



A company's bid to rally an industry ecosystem around a new competitive view is an uncertain gambit. But the right strategic approaches and the availability of modern digital infrastructures improve the odds for success.

Shaping Strategy in a World of Constant Disruption

by John Hagel III, John Seely Brown, and Lang Davison

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Shaping Strategy in a World of Constant Disruption

The Idea in Brief

Hammered by relentless technological change, many companies take a reactive stance: They focus solely on keeping up, protecting their existing markets, and improving their performance.

But a few companies take a proactive stance by executing **shaping strategies**: They use technology changes to create new business ecosystems that benefit themselves *and* other participants. Take Google's AdSense: It has reinvented the advertising business by enabling advertisers, content providers, and potential customers to connect with one another quickly, easily, and cheaply.

To succeed, a shaping strategy needs a critical mass of participants, say Hagel, Brown, and Davison. Shapers can attract them by:

- Convincingly articulating opportunities available to participants
- Defining standards and practices that make participation easy and affordable
- Demonstrating they have the conviction and resources for success and won't compete against participants

Well-executed shaping strategies mobilize masses of players to learn from and share risk with one another—creating a profitable future for all.

The Idea in Practice

To be a successful shaper, take the following steps. To be a participant, look for a firm that takes these steps:

COMMUNICATE A "SHAPING VIEW"

Formulate a view of the future that highlights how a broad industry or market is changing and identifies the opportunities for a wide range of participants.

► Example:

Salesforce.com's founder used speaking engagements at software industry conferences not to pitch his new company, but to describe the fundamental forces transforming the business landscape. He explained how, in an increasingly competitive world, companies that managed customer relationships more skillfully than rivals would win. He explained that applications to support customer-centric imperatives (such as salesforce automation) would best be delivered as network-based services, not discrete software packages installed in enterprises. By accessing these services, companies could reduce their IT infrastructure investments and easily upgrade as new functionality became available. By offering such services, Salesforce.com achieved an \$8 billion market cap in less than a decade.

DEVELOP A SHAPING PLATFORM

A shaping platform is a set of standards and practices that organize and support participants' activities—making it easy and inexpensive for participants to develop and deliver their own products or services.

► Example:

Google's AdSense has protocols governing how ads are submitted, priced, presented, and paid for. It allows even small advertisers and Web sites to invest minimal time and effort, with little oversight from Google, and still generate value for one another. This platform's scalability makes specialization by participants economically attractive: AdSense can connect the maker of a

product that appeals to a tiny niche with the largest imaginable pool of prospective buyers of that product.

DEMONSTRATE SHAPING ACTS

Companies won't participate in a shaper's proposed business ecosystem if they worry that the shaper lacks the conviction or capability for success, or that the shaper will compete against them. To assuage these worries, shapers must signal their intentions through their actions.

► Example:

Computer networking company Novell had seen an opportunity to shape the local area network (LAN) business and had developed a robust operating system for LANs. To accelerate adoption of its operating system, it decided to sell off the hardware business that generated 80% of its revenues. The move sent a clear message to the emerging industry: Novell was so committed to its network operating system that it was prepared to walk away from a significant portion of its revenue. Other network hardware manufacturers knew they could adopt Novell's system without worrying that Novell would compete with them in their core business. Novell's network operating system became the de facto standard for over a decade.

A company's bid to rally an industry ecosystem around a new competitive view is an uncertain gambit. But the right strategic approaches and the availability of modern digital infrastructures improve the odds for success.

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Google grabs headlines by announcing forays into the telecom space, prompting competitive responses from AT&T, Verizon, and other leading network service providers. At the same time, Google continues to help shape the advertising business through AdSense. And Facebook and Salesforce.com—each in very different parts of the high-tech world—reveal they are opening up platforms for third-party developers.

These initiatives are examples of *shaping strategies*, which mobilize global ecosystems and transform industries and markets—often dramatically. A shaping strategy is no less than an effort to broadly redefine the terms of competition for a market sector through a positive, galvanizing message that promises benefits to all who adopt the new terms. What Bill Gates did with Microsoft in the early 1980s is a classic example. In essence, he said that computing power was moving inexorably from centralized mainframes to desktop machines. Companies that wanted to be leaders in the computer industry needed to be on the desktop.

It's one thing to coin a persuasive slogan—"The desktop is the future!"—and something else entirely to get others to invest in fulfilling its promise. In reality, shaping strategies are built upon deep structures, which we describe in this article. We also explain why the moment is ripe for pursuing and benefiting from shaping strategies, thanks to pervasive changes in the global digital infrastructure. And we show why players in a growing array of markets and industries (not just high-tech companies) can and should consider making the attempt.

