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20/20 Foresight

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BY RAM CHARAN

ORGANIZATIONS & PEOPLE



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Many business leaders need to improve their perceptual acuity. Here's how you can develop the ability to look around corners — and become a catalyst for change.

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The immense uncertainty that today's business leaders face is something truly unique. In its scale, ferocity of impact, and ubiquity, it is different — by orders of magnitude — from anything I've seen before. We've been living with uncertainties forever, of course. What's new is structural uncertainty. It is structural because the long-term, irresistible forces now at work can explode the existing structure of your market space or your industry, putting it at risk of being drastically diminished or completely eliminated. If you are unprepared, the massive changes these forces bring are like sudden bends in the road. They appear, seemingly without warning, to convey you away from the future you envisioned for your business. But in a world that is projected to

add a minimum of US\$30 trillion of GDP in the next decade, where human needs and wants are both multiplying and changing, structural uncertainty also creates myriad new needs, new industries, new businesses, new business models, and new market segments.

Taking control of uncertainty and successfully steering your organization through frequent bends in the road is the fundamental leadership challenge of our time. And it will call for a distinctly different type of leadership than the one you were trained for and are likely currently exercising. The advantage now goes to those who don't just learn to live with change, but who create change. I call these people catalysts.

Instead of waiting and reacting, catalysts immerse themselves in the ambiguities of the external environment, sort through them before

things are settled and known, set a path, and steer their organization decisively onto it. They seize upon a force or combination of forces — for example, linking a demographic trend with an existing technology — and conceive of a new need or a total redefinition of an existing need, often with a new business model in mind. (See “What Self-Made Billionaires Do Best,” by John Sviokla and Mitch Cohen, *s+b*, Dec. 14, 2014.) Unconstrained by conventional wisdom, creative thinkers paint a detailed, specific picture of what the new company will be. Then they take the organization, along with its external constituencies, on the offensive.

Of the skills required to thrive as a catalyst, the first — and perhaps most important — is perceptual acuity. Although the phrase rarely appears in accounts of business breakthroughs, perceptual acuity often turns out to mean the difference between success and failure. Perceptual acuity is the psychological and mental preparedness to “see around corners” and spot potentially significant anomalies, contradictions, and oddities in the external landscape before others do. It is your human radar for seeing through the fog of uncertainty so you can act first.

Some people are simply born with it. Ted Turner, for instance, is a catalyst who was blessed with exceptional perceptual acuity. “He sees the obvious before most people do,” as Robert Wright, the former president of NBC, told an interviewer. “We all look at the same picture, but Ted sees what you don't see. And after he sees it, it becomes obvious to everyone.”

Turner had ventured into TV by buying a small UHF station in Atlanta in 1970, soon after taking

over his father's billboard advertising business. He saw the possibility of combining satellite transmission and cable networks into a national network before the enabling technologies and regulatory mechanisms were fully in place. The plan was to beam signals from his tiny local station to a satellite, then download them to dishes across the country and transmit the captured signals to viewers via cable. Turner wanted a national license, but the Federal Communications Commission (FCC) granted licenses only for local markets.

Turner pressed Congress to intervene on behalf of giving consumers more choice. Soon after, the FCC approved Turner's proposal for a national license, and his local station was instantly transformed into a "superstation." Turner found clever ways to fill the hours with programming, such as the now common practice of running old movies and TV shows. He bought the Atlanta Braves baseball team to

provide more programming. Next, he asked why consumers had to get the news at a set hour, typically 6 p.m. Why not make it available at any time, day or night? And so was born CNN with its precedent-setting 24-hour news format.

Building Perceptual Acuity

You can cultivate perceptual acuity by watching catalysts and adopting the disciplined practice of looking over the horizon and searching for new ideas, events, technologies, or trends — things that an imaginative person could combine to meet an unmet need or create a totally new product. As your acuity sharpens, you'll spot catalysts more easily and begin to see the world as they see it: as full of new possibilities and opportunities. The key is to train yourself to stand back from your business and its environment. In particular, look for the larger significance of anomalies, contradictions, and oddities — that is, things that depart from or challenge familiar

patterns and differ from what you've known or believed previously. Then you need to imagine what the new shape of the landscape might be if what you're seeing is a signal of powerful change — and importantly, imagine how you might take advantage of the shift.

Practicing perceptual acuity is now part of your job and will raise your value as a leader. And in fact, building it is less a matter of carving out time than of exercising the focus and discipline to watch and listen for different things in the ordinary course of your day, all through the year. Change doesn't wait for your annual planning cycle. It's important to go through the process of trying to identify the seeds of change and catalysts frequently. Structural changes are often misdiagnosed as operating problems when they first surface, so it's a good idea to involve people at many levels of the company to help spot those changes.

