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**IBM**  
THE ECONOMIC TIMES

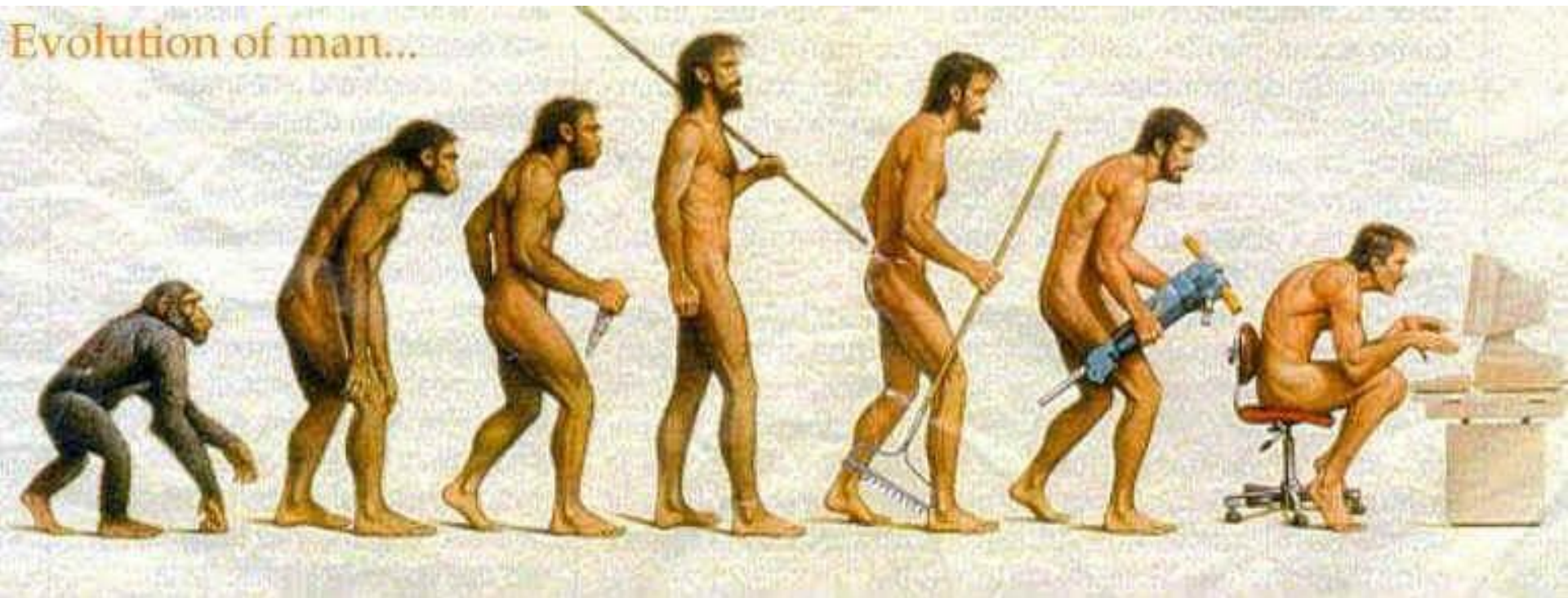
## Innovate 2012 Executive Summit

# Adaptability & Managing Uncertainty

Vivek Kulkarni  
President, Brickwork Finance Academy

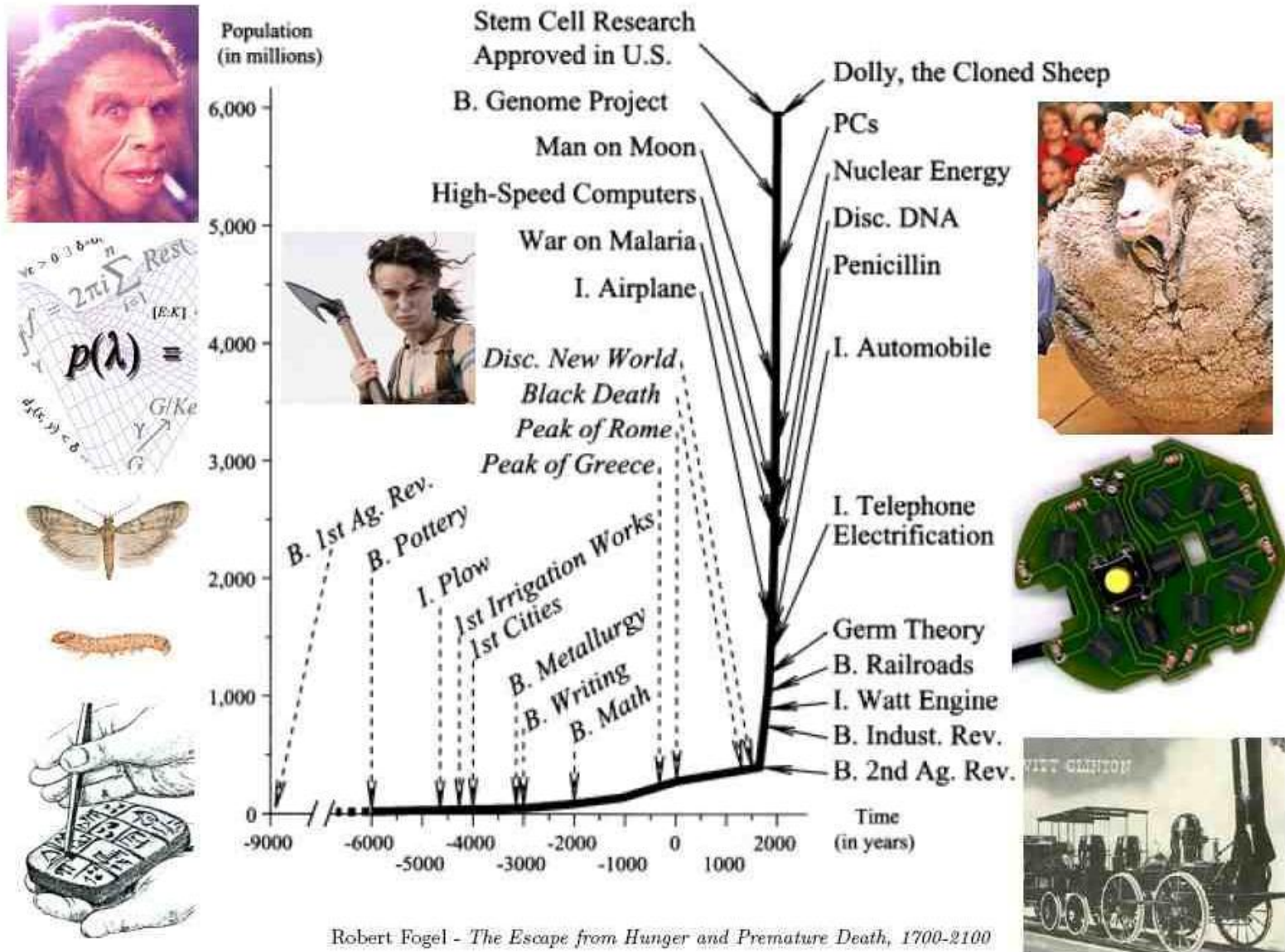


