

Covid-19: What we learned for long-term planning in times of uncertainty

Covid-19 disrupts whole industries: Every year, the World Economic Forum (WEF) asks managers before the annual meeting in Davos, what they consider to be the most significant risks for the world. For this year, environmental issues such as climate change, cyber-attacks and data breaches were named as the most probable global risks. Three months later, the world looks different: The disease Covid-19 is spreading across the globe, causing significant change to society but also to organizations. Obviously, the business world was surprised by Covid-19 and its impact. Some industries are even undergoing an unprecedented, historical change¹. Why were so many decision-makers surprised and overwhelmed by a global pandemic such as Covid-19?

Covid-19 is no black swan, but increases uncertainty for managers caused by the external environment.

No doubt, globally spread infectious diseases are relatively rare events. The high damage potential is usually assigned a very low probability, which also means that pandemics are assigned a subordinate role compared to other risks. This is why some organizations might not have dedicated action plans for globally spread infectious diseases. They were simply not able to quantify the impact of such an event. Managers of such organizations ask themselves: how should I predict, calculate, or even make plans for such events? Therefore, the outbreak of Covid-19 is often described as 'black swan'² in recent press articles. To be called a black-swan, the event must first of all be a surprise to the observer. Second, it has to have a significant effect. Third, after the first recorded instance of the event, it must be rationalized in hindsight, as if it could have been expected. However, Covid-19 did not arise in a vacuum. Pandemic plans have already been made by many countries, politicians, and organizations. Even the WEF managers rated 'infectious diseases' as their number 10 risk for the next ten years. So, Covid-19 was not a surprise at all. Also, Nassim Nicholas Taleb did not call Covid-19 a black swan³, but rather described it as an event which is inevitable, because of the structure of the modern world, he says himself.

But calling Covid-19 a black-swan or not does not help any manager per se to make better plans for such events or cope with Covid-19. The answer to the problems, as mentioned above, may be found in the management of uncertainty. It seems evident that Covid-19 is an event in the external environment of an organization that creates high levels of uncertainty⁴. Thus, tools and frameworks that help managers to embrace uncertainty of the external environment are very useful. These frameworks will help to answer the following questions: how should managers deal with the uncertainty of the environment? Are long-term plans even possible to be made in an environment with high uncertainty?

¹ For example, the aviation industry with 95% decrease of demand in April 2020, impacting not only airlines, but also airports, service providers and everyone involved in the system of aviation.

² The term originates from the author Nassim Nicholas Taleb (2007). He uses the term to describe extreme impact of rare and unpredictable outlier events and the human tendency to find simplistic explanations for these events, retrospectively - such as financial crises.

³ NZZ article of Nassim Nicholas Taleb and Mark Spitznagel in the Neue Zürcher Zeitung (NZZ) in March 2020.

⁴ In 1921, Frank Knight distinguished uncertainty from risk with uncertainty being the lack of knowledge which is immeasurable and impossible to calculate. This definition of uncertainty is now referred to as Knightian uncertainty (1921).

Manage uncertainty proactively and make long-term plans accordingly. Answers to the questions mentioned above can be given by actively managing uncertainty in the long-run. It may not be possible to predict Covid-19 in the form of occurrence, nor can the impact be quantified. However, the management of uncertainty in long-term plans might help to react to changes in the external environment and thus create resilience, helping to cope with black-swans. It is important that managers do not get paralyzed by uncertainty, resulting in unproductive uncertainty⁵. Therefore, decision-makers must embrace uncertainty as a critical aspect not only for their short-term actions but also for their long-term planning process – thus creating uncertainty capabilities. Strategizing is concerned with the future of organizations. In times of black-swans such as Covid-19, it is tempting to firefight, but it is crucial to consider the future and thus long-term assumptions and changes as well. Embracing uncertainty in the short-, but also the long-run, will support managers in making better decisions about the future.

