



Planning and strategising during turbulence

Executive summary

The business landscape (organisations' contextual environment) is characterised by turbulence which describes conditions which are uncertain, complex and volatile. Standard forecasting and planning tools as well as standard winning strategies are inadequate in these conditions. Scenario planning and collaborative value-building strategies are described as alternatives.

Introduction

The global economic downturn, combined with the long-term restructuring of the economic order, has changed the business landscape fundamentally. Hence, organisations are finding it increasingly difficult to plan for the future, and as Ian Davis, worldwide managing director of consulting firm, McKinsey's, states:

'For some organizations, near-term survival is the only agenda item. Others are peering through the fog of uncertainty, thinking about how to position themselves once the crisis has passed and things return to normal. The question is, 'What will normal look like?' While no one can say how long the crisis will last, what we find on the other side will not look like the normal of recent years. The new normal will be shaped by a confluence of powerful forces—some arising directly from the financial crisis and some that were at work long before it began.'

Complex and messy problems at global, societal, national, regional and organisational level are a reality. The global economic situation, for example, shares similarities with the challenges of global climate change and global energy security. Each is shaped by the deliberate and unintended outcomes of a complex interplay of human activities. A recent book on the topic (*Business Planning for Turbulent Times*) explains that 'the problem is the problem' because of the inherently uncertain impacts on a global level and the many different actors involved.

Turbulence

'Turbulence', in colloquial English, is the word used to describe those conditions that are uncertain, complex, and changing unpredictably and often quickly (volatile¹). The term turbulence is also used very specifically to refer to causal texture theory² which was produced by Fred Emery and Eric Trist and their colleagues at the Tavistock Institute in London during the 1960s. They developed a taxonomy of causal textures of environments in which organisations aim to survive and thrive, drawing particular attention to 'turbulence'. An organisation is exposed to a turbulent environment when that environment is dynamic, unpredictable, driven by continuous societal and technological change, and with increasingly salient linkages between the organisation's contextual variables and events driving the uncertainty. In other words, it is not just about the interactions and interdependence of systems (organisations and economies), but that the institutional arrangements governing the contextual environment as a whole are starting to break down

¹ Volatility can be measured by taking the high and low stock market prices for a given year and dividing that range by the mean level. Doing so reveals a long-term trend line with a positive slope, meaning that the amount of unanticipated change has steadily increased over time. The slope is even steeper for more recent decades, suggesting that considerably more uncertainty lies ahead.

² Causal texture theory deals with systems trying to survive and thrive in their environments in a sustainable way. The inside (a system / organisation) and the outside (the environment of that system) 'co-evolve' in the sense that systems and their environments mutually and systematically influence each other, and they proceed into the future together.

and become a source of instability - 'the ground is in motion' (Ramírez, R, Selsky, J, Van der Heijden, K., 2008:150).

Not only do organisations need to function (and survive) in these conditions; they also need to plan for the future, make investment decisions and attempt to gauge how they will perform in the coming months and years.

In low uncertainty situations, standard budgeting and forecasting tools can be used for planning, but it is imperative to keep in mind that that low uncertainty is typically characterised by

- slow-moving, 'mature' industries with a stable set of competitors;
- not under threat of technology changes or regulatory upheavals; and with
- unchallenged customer segments and supply chains.

Furthermore, low uncertainty forecast situations are ones where

- there are good and relatively complete data sets available;
- initial conditions are easy to establish;
- the system is relatively closed with few inputs, or pairs of closely associated variables instead of many subtly interacting ones;
- the context is relatively static, including stable technologies and regulation with a well-understood competitive environment; and
- a short time horizon is being considered.

For turbulent (high uncertainty, complex and volatile) situations, standard budgeting and forecasting tools are inadequate, partly because they lack a 'sense-making' component. Standard 'winning strategies' where organisations would try to optimise and act on competitive advantages are also inadequate because they are ineffective. The planning tools will first be discussed.

