Managing a company in a fast-moving global marketplace is necessarily fraught with uncertainty. But it would be hard to imagine conditions more uncertain than the current ones. It’s normal for managers to face one or two tricky ‘macro’ issues, but look at the present slate of potential banana skins: financial crises, global economic slowdown, high and volatile commodity prices across the board, food shortages, climate change... The list goes on. It’s difficult to conceive of a recent period when the outlook – while hardly being resoundingly negative – has been harder for managers to predict and plan for.
STRATEGIES FOR TURBULENT TIMES

A key question for managers facing such an unpredictable business and economic environment is how to strategise for the future? To help find the answer we sought the expertise and opinion of leaders from both business and academia. Senior executives from four world-class organisations give their perspectives as do Professor George Yip, dean of RSM and an authority on global strategy, and Professor Henk Volberda, RSM’s strategic management and business policy expert.
Is now the time to batten down the hatches, cut back on risky spending on new products and new markets, and wait till the storm passes? Or, is now precisely the time to take risks, just as competitors are sleeping, and the opportunities for growth in new products and new markets – particularly China and India – appear so abundant?

We put this question to Henk Volberda, professor of strategic management and business policy at RSM, as uncertainty – or rather how companies cope with uncertainty – is precisely his speciality. Volberda says the typical response of companies to uncertain conditions is, paradoxically, to do more of the same: that is, to exploit those products and markets that are already established for them. “What we see is that most firms in uncertain environments choose what I would call exploitation strategies, which means actually more of the same ‘try-harder’ approaches, doing things better, and increasing efficiency,” he says.

Companies also like to know that, whatever strategy they are following, they are not alone. “When companies face uncertainty, the easiest response is to copy your competitor, to go for herd behaviour. When companies face uncertainty they tend to prefer short-term benefits instead of long-term goals,” Volberda adds.

The problem for such firms, says Volberda, is that “their core competencies in the end become their core rigidities”. By focusing on exploiting what they have, instead of innovating for the future, they get caught out when the music changes and the competition has moved on to something else.

Another group of companies may have the opposite reaction to uncertainty. “They try to innovate but overreact and so they try all kinds of innovations, new products and service, be assembled and disassembled quickly) or ‘strategic flexibility’, which is the ability of organisations to change their goals. “Most firms want to preserve their goals, but sometimes you have to change them. Strategic flexibility is the highest level of flexibility. In our research on these areas, strategic flexibility is the estimator of high performance for organisations in highly turbulent environments,” Volberda says.

The uncertainties facing business managers – not just as a result of the current downturn, but more generally – means that traditional ‘deliberate planning’ strategies may no longer be either possible, or particularly useful. The same might also be true for more flexible ‘scenario planning’, Volberda believes. “In the end, if you’re facing very high uncertainties, it means that planning is impossible. But, if you invest in planning, not only is it very costly, but it doesn’t make any sense. The best thing you can do is develop some slack in... strategic flexibility is the estimator of high performance for organisations in highly turbulent environments.”

...strategic flexibility is the estimator of high performance for organisations in highly turbulent environments.”

Professor Henk Volberda
your organisation – in your structure and in your technology – in order to be able to deal with multiple contingencies,” says Volberda.

The irony is that, during turbulent periods, when it is difficult to plan and forecast the future, many organisations redouble their efforts in these areas. They believe, incorrectly, that what is needed is more focus on planning and predicting, rather than a fundamental change in approach. “What we see in the planned organisation is that it starts to do more planning. This type of organisation says, ‘actually we need to have an extra layer of management, we need better planning control systems’.”

Of course, not all organisations face chaotic marketplaces, and for those with relatively settled environments, a rigid, planned organisation may be the best option. However, the number of companies with this luxury is dwindling; increasingly, uncertainty is the norm. With an economic downturn on the way, turbulence is only likely to become even more common.

Disturbingly, what is clear from Professor Volberda, is that many firms simply aren’t ready for what is ahead. “From our studies, we see that 65 percent of companies are still operating within a rigid and planned mode. They are actually in the denial range. What we should have is more firms in the flexible mode, and even some firms in a more chaotic mode. This is a big challenge for management.” Text Ben Schiller
How is your organisation responding to these uncertain times and the challenges they present?

