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Opinion

Strategic framework for a post-corona economy

Rita McGrath/M Muneer | Updated on April 27, 2020 | Published on April 27, 2020



Using inflection points, we can build scenarios and early-warning systems that will be useful for decision-makers

Here's the thing: In classic inflection point fashion,

everything looks just fine...until it doesn't. Andy Grove introduced the concept of strategic inflection points (*Only the Paranoid Survive*) as moments in time when the fundamentals of business change, requiring a major shift in how we operate. An inflection point can lead to new heights or obliteration. The biggest dilemma for decision-makers is when to take action. Move too early, you'll waste resources; leave it too late, you'll get buried.

The coronavirus presents no such dilemma since this inflection point is here and now, and it is serious. WHO projects over 425 million will be infected with the virus by end-May, with 100 million in the US alone. The estimated 1.3 million in India is misleading because of the low testing (150/million). The mortality rate is about 5 per cent due to social distancing, lockdowns, WFH

(work from home), and probable genetic codes. But the impact on the global economy may be huge, something not witnessed in our lifetime.

With the disappearance of normalcy in our lives, it's important to acknowledge how awful this is going to be for a great many people in India who are dependent on daily wages and monthly salaries. There is more: Graduations disrupted, classes postponed, social visits banned, weddings pushed back, jobs lost ...it's just endless. Companies will soon refuse to pay, forcing workers to quit.

India already has a humongous BPL (below povert line) population and as the recent migrant labour exodus revealed, the lockdown has exposed how poorly its economy is working for the majority. Unlike in the US where manufacturing jobs shrunk from 23 per cent to 8 per cent of total employed, India's went down marginally from 13 per cent to 11 per cent but the burgeoning unemployment poses a major problem for India with over a million potential employees entering the market annually.

India's initiative to 'Make in India' has not taken off because of poor execution and alignment. The nightmare for India is that while 58 per cent of people work in agriculture, that contributes just 14 per cent to GDP (contrast that to 19 per cent working in the service sector that is 58 per cent of GDP), it has not done anything to

revive the agriculture sector in a constructive manner. So, will the coronavirus inflection point be useful, for an agrarian economy, perhaps?

Pandemics have often catalysed social change. Water, sewage, and public health authorities all emerged from previous epidemics. Social change can also come from economic change, such as industrialisation and the creation of the first instance of mass inequality in what came to be called the Gilded Age. With vast income inequality, corrupt governments and often-brutal treatment of workers, the excesses of the first gilded ignited protests.

It gave way to what is often called the “progressive” era, in which workers’ rights, the rule of law, the breakup of monopolies, women’s suffrage and many other social protections which people living in developed democracies have come to take for granted were implemented. The largest democracy is yet to get ahead of these issues, though.

A variety of specific policy recommendations appear to be gaining traction for income inequality and the rotten unemployment. For example, in the US, protests are on to rescind an obscure 1982 SEC decision that allows unlimited open-market stock buybacks, a decision that has created “profits without prosperity” and fundamentally distorted the decision-making of leaders at firms such as Boeing to disastrous effect.

Harvard’s Rebecca Henderson, in her book, *Reimagining Capitalism in a World on Fire*, argues that the mis-pricing of the true costs of externalities stems from too heavy a reliance on market mechanisms across the world, with too little investment in governance and long-term investments. The legitimacy of engaging in mass lay-offs during good times simply to drive profits and executive compensation will be questioned.

Creating early-warnings scenarios

Using inflection points, we can build scenarios and early-warning systems for the post-corona future. This will be like a “thin-ice” moment, because things are moving very quickly but the framework may still be useful for decision-makers.

This framework will articulate two (or more) crucial uncertainties, create a story about the future states that different values of the future uncertainties might imply, define a “time-zero” event and work backward to create an early-warning system.

Let us create four quadrants for potential post-corona economic scenarios. The first dimension (X-Axis) shall be the current capitalistic “maximising shareholder value/profits” on the left side and the new “maximising shared value”, which is neo-socialism, or re-imagined as “stakeholder capitalism” where suppliers, customers, workers and society flourish along with the business, on the right. For the other dimension (Y-Axis), choose “prolonged global slowdown” on top and “bounced-back economy” on the bottom.

The next step is to create a short “story” about the future state each scenario represents, as summarised in Table 1.

Table 1

	Maximising shareholder value prevails	Stakeholder capitalism
Prolonged global slowdown	<ul style="list-style-type: none"> • “Les miserables” – pervasiveness of poverty and inequality • Profound economic insecurity for the majority, including middle class • Political instability in many countries while conflicts over resources intensify 	<ul style="list-style-type: none"> • Grassroots protests, safety net programmes expanded. • Greater taxation or even appropriation of wealth • Nationalisation of private wealth • Alliances between NGOs and newly empowered governmental actors
Economy bounces back	<ul style="list-style-type: none"> • Rinse and repeat of the last several years – middle and lower classes continue to struggle, high levels of inequality remain 	<ul style="list-style-type: none"> • Return to the consensus on distribution of societal wealth • Inequality narrows gradually • Social goods made more affordable

Now come up with what we call a “time-zero” event for each of the four scenarios – in other words something that might be in media that represents either positive or negative signal of an inflection point. We have the following events captured for this as an example (see Table 2).

Table 2




	Maximising shareholder value prevails	Stakeholder capitalism
Prolonged global slowdown	Why economic inequality leads to collapse	Marxism Vs. Liberalism & Death of the Soul of Capitalism - Ayn Rand
Economy bounces back	Extreme poverty returns to America	Misunderstood socialism




Once the “time-zero” events are established, work backward to identify information that would represent leading indicators of the event becoming a reality. If you see lots of indicators piling up, it is highly likely for the event to become reality.

Interestingly, we see weak signals that any of the four scenarios outlined above could be in our future. In fact, for all of them, we are able to find real, in-the-here-and-now headlines reflecting that scenario coming to fruition. The question for all of us is whether we can create strategies that are robust in the face of all of these possibilities or whether we should bet on one.

Let us assume the second time-zero event, “death of soul of capitalism”, ensues in which case governments will have to turn brutal on profiteering private enterprises for the sake of the 99 per cent.

Some indicators we might see are: a rise in the popularity of governments to take coordinated action; a wealth ceiling law just like the land ceiling legislation, with no HUF-kind benefits; public servants build popularity with better crisis management; political pressure builds to eliminate easy access to stock buybacks and encourage nationalisation; restrictions on executive compensation

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and CSR on turnover, not on profits'; investors to take a hard look at cash reserves; chatter over the unpopular loan write-offs and bailout packages for the rich; minimum wage legislation; increased health and social benefits to the labour class; elimination of tax loopholes and breaks to enterprises; and middlemen eliminated in a new farm-to-fork co-op model.

While these are not predictions about what is likely to happen, it's clear that we are in the midst of some kind of inflection point. We're going to be asking questions about many of our taken-for-granted assumptions: That globalisation and trade are always good; air travel should be accessible to everyone; we shouldn't have to invest in building resilient systems, just efficient ones; as everybody who is home-schooling young children have come to appreciate, teachers of young children shouldn't make ₹1 crore a year, and so on.

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