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The Art of the Long View for Large Organizations

The Higher School of Economics

Moscow— Oct 4, 2011

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Chairman, Monitor Global Business Network

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This document provides an outline of a presentation and is incomplete without the accompanying oral commentary and discussion.

COMPANY CONFIDENTIAL

- **Scanning the Horizon: The Current Business Environment**
- The Art of Re-Perceiving: An Introduction to Scenarios
- Foreseeing Surprise: Sample Scenarios
- Conclusion

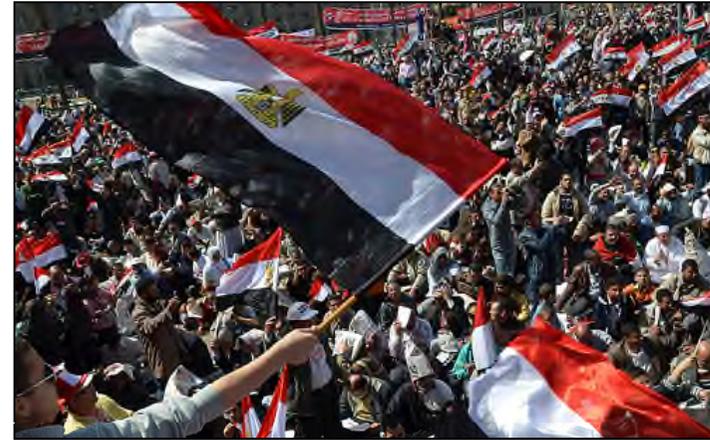
Scanning the Horizon: The World in Which Multinational Corporations Operate Is Increasingly Subject to Surprise, Which Creates Both Risk and Opportunity

Risk

Financial Crisis



Middle Eastern Protests



Opportunity

The Rise of Social Media



Media Disruptions

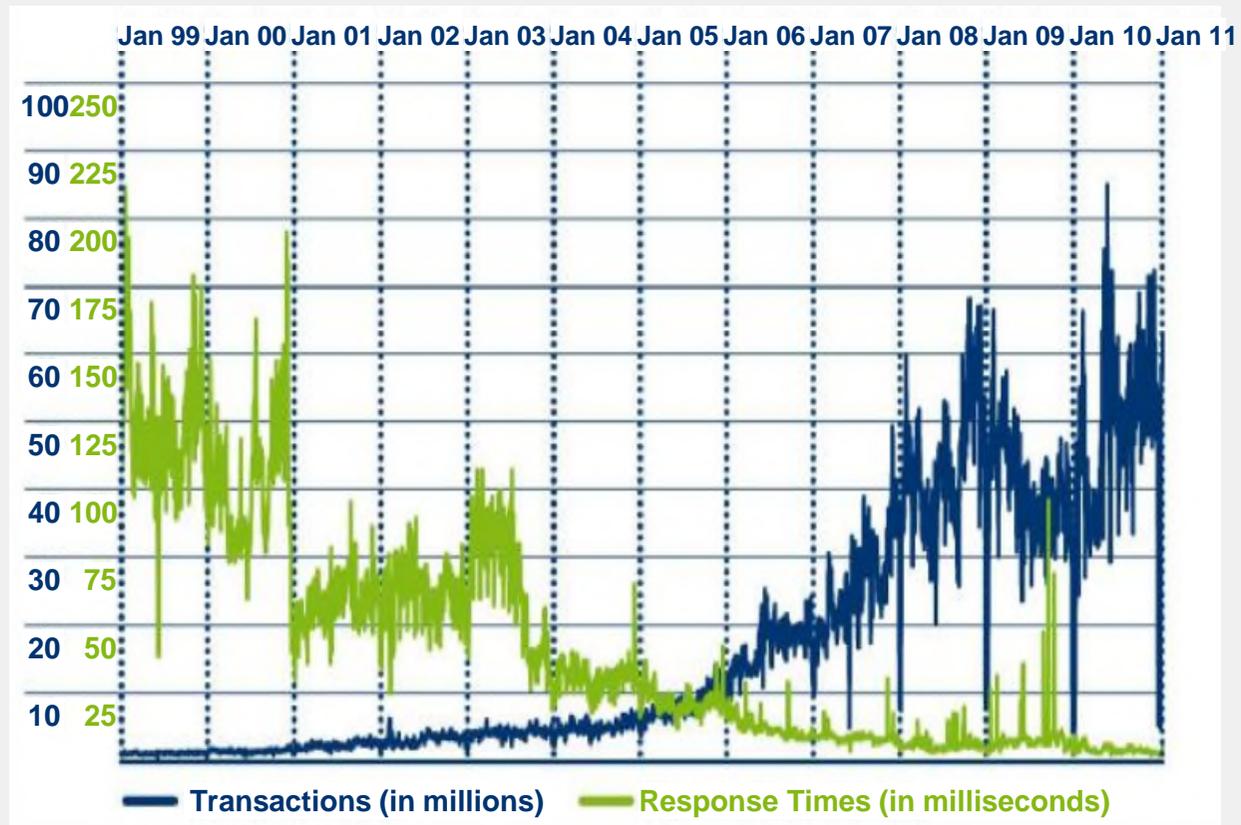


Scanning the Horizon

Uncertainty in the Current Business Environment Is Characterized by:

Speed

Processed Transactions and Response Times: Eurex Exchange



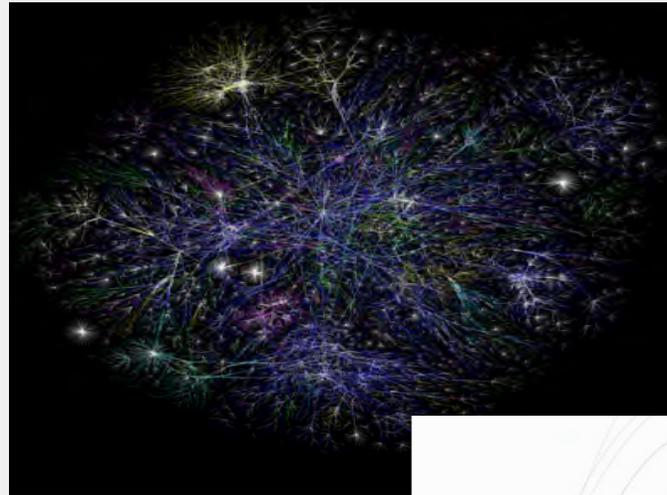
Source: W. Eholzer and Eurex (7 Feb 2011)

Scanning the Horizon

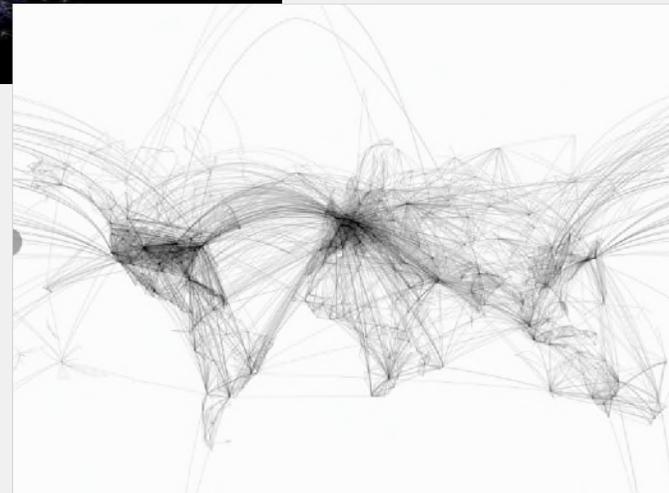
Uncertainty in the Current Business Environment Is Characterized by:

Speed

Interconnection



Connections of the Internet



Daily Civil Aviation Routes

Source: The Opte Project (Internet Map); Mario C.E. Freese (Airline Map)

Scanning the Horizon Uncertainty in the Current Business Environment Is Characterized by:

Speed

Interconnection

Democratization
of Information

PRESS TRUST OF INDIA
India's Premier News Agency



US to spend \$200 mn a day on Obama's Mumbai visit

Press Trust of India, Updated: November 03, 2010 08:25 IST

Ads by Google
Boston Coupons - 1 ridiculously huge coupon a day. It's like doing Boston at 90% off!
www.Groupon.com/Boston



Mumbai: The US would be spending a whopping \$200 million (₹ 900 crore approx) per day on President Barack Obama's visit to the city.