Shaping strategies are not new. Indeed, the Medici family deployed successful shaping strategies in Renaissance Italy, most notably in banking. More recent examples can be found in industries as diverse as shipping, financial services, and apparel. What is new are powerful enabling infrastructures, which can strengthen the hand of shapers while reducing their exposure to risk. These relatively recent developments take the prospects for shaping success from the realms of

the improbable and rare into the zone of the merely difficult.

At one level, of course, all successful strategies can be viewed as shaping strategies. Some corporate leaders reshape markets and industries using M&A-driven roll-up strategies, tapping into previously unseen economies of scale and scope. Disruptive innovation also reshapes markets, typically through negative incentives that say, in effect, “Change your ways now or else become marginalized, even die.” The classic icons of recent strategy literature—companies like Dell and Southwest Airlines—exemplify successful disruptive innovation. These strategies can be very powerful when they work, but they also concentrate risk on the shaping company and thus become bet-the-ranch initiatives. By contrast, the shaping strategies outlined in this article mobilize legions of other players through positive incentives: Participants in the shaper’s broad ecosystem can use the strategy to create and capture enormous value as they learn from—and share risk with—one another.

Let’s look at the changes in infrastructure that are making these strategies more viable and attractive. Then we’ll explore the key elements that must come together to execute positive shaping strategies. Finally, we’ll examine how to develop these strategies using a pragmatic migration path that builds capability rapidly.

From Bedrock to Plasma— The Changing Infrastructure

We live in an era of profound and accelerating change, keynoted by what historian Carlota Perez calls a new “techno-economic” paradigm. In her book *Technological Revolutions and Financial Capital*, she offers a compelling view of the role infrastructures play in shaping business activity. Major technological innovations like the steam engine, electricity, and the telephone brought forth powerful new infrastructures. Inevitably, these disruptive innovations transformed industry and commerce, but eventually they became stabilizing forces, once businesses learned to harness their capabilities and gained confidence in the new order.

That historical pattern—disruption followed by stabilization—has itself been disrupted. A new kind of infrastructure is evolving, built on

the sustained exponential pace of performance improvements in computing, storage, and bandwidth. Because the underlying technologies are developing continuously and rapidly, there is no prospect for stabilization. Businesses and social institutions constantly find themselves racing to catch up with and learn the steadily improving foundational technologies.

This process creates ever-shifting eddies that reshape institutions, identities, practices, and relationships, making equilibrium a distant memory. The core technology infrastructures that once formed the bedrock have turned into plasma. No wonder executives around the world feel deepening stress as they survey the mutating business landscape. Their natural reaction is to focus on core markets, capabilities, and geographies; to seek more control over the assets and activities that are most valuable to that core; and to emphasize the short term and become more reactive. But these actions often compound the stress instead of easing it.

Today’s new digital infrastructure in fact gives relatively small actions and investments an impact disproportionate to their size. To use a boxing metaphor, companies can now punch above their weight class. That shift would seem to favor new entrants over incumbents—but big companies can play this game, too. After all, they have enormous assets that can make them very credible shapers. To get there, executives will need to rethink their approaches to business strategy and embrace new management practices.

Rethinking the Substance of Strategy

Conventional wisdom holds that, in the absence of equilibrium, adaptation is the best strategy. According to this view, executives will succeed if they can sense and respond quickly to what’s changing around them. However, as important as adaptation is, it misses the real opportunity.

Consider these examples, widely separated by time and by market: Malcolm McLean’s efforts to evangelize containerized shipping in the 1950s and 1960s; Visa’s redefinition of the credit card business in the 1970s (now called the “payments business”); Microsoft and Intel’s turbocharging of the personal computer marketplace in the early 1980s; Li & Fung’s new approaches to supply chain orchestration in the apparel industry in the 1980s and 1990s;

