Strategic intuition holds the key to success

PIAL ISLAM

IN business, and sometimes in life, we are constantly in search of the next big opportunity. Historically, next big opportunities originate less from revolutionary ideas and far more from ideas that are evolutionary – through thoughtful combinations of things that are seemingly unconnected. And hence, as we set out to craft organisational strategies to identify, materialise and monetise the next big opportunities, it is helpful to recognise that strategy alone or intuition alone isn't sufficient. Instead, something that combines both these dimensions, called strategic intuition, holds the key to success. First, let's briefly revisit what is strategy, what it is not, and how you develop one.

At its core, strategy is something simple. It is about making explicit choices – to do some things and not others – and building a business around those choices. As Michael Porter had put it decades ago – a firm creates sustainable competitive advantage over its rivals by "deliberately choosing a different set of activities to deliver unique value". When a strategy succeeds, it seems a little like magic, characterised by unknown unknowns in advance but obvious in retrospect.

Many business leaders allow what is urgent to crowd out what is really important. As a result, many of them tend to approach strategy in at least four ineffective ways. First, they define strategy as a vision. While vision and mission statements are important, they don't include choices about what businesses to be in or not to be in. Second, they define strategy as a plan. A plan that lists a set of activities and timeframes may be great, but it does not necessarily mean that the addition of those activities will lead to sustained competitive advantage. Third, they doubt whether a long-term strategy is even possible or helpful in the rapidly changing world. This, however, places a company in reactive mode, making it easy picking by rivals. Not only is strategy possible in times of uncertainty, it can be a source of competitive advantage. Google, P&G, Singapore Airlines, Toyota, Aarong all have very deliberate long term strategies in place. Fourth, they define strategy as an optimisation of current business operations. While this can create value, it isn't strategy. Optimisation does not address the very real possibility that the wrong things are being optimised. These ineffective approaches lead to reluctance in making truly hard choices.

At the end of the day, strategy development process must address the following five questions. What is your organisation's aspiration? Where should you play? How can you win there? What capabilities do you need? What management systems do you need? It is important to recognise that these questions lead to choices that need to be interconnected.

Let's turn to intuition now. There are ordinary intuitions like hunches and gut feelings. And there are expert intuitions where we jump to a conclusion based on similarity with certain past experiences. Both these forms of intuition are pivoted on past experiences. What if the future isn't exactly as the past?

Enter the realm of nonlinearity – the phenomenon of irregular patterns that defy prediction with ordinary tools of analysis. While the study of nonlinearity is relatively new (only a handful of academic institutions to date offer a specialisation in this subject), its roots can be traced back to 1810 when the word strategy entered the English language in the context of war at the height of Napoleon's military adventures. Carl von Clausewitz, a leading military theorist at that time, underscored that the outcome of a war depends on what happens during the war, which in turn depends on "the general's coup d'oeil" (a glance, or literally "stroke of the eye"), and therefore you cannot predict the outcome beforehand. Strategic intuition is a nonlinear discipline.

I had the privilege of studying with Professor William Duggan of Columbia University, the founder of the Strategic Intuition discipline, during my time as a Global Leadership Fellow at the World Economic Forum. He tended to describe Strategic Intuition by highlighting the differences it had with other disciplines but not going as far as providing a formal definition for it. For me, however, the most prominent distinction was that while other forms of intuition rely solely on one's own past experiences, strategic intuition draws on the experience of others as well. In some way, it is the ability to connect seemingly unconnected dots.

Let me elaborate by using an example from my favorite company: Apple.

REUTERS/FILE

A portrait of Apple co-founder and former CEO Steve Jobs is placed on the Federation Tower skyscraper in Moscow. Steve Jobs' famous visit to Xerox's Palo Alto Research Centre in December 1979, where he saw the graphical user interface, is credited with the birth of Apple Macintosh.

Steve Jobs' famous visit to Xerox's Palo Alto Research Centre in December 1979, where he saw the graphical user interface (GUI), is credited with the birth of Apple Macintosh – the computer that changed everything for Apple (and arguably for everyone else in the industry as well).

