Corporate Strategies during the Global Downturn:

Initiating a Forward-looking Debate

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Abstract

The global financial crisis has created a structural break in the global economy. Businesses thus need to reassess the strategies they have developed to operate in a highly integrated global economy. Initial reactions have often been defensive as companies downsize and call for government support. However, times of crisis are also times of opportunity. In the short-term, opportunities arise for instance in 'value for money' segments. However, for long term opportunities, businesses have to develop foresight to use the economic downturn to position themselves for the next upswing.

The current public debate largely focuses on the origins of the crisis, yet it is time look forward to address the question, *how can businesses survive the crisis, and position themselves for the recovery whenever it may come?* This paper aims to initiate this forward-looking debate. The main focus thus is on generating ideas on how to move forward, rather than to provide definitive answers.

Analyzing the financial downturn from a strategic management perspective, this paper first aims to synthesize the main shifts in key markets, and the implications of increased volatility and government interventions. On this basis, ideas for promising strategies are suggested, distinguishing critically between survival strategies for the crisis, and strategic positioning for the next upswing. Business leaders need to develop scenarios of the new economy, and envisage their role in it.

Introduction

Business leaders are busy reassessing their strategies as the financial crisis is creating a structural break that shifts many of the competitive parameters that their strategies are build on. Many businesses entered the economic downturn while pursuing global strategies[1] that aim to create, transfer and exploit competences across operations and locations world-wide (Dunning and Lundan, 2008). They have been pursuing opportunities for international growth, and thus manage global competition (Spulber, 2007; Peng, 2008), and develop strategies that create and exploit complementarities and linkages in the global net of their operations (Ghemawat, 2007). I shall argue in this paper that the global downturn leaves the fundamental arguments for global business in tact. However, they have to comprehensively reassess and often redesign their strategies, both to survive the crisis, and to benefit from the next economic upswing.

The shift from domestic to global growth paths in the past three decades has been driven by shifts in barriers to entry across industries and countries due to the globalisation of markets, resources, supply chains and business models (Meyer, 2006). These global strategies, operations and resources position MNEs them quite differently than during earlier recessions. This may have accelerated the speed at which the financial crisis spread around the world, and it makes assessing the consequences more complex. Yet, a global presence also enables MNEs to better manage the consequences of the crisis, and to pursue forward-looking restructuring in search of the 'new economy' that will drive the next

[1] I use the term 'global strategy' in the sense of a strategy developed on the global stage, taking into account the opportunities of global locations and the threats of global competition, as used for instance by Ghemawat (2007), Spulber (2007) and Peng (2008). I do *not* refer to the specific meaning attached to the term in the literature by Bartlett and Ghoshal (1987) [a strategy of high global integration combined with low local responsiveness] or by Rugman (2005) [a strategy of selling at least 20% in each of the three regions of the triad].

upswing. This discussion paper explores how MNEs outside the financial sector may manage the challenges of the crisis.

Looking forward, businesses have to appreciate both the short-term and the long-term shifts that the crisis has created in their markets. My analysis starts by discussing the emerging trends in a variety of markets of concern to MNEs, along with the crucial roles of expectations and of government policy. On this basis, I outline why MNEs have developed their strategies on the global stage, and why most of these driving forces remain in place. Hence, global strategies are likely to be pivotal in the post-recession economy.

My discussion of strategic responses proceeds in two steps. In section 4, I discuss how firms operating globally may respond to the stylized trends identified earlier, outlining both survival strategies, and strategic positioning for the next upswing. On this basis, I offer some specific suggestions for management practice in Section 5, elaborating on six general ideas: low cost retail, basic needs products and services, help customers save costs, help customers reduce uncertainty, career breaks, and entertainment. The latter parts of this discussion are necessarily somewhat speculative; my main aim is to initiate a forward looking debate, rather than to offer definitive answers.

Global Financial Crisis: Stylized Trends

The financial crisis originated from problems in the financial sector in the U.S.A. and the U.K.. At the core appear to have been unsound lending practices by financial institutions, notably in the private mortgage lending sector, and unsatisfactory risk management practices (Haldane, 2009; Stulz, 2009). In 2008, the contagion spread through the global financial sector affecting banks in numerous other countries, and causing an unprecedented credit squeeze as inter-bank lending came to a virtual hold. This in turn affected the real economy as businesses faced liquidity squeezes and consumers cut back their expenses.[2]

I do not intend to join the 'blame game'; rather I want to look forward to assess the likely impact on the real economy, and strategies that business may adopt during the crisis. To do this, we first need to understand what is happening in the key markets in which businesses operate. They vary across industries, and decision makers thus may want to do a similar analysis with the markets and moderators that are most relevant for their industry. Table 1a lists emergent trends in key markets and their immediate consequences; many of which are highly international in nature. Table 1b introduces two sets of moderating effects, expectations and government policy.

Firstly, the crisis in the financial sector has created an intensive credit squeeze in autumn of 2008 that drastically reduced credit available to the real economy. This credit squeeze has reduced the access to bank finance and thus ability of businesses to invest. Lower profits reinforce this shortage of financial resources as they reduce the ability to finance investments internally. The effects of the squeeze vary considerably across firm depending on their finance structure. Particularly hit are businesses relying to a large extend on banks for their financing, namely small and medium-size privately held companies; some of whom have seen their working capital credit lines cut and thus had to reduce the scope of their business, or even shut down. The credit squeeze also affects

[2] The contemporary discussion and analysis of the origins and spread of the crisis can be followed in Krugman (2008) or *The Economist*, see for instance: "Finance and Economics: Mortgage Lending (16.12.2006), "Briefing: Credit derivatives" (21.4.2007), "Briefing: Securisation" (22.9.2007), "Briefing: Northern Rock" (20.10.2007), "Briefing: The City of London's tumble" (1.12.2007), "Economic Focus: Same as it ever was" (12.1.2008), "Economic Focus: Chain of Fools" (9.2.2008), "Briefing: Wall Street's crisis" (22.3.2008), "Briefing: A short history of modern finance" (18.10.2008), "Briefing: Hedge funds in trouble" (25.10.2008).

entrepreneurs considering setting up a new business as all sources of new finance – both bank loans and venture capital – are more difficult to obtain.

Table 1a: Effects of the Global Crisis on Key Markets

Markets	Emerging Trends in Supply and Demand	Consequences for Businesses in the Real Economy
Finance (I)	Disintermediation in the banking sector created an intensive credit squeeze (less availability and higher costs). This is reinforced by fewer internally generated funds due to decreased company profits	Financial constraints on investments, especially for firms with higher financial leverage. Reduced wealth lowers spending.
Real estate & housing (D)	Substantive decrease in real estate prices in some countries.	Reduced private wealth reduces spending.
Corporate Assets (D/I)	Large decrease in the value of share prices	Reduced ability to raise finance, but opportunities to acquire businesses at reduced prices.
Consumer goods and services (D/I)	Slower world economic growth affecting in particular a) premium segments b) consumer durables c) investment goods d) international trade	Reduced demand and greater cost-consciousness of customers in both B2B and B2C segments.
Currencies (I)	Exchange rate realignments, and higher perceived exchange rate risks	Growth opportunities for countries with devalued currencies, Changes in pressures for offshoring, Advantages for those who can react flexibly, Increased costs and reduced availability of hedging instruments.
Natural resources (I)	Prices of natural resources, notably energy, have fallen from all time high, yet precious metals remain expensive.	Temporary relief from a much anticipated crisis.
Labour (D)	Increased unemployment weakens individual bargaining position, yet organized labour unions may gain influence.	Availability of labour increases, yet social issues associated with unemployment may cause disruptions.

Notes: I = primarily international markets, D = primarily domestic markets with considerable nation variation, I/D = varying degrees of internationalization of markets.

