

What's Next? The New Challenges for Business

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In this article, Eamonn Kelly highlights the challenging new environment for business created by two decades of significant and accelerating change. The solution, he argues, is to learn to anticipate change and to adapt quickly, and this requires organizations to adopt a new set of priorities and skills. This essay first appeared in *Best Practice: Ideas and Insights from the World's Foremost Business Thinkers* (Perseus, 2003).

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What's Next? The New Challenges for Business

We live in an era of profound transformation. In just a few decades we have witnessed the transition from an industrial, nation-based, resource-orientated economy to a global, networked, knowledge-intensive economy. Corporations have been a powerful catalyst for change: opening markets, promoting privatization, and globalizing goods, services, and production processes. As more parts of the world have adopted market mechanisms to promote wealth creation, millions of people have gained access to new products, technologies, information, and ideas. New economic opportunities have improved the quality of life for many. However, there have also been unintended consequences.

The liberation of markets, driven by the power of corporations, has also created more complex, interconnected economic and social systems that cannot be controlled or predicted. The very forces of globalization, rapid technological advances, increased connectivity, and mounting transparency that businesses have helped to unleash are shaping a new and challenging environment. Global protest movements, demands for greater accountability, increasingly complex geopolitical tensions, wider cultural divides, and rising concerns about environmental and social sustainability are making the business of business even more complicated. These new realities point to a whole new set of challenges and opportunities for business in the decade ahead.

Foremost among these corporate challenges is a need to move beyond the sole pursuit of competitive advantage to embrace “adaptive advantage” as well. Amidst the economic globalization and deregulation of the past 20 years, companies understandably sought competitive advantage by developing and applying a superior understanding of the marketplace. Using increasingly sophisticated tools and technologies, they analyzed and modeled the economy, finance, industries, customers, competitors, and options. In the next 10 years, businesses will continue to improve such tools, but that alone will no longer be sufficient to ensure success. Instead, businesses must also learn to respond more quickly to an increasingly complex environment in which many political, economic, social, cultural, and technological forces are shifting, interacting, and sometimes colliding. This will entail expanding their peripheral vision to encompass a far broader set of concerns and to focus on the development of *adaptive advantage*, based on a deeper understanding of the world as well as the marketplace.

Ultimately, adaptive advantage requires significant improvement in two linked areas: the ability to anticipate and sense change, and the capacity to respond quickly and coherently. For companies this will inform a new set of developmental priorities, organized around *thinking differently*, *learning differently*, and *acting differently*.

Thinking Differently

When it comes to thinking differently, business leaders will have to increase the complexity of their thought to mirror the complexity of their environment. There are three related ways of evolving one’s ability to do just that: *outside-in thinking*, *connective thinking*, and *scenario thinking*.

Outside-In Thinking. Strategic or business development thinking tends to move from the inside out. It typically starts with the organization's purpose and core strengths, then explores its marketplaces and competitive positioning, and finally looks at the broader geopolitical, economic, social, and technological shifts that might matter. Much of the time that trajectory is entirely appropriate, but not when you are seeking to boost your sensitivity to changes in the external business environment: once you get to the external focus, you have subconsciously introduced so many assumptions about what's important, based on experience, that you only see a small subset of the external world. As a result, you can miss the big changes that could be important, such as new security risks or seemingly irrelevant scientific and technological developments that could prove advantageous to you—or your competitors. Conversely, by thinking from the outside in you begin with the external changes that might, over time, profoundly impact your markets and organization. Your filters and assumptions, though still present, are less restrictive. This encourages more open and imaginative thinking about the full range of potential changes that might matter most to your future.

Connective Thinking. Another thinking skill that is becoming more critical is the ability to make creative connections between apparently disparate ideas and trends—connective thinking. This is closely related to systems thinking, but becomes a different creative challenge when applied to the terrain of future possibilities. It is about connecting dots in new ways to discover new patterns of possibility. For example, the seemingly unrelated trends of rising environmental concerns, continued threats of widespread terrorism, the spreading anti-globalization movement, progress toward a hydrogen economy, and manufacturing at the molecular level together might suggest a possible move toward localized versus global production of goods. Chances are, the future will not be determined by one big change but by multiple changes that converge. Adaptive advantage, therefore, will partly come from making quicker, smarter connections across varied domains.

