

Perspectives for Managers

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Surfing the Storm: Translating long-term global trends into today's decisions

Tempers were frayed in the tenth floor boardroom of yet another multinational:

- “Why are we expanding our Netherlands labs? We keep talking about the need to build capacity in Asia, but all we ever do is expand existing facilities.” His colleague took a deep breath. “I know we need to invest in Asia, but the economics don't work. The cost of a new facility there compared to expanding our existing lab is almost 2-to-1. My operations can't afford it.”
- Another colleague jumped in: “Why do we always have the same discussions. Yes, the world is changing. But not tomorrow and we have tough targets to meet in the next two years – or the analysts will jump on us.” Still another joined in: “The Chinese and Indian markets are going to be our key markets within ten years. If we don't position ourselves now, we risk being left behind. Will we ever bite the bullet and invest?”

Change is happening faster than ever. Major trends are impacting geographic markets, consumers, industries, technologies, geopolitics, and many other critical elements of our environment. As one of countless examples take the exploding global “middle class” in emerging markets who will be buying millions of cars in the next decade – even if you have no link to the auto industry, this will impact energy prices, financial markets, regulations and more. Change is assuming hurricane proportions and is affecting all aspects of business today.

The issue we address here is not the existence of global trends transforming our world (see box on page 2) but rather how business translates the resulting mass

of confusion into today's decision-making. As one executive told us, “We know the world is changing. We also know we are making countless decisions every day across our organization. The short-term pressures driving these decisions are precise and concrete, while the long term is fuzzy and uncertain. We need to find a way to counterweight our everyday decision-making to reflect the future reality we will surely face.”

In talking with executives across many industries, some major traps get in the way of bringing the future into today's decisions, including:

- **The sunk cost trap:** Short-term targets, impacted by yesterday's decisions and investments, get in the way of preparing for an uncertain future.
- **The information myopia trap:** Hard-pressed executives are overloaded with information and don't have time to translate it into “so what?”
- **The complacent follower trap:** First movers take risks, and it can seem much easier to be a fast follower. “We'll get around to it someday” is a frequent attitude.

Catching the wave: moving from trends to decisions

If we ignore the indicators of change, we could be left behind. If we get too far ahead, we could be buried in the short-term. Where is the balance? How do you catch the right “wave?”

Companies at the forefront of addressing this challenge take a systematic – and continuous – approach to collecting information and building an understanding of what it means for the company. This can be used to create

actionable options that, in turn, influence current decision-making. Figure 1 shows a broad representation of this process.

While many companies follow these steps, each makes choices that significantly impact how they manage the overall challenge. As we look at each stage, take a moment to think about your organization: **Who is involved at each stage, who owns the processes driving activities, and most importantly how effective is your organization at each stage of this process?**

Stage 1. Building «shared» insights

Most companies collect and analyze data, lots of it. Our focus at this stage is not on collecting data but rather on how companies make sense of the information (i.e. build insights) and how these insights are shared across the organization. Successful companies are skilled at bringing the outside into their organization and adept at using internal and external networks to open multiple “windows” on the world. To make sense of uncertain trends and build deep insights, they move beyond “hard” analysis to sensing and experiencing the changes taking place, often in the field. It is on their agenda. It is a topic of discussion and debate. It is a priority.

The first choice starts right here: who is involved in building and sharing insights? At one extreme is a highly centralized process, typically part of an annual planning cycle driven by a headquarters strategy department. This can be very efficient, with the benefit that it is driven by people with expertise in environmental analysis. However, it often results in a “push” model of building awareness of the future. Executives across the organization don’t gain real insights into the issues, rather it becomes “just another central presentation.” Even worse, they may also fear yet another set of pressures hitting them from the top.

A more decentralized approach can involve many managers from the start in generating insights, with information moving across the organization, often in messy ways. A potential benefit is that you can build on different perspectives and information sources to form deeper insights. However, the process of sharing may become time-consuming, costly and complex, without measurable benefits. And, without good coordination, conflicting perceptions of what the trends mean can arise across the organization.

Awareness and insights are pre-requisites for focusing organizational attention. The

level of the organization where this awareness is built directly influences what parts of the organization take the next critical step defining what these trends mean for us and our business.

Stage 2. Defining our implications

Building insights is important, but can remain a conceptual exercise if it is not translated into the potential “so what”. If a trend plays out, what does it mean for our business? Successful companies define clear implications from their understanding of trends, such as:

- Our changing industry structure means that we may become “stuck in the middle” in the fight for control of critical raw materials and/or customers, or,
- Differences in geographic growth rates mean our long-term growth prospects are weak given our current footprint.

These are critical signals that highlight the need for action today if we are to compete tomorrow. The crucial choice here is at what level in the organization to define the implications for the business.

