CORPORATE RESEARCH FORUM

BRIEFING PAPER # 06

BRIEFING PAPER

THRIVING AFTER A CRISIS

Ramp Up Strategic Strength During This Tough Time

WRITTEN BY IMD
REAL LEARNING. REAL IMPACT

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01

RAMP UP STRATEGIC STRENGTH

DURING THIS TOUGH TIME

The coronavirus crisis is exposing the inadequacy of business transformation efforts among many businesses. The financial market shows that organisational resilience is about future readiness. Here are some ways to catch up if you're behind.

When Warren Buffett wrote in his letter to our shareholders in 2001 that "you only find out who is swimming naked when the tide goes out," he was referring to the aftermath of the September 11 attacks. After the New York Stock Exchange and Nasdaq were forced to close for a week, the share prices of airlines and insurers, travel and hospitality, entertainment and financial services had all but evaporated. Fear and uncertainty swept through the United States. What Buffett had seen then was an ugly sight at some of the largest insurance companies – insurers and reinsurers that had either inadequate reserves or understated liability. Others had failed to contemplate a catastrophe loss occurring during an unfavourable economic environment.

But while the economic consequence of 9/11 was an exposure of weak players across a few business sectors, the coronavirus pandemic of 2020 is exposing companies across a wide swath of industries with a much deeper and long-lasting impact. It exposes companies that have ignored and underestimated the speed of digitisation and the enormous cost of such ignorance.

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1.1 HOW A CRISIS REVEALS AS MUCH AS IT DEVASTATES

One way to understand COVID-19 is to see its business impact as an accelerant of secular trends, trends that are not seasonal or cyclical. These are business trends that have remained consistent over time and been evident to senior executives for a long while. No carmaker, for instance, would speak to investors without mentioning "future mobility." BMW is a "supplier of individual premium mobility with innovative mobility services." General Motors aims to "deliver on its vision of an all-electric, emissions-free future." Toyota possesses the "passion to lead the way to the future of mobility and an enhanced, integrated lifestyle." And Daimler, the maker of Mercedes, sees the future as "connected, autonomous, and smart."

Still, a peculiar form of the knowing – doing gap often persists among big companies. These companies are all knowing but with few doings. A number of financial institutions that we spoke to have all established corporate venture funds to invest in innovative startups. They practice open innovation, post challenges online, and run tournaments with external inventors. They have organised "design thinking" workshops for employees to rethink customer solutions. And yet their core business continues to be encroached on by Google and Amazon every day, if not by Tencent or Alibaba or some other digital upstart. It seems that no matter how hard these in-house innovation experts try, the big companies will simply not budge. "Tell me one thing that I should do but haven't tried," hissed a frustrated executive the moment I mentioned Google Venture. Her company is not just big; it cannot even turn.

Then the novel coronavirus broke out.

In what now seems an eternity ago, early February, China was the first trouble spot. After the state media had reported on January 20 that human-to-human transmission of COVID-19 was possible, Chinese equities were among the world's worst performers. American stocks were, at that time, almost on a daily basis, climbing to record highs. Less than six weeks later, however, Italy was under a countrywide quarantine. The virus was spreading rapidly in America. Equities cratered throughout much of the world. The S&P 500 index, the Dow Jones Industrial Average, the Nikkei 225, and the technology-heavy Nasdaq index had all fallen.

1.2 AN UNEVEN RECOVERY

Still, the plunge of the stock market happened as swiftly as the rescue made by the Federal Reserve and other central banks. By March 23, the Fed pledged to buy corporate bonds, including the riskiest investment-grade debt, for the first time in its history. Along with the giant bond-buying program of the Treasury and mortgage-backed securities, the Fed was cutting interest rates to zero, aiming to provide up to US$2.3 trillion in lending to support households, employers, financial markets, and state and local governments.

The resultant stock market rally evidences the impact of the Fed's support. By June 8, S&P 500 had turned positive for 2020. The index fully recouped all losses from the coronavirus sell-off in March. Q2 2020 turned out to be the fastest stock market recovery in history, with a rally coming even as tens of millions of Americans were still applying for unemployment benefits and the national unemployment rate surged to its highest level since the Great Depression. The coronavirus crisis has laid bare not only the weaknesses of the U.S. economy but also the faulty decision-making processes in the American government bureaucracy. And so the recovery, as expected, has, in fact, been uneven among companies.

Within each sector, there are companies whose prospects have been restored or even enhanced, while those of others have been robbed forever. And it turns out that it's not only the tech giants who are winning. One doesn't need to be Amazon, Facebook, or Google to be successful in the pandemic economy. But leaders do need to act quickly. They need to increase autonomy for managers. They need to invest in digital infrastructure. There is no blaming corporate culture for a company's lack of change. Only the leaders themselves must take on the responsibility. Ambitious leaders are instead using the pandemic as a leverage to rewire the organisation, including how corporate decisions are being made, and, in so doing, re-engineering a company's culture in its entirety. In the following pages, we'll illustrate how exceptional companies from different sectors turn themselves around and manage to escape unscathed as others fall by the wayside.

1.3
BUILDING MARKET DEMAND RESILIENCE

Under COVID-19, traditional retailing is falling faster than ever. Retailers that were struggling before the coronavirus outbreak are now crumbling. Poorly positioned to pivot into the crisis, JCPenney, with more than 800 stores and nearly 85,000 employees, recently filed for bankruptcy, joining Neiman Marcus and J. Crew in the running list of retail casualties in the last two months.

Overall, U.S. retail sales, including online activities, suffered an 8.7% drop in March. That's the largest monthly decline on record since 1992, when the data was first made available by the Census Bureau. Then almost 630,000 outlets were forced to close in April, plunging sales by another 16.4%.

