When the default just won't do: Resilience as the new competitive driver

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Final draft, August 7, 2020

This COVID-19 crisis has been a shock to us all. While the epidemiological issues rage on, and economic uncertainties rising, it has become clear that this crisis is much more than a contraction. Even when a vaccine emerges, and economic activity resumes, the old normal is history (Grandori 2020). We will be living in a different world, where only the resilient and the bold can survive – let alone thrive. It will take some concerted effort for to not succumb to their natural proclivity to simply repeat what has always worked for them in the past.

There are a number of drivers that shape this crisis as an exceptional one, and which turned 2020 into a momentous year. COVID-19 has not just slowed us down; it has catalysed the process of digitisation. Since physical proximity between people is at the core of the pandemic, we have relied, in both our personal and professional lives, on remote connections and untold transactions. This has a number of implications.

First, Big Tech, which mediates our interactions, has come out of the crisis much stronger than before (Kenney & Zysman, 2020; Jacobides, 2020). However, that has also attracted the glare of the spotlight, and concerns arising over unfair advantage and global dominance have changed the regulatory discourse. In the joint hearing for Google, Amazon, Facebook and Apple in the US Congress on July 29, the four firms' CEOs were grilled by US Representatives. Their concerns included unfair practices that go well beyond the traditional toolkit of antitrust law, and which oblige economists to study business models – for a change (Caffara et al, 2020). In the EU, the Data Act and the Data Services Act that are currently being debated, as well as the new "tool" for platform competition, denote a regulatory sea change. In the new world, regulators will directly shape the competitive arena in an unprecedented manner, dictating what is ruled in or out, and which business models are fair or unfair.

Second, consumption patterns are changing, with platforms and ecosystems becoming ever-more important – whether they hail from Big Tech or not. The growth of modularisation, digital connectivity (including 5G) and the "Internet of Things" provides the potential for significant further disruption in fields that had traditionally been relatively isolated, from healthcare to education. To keep on selling in this new marketplace, firms need to rethink their distribution networks and reach their customers through business ecosystems (Jacobides, 2019).

Third, production is also changing – fast. Global supply chains have been upended, as national governments react to assert their economic interests and undo the globalised structures that had emerged – especially in technology. Recent BCG trade simulations show that global trade is likely to drop by 20 to 30% from 2019 levels due to a combination of global recession, geopolitical frictions and new supply chain structures. The absolute trade volume of 18 trillion dollars is likely to be recovered by 2023, but with a completely new set of trade routes, i.e. the US-China trade will have lost 128 billion dollars, while ASEAN and India will boom (Aylor et al, 2020). The technological war brewing between the US and China is leading to a multi-polar world, where designing redundant loosely coupled supply chains emerge as the new

normal, and where geopolitics will inevitably clash with economic efficiency or strategic desirability. New manufacturing technologies, including advanced robotics, additive manufacturing (e.g. 3D printing), and augmented reality, threaten to undermine supply chains built on traditional labour cost arbitrage, while at the same time birthing new giants upstream who will provide vital infrastructure. Beyond that, firms are using technology to rethink how they are structured, and how they work – from the digitization of processes to the service-isation of products (including migration to the Cloud, which has bred a new, powerful set of Hyperscalers – often owned by Big Tech).

Fourth, labour practices are changing. While white collar-work from home was relatively minor pre-COVID many companies were remarkably resilient and swift o get more than 90% of their workforce operating virtually. A recent BCG study showed that companies that are not dependent on plants/work sites expect around 40% of workers to use remote working in the future and that hybrid models will exemplify the new normal of work (Bailey et al, 2020). The recognition that working from home is here to stay will have important consequences, both for the way firms are managed and for how employees or contractors connect to the firm. This will prompt a rethink of managerial and leadership practices (Valikangas 2020) and organisational boundaries. At a societal level, the growth of the "gig economy" may lead us to reflect on the merits and shortcomings of big platforms, from monster.com and TaskRabbit to Uber and Deliveroo, and how they relate to their workers.

Fifth, digitisation has created an explosion of data, while connectivity has allowed us to manipulate, move and monitor it in unprecedented ways. Thus, data is becoming a hotly contested asset. It is the engine for personalisation and the basis for individualised value creation, which translates into stickiness, which itself translates into margins (Koster & von Szczepanski, 2020). Data is also the training ground for computational statistics – or, more sexily, Artificial Intelligence (AI), which consists of algorithms that can either diagnose or predict. AI advances with data, and this further increases the advantages of having loads of data on tap. So, in this new economy, in addition to the (sometimes over-hyped) "network effects" offered by platforms and ecosystems, there are also "learning effects" – originating in data and begat by scale and scope – that drive competitive position.

In this context, firms must hone resilient and adaptive capabilities fast. But, what do these capabilities come down to? In related research, we consider that there are three areas where firms must focus and sharpen their skills in (Jacobides & Reeves, 2020). First, they need to work to improve their understanding of the competitive terrain, as this mapping is more important than ever given the current flux. They need to look at the changes in demand and discern between temporary shifts; new trends; boosts; and catalysts, directing their resources accordingly. Second, beyond their improved understanding of the nature and level of demand, they need to rethink their business models. Given environmental shifts, firms must be able to ask existential questions, including how they can monetise their advantage, as they can no longer take their industry architectures as a given. In particular, they may want to consider how to build or connect to dominant digital platform and ecosystem, since distribution and production is now so heavily mediated by them. Third, beyond being able to respond to such massive business-level changes, firms (which typically operate in multiple businesses) must hone the skills of capital reallocation (Hall, Lovallo & Musters, 2012) and corporate renewal (Agarwal & Helfat, 2009; Folta,

Helfat & Karim, 2016). In particular, they need to look carefully at their business portfolios, and have the courage to reallocate capital and resources from divisions that generate cash with poor long-term prospects to areas that will benefit from future growth, as opposed to stick with historical patterns of capital allocation and temporarily batten down the hatches.

