**D/2023/45/59 – ISBN 978 94 014 9039 9 – NUR 800**

Cover design: Joost van Lierop
Interior design: Gert Degrande | De Witlofcompagnie



LannooCampus Publishers is a subsidiary of Lannoo Publishers,
the book and multimedia division of Lannoo Publishers nv.



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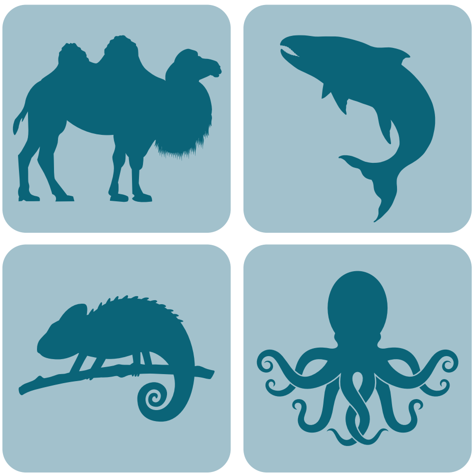
Netherlands

# STRATEGY *in* TURBULENT TIMES

*How to Design a Strategy That Is Robust and Future-Proof*



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## Acknowledgments

Strategy is a fascinating topic. As a faculty member at Vlerick Business School, I've had the pleasure to work with many executives and management teams and witness the power of strategy. But I've also noted how many companies struggle with it and fail to use it to their advantage. For a long time, the focus has been on building a competitive advantage—which essentially is about beating your competitors. Today, many strategy authors believe that competitive advantage is a relic from the past and that you need new recipes to win. Managers tell me that the traditional competitors are no longer their biggest nightmare. The world has become more turbulent and disruptors are attacking from many different corners. Some management authors even wonder if we are experiencing the end of competitive advantage? Even the biggest strategy thinkers disagree on this topic.

Over the last five years, I've spent a lot of time thinking about strategy in turbulent times: What are the typical strategy recipes for dealing with turbulence? Is strategy in turbulent times different from the traditional strategic thinking, focused on competitive advantage? Does it replace it or should it be seen as a complement? I've tried to find answers to these questions—not just theoretical ones, but also answers that are practically relevant. So, I went out and read management books and articles, studied numerous cases, and did many interviews with managers to find out how they approached this topic. I was surprised by the lack of coherence in the academic theories, models and practical recommendations. There are so many different frameworks and toolkits and there is so much contradictory advice that managers no longer see the forest for the trees.

*Strategy in Turbulent Times* is my synthesis on this important strategic topic. It captures my most important insights and recommendations on how firms should deal with turbulence, disruption, and disturbance. Writing this book was a very interesting journey that has broadened my strategic insights significantly. During that journey, I got a lot of help and support from many organizations and individuals.

