



TAKING ADVANTAGE OF

Tumultuous Times

MASTERING THE MOMENT

BY EAMONN KELLY

History demonstrates that decisions and actions taken during times of crisis, uncertainty and profound change tend to have a disproportionate impact on our future success — and failure. Clearly we are living through just such a period, with an acute crisis in global finance compounding a deep recession. There is no shortage of advice regarding how our enterprises must respond. The conventional wisdom is typically clustered around two core concepts: first, batten down the hatches — by, for example, reducing costs and focusing on the core; and second, take advantage of unusual opportunities — to acquire troubled assets, attack weak competitors, and win new, advantaged relationships with anxious customers, suppliers and channels.

These are very reasonable responses and draw upon the lessons learned from previous recessions. But such advice is easier to give than it is to receive and act upon. Leaders today are under relentless pressure — responsible for navigating their organizations through complex and uncertain challenges, called upon to make tough decisions that will profoundly affect the lives and futures of many of their people, and unable to provide the certainty and clarity their followers crave. Arguably, no previous generation of business leaders has faced the scale of challenge that confronts us now. Recessions are always difficult, stressful and disruptive — but this one is like no other in history.



The current recession is not linked to a traditional supply-demand mismatch, a single shock, or a simple “bubble,” like the downturns of 1982, 1991, and 2000. Rather it was triggered by a deep, systemic banking and financial crisis (layered atop the unstable foundation of the U.S. deficit), the exact dimensions and consequences of which remain uncertain. And, critically, we are also in the midst of fundamental structural shifts that will lead to dramatic discontinuities in the global economy. As a result, after the inevitable business cycle recovery, we will find ourselves adapting to a new and very different economic order—one that demands different strategies, relationships, and capabilities.

In particular, there are four long-term, disruptive trends in demography, technology, geopolitics,

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and the environment that are reshaping the global context. The first of these is **post-western globalization**. For the past 30 years, globalization’s growth has

been driven primarily by the West—but that is no longer the case. Increasingly, new, non-Western rules, powerful actors, geo-political alliances, customers, and innovators are driving us towards a much messier “multi-polar” world. The global institutional infrastructure informing trade, finance, and security is poised to change accordingly. Underpinning this shift are significant demographic dislocations, including the aging of the West and rapidly expanding young populations in the developing world, where mega cities are emerging as engines of economic activity and innovation.

Second, **climate change and sustainability** are moving from the arena of debate to the arena of action, causing us to fundamentally reframe and

reinvent fundamental aspects of how we live, do business, and adapt in the long term. Indeed, the impacts of climate change appear likely to be more significant and occur sooner than we had imagined. This will accelerate the economic internalization of environmental and planetary costs that were previously treated as externalities, and intensify new regulatory and civic pressures on business practices. As a result, sustainability will be pushed to the forefront, becoming a highly disruptive priority for every enterprise.

Third, **boundaries are blurring** between corporate, government, and civic sectors. In the past governments have been driven primarily by values of public good; the civic sector by moral values, and the corporate sector by market values. Now every sector is being driven by a combination of all three. Increased government intervention, heightened transparency, and meaningful stakeholder participation in setting the terms of engagement and corporate “permission to play” are changing the expectations and fundamentals of social responsibility as a key criterion for business success and endurance.

Finally, **ubiquitous connective technologies**, are set to unleash a new wave of disruption. In the latter half of the 1990s, many leaders viewed the Internet-based technologies fueling the “dot-com” boom as considerable threats. Today, most are more sanguine, believing they have largely embedded these technologies in their business models and operations. But the disruptive power of the Internet has only just begun, and it will continue to transform successful enterprises, and at an accelerating pace. Digital advertising, e-commerce, virtualization and outsourcing models, cross-boundary collaboration, social networks, customer empowerment, information transparency—and countless more emergent

phenomena—are already challenging old business and organizational models, while simultaneously generating powerful new opportunities and capabilities. And as the Millennials—the generation that has grown up with these technologies—continue to enter and develop in the workplace, they will drive these changes and the onset of a new, messier, and more “co-creative” economy.

