

The Recovery from Black Swans: Philosophy, Principles and Practices

Anton Verwey, Johan Maritz (inavit iQ) & Peter Schmitt (unconsult)
June 2020

Background

It is almost unbelievable to think that we are already in the month of June. Almost half of this year is done, and for much of the world most of this time has been spent in some form of lockdown and social isolation. The absolutely devastating impact of the Covid-19 pandemic on the world economy, the consequences for social disruption and the questioning of political dynamics at some level were almost impossible to foresee, particularly in terms of the systemic interdependencies they present to us. At another level, whilst much of the public discourse is about these macro impacts, it is really important to not lose sight of the fact that the real practical consequences are experienced at the level of individuals, families, communities and small enterprises.

The Idea in Brief

In this article the philosophy, principles and practices required to craft the new normal is explored. Some examples of actions implemented by client systems are shared, as well as some practical guidelines for a way forward.

The closest analogy that we could draw for ourselves, is that of communities struck by natural disasters such as floods, earthquakes and fires. If we are lucky, we have some advance warning and are able to find temporary shelter and wait out the event. Once it has passed, we are confronted by the immediate consequences such as loss of life and destruction of property. Some individuals and families will be harder hit than others. Some will have absolutely nothing left. And while we mourn the loss, we also have to start rebuilding, for many without the material means to do so. For many it is starting over from scratch. The added challenge of the current pandemic is that for the foreseeable future it will remain with us, with rising numbers of infections and deaths globally. None of us can really predict when this disaster will be “over”, or when the next disaster will strike.

Black Swan Articles to Date

In the last quarter of 2019, we started an article series referencing black swan events*. In the first half of this year, we followed this up with two more articles.

In “A Bevy of Black Swans” (Pre-Covid) we came to the conclusions that:

1. The world has seen the advance of a bevy of black swans. They no longer occur as rare events spaced over time, but cluster together over much shorter time frames;
2. They lead to a series of mostly unplanned systemic consequences;
3. The interdependencies of which also play out over different time frames, some immediate, some potentially only over the longer term;
4. Which places extraordinary demands on the capabilities of leadership at all levels of the enterprise, but also in all spheres of life.

In “*Dealing with Black Swans*” written in the first quarter of 2020, we concluded that there will be a great deal of emotional, physical and financial pain in the immediate future. A crisis of this scale will never be truly resolved until many of the fundamentals of our social and economic life have been remade. There is also the need, more than ever, for business leaders to recognise the crucial interdependencies between business and its environmental, social, and governance context.

In the third article “*Where do the Black Swans come from*”, we presented the thesis that we need to introspect about our own choices and decisions as leaders. Through our own choices we have created scarcity, maldistribution and uncertainty. With COVID19, this has now become a global “black swan”, leading to the almost certain “corruption” (read destruction) of our planet. We are not suggesting that this is “the end of the world”. What we are suggesting is that the expectation of a return to “normal” is a delusion, and that we need to think individually and collectively about the personal choices we make as we grapple with the opportunity to craft a “new normal” that works as well for each one of us as it does for the biosphere which hosts us.

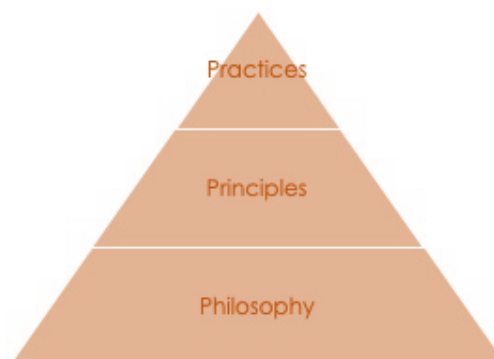
In this, the fourth article in the black swan series, we will be exploring the process of recovery, rebuilding and eventual healing and growth. Much of our thinking was inspired by two articles recently published by McKinsey Insights^{i,ii} (and we will be referencing much of their content here) as well as the conversations with clients and partners where there is an increasing realization and acceptance that there will be no return to normal. The

* Please let us know if you would like copies of these three articles

McKinsey articles pose two really profound questions, namely how do we move beyond mere survival to growth, and how do we practically make such a focus on growth work? In our own reflection, it seems to us that there are at least three areas of thinking to consider.