"The huge amount of around \$200 million would be spent on security, stay and other aspects of the Presidential visit," a top official of the Maharashtra Government said.

About 3,000 people including Secret Service agents, US officials and other members of the Presidential entourage are already here for the past one week with the instruments.

Cost of Obama's Trip to India Angers Right

November 4, 2010 3:59 PM
Posted by Brian Montopoli 363 comments

Share 1653 0 Digg+ Tweet 27 Share E-mail Print Font



Rep. Michele Bachmann (Credit: AP Photo/Jacquelyn Martin)

Earlier this week, the Press Trust of India reported that the United States will "be spending a whopping \$200 million per day on President Barack Obama's visit" to Mumbai.

The story lacked a named source, and the \$200 million claim was credited to "a top official of the Maharashtra Government privy to the arrangements for the high-profile visit."

The claim quickly gained traction on the right, thanks in part to a link on the conservative news aggregator The Drudge Report. Among those citing it is Minnesota Rep. Michele Bachmann, who responded to a question from CNN's Anderson Cooper last night on how she would reduce the deficit by citing the cost of the presidential trip.

"Well I think we know that just within a day or so, the president of the United States will be taking a trip over to India that is expected to cost the taxpayers \$200 million a day," she said. "He's taking two thousand people with him. He'll be renting out over 870 rooms in India. And these are 5-star hotel rooms at the Taj Mahal Palace hotel. This is the kind of over-the-top spending, it's a very small example, Anderson."

Source: NDTV.com (New Delhi Television); CBSNews.com

Scanning the Horizon

Uncertainty in the Current Business Environment Is Characterized by:

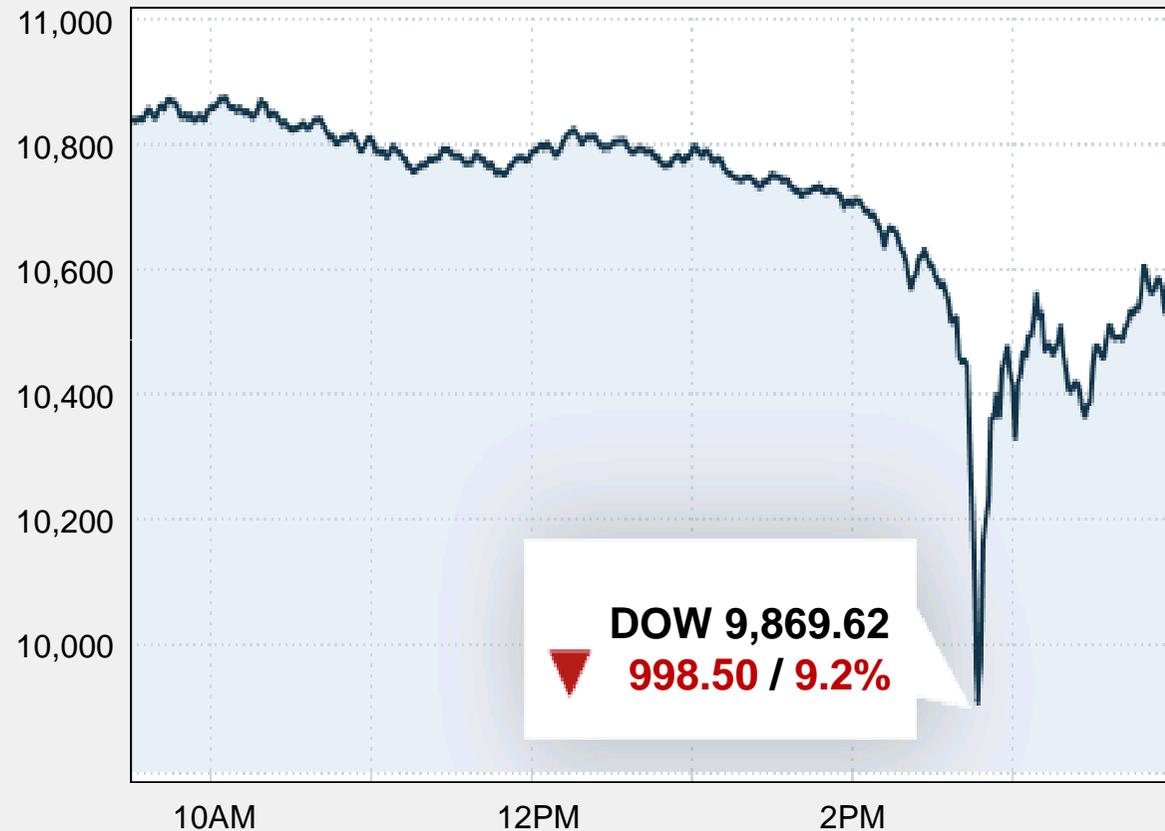
Speed

Interconnection

Democratization
of Information

Extreme
Volatility

Flash Crash of May 2010

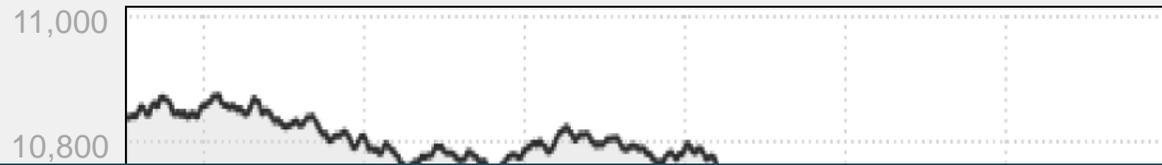


Scanning the Horizon

Uncertainty in the Current Business Environment Is Characterized by:

Speed

Flash Crash of May 2010



What methods can we use to manage uncertainty, see emerging opportunity, and anticipate surprise?

Extreme Volatility



Agenda

- Scanning the Horizon: The Current Business Environment
- **The Art of Re-Perceiving: An Introduction to Scenarios**
- Foreseeing Surprise: Sample Scenarios
- Conclusion