Secondly, asset prices have declined sharply. Initially, the burst of the housing market bubble in the U.S.A. and some other countries reduced the perceived wealth of private individuals. The subsequent decline of stock markets, the third effect in Table 1a, reinforced the decline in the values of privately held assets. Over the year 2008, stock markets fell (in local currency) by 35% in Britain, by 43% to 46% in the USA, Japan, France and Germany, and by over 60% in China and Russia.[3] The decline of these assets reduced the value of investment and pension funds, and thus private savings. The shifts in valuations moreover exposed fraudulent investment practices such as Madoff's Ponzi scheme. These effects combine to reduce the wealth held by private individuals, and thus their consumption. However, they also generate opportunities for those with cash reserves to acquire businesses at much reduced prices, similar to what happened during the Asian crisis of 1997 (Zhan and Ozawa, 2001).

Fourth, falling (nominal) wealth depresses consumer spending and thus market demand. Worldwide GDP growth has slowed from 5.0% in 2007 to 3.7% in 2008, and in January 2009, the IMF predicted to fall to 0.5% growth over the year 2009. Many advanced economies entered recession in 2008, and IMF forecasts for 2009 suggest *negative* growth of 2% for advanced economies as a whole. Meanwhile, developing and emerging economies slowed from 8.0% in 2007 to 6.3% in 2008 and are forecast to slow to 3.3% in 2009. These forecasts published in January 2009 were about two percentage-points lower than forecasts published in November 2008, an unusually sharp adjustment.[4]

The slowing of demand affects some industries more than others. During severe recessions, consumers focus on their basic needs, while cutting expenses for products and

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[3] *The Economist*: Economic and Financial Indicators (17.1.2009).
[4] International Monetary Fund (2009): *World Economic Outlook Update* (27.1.2009), http://www.imf.org/external/pubs/ft/weo/2009/update/01/pdf/0109.pdf

services higher up on Maslow's (1998) 'needs pyramid'. Thus businesses providing for example food and household goods at value for money prices are likely to find their demand to be fairly resilient. On the other hand recessions, tend to hit in particular premium brands as consumers switch to lower cost segments, and consumer durables, such as cars that are often purchased on credit and can easily be postponed.

The downturn that started in 2008 had also a strong effect on the demand for investment goods such as machinery and IT infrastructure. Many businesses (and some government agencies) have cut back their investment outlays, or postponed planned investment projects, because their ability to finance investments has been sharply reduced. This contrasts with other recent recessions when investment goods demand has been more resilient than consumer demand due to the normally long-term nature of investment decisions. It explains, in part, why countries the machinery industry in places like Germany is particularly strongly affected.[5]

These markets for premium segment brands, consumer durables and investment goods tend to be more international because these goods have high value relative to transport costs. In consequence, international trade has declined more sharply that domestic economic activity; many countries report sharply falling export revenues, and export-oriented businesses thus are particularly struggling with falling demand. In contrast to some commentators, I believe that the sharp drop in international trade is primarily due to the nature of products that are typically traded, and not (at least so far) due to protectionism.

[5] See for instance: Ralph Atkins (2009): Germany's Policy of Containment, *Financial Times* (6.4.2009). As a specific example, the German mechanical engineering industry reported a drop in new orders of 49% in February 2009 compared with the previous year. This included a drop of 45% for domestic orders and 50% export orders (*Frankfurter Allgemeine Zeitung*, Auftragseingänge im Maschinenbau halbiert, 1.4.2009).

Fifth, exchange rates have moved considerably during 2008, including a rapid depreciation of for instance the British pound and several East European currencies vis-à-vis their main trading partners in the Euro area. At the same time, the Euro remained strong, while the US$ recovered from a period of relative weakness. These changes are presumably driven by perceived investment risk, but they might help exporting businesses in countries with devalued currencies.

Sixth, commodity prices have declined from all time highs in 2008, which may provide a (probably temporary) relief of demand pressures in recent years that saw prices climb to unprecedented highs (Oil peaked at US$ 147 in July 2008, but declined to US$ 80 by October of the same year). At the same time, however, prices of precious metals like gold and titanium remain high as they are perceived to be stores of value in uncertain times. More fundamentally, the volatility of commodity prices illuminates the difficulties of predicting key economic variables even in the medium term, and thus the risks inherent in long-term investment decisions.

Finally, labour markets are affected indirectly. The credit crunch induced businesses in the real economy to lay-off staff, which resulted in substantial increases in unemployment in many sectors of industry. It also caused considerable anxiety among the remaining workforce. Both actual job loss, and the anxiety of possible job loss make consumers more risk averse and thus reduce their spending. Moreover, the rising unemployment in conjunction with an emergent capitalism critique might lead to stronger involvement of trade unions and other social organizations, and increasing the politisation of the labour market.

Expectations

Shifts in the patterns of demand and supply are however not the only way that the crisis affects markets (Table 1b). Possibly more important are the expectations of consumers and decision makers in business – both the real economy and the financial sector. Any economic decision is shaped by the decision makers' expectation of future states of the world. Expectations thus are a crucial transmission mechanism in economics (Dornbusch, 1976, Tanzi 1980, Krugman, 1991). In 2009, these expectations are characterized by a high degree of uncertainty. This is partly based on higher volatility of key economic variables, which results in an increase of financial and economic risk measures. Moreover, despite various bank bailouts, uncertainty persists with respect to the liquidity of major banks (Johnson, 2009). Beyond this, the awareness of the possibility of events not captured by conventional risk measures has been amplified, thus further increasing *perceived* uncertainty. Uncertainty in itself induces delays of investment decisions, and thus lowers their demand for investment goods and consumer durables. It is quite likely that higher uncertainty will be a persistent feature of the new economy.

Moreover, expectations appear to have a downward bias as a general "sense of fear" is pervading society, nourished by dramatizing accounts in the media, and exploited by short-term self-serving interest groups, such as tabloid journalists, opposition politicians and trade unions. Hence, the media's focus on worst-case scenarios and the personal stories of individuals particularly affected by the crisis has the effect of further lowering expectations, increasing uncertainty, and, possibly, encouraging fatalist attitudes. These expectations are likely to re-enforce reluctance to make commitments, which in turn leads to delays major investment and consumption decisions. The pessimistic reporting thus creates the danger of a collective paralysis that leads to a self-fulfilling prophecy.

Table 1b: Effects of the Global Crisis: Moderators

	Emerging Trends in Supply and Demand	Consequences for Businesses in the Real Economy
Expectations	a) Uncertainty regarding key economic variable, lower confidence in banks. b) A general sense of pessimism and fear regarding economic prospects	a) Delay of major investment decisions, withdrawal of funds from financial intermediaries. b) Delay of consumption and investment decisions, calls for government bail-outs, and danger of fatalism and economic paralysis.
Public policy	a) Fiscal stimulus policies b) Expansionary monetary policies c) Tighter financial sector regulation (likely) d) Protectionism within the constraints of WTO and other international agreements (possible)	a) Opportunities in sectors with increased demand from public sector (e.g. construction) b) Lower interest may reduce the cost of capital (if passed on through the banking system) c) Offsetting some of the increased risk in the financial sector and thus lowering costs of capital d) Increased costs of cross-border transactions in goods and services

Governmental Policies

Public policy has reacted to these dramatic developments by introducing very large fiscal stimulus policies, including a variety of measures aimed to stimulate demand, such as a drop of the VAT rate in the U.K, cash hand-outs to every resident in Japan, and bail out for a number of industries such as cars in for example the USA. At the same time, monetary policy has been expansionary, lowering interest rates to historically low levels. These policy responses are fundamentally different from, for instance, the responses in

1929 when tight fiscal and monetary policy magnified the impact of the financial crisis (Galbraith, 1955; Krugman, 2008, von Mehren, 2009).

Further important policy initiatives are expected to redesign the regulation of the financial sector. In essence, such regulation must establish that those taking decisions to bear risk, such as assessing a client's credit worthiness and approving a loan, also bear the costs should the loan not be repaid. This simple principle has however always been difficult to implement in practice; and the growing complexity of the interdependence of the financial sector make it even more difficult. Successful redesign of the financial sector regulation and restructuring of the sector are essential to re-establish trust in banks, and to ease the credit squeeze (Johnson, 2009). For example, great expectations are in the U.K. given to the "Turner Review" published in March 2009 and outlining avenues for reforming financial sector regulation and supervision (Turner 2009).

