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The 21st Century Business

Planning for success
in a changing world



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The 21st Century Business

The corporation is at a crossroads. The businesses that we have grown up with and the business models that underpin them face deep challenges. They are being reconstructed, from within and without, by pervasive technology. Their values, and the values associated with work and the workplace, are increasingly being questioned. Their model of resource use, of “use it and throw it out,” is increasingly running up against constraints of supply costs. New ways of designing and managing businesses, and new business models, are inevitable.




The list goes on. Corporate behavior towards society, including their customers and employees, is increasingly under scrutiny. The financial crisis has sharpened the idea that unethical and unsustainable behavior is an external cost that should not be paid for by the public, and that if companies draw on public services, such as roads and education, they also should make a fair contribution.

In short, the assumptions that governed the mass-production businesses of the 20th century, and were codified by managers, researchers and academics in the '50s and '60s, have run out of gas. They are no longer fit for purpose.

Our leading businesses already understand this and are acting on it. Across the business world there are examples of companies that have started to absorb the lessons of the 21st century and have started to adapt. They are innovating

their business models, their corporate systems, and their organizational hierarchies. The sense that change is in the air is amplified by the number of business initiatives that have been sparked recently. By way of illustration, one influential CEO, Paul Polman, at Unilever, is engaged with four such initiatives: the Inclusive Capitalism Taskforce, the Sustainable Economy Project,¹ the B Team and the “We Mean Business” coalition.²



The changes outlined in this Future Perspective represent a significant disruption to the way most businesses operate today. Some may still believe that, eventually, we will return to a pre-crisis world. This seems unlikely.

As we discussed in our Future Perspective *Technology 2020*, financial crises are typically associated with a deep transformation in infrastructure and technology. They mark the start of a long transition in how society thinks about itself. We're still at an early stage in that journey, but businesses that do not adapt are unlikely to survive in the medium-to-long term. In other words, however great the costs of change, the costs of *not* changing will be higher.

The challenges run deep. In this Future Perspective, we first outline eight macro-forces that are reshaping the 21st century corporation. We then examine the landscape of the business journey to sustainability and beyond. Next, we analyze the six pillars that will frame the 21st century organization, finishing with a discussion of how to start on this journey towards the future.

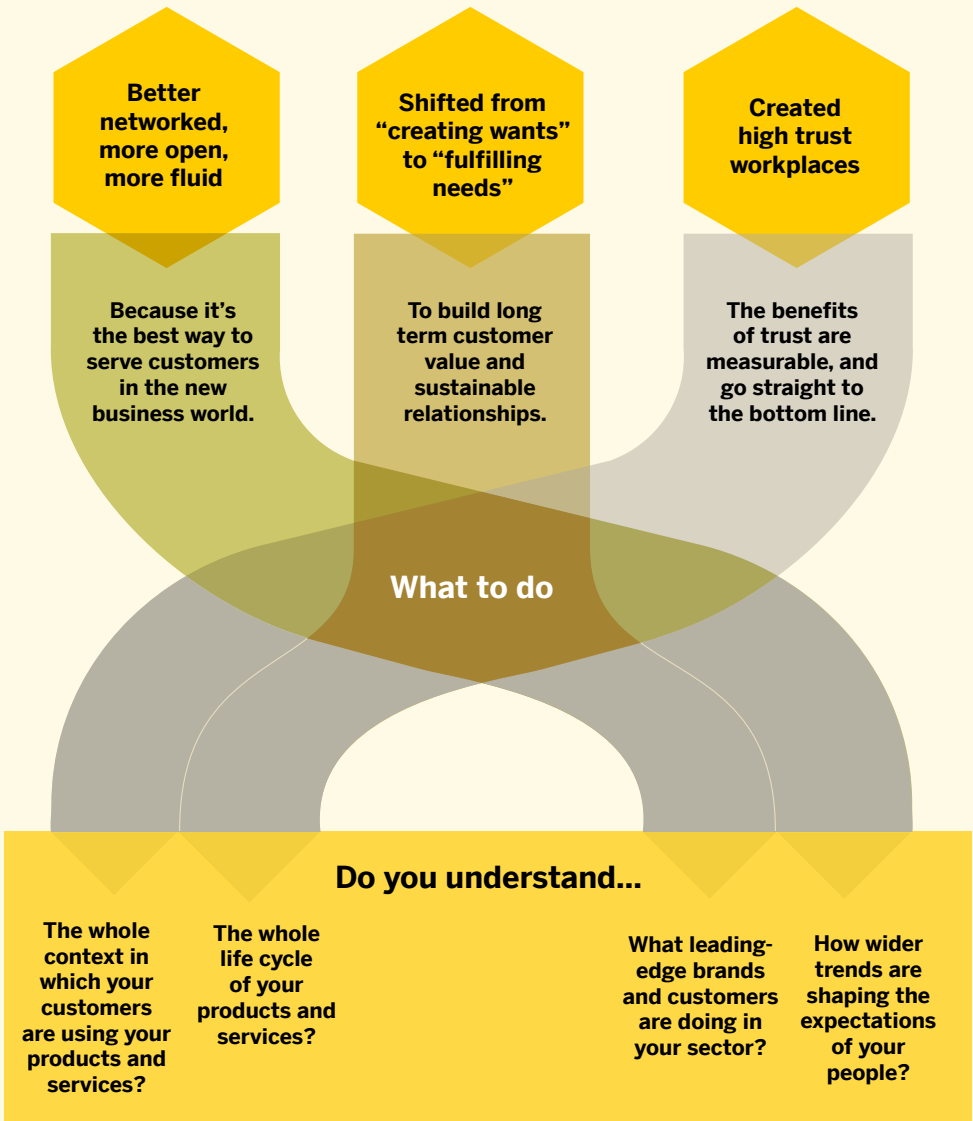
In summary, the whole story can be wrapped into three guiding principles:

- **Organizational culture is more important than strategy**
- **Intrinsic values are becoming more important than extrinsic values, for both customers and employees**
- **Connection is the key to both driving down cost and driving up customer engagement**

The business models that were developed in the 20th century emerged in a world of abundance, but the business models of the 21st century will have to contend with scarcity. If the business world of the 20th century was that of the limitless, open range, that of the 21st century is more like an ark—cramped, delicate and confined.³

Snapshot of the 21st Century Business

The 21st century business is being reshaped by a combination of resource pressures, shifting social values and ubiquitous technology.
The businesses that win will have redesigned themselves.



The eight macro-forces shaping the organization

In our Future Perspective *The World in 2020*, we reviewed some of the macro-forces that were creating this squeeze on space and resources, and have revisited and updated them briefly here:⁴

1 Population: The world population has passed seven billion and is expected to reach eight billion by 2030. Most of those new people will be born in Asia and we expect to see the rapid growth of mid-size cities on the continent.⁵ But population and resource consumption need not be directly related.

2 Water: A whole swathe of countries and regions on both sides of the equator are showing increasing signs of water scarcity. Because water is difficult to transport, its scarcity tends to be a serious local or regional phenomenon, as seen in California's 2014 drought.

3 Food: The trends shaping food consumption are broadly negative on both the demand side and the supply side. On the supply side, the number of hectares per head available for food production is falling, and the proportion of agricultural land that is degraded is increasing. On the demand side, as per capita incomes increase in emerging markets and more meat and dairy produce are included in diets, demand becomes more intensive.

