# Chapter 2

# Cascading consequences

Ultimately we are talking about cascading consequences—consequences few had considered or were prepared for, consequences that have yet to surface. The spiral of doom mentioned earlier is a simple example. What annoys me about this is the waste or unintended consequences that make things worse.

The Chartered Institute of Personnel and Development in the United Kingdom produced a report in January 2009 suggesting the cost of laying off staff, before hidden costs, was £16,375, or approximately US$25,000.[1] It's the hidden costs that do the most damage: decreased productivity and burn out and stress for those who remain—the list goes on. But the irony of this statistic is that in a firm's desperation to cut costs, they actually see short-term costs spiral, creating more pressure and pain and fewer funds to market or innovate their way out. Some will argue that it's their only option—particularly for the housing market. For those in that predicament, I'd encourage you to explore every other option first. If it is your only way out, get smart about it: don't lay off 10 or 20 percent across the board. Quantify how important each employee is to your future survival. You need to do everything in your power to protect that future.

Tor Dahl imagined another set of consequences on our Webcast. Some high school students feel they have to drop out to help their family. Tor suggested this would cost them a million dollars over their lifetime. People that graduate tend to earn $9,000 per year more than dropouts. Graduate from college and you can expect $22,000 per year more. Take academia higher and you could expect anywhere from $35,000 to $57,000 more—for the rest of your life. What if thousands drop out? One implication could be that government sees lower revenues from tax collections, which in turn affects its ability to maintain or improve public services. The possibilities

Hornby, Jonathan. Radical Action for Radical Times: Expert Advice for Creating Business Opportunity in Good or Bad Economic Times. Copyright © 2009, SAS Institute Inc., Cary, North Carolina, USA. ALL RIGHTS RESERVED. Visit support.sas.com/publishing.

are endless, but few look beyond their immediate predicament—they act tactically.

Business plans are just as bad—best case, worst case, and expected outcome—few explore the ripple of cascading consequences, let alone put in contingency plans should the negatives turn into reality.

In this scenario our future is uncertain. With uncertainty comes a lack of trust. Think about what I've written thus far. Governments and industry presented their plans for how they were going to get us out of the crisis. Did we believe them? Did we have confidence they would work? I'd suggest the jury is still out, but there are a large number of people that do not trust these plans. Why not? Because the implications, ripple effects, and contingencies for negative events are not explicit. There is too much uncertainty, so trust has evaporated. Until that trust has been restored, we could end up wasting trillions of dollars with little to no benefit. This is a big concern for Tor. How many of those trillions are being used to help every man, woman, and child become more productive? How many of those trillions are being used to save companies that will merely prolong bad practices, perhaps the very practices that got us into this pickle in the first place?

Carl Schramm had another concern:

> *In response to the current recession, government is growing massively, with the expectation that it will be a temporary measure. But history tells us that once swollen, government does not so easily retrench. A large government, no matter how well-intentioned, can slow the economy's growth over the long haul.*

His greatest fear is that such an environment may stop or reduce the 600,000 startups America sees from entrepreneurs each year, startups that create new jobs and wealth. One thousand of those startups go on to account for the highest growth firms—firms that represent 1 of the 3 percent GDP growth America has witnessed over the last 100 years.

As Tor would be quick to note, 3 percent growth isn't enough. Many countries have achieved far higher. It's possible, but we'll need a productivity revolution to succeed. Read more about this in chapter 4.

Buying people out of mortgages, saving banks, inducing banks to lend more, saving car companies on the grounds that these actions will save

Hornby, Jonathan. Radical Action for Radical Times: Expert Advice for Creating Business Opportunity in Good or Bad Economic Times. Copyright © 2009, SAS Institute Inc., Cary, North Carolina, USA. ALL RIGHTS RESERVED. Visit support.sas.com/publishing.

some jobs could be the wrong things to do, in Carl's opinion. Think of the airline story earlier. In economics, it is referred to as "creative destruction." If Chrysler, Ford, or General Motors collapsed we would see a large number of unemployed workers. But Carl suggests that entrepreneurs would step in. He believes that "we might see a day one or two years from now where we have six new American auto companies producing green cars, better cars, more efficiently with a more productive labor force—America would be better off."