The challenge is that firms find it hard to be so bold. BCG's recent survey of more than 300 large companies around the world showed that, while most companies initially focused on immediate reactions to the outbreak and preparing for the eventual recession, they also understood that they would need to reimagine their businesses for a fundamentally different post-crisis world. However, many businesses delayed their responses on this dimension – and there are some perennial organisational challenges that make reimagination difficult.

Organizations are also loath to reallocate capital, making them quite slow to respond. In good times, inertia and internal politics push organisations to deploy capital in irrational ways: they tend to distribute it equally between divisions or subsidiaries, leading to the "1/n" bias (Bardolet et al 2011). They also tend to follow historical precedent in determining capital allocation. In times of crisis, they try to suppress *all* costs across the board, including R&D, in an attempt to "batten down the hatches". Yet this handicaps their ability to take advantage of new growth pillars, leading to significant underperformance when the crisis abates (Flammer & Ioannou, 2020). In other words, many companies fail to de-average capital allocation sufficiently, both across businesses and over time.

Contrast that with the speedy reaction we're seeing from platforms and ecosystems. In particular, look at some of these tech-dominated ecosystems in China, a country whose growth has been propelled by a ruthlessly competitive system. The response, weeks after January 20, 2020, when it was announced that a novel coronavirus had spread from animals to humans, was remarkable:

- After three weeks, Alibaba's Alipay lifestyle platform had launched 12+ new features and services provided by its partners, including a live map aggregating public locations where infected patients had first been identified, free online medical consultations, insurance cover for frontline medical workers and subsidies for small enterprises who were struggling.

- Within a month, Meituan-Dianping, the food delivery platform, was ready for a sharp uptick in sales – by addressing customers' concerns about contact with delivery staff – with its new "contactless" system that used intelligent lockers and other facilities to carry out deliveries in major cities.

- Also within the first month, digital ecosystems enabled China to roll out a contact-tracing system. By mid-April, it had used smartphone apps to track the health status and movements of nearly 450 million people, and pinpoint 160,000 cases of close contact with infected individuals.

Such agility demonstrates both how and why ecosystems have grown so rapidly in China, setting new expectations in terms of resilience and speed of reaction. But what are the drivers behind them? One reason that these firms have developed responsively, without the historical and administrative "baggage" that we see in many developed economies. Setting aside issues of "infant industry protection", the

rapid response of Chinese ecosystems was made possible by operating models that facilitate rapid innovation and delivery across a broad network of private and public partners, with seamless information transfer. As a result, leading digital players in China – along with business partners within their networks – were able to release customised COVID-19 offerings and interfaces in record time. And if they could not deliver on their own, they opened up their ecosystems to new partners and brought them on board in double-quick time (see Chan, Lang, Modi, Tang & von Szczepanski, 2020).

Chinese digital ecosystems rolled out everything from AI-enabled chatbots and telemedicine services to diagnostic tools. They raced to help countless bricks-and-mortar companies get online, resolved supply-chain bottlenecks and redeployed hundreds of thousands of workers. All these moves helped mitigate the economic damage wreaked by COVID-19.

China may be a unique case, in terms of infrastructure and (limited) regulatory constraints, but such responses to the pandemic highlight a resilience to innovative solutions that transcend geographic and geopolitical boundaries. When we studied 10 innovative ecosystem-sponsoring Chinese companies and their practices, we saw that their resilience was based on rapidly introducing COVID-19 offerings, creating new platforms, broadening existing digital ecosystems, accelerating the rollout of nascent technologies, helping businesses make the transition to online and leveraging the power of public-private partnerships. And while the giant tech companies that orchestrate China's largest digital ecosystems have rich financial, technological and human resources to throw at new challenges, increased resilience to external shocks goes deeper than that. A more valuable lesson is the importance of quickly grasping the many implications of disruptive change, devising strategies to respond and mobilising the organisation (Chan et al, 2020).

Whether we like it or not, we are living through a period of momentous change. Supply-chain arrangements are reimagined and reinvented. New platforms and ecosystems are supplanting traditional delivery channels. Work is becoming digitised and modularised – and, as such, more reconfigurable. New production technologies are creating new operational and business models, often disrupting or reconfiguring sectors. New work arrangements are taking hold, making us rethink the boundaries of the firm.

In this context, some traditional hierarchical firms are losing their appeal, while other giants, propelled by technologies that involve high fixed and low variable costs, learning economies and network externalities are becoming ever-more dominant. While geopolitics and renewed regulatory fervour will have significant impact, it is clear that the foundations of corporate success are changing. It is thus more important than ever to define purposes, focus on rapid response and resilience, and to move with the times, reconfiguring the organisation to make it more responsive and entrepreneurial.

(2085 words)

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