4 Energy: Demand for energy is falling in richer countries (because of efficiency and social change), while it is rising in emerging economies that are far less energy-efficient. Supply, meanwhile, is static or falling. The cost of renewables is falling rapidly, but the transition from fossil fuels to renewables will be uneven and disruptive, and the impact of shale-based energy will be a blip.

5 Climate change: The effects of climate change are unlikely to be seen in day-to-day weather for another two generations, but there is increasing evidence that the extreme weather events across the globe are being intensified by climate change.



Image source: Rob Baxter, Flickr Creative Commons

The consequences extend across food production, infrastructure design and maintenance, energy use, insurance and changes to supply chains.

The collision of these macro-forces means that, first, the current model of capitalism is running up against limits on many fronts. We can see counter-trends in different forms, such as identity politics, “slow” and “transition” movements or increasing interest in ideas of wellbeing and holistic health.

Second, these five macro-forces speak to the idea of the “VUCA” world (volatility, uncertainty, complexity, ambiguity).⁶

At the same time, there are two significant macro-forces that are likely to mitigate these effects.

6 Values: Changes in values are always one of the biggest sources of social transformation. One of the most significant changes in values at present is the shift towards wellbeing, at both a personal and public policy level.

7 Sustainable development: There is also an increasing focus on the principles of sustainable economic development, which is about the fair fulfillment of needs within our planetary limits. Researchers have demonstrated a weak connection between economic growth and wellbeing.⁷ One effect is that economic and business outcomes—including positive and negative “externalities”—are being assessed more holistically.

At risk of being obvious, the eighth macro-force is:

8 Digital technology: Social relationships, communications and management systems are all hugely affected by the development of digital technologies. From an individual perspective, this is increasingly about mobile networks; from a corporate perspective it opens up monitoring, analytical and tracking functions, as well as the ability to automate new areas of work.

This current information and communications technology wave creates its own forms of abundance; we have moved from an abundance of oil to an abundance of processing power. The long-term business question is, “What source of abundance will come next?”⁸

Capitalism 2.0

The idea that the corporate model, which has dominated for the last two generations, has now reached a transition point is increasingly commonplace. Michael Porter and Mark Kramer, in an article in *Harvard Business Review*, said that companies had spent too long simply extracting value from their suppliers, workers and the communities in which they operated, and needed to share value with them instead, if they wished to ensure their survival.⁹

Geoff Mulgan, in his book *The Locust and the Bee*, framed a metaphor about two types of corporations: the locust represented "predatory capitalism" and the bee "value-creating capitalism." Both types always exist in market systems, and the center of gravity oscillates between them. He argued that the share of the locusts had reached a high and the pendulum would swing back.¹⁰ Similarly, in *The New Capitalist*

Manifesto, Umair Haque makes a distinction between "thin value,"¹¹ which creates value by taking it from others, and "thick value," which creates meaningful, durable gains socially, environmentally and economically.

There are many reasons why a corporate model built on the premise of continuing growth is reaching its limits. We live in a world of increasingly saturated markets, with high resource costs by recent historical standards, notably in energy.¹² The rate of return on technological innovation may be slowing down, although this is contested.¹³ Also it's argued that we are moving towards the end of a long financial shift, going back four decades, characterized by falling productivity, increasing debt, and rising inequality.¹⁴ In every sector there are high levels of economic concentration, restricting the opportunities for growth by acquisition.

One outcome is a plethora of proposals for change, as discussed in the introduction. The clothing company Patagonia talks about the "Responsible Economy," while others, inevitably, have written about "Capitalism 2.0." What that looks like is still unclear, but some of the characteristics are likely to be a greater attention to the value of shared "commons," more diverse forms of ownership, such as mutuals and co-operatives, which move beyond the shareholder model, and greater use of open knowledge as a source of innovation.¹⁵ Harvard Professor Jim Heskett has asked recently if we are moving towards a post-capitalist society, centered around the creation and sharing of goods and services that have marginal costs approaching zero.¹⁶ Jeremy Rifkin makes the same point in his recent book.

The sustainability matrix

The macro-forces outlined above have been clear since the Club of Rome published *The Limits to Growth* in 1972.¹⁷ Although widely criticized at the time, the base case model from *The Limits to Growth* has proved to be a fairly accurate guide to outcomes in the 40 years since.¹⁸

Over the past two decades, since John Elkington published his influential Triple Bottom Line approach, progressive businesses have wrestled with how best to respond to sustainability and resource issues.¹⁹

The typical sustainability journey starts (at the bottom left) by looking internally, at the elements of the business that it can control. The elements of such programs include measurement of inputs and outputs along the supply chain, and can often include “quick wins” such as reducing energy consumption.

The second box (top left), is about managing external change. This tends to be through a risk management framework, assessing potential external impacts on existing business processes and mitigating risks. The left-hand side of the journey is characterized by a defensive response to a changing business context.

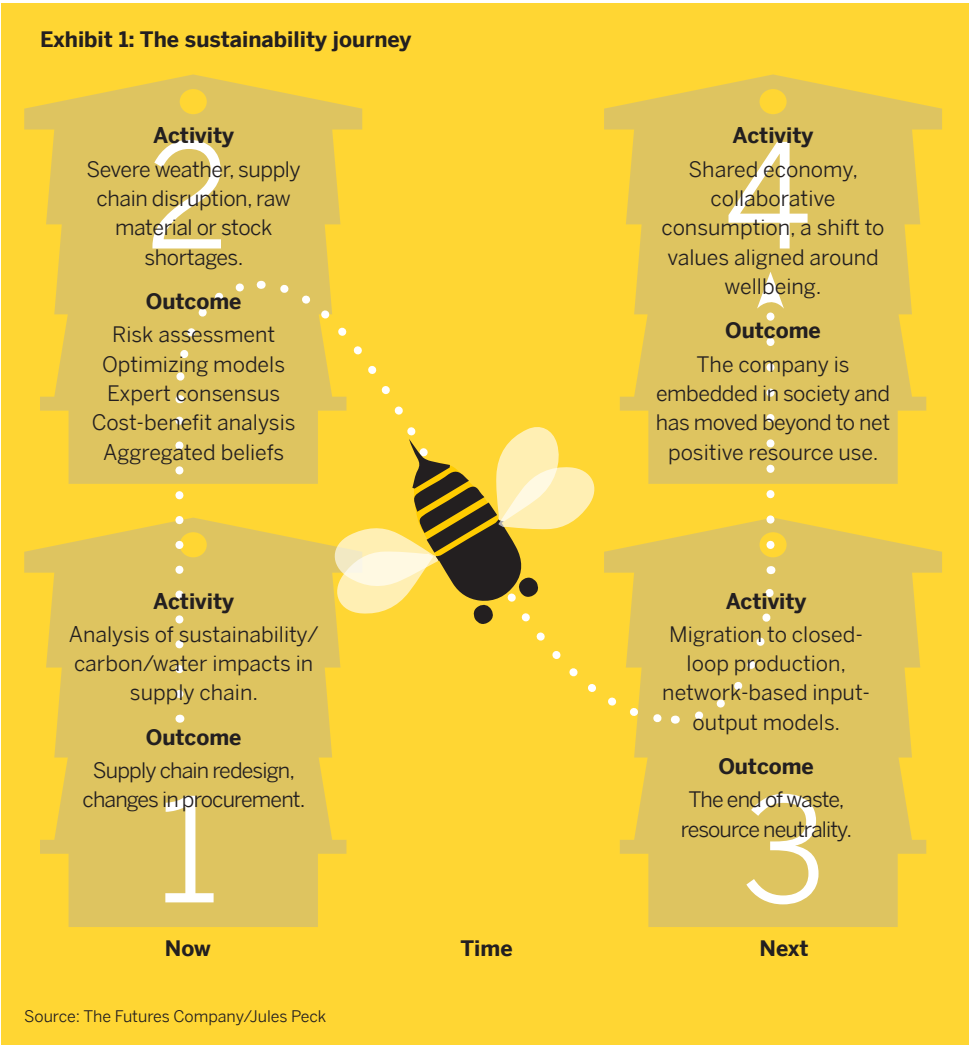
On the right-hand side of the journey, we see disruptive innovation that reconfigures current business models (see Exhibit 1). In terms of the internal business environment (bottom right), this includes innovations such as closed-loop production (for manufacturing businesses or those selling goods) and lean systems (for services businesses).

