# Winning in the Turns: A CIO Action Guide

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Top performers defy conventional thinking during disruptions, including downturns, to emerge as winners. The most successful organizations take calculated risks to set them apart from the pack during any "turn." CIOs must prepare and lead in the turns both within their teams and among their peers.

## Opportunities and Challenges

- Firms that seek to gain sustained advantage over their competitors long after the next recession passes should take a contrarian view over other more conventional tactics that are deployed in any economic downturn.
- Ensure a fully aligned and agreed-upon plan on how to respond to risk events. Increase oversight of strategy execution and risk management.

## What You Need to Know

- Consumer sentiment remains high, the likelihood of a deep, imminent recession remains fairly low, and large global firms entered 2019 well positioned to weather a downturn.
- After a period of prolonged earnings growth, falling profitability is now an observable trend across large and small organizations in multiple industries. Organizations will be starting to prepare plans for any potential downturn that emerges. CIOs should use this note to prepare a contrarian view of the tactics typically deployed during such times.
- Uncertainty in market conditions has led to hesitancy in investment decisions. Many large-scale investments will be put on hold, as they will be very sensitive to market conditions. CIOs can use this time to accelerate smaller, more agile projects to exploit any new opportunities that may emerge as a result.

## Insight From the Analysts

### Winning in the Turns: Uncertainty and Mixed Signals


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In the final quarter of 2018 and the opening weeks of 2019, there was a common sentiment from Gartner's executive clients: uncertainty. Top of mind for them is economic uncertainty. Global trade tensions combined with Brexit impact the ability of organizations to take a long-term view on strategic capital investments. The revised average IT budget growth for 2019 at 1.5% falls short of earlier forecasts of 2.9% (see "2019 CIO Agenda: IT Cost Optimization"). CIOs are increasingly being asked to optimize costs in order to fund growth and innovation. Many CIOs will take the normal approach of cutting discretionary spending, delaying starting new projects and/or cutting back on recruiting. However, the recommended approach is to take a contrarian view and invest smarter, free up cash from unwanted assets, and use the economic downturn as an opportunity to get ahead of the pack and emerge as a winner after the turn.

## Executive Overview

> Turns can be economic, geopolitical, environmental social or competitive, to name a few. Winning in the turns demands contrary measures around cost, strategy and talent (see Figure 1).

