



Strategies for Success: Lessons from the past, lessons for the future

Presentation given by Dr Robert W Davies to the Chartered Institute of Library and Information Professionals, Swaffham Ecotech Centre.

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Introduction

My primary objective is to answer one question:

“Succeeding in a post-recession world – what can we learn from business and the past?”

In addressing this question, I will divide the presentation into three key sections. The first section presents a summary of what we can learn from the business world and past recessions. Drawing from these lessons of the past, the second section briefly considers two pictures or future scenarios. Thinking about the broad spectrum of future worlds that we could face is a very good first step in managing uncertainty and may provide a foundation for debate. I will then conclude by presenting a summary of key issues and pointers for thought and action. I should add at this stage, that a full text of this presentation has been made available to the event organisers.

But before proceeding, it is interesting to note that, during the past months of gloom and despondency, one comforting piece of news has appeared being that at least the British have retained their mastery of understatement. The 2008 recession brought with it a new term, *“the credit crunch”*, in some way a peculiar phrase that brought with it hope, the prospect that shortly things would get back to normal and that life would continue on its predictable day-to-day path.

Rejecting the implied message of the credit crunch, that everything will return to the way it was before, especially as the UK is now at least technically out of recession, is indeed a very necessary first step in succeeding in any new post-recession environment. This brings me to the issue of what we can learn from the past.

Lessons from the past

Much of what I will say here is drawn from my own research into how a group of mature financial services organisations – insurance companies - succeeded or failed to face up the challenges of the early 1990s recession. At that time, now 20 years ago, these organisations were in the grip of a three-jawed vice.

The first jaw, or source of pressure, was an unexpected recession. The second jaw was the sector's business cycle – at a low and barely profitable point when the recession broke. The third jaw of the vice, closing in on these organisations, took the form of an emerging realisation, among at least some, that the structure of the industry could change for ever. Some thought that a “new normal” may be appearing.

This conundrum materialised itself in the form of significant financial losses, losses that threatened the immediate future of all the organisations in the study. All could measure their financial life-expectancies in months, not years. But whilst the organisations faced the same challenges, the approaches to over-coming the obstacles were completely different and we can learn much about recession and, indeed, the important period of post-recession management by contrasting these two approaches. An analysis of these differences, coupled with findings from the strategy and change management literature, produces five key lessons.

Lesson #1: Established business planning processes do not work well in a recession.

Traditional business planning processes follow a rational step-by-step approach that many of you will have used. Typically, the sequence takes the form of an analysis of the outside world, an internal capability review, a SWOT (strengths, weaknesses, opportunities and threats) analysis, definition of sources of advantage, financial target setting and implementation planning. The outputs are one plan, one set of objectives, notably all founded upon one view of the future.

The first important point to make is that in times of crisis it is very, very difficult to craft a new long-term strategy¹ for any organisation. You must therefore strongly resist any temptation to do so.

The reasoning is quite simple. If the outside world is in a state of turmoil, how can anyone forecast with any degree of certainty, what final form the outside world will take? Yet this is exactly what the failed organisations attempted to do. The failures, confronted by an apparent financial and strategic crisis,

¹ In this context, “strategy” refers to long-term decisions regarding (a) customer markets, (b) offerings to be delivered into those markets and (c) major new sources of differentiation.

undertook a full review and presented their organisations with a revised long-term plan.

Yet, as I have said, it is impossible to craft a new strategy when the future is uncertain.

So the first lesson is to avoid the temptation to craft a new long-term strategy – one path to meet the future. Traditional planning processes assume certainty. But at the moment that is the one item that we do not have in abundant supply.

Rather than developing new long-term plans, there is a different task that awaits us, and that is to prepare the organisation to explore uncertainty.

Lesson #2: Think of a journey of three phases to explore uncertainty

Prepare your organisation for a three-stage journey to explore uncertainty. If now is not the time to craft a new long-term strategy, it certainly is the moment to:

- Deal with immediate short-term life threatening issues (and these are usually financial in nature).
- Challenge existing perceptions.
- Find out how the outside world is changing.
- Experiment and learn.