And yet the mortal blow to retail has not been felt universally. Some retailers are thriving amid the darkest of months. Target, for one, reported a first-quarter 141% increase in digital comparable sales, albeit at a significant cost. Walmart also appears to be well positioned and saw a comparable sales increase of 10%, including a 74% jump in online sales as it expands curbside pickup – a service where customers order things online, drive to the store, and wait while a worker loads everything into their trunk. Perhaps the most drastic of all is Nike. It managed to post 5% in revenue growth during the quarter, which ended on February 29, even though over 5,000 of its stores in China, a key growth market, were forced to close in January.

FIGURE 1
Share prices of various retailers before and during the coronavirus outbreak in 2020.

Source: Compiled by authors at IMD Business School

The resilience of these companies is due to one simple fact: they have transformed their traditional business models rapidly, some literally overnight, by leveraging a plethora of digital practices.

1. **Accelerate operations through multichannel marketing**
   Speed matters as retailers switch their operations from an offline or mixed model to online-only sales. Enter Peacebird, a billion-dollar fashion retailer with seven brands and 4,600 brick-and-mortar stores. It's a Chinese brand with a growing reputation for resilience. The company achieved a revenue of more than 10 million yuan (US$1.41 million) during the first three weeks of the Chinese New Year, starting on January 25, the period when the coronavirus outbreak ravaged Wuhan and triggered the complete lockdown of the sprawling capital of Hubei Province.

   Peacebird chairman Zhang Jiangping responded by going all in on e-commerce, and he personally drove the transition. He issued a notification to all sales agents giving them the authority to post content on social media channels while representing Peacebird. Then on a milestone occasion on January 28, three days into the Chinese New Year, retail director Andre Gao hosted Peacebird's first livestream session. His session, which over 100,000 people joined, inspired and excited many sales agents at the company. Thousands of in-store sales managers were motivated to become online sales agents.

   Note that such digital-first pivots are not exclusive to Chinese companies. U.S. kitchen and homeware retailer Williams-Sonoma is doing the exact same thing. Although a lot of its digital tools had already been in place, during the lockdown, the company quickly added services such as virtual design chats with experts, an ask-the-expert chat, and enhanced virtual design options. Despite closing its over 600 stores, the group posted an increase in comparable sales of 2.6%.

   Meanwhile, department store Intime launched live commerce when the virus closed its 65 stores. All sales agents, working from home, interacted with customers via Taobao Live, the livestreaming platform run by Alibaba, and reached as many new clients in a three-hour period as they would have in six months inside an actual store. It's a future that Bloomberg dubs "the next frontier of shopping." That's why Swedish Ikea also took to a livestreaming session in March to promote the launch of its new Tmall store. In light of these examples, both inside and outside of China, business leaders should reframe their current thinking of multichannel approaches to retail and embrace livestreaming as an important arena to create direct, real-time engagement.

2. **Empower teams-on-demand channels**
   At Peacebird again, the executive team has also dramatically increased the autonomy of its frontline sales teams. Sales teams can decide, for instance, which marketing format to use – from livestreaming to friend-circle promotion and group-buying tactics. The company also tracked the success and conversion

rates of different formats and shared this information through the online sales network, empowering employees to use collective data and knowledge.

Meanwhile, the company also launched a virtual chatbot, an online sales service system, and, finally, a set of "standard operating practices," along with a scoring and measurement system for customer-facing employees. The system tracks conversion rates to identify the online sales practices that result in the highest actual sales. Such focused activities helped activate sales teams, provide needed resources, and offer quick feedback loops.

All these meant that in February, Peacebird continued to ship a total of 490,000 online orders while fulfilling two million transactions via its retail network.

3. **Fuel (not give up on) offline channels**
While Intime and Ikea moved traffic to online commerce, others embraced virtual selling to fuel offline traffic. Physical department stores and shopping malls in the United States have long struggled to compete with online players. However, physical stores can be an important asset to connect with customers when coupled with technology, or more precisely, brick-and-mortar stores remain an important asset to connect with customers despite the arrival of e-commerce. The amount of space needed may have decreased, but the need remains. This is where human interaction takes place. Coupled with technology, brands can provide a seamless experience. In fact, online success may fuel offline foot traffic to brick-and-mortar stores. During the first week of March, as China began to ease traffic restrictions, Forest Cabin, a cosmetics company that had decided to go online with full force, saw its online sales rise by 400%, matched by another 140% jump offline. "Our offline layout will remain unchanged because of digitalisation, but we will focus more on the integration of online and offline sales and customer engagement channels," said founder and CEO Sun Laichun. "In the future, it is imperative that different channels are optimised and integrated."

1.4
BUILDING SUPPLY RESILIENCE

It's important to remember that the outbreak of COVID-19 has not only decimated foot traffic among the traditional brick-and-mortar stores but also exposed the fragility of the global supply chain. Many organisations have come to rely on tightly coupled, interdependent systems in their pursuit to become ever more efficient, bear fewer costs, and eliminate redundancies. These companies produce organisational structures that have little slack, few buffers among their parts, and, as we have now seen, little room to manoeuvre when something goes seriously awry. Dependencies span vast geographic distances, and they can be especially vulnerable to delays in another part of the chain.

In the auto industry, for instance, manufacturers – from Toyota in Japan to General Motors in the United States – all rely on parts from China, and the industry-wide emphasis on just-in-time delivery means they don't carry much safety stock. In normal circumstances, this system is fiercely efficient and productive, but no one can build a car with only 99% of its parts. Indeed, when Hyundai had first shuttered its assembly plants in South Korea in February, it was not because of the rampant spread of COVID-19 in the country but because the company couldn't keep its plants open without Chinese parts. In an inflexible system populated with companies run from the top down that are too slow to adapt, those channels that prove so efficient in periods of calm become a source of severe disruption.