Figure 1. Strategy, Cost and Talent Are the Pillars for Winning in the Turns

Strategy, Cost and Talent Are the Pillars for Winning in the Turns


Source: Gartner
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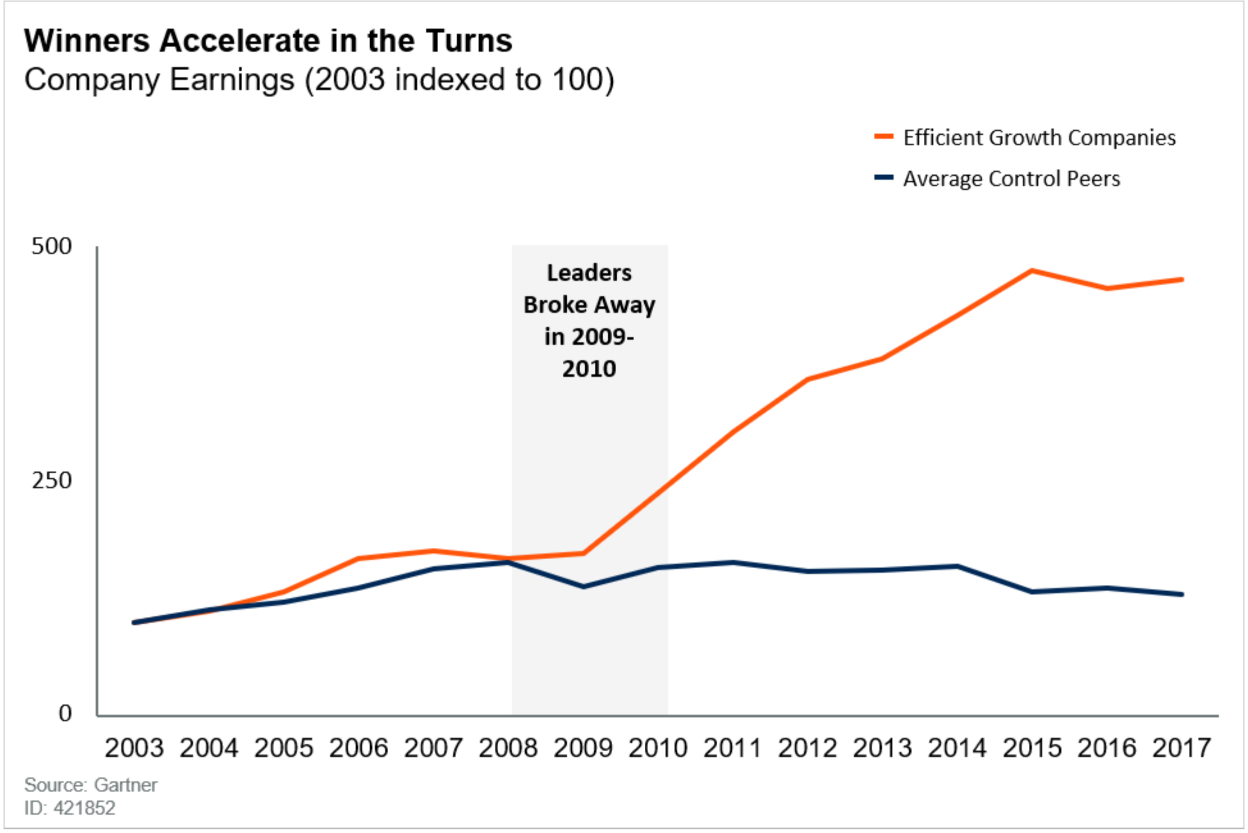
During the financial crisis of 2008-2010, leaders broke away from the competition and achieved efficient growth (see Figure 2). A select few companies — just 60 of the largest publicly traded companies in the U.S. and Europe — ended up as winners. In these organizations, the actions of the executive team create the core strength required to win in the turns. Winning in the turns endures, with this select few sustaining their outperformance for the subsequent decade. Clearly, how you exit the turns likely determines your long-term destiny.

Figure 2. Winners Accelerate in the Turns




This uncertainty is a "turn," a shift from the straightaway of momentum. A turn changes the dynamics of the status quo and forces a reaction. In racing sports, it is in the turns that the best performers take risks and make moves. They brake late and then accelerate out of turns instead of simply pushing the brakes of risk aversion. They trust their abilities to take different risks that lead to higher performance. They don't take chances, they trust their core capabilities. They have practiced. They are ready. Their vehicle or body is uniquely prepared to "win in the turns."

U.S. speed skater Apolo Anton Ohno was trailing three skaters when he rounded the final turn of the men's 1,500 meter short track at the 2010 Winter Olympics. Ohno jostled fiercely with two skaters who then wiped out, leaving Ohno to take second place and his eighth Olympic medal. As an elite competitor, Ohno knows that heading into a turn — when momentum is shifting, visibility is poor and the outcome uncertain — is his single best shot to pursue and seize the lead.

## Turns Come in Many Forms

Economic turns are common in business, and most executives have survived several. But, there are many other types of turns (see Table 1) — unexpected changes in context that force decisions. These turns may appear without much notice (e.g., enormous security breaches) and from unexpected directions (e.g., outside your industry). The g-forces in the turn may be extreme (e.g., a nontraditional competitor that doesn't need to make a profit), and the time to impact may be short due to digital capabilities (e.g., viral antibrand social media). These turns often come in combinations, thereby increasing the need to react on different business vectors and requiring a high-performing executive team.

