

An Agile Business Approach in Uncertain Times

frustrating. They start five or six months early with promises of visionary transformations that quickly give way to tedious templates, endless financial forecasts, haggling over targets, and battling for resources. Companies have an opportunity to make a clean break this year, with the pandemic requiring a more agile approach.

Organisations and leaders have an opportunity during this recovery period to go beyond just getting back to normal. It is our belief that leading organisations will seize the opportunity that this crisis has presented to reinvent their business and create new sources of advantage in what will inevitably be a 'new normal'.

There is no defined playbook for leaders in this instance; the only real certainty that exists is that no business strategy will survive fully intact. Leaders that focus on being prepared for the inevitable uncertainties will be better placed than those trying to predict the unpredictable.

Leaders must now refocus their organisations from one of crisis, contingency, reaction and inward focus, to that of programmatic and coordinated market-facing reinvention. Preparing a recovery plan of action should be the highest priority for leaders and doing so requires a more considered understanding of the new business environment.

The objective of this article is to equip business leaders with questions to consider as they prepare their organisations for the 'new normal': -

- *What are the plausible scenarios that may unfold as a result of the crisis?*
- *What are the characteristics of the future business environment – the macro trends and sustained disruptions?*
- *What opportunities and risks will this new environment offer our industry and organisation?*
- *What changes should be made to existing business and operating models?*
- *What are the key strategic choices and 'no-regrets' moves to make in the next 3-12 months?*

Here are three things that work more effectively in generating improved planning & budgeting outcomes.

Change the Purpose of Planning and Budgeting:

Most planning and budgeting systems are designed to help senior executives predict, command, and control. Predict precisely what the company must do to deliver smooth, stable trends in earning per share (EPS). Command each siloed business unit and function to execute detailed plans that will add up to the desired total. Then rigorously control activities within each silo to make sure people conform to plans and deliver required results.

First, analyses by Bain & Company and others finds that predictable EPS trends explain only 1% of total shareholder returns. **Improving performance (return on invested capital and earnings growth), on the other hand, has 30 times greater impact. It pays to plan for higher performance, not for predictable earnings.**

Second, **the predict, command, and control model is especially ineffective in periods of constant crises** and black swan events like pandemic disease, social unrest, digital disruption, military conflict, terrorist attacks, financial shock, and environmental crisis. Historically, two-thirds of successful new businesses have had to ditch their original strategic plans to cope with unforeseen market conditions. In a world of unpredictable and accelerating change, long-term forecasts will be increasingly unreliable, and commanding people to stick to flawed plans will grow more dangerous.

Effective planning and budgeting **define success as improving outcomes for customers, employees, investors, and communities** — *not as hitting budgets*. It **focuses on learning, adapting, and growing** — not on trying to predict the unpredictable. It tells the truth about forecasts, making it commendable to expose honest uncertainties and potential pivot points — not pretend they are unthinkable.

Shift the Focus from Financial Precision to Strategic Success:

A better approach is to turn the targeted outcomes developed in step one (above) into strategic portfolio guidelines that drive the budgeting and adaptation process. These guidelines **force discussions that allocate resources from the strategy down**, rather than from individual projects up.

Here are some typical questions strategic portfolio guidelines might raise:

- *What are the outcomes that will be most important for strategic success?*
- *Considering those priorities, where should resources go? For example, how much of our resources should go to running the business (operations) versus changing the business (innovations)?*
- *Within innovation, what's the right balance of resources going toward incremental innovation versus breakthroughs?*
- *How much should go to various customer segments?*
- *How much should go to different sales and distribution channels, geographies, business units, brands, or product lines?*
- *How much of our technology resources is properly spent on keeping current systems running versus developing new features or improving architecture?*
- *What hypotheses must be true for these resource allocation strategies to work, and how can we test them most quickly and efficiently?*

When executives tag individual investments with these strategic classifications and add them up, they often discover surprising patterns. Their greatest growth opportunity may turn out to be losing market share and investing little in innovation. Ninety percent of the technology budget may be going to simply keeping the lights on and fixing legacy systems. Investment in the online channel preferred by key customers may turn out to be woefully low.

By properly aligning resources with strategic priorities, companies can better see the tough trade-offs that should be made but aren't working — either because of neglect or because decisions are being made by the wrong people.

