

NAVIGATING A TURBULENT ECONOMY

ECONOMIC UNCERTAINTY AND THE NEW WORLD OF BUSINESS

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Turmoil in markets shakes confidence, diminishes the value of financial assets, and creates uncertainty for businesses, consumers and governments. Over the last several years we have seen such turmoil manifest itself in currency fluctuations, a tightening of credit, shifting global investment models and a decrease in buying power. History, however, informs us that shifts in the economic landscape also offer unique opportunities for those able to peer past the near-term difficulties and look for opportunities. When turmoil turns to downturn, organizations are faced with the need to re-examine investments. They can choose to retrench, or they can choose to prepare for success and leadership. If they choose the later, returns from hard-fought cost reduction battles can be turned into infrastructure improvements, more rational, integrated processes, and fundamental changes in market presence or positioning to fill new niches or those surrendered by competitors.

It is the responsibility of business leaders to both manage wisely and lead thoughtfully. Seeing opportunity during turmoil reframes the challenges in a way that projects the lessons of history onto the future. Suggesting that organizations seize new opportunities during times of turmoil does not minimize the significant difficulties they will encounter during times of economic strife. Imagining the future may be hard during times of turmoil but, tumultuous times call for balance against new factors. Tumult or not, balance remains essential. Those organizations that can balance near term concerns with forward-looking expectations will be better poised to succeed as markets calm; those who retreat risk becoming an anachronism while the world reinvents itself around them.

Times of economic turbulence are ripe for reinvention and renewal. The technology sector, for instance, faced a global retreat as companies filled with the irrational exuberance of the dot-com boom saw their fortunes founder. Many small entrepreneurial firms disappeared, either through bankruptcy or

IT leaders face tough choices during turbulent economic times. The first and best tactic may appear to be: let's figure out how to just get along until things get better. The problem with retreating during a downturn is a loss of capacity, both in terms of workforce knowledge and organizational capacity to change.

Being rational and balanced in the choices an organization makes is imperative, as information technology and workforce investments are not only the expedient answer to cutting costs, they are also the best path to prospering during the upturn.

IT's ability to reduce costs and facilitate organizational agility should be an on-going part of how a modern business examines investments. Economic turbulence may mean reprioritization, but it should not imply an abandonment of investments. There is never a bad time to reduce costs and increase efficiencies, and never a wrong time become more competitive.

A whitepaper cannot address all challenges facing organizations, nor can it recommend actions based on specific circumstances. Every business will need to make its own choices about investment priorities. We can, however, offer frameworks for consideration, and guidance based on our experience, and that of our customers. The following list offers a guideline for where to start:

- *Examine ways to get the most out of existing IT investments, drive efficiencies and manage costs.*
- *Examine IT investments in light of strategic priorities, not just costs. Continue investing to remain competitive where it makes sense.*
- *Replace aging systems that will reduce the ability to grow when the economy recovers*
- *Ensure a strong collaborative infrastructure is in place so that intelligence about the business and the business climate can be gathered as insight, and transformed into action*
- *Invest in business analytics as a way to better understand customers, costs and operations.*

acquisition, but many of their ideas survived and transformed the market. The Internet itself became a new ecosystem, with emergent technology models like social networking, rough-hewn consumer feedback and web-based classified advertising, and blogging replacing dot-com era concepts. This has happened many before: during the oil embargo of the 1970s and the end of Cold War when many Central European countries and companies joined what we now call the emerging markets.

Whether Microsoft's customers choose to be opportunistic or defensive in their approach to the turbulent economy, information technology (IT) has an important role to play as the strategic enabler of success, the conservator of scarce resources, and the accelerator of recovery.

THE NEW WORLD OF BUSINESS

Economic turbulence is not uncommon, and with more open and integrated communications, automated trading and a global economy, it may well be that economic turmoil will be more frequent, and more common, in the future. Businesses and consumers may experience larger swings and shorter cycles. They may also experience periods of lock-in. Regardless of its pace, either outcome calls for continued volatility and the need to prepare for, and anticipate change as an essential component of strategy.

