

Board Strategies for Uncertain Times

Directors' Strategies during Fragile and Uncertain Economic Environments

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Purpose, priorities, goals and objectives can sometimes be critiqued, discussed and resulting changes communicated more quickly than the time many companies take to periodically review the strategies they employ to pursue and hopefully achieve them. In uncertain times, is greater flexibility, continual adjustment, real time strategic direction and intelligent steering rather than periodic strategy reviews required? Do assumptions, priorities and/or approaches need to change? Are wider perspectives needed? Who else and what other parties should be involved? What form if any should annual planning take? Should a single corporate strategy be replaced or complemented by aligned strategies for different purposes and timescales?

Reviewing Strategy Formulation Processes and Practices

Uncertainty has long been a reality for many boards. Various techniques have been used to provide alerts, monitor and assess developments, and explore different scenarios and possible outcomes. Models have been developed, risks analysed and simulations run. Back-ups are organised, contingency and recovery arrangements put in place, and economic, business, account and relationship prospects and scientific and technological developments reviewed. Disparate elements and interests have to be brought together, aligned and reconciled. How might adaptation and necessary transitions best be enabled, facilitated and supported? To survive, do



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companies need to become an adapting organism or system and forge new relationships? Could they work with natural ecosystems to help them and us to adapt?

The consequences of recent events, whether a global pandemic, an autocrat's brutal invasion of a neighbouring country, or the temporary blockage of the Suez canal suggest an economic and trading environment that is uncertain, fragile and vulnerable to disruption. Some boards have reviewed strategies, such as those for manufacturing and distribution, in order to reduce their exposure to resulting risks. When large numbers of containers are in the wrong places, their costs and those of shipping may increase. Delay can be disastrous for perishable goods and seasonal markets. Disruption can threaten energy and food security, play havoc with just in time manufacturing and lead to a relocation of operations.

Pressing issues have emerged alongside longer-term challenges in global and operating environments. Their combination suggests that strategy formulation processes and practices may need a first principles review. Crises of uncertain duration and more evident fault lines between groups of states also complicate the collective and longer-term action needed to address certain existential challenges facing humankind. There are questions that may need to be asked about whether boards are operating in a new reality, the sorts of strategy that might now be appropriate or even possible, corporate purpose and priorities, and how strategic direction should be exercised in an uncertain, fragile and, for some, a threatening environment.

Recognising the Need for Adaptation and Change

As formerly practiced by many companies, strategy formulation, associated planning and policy deployment, and subsequent execution have been lengthy, convoluted and periodic processes requiring significant management time at certain times of the accounting year. They have been disruptive and what was agreed often inhibited executive attempts to cope with dynamic situations and unfolding events. In such contexts, outputs rarely stood the test of time. They often required regular and costly amendment, or they were ignored or shelved.

Some directors are constrained, or even imprisoned, by their own expectations, approaches and reactions born of past experiences. Habits and routines formed over time and used to cope with predictable events and situations that once occurred on a regular basis may no longer be appropriate. Previous norms may not apply in a different context. Across the natural world, living organisms have evolved ways of coping with daily cycles and seasonal challenges of life. Many of them now struggle to deal with the consequences of accelerating environmental change and they face extinction. Without adaptation we may share their fate.

Communities and societies as well as companies face a problematic future. Some directors are dealing with anxious,

concerned, demanding or restless stakeholders. They may find they could learn more today from political memoirs than business histories, particularly about how to hold people together and continually renew support during uncertain journeys when the unexpected can and does occur. To intelligently steer a course, a board needs to remain engaged and motivated, and be alert, open to possibilities, prepared to revisit assumptions and test alternatives, and quick to learn.

Endeavouring to Progress When the Future is Uncertain

Reading the road ahead is easy to advocate, but sometimes difficult to do during a metaphorical night or fog and when the route is not clear. Attempting to plan or steer an economy has been likened to driving a car without a front window to see what is coming and only a rear view mirror that shows a driver where he or she and the occupants of a vehicle have been. In the case of a company, some directors in such circumstances that survive might catch disappearing glimpses of opportunities they did not see until it was too late. They should perhaps pull over and seek help. Rather than dwell on missed possibilities, they should be ready for future ones.