This has only become more important in the current turbulence. Executives responsible for strategic outcomes should make the resource trade-offs to achieve them. In agile organizations, such as NatWest Group (formerly Royal Bank of Scotland), performance units submit not only their recommended resource allocation plan but also what they could deliver with 20% more or 20% less. **They anticipate what could be cut without sacrificing strategic objectives and how they should respond to unexpected events and results.**

Plan Faster and More Frequently:

If budgets are inflexible and a crucial forecast can't be adjusted, the person making it naturally obsesses over its accuracy. Left untouched, even small mistakes can compound over time and make a mess of plans. However, if we can adjust a long-term forecast every quarter, month, or week, we can continually improve its accuracy in far less time and with far less effort. **Setting bold, challenging objectives and then adjusting plans to incorporate valuable lessons learned is the best way to improve.**

Five-year business strategies are hard to predict. **Fortunately, business planning can follow the following principles: describe an expected path, estimate the uncertainty and a reasonable range of outcomes, clarify the hypotheses behind the predictions, track the validity of those hypotheses, change those that are wrong and adapt the plans to achieve the best possible results in light of the most accurate information.**

For most companies, traditional planning and budgeting has a comfortable certainty built into it. It's hard to give that up. But precision is not the same as accuracy and **plans that are flexible enough to focus on what truly creates value are worth the discomfort.**

Exploring Plausible Future Scenarios- Some Questions:

- *Which of our previous expectations need to be rethought?*
- *What prospects seemed unlikely or years away, but could now be accelerated?*
- *What might consumers particularly value in each scenario?*

- How might this vary across key variables (for example, regions, segments, or demographics)?
- What are the biggest threats to our current business in each scenario?
- What mitigations and preparations are required?
- What new providers, companies, business models, and ecosystems might emerge?
- Which existing companies are best positioned to succeed?
- What capabilities, relationships and assets are important in each of these scenarios?
- How might our investment choices need to change?

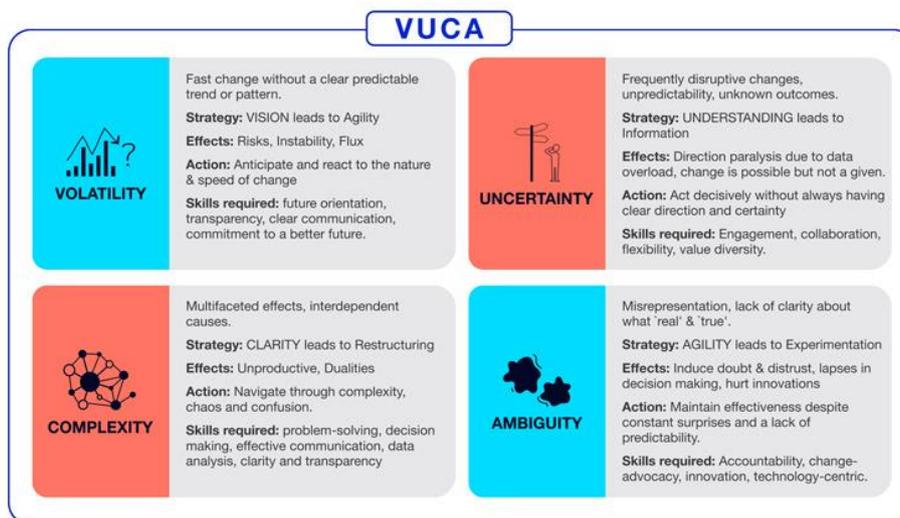
Questions for exploring the Macro Environment Trends:

- What aspects of government intervention will create opportunities for our business?
- Which regulations will require changes in our current strategy?
- Do we proactively monitor the regulatory environment?
- Can we manage the increasing speed at which regulation is made and updated?
- Are changes to the geopolitical landscape affecting international trade or global supply chains?
- Is there a rise in interventionist or protectionist government policy?
- Have government interventions and stimulus packages been effective in helping economies hibernate and emerge relatively unscathed?
- Is there increased difficulty accessing capital for small or medium businesses?
- Is the balance shifting towards individual privacy and liberty or towards societal security?
- Will societal and environmental trends that were rising pre-COVID return, accelerate or drop-off?

Questions for Business Leaders on Business Model Shifts: -

- To what extent are customer needs, preferences and consumption patterns shifting?
- Will consumer confidence and demand take on similar levels in similar market segments?
- What business model changes are required considering the 'new normal' customer needs?
- What new segments, services, products and propositions will emerge from the crisis?
- Which sector value chains have proven vulnerable and lacking in resilience requiring fundamental overhaul?
- What new partnerships and ecosystem collaborations will sustain operational continuity in the new normal?
- How will the work of businesses change, and what are the resultant impacts on global and virtual workforces and workplaces?
- How has the criticality of physical assets and infrastructure changed?
- What heightened monitoring and remediation capabilities are required?
- What long lasting changes to the cost of global goods and services will occur?
- How will the wide scale adoption of digitisation, advanced analytics, accelerated cloud technologies and platforms and artificial intelligence create advantage for our business?