Finally (top right), when the business engages actively with its external environment, it can create business structures that allow it to tread more

lightly in terms of resource consumption to reduce resource flows by increasing flows of data and knowledge. In this quadrant, businesses reimagine their markets as being about delivering against real wellbeing needs rather than creating wants, thus retuning the business to new approaches to innovation.

The internal configuration of the business is an essential platform for its external-facing business. Taken together, the two right-hand spaces on the matrix represent the 21st century business. In the rest of this Future Perspective, we will unpack what that means for how you understand your business and construct it. We will explore six pillars that build the business of the future.

Exhibit 1: The sustainability journey



Source: The Futures Company/Jules Peck

Design principles for the business of the future

The business of the future implies a number of design principles. It has moved from resource efficiency to resource neutrality. It understands its flows of value—not just of materials, but of data, of knowledge, of participation. It is more outward-facing, seeing a changing external environment as a source of potential rather than risk. It is designed for resilience, but also is more porous. In short, it is a business designed for a different world. If this seems like a familiar list, what does it look like in practice?

We believe that the 21st century business will have six critical characteristics. Briefly put:

1. From disconnected to networked

Whatever the business rhetoric about seamless integration, businesses are often internally disconnected silos separated by function. The networked business

understands that its different parts form a single system, and uses information and communications to link the system together.

2. From closed to open

The conventional business model is about ownership, especially of patents and intellectual property rights that are regarded as sources of competitive advantage. The open business operates in a more porous way, letting the outside world in and listening to and building mutual advantage.

3. From fixed to fluid

Businesses are dominated by fixed processes set by management models of monitoring, control and direction. It makes them unresponsive and inward-looking. The fluid business instead takes its rhythm from the outside world, using budget, planning and other

processes that respond to external change.

4. From volume to value

The 20th century was the age of mass production. Increasingly, the 21st century will be about reducing mass, in both senses of the word, and wrapping products in a tailored network of services. It is about doing more with less.

5. From risk to opportunity

Instead of treating its external environment as a series of threats, managers will see the external world, and especially the regulatory landscape, as a set of signs about the boundaries that society places on markets. Regulation becomes a platform for innovation and change.

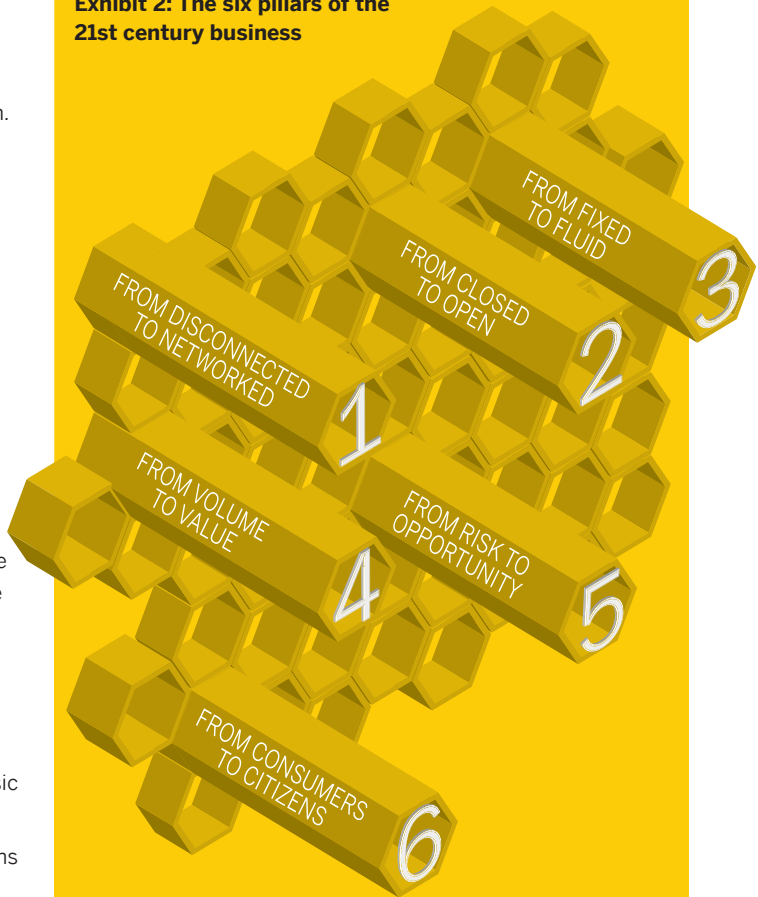
6. From consumers to citizens

Customers are more than consumers at moments of purchase or moments of truth. What they consume and why is increasingly embedded in the context of their lives. Companies will succeed by understanding and delivering against needs that reflect their customers' whole lives, as citizens and as consumers, rather than simply creating market demand.

To bring these six principles to life inside the business, we also have developed three guiding principles. (See page 36.) In summary, creating change involves:

- More focus on culture than on strategy
- Understanding the intrinsic values of your customers
- Identifying the connections in and around your business that improve customer experience and reduces cost

Exhibit 2: The six pillars of the 21st century business



Source: The Futures Company/Jules Peck

The Six Pillars

1. From disconnected to networked



Connection has been a business mantra for decades. But businesses are still too often a set of functions divided by a common ownership structure. Or worse: business planning processes, with their emphasis on functions, departments, headcount and P&L responsibility, create a dysfunctional business world in which organizations are less than the sum of their parts.

It is easy to assume that pervasive technology will fix this problem, creating flows of information and better monitoring of business performance. But this gets things the wrong way around. When technology is applied

to existing dysfunctional structures, it usually replicates their failings. The micromanager with a Blackberry can micromanage even more intensively; the cc and bcc functions on email can, in the wrong culture, elevate turf wars to new heights.

So, connecting organizations also requires other tools, in the shape of new mental models. Most large organizations are still built on a Newtonian mental model of levers and pulleys, but the rest of the world has moved on to newer networked models based on systems, complexity and emergent behavior, as Eric Beinhocker observes in *The Origin of Wealth*.²¹

Technology, then, can help create the networked business, but only when it is applied with the right mental models.

So what does a business look like when thought of as a system? It moves from value chains to value networks.²² Flows, of materials and information, become critical to its effective working. Resource use and consumption become increasingly important to the design of the business process, along with reusing waste. It understands how to manage demand that is “pulled” by its customers, rather than imposing its service and delivery models on its markets.

