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Illegible Business

bergsicht

CHAPTER 1

Welcome to the Elephant Club

A little less than a month ago it was announced that Apple Inc. was to be added to the Dow Jones Industrial Average (known simply as "the Dow"), an event that is both remarkable and worthy of further consideration. The New York Stock Exchange's Dow index professes to showcase the acme of the global economy, but this is a claim that for all sorts of reasons simply fails to hold water: neither revenues, nor staff numbers, nor balance sheet total, nor profits, nor market capitalisation ultimately decide which companies are admitted to, or excluded from, the index. The Dow is instead characterised to a considerable degree by a half-formed arbitrariness that renders it largely useless for the purposes of financial and statistical analysis and – perhaps for that very reason – imbues it with the same kind of lustre and visibility that the Oscars lend the film industry.

The feather that has graced Microsoft's cap since 1999 when, for the first time, two stocks traded on the NASDAQ technology exchange were admitted to the Dow, may now finally be sported by Apple, its longstanding rival – albeit fifteen years in arrears, and no longer as a direct competitor to the software manufacturer, Microsoft. Nowadays, Apple is far more than a manufacturer and programmer of computers for users with rather particular preferences, and its palette of products has been extended substantially to encompass the iTunes universe, smartphones and all the platform services that go with them. So who is departing the Dow? AT & T, a member of the index since 1916 (with the occasional interruption) and a firm that once enjoyed a seemingly unassailable monopoly on American telephony.

Rise and fall, growth and decay, creation and destruction: for anyone interested in using these Schumpeterian categories as a lens through which to observe economic developments with an eye to identifying parameters and anticipating future trends, the history of the Dow is a veritable treasure trove. In the beginning – that is to say, in 1894 – Mr. Charles Dow's first index featured nine railroad companies, a steamer company and a money transfer company (Western Union!). Several of these firms still exist today, although most are but shadows of their former selves. The creation of the "Industrial Average" index in 1896 saw the addition of – amongst others – General Electric, a company that has managed to adapt and retain its pre-eminence through all the vicissitudes of time and is still a member of this august group of the thirty supposedly leading US firms. Why was the same success denied the "Distilling and Cattle Feeding Company", which joined the Dow at the same time? Or the "U. S. Rubber Company", for that matter?

In this edition of *bergsicht*, we shall be addressing the question of the *legibility* of business using coordinate systems such as the size and weight of companies. What do "small" and "large" really mean in light of the most recent developments, notably in IT and commu-

nications technology? Is big, bigger, and bigger still the solution to every problem, or is exactly the opposite true? Are "big" and "important" coterminous? However patrician the Dow Elephant Club may be and however epoch-making its adoption of Apple Inc. might appear, it is just as much food for thought that companies such as Facebook (with market capitalisation of some USD 230 billion) or Google (with almost USD 400 billion) have been left out in the cold. Are they unimportant? Is it time we changed – perhaps radically – our long-held preconceptions of what "business" may once have been and of what we now consider "right" and representative to mean? Ultimately, we must resist the urge to draw erroneous conclusions from *faits accomplis.* And who does "we" refer to here anyway? All those who are tasked with channelling their (by definition scarce) capital into the "right" investments, i.e. entrepreneurs, financial investors, board directors – in short, *bergsicht* readers. We wish to explore the Elephant Club's co-existence with a horde of largely noumenal entities in a highly dynamic state of flux that, until very recently, included Apple Inc. among their number. It would appear that not only has the world become partially "illegible" (Mark Lilla) in its historical manifestations, but there is also increasing evidence of an inexplicable *simultaneity of mutually exclusive phenomena* in the business world as well. An attempt at intellectually categorising these is becoming all the more imperative.