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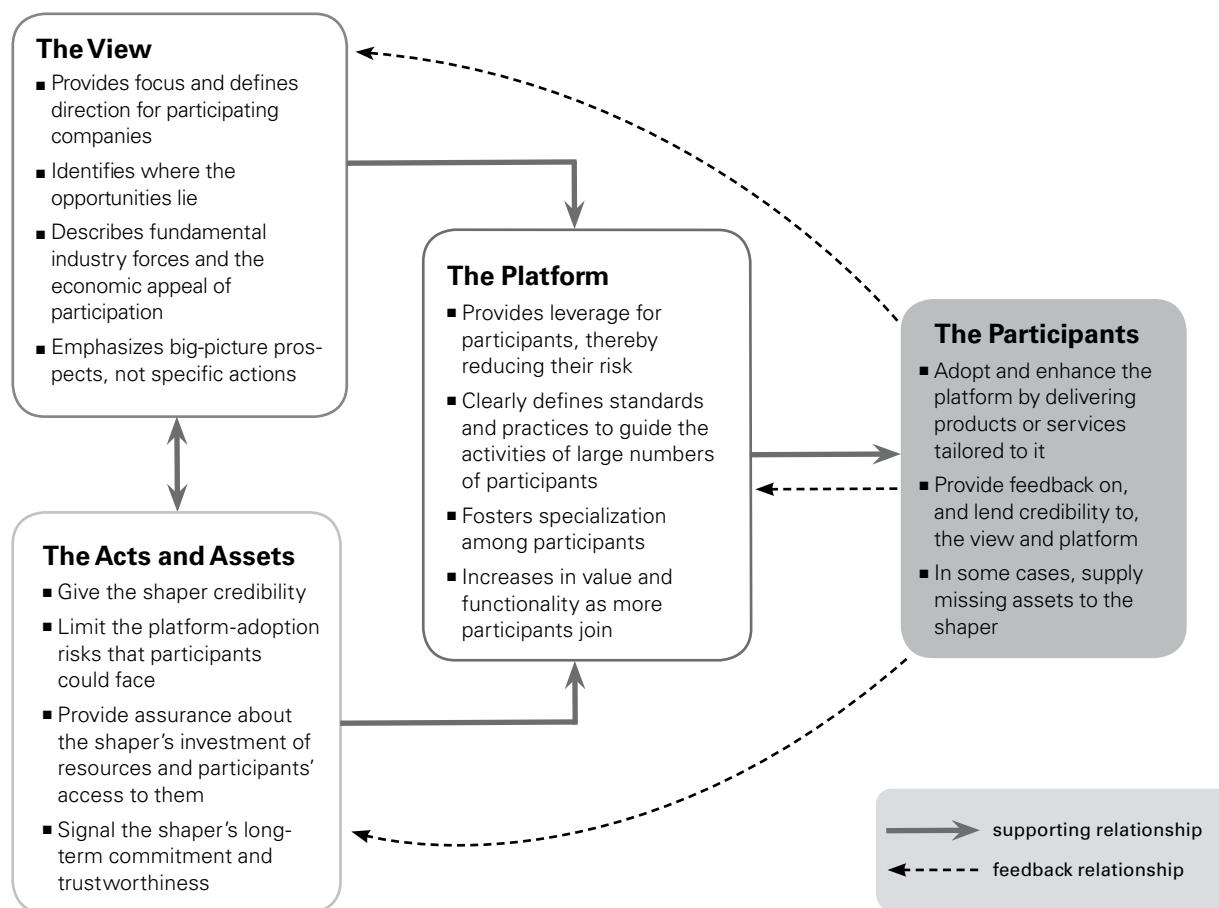
and more recent influences by Google on the advertising business, by Facebook on social networking, and by Salesforce.com on enterprise software. In each case, as we explore later, the company aspired to do something far bolder than simply shape the performance of its own enterprises—it strove to shape global ecosystems and thereby fundamentally alter industries and markets.

Looking more closely, we can see that each exemplar's strategy successfully upended prevailing perceptions of risk and reward. That's no easy feat, particularly in uncertain times. Confronted by rapid change, executives instinctively magnify the apparent risks and discount potential rewards, a tendency documented in the behavioral economics literature,

including Dan Lovallo's work on cognitive biases in strategic decisions (see, for example, "Deals Without Delusions," HBR December 2007). This calculus often leads to timid action or to inaction. The challenge for a would-be shaper is to rejigger the calculus by diminishing perceived risks and maximizing perceived rewards. In emotional terms, successful shapers reduce fear and magnify hope. Executed well, the approach motivates a large number of players to make significant investments and take aggressive action in order to accelerate movement toward a preferred outcome. It also provides the focus and incentives necessary to unleash distributed innovation as thousands of specialized participants experiment to meet shifting and

How to Formulate a Shaping Strategy

All three key elements of a shaping strategy influence, directly or indirectly, the perceptions and responses of potential participants. Use the elements to mobilize a critical mass of participants and you're on your way to a winning strategy.



emerging customer needs and business opportunities. While some strategies rely on the participation of many other companies (as with big-box retailing or Apple's iTunes network), shaping strategies uniquely seek to provide the incentives and capability for large-scale distributed innovation.