Each phase in the journey tackles different issues, has different outcomes and requires a different leadership approach. Let us examine the first phase.

Phase #1: Stabilising the Patient

This first phase has three major focal points:

Focal Point #1: Financial stability - stopping the financial haemorrhage. In the case of the audience today this, I presume, will take the form of dealing with impending budgetary constraints.

Focal Point #2: Locating top-level barriers to change.

Focal Point #3: Challenging established perceptions.

In the cases of the organisations that I studied, there was an immediate need to find out where the organisation was making and losing money - to stop the outflow of capital.

Structural changes were also made to ensure that clear responsibility and accountability existed and significant effort was invested to ensure that the right systems were put in place to monitor the process of financial recovery. In short, the priority was to ensure that:

- (a) The organisation knew which customers and products were losing money.
- (b) The profit making customers and products were identified and protected.
- (c) Clear lines of accountability for customers and products existed.
- (d) Top management knew precisely who made the key decisions.
- (e) The right performance management information was being produced to track financial recovery and quality of decision making.

So this is a time to focus keenly on financial and performance management. Note in particular the emphasis on the discovery of profitable and unprofitable customers (and indeed activities).

Another clear dividing characteristic, between the successful organisations and the failures, in addition to the approach to strategy-making, was the issue of aligning the top management team. Failure to align the team around the need for change, and to exit dissenters, would only throw up quite severe problems in later months. Indeed, aligning the management team around the need to fundamentally question established business practices at this early stage is a key success factor. Views such as “we can sit this one out” or

“things will get back to normal” need to be rooted out.

This now brings me to the second phase that I will call “Exploring”.

Phase #2: Exploring

Whilst the patient has now been stabilised, possibly surprisingly, it is still not time to think about long-term strategy.

Now is the time to focus on:

(I) Exploration: Finding out what is really happening in the new, emerging competitive environment.

(II) Experimentation. Broadly, finding out what might and might not work in the new world.

(III) Failure. Constructing a culture that supports exploration, learning and controlled experimentation. This is a time to be tolerant of failure. Many of the most successful organisations in my study initially failed in their attempts to re-connect with the outside world. But they excelled in analysing why these attempts failed. And it was from this analysis of failure that enduring success was born.

The message is to allow a time for experimentation and information gathering. This process will allow the organisation to gather a more objective “feel” for the new emerging world and, most importantly, information to take longer-term decisions.

But getting closer to customers will also yield some surprises too. Take, for example, the depression of the 1930s.

During the period 1929 – 1930 in the US, 15,000 banks failed, GDP fell by 46% and unemployment reached 25%. But during the period 1930 – 1932:

- The luxury Fortune magazine was launched.
- Motorola introduced the first car radio.
- The cosmetics brand Revlon was launched.

Typically, this process of exploration will cover between 12 to 36 months. The objective here, in the business world, is to spot new emerging trends before your competitors do. As I will explain below, it is during the months and years *after* a recession has technically be declared over that real customer changes start to appear.

Phase #3: Crafting

It is only now, possibly some 24 to 48 months after the process started, that the organisation can give *real* attention to crafting long-term strategy.

As I have said, this is in sharp contrast to the approaches taken by failing organisations. They jumped in straight from the start to create new strategies, blueprints for long-term action, that had little relevance in a new, emerging reality.

As we have seen, there are several very simple reasons why any attempt to build a new long-term strategy at any earlier point will fail. At any earlier time, the organisation would not have had the experience, views, information, culture, systems and structure to build anything that was radically different, something that constructively responded to a recession's innate capacity for creative destruction.

The three key priorities in the third and last phase are:

(I) Long-term strategy creation.

(II) Empowering staff, especially customer facing staff, to take more responsibility designing how they inter-act with their customers.

(III) Embedding the learning from Phase 2.

