

Strategy during uncertainty

Introduction

One of the dangers of inviting someone who works in a university along to a conference is that they are likely to treat you in the same way they do their students – and heaven knows what that might mean! However, I want to use this opportunity to introduce you to some ideas that are currently being explored in the academic world, and, to reassure you, I will try to do so in a way that is informative and helpful, and even add a little fun towards the end.

The underlying theme I want to explore is quite simple: strategy in the 21st Century has to face new challenges, and requires new approaches. The challenges are two fold – uncertainty, and new technologies.

First, uncertainty increasingly dominates our assessment of the environment. At present, the uncertainty we are experiencing has two consequences. First, it makes many of the models and ideas that were so popular in the 20th Century appear obsolete and irrelevant – there are new strategic imperatives in this new century. Second, talk of change and uncertainty can mask some of the underlying changes that are taking place, and their longer-term results.

At the same time, new technologies are also making enormous changes. You may find it surprising that I return to IT and telecommunications, but there are good reasons to revisit the rubble of the ‘dot com boom and bust’ period. While many things did not work out as expected then, there are some underlying issues that deserve a second look.

Uncertainty and foresight

It is trite to say we live in an uncertain world. However, uncertainty does not mean that we are unable to think systematically and proactively about the future. While we are unable to predict the future, we can exercise foresight.

First, there are trends, some of which are remarkably robust. For example, demographic projections are quite strong – especially if you only project out for a decade or so, and recognise that there are major catastrophes that can upset these projects. The figures that demographers develop can be quite surprising. For example, Australia is going to grow quite slowly over the next few decades – but ‘age’ much faster. Right now, a little over 16% of Australians are aged 60 years or more (roughly one in six); over the next few decades that is going to increase to around 30% (nearly double the proportion right now). However, compared to Japan, where the percentage of older people is already over 30% now, and set to go over 40% in the near future, that is by no means extreme. The stresses of an ageing population are going to be greater in China – which is going to move from around 105 at present to around 30% in the future (one of the effects of the one child policy exercised there).

There are also technological trends (like Moore's Law, which suggests that the speed of computing doubles about every 18 months). More interestingly, we can see that convergence is taking place in information and communications technologies, so that mobile telephones become digital cameras and email devices, and computers become video machines and television receivers. We can also see the outlines of a revolution in medical care as the consequences of genome research become more apparent.

At the same time, there are also cycles. For example, we can see that 'customisation' and 'mass production' come and go over time, as does globalisation. Some authors suggest there are broader economic cycles – and this may well be the case.

Strategy

It is particularly dangerous to ask academics about strategy. It is dangerous to ask them about anything practical, but especially something where there is a lot of money to be made from books and consulting. However, that is the theme of this paper, and comment I must.

I think it is useful to suggest that the approach to strategy should be different at the beginning of the 21st Century, and the reason for that has to do with the uncertainty we have been discussing. Contemporary strategy must focus around three things:

- *Reactivity* – that is the ability to respond quickly and effectively to unanticipated changes
- *Anticipation* – that is the ability to look forward and identify emerging issues, trends and challenges, and
- *Leadership* – that is the ability to rethink the business and/or the industry, and carve out a new approach, taking the initiative and jumping ahead of the competition.

Each of these strategic requirements has its strengths and limitations.

In relation to *reactivity*, it is obvious that the ability to respond to change, and to determine an effective response is essential. Without that ability, an organisation will slowly decline; pursuing approaches that make increasingly less good sense as the world around them changes. On the other hand, a preoccupation with ensuring reactivity can mean that a business loses purpose and focus.

In a recent study, Jim Collins outlined the factors that seem to characterise those few companies that moved from being merely 'good' to being consistently 'great' over a number of years (*Good to Great*, published by Harvard in 2002). In the book he reminds us of the story of the hedgehog and the fox. The fox is always trying to trap the hedgehog so he can eat him. The hedgehog is not as clever as the fox, but every time the fox seems to have him caught, he just rolls up in a ball. The hedgehog knows how to do one thing extremely well. The fox, for all his intelligence, keeps rushing around trying new ideas, but never sticks at one good approach and keeps working away to develop the approach and the results.