RAMP UP STRATEGIC STRENGTH
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Organisational rigidity exacerbated supply chain issues across a number of sectors earlier this year and in a wide range of companies, including Apple, Toyota, and Hasbro. But this impact, again, has not been universal. Some thrive by adopting a set of different principles in manufacturing.

1. **How organisation design can help a company rebound**
   While most manufacturers in China were only just beginning to restart production at the end of February, Haier Group, one of the world's biggest home appliance manufacturers, already had its factories operating at full capacity, thanks in large part to the company's distinctive organisational design. For years, Qingdao-based Haier has organised itself not as a top–down pyramid but as a swarm of self-managing business units that can make their own rapid adjustments to stay afloat in times of crisis.

   The organisational reconfiguration that prepared Haier for the shock of the coronavirus had been several years in the making. Haier CEO Zhang Ruimin has always been obsessed with breaking the bureaucracy, and he is famous for saying that "successful companies move with the times." Around 2012, he issued mid-level managers an ultimatum: choose to be fired or become independent entrepreneurs. It was "the hardest decision" the CEO had ever made, but it was meant to transform the company from a few monolithic businesses into some 4,000 microenterprises or MEs, most comprising just 10 to 15 employees. Early estimates indicate that Haier reduced its workforce by around 45% compared to its peak size, but it created new positions for more than 1.6 million people.

   What followed for those who stayed was an increase in autonomy. Zhang gave the leaders of each ME the suite of decision-making powers – the power to hire staff or to control distribution – that would ordinarily be granted to the CEO of a company, not to a division leader. Instead of being centrally orchestrated, these MEs independently transacted with one another and were given full autonomy to deliver the final product to consumers. Certain MEs manufacture specific component parts, while others provide services like HR or design. Haier also introduced several internal platforms to facilitate transactions among MEs, likening the idea to an app store. It enabled coordination but did not direct it.

   During the coronavirus outbreak, Haier's MEs buoyed the business. With the freedom to adjust their own supply chains according to specialised knowledge and up-to-date information, the MEs shifted their dependencies ever so slightly. Because each ME was able to act rapidly to reduce disruption, the company as a whole was able to recover more quickly than its competitors. With 60% of its products manufactured in factories outside of China and with supplier resources spanning the Americas, Southeast Asia, South Asia, and Europe, Haier was able to fulfill 99.8% of its orders throughout February 2020, when China was hit hardest by the disease.

   Though a full-scale organisational transformation like Haier's simply isn't possible overnight, there are a few digital frontiers that traditional manufacturers have rapidly adopted on their supply side, in large part to adjust to the pandemic economy.

2. **How factories are embracing remote work**
   The possibilities of remote maintenance and deploying technologies such as augmented reality (AR) and virtual reality (VR) have long been discussed among traditional manufacturers. For one, VR would make complex factory setups and location layouts easily accessible to new employees. What otherwise would take three years of training now could be done instantly. In a 2015 study, PricewaterhouseCoopers surveyed manufacturers, and while less than 10% were actually adopting some form of VR, about one-third were planning to use it in the coming years. The coronavirus outbreak has been a push to make these optional virtual work tools essential for survival. Remote maintenance is becoming commonplace.

   Companies such as Honeywell and Haier have adopted virtual work tools during the crisis in just a couple of weeks. A recent survey among industrial companies suggests that they expect a significant and long-term impact of technologies that enable real-time visibility on the availability of raw materials, finished goods, and other resources and the increased use of machine learning to rapidly assess and re-plan activities. And the list of companies is getting longer; Baosteel, GE and Trumpf are just among the first to adopt simple but effective virtual work tools.

Haier cooperated with HiScene to launch the AR remote collaboration system. In just two weeks, more than 300 accounts were added, and users covered 39 Haier factories and 123 external suppliers and equipment vendors. Through this AR system, equipment problems are displayed from the first-person perspective, and experts are "on the scene," handing in the necessary maintenance skills. The AR system can also record the entire maintenance process for easy review. The application of this system helped Haier Group achieve cost reduction and efficiency increase during the coronavirus crisis.

Another example is when Honeywell was considering how to maintain production in its plastics-manufacturing facility in Texas. The company repurposed its remote operation technology for widespread use and deployed it quickly. "We found it was possible to assemble remote operations capabilities in a facility within a few hours," said Jason Urso, CTO at Honeywell Process Solutions (HPS). The result was fewer people in the control room, with others working elsewhere. The key in this repurposing was to make the deployment simple enough to be managed by existing IT and operations staff. What started off as a risk mitigation measure is now becoming a competitive advantage for the future.

3. How to quicken the adoption of digital tools in manufacturing

What truly matters during the coronavirus outbreak is the speed of deployment for both ensuring worker safety and getting back production capacity. There is little time spared – and certainly not for the sort of yearlong contemplation of some complex, all-encompassing "industrial internet of things" solutions. Meaningful solutions need to go live in weeks, not months. Haier and Honeywell have, of course, invested significantly in the past and thus achieve a formidable level of digital maturity. But today there are a number of solutions that are more or less plug-and-play and enable remote maintenance, training, and other no-touch production support.

Mars' use of Scope AR is a case in point. Its solution provider, Scope AR, is an expert in developing AR solutions and products for industrial clients. It focuses on field maintenance, manufacturing, and training. As Scope AR specialises itself toward industry support and training, it partners with bigger tech giants like Google and Microsoft for system integration. Its WorkLink Platform, for instance, integrates authoring and remote assistance functionality.

Or take HiScene, a Chinese venture launched in 2012 that focuses on AR for industrial solutions. Their HiAR Workspace is a combination of a dedicated cloud, a platform, and an AR terminal. Their embedded HiLeia is a product offering both real-time communication and improved collaboration for AR glasses. HiLeia revolutionised the manner of remote collaboration by providing all objects the first-person view to make them even more immersive.

