

GILL RINGLAND

OLIVER SPARROW

PATRICIA LUSTIG

BEYOND CRISIS

Achieving Renewal in
a Turbulent World



“Beyond Crisis is the new bible for managers wanting to make sense of the changing force fields within and without our organizations.”

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“In Beyond Crisis, Gill Ringland, Oliver Sparrow and Patricia Lustig have given us a simple and powerful look at the kind of organizations that will thrive in the ‘new normal’.”

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“A real wake up call. The real world and the financial world are in flux. Organisations and their managements must be self-renewing, alert, adaptable and ready to prosper in the new circumstances and uncertainties.”

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“This book really gets to the heart of how to turn crises to your advantage. In this next decade organisations must face and overcome new challenges and if you read this book then you will see a clear path to take to emerge as a winner.”

Peter Blampied, Country Manager, Navigon AG

“The authors’ deep and broad experience is transformed into essential material for companies wishing to face today’s challenges of volatility, unpredictability, complexity and accelerating change. Here is a book which every leader must not only read, but also buy for everyone on the management team.”

Prabhu Gupta, Distinguished Professor of Global Business, Management and Public Policy, William Carey University, India, and Executive Director, Organisation Development, Wolfsberg, Switzerland

Beyond Crisis

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Achieving Renewal in a Turbulent World

Gill Ringland, Patricia Lustig and
Oliver Sparrow



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Preface: Why You Should Read this Book

It is a universally acknowledged fact that the financial crisis of 2006–2009 highlighted massive faults in the banking and credit systems and precipitated a rapid slide into panic and a grudging bailing out at governmental level. In the ensuing months many political and economic experts voiced different views of why the monetary systems went wrong, and how they may be better arranged in the future. Some observers have taken the discussion further and looked at the implications for major organisations from the position of the bottom line.

But we believe the days when you could expect ‘Business as Usual’ are gone for good; organisations must now adapt and change or they will fail. They have become toxic; people, at all levels, are unsure about what to do, what the rules are, what’s expected of them and of the organisation. Staff have become increasingly risk averse and lack confidence. We have devised the antidote to toxic organisations, and have designed a blueprint for success in the twenty-first century.

What’s our authority to do this? Why listen to us?

Between us we have over 100 years of experience working as senior managers in multinationals, and as consultants to major corporates, governmental departments and third-sector organisations. Our

expertise, in common with our colleagues in SAMI Consulting, is futures, strategy planning, organisational change and development; we work constantly with uncertainty. That said, we are pragmatic – we want to know what works and why. We've worked with hundreds of organisations across the world, enabling them, by applying aspects of what is now included in this book, to become more effective and successful. You will see that we use many examples and case studies; most of them come from our direct experience.

There's no question that, in order to change successfully, you need to be clear where you have come from and why. For some time now, we have been analysing what has been happening in organisations over the last decades. The financial crash of 2006–2009 provided the spur for us to co-ordinate our analysis and our thinking, and formalise our ideas for a successful twenty-first-century organisation.

In this book we lay out the hugely complicated situation which is the current operating environment for many organisations and make sense of it. We help you to recognise not only the patterns which are now emerging globally, but also your place – and your organisation's place – within them.

We have identified what the organisation of the future needs to be like. We believe organisations will need to follow the Darwinian imperative and evolve. We've called this evolving organisation the Purposeful Self-Renewing Organisation or PS-RO.

It is a relatively simple remedy; but it requires senior managers to accept that they will need to continually take stock of the environment in which they find themselves and adapt and respond to what they find; they will need to be continually renewing. This evolution will require them to identify and adapt their best 'genes': procedures, processes, thinking, innovation and creativity. They will also need to reject 'bad' genes. The good news is that it is not costly to build a Purposeful, Self-Renewing Organisation. However, it does take time to analyse what is needed, and it takes a different

style of leadership to make use of the structure that results from this. It requires training, chiefly for doing tasks which nobody undertook before.

In this book we demonstrate HOW the future organisation will work and WHY this will be successful. We hasten to add that we recognise every organisation is different and that there is no one-size-fits-all solution. But we do know that to be successful, a PS-RO will need to have five qualities: Values, Insight, Options, Narrative and Machinery. To that end, we supply a toolkit which provides you with the necessary tools to create your own PS-RO.