It is valuable, when developing a strategy to employ a framework that helps organize the landscape. Microsoft has developed the New World of Business as a way of defining categories of change, and a way of exposing their interfaces.

- **Dynamic Business:** events and influences that happen for which the business has little or no choice. New regulations, political unrest, disease outbreak and economic downturns are examples.
- **Blended World:** the character of the business, co-created with the trends taking place around the business. These include the composition of the workforce, the mix of consumer and business technology and the blends of cultures that come from globalization and mergers and acquisitions.
- **Insights from Complexity:** with ever more data, both structured and unstructured, organizations need to look to technology as a way of gaining insight using algorithms and social systems.
- **Strategic IT:** driving deeper relationships between IT and business in order to develop a strategy, enabled by technology, which creates a differentiated competitive advantage.

These themes do not exist independent of each other, but rather interact. Strategic IT investments help reduce the cost of regulatory burden while unleashing insights from information systems. The demographics of a region help influence where an organization will employ its workforce, and how diverse that workforce will be. The New World of Business categories were developed to be durable across a range of possible future scenarios, from the globalized and growth-oriented to the bordered and defensive, from retrenchment and uncertainty, to highly open, innovative and entrepreneurial.

Scenarios are not predictions. Scenarios help spur thinking and conversation across as broad a range of potential futures, so that organizations can build better, more informed and resilient strategies—strategies that include contingencies for circumstances that may be difficult to foresee.

It is important not to prejudge the future based on current events, current “trends” or current emotions. History tells us that watching trends can be dangerous as disruptive events derail once sure bets, prolong their outcome or generate nascent possibilities that may overwhelm past predictions. Decision-makers tasked with plotting a mid-term strategy for their organizations should consider a range of possible scenarios that could play out based on

current circumstances, but there are a few robust implications that organization should consider, regardless of the future that unfolds. The New World of Business themes discussed below describe risks and offer guidance that strategic decision-makers should consider when planning future investments in technology and the future shape of their organizations.

DYNAMIC BUSINESS

The effect of economic turbulence is all about external factors disrupting the underlying assumptions of an organization. In an interconnected global economy, for instance, networks transmit risk from the center to the edge, so that even “innocent bystanders” are implicated in the web of uncertainty. Systemic crises in one sector have the potential to disrupt access to capital, inhibit consumer spending or constrain business activities in other sectors.

Look for opportunities amid the turbulence Even during turbulent economic times, opportunities exist. They are, however, unevenly distributed. Economic instability does not imply a retreat from technology, but it may require refocusing, or a relaxing of boundaries. Business intelligence and integrated communications technology can help organizations better understand the world that exists by rapidly revealing changes in customer or market behavior—and communications can extend the reach of the organization in order to keep customers close during times of uncertainty.

Change is never one dimensional As one topic comes to the forefront, it may simply mask other changes. Available credit may mask, for a time, concerns about commodity pricing. Changing business models in one sector may, for a time, trump regulatory concerns. Those organizations that pay attention to a variety of underlying factors will see patterns of opportunity unperceived by those distracted by a single issue.

BLENDED WORLD

If the edges of everything from the complexion of the workforce to the culture of the organization have blurred to create new business realities, then economic turbulence creates reverberations along those blurred edges that make them even more permeable—alternatively, those same reverberations may lead to retrenchment behind familiar boundaries, creating new rigidity.

From outsourcing to smart sourcing In a turbulent economy, wages may decline, making domestic sources of labor newly competitive. The cost of doing business locally becomes attractive, especially when accounting for the risk of distance and the complexity of language and culture inherent in offshoring. Organizations that have chosen to be virtual may remain so, but the location of their business partners may shift, with the number of partners becoming more finite and the relationships more closely held.