I have referenced the past many times, so one might think the future is obvious. Joel Barker responded to this observation by saying:

> *Lessons from the past are not necessarily good for the future. Think about how different today is than 10 years ago—you think about the Internet, you think about hybrid cars. You can look back and gain some sense of conceptually. But every system has to be dealt with in real time with its real contingencies. What Carl is saying is, it's not an obvious thing we need to do and it's not an obvious pathway that we have in front of us. Some of those funds government will make available may actually trigger or guarantee that certain markets open up for entrepreneurs.*

Which brings us back to our fundamental point: there's still a lot of uncertainty.

### What's to be done?

There's no question that we have to invigorate the economy. Carl suggested we need to get GDP growth back to 3 or 4 percent. Tor challenges us to reach higher. Either way, we get new jobs and much stronger footings for all. Government is doing their bit, but no one should rely on it or wait and see. There's much that can be done right now, by every organization—public, private, for profit, or not. Together we can make a difference.

Gabor George Burt suggested we have to first defy conventional wisdom. Those organizations that maintain or increase focus on marketing, R&D, and innovation typically accelerate out of a recession faster and in better shape. But it's a courageous call when instinct and shareholders tell you to cut costs and jettison parts of the business to raise cash. I'll spend more time exploring these options in the following chapters, but for now let's

Hornby, Jonathan. Radical Action for Radical Times: Expert Advice for Creating Business Opportunity in Good or Bad Economic Times. Copyright © 2009, SAS Institute Inc., Cary, North Carolina, USA. ALL RIGHTS RESERVED. Visit support.sas.com/publishing.

revisit this predicament of not understanding the future. If we can think through the implications, perhaps we won't need as much courage. We will have sufficient information to convince everyone and build trust in the path forward.

### The Implications Wheel®

Joel Barker has been concerned with long-term implications for more than twenty years. He'd give you a couple of words to think about: *unintended consequences*. That has been a big discussion point. What it means is that people were saying, "Oh, I did something, but I didn't intend that to happen." In a lot of those cases, they could have anticipated those unintended consequences and avoided them.

The second phrase would be *Black Swan*. A Black Swan is an implausible event that actually occurs and has huge repercussions. Bernie Madoff is a good example in the financial industry of someone who basically ran a Ponzi scheme but nobody expected it. Implausible, but it happened.

First of all, we have to agree that we've done a lousy job thinking about long-term implications. If we'd done a better job, we wouldn't be where we are right now.

Second, we have to say that in the twenty-first century thinking about long-term implications has got to be a requirement. We have to think explicitly and thoughtfully about not just the immediate consequences, but those down the line.

Joel gives us a way to structure our thinking about consequences down the line. In your mind's eye, place a big piece of paper in front of you and draw a circle in the center. In that circle write an innovation that you're thinking of introducing, a trend that you see developing, a new strategy—something that's going to drive change.

Now let's explore the "cascade of consequences." After you get the center of your circle clarified, Joel suggests you ask yourself a simple question: "What kinds of things might happen just as soon as the center happened?" And you draw little spokes off from that first circle and put a bubble on each spoke. For each bubble you put a possible implication; possible, not for sure, because we can't be sure about the future, but a possible implication. Let's say you fill out twelve bubbles. Those are the immediate first-order

Hornby, Jonathan. Radical Action for Radical Times: Expert Advice for Creating Business Opportunity in Good or Bad Economic Times. Copyright © 2009, SAS Institute Inc., Cary, North Carolina, USA. ALL RIGHTS RESERVED. Visit support.sas.com/publishing.

implications of what could happen. I get a $10,000 raise. Three employees leave the team. Things like that.