Table 1. Types of Turns

| Types of Turns | Attributes/Examples |
|---|---|
| **Economic** | ▪ Macroeconomic, e.g., recession<br>▪ Industry-specific, e.g., crash in crude oil prices; margin wars<br>▪ Public sector, e.g., revised or lack of budget agreements (uncertainty around funding) |
| **Geopolitical** | ▪ Trade wars and tariffs<br>▪ New political regimes<br>▪ Immigration and migration; labor constraints<br>▪ Nationalism (e.g., Brexit)<br>▪ Belt and Road Initiative |
| **Competition** | ▪ Sideswipe, e.g., unexpected entrants from outside your industry, especially from the digital giants |
| **Cybersecurity/Risk** | ▪ Individual privacy awareness, e.g., after Mark Zuckerberg testifies to U.S. Congress<br>▪ Breaches or misuse of data<br>▪ Nation-state actors |
| **Social** | ▪ Fake news, counterfeit reality, deep fakes<br>▪ Viral social uprising |
| **Environment** | ▪ Antiplastic consumers, e.g., Montreal banning all single-use products in 2020<br>▪ Decarbonization policies |
| **Technology** | ▪ Emerging digital technologies, e.g., 5G, cloud, artificial intelligence<br>▪ Disruptive business models; platform businesses<br>▪ New platforms, e.g., smartphone overtakes Nokia and BlackBerry |

Source: Gartner (July 2019)

This sentiment that “everything is turning or changing at the same time” isn’t just gut feel. Companies are experiencing trends at historic peaks in combinations that would have seemed infeasible just a few years ago (see Figure 3). Consider the following:

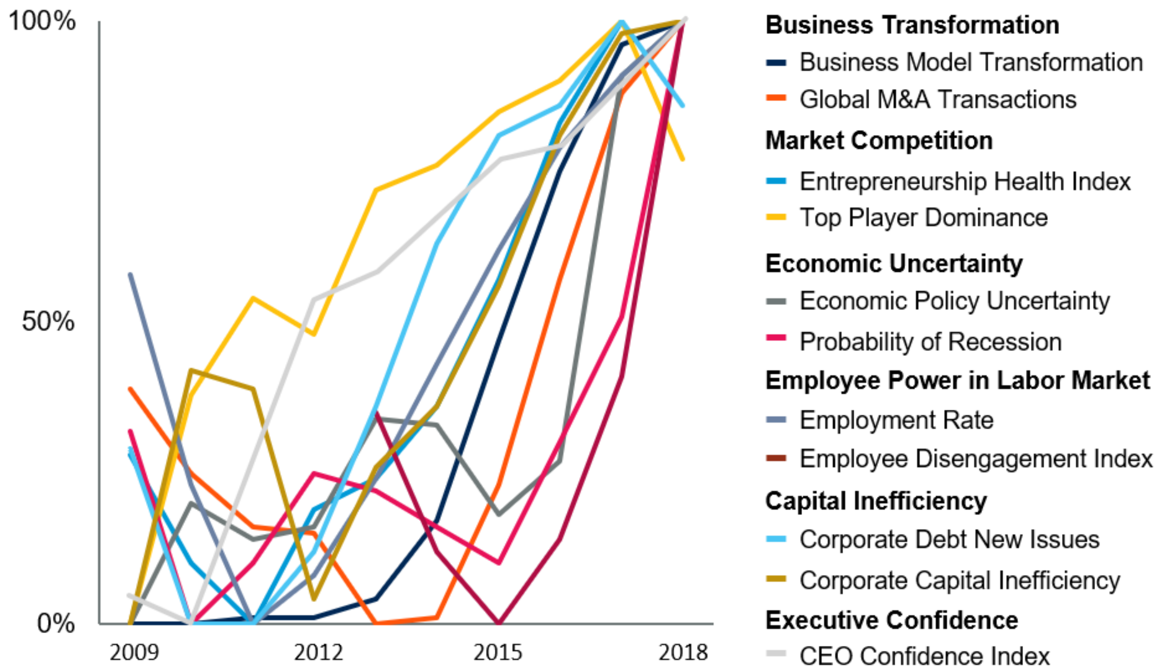
- Peaking changes in businesses — From business model transformation to merger and acquisition (M&A) transactions, and cross-enterprise initiatives — businesses are evolving at an accelerating pace.
- Conflicting economic signals — There is high CEO confidence, together with peaking economic uncertainty and probability of recession indexes.
- A unique market competition environment — With strong entrepreneurial health and next-generation digital startup indexes, coupled with spiking industry consolidation, the competitive environment is changing at a speed we haven't seen before.
- Balance sheet health outlying indexes — Both corporate debt and corporate cash on hand are at record highs, with corporate cost increases outpacing corporate revenue gains.