For some directors, the reality of their roles is more demanding than the analogy of driving a car might suggest. While some rules of the road might still exist, those in the form of laws and regulations might take time to review and update. The nature of organisations and work, business and market models, and digital and other technologies are all evolving and fluid. It can sometimes be as if one is driving off road, through a landscape that is being continually reshaped, in a vehicle that is being remodelled, with a changing group of fellow occupants, while being confronted with the unintended consequences of past decisions.

Attempting to chart a course when a situation, circumstances and context are all changing, may be like trying to negotiate a road that is being re-routed and make sense of warning signs that are being altered or replaced. Much can depend upon what aspects of a situation and context are considered fragile and uncertain, the nature, likely extent and duration of possible changes and developments, and estimated probabilities. When negative externalities are not identified, assessed and addressed, directors may be unaware of the likely consequences of their actions, as if using a map without key features, and so ignorant of certain realities.

Recognising and Encompassing Probabilities

Responsible board leadership in relation to the social and environmental consequences of corporate activities is difficult when externalities, whether costs or benefits, are ignored or overlooked. The information on which decisions are based may be incomplete. Confidence accounting recognises that a range

of different estimates could be conceivable and various outcomes might occur, each with probabilities attached. Single numbers are replaced with distribution curves that give more of a feel for various potential values and the risks involved.

When a range of possibilities might happen, boards should be alert to limits and triggers. By when does a decision need to be taken? What priority should be placed upon requirements for action and resources? Knowing when to act can be as important as agreeing a strategy. At what point might an activity cease to be viable or a trend become unstoppable? What would be an acceptable or optimum moment to buy, sell, invest or divest? When might slack run out? How much variation will be tolerated before a contract is deemed to have been broken?

A suggestion of certainty or uncertainty can sometimes be dangerous. Strategies, plans and reports with single numbers can mislead in ambiguous, dynamic and/or volatile situations. Allegations of uncertainty or exaggerated certainty can also be exploited. Those opposed to what is being sought or undertaken may seek to throw doubt on assumptions and/or the data upon which they are based. For decades and despite the emergence of a scientific consensus and the views of scientists they employed, certain major oil companies questioned the view that human activity and the use of fossil fuels were a cause of global warming.

Avoiding Dangerous and Unintended Consequences

Uncertainty can sometimes be imagined or fake rather than real. It may be alleged in the face of overwhelming evidence. Earlier collective responses to climate change were frustrated by attempts to undermine an IPCC view by organised vested interests such as the Global Climate Coalition promoting contrary views. Directors should be alert to attempts to procrastinate and avoid action by counselling caution until matters are clarified. Advocating delay can prevent risk analysis, contingencies, preparation for possible eventualities and required responses.

The very existence of a strategy or plan may encourage a false sense of security. Stakeholders may mistakenly believe that an issue has been understood, acknowledged and properly and responsibly addressed. They may consider a matter on which they might like to be engaged or consulted to be closed. People can sometimes become over confident. They might relax when and where they should be alert and vigilant. For many individuals, prolonged periods on edge can be unsettling. They can strain concentration and nerves and lead to feelings of insecurity.

A strategy or plan might lead some people to believe that a question has been settled or an issue has been dealt with. Concerned individuals may feel it is too late to question and

challenge, where the lack of an articulated position might have encouraged thinking, involvement and contribution. Fixed positions can be dangerous and high risk. Confident boards encourage continuing critique. They recognise that like knowledge and understanding, what a company sets out to do is what was thought to be the best course of action at a moment in time, with the information available when a decision was taken, or a strategy was approved. Strategies should live. They may need to evolve rather than become tablets of stone.

Remaining Open to Possibilities

Current economic uncertainty and fragility can lead to anxiety, particular dangers and the need for contingency arrangements. That things might fall apart at any moment can also increase a longing for certainty, the familiar and a safe berth or mooring in a storm. While some people may be uncomfortable with uncertainty, it may have to be tolerated until a sustainable way forward and confident expectations are determined. For many companies, openness, flexibility, fluidity, relevance and fit could be more important than feeling, rightly or wrongly, that a settled position or conclusion concerning future options has been reached.