We believe that the future need not be overwhelmingly daunting; ‘getting the job done’ can be challenging, stimulating, inspiring, rewarding and enjoyable. PS-RO staff are respected and responsible, informed and insightful, exhibiting qualities of confidence and leadership that lead to long-term success – and, crucially, profitability.

Finally, to create your own PS-RO we do not ask you to establish planning groups or other cost centres because we believe that the wisdom of the organisation must be tapped directly. What are needed are long, purposeful conversations, backed by insight into which everyone with something to say has their voice. Then you will see renewal: establishing clarity, hunting out useful ideas and capabilities, creating options for the future and exploiting new abilities for the present. As you can see, this goes beyond traditional strategic planning; what we envision is the desire – and the will – to create an environment which encourages and enables a whole organisation to take charge of its destiny.

We hope that you enjoy reading *Beyond Crisis*.

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Introduction

The uncertainty of the future offers us some near-certainties. Life in large organisations will become ever more complex, time and resource constrained. Competition will be more intense, and scrutiny will be unrelenting. At the same time, the world has seen a financial crisis and faces ongoing changes in the world balance and global systemic challenges. We seem to have reached a number of tipping points. How can organisations thrive in this environment?

This book provides a clear and coherent model for senior managers to use in responding to these challenges.

If you're reading this book, you're likely to know about strategy and to have a track record of success within established organisations. Recently, however, you may have begun to feel that the tools and systems that used to work are inadequate to the challenge of the world that is unfolding. These same structural issues confront state, private sector and non-profit organisations in equal measure.

How will the world be different over the next decades?

The last decades have had some disruptive events – the stock market crash of 1987, the Asian collapse of 1997, the dot.com boom

and bust. However, consistent growth and low interest rates provided a benign umbrella. The industrial countries showed steady growth and low inflation, commodity and wage costs remained stable and the populous countries of Asia were content to grow rapidly whilst taking in the low-skilled work of the wealthy world. Energy price inflation and concerns about environmental and security issues, food price increases and related trends suggested that all was not well with this model before the financial crisis. Central bankers appeared to have inflation in hand, but their expansionist policies allowed exceptional levels of debt to develop. The resulting housing and share price boom led to an unsustainable expansion of consumer debt. This, together with the monetary slackening after the dot.com collapse, was one deep root from which the financial crisis grew.

The collapse of a short-term bubble – banking – has revealed the far larger bubble that needs to be pricked: debt. This will take time to purge from the system. So, the financial crisis which started with sub-prime mortgages in 2006 has revealed something very different beneath that tranquil surface of the last two decades.

The world ahead of us will be very different. It will be fast-moving and innately challenging. Demographic change and education mean a shift in the patterns of labour skill and cost. The ageing industrial nations – and China – are not well placed as their workforce ages and retires. Further, skills that were once restricted to the industrialised nations are now widely available, further enhancing the shift in international competitiveness towards new entrants. Much the same can be said for technology, which continues its relentless expansion in depth and range. The debt burden of the wealthy nations means that their recovery from the crisis will be slower than the new competitor nations. Competition will be intense, and on new terms. Global systems issues – such as environmental change, but also international law and finance, access to raw materials and the management of intellectual property – all

require the rich nations to sacrifice some of their power. This combination of power rebalancing and an institutional vacuum implies that the next decade will be a turbulent one.

To make sense of the emerging world order, we have developed some frameworks for thinking about the short, medium and long term. The short term is, essentially, concerned with the way out of the financial overhang, debt and unemployment situation in the West. The medium term depends on how the wealthy world comes to terms with the new economic and political conditions, with new competitors. The longer term is constrained by the events to date and in the short and medium term, and by the capability of the world to tackle global systemic challenges.