The Three Elements of a Shaping Strategy

Changing the risk/reward calculus as you shape strategy in a time of rapid change

involves three interrelated elements: a *shaping view*, which helps focus participants; a *shaping platform*, which provides leverage to reduce the investment and effort participants need to make; and specific *shaping acts and assets*, which persuade participants that the shaper is serious and can pull off the shaping initiatives. (See the exhibit "How to Formulate a Shaping Strategy.") The three shaping elements combine to help shapers quickly attract and mobilize a critical mass of participants. That unleashes powerful network effects, making shapers difficult to stop. Yet, as many failed shaping efforts reveal, reaching a critical mass can be extremely challenging. We'll use these three elements as a lens through which to scrutinize successful shapers, both past and present.

Shaping strategies have played out in a broad range of industries, as our examples show. Going forward, these strategies have particular value in industries with lots of potential participants and widespread uncertainty about the future, usually stemming from disruptions related to technology, public policy, or both. Health care, electronic payments, alternative energy technology, and media are industries that appear to be especially ripe for shaping strategies.

Success in pursuing a shaping strategy requires risk taking and unique insights, at both the micro and macro levels, regarding the changing business landscape. Shaping companies also need managers who can evangelize shaping views (internally and externally), bootstrap robust shaping platforms, and coordinate relationships with large numbers of third-party participants. These strategies can therefore present special design and execution challenges. In fact, very few companies have successfully put together all three elements of a potential shaping strategy. If your firm is truly not cut out to be a shaper, you can benefit by participating in other companies' shaping strategies. (See the exhibit "Not a Shaper? Be a Participant.") Whether you shape or just participate, it pays to understand the three key dimensions of a shaping strategy:

Element 1: A Shaping View

The first step in shaping an industry or market to one's advantage is to change the way potential participants perceive market opportunities.

Not a Shaper? Be a Participant.

Not every company is cut out to be a shaper. Playing the shaper's role requires the right aspirations, mind-set, risk profile, and management capabilities—not to mention a powerful, farsighted CEO and board of directors. But many roles are available to companies that participate in other firms' shaping strategies. These participants must be able to assess the relative strengths of the shapers they might support, plus define their own roles within the shaping opportunity. Specifically, they need to determine which of three main roles—*influencer*, *hedger*, or *disciple*—best suits them.

Influencer

Commits early and prominently to one shaping strategy

Benefit: An influencer increases asset efficiency, builds capabilities, and gains a strong market position by influencing the shaper.

Risk: The supported platform may not become the industry standard.

Example: Bank of America's early influence on the Visa shaping platform.

Hedger

Develops its products or services to support multiple shaping platforms

Benefit: A hedger's eggs are spread across several baskets—in several competing platforms.

Risk: Higher costs can be incurred if effort is duplicated to meet multiple platform standards.

Example: Advertisers that participate in both Google and Microsoft advertising platforms.

Disciple

Commits exclusively to one shaping platform

Benefit: A disciple has a clear strategic focus and direction; it does not invest in competing shaping strategies.

Risk: The supported platform may not be adopted. If the exclusive bet fails, an investment in another shaper must be tried.

Example: Dell's exclusive commitment to the Wintel platform.

Before You Decide Not to Be a Shaper...

...consider that nearly any company can benefit from the attempt, even if unsuccessful. That's in sharp contrast to other strategic approaches. M&A-based shaping strategies often require huge capital outlays and can rise or fall on the accuracy of assumptions about economies of scale or scope. Disruptive innovation strategies often require significant investment at the outset and confidence that one company can deliver the full breadth of innovation. Although options exist to mitigate the risk of such strategies, incorrect assumptions about the timing or scope of adoption can leave losses in their wake. **The bottom line:** Even if you think you're not a real shaper, trying to undertake a shaping strategy still might make sense.

By altering mind-sets, shapers can materially influence the perceived economic incentives to participate. They start with a clear and compelling long-term view of the relevant industry or market. The view makes sense of the fundamental forces at work, helps participants envision the rewards and act accordingly, and reduces perceived risk by making the positive outcomes appear inevitable. The shaping view is never very detailed; it leaves much room for refinement. But it is clear enough to help participants make difficult choices in the near term.

The classic shaping view articulated by Bill Gates in the early 1980s motivated many executives to make the trek to Redmond, Washington, during a time of great turmoil and uncertainty in the computer industry. They came away reassured that someone had a compelling view of the industry's direction. Even more important, Gates's shaping view helped these executives understand where to invest. At a time when many options were competing for investment, an invitation to focus clearly on the highest-return opportunities proved extremely valuable. For Microsoft, this shaping view was incalculably important to the company's early success.

