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## The Fortunate Future

The calamitous collapse of Bear Sterns is not new news; however, *Fortune's* portrait this week on the defunct company's ex-CEO Jimmy Cayne hides interesting learning between its sensationalist lines. In a moment of unusual candor, Cayne revealed his inability to find the right direction forward when hedge funds started collapsing: "*[I wasn't able] to make a definitive decision one way or the other, because I just couldn't tell you what was going to happen.*"

## Our Take

None of us know the future or, as Yogi Berra might have put it if he wrote **Insight**, "Surprise is no surprise." Interestingly, though, the way we manage our companies, divisions and departments often clouds our foresight and exacerbates the fallout when the unforeseen inevitably occurs. On the flip side, there are concrete steps which will give us a competitive advantage in an uncertain world.

First, three causes of perilous prognostication:

### **Looking the Wrong Way**

Many senior- and middle-managers unwittingly steer their businesses toward avoidable bumps in the road because they are looking at the wrong management metrics. Market Share and Profit, for instance, are terrible metrics for managing a business because they are lagging indicators. By the time you read a disconcerting market share it could take months or even years to take corrective action.

### **Overly Tight Strategy, Tactics, Implementation Plans and Processes**

One of my first managers taught me the "freedom of a tightly written strategy." When there is no ambiguity it's easy to determine whether any particular tactic supports or detracts from the strategy. Similarly, the

more precisely tactics and implementation plans are nailed down, the more likely they are to be implemented correctly and without confusion. However, there's a hidden downside to tightly written strategies, tactics and plans: they are fragile. An unexpected twist stops all forward progress. This is why a laser-focused strategy can leave a business in tatters (*a la* Bear Sterns) when even a single underlying tenet is shaken by real-world events and why plants which rely too heavily on "lean" thinking underperform plants which modify lean by adding back flexibility buffers.

### **Insufficient Backup Plans**

Indecision is a lack of belief that we can recover if our decision proves wrong. When Cayne was floundering at the moment of crisis it was not, as he claims, because he couldn't tell the future. Rather, it was because he was afraid he would not be able to correct his mistakes if the future diverged from his predictions. Many senior managers open themselves up to a similar problem because they have not insisted on enough backup plans in their strategy documents. This is, in my opinion, the single biggest flaw committed by top management.

Three solutions which will allow you and your company to handle the future better than your competition:

### **Invest in Forward-Looking Models**

Spend less money learning who bought your offerings and more money on who will buy them in the future. Predictive models are often tricky, esoteric, confusing and in need of frequent fine tuning. None of this excuses using basic trend lines to forecast future success. Your market has leading indicators and proxy measures which, when captured and analyzed correctly, can give you a significant edge. Supercomputing power is very affordable and being used to great effect by companies such as P&G and Caterpillar.

### **Loosen Up**

Increase the flexibility in your strategies, plans and processes. The fact is you have the waste hidden in your systems anyway. Managers pad some budget line items; functional experts pad the amount of time they say a project will require; sales teams pad their forecasts (also called sandbagging); on and on it goes. This surreptitious padding is inefficient and inevitably in the wrong place to respond to a change in market conditions. In contrast, *system* level buffers and flexible strategies let you dramatically increase your ability to respond to unforeseen events.

**Create Plans B, C and D**

Options and alternatives are your ticket to market advantage. There is natural resistance to this idea because 1) we fear that developing alternatives makes us appear unsure of what we are doing and 2) it takes a *lot* more work. Get over it. Do you want to be the executive with the most swagger and time at the golf course or the one who stays on top when a key success driver flip-flops?

For the record, after Bear Sterns collapsed, Cayne was still worth \$600 million. If you would like to be better prepared for the future and emerge from surprises worth a mint, we can help. Call us:

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