

A Contrarian Perspective on Business Performance Sustainability

Paul Prabhaker (prabhaker@niu.edu)

Northern Illinois University

[Text of keynote speech delivered at the annual conference of Yale-Great Lakes Center for Management Research, Chennai, India, December 2006]*

“It is not the strongest of the species that survive nor the most intelligent but the one that is most responsive to change”

-Charles Darwin

My talk is going to be fairly simple and I am going to share with you a project that I am just starting and is by no means completed. The concept that I want to share with you is something that is currently fashionable in the field of business. It is called sustainability - Business Performance Sustainability.

Sustainability is the primary driver behind the green movement. In fact the concept of sustainability was promoted and made visible in the environmental movement. Over time, this concept of environmental sustainability has evolved and graduated to a higher order of sustainability that deals with the issues of what *businesses* sustain. I am going to focus on business performance sustainability because people use the phrase in many different ways and I have access to some basic research data that may be of interest to you. I will share some of these findings with you.

Let me define what business sustainability basically is: it is a concept of endurance; it is the ability of the organization to endure through changing times and sustain its performance success.

The Change Paradox

They say that “change is the only real constant”. This is an oft-used phrase today. However, the reality is that change is not a constant. Change by itself is exploding exponentially, rather than being a constant, without regard to markets, technologies, regulations and customer needs. *Change in the business world is*





driven at the core by uncertainty. This uncertainty is the end result of uncertainty in customer needs, technological capabilities, demand-supply synchronization and competitive dynamics. As these different uncertainties converge, the overall business-climate uncertainty grows exponentially. Business organizations have generally attempted to minimize the damage created by this business-climate uncertainty by

streamlining supply-chains

delighting customers utilizing CRM

implementing just-in-time inventory strategies

adopting flexible manufacturing technologies

managing financial risks by utilizing sophisticated financial tools such as hedge funds, etc.

You have probably studied the above five modern business concepts in your b-school curriculum and more. Businesses are certainly more capable than ever, knowledge-wise, to deal with uncertainty. Yet, the exploding growth of business climate uncertainty drives explosive change that far exceeds the growth of this knowledge capability. This is the Change Paradox. As business organizations grow and create wealth, they fuel this explosive climate change that challenges the abilities of the same business organizations to sustain these wealth-creating engines.

Consider the manner by which businesses plan to meet anticipated demand in their own sectors. Organizations can plan only for the *demand they can anticipate!* We really do not have a strategic toolkit for situations that call for *demand that cannot be anticipated!!* To illustrate this concept, let me share with you one slice of a longitudinal empirical study. One question in a survey to mid level managers in 1000 large publicly listed corporations in the United States goes like this

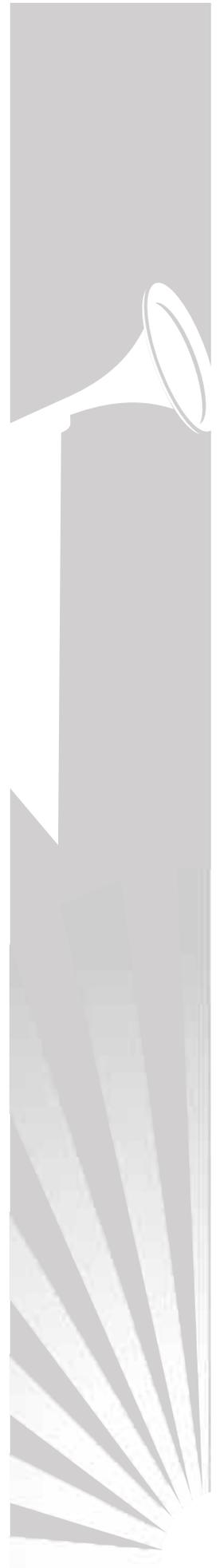
“If you look back one year and look at the total revenue that was generated in your business unit, how much of that revenue did you anticipate when the cycle started so that you could plan for it?” The answer to that was around 70% in the year 1980 and if you fast forward to the year 2005, in spite of advanced technologies and much more sophisticated knowledge base, the answer in the year 2005 was less than 50%.

This pattern is consistent across different industry sectors and validates the exploding uncertainty hypothesis. What this point illustrates is the simple fact that the future is getting more and more cloudy, less and less predictable. One of the basic things we know in business is that unless you can anticipate the future, you cannot plan for it. Thus, the confluence of business uncertainty has given rise to more circumstantial, accidental, coincidental market success rather than planned success. Hence, the very real challenge of sustaining business performance.

