supply.

The company of the future will use the Internet to achieve two goals:

- First, to widen its range of potential suppliers.
- Second, to deepen its relations with existing suppliers.

The Internet allows companies to compare prices more easily than ever before. It also makes it possible to consider suppliers across the globe. The effect will be to hold down prices for anything that can be purchased in

developing countries.

At the same time, the Internet allows companies to reduce administrative costs and speed up transactions with current suppliers.

In the future, companies may separate these two functions, conducting them through two separate Web sites because they require such different approaches.

The most striking change will take place in the supply chain. The bold vision of some companies is to go beyond the supply chain and to assemble a network of suppliers, sometimes called a "web" or an "ecosystem."

As companies struggle to reduce inventory and to achieve just-in-time delivery, they depend more than ever on the efficiency of their suppliers, and on their own ability to manage them.

Over the years, companies have progressively stripped slack from the supply chain. The emphasis on just-in-time delivery and on reducing inventory means that if one supplier gets it wrong, then no shock absorber cushions the impact.

If key suppliers are to get it right, they must have far better information about what is happening at all points along the supply chain. That requires a view of key suppliers as partners to be trusted, not as irritations to be overcome. They must be able to share a retailer's understanding of swiftly changing market

behavior, and to know something of what their fellow suppliers are doing.

Fortunately, the Internet will help all that to happen. When the supply chain becomes a web, each strand both supports and relies on the others with which it intertwines.

One striking effect will likely be on the business cycle. Since the late 1980s, manufacturers have steadily reduced the value of the inventories they hold, relative to sales. One report estimates that this has saved U.S. companies \$10 billion a year.

In addition, the transition to a just-in-time economy has made economic slowdowns sharper, but perhaps shorter. In the past, when demand grew more slowly, companies took months to adjust their inventories, prolonging the slowdown and turning a mild deceleration into a recession. Now, they cut immediately, sending powerful tremors through the economy. But when orders come in, companies can just as quickly ramp up their inventories, and propel the economy into a recovery.



RULE 7: BUILD A MORE FLEXIBLE ORGANIZATIONAL STRUCTURE

Let's now turn our attention to considering the effect that the information revolution is having on corporate structure. As the costs of handling information in a company

decline, new opportunities open for redefining corporate structure.

In general, companies will be less hierarchical and more modular. No longer is a company a rigidly designed machine with parts that fit together in one way only. Instead, the parts can be reassembled into new structures.

With each passing day, corporate structure grows more fluid. Franchises will be more important and will assume new shapes. So will alliances and partnerships with other firms. Horizontal integration will flourish as companies concentrate on doing what they do best. New entrants will spring up more quickly and increase competitive pressures. Many of these new companies will be "plug and play" companies, which pull together a bunch of services provided by other firms.

Internet technologies have other impacts on corporate structure. They reinforce the trend toward flatter, less hierarchical structures. They allow people in the middle of a business to communicate directly and easily with each other, even when they work in different business units or in different countries. No longer does line management have to be the conduit.

The communications revolution alters the economic pressures on companies in many ways. It changes the external pressures that encourage concentration

within an industry into a few large firms, and it changes the internal costs of running a business.

In a world of networks, a powerful winner-take-all effect operates. People use AOL's Instant Messaging Service because lots of other people use it, and they use eBay because it is the largest on-line retail auction. Large networks are disproportionately more valuable than small ones.

In some markets, another factor kicks in: increasing returns to scale. It costs millions to create new drugs, software, and movies, but just pennies to make each extra copy. High fixed costs and tiny variable costs give such industries enormous potential economies of scale.

In markets that can combine increasing returns to scale with network effects, big players score a double win: Each extra sale not only reduces average production costs, but also increases the value received by other users.

Another important factor is the fall in the costs of communicating and acquiring information. The search for the best price, the best product, or the best buyer grows easier and less expensive as applications of the Internet grow more sophisticated.

Companies therefore face a more evenly balanced choice about how much to concentrate on what they are good at, and how much to buy other goods and services

from outside. Because almost everything can be inexpensively outsourced, it is possible to go from idea to product in nine months.

Companies must organize themselves to capture, channel, and finance new ideas. Moreover, once it is clear that innovation is largely about refinement and process, it becomes essential to collect ideas from people who are actually doing the job at the moment, rather than confining the search for new ideas to a separate part of the business. So companies must find ways to draw good ideas from the majority of their employees rather than simply from a few creative spirits in R&D.

One of the oldest dilemmas of organizational architecture is whether to build around functions or markets. In the past, large companies have usually opted for function. Now, that is changing.

In most companies, some sort of functional dividing lines will persist. But a psychological effect of emphasizing function is to create a business in which production matters more than the customer, and supply more than demand. The divisions that produce the product or service "push" it out to the customer; in a more responsive firm, the customer "pulls" out what he or she wants.

Some companies have therefore moved to an organization based around the market instead. In 1999, Microsoft replaced a technology-based

organization with a customer-based one. Other technology companies, such as Hewlett-Packard, Sun, and AT&T soon did the same. All set out to give the global customer a single point of contact. In such "front-back" organizations, the lead comes from the people who deal directly with customer segments. They pull from the back the products or services the customer wants.

As technology reduces the costs of collaboration and communication and increases the rates of innovation and knowledge deployment, the shape of the firm will evolve. Change will come gradually, not dramatically. The company that emerges will use a looser structure than today's, with fewer hierarchies and tiers of management. It may undergo the same transition as a Hollywood studio, which once employed everybody from Lana Turner to the sound technicians. Today, the studio is more like a finance and marketing department, and everything else is outsourced.