Such a business will, increasingly, move towards having the circular economy at its heart. For example, Philips, the electronics and appliances company, has made the circular economy part of its strategic thinking and mission. Philips’ CEO, Frans van Houten,

said recently that “companies solving the problem of resource constraints will have an advantage,” partly because customers “will give preference to companies that show responsible behavior—something we are already seeing.”²³ In the circular economy, anything created as a by-product is either used elsewhere as a raw material or returns to the biosphere safely, to be absorbed back into earth, air or water.²⁴

“horizontal” leaders, who understand that participation and freedom is more important than control. In companies, this means giving greater voice to employees and customers... Co-production runs to the heart of how a business is organized and how it behaves. The U.K.’s John Lewis Partnership, Spain’s Mondragon and India’s HCL Technologies are all good examples of this.”²⁵

“Every system is perfectly designed to produce the results it achieves.”

Peter Senge, MIT.²⁰

The networked business also has a different attitude towards control. Digital technology has created new horizontal relationships between employees, citizens and consumers, and blurred the roles between them. As Robert Phillips said in a lecture at the OECD, “Power and influence are increasingly asymmetrical, both in politics and in business. We are seeing a dying breed of charismatic leaders, replaced instead by the new generation of



Image source: Dan Lockton, Flickr Creative Commons

This pillar has three implications for the 21st century business.

First, the networked business doesn't create external costs for society as a whole, in the form of pollution, carbon emissions and so on. Indeed, the most progressive businesses have already moved on the idea of the "Restorative Enterprise," originally framed by Ray Anderson of Interface Carpets, which puts back more than they take out. Restorative enterprises seek to create environmental and social value through their economic activity, and to design their value chains to solve pressing global problems.²⁶

Second, it doesn't create external costs for its customers either. For example, Unilever has identified that most of the water consumption associated with its personal care products comes after customers have



bought the product—which increasingly will create problems in water-stressed parts of the globe. So, it is starting to design products that minimize water use. The British retailer Marks & Spencer, similarly, has concluded that the key to its own sustainability lies in helping its customers become more sustainable.

Third, networked companies create value for their customers. Any business that understands the lifetime flows of its products, services and customers, and can track them, is creating data about usage, and can wrap this up in a way that adds new benefits for its customers. So, for example, an appliances retailer might track the life of a washing machine remotely during its lifetime—and intervene to repair it *before* it breaks down, rather than afterwards.



Image: Augustus Newsam

2. From closed to open



The 20th century business was like a castle: a mostly closed world where goods and people arrived through a set of carefully controlled gates, and left the same way, counted in and counted out. The new model is more ecological—a model of systems that interact, and exchange resources and ideas that sustain each other. As Hagel and Brown argue in their report *The Shift Index*, sources of economic value are moving from stocks of capital and knowledge to flows of new knowledge.²⁷

The characteristics that make the open more valuable than the closed are, in summary:

- trust
- free²⁸ (think of the global commons and open source ideas)²⁹
- sociable (cooperation, community, mutuality)
- emergent (crowd sourcing)
- diverse (of perspectives, interpretations, heuristics and predictive models)³⁰

It is a move to a relationship economy, in which your ability to be a “social business”

becomes a source of competitive advantage. It's about who you know not what you know—or rather about whom is in your network, and who trusts you to do business with them. In their book *Wikinomics*, Don Tapscott and Anthony Williams write about the rise of what they call “mass collaboration” as a driver of business innovation.³¹ The first pillar described a structural shift towards flatter, networked organizational structures; this pillar describes the way knowledge starts to flow around and between such businesses.

The management thinker Charles Leadbeater summarizes this in his recent book *We-Think*. “Innovation,” he writes, “flows from collaboration as much as from jealously guarded commercial secrets. The web’s significance is that it makes sharing central to the dynamism of economies that have hitherto been built on private ownership. In the

20th century we were defined by what we owned. In the 21st century we also will be defined by how we share and what we give away.” New knowledge models such as crowdsourcing and crowdfunding, sometimes facilitated by new market rules, are creating new approaches to innovation, along with new business models.³² At the same time, in the physical world, the Maker Movement is starting to reverse the decline of the artisan by creating access to global and regional markets for craft producers.³³ Shared entrepreneurship and social innovation are reframing approaches to innovation.

Examples of these open innovation models abound:

- GSK initiated a “patent pool” of IP (intellectual property) around neglected tropical diseases. The scheme brings together drugs companies under the umbrella of the World Intellectual Property

Organization to share relevant IP and other resources. So far 50 new partnerships have been created.³⁴ Other drug companies are doing similar things.³⁵

- Under the WBCSD’s “Eco-Patent Commons” scheme, 13 multinational companies have pooled 100 eco-patents. The rationale: “anyone who wants to bring environmental benefits to market can use these patents to protect the environment and enable collaboration between businesses that foster new innovations.”³⁶
- At the product level, Ford’s OpenXC program creates an “open API” that allows their customers to hack their vehicles, at least in part. It provides access to “open source hardware and software” that lets you personalize your vehicle.

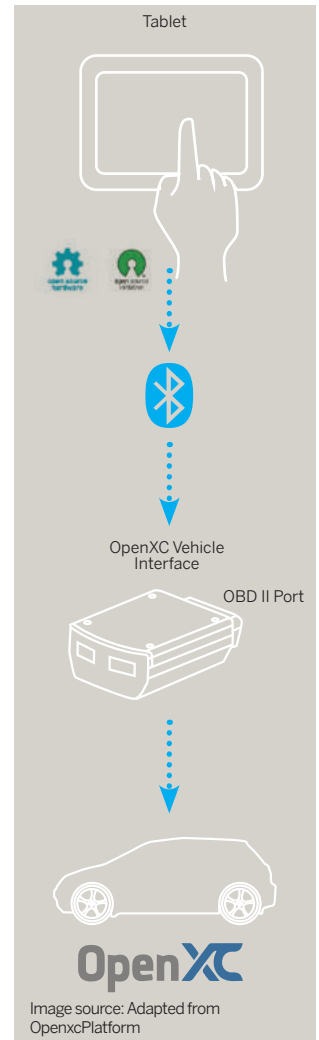




Image source: CodePlex

One of the large transitions here, compared with the business strategy models of the 20th century, is a change of perspective. Market competition is no longer a zero-sum game, in which, if I lose, then you must win. New insights from neuroscience and game theory around reciprocity, altruism and co-operation have already filtered into business thinking and even reached the edges of mainstream economics. The new rule of thumb here is that networks create new value.

In this world, the successful organization becomes a beacon for ideas, plugging itself into relevant networks as an active agent for change and innovation. Sometimes this is thought of as a venture capital model, but in truth the engaged business can bring much more than the capital, business advice and sense of urgency offered by venture capitalists. As well as capital and business expertise, it can contribute scale, people, distribution and access to markets.

“It’s all about being open now. You need to open up your business, build partnerships and shift your mindset to develop an outside in way of working. Letting the outside in to shape not just your thinking but your actions too. Moving away decisively from the 20th century view of ‘them and us’ and lecturing others from the ‘inside’.”

Mike Barry,
Director of Plan A
at Marks & Spencer.

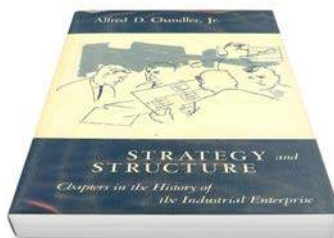
3. From fixed to fluid



Over the course of 15 years, starting in the 1920s, Alfred Sloan wrote the manual on how to run the 20th century corporation. In doing so, he made General Motors one of the most successful and admired companies in the world for around 40 years. In reshaping the business, Sloan was trying to impose order on a disparate collection of car companies acquired by the entrepreneur Billy Durant, remaking them into a unified market-facing business.

