Stanford eCorner

Core and Context

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URL: https://ecorner.stanford.edu/videos/core-and-context/

Moore uses the core/context analysis framework to discuss how to overcome inertia in strategy and structure.

Transcript

It started with this issue called, "Core and Context" it was in the prior book and the idea behind this thing was to deconstruct the relationship between strategy and structure and here's what we came up with; We said look, "Strategy is all about investing in the next generation of innovation." Let's just call that "Core".. Whatever the new thing that is going to create differentiation, that's core.. Everything else is context; that created the left and right of this diagram.. And the investors and the market are going to reward every ounce and they're not going to give us a price for all these stuff that we put in the context.. If we do it brilliantly we don't succeed, if we do it badly however, we get in trouble.. That's what the mission critical row is about.. Mission critical means, I don't know whether you get credit for this or not if you do it well, but if you screw it up you're in deep doo doo.. And so when you look at this model and you play it out overtime the dangerous quadrant is quadrant number 3.. It's going to be quite at number three where you've got a lot of resources tied up in a mission critical process because you're so worried about at failing but the market won't pay you a premium for the outcomes of that process and so as a result you're margins are getting hammered.. It's a very tough place to be..

I'm going to kind of walk you through a model and kind of build that.. So if you look at this of how we get to this place, we start off with, we put an innovation, we want to differentiate, we put that in the lower left hand quadrant; we don't put it out in a mission critical zone, we put it in a laboratory, we incubate it.. We do a pilot workshop with our customers.. When we think it's ready to go we launch it.. We try to do it now at scale.. We're going to take it out to the entire market.. We're going to build our success on it and if it works it's great.. And we become, you know Palm has a great Palm Pilot or RIM has a great Blackberry or Opteron from AMD works great and people are very excited about it.. But then what happens is the market starts to compete with us and we fight back but overtime the market finds a way to neutralize our differentiation and as a result, we now have a large part of our product line on the other side of the core line.. It's still important to us but it's no longer very well differentiated and at that point our best bet is to say, "For that part of our offer, it would be great if we could take a lot of the risk and mission critically out of it because then we could take resources out of that process and put them elsewhere..

So the flow of innovation as a whole wants to look like this; developed, deploy, stay on the left side of the line as long as you can, stay, stay, stay.. Keep reinventing, reinvent, reinvent, but understand that overtime we're going to get stuck over on the right so then we have to manage it.. If we can mange out the resources and manage out the risk we can offload it.. So the idea is invest here, invest more here, extract some resources here an extract more resources here.. This is the whole idea of core and context and I want to take the red resources and reinvest them over on the yellow side.. So that was the idea, in other words three problems in trying to execute this idea.. The first problem happened with the idea that we're just weren't very good at managing mission critical context; we weren't getting the risks out.. So as a result since we couldn't get the risk out we couldn't get the resources out and overtime what we did is we actually added more resources to continue going forward to managing these risks and so from that point of view when it came around to do the next innovation and from the next innovation we're starving it and so our pipeline gets weaker and weaker and then eventually we don't have any competitive advantage.. That actually describes what happened at Lucent, AT&T, Digitel, Compaq, Tandem, right? It's happened over and over and over again.. So how we're going to break the back of this problem? So we looked at it we said, "What it is that we have to manage in this risk zone that we're not doing right?" We said, "But we're not thinking about is how to ratchet out complexity." So we talked to people about how they do this and actually the world knows how to do this very

well..

What the people who ratchet out complexity will tell you is the first thing you want to do is if you want to get resources out of a process, centralize it.. Put it under a single person with a very strong kind of "just say no" approach to life and they will start to control it and then standardize it.. And as a result of doing those two things you kind of in a shared services model, you're not doing it in 17 different departments, the finance department is one department, we have one process with one set of things to maintain, the risk goes down because there's less to maintain, then you have to modularize it.. And this is the active brilliance that people normally fail.. Most companies do one and two and fail with three.. Modularizing it means take it apart, deconstruct it so you can then go forward with different parts at different rhythms at different paces.. And some of those parts you will take forward and automate and much of it you will be able to outsource.. And that's how we've actually done it in manufacturing, it's how we done it in customer call centers; it's how you can do this thing going forward.. But that creates problem number two which is we want resources over here, we have resources over there so the first thought is, "Well great.. We'll send them over and have them apply for the job." Thank you for playing..

So the wrong people, these are the kind of people that come free at the end of a highly mature process and the kind of people you need to start a highly innovated process, they have different personality types, right? So what was happening was, we would say, "That's no problem, just lay off these people, and hire all these people" human beings are consumable.. Well human beings don't react very well to that idea so as a result they start gumming up the system and saying, "I don't know what the answer is but it sure as heck isn't this and I'm not going to let it happen." So that's how these resources were getting stuck.. If we're going to go forward we have to reinstate the social contract and the social contract says, "Companies require the commitment of workers and workers should be able to expect the commitment of companies" Outsourcing has been destabilized in that contract and Darwinian corporate competitions is forcing the issue where we have to realize this, we have to solve it for the entire system.. We have to solve it for the capital, the company, the investors; we're going to solve it for the entire system.. Nobody's entitled to a free pass but everybody's got to play in a way that works or we're not going to evolve and the answer will be the company will die and the capital will go elsewhere and investments will go elsewhere but it will be very unproductive...