This leads us to develop three scenarios which fundamentally inform our thinking in this book: a *Low Road* scenario, in which the crisis extends beyond the financial sector, unemployment remains high and growth low; a *My Road* scenario, in which, while the industrialised countries continue to suffer, the billion new consumers in the cities in Asia, Africa and Latin America create a new style; a *High Road* scenario, in which the international mechanisms that have been successful in gaining emergence from the financial crisis are quickly able to develop, to start to tackle some of the global systemic challenges, in some places.

In all three scenarios, the next decade will be turbulent for the economies and organisations of industrialised countries.

Organisations in a challenging world

Economies are not, of course, much concerned with individual organisations. Markets are supposed to allocate assets to flow from mature or dying organisations to labour and capital markets where they can be allocated to new activities that require them. Though the mechanisms for this are often sticky, especially inside

organisations, the key question for organisations in the industrialised countries is: how can we avoid becoming mature and, eventually, dying?

Meanwhile, many large organisations have been managed with a common set of management systems and tools: the orthodoxy was everything that could be delegated beyond the bounds of an organisation should be; and what remained when this was complete should focus on uniformity, predictability and reducing costs. At best, this leads to optimisation around what used to be appropriate. At worst, organisations lose the ability to renew themselves. Today's world requires combining the ability to operate under a regime of increasing competition, with the ability to adapt quickly.

The use of a common set of tools and technologies has made organisations increasingly similar, intensifying competition. Product life cycles have accelerated. Profits are squeezed by this, a process called 'commoditisation'. Actions which organisations take to evade this often use the same measures that caused it, accelerating the race. Yet this is a race which cannot be avoided.

This cycle can be broken by renewal, by changing how things are done and what is to be done. Such renewal needs to be purposeful, taking the organisation to a new, unique situation from which it can evade the forces of commoditisation. Defining and carrying out that purpose requires a number of qualities.

The Machinery – the dynamic infrastructure – to generate purposeful renewal is different from that used in the day-to-day aspects of the organisation. It takes unspecified potential, ideas and more ideas, and makes them concrete. It does this against changing criteria, often based on 'what might be' in the turbulent environment. This potential, evolved into project proposals, is then able to compete for the organisation's resources.

We symbolise this with a double cone, Figure 0.1. In the lower cone, direct and indirect procedures formalise insights that directly and indirectly develop this 'unspecified' potential. Where

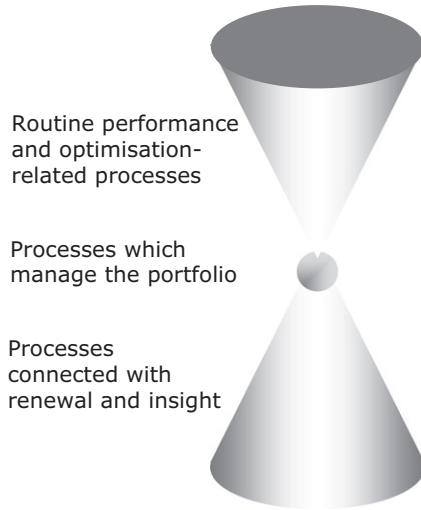


Figure 0.1 The double cone

the cones meet, assets are allocated and projects are approved. In the upper cone, radiating out from this, the now-specified activities are subject to normal commercial disciplines.

What is needed?

The knowledge which purposeful, self-renewing organisations need to tap is scattered widely throughout the organisation, and amongst customers, suppliers and other stakeholders. Renewal is not often these people's first priority. The psychological types who tend to inhabit the upper cone are often impatient with open-ended debate. Machinery is, therefore, required to generate useful conversations across these divides. The result is something which is easy to sense but often difficult to define: a sense of collective competence.

Psychologists use the term 'competence' to mean a situation in which an individual or group has a clear grasp of the situation and has access to the tools with which to respond to it. Groups with competence can operate at much higher levels of potential stress

– in much faster and more complex environments – than groups which lack this quality. The world that we face will be complex, very fast moving and open to all manner of mistakes. Groups that are able to focus quickly on issues through sharing common insight have a particular strength.