The solutions he found became the staple of 20th century management and marketing. Indeed, they were popularized 40 years

later by Alfred Chandler in his influential management book *Strategy and Structure*, and also by Peter Drucker.³⁷ Sloan's approach addressed how to stabilize demand and make it more predictable, and how to ensure managers at all levels had enough information to *manage* their part of the business.



The structures he developed—centralized administration and decentralized operations, in which the center measures, monitors and directs—still shape the modern business world. They still define (to a significant extent) the content of most MBA courses. But they are losing their relevance.

At the heart of this organizational model is the setting and control of budgets, against which performance is measured. It works reasonably well in stable or expanding markets, but not so well in conditions of turbulence. When markets are less predictable, the General Motors model generates political behavior in the budget-setting process, short-termism to hit numbers, and an internal focus that means that companies stop listening enough to their markets.

One of the most radical shifts from the fixed organization is to move away from the set budget process. The “Beyond Budgeting” approach typically works on rolling quarterly budgets, devolved responsibility and accountability, and sets of metrics that measure the overall drivers of the business, not just costs. And goals are set against external benchmarks rather than internally agreed targets.³⁸ Handelsbanken, the Scandinavian bank that abandoned conventional budgeting in 1970, has consistently outperformed the sector since. Statoil, meanwhile, has moved beyond calendar-based planning to a model it calls “dynamic forecasting”.³⁹

Many other business structures benefit from increasing fluidity. The Mexican cement company Cemex, despite its recent financial problems caused by

over-expansion, built market share in Mexico by pioneering a cement delivery system based on complexity, thinking that meant that it could align delivery times better with the unpredictable demands of its customers on building sites.⁴⁰ As Richard Pascale explains, Cemex dispensed with the conventional production planning schedule. Instead, it loads its cement trucks in the morning and dispatches them without any customer destinations.⁴¹



Image source: CEMEX Panama, Flickr Creative Commons

The trucks maximize delivery based on a set of rules that optimize customer outcomes: deliver as much cement to as many customers as rapidly as possible, stay as far away from other cement trucks as you can, and ensure that

customers receive their cement within two hours.

The most controversial aspect of the fluid corporation comes down to people. The digital revolution has extended the workplace in time and space, and in blurring these boundaries also has required businesses to renegotiate them. Smarter companies have used this as a way to move from input-driven work models to structures which focus more on outcomes and delivery. Others have used it as a way to create more one-sided relationships with employees, through the introduction of zero-hours contracts and similar arrangements. Ethics matter.

Behind this is a shift in business from being driven by rules to being driven by values and guiding principles, which allow more fluid responses to customer problems without compromising the culture of the business.

Of course, sitting inside all of this discussion is an argument about human behavior and motivation that has raged inside businesses since the Industrial Revolution. These were formulated as Theory X and Theory Y by Douglas McGregor in the 1960s. Under Theory X, “people basically will not take any initiative unless prodded by the carrot and the stick.” Under Theory Y, in contrast, “people are intrinsically interested in making a contribution and learning.”⁴² The fluid organization, at least the one that works well, is a Theory Y organization: essentially it trusts its employees to want to do well and to do good. In this it aligns with many of the values about desirable work and desirable workplaces that we see espoused in research, especially among Millennials.

“A budget is a too static instrument and locks managers into the past. To be effective in a global economy with rapidly shifting market conditions and quick and nimble competitors, organizations have to be able to adapt constantly their priorities and have to put their resources where they can create most value for customers and shareholders.”

Juergen Daum.⁴³

4. From volume to value



The shift from volume to value is one of the long trends of the industrial world. Ever since the Industrial Revolution, entrepreneurs have been looking for ways to add elements to their products that enable them to sell them for more.⁴⁴

But it is a trend that has acquired a new urgency in a world where population continues to grow and many resources are under pressure. Companies that seek to maintain or increase their revenues, while also shrinking their footprint, are inevitably driven towards more lightweight products and services with a smaller environmental footprint.

This isn't a matter of business preferences: it's a function of arithmetic.


The environmental story coincides with a second story, about changing values and consumer expectations. As predicted by Jeremy Rifkin more than a decade ago, ownership is becoming less important than access.⁴⁵ One survey found that 78% of Millennials think that car ownership is becoming a thing of the past.⁴⁶

In turn, this change is enabled by digital and social networks and media, and by changes in manufacturing and production technologies.

Some of the most striking innovations have been in the business-to-business (B2B) sector. Rolls-Royce, for example, no longer sells aero engines: instead it sells flying time as measured by a certain number of engine-hours. As part of the service, all Rolls-Royce engines are monitored inflight from a control center in the English Midlands, and updates are sent to customers when engines need checking or tuning.

Similarly, Philips, mentioned earlier, now provides municipal lighting as a service, rather than as a set of products. It manages city lighting networks, optimizing energy consumption and upgrades city systems when necessary, removing and refurbishing the old lighting system for a customer with tighter budgets.

We are seeing similar changes in the business-to-consumer (B2C) marketplace. On the principle that, for example,



the consumer doesn't need a drill, but does need a hole in their wall, the British DIY chain Kingfisher has launched Streetclub, which provides customers with ways to share, lend or rent DIY equipment by the day or the weekend; in the U.S., Home Depot rents products in about half of its stores. Meanwhile, Avis has entered the sharing economy by acquiring Zipcar.

Other examples of this shift from volume to value abound. Dupont and Interface rent floor-covering facilities, rather than selling carpets; Schindler leases transport units inside of buildings rather than selling lifts; SafetyClean leases dissolving units, rather than selling solvents; while United Technologies provides comfort instead of selling air-conditioning units.

In short, both existing players and new entrants are developing a variety of innovative strategies to wrestle with the challenges and opportunities associated with reducing their businesses' footprint.

In practice, there are multiple strategies available to increase value relative to volume, depending on sector, consumption patterns, frequency of purchase, and so on. These are outlined in Exhibit 3. In many cases, these will be combined, as in the Rolls-Royce example above: the product is now rented to users rather than sold, and one of the consequences is that it is monitored to improve performance through more frequent and more minor repairs. In the Philips example, rental and repair also are combined with refurbishment. But in some sectors, the resource model, which brings

under-utilized resources into the marketplace, is a challenge. Airbnb competes with hotels and hostels, and while Uber is effectively a mobile-enabled hire-car business, services like Blablacar and carpooling.com, which match vehicles with long-distance lifts also compete with rail and bus services.

Several of these strategies are already enabled by digital technologies, and these will become more sophisticated over time. The repair strategy, for example, will increasingly be supported in the consumer world by Internet-enabled sensors embedded in products.

Exhibit 3: Routes to value		
		<p>For products that are complex or expensive compared to level of use that can be delivered as a service: e.g., Zipcar.</p>
		<p>For frequently used products where the bulk of the impact is after point of sale (e.g., personal care)/where elements can be standardized (e.g., mobile phone plugs)/where the value chain and associated logistics can be simplified.</p>
		<p>For products where the seller has some control over the lifetime of the product, or can reintroduce the used product into the value chain: e.g., bikes, M&S Shwopping scheme, office equipment, electronics, etc.</p>
		<p>For products with long lifetimes or modular construction: e.g., Doc Martens' lifetime guarantee, modular mobile phones.⁴⁷</p>
		<p>For sectors where there is under-utilized capacity that can be used: e.g., Airbnb, Blablacar, etc.</p>

Source: The Futures Company

Increasingly, one of the elements embedded in the service is the value of wellbeing. The social exchange and engagement around products and services is often overlooked in business-as-usual, and often included in product or service propositions by accident, is found in research to be something to which customers attach disproportionate value. It may be a key to the success of sharing services such as Airbnb and Blablacar. One of the critical questions that the 21st century business needs to ask is, "How can I create, through my product and service design, a wellbeing dividend for my customers?"⁴⁸

From Smart car to Zipcar

In his strategy book *Reframing Business*, the management thinker Richard Normann outlines a model of how businesses reconfigure value in a given market. In particular, companies that succeed at this do two things well:

1. They understand the full life cycles of the products in their market.
2. They understand the total value-needs of its customers.

