

# Managing Uncertainty

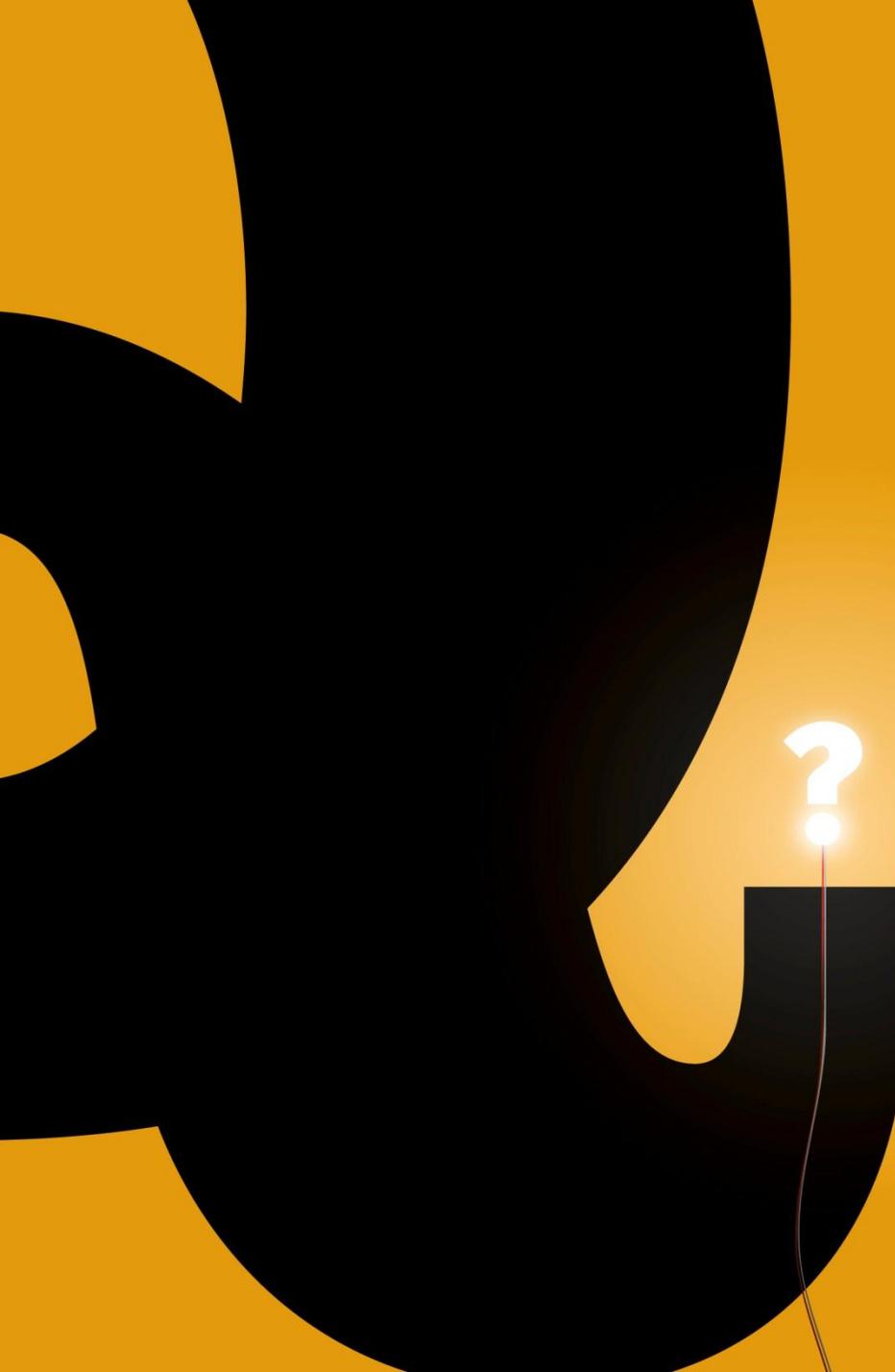
A summary revealing the findings of the survey



**Managing uncertainty:  
strategies for surviving and  
thriving in turbulent times**

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## Introduction

The global financial crisis that began in 2007 has had a large impact on businesses throughout the global economy. There are few, if any, industries that have not been affected in some way.

The effects of the crisis are not yet over. There is a large amount of residual risk in global markets indicating that today's world is more uncertain than before. This residual risk gives businesses the imperative to become better at managing this uncertainty.

Our recent survey asked 200 business leaders to reflect on their own responses to the crisis to determine what lessons can be learned.

This is a summary of the key messages coming out of the survey and the detailed results used to form these conclusions.



# Key messages from the survey

## **What should organisations do?**

Cautiously battening down the hatches in a crisis is not a winning strategy any more. To be a winning business you need to manage uncertainty as an opportunity to out-manoeuvre your competitors:

### **Make sure you respond faster than your competitors**

The highest performing companies identified the crisis early and responded quickly

### **Remove inefficiency but protect competitive advantage**

The highest performing companies had a quick but moderate approach to cost reduction

### **Plan to come out with a sustainably higher market share than you went in with**

The highest performing companies had a far more positive outlook and they recognised that instability creates opportunity

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## **Make sure you respond faster than your competitors**

### **Shorten the time from observation to action**

- Spot the signs quickly, most companies didn't believe the situation was serious until the fall of Lehmans, approximately one year after they should have known

### **Understand the signs**

- Use systems thinking or other holistic frameworks to help understand the ramifications of market developments
- Investigate several scenarios to assess the impact of events and plan accordingly
- Use a range of sources. Avoid group-think, branch outside of your industry, speak to independent experts and don't rely too much on the media
- Decide fast: Most companies took a further six months to respond, an 18-month loop from observation through to action

### **Move fast**

- There is a strong correlation between speed and subsequent satisfaction with decisions

## **Remove inefficiency but protect competitive advantage**

### **Cost cutting is a natural and correct response to uncertainty**

- 82% of companies reduced their costs

### **Avoid panic reactions of cutting costs to the extreme**

- look to remove genuine inefficiency without slashing staff costs, which can seriously damage customer service, morale, productivity and hence the ability to grow
- The highest performing companies were measured and focused and did not cut excessively, tried to preserve staff and avoided fire sales of businesses

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## **Plan to come out of uncertainty with a sustainably higher market share than you went in with**

### **Plan flexibly**

- For example move from budgets to scenarios, with concrete actions to improve positioning

### **Strengthen governance and empower staff**

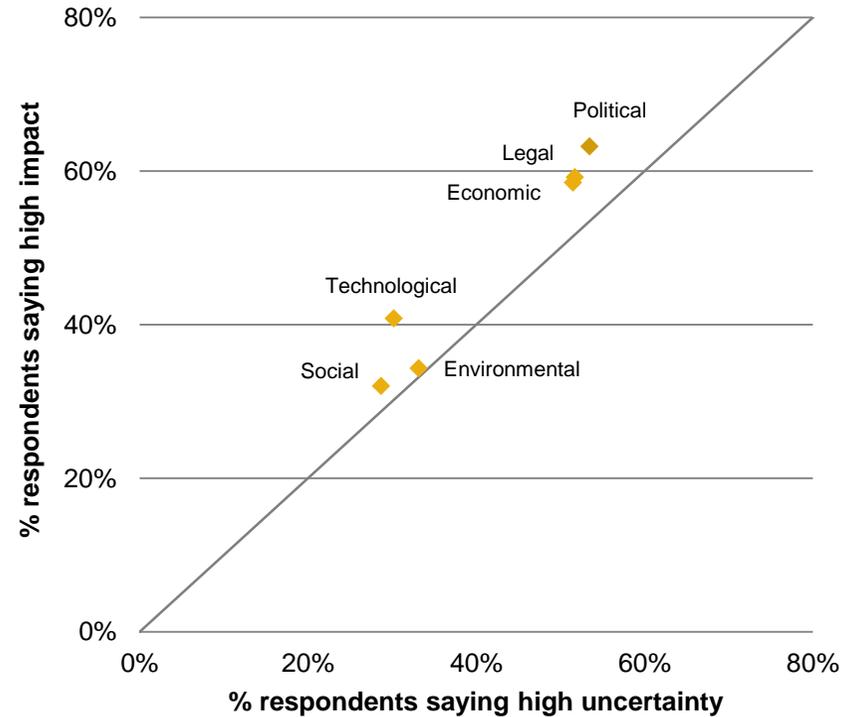
- avoid paralysis and be ready to mobilise when the opportunity arises