A third area of public policy that might have an important impact are policies affecting international trade. Although political leaders are publicly committed to free trade, considerable concerns exist regarding the credibility of such commitments.[6] Notably, some governments designed fiscal stimulus packages specifically to help domestic firms while limiting the benefits that might diffuse to their foreign competitors or suppliers. Also, some countries may be raising their tariffs where they are currently below the limits set by the WTO.

[6] For example, the group of Twenty Summit in November 2008 stated in their declaration: *"...within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods or services, imposing new export restrictions, or implementing World Trade Organization inconsistent measures to stimulate exports"* (UNCTAD 2009, p. 20).

Global Contagion

The trends in these markets are mutually reinforcing each other, potentially leading the world economy into a vicious cycle. The contagion appears to be world-wide. Reading newspapers from different countries suggests that most commentators believe their own country to be less affected than most, yet this is often self-delusion. Specific effects may have a stronger effect on some countries than others, yet a list of those most affected by various effects appears to include essentially all countries:

a) Economies with major problems in their financial sector, such as the USA, U.K., and Iceland.

b) Economies with particular strong housing bubbles that have burst, or may burst as the recession progresses, including the USA, U.K., Spain and Ireland. [7]

c) Economies where exports contribute a major share of GDP, and that traditionally had substantial trade surpluses, such as Germany, and many Asian economies such as Hong Kong, Singapore and Taiwan.[8]

d) Economies with high external finance requirement in terms of both public and private debt, notably some countries in Central and Eastern Europe as well as South Africa, South Korea and Vietnam, yet not other Asian economies.[9]

e) Economies with 'small' currencies that are perceived more risky as investors opt for traditional reserve currencies like the US$, which affects for instance non-Euro European countries and some emerging economies (though a devaluation may provide advantages in lifting export performance).

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[7] *The Economist*: "Economic Focus: Same as it ever was" (12.1.2008).
[8] *The Economist*: "Asian Economies: Troubled Tigers" (29.1.2009).
[9] *The Economist*: "Economic Focus: Domino Theory" (28.2.2009).

f) Economies, where manufacturing of investment goods, consumer durables or premium segment brands contribute a particular high share of GDP, including notably West European economies.

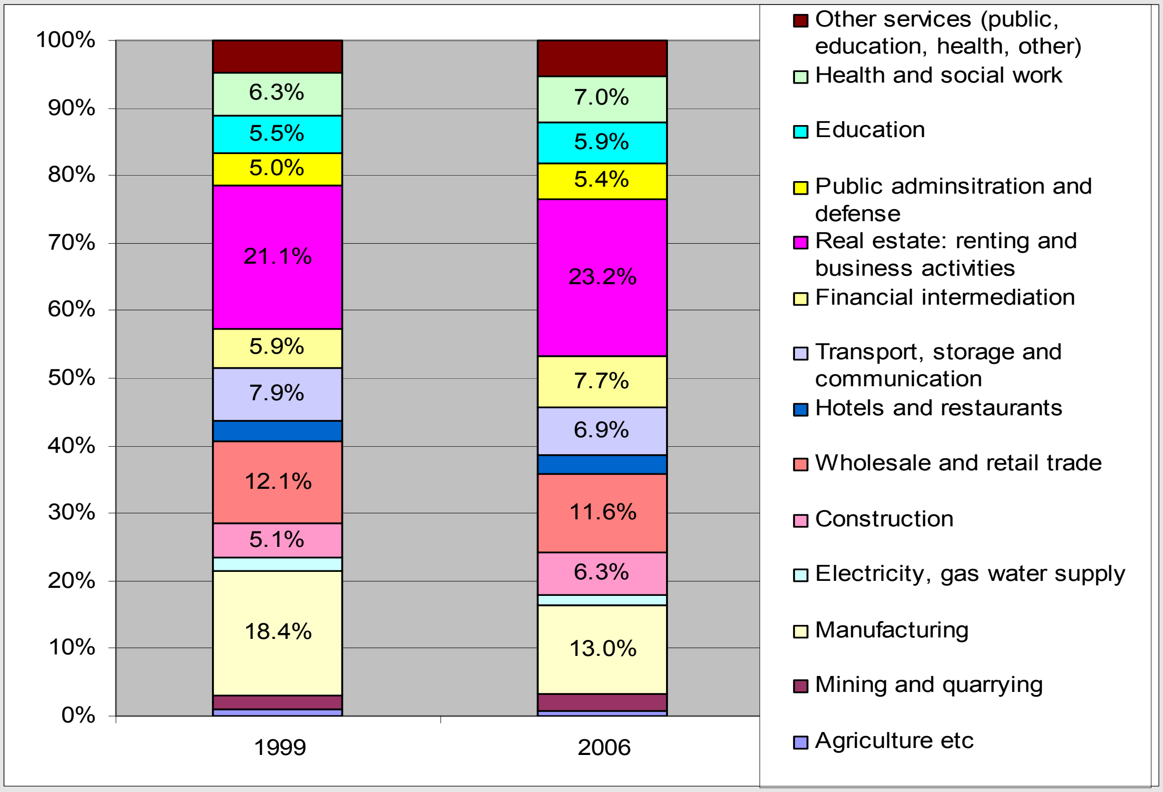
How can businesses, especially MNEs, react to these challenges? Before addressing this question, I shall outline the positions that MNEs start from, which are the results of the globalization of their business strategies over the past two decades.

Box 1: The Case of the U.K.

What does all this imply for the U.K.? With a large bubble in the housing market and severe problems in indigenous banks (especially mortgage lenders), the U.K. started the recession from a position of weakness. Moreover, the U.K. economy is unusually reliant on the finance, real estate and construction sectors, which contributed 7.7%, 23.2% and 6.3% of GDP in 2006 (Box Figure 1) and have grown further since. Yet, these sectors face the most drastic decline in the short run, and their future is highly uncertain. On the other hand, the share of manufacturing has fallen from 18.4% in 1999 to 13.0% in 2006, and British firms are often positioned in premium segment likely to be especially hit by the recession (Diageo, Cadbury and other brands).

The basis of industries that may benefit from the next upswing is thus comparatively narrow, including a small number of technology leaders in niche segments such as Rolls Royce for jet-engines. In addition, there may be potential in creative industries and services related to education, entertainment and tourism, all of which benefit from existing professional competences, relevant infrastructure, cultural diversity and the world-wide appeal of the English language.

Box Figure 1: UK GDP by Industry



Data Source: Office for National Statistics: United Kingdom National Accounts: The Blue Book, 2008 edition.

U.K. exports benefit from the drastic depreciation of the British pound vis-à-vis its main trading partners by about 25% over 2 years. Fiscal policy has been particularly expansionary in ways that may stimulate consumer spending (e.g. the VAT rebate), yet elsewhere budgets have been cut thus delaying investment for example in infrastructure. In my view, however, getting the banks back on their feet – and thus reorganizing financial sector regulation – is pivotal for restarting the U.K. economy. Moreover, U.K. policy makers have yet to recognize that the current recession constitutes a structural break, and that they may have to strengthen the U.K.'s small basis in industries with potential to flourish in the new economy that will develop with the next upswing.

