

Unpredictability

is the new normal



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TODAY'S WORLD IS MUCH MORE UNSTABLE, CONVULSED BY THE VICISSITUDES OF GREAT-POWER RIVALRY, THE AFTERSHOCKS OF THE PANDEMIC, ECONOMIC UPHEAVAL, EXTREME WEATHER, AND RAPID SOCIAL AND TECHNOLOGICAL CHANGE.

UNPREDICTABILITY IS THE NEW NORMAL. THERE IS NO GETTING AWAY FROM IT.

Four compounding drivers of unpredictability



**The number of
change vectors
has increased**



**The forecast
end-point for
each vector vary**

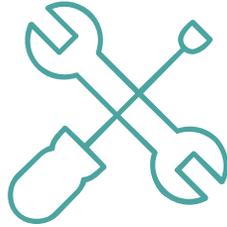
**Most change
vectors are
inter-related**

**The timing for
when we will reach
each end-point is
uncertain**

Strategy-making in turbulent times requires two fundamental changes:



1



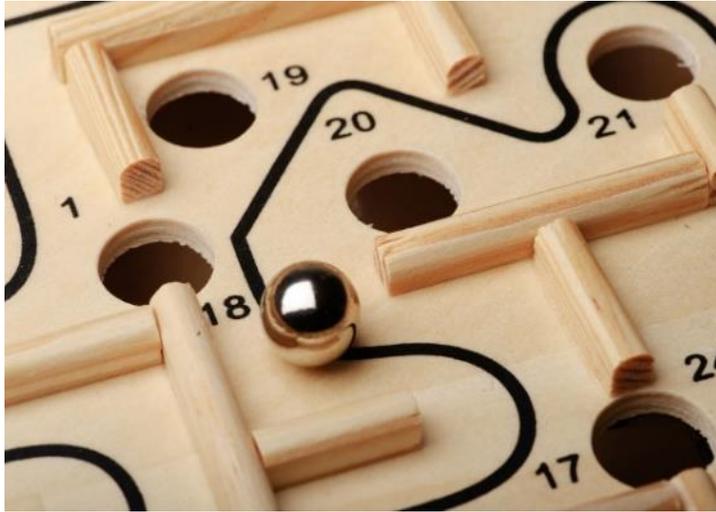
Leadership must change the **tools** it applies in making strategic choices – the “strategic decision-making model”

2

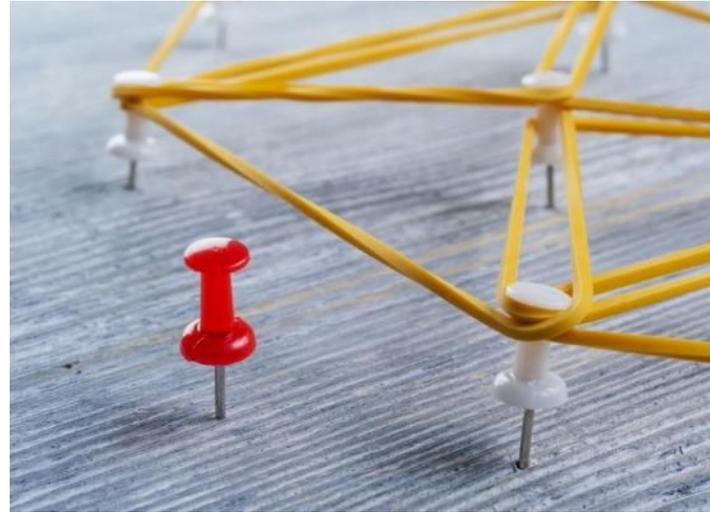


Leadership must change the **process** it uses to prioritize and sequence strategic choices – the “strategic management process”

1 In an unpredictable world, traditional *frameworks* and *tools* for strategic decision-making break down – making them ineffective, even obsolete ...