Normann, writing a decade ago, uses the example of the small city Smart car, which was sold bundled with a discounted hire-car concession for when the user needed a bigger vehicle for a longer trip.



Image: Augustus Newsam

5. From risk to opportunity



The way the 21st century business thinks about risk and acts on it will become a significant source of competitive advantage. In the last 30 years, the bureaucracy of risk has mushroomed. As the Bank of England's Chief Economist, Andy Haldane, has noted, the Basel I agreement, the "first-ever genuinely international prudential regulatory agreement," ran to 30 pages.⁴⁹ Basel III, agreed in 2010, runs to 616 pages, although Haldane notes that this "understates its complexity." While banking is obviously an extreme example, we have moved from guiding principles, in effect, to rule-based systems.

Without laboring the point, this explosion is partly because these businesses have tended to see risk as creating business and social costs, and risk management as a system either to be gamed in the search for fine lines of competitive advantage, or to be evaded.⁵⁰ So it is worth restating the obvious point: that markets are always social constructions, as writers as different as John Kay, Ha-Joon Chang and Michael Sandel have reminded us. Kay writes, "Markets work, but not always perfectly... Social and economic institutions manage the transmission of information in market economies."

These institutions depend on customs and laws, values and history."⁵¹ Chang points out that many of capitalism's most successful economies have emerged through significant state intervention in the market.

"Markets without regulation would not have delivered unleaded gasoline, autocatalysts or seatbelts and airbags, nor would they in isolation have delivered clean air to London after the killer smogs of the fifties."⁵²

Sir Mark Moody-Stuart,
Former CEO of Shell.

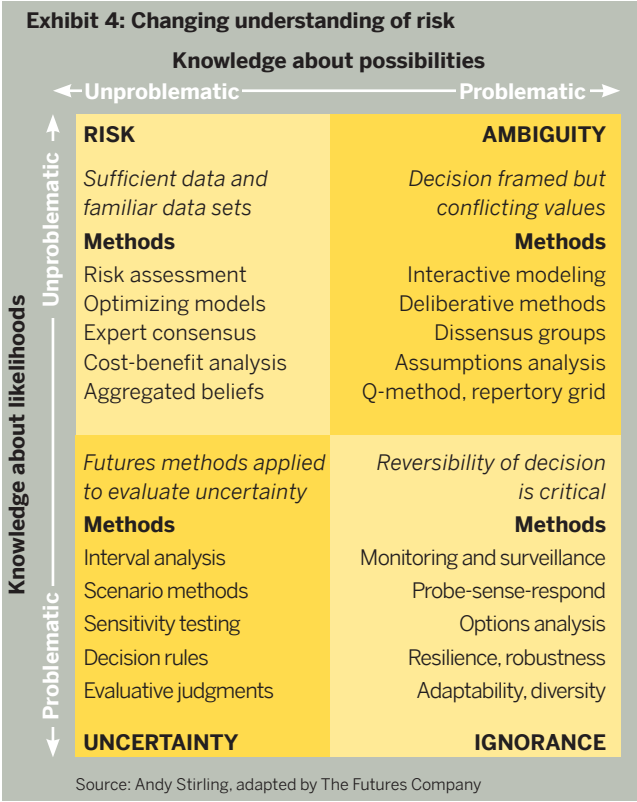
In other words, regulation and compliance get misread by organizations. Regulations are frameworks for putting limits on markets, for striking a new balance when markets and social values (and social costs) get out of line. When regulation starts to tighten in your sector, it is a signal to recalibrate the way you understand social expectations, and to innovate to stay ahead of the new social line.⁵³

The famous example, of course, is Honda, which responded to Californian emissions legislation by building cars which performed better than the legislation required, while their American counterparts fought California's legislators through the courts and lost. Honda, recognizing that the societal demand for cleaner cars represented a long-term shift in values, has continued to use this as an innovation platform ever since. More broadly, as a recent UN report has pointed out, the U.S. auto sector "effectively isolated

themselves from market signals. These companies and their shareholders paid a price when market demand shifted to fuel-efficient vehicles. This allowed the Japanese auto sector, which had not been as isolated from

market signals, to leapfrog the U.S. [auto] sector."⁵⁴

Of course, risk management is a specialist and professional function in most businesses of any size and a condition of doing business.



But doing things just for compliance reasons is usually a mistake: it should be “compliance-and,” creating a new frame for change. Too many businesses have a mindset that sees risk management as an exercise in defense. In some business cultures, risk becomes a pillar of Gerd Gigerenzer’s “negative error culture,” in which “if an error occurs, [people] do everything to hide it.”⁵⁵

There’s a wider point here. A focus on risk means that all problems of uncertainty become problems of risk. As a result, businesses apply the wrong tools to them. By seeing risk as a subset of a broader range of business understanding of an uncertain future (as shown in Exhibit 4), it opens up new ways of approaching change. Reframing risk on this broader canvas creates new conversations inside the business about the opportunities created beyond the risk analysis.

Of course, there are advantages to large businesses in having licensing and compliance frameworks that require hundreds of pages of documentation. They represent a barrier to entry. But such barriers only last for as long as it takes new entrants to innovate around them. In banking, new entrants are taking away elements of the business that don’t require a banking license. For example, U.K.’s TSB, a challenger brand demerged as a competition



Image: Augustus Newsam

requirement, has positioned itself against the crowd by focusing on local and national banking, with conservative business assumptions. TSB communicates that it

is building a business that doesn’t need to read 600 pages of regulations to know if it is doing the right thing. It has turned risk into opportunity.

“How do you make a constraint beautiful? How do you make it something that leads to an outcome that is better than you had before?”

Adam Morgan,
eatbigfish.

6. From consumers to citizens



Companies have thought about the people who buy their products as consumers since the days when marketing became a discipline in the 1960s. But as a concept it may be reaching the end of its useful life.

Berkeley professor Dara O'Rourke suggested at Davos 2014 that people "bristle at even being called consumers. They think of themselves as makers, users, sharers, and sometimes participants in the production of products, services, content, etc. They have values. They get status from different things than their parents did. And they want to support products and

companies that align with their values."⁵⁶ This is quickly becoming one of the new expectations—companies are being asked to recognize the distinction between consumer and citizen.

So what's the difference? In *Citizen Renaissance*, Jules Peck (co-author of this Future Perspective) and Robert Phillips describe a continuum from consumer to citizen.⁵⁷ At one end sits an archetypal "perfect consumer" whose life is largely mediated through so-called extrinsic values, such as financial success, prestige, authority, individualism and materialism. At the other end is the "perfect citizen"

whose life is mediated through "intrinsic values" such as community, affiliation to friends and family, connection to nature, concern for others, social justice and creativity. Few of us are at either extreme. Research by Dr. Tom Crompton and Professor Tim Kasser shows that we all have a mix of these values in our makeup.⁵⁸ Factors such as upbringing, advertising and societal norms influence our position on the spectrum.⁵⁹

Research shows that the "perfect consumer" has a lower wellbeing than others, lowers the wellbeing of those around them, has a higher-than-average environmental footprint and is more closed than others to messaging about pro-social behaviors and environmental behavior change. Conversely, the "perfect citizen" has higher-than-average levels of wellbeing, a lower environmental footprint, and is far more open to pro-social and environmental behavior-change messaging.

