

Architecture of Collaboration Across Boundaries

The Case for the Collaborative Imperative as an Innovation Engine in Value Networks

By Robert Porter Lynch

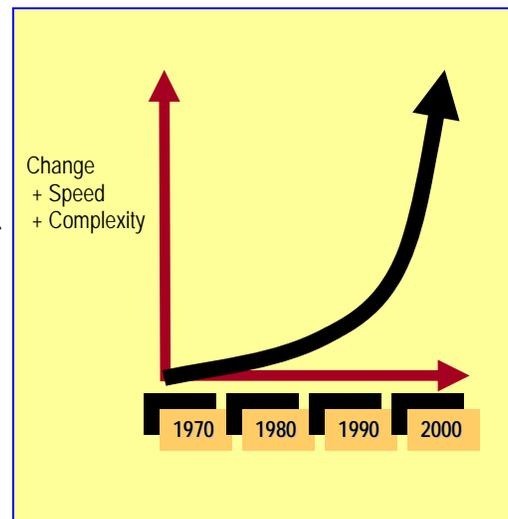
An interesting thing happened on the way to the future, and many of us didn't recognize it when it was happening, we were so dizzied by the speed and complexity of the change. The following story illustrates the power of this change dramatically:

In surveys done in the last five years,ⁱ senior executives (45-65 years of age from every size and type of business) were asked to fill out the following graph given a simple set of instructions – on the graph, using 1970 as a baseline, as time has progressed to the present “what does the rate of change, complexity, and speed (illustrated on the vertical access) *feel like*? The participants were instructed to give their own personal point of view, not what they had read or been told by someone else.

Astoundingly, 80-90% responded with a curve that looked like Figure 1.ⁱⁱ

In the first half of this era (1970-1990), the business world was slower moving, a period of relative predictable change, characterized by five and ten year strategic plans and three year sales forecasts. Organizations were stand-alone and predominantly hierarchical. The rules of management in this era had been developed from years of experience, handed down through generations of tradition and the esteemed learning from our business schools.

Figure 1: Rate of Change, Complexity, & Speed



Then hell broke loose. Upon the world new driving forces and technologies changed the face of business: computers, the Internet, cell phones and fax machines helped drive an information explosion and globalization of business.

Fired by the forces of change (see footnote #2), what was once a somewhat predictable world almost instantaneously suffered a tectonic shift, becoming fast, discontinuous, and unpredictable. Long term strategic plans were suspended, sales forecasts scaled into shorter horizons, and alliances burgeoned to enable adaptation to the shift.

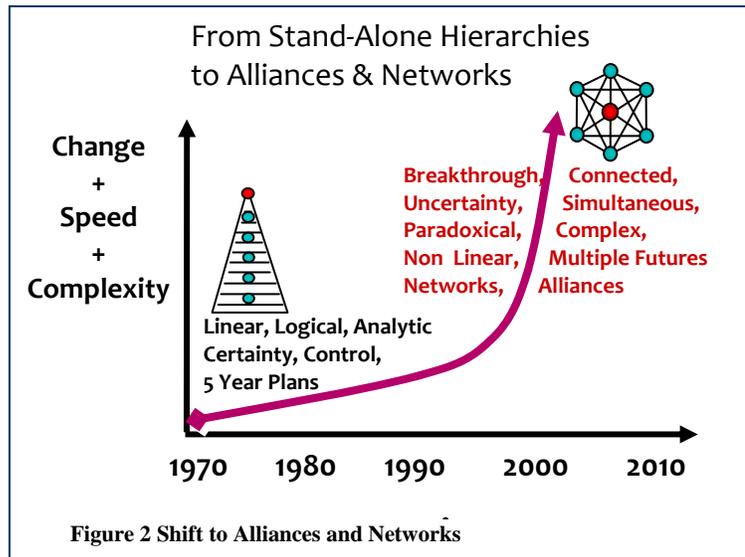
There is no time in the history of the world when this type and magnitude of sustained change has occurred in such a short period of time.ⁱⁱⁱ

In the face of this massive shift in speed, complexity, and change, everyone in business needs to ask the question: “So what? What is different today that wasn't true or important ten or twenty years ago?” (If you haven't asked this question, you and your team are strongly urged to do so, because the answers may astound you.)

A new world emerged on the way to the future, with a new rule (you might say the business derivative of Einstein's law of Relativity):

As Speed Shifts, Paradigms Change

No longer does the linear world of hierarchical, stand-alone companies dominate the business landscape. Why? Because the forces have changed: breakthroughs are now common, everything must be inter-connected, complexity and uncertainty are the norm, simultaneous and synchronous interaction is demanded, paradoxical shifts occur regularly, ambiguity and non-linearity are expected in planning where multiple futures must be accounted for. The only organizational structures capable of handling such situations are networks joined by alliances. (see Figure 2)



The implications of this shift are enormous on organizations, whether they be in manufacturing or service, public or private sector, large or small in scale.

In Table 1, a few of the differences are outlined. Each of these issues are sufficient to fell an organization, which explains in part why so many once-strong companies have been laid to their knees in our new era. No one is immune. Every company must carefully assess how it needs to shift its thinking about its future, its relationships, and its sources of competitive advantage.

Table 1 - Implications of Shift from Slow to Fast Moving World

Pace	Slow	Fast
Key Planning Characteristic	Predictable, Linear, Logical	Innovative, Simultaneous, Proactive
Command System	Control and Direct	Coordinate and Synchronize
Organizational Structure	Hierarchical	Alliances & Networks
Supplier Relationships	Component Cost, Vendor-Based, Transactional	Total Cost of Ownership, Systems Integration, Relational
Organizational Relations	Stand Alone, Separate	Integrated
Intellectual Property Strategy	Protect & Defend	Multiply and Regenerate
Source of Competitive Advantage	Size and Financial Muscle	Collaborative Innovation

Challenge to Traditional Thinking – Key Factor for Success

Too often, we revert to their "proven" playbook to solve current problems. Experience may be extremely valuable, but challenge what you think you know. One thing is for sure, the old system of value chains where customer beats on supplier for the lowest price is being rapidly jeopardized by competitors who see the competitive battle as one of constructing the best value network to compete against rivals who use fragmented chains to construct slow, inefficient competitive products and services. One just has to look at how Toyota and Honda have crucified Ford and GM, or how Procter & Gamble has continued to innovate and remain highly profitable even with Wal-Mart as their largest customer. The new mantra of value networks is:

If there is an Adversarial Process in-between organizations that must be collaborative to succeed, GET RID OF IT!!