Individually, each of those clusters are puzzling — many traditionally conflicting business markers spiking simultaneously. Taken together, at 15-year peaks, these represent real risks — and opportunities.

Figure 3. Trend Lines Across Major Indexes

**Trend Lines Across Major Indexes**

Rolling Three-Year Average Scaled Based on the Max. Range Reached Since the Recovery[a]




Source: Gartner

[a] Scaled from 0% to 100% where 0% is the minimum while 100% is the maximum rolling three-year average reached since 2009.

Note: Data is not yet available for 2018.

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## What It Means to Win

For the private sector, winning has both economic and existential goals. As shown in Figure 2, efficient growth companies experience exponential market results. These companies produce healthy margins and are first-to-market with innovations. Failing to take chances in the turns results in stasis or loss. For some, missing the opportunities in the turns may take them out of the race completely, if not immediately. On the other hand, those enterprises that take risks without proper preparation will struggle to make up ground once left behind, such is the pace of change.

Winning also means creating excitement for employees. Risk, when it pays off, is exhilarating. Employees that witness and participate in enterprise agility will have a higher morale and sense of purpose. Executives that take risks and move the organization forward are positioned for greater leadership opportunities.

In the public sector, winning is tied to mission success. In the face of changing administrations or budget difficulties, winning is proven through mission momentum and productivity. Ultimately, this success should lead to budget stability or increased investment. A public sector entity that succeeds in the turns is a great place to work for those that are passionately civic-minded.

Many leaders prefer not to make big moves until the signals are clear or look for ways to weather the uncertainty — most likely first targeting low-hanging cost cutting to improve a few performance metrics. However, neither a wait-and-see approach nor defensive cost cutting will power winners through adversity — today's current state of uncertainty won't magically disappear. There is little clarity on a range of economic, regulatory, geopolitical and trade issues, and digital disruption has made widespread and multidimensional uncertainty the new normal.

The risk of paralysis is very real, though, especially if your organization lacks institutional memory of what worked and what didn't during the last downturn. Many of today's leaders have only experienced the decade-long bull market.

> Fewer than half of current CxOs were functional heads in 2008-2009, and less than 10% were heading the same function in their current company.

## Strengthening the Core: The Pillars for Success

Enterprises can prepare for the turns by strengthening their core. This fitness falls into three pillars: strategy, cost and talent. Gartner has extensively studied the disciplines needed in these pillars and how they help organizations win in the turns.

Executive leadership must start pushing their teams now to make sure they are prepared to act. Each functional head should be focused on these three vital areas:

- Strategy: Prepare to act confidently amid uncertainty.

- Cost: Guard growth and elevate innovation funding.
- Talent: Identify and install your workforce of the future.

