STRATEGY & innovation

November 18, 2010

Volume 8, Number 8

Innovators as Change Managers

Welcome!

Few subjects in business are as perennial as change management. As far back as 1597, Francis Bacon put his finger on the problem: "New things," he wrote in his essay *On Innovation*, "are like strangers—more admired [than the familiar], and less favored." No one, of course, lives the painful truth of that more vividly than innovators, whose stock and trade are new things. How do they get their organizations to embrace those strangers?

In this issue we offer two fresh perspectives on this old, old problem. Manager Alex Slawsby and analysts Allen Stoddard and Austin Walters take a deep dive into a critical but often unexamined part of every company's operations – the norms and habits, some explicit, but many more unspoken – that govern so many of the decisions people make each day, which, if not understood, will stand as silent barriers to change. And Chairman Mark W. Johnson breaks new ground in our understanding of the dynamics of resistance to change by applying a business model lens to the question of why, exactly, the new things are less favored -- and what managers might do about it.

From our InnoBlog we've selected two high-profile examples of change, one met successfully, at long last, by -- of all companies -- Microsoft, which associate Micah Moreau calls possibly the most powerful and most entrenched of incumbents. The second, as senior associate Jenny Chung insightfully explains, is very much an open question for what is arguably the fastest-rising new star on the business firmament: Facebook.

Comments and suggestions are always welcome – send them to editor@strategyandinnovation.com.

— Andrea Ovans, Managing Editor

Innosight News & Events

CEO2CEO Leadership Summit - Mark Johnson will be a featured speaker at the 12th annual CEO2CEO summit at the New York Stock Exchange, NY on December 2, 2010.

BIF Book of the Month - "Seizing the White Space" is Business Innovation Factory's featured book of the month. Join the bookgroup conversation!

Watch for the article "New Business Models in Emerging Markets," by Innosight's Matt Eyring, Mark Johnson, and Hari Nair, appearing in the January-February issue of *Harvard Business Review.*

For CEO2CEO:
http://chiefexecutive.net/ME2/Audiences/dirmod.asp?sid=&nm=&type=WebTitle&mod=WebTitles&mid=2E68897A6BCC4FF7988A8166274026D1&tier=3&id=4FEF8662CE25425EAA2BD42BC0C8A8E2&AudID=F08C02755CAD426F850B2E5D7C539633

For BIF:
http://www.businessinnovationfactory.com/weblog/november_bifbookgroup

For HBR:
http://www.hbr.org

Innosight Reader Survey

Many thanks to all who participated in our survey last month. Your feedback is very valuable to us and we look forward to integrating your insights and suggestions for improvements into future issues of Strategy & Innovation.

And congratulations to our three winners, randomly selected from the many of you who completed the survey!

Allen Roberts
Marketing & Strategic Services
Croydon, Australia

Gayle Sheppard
Saffron Technology, Inc.
Cary, North Carolina

Balu Rajagopal
TangoFX – Interactive Media Services
ABOVE Solutions. Inc
Atlanta, GA

Feature: The Power of Norms

People operate according to unstated norms and customs all the time. That's precisely why managers can't afford to ignore them.

Alex Slawsby, Allen Stoddard and Austin Walters

In one company, everyone wears suits to work. They all arrive at the same time. Their workplaces are neat. A poster on the wall reads: "0 Failures in the Last 1,000 Days: Keep Up the Good Work!" In another company, people favor t-shirts, shorts, and sandals year-round. They come and go at seemingly unpredictable times of the day. The workplace has a chaotic aspect to the untrained eye. There's a picture on the wall of Albert Einstein, underscored by the caption "Think Different!" encouraging all to emulate the "Crazy Geniuses of History."

It's easy to visualize these two companies. But why? We haven't told you what they do, how big they are, or anything about their strategies. What we've done here is merely describe what MIT Professor Edgar Schein calls "artifacts" – visual, aural, and tactile representations of a company's norms.

Organizational norms are like engine oil – we sense that they are important, but pay little attention to them unless something goes wrong. It's easy to take them for granted, but norms have tremendous influence over organizational performance.