Philosophy, Principles and Practices

As is shown in the diagram, we hold the view that three areas require really mindful attention. The manner in which we share these perspectives also come primarily from a focus on enterprises, large and small, and their leadership.



Philosophy

The pandemic affords us a real opportunity to rethink the fundamental purpose of our enterprise, and as leadership we therefore need to explore and be clear on our own worldviews, values and beliefs.

Principles

With clarity and alignment on our philosophy, the next conversation in our view has to be about our decision criteria, as these:

- Informs the parameters we use to make decisions; and therefore
- What we will do, and perhaps even more importantly what we will not do.

Practices

Once we have clarity and alignment on our decision-making principles, we can then decide on our practices. With this we mean coherence on how we execute through:

- Decision implementation, monitoring and adjustment; and
- Stop, Continue, Improve / Accelerate, Start initiatives and actions.

The McKinsey Content Revisited

A careful reading of the two McKinsey articles, and rearranging their content into the framework proposed above, then suggests the following potential focus areas. We will not expand on these in this article, in part to encourage you to access the two articles in your own time. The real point we wish to make, is that we need to be careful to not jump into action because of

anxiety, but that every action we take now should be based on a set of decision criteria informed by a very clear articulation of our enterprise philosophy.

Philosophy

- From managing for the short term to conscious capitalism for the long term
- From making trade-offs to embedding sustainability
- Human at the core
- Rethinking the organization
 - What we believe
 - Who we are
 - How we work
 - How to grow
- Purpose-driven customer playbook
- From simply returning to returning and reimagining collaboratively within and outside of traditional ecosystems (i.e. not in isolation)

Principles

- Ecosystems and adaptability
- From lines and silos to networks and teamwork
- From just-in-time to just-in-time and just-in-case supply chains
- Back to fundamentals

Practices

- Rebuilding operations
 - Develop an agile operating model
 - Building operations resilience
 - Accelerating end-to-end value-chain digitization
 - Rapidly increasing capital- and operating-expense transparency
- Rapidly recover revenue
 - Start-up (minimum viable business) mindset.
 - Identify and prioritize revenue opportunities
 - Act with urgency
- Accelerate digital adoption to enable reimagination
 - Refocus digital efforts to reflect changing customer expectations
- From online commerce to a contact-free economy
- From 'sleeping at the office' to effective remote working

Learnings from Clients

Using the framework shared above, in this section we will share briefly from the experiences of some of our clients and partners.

Philosophy

- After multiple attempts to make organisational improvements using traditional approaches (strategy, people, brand), a multi-billion Rand client in the services industry is commencing a journey of radical change with purpose at the core – to become the best, most relevant business with demonstrable measurable impact on people, society and environment.

Principles

- An emerging biotech client is simplifying its business model based on minimum viable business principles, and purpose centred decision criteria to address the needs of their international ecosystem.
- A client in the alternative protein source industry has recommitted to more responsible and eco-system sensitive business practices.

Practices

- The SSA subsidiary of a global pharmaceutical group has undertaken a continent-wide transformation programme that aligns the regional organisation with global purpose and best practice delivery, encompassing service driven leadership, and rapid/agile customer (state & private healthcare providers, laboratories and patients) centred execution.
- A client has fully embraced the use of virtual “workshops” to conduct their strategic thinking and planning process, and to link this to their normal business rhythm so that it becomes part of their normal way of work rather than an annual event.

A way forward?

