KINETIC CONSULTING SERVICES

Accelerating Business Growth

Business 4.x

Introduction

What is Business 4.x?

Business 4.x is designed to highlight the importance of the X-factor in a high-performance organisation operating in a world shaped by the fourth industrial revolution. Business 4.x is a set of guidelines on how organisations should operate to enable them to perform better in the current competitive environment. World Economic Forum economists have labelled this period of history the fourth industrial revolution[1]. The label signifies two significant ideas: The first idea is that current and emerging technologies will have a substantial impact on industry, and the second idea is that this technology will revolutionise many traditional ways of conducting business.

The basis for this argument is simple: There has never been a period in our history when so many emerging technologies are becoming commercial realities. The convergence of multiple new technologies creates significant market opportunities and threats for government and organisations. A technological tsunami is here today, and organisations that are unprepared could feel the impact severely and negatively. However, those that are prepared and can capitalise on changing customer expectations will have the opportunity to dominate markets and new industries.

Operating in an environment where new competitors are rapidly emerging to challenge existing business models, and customer value propositions using disruptive technology requires organisations to work differently to how they operated in Industry 3.0. The new modus operandi for an organisation needs to enable them to capitalise on technological advancements and also defend their market positions from new disruptors.

This paper focuses on answering two key topic questions:

1. What are the essential elements comprising successful work practices for Business 4.x?
2. What are the key blockers preventing organisations from achieving this new modus operandi?

[1] The term was first used in April 2011 at the Hanover Fair, the world's biggest industrial trade show. By October 2012, the Working Group on Industry 4.0, chaired by Siegfried Dais (Robert Bosch GmbH) and Henning Kagermann (acatech), had developed a set of recommendations for companies implementing Industry 4.0.

The paper argues that only organisations with a specific X-factor will be able to thrive in the market conditions created by Industry 4.0 successfully. This X-factor defined in this paper is a collection of attributes that are not unique in their own right but *enables* the organisation to create something specifically distinguishable and valuable for customers on a sustainable basis.

Part 1: New Work Practices of Business 4.x

Retail Industry – Case in Point

The central theme for Industry 4.0 revolves around disruption on all levels caused by high technology. It is essential to understand the domino effect that occurs when technology disrupts an industry. Take for example the retail sector. Many people are aware of the surface level disruption created by consumers purchasing online instead of going to physical retail stores. However, following the surface cracks formed by online commerce reveals a much deeper level of disruption that extends beyond the retail industry.

Bloomberg recently published an article[2] that outlined the cause and effect elements impacting the retail industry and the flow-on effects. A summary of the critical areas of disruption are as follows:

- Small bricks-and-mortar retailers are not making enough sales due to changed consumer behaviour shifting towards online purchasing. Retailers cannot afford to pay rent and begin to downsize staff and their physical location.
- Small retailers take on new debt to keep their stores open or close down.
- Some more substantial chains, also impacted by the consumer shift to purchasing online, are bought out by private equity firms at discounted valuations. The private equity firms pump in debt into the chain and direct it to strengthen its position by purchasing struggling smaller players. They use the debt to buy the smaller struggling retailers.
- The new debt places a burden on the retail chain that becomes difficult to sustain as consumer spending shifts further towards the likes of Amazon for their purchasing needs. The debt makes it

[2] America's 'Retail Apocalypse' Is Really Just Beginning - By Matt Townsend, Jenny Surane, Emma Orr and Christopher Cannon- Bloomberg, USA, November 2017

difficult for them to pay their bills and they begin to lay off staff and refinance. Some reach breaking point and have to file for bankruptcy such as Toys "R" Us Inc.[3]

- Chains start downsizing and closing their shops in major malls or become delinquent payers. In Q3 2017, the International Council of Shopping Centers reported that 6,752 locations were scheduled to shut in the U.S. This figure is more than double the 2016 closures.
- With store closures come job losses. The number of retail jobs lost due to store closures is not all replaced with jobs generated by the online industry. Some jobs are being replaced, but a deficit exists as online retailers like Amazon utilise automation technologies to further streamline their operations and distribution centres.
- Lower household incomes from lost retail jobs reduce household discretionary expenditure.
- Lower sales from poorer consumer sentiment impact a multitude of different industries.
- Poorer performing organisations drive down stock market prices and deliver lower tax revenues for government.