Consider the consequences if…

- You suddenly began to arrive at work two hours later than your co-workers and leave two hours earlier.
- You took a seat at the head of the conference table in the presence of your manager and the CEO.
- As an employee at a nuclear power plant, you found your "0 Failures" poster replaced by an "Emulate the Crazy Geniuses of History" poster.
- As a worker on a fifth-generation, ultra-deepwater, dynamically positioned, column-stabilized drilling rig in the Gulf of Mexico, you ignored your own growing concern about adherence to safety protocols, for fear of getting fired for raising any concerns that might delay drilling.
- As a co-pilot sitting in the flight deck of a 747, you felt a growing fear that danger was imminent but refused to question the decisions of the pilot in keeping with the unstated rules of pilot etiquette.

From the seemingly mundane to the catastrophic, norms have a powerful effect on performance, as these scenarios suggest. Efficient norms -- that is, norms aligned with broader organizational goals -- can drive substantial improvements in organizational performance and ward off catastrophic disasters. Inefficient norms -- norms misaligned with broader organizational goals -- can lead to substantial reduction in organizational performance, put significant shareholder value at risk, or even put human lives in danger.

All too often executives dismiss norms (if they think of them at all) as something too intangible to consider or as factors that automatically align with the goals of the organization. But they are neither. They are important levers that executives need to understand and manage just as they do other parts of their business.

How Norms Form

As Mark Johnson explains in *Seizing the White Space*, when a new business is created, norms are either set explicitly or begin to form organically around the business model. On an individual level, each successful business model is unique, but generally speaking business models can be classed into broad archetypes that lie on opposite ends of a spectrum.

On one end lie **value-adding process organizations**, designed to efficiently produce high-volume goods and services at low cost. Most manufacturing operations fall into this category. So do oil companies, airlines, and nuclear power plants. At the other end of the spectrum are **solution shops**, which provide customized solutions to unique problems. Doctor's offices, consulting companies, and law practices are good examples.

Since consistency and scale are the essence of a value-adding process business, efficient norms for these organizations are those that encourage consistent adherence to explicit, designated processes. Such norms are typically strictly enforced, with serious consequences for noncompliance and/or specific extrinsic rewards for adherence. Think Six Sigma here.

Nothing could be further from the environment in which solution shops operate. Since creativity is the essence of these kinds of businesses, efficient norms are those that allow for flexible behavior, encouraging employees to work according to the methods and manners most conducive to their own output and to chart their own course in rough accordance with general corporate goals.

Which Norms Apply in Value-Adding Process Companies?

That sounds straightforward, but few companies are purely one thing or the other in every aspect of their operation. Even the most creative company tends to find it advisable, for example, to standardize the way its finances are managed. And even the most buttoned-down of companies needs norms to govern the unexpected. The challenge, then, for executives is not only to match the right norm set to the right kind of company but also to know when to apply which kind of norms within their company and how.

A look at the airline industry makes the challenge particularly clear in the context of value-adding process businesses.

"Don't worry about speaking up; it won't hurt my ego."

For the better part of the 20th century, airlines largely operated according to the following statement from Allegheny Airlines' operations manual in 1971: "All crewmembers must realize that the captain is in complete command of the airplane and his orders are to be obeyed, even though they may be at variance with written instruction." But in the late 1970s, NASA research into airline incidents found that most accidents were caused by human error. It became obvious that "the captain must be obeyed" norm was inefficient and needed to be changed.

To do so, airlines began to reassess their procedures and implement a training program known as Crew (or Cockpit) Resource Management (CRM) to help improve communication and decision-making and to redefine leadership for aircraft crews. Specifically, while the prevailing norm had long been one of deference and subservience to the orders of the captain, CRM was designed to create more efficient cockpit norms by which authority could be questioned respectfully in moments of disagreement.