# Survival of fittest



“It is not the strongest of the species that survives, nor the most intelligent. It is the one that is the **most adaptable to change**” - Darwin

# Exponential pace of change – Human Achievement



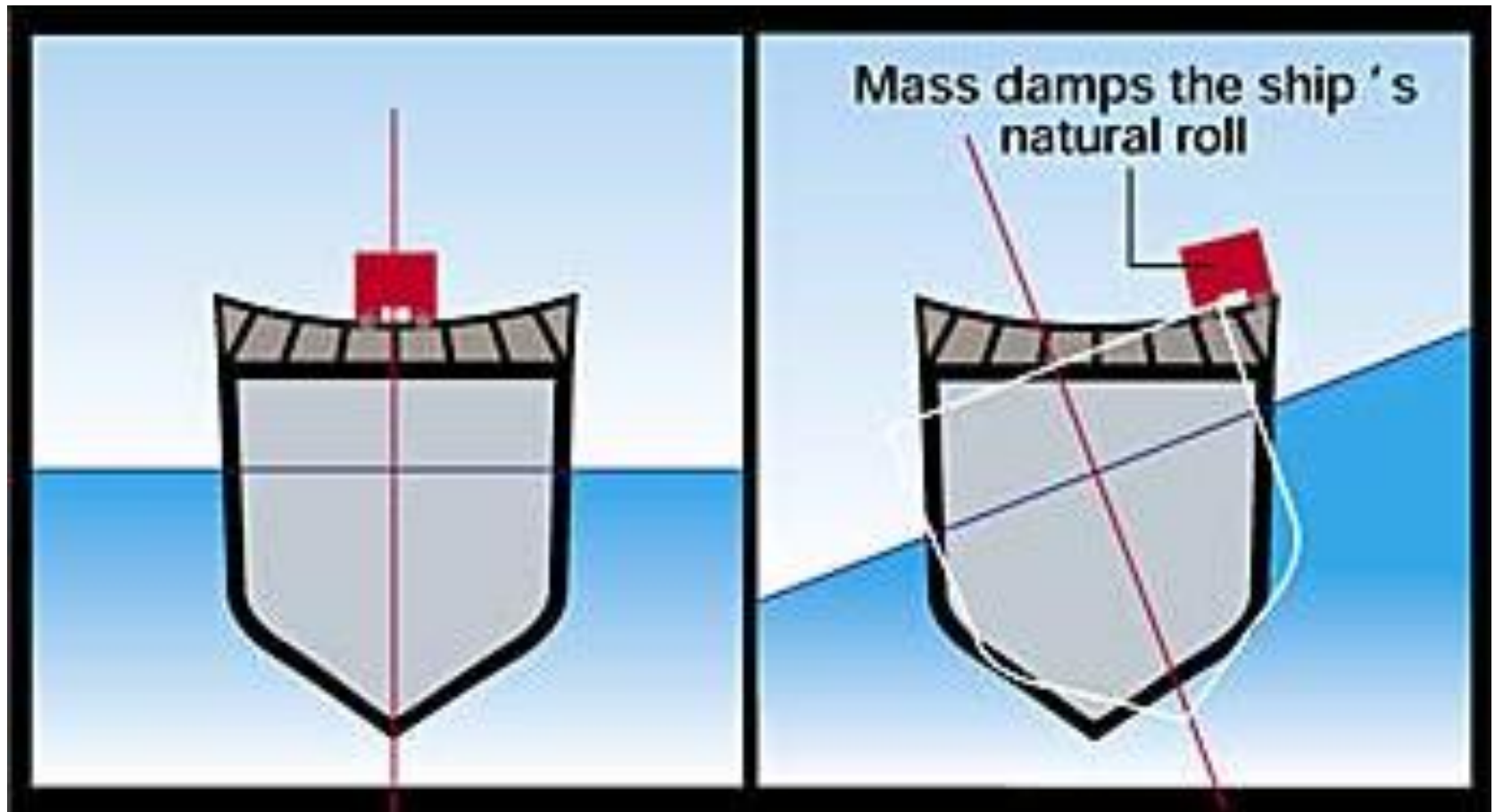
Robert Fogel - *The Escape from Hunger and Premature Death, 1700-2100*



