

# Navigating a Turbulent Economy

*ECONOMIC UNCERTAINTY AND THE NEW WORLD OF BUSINESS*

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## INTRODUCTION

Turmoil in markets shakes confidence, diminishes the value of financial assets, and creates uncertainty for businesses, consumers, and governments. History, however, informs us that shifts in the economic landscape also offer unique opportunities for those who are able to look past the near-term difficulties and seek out opportunities. Organizations can choose to retrench, or they can choose to prepare for success and leadership roles. If they take the latter approach, returns from hard-fought cost-reduction battles can be turned into infrastructure improvements, more rational integrated processes, and fundamental changes in market presence or positioning to fill new niches or those surrendered by competitors.

Seeing opportunity in times of turmoil reframes challenges in a way that projects the lessons of history onto the future. Suggesting that organizations seize new opportunities during economic strife does not minimize the significant difficulties they will encounter. Although picturing the future is difficult, turbulent times call for balance against new factors. Balance will always be essential. Organizations that can balance near-term concerns with forward-looking expectations will be better poised to succeed as markets calm; those that retreat risk becoming an anachronism while the world reinvents itself.

Times of economic turbulence may bring renewal. In the technology sector, for instance, many small entrepreneurial firms disappeared, either through bankruptcy or acquisition, after their fortunes foundered in the irrational exuberance of the dot-com boom. But many of their ideas survived and transformed the market. The Internet itself became a new ecosystem, with emergent technology models such as social networking, rough-hewn consumer feedback, Web-based classified advertising, and blogging replacing dot-com era concepts. Similar transformations have happened many times before: During the oil embargo of the 1970s, for example, and at the end of Cold War, when many Central European countries and companies joined what are now called Emerging Markets.

Whether customers of Microsoft® Corporation choose to be opportunistic or defensive in their approach to the turbulent economy, information technology (IT) has an important role to play as the strategic enabler of success, the conservator of scarce resources, and the accelerator of recovery.

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## Executive Summary

Every business will need to make its own choices about investment priorities during turbulent economic times. This white paper offers guidance and a framework based on the experience of Microsoft® Corporation and hundreds of its customers. The following list suggests several starting points:

- Examine ways to get the most out of existing information technology (IT) investments, drive efficiencies, and manage costs.
  - Examine IT investments in light of strategic priorities, not just costs. Continue investing to remain competitive where it makes sense.
  - Replace aging systems that will reduce the capability to grow when the economy recovers.
  - Ensure a strong collaborative infrastructure is in place, so that intelligence about the business and the business climate can be gathered as insight and transformed into action items.
  - Invest in business analytics as a way to better understand customers, costs, and operations.
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## THE NEW WORLD OF BUSINESS

Economic turbulence is not uncommon. With more open and integrated communications, automated trading, and a global economy, it may well be that such turmoil will be more frequent in the future. Businesses and consumers may experience larger swings and shorter cycles of stability. Regardless of the pace the economy sets, the outcome is continued volatility and the need to anticipate and prepare for change is an essential component of any successful business strategy.

It is valuable, when developing a strategy, to employ a framework that helps organize the business landscape. Microsoft developed the “New World of Business” as a way to define categories of change and expose their interfaces.<sup>1</sup> This framework includes the following themes:

- **Dynamic Business:** Events and influences that happen, over which the business has little or no control, including new regulations, political unrest, disease outbreak, and economic downturns.
- **Blended World:** The character of the business, co-created with the trends taking place around the business, including the composition of the workforce, the mix of consumer and business technology, and the blends of cultures that come from globalization and mergers and acquisitions.
- **Insights from Complexity:** With ever more data, both structured and unstructured, organizations need to look to technology as a way of gaining insight using algorithms and social systems.
- **Strategic IT:** Forging deeper relationships between IT and business to develop a strategy—enabled by technology—that creates a differentiated competitive advantage.