## Research Highlights

### Pillar 1: Strategy — Prepare to Act Confidently Amid Uncertainty

The nature and timing of decisions (e.g., investments and acquisitions) made during turns matter greatly. Gartner data from the last recession shows executives regretted acting too slowly and investing too little. There are three main approaches to reduce strategic uncertainty:

- First, winners pull forward debate on the underlying decision criteria and weightings, and how they could change under alternate scenarios.
- Second, they implement a bottom-up process in which variation in making assumptions is used to better capture and reflect uncertainties.
- Finally, winners model end-state optionality by refocusing business development valuation on the range of actions and investments available today and the strategic options they open or close.

> For a healthy core, strategy must be agile, clear and actionable by all. While strategies tend to be associated with long-term planning, to win in the turns, CIOs need an agile or adaptive strategy that allows the IT organization to sense and respond to changes in the business context as they happen.

An IT strategy that is reviewed every three or five years will not work when the turns are coming fast. CIOs must work with peers to continually monitor the business context for changes, and review business and IT strategy whenever there are shifts in the environment.

Strategies tend to be associated with completeness. But, what if an initial version of the strategy could be created in a much shorter time using the information that was available at the time? In times of uncertainty, so-called minimum viable strategies allow CIOs to create and modify their plans using an iterative approach.

Certainly, top-level direction from the board and CEO (or equivalent) is essential. It sets the enterprise posture for preparedness. Scenario exercises should play out potential futures — even completely unrealistic or absurd ones. Strategy experiments also have a role to play in preparing for the turns and being able to accelerate out of them. Stretch your enterprise thinking past the probable so that hard realities seem easier. Adjust your operating model to deliver your strategy.

Adaptive strategy demands an adaptive operating model — one that can quickly execute a change in strategic intent.

Organizations that only use backward-looking metrics in their strategy only see the turn when they are in it. As a result, they can't react quickly enough. Leaders see the turns coming and can prepare for them. Preparing can involve making the full investment. Or, it may involve making enabling/ foundational investments that can be exploited once the turn happens, allowing them to react more quickly and pull away from the competition.

Winners define and monitor leading indicators that act as early warning signals that a turn may be coming. Monitoring these indicators is done continually via the adaptive strategy process.

**Typically, the areas that need to be monitored are:**

1. **Strategic assumptions:** The assumptions on which the strategy is based (e.g., fifty percent of our customers will shift to digital channels in the next two years).
2. **Strategic issues:** The key trends that could significantly impact the strategy if they reach critical mass (e.g., a new market entrant reaches 5% market share).
3. **Strategic triggers:** The events that challenge the strategy (e.g., the enterprise fails to meet profit targets for three consecutive periods).

Ideally, the strategic assumptions, issues and triggers should be tracked continuously so that the enterprise can respond to any changes as soon as they happen. This may not be practical or even necessary for some factors. At a minimum, review each on a monthly basis, and share the output across the enterprise. In more dynamic sectors, or when there is an imminent risk of disruption, the frequency of tracking and reporting against these factors will need to be higher.

**Questions every CIO should ask about strategy:**

- Do we have the ability to appropriately sense and respond to changes in the business context as they happen?
- Can we create a minimum viable IT strategy that reduces the initial time and effort required and allows execution to start earlier?
- Have we communicated any changes to our IT strategy, their impact and the reasons behind them to ensure clarity of direction is maintained across the enterprise?

## Gartner resources:

- "Creating Strategy at the Speed of Digital Business"
- "The Art of the One-Page Strategy"
- "Toolkit: IT Strategy Template 2.0 — Embedding Information and Technology in Business Strategy"