No one will argue that margins are getting squeezed in a variety of different businesses. Some businesses are holding on to the promise of a return to more profitable times, but the wiser few have accepted that things are not going to improve in the long-term. We must face reality - the world is changing, and we must and will change, too.

Eastman believes that you can improve margins in two ways. First, by concentrating on the denominator, or efficiency, you can take costs out. And, secondly, you can work on the numerator and focus on the creation of new business.

Taking costs out is actually an organisational maturity test. You need to keep doing what is needed for your long-term strategy, but you need to be flexible in what and when you are doing things. It is a balancing act, which requires a good understanding of that long-term strategy.

Creating new business is about ‘transforming’ your collaboration with your customers, distributors and suppliers by making a ‘material difference’ in their products. It is also about thriving in new markets and emerging geographies.

With the future so unpredictable, how do you create long-term corporate strategies and what are the most important areas of focus for your organisation?

Many companies are struggling with the current dynamics of business. We see these uncertainties as opportunities where we can take unconventional approaches to succeed. We have developed a number of ‘transforming’ initiatives, which do more than simply respond to the challenges. Our long-term strategy focuses the two areas of industrial gasification and growth in our existing businesses. One of our growth opportunities was to ‘Go East’ and expand in central and eastern Europe. The region offers features that make it attractive, for example:

- Movement of customers’ customers.
- Market size.
- Strong economic growth.
- Consumer spending levels.

In seeking growth opportunities, companies are tempted to follow the trend to rush to Asia. But in my opinion, it is not a question of China or central Europe. We need to go after both – it is not a ‘zero sum game’.

In turbulent times, how important is innovation, both within the organisation and in competitive markets?

For Eastman, innovation is about working in new ways that focus on being greener, smarter and more costs efficient. Innovation is at the core of our value creation, and our formula is simple: Technology = People. Our scientists, engineers and business teams are tremendously successful in creating intellectual property with commercial applications. We have more than 800 active patents in the U.S. and another 1,500 around the world.

One of my favourite books regarding innovation is Leading the Revolution by Gary Hamel. Hamel claims that companies fail to create the future, not because they fail to predict it, but because they fail to imagine it.
Based on an approach described in Hamel’s book, Eastman has implemented the ‘Stage Gate’ system. This is a unique, innovative system that uses disciplined decision-making to identify and prioritise opportunities that lead to profitable and sustainable top-line growth.

**Based on your own experiences, does the importance and value of leadership increase in turbulent times, and if so, in what ways?**

Leadership is essential at all times, but it’s especially important when facing challenges. Convincing people in an organisation that it is reasonable to strive for ‘unreasonable goals’ compared to your industry is tricky. It takes more than just telling people what you want them to do.

Leaders have to demonstrate that it is actually possible to dramatically outperform the average – and we have to do this with real examples. Otherwise, the aspiration has no credibility.

For example, three years ago, we launched our growth initiative to ‘Go East’. Our goal was to double our sales in six years. The first year, we increase sales by 30 percent, the second year by 25 percent. I’m proud to say, we will probably reach our goal in four years instead of the six.

As a leader, you must be able to develop the vision and communicate it to your entire organisation. For example, stating that we want to ‘Go East’ means that HR needs to recruit, Sales needs to deploy people and distributors, and the Supply Chain needs to establish logistics, etc. Then as the conductor of an orchestra, the leader needs to ensure that each instrument plays its part at the right time.

**For organisations of all sizes, both technology and environmental concerns are drivers of enforced change. How is your organisation responding to these challenges?**

The chemical industry as a whole must improve its image. We must prove that we are part of the environmental solution and not part of the problem. I am chairing the Build Trust Programme at the European Chemical Council (Cefic), where our goal is to foster dialogue with all stakeholders. We want to establish sustainable relationships of trust between our industry and the consumers, the residents, and local authorities wherever we do business.

For instance, in Brussels, on June 24th of this year, we launched a stakeholder dialogue on nanotechnologies. Four member companies agreed to show clear examples of nanomaterials and the way they produce and handle them.

There was good participation from regulators and academia and together we managed to create the right conditions to start a process of stakeholder engagement. In addressing everything from climate change and energy costs to borderless businesses and environmental stewardship, we, particularly at Eastman, are addressing new ways to become ‘greener, smarter and more costs efficient’. I am proud to say that we have moved beyond just meeting those challenges; we are creating competitive advantages.