Global Strategies

Advantages of Global Strategies

Global strategies enable MNEs to create and exploit competences that provide competitive advantages over domestic firms. These opportunities arise from the exposure to a diversity of markets, resources and regulatory regimes as companies create linkages across locations to develop unique capabilities (Ghoshal, 1987; Meyer, 2009). Such linkages benefit not only large MNEs but also medium-size firms, for example German SMEs leading in global niche markets (Simon, 1996; Venohr and Meyer, 2009). John Dunning, a leading scholar of MNEs, summarized their role in the global economy as follows:

> *"[The current] global economy is essentially distinguished from its predecessors by a series of momentous changes in the world economic and political scenario; by an extremely rapid pace of scientific and technological development; and by a range of dramatic advances in IT and organizational methods. Between them, these events are fundamentally altering the structure and organisation of production and the transactional relationships between firms. At the same time, MNEs are becoming increasingly aware of the need to be responsive to the local supply conditions, social mores, institutional systems and markets of the countries in which they operate, and how these, in turn, may be used to strengthen their own … resources and capabilities" [Dunning and Lundan, 2008, p. 739].*

There – at least – five types of capabilities that can be created by MNEs operating on this global stage. These remain in place, despite the global downturn (Table 2).

Table 2: Competitive Advantages of Global Specialists

Variable	Benefit	Benefits during the Crisis
Economies of Scale	Cost reduction	Likely to increase in importance
Supply chains	Cost reduction and enhanced flexibility	Likely to increase in importance
R&D	Enhanced speed and quality of innovation	Basic rationale remains unchanged
Knowledge exchange	Enhanced innovation and flexibility	Basic rationale remains unchanged
Global customers	Servicing an important customer group	Basic rationale remains unchanged

1. ***Global scale***. Greater economies of scale can be attained by supplying multiple national markets from one site, thus reducing costs of, for instance, product development, production and distribution networks. Global scale moreover enhances bargaining power vis-à-vis suppliers and other business partners. If the economic crisis shifts consumer demand to value-for-money products and services, cost savings from scale economies, they would become even more important.
2. ***Global supply chains***. Firms can exploit comparative cost advantages across locations by disaggregating production and sourcing operations across different locations. This allows them to arbitrage even small differences in costs, especially for labour and raw materials. It may also enhance flexibility allowing smooth shifts between alternative sites for production and for sourcing. Both of these capabilities are likely to be even more important in price-driven competition.
3. ***Global R&D***. Integration of research and development (R&D) sites round the world allow access to a diversity of talent and knowledge clusters, and interaction with the most innovative customers, suppliers and researchers. Recently, the annual '*Global*

Innovation 1000' report by Booz & Company (Jaruzelski and Dehoff, 2008) highlighted these contributions of global R&D. Notably, the report suggests that international linkages, rather than increased R&D spending per se, contribute to improved corporate performance.

4. ***Global knowledge management***. The exchange of operational knowledge, experience and competences linkages across operations and locations are a potential source for innovations and new competencies. By creating and sharing databases and human capital across operations firms thus create a global knowledge pool that can support each individual operation. For example, creative ideas on how to address the challenges of the economic crisis may quickly be transmitted and redeployed around the world.
5. ***Global customers***. Businesses serving other businesses often work with customers that themselves have a global scope of operation, and expect delivery of the same product or service at multiple sites. Firms with global distribution networks and production sites in many business hubs are often better positioned to supply these key account customers, for example in the automotive sector.

Any of these international linkages provides multinational enterprises with opportunities to create and exploit resources. Global operations enable MNEs to create business models that integrate operations at different locations worldwide. Corporate capabilities, especially human capital and communications infrastructure, have been designed to create and exploit global linkages. These companies have made interaction across borders an integral part of life for individuals across the organization. Compared to domestic competitors, they have potentially stronger operational capabilities, and more markets in which to exploit them.

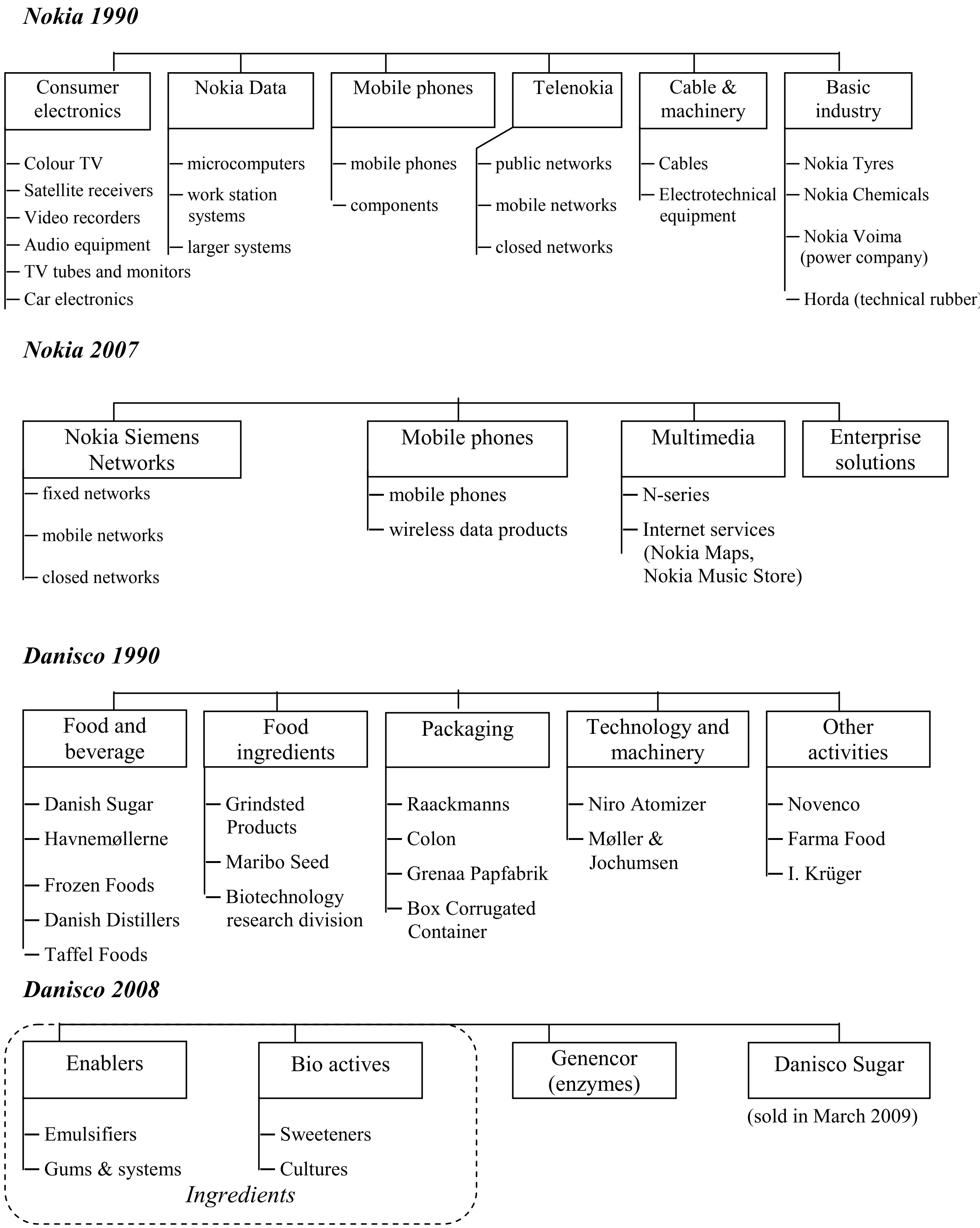
Single country operations cannot realistically replicate the cost and dynamic advantages of an operation integrating multiple locations (Buckley, 2009).

Globalfocusing

The merits of a global strategy have, over the past two decades, induced many companies to shift their scope towards global niche strategies. For example, Nokia has as recently as the early 1990s been an industrial conglomerate in Finland to which the mobile phone business generated merely 11% of the revenues (Figure 1). Nokia quite literally 'hit gold' with its mobile handsets and focused its resources on exploiting this goldmine, selling its other business units along the way. Nokia has grown its competences in mobile telephony and is exploiting these competences increasingly in related communications devices (Meyer, 2009).