CHAPTER 2

Ambiguity as a new phenomenon

This "illegibility" begins even with the definition of what is – and what is not – a company. There is no shortage of theoretical hinterland to this topic. In 1937, the great American economist and future Nobel laureate Ronald Coase (1910–2013) published a short, groundbreaking essay entitled *The Nature of the Firm* on the question of what people coming together to make a company actually involves. Coase's view of a company was largely based on the presence of a legal structure that becomes effective and allows the distinction of an "inside" and an "outside". According to Coase, economic activity means organising and coordinating transactions, and a firm's justification resides in the fact that internal costs become lower, thanks to its existence, than if the same transactions had had to be organised and coordinated externally on a market or in a whole society. In other words: the *company* is an instrument for *lowering information and transaction costs* within the ambit of economic activities such as production, sales or consulting. This is all well and good as far as the old world of classic goods such as cereals, machinery and confectionery, or classic services such as payment processing, insurance or hotel stays are concerned.

But what are the parameters for defining the firm when it comes to companies whose *raison d'être* is to lower information and transaction costs (the precise determinant specified by Ronald Coase) *beyond* its own four walls? Economic history relates of highly successful franchise models such as the fast food provider McDonald's or the Hilton hotel chain – more than 37,000 "partners" (i.e. relatively independent sub-contractors) work for/with/at McDonald's. However, changes in information and transaction costs in the wake of the most recent technological developments have clearly now given rise to a type of hybrid firm that takes this several steps further. Who is outside and who is inside companies such as Google (information), Facebook (social media), Uber (taxi rides) and Airbnb (hotel stays)? Who is the customer, who the sub-contractor or supplier – who is *de facto* an employee?

Each and every one of our Google searches puts another brick in the wall of the California company's database and our *quid pro quo* is a generally very valuable information service. Does that make us Google employees? Or maybe customers? But that's not quite right either; with the self-same mouse click, we betray a little about our preferences, and information about us is a valuable commodity for Google. It's difficult to pinpoint who is inside and who is outside. What's more, payment is made not only with money, but also through barter. Information and transaction costs, even if they still had any relevance as a theoretical construct, are virtually impossible to determine. Let's take a further example: householders who provide "hotel" rooms via Airbnb. Are they part of the Airbnb company? The key economic data for the company, which was founded in 2008, suggests they are. Calculated from nigh on 17 million overnight stays booked by a total of some 3 million guests, its gross revenues for 2012 are estimated at some USD 1.7 billion, about 90% of which Airbnb passes on to the householders. Factoring in additional sources of income gives net revenues of approximately USD 200 million. Its market capitalisation – now alleged to be some USD 13 billion – is clearly a function not of its low net revenues but rather of the potential subsumed in the gross revenues figure. The putative valuation of Airbnb implies that the homeowner is part of the "hotel chain". By the same token, you could also argue that he is nothing more than a platform user and thus an Airbnb customer, in much the same way that a listed company is the customer of a stock exchange. Or is the homeowner a supplier in a vertically integrated value chain?

Hybrid franchise models such as McDonald's or Hilton's had already stretched Coase's definition of what constitutes a company to its limits. At first glance, a more promising avenue of enquiry is that pursued by Jensen and Meckling (1976), whereby a company, irrespective of what happens externally or internally, is simply construed as a *nexus of contracts*; more general terms have the advantage of encompassing a greater number of things, or perhaps even everything, and

thus obviate problems of distinction. The question of definition is both highly topical and relevant. According to a *Business Insider* report, Uber and Lyft, a similar transportation company, are currently haggling with the US justice system over exactly which status (employee or independent contractor) "their" drivers are now to enjoy. Dry corporate theory – Coase or Jensen/Meckling? – is now being weaponised by the authorities. Interested observers eagerly await the outcome of these deliberations.

It is not difficult to extend this modern *ambiguity* about what (and who) belongs to whom to sectors such as air travel, where portals like ebookers.com have more or less eclipsed the booking procedures offered by the airlines; or to the world of cultural or indeed any other form of event management, where the lines between sponsors, ticket-sellers, media partners and organisers are constantly shifting; or to research and technology, where state-funded university institutes, start-up firms of young academics, editors of respected scientific journals and luminaries with advisory roles are inextricably intertwined. Typically, no money changes hands – perish the thought! – but barter is rife.