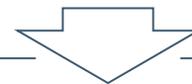
Decisions are mis-prioritized and mis-sequenced



Interdependences and linkages between decisions are ignored

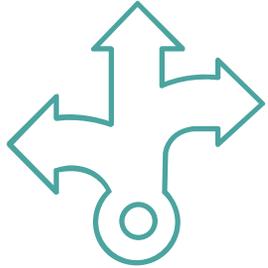


Flexibility and optionality are undervalued in making decisions



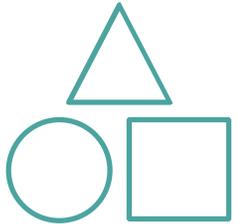
**Decisions are made incorrectly, at the wrong pace, or in the wrong order →
foreclosing too many valuable, strategic options**

1 Leadership must change the **tools** it applies in making strategic choices – the “strategic decision-making model” – to incorporate three elements:



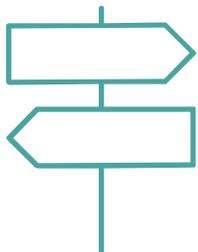
Consider extreme, but plausible scenarios

- Represent extreme but plausible end-states to capture the edge cases of potential outcomes
- Account for interconnections and linkages between change vectors
- Clarify the variables that matter most (and on which to set signposts)



Incorporate flexibility and optionality into strategic choices

- Explicitly capture the value of any “real options” created (or destroyed)
- Recognize the implicit value of flexibility in an uncertain business environment



Identify trigger points, signposts and metrics

- Help management determine which scenario the business most likely finds itself
- Drive strategic choices (including “stop and redeploy”) and/or course corrections

1 New tools change the outputs of strategic decision-making to help leadership make three discrete sets of choices:



1. No-regret moves

Decisions that are likely to create value under most/all scenarios



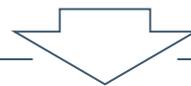
2. Measured bets

Decisions with uncertain outcomes that create *hedgies and options* that are valuable under many scenarios *and/or* support critical learning



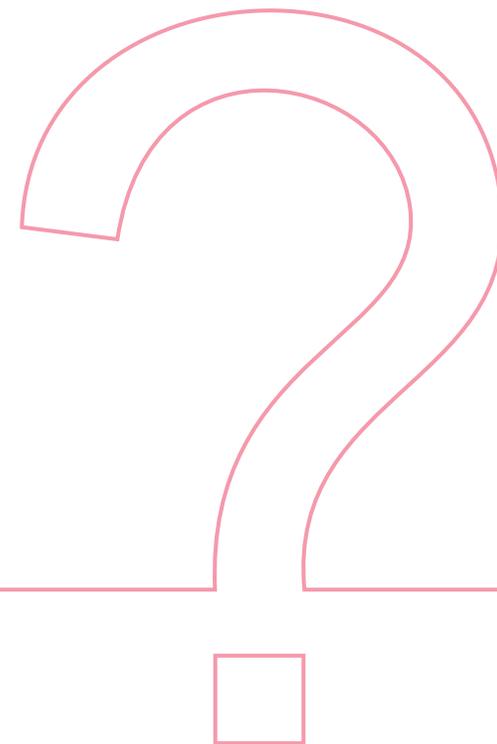
3. Big bets

'One-way door' decisions, for which scenarios present conflicting views, requiring significant conviction in the future state



Evolution of traditional decisions processes and tools are critical to ensure the right decisions are made, in the right sequence, and at the right pace to capitalize on all “measured bets” and “big bets”

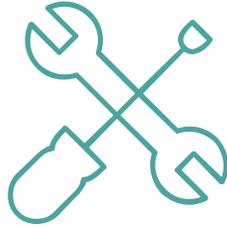
Questions



Strategy-making in turbulent times requires two fundamental changes:



1



Leadership must change the **tools** it applies in making strategic choices – the “strategic decision-making model”

2



Leadership must change the **process** it uses to prioritize and sequence strategic choices – the “strategic management process”

2 Traditional *management processes* are challenged to cope with increasing volatility and uncertainty – the “plan then do” model fails