The phenomenon is equally common among medium-size companies, especially in business-to-business markets. For example, Danisco A/S, a Danish conglomerate in the food industry, has over the past two decades gone through several phases of restructuring selling peripheral business units, while acquiring businesses that strengthen its core. Waves of rapid restructuring were followed by periods of organic growth, until such growth necessitated redefinition of the core. In consequence, Danisco sold its erstwhile largest business unit, Danisco Sugar, in March 2009 to focus entirely on food ingredients.

Figure 1: Nokia OY and Danisco A/S 1990-2008



Many major European conglomerates restructured in a similar direction, though rarely as radical as in these two case examples (Meyer, 2009). Companies that strengthened their core along with divestments include BASF, who divested its pharmaceuticals unit, Siemens who divested many of its IT-related businesses, and Philips who divested 25 businesses in 1998 alone. Other conglomerates, such as British Cadbury-Schweppes and Danish Novo Nordisk split themselves into two independent companies. However, implementing such a global strategic change is subject to substantial operational risks, as illustrated by the experience of the Daimler-Chrysler merger, and demerger.

Conglomerates become focused but highly international organizations that resourced their international growth in part been the sale of other business units. Thus, globalization has changed corporate strategies. In the 1980s, firms may have had a choice between being a domestic, diversified powerhouse and a global niche player. At the onset of the 21st century, they no longer had that choice (Meyer, 2006). Globalisation has created an integrated competitive landscape, where (almost) every firm competes with any other firm that happens to offer similar products or services.

Impact of the Downturn on Globalization Drivers

Principally, these advantages of a global operation continue to apply during the recession. The first two advantages, in fact, are likely to become more important when competition shifts from brand image to cost effectiveness. Both, scale economies and efficient global supply chains enhance an organization's ability to withstand intensified cost pressures. The resource-constraints of the recession may limit firms' ability to build new global capabilities, yet firms that have built such capabilities are now in a good position to exploit them. Hence, while certain countervailing costs and risks may increase, the fundamental arguments for a global strategy remain in place.

This is evident when reviewing the processes that over the past three decades have led to the acceleration of globalization. The process had been driven by complementary external and internal forces: technological advances, market liberalization, financial markets, and managerial leadership (Table 3). These pressures tend to be reinforced by the competitive interaction within industries.

Table 3: Driving Forces of Global Strategies

Variable	**Recent Trends**	**Likely Effect of the Crisis**
Technological advances	Cost reduction for communication and transportation, rapid pace of product innovation	Basic trend remains in place, possibly at slower pace if R&D budgets are cut.
Market liberalization	Reduction of tariff and non-tariff barriers	Political leaders publicly committed to sustain liberalization, yet dynamics of domestic politics may cause protectionism.
Financial markets	Pressures for strategic focus as financial investors could diversify financial risk themselves	Pressures for focus might ease as benefits of (moderate) diversification are more appreciated
Corporate leadership	Widening of competencies, cognitive horizons and experiences of business leaders	Managerial competences in managing on the global stage remain in place.

Technological change has been driving globalization by dramatically lowering the costs of communication and transportation, thus enabling strategies that were unthinkable only a few decades ago. The interconnectedness of businesses around the world is only feasible because goods, people and information can be moved across locations at reduced costs: a) the transfer of goods has been facilitated by lower costs of freight, by air transport replacing land-based transport, and by modern logistics; b) the transfer of people has been facilitated by reduced cost of air travel and – in many countries – better road and rail networks; c) the exchange of information has been transformed by communication technologies such as e-mail and the Internet.

These technological advances distinguish the most recent wave of globalization fundamentally from earlier episodes of globalization. While international trade accounted for comparable levels of GDP at the end of the 19th century, the current globalization has created far more intensive inter-personal interaction between businesses and between individuals across the globe. The technologies that make this interaction feasible are here to stay, as are the human resources that created them.

The institutional frameworks of most countries have evolved to enhance the efficiency of markets, including the continuous reduction of tariffs and non-tariff barriers to international trade and investment. Such liberalization lowers the costs of moving goods and people across borders, and thereby creates opportunities to create business models that coordinate and integrate geographically dispersed operations. These changes in institutional frameworks have contributed to changes in the scope of companies. With liberalization foreign entrants are likely to create competitive pressures on local firms to adapt organizational structures and strategies. The global downturn does *per se* not change the arguments for liberalization, or for business to pursue growth in liberalized markets. Yet, the continuation of this globalization driver is contingent on national government policies, and the credibility of commitments not to reverse policies implemented in the past.

Financial markets are an important mediator between competitive pressures and corporate change. The liberalisation of financial markets in recent decades has made it easier for financial investors to cross national boundaries, while many once privately held business groups have been floated on the stock markets. At the same time, business leaders have become more closely tied to share prices through, for example, stock options. Financial investors thus have been able to increase their leverage over managerial objectives. A widespread belief in the financial investment community thus suggests that conglomerates trade at a discount. Recent research sheds doubt on the prevalence of such a discount (Campo and Kedia, 2002); in fact some studies outside Anglo-American countries find group affiliated firms to benefit from a 'diversification premium' (Kogut et al., 2002; Khanna and Yafeh, 2007). Such evidence may have eased pressures to focus in recent years, yet the belief still appears widespread.

In view of the financial crisis, financial management professionals may reassess their views of the efficiency and liquidity of financial markets assumed in economic models and in the tools used financial market analysts (Stulz, 2009). In particular, the handling of uncertainty (the 'unknown unknowns') has to be reassessed. It is hard to predict in which ways such a rethinking would impact on preferences of financial investors. However, it is likely that the pressure for narrow focus may ease because in volatile times agility and absorption are of paramount importance (Sull, 2009), both of which tend to be larger in moderately diversified businesses.

Corporate strategies are designed and implemented by leaders at the helm of an organization. The competences, experiences and mental models of these decision makers thus play a crucial role in shaping strategies (Hambrick & Mason, 1984; Lyles & Schwenk, 1992). Globalization has changed this knowledge-base of top managers. The new generation of business leaders has often been trained in business schools outside their own country, and thus has wider experience horizons and better understanding of international business opportunities while facing lower cognitive barriers. They are thus better equipped to recognize business opportunities for efficiency improvements and growth through foreign market entry or integrated global operations. In consequence, cognitive barriers and the lack of knowledge that inhibited internationalisation in the past no longer apply in the 21st century. Globalisation has shaped the competences that top managers can contribute to their job, and these competences are here to stay.

None of these globalization drivers are directly inhibited by the financial crisis as outlined in section 2. With fewer resources available to invest in the development of new capabilities or markets, they are unlikely to accelerate. Yet, they should equally unlikely be reversed. A possible exception is market liberalization, where the potential for protectionism poses considerable threats, at least temporarily. The persistence of the benefits and most of the drivers of global strategies suggests the first lesson for business: *In the long term (i.e. when economic recovery takes off), global strategies are likely to provide a competitive edge*. Decision makers ought to keep this firmly in their mind when they contemplate reactions to the short term threats.

Business Strategies for Crisis

Having established that the case for global strategies remains in place, I shall next discuss how businesses may handle the imminent threats of the downturn as outlined in section 2. This section thus brings the two elements of the analysis together, and presents some – very preliminary – indications on what business strategies may address the challenges of the global financial crisis. The main focus of this discussion are firms operating internationally, if not globally.

Table 4a: Opportunities for Global Firms: Markets Trends

Markets	Survival Strategies (short-run)	Strategic Positioning (long-run)	Challenging decisions
Finance	Retain cash flow to enhance flexibility. Sell peripheral businesses to increase financial resources	Opportunities for those with cash reserves to acquire businesses with liquidity constraints.	Trade-offs between short-term liquidity constraints and long-term strategic investments.
Real estate and housing	Avoid high leverage to reduce risk of negative equity.	Acquire real estate at much lower prices	Will housing prices drop further? When is the right time to buy?
Corporate assets	Avoid high leverage to reduce risk of bankruptcy.	Implement strategic change that had been inhibited by organizational inertia before the crisis. Acquire assets at much lower prices.	Will share prices drop further? When is the right time to buy?
Consumer goods and services	Opportunities in niches likely to be resilient during the crisis	Position the business in segments with growth potential in the long run. Develop new business models for the new economy.	Trade-offs between short- and long-term market positioning
Currencies	Flexibly shift operations to countries with devalued currencies.	Retain operational flexibility to react to future exchange rate re-alignments.	How much to base investment decisions on current exchange rates?
Natural resources	Smoothen the phase-out of energy and resource intensive technologies	Continue to adapt to in the long-run likely higher resource costs.	How much advantages are to be gained by energy and resource saving technologies?
Labour	Downsize non-essential labour.	Retain labour that is essential for long term strategies. Train and engage staff to build a loyal workforce for the next upswing.	How to afford keeping people on the pay-roll when demand is low?

