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Steering the Organization amidst a Turbulent Economy

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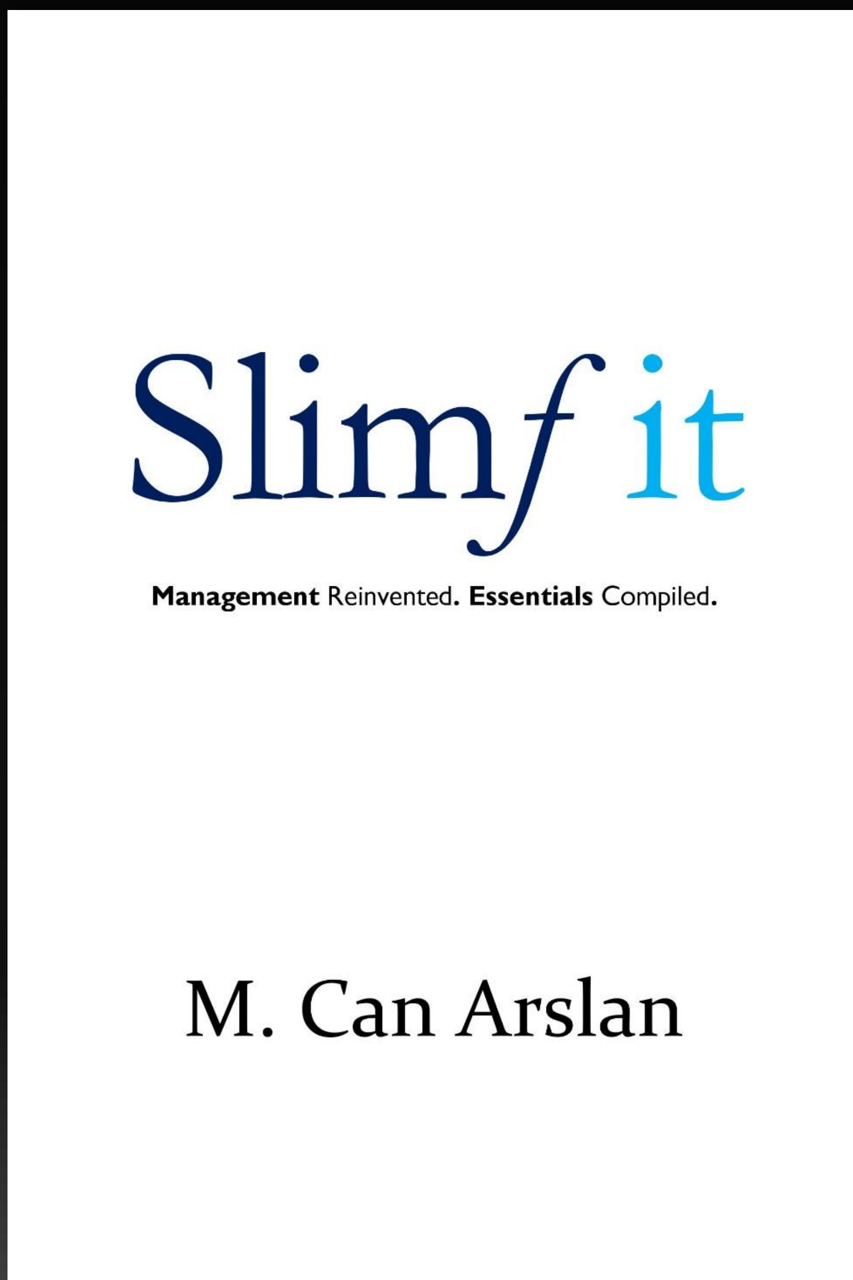

FOREGROUND

Steering the Organization amidst a Turbulent Economy

Steering the Organization amidst a Turbulent Economy

You are familiar with VUCA, right, the acronym for *Volatility, Uncertainty, Complexity* (or *Chaos*), and *Ambiguity*. What you may not be familiar with, though, is the *magnitude* of VUCA that is experienced globally today, which also forms the basis for the economic turbulence organizations soaring through.

While such conditions are present in almost every industry with varying impact, an early-stage signal or warning to detect the existence of a VUCA environment particularly in make-to-stock industries is the inability to chase customer demand via forecast.