We cannot always revert back to how things were done in the past to solve new problems of the future; we must innovate with new ideas if you need to be a leader in the field. Here are a few things to consider:

1. Need for Innovation, Integration, and Acceleration: Rapid change is the compelling reason to focus on innovation. Without innovation, any business is faced with becoming extinct, and faster than ever before. Thus innovation becomes essential for business survivability. We believe there is new fundamental rule for businesses today – both large and small:

***In a fast moving, rapidly changing world,
the most sustainable source competitive advantage is collaborative
innovation, acceleration, and integration.***

2. Hierarchies are dinosaurs: The hierarchical organization as we've known it was a hand-me-down from the Roman legions. It worked well in slow moving environments. However, in a fast moving world, connected networks that function more like the neural networks of the brain are more efficient. Even the U.S. military understands this – the role of a private in a combat-centered battlefield network is far different than the private's role back at the base during peacetime.
3. Need for Collaboration: With the advent of the internet, powerful communications, and a major shift to greater connectivity between customers and suppliers, our new world of global enterprise is now far more integrated, connected, and thus cooperative. This calls for a new type of business – one that is highly cooperative. For the prior generation, this may come as a shock. The premise of the past was that the John Wayne style hero was the epitome of the heroic entrepreneur. Independence is no longer a sustainable strategy for success. This doesn't mean we think the individual is obsolete or that individual initiative is a relic of the past – quite the contrary! But it does require the individual entrepreneur to think in new, connected and strategic ways.
4. Entrepreneurship is more Important than ever: Rapid action, less bureaucracy, and working on intuition is more prized now than in the days of slower bureaucratic corporations. Quick decision-making, agility in organization, creative solutions, flexible roles, fast alliances, and willingness to take calculated risks are the hallmark of the successful future business.
5. Information is a Commodity: In the past, access to deep knowledge was the privilege of the college educated. Today the internet has changed all that. Any young child with a computer and access to the world-wide web can have just about as much information as the Harvard MBA. So it's not about the information; today it's about ambition, creativity, organizational ability, and willingness to take risks.

Implications of this change

Simply put:

The future isn't what it used to be!

We are in a period of business evolution that requires massive readjustment and reassessment of our priorities, styles of leadership, assumptions about people, and methods of interacting. Here are some of the shifts in thinking entrepreneurs and executive alike must consider:

1. **Revolution in Innovation:** Massive advances in computer and telecommunications technology have driven powerful shifts in business and economics. We are still trying to absorb the meaning of these changes. But, to the chagrin of many who seek a stable world, the old rules are being rewritten daily. Some of the new rules will astound the older generations, but, ironically, there are some rules of the past that will be more important than ever.

Ideas are the fuel of innovation engines. Best of all: the fuel is *free*.
2. **Strategic Alliances & Networks:** Unlike the prior age, where stand-alone companies could produce nearly everything they needed to sell, the new era demands that we focus on what we do well. Successful companies are now learning the importance of being integrated, connected, networked, and allied with their customers, their delivery systems, and their suppliers. Even giants like P&G, IBM, and Cisco Systems now pride themselves in the innovation flows that come from their alliance partners.
3. **Power of Intellectual Capital:** Information is now a commodity – highly available, cheap, and accessible by anyone. Money is more prevalent than ever (even though we never seem to have enough of it). What becomes most *valuable* in the new era of *innovation* is the single thing which creates the most *competitive advantage* – and that's *intellectual capital*. The game every entrepreneur must play is establishing a sustainable competitive advantage to keep his or her business alive. The way this is done is different today than it was a generation ago.
4. **Collaborative Innovation:** If innovation is the most important means of creating sustainable competitive advantage in a fast moving, rapidly changing world, then how do we maximize our competitive advantage? Obviously by out-innovating the competition. But any entrepreneur will soon run out of ideas. All the brain-power of Edison and Einstein combined would not be enough to produce the quantity of innovation required, given the rate of change around us. This should lead anyone to the inevitable conclusion: we must *collaboratively* innovate to win in the game.
5. **Leveraging Resources:** Amazingly, if you ask any business, from the largest multi-billion dollar global corporation to the smallest local sole proprietorship, about resources, they will all say they don't have enough resources – money, people, time, or whatever. In fact, studies have shown that companies with too many resources usually squander them – it's the resource constrained companies that tend to be most successful. (just look at how the lack of resources forced Apple Computer or Toyota to be resourceful). Companies, from large to small are now learning to cooperate to compete, thus leveraging their resources enormously.
6. **Teamwork Inside and Outside:** Leveraging Resources and Generating Intellectual Capital requires a little rethinking of what we do and how we do it. Teamwork used to mean things we did within our organization, usually within a small part of our business, to get people to work together. While this is still true, a larger truth prevails today: we must make teamwork fulfill the goal of making our organizations more efficient and effective – more innovative and more agile. But we can't limit the idea of teamwork to something within our companies – teamwork has to happen across boundaries: with our suppliers and our customers. Without seeing our company as part of an alliance network of suppliers and customers, we run the risk of thinking too tactically if our competitors are jointly playing a strategic game.

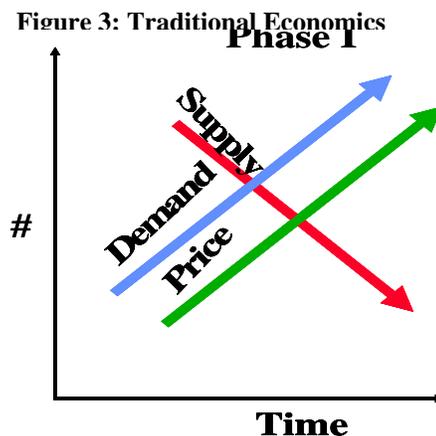
7. **Teamwork & Trust Create Competitive Advantage:** In the game of business, where resources are limited, risks are many, and the competition is fierce, we look for the greatest means of creating competitive advantage.
- First is Think – create innovative ideas.
 - Second is Teamwork – building a group of highly energized, coordinated people.
 - Third is Trust – engaging people so that they feel more than safe together, but so they can synergize together, co-create, and coordinate with utmost precision (what we call *synchronicity*). Without trusting, the thinking and teaming parts of the equation won't compute. What's interesting about trust is that it was much more a part of capitalism during the pre-industrial (agrarian) age, and it will be an even greater asset to a business in the future, because it enables high levels of speed, innovation, and integration – all major assets in our new, fast moving world.

New (Dual) Economics

While digital technologies not only have impacted every aspect of business, they have highlighted a dimension of economics that had hitherto never been explored.

To understand the new economics, you must first think outside the box. Everything you learned about traditional economics works only part of the time. (If you took a course in economics in college, please put it aside for a few moments until we explain) First, there are actually two different types of economic systems running simultaneously at all times – one is quite evident called the economics of expendables. The other less tangible, called the economics of expandables. We'll show you the difference and how they impact on your business, your thinking, and your bottom line.

- **Economics of Expendables:** This is really easy to understand, and the basis of all traditional economics. Let's use gasoline as an example of an expendable. Here all the normal laws of supply and demand prevail. When you use a gallon of gasoline, the gasoline is gone forever – kaput. Each gallon of gas you use decreases the supply of gas. As demand goes up, supply goes down, driving the price up. If demand reverses course, supply increases, and price goes down. During the time the gasoline sits in your car, the utility (or value) of the gasoline remains stable. (see Figure 3)



Expendable resources are depleted and decrease upon usage.

As price is driven up, suppliers are encouraged to produce more, which increases supply, which in turn drives down prices. Eventually some zone of equilibrium is achieved in which prices and supply and demand tend to stay within a range. Figure 4 demonstrates this graphically.