Questions may be asked about whether and when pendulums might swing back and return to a level of normality or stability. Certain colleagues may want to return to a previous situation, while others might recognise that some stakeholders may already have revised their expectations and moved on and that others may follow. Strategy need not involve projections or what may be thought of as plans. Ideally it should enable an entity to cope and thrive. Teams, units, relationships, projects, ventures and networks may all require a bespoke approach that is appropriate, regularly critiqued, remains relevant, can be adapted and evolves.

In current circumstances, organic rather than mechanical approaches and analogies may be more appropriate. If required, strategies should continually adapt, evolve and perhaps mutate. They may have to remain open, be exploratory, stay flexible and be subjected to ongoing consultation and discussion. Project, venture and business unit plans may have to be replaced by real time models, simulations and scenarios. These might incorporate learning, issue alerts and allow directors to ask 'what if' questions. For some boards they may have a limited life, as assumptions quickly become out-dated, and are changed, re-programmed or re-set.

Reconciling Disruption and Purpose

If strategies are to be socially and environmentally responsible, many directors who are in denial concerning possible consequences of recent events and likely impact of corporate and collective activities may need to confront realities. While reference is made to a 'VUCA' environment that is volatile,

uncertain, complex and ambiguous, some existential threats such as global warming and climate change are clear and relatively straightforward in their trajectory. Their impacts can already be experienced and a scientific consensus suggests some of their consequences can now be predicted with an increasing degree of confidence. What is less certain is the nature and scale of our collective responses. Should these now be a shared and common priority before it is too late?

The nature of some disruptions can be anticipated. For example, people are often laid off during a recession, slowdown or lockdown. Recruitment and training of new staff may be required at a time of rapid recovery when customers are trying to catch up, or make up for missed opportunities or lost time. Obtaining talent and bouncing back may be a challenge. Pent up demand can increase economic upswings, create shortages and lead to inflation. The consequences could include cost of living pressure and chaos at bottle necks such as airports, their severity depending upon corporate and Government strategies to cope with economic swings. Action to deal with them, and crises that exacerbate them, may frustrate longer-term aspirations and priorities.

Directors should ensure that as events unfold and existential threats loom, the people of an organisation think and adapt rather than just repeat what they have previously done. For example, where prices have been steadily rising for some time, the practice may have been to enter into longer-term fixed price contracts. However, when prices are unstable and at an all-time high or an unusual and unexpected peak, it may be better to retain flexibility at renewal points, until a temporary issue is fixed or a trajectory becomes apparent. Short-term actions should not derail steps to achieve a core purpose such as addressing an existential threat.

Establishing Complementary and Collaborative Strategies

While a consensus may have emerged that action is needed to deal with an existential challenge such as global warming and climate change, the means of achieving desired aims and/or outcomes could be varied. There are multiple opportunities for innovation, enterprise and entrepreneurship. The contemporary world, in which there are many possibilities to invent new games as well as approaching existing ones differently, could be seen as an opportunity to differentiate, stand out and achieve an impact. It also offers the possibility of aligning interests, purposes, priorities and strategies around a common goal of survival.

Where collaboration is required for effective collective responses, activities, priorities and underpinning strategies may have to be discussed and negotiated with other entities. To invite co-operation in their formulation and implementation, strategies may need to be portrayed as enabling, open and

inclusive, rather than as fixed, closed and exclusive. Executives with the ability to establish mutually beneficial relationships of trust with other parties will be at a premium. New coordination and governance mechanisms may also be required.

Many busy executive directors may well be focused upon their own corporate entity, continuity, the maintenance of relationships and standards, and the implementation of established policies. In uncertain times, the role and relative detachment of independent directors may become even more important for ensuring a board monitors external developments, and ensures the continuing pursuit of shared goals and aligned and sustainable strategies across value chains and collective and collaborative responses to existential threats.

Ensuring Board Engagement and Commitment

The duration, trajectory, impact and/or outcome of a pandemic, conflict, disruption, economic crisis or other event, and of Government policy or other responses to them, may not be clear. However, some omens are sobering. Self and vested interests abound. Many people remain addicted to unsustainable practices and lifestyles. Social objectives are often pursued at the expense of the environment. Delayed net zero targets increase the risk of triggering tipping points, after which global warming may be unstoppable. Higher energy prices and surging purchases of Russian fossil fuels by some countries continue to fund the country's illegal and unprovoked invasion of Ukraine. The UN Security Council is unable to take effective action against an aggressor that is a permanent member and able to exercise veto.