These external dynamics are not only changing the shape of the global economy, they are also serving to heighten a perennial management balancing act: the need to focus on both exploiting what we already know and have and exploring what we can discover and create. The first drives revenues and incremental growth in existing markets; the second drives renewal and the expansion of opportunity for transformational growth. Both are always critical. But today this tightrope act is more challenging than ever for executives and leaders because we are being driven in both directions simultaneously by competing imperatives.

On the one hand, the pressures of the recession push inexorably towards exploiting what we know and have and lead us to, for example, centralize to reduce inefficiency; seize the reins through hierarchy, command and control; focus and “return to basics”; cut costs relentlessly; “rightsize”; eliminate risks, and slow down and delay investments, especially in our people and our relationships. On the other hand, the structural discontinuities that are reshaping the world demand a more expansive and exploratory posture, as new geographies, relationships, customers, global rules and actors, organizational forms, value creation systems and capabilities increasingly determine future success.

That, in turn, sets up an overarching dilemma for every enterprise today: we must take actions

to survive in the short term and we also must act to position ourselves to thrive in the near future. Within this generic challenge lie more specific dilemmas that every business faces. Should we focus on core existing markets and customers or reach out to the new markets, and new sets of customers, that might

determine our future?

Should we concentrate marketing spends on tried and tested media channels or make the nontraditional core, embracing networks

and new social media? Should we scale back across the board on our R&D activities, or cut selectively while investing in new innovation alliances that can share the costs and the benefits of future success? Should we squeeze all knowable risk out of our portfolios or swim against the tide, seeking new opportunity in what others regard as downside risk? Should we minimize our short-term investment in talent, or win over the hard-to-secure people that others are currently divesting or ignoring? Should our organizational models be refined to reduce costs and centralize control, or should we invest in adaptive capabilities that might serve us better in the near future? Should we concentrate our energies against known and existing competitors, or against emergent new players? Should we impose further discipline and pressure on our supply chains, or share some of the pain with our suppliers to secure loyalty and longer term relationships?

Every thoughtful and proactive business leader today is inevitably wrestling with some variant of these and other dilemmas, for which resolutions may be far from clear. But understanding that they *are* in fact dilemmas—the clash of equally valid values and aspirations that co-exist

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in tension with each other—and setting out to effectively master them can greatly clarify our thinking and make our decision making and choice of actions more coherent.

That will sometimes, inevitably, mean making stark choices in support of one side of the dilemma over the other (A and B in the diagram below). Sometimes it will mean compromising between them, striking an appropriate balance (C). But the most advantaged plays will lie in discovering critical opportunities to move the curve to enable us to optimize both (D).

Consider as a direct analog the dilemma of cost versus quality. For decades, this was treated as a choice—an enterprise could essentially decide between low cost or high quality (A or B). By the early 1970s, compromises and balances became more obvious—select a position

vicin and maintenance requirements; in other words, quality was not a direct trade-off against cost after all. It was possible to move the curve, and win—a phenomenon initially regarded as a “Japanese miracle” but quickly incorporated into global business practices. Some of today’s dilemmas between what is required to survive and to thrive will prove to be, similarly, not “either-or” dichotomies, but “both-and” imperatives that can be mastered for advantage.

This framework suggests a way in which leaders can navigate the confusing wilderness of the current business environment. Decisions essential to surviving the short term can be made with an eye to minimizing the negative impact on our near future requirements. Constrained investment commitments can be made to support the acquisition or development of critical assets and capabilities for thriving after the recession.

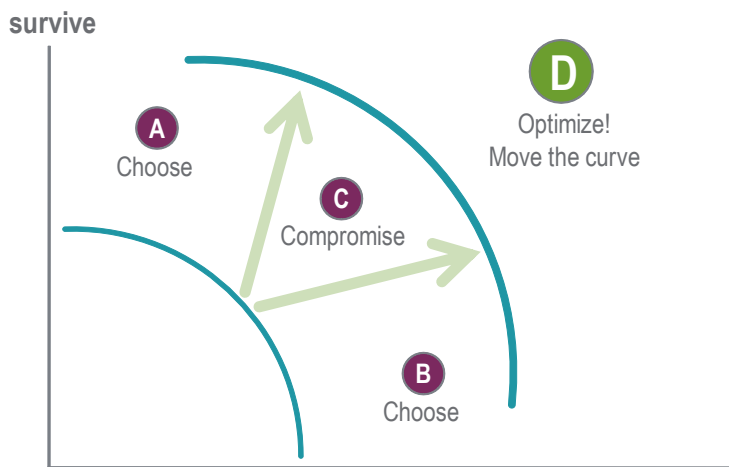
Compromises and trade-offs can be considered with a clear “both-and” calculus. And, of course, every leader committed to taking advantage of our tumultuous times should also raise the rallying call “Where and how can we move the curve?”—for here is where profound and sustained edge is to be found.