The Art of Re-Perceiving Challenging Mental Maps



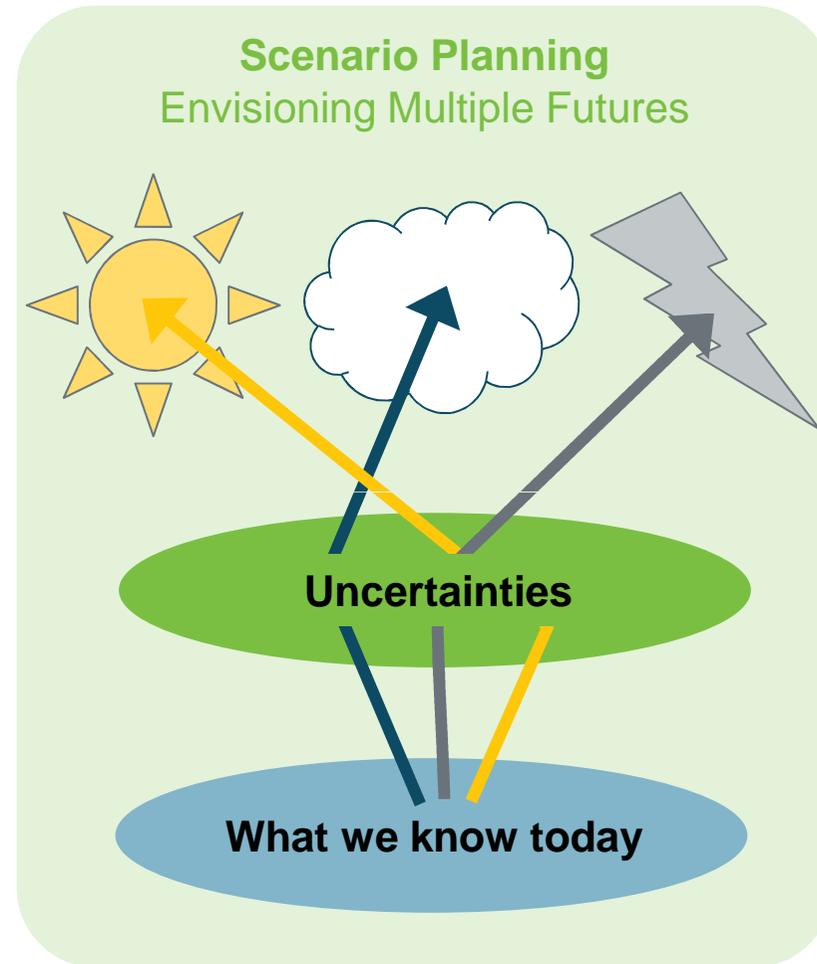
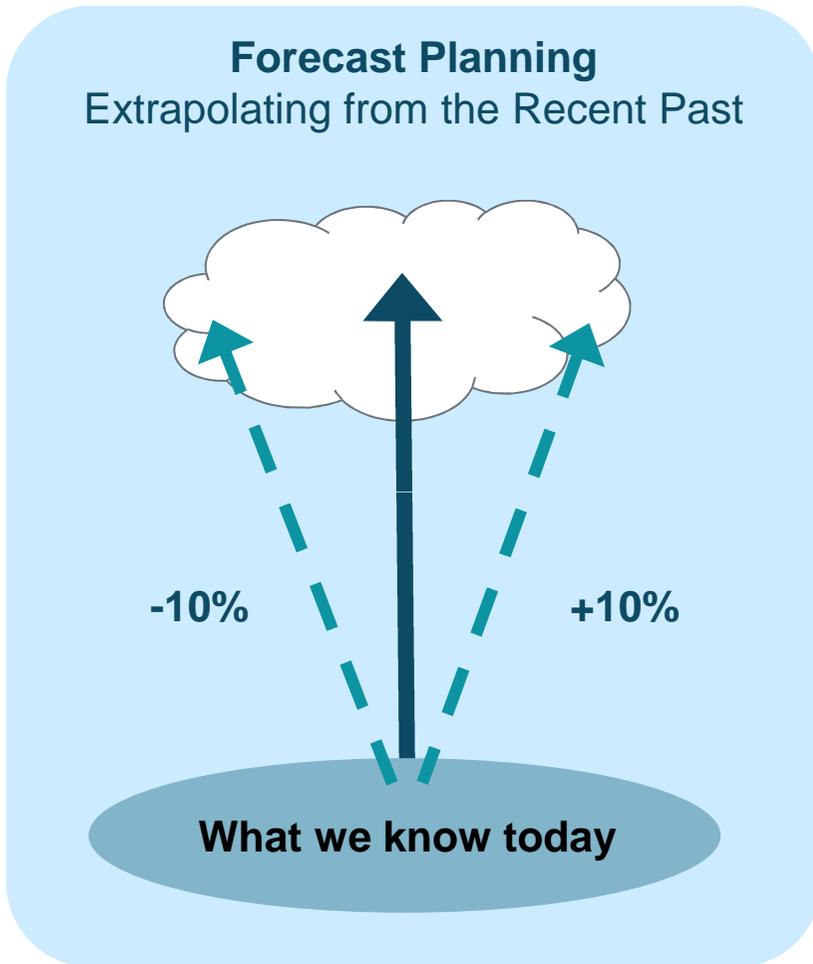
The Art of Re-Perceiving What Are Scenarios?

Scenarios are . . .

- Rich, data-driven **stories about tomorrow** that can drive better decisions today
- **Descriptions of the external environment** in which the organization may need to operate, **not the organization itself**
- **Hypotheses** that describe a range of possibilities for the future — **not predictions**
- Imaginative narratives that **stretch thinking**, challenge conventional wisdom, but are **always plausible** and logical
- A **framework** for recognizing and adapting to change over time — ahead of time

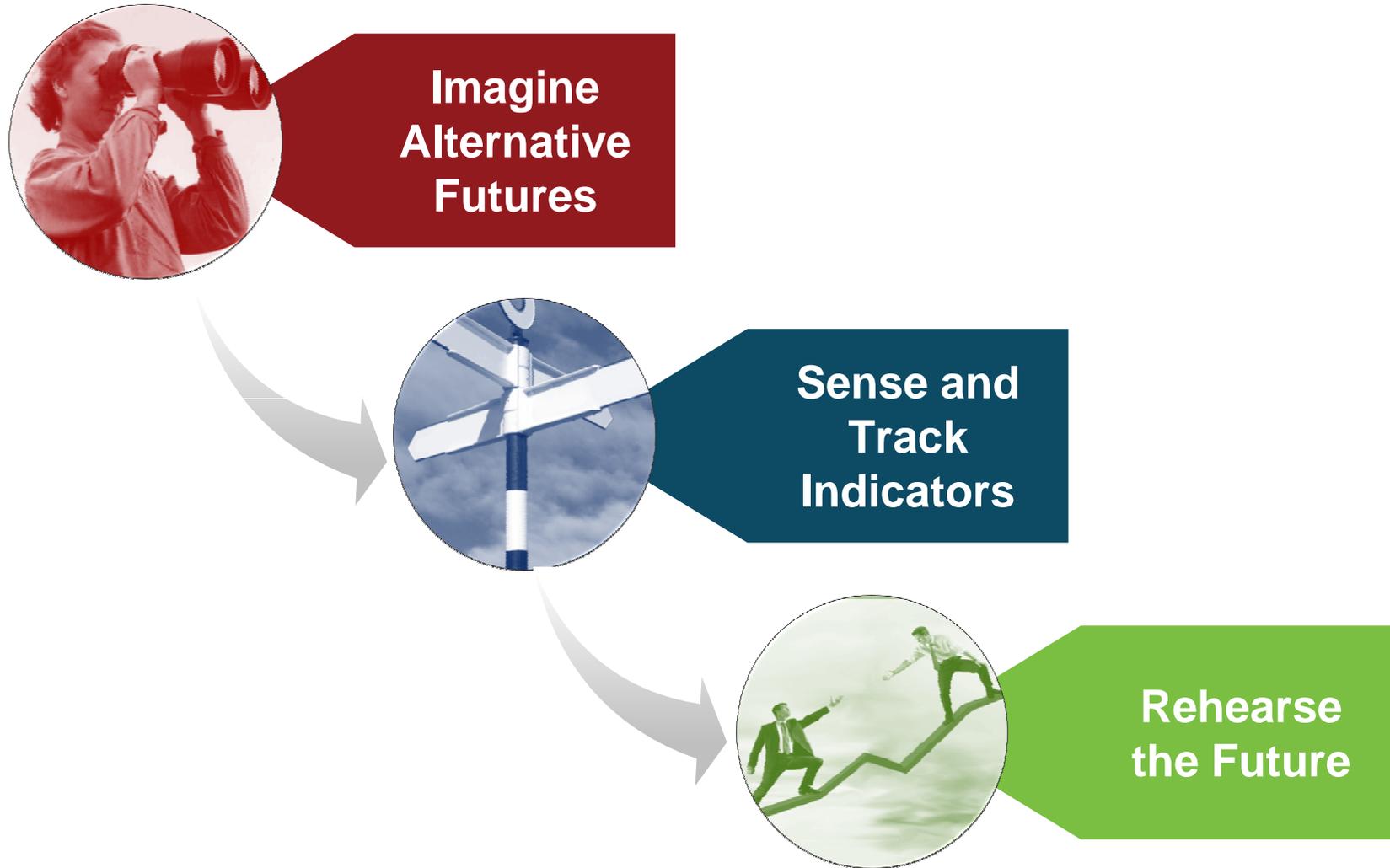


The Art of Re-Perceiving Scenarios Are Not Forecasts and Avoid the Trap of Simple Extrapolation