Where terminological equivocation reigns supreme, overly apodictic apothegms should be met with scepticism, whether they proclaim "winner takes all", "size matters" or "proudly small". The eternal question is: what are they actually talking about? The "whole" (whatever that may be) or merely parts, a loose affiliation, a synergetic cluster of particles, of molecules – or only of atoms? Interestingly, the same phenomenon of newly created ambiguity is encountered in entirely different fields. Giulia Enders' book *Darm mit Charme* (literally "charming bowels") makes many entertaining points but for us, the most important revelation was that our gut flora is well on its way to being recognised as a human organ like the liver, kidney or lung. It must be looked after, and healed if necessary; in stubborn cases of infectious disease, there is already talk of transplanting bowel contents from one person to another. Gut flora consists of billions of bacteria, in other words separate life forms with a completely different genetic make-up from humans. We couldn't survive for long without them. Intriguingly, human beings are said to take their most important decisions not in the brain, but in the bowel, which is defined by its symbiosis with other living creatures; this is where our "gut feeling" is anchored. So now what is a person? Where do you begin, and where do you end?

CHAPTER 3

Lowering internal costs – larger companies

For the sake of argument, let's nonetheless assume for a moment that an exact demarcation of a company is readily possible, and let's attempt to apply Ronald Coase's seductively simple model to the changes that have come about in light of innovations in modern information and communications technology. Our starting point is the company, which exists because each individual worker, left to his own devices, would find it much more difficult even to gain access to the production and sales process let alone to subsist within it. As soon as (by definition external) information and transaction costs enter the equation, "Me, Inc." becomes a more or less unworkable proposition. Processes based on division of labour almost automatically call for the integration of the means of production under one roof; incorporating suppliers is freighted with considerably more risk, not least as suppliers can also factor in the competition. In this respect, the integration of the means of production invariably subsumes an anti-competitive element – if you work for a particular company, you don't normally offer your services to third parties as well. Loyalty and job security are two sides of the same coin.

So how is the size of a company determined under the Coase model? By establishing whether the internalisation of the production function is superior to its externalisation. Unlike Edith Penrose (*The Theory of Growth of the Firm*), who was publishing in the late 1950s, Coase elected not to address the production function as such, as, in a stroke of genius, he had realised that economies of scale (i.e. the greater the quantity of goods produced, the lower the average cost per unit) could be achieved both within the company and through a supplier model. Whether this elicits synergies or dissynergies is decided solely by the coalition, coordination and controlling costs within the company versus the analogous costs incurred externally when elements of the production process are outsourced. It is worth noting that as early as 1937, Coase was positing that *communications technology* – he mentions the telephone and the telegraph – would reduce internal costs, even over long distances, and that *companies were thus likely to get bigger*. And this is by and large what has happened. The inflation of big companies into multinationals – global players with a worldwide wingspan – cannot be explained purely by economies of scale in the realm of production, in its narrower sense. Instead, the new technical possibilities offered by the transmission of communications and later of data processing played their part in ensuring that large, larger and eventually even global companies became or remained manageable.

Managing means collecting, collating and analysing information, making decisions, inspiring, coordinating, implementing, monitoring and correcting. The natural substrate for leadership is the group, the clan, the brigade – that is, whatever can be reached and shouted down with the sound of your own voice. If the order of magnitude of this naturally occurring substrate is exceeded, management tools are required: aides, support units, a hierarchically organised chain of command, and communication systems. Manage-

ment tools are extremely powerful – it is not by chance that there have always been giant armies that have functioned like well-oiled machines. The communication method adopted in such structures tends to be of a relatively restricted sort, however – the one-way street of command.

