

# Globalize Your Business to Become a Networked Enterprise

## The Symbiosis of Small Firms, Big Firms and Regional Economies

The strategy, which stacks up pretty well in practice, concludes that if the SMEs are good enough, then the big fish will make them even better by stretching them through ongoing strategic innovation partnerships. If, however, an SME is not good enough, it will quickly find out, which is painful, but yields valuable information for both parties.

Imagine you have a magical electron microscope which lets you see anything you like not in the physical world but in the economic world. You crank the magnification right up to maximum so you can see the very smallest atoms of economic activity. What do you find? You find me – the owner/manager of an ambitious knowledge-based small business.

Text me a question “What is your biggest strategic challenge?” It takes a minute because I really have to think about it and get my head out of the tyranny of operational urgencies and into

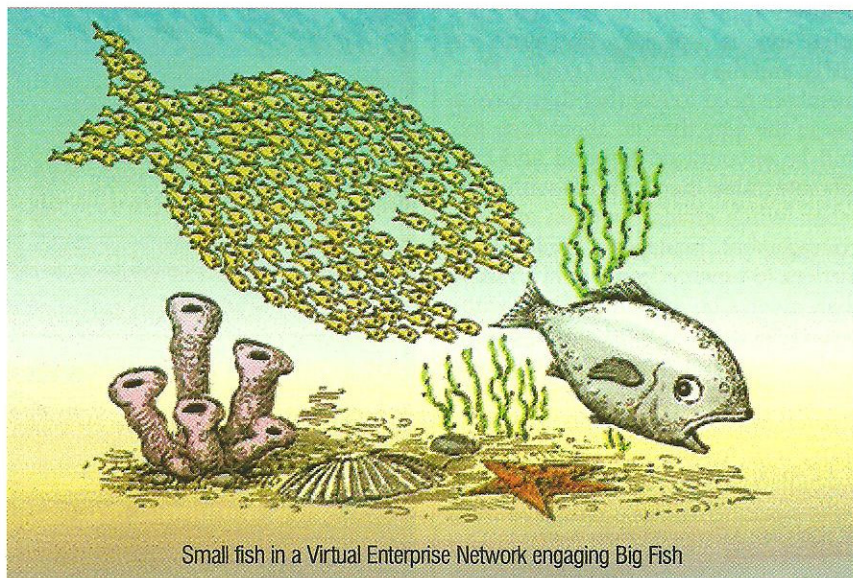
the strategic space I so rarely inhabit. Eventually your cell phone beeps with my response “According to the A-list strategy gurus such as Harvard’s Michael Porter, my biggest challenge is gaining access to major enterprise customers who will stretch and improve me and my product or service. And you know what Porter is absolutely right.”

I am a small fish – there are a lot of others just like me. For example, in the EU, small and medium-sized enterprises (SMEs or small fish) comprise approximately 99% of all firms and

employ among them about 65 million people.

Now jump from the bottom of the economy way up to the top of the major supply chains. You meet me – the CEO of a *Fortune* 100 global enterprise. I am a Big Fish. Ping me the same question on my secure corporate Instant Messenger “What is your biggest strategic challenge?” This time the response comes back instantly “That’s easy – its keeping my products and services ahead of the competition and avoiding the ‘Silver Bullet with my name written on it’ of unexpected competitive knock-out from left field that Andy Grove, author of *Only the Paranoid Survive*, warns about”.

Now fine tune the microscope’s “multidimensional resolution” to move away from the micro to the macro. What do you see? You meet me – an Economic Development Director in a major regional economy. I am a FISH FARMER – I try to create ecosystems where fish (big and small) can thrive. Ask me the same question – “What is your biggest strategic challenge?” This time you have to use email as that’s the currency of the organization I work for. Ten minutes pass, you grab a coffee and then you hear the familiar sound of a ‘you have email’ notification and you read. The biggest challenge for us is developing our regional economy by joining the dots between the small indigenous local companies and global enterprises. The era of a big player locating here and bringing 10,000 jobs has gone – we must find a way to create these jobs through our local companies competing and winning in the global



Small fish in a Virtual Enterprise Network engaging Big Fish

market with global customers.”

The amazing three-way “Win-Win-Win” Opportunity is this: the small fish, big fish and fish farmers all want the same thing – they just don’t know how to make it happen!

Sounds paradoxical? Not really. When you consider that innovation is the key to success in the 21st century, and that huge corporations like Proctor and Gamble and IBM are going to the ends of the earth seeking innovation, the picture comes into focus. The term “Open Innovation” is now the most popular phrase in the corporate business vocabulary.

Here’s what’s going on. In most

Porter’s strategy suggests that to take SMEs (i.e. small fish) to the next level, their leaders have to find some way to move beyond their current customer bases and begin to work with the bigger, more demanding, big fish enterprises.

The strategy, which stacks up pretty well in practice, concludes that if the SMEs are good enough, then the big fish will make them even better by stretching them through ongoing strategic innovation partnerships. If, however, an SME is not good enough, it will quickly find out, which is painful, but yields valuable information for both parties. So either way it is a

headquartered in a given small fish’s region

- Local big fish operations may have limited autonomy for strategic sourcing and forming new alliances.

The irony is that while these big fish desperately want and need the innovative products, services and thinking that specialized small fish bring, every single procurement process big fish have is designed with the express purpose of stopping such a relationship ever developing. Though the big fish know that relationships with the right small fish are strategically vital, they institutionally discriminate against this under the very respectable but ultimately misguided mantra of ‘Supply Chain Rationalization’.

So there is a Catch-22: small fish need to work with big fish, but they cannot directly engage them. Does that mean it’s game over?

No.

Two plausible, but different, tactics can be considered.