Traditional model

Strategy development

‘Batch’ process

- Calendar-driven, “batch” model poorly aligned with the need for continuous decision making
- “Plan then Do” vs. “Test and Learn”

Developed in vertical silos

- Siloed strategies are not well-aligned with critical decisions that cross organizational boundaries
- The whole is worth less than the sum of parts

Resource allocation

Incremental

- Traditional “incremental resource allocation” misses critical path investments in infrastructure and new talent
- “Small bets placed in every square” vs. select strategic options
- Budgets drive strategy, not vice versa

Performance management

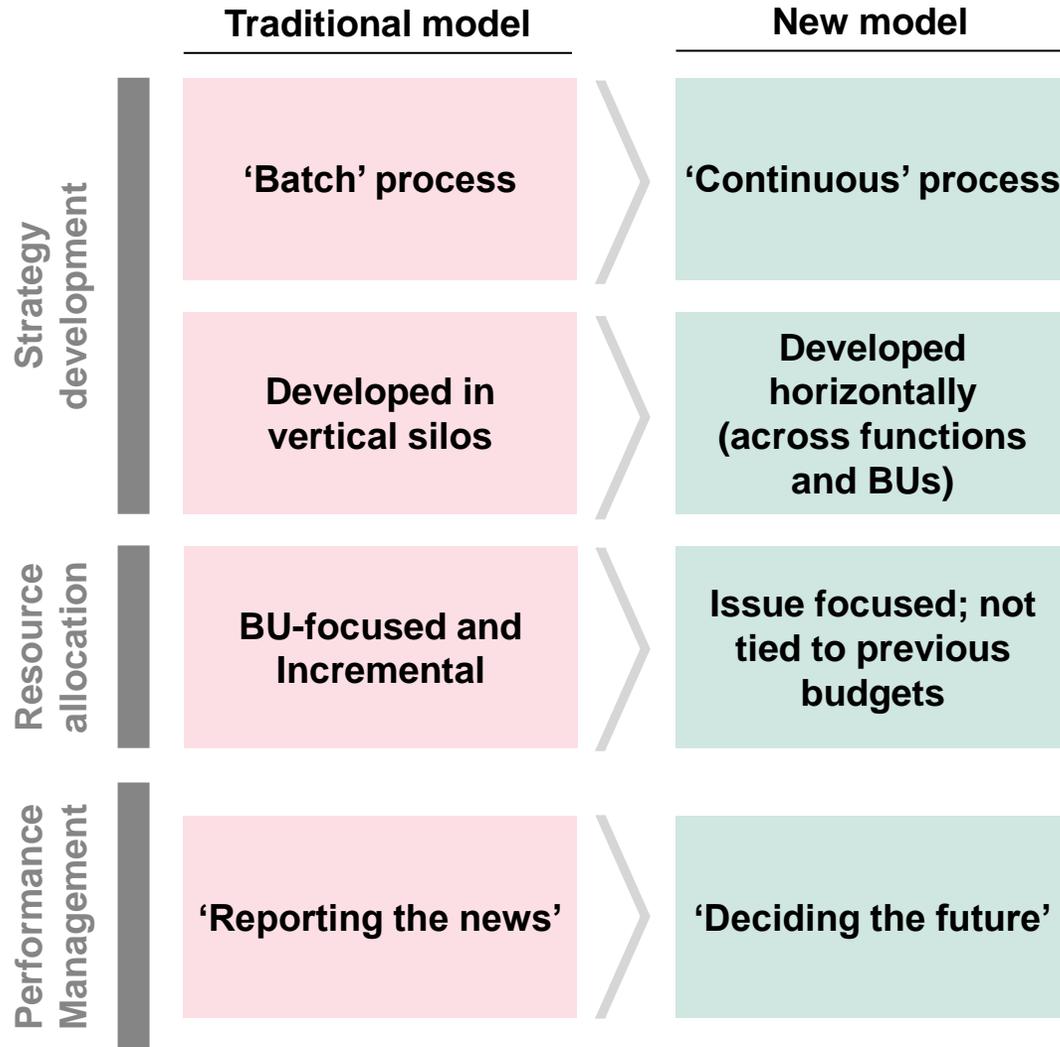
‘Reporting the news’