Management costs. Management can fail. When it runs up against economies of scale, management can even get too expensive. The international megabanks are a good example of this. Goldman Sachs identified precisely this problem in its "sister" bank, J. P. Morgan, and similar observations have been made in relation to Credit Suisse. Wherever more is required than merely following orders, the rise and fall, growth and decay, creation and destruction of a company is closely linked to the economy of its management. Aides and support staff have increasingly been substituted or replaced by computers in recent decades and/or their responsibilities have mushroomed as a result of rampant regulation. The greatest changes to have occurred within the company since the publication of Ronald Coase's essay relate to this expansion of coordination and controlling duties and to the fact that the instruments available to us for performing these tasks have become incredibly efficient. His prediction that companies would tend to grow (irrespective of their particular production function) was accurate and prescient.

Thanks to progressively more efficient management tools, most firms have even withstood a major exogenous shock: the proliferation of a culture of *distrust* characteristic of Anglo-Saxon law and an Anglo-Saxon value system. Until the end of the 1980s, a distinct tradition of trust still predominated on the Continent, and in Swiss companies in particular. Trust, loyalty, good faith, "my word is my bond", "sealed with a handshake" – these were civilising achievements that not only made life within companies a little more bearable, but also made a contribution to their efficiency and commercial success. At best, this contribution was decisive and, on average, it was certainly highly significant. Where trust reigned, less supervision was required. This culture came under pressure with the advent of globalisation in the 1990s – in part as a result of the abuse it was guilty of bringing upon itself, certainly, but principally as a consequence of the *hubris* of an imperious power that believed it had reached the end of history, from the remains of which it had wrought a monolithic, bureaucratic business model with a global reach. Those firms that survived the paradigm shift from a culture of trust to distrust, with all its sprawling regulations, and those who believed they had mastered the attendant legal risks, weathered this storm only because the efficiency of their management tools had increased dramatically in lockstep.

But at the same time, this is where Coase's notion of inherently inevitable growth thanks to better information and communications technology runs out of steam. Why? Because, thanks to modern management tools, the companies of today can be monitored down to the last paperclip. No email account can evade electronic logging and scanning. It is more and more common for audio and video recordings to be made of meetings and consultations and voice detectors keep an ear out for whether an *ad hoc* tip-off may be due externally when major internal decisions have been made. As everyone knows of this ability to monitor every leaf stirring in the kingdom, an anticipatory effect is engendered whereby *a priori* everyone, irrespective of their hierarchical position, does everything in their power to protect themselves. A "cover my ass" mentality is the flipside of the great strides made in improving company monitoring and is certainly amongst the cost factors that can no longer be mitigated with the acquisition of still more IT and communications infrastructure. It is particularly difficult to imagine how *creativity* – and thus the *innovative impetus* that is all-important for a company's success – can be reconciled with a conspicuous culture of distrust.

It is no coincidence that today's IPOs as well as corporate mergers and acquisitions are also being accompanied by a slew of down-sizings, spin-offs and de-listings. Companies are attempting to extricate themselves, to some extent at least, from the regulatory labyrinth, with all its contradictions; they are seeking to salvage some sense of perspective. The truth is buried a little deeper than simply the motivation to return to a smaller size, which is rooted in cost considerations; it is actually and primarily a matter of trying to revert to a lighter corporate culture. There is an appetite for greater legibility that will put some life and latitude back into entrepreneurial endeavour.

CHAPTER 4

The platform – not just a company killer

What could never have been predicted in 1937 – and is still only sketchily discernible today – is that external information and transaction costs could plummet so radically in such a short space of time as a result of a technological advance (the internet); that tried-and-trusted business models and thus whole sectors of the economy could suddenly be dislodged. Let's take the example of Airbnb again. According to the Coase model, a hotel or hotel chain is a company because a particular set of skills is required to accommodate guests successfully and this set of skills is most likely to pool within the context of a discrete company. Traditionally, larger or smaller hotels operating as individual companies have always co-existed alongside hotel chains such as Hilton with their carefully orchestrated franchise model, i.e. a vertically stacked hybrid formation involving a large corporation and a number of "suppliers". Hilton's existence as a company is defined first and foremost by its brand; capital outlay is borne by the franchise-holders, in other words by