**“It took from the beginning of human history to the year 1900 to grow a world economy that produced six hundred billion dollars in output; today, the world economy grows by that amount every two years.”**

– *‘In the Bubble’* by John Thackara

# Adapting to Change Vs. Real-time change management



**Anti rolling Stabilizer system used in ships**

# Real Time management



Execute

Must execute its current activities to survive today's challenges.

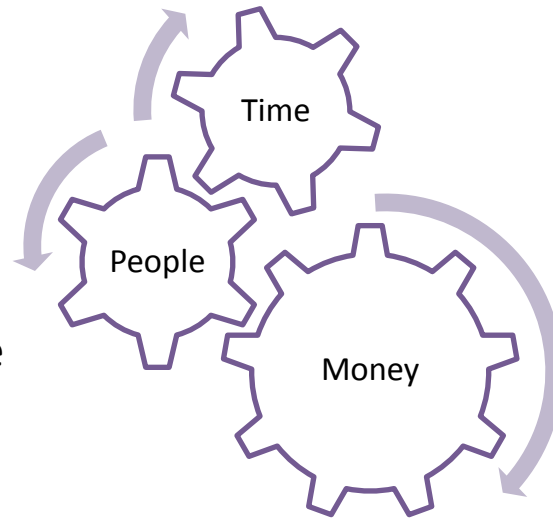
Both executing and adapting require **resources**, managers face an unending competition for money, people and time to address the need to perform in the **short run** and the equally vital need to invest in the **long run**.



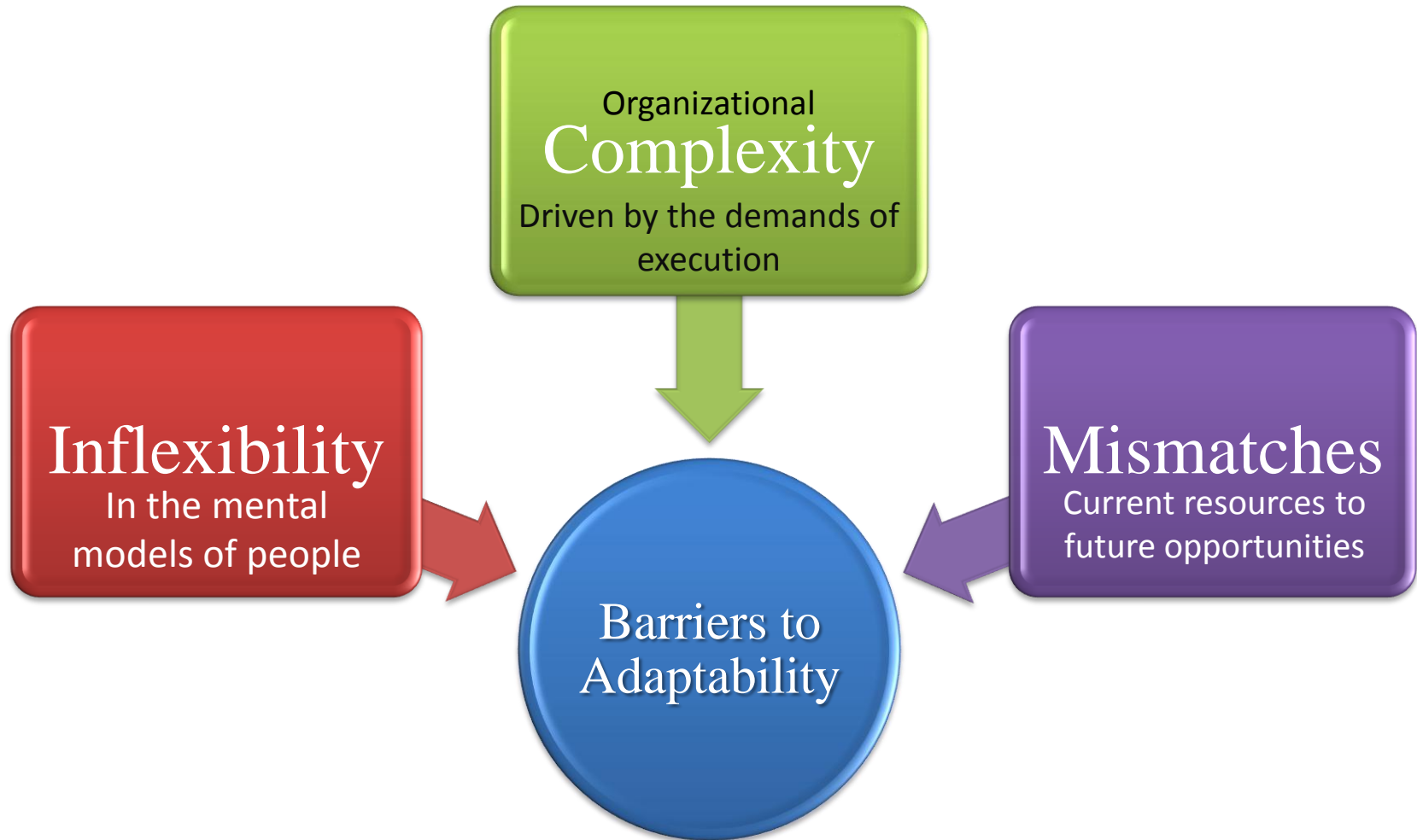
Adapt

Adapt those activities to survive tomorrow's challenges.