From a strategic management perspective, the global crisis represents a 'structural break', that is a moment in time when the basic trends and patterns of the business environment are likely to change in many industries. This creates both challenges and opportunities for businesses to create new strategies and business models based on a comprehensive reassessment of all strategic parameters (Rumelt, 2009). In the short-run, survival strategies have to address immediate threats, and may exploit temporary opportunities. In the long-run, companies have to positioning themselves strategically for an upswing in a 'new economy' that may be very different than the recent economic boom (Table 4a/b).

Thinking Strategically

The scarcity of financial resources impedes firm's ability to undertake major investments. A major priority for many businesses thus is to secure their cash flow, to reduce creditor risk, and to retain liquid assets. Yet, at the same time, cash-rich firms may face unexpected opportunities acquire other businesses at depressed share prices, notably businesses face liquidity problems. Moreover, the relative inactivity of private equity during the crisis may enhance the bargaining position of strategic investors in the 'real economy'. A critical decision for businesses contemplating M&As as well as individuals contemplating buying a home is the timing of their investment. Ideally, they would want to buy at the bottom of the market. However, there is no way of knowing when this bottom is reached. In fact, when a broad consensus suggests that the bottom has been reached, this will impact on expectations and thus bring buyers back to the market, which in turn will drive up prices again.

Taking a long-term perspective, companies that have cash reserves at this time may use this to implement long-term restructuring plans to restructure their organization and to reposition themselves into markets that are potentially attractive in the longer term. Yet, such strategies are only feasible for firms that have retained or rebuild their financial resources, which are a foundation for both handling adverse events and for moving smoothly when opportunities arise. MNEs with access to multiple national capital markets may be in a stronger position to achieve this.

Market growth is likely to be slow in many industry segments that are affected by falling consumer spending and business purchasing. In the short run, growth may be strongest in consumer goods markets serving basic needs and for services helping others to reduce their costs, or manage their risk. In the longer run, the next upswing is likely to be associated with new technologies and business models. Far-sighted business leaders need to anticipate these growth potentials to position their organization in good time to be prepared. This concerns the identification of technologies, market segments and business models, as well as the prioritization of national markets with the highest growth potential. In the next section, I discuss these ideas in more details.

Exchange rate movements may in the short run possibly trigger relocation to Eastern Europe or repatriation of activities in the U.K. Yet, in the long term, the US$ may not remain as strong given the twin deficits in the U.S.A. (trade and budget), dependence on imported raw materials and a shaky banking sector, while the Chinese Yuan in particular may appreciate due to the relative weakness of its main trading partners. Thus, exchange rates remain highly instable and difficult to forecast. MNEs' long-run strategies thus need to retain or create an operational flexibility to readjust to future exchange rate movements.

Lower commodity prices benefit businesses mainly by easing the pressures to restructure that have arisen in the two years before the crisis. However, some prices remain high, notably precious metals which are critical in certain high tech products such as mobile phones and jet engines (for instance those manufactured by Rolls Royce). Long-run strategies thus need to consider the fundamental pressures that drove up prices in the first place, such as environmental costs and the increased demand from India and China. Thus, energy and resource-saving technologies are likely to continue to be in high demand. Businesses thus have to continue to adapt to what in the long-term will likely be much higher resource costs, and develop technologies to economize on these scarce resources.

With respect to labour, many businesses face challenging decisions. On the one hand, financial constraints and falling demand suggest downsizing the workforce. This may be an opportunity to streamline the organization and cutting excessive slack. However, for many companies their workforce is (one of) their most valuable resource, and once dismissed the human capital embedded not just in individuals but in teams risks getting lost. This would undermine their long-term competitiveness. Hence, companies ought to think forward and retain and in fact upgrade the workforce that shall carry the company into the new economy. Supporting your own people in difficult times enhances their loyalty in the long run.

Table 4b: Opportunities for Global Firms: Moderators

	Survival Strategies (short-run)	Strategic Positioning (long-run)	Challenging decisions
Expectations	a) Opportunities for those with organizational flexibility to react to uncertainty b) Opportunities to move while pessimists others fear to invest.	a) New management practices may evolve that strengthen capabilities of flexibility and risk management. b) Act strategically while others think short-term.	How to increase flexibility while credit lines are tight? How to be an inspirational leader in times of pessimism?
Public policy	a) Opportunities for sectors targeted in stimulus programmes or subsidies b) Lower interest rate create opportunities to raise capital c) Financial re-regulation should reduce high costs of capital d) Protectionism may create opportunities to enter protected segments.	a) Build capabilities for long-term competitive advantages b) Invest in real assets protected from the threat of inflation c) Build solid banks using 'old-fashioned' banking principles d) Don't expect long-term prosperity in niches creates solely by protectionism	How to predict what governments will do next?

The perception of uncertainty provides competitive advantages to those that are most flexible to adapt, possibly repeatedly, to a rapidly changing business environment. Agility thus becomes a key parameter of corporate strategies, at least in the short run, but probably also in the long run (Sull, 2009). However, the general mood of pessimism in the population is further depressing demand, which is hard to turn into anyone's strategic advantage. Those who are less pessimistic, let alone fatalistic, may be able to take strategic decisions that strengthen their position in the long run. May be, the only advise would be to place the most fatalistic staff first when it comes to downsizing a labour force (but this should not be confused with stifling critical discussion that is a useful source of creativity – and creativity is more than ever required to create new strategies and business models).

Government policy intervention is creating specific opportunities for sectors favoured in fiscal stimulus programmes or protection, which likely vary considerably across countries. In many cases, increased government investment may benefit for example the construction sector, 'climate change' causes and the vocational training; in other cases subsidies help politically influential but declining industries. Yet, if businesses in these sectors expand, they need to be aware of their dependency on government spending, which is likely to be reduced once the general economic upswing arrives. Recall the German recession of the mid 1990s when the construction industry suffered from its overexpansion during the government-spending driven post-unification construction boom in Eastern Germany. Strategically thinking managers thus ought to use temporary available support to build long-term capabilities.

Opportunities

The shifts in the business environment suggest that we see a structural break in the global economy. Yet, the nature of this structural break is not yet known, and it is almost impossible to forecast. However, three major themes emerge from the discussion of the consequences for business strategies, and they merit further exploration: a) opportunities in niche markets likely to be resilient to the crisis, b) strategic and organizational flexibility to react to changes in the environment, and c) opportunities for restructuring to position the firm for the new economy evolving after the 'structural break'. This section explores these themes, primarily in a brainstorming style, and thus generating ideas rather than offering definitive answers.

Market Opportunities during the Recession

Identifying markets that are likely to be resilient and potentially growing during the recession requires analyzing what people and businesses are likely to do *more* during the recession. This leads to several general ideas that may be applicable to a wide range of businesses (Table 5).

Table 5: Market Opportunities during the Recession

Opportunity	Examples	Challenging Decisions
Low cost retail	Discount supermarkets for food and clothing.	Is it worthwhile going downmarket, thus taking the risk of downgrading the brand?
Basic need goods	Non-branded consumer goods, foods	How can we innovate to deliver essentials at lower costs?
Help customers save costs	IT system providers, energy saving technologies	How can we convince customers that now is a good time to invest?
Help customers manage uncertainties	Risk sharing contracts	How can we assume risk on behalf of customers when credit is scarce?
Career breaks	Education, especially post-experience programmes, gap year travel, social work	How can we invest in new programmes when budgets are tight?
Entertainment	Domestic tourism, home entertainment, take-away food, sports	How can we develop budget services that fir current budget constraints but can go upmarket when the economy picks up?