more or less independent entrepreneurs, but Airbnb turns all of this on its head. Room selection? The customer takes care of it via the platform. "Hotel" location? Dealt with by the homeowner. Housekeeping? Ditto. Laundry service? Ditto. Concierge services? Possibly even ditto as well. And what, pray tell, does Airbnb do? Nothing at all. Or perhaps one thing: it matches needs to processes that no longer need to be bundled. As mentioned, Airbnb requires barely 1,000 people in "regular" employment to provide this service while achieving a turnover of USD 17 billion; for Hilton's turnover of USD 9.7 billion, the chain still needs 300,000 bodies, if you lump all the franchise-holders in with the directly employed staff.

Platform companies like Airbnb or Uber have markedly *lower fixed costs* than a classic hotel chain. Investment in tangible assets is limited to developing and refining the IT side, and ongoing material costs are associated only with platform maintenance and marketing. But here too, the outlay is minimal thanks to viral word-of-mouth – the customers spread the word themselves. As their variable costs tend towards zero, their *operating leverage* is close to 100%! And as neither a brand nor a particular standard of room is being purveyed, merely a platform for a room of some kind – it could theoretically be anything from a garden shed to a palatial villa in Cap Ferrat – the *potential for growth is unlimited*. Economically speaking, we are dealing with the ideal company: low fixed costs, virtually no variable costs and low capital expenditure. A leaner global hotel chain or taxi business is hard to imagine. What more could you want!?

How do things look from the vantage point of the supplier/franchise-holder/customer? The basic model of the Airbnb or Uber platforms is predicated on complete atomisation, whereby individual home or car owners offer one or two rooms or their own car and driving services respectively via the platform. The capital costs have already been incurred by virtue of the person's ownership of a house or a car, would have arisen in any case without the platform and are thus of no further economic import. Sunk costs are no costs, as the saying goes. In the new world of platforms *à la* Airbnb and Uber, in which *external information and transaction costs* are drastically reduced, "Me Inc." becomes a viable business model. This tallies with Coase's theoretical requirements to the extent that internal and external costs balance out perfectly through their very absence.

Interestingly however, a new breed of semi-pro to fully professional provider is infiltrating this basic model of atomised sole traders and establishing and operating company-like structures designed to enhance the range of services on the relevant platforms. On 2 March 2015, the Swiss newspaper *Tages-Anzeiger* carried a report on a lady by the name of Jasmina Salihovic, who is advertising more than 500 beds in Switzerland via Airbnb (mainly clustered around Lake Geneva) and runs a kind of letting agency that hires out and manages said apartments; there have doubtless been analogous developments in Uber's domain. The phenomenon is economically interesting as it underscores the fact that the impact of platforms on traditional supply structures is not exclusively *destructive*; they also kick off a *creative impetus* that catalyses new companies. That a newcomer such as the enterprising Ms. Salihovic, an immigrant from Bosnia, has been welcomed by the industry and the authorities with anything but open arms (her firm has been threatened with every conceivable and inconceivable imposition and obligation) is par for the course when a business model is turned on its head. It is some comfort that, just like any normal hotel operator, Ms. Salihovic will generate fixed costs and thus ultimately have to shoulder the responsibility of business risks. She will not survive for long without capital, employees and office space (nor would she want to). *Et voilà*: this is how new companies are created that are subject to the conditions stipulated by Ronald Coase. Or, to put it another way: meet the new boss, same (to a certain extent) as the old boss. There is rather more comfort to be derived from the circumstance that new life springs eternal from the ruins of wrecked business models and that the Schumpeterian process of creative destruction is seemingly unstoppable.