Increased variance across the supply chain and decreased responsiveness and service levels due to unanticipated changes in demand and supply pattern (*e.g. lead time, capacity, quality, and yield uncertainties*) are also typical during such uncertain times, which later might turn into cash flow, liquidity, and working capital crisis for organizations that fail to properly address uncertainty.

Still, you must skillfully guide your company even through such challenging conditions, much like a seasoned pilot navigating an airplane through a storm.

Reflecting on this analogy, here are some tips to help you navigate your company as a leader in this challenging journey:

Course Correction

Pilots adjust their altitude and navigation course to avoid or minimize the impact of turbulence. Do the same. Remind yourself and your organization the vision of your company and set the strategy that will position your business on the correct path and in the right direction within your market.

Manual Control

As opposed to auto-pilot navigation in clear skies, turbulent conditions call for manual control and pilots' intervention. Similarly, be ready to get in charge of your company from end-to-end. Incorporate agile management, continuously monitor and assess business landscape and market conditions, and make necessary adjustments to adapt to changes and to flex.

In-Cockpit & Crew Collaboration

Pilots and co-pilots need to be more closely collaborating to safely fly the airplane during turbulent weather, compared to pleasant conditions. They also inform passengers about what to expect, and what not to. Same is true for the leadership teams of companies. In challenging times, foster collaboration within the entire company, ensure transparent communication, and put greater emphasis to change management to set expectations right and keep everyone on the same page, aware and prepared.

Training, Practice and Checklists

Last but not the least, pilots know that flying in turbulent conditions is inevitable. Leaders must treat uncertainty and instability in the same way as pilots do and focus on building a resilient organization backed by robust processes and systems. Incorporating proper risk management, applying cautious financial planning practices, and having backup, contingency, and recovery plans for all business scenarios and especially for the strategic projects also play a critical role in helping organizations withstand tough economic conditions.

Moreover, business leaders in fact have more options to respond to turbulent conditions when compared to airline pilots, and being able to act proactively is one such option. Reevaluating business models, diversifying revenue streams, sparking innovation, implementing cost-avoidance and cost-cutting measures as well as lean methods would all help maintain financial stability during economic downturns.

Shortly, in a world of business characterized by extreme-VUCA, leadership capacity has a direct and dominant impact in management effectiveness. Organizations led by leaders who possess a combination of key skills as above will still be able to survive a turbulent economy.

Further Actions to Deal with VUCA ☞

On top of the managerial practice presented above, you have additional options to overcome VUCA conditions:

1. **Identifying the underlying system dynamics** and modeling the specifics of your business to avoid managerial surprises

2. **Differentiating between uncontrollable and controllable risks**, and constantly mitigating controllable ones to reduce variance

3. Not letting uncertainties remain undetermined, but instead quantifying, assessing and mitigating potential risks associated with decisions involving uncertainty **using analytical approaches including forecasting methods, decision trees, value-at-risk (VaR), and simulation optimization**

4. **Hedging via future contracts, options, insurance, and reserve funds** against a potential cash flow, liquidity, and working capital crisis to minimize vulnerability against uncontrollable risks

5. **Using predictive analytics** models in foreseeing demand & supply uncertainties

6. **Subcontracting and outsourcing** to secure extra capacity during demand peaks

7. **Market diversification** for possible overstocking situations

8. **Supplier diversification** against supply uncertainties

#volatility #uncertainty #complexity #chaos #ambiguity #VUCA #leadership

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Start-ups & downs: Things to Consider for Success

Start-ups & downs: Things to Consider for Success

From time to time, I provide coaching to startups as civic service. In those sessions, I still implicitly follow the structure we use during a formal FITNESS Score Session to be able to provide comprehensive feedback. This gives me the chance to gain an in-depth view of the opportunity areas of those new businesses as well as their founders and co-founders. Here, I wanted to note the most important and common ones of those, aiming to compile a list of watch-outs going forward:

0. Who is the customer, what is the pain? (and hopefully, what is your

unique core value offer to address this pain?)

Even after so many repetitions to date, I still cannot emphasize more how fundamental it is to have a crystal-clear answer to this simple question triplet (Credit: Ken Morse (Kenneth P. Morse) / Martin Trust Center for MIT Entrepreneurship) It is somewhat like the zeroth law of thermodynamics. After so much investment, if there is no demand for your product or service, no return.