Is it possible to do both well or is there an inevitable trade-off between executing and adapting?



# Barriers to Adaptability



# Risk – Opportunity & Threat

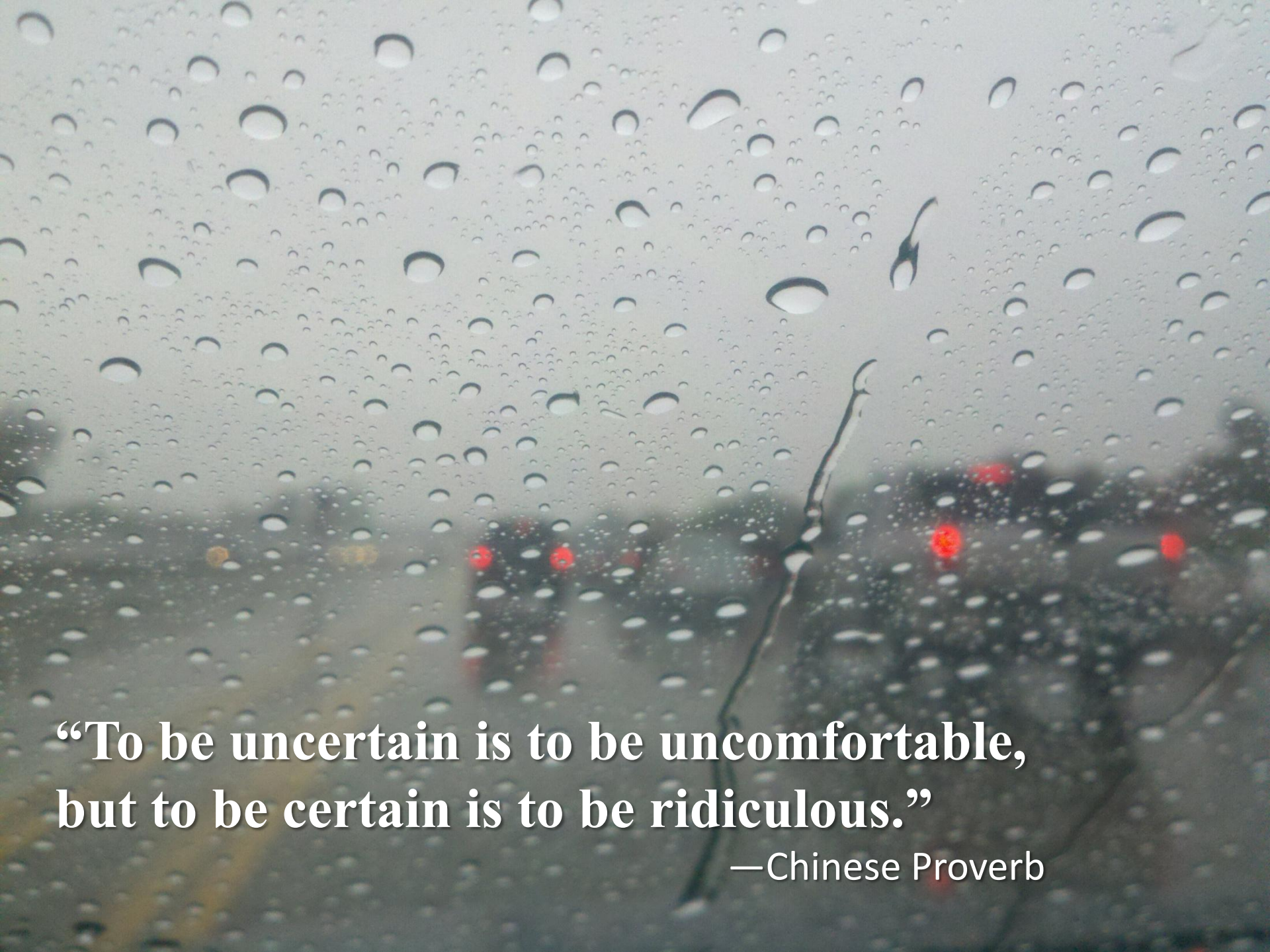
危機

Danger

Opportunity

- The Latin word *riscus* was derived from the Greek navigation term *rhizikon*, meaning “root, stone, cut of the firm land,” which designated “a difficulty to avoid in the sea.”
- The French may have adopted their word “hazard,” used to express risk or exposure to danger, from the Arabic *al zahr*, referring to dice, a game the Crusaders brought back to Europe





**“To be uncertain is to be uncomfortable,  
but to be certain is to be ridiculous.”**

—Chinese Proverb

# Why predictions fail?

- Remote shopping, while entirely feasible, will flop—because women like to get out of the house, like to handle merchandise, like to be able to change their minds. – Time Magazine, 1966
- There is no reason anyone would want a computer in their home. - Ken Olson, Digital Equipment Corp, 1977

