Q&A-Shelf life of moat investments a tenth from a few decades ago; Two of three long-term "outperformers" show resilience: Martin Reeves, BCG Henderson Institute

Even as the shelf life of moat investments is about a tenth of what it used to be a few decades ago, around two-thirds of the companies that are "long-time outperformers" are resilient during crises, **Martin Reeves, chairman of the Boston Consulting Group's Henderson Institute think tank,** told the Reuters Global Markets Forum on Tuesday, June 22.

"Crisis performance heavily shapes 'peace time' performance," Reeves said.

Companies should prize resilience and not be "too comforted" by recoveries, while looking for and exploiting new patterns of growth, he added.

"Most of the difference between resilient and non-resilient companies is due to growth, not margin," Reeves said.

Following are edited excerpts from the conversation:

Q: What are your thoughts on the most important lessons you distilled from talking to CEOs in your new book "The Imagination Machine", in a nutshell?

A: I wrote The Imagination Machine for a couple of reasons: 1) Competitive advantage decays faster than ever, so no longer can we divide the economy into small companies who find new models and large companies who exploit them for a decade or more; 2) The rise of AI (artificial intelligence) means that we will have to redirect human cognition towards tasks which are more uniquely human - like imagination; and 3) We have no play book for imagination, even though it's a human universal ability.

The main message is that we can systematically harness imagination in corporations.

Q: Do you think the concept of moat investment now takes a backseat, since moats no longer have the same shelf life?

A: About one-tenth of what the moat life was a few decades ago, according to our calculations. So, you might say that the book is about how large corporations can act small - like they once were. Another paradox: all great companies were founded on an act of imagination, but they tend to lose this ability with scale, complexity and age. The six things companies need to master to do this are -- harnessing surprise, evolving mental models, generating new surprise through colliding ideas with reality, spreading ideas, codifying ideas and self-disruption or encore.

Q: You talk about turning adversity to advantage in recovering from crisis -- that's an important tool at any time, but more so given the current COVID-19 times. How do you recommend companies and even managers start thinking in those terms?

A: We tend to think that crisis is separate from recovery, demanding different behaviors. On the surface that's true. But crisis performance heavily shapes "peace time" performance. Two-thirds of long-term outperformers are resilient during crises. Resilience requires dynamic adjustment on three timescales: buffering shock, adapting to unfolding circumstances and reimagining businesses for new realities. The word recovery is misleading since it points -- 1) to the rising tide which raises all boats, and 2) to some sort of resumption of normality. Competitively speaking, performance spread doubles during crisis and economies more often change than recover to previous states. So, winning the recovery is about noticing and exploiting the "poignant anomalies" which foreshadow new needs, and creating growth in them faster than competitors. So, reorientation might be a better word than recovery.

The recipe is -- prize resilience at all times, don't be too comforted by "recoveries", try to win competitively -- not just in absolutes, and detect and exploit new patterns of growth. Most of the difference between resilient and non-resilient companies is due to growth, not margin.

Q: From the perspective of running a business, what do you think has permanently changed post-COVID-19?

A: We are focused on the most recent and most prominent signals. Working from home (WFH), remote collaboration etc. They are important but we mustn't forget the longer-term shifts in the basis of competition, which have been accelerated by COVID-19. These are --computing on rate of learning, rather than scale and efficiency; organizing for machine and human cognition; developing a more reliable and evidence-based approach to change; harnessing human diversity; and reducing societal risk by being purpose-driven. There are some shifts which may prove to be temporary displacements of demand. Many companies will have a good year from that perspective. But companies which have reoriented towards new sources of growth and are adjusting how they compete to new conditions will be the long-term winners.

Of course it's impossible at this stage to know precisely what has been a temporary and what a permanent change, which brings us again back to resilience - the ability to buffer shock, adapt to changing conditions and thrive in new circumstances, which interestingly is almost precisely the set of things which many companies don't measure.

Q: How are managers and company executives looking at diversity and inclusion?

A: Well, we are certainly talking about it a lot. On some dimensions the change has been underwhelming though -- like the number of women in senior positions in large corporations. There are really two issues here -- human equity and competitive necessity. Heterogeneity is the grist for any evolutionary process. Without cognitive diversity, companies more will find it difficult to reimagine.

Q: Is resilience also the way forward for traditional businesses to deal with digital disruptors and the first-mover advantage they appear to have? How can companies better implement technology and human imagination to add to their resilience?

A: We have a paradox on technology. If you analyze vitality, the potential for future growth, stripping out current performance, it is heavily associated with technology. On the other hand, 75% of major change efforts, including digital transformations fail. The explanation, I think, is that in dynamic and uncertain times companies must compete on their rate of learning. And this can only happen in so many ways -- by seeing things that others can't see – perception; by understanding things that others can't understand – cognition; by collaborating more effectively – sociality; and by transducing ideas to actions – translation. Technology can play a key role, e.g. sensors for perception, AI for pattern detection, ecosystems for sociality. But if one cannot articulate how learning and adaptation is enhanced then there is a risk that technology investment becomes an expensive distraction.

Q: Post-COVID-19, what does the future of work and the workplace look like? How should companies innovate to maximize efficiencies while keeping their workforce motivated, in all -- WFH/work from office (WFO)/hybrid -- scenarios?

A: When people talk about the future of work, they often mean that there is a single future, it can be known, and it mostly concerns the conspicuous issues like WFH/hybrid/WFO. These concern social norms and norm setting is reflexive - what I think and do depends on what you think and do and vice versa. Therefore, the future of work is probably more unknowable than knowable. So rather than banking on a position, which may be contradicted by one's customers or employees or suppliers, it's better to bank on resilience. Also I suspect that in five years' time we will look back and see WFH as a minor issue and the more transformative one will be the reinvention of the corporation -- and corporate ecosystems, and human work under the influence of AI.

Q: How can market professionals/fund managers to adapt to grow with this fast-paced and ever-changing environment?

A: The central question is how to combine human and machine cognition synergistically. Some companies like Amazon and Alibaba are taking that very seriously. Finance is a business so all of what we are talking about applies to finance to. Financial institutions need to be resilient and imaginative. But finance is also a business which deals with real economy businesses. So, it's important that you look at them and understand them in the right way. Are you measuring which companies are more resilient than others? Which ones learn faster than others? Which ones have the highest capacity for reinvention? These are hard questions which are not taught in business schools or constitute mainstream financial management -- but they are ones which some leaders -- hedge funds and others -- take very seriously.