To be able to figure out that crystal-clear answer, you obviously have to develop a thorough understanding of the pain points of your target customers. If you believe your target customers do not solely consist of yourself, your co-founders, and your best friend, then you should stop relying purely on your intuitions and go beyond your inner circle. Spend sufficient time talking to your target customers, discuss with them, and ask for their input. Then, ignore them for a while, take the next step and get hands-on with research (e.g., ethnographic research), observations, tests and so on to uncover the needs that are not yet explicitly mentioned (maybe because your target customers are not even aware of them – remember the case of Ford Model T - 1908 or Apple iPhone - 2007).

1. What is your path to sustainable profitable growth and value creation?

If you are comfortable with your answer to the zeroth law above, then you also need to plot the trajectory you imagine for your business. Nowadays, it is much easier for startups to access investors and secure funding, and as the founders, you might even have an early exit plan in your mind in the onset. While exit is a legitimate strategy for the founding team, you will never be able to make that early exit if your business does not ensure sustainable profitable growth and value creation.

Having a startup is not a side hustle or spare time activity, but a serious endeavor. Therefore, you also have to be serious about it, put your effort, and have a vision for it with which you picture yourself in, as well.

2. What is your pricing and (hopefully recurring) revenue model?

If you heard the question "what is your (startup's) business model?", it actually asks for your recurring revenue model. More simply said, it means how you will make money (and profit). Again, this is related to the zeroth law, as you are looking for customers who will be willing to pay for the value your business has to offer.

It is also tied to your overall pricing model, and pricing scheme in effect, whether it is a cost-based or value-based one. At the very least, make sure to do your homework with the science (and art) of pricing, without overlooking the cognitive and psychological aspects.

3. What are your estimations about your business's Essential Performance Metrics (EPMs)?

Some startups expect to achieve millions of dollars of sales revenue within the first year and reach unicorn status in the second. If this sounds too good to be true even to yourselves as the founding team members, then maybe you should give it a second thought.

Be careful about the assumptions you make underlying your calculations, and instead of overly optimistic guestimates, be realistic with your EPM estimations, starting with the income related ones.

4. Do you have an end-to-end awareness about your business?

When I ask founders / co-founders their thinking about their business's SWOT (Strengths - Weaknesses - Opportunities - Threats), what I hear back sometimes is total radio silence. I then ask for only one item, the most important one that they think for each category for instance, and I see a real-time brainstorm kicking off.

Unfortunately, this is a signal of a lack of awareness regarding their own business, and sooner or later during the course, they will have to be fully aware of that SWOT, only maybe not in a pleasant way. Make sure you start with a full awareness of your business's SWOT (or an alternative framework of your choice), and update it en route.

5. Who exactly will take part in your seed organization? And why?

Another one is the tendency to include as many people as possible in the founding / core team. No one – including potential investors – expect to see a crowd. Instead, they are looking for value.

Every partner should be there because they add value with their talent and / or expertise, and share a common vision and aspirations with each other regarding the business. Moreover, everyone should have a well-defined accountability within the team (you may also refer to the ORCHESTRA Model and T.E.A.M. attributes of the "Slim*f* it" Book).

6. Does your core team know technical details cold?

This is an additional remark for tech-heavy startups, and indeed, it relates to more than being tech-savvy. Make sure you know what you are talking about, especially if your startup's claim relies on cutting-edge technology. The core team needs to understand the technicalities of the main business process to a sufficient extent. The team also needs to include partners who know the technical details inside out.

Examples? You will offer the customers the best stock portfolio to invest in, using large language model based generative AI. Thanks, but how? You will solve a large-scale vehicle routing problem to optimality. How? Well, the chances are that we missed a recent scientific breakthrough. Yet, the point is, your business needs to deliver its core promise. Otherwise, you can make a few initial sales, but your business will not be able to achieve recurring revenue.

By the way, I focused on startups in this post; however, several of the above items apply to large corporations, and their innovation and intrapreneurship efforts, as well.

Last but not the least, if you have more observations, recommendations or remarks that you believe to be fundamental for startup success, please contribute to this post and add your comments below. In this way, we can come up with a more complete list of watch-outs together.