There are several tools you can use to develop perceptual acuity for

Crusaders in Action

A catalyst, someone who creates change before others fully see the possibilities, can be a gadfly. One example is Ralph Nader, an energetic critic of American business and politics for 50 years. Nader's 1965 book, *Unsafe at Any Speed* (Grossman), was a pioneering analysis of automakers' failure to think about the safety of their products. The storm that followed changed the expectations of consumers and government regulators about product safety. Nader's critique thus created multibillion-dollar opportunities in a totally new

market segment under the rubric of safety systems.

Ruben Mettler, a longtime CEO of the automotive and aerospace company TRW, was a catalyst who was inspired by Nader's insights. TRW's defense division was widely recognized for its technological innovation, and Mettler saw that some of its technology could be applied to passenger restraint systems. The company made the necessary investment and became the world leader in vehicle safety. It became the number one supplier of airbags and other safety systems to Ford and a major supplier to GM. Safety concerns also created a huge opportunity for DuPont, which developed a methodology for safety-focused cultural change

and helps companies worldwide improve their practices.

Today, safety instructions appear on a galaxy of products and in places. When I was serving on the board of Dallas-based Austin Industries, a leading regional builder of structures and airports, we discussed safety as a regular practice; Austin's safety record became a competitive advantage in bidding. *Unsafe at Any Speed* is close to being a picture-perfect example of the two sides of structural uncertainty. Whereas the big car companies saw it as a threat, other players recognized an opportunity and went on the attack. And the book's larger message became woven into society as a whole.

—RC

yourself and your organization in this way. One of the most valuable is a simple exercise at the start of any staff meeting. Allocate the first 10 minutes to learn about and discuss anomalies in the external landscape. Ask a different staff member at each meeting to present to the team a structural uncertainty or bend in the road in another industry. Discussing who is taking advantage of the bend in the road or the uncertainty, and who is on the attack, widens the lens of the whole team, attunes their antennae, and helps them become more insightful. Most importantly, it alters their attitude toward change — and gives people permission to suggest changes in their own business.

Steve Schwarzman, chief executive officer of Blackstone Group, the giant private equity firm, uses a form of this social tool at his Monday morning meetings. Those attending Blackstone's staff meetings are connected on a daily basis to people at the highest levels of government, to investors, to leaders in diverse industries in countries around the world, and to sources of information about what is coming in the future. Schwarzman asks everyone at the meeting what is new, what they are detecting, and who the catalysts are. With a time lag of no more than a week, this group gains extensive knowledge about what is going on in the world, which in turn helps them contemplate what they can do to shape the game of their business and go on the attack. They can see structural uncertainties, especially those tied to the inherent instability of the global financial system.

Cultivate Perspective

Test your perceptions by talking with other people, especially those

you suspect have opposite or divergent views. Surrounding yourself with people from different levels of the company, from different industries and backgrounds, and with different cognitive bandwidths and attitudes about risk taking helps you see the same world through different lenses. The seeds of change that could make a company or industry obsolete usually hit one product or market segment first. So middle managers, who are often close to the customers and to supplier networks, should be honing their skills at developing insights about how the external environment is taking shape just as much as those in positions at a “higher altitude.”

In addition, senior executives should look outside the organization. When “Clare,” an executive in her mid-40s, became CEO of a company with \$10 billion in revenue, she took the initiative to find four other people about her age, also newly appointed as CEOs and running global businesses. Each had a different personal background and worked in a different sector of the economy: consumer products, Wall Street, information technology, and industrials. They continue to get together four times a year for dinner. Each group member also has access to varied insights from their diverse boards of directors, direct reports, suppliers, and friends. Their meetings and informal conversations between get-togethers serve as a sounding board for each to cross-check thinking, and provide a foundation for superb foresight. By making it a habit to seek out and listen to people whose expertise or endeavors give them insight into external change, they create a multiplier effect, magnifying one another's perceptual acuity.

Another way to develop your perceptual acuity is to look in the rearview mirror. Spend time with colleagues and look at a big external change that hit your industry or some other industry sometime in the past 50 years. Dissect that change. What were its seeds, and who were the catalysts who caused the change? Take, for example, the shift to personal computers from mainframes and minicomputers, which obliterated highfliers like Digital Equipment Corporation and Wang Laboratories. Try to be specific about who and what caused that shift to happen — and why the losers failed to see the significance of what was happening. These kinds of discussions take time and mental energy, especially at first, but they are an important part of your work. You will get better and faster over time, and be able to detect things sooner.

Listening for Risk and Change

General Electric manufactures, sells, installs, and services its products in countries with unstable governments that are at geopolitical risk. In contrast to many companies that seek to avoid risk, GE stipulates that risk is a part of its business model that should be managed, and that the company should be paid for the risk it takes in its business.

GE's water and power business unit, headquartered in Schenectady, N.Y., operates in some 50 countries in areas considered high risk, such as many parts of Africa and the Middle East. The unit sells items that often cost hundreds of millions of dollars and represent long-term investments by customers. The lion's share of its revenues, profits, and investments are not based in the United States. To have an edge in managing the risk and taking advantage of the op-

portunities, Steve Bolze, president of the unit, receives weekly information from each of those countries, carefully analyzed and synthesized. He makes a habit of studying these reports and looking for early warning signals and catalysts, and he spends time with people in those countries, listening carefully.