Scenario Thinking. Outside-in and connective thinking inevitably lead you to contemplate “what ifs” about the future. But to do so productively, organizations can neither deny uncertainty and assume that the future will look pretty much like a projection of the past, nor be paralyzed by it—that is, abandon all attempts to take a long view because everything is too complex, too crazy. The well-tested methodology of “scenario thinking” enables us to anticipate the future without the folly of trying to predict it, or the mistake of ignoring it. This “long view” approach involves a process of developing several very different but plausible stories of how the future might unfold in ways that are relevant to organizations. By providing multiple, plausible perspectives on what could happen, scenarios enable you to understand and challenge the organization's dominant assumptions. Scenarios, therefore, help to boost our preparedness for different credible futures, while also providing a context for discovering new opportunities. Above all, scenarios are stories—an ancient and remarkably powerful form of communication that reveals values and beliefs and sustains communities. In a business setting they help to overcome the inertia and denial that can so easily make the future a dangerous place.

Learning Differently

Gaining adaptive advantage requires that business leaders not only think differently, but also learn differently. This can be accomplished by identifying key *literacies for the future*, establishing *learning networks*, and getting executives out of the office and onto *learning journeys*.

Literacies for the Future. With so much happening in the world, with so many uncertainties and drivers of change, how can overworked executives identify the limits of their knowledge? Information overload can be channeled productively by creating a specific learning agenda that focuses on a few external developments that may have a low impact on your business today, but could be hugely significant in defining your future. These “literacies for the future” may be very broad, such as emerging geopolitical risks, or bioconvergence—the interactions of bio-, nano-, and info-technologies. Others may focus more narrowly on a specific topic (water resources or China) or technology (quantum computing, carbon sequestration). Similarly, literacies can be explored in a variety of ways: a series of presentations or debates by internal and external experts, brown-bag lunch discussions, white papers, Web-based conversations, even field trips—all designed to achieve familiarity and fluency rather than depth and expertise in a variety of topics and issues.

Learning Networks. Identifying core areas for focused learning is a beginning, not an end. It is equally important to be continually exposed to a broader range of ideas and developments. Learning networks, both internal and external, can serve this function by linking members with a wide variety of expertise and experience. Many networks are organized around a shared interest or expertise to trade information, tools, and techniques, and even job opportunities. Learning networks, however, purposely include external experts on a variety of topics—politics and economics, different cultures and religions, science and technology. These experts provide advance notice of emerging developments in their fields, filter new information, interpret events and issues from different perspectives, and even explore the implications of decisions or actions. Similarly, internal networks can connect people across different business units to leverage expertise, vet options, and facilitate cross-functional teamwork. Some networks are entirely virtual; others periodically come together face-to-face while sustaining their relationships and activities electronically. Networks can also be a powerful force for action as well as learning. For example, the World Trade Organization protests in Seattle and elsewhere were organized by networks who connected and communicated via the Internet and cellphones. Although networks are not easy to design—indeed, they tend to take on a life and purpose of their own—it is possible to create networks that will provoke, inform, and accelerate learning and community, fulfilling the old adage, “No one is as smart as everyone.”

Learning Journeys. John le Carré once wrote: “A desk is a dangerous place from which to view the world.” It is crucial for executives to get out of the office and be exposed to forces that might shape the future—or are already shaping the present in ways that are invisible to most of us. “Learning journeys” around a particular theme (such as the biotech economy, clean technologies, converging and diverging cultures, or customers of the future) can stretch thinking far beyond the obvious and everyday. Unlike fact-finding missions or benchmarking expeditions that tend to substantiate preconceptions or prove hypotheses, learning journeys are truly exploratory: they push the envelope on what is known and redefine the boundaries of what is possible by introducing the participants to striking new experiences, places, people, and ideas. Often the most significant insights are subtle: not the presentation given by the head of R&D at a pioneering technology firm, but the fact that she and her colleagues are such a young, diverse, articulate, and energetic group, especially when compared to the bureaucrats at the shabby government lab down the street. Furthermore, because the learning is visceral—derived from an experience rather than a book or lecture—it tends to be more lasting and actionable.

Acting Differently

Thinking and learning differently will have little impact in the absence of changed behavior. In fact, both should inform behavior. So the third pillar of adaptive advantage is behaving in ways that will become increasingly important for business success: *acting experimentally*, *acting inclusively*, and *acting ethically*.

Acting Experimentally. In the coming decade, businesses may have to change even more frequently, rapidly, and dramatically than ever before. This requires a critical new capacity: the ability to act experimentally. Nature experiments through speciation, trying out frequent small-scale changes or genetic variations that iterate and compound over time. Likewise, science is based on experimentation, as hypotheses are tested and revised through small-scale experiments. Most of these experiments will fail, but they are inexpensive and yield valuable learning. Few businesses, however, have mastered the art and practice of experimentation. Most introduce changes through large-scale initiatives that are typically based on a single approach, consume considerable resources, take a long time to implement, and leave little room for course corrections. Indeed, this approach often works against adaptation—it might even be an adaptive *disadvantage*. Instead, business should follow the lead of nature and science: imagine, design, and execute small-scale experiments in new opportunity spaces; systematically extract the learning from both success and failure; and move swiftly on to the next iteration.