...innovation is about working in new ways that focus on being greener, smarter and more costs efficient.”
How is your organisation responding to these uncertain times and the challenges they present?
The aviation industry is a volatile business and unlike many other sectors, it is very much dependent on external factors. Certainly there are various short-term measures, for example, employment restrictions, with which it can respond to uncertain economic times.

Regarding a long-term strategy, our goal is industry leadership; to always be one step ahead of the competition, especially in these uncertain times. To reach this goal, we have to reduce our costs and enhance our efficiency. That’s the reason why we started the initiative Upgrade to Industry Leadership, which will help to establish and maintain Lufthansa’s position as the leading European airline.

The upgrade programme includes the implementation of numerous projects across all our business segments, each representing a further step towards industry leadership. There will also be a variety of separate projects involving several business segments.

One example: the Lufthansa Group purchases goods and services of around 10 billion euros per annum. That’s reason enough to take a closer look at the potential for improvements that exists in this area. But the initiative is not just a cost reduction programme; after all, far greater things are at stake. We want to continually assess all our business segments to reaffirm that our services and our products meet the standards required for industry leadership. Additionally, the consolidation in the international aviation market is very important. Lufthansa will play an active role in any consolidation, as long as there are economic and strategic advantages. For example, Lufthansa was the first European airline to react to the open-skies-agreement, buying shares of the US-airline Jet Blue.

With the future so unpredictable, how do you create long-term corporate strategies and what are the most important areas of focus for your organisation?

Lufthansa’s corporate strategy is geared towards generating profitable growth, whereby profitability is more important than size. We are committed to creating shareholder value. By this I mean sustainable value creation. All business segments rely on the brand values of quality, reliability and innovation. From this we defined five key factors for success:

• The customer is central to our business activities. We address customer requirements and offer products to meet those needs.
• Our core skills determine our activities. Those skills encompass the management of flight networks, nurturing partnerships, operating processes on the ground and in the air, and the provision and maintenance of infrastructural and production factors.
• We further develop our system integration in order to extend our competitive lead over other locations, airlines and alliances. We cooperate closely with all of our major partners, suppliers and infrastructure providers in order to integrate and optimise our core processes.
• Lufthansa offers an attractive working
environment. Our employees are integral to our success. We offer them good working conditions, commensurate incentives for personal development and an energising, international corporate culture. That makes us an attractive employer for qualified, highly-motivated and service-minded personnel.

- Lufthansa is committed to keeping a balance between business and social prerogatives. Environmental protection and sustainable development are prime objectives of corporate policy. Active engagement in social projects is ingrained in our corporate culture.

**In turbulent times, how important is innovation, both within the organisation and in competitive markets?**

Our success depends on the satisfaction of our customers. In my opinion, the key question is: how can we succeed in consistently developing innovative products, offering the best service, and opening up new markets?

As a service provider, our permanent focus must be on the wishes of our customers and our potential customers. Only improved products that offer greater innovation and create added value will enable us to succeed against the competition. The aim must be to target the exact requirements of the customers with modular offers. If customers recognise a true added value in our products, then they will also be willing to pay for it. This is how we will create perspectives; for the Lufthansa Group and its employees.

Another important fact is that we must rethink our role in the industry, and the role of the aviation industry within the world economy. What can we learn from other industries? Where, for example, are the automotive and the chemical industries better than the aviation industry?

The Star Alliance and the integration of SWISS have already shown how successful the consolidation of our strengths can be. In the future, we must continue to find new ways to utilise the potential offered by working with partners.

In the last few years, Lufthansa has developed a range of innovations that clearly underline our positioning as a quality brand. These include sleeper seats in business class on longhaul flights; a free middle-seat and more storage room in business class on continental flights; WLAN hotspots in the lounges; a special terminal and exclusive lounges for first class customers and HON Circle members, as well as the Private Jet offer. Also our First Class Lounges lead the way in international standards.

**Based on your own experiences, does the importance and value of leadership increase in such times, and if so, in what ways?**

Especially in times like these, where constant change and competition are part of our every-day business, leadership becomes more and more important. Leaders are multipliers of new concepts and ideas. They are responsible for making their employees understand and support the necessary changes required for success.