Over the past few months, leaders have been put to the test, forced to make decisions on highly complex and systemic issues amidst rising ambiguity and volatility. Over the months ahead, as countries navigate the health and economic crisis, businesses will emerge from hibernation, faced with the task of powering back up and shaping their recovery in an economic and business environment that remains highly uncertain. **We are now truly living in and adapting to a "VUCA" world – filled with Volatility, Uncertainty, Complexity and Ambiguity.**



Leaders will be required to make choices that will have immediate and longer-term implications. Having a more considered understanding of the evolving business environment, accelerating trends and a vision for what the 'new normal' aspiration for the business should be, is crucial.

Act Now

No one action, by itself, can dispel a heavy cloud of uncertainty or significantly mitigate its impact. But if organisations can get out of their defensive crouch and assume a more aggressive stance, they have a better chance of maintaining their balance and shaping their future. Building and harnessing the mutually reinforcing attributes of optionality, agility, and resilience will enable leaders to adopt the strategies and mind-sets that allow them to succeed in the full spectrum of uncertain outcomes. Pursuing this path takes a lot of courage. Companies must consciously lean into changes and counterintuitive activities in the precise moments when it is most uncomfortable to do so, or when the forces of inertia and gravity are pushing them toward a predictable outcome.

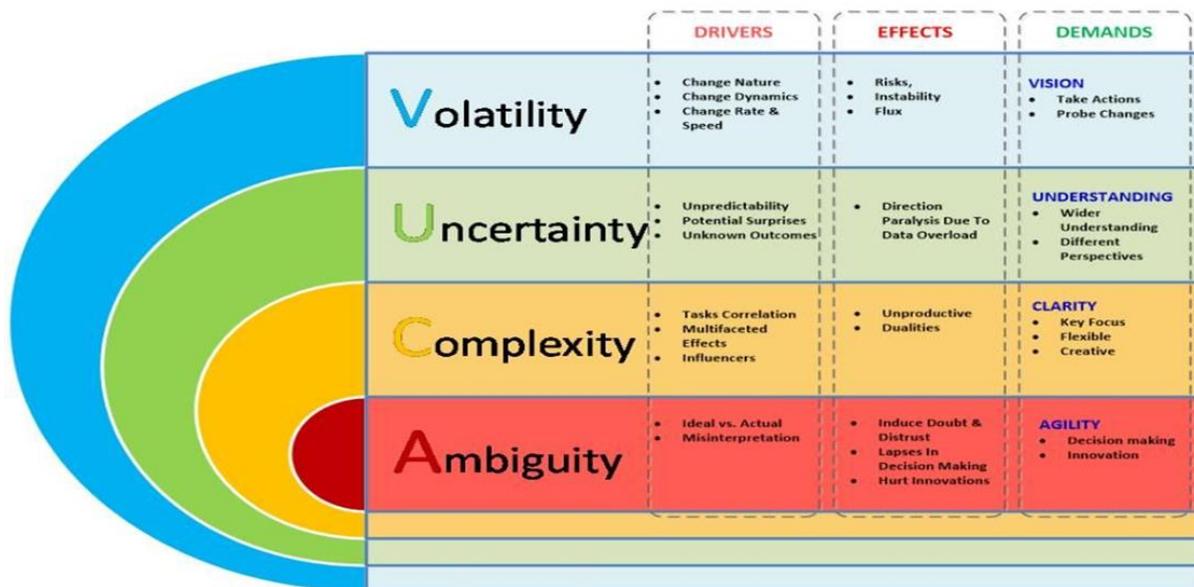
What does “VUCA” (expressed in positive terms) mean for your leadership and your business strategies?

VISION - Paint a picture of the future you want, linked to your business purpose (or revised purpose). Together; as a compass and for orientation; in order to confer meaning and spark motivation for you and the business team– and to forge internal and external identity and effectiveness.

UNDERSTANDING - Understand interconnections; make them transparent. Reflect on the context. Think and plan meta-strategically. Start from the result and work backwards. Harmonise skills. Embrace and exploit behaviours and reactions. Convert anxiety and resistance into productive energy.

CLARITY - Focus on what counts and what it really means for your business- Trust, transparent connections and processes. Apply energy and force exactly where they will be most effective.

ADAPTABILITY/AGILITY - Flexibility. Scrutinise hierarchical management techniques. Promote a consistent culture for making decisions and accounting for mistakes. Interact transparently with objections. Facilitate innovation and build up resilience.



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