The picture might look bleak for the retail sector, but this is not the worst yet. These bankruptcies and closures in the retail industry are being reported during a period when consumer confidence in the U.S. is at a 17-year high[4], and interest rates are at relatively low levels. Consider what might happen if consumer confidence drops and interest rates rise? The likely impact is that struggling retailers with substantial debt on their balance sheet will become bankrupt. These bankrupted retailers will add further pressure on the commercial property sectors as more malls lose cornerstone tenants and also on the residential property sector as reduced household incomes forces impacted retail staff to sell their properties or move to lower cost accommodation.

The flow-on effects of disruption extend beyond the impacted industry to any symbiotic industry and into social and economic domains. People are displaced, and governments have to address how they will secure new tax revenues. In the U.S. it could be argued that the legalisation of marijuana in nine states, and the District of Columbia, for recreational marijuana use and 30 states allow it for medical use, has compensated for lost tax revenues in other industries. The marijuana industry achieved the U.S. $9 billion

[3] Toys "R" Us filed for bankruptcy in September 2017—the third-largest retail bankruptcy in U.S. history—after struggling to refinance just $400 million of its $5 billion in debt.

[4] https://www.bloomberg.com/news/articles/2017-10-31/u-s-consumer-confidence-index-rises-to-highest-level-since-2000

in revenues in 2017 and generated the U.S. $1.4 billion in taxes for the same period[5]. The moral and ethical questions about the legalisation of marijuana by these nine states is a separate topic of discussion. The point raised by this example highlights that Industry 4.0 is disruptive on a much larger scale than many people realise and the ripple effect impacts not only economic, but political, and social domains as well.

The Key Drivers of Business 4.x

The underlying drivers of Business 4.x need to be correctly understood before organisations take action to change their existing operating models to compete in the new competitive environment effectively. An essential characteristic of Industry 4.0 is that advanced technologies and new business models have reduced the barriers for new competitors to change markets in a relatively short period. Additionally, many competitors can scale-up their solution across multiple geographies at a faster pace because of digital technology. The critical characteristic of Industry 4.0 is that many existing businesses are being challenged by new and current competitors that can shift entire markets in their favour by offering higher value customer products and services by utilising high technology. The challenge to existing business models is on multiple fronts and is not restricted by geography. Take for example Amazon, although it originated in the U.S. it still has impacted the retail sector across numerous geographies beyond the U.S. in a relatively short timeframe.

The drivers behind Business 4.x are rooted in an organisation's ability to properly compete in an environment that is defined by multiple encroaching competitors with an arsenal that is only limited by the imagination. Technology has reached an evolutionary stage where almost anything is possible, and this is what makes Industry 4.0 so unique and dangerous for market incumbents.

Business is often compared to a battle between opposing forces, and Business 4.x is no different. What is different from the past is the importance placed on innovation, speed, agility, and courage to win against the competitive forces of this new period of history. These are the essential ingredients that an organisation must have to enable its people to deliver an X-factor in the marketplace that is highly valued by customers and provides them with a defensible position against competitors. The quote over the page from Sun-Tzu's Art of War captures the essence of Business 4.x:

[5] http://money.cnn.com/2018/01/31/news/marijuana-state-of-the-union/index.html

Do not repeat the tactics which have gained you one victory, but let your methods be regulated by the infinite variety of circumstances.

- *Chapter 6, 28, Sun-Tsu's Art of War*

Defining your X Factor

The fourth industrial revolution technologies that are creating disruption in industry are doing it because they are building new value in two key areas:

1. Productivity
2. Quality of life

Technologies such as Artificial Intelligence, Robotics, Blockchain, Internet of Things, Augmented Reality, and 3-D printing are some of the technologies enabling organisations to create products, services and new business models that deliver greater value than previously offered in the third industrial revolution. The World Economic Forum estimates that these technologies will generate up to $3.7 trillion in value by 2025[6].