### **Take advantage of opportunities**

- keep abreast of competitor actions and look out for opportunities – a recession is a bad time to sell but a good time to buy, e.g. businesses, talent, marketing and advertising

## Respondents identified economic, political and legal (regulatory) areas as key uncertainties impacting their business

% of respondents identifying each category as high uncertainty and/or high impact



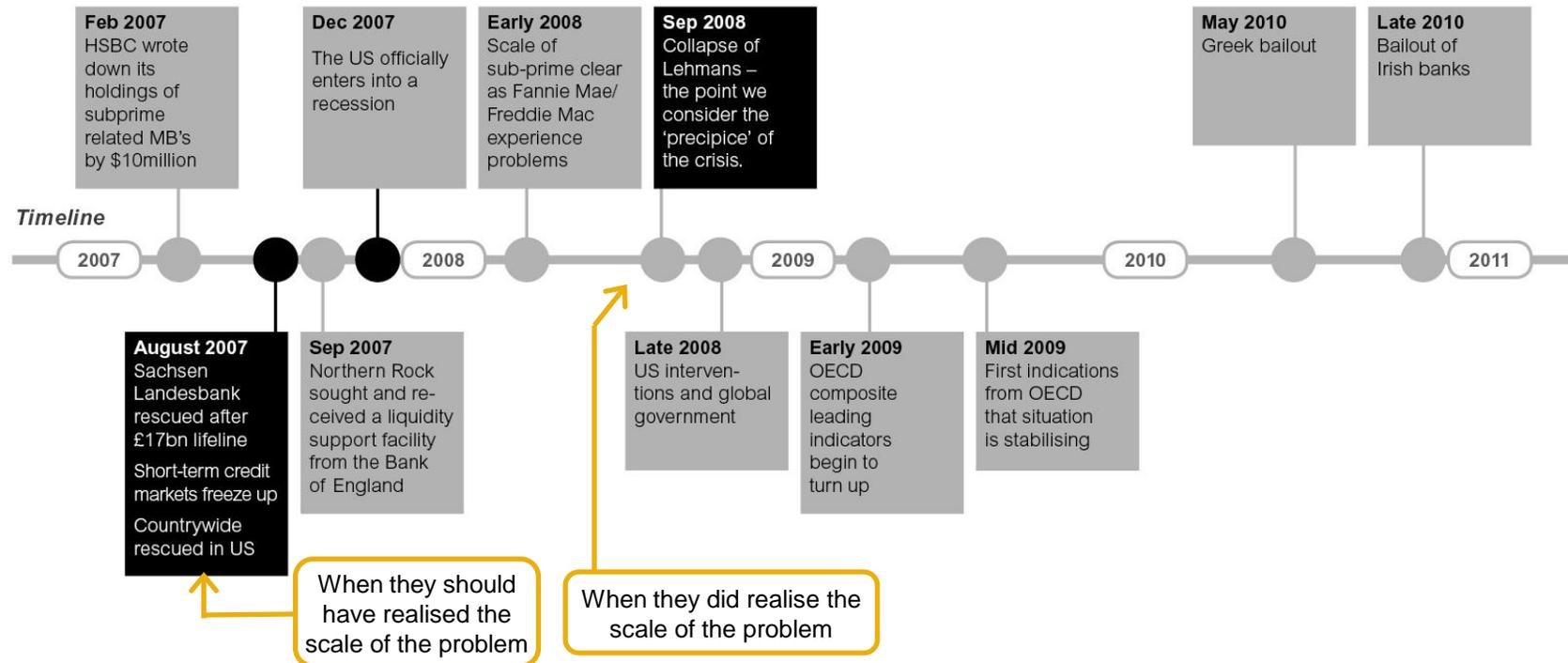
# **Make sure you respond faster than your competitors**

The best companies identified the crisis  
early and responded quickly



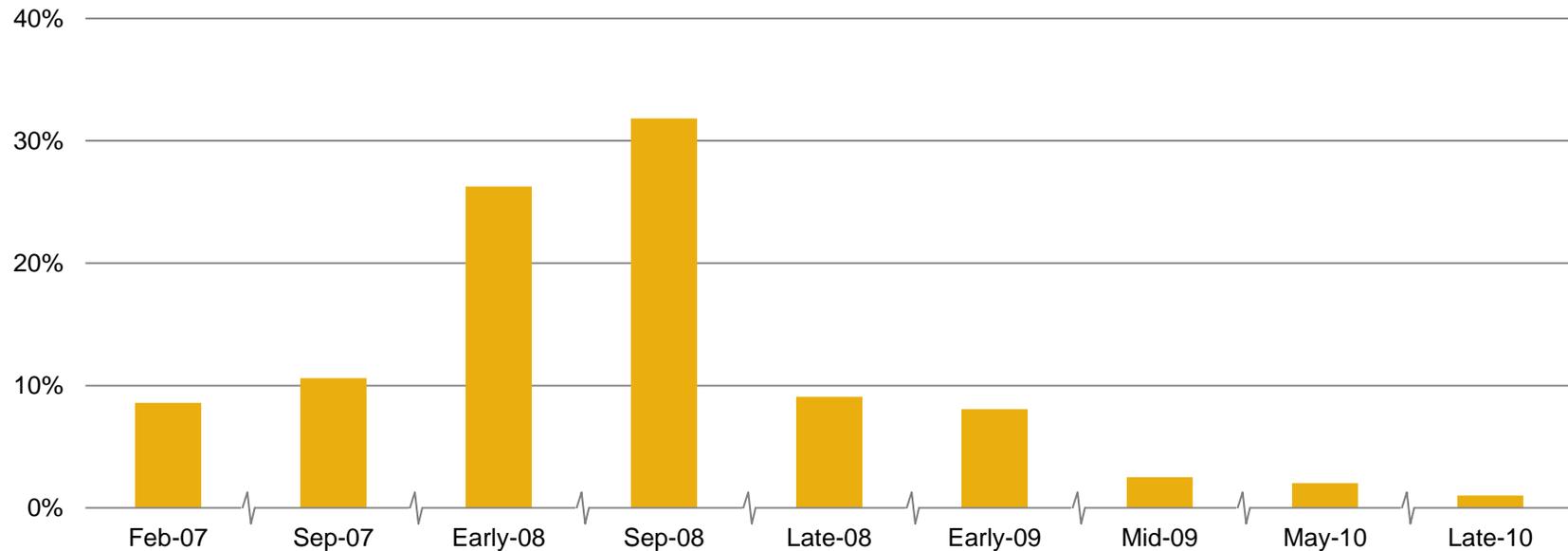
## Most companies didn't believe that the situation was serious until the fall of Lehmans – one year too late

Management board became aware that the financial crisis would have an impact on our business at the following point.



