

The Attacker's Advantage: Turning Uncertainty into Breakthrough opportunities

By Ram Charan, Public Affairs, 2015

Introduction

This book is about how companies will have to cope with the disruptive impact of digital technologies and the kind of leadership skills that will be needed to cope with this period of turbulence and volatility.

How today's environment is different

Businesses have always been subjected to uncertainty. But the kind of uncertainty we are seeing today is of a different order. In scale, impact and ubiquity, the degree of uncertainty is much higher and of a structural nature. The forces at work today can dramatically transform industries and wipe out incumbent players if they are not on their guard. **In short, taking control of uncertainty is the fundamental leadership challenge of our times.**

Leaders have a choice. They can continue to defend the existing way of doing things and risk getting marginalized. Or they can go on the offensive and seize the opportunity. With the world economy expected to grow by about \$ 30 trillion (from the current \$ 70 trillion) over the next decade or so, there are exciting opportunities for companies that can create new business models, new business segments and indeed new industries. (Most of the \$ 30 trillion which will be created and quite a bit of the reconstituted \$ 70 trillion economy which exists today will be driven by digital technologies.) Indeed companies must figure out how they need to position themselves to grab an unfair share of this opportunity.

Many forces are at work today. But the two that are contributing most to this structural uncertainty are digitization and the rising consumer power. Digitization which includes sensors, cloud, algorithms (analytics) and mobility is lowering barriers to entry and allowing new players to enter the market. At the same time, consumer power has increased enormously thanks to social media, reviews and instant price comparisons. Consumer preferences can shift en masse suddenly, destroying whole industries.

Technology has been a great disruptor since the days of the industrial revolution. But what amplifies the uncertainty today and magnifies the disruption potential is the combination of the low cost of computation, high speed of processing and transferring data and the internet which has brought everyone together irrespective of where they are located. "The bends on the road have become wider, deeper and more frequent." Leaders who have grown and thrived in the past need to develop a different set of capabilities to succeed in this new world.

Perceptual acuity

Leaders need to have the psychological and mental preparedness to see around corners and spot anomalies and oddities in the business landscape. Perceptual acuity can be developed by asking questions, being on the alert, exposing oneself to a diverse group of people within and outside the company and thinking through the potential implications of events that at first sight may seem irrelevant to the company. We will examine this theme in more detail, later in the review.

Mindset to see opportunity in uncertainty

Leaders must view uncertainty as an invitation to go on the attack and take the organization to a new place.

Ability to see a new path forward and commit to it

Leaders must be willing to build new capabilities, which in most cases means digitizing processes and using analytics. Leaders must focus on the end to end consumer experience and look at ways to transform this experience.

Managing the transition

Managing the transition will call for skills in making tradeoffs, resetting priorities and funding the investments needed to make the transition. So necessary institutional mechanisms have to be put in place.

Making the organization steerable and agile

Dr Ram Charan recommends the use of a powerful tool called Joint Practice Session or JPS in which leaders from across functions and businesses come together, share information, make decisions, integrate their actions by supporting each other and take quick corrective action when needed. JPS is not only a great mechanism to resolve conflicts and promote collaboration but also to redeploy people and financial resources where needed to make the transition happen. More about JPS a little later in this review.

Coping with discomfort

Invariably, uncertainty demands that a new or different business is created which will cannibalize an existing business. So the risk and discomfort involved will be substantial. But if leaders do not commit themselves to the new business, they risk elimination or marginalization as indeed it happened in the case of Nokia, Blockbuster, Kodak and Borders. Middle managers too will have to rise to the occasion. They must be able to persuade their bosses to accept lower earnings in the short run while pursuing opportunities that will be big and profitable in the long run.

Emphasizing the role of technology in disrupting industries and marginalizing industry leaders, Dr Ram Charan uses the terms Mathematical corporation, Algorithmic revolution and Math House. Algorithms, in combination with the Internet, mobility, sensors and high speed computing are changing both the structure of the global economy and the lifestyles of individuals. Business leaders must have enough understanding of analytics to look for creative

ways of transforming the customer experience. We are going back to the pre-industrial revolution days when artisans would take care of each customer's needs by offering something completely customized for them.

Some companies are demonstrating how digital technologies can be leveraged. GE is rapidly converting itself into a Math House. As of mid-2014, GE got about two thirds of its \$ 250 million backlog in orders from services based on its mathematical intellectual property.

Building perceptual acuity

Dr Ram Charan defines perceptual acuity as the human radar for seeing through the fog of uncertainty and acting before others do. Perceptual acuity is not the same as intuition. While intuition is honed by past experience, perceptual acuity is about looking forward and then working backward to figure out what needs to be done. Only a small percentage of leaders are able to look at the businesses outside in and pick up signals that could indicate a possibility of disruption.