We are experiencing decades worth of transformation of our economy compressed into a few months. Things will never be the same. Post-coronavirus business needs to find a balance between what worked before, what needs to happen to succeed in the next normal, and they need to do it fast. Some of the following might be learnings we can take into the future as we create the “new” normal.

- Collaboration, flexibility, inclusion, and accountability are things

organizations have been thinking about for years, with some progress. But the massive change associated with the coronavirus could and should accelerate changes that foster these values.

- Accelerate the transition to agility. Agility is the ability to reconfigure strategy, structure, processes, people, and technology quickly toward value-creating and value-protecting opportunities. In a 2017 McKinsey survey, agile units performed significantly better than those who weren't agile, but only a minority of organizations was actually performing agile transformations. Many more have been forced to do so because of the current crisis—and have seen positive results.
- Agile companies are more decentralized and depend less on top-down, command-and-control decision making. They create agile teams, which are allowed to make most day-to-day decisions; senior leaders still make the big-bet ones that can make or break a company. Agile teams aren't out-of-control teams: accountability, in the form of tracking and measuring precisely stated outcomes, is as much a part of their responsibilities as flexibility is. The overarching idea is for the right people to be in position to make and execute decisions.
- Regardless of their functional scope, effective networks of teams display several qualities. They are multidisciplinary: experience shows that crises present a degree of complexity that makes it necessary to engage experts from different fields. They are designed to act. Merely soliciting experts' ideas is not enough; experts must gather information, devise solutions, put them into practice, and refine them as they go. And they are adaptable, reorganizing, expanding, or contracting as teams learn more about the crisis and as conditions change.
- When making decisions amid uncertainty, pause to assess and anticipate, then act. Waiting for a full set of facts to emerge before determining what to do is another common mistake that leaders make during crises. Because a crisis involves many unknowns and surprises, facts may not become clear within the necessary decision-making time frame. But leaders should not resort to using their intuition alone. Leaders can better cope with uncertainty and the feeling of *jamais vu* (never seen) by continually collecting information as the crisis unfolds and observing how well their responses work.
- Start locking in practices that speed up decision making and execution during the crisis. The all-hands-on-deck ethos of a pandemic can't last. But there are ways to institutionalize what works—and the benefits can be substantial. During and after the 2008 financial crisis, companies that were in the top fifth in performance were about 20 percentage points ahead of their peers. Eight years later, their lead had grown to 150 percentage points. The lesson: those who move earlier, faster, and more decisively do

best.

- Corporate leaders also are much more aware today of the cognitive biases—anchoring, loss aversion, confirmation bias, and many more—that undermine decision making without us knowing itⁱⁱⁱ. Some have already created formal processes—checklists, devil's advocates, competing analytic teams, and the like—to shake up the debate and create healthier decision-making dynamics. What leaders need during a crisis is not a predefined response plan but behaviours and mind-sets that will prevent them from overreacting to yesterday's developments and help them look ahead. Leaders with the right temperament and character are necessary during times of uncertainty. They stay curious and flexible but can still make the tough calls, even if that makes them unpopular.
- Think of ecosystems (that is, how all the parts fit together) rather than separate units. Companies with healthy ecosystems of suppliers, partners, vendors, and committed customers can find ways to work together during and after times of crisis because those are relationships built on trust, not only transactions. Companies learned the hard way that individual transaction costs don't matter nearly as much as end-to-end value optimization—an idea that includes resilience and efficiency, speed as well as cost. To be faster means adopting new digital-planning and supplier-risk-management tools to create greater visibility and capacity, capability, inventory, demand, and risk across the value chain. Doing so enables companies to react well to changes in supply or demand conditions.
- One of the biggest concerns is customer demand. Will overall demand go up or down? How will spending patterns change? Do you need to consider new delivery channels? Are there any new customer groups to consider? How will safety concerns impact on your business? You also need to think through how the crisis affects your value proposition. A good approach is to define the possible, based on metrics such as market size, current market share, sales-force size, and how competitive the market is. On that basis, a company can estimate sales potential and budget accordingly.
- Another area of vulnerability the current crisis has revealed is that many companies didn't know the suppliers their own suppliers were using and thus were unable to manage critical elements of their value chains. Companies should know where their most critical components come from. On that basis, they can evaluate the level of risk and decide what to do, using rigorous scenario planning and bottom-up estimates of inventory and demand. Contractors should be required to show that they have risk plans (including knowing the performance, financial, and compliance record of all their subcontractors, as well as their capacity and inventories)

in place.