#startups #entrepreneurship #innovation #intrapreneurship

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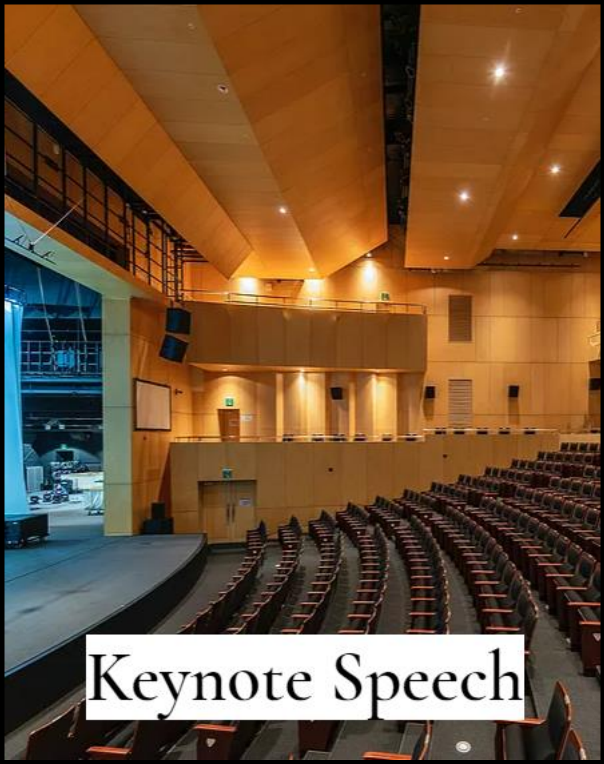

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IDEA**CATCH**

Long-lasting AI Summer, or what?

Long-lasting AI Summer, or what?

A question I have been thinking of lately: if the (business) world has to step back from artificial intelligence (AI) (as in the past periods called "AI winter"), where will be the next focal point in research and development? What might emerge as the "next big thing", if any?

A little background to better illustrate where this question stems from... Take the metaverse, for instance. It had its moment, but many of us have already shifted focus back to our regular universe. Similarly, other popular concepts like NFTs, blockchain, crypto, AR-VR-MR-XR, IoT/M2M, Big Data, and Industry 4.0 seem to have fluctuated in relevance. Some have waned due to decreased public interest, others are in a funding downturn, and a few have found niches, only maybe without fulfilling their promised impact, at least for now.

However, AI stands apart from these concepts. The reason is, AI - or to be more precise, "artificial general intelligence" (AGI) - is like "the ultimate" by definition. That is, AGI might suffer from neglect from time to time, though, it is not something that one can simply cast aside like the others and move on. To the contrary, if you look at the race around AI applications and recent announcements, you can feel like AI space has been conquered already, and all that remains is just some finishing touches or fine-tuning.

I suspect we all need to be more cautious here, and in fact deserve more transparency about these advancements. Not trying to say AI is "what has not been done yet" either, as if trapped by the "AI effect". However, if the outcomes fall short of expectations, a step back this time won't just be disappointing; it will prompt discussions about what to pursue next in this digital era, both philosophically and practically.

Returning to the initial question, is the business world prepared for another AI winter, and if it arrives, what form might it take? Profound, silent?

Alternatively, if we are in an extended "AI summer" rather than a winter, numerous intriguing questions arise. How will competing AI-based applications differentiate their value propositions? How will they justify differing (and potentially premium) pricing? As consumers accustomed to making choices, are we ready for a "variety vs. singularity" dilemma? Should we revisit AGI definition, or am I making all these up with my limited intelligence?

Tough questions in my simple mind…

#artificialintelligence #AI
#artificialgeneralintelligence #AGI

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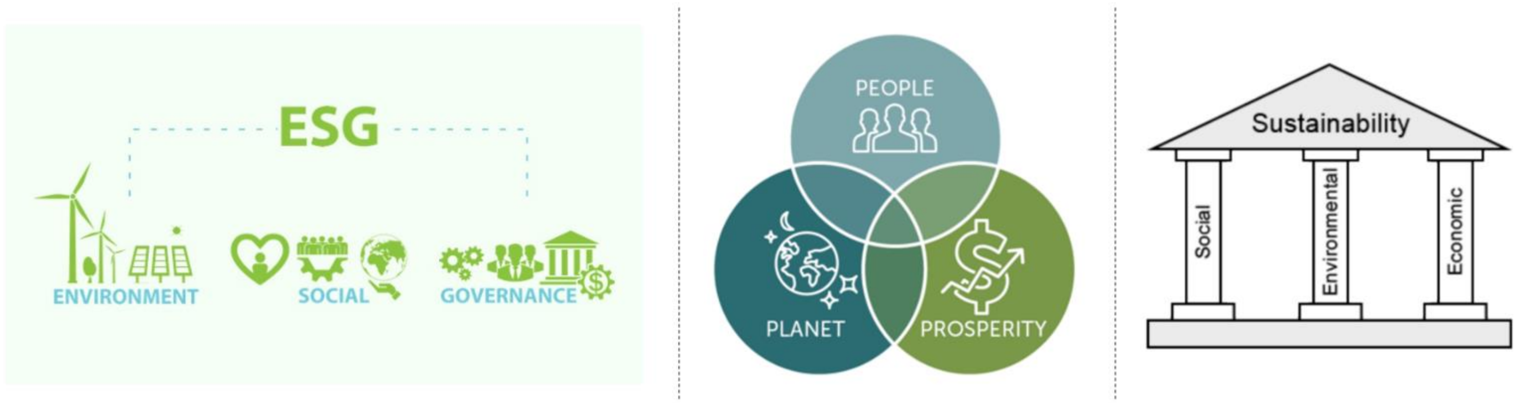
VIEWPOINT