The emergence of a catalyst is often a sign that disruption may be round the corner. Who is a catalyst? A catalyst is usually a creative thinker, not bound by conventional wisdom, who can come up with new hypotheses and is excited about the possibility of tapping new opportunities. Dr Ram Charan uses the term seeds to describe the events which attract the attention of catalysts. People who are high on perceptual acuity will be able to pick out catalysts and seeds even when the signals are weak. Some examples of catalysts and seeds are the recruitment of the CEO of Burberry by Apple for its retail division, the launch of Netscape by Marc Andreessen and the social activism of Ralph Nader against the large automobile companies in the US.

Dr Ram Charan gives some practical tips on how we can develop perceptual acuity. In leadership meetings which last for more than one hour, about 15 minutes can be set aside to discuss forward looking issues. One individual (in turns) can be asked to pick up a shift in another industry and analyze the shift in terms of who caused it and who took advantage. The group can then discuss and deliberate on the topic for 10 minutes. This way, the group will develop intellectual curiosity which is really key to strengthening perceptual acuity. The whole idea is to improve the quality of our thinking by building the right routines. Companies should also run pilots/ experiments and learn from them and especially so in industries such as IT Services where such experiments do not need that much capital.

Steve Schwartzman, the CEO of Blackstone, one of the largest private equity firms and indeed one of the most influential financial institutions in the world asks his staff during Monday morning meetings what new things they are seeing. Through these weekly interactions, the leadership team gets on top of what is happening in the world and can identify uncertainties in the global financial system.

Warren Buffett, the famous investor, develops his perceptual acuity by reading some 500 earnings call transcripts every year. Each transcript runs into 10-15 pages.

Different leaders have different ways of developing perceptual acuity in their team members. It essentially boils down to asking a few basic questions during meetings:

- What do you think?
- What is the most difficult thing you are experiencing currently?
- What practices and underlying assumptions are common in our industry?

It is not about core competencies

Seizing the attacker's advantage does not mean looking for new ways to leverage existing core competencies. Rather, it is about figuring out how to create a compelling customer experience and working backwards to determine the kind of capabilities that need to be developed. A thorough understanding of the customer and working knowledge of analytics are the key here.

Dr Ram Charan emphasizes that the theory of core competency is far too backward looking in today's volatile environment. Moreover, the concept of core competency is becoming somewhat outdated because traditional industry boundaries are getting blurred and competition can come from anywhere. To take an example, many of banks are paying a lot of attention to how Silicon Valley companies are introducing concepts like big data based credit appraisal and risk management, peer to peer lending, crowd funding and payments. Similarly, Wal Mart considers Amazon to be its main competitor and not the other large brick and mortar retail chains. In short, the leadership challenge is not so much to strengthen existing capabilities to compete with traditional rivals as to identify the capabilities of the future to deal with these new competitors.

Decision making in uncertain times

Decision making during times of uncertainty can slow down because of various factors. Leaders must be aware of these factors and ensure that they do not become stumbling blocks:

Attachment to existing competencies: This is a huge factor as it is the existing competencies that generate revenues, profits and cash for the company today.

Inability to build new competencies: Professional managers are often reluctant to move out of their comfort zone. They need to think like entrepreneurs, who never feel handicapped by lack of resources or capabilities. In his book, Dr Ram Charan gives the example of one of India's leading business groups, GMR. At one time, the group's competency was in banking (Vysya Bank) but today GMR is a leading player in infrastructure, a business about which it hardly knew anything at the time of entry.

Obsolescence of key people: It is always a challenge to deal with people who have served the company well in the past but may not be quite up to the task in the changed environment.

Fear: Fear can hold people back. This includes the fear of wrong decisions, of how people will respond and of uncertainty in general.

Avoidance of opposition: Resentment and pushback are inevitable when driving change. Leaders must hold the bull by the horn instead of trying to be soft and gentle and avoid conflicts. In any organization, 2% of the people have a disproportionate influence on the remaining 98%. It is important to get the buy in of this influential group.

Joint Practice sessions

Weekly and monthly review meetings in most large organizations can be boring and time wasting. And they also tend to be draining especially if people who do not meet their targets are pulled up in front of others. People tend to go to these meetings feeling anxious and defensive and often leave embarrassed.

JPS works in a different way. JPS makes information available to everyone in the group so that leaders can get a holistic view of what is going on. Better decisions are made, more logical tradeoffs are agreed upon and implementation bottlenecks are removed. Transparency and collaboration increase while morale improves.

As Dr Ram Charan mentions in his book: “The competitive tendency to hoard information is trumped by the clear collaborative benefits of transparency and sharing.” When Alan Mulally turned around Ford, he too used a version of JPS. He called it the Business Plan Review. Key details are given in the book, *American Icon*. Here is a quick summary.