However, the warning from the World Economic Forum is that this value cannot be effectively realised unless organisations adopt these technologies on a mass scale, and can efficiently deliver new solutions to their customers that unlock this value. What is also concerning is that many existing organisations are already struggling to adapt their operating models to meet the current requirements to compete in this new competitive environment effectively. For example, the importance of having an agile organisation has been written about extensively. An agile organisation is one that displays specific characteristics that enable its people to conceive new ideas that translate into higher value products and services more efficiently and effectively to end-customers than bureaucratic and rigid organisations. In a 2017 survey, only 4% of respondents were able to claim an entirely agile organisation, and less than 25% said their internal performance units were agile.[7]

---

[6] https://www.weforum.org/whitepapers/the-next-economic-growth-engine-scaling-fourth-industrial-revolution-technologies-in-production

[7] https://www.mckinsey.com/business-functions/organization/our-insights/how-to-create-an-agile-organization

The challenges organisations are having with breaking away from highly structured top-down modes of operation to highly empowered teams, capable of making fast value-adding decisions, highlights a fundamental problem in most organisations. Business 4.x requires an operating model that captures the energy, know-how, and courage of cross-functional teams. The culture must enable self-regulatory management of team members and empower team members to make customer-centric decisions without referring to multiple levels in a hierarchy. Unfortunately, in Business 3.0 the majority of organisations operated on a hierarchical model with a mapped out chain-of-command that ensured no decision would be made without top management approval.

In larger organisations, committees are often established to advise higher management on projects. The process for making changes is often painfully slow and highly bureaucratic as leaders often ensure their final decisions are based on committee advice to prevent adverse consequences if targets are not met. As a result, a culture characterised by the fear of failure and the adverse effects becomes the norm in many larger organisations. These organisations may use words like “empowerment” and “team” but the underlying culture inhibit innovation and new ideas. The fear of failure leads many innovative projects to reside in the pilot stage. Adoption and rollout of new technologies are limited as no single individual is willing to mortgage their career over a new idea. Start-up companies capitalise on the impaired ability of larger organisations to execute new plans by implementing operating models that can release and scale-up innovations at a faster rate than those still under stifling operating models.

The strong emphasis on team environments and cultures to enable value-based decision making to occur in Business 4.x raises the importance of having shared beliefs that motivate teams and creates a culture of self-regulation. This belief system is what we are terming the “X-factor”. The X-factor is the doctrine that inspires people working for the organisation to deliver value to customers without provocation on an ongoing basis. There are common characteristics of X-factors in high-performing organisations as identified in the book Extreme Teams by Robert Shaw.[8] In his book, Shaw describes how organisations such as Pixar, Netflix, Wholefoods and Zappos have challenged current thinking and belief systems about how people work together to achieve results. Each organisation has its unique way of doing business which is their X-factor. The key to having a winning X-factor is reaching a level of collaboration

[8] Extreme Teams, Shaw Robert, American Management Association USA, 2017

and an obsessive sense of purpose that drives teams to achieve highly-focused outcomes and overcome any significant challenges.

The business practices that lead to high performance in Business 4.x deliver speed, agility, focused execution, and self-regulated performance management of team members. The X-factor is what differentiates high performing organisations from the competition and enables them to outperform in an environment where the norm is constant disruption. How do you create a winning X-factor? What are the key ingredients required? These questions form the topic of the next section.

10 Principles for Creating Business 4.x

Business 4.x requires organisations to challenge many of their traditional business thinking once considered as best practices. In this section, we outline the fundamental principles for developing your X-factor that also challenges conventional thinking. Ten principles are identified as the essence for creating a winning formula to operate a business in the fourth industrial revolution.

1. Measure People with an *Unbalanced* Scorecard

Traditional thinking around a set of KPIs that give a balanced measure of performance does not work well for developing an X-factor. Balanced scorecards tend to diffuse the energy of teams in multiple different areas. The dilution of focus often leads to underperformance in areas that count the most. Teams with numerous KPIs are unable to adapt to disruption in the marketplace as well as teams with fewer or even a single KPI. The concentrated focus in one area drives all other actions and behaviours of team members. For example, Zappos has their people merely focus on “delivering customer happiness”. For team members to achieve this single performance measure at Zappos, they must ensure high work attendance, excellent product knowledge, prompt complaint resolution and numerous other behaviours that deliver elevated customer experiences. An unbalanced scorecard can help direct the right activities and culture in the organisation.