Serious about sustainability. But sincere as well?



The Three Pillars of Sustainability
Triple Bottom Line (TBL) Accounting

Serious about sustainability. But sincere as well?

Every time I see a post on "sustainability", I feel optimistic about present & future generations. And I come across such posts quite often these days.

But at the same time, I cannot stop thinking about "sincerity" along with sustainability.

We might promise to curb emissions, which is nice. If we also aim to offset emissions to achieve net-zero by initiating tree planting campaigns for instance, even better. The tiny little detail here is, the negative impact to the environment is immediate & long-lasting, whereas the correction we try to put in place comes with a “little” delay. So we might seem to balance the equation; however, this does not really translate into a net-zero from a timing perspective. Therefore, we cannot just rely on our offsetting capacity, but should be aware of our cumulative impact to people & the planet over time.

We might keep a reserved piece of our business’s budget to be spent for charity donations – perfect! But we should be mindful about the community we serve including our customers & extended stakeholders at all times, and offer them, for example, products & services that do not worsen their health & well-being. If we are not doing so currently, transforming our portfolio to include healthier options should be at the top of our agenda, at least.

We may be sending a cool & thoughtful welcome kit to people joining our business – who doesn’t want one. But we should pay the same level of attention to details when it comes to the overall motivation & satisfaction of our people, who are our partners & the most valuable asset to any business, always. Consider the trending topic of “way of working” as an example. It is a good starting point if the approach we adopt here is full flexibility, rather than something like “work from the office, work from home, now come back to the office…”. Without loss of generality, we should be entirely conscious about any aspect that has an impact on the aspiration of our people / partners.

At the end of the day, sustainability is not a nice-to-have but a must-have for any business. And whatever effort we put for sustainability, these efforts should not just be in the form of corrective or compensating actions & offered as an augmented or side benefit to the environment & society, but instead, integrated with our “core business” & all of our decisions. If our managerial practice lacks this multidimensionality, we will not be able to achieve “fitness” at our businesses.

Long story short, I believe the famous yet simple recipe to sincerity check applies here as well: our words should reflect our thoughts, and our actions should reflect our words…

#sustainability #sustainabledevelopment #thethreepillars #triplebottomline #TPL #accounting

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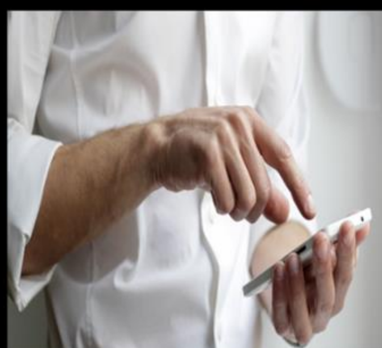