The generation blend imperative When it comes to employees, economic instability may influence managers to hire more experienced workers over younger workers, further exacerbating the knowledge transfer and retention problems that many industries face. As the aging workforce moves toward retirement age, it is critical they incorporate their knowledge with the tech-savvy capabilities of younger workers. A delay in that investment may lead to business continuity problems completely orthogonal to any external economic issue. Economic turbulence also means that some older employees may delay planned retirement, and younger workers may stay in place longer than they planned. This makes it even more important that management master the practices of motivating and integrating a generationally-blended workforce.

Less people may mean fewer capabilities Economic turmoil may also mean a decrease in capability as organizations reduce payroll, shed business units, or wind down operations to adjust to lower levels of demand. Many may irretrievably lose the knowledge and capabilities of their skilled workforce, either through attrition or attractive offers from competitors or more stable industries. Some organizations will reduce exposure to knowledge loss by building innovative virtual relationships that keep even displaced workers connected.

Work-life blending becomes a competitive asset The blend of work life and personal life will continue to create tension in the workplace, and during economic turmoil, the reasons may shift from choice to necessity. A robust infrastructure that supports necessary work outside of the confines of the workplace will support the social needs of employees, and create the foundation for a more virtualized workforce as contingent staff may fill the roles of former fulltime employees.

Blending speeds learning Despite the sometimes difficult integration of cultures, language and attitudes, the blended world experiences learning, innovation and operational excellence emerging where the edges of generations, cultures, and operating units meet, and this may prove vital going forward. Deploying technology that helps bridge the gap between groups, and helps inform and diffuse concern rather than fuel it, will be important. By using social networks, inside and outside of organizations, new forms of safety nets will surface for both individuals and businesses.

INSIGHTS FROM COMPLEXITY

Global financial instruments, integrated supply networks, political relationships, natural resource management and climate change, just to name a few areas – have become so complex and interrelated that no single person or business can understand the relationships between investment and risk. Uncertainty and lack of knowledge increase the systemic costs and make the systems more fragile.

The data that informs navigation through change comes in two forms: structured and fluid. Structured data, most often found in databases, helps discover shifting customer behavior, swings in capital and labor markets, moves in commodity pricing and the current state of internal operations.

Learn from feedback loops But structured data only tells part of the story. In turbulent economic times, opinion, emotion and feedback loops reinforce or exacerbate decisions based on real data. Keeping track of what people are thinking, what they are seeing and what they are feeling is important not just in turbulent times, but also in times of prosperity, because it is the combination of data sources that can bring real insight to an organization.

During turbulent times, organizations need to concentrate on understanding not just their data sources, but the relationships between sources. They need to share information internally in an open and proactive way, and use informal social networks to gauge not just the emotional health of the organization as a complement to solid understanding of its economic health.

Empower leaders to drive insights And in a stark economic climate, consumers look to business leaders for guidance and insight. The relationship between consumers and business is a complex one. Employees serve as executors of strategy and consumers of products and perceptions. Every individual seeks leadership that crosses the chasm between the ever more permeable boundary of work life and personal life. Exhibiting rational behavior in the business environment and exuding confidence acts as an important feedback loop for every employee and every customer.

Separate signal from noise In many cases complexity is thrust upon organizations. Globalization, regulation and a number of external factors create ever more interrelated webs of information to traverse, but in their enthusiasm to react, organizations also create their own complexity by creating duplicate processes and functions.

If the source of complexity is internally created, then the insight gained from examining operations should lead to a rationalization of the business. This type of insight often drives first-line reactions to economic turmoil. When the complexity is external, when the markets are truly global, when the regulations are complex, when customer demands do start shifting, when rumor and innuendo shade perceptions of markets and performance, insight garnered through systems and collaborative feedback can help an organization navigate, contain, respond and reinvent to meet the needs of the market while staying true to its strategy. The key for organizations, for managers and for employees is to recognize diverse and meaningful sources of information, to incorporate the lessons of the data into plans, and then to incorporate feedback loops into execution so the outcomes are informed by what is happening, not by what *should have* happened.