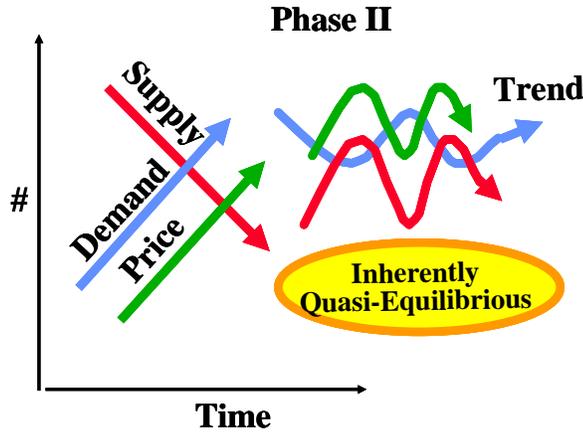


Figure 4: Supply, Demand, & Price over Time

That’s pretty obvious and pretty simple. Here’s where things start to get really interesting:

- Economics of Expandables: This is what you weren’t taught in school, and can’t see as easily, but you know it from experience. Economists were puzzled by it when they saw productivity increase dramatically in the 1990’s, but couldn’t explain it with traditional thinking. Here’s why:

Expandable resources regenerate, increase, or multiply the more they are used

For example, software is an expandable resource. Using it daily does not diminish its size or impact. To the contrary, using software creates more value every time it is used -- therefore it expands. It is best used when shared, transferred and transmitted. Using this resource brings it to life. Capturing the learning and sharing the knowledge generated by software only makes it more valuable, reaching more people, and generating more future possibilities. Figure 5 demonstrates what happens on the supply, demand, and price curves.

Unlike expandables (which adhere to the universal price laws of supply and demand) expandables are not limited by supply, and demand does not increase their price, but it does increase their value.

This situation creates a vexing dilemma for some businesses. In order to keep prices from being driven lower and lower, one either has to control the market (as Microsoft has done) or innovate faster and faster (as Intel has done). Figure 6 illustrates the strategy of Intel from the perspective of the economics of expandables (note: silicon, the major component of a computer chip, is one of the most abundant minerals on the earth).

Moore’s Law says the capacity of a computer chip will double every eighteen months, and the price per byte will drop by one half).

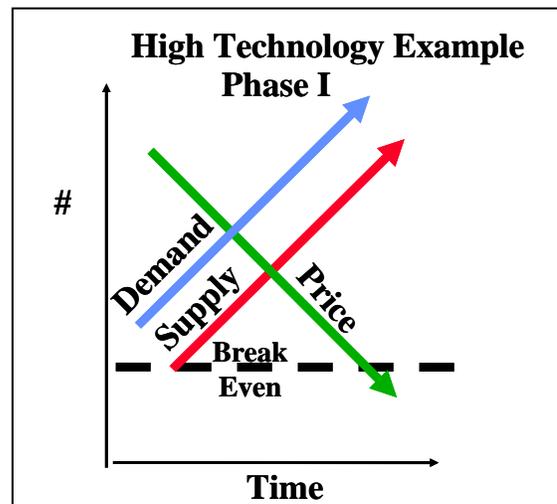


Figure 5: Economics of Expandables

Unfortunately, the Economics of Exp~~a~~ndables are not well quantified, analyzed, or studied, and therefore does not form the foundation of traditional economic thinking. What also sets the Economics of Exp~~a~~ndables apart is that it is highly dependent upon the establishment of a regenerative system to support it.

Let's look at an example of the economics of exp~~a~~ndables in practice. Take Edison's invention of the phonograph as an early technological example. Once Edison created the technology, the production of a single record could be reproduced at an extremely low incremental cost of production, though selling for a premium. Unlike exp~~e~~ndibles/consumables, using a phonograph record did not "use it up." The more it was used, the more utility was derived.¹

Software is a modern version of this phenomenon. Software is inherently invisible, being only a series of magnetic imprints. A disk or CD costs virtually nothing to produce (the CD or Disk's value is less than \$1), but the software may be valued at tens or hundreds of dollars, or more. Therefore, a unique dynamic occurs: In the first phase of evolution, as demand for software increases, the supply of software can increase along with demand while price drops dramatically (because the incremental costs of production are virtually nothing compared to the sales price) As the first phase of evolution progresses, other competitors enter the market, further depressing price and driving profits below break even.

At this juncture, two options exist: one option calls for creating a monopoly, similarly to what Microsoft has done, driving competitors out of the market, thus creating an artificial price level substantially above the breakeven point. The other option calls for a regeneration, by which a new and better version of the software is used to obsolete the earlier version, thus creating the second phase of the evolution.

Chip manufacturers, (using as a base the mineral silicon, which is one of the most abundant minerals on the face of the earth) adhering to Moore's law, track along this second regenerative phase, which is inherently dis-equilibrrious because the more demand, the lower the incremental cost of production for the next chip, hence the lower the actual cost of the next chip.

For Intel, this price/demand/supply relationship will burn itself out every 18 months (Moore's Law), unless Intel creates a totally new level of chips. The 8088 chip had to be supplanted by the 286, then the 386, then the 486, then the Pentium I, II, III, IV, V, and onward. While Microsoft has employed a mixed monopoly-regenerative strategy, Intel has chosen a largely regenerative strategy.

The Internet is another example: The more demand for the internet, the more supply, and the lower the price because the incremental cost of one more user is insignificant.

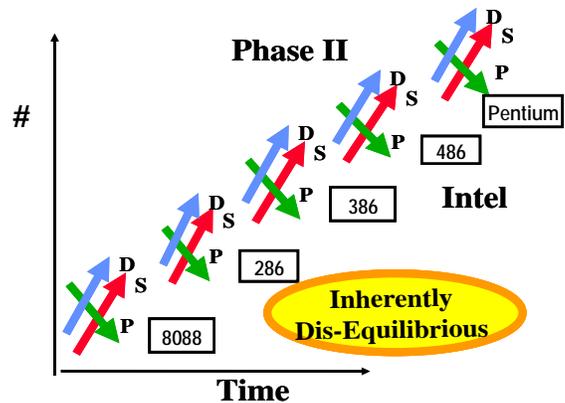


Figure 6 Economics of Exp~~a~~ndables -- Need for Innovation

¹ Note: There is an in-between zone of ext~~e~~ndables (or durables) such as telephones, radios, houses, washing machines, cars, antiques, fine art, tools, and so forth, that have very long life spans, not being "used up" for a long number of years, and having very low cost per usage. Their incremental cost of production does not exhibit the same dramatic cost advantages of one of our latest digital technologies such as software or the internet, but yet provide massive economic advantages over exp~~e~~ndables.

Now, for the leap: What other phenomenon demonstrate virtually unlimited supply, while its frequent use does not “use it up?” How about creativity, or trust, or teamwork, or communication? Creating demand for cooperation, and developing skills in cooperation does not “use it up;” but instead, the more it is used, the more utility it generates – thus becoming a “regenerative system.”

What we must know is when the system of economic scarcity is in play, and when we are engaged in the system of economic regenerativity. In the long run, an investment in a regenerative system plays much better dividends than in a scarcity system (although scarcity systems can create short term aberrations in which large amounts of money can be made or lost).

We must be able to distinguish between expendables and expandables when engaging in any collaborative relationship. To treat each with the same principles and rules of usage confuses and limits possibilities for collaboration to utilize the unique power of expandables. Both systems of economics are true, but each has its applicability to totally different circumstances.

Some examples of Expandables

- » Software
- » Digital Technologies
- » Networks & Information
- » Innovation and Breakthroughs
- » Teamwork & Cooperation
- » Communications
- » Caring, Happiness, Compassion
- » Co-Creative Innovation

The Economic Laws of Expandables run counter to the Laws of Expendables, but *both are true and both mutually exist in our world*. The problem is that miserly minds can't acknowledge the latter. The limited understanding of expandables is often reflected in contracts for intellectual property, where negotiators tussle for months and even years over ownership rights. Their hoarding and protectionist mentality blocks them from realizing that, if sharing of intellectual property rights occurred, both sides would create more new ideas and command a better mutual competitive advantage.