These themes do not exist independently of each other; rather, they all interact. Strategic IT investments, for example, help reduce the cost of regulatory burden while unleashing insights from information systems. The demographics of a region—its Blended World—help influence where an organization will employ its workforce and how diverse that workforce will be.

The New World of Business categories were developed to be durable across a range of possible future scenarios, from the globalized and

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<sup>1</sup> For a detailed exploration of The New World of Business, see: Rasmus, Daniel W. and Rob Salkowitz. *Listening to the Future: Why It's Everybody's Business* (Part of the Microsoft Executive Leadership Series). Hoboken, N.J.: John Wiley and Sons, 2008.

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growth-oriented to the bordered and defensive, from retrenchment and uncertainty to highly open, innovative, and entrepreneurial.

But scenarios are not predictions. They simply help spur thinking and conversation across as broad a range of potential futures as possible. As a result, organizations can build better, more informed, and resilient strategies—strategies that include contingencies for circumstances that may be difficult to foresee.

It is important not to prejudge the future based on current events, current “trends,” or current emotions. History tells us that watching trends can be dangerous; disruptive events may derail once sure bets, prolonging their outcome or generating nascent possibilities that may overwhelm past predictions. Decision-makers tasked with plotting a mid-term strategy for their organizations should consider a range of possible scenarios that could play out based on current circumstances. But there are a few robust implications that organizations should consider, regardless of the future that unfolds. The New World of Business framework discussed in the following sections of this paper describe risks and offer guidance that strategic decision-makers should consider when planning future investments in technology and the future shape of their organizations.

### THE EVER MORE DYNAMIC BUSINESS

The effect of economic turbulence is all about external factors disrupting the underlying assumptions of an organization. In an interconnected global economy, for instance, networks transmit risk from the center to the edge, so that even “innocent bystanders” are implicated in the web of uncertainty. Systemic crises in one sector have the potential to disrupt access to capital, inhibit consumer spending, or constrain business activities in other sectors.

**Look for opportunities amid the turbulence.** Even during turbulent economic times, opportunities exist. They are, however, unevenly distributed. Economic instability does not imply a retreat from technology, but it may require refocusing or relaxing boundaries. Business Intelligence (BI) and integrated communications technologies can help organizations better understand the world that exists by rapidly revealing changes in customer or market behavior. Communications can also extend the reach of the organization to keep customers close during times of uncertainty.

**Change is never one dimensional.** As one topic comes to the forefront, it may simply mask other changes. For example, available credit may mask, for a time, concerns about commodity pricing. Or, changing business models in one sector may trump regulatory concerns. Those organizations

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that pay attention to a variety of underlying factors will see patterns of opportunity that are unrecognized by those distracted by a single issue.

### THRIVING IN A BLENDED WORLD

If the edges of everything from the complexion of the workforce to the culture of the organization blur, thereby creating new business realities, then economic turbulence will reverberate along those blurred edges and make them even more permeable. Alternatively, those same reverberations may lead to retrenchment behind familiar boundaries, thereby creating new rigidity.

**Shifting from outsourcing to smart sourcing.** In a turbulent economy, wages may decline, thereby making domestic sources of labor newly competitive and the cost of doing business locally attractive—especially when the risks, total cost of distance, and the complexities of language and culture inherent in offshoring are taken into account. Virtual organizations can remain so. But the location of their business partners may shift, with the number of partners more finite and the relationships more closely held.

**The generation blend imperative.** When it comes to employees, economic instability may influence managers to release more experienced workers in favor of less expensive younger workers, further exacerbating the knowledge transfer and retention problems that many industries face. As the aging workforce moves toward retirement age, it is critical that more experienced workers incorporate their knowledge with the tech-savvy abilities of younger workers. A delay in such knowledge-transfer investments may lead to business continuity problems that are completely orthogonal to any external economic issues. Economic turbulence also means that some older employees may delay planned retirement, while younger workers may stay in place longer than anticipated. This shift makes it even more important for management to master the practices of motivating and integrating a generationally blended workforce.<sup>2</sup>

**Less people may mean fewer organizational capabilities.** Economic turmoil may cause a decrease in capability as organizations reduce payroll, shed business units, or wind down operations to adjust to lower levels of demand.