The most evident growth potential exists in the low price segment as many consumers shift from premium brands to budget substitutes. Consumers will always need to satisfy their basic needs, and during the recession they do so with tighter budgets. Evidence of such a strategy exist in business history. For example, *Marks & Spencer*'s grew its turnover from £1.3 million in 1927 to £6.9 million in 1932, while pre-tax profits rose from £75,000 to £670,000 over the same period. Their recipe for success was to apply rigorously the latest ideas of cost focus and supply chain management: Setting a 5 shilling ceiling, M&S focused on providing good value for money. This was achieved by cutting out the wholesalers and developing long-term cooperative relationships with manufacturers - who were offered bulk sales in return for lower prices. Moreover, *M&S* had a simple stock control policy that was innovative in Britain at the time, and was inspired by the latest American practice at the time. For instance, *M&S* concentrated on the most popular lines, and the best-selling colours, sizes, etc. within those lines.[10]

Contemporary evidence of similar strategies exists in the low price section of the retail sector. For instance, in the U.K., ASDA, Primark and the German newcomers Aldi and Lidl, have been reporting substantial sales growth. Similarly, in the USA, 'dollar stores' have been reporting substantial revenue and profit growth in 2008. Also some players in the middle segment report sales and profits that are resilient to the downturn, for instance 'affordable fashion' retailer Zara and retail chain Sainsbury's.[11]

Budget conscious consumers are also likely to buy items second hand, suggesting brisk trading in such markets both on the Internet and in traditional formats. Relatedly, consumers delaying big-ticket expenses – such as cars, washing machines or kitchens – may require more maintenance of their existing one, creating opportunities for spare parts and repair businesses.

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[10] The M&S example is based on e-mail correspondence with Prof Peter Scott at the University of Reading, February 2009.

[11] *Financial Times*: "Inditex chief tailors its strategy" (26.3.2009), *The Guardian*: "Sainbury's chief of staff Justin King wears his service medal with pride" (27.3.2009).

Not only retailers, but also manufacturers may adopt strategies of 'value for money' with low costs based on scale economies. This may involve innovations that aim not at advancing new technologies, but at modifying products, production processes and business models to deliver almost the same level of benefit to customers at much lower costs (Williamson and Zeng, 2009). Historically, companies like GE, Kellogg and P&G grew by delivering basic qualities at lower costs than their rivals. In 2009, however, many of the companies serving the value for money segment are either sourcing from emerging economies, or originating in emerging economies. In fact, emerging economies like China, India and Brazil have seen over the past decade or so a fast growth of mass consumer markets with comparatively standardized products at low prices. Local businesses and some MNEs, such as Unilever, have developed business models specifically for this budget segment. Willamson and Zeng (2009) thus recommend that businesses in Europe or North America partner with businesses in emerging economies, but not, as was traditionally the case, to target emerging economy markets, but to join forces in targeting the budget segment in mature market economies.

Business-to-business markets are likewise affected by tighter budget constraints, as the credit crunch induces cuts in non-essential purchases. This has grave consequences for service providers such as external consultants. If, for example, IT budgets are cut by 25%, while 70% of the budget is spend on maintenance, then only 5% of the budget are available for new acquisitions of hardware or software. Thus, opportunities for IT service providers are very limited unless they can offer services that help their customers to save IT maintenance costs, or costs elsewhere in the organization. Similar cost-saving motives have enabled catering service providers to report brisk business as more firms outsource their lunchtime meal provision.[12] More generally, business-to-business suppliers may find increasing demand for services or products that help customers to lower their costs.

An additional obstacle to major purchases is often the risk of adverse events during the life time of the item that may affect the value of the item, or the buyers ability to pay for it. For example, people worried to loose their job are likely to postpone buying a new car, especially if they need to finance it with a bank loan. If sellers can help managing this risk, this may ease purchasing decisions. For example, Hyundai USA generated considerable attention – and sales – by offering to buy back cars if customers within a year of the purchase lost their job. Effectively, Hyundai offered an insurance policy along with the purchase of a car. While this needs to be factored into the purchase price, this approach helps customers managing the investment risk. More generally, the principle of sharing risk with customers may provide opportunities for business, though it needs to be balanced with the credit risk thus assumed on behalf of the customer.

An industry that tends to be fairly resilient to economic downturns is entertainment. People may spend less on long distance travel and expensive days out, but they are substituting such activities by domestic travel and stay-at-home entertainment. This creates opportunities for local and regional tourism destinations, as well as all businesses that provide for an enjoyable day at home, or nearby, with family or friends. A wide range of industries may try to tap into this opportunity, including sports (both spectator and participant), video games, children's' toys, take-away and ready-to-eat meals (substituting for days eating out), beverages (invite your mates home rather than to the pub), as well as gardening and do-it-yourself home improvement. Initiatives in these sectors would, in the

[12] *Berlingske Tidende*, "Kantinebranchen vokser under finanskrisen" (28.3.2009).

short run, need to account for tight budget constraints as entertainment seekers emphasize value for money.

Many people wish to use their involuntary career break (less fashionably known as unemployment) in a useful way. Thus, reportedly, exotic locations around the world see large numbers of city traders enjoying a modern form of gap year. Business opportunities thus arise for those who can facilitate such travels as travel agents or tour operators. Similarly, people may wish to spend their career break doing charitable work for the local community, or in deprived regions of the world. Others may wish to invest in their own future and enrol for education programmes, especially mid career programmes (such as MBA), and career preparing programmes (such as MSc). Those offering higher education, in particular universities and vocational schools, thus face considerable opportunities to upgrade and upscale their programmes. However, they would have to react flexibly to design and implement new programmes, including the necessary hiring of staff and provision of teaching facilities. Given the bureaucratic nature of traditional universities and the regulatory authorities monitoring them, this creates formidable opportunities for niche players and private universities.

Flexibility in Decision Making and Implementation

The rapidly changing and hard to forecast environment favours those who can react flexibly to changing trends. The first pre-condition for being able to react flexibly is to retain cash reserves that can be invested when opportunities arise. Moreover, in this downturn, the lack of liquidity appears to be a more common cause for companies to fail than lack of profitability. This creates challenges to balance the need for cash flow with retaining resources and investing in new opportunities. Difficult choices arise, for example, for decisions such as paying dividends and share buy-backs. The imperative of retaining cash flow suggests not to pay dividends or to buy back shares at this time, even if the business is profitable. Financial analysts may interpret a lack of dividends as sign of weakness and thus advise to the contrary. However, given the economy-wide shortage of credit, I would suggest that keeping cash in-house shows foresight in view of opportunities in a rapidly evolving business environment, and financial analysts ought to rethink what provides an organization with a basis for survival and sustainable growth at this time.

Table 6: Organizational Flexibility

Strategy	Objective	Challenging Decisions
Manage cash reserves and slack as a strategic reserve	Enable quick and decisive action when threats or opportunities emerge	To pay dividends and buy back shares,or not? What is the right opportunity to spend the carefully accumulated reserves?
Be pro-active in information scanning and processing	Decision makers need up-to-date information at all times	How to process vast amounts of information speedily and effectively?
Scenario planning	Understand possible future developments in your industry	What are the key dimensions along which to develop scenarios? How far to push the scales?
Design organizational structure and culture for flexibility	Enable the organization to implement strategic changes quickly when required	How to teach old dogs new tricks?