Accessing the expansive possibility of sharing begins with the mutual belief that “the more you give, the more you’re going to get.” When both partners hold this belief, it manifests. The general rule for the Law of Expandables is:

Sharing Expands, Hoarding Contracts

The Law of Expandables enables key resources to create their own “*regenerative energy*,” this is one form of what we call “*synergy*.”

Caught Between the Gaps in the Era-Shifts

What has made this shift extremely difficult is the rapidity through which we have transcended major changes in capitalism itself.

Industrial Era: This period in the U.S. lasted from the early 1800's through the 1970's. (Note: different countries enter and exit eras at differing times and rates, and residue from one era often continues into the next) During the Industrial Era, it became clear that the two extremes: Dictatorial Communism and Exploitive Capitalism were becoming extinct because they did not work. The systems in the middle: Government Guided Socialism and Government Disciplined Capitalism were producing far better results for all people.

Labor strife diminished, people became conscious that the environment needed to be protected. Distinctions blurred between right and left wing ideas. The Russian communism collapsed, Chinese communism transformed, and European socialism became more symbiotic with capitalism.

Information Era: Many change occurred as we shifted eras from the Industrial Era to the Information Era, which began to emerge in the 1980s. (see Figure) The technological innovations of the late twentieth century connected the world, enabling a globalization of economies. Developments in the banking system made great strides in smoothing out the boom and bust cycles. With the computer revolution came the Information Era where data was available, accentuated dramatically by the internet. Digital technologies made the replication of software, data, and communications far less expensive per unit than ever before.

With this shift came a globalization of economies, and also a reframing of the rules of business. Money was less a precious resource, information became a commodity, and educated people became more valuable as we shifted to a service economy.

A new entrepreneurial capitalism emerged that enabled small companies to grow rapidly (for example: Microsoft, Google, etc) and the owners accumulate great wealth because the foundation of competitive advantage shifted from large behemoths to agile, fast, and innovative entrepreneurs.

With this shift, many industries of the earlier Industrial Era were diminished significantly (for example, steel, railroads, textiles, etc.)

Innovation Era: Unlike past eras that enjoyed long lives, the Information Era proved to be short-lived, a twenty year transitional step-stone setting the stage for the Era of Innovation.

This newest era is something uniquely different, but still remaining grounded on the capitalistic side of the fence. (see Figure below). New capacities and integrations between computers and telecommunications have enabled networking of companies. Competitors that used to be arch-rivals are now collaborating.

Financial capital, once the source of power in business, is being replaced by intellectual power. Workers, who once were treated like replaceable parts, are now being seen as a competitive advantage, being encouraged to work smarter not harder, using their ideas more than their brawn. The emergence of the service economy balances the manufacturing economy, thus encouraging more thought-generated ideas from the workforce. Social responsibility is considered to be an integral part of a businesses mandate. Environmental consciousness has evolved into environmental responsibility as the threat of global warming looms large.

It is this new era of capitalism we refer to as “Collaborative Commerce” to distinguish it from earlier forms of capitalism. It’s new, it’s unique, it’s guided by somewhat different rules and principles, and it’s actually very energizing.

Old Truths – New Myths

The rapidity of the shifts between the Industrial, Information, and Innovation Eras has caught many by surprise. This transition spanning three eras in such a short time confuses many because what was considered truth in one era becomes a myth in the next. Business leaders are often baffled by the seemingly contradictory philosophies as advice is coming at them from perspectives grounded in each of the three different eras. Many academicians are still teaching old management principles that were very true just a few years ago. For example, one esteemed professor of business confidently stated recently (referring to supply chains):

- *Power is the primary basis for relative strength of the buyer-supplier relationship....*

- *In a world of scarcity, win-lose negotiations is the best approach because win-win is a fuzzy fallacy*
- *It's not in the interests of buyer & seller to maximize their mutual benefit*
- *Exchange is at the heart of all human existence ...*

He is clearly grounded in the thinking of the Industrial Era advocating strategies and practices that would fail dismally in the Innovation Era.

Being caught in the gap between the eras has also created some anomalies in thinking. Here are just a few examples of “truths” of the old era that are becoming “myths” in the new era:

1. *Old “Truth,” New Myth: If It Ain’t Broke, Don’t Fix it:* This made a lot of sense in a stable, slow-moving world where innovation was negligible. Big manufacturing plants ran on vast systems that were designed for efficiency, thus any change would cause major inefficiencies. In today’s world of rapid innovation, if it’s not broken, someone in the world is going to reinvent it and put you in a tough spot.
2. *Old “Truth,” New Myth: It’s always a battle between Labour versus Capital /Management:* This was always a half-truth, half lie, and is so outmoded, that it’s not worth discussing the problems Communism had making the numbers work. The Russians and Chinese abandoned it, and only a few hold-outs like Cuba think it has any value. Sadly, the battles over this type of thinking lasted over a century, started wars, killed millions of people, and overturned governments. It became the realm of zealots and fanatics, just like a religious war. Some labour unions in a few isolated countries still hold this as a truth.
3. *Old “Truth,” New Myth: The Purpose of Business is to Create Shareholder Value:*– Another half truth, this one from Wall Street, which makes a lot of money from this mythology essentially because their focus is on publicly held companies. But small and medium sized businesses are usually guided by more purposeful people who find the reason for their business is to provide a product or service they believe at a profit. Their businesses run not on shareholder value, but on cash-flow (just ask anyone who’s had to make a payroll). What’s more, try motivating an employee on Monday morning with a rousing speech about how he or she is going to work all week just to serve some unseen and unknown shareholder. Reality: Making money for shareholders is just one measure of our success. – it’s not the purpose of the business, nor is it the motivation of entrepreneurs or employees.

The Challenges to the Future of Business

It’s within this new Era of Innovation that cooperative entrepreneurship will flourish. The future of business will be not how large you will be but how well you can collaborate to innovate, integrate and accelerate.

What can we expect to be the major obstacles to the shift into more integrated organizations and value networks? While there are many blockages, we see four major difficulties, all of which can be overcome.

1. Shift in Thinking and Culture
2. Procurement and Financial Metrics
3. Intellectual Property Ownership
4. Distrust and Adversary Relationships

Let's explore these to see what must be done.