Microsoft's experience emphasizes an important distinction between a shaping view and the way businesses conventionally use the word "vision." Corporate visions tend to be too narrow—they describe only the direction of the company articulating the vision. Shaping views instead start with a clear perspective on the direction of the relevant market or industry and articulate the value-creation implications for all companies involved. Gates's shaping view certainly applied to Microsoft, but it also extended to anyone seeking to succeed in the computer industry. The creative acts in a shaping view are to imagine what an industry or market could look like and to challenge conventional assumptions about what success requires.

Corporate visions also tend to be too broad—they describe the future in terms so vague as to accommodate virtually any choice or action. While shaping views must be at a high-enough level to account for general business uncertainty and leave room for experimentation and innovation, they should also focus more tangibly on where to invest energy, attention, and capital.

Salesforce.com provides a relatively recent example of an effective shaping view. When founder Marc Benioff launched his company in 1999, he used speaking engagements at industry conferences not, as you might expect, to pitch his new business but to describe the fundamental forces he saw transforming the enterprise application arena. Two themes dominated his early talks: First, customers were gaining power, and companies that were becoming more responsive to them and better at managing customer relationships would win out as markets grew increasingly competitive. Second, the applications to support these customer-centric imperatives would best be delivered as network-based services, not as discrete software packages installed in the enterprise. By accessing the software as a service, companies could reduce their own investment in IT infrastructure and far more easily upgrade as new functionality became available.

At a time when the business model of incumbent application vendors was to install large enterprise software systems at customer sites, Benioff's outlook was startlingly different. When many wondered about the future of the enterprise software business, he pointed the way for specialized players to enter the market and gave existing players a new focus for their investments. It didn't hurt that Salesforce.com—which achieved an \$8 billion market cap in less than a decade—just happened to have a new online service that supported sales force automation. But anyone who heard Benioff speak understood that it wasn't just a sales pitch. He had imagined a divergent view of the future, and he became a tireless evangelist on its behalf.

In those early talks, Benioff discussed at length the competitive dynamics of the broader business landscape and the underlying developments in the digital technology infrastructure that were reshaping the software business. Executives left believing that the future Benioff described was not merely provocative but inevitable. Uncertainty dissolved, perceptions of risk diminished, and the rewards for participating became far more tangible. The only question was whether to hop on the bandwagon right away and share in the early rewards, or wait and potentially find it harder to carve out an attractive position.

Five Tests of a Shaping View

- Does the view express a perspective on the long-term direction of a broad industry or market and highlight how it will change?
- Does it clearly identify attractive business opportunities for a wide range of participants?
- Does it tie these opportunities explicitly to broader economic, cultural, and technological forces at work on the business landscape?
- Is the view at a sufficiently high level to allow for unexpected developments, yet specific enough to direct and focus the thinking of executives faced with difficult choices?
- Has it been aggressively and continually communicated by senior management to external audiences and to employees?

Element 2: A Shaping Platform

The second component of a shaping strategy is the shaping platform, a set of clearly defined standards and practices that helps organize and support the activities of many participants. Shaping platforms provide leverage; they enable participants to do more with less. Leverage is always valuable in times of high uncertainty because it reduces the investment and effort required to target potential rewards, and it often accelerates returns, thereby reducing risk.

Shaping platforms typically offer one of two forms of leverage. Some provide *development leverage*—often derived from new technologies—that reduces the investment required to build and deliver products or services. For example, Salesforce.com has a platform (Force.com) that enables third-party developers to easily create application services for the enterprise market; Facebook .com provides tools that permit developers to launch mini-applications, or “widgets,” to engage the Facebook audience. Note that, in contrast to AdSense, other Google initiatives such as Google Earth offer development leverage and mobilize developers but lack an explicit and aggressively communicated shaping view of a broader market or industry. As such they are better characterized as platform strategies than as shaping strategies.

The second type of shaping platform provides *interaction leverage* by reducing the cost and effort required for a diverse array of participants to coordinate their activities. Although such a platform may have a technology component, the key value lies in a set of standardized protocols and practices designed to facilitate interaction. Google’s AdSense platform, for example, uses technology to connect advertisers, content providers, and potential customers, but its real power resides in the protocols and practices that govern how ads are submitted, priced, presented, and paid for. It allows even the smallest advertisers and websites to invest minimal time and effort, with little oversight from Google, and still generate value for one another, thereby increasing the long tail’s rewards for niche players. The genius and power of this shaping platform is that its scalability makes specialization by participants more and more economically attractive—AdSense can connect a maker of a product that appeals to the small-

est of niches with the largest imaginable pool of prospective buyers of that product.