What we have to learn to do is say that that is only the beginning of the discussion. If we take each one of those first-order implications and ask, "What are the implications of each?" we get a cascade, a second set of implications or second-order implications. Generate four to five off each of those first orders. You'll now have twelve implications at the first order and another sixty at the second.

But Joel's research in his process shows that you're not done yet. Take each one of those second-order implications. Do the same thing: ask "What are the implications of this implication?" Again, try for about five implications. All of a sudden you have 60 x 5 = 300 implications. We're now looking at a dense, deep discovery of the possible results if we're going to involve ourselves in this central idea. It is Joel's contention that this kind of discussion will need to be conducted at the level of the Barack Obama administration regarding some of the policies it is suggesting.

Entrepreneurs thinking of getting into business need the same exploration. We would like to see this kind of thinking become a standard part of an exploratory process that everybody goes through. If we do that, we gain two things. Number one, we'll get much deeper insight in terms of actual specific implications, both positive and negative. But we also build trust because we can now show people the map of the possibilities off of the idea that we're contemplating, essentially saying: "Here is why we are doing it."

We can even say, "Oh, by the way, these negative implications over here, here's how we're going to avoid those. Oh, these positive implications over there, here's how we're going to make sure they happen." The conversation rebuilds trust. You trust in me because you can see I thought about the long term.

That's goal number 1. We've got to get better at doing that. The quicker we get good at it, the quicker we will make good long-term decisions.

Now here is the key: Use the wisdom of crowds. Don't think you can do this all by yourself. It may help you create focus, but you will uncover far more implications if you involve teams with high diversity. Each person brings a different perspective. They don't need to be experts, and the process of exploring implications can be done fast.

Hornby, Jonathan. Radical Action for Radical Times: Expert Advice for Creating Business Opportunity in Good or Bad Economic Times. Copyright © 2009, SAS Institute Inc., Cary, North Carolina, USA. ALL RIGHTS RESERVED. Visit support.sas.com/publishing.

Joel led a discussion with NASA to help it explore how to restructure its engineering program in preparation for the closing of the shuttle program and the opening of the new space vehicle program. A group of senior executives defined the first-order implications. A diverse group of thirty-five individuals were then brought in to help explore the second and third orders. At first there was pushback from one of the leaders. He asked, "How can a janitor add any value to this task? Who are these people? They know nothing about this issue!"

Joel persuaded them to give it a try. The process would take three hours in the morning (ninety minutes for learning the process was part of that three hours) and three hours in the afternoon. Compared to the year already consumed, it was merely a blink in time.

The first-order implications are where you want the experts. Once done, you involve people that have the capacity to see things from a totally different perspective. When an implication arose that spoke to expensive dust, that janitor came right into his own. Everyone got a chance to contribute. You get the picture. By 3:30 that afternoon, they discovered several negative consequences that had never surfaced during all the discussions conducted over the previous twelve months. It was a consequence the experts would need to go back to the drawing board to avert.

Here's another way to use Joel's Implications Wheel®. Mergers and acquisitions activity is likely to be on the increase. Employees may be concerned about their future, perhaps rigid in their ways, or lacking trust in the acquiring company. Joel has taken the same approach with a number of companies: each party to the merger jots down their perspective on or implications of the merger. Upon completion, the teams swap implications. Both sides get to see what the others are thinking, what they are worried about, and how they might react.

A bank had a similar twist. They had two departments: A and B. The people in department A looked at department B as an unnecessary cost. They wanted to close them down. A bigger problem was department A didn't really know what department B did. They were just looking at the cost information from the accounting system. We'll read more on that in chapter 3.