- Traditional “weather report” model misses root cause of performance shortfall
- Push for incremental improvement vs. stop and redeploy

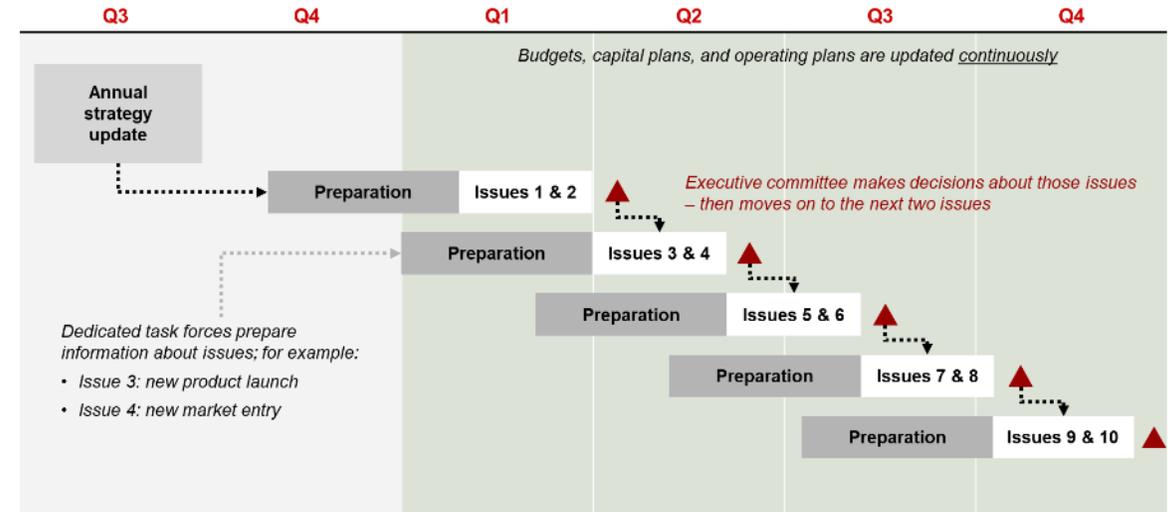
2 To cope with unpredictability across-the-board, leadership must move from a static, strategic planning process to **dynamic strategic management**