Finding the right solutions demands hard work and thoughtful analysis, and there are no easy short-cuts.

However, there are three core capabilities that will underpin successful navigation of our complex and uncertain environment.

First, we must have a **superior contextual understanding** of the structural dynamics reshaping the global economy, how they impact our industry, and the new opportunities,

MOVING THE CURVE



In facing a dilemma, such as the choice between quality and cost, the most advantaged plays lie in discovering critical opportunities to optimize both alternatives.

somewhere in the middle (C). And then the quality movement revealed that it was perfectly possible to optimize for both (D). Higher quality reduced yield loss, rework, recalls, and ser-

challenges and imperatives they pose. Most senior executives are aware of these dynamics, and have sensed for some time that bold action will be required to address them. But in a “business as usual” world, such action has often felt unduly risky, and perhaps premature. In today’s turbulent business environment, courageous and proactive moves make more sense than ever; change is upon us, and we would be wise to seize the upside opportunities it presents. That requires a deeper exploration and understanding of the systemic shifts already underway, and a clear positioning to win in the emergent order.

Second, **superior competitive strategy** is arguably more critical than at any time in the last 15 years. While rising tides raise all vessels, most markets today are returning to a zero-sum game: share must be won from competitors as overall growth slows. But the competitive landscape has changed significantly and will continue to do so, probably faster and at a greater magnitude. Traditional, linear value chains are increasingly morphing into much messier, more co-creative “eco-systems,” in which competitors are also partners, customers are part of the value creation process, suppliers are often fellow-innovators and channels to market are blurring as the borders between enterprises erode. This demands an increasingly sophisticated approach to the formulation of winning competitive — and co-creative — strategy.

Third, winners in the months and years ahead will have **superior choice-framing and decision-making** capabilities. Most enterprises have evolved more effective processes in recent years for dealing with increased complexity. Today, these must also be able to contend with massively increased uncertainty. This demands a capacity for systems thinking, scenaric think-

ing, war-gaming, and simulation to optimize the robustness of key decisions and their execution, and to “future-proof” our enterprise for the volatile times ahead.

Monitor has world-class experience in each of these domains, honed over the past 25 years. We

have empathy for leaders finding themselves besieged, and perhaps even in danger of becoming paralyzed, by the perfect storm now surrounding us. We have tailored many of our most powerful tools, methods and offerings specifically to address the multitude of challenges now present in most enterprises. And, as always, we remain committed to helping our clients achieve superior results, even — and especially — in this extraordinary period.

FINDING THE RIGHT SOLUTIONS DEMANDS A SUPERIOR UNDERSTANDING OF THE DYNAMICS RESHAPING THE GLOBAL ECONOMY, A SUPERIOR COMPETITIVE STRATEGY AND SUPERIOR CHOICE-FRAMING AND DECISION-MAKING CAPABILITIES.

TAKING ADVANTAGE OF

Tumultuous Times

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Eamonn Kelly is a Monitor Partner and Global Head of Thought Leadership and Networking. In this role he is responsible for developing and disseminating the firm's points of view on the future of the business environment and the challenges and opportunities facing different sectors, geographies, business functions and activities, as well as broader implications for organizations, leadership, and social change. He also oversees the development, engagement, and co-creative activities of Monitor's many networks—including experts, visionary thinkers, executives, and customers. From 1998 to 2008, Eamonn was President and CEO of Global Business Network, the renowned futures network and scenario and strategy consultancy that became part of the Monitor Group in 2000. He is the author of *Powerful Times: Rising to the Challenge of Our Uncertain World* (Wharton, 2005) and co-author of *What's Next: Exploring the New Terrain for Business* (Perseus/Wiley, 2002) and *The Future of the Knowledge Economy* (OECD, 1999). E-mail him at Eamonn_Kelly@monitor.com.

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