2. Cultural Fit is *More* Important than Capability

High performing teams require highly capable people able to work in a collaborative team environment. Egotistical "empire-building" types are just not going to work in your X-factor plan. Cultural fit plays a higher role than merely finding the right capable person for the job. This requires organisations to change their recruitment practices to ensure only the right types of individuals are recruited and adequately on-boarded into the organisation.

3. Team Members Make Decisions *not* Senior Managers

Team members make decisions in high-performing teams. A high level of empowerment is given to team members with defined guidelines. Decisions are not delivered using a top-down chain-of-command. Instead, decisions are made by empowered team members, and senior managers are there to remove obstacles in their way and to mentor staff so they can achieve their objectives. Senior managers play a very different role in an organisation with a well-defined X-factor. Their purpose is to accelerate the team's initiatives and to ensure any successful outcomes are replicated across the organisation.

4. Performance is Team-Regulated

Peers regulate the performance of individuals in high-performing teams. The underlying characteristic of organisations with a clear X-factor is the strong desire amongst team members to succeed at their task. This desire often extends beyond monetary goals. Altruistic goals drive team behaviour as long as the purpose is considered worthy. If the goal is not regarded as important by team members, then the team will not achieve their objective. However, when the end-objective is considered highly valuable, then team members will place pressure on individuals not fulfilling their obligations to the rest of the team. Team-regulated performance management is highly effective as it leverages the tribal instincts from our ancestry.

5. Trust and Empowerment are the *True* Enablers

The most ironic aspect of Business 4.x is the idea that the real enablers for high performance are not technology and capital. These are important enablers, but they do not achieve results on their own. Trust in teams and empowering them to address complex business challenges brought on by disruption is one of the fundamental principles for achieving an X-factor. Without these elements, the organisation is subjected to traditional hierarchical, top-down decision-making that is bureaucratic and not fit-for-purpose in an environment that is rapidly changing and requires constant adjustments to adapt.

6. Speed is the Currency of Success *not* Perfection

Speed has always played an essential role in business success. In Business 4.x it plays an even more critical role. The technologies impacting the fourth industrial revolution are changing consumer expectations on time. The on-demand generation expects to receive goods and services effortlessly in the shortest timeframe. These expectations extend to complaint resolution as well. Speed needs to be identified as the currency for commercial success. High-performing teams understand the value of time and have clearly defined rules on how to spend it. They are careful not to waste other people's time and ensure their team uses their time most productively to deliver products and services that can reduce time and effort for customers. The agile methodology is about experimentation, learning, and iterations. Smaller moves are made to release solutions as quickly as possible rather than wait till it is 100% perfect.

7. The Risk of Inaction *Outweighs* the Risk of Failure

An environment of rapid change requires people to feel comfortable making changes without personal negative consequences if the idea fails. The fear of failure of highly bureaucratic organisations prevents staff from making any decisions that have a risk element. Business 4.x teams take action faster than their competitors because they understand the risks of inactivity. Taking no action has far more significant consequences in 4.x than the risks associated with the idea failing. Taking calculated risks is a defining principle of high-performing teams in 4.x.

8. Business Success is the *By-Product* of Excellent Customer Experiences

The definition of business success changes in Business 4.x. It is no longer directly linked to a sales target allocated to a single department. The use of departmental KPIs is outdated thinking because it assumes departmental accountability for organisational success. Department-centric performance goals do not breed a culture of obsessive customer-centricity enabling the organisation to focus their collective energy and decision-making to ensure customers have excellent experiences. High performing organisations have *all* their people focused on customer experience. Unlike traditional organisations, sales and retention targets are not the primary goals. Instead, the emphasis is on behaviours and deliverables of teams. The actions of team members that create increased customer loyalty are known to lead to financial success so in Business 4.x the focus shifts from numerical and financial targets to behaviours and actions that deliver positive customer experience outcomes. The change in thinking places commercial success as the *by-product* from delivering organisation-wide excellence in customer experience.

9. Not *All* Staff Are Treated Equally

Contrary to traditional thinking, organisations that attempt to treat all their people with equality in rewards and opportunities don't perform very well. Top performing organisations such as Google and Apple group their top-performers to accomplish critically important projects. They don't adopt an egalitarian approach and place teams together based on logistical and operational convenience. Instead, they create teams of only A-players and reward the team on the deliverable rather than individual results. Business 4.x is a "premier league" team sport that requires careful grouping of highly talented people.