### Actions to take now:

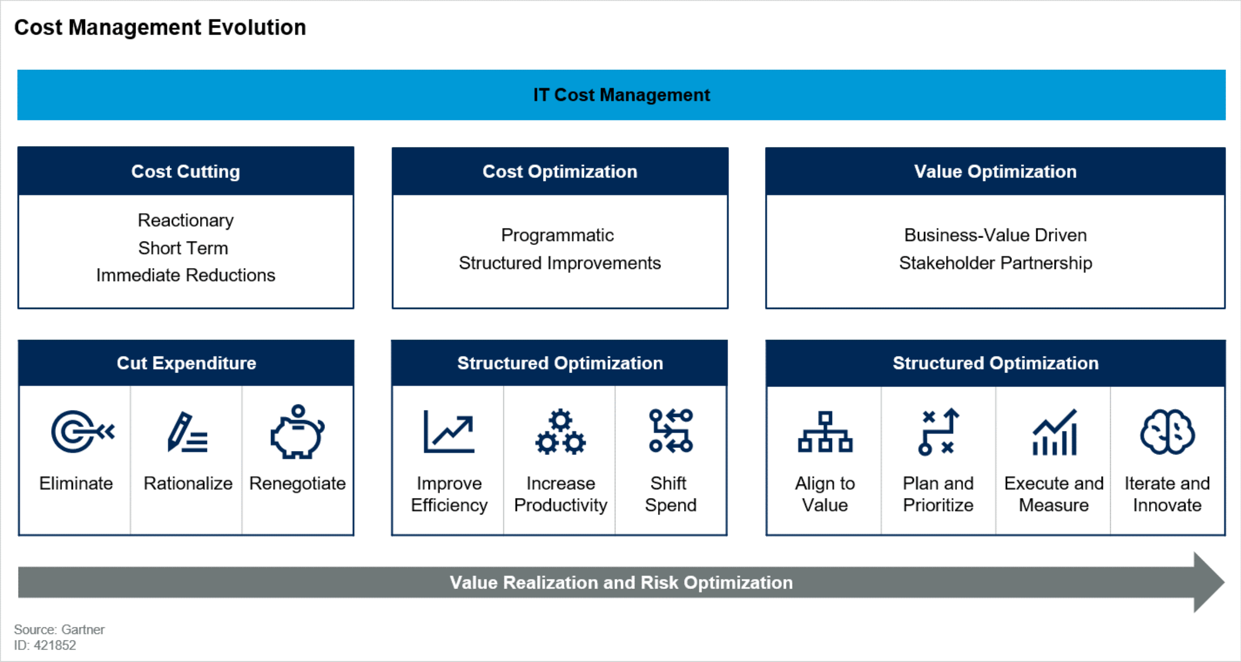
- Proactively test ideas/hypotheses, and use the adaptive strategy process to determine whether a change in strategy is necessary based on what you learn. Be prepared to quickly deploy/scale successful ideas.
- Define and begin monitoring the strategic assumptions, issues and triggers that are the leading indicators of a turn for your enterprise.
- To support adaptive strategy and accelerate decision making, create a common way of describing the value proposition of every IT-enabled initiative and how it supports the current business strategy.

## Pillar 2: Cost — Guard Growth and Elevate Innovation Funding

During turns, companies often stop discretionary IT spending, lay off staff, reduce training and cut capital investments. Winners, however, think long term and forecast for the upturn.

Winning enterprises have an ongoing cost management discipline and practice cost optimization, as opposed to cost cutting (see Figure 4).

Figure 4. Overall Cost Management Framework




More mature organizations will prepare for a turn by having three IT budgets prepared — best case, worst case and most likely case. They will know ahead of time the moves they need to make if and when the environment changes. Less mature leaders do not spend much time thinking about cost moves until they are told by their CFO to cut the IT budget. At that point, CIOs revert to cost cutting, just as winners are doubling down on investment for growth and innovation.

> To position their organizations for long-term success, CIOs should protect innovation funding — even as the cost hammer drops. Our research shows that companies that excelled through the last downturn retained at least 5% to 7% of their IT spend against innovation/transformation projects.

The best companies assign accountability and authority to "growth guardians" in their organizations to protect these critical initiatives. Winners creatively preserve cash by exploring vendor financing options and accelerating moves to the cloud.

