1

Sparks of Magic

The Road from Sectors to Earliest Ecosystems

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Let's start by going all the way back to the beginning—to humanity's earliest days, thousands and thousands of years ago. Back then, humans were nomadic bands of hunter-gatherers striving for basic subsistence, only slightly more capable than the hominids from the opening scenes of *2001: A Space Odyssey* who discover the use of tools. Life was, as Thomas Hobbes famously put it in his *Leviathan*, "nasty, brutish, and short."[1]

Think of everything that has happened since then. Humans developed agriculture and founded permanent settlements. We domesticated animals, learned to make metal, built cities, and developed sophisticated societies with thriving political and artistic cultures.[2] The human lifespan tripled. The difference between what life was for humans then and what it is now is staggering—it is incalculable. And yet, if we look closely, we will see that there is one thing that has remained relatively unchanged over all these years—from the very beginning of organized work until very recently: this whole time, humans have been organizing their work into discrete categories that essentially functioned as sectors of the economy.

As civilization grew more advanced and thus more complex, people needed work to be more organized and efficient. The result was

that, over time, the boundaries between these categories gradually became more and more delineated. When humans were nomadic hunter-gatherers, it made sense for work to be generalized. But as civilizations started to grow and flourish, people found they could accomplish more with less effort if they specialized and divided their work into separate designations. So, for example, the work of brickmaking was conducted separately from the work of shipbuilding—just as the work of laying roads was separate from the work of farming, which was separate from the work of building dwellings or making pots. Each line of work was its own distinct activity, carried out by distinct practitioners who developed their work into an institution of sorts. As civilization continued to develop, differentiated forms of work became more sophisticated, more specialized, and more communal. In ancient Rome, they became formalized with the creation of what were called collegia, or professional associations. There was, for example, a college of woodworkers, a college of merchant mariners, a college of wine dealers, and a college of planters. In ancient China, a similar system developed. By the Middle Ages, guilds, a similar type of organization, had taken hold throughout much of Europe.[3]

By the time of the Industrial Revolution, in the late eighteenth and early nineteenth centuries, different industrial sectors as we think of them today had begun to form. There was, for example, a mining industry, and a textile manufacturing industry, and a glassmaking industry. Each had its own supply chains, its own forms of craftsmanship and expertise, its own specialized labor practices, and its own proprietary distribution. These differentiated industries didn't appear out of nowhere—rather, they followed the same pattern that had been set by the guilds, and the collegia before them, and the specialized lines of work going back as long as humans had been doing organized work to create value.

But that's not to say that nothing changed. Over these thousands of years of history, there was a continuous, gentle, and slow evolution: borders between these industries shifted. From time to time, certain industries no longer made sense and were eliminated. Think of the telegraph industry after the invention of the telephone. Other times, sectors would morph or merge or split; companies or organizations that were doing one kind of work would branch into others when technological advances made it easy and efficient to do so, or they would stop doing other kinds of work when someone else was able to do it

better. At the same time, other sectors emerged that were newly needed because of the increasing sophistication of society or newly possible because of technological breakthroughs. Take, for example, the automotive industry, which coalesced in the late nineteenth and early twentieth centuries as engineers refined and improved the internal combustion engine. Or the computer and information technology industry, which began to take off starting in the 1970s, with the proliferation of the personal computer and new advances in the field of microelectronics.[4] But by and large, even as old industries fell and new ones arose, these categories were distinct and stayed distinct.

Now, thanks to a confluence of developments, this is finally changing. We'll explore why in the next chapter, but for the time being, what is important to understand is that sometime in the early twenty-first century, the borders between sectors started blurring. As we mentioned in the introduction, new formations called ecosystems are now taking their place. Businesses are coming together into dynamic communities that cooperatively create value by working across traditional sector boundaries.