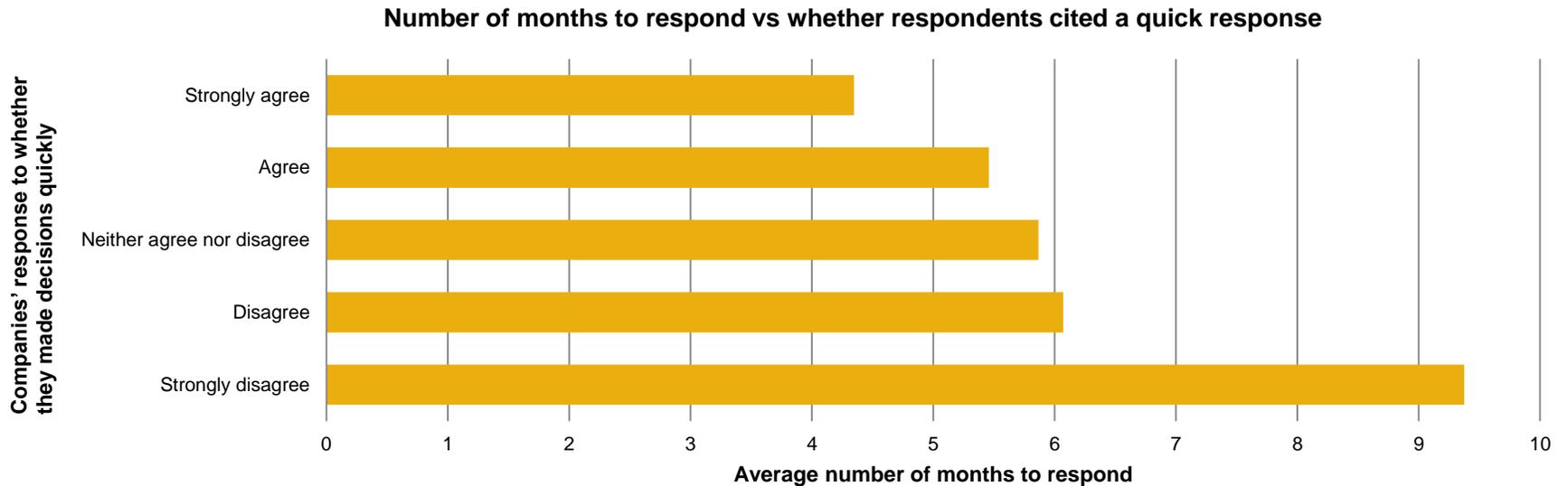
## Most companies didn't believe that the situation was serious until the fall of Lehmans – one year too late

Awareness of impact of financial crisis – % of respondents becoming aware over time

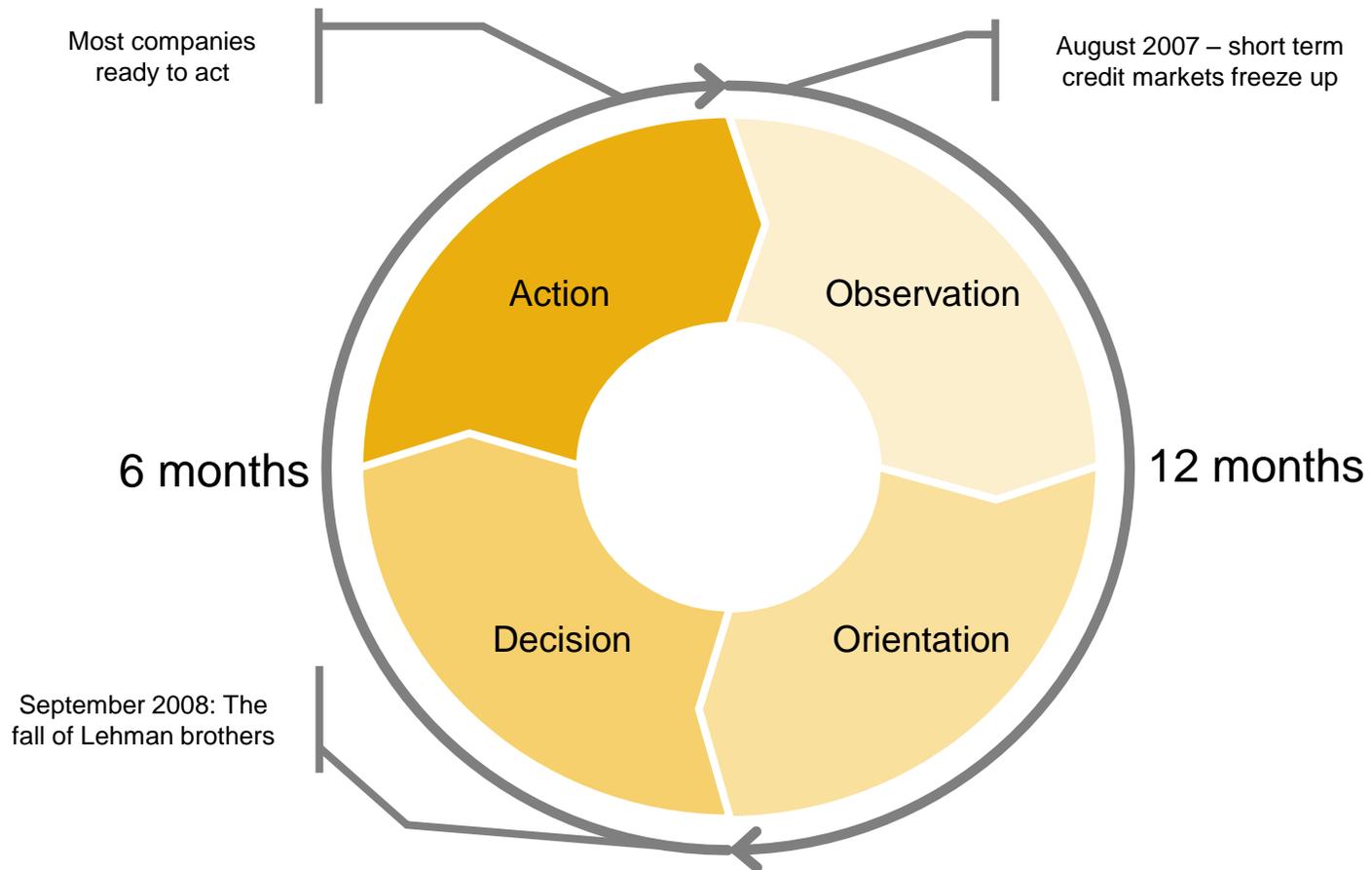


## On average companies took six months to act after becoming aware of the impact of the crisis

Those companies that were fastest to act, still took on average 4 months to do so