Build trust through transparency Turbulent times change rules, but they don't necessarily imply a need to reinvent strategy. They may require a recommitment to nimble and agile operations informed by monitoring internal sources for improvement opportunities and external sources for new competitive threats, increased regulation and new market opportunities. Trust comes from consistency and open communication. In times of economic turmoil, organizations that use their insight to remain rational in the face of change will help guide recovery rather than reinforce instability.

STRATEGIC IT

Reacting to external changes, navigating the complexities of internal organizational choices or attempting to gain insight from data and social interactions all require information technology (IT) to accomplish business goals in a rapid, coordinated and effective manner.

Manage costs and drive efficiencies One of the most important roles an IT organization plays during a turbulent economy is managing costs and driving efficiencies. Using technology that you already own more effectively can return benefits in such areas as reducing process management costs, more effectively complying with regulations and executing operations more efficiently. Cost and efficiencies, however, are not the only place to focus, as this paper suggests. It is by unleashing cash flows through efficiencies that can free up the capital to consider other investments.

People are critical to operational excellence Turbulent economies often evoke knee-jerk cost cutting at the expense of future flexibility. Eliminating jobs is easier than reinventing processes, and the cost savings much more quickly realized. But when businesses look to their core missions, it is the combination of people, process, technology and work environment that make up the business, with process and work environment highly reliant of corporate learning and corporate culture for success. And that means people need to remain positive and feel like they are relevant to the execution of strategy.

Empower people with better processes Keeping people at the center does not mean all painful human resources decisions can be eliminated, but it does mean thinking through the implications. People decisions are often clouded by ineffective systems that have grown rampantly and organically in times of affluence, forcing talented individuals to act as coordinators rather than contributors. In stark economic times, individual talents need to be unleashed to help navigate the change, as well as prepare for the next economic upturn. The lens of investment then should focus not on rapid cost reduction exclusively, but should include systemic investments in processes

and functions that reduce overall costs by rationalizing systems within the strategic context, as well as preparing those systems for future successes. As discussed above, many organizations breed their own complexity. One way to reduce complexity is to adopt a rationalized IT platform that helps transform the knowledge and experience of employees into solid automation, adaptive, secure collaboration environments, and highly tuned systems that facilitate learning and feedback.

Re-invent now, prosper faster Solid management, rationalized systems and robust infrastructure will be at the core of the businesses that thrive in the coming waves of prosperity. Organizations should also look to IT for new offers, new channels for customer relationship or even new revenue streams based on system expertise or organizational knowledge. Organizations cannot simply de-invest toward prosperity. If they are forced to do more with less, they need software and information systems to accelerate their capabilities, amplify the talents of their staff and partners, and increase the fidelity of the input through which they interpret the world. One thing we can predict is that when the economy returns to vibrancy, it won't be waiting for the laggards to catch up.

LOOKING BACK FROM THE OTHER SIDE

A difficult economic climate requires that business retain key talent to meet operational needs, that they employ strong governance to manage operation efficiencies and costs, and that they retain their relevance through competitive differentiation within their markets. If they focus on these three areas together, and not allow circumstances to overwhelm them, they will be poised to recognize and react to opportunities, and rational and decisive about where to drive efficiencies. Decisions about people or systems that reduce capabilities inhibit an organizations ability to compete and recover.

An organization's view of risk drives many actions. In times of prosperity, risk is often seen as lower, so larger, more grandiose ideas may be tried. Even if they fail, the risk to organizational health may be minimal. In times of economic strife, risk becomes the lens through which the world is viewed, and when visibility into risk is low, inaction may result. It is important to keep in mind that inaction carries its own risks. The risk of losing operational or innovation capacity needs to be balanced against the perceived risks to capital and cash. There is no right answer to balancing risk, except the view that it needs to be balanced. Tipping too much toward inaction is equally as risky not acting fast enough to manage efficiencies.