**Work-life blending becomes a competitive asset.** The blending of employees' work lives and personal lives will continue to create tension in

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<sup>2</sup> For more on generation issues, see: Salkowitz, Rob. *Generation Blend: Managing Across the Technology Age Gap* (Part of the Microsoft Executive Leadership Series). Hoboken, N.J.: John Wiley and Sons, 2008.

the workplace. During economic turmoil, the reasons for this blend may shift from choice to necessity. But a robust infrastructure that supports necessary work outside of the confines of the workplace will support the individual needs of employees. It will also create the foundation for a more virtualized workforce, as contingent staff can fill the roles of former full-time employees.

**Blending speeds learning.** Despite the sometimes difficult integration of cultures, languages, and attitudes, the blended world experiences learning, innovation, and operational excellence where the edges of generations, cultures, and operating units come together. This fusion may prove vital going forward. Deploying technology that helps bridge the gap between groups, and helps inform and diffuse concern rather than fuel it, will be important. By using social networks, inside and outside of organizations, new forms of safety nets will surface for both individuals and businesses.

### **GAINING INSIGHTS FROM COMPLEXITY**

The impacts of global financial instruments, integrated supply networks, political relationships, natural resource management, and climate change are now so complex and interrelated that no single person or business can understand the relationships between investment and risk. Uncertainty and lack of clarity about the ultimate impact of all of these vectors may lead to an increase in the cost of information technology and other business systems in addition to making these systems more fragile.

The data that informs navigation through change comes in two forms: structured and fluid. Structured data, most often found in databases, helps discover shifting customer behavior, swings in capital and labor markets, moves in commodity pricing, and the current state of internal operations. Fluid data, the type of information typically derived from blogs, e-mails, wikis, and other personal and collaborative sources found outside of formal databases, provides insight into market drivers and customer behaviors or perceptions.

**Learn from feedback loops.** Structured data only tells part of the story. In turbulent economic times, opinion, emotion, and feedback loops reinforce or exacerbate decisions based on real data. Keeping track of what people are thinking, what they are seeing, and what they are feeling is important not just in times of uncertainty but also in times of prosperity, because it is the combination of data sources that can bring real insight to an organization.

During turbulent times, organizations need to concentrate on understanding their data sources and the relationships between those

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sources. They need to share information internally, in an open and proactive way, and use informal social networks to gauge the emotional health of the organization as a complement to a solid understanding of its economic health.

**Empower leaders to drive insights.** In a stark economic climate, consumers and employees look to business leaders for guidance and insight. The relationship between consumers and business is a complex one. When leaders respond confidently to business challenges, employees and consumers will respond in kind, thereby creating a positive feedback loop that companies can use to derive useful insights.

**Separate signal from noise.** In many cases, complexity is thrust upon organizations. Globalization, regulation, and any number of external factors create interrelated webs of information to traverse. But in their enthusiasm to react to these issues, organizations may also create their own complexity by duplicating processes and functions.

If the source of complexity is internally created, then the insight gained from examining operations should lead to a rationalization of the business. This type of insight often drives first-line reactions to economic turmoil. When the complexity is external—when the markets are truly global, when the regulations are complex, when customer demands start to shift, and when rumor and innuendo shade market and performance perceptions—then the insight garnered through systems and collaborative feedback can help an organization navigate, contain, respond, and reinvent to meet the changing landscape while staying true to its strategy. The key for organizations, managers, and employees is to recognize diverse and meaningful sources of information, to incorporate the lessons learned from that information, and to integrate feedback loops into strategic actions so that outcomes are informed by what is happening, not by what should have happened.

**Build trust through transparency.** Turbulent times change rules, but they do not necessarily imply a need to reinvent strategy. Such times may require a recommitment to nimble and agile operations informed by monitoring internal sources for improvement opportunities and external sources for new competitive threats, increased regulation, and new market opportunities. Trust comes from consistency and open communication. In times of economic turmoil, organizations that use their insights to remain rational in the face of change will help guide recovery rather than reinforce instability.