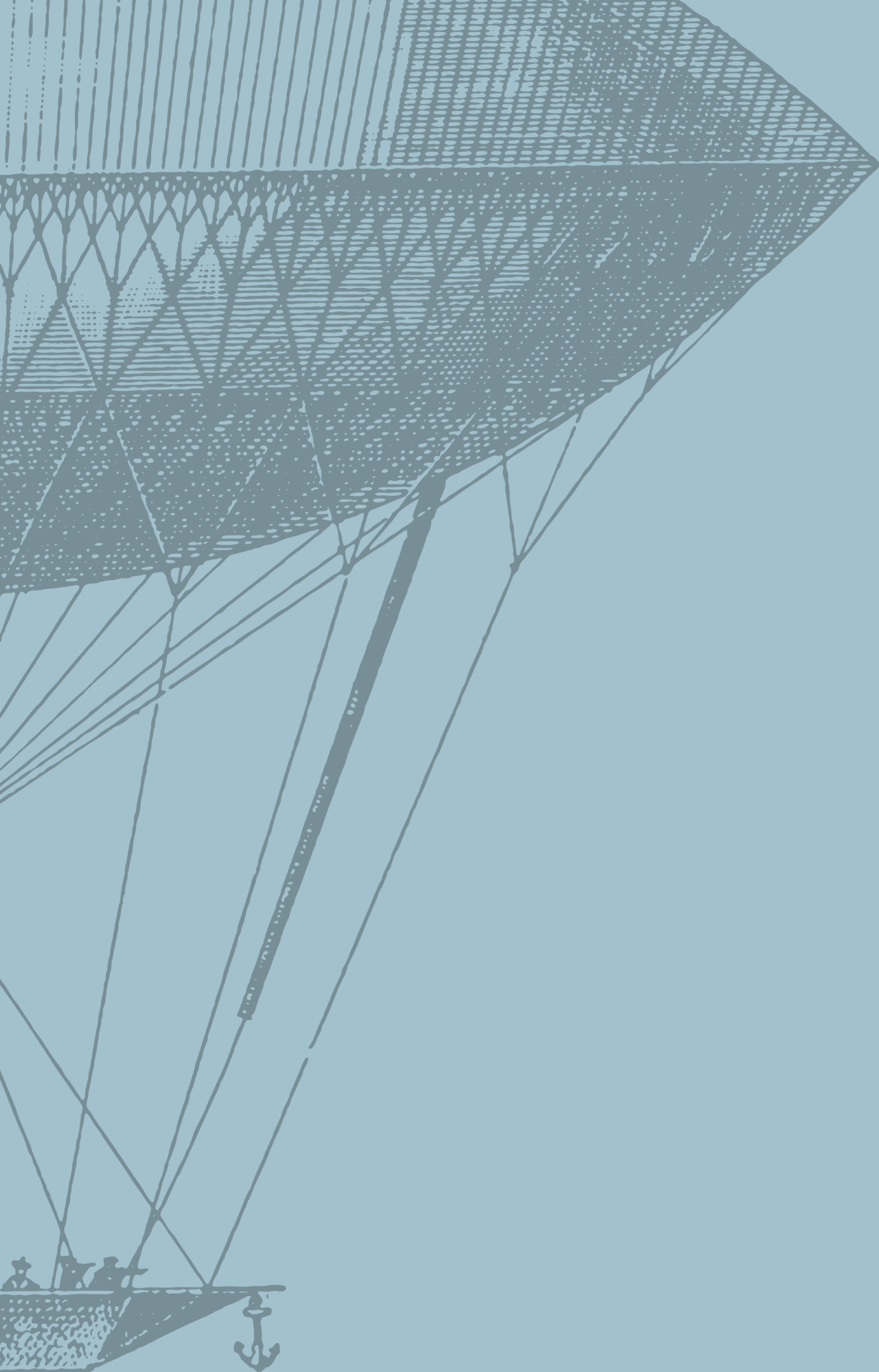
I am deeply grateful to my Vlerick Business School colleagues Koen Tackx and Walter Van Dyck for the great discussions on the Turbulence Strategy model—which has become the central model of the book—and the role of corporate foresight

in the new strategy process. I am also grateful to my colleagues from the Vlerick Strategy Department for sharing ideas on the turbulence topic: thank you Carine Peeters, Martin Weiss, Kerstin Fehre, Filip Abraham, Leonardo Meeus, Philippe Haspeslagh and Esha Mendiratta. And I also acknowledge the valuable input from Bjorn Cumps, Stijn Viaene and Miguel Meuleman—also Vlerick Business School colleagues—when writing some of the case studies for this book.

I've been able to discuss the topic of turbulence in strategy with many managers in my strategy courses—their input was a true source of inspiration. I've had sessions with companies from many different industries—including postal services, construction, healthcare and pharma, IT, publishing, financial services, education, food manufacturing, and retail. These sessions have helped me tremendously in validating the new models that are presented in the book. I want to thank two companies in particular—KBC and NowJobs (and its corporate parent, House of HR)—for their openness on how they dealt with turbulence. Thank you Johan Thijs, Erik Luts, Sigrid De Wever, Katrien Dewijngaert, Karin Van Hoecke, and Barak Chizi from KBC, for your openness, sharpness, and bright insights. You taught me that business model innovation should not necessarily be an external activity and that tugboats sometimes work better than speedboats. And thank you Frédéric Pattyn, Eline David, Peter Ingelbrecht, and Lindsay Demuynck from NowJobs/Accent Jobs/House of HR to share what it means to be in the driver's seat of a new corporate venture in a large corporation.

I am deeply indebted to Marije Roefs and Niels Janssens, editor and publisher at LannooCampus, and Anna Rich and William Wright to have a thorough look at the manuscript and make the necessary adaptations.