**What if it becomes true in a decade?**

# Once in a Lifetime Crises 1982-2008

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South and Central American default 1982  
U.S. Savings and Loan Crisis 1985  
Space Shuttle Challenger 1986  
October Stock Market Crash 1987  
U.S. high-yield bond market collapse  
and demise of Drexel Burnham 1990  
Salomon Brothers 1991–92  
Sterling Crisis 1992  
Metallgesellschaft 1993  
U.S. bond market crash 1994  
Orange County, CA, bankruptcy 1994  
Mexico 1995  
Daiwa Bank 1995  
Barings Bank 1995  
Sumitomo 1996  
Asian financial crisis 1997

Russian sovereign default 1998  
Long-Term Capital Management 1998  
Brazil 1998–1999  
Dot-com bubble bursts 2000  
9/11 and payment system disruption  
2001  
Enron/Andersen 2001  
Argentine crisis 2002  
German banking crisis 2002  
Space Shuttle Columbia 2003  
Hurricane Katrina 2005  
Amaranth 2006  
Subprime mortgage crisis 2007  
Credit bubble bursts 2007  
Real estate bubble bursts 2007  
Bernard Madoff investment fraud 2008  
The “Great Recession” 2008–09

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# The Impact of the Highly Improbable



One Black Swan is enough to disprove  
“All swans are white”

Nassim Taleb refers to rare, random, high-impact events as “black swans.”

# Keefe, Bruyette & Woods



## THE WALL STREET JOURNAL

September 6, 2011  
Page 1 of 3

### A Battered Firm's Long Road Back

Keefe Bruyette Has Strong Revenue and a Wall Street Niche, but It Still Lives With the Painful Memories of Sept. 11

By Andrew Ross

"I don't want people to forget about the day, even if I don't see it," says Julia D'Onofrio, "But not everybody remembers."

Two years after Sept. 11, 2001, the investment bank Keefe, Bruyette & Woods Inc. is still reeling from the Sept. 11 attacks. The firm's revenue is still recovering from the shock of the Sept. 11 attacks. The firm's revenue is still recovering from the shock of the Sept. 11 attacks.

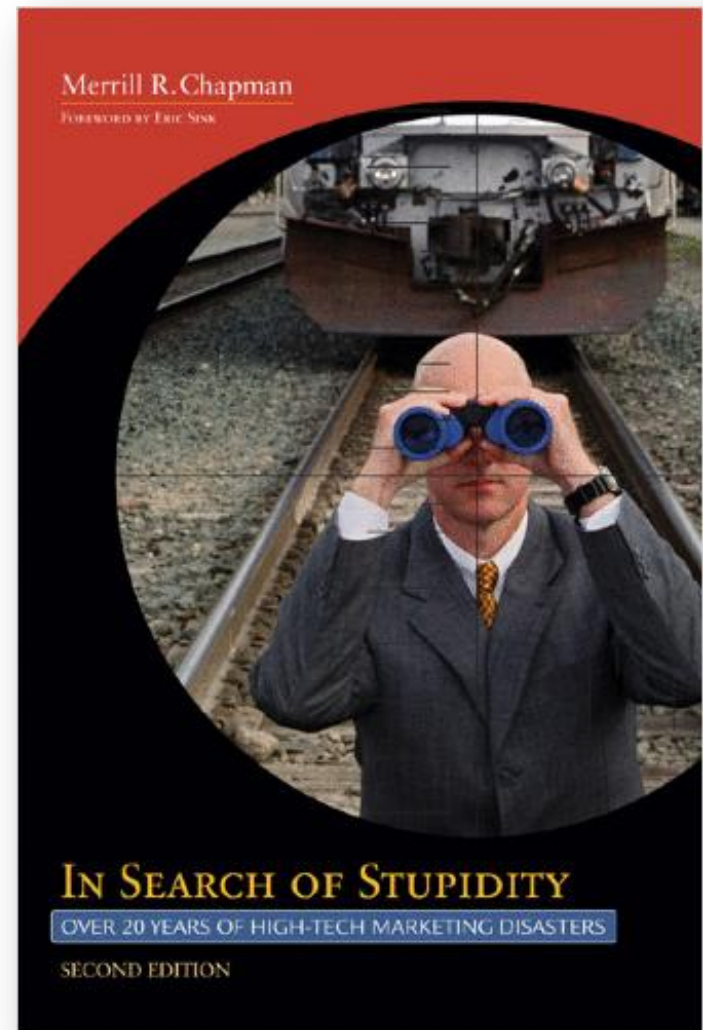
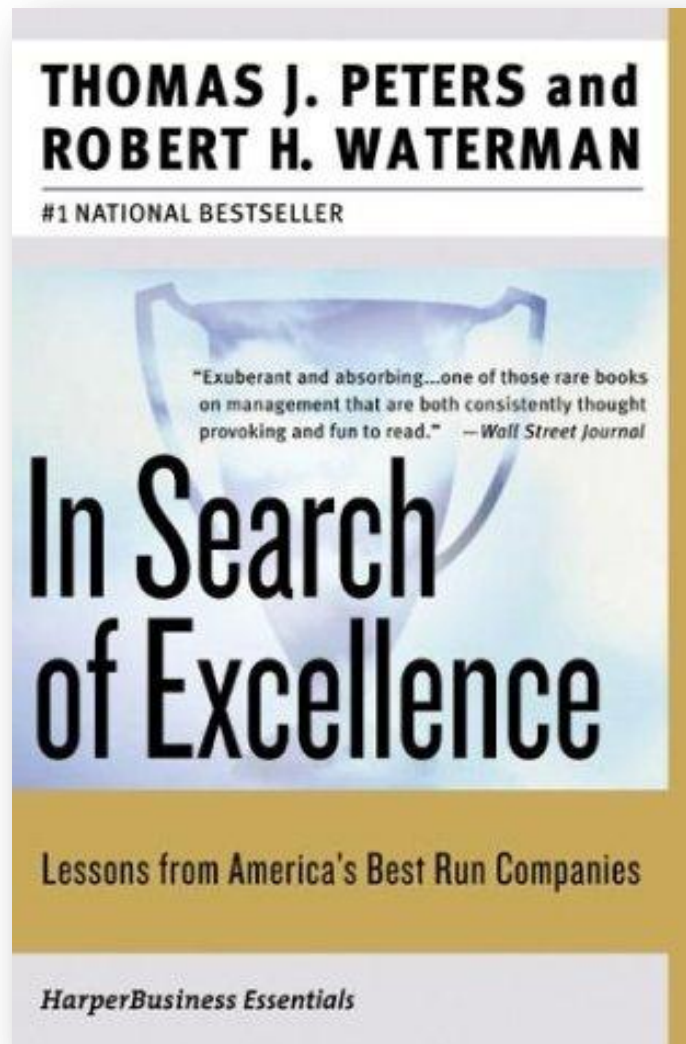
Keefe, Bruyette & Woods Inc. is still reeling from the Sept. 11 attacks. The firm's revenue is still recovering from the shock of the Sept. 11 attacks. The firm's revenue is still recovering from the shock of the Sept. 11 attacks.



