

## SPECIAL TOPICS

### Unpredictable Surprises and Corporate Survival – The Living Company

**Predictable surprises are supposed to be addressed by management which should be held responsible for failure of recognition, taking steps of prioritization and the subsequent mobilization of firm resources. – The coronavirus crisis is different.**

The sudden appearance of the coronavirus is by definition an unpredictable surprise, characterized by a combination of – by times separate – threats to a firm: Multiple industries are currently not only struck by the consequences of a classical fat-tail risk, defined as a rare but large shock (usually natural disasters, terrorism or political turmoil). Simultaneously, firms are also confronted by the consequences of a contagion-related risk: Thereby, a shock in one part of the economy or business ecosystem spreads rapidly to other parts. In a globalised world with a virus making its way across continents, one may interpret this geographically or along logistics chains of production or distribution. - And if this were not enough, numerous firms face the risk of a real collapse by now: This lesser so, because of an obsolete business model, but lack of (access to) liquidity.

Hence, the proposed remedies of addressing fat-tail risks with redundancies (i.e. duplication that creates buffering capacity in components of the business systems) would not have helped a lot. Neither would a modular system with loose connections between components of the business mechanisms have coped with the contagion risk in times of the coronavirus. – However, to address the topic of the various risks of collapse by means of diversity seems worth a closer look.

As a matter of principle, heterogeneous components make up the biotope on which selection acts. Whilst diversity of people, ideas and endeavours may come at the cost of efficiency (at least short-term), it appears to be essential to robustness: Hiring people with varied personality types, educational backgrounds, and working styles is a good start, but not enough. On top, people must be encouraged to risk failure as well as create new ideas: A strategy, Silicon Valley has nurtured for decades. – The downside is all too often that firms living such a business heterogeneity are frequently punished by a conglomerate discount relative to its pure-play competitors.

Hence, the current environment will be a test case for companies' adaptiveness. Firms operate in – but also are themselves – complex systems, composed of many parts, whereby it is not the number of component parts that makes them complex. Instead, what makes such systems complex is not their basic functionality but their adaptability: That is, the various mechanisms that help the system evolve and survive in a changing environment. But these adaptive mechanisms will in turn render the system more complex. They often lead to unintended consequences such as new failure modes, which are then corrected over time with additional adaptive mechanisms, which then further add to the complexity of the system ...

For adaptive mechanisms to be successful, feedback is of the essence: Problem is, in times of the coronavirus crisis, feedback is amid collapsing logistics chains – despite communication lines operating smoothly – limited. And time, amid ever decreasing (access to) liquidity, hardly avail. We rather find ourselves in a Jamie Oliver contest: Here are five ingredients – And now: Do something!

Arie de Geus defined the concept of a Living Company, which is characterized by:

- Sensitivity to the environment in order to learn and adapt
- Cohesion and identity as aspects of a company's ability to build a community and a persona for itself
- Tolerance and its corollary, decentralization, as healthy symptoms of its ability to build constructive relationships
- Conservative in its financial policy to retain the resources that allow for flexibility and the ability to govern its own growth

Whilst financial conservatism is a key defining factor, measure such as RoEs, RoIs, RoAs are not to be found. Instead, continuous learning is. And: Trust - as a driver for space and tolerance, both, inside the hierarchy and towards the outside world. Evidently, such culture is especially valuable when speed is of the essence and – in consequence - reputations are being built or lost: The last weeks have shown that firms such as LVMH or Johnson & Johnson have understood the seriousness of the situation and led and acted by example whilst firms such as Adidas or Pierer Mobility / KTM failed miserably.

In summary, though, the most devastating observation seems to be: If you haven't nurtured a Living Company by now, your odds of surviving the coronavirus crisis have not been markedly improved.