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### How to Thrive in Turbulent Markets

Key ideas from the [Harvard Business Review](#) article By Donald Sull

#### The Idea in Brief

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In today's volatile world, doing business feels like competing in a heavyweight boxing ring. To prevail, should your company rely on **agility** (nimbleness) to quickly spot and exploit market changes? For instance, shifting resources from struggling divisions to more promising ones can spur revenues.

Or should you rely on **absorption** (toughness) to withstand punches? For example, keeping a lot of cash on hand might enable your firm to weather unexpected threats.

Sull recommends **agile absorption**: deploying *both* capabilities in various combinations as needed. Through agile absorption, you consistently identify and seize opportunities *while also* retaining the structural heft your company needs to thrive.

Toyota, for example, maintains absorption by employing a large workforce, but unlike U.S. automakers, enhances agility with a combination of flexible work rules, variable job assignments, and employee involvement.

#### The Idea in Practice

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Sources of Agility

Source	Definition	Characteristics
Operational	Ability to improve operations and processes; for example, by introducing new offerings, cutting costs, or enhancing quality faster than rivals	<ul style="list-style-type: none"> <li>• Shared, detailed, and reliable real-time market and process-performance data</li> <li>• Clear performance goals</li> <li>• Mechanisms for holding people accountable for goals</li> </ul>
Portfolio	Ability to quickly reallocate resources (cash, talent, managerial attention) from less-promising business units to more attractive ones	<ul style="list-style-type: none"> <li>• Diversified portfolio of independent business units</li> <li>• General managers who can be traded across units</li> <li>• Centralized control of key resources</li> <li>• Willingness to make unpopular resource reallocation calls</li> </ul>
Strategic	Ability to seize game-changing opportunities; for instance, by rapidly scaling up a new business, entering a new market, or betting on a new technology	<ul style="list-style-type: none"> <li>• Large war chest to finance big bets</li> <li>• Patience to wait for the right opportunity</li> <li>• Mechanisms for mitigating downsides on big bets</li> </ul>

## Sources of Absorption

Source	Purpose
Low fixed costs	To weather challenges such as price wars or rising raw-material costs
War chest of cash	To deploy against unexpected opportunities and threats
Diversified cash flows	To withstand downturns in specific units that can serve as stores of p wealth you'll sell later
Vast size	To enable downsizing of operations and staff during crises
Tangible resources	To generate profits later (may include raw material deposits and real
Intangible resources	To insulate your firm against short and mid-term market shifts (may brand, expertise, and technologies)
Customer lock-in	To buy time when competitive dynamics shift (high switching costs, instance, can discourage your customers from jumping ship)
Protected core market	To bar competitors and provide safe cash streams to survive storms
Powerful patron	To provide extra resources or buffer from market shifts during volatil (may include a powerful government, regulator, customer, or investo in your firm's success)

## Achieving Agile Absorption

Tactic	Example
Build absorption without hurting agility.	Low fixed costs enable your firm to weather diverse threats without impeding its ability to seize game-changing opportunities.
Manage the trade-offs.	To promote agility, break your large company into independent and-loss units. Each can quickly and continually probe different markets and spot opportunities to fill gaps. But to preserve overall absorption capacity, you'll need to promote cooperation among them.
Maintain a culture of agility.	Agility can deteriorate as companies mature and acquire sources of absorption; for instance, a protected core market can lull firms into complacency. Nurture agility by focusing everyone on its defining values; for example, eliminate status symbols to signal that performance trumps titles or tenure.

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## Further Reading

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Articles

### **Why Good Companies Go Bad**

*Harvard Business Review*

July 1999

by Donald N. Sull

One of the most common business phenomena is also one of the most perplexing: when successful companies face big changes, they often fail to respond effectively. Many assume that the problem is paralysis, but the real problem, according to Donald Sull, is active inertia--an organization's tendency to persist in established patterns of behavior. Most leading businesses owe their prosperity to a fresh competitive formula--a distinctive combination of strategies, relationships, processes, and values that sets them apart from the crowd. But when changes occur in a company's markets, the formula that brought success brings failure instead. Stuck in the modes of thinking and working that have been successful in the past, market leaders simply accelerate all their tried-and-true activities and, by

attempting to dig themselves out of a hole, just deepen it. In particular, four things happen: strategic frames become blinders; processes harden into routines; relationships become shackles; and values turn into dogmas. To illustrate his point, the author draws on examples of pairs of industry leaders, like Goodyear and Firestone, whose fates diverged when they were forced to respond to dramatic changes in the tire industry. In addition to diagnosing the problem, Sull offers practical advice for avoiding active inertia. Rather than rushing to ask, "What should we do?" managers should pause to ask, "What hinders us?" That question focuses attention on the proper things: the strategic frames, processes, relationships, and values that can subvert action by channeling it in the wrong direction.

## Strategy as Active Waiting

*Harvard Business Review*

September 2005

by Donald N. Sull

Successful executives who cut their teeth in stable industries or in developed countries often stumble when they face more volatile markets. They falter, in part, because they assume they can gaze deep into the future and develop a long-term strategy that will confer a sustainable competitive advantage. But visibility into the future of volatile markets is sharply limited because of the many different variables at play. Factors such as technological innovation, customers' evolving needs, government policy, and changes in the capital markets interact with one another to create unexpected outcomes. Over the past six years, Donald Sull, an associate professor at London Business School, has led a research project examining some of the world's most volatile arenas, from national markets like China and Brazil to industries like enterprise software, telecommunications, and airlines. One of the most striking findings from this research is the importance of taking action during comparative lulls in the storm. Huge business opportunities are relatively rare; they come along only once or twice in a decade. And, for the most part, companies can't manufacture those opportunities; changes in the external environment converge to make them happen. What managers can do is prepare for these golden opportunities by managing smart during the comparative calm of business as usual. During these periods of **active waiting**, leaders must probe the future and remain alert to anomalies that signal potential threats or opportunities; exercise restraint to preserve their war chests; and maintain discipline to keep the troops battle-ready.

## About the Author

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**Donald Sull** is a professor of strategic and international management at London Business School in England. His next book, *The Upside of Turbulence*, will be published in September by HarperBusiness.

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