In the Business Plan Review (BPR), a select group of senior people were expected to come personally and present brief and accurate updates on their business. Issues that needed more detailed discussion were taken up immediately after the BPR in a Special Attention Review (SAR). During the BPR, all the data from every business unit and function was summarized into a set of tables, charts and graphs that were then presented as Power Point slides. The senior executives were expected to make the presentation themselves and not delegate it to people below them. The BPR would not be a forum for debate or discussion. The SAR was the forum in case some discussion was needed. Mulally made it clear that during the BPRs, there would be no side discussions, no jokes at someone’s expense and no use of Blackberrys. The company would develop a plan quickly, and each week, the assembled group would examine the progress against the plan in the BPR and make the adjustments needed in the SAR : “ This is the only way I know how to operate. We need to have everybody involved. We need to have a plan. And we need to know where we are on the plan.”

Enforcing attendance at these meetings and ensuring the right behaviors itself proved to be a major change exercise for Mulally! Some Ford veterans felt uncomfortable about falling in line with the new dispensation. They tried to wriggle out of the meetings by giving feeble excuses or they would come totally unprepared. Mulally gently but firmly enforced attendance and ensured people came for each meeting with all the facts and figures. Some tried to use their old connections and complained to Chairman Bill Ford behind Mulally’s back that it was a waste of

time. But the Chairman made it clear that any problems they had, must be directly sorted out with the CEO!

When the BPRs started, executives were reluctant to admit they had any problems. All the charts were coloured green! Mulally looked at his direct reports in the eye and remarked: “We are going to lose billions of dollars this year. Is there anything that is not going well here?” Finally, one of Ford’s most promising leaders, Mark Fields (the current CEO) admitted there was a quality problem with a new vehicle, on which Ford was betting heavily. Mulally appreciated his frankness. Only then people realized that the BPR was a safe environment to talk openly about their problems and improvement areas.

Another famous leader, who used the JPS format to great effect was Sam Walton of Wal Mart. In his daily (and later weekly) meetings, Walton would have all the key stakeholders come together – store managers, logistics people, advertising staff and buyers. Walton and his team would focus on a few key questions:

- What are customers asking for that we do not have?
- Is there too much in the store that is not selling?
- How does our price compare with that of competitors?
- How many customers are visiting our stores and not buying anything?

Decision Nodes

Decision nodes are specific points in the organization where critical decisions are made. Leaders must pay a lot of attention to decision nodes to improve the quality of decision making during times of uncertainty. The key questions which leadership must address are :

- What are the most critical decisions?
- Who should be responsible for taking these decisions?
- Who else should be involved?
- How should these decisions be taken?
- What kind of collaboration is required to take the right decision?

Selecting the right leaders

If wrong individuals are currently in charge of taking the decisions, they must be replaced. The key questions to ask while choosing the individual to lead the decision making process are :

- Does this person have the right attitude?
- Does this person have the skills to actively seek external information and opposing views, play the role of umpire and coach and get the team to work together?
- Does this person have the right expertise or at least the ability to engage with the experts?

It is also important to understand where the real powers lie. Leaders who have been given formal authority over certain decisions may not be able to exercise their powers without the cooperation of those who control the resources. Sometimes, the person in charge may be unwilling to reallocate the resources based on the changing priorities.

Managing the transition

Managing the transition involves simultaneously harvesting the established business to generate the required cash and at the same time realign priorities with the new initiative. Dr Ram Charan quotes Ivan Seidenberg, CEO of Verizon: “We had to have operational excellence to extend the current franchise and we had to change the business model in light of our broader view of the external environment. It is the distinctive role of senior management to pull the levers to make this happen, to ask the right questions, allocate the resources in way that allows things to happen. The greatest companies find a way to have that mix.” (Seidenberg’s bold \$23 billion investment plan involved replacing copper networks with fibre optics so that consumers would receive video and computer signals coming to their homes.)

While it is important to have plans and operational discipline, flexibility is also important. When people propose initiatives to set up or scale new businesses, adjustments should be made to the budget. Funds should be mobilized for the new business either by changing the internal allocations or by tapping external sources. Dr Ram Charan proposes a two year rolling budget. Each quarter, the budget can be revisited and extended to the next 8 quarters. This way, it is possible to have a longer term plan but with the flexibility to make changes based on new developments in the environment. As Dr Ram Charan put it, with this kind of an approach to budgeting, companies will be better prepared to deal with bends on the road. Such a two year plan, with time, may change operationally, but it will stay relevant and not become structurally obsolete.

Concluding notes

Leadership is about going on the attack. Leaders should spend more time looking at the future and the working backwards. They must identify and deal with core rigidities that can creep into large organizations such as ours. Leaders must start paying attention to companies who can emerge as their new competitors. The future is bright. Change may seem unsettling but it is actually good because it levels the playing field.