

From scalable efficiency to scalable learning

Sometime back, my good friend, Debiprasad Banerjee (Debi), referred to me a thought provoking video, featuring John Hagel, a thought leader in the area of business strategy. I found this video to be extremely insightful. Here is a short write up that captures the key points covered by Hagel.

<https://www.youtube.com/watch?v=jjOB7R8iXLM>

Introduction

Advances in technology are changing the way businesses operate. Technology is creating opportunities to digitize various business processes and develop new business models. But to take full advantage of technology, companies, especially large ones must also be able to understand its “dark side”. By dark side, Hagel does not refer to privacy or security. He is essentially talking about how technology is making life complex and challenging for both individuals and organizations.

The dark side of technology manifests itself in various ways:

- There is mounting performance pressure on individuals and organizations. With performance being tracked and reported in real time, it has become difficult to hide poor performance!
- Technology is also intensifying competition, by lowering barriers to entry and movement. New entrants can come from nowhere and disrupt the business models of incumbent players.
- Technology is accelerating the pace of change. Product Life Cycles are compressing at a dramatic rate. The time available for launching the next version of a product or service is shrinking.
- Technology is also making extreme disruptive events far more likely today. Thanks to the global connectivity caused by advances in technology, a seemingly tiny event may explode into a big extreme event.

Thus, we must understand the dark side of technology even as we exploit the opportunities thrown up by technology.

Towards a new paradigm: From efficiency to learning

Ideally, technology should boost productivity. But Hagel’s research reveals that Return on assets for public companies in the US has collapsed since 1965, declining by about 75%. This is a clear hint that advances in computing technology have not been effectively leveraged by companies.

We are living in a world that is being shaped by exponential technologies, but the mindset, approaches and institutional practices we use, continue to be linear. As we keep doing things in the old ways, we are falling behind on the productivity curve. Hagel's advice is that we need to challenge the basic assumptions about how to do business. This is not a choice but an imperative. *We have to make a paradigm shift from Scalable efficiency to Scalable learning.*

The concept of the large organization, driven by scalable efficiency, was born several decades ago. The fundamental advantage of a large company is that it can easily coordinate and integrate the activities of a large number of individuals within the organization. British economist, Ronald Coase won the Nobel Prize for a paper he wrote in 1937, to explain why a modern economy needs organizations and not just several independent, self-employed people who contract with one another. The prevailing idea then, strongly influenced by Adam Smith, was that the market being "efficient", those who could provide each good or service most efficiently were already doing so. So, it would always be cheaper to buy the service in the market than to do it in house. Coase noted, however, that there were a number of transaction costs incurred while outsourcing - search and information costs, bargaining costs, cost of protecting trade secrets and policing and enforcement costs. All these costs could make procurement from external entities expensive. By keeping the production of important goods and services within their organization, firms could avoid these additional costs.

But is this rationale as compelling today as it was when Coase wrote his paper in 1937? Hagel feels that because of today's digital and infrastructural technologies, things have changed a lot. Today, it has become very easy and cost effective to coordinate the activities of a large number of independent entities working across locations, using technology.

Does this mean there is no place for large organizations? Will large companies disappear? Will all of us become free agents, working for different organizations based on need and choice.

Hagel feels that it is not yet time to write an obituary for large organizations. But their role has to change from reducing transaction costs and increasing efficiency to helping employees to learn faster. Indeed, the only way large organizations will be able to flourish in the era of digital technologies is by providing faster learning opportunities to both employees and partners.

A key point made by Hagel is that it is not possible to achieve scalable efficiency and scalable learning simultaneously. These two rationales are fundamentally in conflict with each other. Scalable efficiency means predictability and reliability, implying there is no room for failure. People are expected to deliver as expected. Learning by definition involves failure. If we are not failing, we are not learning.

Large companies are good at specifying, standardizing and integrating activities within the organization for scalable efficiency. In the coming years, large companies will have to provide more learning opportunities to employees. And this involves much more than lip service. Learning is not about sending people to training programs. It is increasingly about learning on the job and raising our level of performance. This is difficult to achieve in a scalable efficiency model.

Scalable learning means redesigning the work environment in a systematic, holistic way. Not just the physical environment and virtual infrastructure but also the management systems, compensation systems and various other processes.