While all of this is incredibly consequential, it's also true that—in some ways, at least—the emerging ecosystem economy may not seem so novel. After all, industry definitions have always been fluid: for centuries, really, technological developments have prompted sectors of the economy to appear, disappear, and merge. Banking, for example, was born from the merger of money exchange, merchant banking, savings banking, and safety-deposit services. Supermarkets, as we mentioned earlier, emerged by combining the previously separate functions of butchers, dairies, fishmongers, greengrocers, and others under one umbrella where customers could get all of the grocery items they needed. Over time, changes such as these created new competitors, shifted vast amounts of wealth, and reshaped significant parts of the economy. Though they happened long before the term *disruptive* was in vogue, it could be fairly applied to these shifts.

All of this might lead a person to ask: Do ecosystems really represent such a radical break from the past? Is the new business world really that different from the old? The truth is that while we have seen flickers in decades past of the magic that ecosystems can work, what we have witnessed in recent years (and are still witnessing) is something truly new and special. The ongoing digital revolution, which has been reducing frictional transaction costs for years, has accelerated as

the twenty-first century has worn on, and is on the verge of triggering massive economic changes on a scale not yet seen.

To understand the importance of this new ecosystem economy and how to take on the challenges it poses, we must first understand how it differs from the economy that preceded it—that is to say, we need to understand the beliefs and assumptions that have been guiding us all this time. It is important, therefore, that we take a moment to look back at the economic history that led us to this moment, the history of how we have evolved from a sector-based economy to an ecosystem-based economy.

Sectors, of course, are groups of businesses that together occupy the same segment of the economy and offer raw materials, goods, or services within the same category. These sectors, or industries, are all around us. (Though opinions vary as to the difference between sectors and industries, we will use the terms interchangeably here.) It's not difficult to think of some examples: farming, automotive, hospitality, financial, education—the list goes on and on. What is happening now is that these categories are losing their meaning as businesses form new communities that reach across traditional sector boundaries.

As we'll explore in Part Two of this book, surviving the transition from the traditional, sector-based economy to a new ecosystem-based economy will require a significant shift in the way you think about your business. In the old world of sectors, you typically measured your success in terms of sectoral market share and relative profitability—the goal was to own the largest possible slice of your industry. Within the emerging world of ecosystems, the goal is to own your customers, to follow and guide them on their journey and build a model that serves their needs at critical junctures.

The difficulty is that industries and their borders have been with us for so long that they have become deeply engrained in our thinking—a fundamental part of how we understand the world. Indeed, they are important to everyone, not just as a frame that economists and business leaders use to inform their analyses and decisions. Most industries have worked explicitly to create a community around their common purpose and line of business—with industry conferences, industry forums, industry publications, newsletters, meetings, even shared norms and ethical practices. For many workers today, their industry and the community that surrounds it are hugely important parts of their lives. The upshot of all of this is that even though we're increasingly living in a world where traditional sectors of the economy

are blurring, we seldom stop to ponder the fact of their existence. Or to consider what their absence might look like.

THE RISE OF CONGLOMERATES

As we try to understand the evolution of the ecosystem economy, it may be helpful to consider the history of a related (but importantly distinct) kind of business: conglomerates, or firms made up of multiple unrelated (or only loosely related) lines of business. As the economy became more and more complex over the years, companies and organizations expanded—and many started to branch out more and more, taking on new areas that were beyond the scope of what they originally set out to do. Other conglomerates formed by consolidating several different businesses together under one common owner. As the Nobel prize-winning economist Ronald Coase pointed out, the reason companies exist is to cut down on transaction costs—and in many cases, such savings proved attractive enough to warrant bringing together an extremely varied collection of business activities under one corporate roof.[5] This was the impulse that gave rise to conglomerates.