Whilst this gives us a over-view of the form of the journey that we are to embark upon, history can provide us with other lessons too.

Lesson #3: New customer needs will appear in distinct episodes.

My proposition is that when the business environment is subjected to rapid and unforeseen change, customers' needs take time to reach their final form.

For example, after the demise of Lehman Brothers in September 2008, my view was that businesses would experience at least three episodes of change in the needs and behaviours of their customers:

Episode 1. We could call this phase *shock and horror*. For consumers, this episode embraced late 2008 and 2009. Nobody expected a downturn as sharp and deep as the one that hit us. Whilst there was talk of economic problems, many businesses in 2007 were planning for a mere temporary adjustment. The prospect of a melt-down in the banking sector appeared on few radar screens and we all reacted with shock and took immediate, short-term steps to protect our businesses, our livelihoods, our families and homes. These measures included, typically, cutting back on going out, travel and training budgets. These were understandable, but *reactive* changes. These were just short-term changes that allowed us to adjust to new circumstances, but they were not changes to base new, long-term strategies upon.

This of course brings me to the second episode, *acceptance and emergence*. This is where most of us are now. If recovery here in the UK and other countries in the developed world is a protracted process, then this will be the most important phase. Consumer behaviour may be reshaped permanently and businesses will have to radically rethink their strategies to cope with an unexpectedly long period of low economic growth. The memories of a long and intermittent recovery will hang in the mind for many years.

The final episode I refer to as *emergence and restructuring*. In time, real recovery will take place. But we must also learn the lessons from the wave of creative destruction that the recession unleashed. For many, there is a need to reconsider the macro-economic structure of the UK. For example, does a reliance upon the financial services sector introduce too much volatility? Should the UK be returning to its traditional manufacturing roots? In the 1980s and the 1990s financial services filled the job vacuum left by a dying manufacturing sector, but the question must now be what will fill the impending vacuum created by declining financial services and public sectors? This type of economic restructuring, if it does occur, will introduce a final and significant wave of change.

Lesson #4: Think creatively about costs – don't shoot the usual suspects.

I will admit that I have sat around the boardroom table during times of unexpected crises. Costs always come under the spotlight in such times, and the temptation is to look at the expense headings in the coming year's budget and shoot the usual suspects. But shooting the usual suspects could present real long-term difficulties.

In the business environment the "usual suspects" are:

- (1) New product development, R & D.
- (2) Marketing.
- (3) Sales.
- (4) Training and staff development.
- (5) Hiring – imposition of the ubiquitous 'headcount' freeze or reduction target.

Initially, these may look like sensible moves that produce quick financial wins.

Yes, there may be some short-term gain and you can demonstrate that you are doing something, but the first four of the above cuts will reduce the ability of the business to at least hold its own in a deep recession and meet the creative challenge of recovery. The fifth, a focus on headcount control, if presented as the only

long-term action, may carry with it a crisis of credibility for leadership.

There are other problems too with across the board headcount reductions that include:

- (i) Decreases in employee motivation and commitment to the organisation.
- (ii) Decreased levels of work effort on the part of surviving employees.
- (iii) Working atmospheres or “cultures” characterised by low levels of trust and high levels of insecurity.
- (iv) The appearance of the “survivor sickness syndrome” where symptoms include decreased creativity, increased fatigue and importantly risk aversion.

So a quick fix could produce longer-term problems and, potentially, a self-fulfilling prophesy.

Rather than initially focusing upon expense headings when considering cuts, think about processes. Past research demonstrates that a thorough ground-up process review can produce up to 30% gains in productivity, lower material costs and reductions in establishment costs. I always like to focus on the elimination of “frictional activities”. In other words, activities that are duplicated elsewhere, are the result of errors, add little value to stakeholders or are only performed out of historic practice. A simple activity costing exercise contrasting process costs to value created for stakeholders is a good start.

But I cannot leave the subject of costs without referring to that late 20th century word “outsourcing”, a word that I would imagine is appearing with increasing frequency on the discussion agenda.