Today, all new pilots go through CRM instruction within the first month of training, and several pages on CRM exist within the operations manual carried by all pilots. The results have at times been dramatic. A case in point: At 3:16pm on July 19, 1989, United Airlines Flight 232, a DC-10 carrying 296 passengers and crew, was flying at 37,000 feet over Alta, Iowa, when its tail-mounted engine failed and disintegrated. The debris from the engine severed the aircraft's hydraulic systems, leaving its control surfaces inoperable. Such a catastrophic incident had never occurred and thus did not exist as a scenario within any airline-training process. But following the emergent CRM-influenced norms of mutual collaboration, the crew worked together to help more than 60% of Flight 232's passengers survive.

While the captain still retains the final authority on any airline flight deck, interviews with airline pilots confirmed that it is now not uncommon for captains to proactively ask their co-pilots, "If you have any doubt about where we are going or what we are doing, assume I have made a mistake and do not worry about speaking up, even if you are just confirming what we are doing. That will not hurt my ego." This is a significant change in norms from the days before CRM.

Making the Right Trade-Offs

As the airlines have discovered, if the upside of a value-added process shop is the predictability of its explicit operations, the downside is the responsibility it puts on management to set, promote, and enforce the right norms, since employee discretion is so limited. When company officials leave the norms governing important trade-offs unexamined, the result will be unpredictable at best and – when those conflicts require employees to trade off profits for safety -- can be catastrophic. But when they take steps to address the problem directly, such companies can bring the full power of their systemic orientation to bear on enforcing efficient norms directly. This is clearly demonstrated in the lessons Exxon drew in response to the *Valdez* disaster of March 24, 1989, when its supertanker ran aground, spilling more than 11 million gallons of crude oil into Alaska's Prince William Sound.

Taking the temperature of the lettuce

During the aftermath of the *Exxon Valdez* disaster, Exxon (a classic value-adding process shop) realized that its norms were inefficient, promoting profit at too great a cost. While profit remained important, leadership recognized that profit without safety was impossible. As a result, the company invested significant time and money to change its internal norms. The main instrument of this effort to change norms was its Operations Integrity Management System (OIMS), developed in 1992.

The OIMS is a framework that dictates the company's commitment to and policies regarding safety, security, health, and environmental risks. Exxon uses the OIMS to measure progress, ensure management's accountability for results, and establish common worldwide expectations for controlling risks inherent in its business.

The OIMS is a wide-ranging document, to put it mildly, including not only procedures for deep-water drilling but also instructions for how to take the temperature of the lettuce in the company cafeteria. Within the first few days of new employee training, Exxon personnel internalize the importance of thinking and acting in accordance with OIMS-dictated safety procedures.

In the spring of 2002, Exxon launched an initiative to try to improve its industry-leading safety record even further. That initiative resulted in the creation of the motto "Nobody Gets Hurt," a message found comprehensively through ExxonMobil's global operations in printed materials, in speeches, and even in e-mail signatures. Today, Exxon's safety record is unparalleled within the oil and gas industry.

In more recent years, ExxonMobil has begun to roll out another initiative, similar to the airline industry's CRM, called Approaching Others. In interviews ExxonMobil employees told us how the Approaching Others campaign reinforces the importance of "everyone watching out for everyone else…co-workers intervening on behalf of their co-workers." To enforce these norms, hardhat stickers are distributed that read, "You Have Permission To Tell Me To Stop." Many ExxonMobil employee building-access cards include the symbol of a stop sign, along with the messages, "I have the authority to stop if I see unsafe behavior," "I must stop work," and "I am responsible for my safety and my co-workers' safety."

When Change Is Normal: Norms in Solution Shops

It could be argued that solution shops, being fluid environments without explicit rules, rely more heavily on norms than value-adding process organizations do. But as the following example of IDEO demonstrates, it is just as possible to explicitly foster implicit norms in these kinds of companies as it is in their more structured counterparts.

No large offices or cubicles for "lesser" workers

IDEO is a product development and branding services provider. Its value lies in its ability to marshal creative knowledge workers to solve complex problems through one-of-a-kind, innovative solutions. No company could be less like a value-adding process shop.