Renewal needs to match both the current situation and the changing environment. To do this, the organisation needs analytical Insight. It also needs a clear sense of its Values, the choices which it has made around often intangible issues such as brand positioning, staff relationships and the like. Third, it needs to relate its current activity and asset base to practical ways forward, its Options. These are joined by the organisational Narrative. The Narrative is the shared set of reflexes that knit the organisation together. The first four qualities of Insight, Values, Narrative and Options generation are held together through the operation of the fifth quality, that of Machinery – used here in the sense of active and dynamic infrastructure, covering people and processes. All five qualities need to be in place if purposeful renewal is to be achieved.

Figure 0.2 shows the Machinery holding the other four qualities together and managing their interactions. An organisation which is using these five qualities for renewal is what we call a ‘Purposeful Self-Renewing Organisation’, or PS-RO.

The need for and creation of a PS-RO is the focus of this book.

The Machinery that connects Insight and Values so as to generate and interact with Options generation and the Narrative will be unique to the needs of any one organisation. However, there are some generally applicable ways in which these processes can be clustered.

One of these has already been discussed: asset allocation and project approval, which sits on the point where the two cones meet in Figure 0.1. The process for asset allocation is likely to be integrated with divisional plans, both in respect of their demand for resource and also their contributions to overall activity. The

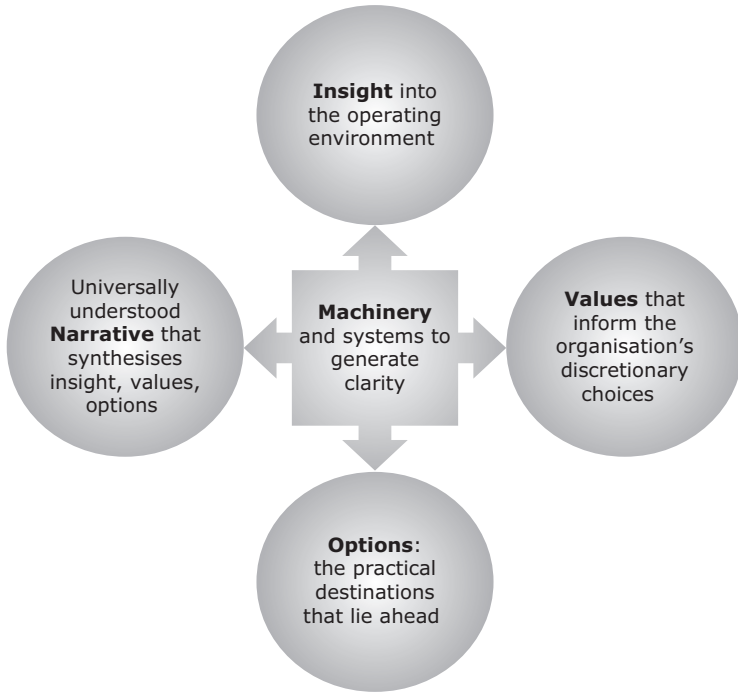


Figure 0.2 Five qualities of a PS-RO

required performance for each, the overall resource flow during the next few years and the expected overall balance of the portfolio are important outcomes from this part of the Machinery.

Two other loops will be general to all organisations: one of these relates to the performance of established activities in the upper cone, the other applies to the slower activities, which clarify Insight, Values and which generate the discussions that result in renewal. These occur in the lower cone.

These three sets of activity are symbolised by the arrows wrapping Figure 0.3. Seen from above, these create three concentric loops, activities which must, of course, inter-communicate. We term this the Three Ring Circus.

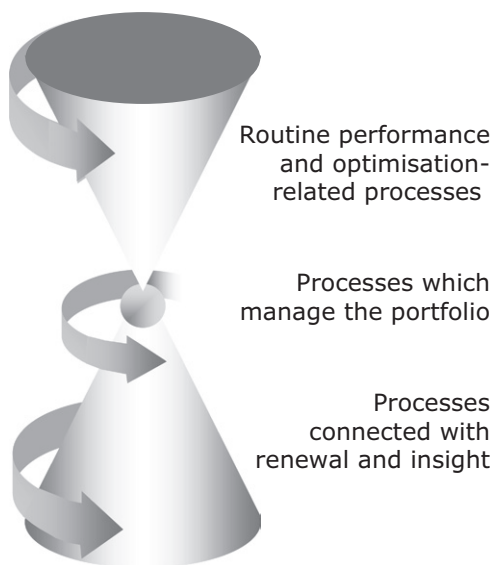


Figure 0.3 Three process loops – the Three Ring Circus

A Purposeful Self-Renewing Organisation

The PS-RO model defines the broad shape of the organisation that is fit to succeed in the turbulent, fast-flowing river of change. Readers should note that almost by definition there can be no single correct form for a PS-RO. A PS-RO permanently strives to adapt itself to its particular changing circumstances.