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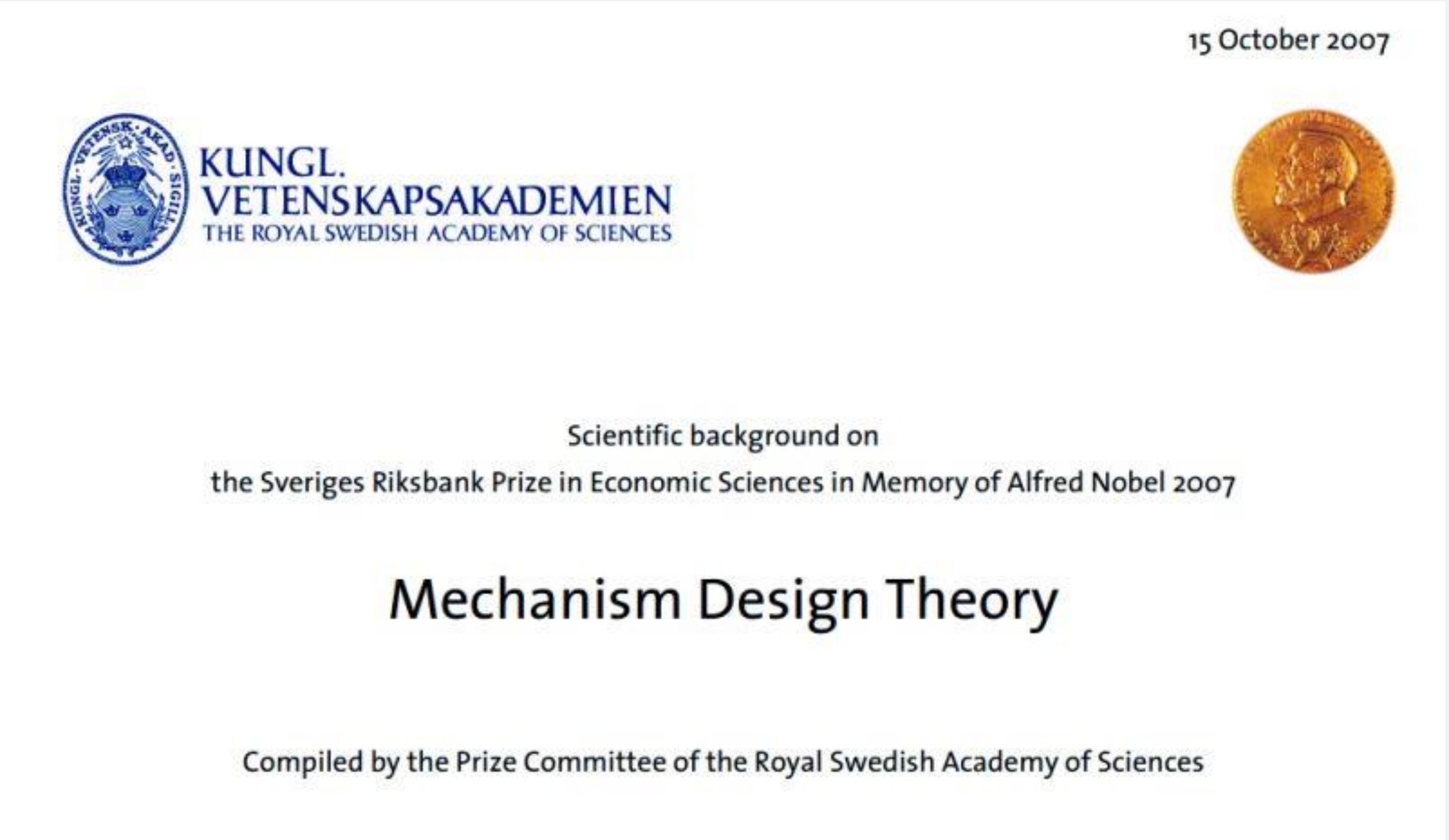
MEANTIME

Mechanism Design to Revisit Organizational Policies



15 October 2007

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Scientific background on
the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2007

Mechanism Design Theory

Compiled by the Prize Committee of the Royal Swedish Academy of Sciences

Mechanism Design to Revisit Organizational Policies

In 2007, Leonid Hurwicz, Eric S. Maskin and Roger B. Myerson were awarded the Nobel Prize in Economic Sciences "for having laid the foundations of mechanism design theory".

Mechanism design, a.k.a. reverse game theory, deals with designing economic incentives to achieve strategic goals in settings where players act rationally. This theory has far-reaching applications, and also sheds light on some of the essential steps organizations need to take in harmony.

As part of these steps, all associates of a business should pursue a common and lean hierarchy of objectives and metrics towards the ultimate vision, have known and well-defined accountabilities, and receive their share of the results, perhaps through equity grants or stock options.

If your organization overlooks any of these aspects, it might be the best time for a well-rounded policy revision to be able to demonstrate strong performance, stay fit and achieve strategic goals.

For further reading on mechanism design, please visit: mech071005.dvi (nobelprize.org)

#mechanismdesign #theory #organizations #organizationaldesign #policy

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