Former IDEO CEO David Kelly knew that success in such a dynamic environment would require norms very different from those created by strong order and strict policies. As you might expect, few explicit rules exist at the company beyond "Fail often to succeed sooner," "trial and error," and "Prototyping is worth 10,000 words."

Nevertheless, from the beginning, Kelly took an active role in fostering efficient norms by steering the company explicitly away from the symbols of hierarchy: no large offices, titles for senior employees, dress codes, or cubicles for "lesser" workers. Workplaces are flexible, designed to encourage creativity and independent thinking with tools like flipcharts, different drawing media, and the room to use them. The few rules are reinforced not in any employee handbook but by signs posted throughout the building. A wide range of prototypes are scattered through the space, many of which are hung from the ceiling, designed to inspire.

IDEO also holds creative costume parties every summer, and employees' creations are showcased with pictures posted throughout the company's employee network. The recruiting process targets individuals who would be a good fit with IDEO culture by requesting a "portfolio" instead of the more common resume. While the result could not be less like an ExxonMobile cafeteria where the temperature of the lettuce is recorded, the attention to fostering efficient norms is just as great.

The Real Challenge: Getting Beyond Either/Or

These examples lie clearly at extreme ends of the business model spectrum. Most often, though, organizations feature some internal mix of value-adding process operations and solution shop capabilities, with one more dominant than the other. Many companies, for instance, are bent on improving the core business through incremental, sustaining innovations while also looking to formulate new business models for growth through disruptive innovation. In such cases the core must execute like a value-added process organization while the growth group operates like a solution shop.

As a practical matter, it is no easy thing to reinforce norms unique to success within each unit while ensuring that they do not come into conflict. Just think about what it would be like to work in a company in which posters of Einstein exhorting people to "Think different!" hang side by side with others declaring "0 defects in 1,000 days." When norms do come into conflict, the dominant side pretty much always wins. It is important, therefore, that value-added process and solution shop units be kept separate enough that the appropriate norms for one do not infiltrate and cause problems within the other. Simply put, if "free and flexible, choose-your-own-path" norms were let loose within an airliner or on an oil rig, people could die. Similarly, if strict process norms began to predominant within IDEO's main office space, they would likely choke off the creativity that generates its unique value.

***

It is easy to dismiss employee norms as something too fuzzy or complicated to truly understand. It is also convenient to assume that such norms are an automatic consequence of business model or strategy decisions, rather than levers that can and need to be worked explicitly to enhance organizational performance. As these examples demonstrate, executives cannot afford to underestimate the role that both efficient and inefficient norms play within their organization.

Feature: Taking the Fear Out of Change Management

Looking at change initiatives as an exercise in business model innovation can shift the organizational mood from fear to hope.

Mark W. Johnson

When it comes to transformational change efforts, one question vexes managers above all others:

Why can't I get people to do what I want?

And there's no shortage of answers either, a selection of which can be quickly summed up as:

- **They're incompetent** -- that's behind Jack Welch's "Fire the bottom 10%" approach, for instance.

- **People don't like change** -- backed up by decades of excellent research in psychology, physiology, and most recently economics, this point is undeniably true. And yet people change all the time – they learn new things, they move to new cities, they move up successfully into new jobs, they change jobs, they get married, they have children, they get divorced. They may not like change, but under various circumstances people clearly have ways to get over it.

- **People don't care enough** -- this is the conclusion many people reach from reading John Kotter's *Leading Change* -- though to be fair to Professor Kotter, what he really said was, "People don't share my sense of urgency," which is not the same thing. I'll get back to that in a minute.

- **People have a vested interest in the status quo.** To this one I have to ask, "Well, shouldn't they?"

In a well-run company, people are hired to do necessary jobs and are rewarded when they do. So naturally they have a vested interest in the status quo. That's the same as saying "People want to do what they've been hired to do." I should hope so.

But in transformational change efforts, people often need to do something other than what they were originally hired to do. So a more useful way to pitch the question is:

How can I get people who have been hired for one thing to do some different thing?