“In terms of dealing with uncertainty, there’s nothing that substitutes for a personal visit,” he explains. “Having ongoing relationships with people in that country helps you understand the ongoing drivers there. Helping customers solve their problems also helps us understand the context.”

Bolze’s perceptual acuity is paying off: His unit’s margins, market share, revenue growth, and cash generation are now the best in the industry. He has emerged as a leader who can anticipate bends in the road and win in highly risky areas.

One of the most skilled individuals in the world at listening for external context is investor Warren Buffett. At a recent CEO summit convened by Microsoft, I was joined at a lunch table by Buffett and eight other people. We talked about our sources of knowledge, and Buffett told us that he reads 500 transcripts of investor calls each year, where all the presenters state their views about their company and industry and what they anticipate in the future. In general, his practice is to let people run the individual businesses of Berkshire Hathaway; he watches for changes across industries that might prompt him to shift the resource allocation in the portfolio. Since Buffett has been practicing this for decades, his acuity has become highly honed in detecting signals and catalysts that are over the horizon, an impressive skill given that his port-

folio of businesses spans a significant portion of the national economy.

Ask “What’s New?”

Jack Welch, CEO of GE from 1981 to 2001, had a habit of trying to find out what really was new from the wide variety of people he met, and perking up when he heard something fresh. One day in the early 1990s, I ran into him on an elevator at the Hyatt Regency in New Orleans. I said, “Good morning, Jack.” He looked at me with his piercing eyes and said nothing. Suddenly he asked, “What’s new?” I shot back a three-word response to his two-word question: “Zero working capital.” To that he said, “Are you trying to sell me some consulting? Did you make it up? Who does it?” He was skeptical but not dismissive. I then gave him details about a company I knew that was using zero working capital in the manufacturing, assembly, and delivery of products, thus freeing up cash to invest in growth (and at the same time improving customer satisfaction because it enabled the company to make items to order). Welch called the CEO of this company and took a business unit manager with him to spend several hours learning the details. He then sent his executives to visit the company’s plants. Welch ultimately set a goal for using zero working capital and initiated a course on it at Crotonville, GE’s executive education institute. By the time Welch retired, the approach had saved GE several billion dollars in cash, which could be used to fund growth.

A lengthier but more precise way to open discussions about what’s new is by asking, What practices and underlying assumptions are common throughout our industry? Those commonalities are a source

of systemic risk. One example is the remarkable similarity of mortgage lending practices before the financial crash of 2008–09, when credit standards were uniformly lax. The overleveraged housing market was observable. If you see a similar buildup of some kind, consider what could light the fuse. For mortgage lenders, it was loss of confidence in the financial instruments that had been created to spread the risk of bad loans. Form scenarios of what might happen and watch for signals that the buildup is taking further shape. Who could be the catalyst for a good change, or a bad one?

Watch, Read, Repeat

When you watch video news reports, pay close attention to how society is changing and what new consumer behaviors are emerging. Social issues get picked up quickly by the media and are sometimes followed by increased scrutiny or regulation as they work their way into the political sphere. Clinical drug trials, for example, became a hot subject in India in 2012 when some political leaders noticed concern about the number of deaths associated with them. The rhetoric escalated, corruption accusations were hurled against some doctors, and activists filed a public interest lawsuit alleging the use by global companies of Indians as human guinea pigs. The public and political debate led to tough new rules adopted in 2013, which squarely laid responsibility for any injuries or deaths from the drug trials on the shoulders of the testing company. The government may have overreacted, but momentum had built to the point where leaders felt compelled to act vigorously.

When reading books and publications such the *Financial Times*,

New York Times, *Wall Street Journal*, and *Economist*, look for what surprises you, what is an anomaly. My technique is to first read the roughly half-page “Lex” column on the last page of the first section of the *Financial Times*. I read Lex with a sense of curiosity about what is new, what I didn’t know, what might be the start of a trend. There may be days and weeks in which I find nothing. But when I do find something intriguing, I reflect on what it might mean and for whom. Who will be on the attack, who on the defensive, and why? Is there a game changer here? Asking these questions in response to whatever you read will increase your capability to identify signals and catalysts that might create bends in the road.

Continually stimulating your thinking and self-reflection is a critical aspect of building and maintaining your attacker’s advantage. By pinpointing the sources of uncertainty, defining a path forward, and making the necessary frequent adjustments to steer your organization along it, you will see that uncertainty is not something to fear. On the contrary, by immersing yourself in it, you can discover possibilities for creating something new and immensely valuable. The more you embrace uncertainty and practice the skills to deal with it, the more self-confidence you will develop and the better prepared you will be to lead. +

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