Apocalyptic visions such as those dished up last month in the German magazine *Der Spiegel* (No. 10, 28 February 2015) under the heading *Die Weltregierung* ("world government"), for example, should thus be treated with circumspection. They even took the example of Uber as being the writing on the wall: "According to its own figures, 50,000 new drivers are signing up with Uber every month," the magazine informs us, and "Uber is not the only company planning to conquer the world; they are all at it – Google and Facebook, Apple and Airbnb, all those digital giants and the thousands of smaller firms in their wake." The article leaves no cliché unturned, from the naked avarice spilling over from Wall Street into Silicon Valley, to the all-boys' club, to the *caricatured representation* of supposedly Frankenstein-esque figures like Ray Kurzweil (Google's director of engineering), Sebastian Thrun (head of Google's research lab and owner of the Udacity education platform), Peter Thiel (founder of PayPal and libertarian politician) or Joe Gebbia (Airbnb).

Such articles, and others like it, highlight some of the problems associated with increasingly illegible new business developments. In our view, conspiracy theorists and people fearing imminent world domination are likely to be suffering from an analytical deficiency. These individuals don't understand the economy of the platform, in just the same way as they were never – or never wanted to be – able to comprehend the economy of the market. It boils down to the same thing. We would like to clarify this assertion in the following chapter.

CHAPTER 5

Division of labour – externalised

Let us consider for a moment the constitutive elements of a marketplace in a medieval town. There was a safe place where goods could be stored, offered for sale, inspected and bartered or sold; an assurance of unfettered access for a cohort (generally limited by location, but often circumscribed by social rank as well) that provided the merchants and buyers; and some form of regulatory power that underwrote this assurance. Other accessories often included the coinage accepted at the market. The town in which the marketplace was situated financed itself via the associated wealth creation.

From an economic point of view, a marketplace is the simplest means of dramatically reducing what might otherwise be extremely high information and transaction costs for both sellers and buyers. Imagine for a moment if a vegetable grower had to traipse from house to house with his wares in order to sell them, or conversely, if a city-dwelling manual worker had to trawl round the surrounding farms for his daily bread. Enabling the physical *encounter* of the *representatives of supply and demand* in safe towns, and carrying out transactions with a viable currency, were without doubt essential preconditions for the evolution of modern prosperity. Did the marketplaces back then turn traditional business models upside down? Of course they did! At the very latest, when the assurance of unfettered access was extended beyond the extremely parochial circle of municipal guilds; the urgency of such an extension became more pressing with every improvement in the speed and safety of land and sea transport routes. Were there abusive breaches of the principle of unfettered access? These were presumably many and various, as politicians love patrimony and preferentialism, under whichever semi-legitimating title is most convenient. "Market supervision" has always been a double-edged sword: it is simultaneously a prerequisite for a market's functioning and the greatest threat to its existence.

The *variety* of organisational structures for markets is intriguing. In its simplest iteration, it was presumably no more than a spontaneously arising meeting place – at the village well, for example. History then records any number of "market societies" – cooperative-style associations, and thus strictly top-down solutions – with profit-orientated companies entering the market-structuring business as relative latecomers, initially in the form of securities exchanges. Is the question of ownership constitutive for marketplaces? No. There is nothing to say that a portion of the immense potential for added value in the reduction of information and transaction costs should not pass into private hands; such behaviour would become unethical only if alternative marketplaces had no chance of success from the outset due to a monopolistic situation (quite possibly endorsed by the authorities).