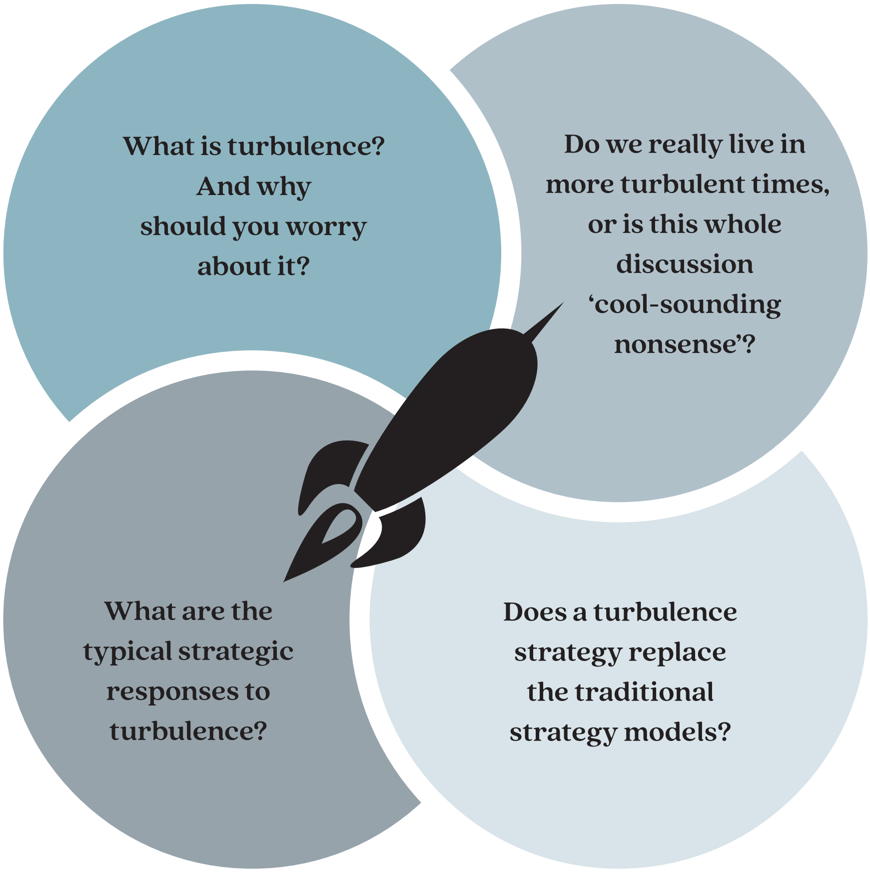
Finally, I want to sincerely thank my wife, Lieve, for all her patience, support, and understanding during this entire research project. You tolerated and accommodated my countless sudden urges to write and never became bored with my endless stories about turbulence, disruption, and the animal kingdom. I promise, from now on, I'll keep these stories for my students and participants and won't bother any longer.



# CHAPTER 1

## the future isn't what it used to be

## Key questions addressed in this chapter



## What if competitors are not your biggest nightmare?

Some weeks ago, I got a phone call from a CEO who had received some bad news; despite great results the year before, his contract had been terminated. Sometimes this happens—the job of a top executive is tough, and managers who take that job must accept the uncertainty that goes along with it. This call was a bit different, though. Appointed as the first external CEO in the 280-year history of a timber importer, he had inherited a family business that had struggled with profitability for years. But in 2021, the company achieved a record year in revenues and profitability—the Covid-19 crisis turned out to be a blessing for the company. One year later, euphoria had given way to disillusionment: the war in Ukraine exposed the fundamental weaknesses in the company's business model. The ban on Russian timber deprived the company of half of its supply and revenues. The result was a big loss, so big that the family decided to sell the company to a smaller but more resilient competitor.

This story is quite familiar to anyone who reads contemporary management books. The world is changing faster and becoming more complex than in the past. Strategies and business models expire faster than ever before, and change is the only constant. We just went through one of the most impactful global health crises in recent memory, while geopolitical tensions are now leading to high levels of economic uncertainty. Technological revolutions will continue to change our lives, and people's needs and demands will further evolve… The future ain't what it used to be.[1]