In a tightly centralized model, the job of defining implications resides at a corporate level, with debates typically focusing on a

There are many different lists of major trends. Here are nine overall “Global Trends” headlines that we compiled for the IMD “Managing Corporate Resources” program:

- **Changing Consumer Landscape:** Globally the population is getting older, more urban and more Asian, with increasing diversity as more people are on the move – new consumer groups are emerging, demanding more involvement in and customization of consumption experiences.
- **Changing Economics of Information and Knowledge:** Exploding connectivity and channels for information are making knowledge creation a global imperative – networking is critical, but gaining an edge and protecting knowledge is tough.
- **Changing Geopolitical and Security Landscape:** Globalization is driving new dimensions of power beyond military might, including economics, resources and technology, but the new global landscape is not yet stable: risks and nationalism are on the rise.
- **Changing Industry Landscape:** Business models are becoming global and local, as shifting power along the value chain and the emergence of BRIC multinationals means more intense competition – innovation is critical to avoid being “stuck in the middle.”
- **Changing Labor Landscape:** A raging global war for talent for both skilled and “low cost” jobs – with Asia increasingly important and outsourcing on the rise within and across borders.
- **Changing Technology Landscape:** A global technology revolution is gaining pace, crossing national borders and scientific disciplines – biotechnology, nanotechnology and more will reshape industries and our daily lives.
- **Economic Power Shifting:** Economic power is shifting to Asia in terms of investment and output, with a growing “middle class” globally, but consumption remains driven by developed markets.
- **Growing Pressure on Natural Resources:** Basic resources are under threat, including water, energy, food and habitats/climate, as consumption is rising faster than the planet can sustain it – public and institutional activism is rising.
- **Growing Stakeholder Demands on Business:** More stakeholders, public and institutional, are actively demanding transparency and accountability from business – seen as part of society’s problems, but also a critical part of the solutions.

small number of decisions about the company's strategic direction, overall risk profile or business portfolio. Corporate implications are vital, but focusing narrowly on them may limit a firm's capacity to prepare for the future within its operations.

In a more dispersed approach, information is widely shared and debated, with implications being driven down to business unit (BU) level. The benefit is that each unit can interpret the trends for their specific situation – where decisions will ultimately be implemented. The big issue, though, is how to avoid the entire organization spinning off in different directions. Chaos may ensue without coordination – but again this takes time, money and resources. A further concern is that implications may be defined within a short, operational time horizon because the BU's team has immediate targets to deliver on.

Your choices at this stage are critical. Which areas of your organization do you want to expose to emerging – but highly uncertain – challenges and opportunities? How deep do you want your executives to look? Whichever the choice, the big challenge is to drive to implications. It can be tempting to stop at insights because the direction of change is ambiguous. But don't stop – if there are several possible trajectories of change, push for the “so what” in each and build scenarios.

Stage 3. Creating actionable options

Now the focus of attention shifts inside the company to establish what could we do – or begin to do – today, given the opportunities and threats around us. This involves taking what are, realistically, a range of implications based on ambiguous trends and creating specific options about which decisions can be taken. The question here is how specific are the options created? No one can really take action based on “soft 'n' fuzzy” statements about the need to make decisions “at some point.”

Now consider the choice about who drives the process and at what level in the organization it works. This determines directly the nature and scope of options created. The tightly centralized approach focuses on company-level risk and strategy so is likely to create options with a long-term horizon. The benefits of focused

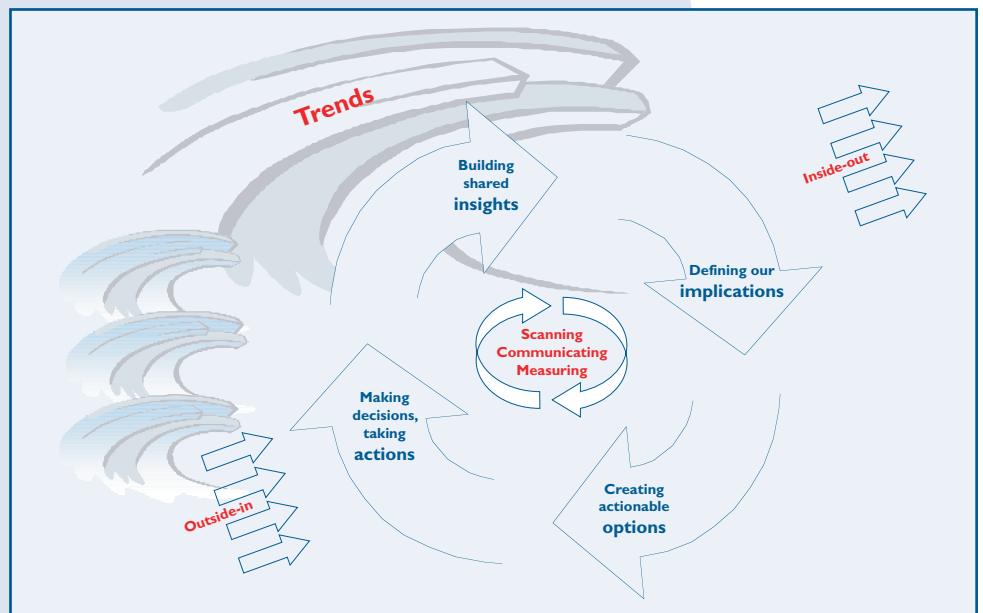


Figure 1: Translating Trends into Decisions – A Process View

expertise still apply, but because the stakes are great, an element of risk aversion is likely. So there may be a tendency to stop at more general statements of possible courses of action. Often there will be a demand for yet more analysis to reduce uncertainty.

