5 lessons for leaders in turbulent times

Storm-proof: Companies like Nestlé, Mars and Jaguar Land Rover owe their longevity to having stayed true to purpose

Tactics to help business leaders handle today's volatile economic climate

Report/Dominic Houlder and Nandu Nandikshore

For many of today's corporate leaders, the current period of turbulence in everything from GDP growth and commodity prices to the pace of product innovation is more extreme than anything they have known before.

They came of age in the period of relative calm between the mid-1980s and mid-2000s – a time of unprecedented stability, growth and prosperity – which the former chairman of the Federal Reserve, Ben Bernanke, referred to as "the Great Moderation" due to the reduction in volatility of business cycles.

But since the financial crisis of 2007/2008, volatility has returned to historic highs and it's clear that, after a period of calm, the storms are back.

Turbulent times tend to lead to a dichotomy in responses; evident not just in business but in politics and society, too. Some prefer to retreat to familiar territory, to try and make life more predictable again. Others choose to reach out and embrace change.

We believe the future belongs to leaders who ignore the pressure to slash jobs, capture value and retreat, and instead choose to pursue sustainable value creation – and the first way to do this is with agility.

1. Be agile

Where in the past companies might have developed a strategy and created a step-by-step process to execute it, today leaders need a more iterative approach that lets them respond to the express pace of change and sheer number of sources of disruption.

Nestlé, for example, has found ways of tackling disruption in the coffee market over the past 20 years. After creating the world's first instant coffee brand, Nescafé, in the 1930s it got used to being the coffee taste that people grew up with around the world. When coffee chains such as Starbucks created a new demand for premium coffee, Nestlé tried to respond with its own retail chain, Café Nescafé. This innovation didn't work too well but what did work was Nescafé Dolce Gusto – a tabletop machine that produces cappuccinos and lattes. The Nespresso range has also taken off. Meanwhile in Asia, Nestlé countered the rise of three-in-one coffee mixes – sachets containing coffee, creamer and sugar – by launching its own branded range of mixes.

It's a process of experimentation and failure that gets successful innovators through challenges. But while it's important to be flexible, you don't want to be as precarious as a market stall trader, lunging after one opportunity after another. There are four constant factors that leaders need, combined with agility, to steer a path through these uncharted waters. They help companies survive and prosper.

2. Build resilience

The first of these is a kind of resilience and robustness, an ability to absorb shocks. And while large corporations are often written off as lumbering dinosaurs, we prefer to see them as "salties". Those saltwater crocodiles might look like dinosaurs but once they move, they move. They can go for a year without eating but when the opportunity is there, they snap it up.

Even though the average lifespan of the corporation has been falling, we find companies like Nestlé, Mars, General Motors and Exxon Mobil have very long histories. One reason is their resilience.

Take Nestlé in Indonesia during the 1998 Asian financial crisis. Over nine months the Indonesian rupiah fell from 2,000 to the US dollar to 17,000. Prices went up, salaries were squeezed, markets declined and many companies left. Nestlé, which had been operating in Asia for a century, stayed and kept investing in brands and people. After two years the markets rebounded while growth rates recovered and went on to soar. The company had the scale – and the nerve – to absorb the knocks, stay the course and wait for the opportunity.

Likewise, Mars took 25 years of losses in China, but today its Dove brand is the country's number one reference for chocolate. Not many brands have a 25-year horizon, but that's nothing for a saltie like Mars.

3. Stay true to your purpose

As a leader it's vital that you understand the sense of purpose that exists in an organisation. And you should be very careful about tampering with it – or, heaven forbid, changing it.

Volkswagen was set up as the people's car, a safe, affordable form of transport that people trusted. So how could this people's car get into the emissions scandal that engulfs it today?

Well, the CEO tried to redefine the purpose of Volkswagen to make it the world's number one car company. When you change a company's purpose and hold people accountable to it, while paying lip service to societal goals, it's more likely people will take shortcuts and make the kind of decisions they would not have made had the purpose been steadfast.

It's a sign that ownership of purpose isn't vested in the ever-changing executives of a company; it lies deeper. This is well known to the RNLI, a UK charity dedicated to saving lives at sea and staffed mainly by volunteers. What is it that can make people give up the comfort of their homes to carry out a sea rescue in terrible conditions? Clearly the RNLI has a sense of purpose rooted in its communities that goes far beyond financial incentives or corporate disciplinary procedures.

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And in times of turbulence, it is up to leaders to understand, legitimise, spotlight and celebrate the motivations and values that underlie an organisation and communicate them through storytelling.

4. Create platforms to respond to all events

The American business strategist Jim Collins makes the point that any company will have good and back luck events in its life. What marks a company out is what it does when those events happen.

Does it have the technical and human capacity to take advantage of a good luck event? Or to ride out a bad luck one?

Leaders can't plan for those events but they can create a platform that makes it possible for them to respond to events. This might include tapping into a deeply embedded set of values and purpose. It could involve building capacity – of the human, factory or technological kind.

Nestlé is a good case study again. As a diverse business ranging from pet food to confectionary, the question was how to manage complexity and make that a strength. So in 2000 the company started the Globe programme to standardise business processes, data and IT systems across everything from buying raw materials to product distribution around the world. Once the platform was in place it became possible to respond to market challenges – with innovative products.

5. Look to the medium term

Then there's the issue of what leaders see as success and it seems that the classic Western model of capitalism is reaching its limits due to its excessive focus on short-term goals.

Leaders and management who are focused on short-term profits are more likely to cut out spare capacity, but that will also decrease their ability to respond to good luck and bad luck events. And although public companies always set out a long-term vision, this tends to be set so far in the future that it becomes meaningless.

What gets missed is the medium-term – and this is the time frame that lets us consider the health of the platform, the meaning and purpose of the organisation, and the company's absorptive capacity.

The world of private equity might have more of a focus on the medium term for the sake of being able to sell to investors. But when a sale does take place much of what has been built up can get dissipated as good managers leave or parts of the business get separated.

So we're increasingly interested in a hybrid form of corporate governance based on the family firm. Think of Mars, the Swire Group or Tata Sons. Jaguar Land Rover was making a loss when the Tata Group bought it. They told them not to focus on short-term, quarterly results; focus on making great cars. The company went back to making great cars and it's been a success.

Agile and…

Our message is that it is possible to survive in turbulent times as long as you choose to pursue new opportunities to create value. And hold onto those five pillars of agility combined with resilience, purpose, platforms and a focus on the medium term to help you navigate the stormy times ahead.

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