1. **Shift in Thinking and Culture**: This is probably the most difficult of all the shifts because it is so engrained into the foundations of our institutions, our laws, our daily lives, our rewards systems, our interactions with others, in our rewards, and our response patterns. Thinking and culture drive actions, which makes it extremely important to make changes here first. There are several leverage points any organizational leader must utilize to begin making this shift:
 - **Awareness & Beliefs**: No change will ever occur unless people are aware of another approach, have data to support the conclusion that changing is less risky than staying the course, and are committed to the belief that something new must occur.
 - **Architecture & Champions**: Having a plan and a system that enables will produce results consistently and predictably is essential. This, coupled with a cadre of champions, supported and mandated by senior level executives, to initiate the new strategy will be required to initiate the change.
 - **Action & Results**: Typically companies will launch pilot projects to establish concrete results that will verify their expectations and legitimize their beliefs. Adjustments in the architecture, strategy, and plan can then be made to fine-tune results.
 - **Metrics & Rewards**: No change is ever complete and permanent unless the measures of success and rewards systems shift to match the new requirements. If old measures and rewards are left in place, then behavior will be either entirely dysfunctional as people are torn between old and new, or they will revert back to their old thinking and behaviors, because what gets measured gets done.
2. **Procurement and Financial Metrics**: In relationships between companies the interface between buyer and seller is frequently based on some very old and often archaic thinking about cost, price, specifications, and expectations.
 - Few companies look for innovation flows from suppliers.
 - Seldom is total cost of ownership or systems cost considered
 - Procurement Professionals are measured on Component Costs
 - Integrated Solutions are a rarity
 - Speed, Cycle Time, and Time to Market are not factored in buying decisions
 - Finance constantly puts short-term pressure on companies to cut cost, often at the expense of higher warranty costs later
 - Bargaining and other forms of negotiations trickery are standard operating procedure

These and a number of other factors have poisoned the relationships between companies; these relationships are filled with distrust, legal barriers, thus becoming transactional at best, and highly manipulative, protective, and adversarial at worst.

This can be addressed by the architectures of collaborative innovation and strategic alliances, but only if senior management mandates the change.

The metrics of success must shift from component/unit cost to a systems cost for the entire value network. Most old value chains have massive amounts of non-value added work that's the residue of old processes, fear, risk aversion, and barriers (both internal and external) between organizational units. This non-value added typically adds 40-90% to the cost of goods and services.

3. Intellectual Property Ownership: In the fading world of stand-alone companies, the legacy strategies of defend and protect intellectual property is one of the massive blockages to collaborative innovation. Lawyers will wrangle over joint ownership of property rights, while competitors rush into the market, making any victory pyrrhic. (In Silicon Valley, the half life of IP is typically only 3-6 months.) The Defend and Protect approach encourages hoarding and litigation, with the hope that IP will become the competitive advantage of a company. While this can be true to an extent, it increases the chances of costly litigation, which can wipe out many the strategic and financial advantages.

Companies like IBM have begun to rethink this approach and replace it with a more network-centric approach that builds both IBM and its related network of suppliers, appliers, and customers.

The emerging new school of thought is a more focuses on a regenerative strategy that is designed to propel to co-create the next generation, proliferate to gain advantage, license old IP, cross license to avoid litigation, and use a combination of open and closed systems to optimize value and speed to market. This approach also seeks to maximize the use of joint development agreements, tech transfer, and joint ownership. Companies like IBM, Cisco, and P&G have been successful using this strategy, which works in a fast moving world where technology has shorter lifetimes.

However, the installed base of legacy legal systems is proving extremely difficult to supplant with newer thinking, principally because lawyers are tasked with a "protective" role for their clients, and outside counsel can have a lucrative practice in litigation.

4. Distrust and Adversary Relationships: Centuries of bargaining and bickering over price, coupled with sophisticated negotiations techniques and procurement management systems has left the business world with a tradition of distrust. This cannot be allowed to prevail in a value network. Distrust is corrosive, and destroys alliances and collaborative innovation, which are the underpinnings of value networks.

Distrust is also expensive. Mistrust causes everything to be more complicated, slower, and far more fragmented. Distrust adds extra costs to everything. (for example, in health insurance – distrust adds at least 20-30¢ to every dollar of health cost, for which we receive no health value in return.) What's more, distrust puts a big limitation on collaborative innovation and teamwork. In other words, distrust is a major competitive disadvantage, whether it is manifesting internally inside our companies, or externally in our relationships with suppliers and customers.

Ultimately, no amount of pages in a legal contract can substitute for or replace weak trust. If trust is the key to rapid decision-making, building teams, and creating competitive advantage through collaborative innovation, why, then is, trust so low, and what can we do about it? We think there are several reasons:

- We've distrusted for so long, it's become a business habit. To change is risky, making us vulnerable.
- As a civilization, we really don't have a good concept about trust itself. Reading over the literature, one is somewhat shocked to see how few refinements we have in our daily lives, at home, and at work that make empower trusting relationships. Just look at television – show after show is fraught with betrayals, lying, cheating, stealing, crime, personal manipulation, and greed, but little to show how to cure the illness.

What causes distrust? In a word: *fear*; in particular, *fear of being taken advantage of* or *fear of being put in a disadvantageous position*. To have trust, at a minimum, one must sense that there is a level of safety in the relationship that I will not be worse off for having this interaction.

Just as the elimination of a disease does not cause happiness, neither will the elimination of distrust create solid trust – it just brings everything to “neutral.” The lack of ethics will cause distrust, but the presence of honesty and ethics does not necessarily cause trust. Good ethics implies “I won't do something wrong;” it takes the fear out of the picture. But it doesn't mean “I'll be effective,” nor “use sound judgment,” nor “be collaborative,” nor “compassionate,” nor “spontaneous.” Other things are necessary.

The basis for trusting someone is not simply ethics and honesty, rather its also how they deal with self interest. We trust people who we can count on to look out after our interests as well as their own – our “mutual” interests, or put another way, the “greater good.” Balancing self interest with the greater good is the starting point to begin trust.

When each person or organization acts to maximize the amount they get from negotiations with their customers or suppliers, without consideration of another person's or organizations interests, they are working in their self interest. There is nothing inherently wrong about self interest, it's part of any capitalistic system. But if everyone works strictly in their narrow self interest, severe problems can erupt: oceans get over-fished, park lands become developed, unions and management lock horns, air becomes polluted, societies and communities fall apart; economic systems and civilizations break down as each entity is out to maximize for itself.

In this kind of a dog-eat-dog world, trust diminishes as everyone withdraws into their turtle-shells to protect their individual interests. In the old paradigm of exploitive capitalism, government was compelled to step in to “referee” when labour strikes threatened to shut down the country or discipline big businesses created monopolies that endangered the greater good of the public. Self-centered decision-making created untenable societal situations.

In the new paradigm of collaborative commerce, to keep the system running fast and efficiently, trust-building is essential. With trust, businesses are empowered to cooperate more, make interactive decisions, form teams and forge alliances to make use of their respective strengths and weaknesses, and take risks that are impossible in low-trust environments.

In other words, our internal organizations, and our external value networks run far more productively and creatively with trust. When trust withers, the people are forced withdraw into their shells to protect their self interest.

Because we haven't a solid approach to either maintaining high standards of trust, or fixing trust when it's broken, we stay trapped in a small game when the stakes are high. This does not advocate for blind trust, which would be foolish in today's world, but instead "designed trust," which will enable companies to reach new heights in relationships, while staying safe against those who should not be trusted. We need a design for trust, a working "architecture" that provides a framework for design, strategies for use, along with best practices and tools for application in daily life. By understanding the basic architecture of trust, companies and individuals can then discuss it intelligently with others and make choices openly to engage in productive relationships, or disengage from poisonous ones. By becoming fluent in designing trust, we can take trust from the vagaries of intuition to new level where we can have highly insightful conversations with others.