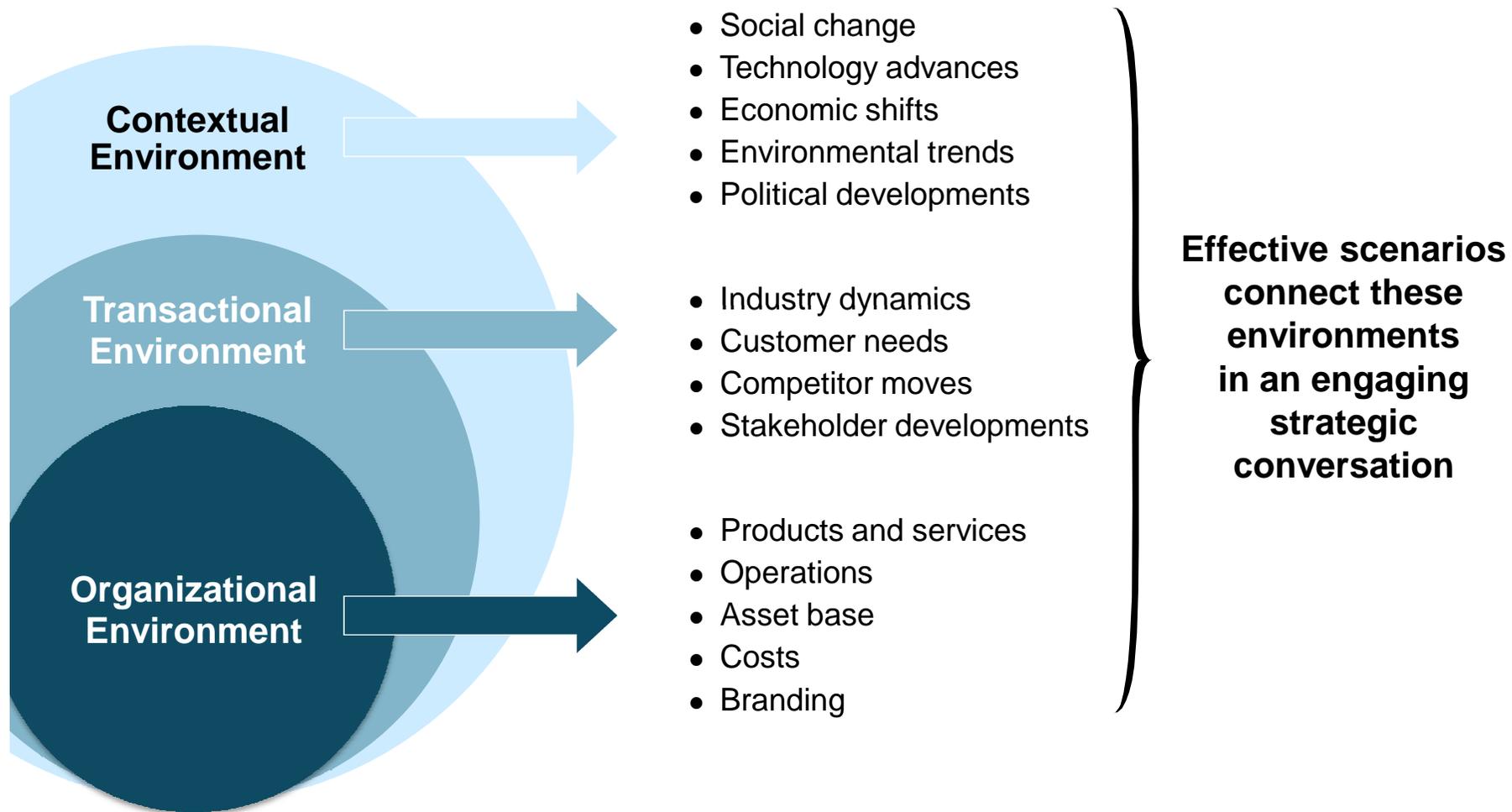
Scenarios **overcome the tendency to predict**, allowing us to see **multiple possibilities for the future**

The Art of Re-Perceiving: There Are Three Key Skills Organizations Must Master to Develop Powerful Scenarios and Successfully Navigate Surprise



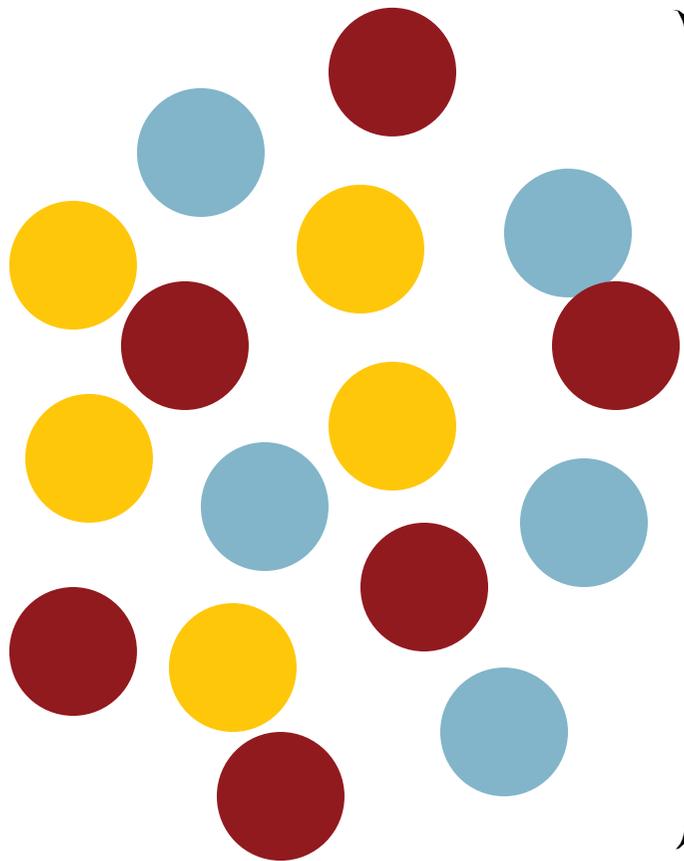
The Art of Re-Perceiving: Imagine Alternative Futures Scenarios Are Created Through an “Outside-In” Approach

Begin with an “outside-in” view to identify and plan for the external influences and uncertainties that will have a significant impact on the organization

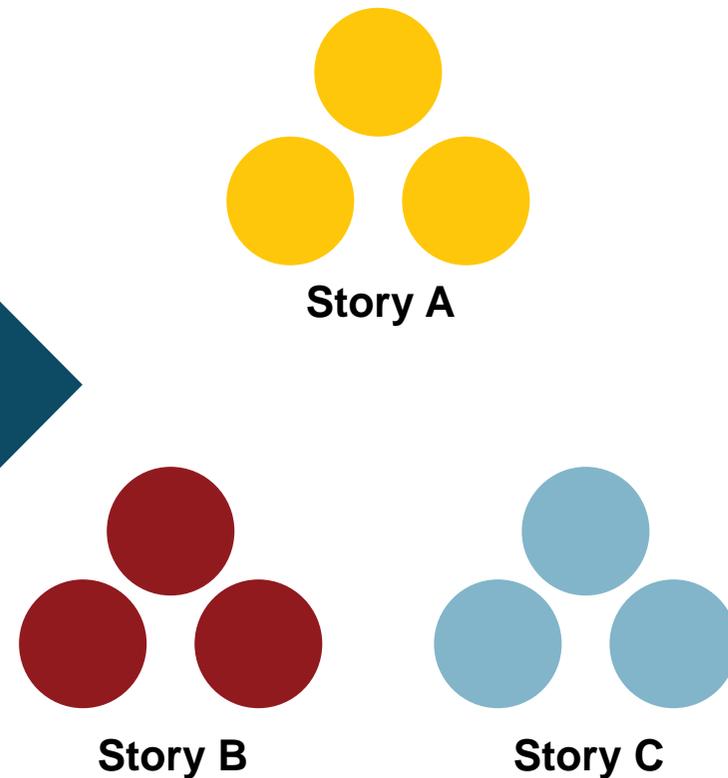


The Art of Re-Perceiving: Imagine Alternative Futures Scenarios Make Sense of Complexity

Driving Forces, Observed Trends, and Events



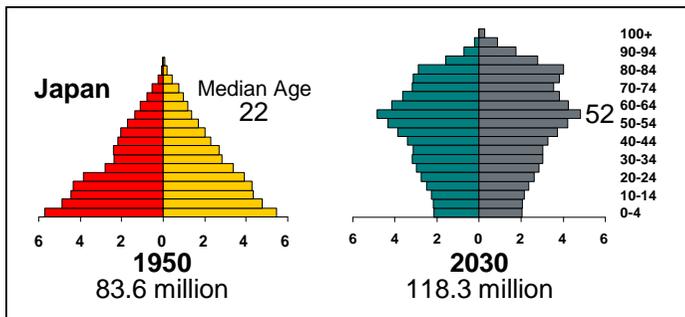
Clustering Related Patterns into Plausible Stories and Alternative Futures



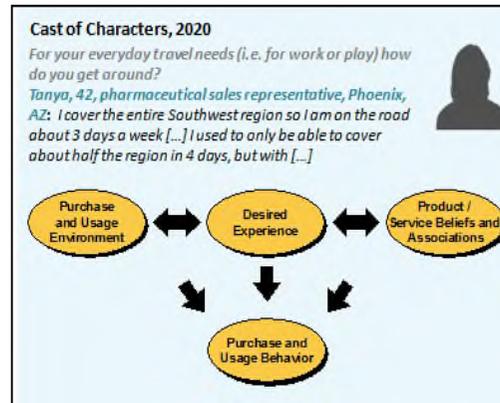
The Art of Re-Perceiving: Imagine Alternative Futures