The Internet will push other industries in a similar direction. Companies will find it easier to outsource or to franchise. They will use communications to develop deeper relations with suppliers, distributors, and many other partners that might once have been vertically integrated into the firm. Like the manufacturing process itself, company structure will become more modular.

As assemblers and coordinators of business processes,

tomorrow's established companies will thus play a different role from the companies of today. Their strengths will lie in their ability to assemble projects quickly and nimbly, in their coordination of skills and technologies, in their brands, and above all, in their ability to attract and retain the best people.



RULE 8: DEVELOP THE RIGHT LEADERSHIP SKILLS FOR SUCCESS

Most of today's effective corporate leaders should do well in the company of the future because leadership and management will remain essential skills. Internet technologies will not alter that, but they will change the balance of skills that companies need at the top.

The greatest challenge is maximizing a company's access to talent and intellectual capital. Executives must therefore excel at spotting and recruiting talent, handling the complexities of rewards, and managing clever people around the world.

Here, corporate needs pull managers in two directions. On one hand, collaboration and teamwork matter more, so companies must find ways to motivate and reward good team players. On the other hand, companies also require the occasional star, who may earn more than the chief executive does.

Running a business may

come to resemble managing a sports team, a group of competitive superstars who need coaching collectively, but who also know exactly what their individual talents are worth in the market.

In the future, many corporate leaders will want a head office that is small but strong, and that provides only those services that add value to the corporation as a whole. Its responsibilities will be those where corporate leaders believe that they are most able to add value. Specifically, the head office of the future will perform the following eight tasks:

1. Manage the strategy process.
2. Develop leadership and recruit new people.
3. Oversee the functions that are part of a corporation's existence as a single legal entity, such as raising capital and publishing accounts.
4. Make policy, including setting overall performance targets.
5. Provide services where there are economies of scope or scale, as in management training.
6. Lobby government and deal with broader corporate responsibilities for the environment and society.
7. Handle corporate brand management.
8. Manage internal and

external communications.

Given that intelligent people are the most valuable resources of the company of the future, executives must systematically attract and deploy them well.

Competition for the most talented people, even within the firm, will intensify as time goes on. It will therefore become even more important for managers to be skilled coaches who are able to spot potential early and to nurture it.

In the future, some managers will have to pay a few key superstars more than they earn themselves. Executives in investment banks and television networks have long grown used to this situation. Others will have to learn to live with it in the future. In most businesses, though, stars will be less important than teams. The most widespread revolution in the workplace will come from the rise in collaboration and the decline of hierarchy.

In a period when technological changes appear to be shaping the corporate future, business leaders may find it difficult to remember that they actually shape their company's destiny.

Technology is a tool. But the success with which technologies are exploited depends primarily on good leadership and management. The leader's "people skills" will ultimately determine how successful the company of the future is.



THE COMPANY OF THE FUTURE

Most people overestimate the effects of change in the short term, underestimate them in the long term, and fail to spot where change will be greatest. Nowhere is this judgment truer than with new technologies. The Internet stock-market bubble, like the bubble in railway stocks in the nineteenth century, reflected overestimates and misjudgments of the immediate impact of new technologies.

And as with railways, the Internet bubble burst, leaving lots of empty hands but an infrastructure that survived, and changed the world. There will be evolution rather than revolution, and it will take many years to work through. Recall that even though the telephone was first used commercially in the 1870s, telephone banking did not spring up until the 1980s. Consider that the Internet had been in commercial use for a mere seven years by the time the recession struck. Profound change rarely comes fast.

Over the next quarter century, though, the Internet will help to transform companies, although the transformation may be too subtle for people to notice while it happens. It will be most striking, at least in the medium term, in companies providing services, including travel, medicine, education, financial services, and consulting.

Many manufacturing businesses will become more like

service industries: They will cater to the individual customer's tastes, for instance, and create a continuing relationship to ensure that they win repeat purchases.

These changes will occur in established companies as they build the Internet into their existing processes. Largely gone is the view of the late 1990s, which saw the Internet as a freestanding technology and a basis for freestanding businesses.

So is the notion that the Internet, in and of itself, may be a technology that generates lavish profits. Some pure Internet plays will survive as viable businesses, but they will not be where the impact of Internet technologies is greatest.

The main revolution will involve enabling established companies to do familiar tasks in new ways, and then do new tasks in increasingly familiar ways. Those changes may or may not prove profitable, but companies will have no more choice over whether to deploy the Internet than they had over whether to deploy the telephone.

Internet technologies will offer managers much more freedom to define their company in the most efficient way. They will not, however, do that job on a manager's behalf.

Inevitably, the biggest changes will be those that go with the grain of what is already happening. Internet technologies will boost the

following current trends:

- They will reinforce outsourcing, a trend that has been in progress for at least two decades.
- They will further reduce inventory, a move that began long ago with just-in-time production.
- They will bolster globalization, allowing companies to manage overseas operations and connect with foreign suppliers in more intricate ways.

- They will enable the focus on the customer that so many companies strive to achieve.
- They will accentuate the need for talented and inventive people, who will have an even sharper idea of their value on the world market.
- They will empower the flat structures of modern businesses to operate more effectively and make them even less hierarchical.

In all of these ways, the company of the future will be a logical extension of the company of today. For managers who want to be a part of that future, the time to start planning for a successful tomorrow is right now.



ABOUT THE AUTHOR

Frances Cairncross is a Management Editor on the staff of *The Economist*, where she has worked since 1984. She has had responsibility for the Britain section and for coverage of the environment and media. She now writes mainly on corporate management.

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