Properly constructed outsourcing plans can save money and allow you concentrate upon core activities. But any outsourcing strategy must be carefully constructed and address not just cost reduction. Consider these risk headings too when making the outsourcing decision:

1. Cultural impact.
2. Competency loss and development. Will you lose valuable experience or, alternatively, gain the focus to develop new, relevant skills?
3. Strategic flexibility or strategic inflexibility? A straight-jacket or freedom to manoeuvre?
4. Innovation impact. Will outsourcing increase your capability to innovate or cut you off from the real world? In many organisations, day-to day customer contact is one of the prime sources of innovative new ideas. So if customer facing processes are outsourced, where will your ideas come from?
5. Supplier dependency.
6. Supplier delivery continuity.
7. Acceptability. Do not forget that there are some future scenarios where a decision to offshore could produce unexpected responses.

As a final note, regrettably, reductions in employee numbers may be unavoidable. But in planning and implementing these cuts do not forget that the survivors will need as much support as those who are to leave the organisation.

Lesson #5: Think locally, not globally

Paradoxically, this recession may do more to enhance the importance of localisation as opposed to globalisation. Just looking at Europe, we can see that the developed world has been divided into two – the survivors and losers. At the time of speaking, there are many queuing up to join Greece as countries with significant levels of sovereign debt, but without the public support necessary to implement the necessary corrective measures.

But divisions apply at a local level too. Travelling across the UK, in some areas it is difficult to imagine that the country is crawling out of recession. Life seems just as it was three years ago. But in the same country many cities are still struggling to recover from the late 1970s recession. These localised, regional differences, will only increase if the structure of the UK economy undergoes a fundamental shift, as it did in the 1980s.

So expect increasing fragmentation of customer needs.

But what do I do now?

Five pointers from the business world. Very interesting, but what can we do now to prepare for recession's wave of creative destruction?

As as I have repeatedly stated, now may not be the time to set in stone a new long-term strategy. But it is the time to consider what our range of future strategies, in the plural, might be.

Whilst there is a great deal of uncertainty as to what the future holds for not just the UK, but the global economy, we can try to see what life for us could look in a range of future worlds. Taking this approach, it can be helpful to consider two future scenarios. For we are standing very much at a T-Junction at the end of a road. The road that we have just finished walking down is called Stability Street. At the end of Stability Street we can turn left or right.

The road on our left looks both inviting and reassuringly familiar. The road has been freshly re-surfaced and it is clearly lit. After a few meters stroll, we see the UK emerging strongly from the recession driven by a renewed international demand for investment capital and increasing consumer confidence in the US, UK and China. The G20 emerges as the new architect of the post-recession world. Growth and co-operation are the hallmarks of a united and increasingly democratic world. National differences disappear and new frameworks for co-operation and regulation appear. Creative approaches appear too to solve looming energy and food supply crises. The sacrifices necessary to repay the UK's sovereign debt are short-lived. Capitalism has triumphed again. Wealth for all is a real possibility.

We turn around to explore the other path and there is a distinct chill in the air. The road is full of potholes and the way ahead is difficult to make out in the gloom. This is a much longer road. We see that the UK struggles, in common with many developing countries, to exceed 2% GDP growth per annum. This is a time of political change, short-lived governments and inflationary spikes. Consumerism and materialism die. Protectionist voices shout the loudest. The hope of wealth through globalisation fades. New iron curtains appear. The challenge for the UK is to craft a new and enduring economy from the ashes of the financial services sector. Rather than being the end of history, this is the beginning of a new chapter.

Two very brief, but opposing scenarios that may form the boundaries of what the future could hold for us.

The demands that will be made upon both businesses and learning institutions will be radically different in each scenario.

But these are two scenarios that can help us to understand uncertainty and to start the process of answering these questions:

- (a) What are the implications for the sectors that we serve?
- (b) What must we do to succeed in both scenarios?
- (c) What are the essential capabilities that we must retain and cultivate to meet the challenges of both scenarios?
- (d) What is our role and what should we deliver in each scenario?
- (e) Where do we look for change in the outside world?
- (f) How and when can we inter-act with our customers to detect their changing needs?