Thus, the challenge for business performance sustainability is one of business planning within an increasingly uncertain business climate. Sustainability calls for certain deliberate sacrifices. If you wish to sustain in the long run and show performance in the long run, we start with what we know. What we do know is that short-run optimal solutions may not always add up cumulatively to a long term optimal solution. Hence, *for business performance sustainability, a necessary requirement is the mind-set and willingness to treat short-term losses as long-term investments!!*

The Science of Management

The science of market opportunism is fundamentally inconsistent with the philosophy of business performance sustainability. Academics are in the business of producing intellectual capital. Academia is the entity that drives the knowledge creation part of business strategy. A thorough audit of the drivers of academic research reveals that production of intellectual capital is heavily influenced by short-term, measurable outcomes. As a result, we collectively know a lot more about delighting customers; we are experts on streamlining the flow of information via advanced business technologies; we know how to re-engineer business processes to the nth degree, can squeeze the last penny from back-end purchasing decisions, are very adept at analyzing financial statements; our marketing research techniques have become so sophisticated that we have access to real-time consumer feedback in many cases; we have grown very knowledgeable about integrating that feedback into organizational processes. In short, we have all the tools we need to instantly take advantage of market opportunities. When we spot an opportunity in the landscape, our powerful arsenal enables us to chase these opportunities down and convert them into tangible gains. Research in the field of business administration has made us into nimble, short-term oriented, opportunistic, agile business organizations. The very DNA of market opportunism is different from that of business performance sustainability.





DNA of Sustainable Businesses

So, what is the DNA of sustainability? How are the organizations that demonstrate consistent business performance sustainability different from those that are expert in taking advantage of short-term market opportunities? What I'd like to share with you is just the beginning thoughts of what makes a sustainable business stand apart from normal routine business. I am going to call this the basic *DNA of businesses that have sustainability built into their souls*. There are three specific differences in the DNA of sustainable businesses.

The first one is the realization that *business performance sustainability is driven more by corporate character than corporate strategy*. Sustainable businesses make it a conscious point to stay away from reacting to every opportunity that apparently pops up in the market environment. This is a very critical, very important point because many times we train our young managers to do exactly the opposite. I give you the tools and you get the tools in a classroom environment to precisely do the opposite. When an opportunity comes up, you are extremely well trained to jump, to go after it, bring it home and post it in your statements. So that way you gain, your business gains and everybody in the world would know that you have succeeded in that opportunity. The point that I am making here is that there are certain market opportunities that are so far away conceptually from your corporate mission and your stated position in the market that your organization's corporate conscience should have the ability to say 'NO' to these market opportunities. Market opportunism at some point is inconsistent, with business performance sustainability. The same concept is taken to the next level. Phrases like re-inventing, re-engineering, constantly changing yourself, “a chameleon-like” approach, to building an organization, usually are held up both by academics and the business leaders, but a sustainable business is something that stays true to the inner character. What that inner character is, goes back to probably the foundation of the business, at the time when it is founded, the philosophy of the individuals who founded it. So, I am not saying that we don't react to the market, but when we do react to the market, we have to be sure that it is the outer capabilities that react to the market, and somehow somehow sustainable businesses are able to clearly stay with what their character is. Once again, if you look at some of the data, especially the profitability data, you see that the cycles are little longer for sustainable businesses than for normal operating businesses. In other words, there are times when they choose not to go after certain opportunities and that shows up in their results.

The second uniqueness of the sustainable DNA is the organizations' willingness to share; not just financial gains but also willingness to share business risks. *Sustainability requires an organizational culture of sharing. Organizations that are superior on business performance sustainability seem to exhibit the true spirit of partnership with all their stakeholders.* Vendors, shareholders, employees or customers of such firms seem to be willing to share in the risk of their stakeholder-partners more than in other companies. Anything and everything they carry out as a strategy is driven by mission-sustainability. Risk-sharing is definitely one of the more important things. So, one of the correlates of sustainability, this is one of the things that pops up.

The third characteristic of the sustainable DNA is the organizations' willingness to look at cumulative results and never at incremental results. Professional managers today are trained to approach business decisions on a marginal return-on-investment basis. Those activities and strategies that do not reflect tangible value in the financial statements are given lower priority. Such a business-case incremental approach results in a business philosophy that may compromise corporate character. It is quite fashionable to criticize companies - the old fashioned ones - that would essentially espouse the model, "build it" and then in a naïve fashion, assume that "they will come." 'Build it and they will come' has become the popular slogan for those Monday-morning experts who critique businesses that apparently don't understand the market place. Maybe if we think about it a little bit more, what it actually means is this: *sustainable businesses choose to let corporate character carry them through the uncertainties rather than sophisticated strategies alone.* Building a business around a time-tested corporate mission is a different pathway from the business that is continually rebuilt around every illusionary market opportunity.

When you know your future, when you know where you want to be, that is much more important in a world that is increasingly uncertain, than trying to figure out where every opportunity may crop up and positioning ourselves in that opportunity without knowing what is going to happen to the inner core of the business.

Conclusion

One of the things that consistently stands out in common across the organizations that are sustainable was their insistence in consciously mapping their inner mission or corporate character onto their explicit business strategies. This appears to be a conscious mapping in such organizations. That is, ***their business strategies are not market-driven, rather mission-driven.***