Photo: Andrew Ross, CEO and chairman of Keefe, Bruyette & Woods, was busy from his office when the towers were struck during the World Trade Center attacks.

“KBW's offices were gone, along with much of its records and many of its key staffers, from the chairman to its star analysts and most of its traders. More than one-third of the firm's 171 New York employees were gone.”

# Decisions determine Destiny



# Lack of Adaptability

Top Software Publishers in 1984			Top Software Publishers in 2001			Global Software Top 10 in 2011			
Rank	Company	Annual Revenue (\$ Mil.)	Rank	Company	Annual Revenue (\$ Mil.)	Rank	Company	Software Revenues <i>mIn US\$</i>	Total Revenues <i>mIn US\$</i>
1	MicroPro Intl.	60	1	Microsoft Corp.	23,845	1	Microsoft Corp.	54,270	67,383
2	Microsoft Corp.	55	2	Adobe	1,266	2	IBM	22,485	99,870
3	Lotus	53	3	Novell	1,104	3	Oracle	20,958	30,180
4	Digital Research	45	4	Intuit	1,076	4	SAP	12,558	16,654
5	VisiCorp	43	5	Autodesk	926	5	Ericsson	7,274	30,307
6	Ashton-Tate	35	6	Symantec	790	6	HP	6,669	126,562
7	Peachtree	22	7	Network Associates	746	7	Symantec	5,636	6,013
8	MicroFocus	15	8	Citrix	479	8	Nintendo	5,456	13,766
9	Software Publishing	14	9	Macromedia	296	9	Activision	4,447	4,447
10	Broderbund	13	10	Great Plains	250	10	Blizzard		
							EMC	4,356	17,015
Source: In Search of Stupidity 2 <sup>nd</sup> Edn						Source: softwaretop100.org			

Every single company except Microsoft (later Symantec) have disappeared from the top ten

# HMT



**Dominated the market for many decades before the electronic watches came in to market**



# Where will this go?



“If you can’t win by being big, be small. If you can’t win by being small, be big. The first rule of winning is that there is no one way to win”

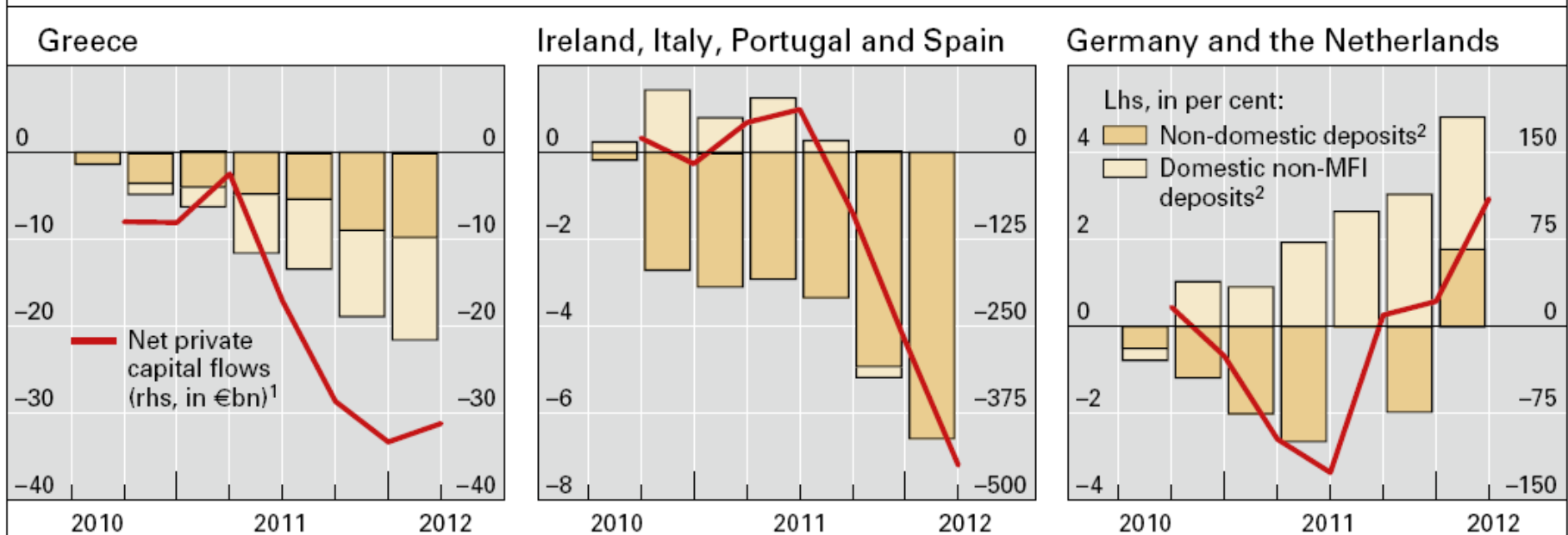
-Max McKeown, *Adaptability: The Art of Winning In An Age of Uncertainty*

