

## Memo to CEOs: Do Your Best, Partner the Rest

*For his new research project, Don Tapscott investigates the role of information technology in the 21st century.*

Don Tapscott is a consultant and speaker on business strategy and organizational transformation, and he has been described by *The Washington Technology Report* one of the most influential media authorities since Marshall McLuhan. His books include "Digital Capital: Harnessing the Power of Business Webs," "The Digital Economy," "Growing Up Digital," and a number of others.

**UBIQUITY:** Tell us about your new research project, "Information technology and competitive advantage in the 21st century."

**TAPSCOTT:** My company, New Paradigm Learning, is launching a syndicated investigation into the role of information technology in the 21st century. The stimulus for the project was the recent confusion regarding IT competitiveness as reflected in Nicholas Carr's article that was published in *Harvard Business Review*, and is now a book.

**UBIQUITY:** Is Carr's opinion an isolated example or is it more widespread?

**TAPSCOTT:** I think that it's reflective of a widespread skepticism about technology and probably more broadly about innovation. There are a number of reasons for this.

**UBIQUITY:** Such as?

**TAPSCOTT:** In the past, some technology companies exaggerated the importance of IT in business. Sales forces were more focused on the sale than helping customers effectively use a technology. More recently, the technology bubble, the dot-com mania, the depression bear market and global economic recession have caused many companies to hunker down, focus on cost control, and set aside innovation in general, and in particular IT innovation.

**UBIQUITY:** Some research has shown that companies that invest more in technology don't necessarily perform better.

**TAPSCOTT:** That's called the productivity paradox. This has led some executives to question IT industry claims. For individual corporations there's often no correlation between information technology, investment and organizational performance. There have been many high-profile failed IT investments, some costing hundreds of millions of dollars.

**UBIQUITY:** Do you believe those studies -- that there's no correlation?

**TAPSCOTT:** The most recent research disputes those studies. My view is that the actual dollars that you invest in IT may not correspond to productivity and competitiveness because it's not about how much you spend. It's not just what technology you buy but how you build and acquire solutions and most important how you change business processes and business designs. It's not about the technology. It's about the business, stupid. It's about harnessing the power of information. Carr's

article is not the problem. In some ways it's helped to bring this discussion to the floor. It is reflective of these underlying issues.

**UBIQUITY:** How is the project funded?

**TAPSCOTT:** It's funded primarily by large enterprises that use technology. We're doing deep dives into four industries -- financial services, manufacturing, healthcare and retail. For each of these we're developing in-depth models. The membership fee to get access to one is \$150,000. There will be about 20 companies involved.

**UBIQUITY:** Nick Carr has said that ideally any employee should have precisely the technology they need -- no less but also no more. Do you feel the same way?

**TAPSCOTT:** There is some validity to that statement that links up with new architectures for technology. Let's take virtualization. It may be possible that rather than a single computer for 200 days, that what you really need is 200 computers on one day. You should be able to get that kind of capacity and capability. On the other hand, the fact that an individual employee has a desktop machine that on a 24-hour basis is utilized a relatively small part of the time is irrelevant. What's relevant is, is that tool cost justifiable.

**UBIQUITY:** One of the things that he is disdainful of is the practice surfing, playing games, doing personal research, shopping and so forth.

**TAPSCOTT:** If an employee is fooling around it has nothing to do with technology. It has to do with the employee. An employee who wants to read porn on the job can buy a porn magazine and stick it in a desk drawer just as easily. His view shows disdain for knowledge workers today. Of course there are cases of under-performing employees who waste substantial parts of the day using technology. So what? That's like saying that we shouldn't have transport trucks because some drivers when they get near Las Vegas go into town and waste four hours at a slot machine. What's the point?

**UBIQUITY:** You said that recent studies suggest that there's no correlation between technology spending and innovation. Should a different question be asked? Is there a correlation between technology spending and some other concept?

**TAPSCOTT:** The important issue is not how much you spend on technology but how you harness the power of technology to execute a business strategy and new business designs. That's the core of the argument. My view is that the corporation is going through the biggest change in its architecture in a century and that vertically integrated corporations are unbundling and becoming focused corporations that work within broader networks or business webs and that we're in the very early days of this change. It's happening on a global scale as the tonic of the marketplace globally is being brought to bear on every business function within a corporation. The reason is that the Internet drops transaction, interaction and partnering costs. Unfortunately, Carr's book has a bit of a veiled defense of vertical integration but it doesn't grapple with the key questions.

