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PERSPECTIVES

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A FROG'S CHRISTMAS WISH



With 2014 only a couple of weeks away, it is fascinating to wonder what dramatic innovations the New Year will bring. Radical innovation has become a fact of everyday life – in just three years since its launch, the iPad has transformed personal computing. Meanwhile, more value has been created in the last decade by college grads and dropouts powered by a combination of instant noodles, Red Bull and venture capital, than by the leading companies from the 1990s. Thus both consumers and stock markets have embraced innovation in dramatic style.

And yet instinctively we fear change, not least because we feel it often involves risk and uncertainty. You still hear the phrase “No-one ever got fired for buying IBM” decades after IBM’s equipment businesses died, and the company had to transform its business dramatically in order to survive. But the world is changing more and more rapidly, and decision-making is becoming more and more complex for governments and companies, and even for individuals.

With this as context, it’s clear that a slavish reliance on instinct and experience is not that well suited to a data-rich and deeply interconnected world. It gives a monochromatic view of opportunities, and allows organisations to be blown along by the winds of their own history. If you do this, your destiny will be chosen by the many accidents in your past, and managers will be nothing more than passengers on an unpiloted vessel.

For much of the last two years, we have written about the many opportunities that are there to be seized by individuals, companies and governments. Unlocking their innate value may not be easy, but one thing is clear – differentiation and outperformance will not be unlocked by sitting on the sidelines. The winners of the next decade will be those that look, and then have the courage to leap.

So how do we shake off our collective fear of the unknown? After we’ve done our research, how can we have the confidence to lead from the front?

Embrace uncertainty

The answer is deceptively simple. First and foremost, we must focus much more strongly on the future, to compensate for the challenges that come from operating in a fast-moving environment. Does this

sound counter-intuitive? If you drive down a motorway, you must look further ahead if you are to avoid any obstacles on the road in good time. Staring at the bitumen thirty feet in front of you would be suicide, quite literally.

So too it has to be in business. Focussing on the short term, in the form of quarterly earnings reports and near term budgets, simply increases the risk of a corporate crash and increases the chance of your organisation facing its own Nokia moment. As a reminder, barely a decade ago, Nokia was the clear world leader in mobile phones, with a market value of around \$100bn. Since then, Nokia’s market value has fallen by some 90%, and it recently agreed to sell its devices business to Microsoft for just US\$7bn. Over the same period, Apple re-imagined its business, thanks to the relentless and innovative vision of Steve Jobs. It became

one of the most highly valued companies in the world as a result, with a market value of close to \$500bn. Whether it can continue to innovate and focus on the future, of course, remains to be seen.

Know the future

Some may say that anticipating the future is incredibly difficult. With technological change and innovation continuing to accelerate, how on earth can you reliably predict developments five or ten years hence? As almost any entrepreneurial scientist or innovator will tell you, however, you very frequently can. Apple’s revolutionary smart-phone was envisioned by technologists a decade or more in advance of its launch. Its timing was driven principally by the miniaturisation of computers (in size and power usage), improving battery

“Drop the frog into very hot water, and it will leap out. Slide him into cool water and turn up the heat, and the frog will simply cook.”

technology and the refinement of touch screens. Indeed Nokia had experimented with a product that looked to all intents and purposes exactly like an iPhone some four years previously, but stuck with the tried and tested candy-bar format. As another example, we know today that 2020 will see the advent of the next big revolution in televisions, a format known as Super Hi Vision or 8K. This is the next step-change in resolution (after the latest generation 4K televisions) and was already used to broadcast parts of the London Olympics. In essence, it is IMAX for the living room. And, like many technologies, it will drive wider change: you will need a fibre connection to take advantage of its capabilities.

Think the unthinkable

Early this year, I had the pleasure of attending the 2013 TCS Innovation Forum in Silicon Valley. From machine to machine communications, virtual architectures, augmented reality, the internet of things and computer learning to mobility, social media, cloud, big data and Bayesian statistics, a heady cocktail of trends was on the agenda. These concepts are already impacting not only large enterprises, but also day to day media commentary about many subjects. The implications of these trends are, however, much more subtle and will have profound implications for many organisations.

At the deepest level, the fundamental building blocks for any enterprise won't change. There will still be customers, employees, suppliers, processes and decision-making. But where and how and why interactions occur and decisions are made will evolve dramatically. Social media and online inter-connectivity will accelerate, to touch many more areas of people's lives, as the sophistication of the relevant products and platforms improves. These interactions will happen everywhere, all the time, showing the importance of mobility. Data will be gathered on almost everything, redefining the big in big data, and the Bayesian statisticians will have their day.

As a result, the mindsets of Boards, managers and employees must become fundamentally more flexible. More than just the buzz words of today, every individual must find ways to embrace continuing change. This implies a need for a dramatic socialisation of business processes at all levels – whether at the transaction layer, the

collaborative layer or the intelligence layer. The practical implications of all of this are entertaining to speculate about – dramatic changes in business models, the arrival of service robots, driverless cars and drones delivering pizza. And these aren't idle fantasies – the technologies are already well advanced. All that remains is to see who wins and who loses as day to day normality is redefined.