A PS-RO has all five qualities in place, and is actively changing its nature to meet anticipated situations ahead. It is aware that such anticipation can be mistaken, so it works hard to manage its *Insight*. It makes sure that everyone is aware of its *Narrative*, sure in the sense of testing that people have heard and are acting on this. It is clear about its *Values* and has ensured that these are uniformly applied across its expanse. It has considered its *Options* and has not only defined the broad nature of the journey that it wants to undertake, but has set in place processes to filter proposals so as

to ensure that they meet the necessary criteria. Finally, it has in place the *Machinery* and flows needed to maintain all of the above – this consists of two essential components: formal processes, some long lasting, some of them ephemeral and structured to meet passing needs; and a social structure that displays extraordinary competence.

Organisations which exhibit competence have worked hard and long to instil a sense of common purpose throughout the organisation. It is embedded in the Narrative, and built from Insight, Values and Options by way of Machinery. Narrative and competence come together to create new solutions. Sources of renewal begin life completely unspecified. They are vague possibilities that have a long way to go; without a supportive process of developing the ideas, most will be lost.

The ability to detect new ideas is not universal. The people who detect ideas are often young and close to their training or engaged with suppliers and others outside the organisation. They need to recognise potential when they see it. The general nature of the kind of ideas and renewal that is welcome needs to be clear to all involved.

Isaiah Berlin suggested that the way people prefer to think about abstract problems could be classed as the way of the Fox and/or the way of the Hedgehog: ‘The Fox knows many things but the Hedgehog knows one big thing’.¹ Foxes are sceptical of big ideas and grand schemes, and are always looking for pragmatic solutions to immediate problems. Hedgehogs enjoy sweeping ideas and systematisation. They are articulate simplifiers, people who can easily brush aside or overlook ideas that do not fit into their current template. Such templates can be ideas such as shareholder value, customer focus or a belief in perfect markets. Activity in the upper cone tends to reward Hedgehog-like thinking and working styles. Fox-like skills are needed if the lower cone processes are to work.

Both styles are needed. Renewal depends on the attributes of both Foxes and Hedgehogs.

How is all of this to be put in place?

Curiously, implementation is relatively easy once the understanding is in place as to what needs to be done. Lou Gerstner wrote about his time at IBM in his book *Who Said Elephants Can't Dance?*² he concluded that even large and complex organisations like IBM could change – and change quickly – when shown how.

We can offer you a blueprint to build your PS-RO, but all organisations are different. It is a key contention here that there is no one 'right' design. For any given organisation, within the context of its current and particular circumstances, there *will* be a 'right' design, but matters never stand still. There will be times, for example, when technology changes rapidly or perhaps when stakeholders are particularly demanding. Your Machinery will need to shift its focus in order to accommodate such changes. The strength of a PS-RO is that it evolves to meet the emerging challenges.

Chapter 9 provides a guide to handling the issues that you may face as you create a PS-RO; and a web link to an online diagnostic tool which we provide to help you tackle some of the practical issues you face as you design your PS-RO.

Part III of this book changes tone and pace: it is about the nuts and bolts of how to create a PS-RO, combining practical advice with briefing on tools and sources of help.

Chapter 10 focuses on Values: both personal and organisational, and their alignment in a PS-RO. It will help you to see how you can implement agreed, aligned Values in your organisation. A successful, sustainable organisation needs employees who are aligned with its core Values. They give people a sense of stability when they are in an organisation undergoing course correction and operating in uncertainty.

Chapter 11 is about the Insight processes. Insight is the ability to make sense of the external world and its future, integrate it with the internal world and harness that understanding to assess the organi-