**UBIQUITY:** Why is that unfortunate?

**TAPSCOTT:** Rather than addressing the real issues, he creates a straw man caricaturizing of my perspective. Carr calls it the post-company point of view --

apparently because I think vertical integration is no longer the emerging model of the corporation that companies are no longer the basic unit of commerce and wealth creation, which is ridiculous, of course. There is no alternative to corporations. Planned economies didn't work out that well on the one hand. On the other hand, we're not all going to be independent agents and contractors. There are other assertions about my point of view -- apparently I say all companies are going to be small. That's ridiculous. The small companies will be the vertically integrated ones on their way to extinction. Because you're focused doesn't mean you'll be small. The biggest companies today are very careful about their boundary decisions. As soon as companies get beyond their core they often run into trouble.

**UBIQUITY:** Someone once said that organization and reorganization in industries tends to have a yo-yo effect. There's a push to decentralization then there's a push to centralization and command-and-control, and then it goes out again, just like a yo-yo. Does that resonate with you?

**TAPSCOTT:** When it comes to organizations, I'm not talking about decentralization or centralization. I'm talking about vertical integration or not. You can be a highly centralized company that's not vertically integrated. There is no yo-yo on this one. The trend for the last 50 years is crystal clear -- and one way -- towards unbundling. It has accelerated hugely in the last decade because the Internet drops transaction, interaction and partnering costs between firms. Companies can now focus on what they do best, partner to do the rest. Focused companies working in business webs perform better. This will continue for decades, as companies go through the process of defining what's core to them, finding the cluster of activities where they can differentiate, create barriers to entry, and so on. The big, controversial change is this is now happening on a global basis. It's not just manufacturing or clerical work. It's many different categories of knowledge work.

**UBIQUITY:** How does that fit with some of the more prominent companies such as Time Warner or the failed Comcast-Disney merger?

**TAPSCOTT:** Content wants maximum distribution and distribution wants maximum content. Vertical integration in the media and telecommunications industries is akin to Wal-Mart buying P&G. It doesn't make sense to do this, especially for customers. What if the whole industry went in that direction? You would get balkanized islands of content and distribution. You'd have to sign up for a whole bunch of different distribution providers just to get the content that you want.

**UBIQUITY:** Can you expand on that in terms of the old concept of synergy?

**TAPSCOTT:** The biggest confusion on this whole question comes in converging of telecommunications content and computing. Convergence led many companies to conclude "we need to own everything." A great example of that was a chart in *Business Week* a few years back that had a checklist. Do you own cable? Do you own a telephone network? Do you own a television studio? Do you own video games? It was as if the one with the most checks wins. This proved to be a really dumb idea.

**UBIQUITY:** What happened to them?

**TAPSCOTT:** They all unbundled. Then, bizarrely you started seeing newspaper articles saying, "Convergence is dead." Convergence was never dead. It's a fact of

life. What's dead is vertical integration as a strategy to achieve convergence. People were throwing out the convergence baby with the vertical integration bathwater.

**UBIQUITY:** What was wrong with the basic idea of synergies that was being sung everywhere for several years, in terms of convergence?

**TAPSCOTT:** Companies got into businesses that they didn't have any core capability or expertise with. So they ended up owning and operating businesses that didn't make a lot of sense. ComCast-Disney would've been a great example of that. People talked about the synergies but imagine the real effect on Disney's content if ComCast, which knows nothing about movies, television and theme parks, was running that company.

**UBIQUITY:** Could they have given it to Jack Welch (Chairman of General Electric) and let him run it?

**TAPSCOTT:** Jack Welch ran a conglomerate of many different companies. There were no great synergies between them but each in its own right was a good company. GE provided an umbrella within which these companies could operate successfully. The main thing that Jack did was to provide standards and processes that could be used across all the companies regarding management, leadership, and performance evaluation.

**UBIQUITY:** Earlier you mentioned the global implications of some of these big business arrangements. What do you think about that?