10. Time-Wasting Processes are Reduced to One-Line Principles

The single most impactful inhibitors for Business 4.x are processes designed when bureaucracy was created as a means to keep people from doing the wrong thing and prevent the risks of poor decision-making. Larger organisations, over time, have layered levels of bureaucracy as a means of addressing risk. Every known possible risk is addressed by heavily bureaucratic organisations to eventually reach a state of frustration paralysing staff from performing the simplest of tasks. In 2016 Harvard Business Review estimated that excess bureaucracy was costing the U.S. economy more than $3 trillion every year in lost economic output (17% of GDP)[9]. Business 4.x is centred on value-creation, and many internal processes of bureaucratic organisations are not adding any economic value at all. The vanguard of Business 4.x are supporting their newly empowered workforce by decentralising decision-making and redesigning or eliminating low-value processes and replacing them with common-sense and easy to understand principles. As an example, Netflix does not have an expense policy. "The only policy is, 'Act in the best interest of Netflix.' The company is telling employees, 'We assume you are not here to rip off the company, and we're not going to put in place processes that consume human capital, waste time, and zap energy.'

[9] https://hbr.org/2016/09/excess-management-is-costing-the-us-3-trillion-per-year

They tell employees to assume their best judgment, and they can be more productive if they're not held back."[10]

Image 1: Business 4.x Infographic

[10] https://www.fastcompany.com/3068771/how-employees-at-apple-and-google-are-more-productive (Quote from Michael Mankins)

Part 2: The Challenges of Business 4.x

The ten principles of Business 4.x highlight a large number of traditional business concepts that need to be overridden to create an organisation that can achieve high performance in the environment created by the fourth industrial revolution. The magnitude of change for some root level business practices places a severe strain on organisations leaving many unable to adapt to the new ways of doing business. Very few organisations are evolving their work practices to become agiler as outlined in a 2017 survey[11]. In many cases, organisations start their journey towards business transformation but fall short in execution. In this section we explore some of the key stumbling blocks preventing organisations from creating a winning X-factor.

Lack of Clarity of Vision & Growth Strategy

Without clarity of vision and a growth strategy, an organisation is unable to create the blueprint for business transformation. Every organisation is different and there is no standard approach to implementation. Each organisation needs a customised plan that addresses the different dimensions impacting it; and provides clear and practical initiatives that will achieve its strategy. Organisations lacking clarity on why and how they need to grow in the future also don't have any urgency to change what they are doing today. When there is no clarity about the new competitive environment impacting the organisation then stakeholders are also unable to justify or sponsor the radical change required. Business 4.x favours start-ups and smaller organisations without a legacy rooted in bureaucracy. These organisations have fewer challenges than larger heavily ingrained bureaucratic ones.

[11] https://www.mckinsey.com/business-functions/organization/our-insights/how-to-create-an-agile-organization

Fear of Losing Control

Decentralised control of decision-making and the empowerment of teams to make value-creating decisions is one of the critical requirements that has proven to be a significant hurdle for organisations. The fear of losing control over employee actions stems from a belief that only senior managers with defined authority can make the right decisions. Without this control, anarchy can ensue. Vanguard 4.x organisations, on the other hand, see themselves as “disrupters” so it is easier for them to break ties associated with traditional business.

Trust No One

Many organisations have a fundamental issue with trust. Processes and bureaucracy are put in place over an extended period that generates a culture in an organisation that says “we don’t trust anyone can make the right decision without detailed instruction and this is why we have all these policies and cumbersome processes in place”. The underlying reason why historically organisations created bureaucracy and highly structured processes is that they didn’t have the technology we have today to complete multiple tasks efficiently and effortlessly. The legacy of bureaucracy is that over time people get more constraints about what they can do and organisations begin believing that people *cannot* make decisions without authority. Progressive Business 4.x organisations challenge this doctrine by empowering their people and unlocking their creativity through simple guiding principles and powerful enabling technologies.