Organizations can build sophisticated strategies to beat their competitors. But sometimes your competitors are not your biggest nightmare. Natural disasters, geopolitical events, broken supply chains, economic volatility, or the arrival of disruptors with new business models might at times have a more profound impact on your performance. Unfortunately, the common strategic models offer little help for dealing with those particular challenges. That's why many strategy researchers and consultants believe the time of traditional strategic thinking is over. The new ideas about strategy are best summarized in Rita McGrath's book *The End of Competitive Advantage*: to win in volatile and uncertain environments, executives need to learn how to exploit short-lived opportunities with speed and decisiveness.[2] Strategy is no longer about finding a favorable position in a well-defined industry and exploiting a long-term competitive advantage; it's about building dynamic capabilities to cope with changing conditions and turbulent times.[3]

What does all this mean in practice? How should your company strategize in a world full of surprises? Unlike many other management authors who propose a particular tactic to fight turbulence—for example, launch a new business model, strengthen your resilience, or embrace agility—I think this challenge deserves a more comprehensive strategic answer. Rather than immediately jumping to conclusions and implementing some appealing initiatives, I believe it's necessary to first ask yourself a series of strategic questions: What are the issues that your company is facing? What strategic options do you have to tackle turbulence? What is the best strategic choice, given your organization's capabilities? And how to best implement this turbulence strategy?

In this book, I will show you how to build such a comprehensive answer to turbulence. Let's kick off by examining what turbulence is and looking at the evolution of turbulence over the last few decades.

## What is turbulence?

Organizations face a lot of turbulence. There can be turbulence in your boardroom or in your management team. Or there's turbulence amongst your employees because of some unpopular decisions that your management team has taken. Or there's turbulence because you're involved in an acquisition, especially when your company is the target company. But that's not the turbulence I cover in this book. This book concerns *environmental turbulence*—the turbulence that you encounter in your industry or broader business environment and that can have a significant impact—negative or positive—on your organization's performance. The industry environment consists of your major buyers and suppliers, your competitors, potential new entrants in your market and your substitutes—companies from another industry that offer products or services with similar benefits. (The typical example of a substitute for an airline company is a railway company.) The broader business environment—also called the macro environment—consists of all of the external influences that affect a company's strategy and performance.[4] Strategists generally look at 6 major macro influences: Political, Economic, Social, Technological, Ecological, and Legal (generally captured as the acronym PESTEL).

**ACADEMIC FOUNDATIONS.** People often refer to the VUCA acronym when talking about a turbulent environment, Volatile, Uncertain, Complex, and Ambiguous. The VUCA concept was first used in the mid-1980s by Warren Bennis and Burt Nanus to describe how the world had become more vulnerable after the end of the Cold War.[5] The term gained wider recognition and popularity in the business and leadership domains.

But strategists talked about turbulence long before the VUCA concept was born. Frederick Emery and Eric Trist had already introduced the concept of environmental turbulence in 1965 in a study that defined 4 types of organizational environments, of which the 'turbulent field' was the most challenging.[6] Over the years, strategy scholars have come up with different operationalizations and measurements of environmental turbulence. In academia, researchers define a turbulent environment as one that is dynamic, complex, and unpredictable.[7] Dynamism describes the frequency and intensity of change in the environmental components—such as the change in inflation or interest rates (economic component) or the rate of technological change (technological component).[8] An environment can be static/stable versus dynamic/unstable. Complexity means that there are many issues and factors that cause the change. The relationships between these issues and factors are difficult to understand and it's not clear which factors are most important in the decision-making process. Predictability represents the uncertainty and ambiguity regarding the cause-and-effect of the change.[9]

I define turbulence slightly differently as a huge shock or a fundamental shift in the industry or broader business environment, with a potentially significant impact on a company's performance, or even its survival. Turbulence doesn't have to persist long for it to have far-reaching implications on your firm's performance.

**MANY SHAPES OF TURBULENCE.** Turbulence can take many shapes and you can classify turbulence in different ways. Figure 1 highlights 4 different ways to look at turbulence.