Scenario Planning

Scenario planning is a tool that organisations can use to help them imagine and manage the future more effectively by making sense of the complexity and uncertainty in which they have to make decisions. The scenario process highlights the principal drivers of change and associated uncertainties facing organisations today, and explores how they might play out in the future. According to the *Economist*, more and more companies are using scenario planning alongside their financial models and have developed contingency plans for each scenario so that they can act swiftly depending on how the future unfolds. Instead of spending their time thinking; 'what are the chances that X or Y or Z will happen?', managers are spending their time thinking; 'what if X happens, what's our strategy? What if Y happens, what's our strategy?...'

At its most basic level, scenario planning involves telling stories about different/alternative futures and how they may pan out. Telling stories about these futures helps businesspeople prepare for, and cope with them. The scenario method begins with a recognition of the unpredictability of the future, but acknowledges that decisions need to be taken in the present that will have future implications. Unlike traditional business forecasting or market research, scenarios do not merely extrapolate current trends - they present alternative images of the future.

Through discussion, decision-makers and planners can explore what they would do differently in each scenario. They can identify success criteria, suggest new ways of working and define new relationships. Generally, these differ in each scenario - and the discussion helps participants build a shared understanding of how the increasingly complex changes taking place in the world are likely to affect their activities.

One of the greatest advantages of scenarios is that they mimic how most people mentally deal with future uncertainty and change in their own lives. According to author Adam Gordon,

scenarios reach for the storytelling, narrative tradition in human cognition, which is an ancient way of capturing the imagination, educating ourselves and others, and grappling with the complex tapestry of life.

Scenarios never predict the future. Rather they provide the means to consider today's plans and decision-making processes in the light of potential future developments. It is important to note that scenarios may be used in a number of ways, *viz*, to

- structure thinking about the future;
- strategise about the future;
- road test or stress test existing strategies against alternative futures;
- develop visions of preferable futures;
- create shared mindsets and frameworks about the future;
- incorporate contradictions and opposing views into planning for the future;
- identify unintended consequences and outcomes of current actions and choices;
- plan for future uncertainties and/or identify emerging risks and opportunities; and
- imagine the future in order to improve today's decision making.

The other great advantage of scenario planning is that it does not exclude the use of other (quantitative) tools and forecasts, and it can be used very successfully in conjunction (and integrated) with other corporate planning approaches.

In recent years, scenario planning has become one of the most popular strategy and long-term thinking tools³, used by many of the world's top companies, influential government agencies, and community organisations to make sense of and succeed in a turbulent, uncertain world.

'Winning' strategies

In low uncertainty placid situations, typical successful strategies (strategies to 'win') include optimisation, tactical advantages, opportunism, distinctive competencies, etc. However, when the ground is moving, the above-mentioned approaches are nullified and/or paralysed by turbulence.

Emery and Trist (as well as McCann & Selsky and Babüroğlu who extended their original work⁴) indicate that successful responses to turbulence are about 'escaping' the influence of turbulence by adopting a code of behaviour to which a significant number of players can subscribe. This engenders the emergence of values and the creation of institutions, the role of which is to defining and protect generally applicable behavioural codes designed to divert and cope with turbulence, ie, collaborative endeavours and sanctioning bodies. A practical example is organisations, together with their competitors, signing up to, and acting on, corporate governance and sustainability measures.

Successful, winning strategies centre around taking a systems approach and building adaptive capacity and resilience in order to deal with uncertainty, as well as the organisation's ability to learn and converse between and among groups. (See also the work of Peter Senge in this regard; *The Fifth Discipline* and *The Necessary Revolution. How individuals and organizations are Working together to create a sustainable world.*)

Conclusion

Uncertainty, complexity and volatility are the new norm; hence, organisations need new planning tools and new winning strategies to survive, thrive and cope with the turbulence. Scenario planning and collaborative value-building are two approaches well worth considering.

³ According to the *Harvard Business Review* there has been a dramatic shift in the use of scenario-and-contingency (S&C) planning tools. Starting in 2002, use leaped above the mean (for all management tools combined), nearly doubling to reach 70%. Use has remained at or above the mean ever since, hitting 72% in North and Latin America, 74% in Europe, and 64% in Asia-Pacific. Moreover, executives are finding the tool more valuable.

⁴ For an excellent summary of the causal textures framework, appropriate responses and expansion of the original framework see *Business Planning for Turbulent Times* pp. 88; 150-151.

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