Xerox's own GUI machine sold only a few units. Apple's Macintosh was launched in 1984 with a masterpiece ad campaign, referencing George Orwell's novel, that said "1984 won't be like 1984" and sold over 200,000 units by year-end. In describing the Xerox visit, Jobs had said "they showed me really three things; but I was so blinded by the first one (GUI) I didn't even really see the other two". Jobs instantly connected the dots between Apple's earlier machines (its own experiences) and what this new GUI (experiences of others) could do when thoughtfully combined. That capability is strategic intuition. Many of Jobs' subsequent successes, such as iMac, iPod and Pixar, also originated from similar capability.

We operate in a world where an organisational bias for action drives doing, and as a result, thinking (and connecting seemingly unconnected dots) often takes a back seat. This impacts the quality of the choices we make, the strategies we pursue, and the market shares we win. Very few organisations appreciate the value in thinking and invest the commensurate resources for it. It is hardly surprising then to see only a handful of organisations in any given market segment enjoying a lion's share of that market segment.

The writer is a managing partner at pi Strategy, a management consulting firm. He can be reached at pial.islam@pistrategy.org.

German public sector unions, employers agree pay hike

AFP, *Frankfurt*

German unions on Wednesday said they had clinched a deal with employers giving public sector workers a "significant" salary boost, following a wave of strikes that hit airports, train stations, hospitals and daycares.

The 2.3 million people working for state and local governments will see their wages increase in three stages between now and 2020, in an agreement Verdi union boss Frank Bsirske hailed as "the best result in many years".

The deal, announced early Wednesday after talks that ran late into the night, will immediately give workers a 3.2-percent salary hike backdated to March 1.

A 3.1-percent increase will follow from April 2019, and another 1.1-percent from March 2020.

The lowest-earning workers, such as refuse collectors, will get an additional one-time payment of 250 euros ($310).

Interior Minister Horst Seehofer, who represented federal employers in the negotiations, told reporters he was "very pleased" with the outcome.

The agreement will cost the state an additional 2.2 billion euros, and municipal employers some 7.5 billion, he said. "Our employees are worth it," Seehofer added.

The Verdi, GEW and DBB unions had gone into the talks demanding a six-percent salary boost over one year or at least an additional 200 euros per month, arguing that public sector workers should share in Germany's booming economy and record government budget surplus.

After employers rejected their original demands as too costly, the unions raised the stakes with a series of hours-long "warning strikes" that saw some 150,000 people walk off the job last week.

The strike action caused travel chaos for hundreds of thousands of commuters as bus, tram and train services were disrupted.

IMF warns of risks as central banks tighten

AFP, *Washington*

THE International Monetary Fund urged central banks Wednesday to take a gradual and transparent approach to tightening monetary policy, warning that unexpected moves could shock the global economy.

The fund cautioned that investors and financial markets expect a steady approach to monetary tightening based on the belief inflation will remain relatively tame.

But the IMF pointed to some fragilities in global finance after a lengthy period of easy money policies and low interest rates, including a flood of high-risk bonds, record-high debt levels and lofty prices for risky assets.

If conditions change abruptly that could even derail the economic recovery, the fund warned.

"Financial vulnerabilities, which have accumulated during years of extremely low rates and volatility, could make the road ahead bumpy and could put growth at risk," the IMF said in its Global Financial Stability Report, a twice-annual analysis that also called for global coordination to regulate cryptocurrencies.

A sudden acceleration of inflation in the United States could lead the Federal Reserve to raise interest rates more quickly than currently expected, the report.

Tobias Adrian, director for the IMF's monetary and capital markets department, acknowledged in a press briefing that uncertainty about inflation is currently "very low," but warned that markets could have an outsized reaction to any spike.

"What we are flagging is that at some point markets see shocks in inflation that raise inflation uncertainty and when that happens, that is associated with a rise in long-term interest rates and that might lead to a tightening in financial conditions," he said.

Emerging markets would be especially vulnerable to "spillovers" if that happens, the report cautioned.

"Gradual and well-telegraphed" moves by advanced economy central banks have so far been favourable for emerging economies, but financial flows could fall by "at least one-quarter" if central banks mishandle the transition, the fund said.

The analysis is the latest to tackle the myriad policymaking challenges as the world moves towards ending a long period of low interest rates and monetary stimulus enacted after the 2008 financial crisis.