# Print Media

- One of the most Resilient industry
- Faced competition from Tabloids, different Electronics media – 24x7 News Channels, Internet, Social media
- Adapted to every big waves – Web portals, Blogs, ePaper, tablet versions, etc.

# Global Uncertainty – EURO crisis

## Euro area bank deposits and private cross-border capital flows

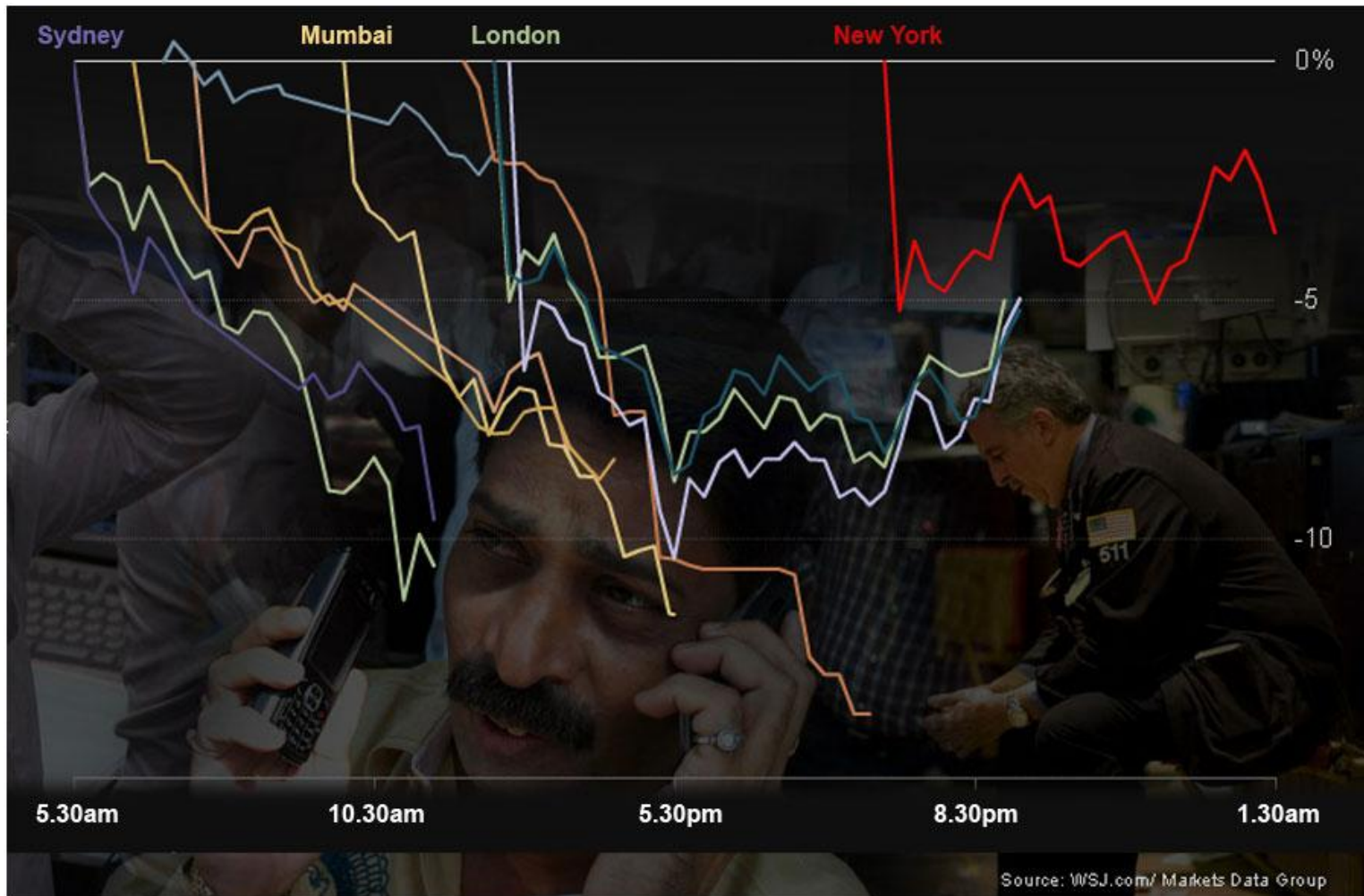


<sup>1</sup>Cumulative since end-June 2010, estimated as cumulative current account deficits minus changes in TARGET2 liabilities to the ECB minus cumulative disbursements from EU-IMF programmes where applicable. For further details, see H-W Sinn and T Wollmershäuser, "Target loans, current account balances and capital flows: the ECB's rescue facility", *NBER Working Papers*, no 17626, November 2011. Latest available observation used. <sup>2</sup> Cumulative change, including repos, as a percentage of total deposits at end-June 2010. MFI = monetary financial institution.