A very shrewd manager suspected A needed B, but unless he could get the rest of the staff to recognize and believe it themselves he'd face an uphill

Hornby, Jonathan. Radical Action for Radical Times: Expert Advice for Creating Business Opportunity in Good or Bad Economic Times. Copyright © 2009, SAS Institute Inc., Cary, North Carolina, USA. ALL RIGHTS RESERVED. Visit support.sas.com/publishing.

struggle. To save time, they used the Implications Wheel®. Both teams worked on the wheel. As the process unfolded, A began to discover what B did: they qualified and funneled potential customers to department A! They now understood the implications of closing them down and quickly switched their position. Now they started to talk about what they could do to help B become more effective. B's success was in their interest. The same bank also used the approach for thinking through strategy. What would be the implications of staying regional versus going national? The Implications Wheel® allowed them to take paths no other bank was considering, something that would give them competitive separation, a topic we will cover in chapter 5. Joel calls this *creating transparency to the future*.

One of the strengths of the tool is that it has metrics on both the desirability of each implication and the likelihood of its happening. These numbers represent the group's best judgment constrained by their scoring from a point of view that all the teams are scoring from.

The value of the scoring is that anyone, anywhere can quickly identify the most significant implications based on the point of view of the scoring teams. This information creates a much clearer understanding of which implications should be carefully examined. Whether you agree with the scores or not, the process helps you ask better questions and often identifies "Black Swans" that are waiting for the organization sometime in the future. By seeing and questioning others' perspectives, you build trust.

Transparency and trust can lead to win-win situations. The Outdoor Advertising Association of America was looking at digital billboards. They had a positive bias. They didn't want to write down or consider any negative consequences. A rule for Joel's Implications Wheel® is that you must have at least one positive and one negative for each implication. The negatives they were forced to consider included local objections. Joel later spotted an article in his hometown newspaper. A lot of wealthy individuals pushed for a ban on digital billboards in their area. They listed the reasons. On checking the Implications Wheel®, he found them all—together with thoughtful rebuttals that could be used to diffuse the situation.

It all comes down to seeing each person's point of view. In many cases, both have shared objectives, or, as in this case, you can create a win-win. Digital billboards open up pricing. Like advertising on television, you can charge by the minute, the time of day, the number of slots you take, and so on. It

Hornby, Jonathan. Radical Action for Radical Times: Expert Advice for Creating Business Opportunity in Good or Bad Economic Times. Copyright © 2009, SAS Institute Inc., Cary, North Carolina, USA. ALL RIGHTS RESERVED. Visit support.sas.com/publishing.

would take five regular billboards to bring in the revenue of one digital. And the cost of those five would be higher because of maintenance. The residents on the other hand were worried about the landscape. When they realized there would be fewer billboards, they welcomed the idea. When you can see the positives and negatives from both sides, it becomes easier to compromise and move forward—saving time and money, while building trust.

### Time for action

The choices you make today can have far-ranging implications. Choose your path wisely and choose with knowledge and insight. Beware the unintended consequences and Black Swans. Recognize that more companies fail at the end of a recession than at the beginning. In an organization's fight to survive, many will focus on cost-cutting—depleting resources that enable them to adapt as the economy picks up. A 2007 *BusinessWeek* survey suggested that as few as 20 percent of CEOs and CFOs believed their organizations had the agility to respond to market change. That was in 2007, before the panic, before any cost-cutting. As Warren Buffett once said, "Risk comes from not knowing what you are doing." Think through the implications, then get your facts right. Don't rely on intuition. It could be throwing you a curveball.

In part II, we consider where to focus. We'll examine three areas that can provide quick wins. Done correctly, they will put cash back on your balance sheet to fund innovation and growth, the two ingredients that will allow you to not just survive but thrive.

### Note

1. See "Firms Urged 'Try to Keep Staff,'" BBC News, 5 January 2009. Available at http://news.bbc.co.uk/2/hi/business/7808425.stm (accessed 27 August 2009).

Hornby, Jonathan. Radical Action for Radical Times: Expert Advice for Creating Business Opportunity in Good or Bad Economic Times. Copyright © 2009, SAS Institute Inc., Cary, North Carolina, USA. ALL RIGHTS RESERVED. Visit support.sas.com/publishing.