“Brands used to be about desired identity. But the next generation of brands will be about desired society.”

Tom LaForge, Coca-Cola.

From a business perspective, then, attracting a disproportionate number of “perfect consumers” as customers comes with a cost. It effectively raises the external costs of doing business, and increases the social and environmental impact of your operations.

The other business imperative here is the engagement that an individual has with many products or services is often vanishingly small. If you believe that you are a brand with purpose, you need to be able to engage people more broadly to achieve that purpose.

Understanding this distinction between intrinsic and extrinsic values supports the development of products, services and brands that reduce the footprint of both business and individual, and increases the level of the individual's wellbeing-based satisfaction.

An added dividend for brand relationships is that these intrinsic values are deeply held and long term, whereas extrinsic values tend to be short term and lightly held. Communicating around intrinsic values creates a deeper, more durable brand relationship with your customers. As argued in a recent WEF/Deloitte report, *The Consumption Dilemma*, it also creates a platform for transformational change.⁶⁰

What does this look like in practice? Some of the messaging in Unilever's innovative new Project Sunlight platform is talking to us as citizens, reinforcing intrinsic values and wellbeing-enhancing practices.⁶¹

The New Economics Foundation's theory of *Five Ways to Well Being* is similarly built around intrinsic values, and is well-evidenced.⁶²

This represents a deep shift for both brand and marketing messages, moving them away from engagement with products or services and towards social and personal engagement.

There are risks here: companies which change their language without changing their behavior will be found out—in the same way that companies were criticized for “greenwashing” rather than developing sustainable principles.



Image source: Project Sunlight by Unilever, Youtube

What to do

Bringing the 21st century into your business

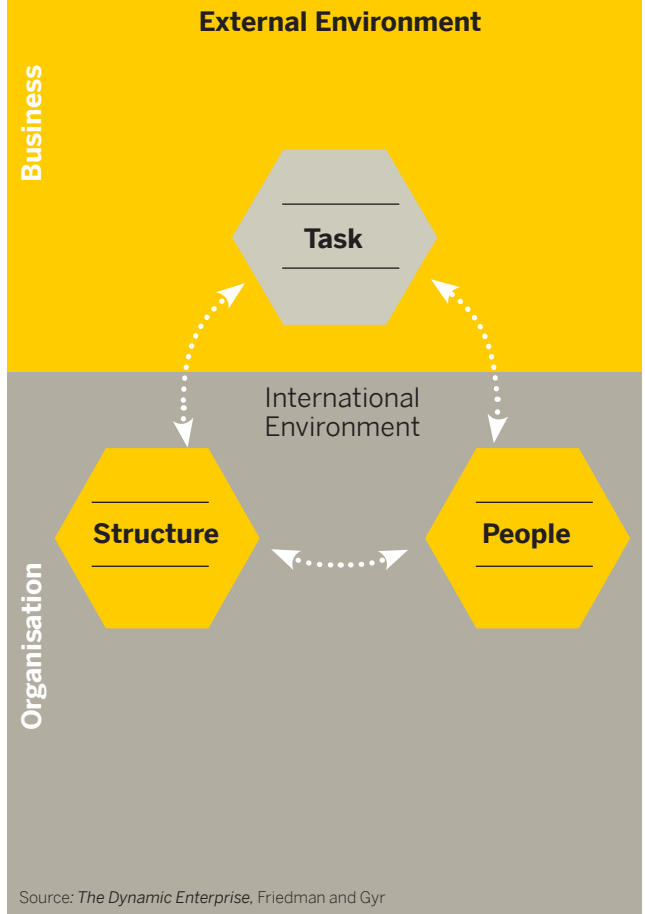
The six pillars are more than a description of the 21st century business. They also are a guide to action. Using a formal organizational change model such as STEP (Structure-Task-Environment-People) helps to bring these into focus for a business.⁶³ It is clear that this is a journey that involves considerable change for most organizations.

Structure

Structure is about the way the business is set up, the spans of control, the way authority is exercised, the physical plant and equipment it owns, and so on.

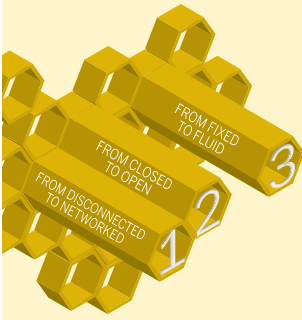
The 21st century organization will tend to be more porous, with more blurred boundaries with suppliers, customers and staff. The Internet reduces the transaction costs of doing business, though not to the point where the organization itself will wither away.

Exhibit 5: Systems-Tasks-Environment-People



Structures will become looser as society continues to become more informal and institutions more horizontal in the way they work. Increasingly, the 21st century organization is driven by values and guiding principles rather than rules. Culture shapes strategy. It may even “eat it for breakfast.”⁶⁴

Key pillars: *Disconnected to Networked; Closed to Open; Fixed to Fluid*



Task

Task describes the actual work you do and how you do it, and therefore is tightly connected to the products and services you produce and how you deliver them to your customers.

In a genuinely customer-facing business, the tasks of the organization are “pulled” by customer demand, not “pushed” by the business. This means understanding the underlying needs you are fulfilling, in the whole context of the lives of your customers (or your customers’ customers) as citizens, not just their “wants” as consumers. The benefit: this should identify ways to innovate for value, while also reducing costs by eliminating elements of the product or service your customers don’t need. Some competencies will gain a higher profile.

In the 21st century business *connectors* have a greater value, as do staff who can handle complexity and think in patterns.

Key pillars: *Volume to Value; Consumers to Citizens; Risk to Opportunity*



Environment

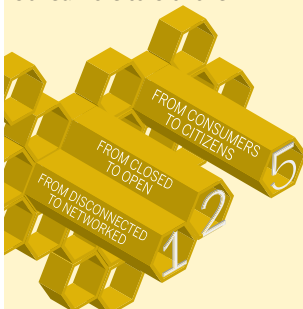
Environment covers the internal and external (contextual) operating environment. The external factors include the macro-forces discussed at the start of this report.

The internal environment is about the organizational culture of the business and the way people relate to each other within the business, and outside of it. In the 21st century business, it becomes increasingly impossible to distinguish between the internal behavior (the culture of the organization) and the way it acts towards the outside world. The notion that a business's internal affairs are private has long since been discredited in our world of digital and social media.

“Because most leaders view culture as something soft and intangible, it’s often overlooked when they take a new job. Unfortunately, in my experience, the single biggest roadblock to success for a new leader is not understanding the current culture of his/her new team and clearly articulating how that culture must change.”

Jonathan Brecher, CMO of SAP.

Key pillars: *Disconnected to Networked; Closed to Open; Consumers to Citizens*



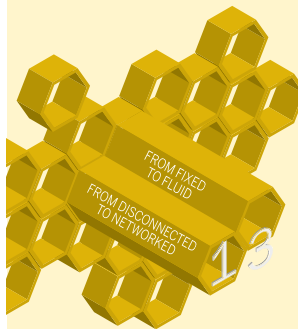
People

People represent the skills and talents of your employees, how they communicate with each other, and the quality and effectiveness of their working relationships.