As with all movements of turmoil, navigating change can be a difficult task when conducted in isolation. Microsoft renews its commitment to helping its customers and its partners survive and thrive. Through smart investments, innovative processes, relevant products and appropriate technology, we hope that the strength of Microsoft, its customers and its partners can collectively help the economy recover faster than it might without our combined leadership across markets and around the world.

BUSINESS ACTIONS TO CONSIDER DURING A TURBULENT ECONOMIC TIMES

	Opportunity	Recommendation
Dynamic Business	Listen for new opportunities coming from customers and partners.	Use technology to stay connected to individuals close to customers and markets. They can provide valuable insight about where recovery is taking place, where new opportunities may align with capabilities and where risk may be growing. Bring that information back into the organization and use collaborative tools to understand its strategic and operational importance.
	Empower individuals and open the internal networks to learning	Make information widely available and empower local management teams and partners to act with all the knowledge assets and processes of the larger organization behind them. Open communication channels can expose best-practices and help drive consistent operations across a global business, even if direct, central management becomes costly, complex or politically difficult.
	Prepare for new regulation	Many economically volatile periods result in increased regulation at the industry or market level. It is important to automate as many basic record keeping systems as possible so that new reporting requirements, or changes in existing requirements, can be incorporated into reporting applications so that cultural adoption can be at the forefront of the shift, rather than panic about how to meet the requirement.
Blended World	Stay in touch with your talent-base, even if your relationship with them changes	Economic turmoil casts doubt about businesses both internally and externally. In a blended world, all employees are also consumers, perhaps even direct customers. It is important to understand market perceptions, employee perceptions. Employing social networks internally and externally can keep both employees and customers close.
	Build tighter, deeper relationships with customers	Social networking is one channel for understanding perceptions, but for the top customers, it is important to employ all channels of communication in tough economic times. Use Business Intelligence (BI) to identify your most important customers, and use every means available to communicate customers, provide leadership and help them use your products or services to achieve their business goals.
Insights from Complexity	Find and eliminate redundancies in processes and functions	Turn BI tools inward to better understand operations. If data doesn't exist, that should tell you something. Where the data does exist, look for ways to make processes and functions more efficient through automation and streamlining. Turbulent economic times call for a solid understanding of the business so decisions can be informed rather than random.
	Create and share data effectively	Data is a source of insight, and the basis for most decisions. It needs to be readily available throughout an organization so managers can make informed decisions. Don't confine data access plans to structured data sources, but consider the role of unstructured data,

		including information available in consumer services, such as blogs, wikis and social networks, when thinking about what managers need to know.
	Retain knowledge and talent	Organizations may need to make tough choices about staffing, but they shouldn't expose themselves to loose of operational information, innovation capacity or customer knowledge. Using social networks and other technologies, along with innovative contract agreements with former or furloughed employees can provide a model for retaining readiness while reducing costs associated with labor and overhead.
	Enable compensation systems to handle multiple reward profiles for any given year so employee rewards aren't tied to past market conditions.	Many organizations lock in compensation systems, but in turbulent economies, time-based compensation systems can offer a more adaptive means of retaining talent. Creating the infrastructure for flexibility can provide benefits during economic turbulence.
	Create a better understanding of your organizations knowledge assets	One of the most complex things to understand for a business is its own internal knowledge. In peak economic times understanding what an organization knows, where it knows it and how important it is to the execution of strategy can be crucial to being able to survive and thrive.
Strategic IT	Make IT investments strategic	Rationalize infrastructure to create lean and agile strategic processes and functions. Manage costs and drive efficiencies, but remember that organization can't de-invest to prosperity. Defensive IT investments that focus exclusively on cost-savings and process improvements are inherently limited in the benefits they can deliver. Organization should consider reinventing their systems to more closely align with strategic intent and operational objectives.
	Define offers, enhance models of customer interaction and other forms of reinvention to stave off declining revenues	Internal data, systems and knowledge may offer new business opportunities for revenue or new models to enhance brand or market presence. IT may play a key role in turning inside knowledge into value.