

The Boardroom TIME LORDS



By Nigel Lake

Does your company have the leadership it needs to travel through time?

As a child, I had the tremendously exciting experience of happening upon the Tardis in some woods near to my home. It had been abandoned by The Doctor, so I imagined, as he embarked on yet another adventure, which by some curious quirk of fate happened to take place in the East Sussex of the 1970s. Doubtless the reality was nothing more glamorous than a low-budget woodland shoot, but that didn't curb a youthful imagination.

Of course, everybody knows that you can't travel in time. Despite all the advances in transportation

technology, we still remain trapped in an Einsteinian universe. Physically, we can choose up or left or forward (and their opposites), but we can never choose to wind back the clock. Dr Who's Tardis remains nothing more than a figment of the imagination, albeit one that is at the heart of one of the most successful and long-running TV serials of all time.

This traditional view of the world misses a critical point. We are all, continuously, travelling in time. We have no control over the direction in which we are travelling, nor the rate at which we progress towards the future, but it is inevitable that we will arrive there in due course. For most of mankind's history, this simply hasn't mattered very much. The pace of economic and societal evolution has been slow, and plans made in the year 1400 would have been based on assumptions that were still more or less valid a century later.

Slowly but surely, however, the pace of change has accelerated. Life in the year 1500 may have been more or less unchanged from the year 1400; in dramatic contrast, today's generations have seen almost unimaginable developments over just a couple of decades. Information technology has invaded almost every area of our lives—and yet when I first started work, the vast majority of people did not have a computer on their desks. In the 1980s, Star Trek-style mobile communications were little more than a figment of science fiction imagination—at least until Motorola unveiled the StarTAC

mobile device which weighed in at just 88 grams, much lighter than today's phones. And throughout this period, more or less everything has been dramatically miniaturised, resulting in the birth (and death) of products as revolutionary as floppy disks, videotapes, and the Sony Walkman.

These developments have led to profound changes in many industries. IT and communications have shrunk tasks and distances and reduced unthinkably challenging problems to the work of the newest and least experienced staff. Businesses can now provide goods and services across borders and time zones, making global competition a reality of everyday life. Meanwhile, marginal costs in many industries have been reduced to minimal levels by scale economies or automation, allowing the smallest businesses to rent access to the largest and most complex services on entirely affordable terms. Nowhere is this truer than in raw computing power, where, with nothing more than your Amazon login details, anyone on the planet with a few cents to spare can dial up access to some of the world's most powerful computers in just seconds.

Few boards or management teams saw any of these changes coming. Indeed, only a small minority even recognised these revolutions once they began to take hold. If your reaction is to disagree with this bald statement, ask yourself this question: If big business was so adept at riding the revolutionary

waves, why is it that so many of the winners in this new age of technology have been new companies, often founded by kids with no prior business experience? And why is it that so many old-world companies—who had the scale, the credibility, and the paying customers from the beginning—have seen their businesses hollowed out or destroyed so quickly?

I will happily admit that I too did not see the full implications of many of these innovations at the outset. But I did recognise that their effects would be dramatic, and that the only solution was to start working with the new technologies as rapidly as I could.

In 1979, a forward-looking maths teacher by the name of Ian Soutar insisted that my school purchase a Tandy TRS 80 (the personal computer before the term 'PC' was coined). Although the cost was extraordinary, it seeded the knowledge that computers could do amazing things and an instinct that they would change the world.

With all this change, it is increasingly dangerous to run your business with a preference for the status quo, and with financial and performance metrics which focus largely on the past. Whether you are on a board or are part of a senior-management team, you must be highly skilled at helping your business to navigate through time. The leaders who bring these skills will drive dramatic outperformance in their organisations. Those who do not will drift rudderless on the seas of incessant change.

At the simplest level, this means building a deep understanding of how the evolution of technology and future developments will change your industry. In many cases, the direction and rate of change is surprisingly predictable, reflecting ongoing changes that have continued steadily over decades. Yet, all too often, companies ignore these changes, perhaps because they are happening in areas that they think fall outside their core area of focus,

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or worse because they simply cannot let go of the status quo. This allows new competitors to sneak up and displace global leaders surprisingly easily—just look at Nokia's amazing growth driven by 2G mobile phones, and its calamitous decline when displaced by Apple.

Not all developments are quite this easy to predict; the underlying trends may be obscured by short-term factors, or it may be that the new technology has come from so far behind that no-one ever thought it could ever reach the lead. This is precisely what has happened with solar PV electricity, which is now the cheapest source of power anywhere that is sunny and not easily connected to an existing power grid.

In other cases, it may simply be hard for the human eye to identify which of thousands of factors are the real drivers of change. This is where the application of big data-style analytics to corporate decision-making is so important. Faced with what you might call 'fat data' (that is, many pieces of information about each single event), identifying which of these has any meaningful correlation with outcomes will be impossible with traditional analysis. Armed with leading-edge mathematical techniques, however, and a deep understanding of the key ingredients of commercial and financial success, predictive statistics offers extraordinary insights. This is the equivalent of night vision for decision-makers, and allows you to see clearly even where the light is extremely poor.

Of course, life is not always this simple. Whether this is the ramp-up of vehicle numbers on a new toll road, or the rate at which a new product or store gains market share, or the effect of the weather on agricultural output, there are circumstances where the future is not just uncertain but genuinely hard to predict. The traditional approach to this problem is to develop a conservative base case. However, real life may well turn out to be

very different, and trusting resolutely in the base case can lead, quite literally, to financial ruin. Many wind farms have become insolvent precisely because they assumed average wind and leveraged to the hilt. A couple of years of below-average wind, and the administrators had to be called in.

In virtually all cases, however, uncertainty of this nature is predictable in a statistical sense. With the right analysis, even toll road patronage can be predicted in the form of a statistically likely range of outcomes on any particular date. This truly is big data for the boardroom, and offers a much more reliable methodology for embracing uncertainty, quantifying the associated risks, and understanding the implications both for value and for financing structures. To date, virtually all of the big data effort has been focused on small decisions. But these techniques can just as readily be applied to the largest strategic decisions, M&A transactions, and capital investments.

Taken together, these three approaches offer you the ability to see much more clearly into the future. In truth, the apocryphal crystal ball much favoured by old-school merchant bankers and strategists is no longer a matter of imagination and art. With a mind that distrusts the safety of the status quo, and the power of strategic analytics, leaders are better placed than ever before to understand the future well before it happens. Armed with this knowledge, they can reach out and grasp the opportunities for transformational change that come from travelling boldly through time.

Of course, knowledge alone will not be enough—I sincerely doubt that this type of thinking will ever take hold in organisations with monochromatic boards and one-dimensional management teams. As complexity increases, so too does the importance of building boards, cabinets, and teams that are truly diverse. •