One of the earliest examples of this sort of sector-spanning conglomerate was the Dutch East India Company. Founded in 1602, the company, known by its initials in Dutch, VOC (for Vereenigde Oostindische Compagnie), existed for almost 200 years. As the historian Stephen Bown writes, by the late seventeenth century, the VOC was "the most powerful and richest company in the world" and was "involved in a multitude of commercial activities, such as construction, sugar refining, cloth manufacturing, tobacco curing, weaving, glass making, distilling, brewing, and other industries."[6] Whereas many later conglomerates would form as individual families or business groups accumulated more wealth and power, the formation of the VOC was directed by the Dutch government. At the time, roughly 20 Dutch syndicates had been competing to import goods such as nutmeg and cloves from Southeast Asia. The Dutch government, worried that too much competition among these groups would drive down profits, worked out an arrangement to consolidate the rivals into a single company to which it granted a government charter and a monopoly on the spice trade.[7] Although the VOC was a monopoly in this

sense, its primary purpose was still to integrate various different lines of business across sector boundaries.

Before long, with its massive size and exclusive access, the company was dominating trade to the region—and, like its latter-day conglomerate descendants, it was branching into new areas in an effort to diversify its operations and revenue sources. In its effort to establish the Dutch as the undisputed worldwide leader in the spice trade, the Dutch government gave the company a broad set of powers, permitting it to make its own treaties, establish fortified outposts, and command its own army.[8] By the 1700s, the company had undergone a series of changes, gradually morphing from a corporate entity into something more resembling a state or an empire. At the same time, the margins on the VOC's most important export fell. This, combined with social and political changes in Europe, and poor management, gradually put the company on a downward trajectory, which culminated in the Dutch government revoking its charter in 1799.

In subsequent years, conglomerates continued to evolve. It wasn't until the twentieth century, however, that the circumstances arose in the US for the conglomerate to become a common and widespread form of corporate organization. In the early years of that century, a series of developments unfolded that created an ideal environment for conglomerates. According to a scholarly article on their rise and fall in the US, companies such as DuPont and General Motors in the 1920s "pioneered the use of the multi-divisional form (or M-form) to produce and market a number of related products through separate divisions." The multi-divisional structure "allowed easy integration of acquired businesses, which enabled firms to grow through acquisition." But after congress passed an antitrust law known as the Celler-Kefauver Act in 1950, "horizontal and vertical acquisitions (buying competitors, buyers, or suppliers) fell out of regulatory favor, and firms seeking to grow through acquisition were forced to diversify into other industries."[9]

This led to a period of frenzied mergers and acquisitions in the 1960s and 70s, which included the establishment of multinational conglomerate entities, such as the International Telephone & Telegraph Company (ITT), Litton Industries, Textron, and Gulf & Western. The boom was also helped by an environment of low interest rates and a somewhat turbulent, up-and-down market: companies had plenty of opportunities to buy other companies that had fallen on hard times, and they had access to easy financing thanks to the low interest rates.

As a study in the *Journal of Business and Technology Law* explains, conglomerate activity dominated during this period: "In 1968, at the height of the wave, about eighty-four percent of the large mergers were of the conglomerate type. Moreover, conglomerate acquisitions accounted for more than $11 billion of the $12.6 billion in assets acquired through large acquisitions of manufacturing and mining firms during the same year."[10]

In addition to the regulatory changes and the propitious business environment, something of a bandwagon effect may also have contributed to the craze—but whatever the reasons, corporate leaders quickly became convinced of the effectiveness of conglomerates. (The exception was the University of Chicago view that risk diversification was more appropriately undertaken by investors rather than by companies.) As the *Journal of Business and Technology Law* study states, at the time "many of the leading executives believed that corporate diversification, through the acquisition of related and unrelated business, would establish a large corporation with increased efficiency and reduced potential risk." The idea was that "corporations could more easily and effectively manage a number of unrelated businesses through the use of the resources and administration of a single, large corporation"—and this would both mitigate risk and prompt synergistic growth. If a large corporation simultaneously had business operations in, say, energy, air travel, plastics, telecommunications, and electronics, then it would be in a safer position if any one of those sectors were to fall into a period of difficulty—conglomerates mitigated risk by diversifying into a wide variety of different sectors. Similarly, if they found success in one sector, they could use the proceeds to invest in other areas. Finally, these companies found that their diverse portfolio of businesses could boost the performance of their leadership talent, as well. New executives could be cycled through different lines of business, from which they would gain an invaluable and diverse set of skills that would ultimately redound the to the company's advantage.