But there is another deliverable too. Looking at radical and opposing scenarios helps to clear away established perceptions and build the change focused team that is necessary for the journey ahead.

Summary

Regrettably, there is no magic bullet, but I can present some very broad guidelines from the past:

1. Do not prepare a new rigid long-term strategy. The future is too unclear. This should be seen as more than a mere recession and there could well be further seismic activity ahead. Do not assume that we will return to a past "normal". No one knows with any degree of certainty whether we are on the upward path of the "U", in the middle of a "W" or travelling along the horizontal plane of an "L". The last thing that is required is a plan that will lock you into serving today's world as opposed to tomorrow's.
2. Do focus however on financial management. Remember that one of the first steps of the successful CEOs that I referred to at the beginning of this presentation was to weed out unprofitable activities/customers and defend the profitable.
3. Please avoid "shooting the usual suspects". Think creatively about cost reduction. Think processes not budget expenses categories. Your goal must be to retain the creative resources you need to survive. Considering alternative scenarios is an important, and I would argue essential, step in this process. You will need to draw on these resources sooner than you may imagine.
4. If you do consider outsourcing, please do not just base your decision on financial analyses and conventional risk assessments. Consider carefully both the positive and negative impacts upon culture, strategic flexibility, innovation capabilities and what you see to be your core emerging competences. Scenario analysis will be helpful in determining such core competences.
5. What worked in the past probably will not work now. An early task must be to assemble a change-focused team around you.
6. Think very carefully about how you will track the direction that the UK and the sectors that you serve are moving in.
7. Consider how you are going to inter-act with customers to identify their changing needs and do plan for experimentation.
8. Create a five-year action plan around the three phases of transition introduced in this presentation.

Resources

Here are some resources that will be useful.

Scenario Planning

Scenario planning has a reputation for being complex, expensive and time-consuming. But it need not be. A review of published scenarios will help you to piece together scenarios that will help you to explore uncertainty within the context that you are working:

World Economic Forum:

<http://www.weforum.org/en/initiatives/Scenarios/index.htm>

<http://www.weforum.org/en/initiatives/Scenarios/NFA/index.htm>

Shell:

http://www.shell.com/home/content/aboutshell/our_strategy/shell_global_scenarios/dir_global_scenarios_07112006.html

And in particular the Global Scenarios to 2025:

http://www.shell.com/home/content/aboutshell/our_strategy/shell_global_scenarios/previous_scenarios/previous_scenarios_30102006.html

The Oxford Scenarios: Beyond the Financial Crisis

<http://www.sbs.ox.ac.uk/centres/insis/projects/pages/financial-scenarios.aspx>

Change Management

Kotter, J P (1995) Leading Change: Why Transformation Efforts Fail. *Harvard Business Review*. March-April: 59-67

Beer, M and Eisenstat, R A (2000) The Silent Killers of Strategy Implementation and Learning. *Sloan Management Review*. Summer: 29-40

Biography and Contact Information

Dr Robert Davies has a career that embraces business management, executive development, research and consultancy. He has held a range of senior management roles from strategy development and change management to product pricing. Robert has hands-on experience of organisational change, having been personally responsible for the design and implementation of enterprise transformation projects. He has also conducted major research study programmes. Notably, Robert researched how mature financial services organisations succeeded in meeting the challenges of the economic recession in the early 1990s. This study was profiled in the *Financial Times*.

Robert provides advisory services to a range of organisations in the fields of organisational change, strategic and scenario planning, performance measurement and innovation. Strategy development programmes are provided to enable managers at all levels to contribute effectively to their organisation's future direction.

In addition to his PhD degree, Robert has an MBA (distinction) and is a Fellow of the Chartered Insurance Institute. He is also a Senior Visiting Fellow at Cass Business School, London.

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