The Scenario Development Process Is Both Rigorous and Imaginative

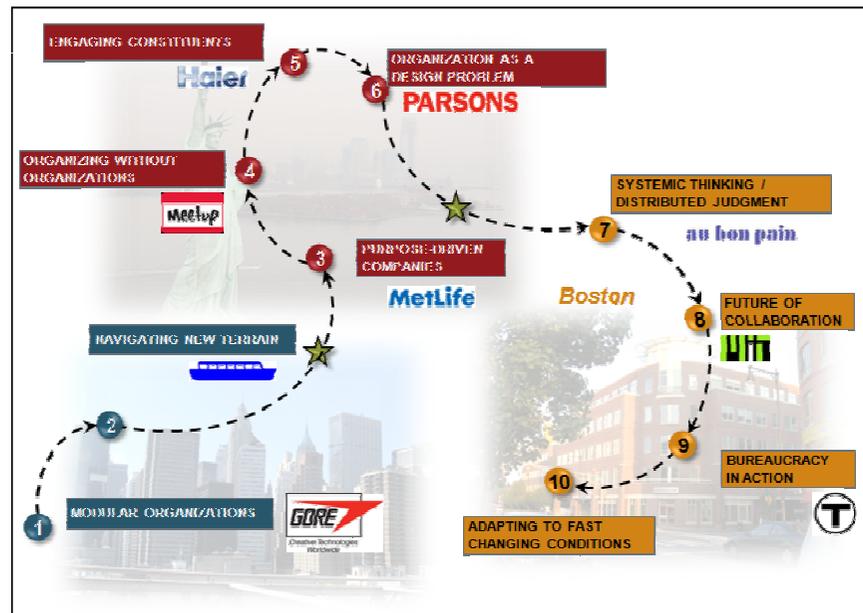
Quantified Trend Research



Networks of Remarkable People



Customer Portraits



Learning Journeys

The Art of Re-Perceiving: Sense and Track Indicators

Why Track Early Indicators?

- Help discern when a scenario is beginning to emerge
- Understand cause and effect relationships
- Suggest when a different strategic move / contingency may be required
- Alert the organization to weak signals of potential high-impact changes



The Art of Re-Perceiving: Sense and Track Indicators

Looking for Indicators

Monitoring

A regular review of previously identified trends and key data points

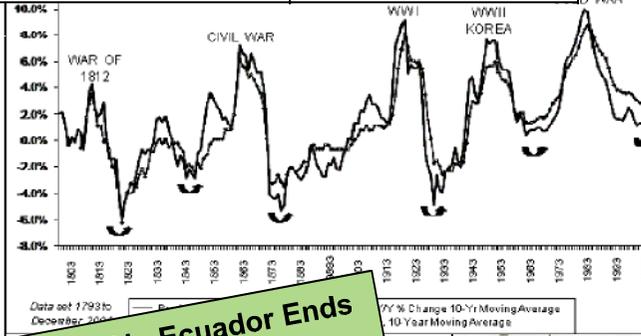
Scanning

A broad, systematic sweep for brand new issues and developments

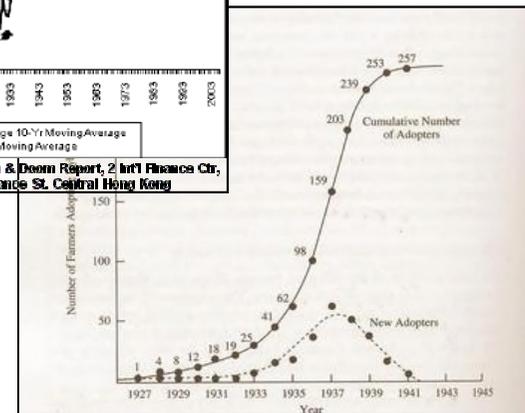
Ratios

Ratio	Direction and Meaning
Standard of Living Education	?
Education Labor Productivity	?
Public Health Environmental Damage	?
Economic Success Social Stability	?

Green-Tech Investment Plummet
 NEW YORK, Oct 1 — Global venture capital investment in green technology companies fell 30 percent, to \$1.53 billion, in the third quarter of 2010, according to a preliminary report issued Friday by the Cleantech Group, a San Francisco-based research and consulting firm.



Standoff in Ecuador Ends With Leader's Rescue
 QUITO, Sep 30 (AP) — Ecuadorean soldiers stormed a police hospital Thursday night where President Rafael Correa was held by rebellious elements of the police forces, and rescued him amid an exchange of gunfire in an effort to end a tense standoff between Mr. Correa and hundreds of protesting police and military officers.



The Art of Re-Perceiving: Rehearse the Future Devise Robust Strategies to Deal with Surprises