Acting Inclusively. A world of growing interconnection and mutual interdependence demands a more holistic and inclusive approach to thinking and acting. For businesses, taking a more inclusive view of the purpose of your business, beyond making a profit and creating shareholder value, reveals new opportunities for alliances or long-term investments that enhance your adaptive advantage. Similarly, adopting a more inclusive definition of your stakeholders and being open to broader opportunities for dialogue and collaboration with them could improve your business intelligence, standing, and relationships. Perhaps the most promising and challenging long-term opportunity to create adaptive advantage involves engaging the excluded billions of the world's poor—the two-thirds of the world's population that remain disconnected from the economic mainstream despite globalization. On the one hand, the notion of “B24B”—business to 4 billion—appeals to direct corporate self-interest because these new markets will allow businesses to sustain high future growth as mature markets evolve toward different patterns of demand. But from a longer-term perspective, businesses need to help create a sustainable business environment by addressing the deep problems found in many parts of the world, laying appropriate foundations for local economic growth, and creating a sense of meaningful opportunity and hope among those currently excluded.

Acting Ethically. In the industrial era, businesses produced widespread economic and quality-of-life improvements through mechanizing, standardizing, automating, and scaling their operations. In most capitalist societies, businesses were considered morally neutral, neither causing deliberate harm nor pursuing a greater social good. Unintended negative consequences of commercial activity, such as environmental degradation, were largely tolerated, even expected. With time, however, there developed a growing disconnect between “economic wisdom”—doing the profitable thing—and “moral wisdom”—doing the right thing. Today, that trend may be reversing as economic and moral wisdom become realigned—enabling and encouraging businesses to “do well by doing good.” Many factors are driving this realignment: the sheer scale and reach of market-based business activity; the accumulating evidence of the environmental, social, and cultural consequences of business activity; the unprecedented level of transparency; and a

growing sense of public concern regarding the role of corporations and their impact on the world. As we've seen with Enron, Andersen, and WorldCom, it seems inevitable that public scrutiny will grow, leaving fewer places for transgressors to hide or avoid punishment for violating common moral wisdom. Every business could find that its reputation and credibility are constantly in play and at peril. The safest strategy will be to strive for impeccable behavior that over time becomes embedded in your business brand. This means that business leaders will have to instill deep ethical consciousness throughout their organization, not merely as an adjunct to business strategy but as a core organizing principle. Shareholders and other stakeholders will demand it.

However, this will also enhance adaptive advantage, because a clear, shared ethical compass will be essential to navigating quickly through the complex terrain of the future business environment. The ability of people at all levels of an organization to develop appropriate options, make rapid decisions, and act swiftly in a changing world will increasingly require a common set of ethical imperatives. Instilling such an ethical consciousness will take more than putting a statement of values on computer mouse pads—the commitment must become embedded in the organization's DNA. Fortunately, promoting ethical behavior does not run counter to the personal instincts of most employees and stakeholders who want to act ethically in their personal and professional lives. By reinforcing and rewarding ethical standards and behavior, ethical consciousness may prove surprisingly easy to achieve. Moreover, those who move early in this direction can expect to attract and retain great people, which in turn fuels adaptive advantage.

A New Role for Business

Over the last 20 years, we have seen businesses large and small, global and local, help create a vibrant, complex, interconnected, and interdependent world in which wealth and opportunity have spread globally. Looking ahead to the future, it is easy to imagine scenarios of increasing complexity, shaped by the interaction of more elaborate technology, more sophisticated products and services, more diverse global markets, more complicated financial instruments, and more demanding collaborative relationships. It is equally easy to imagine businesses rising to the challenges created by such complexity and innovating effectively as they continue to thrive. However, it is all too easy to imagine scenarios in which the increasing complexities and accelerating pace of change that business helped create actually compound to undermine the economic, social, and physical environment on which we all depend. So in addition to understanding the world better, businesses will need to address the problems of the world more actively. Collectively, the business sector holds too much power to be morally neutral in its activities. We cannot focus solely on profitability and shareholder value. We cannot ignore the plight of billions of people untouched—or worse, harmed—by the economic progress of the last century. We cannot, in short, simply *adapt* to the changing world, in part because the very process of adaptation causes further change. We must exercise long-term responsibility and use our strengths to influence that change for the better.

The next stage in the evolution of business is beginning. Having done so much to create a remarkable new world, we now must play a more active part in nurturing and improving it. This may prove to be the most profound source of sustained success in the twenty-first century.