One such conglomerate that rose to prominence in this era was the International Telephone & Telegraph Company (ITT), which was founded in 1920 in New York by brothers Sosthenes and Hernand Behn as a holding company for telephone and telegraph companies they owned in the Caribbean, including the Puerto Rico Telephone Company and the Cuban Telephone Company. From the beginning, the Behn brothers were ambitious about expanding their company through acquisitions and branching into new lines of business—and in

1925, the company broke into telephone manufacturing when it bought a subsidiary of AT&T responsible for building telephone equipment.

After World War II, the company continued expanding its telecommunications business throughout the Americas and elsewhere—and in 1959 Sosthenes Behn was succeeded as the company's leader by Harold Geneen, who had previously worked at the Raytheon Corporation. Geneen enthusiastically continued the company's record of expansion and pushed to diversify its business by taking on new and often unrelated areas. In its obituary for him upon his death in 1997, *The Economist* called Geneen the "emperor of acquisitions" and wrote that he "postulated that a company could successfully invest in any sort of business anywhere. The company imposed discipline on those units by setting strict financial targets; and kept on growing by acquiring new firms with its own highly-rated shares."[11] As the *New York Times* wrote in a retrospective, ITT under Geneen was "the very model of a multinational conglomerate" and "an incredible deal-making machine, acquiring a company a week at one point. ITT ended up owning 350 companies in 80 countries," including "hotels, insurance, rental cars, grass seed, frozen foods, bread and billboards."[12]

A company like ITT, with such a broad range of different lines of business under one corporate roof, may seem to resemble the ecosystem companies today that are creating powerful new value propositions by reaching across different sectors of the economy. Indeed, the conglomerates of the 1960s and 1970s (and earlier) prefigured today's ecosystems and share a few important commonalities with them: both grow by extending their offerings to meet customer needs and by expanding into new lines of business, sometimes through acquiring external companies, and sometimes by organically growing the business.

But at the same time, what's happening today is fundamentally different—in several important ways. First, in many cases, a conglomerate's component parts often did not fit together naturally; that is to say, they were not combined with the intention that they would work together harmoniously. Rather, they came together in most cases only because of the capital advantages of consolidation—or for other, somewhat ill-conceived reasons. Many conglomerates would take on entirely new businesses with very little customer overlap, or with few opportunities for creating synergies with their existing offerings. This was the so-called firm-as-portfolio model, in which a conglomerate's many divisions and acquisitions were seen as analogous to an inves-

tor's portfolio. A second important difference between conglomerates and ecosystems is their emphasis on collaboration—while conglomerates were content to do most things on their own, today's ecosystem players rely heavily on external, third-party companies or contractors to develop products and services on a common platform in the best interest of serving customer needs. And third, ecosystems tend to have business models that are quite different from those of conglomerates. While conglomerates generally relied on traditional business models, the most successful ecosystem players today favor a model of growing the pie in collaboration with other players and then sharing the value they have collectively created.

DISNEY'S HYBRID MODEL

One company that developed an especially forward-thinking model that both built on the conglomerate structure and prefigured today's ecosystem companies was Walt Disney Productions, now known as the Walt Disney Company. Brothers Walt and Roy O. Disney founded their studio in 1923, during a time when advances in filmmaking and animation were rapidly opening new creative possibilities. The studio soon found success with a series of short films that combined animation and live action—and thereafter made fast strides, developing its first sound film, *Steamboat Willie*, in 1928 and its first feature-length animated film, *Snow White and the Seven Dwarfs*, in 1937. *Snow White* proved a massive success—and with the proceeds, Disney began the process of buying a new 51-acre property in Burbank, California, where the company's studios are still headquartered today. The complex was finished by 1939, and the next year, the company made its initial public offering.