**Global Logistics
Company**

Original Contingency

Avian Flu



Analogous Contingency

Eyjafjallajökull Eruption



**Global Financial
Services
Company**

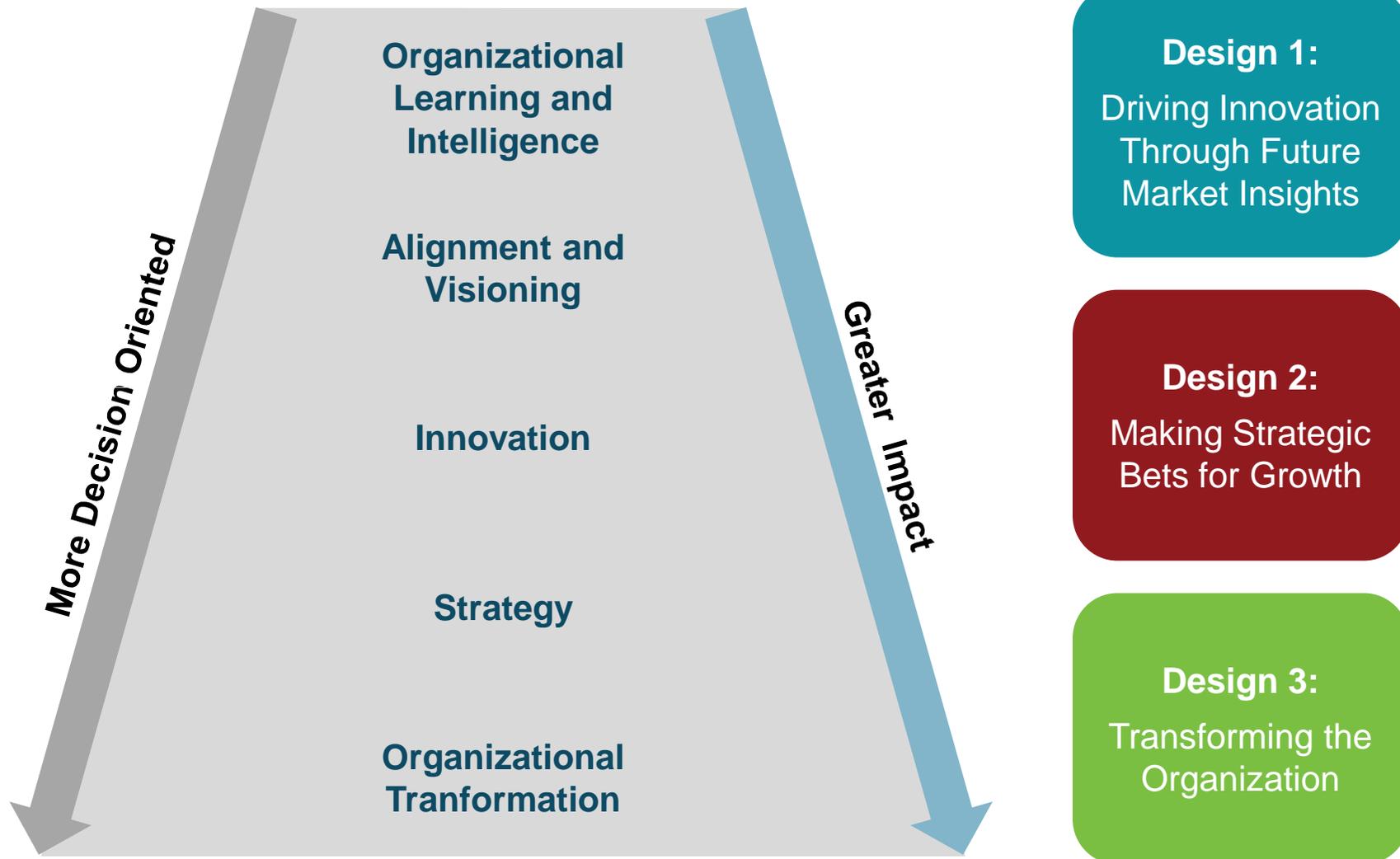
Y2K Computer Failure



9/11 Terrorist Attacks

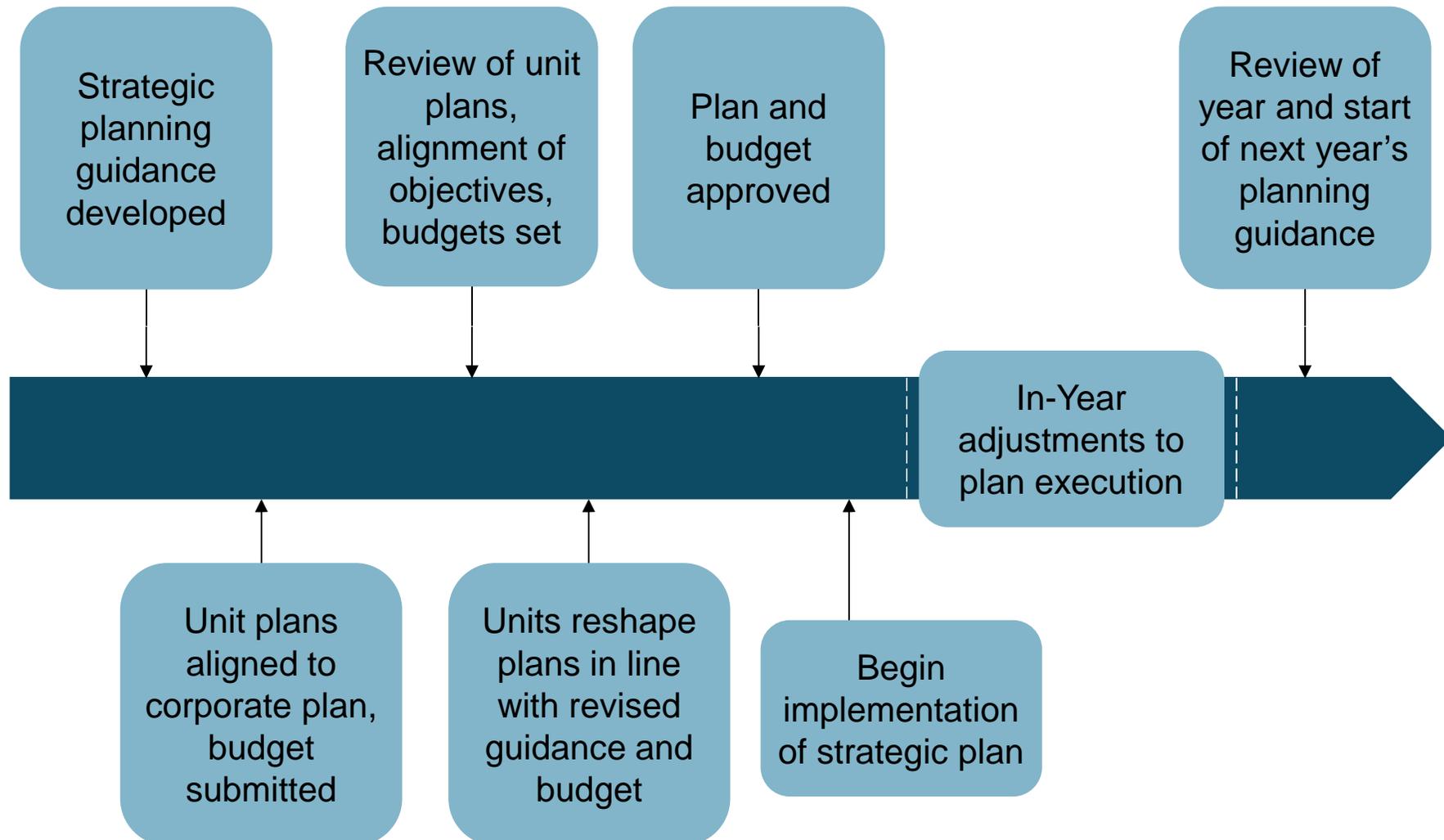


The Art of Re-Perceiving: Scenario Applications: Scenarios Can Play a Range of Roles Across Functions, and with Varying Outcomes



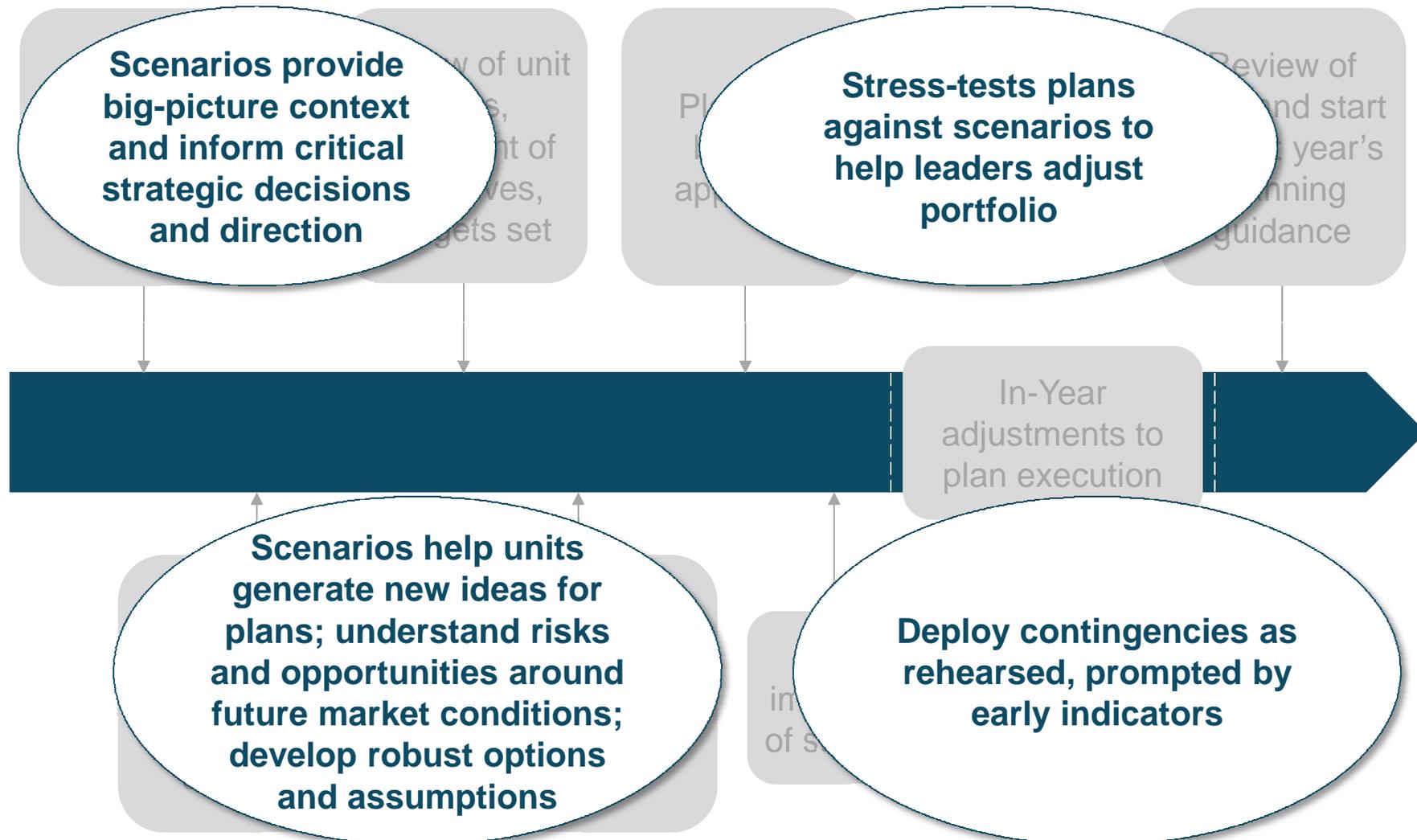
The Art of Re-Perceiving: Scenario Applications And They Can Be Used Across the Strategy and Planning Timeline