The first tactic is a well-tryed path that involves a small fish finding one of the big fish’s approved suppliers to work through to eventually reach the big fish itself. These suppliers tend to be major enterprises in themselves and the small fish will attempt to join their supply chains—usually at the bottom of the food chain. The show-stopper with this tactic is that, no matter what these major suppliers might say or promise a small fish, they tend to do everything in their power to keep the small fish at arms length from their major customers, their big fish. They usually achieve this by making sure all conversations between the small fish and big fish are routed via themselves, and they tie the small fish up in all kinds of non-circumvention clauses to stop the possibility of developing any direct small fish to big fish trading relationships. In the major supplier’s private, unspoken view of the world, such a relationship is generally considered as “not in our strategic interests.”

A second, less well-known tactic has the potential to be much more successful. In this case like-minded small fish directly engage key big fish

**“Creative Destruction,” is a process in which the old ways of doing things are endogenously destroyed and replaced by new ways**

economies, smaller enterprises are much greater in number than large firms and these small fish are also responsible for driving innovation and competition.

But how do these two distinctly different entities—the big fish and the small fish—come together to create business innovation and to swarm around new business opportunities?

‘win-win’ situation if a small fish can somehow engage a Big Fish to test the waters for mutual benefit. It’s summed up by the legendary economist Joseph Schumpeter’s notion of “Creative Destruction,” a process in which the old ways of doing things are endogenously destroyed and replaced by new ways.

**Good News and Bad News**

But wait. There is bad news for SMEs trying to follow this connect-and-colaborate partnership strategy because big fish are almost impossible to reach directly by an individual SME for many reasons:

- Big fish worry about small fish longevity and stability
- There are cultural chasms between big fish and small fish
- Small fish are too much trouble to deal with—far too disruptive
- Small fish don’t understand or fit big fish structures and processes
- Small fish find it hard to participate in extended information sharing sessions with big fish that often last 12-18 months before any revenues are realized
- Accessibility issues are commonplace as big fish are not generally

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through collaborative business networks that have sufficient scale and resources to interest and engage the big fish—enter the Networked Enterprise powered by the Virtual Enterprise Network (VEN).

### What is a VEN?

The goal of a VEN is to connect SMEs into peer networks, supported by appropriate collaboration practices and technologies, to give them the capabilities and competitive advantages of large global enterprises, particularly in:

- Sales
- Marketing Reach
- Product Development
- Human Capital and IT Capital

Moreover, an overarching goal of a VEN is to achieve these capabilities while retaining the VEN's inherent competitive advantages over large enterprises in:

- Speed and Responsiveness
- Entrepreneurship and Innovation
- Flexibility
- Low Overheads.

A VEN is, therefore, a way for businesses to achieve virtual scale, enabling it to operate as if it possesses more resources and capacity than it actually has within its own physical organizations. This allows the VEN to function with all the resources and reach of a large enterprise, but without sacrificing its speed, agility and low overhead. This enables it to compete for bigger, more profitable contracts with higher innovation and design elements, with bigger customers that are more willing to build strategic partnerships rather than simple transactional relationships with the VEN's individual suppliers.

### What Do We Mean by "Virtual" Enterprise Network?

"Virtual" has three distinct and complementary meanings in a VEN:

#### 1. Virtual

As the opposite of Physical, new (non-physical) enterprises forming and dissolving from other (physical) enterprises, each with different processes, systems and cultures, with the need to build trust, common aims and working

practices very quickly.

#### 2. Virtual

As not geographically in the same place, with the use of virtual team technologies and techniques to address this.

#### 3. Virtual Capacity

In the sense of 'Virtual Memory', where a computer operates as if it has more capacity than it actually has, allowing enterprises to incorporate external skills and resources to exploit market opportunities.

### Why Do We Need VENs?

Because most ad hoc business collaborations fail. There is an obvious question "Why do we need a VEN model?" Is it that difficult for businesses to collaborate, and should we not just let them get on and do it? The reason this logic is faulty is that the vast majority of ad hoc business collaborations involving more than two parties fail miserably for three main reasons:

the winning bid if you don't make the other bids first.

#### 3. Lack of Scale and Resources

Collaborative business networks need big players to give them scale, credibility and resources. However, it is very difficult to avoid these big players who effectively take over the network and turn it into their own personal supply chains, with all the problems this entails.

All these problems have one common heading—multiparty business collaborations fail for lack of a proven collaboration model which is precisely what the VEN model offers.

VENs are gourmet banquets and not ready meals or fast food!

VENs do not come 'ready made'; they need to be created and nurtured. They need to be lovingly prepared, not just placed in a microwave oven. This nurturing, typically, involves a process of moving through a number of clear developmental stages over many months. These processes need to be

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#### 1. Unrealistic Expectations

SMEs often expect results in advance of investment on their part. Experience shows it is unlikely that an SME network will win a major collaborative new customer contract in less than 12 months. Opportunistic behavior and under investment kills collaborative business networks.

#### 2. Bid Fright

When SMEs see the effort involved in preparing a major customer bid they often decide not to bid. The problem is, if they never bid they will never get any better at preparing professional and credible major bids. Experience reveals that the first two collaborative bids are rarely successful; they are really just foundations for later successful bids. But you never get to

supported by a handful of key roles—Network Architects, Network Brokers and Network Coaches to name three.

### So Is It Time to Think About Becoming a Networked Enterprise?

Like a gourmet meal it takes a lot of time, effort and investment. But just like a lovingly prepared dinner, the results are usually well worth the wait. Anyway we all know what happens to you when you eat too many ready meals and fast food! ☹

This article is based on Ken Thompson's new book *"The Networked Enterprise: Competing for the Future through virtual enterprise networks"* (published by MK Press 2008.)

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