Looked at this way, the difficulty becomes clearer, but so does the opportunity for managers to address it. I see four subparts to this question:

1. What is the different thing I want these people to do?
2. Why can't I get them to see why they need to do it as clearly as I can?
3. How reasonable is it for me to expect people hired to do one job to now do some other?
4. What do I need to do to help that person make the transition?

To answer question #1, I find it useful to go back to first principles. All successful companies are successful because they have hit upon an effective business model – that is, they have found a) a profitable way to b) produce a compelling customer value proposition using c) certain key processes and d) certain key resources. Companies with an urgent need to change because they are no longer successful (or not successful enough) at what they're currently doing essentially have an urgent need to revise or replace their business models. Because the success of a business model lies in the unique interplay of all of its parts, transformational change generally requires change to all four parts of the business model – a new customer value proposition that makes money in a different way, which will likely require its people to employ different resources with different processes.

Thinking of transformational change in business model terms sheds light question #2. Those people in the organization who are focusing on the profit formula -- either the fact that the current one isn't working or the challenge of implementing a new one -- don't have much trouble working up a sense of urgency. But that can be hard to transmit on an operational level, where this same transformational change effort takes the form of people being asked to employ existing resources in a different way or new resources in a totally new way. Divorced from a complete picture of a new, coherent business model that includes not just the new way of doing things but the promise of a new way to make money, people tend to focus on question #3.

That's because when companies undergo fundamental transformation, many employees in effect end up getting new jobs, but without going through the interview and selection process. So unlike when they first came, or the last time they were formally promoted, no one matches their resume to the new job requirements. Or explains the new job to them, as they would in an interview. Or asks them how they might approach that job. Or even if they want the job. And no one offers a salary specific to that job.

To be fair, managers often don't get to go through that process either. They generally don't get to select from a vast pool of applicants the one they want for the new job, and they don't get a whole new budget either. That brings us to question #4. What can the manager do?

That's a big question and I'm not going to answer it fully here. But I am going to suggest a place to begin. If transformational change involves moving from an old business model to a new one, then as a first step, a well-run company must think through the new model, compare it to its existing model, and spell out very clearly how the two will differ. That brings us to a whole new list of questions:

• *Does this new initiative involve a new customer value proposition? Are we addressing new customers in the same way, the same customers in a new way, or new customers in a new way?*

• *Are we going to make money in a new way, and if so what exactly has changed: Our revenue model? Our profit formula? Our margins? Our resource velocity – that is, the pace at which we turn inputs into offerings?*

• *How will these changes be accomplished? Which processes need to change?*

• *Where will the resources for this transformation come from?*

• *What are the critical jobs that need to change, who can do them, and how should these jobs be fairly compensated?*

The answers to the first two questions put you on the road to creating a comprehensive vision for change. The answer to the second two questions should form the basis for a road map from the old model to the new one. And the answer to the last question is critical for you to gain any headway in addressing that fundamental issue we started with at the top. For in order to answer the question "Why can't I get people to do what I want?" you must first have clear in your mind the answer to the question, "Why should they?"

Looking at change initiatives as exercises in business model innovation has two great advantages. It provides a framework for systematically moving from one thing to another. But more than that, it holds the potential for shifting the organizational mood from fear to hope. Rather than focus on the fear that the current business model will no longer work, you can concentrate on the promise that the new one will.

From the InnoBlog:

Microsoft Wakes Up to Disruption

By Micah Moreau

I was recently listening to Arcade Fire's latest album, *The Suburbs* (great, by the way), and decided to check out some of their older work, just to refresh my cultural memory. For those who don't know, Arcade Fire is a two-time Grammy-nominated indie rock band. On "Wake Up," singer Win Butler belts out this lyric: "Children wake up, hold your mistake up." It got me thinking -- recent announcements from Microsoft draw strong parallels to "Wake Up."