Most organizations have established, regular, strategy and planning processes. Scenarios can strengthen a planning process in a number of ways



The Art of Re-Perceiving: Scenario Applications And They Can Be Used Across the Strategy and Planning Timeline

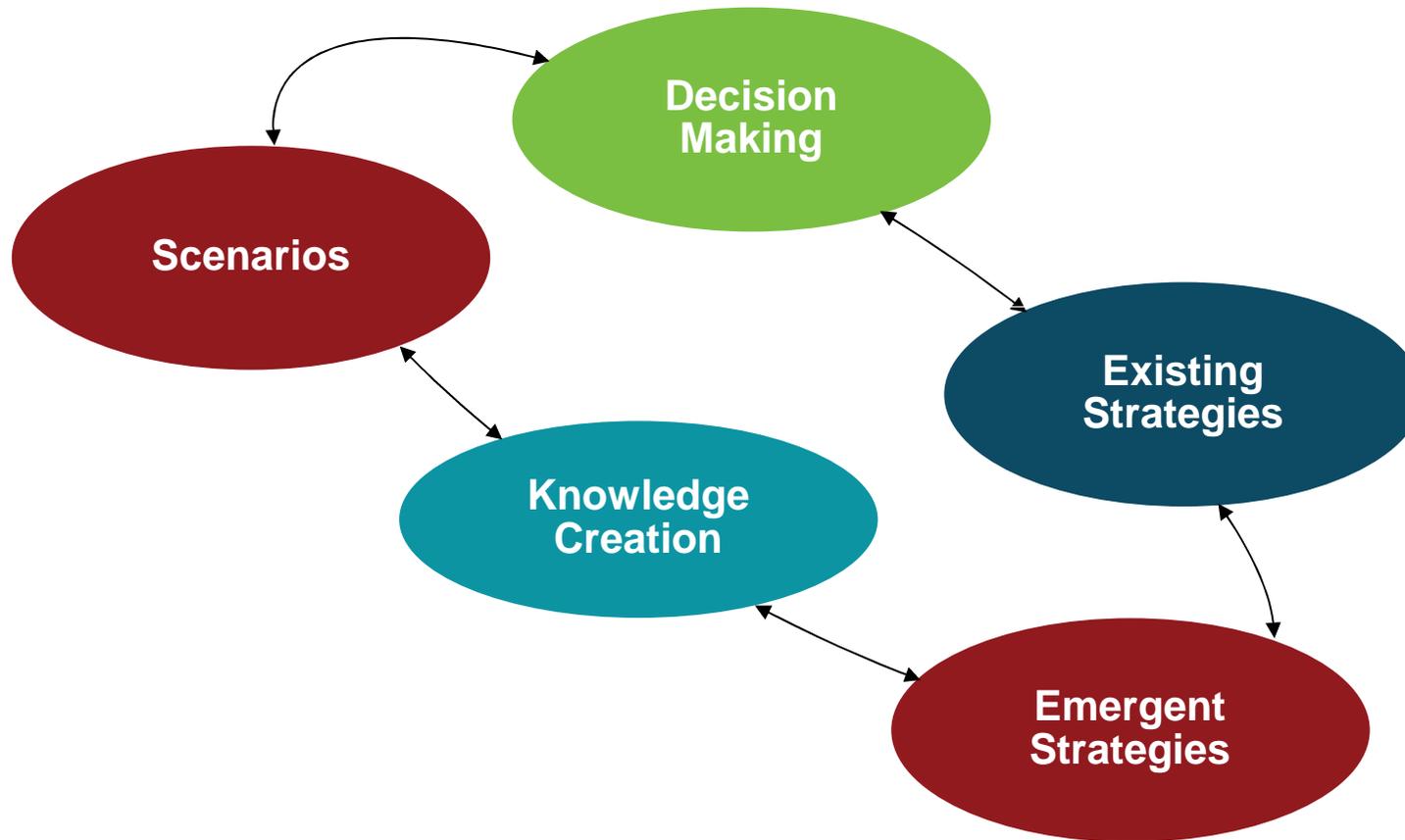
Most organizations have established, regular, strategy and planning processes. Scenarios can strengthen a planning process in a number of ways



The Art of Re-Perceiving: Scenario Applications

The Strategic Conversation and Strategic Options

Strategic conversation creates these flows and keeps these relationships healthy as an art, not a science





SCENARIOS

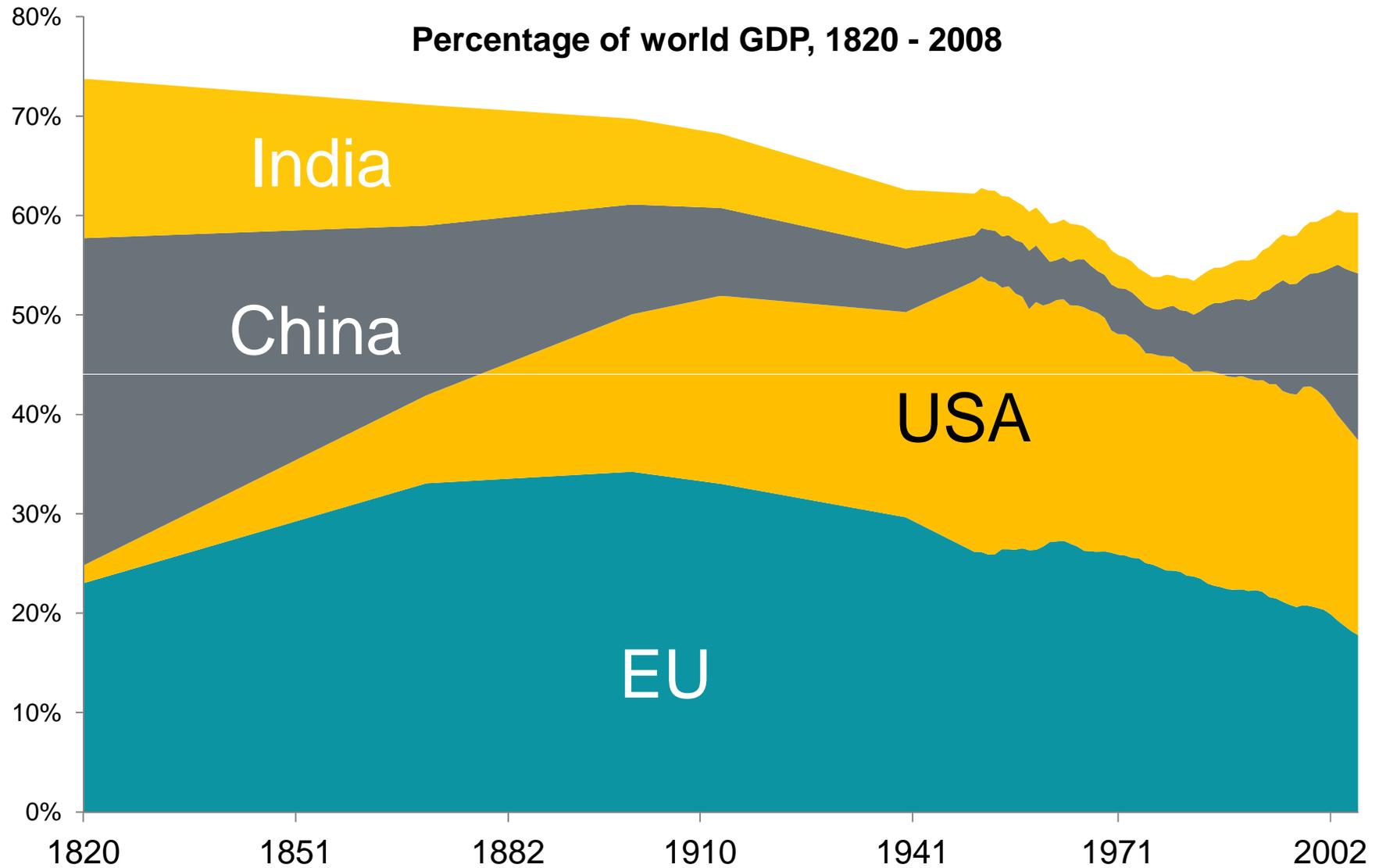
Market analysts have lowered their growth expectations

- Economists and market analysts have recently lowered their forecasts for global, developed and emerging market growth due to:
 - Perceived policy errors in both the US and Euro-Zone
 - Prospect of further fiscal tightening to combat excess debt levels
 - Erosion of consumer and business confidence (despite many organizations sitting on piles of cash)
 - Extreme stock market volatility leading to a negative feedback loop between weak growth and soggy asset markets
- Policy makers' options are now limited, but further action is anticipated
 - Further interest rate cuts (where possible)
 - Quantitative (and other non-standard forms) of easing
 - Further select fiscal stimulus
 - EM currency appreciation

Key uncertainties all appear to be on the downside

- Continued decoupling of developed vs. developing country GDP growth
- Inability of policy makers to resolve structural issues and institute reform
- Collapse of the Chinese property bubble?
- Unsustainable growth of consumer debt in Brazil?
- Further spread of European sovereign debt crisis?
- US political deadlock approaching Presidential elections?
- Rising commodity prices?
- Middle East political instability?
- Deteriorating US-China relations?
- Japanese economic (continued) stagnation?