The US Federal Reserve has undertaken a series of interest rate hikes over the last two and a half years, and the European Central Bank has signalled it plans to soon end its stimulus program.

While these moves are necessary, central banks should "maintain accommodation as needed" and raise rates in "a gradual and well-communicated manner," the fund said.

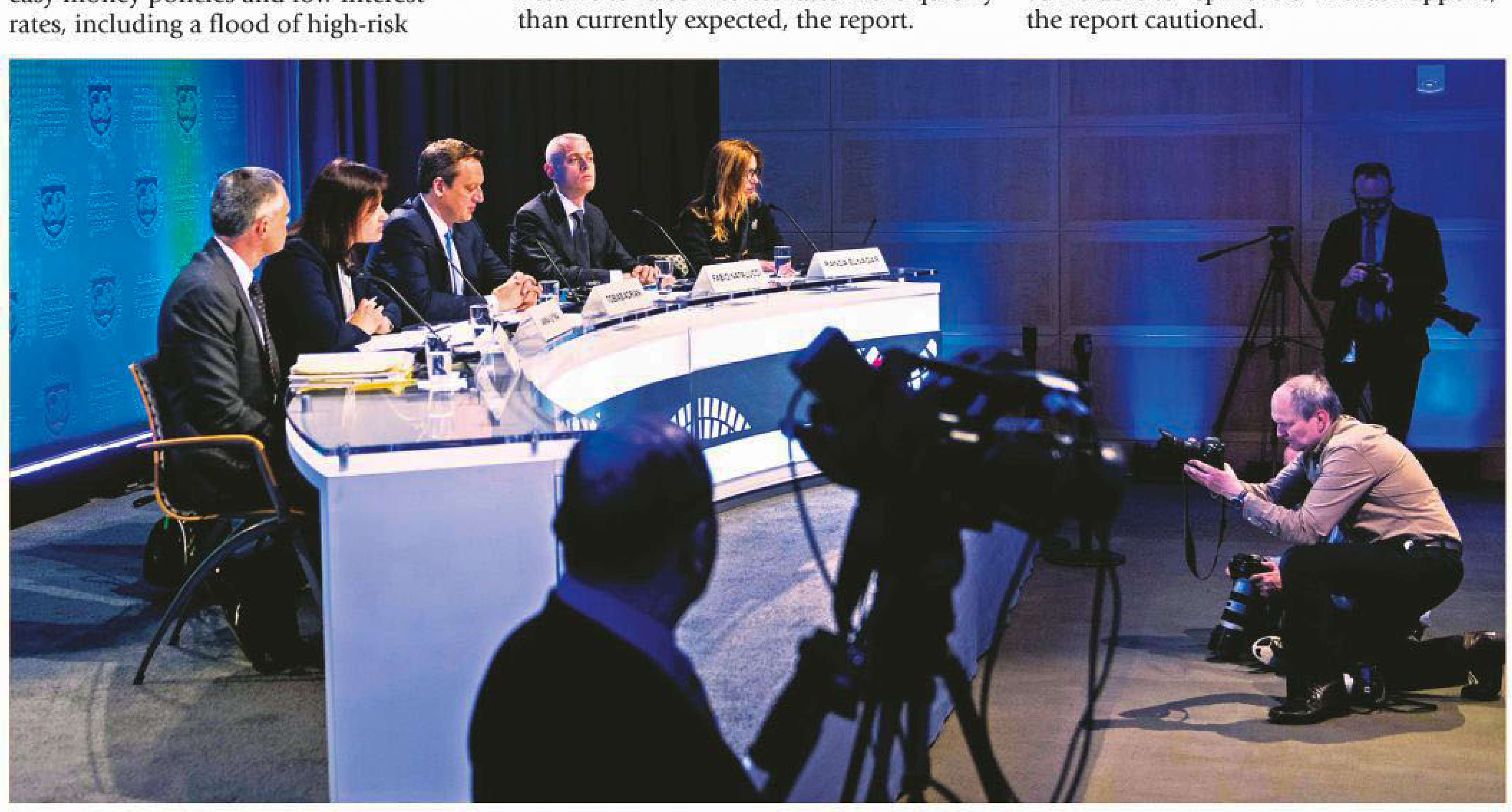
Adrian said talk of a US-China trade war had not so far significantly affected financial conditions beyond the effect on markets.