Architecture of Trust

Because there has been no clear "architecture" or "system" for trust, it has fallen into a vague and ambiguous area where the mindset for trust is fuzzy, the skill-set is deficient, and the toolset inadequate. To help set our business world better position itself to rebuild the trust that's so lacking, yet so needed, our team began designing a comprehensive, performance based Architecture (or System) of Trust which consists of twelve coherent elements:

1. Trust Impact Analysis
 - Primary Impacts
 - Decision- Making
 - Planning
 - Communications
 - Control Systems
 - Teamwork
 - Negotiations
 - Secondary Impacts
 - Execution
 - Innovation
 - Acceleration
 - Integration
 - Costs, Revenues & Profits
 - Job Retention/Stability
2. Fundamentals of Trust
 - Wise Trust versus Blind Trust
 - Mutual Benefit
 - Balancing Self Interest versus Greater Good
 - Honorable Purpose & Integrity
 - Character versus Competence
 - Certainty Factor & Positive Predictability
3. Spectrum/Levels/Scale of Trust
 - Trust Busters
 - Trust Stages/Builders
4. Empowering Trust
 - 10 Laws plus Corollaries of Trust
 - Application Principles of Trust
5. Building a Culture of Trust
 - QuadrActive Trust: 1)Self, 2) Team, 3) Leader, 4) Institution

- Role of Leadership in Trust Building
 - High Performance Standards
 - Actions and Reactions
 - Metrics of Trust & Rewards Systems Coherence
 - Human Resource Selection and Rejection
6. Core Trust Processes
- Operating Principles
 - Power of Commitment
 - Values & Ethics
 - Shared Vision & Purpose
 - Trust in Fast Changing, Uncertain Environments
 - Predicting where Trust will Breakdown
 - Turning Breakdowns into Breakthroughs
7. Economics of Trust
- Costs, Benefits & Risks of Distrust/Trust
 - Discount (cost) & Premium (advantage) Systems Analysis
 - Economics of Expandables
 - Transparency of Transactions
 - Aligning on Value
8. Strategic & Operational Competency Alignment
- Linking Value to Levels of Trust
 - Matching Strategic Intent to Levels of Trust
 - Vision Alignment
 - Competency and Character Assurance
9. System for Building, Sustaining, & Rebuilding Trust
- Building Trust for New Initiatives
 - Sustaining & Maintaining Trust during Change
 - Rebuilding Trust when it crashes
 - Safe-Guarding Trust
10. Negotiations Strategies & Methods to Sustain Trust
- Destruction of Trust in Win-Lose Strategies
 - Inadequacies of Interests-based Win-Win
 - Synergistic Negotiations – when to use or avoid
 - Earned Trust
11. Methods for Isolating the Untrustworthy
- Character Issues associated with distrust
 - Due Diligence, History, and Reputation
 - Trust but Verify
 - Reactive Distrust versus Malicious Intent
 - Distrustful Actions and the Necessity for Consequences
12. Trust Diagnostics & Prescriptions
- Multi-Dimensional Trust Diagnostic Framework
 - Trust Diagnostic Assessment/Analysis Methodology
 - Prescriptive Methodology & Actions to Rebuild Trust

The level of trust that exists in any relationship must be a mutual choice. In other words, the art of building trust should not be something that “just happens” reactively, thoughtlessly, silently, or invisibly. Rather than making trust a set of platitudes and slogans, the real power of trust is derived when it's a “designed” of choice that greatly enhances the functioning of the value network.

Strategic Alliances – The Aligning, Bonding, & Coordinating Architecture

Trust may be a vital foundation for a value network – it is necessary to keep its members communicating and co-creating. In many ways it could be compared to the air we breathe – necessary to sustain life.

But trust is neither a strategy nor a destiny. Gaining internal alignment among the members of the network is essential to enable its synergies to manifest.

The network's real value comes from its inherent differences in its members – each presumably brings complementary strengths to bear to enable a synergy where the whole is greater than the sum of the individual parts. Fine, so far.

But, because differentials in culture and purpose typically clash when one company's *corporate immunal rejection response* kicks in when it tries to link with another, a special architecture is required: the *architecture of strategic alliances*, which is highly effective at Aligning, Bonding, and Coordinating (the ABCs) of the value network.

Over fifteen years ago, seeking an approach to reverse the terrible success-rate of strategic alliances, our team conducted a “best practice” analysis of alliances. This resulted in the creation of an *Alliance Architecture* that, for the first time, provided an applied system of solutions, strategies, structures, processes and metrics for creating, launching and managing high performance strategic alliances. This architecture has resulted in shifting the success rates of strategic alliances from a dismal 25% in the early 1990s to a respectable 60-80% success rate now. ^{iv} Consider this statistic:

In 1990, alliances contributed a mere 2-3% of the revenues of Fortune 1000 companies. Today alliances strengthen their revenues by a factor of over 30% and that proportion is still climbing.

Alliance Best Practice Architecture

Alliance Architecture is a systematic set of very powerful framework consisting of best processes, practices, methods, models, and tools that have been established by the alliance profession. This architecture was originally developed to enable bi-lateral business alliances to function effectively, and its disciplined application resulted in shifting the success rate.

The key elements of Alliance Architecture include:

1. Aligning Strategic , Chemistry/Culture, and Operational Fit
2. Leadership and Championing
3. Analytics and Metrics
4. Collaborative Negotiations
5. Operational Integration
6. Governance
7. Alliance Management
8. Transformation and Innovation

Used and tested over the last decade by thousands of alliance professionals in large companies such as IBM, HP, Cisco Systems, Eli Lilly, Procter & Gamble, and many other smaller companies, this architecture has been easily adapted to multi-partner alliances, most notably by IBM and EDS.

Value networks can be characterized by their level of integration, commitment, and coordination: tight or loose, to put it roughly. While social network theory may be the architecture for loose networks, alliance architecture bonds the tight networks.

Seeking an “Architecture” for Collaborative Innovation

Beginning in 2002, our team commenced an updating study of alliances that had sustained themselves over a period of more than five years. Based on this analysis, we concluded that the alliance’s ability to generate innovation was a significant factor in long-term sustainability.

But more importantly, we found alliances were a powerful source of innovation as well. By capitalizing on the *synergy of honorable and compatible differences*, alliances hold unique potential as engines of innovation, enabling the transformation of new ideas into new products, services, and solutions. (for full results from the study, see footnote^v)

Conclusions from Study

Based on our [study of innovation across business boundaries](#), we concluded that the best companies have had a deep rethinking about how they think about their core business:

- a. **Internal versus Inter-Organizational Business Models:** The best companies see their business as part of a more interconnected value chain or network and create a strategic system for creating, aligning, and managing the creation of value. This involves a very intensive rethinking of what value means to their businesses and to their customers, and is clearly communicated into the supply chain.
- b. **Suppliers as a Strategic Asset:** During the last 50 years spending on outside suppliers rose from a mere 20% of total corporate expenses, to nearly 70% (in some cases more) of expenses. This fundamental shift has made what is now called “supply chain” a major strategic asset that has not been effectively addressed by scholars or businesses. Too many companies still see their supply chain as an expense and treat suppliers as “vendors,” reflecting an out-of-date mentality. The best companies segment their suppliers into at least two categories – strategic suppliers and commodity supplier, the former receiving special attention for the co-generation of innovation streams.
- c. **Power of Collaborative Innovation:** As innovation becomes more pivotal in business decisions, and suppliers more critical to the generation of value, the best companies create more effective strategies, architectures, and models, for cooperative creativity than what has been relied upon in the past. The best companies recognize that collaborative innovation is one of the most powerful means of creating new ideas that impact revenues as well as expenses. They recognize that *differentials in thinking* are the primary source of innovation, and this can only come from having a broad series of alliances both internally and externally.
- d. **Negotiations & Risk Management:** Current models for cross-corporate negotiations, contract management, and risk management are based on shedding risk, maximizing value for one party while minimizing for the other, and managing relationships tactically/transactionally. These methods have diminished or even negative impact in this millennium’s fast moving, inter-connected world when applied to both primary suppliers and customers. .
- e. **Revenue Impact of Suppliers:** The flow of innovation from suppliers can have major impacts on revenue as well as cost for the modern enterprises. A strategic review of this impact is essential. The best companies look deep into their supply base for new ideas, products, technologies, services, solutions, and business models that could enlarge their top line. Supply management links with R&D and Marketing to explore these possibilities.

