Business Innovation:
Changing Things Inside-Out or Outside-In?

The world around us is changing at an ever increasing pace. Laptop PCs are becoming communication devices, whereas mobile phones are becoming ultra-portal computers. Travel bureaus and brochures are being replaced by Web sites like Expedia, Booking.com or Travelocity – and you can inspect ‘your’ beach nowadays using Google Maps before you make a booking. Banks become goods retailers, insurers become banks. Just look around you to find an abundance of further examples. Consequently, business organizations are forced to innovate at an ever increasing pace too – just to keep up to speed with the pack or to even increase their market share. Innovations are sought in different forms: product innovations, market innovations, channel innovations, experience innovations and business model innovations. The latter form is often considered to have the most impact. All forms imply changes – the latter often the most.

An innovative organization is thus faced with constant changes. One can approach these changes – put very simply – in two different ways. The first way is to change the core (the inside) of an organization and have the changes reflect on the outside – the inside-out approach. The core is changed by installing new organization structures, new business functions, or new business processes. The second, alternative, way is to change the context (the outside) of an organization such that this context can absorb changes – the outside-in approach. In this approach, the sum of core and context deals with new requirements. The context of an organization is changed by selecting new collaboration partners. Or put as a soccer analogy: the inside-out approach is teaching players new tricks, the outside-in approach is composing a new team (you decide which works best).

There are, however, limits to the amount of change the core of an organization can absorb in a given period of time. This holds for its organization structure, its business processes, its supporting infrastructure, and last but not least the human beings employed by the organization. The amount of changes in the context of an organization that can be dealt with can possibly be greater, given the precondition that the core organization is prepared to deal with dynamically forged collaborations. Realizing this precondition is a single change (at what one might call the meta-level) – admittedly a hard one though. Therefore, the outside-in approach might be more viable in many circumstances than its inside-out counterpart.

Being prepared to collaborate in constantly changing settings means living in the world of dynamic virtual enterprises: business networks the members of which are tightly linked together to pursue a common business goal, knowing from the start that this goal will be of a non-permanent (and often even short-lived) nature. Operating in dynamic virtual enterprises does introduce additional complexity that needs to be dealt with in an effective and efficient way. Here, automated support for setting up and managing virtual enterprises comes in. Though not yet widely employed in practice, the information technology required to realize this is nothing new; prototypes have been realized as much as a decade ago. So technology is certainly not the limiting factor here. One might ask therefore what actually is holding us back?