**For organisations of all sizes, both technology and environmental concerns are drivers of enforced change. How is your organisation responding to these challenges?**

Both technology and environmental concerns are drivers of enforced change for Lufthansa. In light of growing demand for mobility, the aviation industry must respond to new environmental policy challenges, with the focus on further reducing greenhouse gas emissions, noise pollution and energy consumption. One of our guiding principles is the balance between economic interests and environmental responsibility. This is well illustrated by the enormous sums we are investing in a fuel-efficient fleet – one of the best means of environmental protection.

Lufthansa is working effectively with airports, air traffic control services and policy makers to ensure sustainable mobility. Under the Strategic Environmental Programme, which serves as a basis, Lufthansa has established 15 guiding principles (e.g. reducing carbon emissions, cutting nitrous oxide emissions, modernising fleet, promoting alternative fuels) that point the way to continually achieving further crucial progress by 2020.
How is your organisation responding strategically to these uncertain times and the challenges they present?

We are keeping a close eye on these developments and are tracking our costs and investments with even greater care than usual. One major issue for us is the fact that airport investments tend to be long-term. Even if it were possible to just pull out of these investments because of a perceived downturn in air traffic, it would not be worthwhile as eventually their value will rise again.

Also, pulling out of such ventures creates a risk of financial loss. That is true, for example, of the considerable investments made in the new baggage system that we are currently implementing.

Apart from all the widely reported business and economic scenarios with which all organisations, including airports, must cope, Amsterdam Airport Schiphol has two additional problems to contend with. Firstly, there are ever-increasing security costs, which, in our case, are entirely the responsibility of the airport and therefore have to be passed onto the passenger; secondly, the introduction, on July 1st 2008, of the Air Passenger Tax.

Given that European aviation will participate in the Emissions Trading Scheme (ETS) starting in 2012, which will mean further rises in costs, we have petitioned the government to terminate the tax in 2012. We have also requested government funding for certain security measures, which, after all, are geared towards the safety of the public-at-large.

With the future so unpredictable, how do you create long-term corporate strategies and what are the most important areas of focus for your organisation?

Our current strategy is one that has been in place for several years and consists of three core parts:

• To maintain and strengthen Amsterdam Airport Schiphol’s competitive position as a mainport (Mainports are the major sea/air ports in a network of connections).
• To increase Schiphol Group’s revenues from non-aviation activities.
• To spread the risks by selectively developing commercial activities at other national and international airports.

This strategy has helped ensure our continued growth as an enterprise, even in times of economic downturn and uncertainty – for example, during the period after the 9/11 terrorist attacks on the U.S.

The first part of our strategy is the most important and hinges upon our ability to continue offering sufficient capacity and quality to airport users on the one hand, and competitive rates on the other. As regards the latter requirement, there is currently, as I have just explained, a great deal of market pressure. It is to here that we are now focusing our attention.

In turbulent times, how important is innovation, both within the organisation and in competitive markets?

Very important – but the same is true when times are less turbulent. Innovation has to be a constant process if you hope to distinguish yourself from the competition, especially in
highly competitive markets like aviation. During turbulent periods innovations will yield additional profits in the form of efficiency benefits.

At Amsterdam Airport Schiphol we are working constantly on innovation. In fact, we are obligated, as we are not a natural hub or mainport in the way that London, Paris and Frankfurt are, for example. Each of these has far more surrounding countryside and thus scope for future development. We are in fact an artificial hub with a relatively large number of transfer passengers. If we want to maintain this position then we have to be more efficient and better than the competition. Innovation will allow us to do this.

Based on your own experiences, does the importance and value of leadership increase in such times, and if so, in what ways?

More is expected from leaders during difficult times because the choices that need to be made become more difficult. One of the ever-present issues in aviation – this being a growth industry with a highly cyclical nature – is whether the airport as an infrastructure provider should be led by long-term growth prognoses or by the short, cyclical scenarios of its customers – the airlines. Management must decide the course of action here.

For organisations of all sizes, both technology and environmental concerns are drivers of enforced change. How is your organisation responding to these challenges?

Given the nature of our business, environmental factors have been a key area of concern at Amsterdam Airport Schiphol for years. We invest a great deal of money and manpower into limiting as much as possible the negative impact our presence has on residents in the surrounding area, and into facilitating discussion with our neighbours and with authorities at local, provincial and national levels. The climate debate that erupted following the release of the film *An Inconvenient Truth* has given these efforts an additional impetus.