- f. **Impact of Critical Drivers of Competitive Advantage:** With the change in the driving forces of competitive advantage, where the traditional drivers based on Size, Positional/Transactional Power, and Financial Clout have been superseded by Speed, Aligned/Collaborative Power, and Innovative Agility, a new model of competitive advantage is essential.^{vi} In a new model, supply chain management develops greater skills in value management, organizational integration; and strategic alliances become an integral part of the empowerment of the value chain.

The Battle of Value Chains

Ultimately, any corporation must deal with the fundamental issue of how to deliver value and create competitive advantage in the marketplace. No company is an isolated element, each is part of a value chain.

And, in the larger scope, *winning the competitive game is more a question of how to create an entire value chain that is more competitive than that of other rivals.* In our fast moving world, Collaborative Innovation is the most critical ingredient in generating sustainable competitive advantage.

This cannot occur if the relationship with both our supplies at the sourcing end of the value chain and the customers at the sales end of the chain is adversarial, transactional, or disassociated. A collaborative relationship with primary suppliers and customers is essential if innovation is to flow and flourish; and creating this essential

Too many of our current business and economic models are founded on the view that commercial enterprise is based on independent stand-alone organizations. The new order of thinking challenges currently accepted wisdom and challenges its presumptions.

Why Strategic Alliances and Value Networks as a Source of Innovation?

Alliances and value networks are particularly well positioned to produce innovation because they enable fluid access to the fundamental source of innovation: *Differentials in thinking.* The old adage: “if two people in the same room think alike, one is unnecessary,” prevails:

Innovation comes from people who see their world in new and different ways.

Thus, by tapping into the co-creative energies of differentials in thinking, and aligning those energies positively, cross-boundary alliances can become *the unique structure* in an organization to unleashing the innovative potential of the synergies of differentials.

However, while new paradigm generation originates from people who do not think alike, all too often people with different perspectives cannot synergize, or worse, they disregard or even destroy the value from those with whom they don't share a common perspective. An effective Collaborative Innovation Architecture must be designed to create vital synergies, not let other forces destroy them.

Definition of Collaborative Innovation

We define Collaborative Innovation as:

The recurring interaction of co-creativity, knowledge, and mutual learning between two or more people working together toward a common goal of generating new sources of growth or wealth in an organization.

Power of Collaborative Innovation

During our recent research, we asked scores of executives: “What is the most sustainable source of competitive advantage?” The conclusion was quite revealing. We found a wide concurrence among senior executives with this statement:

In a Fast Moving, Rapidly Changing World, the Most Sustainable Source of Competitive Advantage is ... Collaborative Innovation.

Simply put, Collaborative Innovation is the most robust and regenerative way to create true value and growth.

The “Why” and “What” of Innovation

Invariably growth and innovation are top-of-mind priorities for every senior executive. Innovation is the critical difference between business success and failure; it’s one of the most important elements in creating wealth. But, from our study, most senior executives indicated they struggle with two simple questions:

1. Is there a clear *architecture/system to manage for innovation*?
2. Precisely *where do you expect growth and innovation to come from*: organic growth, acquisitions, or alliances?

These questions typically fill the senior executive with ambiguity; puzzled over realities of execution and concrete action. What’s been needed is a coherent strategic system to transform innovation from the realm of the ephemeral into the firm grasp of the dedicated practitioner.

Problems Executives Typically Face

In our many discussions with senior executives, we found three recurring themes:

1. While Growth & Innovation are Top-of-mind, our Efforts are Falling Short:
 - ◆ “We’re just not generating enough new revenue”
 - ◆ “Innovation remains a set of scattered, tactical/small scale efforts”
 - ◆ “Sadly, innovation is killed during our acquisitions”
 - ◆ “It’s occurring, but at a very slow rate – too slow to impact the market”
 - ◆ “R&D is just not paying off; it may be a waste of money”
2. Innovation is Ambiguous and Confusing:
 - ◆ “Innovation appears to be nothing more than a pastiche of slogans, tools, techniques, aphorisms, and platitudes, with not enough real results”
 - ◆ “Innovation doesn’t seem like it’s based on any kind of concrete management system, so I can’t seem to get my arms around what to do.”
 - ◆ “Our approach is based on too many confusing tools & techniques.”
 - ◆ “We are only focusing on technology – that’s just too narrow”.
3. The Innovation Onslaught is a Massive Competitive Threat:
 - ◆ “Our competitors are out-innovating us – it seems double, or triple our rate”
 - ◆ “If we don’t do something powerful, we might become extinct”

Any Collaborative Innovation Architecture must address these issues directly, thus putting senior management back in control of its innovation program with the expectation that their initiatives will result in a powerful Innovation Engine.

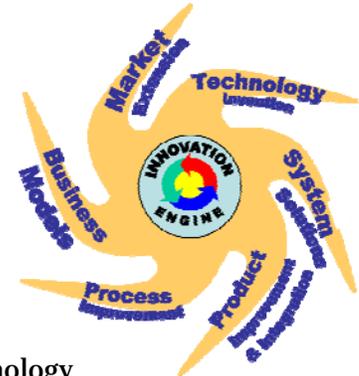
Clarifying the Meaning of Innovation – Six Types

One of the biggest problems with innovation is its true meaning:

Fundamentally, *invention* is a sub-set of *innovation*; but all-too-often *invention* is confused with *innovation* – resulting in both a mystification and exclusion of non-technical people from innovation.

Innovation is far broader. Our study found there are six distinctive types of innovation powering the innovation engine, which can be used in combination with each other, to gain both strategic and operational advantage:

1. **Technology Inventions**
2. **System Solutions**
3. **Product Improvements**
4. **Process Improvements**
5. **Business Models**
6. **Market Extensions**



The good news for business is that, with the exception of technology invention, an employee does not require an engineering degree – making the majority of innovation available to everyone no matter what rank or educational level!

Elements of Collaborative Innovation Architecture™

Collaborative Innovation Architecture™ is designed to manage the critical and complex processes that underpin innovation systems. Consisting of **four key elements**:

1. STRATEGIC Elements

- Essential Best Practice Components
 - 1A. Strategic Imperative & Competitive Rationale
 - 1B. Value Chain Linkage & Network Design
 - 1C. Strategic & Internal Alliances
 - 1D. Policies, Principles, & Programs
- Rationale: STRATEGIC Elements...
 - Set Direction, Purpose, Value
 - Establish Competitive Advantage

2. SYSTEMIC Elements

- Essential Best Practice Components:
 - 2A. Senior Executive Leadership
 - 2B. Innovation Championing
 - 2C. Cross-Boundary Dynamics
 - 2D. Organizational Design for Innovation
 - 2E. Creating the Innovation Culture
- Rationale: SYSTEMIC Elements...
 - Pervade the Innovation Territory
 - Enable the Strategic Elements
 - Empower the Core Elements
 - Align the Support Elements
 - Coordinate & Synchronize Actions

We have uncovered over 400 Best Practices that support the Collaborative Innovation Architecture.™ These are available in a variety of learning and application formats.