A second requirement for flexible decision making is up-to-date information. Corporate planning based on data generated at the beginning of a financial year is not sufficient to react to continuously evolving opportunities and threats in a volatile environment. Thus, companies need to ensure that they quickly obtain latest data, e.g. on sales, and be prepared for multiple possible developments. Thus internal reporting systems as well as tools to analyse external trends are more important than ever, and executives ought to talk extensively with their business partners to spot emerging trends. In fact, crucial information is often qualitative, e.g. ideas, that can not be operationalized in the normal way for internal reporting purposes. Moreover, companies may consider adopting 'rolling forecasts', i.e. frequently update the normally annual production of forecasts.

Companies may also make greater use of 'scenario planning' as complement to financial forecasting models. Forecasting generates a point estimate of a likely future state of the world, along with a range ("confidence interval") in which the actual outcome will be with, say, 95% confidence. In a stable environment, such forecasts provide a reasonably good guidance for decision makers, yet the precision of point estimates can be misleading. In particular, such forecasts do not capture structural breaks or turning points in data series, and they provide little insights into the range of possible developments.

Scenario approaches emphasize uncertainty and the range of possible outcomes, and thus helps to prepare contingency plans. However, they may have been underrated in business school curricula. My quick review of 15 strategic management textbooks suggests that scenario techniques may not be part of standard strategy courses as six books have no entry for scenarios in the index, and only two spend more than five pages on the topic (Henry, 2008; De Wit and Meyer 2004).

Scenario planning brings together a diverse set of experts and have them speculate about the future, generate ideas, and then to condense these ideas into 'scenarios' capturing key variations. At the first step, the experts would discuss the dimensions that they believe to be most crucial for shaping the future of the industry. Different combinations allow envisaging possible future states of the world that are then filled in by the experts. For example, Bryan and Farrell (2008) provide possible scenarios for the world economy in 2009/10 along the dimensions of “severe versus moderate global recession” and “global credit and capital markets reopen and recover versus close down and remain volatile”. The process of decision makers discussing the scenarios with outside experts is often considered as important as the written-up scenarios as it provides them with insights into the factors likely to be important in the future (Shoemaker, 1995; Wilson, 2000; Courtney, 2001). These scenarios provide a basis for developing contingency plans that may be implemented when certain events happen or benchmarks are reached. Contingency plans allow preparation for both offensive as well as defensive actions, and may address questions such as, what acquisitions might be attractive on what terms? What new products might be launched under different scenarios? Which conditions would trigger a market exit, and how can an exit be managed while minimizing losses? Equally important to the specific contingency plans is that scenario planning creates a mindset aware of the nature of uncertainty, framing the future as in terms of possibilities rather than probabilities.

To move quickly from planning to implementation, an organization needs appropriate organizational structures and practices of change management (e.g. Johnson 1987; Stopford and Baden-Fuller, 1994; Sull, 2008). This theme goes beyond the scope of this paper. Suffice it to say that the ability to quickly shift resources out of less promising businesses into more attractive opportunities is essential exploit emerging market opportunities. Thus, employees throughout the organization need to be aware of the need for flexibility, and be able to quickly grasp how and why change has to happen, to recognize the opportunities as well as threats of a situation. Young, entrepreneurial firms are typically quite agile, while large mature companies find it often more difficult to retain their agility, and may need to take specific initiative to revive their agility (Sull, 2008).

The external treats may make it easier to implement organizational change, as they can reduce organizational inertia. The transition of Central Eastern Europe in the 1990s provides interesting precedents: Organizational change could be implemented more easily under radical environmental change, but only up to a point – if business leaders lack templates to follow and the gap between desirable and actual operations is too big, the organization may in fact not engage in change at all. On the other hand, the societal change often helped creating an internal awareness for the need to change, leading to mutually reinforcing change process (Newman, 2000; Meyer and Peng, 2006; Dixon, Meyer and Day, 2007).

Long term restructuring: In search of the new economy

A structural break presents an opportunity for strategists to design entirely new strategies (Rumelt, 2009). The successful design of a new strategy however requires a vision of what the new economy may look like, and where the business ought to be positioned within this new economy. Scenario planning, as outlined above may play a crucial role in envisaging the future.

Rumelt (2008) suggests two organizational changes likely to be important in the new economy, new kinds of incentive schemes for top management and reducing the complexity of organizational processes and decision making. Both are obviously desirable, but whether they will happen is a different question. My own observations of organizations and of regulatory framework governing organizations suggest a movement in the opposite direction, which may inhibit innovation.

Which industries are worthwhile to be in? This question is hardest to predict of all, and whoever get its right is likely to earn handsome returns. Based on mostly informal brainstorming in various groups of students and executives, I suggest the following list of industries that may be cornerstones of the new, post-recession economy:

- *Green energy*, which includes for instance energy saving technologies in businesses and home as well as alternative energy generation technologies such as wind energy, solar panels and tidal wave power plants.
- *Heath and social care*, which includes services as diverse as hospitals, beauty treatment, child care, and care for the elderly as well as equipment manufacturers supplying these services, and new technologies growing out of for example biotechnology.
- *Nutrition and foods* helping a healthy lifestyle, for instance organic foods and new forms of delivering fresh foods to households and restaurants.
- *Entertainment* in a broad sense including for instance movies and theme parks as well as various forms of home entertainment such as video games, and entertainment delivered via the Internet.
- *Education*, again, in a broad sense, including pre-school, primary, vocational, higher (scholarly) education, and training in specialized professional skills and foreign languages, the latter being a particular opportunity for England.

- *Cost-efficient provision of basic needs*, especially to the 'base of the pyramid' but – at least during the crisis – also in some mature market economies.

A common theme in many of these industries is the confluence of manufacturing and services. Traditionally, manufacturing and services were very distinct, yet in the last decade many European former manufacturing companies found themselves earning more money from associated services and replacement parts. For instance, Philips may provide "lightening solutions" instead of light bulbs, while Rolls Royce delivers "hot air out of the back of a jet engine" instead of jet engines.[13] This shift is driven by innovations of business models, which may have become more important in driving change than technological change alone (Hamel, 2000). Experimentation with new business models may thus an important way to advance ahead of competitors into the new economy.

Conclusions

The financial crisis of 2008 had a disruptive effect on many but by far not all industries, and it is likely that we are experiencing a structural break with the emergence of a new economy that is driven by new business models and industries. Yet, as I have argued in this paper, the crisis leaves the basic logic of global strategies in tact; globally oriented businesses will also in the future attain substantive competitive advantages over their purely domestic competitors, based on their global supply chains, global market access, or global product development.

In this crisis, businesses need two kinds of strategy, a survival strategy and a strategy of positioning for the new economy (Table 4a/b). The survival strategy may focus

[13] *The Economist* "Rolls Royce: Britain's Lonely High Flyer" (8.1.2009).

on segments likely to be resilient during the downturn, and it needs to be very cost and cash conscious. The strategic positioning needs creative thinking and experimentation with new business models, and the ability to recognize what forms of restructuring may be implemented during the crisis. If business leaders manage to adapt a forward looking approach, they should be able to lead out of the downturn before long.

At the same time, there is no shortage of threats in early 2009, as outlined in section 2. Yet, of all the potentially negative tendencies, I see two treats that more than others might prolong and deepen the recession. Both illustrate the old saying that 'when in a hole, the first thing to do is to stop digging'.

Firstly, the general 'sense of fear' that is pervading society has in itself negative effects on the economy because it lowers expected returns and thus reduces investment. We thus face a real danger that the negativity of leaders in politics, business and the media fosters fatalism and thus creates a self-fulfilling prophesy. Secondly, protectionism remains a serious concern as many countries appear to be in the process of subtly helping their domestic businesses while limiting international 'spillovers'. Even such small measures have the potential of disrupting highly integrated supply chains.

If governments wish to do something good for the economy at this volatile time, then offering a 'pole of calm in a rough sea' would be a good start. Well-intentioned activism may be counterproductive. Secondly, getting trustworthy financial sector regulation in place, and thus enabling banks to revitalize their loan portfolio is important. Third, to the extend that resources are available; governments may invest in infrastructure and education, thus creating demand in the short term, and resources for the long term.

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