Creating learning networks within the organization

Hagel has explained the importance of learning with the example of **LiveOps**, a company which runs outsourced call centers for clients. LiveOps started more than 14 years ago, with the idea of using the Internet to intelligently route work to customer service agents anywhere, anytime. As LiveOps mentions on its home page, its service enables brands to have a 24/7, 360-degree ability to connect with consumers faster, better and cost-effectively on the consumer's channel of choice - traditional voice, email, chat, SMS, social or mobile. LiveOps does not have a physical presence. All the 20,000 LiveOps workers operate from home. The company has drawn inspiration from the online video game, World of Warcraft. In this game, participants get a scorecard, i.e. real time feedback on how they are faring in the game. Similarly, in LiveOps, employees get a real time performance dashboard. But this dashboard is not used to punish weaker employees. Rather it is used to help them to improve. The company has created an online discussion forum, where people can take help from peers to improve their performance. People who offer help are recognized and rewarded. The culture encourages the weaker performers to ask for help. In short, LiveOps has put in place a very powerful peer to peer learning environment.

Learning from people outside the organization

Well-known technology genius, entrepreneur and Sun Microsystems cofounder, Bill Joy once remarked that we will always find a lot more smart people outside

the organization than inside. (For people who are not familiar with Bill Joy, here is what Sun's CEO mentioned: "AT&T has Bell Labs, and we have Bill Joy. We get a lot more for our money." Incidentally, James Gosling, the founder of Java programming language worked with Sun for a long time, before Sun was acquired by Oracle in 2010.) If we focus only on experts within the organization, learning will not scale up fast enough. We must identify experts outside the organization and connect with them.

Hagel gave the example of Li & Fung, the well-known Hong Kong based apparel exporter. Li & Fung specializes in managing supply chains of high-volume, time-sensitive goods for major retail brands around the world. Li & Fung orchestrates one of the world's largest consumer product sourcing and distribution platforms. The company has over 15,000 partners who take care of sourcing, production and distribution of apparel across the world. Partners want to be part of the network because it allows them to learn faster than anywhere else. While many companies are reducing the number of supply chain partners to achieve scale and efficiency, Li & Fung is increasing the number to accelerate learning. Thus Li & Fung has chosen a fundamentally new approach to developing and managing relationships with partners, compared to most other companies.

Managing change

Moving from scalable efficiency to scalable learning calls for a paradigm shift. Large scale organizational change is complex. It is not just about data and analytics. It is not a rational but a political process. It is also not just about top management support and funding. Based on his experience, Hagel mentions that three points must be kept in mind for a large scale change initiative to succeed.

- The first is to identify and neutralize the enemies of change. Enemies of change will never come out in the open. They will sit at the table, nod and smile and agree on the need for change during discussions but go back to the workplace and try to sabotage the initiative.
- The second is to identify and strengthen the champions of change.
- Last, but not the least, we must avoid a direct confrontation between the enemies and champions of change for as long as possible, at least till the champions have become quite strong and the enemies quite weak. At that point, direct confrontation becomes unnecessary.

It is difficult to change the mindset of a large organization overnight. The trick is to identify a small part of the organization where experimentation is easier and learning can be much faster. Hagel explained how niche areas called "edges" can

be identified. An edge is an area of the business that is small today but has the potential to scale up rapidly, through a process of accelerated learning, to become the new core of the business tomorrow.

How do we choose the edge? Based on the challenges involved in driving change in large organizations, Hagel offers the following guidelines:

- In the initial stages, the edge should need moderate investments. This will ensure that a proof of concept can be built efficiently and quickly.
- We must avoid edges which will in the early days cannibalize the core business. This will protect the edge from the hostility of the established business units.
- We should starve the edge. The natural temptation is to pour a large amount of money into the edge. But if we do so, the established business units from whom we take money will not be happy. They will get together and sabotage the efforts. Liberal funding may also create a sense of complacency within the edge instead of a sense of urgency.
- From Day 1, the people managing the edge must be encouraged to connect with other entities outside the organization to supplement the modest resources they have by leveraging the expertise and capabilities of people outside.
- When it comes to evaluating the performance of an edge, we must focus on the trajectory. The key issue is not how good the performance is today but how fast the performance is improving. Performance improvement should take place in a nonlinear way. People within the edge should be learning fast and the performance should be accelerating.

Conclusion

Today, for most businesses, technology is not only an enabler but can also be a game changer. Businesses must implement modern digital technologies. But such technologies must be backed by a fundamental redesign of the organization with a completely new structure, systems and practices.

Traditionally, learning curves have been associated with decreasing returns to scale. More experience means it becomes that much more difficult for a company to achieve the next major improvement in performance. Scalable learning means increasing returns to scale. The more the experience, the faster we can learn. In that world of scalable learning, small moves, smartly made, can set into motion very big things. With limited resources, incredible things can be achieved.