3. **PERFORMANCE Elements**

- Essential Best Practice Components
 - 3A. Collaborative Innovation Processes, Practices, Tools, & Techniques
 - *Filling the Pipeline with Joint Ideas and Innovation flows*
 - *Triaging Innovation & Integrating Innovation*
 - *Cross-Boundary Collaboration for Innovation*
 - *Managing the Collaborative Innovation Portfolio*
 - *Commercialization in the Collaborative Environment*
 - *Managing Cooperation & Co-Creation*
 - *Fast Time Processes & “Non-Value Add” Reduction*
 - *Co-Creative Negotiations for Collaborative Innovation*
 - *Managing Breakdowns & Turning Breakdowns into Breakthroughs*
 - *Combating “Not Invented Here,” Overcoming Innovation Obstacles*
 - 3B. Pilot Projects and Scaling Processes
 - 3C. Coordination & Synchronization across Boundaries
- Rationale: PERFORMANCE Elements
 - Are the Critical Processes & Practices that actually produce innovation
 - Are the Linkages that connect the Processes & Practices

4. **SUPPORT Elements**

- Essential Best Practice Components:
 - 4A. Collaborative Metrics, Rewards, Risk Analysis & Diagnostics
 - 4B. Legal, Contractual, & Intellectual Property
 - 4C. Human Resource Selection & Capability Building
 - 4D. Supply & Alliance Engagement of Value Chain
 - 4E. Personal Relationships & Trust Building
- Rationale: SUPPORT Elements....
 - Prevent Misalignment, Dysfunction, and Dysphoria
 - Augment the Strategic, Systemic, and Core Action Elements

Applications

Collaborative Innovation Architecture™ is specifically designed for situations where there are differential/trans-organizational boundaries, making it particularly applicable for:

- | | |
|---------------------------------------|----------------------------------|
| ◆ Alliances & Joint Ventures | ◆ Company to Company |
| ◆ Supply/Value Chains/Networks | ◆ Business Unit to Business Unit |
| ◆ Functional & Cross-Functional Teams | ◆ Mergers and Acquisitions |

Steps to Get Started

Our study also found that, invariably, obtaining lift-off for a collaborative innovation program required highly energized leadership, namely in the form of an “innovation champion.^{vii}” The reason this championing is essential is that:

1. All Innovation Creates Change
2. Change is Disruptive
3. Disruptions Cause Conflict
4. Conflict Triggers Control Reactions

Therefore, champions become essential to implement innovation to overcome the resistance to change that will be inevitable. The typical champion's is a passionate crusader who has the ability to create trust, to be committed to a win-win approach with all parties, and will stand for the greater good of the organization.

Innovation must be a senior management's responsibility. Getting started means a company should engage by focusing on several key step:

1. *Start Thinking about Innovation Strategically*
2. *Identify Business Units Where Innovation will have an impact*
 - **Technical Invention**
 - **Product Improvement**
 - **System Solutions**
 - **Process Innovation & Integration**
 - **Market Extension**
 - **New Business Models**
3. *Appoint/Anoint Innovation Champions*
4. *Design Innovation Program – Engage People who will need to be part of it*
5. *Address Six Leverage Points – Apply Best Practices*
 - **Strategy**
 - **Leadership & Relationships**
 - **Legal & Contractual**
 - **Organization Design**
 - **Performance Processes**
 - **Econometrics**
6. *Launch Innovation Pilot Projects*
7. *Measure Results, Make Adjustments, Expand & Proliferate*

What Will Happen as a Result of the Collaborative Innovation Program?

When applied to any of the six types of innovation:

- ◆ Corporate teams start thinking about innovation *strategically*
- ◆ Business units become *enthused* and *engaged* in innovation
- ◆ Innovation champions launch a series of highly inspired innovation *pilot projects*
- ◆ Innovation begins showing up as:
 - *Revenues* and *profits* increase
 - *Speed* improves – things will happen faster
 - Teams *work together* synergistically
 - Business units *collaborate outside their “silos”*
 - New *alliances form* with suppliers, outsourcers, distributors, integrators, and customers and others.

Innovation tends to follow a serendipitous path:

Managers can expect the co-creative spirit of the participants in collaborative innovation will *generate new, but unpredictable, ideas, solutions, and opportunities*. As a company's internal business units, functional operations, and alliances jointly focus their efforts on innovation and systematically *create alliance-based relationships* both internally and across its value chain, the total *organizational network's thinking, awareness, and insights begin to shift*.

- ◆ People become invigorated, generating new, as yet unseen, opportunities,
- ◆ A deeper, more common understanding of the linkage between value and competitive advantage evolves across the value chain,
- ◆ People and their organizations that had been stereo-typed into little boxes begin to open their horizons, developing contributions that were never before imagined,
- ◆ Customer and market opportunities are discovered that would otherwise have been overlooked, while
- ◆ A new level of collaborative innovation spawns greater opportunities.

Secondary impacts are also likely to take the form of:

- ◆ Higher levels of innovation internally,
- ◆ Better internal/cross-functional collaboration,
- ◆ Better utilization of staff, and
- ◆ Greater alignment of internal and external stakeholders.
- ◆

Conclusion

Strategic alliance architecture will be the aligning, bonding, and coordinating system for value networks. Collaborative Innovation is one of the most potent factors in creating real competitive advantage in today's corporation. It will be the foundation for solving the great problems companies face in today's hyper-competitive business environment. Building trust will enable the communications and co-creation necessary for success. Value networks will be the foundation for solving the great problems companies face in today's hyper-competitive business environment.



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ⁱ During the last 5 years, RPL, in speeches, seminars, and workshops, asked over 10,000 executives across the US and Canada about how change, speed, and complexity has changed. Between 80-90% of all audiences responded with the curve noted. Universally executives said they did not expect the rate of change to slow down or stabilize anytime in the near future.

ⁱⁱ The only difference among these 90% was the point of inflection where the curve changes direction radically. For those in very rapid change industries, such as high tech, the point was generally between 1986 and 1990. For those in slower changing businesses, such as petro-chemicals the point tended toward 1995-7. The primary reasons for the shift cited by executives were: computers, faxes, globalization, cell phones, then the internet, each compounding upon the other.

ⁱⁱⁱ The only possible exception to this type and magnitude of change might be the Second World War. However, the difference is that after the war, the world basically resumed its prior ways, whereas in this current change, the entire world is shifting its perspective, behaviors, priorities, and rules of engagement. George Santayana's admonishment that "Those who do not learn from history are doomed to repeat it," may not prevail in this environment where there is no precedent for the change.

^{iv} Percentages vary based on several studies in the US and Europe. Simple use of best practices tends to yield at least a 50% success rate, and a more disciplined approach tends to yield significantly higher rates.

^v See http://www.enginesofinnovation.com/html/innovation_study.html

^{vi} (see: [Burt/Lynch Model of World Class Supply Management](#))

^{vii} See "How to Foster Champions" by Robert Porter Lynch in Drucker's book: Leader for the Future – Leading Beyond the Walls