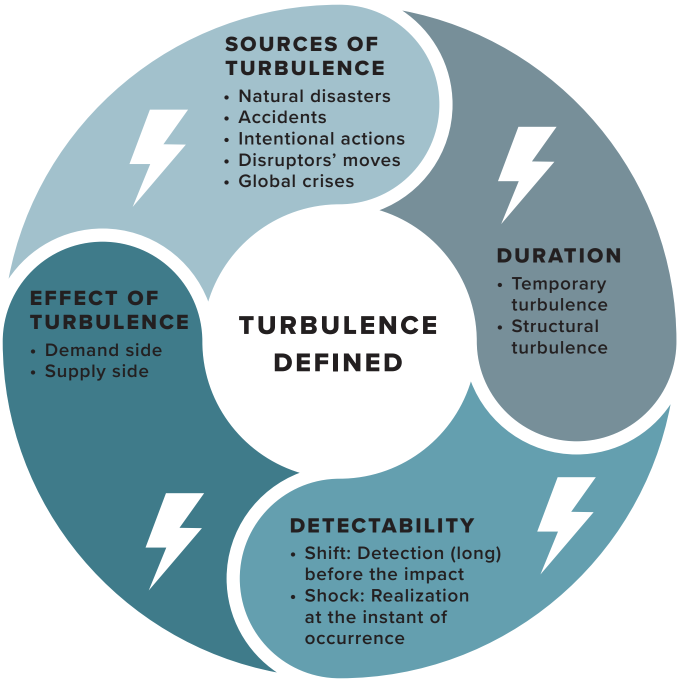



**Figure 1 •** Classifications of turbulence

First you can look at the sources of turbulence. MIT Professor Yossi Sheffi distinguishes between natural disasters, accidents (mostly caused by safety violations or noncompliance), intentional actions (sometimes called 'issues'—examples include strikes and boycotts by stakeholders, and terrorist attacks), disruptors' moves, and global crises (like the 2008 financial crisis or the Covid-19 pandemic).

A second classification considers whether the economic effects of turbulence are mainly situated on the demand or on the supply side. Demand-side turbulence leads to a significant loss of revenues—for example, due to reputational damage or a sudden drop in demand (as with the pandemic). Supply-side turbulence can lead to a loss in revenues (because you cannot meet demand) or to a significant cost increase. Whatever side is affected, the turbulence can lead to serious financial problems and threaten your firm's survival, as the introductory case demonstrated. Of course, turbulence can create more than just economic harm—think, for example, about your employees' health and safety. It's obvious that the wellbeing of your employees should be your primary concern.

A third classification introduces the concept of detection lead time, defined as the time between knowing that a turbulent event will take place and the first impact.[10] Detectability adds a time dimension to the turbulence discussion and helps to distinguish between turbulence as a shock or as a shift. If you can detect a disruptive event before the first impact, then the detectability is positive. The detection lead time can be lengthy—then we speak about long-term shifts or trends, like climate change. New disruptors arriving with new business models also fit in this category. When the detection lead time is small, disruptions arise after some short warning (hurricanes, for example). If the detection lead time is zero, then you realize the impact of the turbulence at the moment of occurrence. Turbulence strikes without warning and you experience a shock—for example, an earthquake in the middle of the night.[11]

The final classification considers the duration of the turbulence. Some turbulence is temporary: the anticipated duration is short (in practice, researchers consider 'short' to be less than one year). For example, one researcher considered the Covid-19 pandemic a temporary turbulence because 85% of the participants of his research project expected the impact to last one year or less.[12] Structural turbulence, on the other hand, lasts much longer—and sometimes you never go back to the original state.

**DISRUPTION VERSUS DISTURBANCE.** Turbulence can take many shapes and forms and this will influence your strategic response. I find it useful to distinguish between 2 forms of turbulence: 'disruption' and 'disturbance'. Turbulence through disruption means that your competitive landscape changes: new players enter your market and change the rules of the game with a fundamentally different value proposition and a different value chain. Academics and consultants often recommend doing business model innovation, a strategic move that implies setting up a new business with a fundamentally new value proposition. This is considered to be one of the toughest management challenges for incumbent firms and many really struggle with it.

But not all turbulence is caused by disruption. Some firms face a shock in demand or in supply because of a natural disaster or a severe accident. I call this disturbance. Here, the competitive landscape remains unchanged. Disturbance can have an equally significant impact on your performance. Just consider the financial crisis or the pandemic; these crises have seriously impacted the performance of many firms. The performance effect is different though. Firms suffer not because they haven't found an appropriate answer to the disruptors but because they lack the resilience and agility needed to deal with sudden shocks or longer-term shifts. It's important to add—and this is also one of the main messages of this book—that turbulence brings opportunities. Some firms thrive in turbulent times.

Developing a turbulence strategy without reflecting on the nature of the turbulence that you are facing is dangerous. Disturbance and disruption are very different phenomena which require different strategic responses. Table 1 presents the major differences between the 2 kinds of turbulence.