Jim Collins suggests that really great companies have a hedgehog concept – something they do really well, and which has three attributes: it gives them competitive advantage, they are passionate about the approach, and it really drives their economic engine. Too much attention to reactivity means that a company becomes more like a fox and less like a hedgehog.

In relation to *foresight*, I consider this to be one of the most important characteristics of good leaders. Without foresight – being able to sense trends, directions and coming changes, a leader is no more than a path follower, treading along a direction that has already been laid down by others.

To exercise foresight takes a great deal of work. It requires understanding what is going on beneath the surface of every day events. It requires diagnostic skills, first, skills that enable reading the underlying causes of changes, rather than being taken up by surface symptoms. It requires the skills of the analyst, focussing on the key information that has to be separated out from the masses of undigested data that abound. Finally, it requires the skills of the innovator, the creative thinker, being able to see what might be possible, not what is possible today. As Einstein once said “we cannot solve today’s problems with the theories and concepts we have today”

Having said that, foresight is not the same as prediction. As we already explored, trying to predict the future is a foolish exercise. Trying to anticipate what might be, and reflect on what that might mean for today’s plans, that is an essential endeavour.

Let me give you an example. In late 2002, a lot of discussion was taking place about the likelihood of a strike by the USA against Iraq. Clearly such a ‘war’ might have massive implications, for travel, for increased terrorism, for logistics, for so many things. Some companies thought about these possibilities, and examined their consequences, and what they might have to do in order to deal with the consequences. When SARS hit the world a few months later, these were the companies that had the edge over their competitors: they hadn’t predicted SARS, but they had developed their thinking about what to do if a catastrophe occurred.

Does the organisation you work for have a disaster plan? Has it thought through how it would deal with issues like war, terrorism, disease, interruptions of power, etc? Any organisation that has not, is, in my opinion, showing dereliction of duty by its managers: there are so many good reasons for preparing for unpleasant eventualities. For people who work in the travel industry, it would be a sign of incompetence not to have strategies to deal with travel and health disasters – they will always continue to occur.

Finally, *leadership*. In a sense, a company has two objectives – to be successful in what it does (however it chooses to measure that); and to come up with a new and better way to deliver its business, so that it can leap ahead of its competitors. It needs to engage in continuous improvement, but it must also seek radical innovation.

I know that it has been well demonstrated that there is no ‘first mover advantage’: that is, that being the first to explore a new idea means that you make the mistakes, and others who follow can learn from your pioneering efforts at your cost! On the

other hand, it is equally true that clever first movers understand this, and make copying hard to do.

On the other side. Radical innovation is difficult. It is hard to rethink an industry, and even a business. You may strive for years to find a new way to do things, and still not get there.

The impact of new technologies

Imagine the scene. There are hundreds of start-up companies vying for new business, perhaps a thousand of them. At this stage it is hard to guess who will be the winners: who will emerge with businesses that are going to be sustained over decades - rather than months. At the same time, suppliers are having a wonderful time, as demand keeps going up, and their businesses keep prospering. Finally, there are enduring worries about infrastructure - is the basis there to keep this industry going as more and more customers emerge?

What am I describing? No, it is not the current 'dot.com' craze, but the motor car industry one hundred years ago. Then, in the USA and Europe, there were hundreds of companies emerging; many of them truly 'back street enterprises'. Suppliers of tyres, steel, leather, and other components were seeing unprecedented growth, as all these start-up companies tried to get out cars to customers, and establish real businesses. And there were worries about infrastructure: roads and petrol, in particular. However, the real point I want to make is - what would the stock market have been like, if it operated then as it does today? The answer is easy. There would be many new companies being floated, often on a promise (and almost certainly making losses), all in the belief that they were going to make huge profits in the future. A few years later, the investor bubble would have burst, and, as happened in the USA, eventually just a few major companies emerged out of the thousands that preceded them.