Malcolm McLean, the founder of Sea-Land and a successful shaper of the global shipping industry, achieved interaction leverage through a very different kind of shaping platform. By developing an innovative design for four-corner fittings and twist-lock mechanisms on shipping containers—and by making the design available industrywide—he encouraged a broader set of investments by port authorities, shippers, and crane companies that sped the adoption of containerized shipping.

Li & Fung provides an extreme example of a shaping platform that, to this day, relies primarily on telephone and fax—simple, low-cost technology easily available to its approximately 10,000 partners. A rich set of protocols coordinates complex supply chain activities across a global network that L&F configures and reconfigures to serve apparel and other consumer goods companies.

Sometimes a shaping platform can offer both development and interaction leverage, as Visa did in the early days of the payments business. One part of Visa’s platform involved providing back-office credit-card-processing services for participating banks, using technology to link large numbers of participants. This significantly reduced the investment required for banks to enter the credit card business and freed them to focus on product design and marketing while the capital-intensive processing activities were performed by specialized third parties.

Another part of Visa’s shaping platform supplied interaction leverage by defining a governance structure that allowed large numbers of banks to jointly own the new business entity while Visa still preserved its ability to move rapidly and flexibly. Within 90 days of its development in 1970, Visa had recruited 2,700 banks; within seven years, its cards were generating \$20 billion in transactions and reshaping the emerging payments business in the process.

Shaping platforms provide powerful leverage, both for the shaper and participants. From the participants’ perspective, a good platform increases functionality, decreases adoption costs, and accelerates revenue generation—effects that are amplified as participation grows. By encouraging distributed innovation among participants, platforms can

Five Tests of a Shaping Platform

- Does the platform promise financial benefits to potential participants, especially by reducing their cost of entry, accelerating the prospect of generating revenue, or both?
- Does it support a diverse set of participants and offer opportunities for creating value in many distinct niches?
- Can the platform scale up by accommodating large numbers of participants without adding unacceptable costs for the shaper?
- Is it likely to generate increasing returns as participation grows?
- Will its functionality continually evolve, providing an incentive for participants to engage regularly with the platform owner and share their own learning and plans?

shaping company and careful use of its assets can assuage those concerns.

Such acts irrefutably define the shaper's intentions. Consider the computer networking company Novell, which pursued a shaping strategy by selling off the hardware business that generated 80% of its revenues. Novell saw an opportunity in the early 1980s to shape the local area network business. LANs were an extremely important new technology category that emerged as PCs rapidly penetrated businesses and needed to be connected to one another and to the applications and information housed on corporate mainframes and servers. Novell had developed a robust operating system for local area networks and made its dramatic divestiture decision to accelerate adoption of that system.

The message to the rest of the emerging industry was clear: Novell was so committed to its network operating system that it was prepared to walk away from a significant portion of its revenue. This dramatic act communicated to other network hardware manufacturers that they could adopt Novell's system without worrying that Novell would compete with them in their core business. It effectively positioned Novell as a very successful shaper of an important technology arena, and its network operating system became the de facto standard for over a decade. The company ultimately diversified into other business areas, draining focus from its core operating system business. As a result, it lost its leadership position in local area networking—a cautionary tale to aspiring shapers that successful shaping requires tight commitment for the long term.

Malcolm McLean made a similar striking move in his effort to accelerate adoption of his shaping platform for the containerized-shipping industry. In the 1960s he released the patents to his four-corner fittings and twist-lock mechanisms—royalty-free—to the International Organization for Standardization. McLean could afford to be magnanimous with the intellectual property from his shaping platform because as the major shareholder of Sea-Land, he stood to profit handsomely from broader adoption of standards in that arena.

The assets of the shaping company also become a significant factor in persuading potential participants to invest in the shaping

Six Tests of a Shaper's Acts and Assets

Larger incumbents

- Given all your other business initiatives, how can you convince potential participants that you are in this venture for the long haul, even in the face of setbacks?

Smaller entrants

- How will you gain access to assets that will prove to potential participants that you have sufficient resources to pursue a successful shaping strategy?