A couple of weeks ago, Microsoft's Chief Software Architect, Ray Ozzie, announced that he is retiring to pursue other opportunities. Ozzie was recruited to Microsoft after the $200-million acquisition of his company, Groove, in 2005. Regarded as a visionary, Ozzie helped create the first spreadsheet, VisiCalc, and is largely responsible for Lotus Notes, as well as Microsoft Office collaboration software. (Anecdotally, Bill Gates is said to have called Groove the best deal[1] Microsoft ever made.) In disruptive innovation circles, Ozzie is famous for writing an influential memo[2] shortly after he arrived at Microsoft in 2005 that explained how Internet services would disrupt Microsoft's core business. So it is ironic that only now, five years after Ozzie's prescient memo and on the eve of his departure, Microsoft is just starting to wake up to the potential of software-as-a-service and to the widespread enterprise benefits of cloud-computing services.

These past few weeks have been busy for Microsoft. The firm sold its 240 millionth license[3] for Windows 7, making it the fastest selling operating system in history -- a huge win for its core strategy. Potentially of far more strategic significance, however, were the recent releases of Windows Phone 7, a welcome addition to the smartphone ecosystem, and an update to Microsoft's cloud-computing services: Office 365[4]. These are innovations with disruptive potential -- the first still latent, but the second more obvious.

The disruptive potential of Phone 7 is there, if Microsoft cares to harness it: Despite generally positive reviews, by most accounts[5] the Windows Phone 7 is not a superior consumer alternative to the iPhone, or the Android phone, for that matter. But does it really have to be? A Windows phone that seamlessly integrates office productivity features (Microsoft Office applications, especially) in a smartphone form factor is an attractive value proposition for companies. As Internet connectivity approaches ubiquity, seamless online offerings of Microsoft Office will allow employees to go from the office, to transit, to home without a loss in productivity.

In my eyes, rather than competing directly with Apple or Google, Windows Phone 7 is actually a better alternative to RIM's BlackBerry. If I were a brand manager at Microsoft, I'd focus my marketing campaign for Windows Phone 7 on providing a superior user experience for the working professional on-the-go, not the broad consumer. Microsoft is not going to beat Apple at Apple's game – delivering superior consumer-oriented products. Microsoft doesn't need to, however, since Windows Phone 7 can deliver better features for doing the job of "fill my time productively" than either the iPhone or the Android. Enterprise applications are Microsoft's forte.

Online cloud-computing services will only enhance the value proposition for Windows Phone 7. And that brings us to the significance, and the irony, of Microsoft's third announcement on the heels of Ozzie's departure – Office 365.

This upgrade is an enterprise version of Office 365, which now comes bundled with the full suite of Office Web apps -- SharePoint, Lync Online, and Exchange. Previously, all of these services were separate offerings. Through targeted discounts Microsoft is wisely pursuing small businesses (less than 25 employees) with a price of $6 per month, per employee. These are the types of businesses that are less likely to pay the per-user license fee for the full Office suite but could grow into larger, more-sophisticated enterprises over time. Clearly, Google App's disruptive cloud-services offering, priced at $50 per year per employee, has finally proven enough of a threat to take seriously. In other words, Microsoft did indeed "wake up" and "hold its mistake up." But what took so long?

I suspect the answer is Windows 7.

Early this summer, Scott Anthony wrote a post on Microsoft and the Innovator's Paradox[6]. The Innovator's Paradox essentially states that when you don't need growth, you act in ways that lead to your not getting the growth you *will* need. Microsoft's core businesses – Windows and Office – are still so wildly successful that the firm had difficulty widening its focus from core sustaining innovations to simultaneously embracing disruptive innovations.

Looked at in this light, the Office 365 announcement is all the more significant, and perhaps a sign that Microsoft should be given some level of credit. For incumbents, disruptive innovation is exceptionally difficult to pursue. And Microsoft is certainly one of the world's most powerful and entrenched incumbents, perhaps the most powerful and the most entrenched. Established corporations simply cannot act as entrepreneurs and venture capitalists do. As Tom Perkins, one of the founders of Kleiner Perkins Caufield & Byers, put it in a recent interview[7], "If you make an investment and you fail, it won't look good on your resume." While that's certainly not an accurate blanket statement (what blanket statements are?), the point is well taken. The "job" of an established incumbent, to most shortsighted shareholders, is to protect the core businesses from disruptors. The "job" of employees is, often, to take only calculated risks that propel them up the corporate ladder – unnecessary risks will cause them to lose their job.