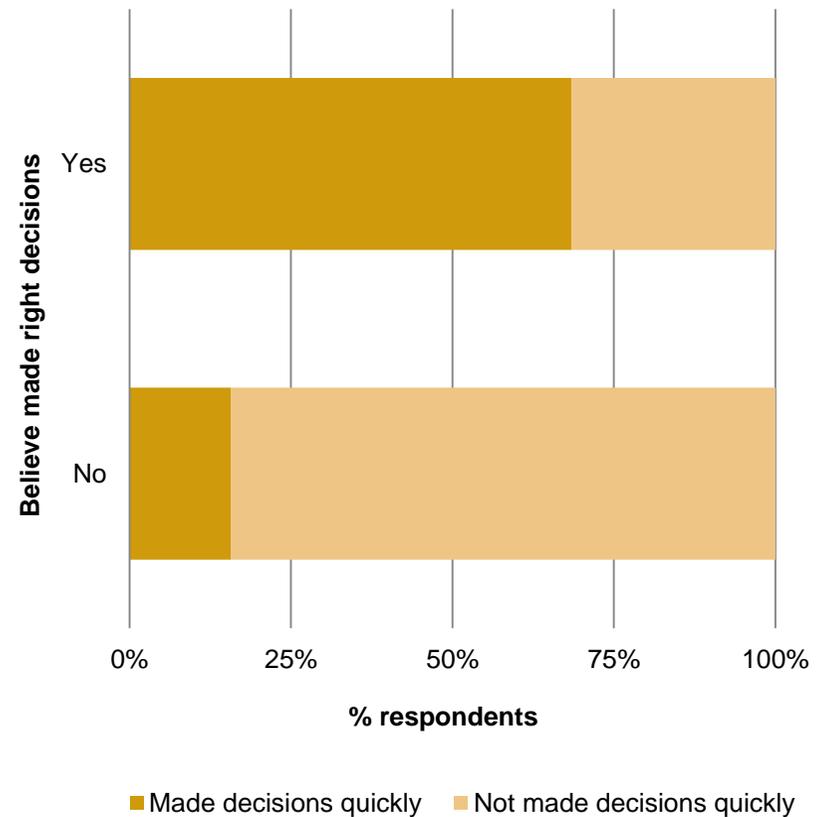
## Companies took 18 months on average from observation to action



## Companies who made decisions quickly, made the right decisions

It is tempting to assume that there is a trade-off between speed and quality of decision making – the opposite was the case in the crisis:

- People who made decisions quickly made the right decisions
- People who did not make decisions quickly made the wrong decisions



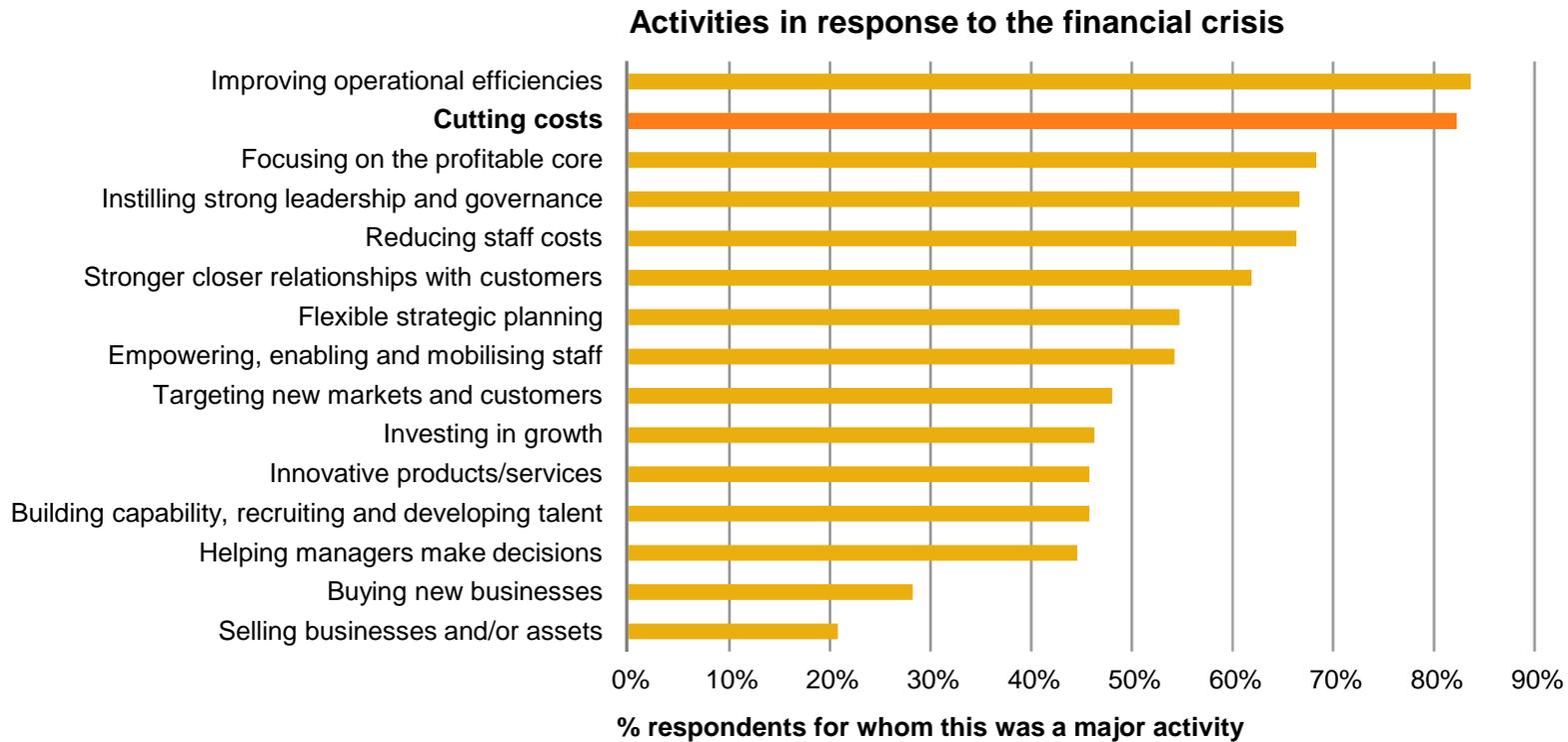
# **Remove inefficiency but protect competitive advantage**

The best companies had a moderate  
approach to cost reduction



## 82% of companies reduced costs

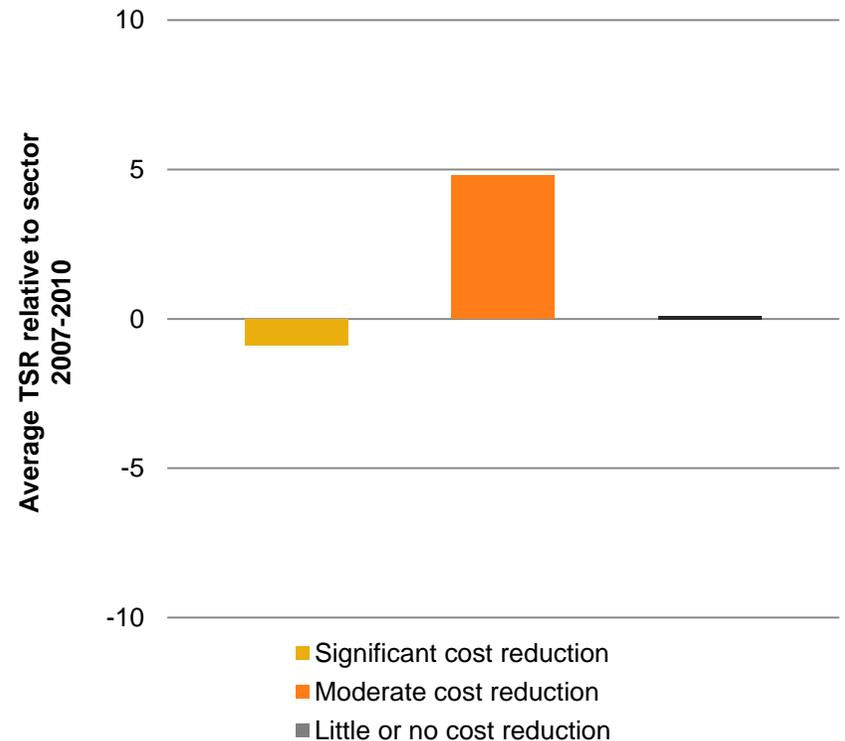
**Cost-cutting isn't a differentiator.  
Companies need to look beyond just cutting costs.**