"In recent weeks, discussions around trade have increased investor uncertainty and as a result financial conditions have tightened somewhat, but remain easy," he said.

The IMF also added their voice to a growing chorus of concern among regulators about cryptocurrencies, and called for more international attention on the issue.

While the fund saw potential for digital money to make the financial system more efficient, it warned that they have "been afflicted by notorious cases of fraud, security breaches, and operational failures and have been associated with illicit activities."

Adrian said the crypto sector is still too small to pose major risk to the financial system, but cautioned the currencies have the potential for fast growth.



AFP

Tobias Adrian, director of the International Monetary Fund's Monetary and Capital Markets Department, speaks about the Financial Stability Report during the 2018 IMF/World Bank spring meetings in Washington, DC yesterday.

Bank of England expects big Libor switch to start in earnest

REUTERS, *London*

FINANCIAL markets should start accelerating efforts to ditch Libor in favor of the Bank of England's revamped interest rate benchmark being launched next week, a senior BoE official said.

Banks have been fined around $9 billion for trying to rig Libor, or London Interbank Offered Rate, prompting the BoE and other central banks to come up with their own "risk free" substitutes that are more difficult to manipulate.

Last year, banks and other market participants in London backed the daily Sonia or Sterling Overnight Index Average as a substitute for sterling-denominated Libor to price trillions of pounds in swaps and derivatives contracts.

Sonia was run by a trade body in the past but from Monday it will be calculated and published by the BoE and based on transactions that represent about 90 percent of the market. Sonia is based on actual transactions rather than quotes made by banks, which were open to manipulation.

It will be draw on about 50 billion pounds ($70.91 billion)worth of daily funding transactions between lenders and customers, three times the amount of transactions that underpin Sonia at present.

"This has been a long time coming," Sarah John, head of the BoE's sterling markets division, told Reuters.

Market participants have been waiting for the BoE to make Sonia more robust before ditching Libor and shifting trillions of pounds in liquidity.

"That's why it was an absolutely critical milestone to get Sonia reformed because until that was in place, a lot of the rest of the work that was needed could not really start in earnest," John said.

The New York Federal Reserve began publishing its dollar Libor replacement, the Secured Overnight Financing Rate or SOFR, on April 2, but has suffered calculation hiccups. John said data gathering for the revised Sonia has been tested with a "shadow" benchmark produced in recent weeks.

"Some of the issues that happened in the US shouldn't happen to us," John said.

Britain's Financial Conduct Authority has effectively set an end 2021 deadline for migrating from Libor to Sonia, warning that Libor may not be around after then.

In September 2016, Sonia was used to price 7.7 trillion pounds of derivatives, but this is dwarfed by 40 trillion pounds of derivatives based on Libor. John expects new products will help to build up Sonia liquidity, including loan and bond market products that currently reference Libor.

The Intercontinental Exchange and London Stock Exchange are launching rival three-month futures contracts based on Sonia.

John sees little excuse not to switch to Sonia when it comes to new business but legacy Libor contracts present a challenge.

Libor comes in variants that stretch out many years, even if regulators question their robustness, while Sonia is a purely overnight rate. John said it was difficult to devise a Sonia rate stretching out months into the future as there is no real market to underpin it and she wants to avoid benchmarks based on quotes or estimates rather than actual transactions.

"I don't think I would say it's my expectation that nothing can be done here, but I am saying it's something we need to work through carefully and fully understand the risks before landing on a way forward," John said. Libor is compiled by a division of ICE, and Stuart Williams, president of ICE Futures Europe, said that for now Sonia will not be able to replace all Libor usage because it lacks forward versions.

Not all legacy contracts will migrate to Sonia. Libor itself is being reformed and could still live on in some form.

"While the FCA have announced they are not going to be forcing or mandating contributions to Libor post 2021, that doesn't prevent contribution by choice," Williams said.

John said the jury was still out as to how much of the migration of legacy Libor to Sonia would be feasible.

"Inevitably there will be a very small proportion of the market that will find it difficult to make the transition."

But in the meantime people should start thinking about what it means to them if there is no Libor rate after 2021, she said.