An economic turn is a "burning platform" to lower the organization's long-term cost base and accelerate simplification, consolidation, automation and outsourcing decisions, as such moves are more palatable in times of uncertainty. CIOs should establish executive-committee consensus on cost-performance trade-offs upfront so that a clear "cost architecture" is established for all subsequent tactical decisions. For example, the enterprise may decide to prioritize payback over ROI in order to recycle funds and get many smaller initiatives done. Or, it may temporarily employ a lightweight governance process for many IT investment decisions to promote agility.

**Questions every CIO should ask about cost:**

- What do we need to do to achieve the right level of IT financial transparency to support our cost-related decisions?
- How can we best engage business stakeholders in discussions about opportunities to shift IT investments during a turn?
- How can we better utilize existing IT resources?

### Gartner resources:

- "Toolkit: IT Cost Optimization Status Check"
- "Toolkit: Gartner's Top 100 Cost Optimization Ideas"

### Actions to take now:

- Rethink IT asset ownership. During a turn, most companies delay asset refresh and risk business performance. Sale and leaseback of IT assets can ensure that assets are kept up to date, while bringing in cash and lowering IT debt.
- Develop a cost optimization roadmap that incorporates long-term value and more immediate spend efficiency.

- Assign a resource to lead and report progress against key milestones and targets needed to achieve the desired cost-related results.
- Halt initiatives that make IT overly bureaucratized, such as new chargeback schemes, extended business case reviews and unnecessary business process standardization. Focus IT leadership on enabling business partners to address their cost challenges rather than focus all attention on IT costs.
- Prioritize “payback” over “ROI” for projects. Cash will be limited during the turn; therefore, block funding large projects will consume a lot of cash and tie up key resources. Prioritizing payback over ROI will help elevate smaller, more nimble projects that can be done quickly and can free up funds that can be recycled to fund other projects in the pipeline.

## Pillar 3: Talent — Identify and Install Your Workforce of the Future

Healthy, high-performing teams are essential to winning in the turns. Gartner has done extensive research on digital dexterity and high-performing teams that show the importance of combined business acumen and ability to act. Certainly, CxOs should cultivate this in their teams, but they also need to cultivate it among their peers.

> Enterprises that take successful risks in turns have powerful executive committees that distribute decision making and action taking in an atmosphere of high trust.

The turns present an opportunity to revamp your playbook around hiring, development and performance management. Identify your talent competitors that are struggling, and call their best talent. When the recession/downturn occurs, the best talent wants to be on a winning team, and they are more likely to move companies during this period. Significant amounts of HR training, programs and services are kept in place because it is what the firm has always done rather than because they have value. Use this opportunity to reorient talent programs and services to align with the future direction of the company rather than with the legacy of company.

Consolidation strategies, which are common in economic recessions, help people work more broadly so they can apply a wider range of skills on a highly prioritized, efficient basis. Centralized organizational structures with resource pools and centers of excellence are the norm in such a context, and agility is worth investing in for future needs.

During the turns, your next generation of leaders becomes at risk of disengagement. You ask them to do more and contribute more, but rewards and promotions become more rare. The best companies remove layers of management to ensure space and opportunities for the next generation of leaders.

**Questions every CIO should ask:**

- What is our minimum IT staffing level?

- Are our IT resources aligned to where the business will be investing?
- Does IT leadership recognize that the quest for talent does not switch on and off as economic cycles changes?

### Gartner resources:

- "Ignition Guide to Creating a Strategic IT Workforce Plan"
- "Using a Digital Talent Management Framework to Build a Digital-Ready Workforce"
- "Anticipate and Exploit the Top 12 Future Work Trends"
- "Tackle the Talent Problem: Invest in Growing Your Own Employees"
- "Culture Crush: Design Your Roadmap for a Culture of Innovation"
- "Use Culture Hacking to Foster a Growth Mindset and Accelerate Digital Transformation"
- "Improve Workforce Management Effectiveness to Enhance IT Performance"
- "Overview of How to Plan, Recruit, Develop and Retain a Skilled IT Workforce"