To give an example: we have set ourselves the goal of making all our own airport operations CO\textsubscript{2} neutral by 2012. This is a very ambitious goal and it will require a lot of work. We have also set up an international competition to find an innovative solution for the ground noise problem caused by the Polder runway in Hoofddorp-Noord. We are also working with TNO (Netherlands Organisation for Applied Scientific Research) and TU Delft (Delft University of Technology), amongst others, on various solutions including an anti-noise system. In short, the environment represents an important driver for change.
Wasser has a longstanding consulting and management background within the Capgemini Group, dating back to 1989. Primarily involved in the areas of strategic consulting in oil, IT, gas and chemicals, and as a specialist in merger integration and business turnaround, he's worked with numerous companies in what he terms 'transformation management'. What has experience taught him? “Companies tend to forget that in the good times, you need to organise for the bad times,” he says. “Have early indicators in place, understand your business, and know where you need to adapt it in case a bad downturn happens.”

While Capgemini managed splendidly throughout a rather startling 2008, it has felt the sting of the unexpected in the past: notably, when the dot.com bubble burst. Used to growth of 15 to 20 percent per year, the company’s market shrank by 10 percent. “That was a 30 percent difference from one year to another,” he says. “That’s very hard to be prepared for.”

Not wishing to feel that sort of pinch again anytime soon, Capgemini has assessed the new challenges in the world of consultancy in order to adjust for its future. Increasing internationalisation, the talent shortage, and tighter budgets are demanding transformation in the way consultancy firms work.

“Clients are pretty sophisticated now – they know how to use consultants,” says Wasser. While clients now understand how to identify their own potential and strategies, they expect consultancies to help them in implementing changes, and there is a new immediacy to their demands. “We interviewed 200 CEO’s last year, and they concluded that they are always in transformation, that the average company has three or four transformations each year. In the past you had one every couple of years. So the pace of change has accelerated.” To cope with the swifter and more demanding realm of consulting, Capgemini has reframed and renewed its own strategy with a programme called I³, which launched in 2006. “That’s the big transformation we have going on in Capgemini Group,” says Wasser.

I³ stands for Innovation, Intimacy, and Industrialisation. What does this mean to a multinational consultancy firm? What, for example, does ‘Innovation’ look like? “It’s about innovating our services,” says Wasser. “For Capgemini, innovation is looking very sharply at our best practices within the group. We have mechanisms in place to identify, then to copy these practices and adapt them into markets around the world very quickly.”

What about ‘Intimacy’? It is, says Wasser, about getting more connected to the client. “There is a clear trend to concentration in the market; the trend is that clients are reducing the number of suppliers. Instead of ten, they may have three or four favourite consulting groups, so the battle is about getting a larger share of the client’s wallet,” he says. To differentiate in this highly competitive scenario, Capgemini approaches its client relationships as full-service collaborations. “We're not doing generic consulting now –
"We interviewed 200 CEO’s last year, and they concluded that they are always in transformation, that the average company has three or four transformations each year. In the past you had one every couple of years.”

we’re very precise about what we can deliver to the client. And if you deliver, the client’s expectation is that you commit yourself to the results more and more.” he says. “So you do common research, you develop annual programmes, and get different models of engagement with the client.”

‘Industrialisation’ is about the supply chain – providing the best product for the best price. “Our version of industrialisation includes access to well-educated, but low-cost resources across the world, and not just in IT,” says Wasser. As an example, Capgemini Consulting has a group of 150 people in Mumbai who are doing strategic analysis as part of a major strategic ‘transformation’ assignment. “This allows us to create low-cost components in our own supply chain, so we can deliver a more attractive value proposition to our clients.”

Expanding upon I³, several other dimensions are recognised as essential to allowing Capgemini to remain flexible, retain clients and talent, and build business during uncertain times in consultancy.

“One dimension is that we’ve worked on improving our international collaboration,” says Wasser. “We’re coming from a more regional or country-based set-up for consulting; we do this through specific sector or industry-oriented initiatives, so we connect the sector teams into an international group.” This allows for consistency and agility across the globe. “If our Swedish market is a little less than anticipated, we move our consultants into Germany. International consistency gives us resilience.”