As the saying goes, “The customer comes second.” The rationale: unless your people believe that you believe in them, the customer will get a worse experience. Recent research at the bottom of the labor market explains why. Paying store staff at or even below the minimum wage means they are less engaged and less helpful. Customer experience suffers and so do sales and profits.⁶⁵ At a recent event, Steve Knight of the British insurance company LV= was asked how he managed to motivate call center workers. “We don’t call them call center workers, for a start,” came the reply.

“You’re talking about the people who own our customer experience.” In the 21st century business environment, people will choose to work for businesses that choose to believe in them. The business benefits of trusting your staff go straight through to the bottom line—and businesses that learn this soonest will create a virtuous cycle for themselves.

Key pillars: *Disconnected to Networked; Fixed to Fluid*



Guiding principles for the 21st century business

As you set out to transform your business or your function into a 21st century business, these three guiding principles will act as a framework to tell you if you are on the right path.

Culture is more important than strategy. The 21st century business is driven by its people, and its people end up guiding the strategic choices that need to be made. The evidence suggests that organizational culture is a far more effective lever for creating productive and profitable organizations and workplaces than any amount of strategy, especially in turbulent business environments. Businesses with engaged workforces outperform those without by a significant margin. And when employees are *enabled* and *energized*, as well as engaged, profit margins are three times as high as those of companies with low levels of engagement.⁶⁶ The idea that culture eats strategy

is not a new insight—it probably originated with Peter Drucker—but it is one that businesses find hard to act on.

Intrinsic values trump extrinsic values. For your staff and your customers, the route to a high-performance business is through intrinsic values. For staff, these values create trust and motivation. For customers, intrinsic values represent their whole identity as citizens, not just the fraction that interacts with your products and services. Because such citizen-customers are more socially engaged, they help you achieve your goals as a sustainable business. And understanding the underlying intrinsic wellbeing needs of your customers puts you one step ahead of your competitors who still focus on creating wants and driving extrinsic values.

Costs and customer experience are both driven by connection. The only reliable way to manage cost reductions while improving customer experience is by taking a whole-system view of your function and service, and by identifying the ways in which your customers can “pull” value through your organization. To spell this out, many customer-experience models are still driven by the structure of the business and its technology platforms rather than by an understanding of what customers need or expect. As we reach the end of the savings that can be made through the introduction of technology, the only reliable way to reduce costs is to redesign systems so you are managing them against customer value. This resolves an issue that's normally seen as a dilemma: in the traditional mindset, customer experience costs money and cutting costs damages customer experience.

Conclusion

The big change, sitting across all of this, is from extrinsic values to intrinsic values, and this is true of both your customers and your staff. Mounting evidence shows that we are moving away from the late 20th century consumer-driven world, where extrinsic values were celebrated and promoted, to a world of internally-driven values.

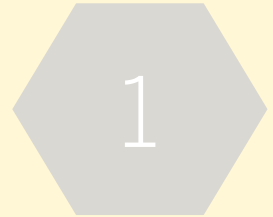
We are, according to analysis of U.S. data by the futures researcher Hardin Tibbs, on the cusp of a significant values transition from “moderns” to “post-materialists” or “cultural creatives” who are more intrinsically driven.⁶⁷ Similar shifts are being seen in Europe. This is more true in emerging markets.

And this is the reason why the transition to the 21st century business is both deep and disruptive. It is being shaped both by structural factors and by changes in people’s perceptions and values. On their own, the macro-trends reviewed at the start of this report—resources pressures, climate change, and so on—would represent a significant challenge to business as usual. But when our personal and social values shift as well, and shape the way we respond to those changes, the challenge becomes critical. We already see businesses that struggle to recruit staff because their values and their purpose are looking backwards instead of forwards. Businesses that don’t adapt to the new imperatives will start to struggle to recruit customers as well.

As we head towards the 2020s, many societies are at a tipping point. Businesses that don’t change will find themselves beached by the changing tide.

**The big change,
sitting across all
of this, is from
extrinsic values
to intrinsic
values, and this
is true of both
your customers
and your staff.**

Where to start



Redesigning a business is something that typically starts with the CEO and the board. But it's possible to start the learning process within a category, function or division. Jonathan Brecher, quoted earlier, changed the culture of the marketing department at SAP when he became CMO.

We recommend four places to start that make the journey visible and tangible, create learning and alignment, and that are likely to deliver immediate business benefits.

Understanding the whole context in which your customers use your product or service

Going beyond the typical market model, you need to understand the whole life of your product or service in the lives of your customers as citizens and consumers, up to and including its cultural value and meaning. **This involves using human and cultural insight to understand the whole picture and identify underlying needs.** The purpose: to understand aspects of your product or service over its whole life cycle that may be hidden to you, but have a high value to your customers, or that you take for granted but your customers dislike. For example: research into urban shared car services found that one of the things that people liked most was that it sparked new conversations with their neighbors, which contributed to their wellbeing.

We have worked with companies to redesign their businesses to succeed in the 21st century, and we will be delighted to talk to you about the challenges facing your business or category.

2

Innovating for value

A lot of innovation happens incrementally, involving small tweaks to existing products that are barely noticed by customers. **Innovating for value looks at the whole life of the product or service, and the different flows that are associated with it** (such as material, information and data flows) in the context of needs, and then looks at ways to remove customer cost or to add customer value in a way that also increases the value of the product or the service for the business. For example: when McDonald's improved its coffee and introduced Wi-Fi, it was because it realized that during weekdays it was primarily selling "catching up time" to a different, business, clientele.

3

Understanding the shape of the 21st century business in your sector

In every sector, there are businesses of different sizes that have started on this journey and entrepreneurial start-ups that are testing out new ideas. Often they are responding to customer frustrations with the category.

By using the six pillars to scan for leading-edge practice in your sector, along with looking at leading-edge customers and their pain points, you can identify opportunities for new ways of doing business that match your capabilities and culture. These offer leverage points to start making effective change. For example: Kingfisher, the British retail chain, plans to have 1,000 products made through closed-loop production methods by 2020. Its B&Q chain has already launched a kitchen worktop made from 100% waste materials.

4

Understanding the workforce and the workplace of the future

One of the factors already shaping the 21st century business is a change in the values and the expectations that your workforce bring in to work. These shifts are amplified by demographic and technological change. **Businesses need to align their understanding of these trends with their workplace strategies, to increase engagement and empowerment.** In doing so, they can connect trends to operating principles that create a higher value workplace. For example: when service centers adopt "first-contact resolution", they find that both employee satisfaction and customer satisfaction go up sharply.



“If you want to make money, you can choose between two fundamentally different strategies. One is to create genuinely new value by bringing resources together in ways that serve people’s wants and needs. The other is to seize value through predation, taking resources, money, or time from others, whether they like it or not. Your choice, in short, is whether to be a bee or a locust.”

Geoff Mulgan,
The Locust and the Bee.

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A close-up photograph of a honeycomb structure, showing the hexagonal cells in warm, golden-yellow tones. The lighting creates a sense of depth and texture.

About The Futures Company

The Futures Company is the leading global foresight and futures consultancy. We are a team of consultants, researchers and futures experts who use foresight techniques and cultural insight to unlock new sources of growth for our clients. We offer a range of subscription services and research and consulting solutions. We have teams in the U.K., U.S., Latin America, Singapore and China, and partnerships in India and Poland. We are a Kantar company within WPP.

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