All these are just the beginning. Not unlike AR/VR solutions in manufacturing, the promises of robots have long been heard and might now just come into sharper focus. Ready Robotics, for one, is providing simple software to power industrial robots. The software allows workers with little to no experience in robotics to program industrial robots for manufacturing work. Ready Robotics empowers manufacturers to be more competitive through a line of intuitive-to-use, easy-to-control industrial robotic software called Forge. In a recent deployment, the company helped Alicat, a flow controller manufacturer, double production.

Those companies that learn to quickly adopt the available virtual work tools will likely possess a competitive advantage in the years to come.

02

SO WHAT'S RESILIENCE?

IT'S PREPAREDNESS

All the organisational solutions that we've discussed so far are not new. They have been under the broad umbrella of "Industry 4.0" for supply-side innovation. Or for innovation on the demand side, they fall under the broad captions of "e-commerce" or "direct to consumers." COVID-19 is the mere accelerant of such trends.

At IMD Business School, long before the pandemic, we've been tracking how likely a firm is to successfully move toward a new knowledge discipline in its effort to prepare for the future. For automakers, as mentioned earlier, it is the shift in know-how from mechanical engineering done by combustion-engine experts to electrical engineering and programming for self-driving cars, done by the same kinds of experts who build computers, mobile games, and handheld devices. For consumer banking, it is the shift from operating traditional retail branches with knowledgeable staff members who provide investment advice to running data analytics and interacting with consumers the same way an e-commerce retailer would. A ranking can thus measure incumbents in each sector on the degrees of progress they make toward what they have announced about their strategic intent in annual reports or letters to shareholders.

The importance of "leaping" toward a new knowledge discipline cannot be overstated. What we have observed is that companies that have leaped early are the ones now becoming more resilient during times of crisis. And the degree by which a firm has leaped ahead of time can be easily quantified.

One can rely on hard market data, data that is publicly available with objective rules, rather than soft data, such as polls or the subjective judgments of raters. Polls suffer from the tyranny of hype. Names that get early recognition get greater visibility in the press, which accentuates their popularity, leading to a positive cascade in their favour. Rankings based on polls also overlook fundamental drivers that fuel innovation, such as the health of a company's current business, the diversity of its workforce, its governance structure, the investments it has made against its competitors, the speed of its product launches, and so on. What is needed is a kind of composite index that captures the totality of that multifaceted innovation.

2.1
THE WORLD'S CAR GIANTS NEED TO MOVE FAST

Using hard market data from the automotive industry back in 2019, here is how prepared the top carmakers are in dealing with a changing future:

FIGURE 2
Ranking of top 20 automakers and component suppliers based on a "leap readiness index" using 2019 information.

COMPANY NAMES	SCORE	RANK
TESLA INC.	100.00	**1**
VOLKSWAGEN AG	95.33	**2**
GENERAL MOTORS CO.	90.77	**3**
TOYOTA MOTOR CO.	88.36	**4**
FORD MOTOR CO.	80.92	**5**
DAIMLER AG	71.96	**6**
NISSAN MOTOR CO.	65.47	**7**
BMW AG	65.19	**8**
APTIV PLC	63.38	**9**
GEELY AUTOMOBILE HOLDINGS	60.89	**10**
PEUGEOT S.A.	60.87	**11**
FERRARI NV	58.78	**12**
FIAT CHRYSLER AUTOMOBILES N.V.	57.63	**13**
HONDA MOTOR	57.40	**14**
HYUNDAI MOTOR CO.	57.17	**15**
BAIC MOTOR CORP.	56.58	**16**
CONTINENTAL AG	56.31	**17**
AB VOLVO	56.02	**18**
BYD CO.	55.36	**19**
FUYAO GLASS GROUP	51.38	**20**

Source: Compiled by authors at IMD Business School

Now take a look at the stock price movement of the biggest carmakers during the last six months of 2020 as they experienced a global pandemic:

FIGURE 3
Share prices of various carmakers before and during the coronavirus outbreak in 2020.

Source: Compiled by authors at IMD Business School

Resilience is preparedness. When a carmaker is prepared for a zero-emission future with self-driving capabilities, the financial market sees its prospect quickly restored, as rewarded by its share price. Coincidentally, in the middle of the coronavirus crisis, German carmakers have put the brakes on their future mobility projects, in particular autonomous driving. BMW and Daimler are putting their cooperation on hold. Asked about what projects might be forced to starve, one VW board member recently said, "If investments get postponed, then it will be into autonomous driving." It's a similar logic for Continental to delay their investments in autonomous driving to cut costs.

Meanwhile, Google's Waymo and China's Didi have raised billions of dollars during the crisis for autonomous mobility, and Amazon is said to be close to finalising its purchase of autonomous vehicle startup Zoox. Not everyone is slowing down; many are accelerating.

But is our analysis between share price recovery and future preparedness merely coincidental? Is it a mere fluke? Let's turn to the banking sector for a second case.

2.2
FINTECH FIRMS ARE TAKING ON THE BIG BANKS, BUT CAN THEY WIN?

What Figure 4 illustrates is a similar composite index to the one used in the automotive sector, but this time, it measures the readiness of each financial institution to leap toward a new frontier of knowledge and is especially relevant to the financial sector: mobile payments and services, cryptocurrency and blockchain, artificial intelligence (AI), and application programming interfaces (APIs). Notice that the data gathered, again, was from 2019, before COVID-19 broke out.

To achieve a balanced and robust measurement, we take note of the "health" of a company's ongoing business – the idea that a firm can invest in the future only if it maintains a healthy, ongoing cash flow. Hence, operating margins and rising revenues matter.