The Frog's Christmas Wish

The story of the frog and the pan of water is an old one. Drop the frog into very hot water, and it will leap out. Slide him into cool water and turn up the heat, and the frog will simply cook. In my new book, *The Long Term Starts Tomorrow*, I explore why it is so tempting for organisations and governments to ignore the long term trends (the pan slowly warming on the stove) and focus on the short term. Jorgen's Frog¹ appears towards the end of the book, personifying one of the greatest challenges of the modern day.

Frogs are hard-wired to prefer approaches that are tried and tested – in other words, to be able to rely on instinct and past experience as a guide to what will work in the future. This has worked well for animals, whose survival depends on their habitual evening walk to the watering hole, down a path worn by previous generations. And the same logic has worked well in large organisations for hundreds of years – in many industries a business plan laid out in 1820 would have been just as relevant to the world ten or twenty years later, as the pace of change was so much slower. But even wild animals know they have to remain vigilant for the changes that augur unexpected danger – the old, infirm or sleepy are nothing more than prey for lean and hungry predators.

The Frog's Christmas Wish is that we all learn from its experience. In a world that is changing more and more rapidly, we must become more comfortable with doing things differently and more wary of habit. We must learn to trust the data (the thermometer in the pan) and think about the long run implications. In short, if you are tempted



to stick with the cool comfort and ready familiarity of the status quo, ask yourself this: Can you can really be sure that you're not about to be cooked?

Collectively, we are driving down a motorway, and technological innovation and the sharing of information provides a heavy foot on the accelerator. The more rapidly we drive, the more important it is that we focus further ahead. Those that succeed, and anticipate developments well in advance, will reap great advantage. As 2013 draws to a close, we join with the frog in wishing you the courage to make the bold choices to embrace these opportunities, and to make the most of all that 2014 holds. **P**

Nigel Lake is Joint CEO of Pottinger and author of *The Long Term Starts Tomorrow*. He works with CEOs and Boards to help them break free from the constraints of short term thinking to unlock sustainable growth and enduring shareholder value

¹ Named after Professor Jorgen Randers, who inspired the original concept for my book

Latest issue from Pottinger Perspectives:



The dragon holds an important position in history, folklore and symbolism across many parts of the Asian region. In China, the dragon is the highest-ranking animal in the animal hierarchy, strongly associated at one time with the Emperor and hence with significant power and majesty. In Vietnam, ancient folklore suggests that the Vietnamese people were descended from the dragon, and the symbol of the dragon represents, among other things, universe, life, existence and growth. Nearly every country in the region has its own particular twist on this mythology.

Over the last year, the allure of Asia has been overwhelming. Companies around the world have refocused on the opportunities for profitable growth that might exist in the region. Yet, history is littered with the bodies of companies that sought offshore diversification into unfamiliar markets and failed to make the numbers stack up. In Australia's case, a number of those local subsidiaries of British parents were sold off and went on to become enormously valuable in their own right, driven by a more motivated management team and a better strategy.

With this in mind, in "Flying with the dragon", we explore new ways of thinking about the opportunities that Asia presents, and how they can be unlocked by embracing the region's incredible diversity of cultures, economies and histories. Read more...

<http://www.pottinger.com/flying-with-the-dragon.html>

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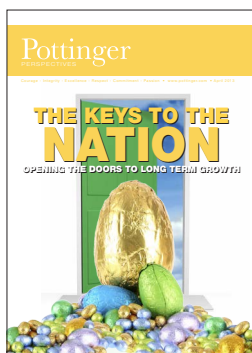
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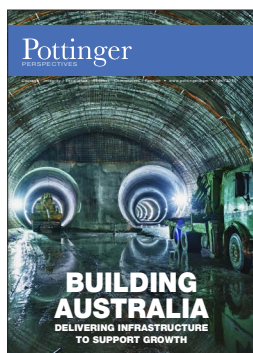
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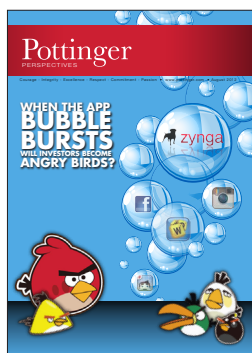
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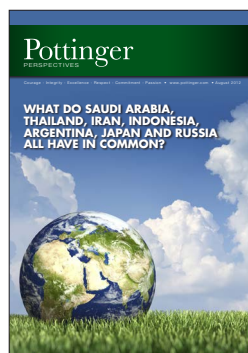
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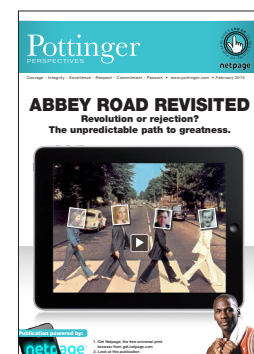
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