What will be the balance and nature of future economic relationships in the world?

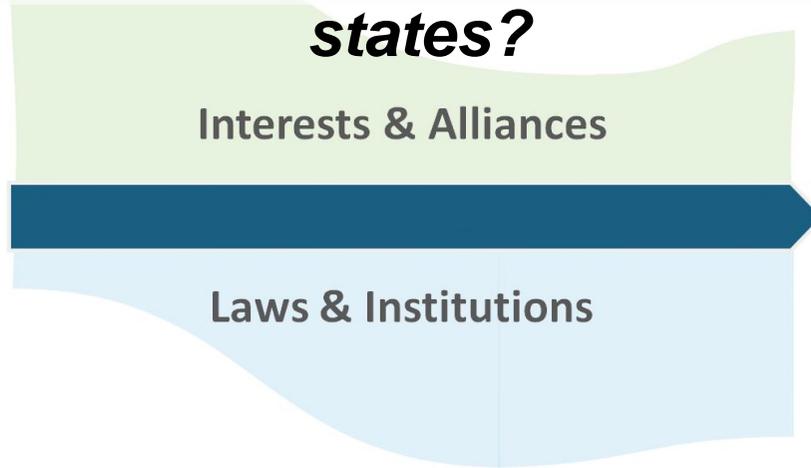


Note: Western Europe defined as Western 30 states

Source: Angus Maddison, *The world economy: Historical Statistics*, OECD 2003

Critical uncertainties

Integration vs. fragmentation of global system and nation states?



Policy response to economic weakness?



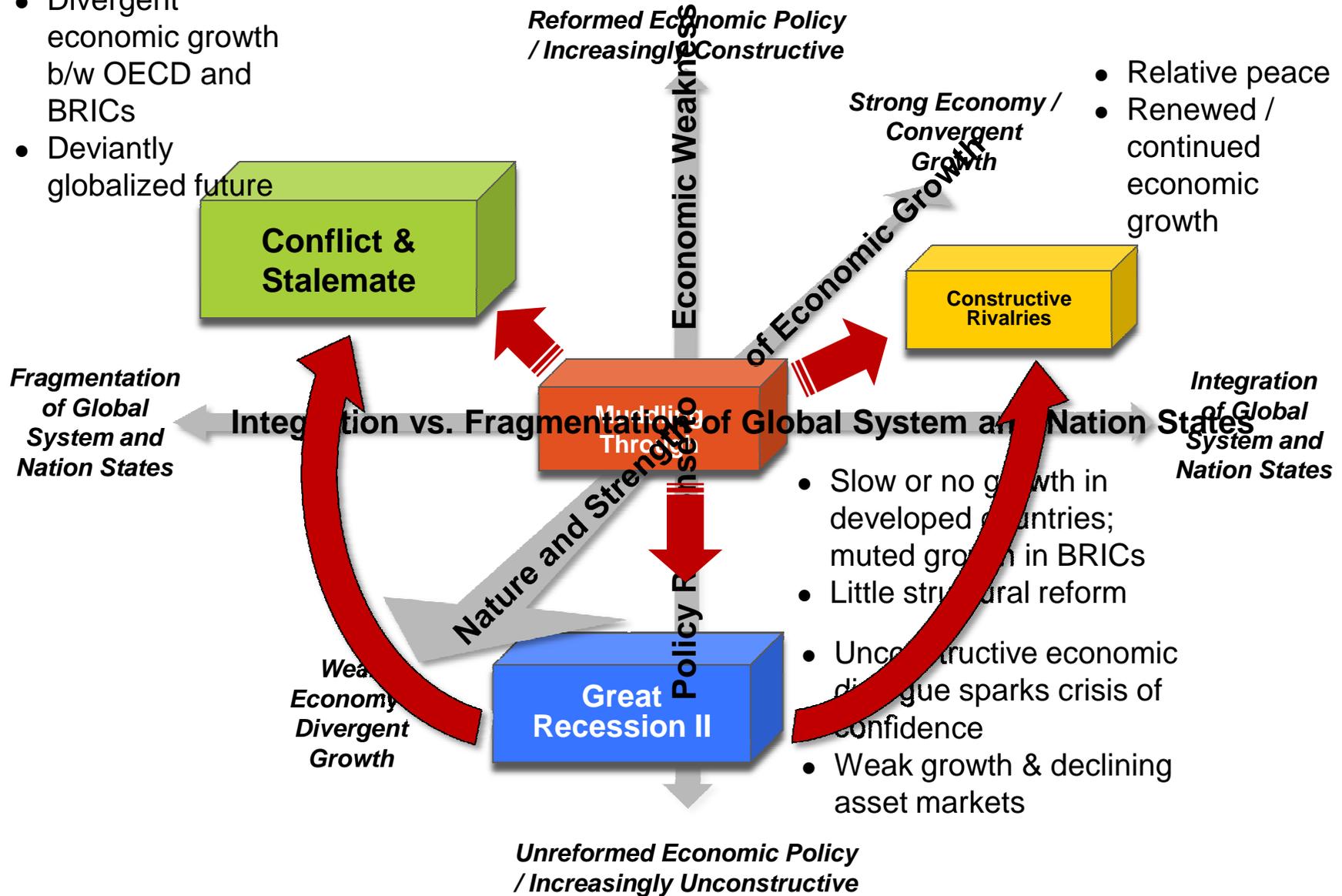
Nature and strength of economic growth?



Possible scenarios for the next 5 to 10 years

Four main possibilities

- Divergent economic growth b/w OECD and BRICs
- Deviantly globalized future



Muddling Through

- The “official future” for many
- Relatively slow or no growth in OECD countries and muted performance in the BRICs
- Political stalemate continues in the EU and US, hampering structural reform
- China avoids a property bubble collapse and is moderately successful in stimulating domestic demand
- If weak demand in the OECD continues, danger that the global economy veers towards the “Great Recession II”



Constructive Rivalries



- A world of relative peace and renewed / continued growth
- US & EU “get their acts together” & the BRICs continue to perform
- Mutually dependent growth ensures a constructive geopolitical environment
- Danger that commodity-driven inflation creeps back in
- Risk of on-going shocks in energy and food markets due to demand spikes and structural supply shortages

Great Recession II



THE GREAT RECESSION II +534 -992

- Global economic “perfect storm” unfolds; US fiscal crisis, Japanese stagnation, European sovereign debt crisis, and China, Brazil & India finally over heat
- Negative spiral of crisis of confidence, weak growth and declining / highly volatile asset markets dominates the economic and geo-political landscape
- Few safe havens and a real danger of “a lost decade”
- Renewed political leadership and cooperation required to break out of the negative cycle



Conflict and Stalemate



- Continued divergence in economic growth between developed OECD (stagnant) and developing (vibrant) markets
- Fabled “End of Empire” dynamics for the U.S. become an increasing reality
- India will find itself alone with a strong China, and must find alliances of convenience
- U.S. / China tensions rise, seemingly on a path to inevitable conflict
- Scale and diversity of deviant globalization is huge – parastatal institutions flourish and challenge legitimacy of national governments

Agenda

- Scanning the Horizon: The Current Business Environment
- The Art of Re-Perceiving: An Introduction to Scenarios
- Foreseeing Surprise: Sample Scenarios
- **Conclusion**

Conclusion

First Steps to Getting Ahead of Surprise

- Create opportunities for richer strategic conversations by:
 - Developing and sharing scenarios in your company
 - Ensuring participation from employees at all levels in your organizations
- Create a diverse network of internal and external sources of learning to identify and track indicators
- Create appropriate preparation and response mechanisms