But for that healthy cash flow to be effectively deployed into new areas, executives need to see beyond their day-to-day operations and be capable of challenging the long-held assumptions of the industry. This process demands diversity in a company's workforce, which is represented by gender and nationality as well as the specific backgrounds of the top leadership. Even if a current CEO is promoted from within the firm, the best-case scenario is what we call the "inside-outsider." Legendary CEO Jack Welch of GE is the prototypical inside-outsider. He came from GE's then peripheral plastics business, stuttered, had a Boston accent, and was a chemical engineer in a company of mechanical and electrical engineers. Such inside-outsiders know the organisation and its culture as well as its people and their capabilities, but they also retain a strong sense of objectivity.

From here, we then measure the company's growth prospects as gauged by investors' expectations, which are reflected in the company's price-to-earnings (P/E) ratio, the intensity of its investment in startups or new ventures, and, perhaps most importantly, its new product announcements, its announcement frequency, and its press coverage in new areas related to robo-advisors and chatbots, cryptocurrency and blockchain, AI, and APIs.

Unsurprisingly, the index in Figure 4 includes a few household names among fintech developers. PayPal, a digital payments firm that turns 20 this year, and Square, which processes credit card payments from street stalls and coffee stands to fancy farmers markets, are both sitting on top of the rankings. And yet several incumbents have managed to grow just as fast. None are retail banks. The leading incumbents, it turns out, are the legacy infrastructure builders: Visa and Mastercard.

SO WHAT'S RESILIENCE?

IT'S PREPAREDNESS

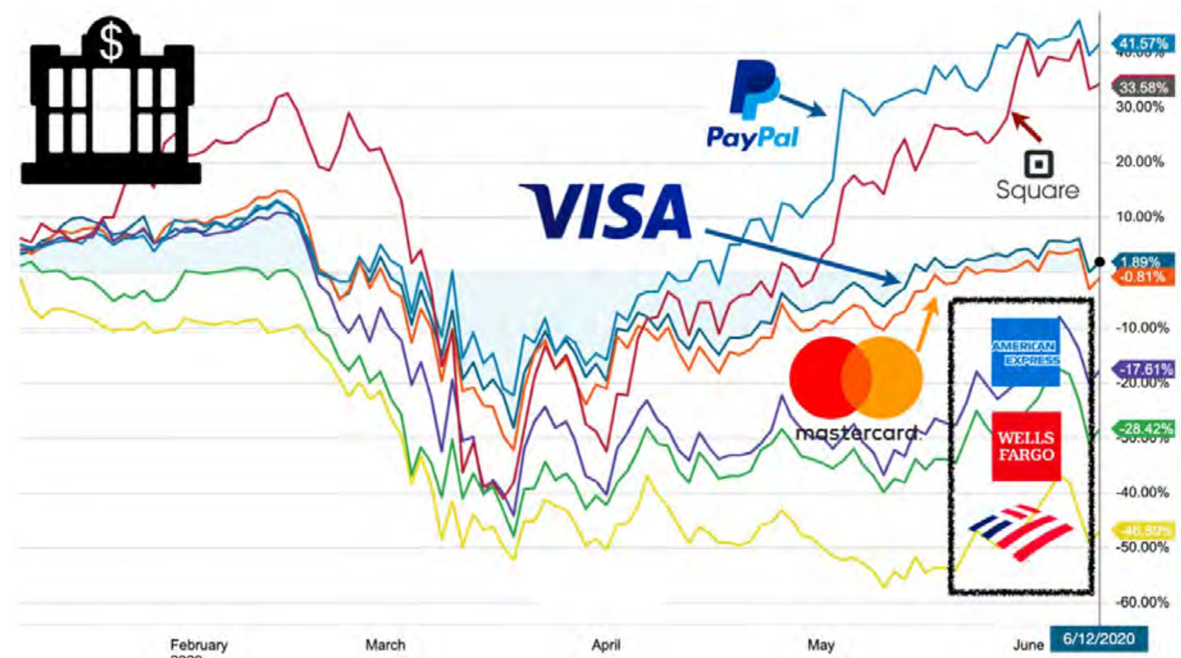
FIGURE 4
Ranking of leading financial services companies based on a "leap readiness index" using 2019 information.

COMPANY NAMES	SCORE	RANK
MASTERCARD	100.00	**1**
VISA INC.	93.98	**2**
GOLDMAN SACHS GROUP	75.49	**3**
PAYPAL HOLDINGS	69.03	**4**
SQUARE	63.41	**5**
WELLS FARGO & CO.	61.87	**6**
BANK OF AMERICA CORP.	61.48	**7**
CITIGROUP INC.	61.25	**8**
CREDIT SUISSE AG	56.06	**9**
JPMORGAN CHASE & CO.	52.28	**10**
HSBC HOLDINGS PLC	51.66	**11**
UBS AG	50.42	**12**
BNP PARIBAS	49.54	**13**
SWISS LIFE AG	49.33	**14**
PRUDENTIAL PLC	46.73	**15**
BARCLAYS BANK PLC	46.61	**16**
PING AN INSURANCE	44.18	**17**
ALLIANZ SE	41.92	**18**
BBVA	40.58	**19**
AXA SA	39.22	**20**

Source: Compiled by authors at IMD Business School

Now take a look at the stock price movement of the biggest financial players during the last six months of 2020 as they experienced the global pandemic. Notice a pattern?

FIGURE 5
The share prices of various financial institutions before and during the coronavirus outbreak in 2020.



Source: Compiled by authors at IMD Business School

To be sure, the leap readiness index will never be perfectly correlated or should never be used to predict share price movements. That has never been our intention. But the correlation is obvious enough for us to ask the question of how Visa and Mastercard prepared themselves and, in so doing, inoculated their future prospects with a dose of resilience, which the financial market understands and rewards handsomely. After all, many observers in the past commonly declared that plastic cards were endangered given all other fintech disruptors.

2.3
SWIPING THEIR WAY HIGHER: FRENEMIES

Since the dawn of the smartphone era, too many entrants providing new payment methods – Apple Pay, Google Wallet, Square, PayPal, Venmo, and Revolut, just to name a few – have all proven themselves to be powerful innovators that can design offerings that consumers crave. They've carved segments of the market away from the credit cards that traditional retail banks issue.