## Moderate cost-cutting improved Total Shareholder Return – but too much cost cutting can be a bad thing

The companies that were neutral about cost cutting showed a stronger shareholder return than either those who were very enthusiastic cost cutters or those who were unenthusiastic cost cutters

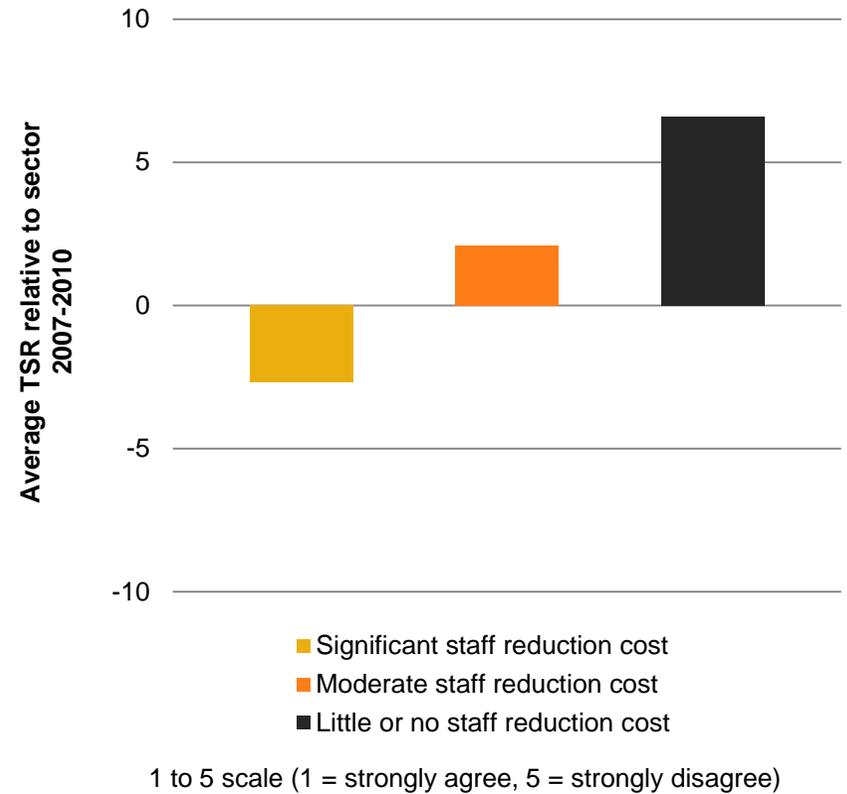
- Respondents who did some cost cutting (score of 3) had a higher TSR
- Respondents who did a lot of cost cutting (score of 4 or 5) had a lower TSR



1 to 5 scale (1 = strongly agree, 5 = strongly disagree)

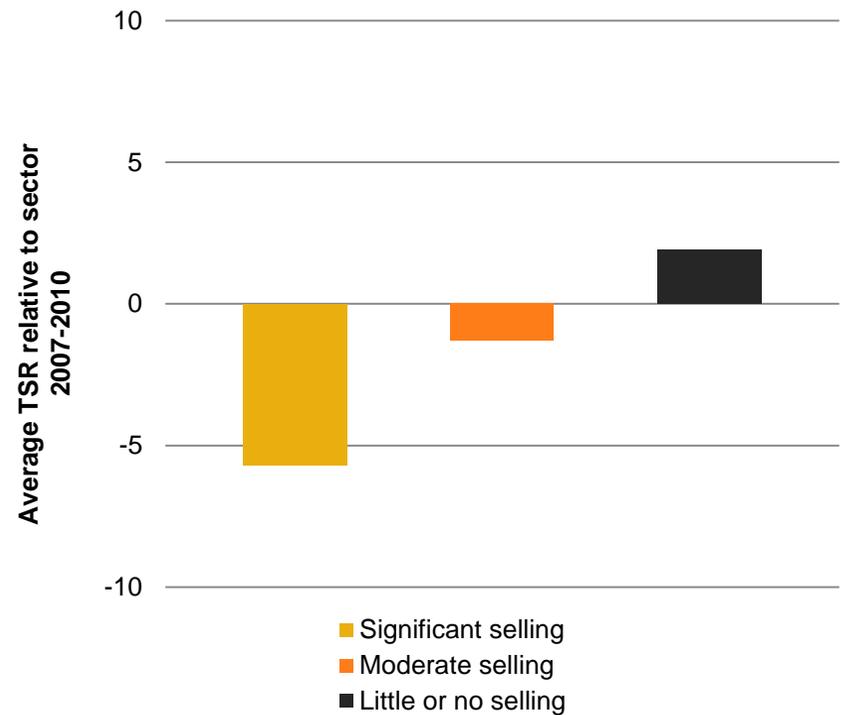
## A focus on reducing staff costs negatively impacts TSR

Our company responded to the financial crisis by reducing staff costs



## Selling businesses and assets in a crisis tends to reduce TSR

Those who sold businesses in response to – after – the crisis performed worst. Fire-side prices are good for buyers, not sellers



# **Plan to come out with a sustainably higher market share than you went in with**

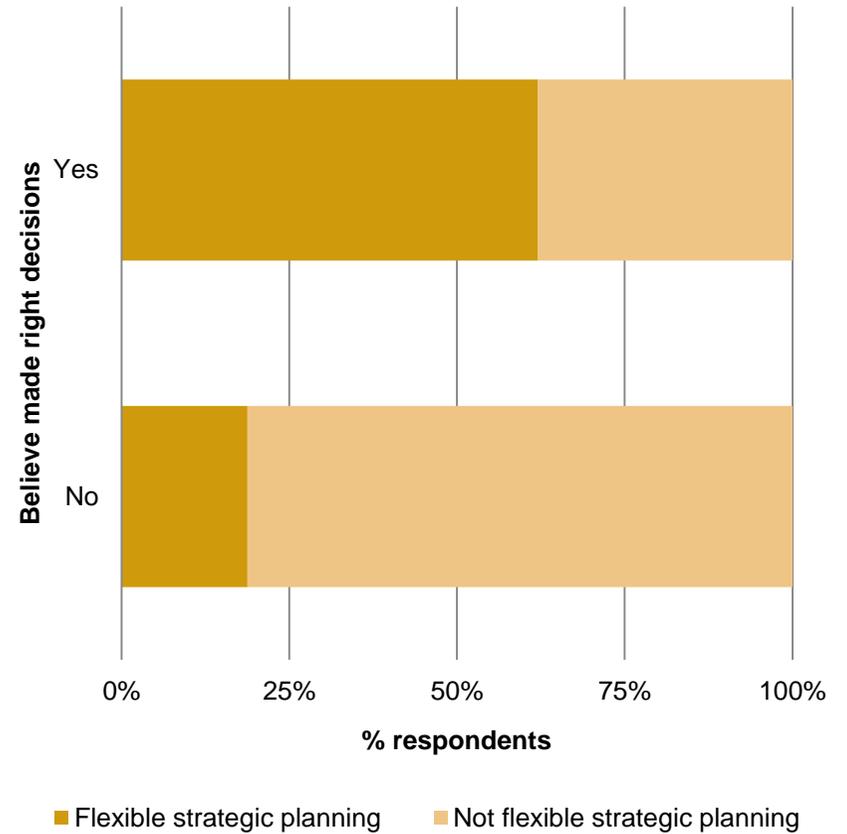
The best companies had a far more positive outlook. They recognised that instability creates opportunity and consciously planned to seize it