All shapers

- What have you done to assure potential participants that you won't eventually compete with them?
- Do your senior management team, board members, and key investors have the tolerance for risk and the patience required to commit the assets and take the actions essential to being a successful shaper?
- Is your company capable of attracting and mobilizing enough participants to realize the full potential of shaping platforms?
- Does your leadership team—and especially the CEO—have a forceful enough personality to build a shaping narrative that is plausible, vivid, and alluring to participants?

assemble a rich ecosystem of diverse niches, allowing participants to specialize in the areas they know best and avoid head-on competition with everyone else on the same platform. Such diversity tends to emerge from platforms offering a wide range of functionality that can be accessed by large numbers of users with highly specific needs. The power of the Wintel platform, for instance, is that it has given rise to a virtually infinite variety of application and service niches that add value for end users while insulating most participants from direct competition with one another.

From the perspective of its owner, a shaping platform helps to concentrate the knowledge flows created as participants engage with the shaper. For example, SocialMedia Networks, an emerging shaper within the broader Facebook ecosystem, is pulling together a network of specialized application developers and advertisers. By aggregating performance data, SocialMedia offers its participants insight into how the structure of an application can enhance appeal to advertisers. As an illustration, by varying the sequence of what a user does and sees at different points while navigating an application, the developer can significantly increase the odds that the user will click on an ad. At the same time, SocialMedia helps to educate advertisers about how, in general, social media provide rich contexts for delivering messages to relevant audiences. In high-uncertainty environments, privileged access to such knowledge flows can become a major advantage—and a significant enabler of and catalyst for distributed innovation. SocialMedia's experience also demonstrates the fractal nature of shaping: Secondary and tertiary shapers can arise within environments that are being shaped more broadly.

Element 3: Shaping Acts and Assets

The shaping company's acts and assets themselves constitute the third element of a shaping strategy. Even the most compelling shaping view and most robust shaping platform can be undercut by would-be participants' lingering concerns that the shaper may lack the conviction or capability needed for success. Conversely, participants are also likely to worry that their own business niches might become vulnerable to competition from a powerful shaper. Selected bold acts by the

strategy. In this domain, large established companies have a potential advantage as shapers. Their massive assets can attest to the credibility of the shaping view and platform. Few would doubt that these companies have the resources to support a shaping strategy. On the other hand, a smaller new entrant faces a significant challenge on this front. Anyone considering investing in its strategy will understandably wrestle with the concern that it may not have the necessary assets. The risk of stranded investment becomes very real.

A smaller new entrant can gain access to needed assets through strategic relationships with larger, better-known companies. For example, Microsoft in its early days enhanced its credibility by negotiating an important

relationship with Intel, the leading manufacturer of microprocessors. Somewhat later, Microsoft's deal with IBM to provide the PC operating system let the world know that this small company was a force to be reckoned with. More recently, Microsoft has played the reverse role with Facebook, giving credibility to the much smaller aspiring shaper by making a significant minority investment. In another recent example, Google—an established company but with minimal experience in the telephone industry—has gained credibility for its mobile phone platform, the Android operating system, by announcing the Open Handset Alliance. This consortium has enlisted such well-known telecommunications players as Sprint Nextel, T-Mobile, Motorola, and Samsung.

A shaping company can demonstrate to would-be participants its ability to successfully execute a shaping strategy in the following ways:

By achieving critical mass quickly. When executed well, shaping strategies aggregate a critical mass of participants that then unleashes powerful increasing returns. The challenge, of course, is getting to that critical point rapidly. Many efforts at shaping have foundered during this challenging initial phase. Strategic relationships with major incumbents in a market can accelerate the aggregation of participants.

By mobilizing the multitudes. Shaping companies need to develop the institutional arrangements and management practices that attract and mobilize masses of participants. To be sure, all firms work with partners to deliver more value to the marketplace. However, during the past couple of decades many companies have reduced the number of participants in their supply-chain and distribution operations in a quest for greater efficiency. This poses a nontrivial challenge to potential shapers as they focus on large-scale mobilization.

As the examples of Visa and Google's AdSense show, significant institutional innovation is needed to support successful shaping strategies—but it need not always take the same form. Visa created a scalable network that encompasses thousands of business partners to deliver performance-intensive financial services in high-security environments. AdSense designed a much looser economic web that relies primarily on financial incentives

Rethinking the Process of Strategy Development

Shaping strategies might, at first blush, appear intimidating. But they needn't require massive organizational change. A series of relatively straightforward steps can get you headed in the right direction and help determine whether a compelling shaping opportunity exists for your enterprise, industry, or marketplace. Your company's executive team should think FAST.