The only strategy Visa and Mastercard can rely on to maintain the relevance of their legacy infrastructure is to bypass their own plastic cards. They will de-emphasise them until they one day let go of the physical embodiment that's been cherished for decades. They are to allow disruptors to connect directly to their toll roads. If you can't beat them, let them join you.

PayPal, Square, Samsung Pay, Google Pay, Facebook Credits, Stripe, and even Coinbase, a cryptocurrency upstart, all work with Visa and Mastercard. The major breakthrough here then is the realisation that a product's best feature will never be invented in-house. Both Visa and Mastercard realise that killer apps must be invented by third parties who are closer to their own customers. It would be too slow if they were to sign up end consumers one by one. For someone who runs a legacy infrastructure, the best strategy is to allow others to discover new uses for the existing system. What's more important is to co-opt whatever third-party application becomes significant enough.

It should therefore come as no surprise that at the Apple event in March 2019, when the Apple card was announced, commentators noticed not only the card's "subtle off-white coloring" and "the tasteful thickness of it" but also the Apple logo emblazoned in all its minimalist glory. The card also promised breakthrough features such as no fees of any kind and an AI software that would actively encourage users to avoid debt and provide recommendations to pay it off quickly. But sharing a space on the back of the card are the logos of Goldman Sachs, the underwriter, and Mastercard. Not even Apple could shake off the plastic network.

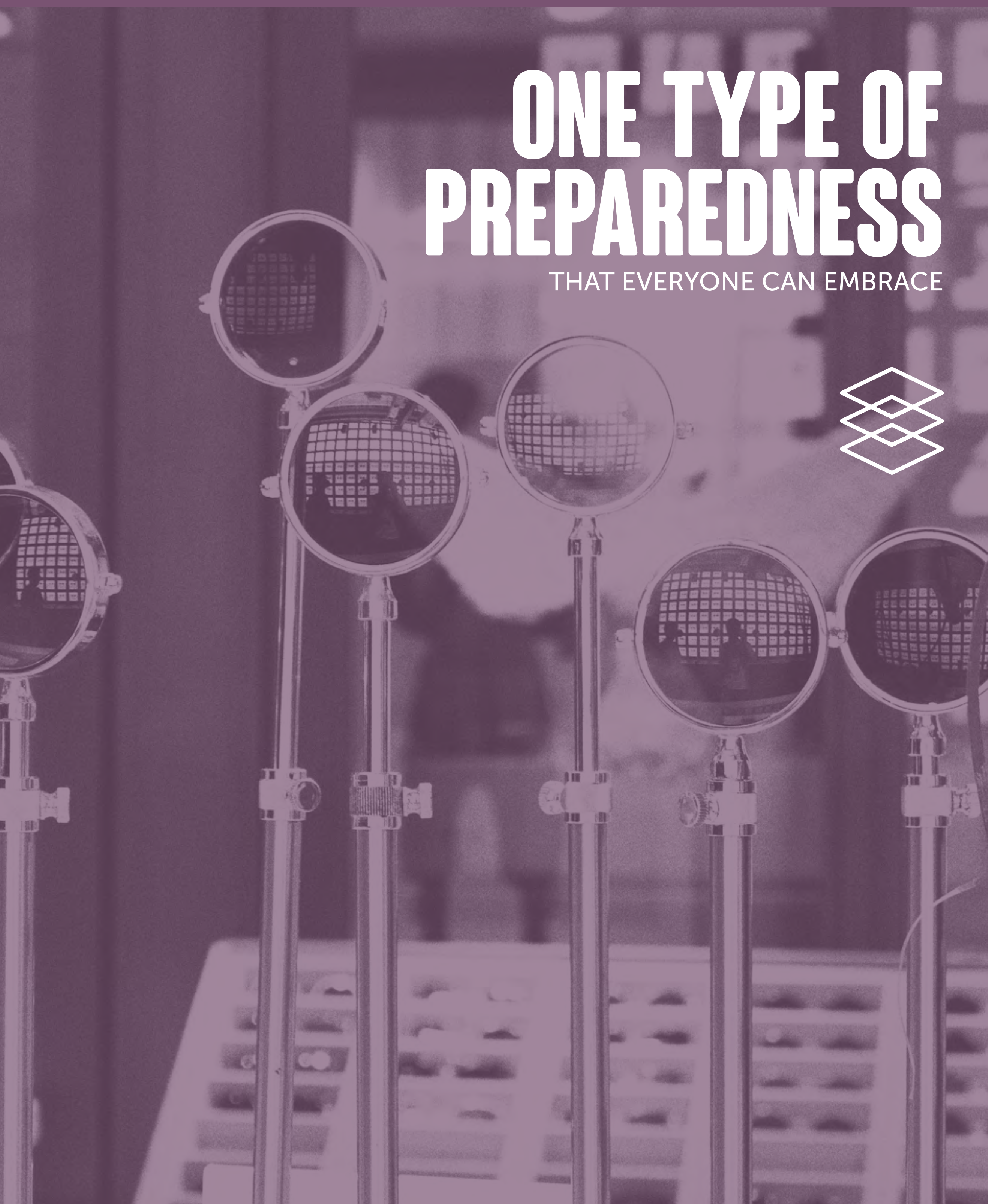
Finance is an industry that is full of "frenemies," said Al Kelly, Visa's chief executive, when asked about their relationship with PayPal. It's an oxymoron, really, referring to someone with whom one is friendly despite a fundamental rivalry. But that's how both Visa and Mastercard focus on expanding their APIs, interface standards that will make their networks simple and powerful to work with so they are even more irresistible to any fintech upstarts.

And there may even come a day when the plastic cards disappear entirely. But in that world, Visa and Mastercard will still be ubiquitous, still making all the hard parts of sending and receiving money around the world look easy.