How do platforms such as Airbnb and Uber differ from the marketplaces of medieval towns? There are many differences, however none of them is ultimately constitutive: supply and demand no longer converge at the well, certainly, but rather in cyberspace. Unfettered access is assured to the extent that the internet (still?) defines itself through equality of entitlement. Is the possibility of extending the marketplace to all the potential sources of supply and demand round the world synonymous with "world government"? Certainly not, as long as no monopolies are created through the ill-starred intervention of a power complex. On the problem of monopolies (which should of course be taken seriously), there have been claims that the kind of data sets owned by Google, for example, which cover the whole world and every person in it, right down to the last intimate detail of their day-to-day behaviour, may acquire such a weight that a natural monopoly will arise. We addressed this in an earlier edition of *bergsicht* (Edition No. 9, 2014) and were then still in two minds about how the question should be answered. We have now come to the conclusion that *accusations of monopoly* directed against Google presuppose a *deterministic worldview*, i.e. the notion that every development can be derived from a previous state of affairs and/or arises directly from a preceding set of circumstances, and that neither chance nor free will are of any significance. Those who do not share this view find it hard to imagine that a machine, however powerful, could anticipate what is to come from what has occurred because such a machine simply fails to incorporate unpredictability (sic!). To this extent, fears of a "world government" are misguided, and in any case, the term "government" can only be used if some exercise of power or control of people by other people is involved. If anything, we see Google and other similar internet companies as antagonists to governments of all stripes.

But let's return to the comparison of modern platforms with the marketplace of yesteryear. Do the platforms lack market regulations? If so, they will not be around for the long haul. Indeed, we believe platforms such as Airbnb and Uber are *vulnerable* precisely when it comes to upholding minimum quality standards – imagine wall-to-wall spoof offers on the platforms, for example. Skirmishes with local supervisory and tax authorities are also not without their hazards, as structurally conservative competitors will always be standing ready to egg the establishment on. Here too, *market supervision* is at once a *prerequisite* and a *threat*. The long-term success of a marketplace is decided by the equilibrium between autonomy and market participants' need for security and reliability.

So where are the differences between the marketplaces of medieval towns and modern platforms to be found? Clearly in the nature of the *goods traded,* and this is the crux of the matter. In the Middle Ages, it

was physical chattels: cabbages, chickens, linen and woollen cloth, with less perishable "colonial goods" as well as machines and devices (at the great Leipzig Trade Fair, for instance) coming along later. Cars are hawked at car showrooms, pictures at Sotheby's, and there have always been marketplaces for particular services, much as there were once also slave markets. These are most similar to modern platforms such as Airbnb and Uber from a structural point of view, as it is no longer finished or semi-finished products that are being traded, but rather the *processes* that go to make up the *division of labour economy*. Silicon Valley is not threatening a world government, but rather – if we are going to speak in terms of "threats" – a *deconstruction* of the *processes* controlled and coordinated within firms. This is the nub of the issue – and the chief insight of this *bergsicht*. Airbnb is a marketplace for certain "tourist office" roles (finding and booking accommodation), for the process of providing bed and board, for the process of billing, for the process of assigning ratings, and so on. Apple is busily working on carving out key payment processes from the banking sector; Google has carved out the process of information allocation from the media industry.

Our prediction is that things will continue in just the same vein. The more powerful computers and systems become (a new generation of processors is seemingly about to be unleashed, and once again it will betoken a doubling of previous performance in line with Moore's Law), the lower the costs for creating still more marketplaces for still more processes that had previously been internalised by companies. It was the media's turn yesterday, today it's hotels and taxi companies, tomorrow it will be solicitors' practices, banks, hospitals and educational establishments (Udacity!). The tiny cog of a little capital will be used to set great wheels in motion, and no sector of the economy will be immune from this deconstruction.

CHAPTER 6

Some attempts at deciphering illegibility

Ever greater platforms with zero marginal costs, with a view to getting larger and mightier still; deconstruction of the division of labour economy and of the processes previously coordinated and controlled by companies internally, with the prospect of atomisation along the lines of Airbnb's sole-trading hotel entrepreneurs; ambiguity about where the role of the customer or provider ends and the company as an entity begins: there is no question that business – and that means all of us, whether entrepreneur, strategist, financial investor or company manager – is facing immense challenges! Given that whole sectors of the economy are routinely being blindsided and overrun by developments that they once disregarded – the bleak situation of traditional media outlets springs to mind – our *first recommendation* would be to cast a sober, analytical eye over the processes managed by a company, including all up- and downstream operations. The object of this exercise has to be to identify portions of process chains with *excessively high* internal *information and transaction costs*. For example: it would actually have been possible to foresee that the news items (with barely a cigarette paper between them in content terms) industriously cribbed from one another by thousands of drone editors round the world would one day be replaced by a news feed tailored to – and in part even automatically translated for – each user by algorithms, and propagated via platforms and news channels. That low added-value, laborious tasks, such as have always characterised the banking industry, from money laundering due diligence through the collective custody of securities to the granting of the same old mortgages, might be deconstructed by overarching platforms, is somehow equally obvious.