The auguries are not encouraging. However, a sombre context and the categorisation of issues and situations as uncertain, complex or ambiguous should not be allowed to become an excuse for inaction and risk aversion. Support appears to be growing for collective action to address shared existential threats. Recognition of the requirement for greater resilience, mitigation, adaptation and transition to more sustainable alternatives to current operations and lifestyles is growing. Some people are prepared to make sacrifices, whether for principle or to avoid greater future pain. There are also boards willing to critique, think and address conundrums and grasp nettles.

There are principles that can be established to guide the review of strategic direction, such as the need for resilience, flexibility and fluidity; and the avoidance of being locked into commitments that prevent rapid adaptation and change, and the scaling up or contraction of activities as requirements, situations and circumstances alter. Achieving them can require judgement calls and the balancing of interests, especially when flexibility for some may result in perceived insecurity for others. The involvement of key stakeholders may need to increase.

Board chairs and a board itself should ensure all directors remain engaged and committed.

Undertaking Difficult Conversations

Strategies for a sustainable future in the face of multiple existential challenges may involve repeated re-purposing, re-invention and re-training during transitions and transformations. Where continuing operation is undesirable when negative externalities and longer-term consequences are taken into account, execution could include slowing up and scaling back, disposal or re-use of assets, recovery of scarce natural capital, laying off or redeploying people, shutting down, winding up and allocation of any realised value. Greatly impacted stakeholders may need to be involved in discussions and the exploration and co-creation of a shared future. Reputation, trust and relationships can depend upon how they are treated.

Boards should be proactive rather than defensive, open up rather than narrow perspectives, and encourage exploration and initiative. There are difficult questions that may need to be asked, with implications for contractual commitments with customers, suppliers and employees, such whether an activity, unit or a whole company and its business has a future. Scientific and technological breakthroughs abound. Applying and/or combining them may create new possibilities, and, for many, the prospect of a new start. Their use might require adjustment and patience. In volatile situations, AI and people might need time to learn. For how long will lessons remain relevant? Will motivation be maintained in transient situations?

Strategies require flexible and intelligent implementation that keeps options open and enables learning and evolution. When alternatives and fundamental changes are urgently required, directors should ensure the obstacles and barriers that abound in many organisations are addressed. Do functional, departmental, business unit and corporate boundaries inhibit collaboration and cross entity and multidisciplinary cooperation? Are colleagues aware of vested interests, largely hidden constraints, or what during board discussions may seem no-go areas? Are they gaming, manipulating performance measures, or focused on implications of events for themselves rather than the company? Why are some questions not asked?

Co-creating Strategies for a Shared Future

When assessing the relevance or viability of an inherited strategy, it is often helpful to understand how it was formulated and by whom, and when it was agreed and last reviewed. Many strategies reflect issues and priorities at the time they were approved and/or reassessed. The current era differs from previous ones in the extent to which so many individuals and different forms of organisations around the world are facing the same existential threats and similar challenges. There is potential for an alignment of shared interests and collective responses are needed. In an uncertain, unstable, transitioning and volatile environment, more frequent reviews linked to continuing monitoring are necessary.

While mindful of their interests, many boards have either not involved stakeholders when formulating strategies, or have only consulted a few key ones. Consultation with affected interests may be more advisable when fundamental and/or disruptive options are on the table that greatly impact them. Should more boards outline the purpose of reviews and changes, explore options with stakeholders and discuss what they could do to enable them, and handle their consequences, including participating in related opportunities? Adaptation, mitigation and innovation priorities, resource requirements, their involvement and that of other parties, and management and governance arrangements could be considered.

The nature of threats and scale of current challenges is such that sets of complementary and aligned strategies might emerge, involving varying combinations of entities of different types. Given the greater freedom of action corporate boards may have compared with their community and public body equivalents, company directors could play a key role in the co-creation of aligned strategies. Lessons learned about reinvention, repurposing, and creating a desirable and sustainable future can lead to positive and inclusive externalities when they also benefit affected communities and wider society. ■

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