Sources: Central banks; Eurostat; IMF; BIS calculations.

Graph II.11

# Are Markets Efficient and Rational?



According to conventional financial theory the chance of the prior worst drop, Black Monday, October 19, 1987, was less than 1 in 10 to the 50th power. -

**“Odds so small have no Meaning”.**

# FED – Balance Sheet



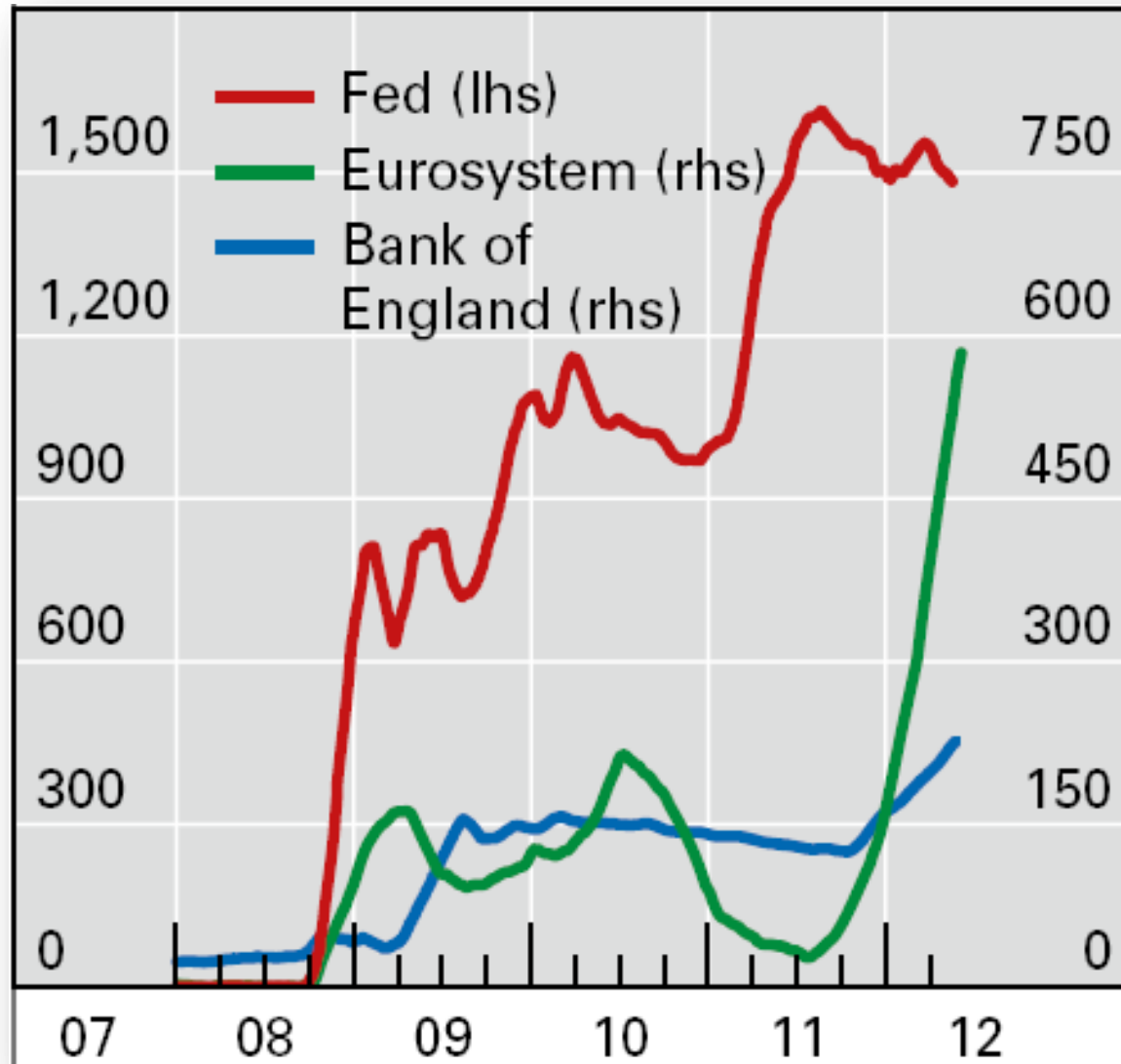
## Federal Reserve Banks Combined Statements of Condition

As of December 31, 2011 & December 31, 2007

\$ in billions

<b>Assets</b>	<b>2011</b>	<b>2007</b>	<b>Liabilities</b>	<b>2011</b>	<b>2007</b>
Gold	11	11	Currency in Circulation	1,034	792
Discount Loans	9	49	Reserves	1,562	21
Treasuries	2,806	816	Other Liabilities	323	102
Forex Assets	26	22			
Others	67	18			
<b>Total Assets</b>	<b>2,919</b>	<b>915</b>	<b>Total Liabilities</b>	<b>2,919</b>	<b>915</b>

# Excess reserves of commercial banks



Excess reserves in billions of local currency units

# China Learnt to Adapt in 1978



India did it in 1991





# India Growth Prospects

- Can future of IT services be retained in India?
- Are we putting enough efforts to improve the brand IT?
- Domestic Growth Engine – will it run faster?

# Political Uncertainty



**Public Protest Rally; Fast-unto-death; *Jail Bharo Andolan*; Political Party**



**THANK YOU**

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