**TAPSCOTT:** I was talking about the tonic of the market being brought to bear in every business function. Why pay a Wall Street analyst \$300,000 a year, for instance, when you can get someone for a fraction of that with access to pretty much the same information with an MBA and a PhD living in Bangalore? Many whole new classes of knowledge work, key elements of the economy, are now subject to the force of the global marketplace.

**UBIQUITY:** What are your thoughts on protectionism?

**TAPSCOTT:** Ironically, the effect of protectionism or trying to prevent this change in corporate architecture from occurring would be to create massive structural unemployment. On the other hand, competitive companies are a necessary condition for jobs but they may not be sufficient as we go through this restructuring of the workforce on a global scale. This time there will be significant dislocations. It's quite possible that people displaced from the old jobs can't readily fit into the new jobs.

**UBIQUITY:** Is there a role for government in this?

**TAPSCOTT:** For sure there's a role for government. I don't think it's in being protectionist but it may be in doing other things, helping to manage this transition, making investments in R&D in important areas, perhaps developing the educational system to enhance the capacity for lifelong learning and so on.

**UBIQUITY:** Do you believe that globalization and offshore outsourcing are basically good things?

**TAPSCOTT:** They're good in the sense that they're necessary for creating competitive companies. Imagine if we tried to prevent this from occurring. Let's say we told Dell that you can't offshore manufacturing of computers by an EMS (electronic manufacturing and services) or an ODM (original design and manufacturing) company. These are the companies that build the computers for computer companies. In the case of ODMs, they also design the computer as well. If you stop that from occurring the cost of a Dell computer would go up by many fold. Dell would be unproductive in the global market. Presumably you'd have to have protectionist policies that would prevent the import of cheaper computers. American business's capital costs would go up hugely, which would make their companies, be they paper companies or steel mills or whatever, become less productive on the global market. You'd have this vicious cycle of a downward spiral of lack of competitiveness, which would result in structural unemployment.

**UBIQUITY:** So it's necessary. But is it good?

**TAPSCOTT:** It's not good for the person who loses a job. I can certainly understand how many readers of *Ubiquity* would be frustrated. We've been telling young people for the past two decades "Don't get a 'useless' degree like a liberal arts degree. Study something 'useful' like computer science." So young people became programmers and systems analysts and so on. Now they see their jobs being outsourced. They say "I did exactly what you told me to do and now I'm unemployed." I think we have a responsibility as a society to help manage a transition like this.

**UBIQUITY:** With training and R&D?

**TAPSCOTT:** Yes. That should be the real discussion. But we're not having a real discussion today.

**UBIQUITY:** How would start the discussion?

**TAPSCOTT:** The starting point would be to get good data. There is some dispute over the data today, as far as what's happening with employment. Some people argue that this is all working itself out quite nicely as it has with previous relocations of domestic capabilities to the global labor market. My gut tells me that's not true. A change like this seems to be qualitatively larger and different than previous waves that we've gone through. This would be a great example of how under a new model of democracy a government could get involved in engaging people in a conversation.

**UBIQUITY:** How would you go about engaging people and getting real solutions to the problems of globalization and outsourcing of information jobs?

**TAPSCOTT:** Here's a proposal; it's called a digital brainstorm. The President would set up a discussion in America on this topic. It starts two weeks from Monday at noon and it goes for three weeks. It will occur online and be organized geographically and also by topic. There could be many subtopics. What do we do? What investments in R&D might help solve this problem? What should we do about the education system? Are there fair trade practices? He could have a policy group. Then he would get 10,000 students to monitor the discussion. They'd do it for free, of course. All the best ideas would come to him and he would participate on a daily basis and personally get involved. The important result of that would be new ideas. I

bet you there'd be a new initiative that would be catalyzed through a conversation like that.

**UBIQUITY:** With that call to action, it seems like a good place to end the interview.

**TAPSCOTT:** This is not a new idea. We came up with this quite a while ago. The Clinton White House was going to do it but Clinton ran out of gas at the end of his term and we weren't able to pull it off.

*Don Tapscott's e-mail address is don@tapscott.com*

*Source: Ubiquity, Volume 5, Issue 16, June 16 - 22, 2004, <http://www.acm.org/ubiquity/>*