## Those who believe they made the right decisions put flexible strategic planning in place

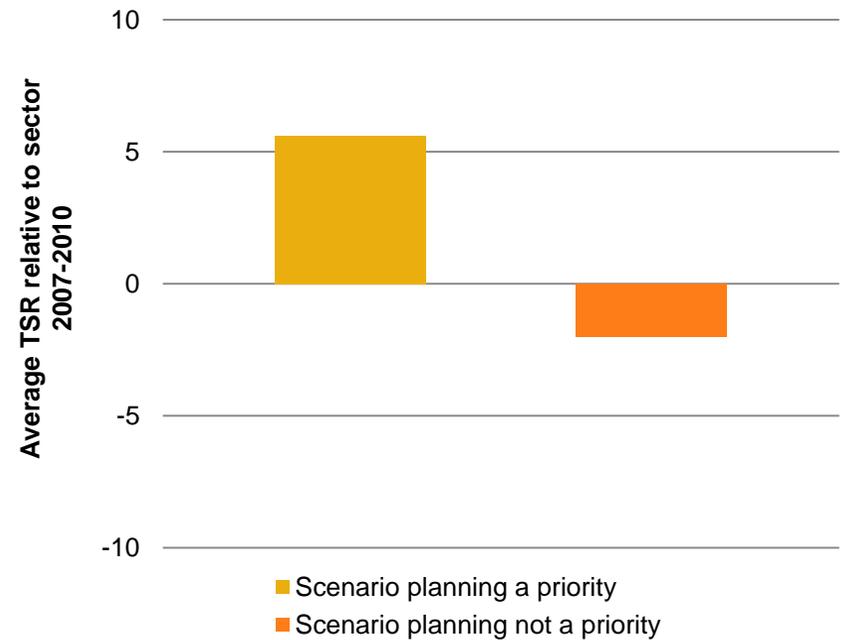
People who made the right decisions had flexible plans in place

People who made the wrong decisions did not have flexible plans in place



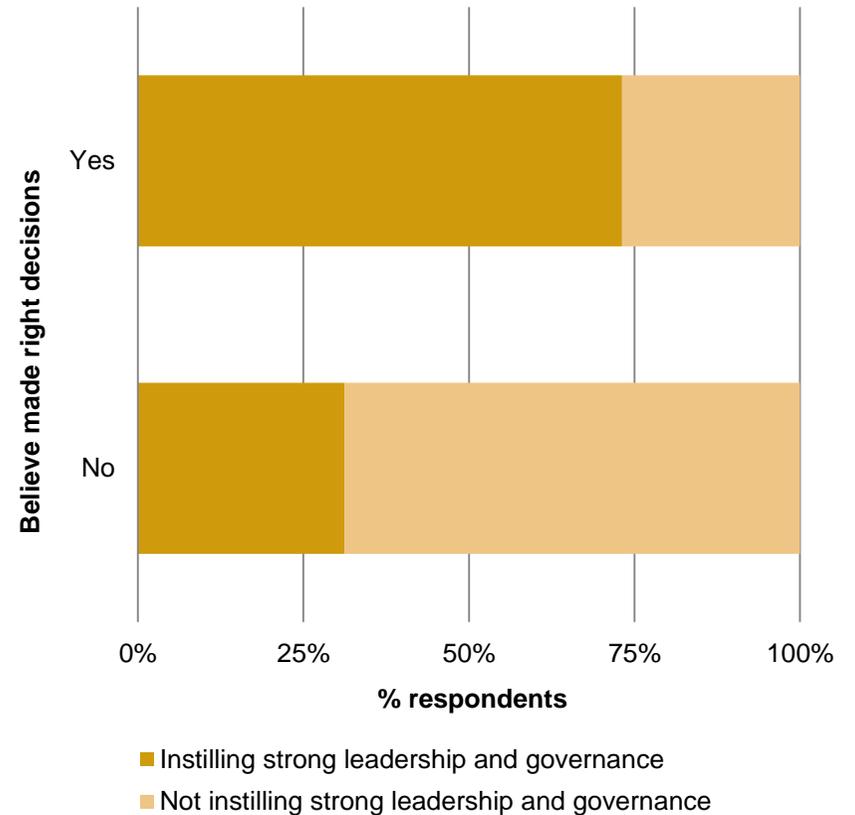
## Scenario planning is a good method to explore the impact of uncertainty

- Respondents who used scenario planning as one of their top 3 methods had a higher relative TSR
- Respondents who did not use scenario planning as one of their top 3 methods had a lower relative TSR



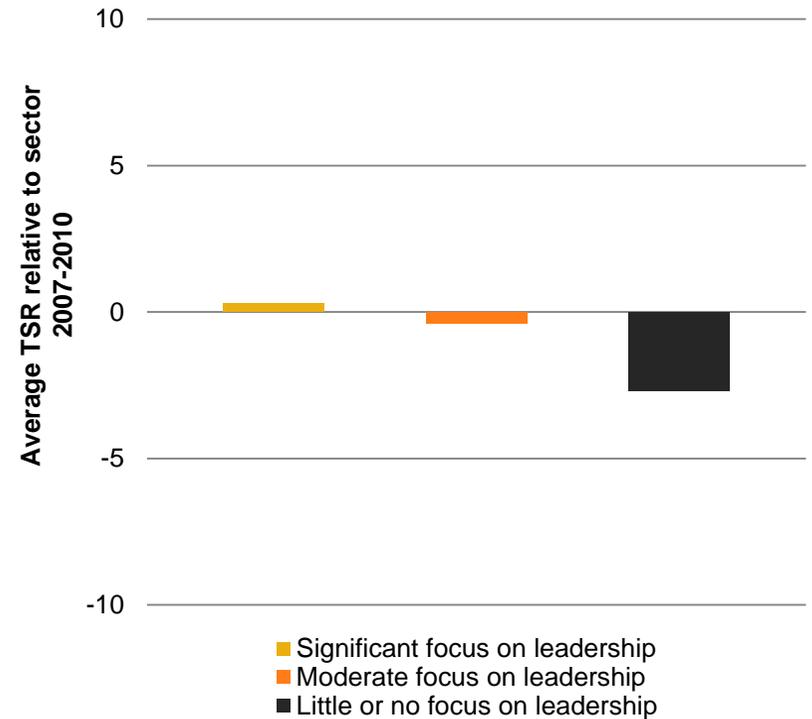
## Companies that made the right decisions focused on strengthening leadership and governance

People who made the right decisions focused on stronger leadership and governance than people who made the wrong decisions



## Failing to strengthen governance and leadership in the crisis may have had a negative impact on Total Shareholder Return

At times of crisis, there is a premium on good leadership and governance – businesses which took active steps to put in place the leadership style appropriate for the crisis did better