STRATEGY

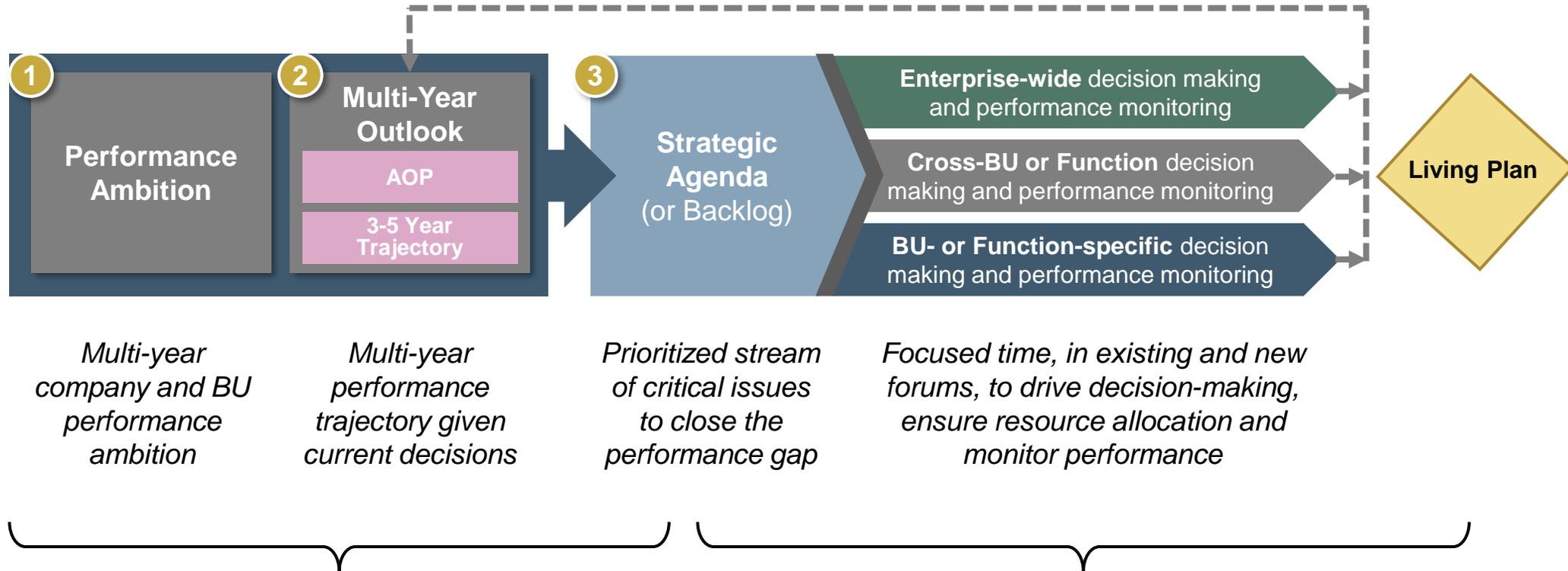


Example: continuous process for strategy development



- ✔ Cross-functional agile teams established **to address issues**, not singular plans by BU or function
- ✔ **Cross-issue interdependencies** are carefully assessed
- ✔ Budgets and capital plans for affected units updated to **reflect resource commitments tied to decisions**

2 The new approach to strategic management uses both annual and continuous elements to support the creation of a **“Living Strategic Plan”**



Multi-year company and BU performance ambition

Multi-year performance trajectory given current decisions

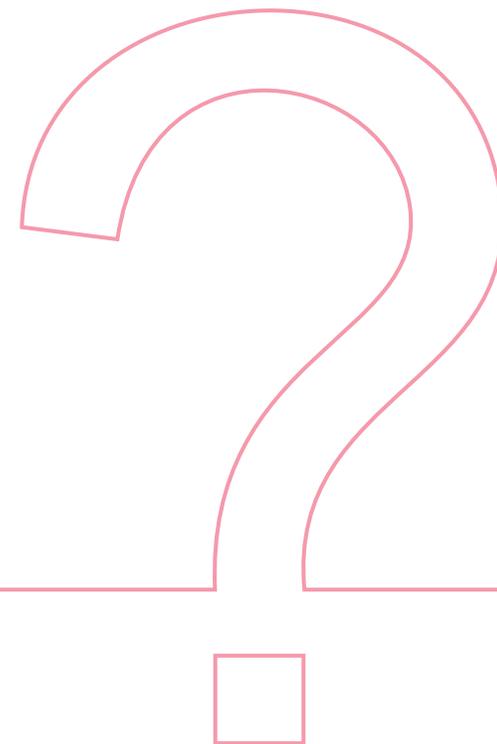
Prioritized stream of critical issues to close the performance gap

Focused time, in existing and new forums, to drive decision-making, ensure resource allocation and monitor performance

Annual processes that size the performance gap and develop a prioritized backlog of strategic issues

Continuous strategic management, including decision making, resource allocation and performance monitoring

Questions



Important takeaways



Virtually every sector of the economy is experiencing dramatic increases in volatility and uncertainty



The traditional approaches companies use to make choices and develop strategic plans do not produce winning strategies in today's unpredictable age



To cope with increasing uncertainty, leadership must employ new tools and frameworks for making strategic choices under extreme uncertainty ...



... and leadership must move from a static strategic planning model to a dynamic and continuous strategic management process



Companies that move quickly to revise their strategies and strategic management processes will move ahead and stay ahead no matter how the future unfolds