

# connecting the business

# THE 3 LEGGED DOGS

Companies that learn to leverage technology will improve agility, resiliency and innovation growing revenue and profits faster.

By Faisal Hoque

**T**he rapid and chaotic change in which we do business today presents special challenges to enterprise leaders: they must respond to surprises or, at times, instigate those surprises and do it all faster than ever.

These challenges have names like “adaptivity,” “innovation,” “agility,” and “resilience.” But at the end of yet another PowerPoint presentation what do they really mean?

Actually, these concepts are interdependent. Just as the Internet was created to make our national defense communications resilient to disruptions or destruction, it also enables organizations to be agile or act nimbly to seize opportunities. And it has enabled endless innovation in business models, processes and global collaboration.

In the same way, a firm that is adaptive agile and resilient will be equipped to experience sustained innovation.

These concepts can be seen at work at Toyota as it adjusts to rapid,

global growth and economic challenges. Toyota expects to manufacture 10.4 million cars next year, twice what it manufactured in 2000, at factories in 27 countries. Conveying the Toyota Way in different languages and cultures is a real test of its leadership.

Yet Toyota continues to innovate in its world renowned processes. In several plants, for example, it has replaced parts bins that once sat beside assembly workers with containers placed inside empty car bodies. This makes it easier for new, often temporary workers to learn their task more quickly. And the job of loading the containers has been given to older workers, who have guaranteed lifetime employment but can no longer keep up on the assembly line. The result: efficiency gains of 20 percent.

The connections among agility, resilience and innovation should not be surprising. Innovation, after all, is doing something new. Agility and resilience imply the ability to do something new. This ability must be established before opportunities or threats come knocking, because

in a connected world time is risk. An organization’s success, therefore, depends on its leaders’ ability to be future oriented, seize external opportunities and recover from setbacks.

This was the case for Toyota, rapid expansion meant the need to bring on new workers, often unfamiliar with manufacturing, and train them quickly. “What took us 20 years is now concentrated down to five years,” Toyota President Katsuaki Watanabe has said. This is vital in Toyota’s efforts to correct the recalls that have tarnished its reputation recently.

Resilience and agility require the skills of an enterprise’s business and policy leadership, as well as its operational and technology leadership. To work together, they must move toward convergence – an operating model in which their disciplines intertwine, and in which the leadership teams operate almost interchangeably.

This is why we call it “business technology.” To create an environment where technology helps to shape rather than simply enable

strategic choices, leading enterprises are already working to synchronize rather than simply align their business and technology decision making. Managing business and technology together, or as we call the discipline, “business technology management BTM,” takes a multi disciplinary, structured approach that creates a “whole brained” enterprise.

Enterprises who fail to take a multi disciplinary approach can’t move quickly or intelligently to seize advantage or respond to threats. Research conducted by the BTM Institute has shown that genuinely agile and innovative organizations have moved towards the convergence of business and technology management. In this new environment:

- Disruptive innovation creates new markets
- Evolutionary or sustained innovation creates great enterprises
- Agility allows rapid response to unforeseen changes
- An extended enterprise provides a competitive edge via a global resource pool

- The convergence of business and technology drives agile, innovative, extended enterprises
- Convergence relies upon repeatable cross disciplinary management capabilities

Between 2002 and 2006, BTM research covering 50 industries shows that, working in the same environment as their direct competitors, enterprises with a more converged business technology management exhibited superior revenue growth and net margins relative to their industry groups:

- 12 percent average annual revenue growth vs. 4 percent for their industry groups
- 36 percent average annual earnings per share growth vs. 7 percent for their industry groups

Not only did these enterprises grow at a faster pace than did their peers, but they also exhibited consistently greater returns than those of their competitors:

- 6 percent higher EBITDA margins than those delivered by their

- industry groups
- 4 percent average higher return on equity
- 8 percent average higher return on assets
- 14 percent higher return on investments

Numbers don’t lie. These are the new rules of the road in the 21st century, and they are working at preeminent companies like Toyota. “As a global company, there are many things I believe Toyota has to do,” Chairman Fujio Cho has said. “We cannot go back to what we were in the past.” ●

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