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## MAKING IT STRATEGIC

Reacting to external changes, navigating the complexities of internal organizational choices, or attempting to gain insight from data and social interactions each require the IT department to accomplish business goals in a rapid, coordinated, and effective manner.

**Manage costs and drive efficiencies.** One of the most important roles an IT organization plays in a turbulent economy is managing costs and identifying efficiencies. More effectively using technology that the company already owns can return benefits such as reducing process management costs, more effectively complying with regulations, and more efficiently executing operations. Cost and efficiencies, however, should not be the only focus. Unleashing cash flows through efficiencies can free up the capital to consider other investments.

**People are critical to operational excellence.** Turbulent economies often evoke knee-jerk cost cutting at the expense of future flexibility. Eliminating jobs is easier than reinventing processes, and the cost savings are more quickly realized. But when companies look to their core missions, it is their unique combination of people, process, technology, and work environment that makes up the *business*, with process and work environment highly reliant on corporate learning and corporate culture for success. And that means people need to remain positive and feel like they are relevant to the execution of strategy.

**Empower people with better processes.** Keeping people at the center does not mean that all painful human resources decisions can be eliminated; rather, it means thinking through the implications. “People” decisions are often clouded by ineffective systems that have grown rampantly and organically in times of affluence and that force talented individuals to act as coordinators rather than contributors. In stark economic times, individual talents need to be unleashed to help navigate change and prepare for the next economic upturn. The lens of investment, then, should not focus exclusively on rapid cost reduction. It should also include widespread investments in processes and functions that reduce overall costs by rationalizing systems within the strategic context in addition to preparing those systems for future successes. As previously discussed in this paper, many organizations breed their own complexity. One way to reduce complexity is to adopt a rationalized IT platform that helps transform the knowledge and experience of employees into highly tuned systems that offer solid automation and adaptive, secure collaboration environments that facilitate learning and feedback.

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**Re-invent now, prosper faster.** Solid management, rationalized systems, and robust infrastructure will be at the core of the businesses that thrive in the coming waves of prosperity. Organizations should also look to IT for new offers, new channels for customer relationships, and even new revenue streams based on system expertise or organizational knowledge. They cannot simply de-invest toward prosperity. If organizations are forced to do more with less, they will need software and information systems to accelerate their capabilities, amplify the talents of their staff and partners, and increase the fidelity of the input through which they interpret the world. One thing that can be predicted: When the economy returns to vibrancy, it will not wait for the laggards to catch up.

### **LOOKING BACK FROM THE OTHER SIDE**

A difficult economic climate requires that businesses retain key talent to meet operational needs, that they employ strong governance to manage operational efficiencies and costs, and that they retain their relevance through competitive differentiation within their markets. If organizations focus on these three areas together and do not allow circumstances to overwhelm them, they will be poised to recognize and react to opportunities and be rational and decisive about where to drive efficiencies. Decisions that reduce people's abilities or systems' capabilities inhibit an organization's capability to compete and recover.

An organization's view of risk drives many of its actions. In times of prosperity, risk is often seen as lower, so larger more grandiose ideas can be tried. Even if these ideas fail, the risk to organizational health may be minimal. In times of economic strife, however, risk becomes the lens through which the world is viewed. And when visibility into risk is low, inaction may result. It is important to keep in mind that inaction carries its own risks. As a result, the risk of losing operational or innovation capacity needs to be balanced against the perceived risks to capital and cash. There is no *right* way to balance risk, except to know that it needs to be balanced. Tipping too much toward inaction is equally as risky as not acting fast enough to manage efficiencies.

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As with all turmoil, navigating change is a difficult task—especially when changes are made in isolation. Microsoft constantly renews its commitment to helping its customers and partners survive and thrive. Through smart investments, innovative processes, relevant products, and appropriate technology, it is our hope that the strength of Microsoft, its customers, and its partners can collectively help the economy recover faster than it might without our combined leadership across markets and around the world.