Serial innovators, however, understand that core businesses *will* get disrupted and anticipate having to make fundamental business model and value proposition shifts to create new business lines. That's what Ray Ozzie saw so clearly in 2005. It's sad that it took Microsoft five years, and the loss of a clairvoyant thinker on disruption, to finally "wake up."

You don't have to be operating the most successful core business of our generation to be facing the same dynamic that frustrated Ozzie. If Microsoft's juggernaut of a core business model is not enough to protect it from disruption, where does that leave your company?

In the grand scheme of things, arriving late to the disruptive game isn't Microsoft's real mistake. The mistake was not devoting a small fraction of its attention to putting in a set of systems, processes, and incentives to pursue the disruptive innovations that Ozzie spoke of back in 2005 even as it was pouring the majority of its resources into critical sustaining innovations like Windows 7.

To innovate effectively, companies need to be aware of the inherent biases in current organizational structures, products, business models, metrics, and corporate culture. Most important, companies must allocate resources to disruptive innovation in both bad times and good. Disruption isn't going to just disappear if you have a killer product or wildly successful core business; in fact, disruption is coming faster, more often, and to more companies. To paraphrase Arcade Fire, "You'd better look out [for the disruptors] below."

References:

1. http://news.cnet.com/8301-13860_3-9824046-56.html
2. http://news.cnet.com/Ozzie-memo-Internet-services-disruption/2100-1016_3-5942232.html
3. http://techcrunch.com/2010/10/21/windows-7-sales/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed:+Techcrunch+(TechCrunch)
4. http://www.businessinsider.com/microsoft-wants-your-business-to-subscribe-to-office-2010-10
5. http://ptech.allthingsd.com/20101020/microsofts-new-windows-phone-7-novel-but-lacking/
6. http://blogs.hbr.org/anthony/2010/06/microsoft_and_the_innovators_p.html
7. http://www.huffingtonpost.com/mit-entrepreneurship-review/conversation-with-tom-per_b_769669.html

How Facebook Won the Battle of the Social Networks

By Jenny Chung

It was about four years ago when I, like many of my friends, abandoned Friendster for Facebook. I never thought about why I decided to jump ship -- until I saw the *The Social Network* a few weeks ago.

The film suggests that what made Facebook a far more desirable network than MySpace and Friendster, the pioneers in social networking, was exclusivity, created by restricting membership initially to students from Harvard and other Ivy League colleges. While the association with prestigious colleges no doubt helped Facebook drive initial adoption and penetrate foothold markets, it doesn't adequately explain why the site continues to be successful after opening its doors to everyone in 2006.

Many bloggers and journalists have been quick to offer alternative explanations. A cleaner interface, a wider range of apps, and a less juvenile crowd are among the most commonly cited reasons for Facebook's victory over its predecessors. These are all certainly appealing features, but they are in essence incremental improvements, not the kind of game-changers that could have enabled Facebook to disrupt the social-networking space. To ascend so rapidly, Facebook must be helping consumers to fulfil a key "job-to-be-done"—what we at Innosight call a fundamental unmet need or problem that needs to be solved—more effectively than competing social networks. So what jobs do consumers want to get done on those social-networking sites?

According to a survey conducted by Anderson Analytics in 2009[1], two-thirds of social networkers would only connect to people they already know in person. Just one in 10 would befriend those outside their existing network. Another study conducted by Pew Internet[2] came up with similar findings. What this indicates is that, when it comes to social networking, "staying connected with people I know" is a much more prevalent job-to-be-done than meeting new people. MySpace and Friendster are targeted primarily at the jobs of "meeting new people" and "expressing myself." Even though Facebook was a relative latecomer, it was the first social network to focus every aspect of its site on this job.