Poor Allocation of Time, Talent, and Energy

Traditional thinking in organisations tends to focus on the allocation of capital to achieve a return on investment. This thinking drives organisations to take action linearly to reach a financial outcome. Their thinking becomes mathematical in nature and unless x + y = z then it becomes more challenging for an organisation to take appropriate action. High-performing 4.x organisations apply lateral thinking processes that enable them to utilise the new essential resources of time, talent, and energy of their people to achieve winning market positions. Poor-performing organisations, on the other hand, don’t treat the resource of time in the same manner as they treat capital. They are unable to utilise their talent in a way that achieves the highest results, and lastly, they don’t have a well-thought plan for how to generate high engagement with their people or to direct their energy in the areas that matter the most. They are trapped by traditional thinking and are unable to move to the new paradigms of resources that matter most in Business 4.x.

CEO's Lack of Conviction

Business 4.x is a non-traditional way of doing business to enable an organisation to achieve commercial success. Unfortunately, many CEOs either are too entrenched in how current business is conducted or lack the conviction to be able to lead the transformation of their organisation. In many cases, the CEO is unwilling to mortgage their career over non-traditional ways of doing business just because they fear the unknown and the consequences that may ensue. There is, however, a growing number of empirically based cases that support the commercial benefits associated with adopting new work practices that lead to organisational agility. Harvard Business Review surveyed organisations earlier this year (2018) that had adopted new agile practices and found that 60% achieved higher revenues and profit than organisations operating in traditional models.[12]This evidence should help encourage CEOs take the leap of faith towards implementing Business 4.x practices.

Board Members Retain 3.0 Thinking

One of the final but mostly neglected areas of discussion is the impact of Boards on transforming the organisation from traditional ways of operating towards Business 4.x models. Unfortunately, Boards can often be the single most significant hindrance in supporting and approving the shift from conventional to non-traditional ways of conducting business. Boards are usually comprised of people at the end of their working career. Without experience in the new work practices required to succeed many are unable to support or relate to them. As a result, the changes are challenged because "this is not how we did things at…" Also, Boards have a fiduciary responsibility to shareholders to protect their investments from unnecessary risks. The removal of some business processes and policies may be construed as a risky move and prevent them from approving the changes. Risk needs proper evaluation against the alternative option of not making any changes in work practices. Board members retaining their 3.0 thinking are placing the organisation at more risk than not adopting the necessary changes to evolve the organisation to enable it to deal with rapid change effectively.

[12] https://hbr.org/sponsored/2018/03/survey-data-shows-that-many-companies-are-still-not-truly-agile

Conclusion

Business 4.x are business practices based on a set of beliefs. Many of these beliefs require organisations to challenge and abandon their traditional thinking on how businesses should operate. Business authors have described this transition as "agile" business practices. The origins of the Agile manifesto are based on an efficient methodology to design software. Many of the techniques in the methodology are adapted so they can make an entire organisation agile. However, Agile as a business practice has had limited success. A large number of organisations face resistance on multiple fronts leading them to remain trapped in existing excessively bureaucratic processes. The inability to escape the legacy of the status quo leads organisations to become less effective in the rapidly changing environment of the fourth industrial revolution. Change is required in the organisation, but Agile as a methodology has proven to be problematic for many organisations to execute effectively.

Beyond the concept of Agile is a set of principles that we believe can help guide organisations target the essential business practices that need changing to make them more competitive. These ten principles are designed to create an environment that enables people to develop unique higher-value products and services for customers in an environment marked by rapid change from technology.

Organisations that effectively transform their operations to achieve these results are said to have an X-factor. High performing X-factor teams achieve exceptional performance by changing many traditional business practices. For each organisation, the X-factor should be unique since it needs to reflect the vision, mission, and culture of the organisation that will make it most competitive. Achieving this X-factor can be challenging for organisations as resistance can often extend all the way to the Board. A customised blueprint for how the change will be accomplished, with underlying empirical evidence to support the case, should help facilitate the change required to reach high performance in the fourth industrial revolution.

Correct citation of paper: Business 4.x, Tawfik, Joe, https://www.kineticcs.com 2018

Contact us at:

www.kineticcs.com

Australia:

www.kineticconsulting.com.au

U.A.E: +971 4455 8410

Australia: 1300 780 556