An interrelated – and essential - dimension is people. “Our industry is a people business; our growth at this moment is limited by the access to talent. We cannot grow faster because we cannot recruit enough people,” says Wasser. “It’s a very interesting phenomenon, because we expect the market to go down – but at the same time, there is a war for talent.” In a downturn, he says, survival strategies are not just about smarter financial moves such as reducing expenses. “You’ve got to take care of your people and reward your best talent; that’s a special challenge, and requires special leadership skills.”

To retain its own talent and encourage global cross-fertilisation of ideas with clients, Capgemini has implemented its own corporate university. Located in Les Fontaines, an 18th-century chateau 30 km north of Paris, Capgemini University is an international executive training facility that can accommodate a mix of 400-500 employees and clients. “They create an international network,” says Wasser. Capgemini University helps the consultancy to remain responsive by ensuring that its talent shares the same competencies across the globe. “The idea is that a senior consultant in Country A has the same capabilities as a senior consultant in Country B.”

As the lifecycle of products and services becomes progressively shorter, downturns in any business are inevitable, according to Wasser. “The most important message is to anticipate the downturn,” he says. “Don’t wait for it, and do be prepared to act if it does occur.”
PLANNING FOR THE UNPLANNABLE
One thing the experts – whether in the trenches of business, or in the halls of academe – agree upon is this: we’re living in times of economic uncertainty. The second thing the experts agree upon: “Be prepared”. We spoke to George Yip, whose current position as Dean of Rotterdam School of Management was predated by years of consultancy. Here he offers his vision and experience on how business can navigate – and not run aground – in tough times.

Text Lesa Sawahata

You’ve recently said that strategy is a “planned, thought-out, perhaps indirect way of achieving an objective” and that you believe in having firm strategies in place. How does this work during crisis periods?

To some extent, once the uncertain times have arrived, it’s too late to make the fundamental changes that will help you. Basically, you have to take into account the likely variation in revenues, and plan accordingly. Crisis doesn’t mean that you can’t plan at all; it means that there is less certainty in the plans. You need to design a business model in the first place, one that will help you to survive. And because each element in a business model contains a certain amount of risk, if every element is risky you’re going to have much more difficulty surviving tough times.

That sounds obvious, but can you give an example?

For example, how you finance your company is relatively independent to the rest of the elements in a business model. So if your revenues are very sensitive to economic conditions - meaning you can expect a lot of downturn in bad times - you’ll need to plan a more conservative strategy. You’re in trouble if you’re highly leveraged financially, and you have revenues that are very sensitive to economic cycles, and your costs are not favourable. If you’re a fashion house, for example, you won’t want a lot of debt; if you’re a utility you can take debt because you’re relatively stable.

And after a downturn hits?

Basically, you want to survive while not killing off your future prospects for growth, innovation and so on. You have to assess: what is the minimum we must do in order to survive? Alternatively, you need to assess the minimum cost-cutting needed for survival – since that is the overriding priority.

To design a flexible business model, think about (1) planning short- and longer-term actions; and (2) operational and strategic actions. Crisis management falls into the ‘operational, short-term management’ box; you’re making sure you survive the crisis that you hope is temporary.

What about innovation during these times?

It’s important to continue to innovate, although once again you may want to focus on nearer-term payoffs, rather than longer-term. Innovate for product improvements rather than a radical new product that you may have the luxury of investing in during better times.

What is the best model of leadership for tough periods?

The role of leadership is even more important in bad times because the organisation will be going through painful adjustments. This is very much a time when top managers have to lead from the front – and also by example, such as by sacrificing pay increases and bonuses for themselves.

Can good things happen to companies during crisis periods?

Often a crisis can give you an excuse, or stimulus, to make long-needed changes that might have been resisted by an organisation. This is your chance to change long-held practices that are no longer optimal. There are other positive aspects to a crisis, because other companies can be in trouble. There may be real opportunities in terms of bargain hunting, or acquiring customers or new distribution partners, from companies in worse shape than your own. Lastly, you can take a long term strategic view and perhaps make some strategic investment such as expanding into new markets and new countries.

George Yip is a best-selling author, and one of the world’s leading authorities on global strategy and marketing, managing global customers, and internationalisation.