As the 1940s wore on, the Walt Disney studios grew more organized and efficient, pumping out numerous successful animated features, including *Pinocchio*, *Dumbo*, and *Bambi*. After the US entered World War II, the studio faced production challenges as many of the studio's staff members were drafted, and declining box office numbers as audiences had less money and less time for leisure. Nevertheless, the studio pressed on, and after the war was able to diversify into live-action features and TV programs.[13]

This was around the time when it started to become apparent that Disney was destined to become more than just an exceptionally successful maker of films. In 1948, with the war still a recent memory, Walt Disney sent a memo to his studio production designer outlining preliminary plans for what he called Mickey Mouse Park, a small park that he initially proposed building on an eight-acre lot across the street from the Disney studios in Burbank. The idea, as Disney put it, was to preempt the disappointment of fans who "come to Hollywood and find there's nothing to see."[14] As his vision for the park grew, Disney soon decided that his dreams were bigger than the Burbank location would allow, and in 1953 he bought a tract of land in Anaheim, California. Construction began the following year and by 1955, the park, which by then he had named Disneyland, opened.

The new park was an instant hit, and quickly began attracting hordes of fans. But the idea represented more than just a thoughtful and creative leader working to fulfill the dreams of his young fans—it was also a brilliant instance of a company leveraging its existing strengths to break into new areas. Indeed, the park was indicative of Disney's vision for a multi-pronged strategic approach in which the company's different divisions and endeavors would feed into and build off of one another, ultimately adding up to more than the sum of their parts.

While Disney forged this model many decades before the technological developments that precipitated our current era of digital ecosystems, its many synergies and its spanning of industry lines bear a distinct resemblance to some of the most dominant ecosystem players today. And like today's ecosystem players, Disney was also intent on building a suite of products and experiences that would provide what their customers wanted and needed in many different areas: not only in TV and film, but in books, travel, toys, and music—they were, in other words, meeting customers' needs in a set of end-to-end customer journeys. We might ask ourselves: was Disney an ecosystem company—far, far ahead of the curve? While the company's far-sighted strategic thinking represented a move toward ecosystem strategy, it differed in several important ways. Perhaps most importantly, Disney opted to do and build most everything by itself; rather than participating in a community of interconnected exter-

nal businesses, Disney for the most part chose to build the community on its own.

Ultimately, Disney's model was a crucial mid-step between conglomerates and ecosystem companies—a brief glimmer of the possibilities on the horizon. Through the rest of the twentieth century, Disney would continue to grow and thrive, building a number of other theme parks, most notably Walt Disney World in Florida, expanding its TV operation, and acquiring numerous other companies.

CONGLOMERATES ELSEWHERE

Outside of the US, conglomerates also became a popular form, for similar reasons but under slightly different circumstances. As an article in the *Harvard Business Review* explains, while these business groups "may be called different things in different countries—*qiye jituan* in China, *business houses* in India, *grupos económicos* in Latin America, *chaebol* in South Korea, and *holdings* in Turkey"—they are essentially the same kind of arrangement.[15]

In Japan there were the zaibatsu, or "wealth cliques," a type of conglomerate that arose in the late nineteenth century following the Meiji Restoration, as the Japanese government sought to encourage economic growth and speed up the country's industrialization. The business leaders who grew out of this effort soon assembled into a network of family-controlled empires, the four most prominent of which were Mitsui, Mitsubishi, Sumitomo, and Yasuda. The zaibatsu typically reached into a multitude of different sectors, including textiles, mining, foreign trade, and insurance, among many others. The zaibatsu also participated in war industries during the Russo-Japanese War in 1904 and 1905, and World War I, and were able to expand significantly during that time. After Japan was defeated in World War II, the allied powers sought to dismantle the zaibatsu, though in practice they were only partially successful in doing so. Before long, the remnants of the zaibatsu and the individual companies that had been part of them began forming into loosely organized alliances that functioned in many ways similarly to their large, centralized, family-controlled

predecessors—and as such, the zaibatsu continued to play a large role in the modern economic development of Japan.[16]