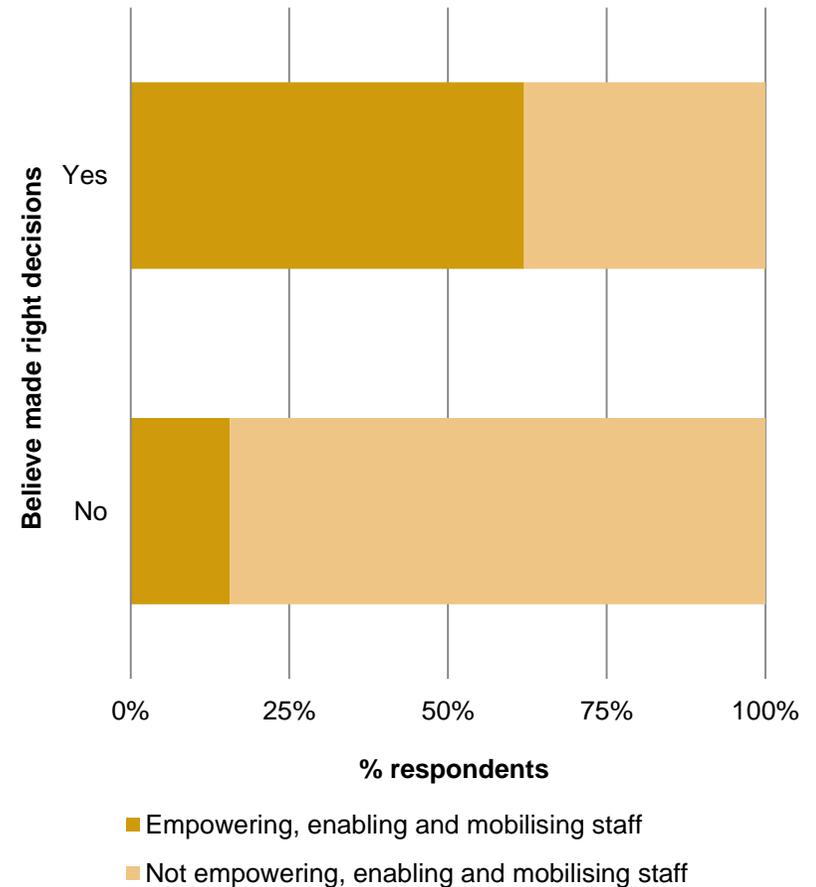
1 to 5 scale (1 = strongly agree, 5 = strongly disagree)

## People who made the right decisions focused on engaging staff

People who made the right decisions focused on engaging, enabling and mobilising staff, people who did not make the right decisions did not usually focus on these activities.

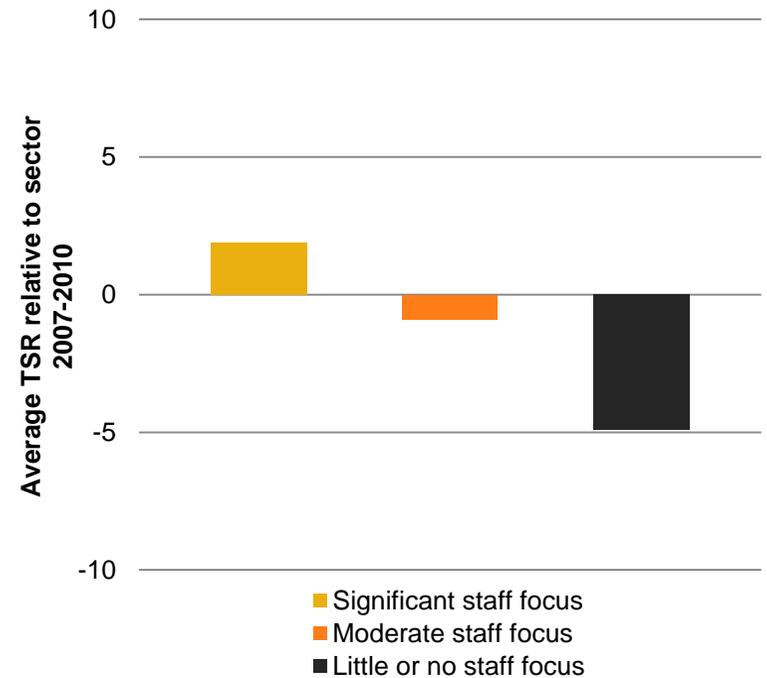
Of those who felt they had made the right decisions, around two thirds had made empowering staff a major focus of their activity.

In contrast of those who felt they have not made the right decisions less than a fifth had focused on empowering staff.



## Companies with higher Total Shareholder Return tend to be those that engaged staff

The companies that focused on empowering staff delivered a higher return to shareholders than those that didn't.

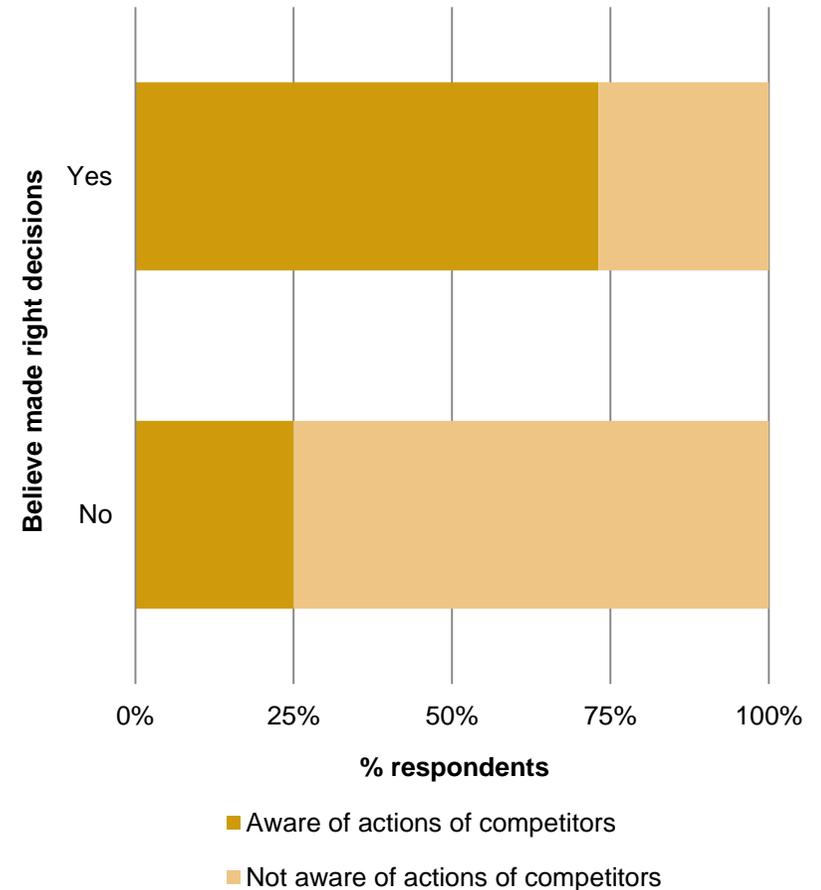


1 to 5 scale (1 = strongly agree, 5 = strongly disagree)

## Those who made the right decisions responded to the actions of their competitors

People who made the right decisions were aware of, and responded to, their competitors' actions