What Consumer Jobs Do Social Networks Try to Fulfil?
Friendster, MySpace, and Facebook may look similar, but a closer analysis reveals the sites' attempt to fulfil different consumer jobs-to-be-done by emphasizing different features

Consumers' Jobs-to-be-done	Staying connected with people I know	Meeting new people	Expressing myself
	• Share news and information about me • Keep updated on news and information about my friends • Communicate with my friends • Reconnect with old friends	• Make new friends • Find dates • Find professional contacts • Connect with people with the same interests	• Express my views and passion • Show off my work, talent and knowledge
Social networks target at this job	**Facebook**	**Friendster** **MySpace**	**MySpace**
Features that enable social networks to fulfil this job	**Control / Privacy** • Control over what information to share with whom • Control over who can contact me **Accessibility** • Ease of accessing my friends' information and news **Authenticity** • Protection against imposters **Popularity** • Used by my friends	**Accessibility** • Ease of accessing information of people outside my network • Profile search functionality **Authenticity** • Genuine profile information **Popularity** • Used by people whom I want to meet	**Customization** • Flexibility in personalizing my profile • Ability to share my work and inspirations **Popularity** • Used by the communities of people who shared my interests

Note: Based on analyses of Facebook, MySpace, and Friendster's functionalities, user base, personal experience, and users' comments on social media

What made Facebook a superior solution for staying connected with existing friends is its emphasis on control and privacy over accessibility. Facebook gives users control over whom they share information with and who can contact them, essentially enabling users to create their own "exclusive" club and decide who's in and who's out. Gate-crashing is discouraged and authenticity is enforced through features like "report spam" and "report/block this person." This emphasis on privacy helped cultivate a set of norms and etiquettes that reinforced Facebook's credibility as a network for real friends and connections, even when Facebook subsequently changed strategy and started encouraging more sharing of private information.

To fulfil the consumer job of "meeting new people," Friendster and MySpace, in contrast, opted to emphasize accessibility. Both sites require users to report their age, gender, and location (and for Friendster, relationship status as well). This information used to be available to anyone, which is a great feature for those who want to find new friends, dates, or scam targets, but a huge annoyance to users like me who are interested in connecting only with people they know. To fend off unwelcomed advances, many users, particularly young females, would grossly inflate their age and report fake relationship status in their profile. Once authenticity was compromised and profiles were no longer genuine, Friendster and MySpace lost the value proposition of helping people meet new people. Later, around the time when Facebook gained popularity in 2006, MySpace and Friendster introduced the option for users to make their profiles private. This was possibly a move to compete with Facebook, but it was too little too late.

I suspect that the reason MySpace still manages to maintain a sizable user base is because it is more successfully addressing the consumer job "expressing myself" than Facebook. By allowing extensive customization of personal profile pages, MySpace enables users to assert their individuality as loudly as they please, while their Facebook profile page would have to look exactly like everyone else's. MySpace's growing popularity among bands and other creative industries reflects the site's success in occupying a niche that Facebook has missed.

Overall, it is fair to say that Facebook has won the biggest battle of the social networks by satisfying the most important and prevalent consumer job-to-be-done in social networking – "staying connected with people I know." However, there are more battles to be won, and Facebook is fully aware of this, judging from its recent moves in making default privacy settings less private and introducing new features like Facebook Groups and Likes. Let's hope that, as Facebook forays into new areas of growth, it won't alienate its core supporters who have no interest in befriending strangers, corporations, or fake celebrity profiles.

References:

1. http://adage.com/digital/article?article_id=137792
2. http://pewresearch.org/pubs/1079/social-networks-grow

Strategy & Innovation *is published by Innosight, whose consulting and training services help companies create new growth through innovation. Building on the disruptive innovation frameworks developed by our founder, Harvard Business School professor Clayton Christensen, Innosight's approach and proprietary tools facilitate the discovery of new, high-growth markets and the rapid creation of breakthrough products and services. If you have an issue that you would like analyzed or if you have a comment, please email editor@strategyandinnovation.com.*