F
Focus. Imagine what relevant markets and industries might look like in five to 10 years. Borrowing from scenario planning, consider plausible alternative futures, estimating the likelihood of each scenario and projecting potential implications for the company and other participants. Engage in creative exercises and hold off-site retreats to explore initiatives that will improve the odds of realizing a future more favorable to your company.

A
Accelerate. Identify the two or three operating initiatives that, if carried out over six to 12 months, would most accelerate the movement toward your preferred future. Specify and agree on the

resources essential to these two or three operating initiatives, and on the metrics of success.

S
Strengthen. Ask what major organizational objectives might prevent you from moving even further toward achieving your operational goals. Specifically, identify the two or three organizational obstacles that, if addressed, would most effectively speed the process.

T
Tie it all together. Integrate all the preceding activities and refine them based on what you learn along the way. The FAST approach favors incrementalism, but above all it values an alignment between near-term performance and long-term direction. Without the long view, surefooted small steps won't take you far.

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A company need not be a shaper to adopt the FAST technique. A nonshaper can appropriate its long-term direction from a relevant shaper, bearing in mind that every company needs to be deliberate about the long-term role that it will play in the business landscape being shaped.

to attract advertisers and content providers, and which mobilizes hundreds of thousands of business participants on a global scale. Senior management teams need to be alert to the variety of available ecosystem models, the criteria for selecting the most appropriate type, and the best management practices for each. (See the exhibit "Rethinking the Process of Strategy Development.")

By shaping again and again. Once unleashed, increasing returns have traditionally been a powerful force, leading to virtually unshakable market positions and disproportionate generation of wealth relative to competitors. That was certainly the case in yesterday's world of punctuated equilibrium, where relatively long periods between disruptions allowed shapers to lock in a competitive advantage. However, in the sustained disequilibrium of today's business environment, a paradox emerges. Although it's now easier to develop

and deploy shaping strategies, it's also more difficult to protect them once they're established. Successful strategy now requires a series of shaping initiatives over time, rather than one disruptive big-bang effort to be exploited thereafter.

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Turbulent times demand that we learn how to shape the turbulence around us by creating an effective management ensemble that moves beyond adaptation to a shaping aspiration. More fundamentally, we need to understand how we can turn the instability created by digital infrastructures to our advantage by mobilizing many other participants to shape a more rewarding future.

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Shaping Strategy in a World of Constant Disruption

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[The Five Competitive Forces That Shape Strategy](#)

by Michael E. Porter
Harvard Business Review
January 2008
Product no. R0801E

In 1979, a young associate professor at Harvard Business School published his first article for HBR, "How Competitive Forces Shape Strategy." In the years that followed, Porter's explication of the five forces that determine the long-run profitability of any industry has shaped a generation of academic research and business practice. In this article, Porter undertakes a thorough reaffirmation and extension of his classic work of strategy formulation, which includes substantial new sections showing how to put the five forces analysis into practice. The five forces govern the profit structure of an industry by determining how the economic value it creates is apportioned. That value may be drained away through the rivalry among existing competitors, of course, but it can also be bargained away through the power of suppliers or the power of customers or be constrained by the threat of new entrants or the threat of substitutes. Strategy can be viewed as building defenses against the competitive forces or as finding a position in an industry where the forces are weaker. Changes in the strength of the forces signal changes in the competitive landscape critical to ongoing strategy formulation. The five forces reveal why industry profitability is what it is. Only by understanding them can a company incorporate industry conditions into strategy.

[How Industries Change](#)

by Anita McGahan
Harvard Business Review
October 2004
Product no. R0410E

To truly understand where your industry is headed, you have to take a long-term, high-level look at the context in which you do business. McGahan studied a variety of businesses from a cross-section of industries over a 10-year period, examining how industry structure affects business profitability and investor returns. Her research suggests that industries evolve along one of four distinct trajectories—radical, progressive, creative, and intermediating—that set boundaries on what will generate profits in a business. These four trajectories are defined by two types of threats. The first is when new, outside alternatives threaten to weaken or make obsolete core activities that have historically generated profits for an industry. The second is when an industry's core assets—its resources, knowledge, and brand capital—fail to generate value as they once did. Industries undergo radical change when core assets and core activities are both threatened with obsolescence; they experience progressive change when neither is jeopardized. Creative change occurs when core assets are under threat but core activities are stable, and intermediating change happens when core activities are threatened while core assets retain their capacity to create value. If your company's innovation strategy is not aligned with your industry's change trajectory, your plan for achieving returns on invested capital cannot succeed, McGahan says. But if you understand which path you're on, you can determine which strategies will succeed and which will backfire.

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