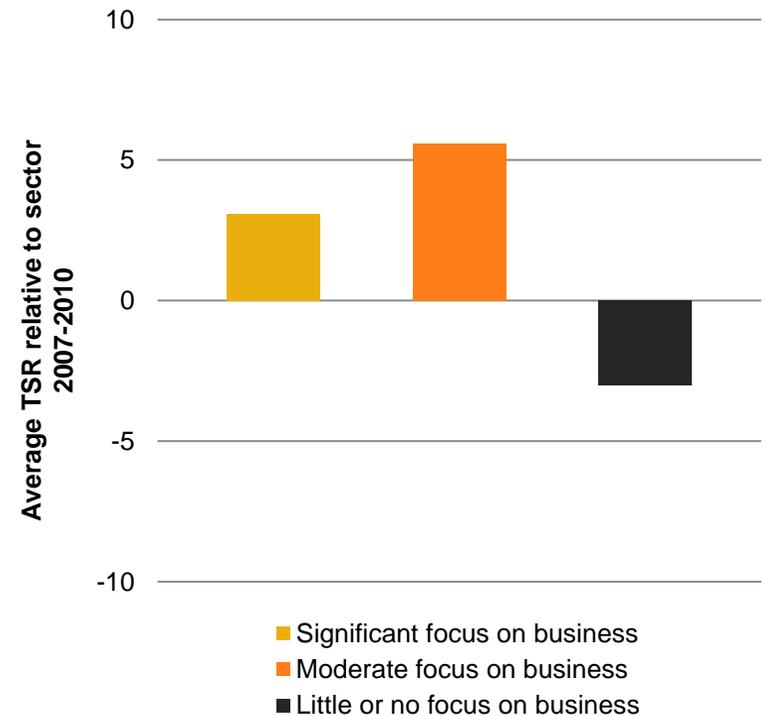
People made the wrong decisions were less aware of, and less likely to respond to, their competitors' actions



## For some, the crisis was a good time to take opportunities to acquire new businesses

Companies that acquired new businesses appear to have delivered better returns to shareholders than those that did not.

If a crisis is a bad time to be selling businesses (slide 21) then unsurprisingly, it is a good time to be buying – we may be approaching such a time again.



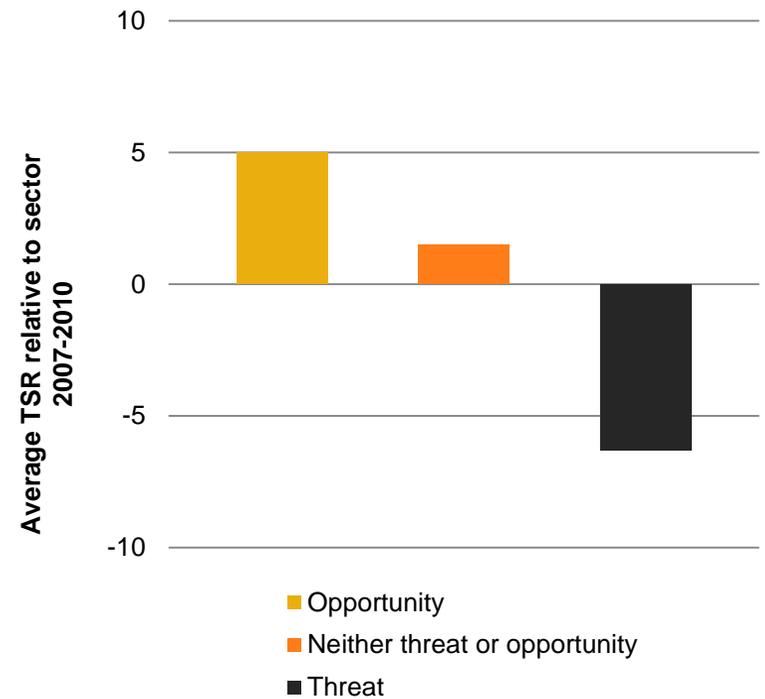
1 to 5 scale (1 = strongly agree, 5 = strongly disagree)

## The highest performing companies viewed the crisis as an opportunity rather than a threat

Companies that seized the opportunities of the crisis seem to have delivered better returns to shareholders.

A positive attitude to managing in the crisis seems to be a sign of a successful company

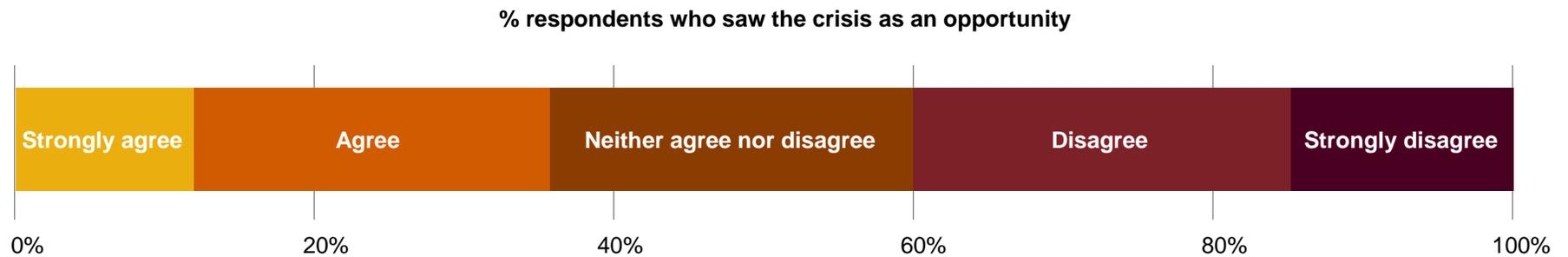
A positive attitude is crucial: the right mindset is needed to see – and to seize – the opportunities presented by a crisis.



1 to 5 scale (1 = strongly agree, 5 = strongly disagree)

## However, only one third of respondents viewed the crisis in this way...

... two thirds could seek to take more opportunity next time





# Lessons of the crisis

## Summary of key actions that can add value in a crisis:

- Cut costs carefully
- Empower staff
- Strengthen governance and leadership
- Buy new businesses
- Recognise the opportunities
- Put in place flexible strategic planning



**Next steps**



# Lessons of the crisis

## 4 steps to success

### Prepare for the crisis

### Respond as a winner



- Develop scenario build system
- At least 'defensible liquidity'
- If possible 'offensive liquidity'

- Sell poor businesses before the crisis breaks
- Retain the cash
- Strengthen governance and leadership
- Create high quality plans and early-warning systems

- Careful cost-cutting
- Meet changed needs of customers
- Engage staff

- Buy business
- Buy market share
- Attacking weakened competitors



# **In times of uncertainty, companies should act fast, control costs and respond to opportunities**

## **The highest performing companies spotted and responded the fastest**

Companies should use an early-warning system to highlight potential problems on the horizon. Scenario planning can be used to interpret the signs and make more informed decisions

## **The highest performing companies removed inefficiency but protected competitive advantage**

Companies should identify cost-cutting measures but should apply these carefully, avoiding long-term damage. Keeping talent and business assets wherever possible

## **The highest performing companies planned to come out of uncertainty with a higher market share than they went in with**

Companies should maintain a positive outlook and be prepared to take advantage of the opportunities that are created by instability



## Key questions leaders need to be asking?

- Have we got a scenario plan? If Greece defaults? If China's growth falters? If deflation takes hold?
- Have we got a strategy to seize the opportunities of an uncertain world?
- Have you got a plan to cut costs while retaining a competitive advantage?
- How do you engage your staff to enable them to deal with the threats and seize the opportunities?
- How do you look after your people in periods of cost reduction?
- How do you strengthen your governance?



**Contact PA's experts to find out more at:**

[www.paconsulting.com/managinguncertainty](http://www.paconsulting.com/managinguncertainty)