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Strategy through turbulence: An interview with Don Sull

London Business School's Don Sull discusses how to find the upside in volatile times.

The recent financial crisis didn't cause a turbulent business climate—it was merely a symptom of underlying turbulence that has been building globally for decades. So says Don Sull, a professor of strategy at the London Business School, whose research indicates that this turbulence won't lessen any time soon. In this video interview, Sull shares lessons from his new book, *The Upside of Turbulence: Seizing Opportunity in an Uncertain World*, including how to understand this volatility and how to create a company that's at once grounded enough to weather it and agile enough to benefit from it. He spoke with Rik Kirkland, McKinsey's director of publishing, in New York.

The *Quarterly*: *So let's start with the title and the concept of the book. Turbulence makes one usually think of the world a year ago after Lehman failed and the market was plummeting. I know that does describe some of what you're talking about, but it's bigger than that, isn't it? It was going on before.*

Don Sull: Yeah, I mean a lot of people equate the current economic crisis with turbulence. They think, actually, the economic crisis is the cause of turbulence. It's the exact opposite. The current economic crisis is just the latest symptom of underlying turbulence that's been on the rise for at least 20 or 30 years.

Some of the measures are volatility of individual firm performance in the US, which increased twofold; the likelihood that a firm will be knocked off of its leadership positions increased three fold; the frequency of currency crises or economic crises has increased four fold.

The *Quarterly*: *So what is driving that increase in turbulence, and do you see it accelerating?*

Don Sull: I don't know about accelerating, but stable for sure. I mean the drivers of turbulence are the exact same drivers of economic growth over the past 100 years for sure, but 30 years most prominently, which has been rapid diffusion of technology and increased interdependence across markets.

And not just capital markets, obviously, but labor markets, commodity markets, technology markets. We've had a third of the world's population reenter the market economy. So you've got a lot of change going on; everything is interconnected and leads to these outcomes that are very difficult to predict, let alone influence and advance.

The *Quarterly*: *So if you're running a company, turbulence is a way of life. It's also value neutral. It creates winners and losers. Let's take the losers first. What's the wrong way to respond to turbulence?*

Don Sull: There's a long list of wrong ways to respond to turbulence, but I'll give you a couple of the most common ones. One is accelerate what you've done in the past. So the world is changing a lot, you see the changes coming. You've got the data, McKinsey or somebody else helps you to get your arms around what's happening. And instead of changing what you're doing, you just step on the gas, spin the wheels harder, and hope to get out of the rut. Usually you end up digging yourself deeper.

The *Quarterly*: *You call that active inertia.*

Don Sull: Active inertia—that's my little trademarked phrase, yes. Another thing you can do wrong is try to plan your way out of it. There are basically three broad approaches to dealing with turbulence, and one of them is anticipation. You think, "If I just look through the telescope, squint hard enough, look long enough, I'll be able to see through this foggy future. I'll be able to predict what's going to happen. I'll know what to do." That's just not going to happen. The record of people's predictions in business, or in any domain, is very, very poor. And as turbulence increases, the effectiveness of that approach decreases.

So I think trying to plan your way or think your way out of it is a real problem. I think another one is just doing what everybody else is doing, because a lot of firms panic when there's turbulence or they sink into a defensive crouch and just try to minimize damage. And if you're looking around at the companies that are making inappropriate responses and then copying them, it's unlikely that you're going to have a better outcome than they do.

The *Quarterly*: *So what's the right way to respond? Where is the upside in turbulence, and how do you grab it?*

Don Sull: The upside is that turbulent markets are creating opportunities all the time. They're throwing new resources into the market. If you look at the rise of Mittal Steel,[1] for instance, rapidly dwarfing a lot of the traditional steel players—they didn't go around avoiding turbulence, they went after the most turbulent markets in the world—Kazakhstan and Indonesia and so forth—to see the opportunities there.

So [turbulence] throws out new resources. It shifts consumer demands. If you look now in the current downturn, a lot of consumers have a lot less disposable income. You could say, "That's awful. For fast-moving consumer good companies, that's bad news." Well it is, although some of the more nimble companies like Nestlé and Starbucks and McDonalds are responding to those shifting consumer demands. McDonalds in Europe is opening its McCafes and rolling them out quite aggressively, Starbucks has their instant coffee, and Unilever has taken some products they've pioneered in emerging markets and brought

[1] Now ArcelorMittal.

them into Europe. So [the fact that] consumer preference is shifting isn't necessarily bad news. It creates new customer pain and agile companies can meet those needs and create value.

The *Quarterly*: *So how do you make your company more agile?*

Don Sull: I just want to flag the fact there is another approach, which I call absorption—maybe we can come back to that a little bit later, because the interaction between agility and absorption is particularly interesting. But to stick on agility: in broad strokes there are three different ways firms are agile. They can be agile within their operations. That's kind of the Toyota story or the Southwest Air story; a clearly defined industry. You're constantly spotting and seizing opportunities quicker than your rivals.

The second way is through portfolio agility. You can pull resources from slower declining businesses and put them against faster growing or more promising opportunities.

A third category is what I call strategic agility, and that's seizing the opportunities that arise—golden opportunities that arise every so often. That might be entering the market when the [Berlin] Wall falls or [seizing] the opportunity to buy assets on the cheap, as is possible in many industries right now in the current downturn. It's the ability to seize those rare opportunities when they arise.

The *Quarterly*: *Innovation is a very popular word. Is it a necessary, but not necessarily sufficient, thing to bring to this value creation?*

Don Sull: I almost hate to admit that I'm an innovation skeptic in some regards. I think this fetish for innovation over the past decade has led to some excesses that I think are counterproductive in turbulent markets. It's got folks focused on, "Anything that's new is good." Well, no. Anything that's new that creates economic value is good. We kind of put novelty above value creation in a lot of cases.

I think my more fundamental issue with innovation is it's often timing independent. So the notion is, there are these great untapped ideas out there and, any day you wake up and have the willpower and the creativity to think outside the box, you can create these opportunities, you can innovate.

I'm not so sure. At least my research has suggested that a lot of the big opportunities to create economic value emerge because of shifts in the broader environment—a window of opportunity or two open at the same time and allow firms to create value.

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The *Quarterly*: *You mentioned absorption earlier, so absorption is a necessary correlate to agility?*

Don Sull: I don’t know if it’s a necessary correlate, but it’s a very helpful compliment. By absorption I simply mean an organization’s ability to weather changes without responding quickly. The way I describe it in the book is it’s kind of the George Forman approach to turbulence. You’re big, you’re strong, you’ve got a jaw of steel, you just stand there and take whatever it throws at you. And you’re George Forman, you can take it.

Agility is more the Muhammad Ali approach—Muhammad Ali in his prime. Absorption is very helpful because it buys you time, right? It keeps you in the game. It allows you to wait for those golden opportunities to arise. It gives you the wherewithal to seize those golden opportunities. And, of course the obvious thing, it allows you to protect what you have.

A lot of times this discussion is pitted—and people use different words, resilience or robustness instead of absorption—but it’s pitted as agility or nimbleness is good and being big and staid is bad. It’s not that at all. I see them more as yin and yang. The trick is getting the balance right and maintaining it over time.