- Long-term oriented companies outperformed their peers in earnings, revenue growth, and market capitalization. Stop assuming that pursuing shareholder value is the only goal. Businesses have fundamental responsibilities to make money and to reward their investors for the risks they take. But executives and workers are also citizens, parents, and neighbours, and those parts of their lives don't stop when they clock in. In 2009, in the wake of the financial crisis, Dominic Barton argued that there is no "inherent tension between creating value and serving the interests of employees, suppliers, customers, creditors, communities, and the environment. Indeed, thoughtful advocates of value maximization have always insisted that it is long-term value that has to be maximized. Evidence has accumulated that businesses with clear values that work to be good citizens create superior value for shareholders over the long run. Nobel laureate Amartya Sen, updated the idea for the 21st century, stating that the invisible hand of the market needs to be balanced by the visible hand of good governance.
- Stop thinking of environmental management as a compliance issue, start considering environmental strategy as a source of resilience and competitive advantage. Business should think about working ever more closely with governments and labour organisations on issues such as training, digitization, and sustainability.
- Leaders also need to stay positive. The early 20th-century British explorer Ernest Shackleton once noted, "Optimism is true moral courage." These qualities of optimism and courage are needed more than ever as leaders make the decisions that will shape the next normal.
- Transcendental leadership together with transformational and transactional leadership, 3D Leadership, is necessary to determine philosophy, principles and practices. The ability to operate in less predictable environments places an emphasis on external organizational adaptability. This position also forces leadership to focus on functions such as problem solving and innovation management. The leader's challenge then lies in creating an environment that encourages the creativity, sensitivity and flexibility of the group as well as the individual's ability to deal with the uncertainty of new or complex demands.
- Transcendental leadership is needed when the focus of the work is beyond the boundaries of the industry and the known. The focus is global and on shaping the organisation to ensure long term sustainability in a rapidly changing environment. It is a long-term journey, often characterised by chaos and uncertainty. Tolerance in accommodating different views and navigating the organisation through turbulence is required and appreciated by employees. This includes the ability to

generate complexity, values, activities, perception, judgement, interpersonal qualities, problem solving, and so forth.

Final Remarks

In this article we hope to have shared with you some ways of thinking and deciding in different and more relevant ways, given the enormous social, political and economic impact of the Covid pandemic. We also shared with you some of the practical actions leaders and enterprises may take to craft their new normal in a sustainable manner. At some level, what and how we learn now is mission critical, as the pandemic is not the last black swan to confront humanity. What the next black swan will be we do not know, not what form it will take. We can however safely assume that there will be more events like this one, and our challenge as individuals and leaders in enterprises is to take all the decisions and steps now to ensure the survival and growth of our own enterprises. In this way, we can ensure that we have a lasting and meaningful impact on all of our stakeholders, including broader society. Optimism without meaning or grounding may lead to disappointment and defeat. Optimism that springs from authentic values and trust in people's capabilities can be the source of energy for everyone in the organization to move forward.

References

-
- i Kevin Sneader and Bob Sternfels. May 2020. From surviving to thriving: Reimagining the post-COVID-19 return.*
 - ii Kevin Sneader and Shubham Singhal. May 2020. From thinking about the next normal to making it work: What to stop, start, and accelerate.*
 - iii Aaron de Smet, Gerald Lackey and Leigh Weiss. June 2017. Untangling your organization's decision making*