03

ONE TYPE OF PREPAREDNESS

THAT EVERYONE CAN EMBRACE



If you've made it this far, it should be obvious to you how important it is to prepare an organisation for those long-term trends regardless of the pandemic. For consumer brands, it's direct-to-consumer practices and e-commerce. For carmakers, it's EV and self-driving. For banking, it's mobile services and AI. COVID-19 accelerates rather than reverts these trends. This is most evident in the financial market, which rewards disproportionately those that leaped ahead of time toward new knowledge disciplines.

But here is one final area that, regardless of what sector you are in, you can and should leap toward, and that's how corporate decisions are made, the decision process itself. After all, it is executive decisions that determine the strategic direction of the company and help it prepare for long-term trends. And here we are not talking about the speed of decision making necessarily. Although some argue that slow decision making can ruin a business, others argue the exact opposite and posit that slow deciders make better strategists, especially to make better decisions in times of crisis. No, we are here talking about the decision-making process itself, its transparency and how insights and information are gathered and used for decision making. The crisis is in fact the best moment for evaluating the decision-making process.

As travel bans and social distancing have forced big companies to shift to working from home en masse, video conferences and messaging platforms are substituting for almost all face-to-face communication to keep operations running smoothly. We are, unwittingly, producing a staggering digital library on how managerial decisions are made. Far from emailing the minutes of a meeting that summarise only its conclusions, the digital footprint captures the entire deliberation process, from emotions to facts, from tirades to discussions, from opposition to consensus. Embracing remote work tools like Zoom, Slack, and Microsoft Teams thus allows companies to capture an elusive yet vital ingredient to communication, decision making and skills development: tacit knowledge.

3.1
ACQUIRING TACIT KNOWLEDGE IS NORMALLY A SLOW PROCESS

Tacit knowledge refers to information that is hard to articulate and transfer, including through the writing of manuals, equations, and software code. In contrast, Google's search engine and its method of ranking web pages on the internet can be explicitly described in the form of a mathematical formula. The ranking formula looks like this: PR(A) = (1–d) + d (PR(T1)/C(T1) + . . . + PR(Tn)/C(Tn)). That's explicit knowledge. Now try to write down a formula for closing a tough sales negotiation. Impossible. Except for a few tips for staying assertive, how can anyone articulate all the subtle moves a masterful salesperson engages in when closing a tough deal?

The process of learning tacit knowledge is time-consuming, and it doesn't scale. Highly tacit knowledge that can only be transferred from a master to an apprentice takes time to learn; it can take years of practice to perfect a technique or a skill. Hence, the more tacit knowledge is involved in an organisation, the more important face-to-face meetings are among its managers behind 'closed doors'. But it doesn't have to be this way.

3.2
RADICAL TRANSPARENCY

Consider Bridgewater Associates, the world's largest hedge fund, with around $160 billion in assets. What founder Ray Dalio did some 30 years ago seems prescient today. Well before Zoom or WebEx, Dalio endeavoured to videotape every managerial meeting and hired a small team to edit the tapes, focusing on the most important moments. Dalio and his team turned the lessons gleaned from the tapes into case studies for employee training; materials such as these helped Dalio cultivate a unified culture of "radical transparency."

More recently, Bridgewater has developed apps including the Dot Collector, which is installed on every employee's company iPad. Employees bring their iPads to every meeting and use the app to give and receive real-time feedback in the form of publicly viewable "dots" or data points. A proprietary algorithm then processes the dots and calculates attributes such as an employee's "believability" and aptitude for certain roles within the company. By recording and quantifying data from meetings, employees can continuously assess and adjust their performance – complementing more formal, isolated training sessions – as well as assist managers with making decisions about staffing and team structure.

What Bridgewater demonstrates is that productivity gains are possible with recorded observations. Digital interaction is the first foundation as it renders itself recorded and thus codified. With Zoom, DingTalk, Slack, and WeChat Work being all the rage, we're one mere step away from turning video content into analyses.

3.3
WE HAVE THE TOOLS NOW

As the COVID-19 pandemic spurs the adoption of digital communication and collaboration tools across industries, smart companies are emancipating themselves from the tyranny of tacit knowledge. Zoom, for instance, has partnered with AISense, a startup that focuses on automating transcription, converting voice conversations among multiple parties into text. Its mobile app (Otter.ai) imports discussions directly from Zoom. It doesn't take much of a logical leap to see how computer-assisted textual analysis can be done at scale.

In addition to video, audio analyses from phone calls can also form useful banks of tacit knowledge. Cogito, a startup founded by MIT Professor Alex Pentland, zeroes in on word frequency, vocal tone, and pitch, among other factors, in customer service conversations. It helps staff members understand when their tone is too aggressive or if they are interrupting. It reminds people when they are supposed to say something or raise their voice. An experiment conducted by MetLife found that such AI-driven "nudges" improved "first-call resolution" by 3.5% and customer satisfaction by 13%.

Instant messaging conducted on Slack, Google's G Suite, and Microsoft Teams can also serve as troves of insights. Analytics company Humanyze, for one, deploys algorithms that use behavioural science to uncover patterns in written communications. Crunching the anonymised data reveals content flow dynamics and how teams share ideas, identifying which groups are cohesive, who is not engaged, and where bottlenecks exist.

So when a pharmaceutical company noticed a performance gap between sales teams, Humanyze discovered that employee engagement drove productivity, but somehow the tenured employees were less engaged. Knowing that the issue was not the lack of technical training, the company simply connected tenured employees with younger people to participate in team-building activities. The under-performing teams quickly caught up with the more productive ones after a few months. Small tweaks can generate big consequences when applied with precision.

And unlike the clumsy efforts led by SAP, Siebel, and Oracle a decade ago, it looks relatively easy this time. Plenty of digital tools are now either free or cheap and easily accessible, and there's plenty of reason to expect that companies will keep using them even when the crisis recedes.