There is another point to this story, of course, which is to remind you that we have seen business booms fed by hype before (cars, PCs, and many others), and they all go through the same cycle. Companies in the 'new industry' grow rapidly in the face of opportunity; most collapse; just a few survive, and often they are hard to spot in the early, heady phases of the boom. Yesterday, a company that thrived on email and sex-chat rooms (America-On-Line, AOL) bought one of the world's largest multimedia infotainment enterprises (Time Warner), even though AOL didn't make significant profits, and had a minute turnover compared to Time Warner. Now the wheel has turned, and Time Warner is trying to get rid of the much-diminished AOL element. What we need is what the 'horseless carriage' industry needed - another 'Henry Ford' - and I suspect she is working away somewhere about to deliver the real business that the Internet offers.

Indeed, that is a key point. We have still to realise the real promise - and consequences - of the IT and communications revolutions. I suspect they are really about adding intelligence, and managing knowledge - not about computers and mobile telephones per se. For example, it is now possible for a company to tailor

catalogues to customers, or for a television recording machine to act 'intelligently'. We are just beginning to see the extraordinary ways in which we can exploit the information processing and intelligent customer management systems that are possible.

Have you exploited this revolution in the travel industry? Here are just a few ideas that came tumbling out of my head in a few minutes one afternoon:

- Giving customers global positioning watches, that allow you to find them if they are lost, kidnapped, or involved in some kind of accident or catastrophe
- Tracking customer travel booking patterns through the use of smart cards (and then using that information to offer them personalised brochures that reflect their travel requirements and interests (airlines, hotels, side activities, etc)
- Letting the customers design their trips on the computer, and then sourcing alternative carries, hotels, and add-ons, and providing a set of choices for the customer

Conclusion

Opportunities come from thinking differently. In the world of leisure travel – so tantalising to you in the business travel industry, I am sure – there are various kinds of experiences that people seek. Indeed, a writer named Theodore Zeldin published a fascinating book a few years ago, called *An intimate history of humanity*. In one of the chapters (titled '*How travellers are becoming the largest nation in the world, and how they have learned not to see only what they are looking for*'!!), he quotes another writer:

“Over a century ago the historian Hippolyte Taine (1828-93) said there were six kinds of tourists. The first travel for the pleasure of moving, absorbed in counting the distance they have covered. The second go with a guide book, from which they never separate themselves: ‘They eat trout in the places it recommends and argue with the innkeeper when his price is higher than the one it gives.’ The third travel only in groups, or with their families, trying to avoid strange foods, concentrating on saving money. The fourth have only one purpose, to eat. The fifth are hunters, seeking particular objects, rare antiques or plants. And finally there are those who ‘look at the mountains from their hotel window... enjoy their siesta and read their newspaper lounging in a chair, after which they say they have seen the Pyrenees’. There will doubtless always be tourists wishing to repeat these routines, but there are other possibilities.”

Prophetic words: the new traveller, it seems, wants ‘new’ experiences. I have seen examples of two recently. The first was a company in the UK that offer bizarre holidays – for example, a walking tour of London where you go along 26 streets, each one in turn the next letter of the alphabet! Equally bizarre to me – but not, I suspect, to some customers – is a company that offers ‘extreme’ experiences: you know the sort of thing, like spending three weeks running up and down mountains, or bungee jumping in every country in Europe!

I think there are other ways to be innovative, however. Business travellers may see themselves as getting from A to B in order to conduct business, but Zeldin offers an interesting twist on the benefits of travel:

“Travellers have been a nation of a special kind, without frontiers, and they are becoming the largest nation in the world, as travel becomes no longer a mere distraction but an essential part of a whole person’s diet. Today over 400 million people travel between continents each year. The most admirable characters in the history of travel are those who have been most useful to their hosts. A journey is successful when the traveller returns as an ambassador for the country he has visited, just as an actor is most successful when he enters into a character and discovers something of himself in the part he plays.”