Accordingly, and this is our *second recommendation*, we must shift our strategic focus to areas in which *high value-adding* processes or sub-processes are performed and in which any carving out is hard to imagine. Where appropriate, some thought should be given to how such specific expertise might be deployed in the brave new world of a platform-orientated economy. Ms Salihovic from Western Switzerland is showing us the way: you can become something approaching a hotelier even in the era of Airbnb – and by leveraging its very modalities. What's more, no one is stopping conventional hotels from marketing themselves via these platforms in the same manner; equally, there's no suggestion that Uber and conventional cabbies can't ultimately exist in harmony. Rather than demanding a level playing field for conventional hoteliers and new platform operators (read: the state should impose additional restrictions on the upstarts), traditional players would do well to scrutinise the regulation driving up costs and encouraging cartels and to reflect on their own role in this. A tried-and-trusted dictum says "if you can't beat 'em – join 'em". Good luck taking on the platform economy.

Our *third recommendation* is that, given the illegibility that has been posited and in light of what we have said, companies should continuously re-evaluate their strategic positioning. We have already discussed the vastly improved performance of management systems as well as the requirements for internal coordination and controlling which have increased by at least the same degree as a result of a runaway corporate culture of distrust. It may well be that many companies have reached the point where even the best IT systems and management tools are no longer a match for the legal risks and the costs of compliance, because the existing or foreseeable regulations are so fundamentally contradictory that *no (logical) system* on earth can even *model* them. In his recently published book *Legal and Compliance Risk*, the former chairman of UBS Peter

Kurer (a man who has been through the mill and lived to tell the tale) takes a compelling look at this problem and predicts a resizing of global companies in the face of excessive complexity.

We shall take this a step further: we believe, *fourthly*, that quantitative considerations are insufficient for strategic decision-making. When process chains break and the (business) world is deconstructed in such a way as to seem illegible to many, the *qualitative criterion* of a company's *inner cohesion* may acquire a greater ability to tip the scales. The question of cohesion is raised all too infrequently. When things fall apart, the centre can only hold if it is convinced of the advantages of cleaving together. Companies that have become too large and too complex, that are barely manageable any longer, that lack economic momentum – all of these will survive the change by the skin of their teeth, if at all. Being "convinced of the advantages of cleaving together" presupposes the existence of an *entrepreneurial idea* that explains why the company exists in the first place. That may sound like empathy and soft factors. And come to think of it, why not? Whatever the theory, a company is ultimately a congregation of people who have feelings! The advantage of the existence of an entrepreneurial idea is also entirely congruent with Ronald Coase's theory of the firm, as such an idea not only holds things together and propels people in the "right" direction, it also does this in the most cost-effective way conceivable. It keeps internal information and transaction costs low and will continue to do so even when external conditions undergo inexorable and drastic change. Those familiar with Switzerland's corporate landscape are often astonished at the extraordinary success of the country's "niche" players, many of which are world leaders in their fields. From millwrights to perfumiers to manufacturers of tunnel boring technology, what differentiates all of these companies is their relentless focus on their core business; their ability to concentrate on the highest value-adding processes, stay lean, and, ultimately, realise their entrepreneurial vision in the face of the harsh realities and fierce competitive headwinds of day-to-day business. If the greater whole shows signs of illegibility, there is clearly some merit in creating and cultivating islands with a geography that is familiar and a map that can always be read.

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