3.4
MAXIMIZE DIGITAL TOOLS DURING AND BEYOND THE CRISIS

Keith Valory, CEO of Plex, a California-based media management app maker that employs a "distributed workforce," has long relied on Slack, Google Hangouts, and GitHub. Having worked for a number of large enterprise software companies in the past, Valory has shared that even open workspaces without cubicles fail to make communication any more transparent: "The engineer will say, 'It will take me four months,' when it actually took him three days."

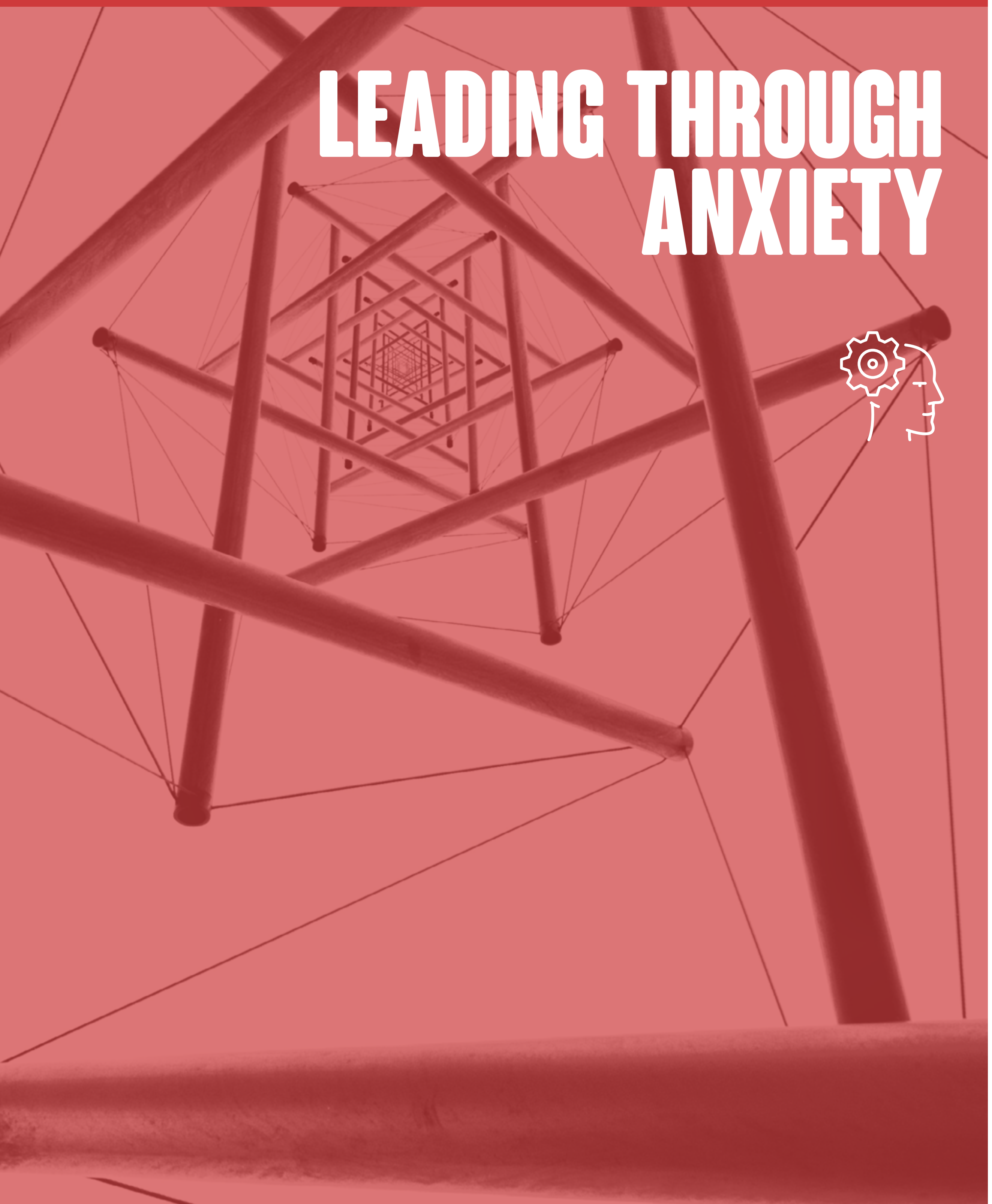
ONE TYPE OF PREPAREDNESS
THAT EVERYONE CAN EMBRACE

That's because in a virtual environment, people can't hide. All the communication is out in the open. Project management programs like Airtable or workflow automation apps like Zapier can document the effort spent on each task when workers sign in. Archived channels on Slack can make employee discussions open and visible to everyone, which can, in turn, foster a culture of accountability.

What started as an innocent move to virtual meetings out of necessity has spearheaded an inexorable reform of how corporate decisions are made. Tools that allow distributed workforces to function during a crisis can boost productivity, even during periods of normal business activity. And this is how a new wave of productivity gain is finally unleashed.

04

LEADING THROUGH ANXIETY



The biggest danger of a crisis is distraction. Clarity matters. Leaders must filter the noise to lay bare what impacts organisations so that managers can take actions anchored in reality and conviction.

Before the coronavirus crisis, there was the onslaught of digital transformation. And before that, there had been the encroachment of emerging market firms. Trends inevitably relate to one another. So we can now see how Chinese companies are using AI to help their online businesses grow during the pandemic while assets are cheap to acquire.

That is to say, managers need to see the directions in which their sectors are trending. And for most people, as we have seen, the coronavirus outbreak reinforces existing trends rather than reverting any of them. And that, in a sense, is the silver lining in the direction of existing corporate strategy. But it is also a warning about the speed of its execution. Speed matters in business transformation; the financial market demands it.

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