In Korea, a group of conglomerates rose to prominence as they helped the South Korean government rebuild after the devastation of the Korean War, which lasted from 1950 to 1953. Many of the companies, in fact, had their origins in the period of the Japanese occupation of Korea up until the end of World War II, and drew inspiration from the Japanese zaibatsu. During the reconstruction period following the Korean war, these companies, called chaebol, benefited greatly from the government's interest in speeding along the recovery and rebuilding vital industries like oil and steel. According to an article from the Council on Foreign Relations, "These enterprises flourished under the leadership of General Park Chung-hee, who led a military coup in 1961 and then served as president from 1963 to 1979. As part of Park's export-driven development strategy, his authoritarian government prioritized preferential loans to export businesses and insulated domestic industries from external competition."[17]

The word *chaebol* can be translated as "money faction" or "wealth clan," and as such, like the Japanese zaibatsu, the chaebol were almost entirely family-owned. According to a retrospective article on CNET, another defining feature of the chaebol is that they, like American conglomerates, span multiple sectors: "Not only must a conglomerate be family-owned to be considered a true chaebol, the conglomerate must have businesses in at least two disparate areas. . . . For example, Samsung Group, South Korea's largest chaebol, is known for its flagship subsidiary, Samsung Electronics . . . but it also owns subsidiaries that run a luxury hotel, build crude oil tankers and sell life insurance."

As the twentieth century wore on, the chaebol continued to move into new sectors and export their products into foreign markets, consolidating their power and strengthening South Korea's economy. As the Council on Foreign Relations article explains, "Exports grew from just 4 percent of [South Korea's] GDP in 1961 to more than 40 percent by 2016, one of the highest rates globally. Over roughly the same period, the average income of South Koreans rose from $120 per year to more than $27,000 in today's dollars. As South Korea lifted millions out of poverty, the parallel rise of chaebol embedded the conglomerates into the narrative of South Korea's postwar rejuvenation."

While they arose out of different political and economic circumstances—and often in direct response to certain regulatory changes, or government programs, or even wars—the different varieties of conglomerates around the world were generally part of a wave that continued to grow and grow throughout the twentieth century. As one business commentator wrote in the *New York Times*, "The different enterprises of the Japanese zaibatsu, the Korean chaebol and Turkish and Indian groups . . . have profited by working together both formally and informally. The gains of staying close are often especially large in developing economies, where credit, trust, expertise and good government relations are all very costly, if they can be purchased at all."[18]

But there were problems around the corner for conglomerates—at least in the West.

THE EVOLUTION OF CONGLOMERATES IN THE WEST

The model of the sector-spanning conglomerate might have made sense during its heyday in the mid-twentieth century. But by the 1980s, a confluence of trends was putting the conglomerate model under increasing pressure. Global markets were becoming far more efficient, especially with investors diversifying their portfolios of investments. The same was true for talent—as access to talent became easier globally, the market for talent became much more transparent and efficient. At the same time, some of the disadvantages of large conglomerates became more apparent: it turned out that managing a multitude of different divisions with different needs, goals, and motivations brought operational and organizational challenges that were extremely difficult to tackle under a broad conglomerate structure. Very often, being bigger and more complex meant tolerating more and more inefficiency.

For example, as we mentioned earlier, some conglomerates felt that owning a diverse array of businesses would help them to train leadership talent by enabling them to draw on resources from across all of their divisions. With such an advantage, these conglomerates presumed, they would be able to use their superior talent to drive better execution and achieve better results. But, while this may have been true to some degree, the increasingly efficient overall market for talent

largely muted any advantage. Similarly, many conglomerates were confident that by using funds generated from their cash-cow businesses, they could invest in other businesses to drive better returns—a confidence that was only bolstered by interest rate regimes of the past. But here too their advantage was undercut by the increasingly efficient financial markets. All of this together put many conglomerates in a tough position and forced many to shed the subsidiaries they'd acquired during the boom.[19]

As an analysis from the *Harvard Business Review* explains, "Conglomerates were all the rage in the United States and Europe for decades, but . . . by the early 1980s, they had been laid low by their poor performance, which led to the idea that focused enterprises were better at creating shareholder value than diversified companies were."[20]