### Actions to take now:

- **Conduct an internal strengths and weaknesses analysis** to determine the IT organization's ability to respond to external factors and achieve goals.
- **Analyze a range of what-if scenarios.** This leads to better understanding of enterprise direction and vulnerability, and the implications for the workforce. Consider intuitive what-ifs generated by the strategic planning process first. Later, apply more analytical what-if questions. Use strength, weakness, opportunity and threat analysis (SWOT) to forecast workforce resource requirements by skill, proficiency and duration.
- **Resist the knee-jerk reaction toward layoffs.** While layoffs may be necessary — and even healthy — they can be more costly (in terms of both time and money) than many think. Instead of letting talent go that you may need to rehire in a year, consider furloughs as a means to lower labor costs.
- **Double down on reskilling.** Boom or bust, CIOs will never be able to hire themselves out of the IT talent gap. The learning market is exploding with new delivery approaches including simulation training, hackathons and virtual-instructor-led training that do not require travel.

## Key Initiatives for Continuous Insight

All your initiatives are important, but some are mission-critical. Key Initiatives organize the vast Gartner resources around the projects and programs at the top of your list, helping you achieve demonstrable business results efficiently and cost-effectively. Key Initiatives represent how we deliver the ongoing insight throughout the year to help you tackle your top priorities. Be sure to track all Key Initiatives related to your top priorities. Start with the Key Initiative primers outlined here:

- “IT Cost Optimization Primer for 2019”
- “IT Finance, Risk and Value Primer for 2019”
- “Digital Economics and Performance Measures Primer for 2019”
- “CIO Innovation and Strategic Business Change Leadership Primer for 2019”

## Related Priorities

Table 1. Related Priorities

| Priority | Focus |
| --- | --- |
| IT Services and Solutions Strategy and Selection | The development and execution of dynamic category strategy for IT services and solutions is critical to achieving cost optimization, efficiency, agility and digital enablement. |
| Contracting for Services | Contracting for services integrates cost optimization with agile and DevOps capabilities to support the contracting of IT and business services required to meet an enterprise's objectives. |
| IT Finance, Risk and Value | As organizations strive for success in the digital age, the financial management of IT must evolve to enable cost control while creating a more agile and innovative environment (value) and minimizing risk. |
| Digital Economics and Performance Measures | Digital economics and performance measures enable use of metrics to communicate the effects of changing to alternative business models, as well as to demonstrate how IT impacts business performance. |

Source: Gartner

## Related Resources

### Webinars

Get actionable advice in 60 minutes from the world’s most respected experts. Keep pace with the latest issues that impact business.

“Panel Discussion: Drive Growth in the Face of Change”

“The 2019 CIO Agenda: Secure a New Foundation for Digital Business”

“5 Situational Leadership Types for Digital Teams”

“5 Starting Points for Culture Change”

“The Art of Culture Hacking”

“How to Respond to the Board’s Technology Questions”

“Preparing the Board for Digital Business Initiatives”

“The Future of Work and Talent: Culture, Diversity, Technology”

“Strategy and the CIO: Contribute to Digital Business Success”

“Top Recommendations to Design an Effective Governance Process”

“To Succeed at Innovation, Define Failure Not Success”

“The Gartner Top 10 Strategic Technology Trends for 2019”

“The Future of Your Business Ecosystem”

“The Truth About Business Value of IT”

“Break Through 3 Culture Barriers to Create Change”

## Articles

“Act Now to Fund Innovation and Growth”

“How CIOs Can Optimize IT Costs”

“How CIOs Can Scale Digital Business”

“Leadership Lessons for Digital Scale”

“10 Culture Hacks for Digital Transformation”

“Analysts Answer: The Key to a Successful Digital Transformation”

“CIO Agenda 2019: Digital Maturity Reaches a Tipping Point”

“CIO Leadership”

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