## Business Actions to Consider During Turbulent Economic Times

	Opportunity	Recommendation
<b>Dynamic Business</b>	Listen for new opportunities coming from customers and partners.	Use technology to stay connected to individuals who are close to customers and markets. They can provide valuable insight about where recovery is taking place, where new opportunities may align with capabilities, and where risk may be growing. Bring that information back into the organization and use collaborative tools to understand its strategic and operational importance.
	Empower individuals and open the internal networks to learning.	Make information widely available and empower local management teams and partners to act with all of the knowledge assets and processes of the larger organization behind them. Open communications channels can expose best practices and help drive consistent operations across a global business, even if direct, central management becomes costly, complex, or politically difficult.
	Prepare for new regulation.	Many economically volatile periods result in increased regulation at the industry or market level. It is important to automate as many basic record-keeping systems as possible. When new reporting requirements, or changes to existing requirements, are incorporated into reporting applications, cultural adoption can be at the forefront of the shift rather than a panicked response to meeting the requirements.
<b>Blended World</b>	Stay in touch with the company's talent base, even if the relationship with these workers changes.	Economic turmoil casts doubt on businesses, both internally and externally. In a blended world, all employees are also consumers, perhaps even direct customers. It is important to understand market perceptions and employee perceptions. Using social networks internally and externally can keep employees and customers close.
	Build tighter, deeper relationships with customers.	Social networking is one channel for understanding perceptions. For the top customers, however, it is important to use all channels of communication in tough economic times. Business Intelligence (BI) can identify the most important customers, and all available communications channels should be used to provide them with guidance and leadership and to help them best benefit from a company's products or services to achieve their business goals.

	Opportunity	Recommendation
<b>Insights from Complexity</b>	Find and eliminate redundancies in processes and functions.	Turn BI tools inward to better understand operations. If data does not exist, that should say something. Where the data does exist, look for ways to make processes and functions more efficient through automation and streamlining. Turbulent economic times call for a solid understanding of the business, so that decisions can be informed rather than random.
	Create and share data effectively.	Data is a source of insight and the basis for most decisions. It needs to be readily available throughout an organization, so that managers can make informed decisions. Do not confine data access plans to structured data sources; unstructured data, including information available in consumer services such as blogs, wikis, and social networks, should also be considered when thinking about what managers need to know.
	Retain knowledge and talent.	Organizations may need to make tough choices about staffing, but they should not expose themselves to loss of operational information, innovation capacity, or customer knowledge. Using social networks and other technologies, along with innovative contract agreements with former or furloughed employees, can provide a model for retaining readiness while reducing costs associated with labor and overhead.
	Enable compensation systems to handle multiple reward profiles for any given year, so that employee rewards are not tied to past market conditions.	Many organizations lock in compensation systems, but in turbulent economies, time-based compensation systems can offer a more adaptive means of retaining talent. Creating the infrastructure for flexibility can provide benefits during economic turmoil.
	Create a better understanding of the organization's knowledge assets.	One of the most complex things for a business to understand is its own internal knowledge. In bleak economic times, understanding what an organization knows, where it knows it, and how important it is to the execution of strategy may be crucial to surviving and thriving.

	<b>Opportunity</b>	<b>Recommendation</b>
<b>Strategic IT</b>	Make IT investments strategic.	Rationalize infrastructure to create lean and agile strategic processes and functions. Manage costs and drive efficiencies, but remember that organizations cannot de-invest to prosperity. Defensive IT investments that focus exclusively on cost savings and process improvements are inherently limited in the benefits they can deliver. Organizations should consider re-inventing their systems to more closely align with strategic intent and operational objectives.
	Define offers, enhance models of customer interaction, and adopt other forms of re-invention to stave off declining revenues.	Internal data, systems, and knowledge can offer new business opportunities for revenue or new models to enhance brand or market presence. IT can play a key role in turning inside knowledge into value.