Accelerating the trend, the incoming Reagan administration took a more relaxed approach to antitrust enforcement than previous administrations had, and under its tenure the Federal Trade Commission became much more amenable to corporate mergers and acquisitions.[21] Somewhat counterintuitively, this more relaxed approach only compounded the difficulties facing the large conglomerates that grew to prominence in the 1960s and 1970s since it helped create conditions for a wave of corporate takeovers. As an academic study of the period explains, this brought about a golden age of what were called "bust up" takeovers, in which "raiders bought conglomerates and financed the deal through the post-acquisition sale of their separated parts." As the decade continued and more and more conglomerates started to feel the effects of the environment shifting against them, this practice became commonplace. At the same time, "diversified firms not threatened by takeover voluntarily shed unrelated operations to focus on 'core businesses.'"[22]

As companies adjusted or suffered under such detrimental conditions, the consensus view of corporate executives and business analysts shifted rapidly against the conglomerate structure. Over time, this new consensus became more and more engrained, and soon, it was so widely accepted that stock markets began to operate under the assumption that conglomerates were worth less than the sum of their parts, and valued their stock accordingly—this became known as the conglomerate discount.[23] This made conglomerates, especially in the West, even less competitive, and they soon fell behind—especially in delivering shareholder returns. The fallout from this phenomenon was widely felt, and ultimately put pressure on companies of all sorts to

clean up and focus on their own turf, rather than searching for new, unrelated sectors to invade.

By the end of the 1980s, the combined effect of these trends was unmistakable: conglomerates were on their way out. Looking back on the decade in 1991, *The Economist* called the conglomerate craze "almost certainly the biggest collective error ever made by American business."[24]

Curiously, while this held true in the West (with a handful of notable exceptions), the story was considerably different in other parts of the world, where conglomerates continued to grow. In countries like China, India, and Turkey, these organizations continued to prosper—and grew even more complex and diversified still—long after the conglomerate discount became conventional wisdom in the West. As the *Harvard Business Review* study previously cited explains, "Conglomerates may be regarded as dinosaurs in the developed world, but in emerging markets, diversified business groups continue to thrive . . . [and] are becoming increasingly diversified. On average, they set up a new company every 18 months, more than half the time in a sector unrelated to their existing operations. Most of them are profitable."[25]

Why is this? In countries like the US and the UK, as markets became more efficient over the course of the latter half of the twentieth century, and conglomerates faced more challenging conditions, many businesspeople came to feel that focused enterprises were inherently better than diversified, multi-sectoral conglomerates. But elsewhere, circumstances were not as stacked against the conglomerate model. In certain local contexts around the world—including economies that had still some inefficiencies in labor, capital, and other areas—the idea of bringing many different lines of business together under one corporate roof continued to be attractive. And in many cases, organizations have found ways to overcome the disadvantages that have hindered some conglomerates in developing economies in the past. According to the *Harvard Business Review* article, a "major factor in their effectiveness . . . is that their leaders have stopped relying on family members and associates to oversee companies and created a formal management layer, called the group center, which is organized around the office of the group chairperson. That mechanism is helping smart business groups spot more opportunities and capitalize on them while retaining their identity and values."[26]

When we look at all of the ways that sectors and industries have changed and evolved over these many decades, what is perhaps most

striking is that these developments unfolded relatively slowly (that is, compared to what's happening today), and in response to a variety of different drivers. These tectonic shifts in the marketplace happened over entire generations, as technologies improved, and consumer behaviors and expectations evolved, and as broader societal issues—like the need for sustainable energy, policy changes, and geopolitical developments—exerted pressure on businesses. Ultimately, while these changes were sweeping and transformative, companies for the most part had plenty of time to adapt and change their business models.

As we will see in the next chapter, the twenty-first century would bring with it a much, much faster pace of change, driven by new technological developments and consumer patterns. Suddenly, we began to see massive changes in the economy—the sort of changes that used to play out over multiple decades—happening in the space of just a few years.