The decentralized approach offers broad organizational engagement and creates options where they will be implemented. However, options may be viewed simply as short-term operational trade-offs, e.g. which country to prioritize in an expansion plan. BU leaders may feel they lack control over factors such as capability gaps that cross organizational boundaries and will take time to address – by which time the BU leader may have taken the next career step. Thinking can also be stifled by fear of lack of resources or impact on short term targets.

The challenges in creating actionable alternatives are firstly to identify the right timeframe to provide an effective barometer for action; and secondly to address the fact that many options will concern how the company works and its capabilities, areas that require significant time to change. As one executive commented, “operational planning is usually sequential, but strategic thinking requires preparing for step changes and reflecting uncertainty. For us to succeed in the future, we need to develop the capacity to do both – at the same time.”

The need to define options can be easy to say on paper, very hard in practice. So keep in mind the comment of Dwight D. Eisenhower, “Plans are nothing; planning is everything.” The options and choices will certainly evolve over time, but the process of thinking them through is essential to build the capacity to take action.

Stage 4. Making decisions, taking actions

The choices you make impact the level of understanding and awareness in your organization, the options that you develop, and the nature of decisions impacted. Each company's choices will be unique and will typically involve a balance between centralized and decentralized processes. While there are no hard and fast rules for success, the following guidelines highlight some areas that can help you shape an effective process.

- **Driven from the top, but a priority for all:** One hurdle throughout the process is that short-term pressures overwhelm the need for long-term thinking. The fix: The CEO and top management must champion the process and be involved throughout. They need to demonstrate the balance between long-term and short-term thinking through their communications, behaviors and decisions. As an example, whenever one leading consumer goods company



debates its future direction, it has two sets of charts on its “war room” wall, one for strategy and one for implications of global trends for its business. These dual charts have become a symbol of how the organization thinks and a balancing mechanism in decision-making.

In looking at how firms address the hurdles in Phases 1 and 2, time, or lack of it, to seek new information and to transform it to deeper levels of insight and implications can be a particular barrier. Everyone is busy, and there is simply no urgency to sift through a mass of data that can seem daunting – or someone else’s job. Some successful companies have overcome these hurdles by:

- **Building windows to the outside, building alignment within:** Successful companies view every point of contact with the extended enterprise and outside as a window for new opportunities. Diverse perspectives are sought and valued, e.g. Procter & Gamble’s customer networks or Toyota’s supply chain. BUs have a clear voice in the process to ensure alignment and ownership. Teams are skilled at managing horizontally and diagonally as well as vertically. Reward systems support risk taking and prize learning from failure as well as success. There is active discussion and debate within the firm on what is happening. Again it is on the agenda.
- **Analyzing facts, understanding assumptions:** Feeling is as important as seeing – executives actively get out into the field and don’t just look at analyses. External networks offer a tangible feel for how behaviors and needs are shifting, as well as a rich supply of ideas. Issues often emerge not from the known facts, but rather from assumptions made when planning the future. Some successful companies identify the critical assumptions impacting future decision-

making and form teams to challenge and monitor them.

The last two stages of the process can also get stalled, because options are not prioritized effectively, the required time and resources are not devoted, “softer” issues such as capabilities and the emotional impact of change are not addressed and/or risk aversion wins over opportunity identification. Organizational characteristics which help companies deal with these issues include:

- **Focusing on the what, allowing time for the how:** Options specification goes beyond “hard” dimensions such as what market footprint, to understand “how” to deliver on it – what capabilities we need to build or acquire. Capabilities take time to develop, but are critical to delivering beyond the short-term. One multinational launched a “capability strategy” process as a central element in its strategic planning process to provide clear focus on developing and/or exiting capabilities important for its future success.
- **Focusing on doing the right thing – the right way:** Preparing for the future requires managing emotional as well as intellectual aspects of change – it may be frightening to see that the core business is going to need to change drastically, along with the people and organization around it, but these challenges are tackled.
- **Creating focus, but leaving space for flexibility:** Successful companies tend to focus on a few priorities that take them towards their vision. But they retain flexibility. Barometers are constantly re-assessing the environment, allowing rapid identification of trend shifts so that decisions can be re-evaluated. Scenarios address not just possible strategic moves, but also the organizational choices required to respond effectively. Low cost experimentation at the “fringe”

of emerging needs or technologies, is actively managed because this is often where revolutions start, e.g. the iPod, initially expected to be a niche product.

Surfing the storm of change

At the heart of successful companies which can surf the storm waves of change is the ability to find the right balance between deciding for the future and managing the here and now. They take a holistic and humanistic approach, not just in making the choices within the process of linking trends to decisions and actions, but also in aligning the organization around it.

Managing in a changing world is not easy, but unavoidable. So before putting this article in the pile marked “when I have time”, take a couple of minutes to think about these questions:

- How many decisions are made inside my organization every day? By everyone, not just by me? How many of those decisions focus on the future, and how many are about maintaining the past or present?
- How effective is our process of incorporating tomorrow’s trends into today’s decisions? Where can we improve?

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