Introduce a three-step process to embrace uncertainty in the organization: Those who have existing long-term plans should regularly check their assumptions for validity – nothing new at all for experienced managers. In times of, e.g., climate change or digitalization, agile and more flexible management and long-term plans are vital for the success of an organization. To embrace uncertainty, it is essential to demonstrate a determination to sense what is happening in the environment, seize the opportunities arising from the environmental change, and transform the organization accordingly.⁶ This means managing the associated uncertainties proactively and more often and regularly in times of environmental change. But, at the same time, managers need a high sense of prudence not to exaggerate short-term developments and overreact to pressure from, e.g., stake- or shareholders. The following three-step process of sensing, seizing, and transforming will enable an organization to manage uncertainty of the external environment better:

1. **Sensing:** First of all, in a situation of uncertainty, it is vital to grasp and describe the problem. It is essential to learn quickly and build or rebuild strategic resources, which requires routines of interaction in coordinated search and learning procedures. What was certain before might be uncertain in the new situation. Therefore, one should 1. define the most critical key performance indicators⁷ for the uncertain situation – both for the short- and long-run. What are the most critical factors – of the event and for the organization? In the case of Covid-19, what are the performance indicators impacted by the disease? 2. It is crucial to distinguish between the short- and long-term impact, for example, on the business model, the supply chain, or the workforce of the organization. 3. It is beneficial to work with scenarios to embrace uncertainty. 4. It is necessary to work with extreme alternatives and options, e.g., for the impact on liquidity, other financial measures, and operational metrics. 5. Managers should try to design dashboards to filter the most relevant and urgent information and be up-to-date in real-time. The better uncertainty is understood, the more likely it is that efficient and effective trade-offs can be made between different outcomes for the organization and decisions to be taken more objectively. Therefore, managers should think in terms of probabilities and options, not binary outcomes.

⁵ The term was introduced by Nathan Furr in his HBR article “Don’t Let Uncertainty Paralyze You” in April 2020.

⁶ The terms sense, seize and transform are important terms for long-term planning of organizations and refer to the theory of dynamic capabilities by Teece et al. (1997) to integrate, build, and reconfigure internal and external competences to address rapidly changing environments.

⁷ A performance indicator or key performance indicator (KPI) is a type of performance measurement to evaluate the success of an organization or of a particular activity (such as projects, programs, products, events and other initiatives) in which it engages.

2. **Seizing:** Once essential parameters have been identified in a broader context, the next step is to analyze causal relationships for the organization. Managers must be able to link customer experiences with their business model, thus, e.g., engineering design choices. The long-term competitive advantage might be fostered through the integration of external activities and technologies by selecting the boundaries of the organization and therefore looking for possible alliances, networks, or partnerships. The effective and efficient internal coordination or integration of strategic assets is vital in this phase. If possible, the significant environmental change is broken down into smaller, more manageable steps for which a solution may already exist or which are easier to calculate. These smaller shares then need to be adjusted to the internal context and the structure of the organization. These discrete and manageable sets of options should be made clear and definite to build loyalty and commitment.
3. **Transforming:** Thirdly, environmental change requires the ability of an organization to transform its asset structure and accomplish the necessary internal and external transformation. One should develop an action plan for adjusting their internal and external strategic assets. In the case of Covid-19, this means that new strategic assumptions might foster a change in the structure, processes, designs, and incentives of the organization. It is helpful to think of decentralization, local autonomy, and strategic alliances or networks to transform the organization. Therefore, managers should think of possible exit strategies and communication. Roles and responsibilities should be clearly defined, and transformation communicated transparently to accomplish an effective and efficient transformation.

Despite this three-step process being vital for aligning the organization to the environment, one should always reflect if transformation is needed and possible in the long-run. Managers should be prudent and patient in times of environmental change. One should not overreact to environmental change to soon and align strategic assets based on short-term thinking. This might counteract established and successful long-term plans. One should not be an actionist.

Introduce uncertainty as a standard factor for long-term planning: Although embracing the uncertainty of the external environment being a vital factor for a long-term plan, uncertainty does not only arise via external environments. Strategizing itself is concerned with the future of an organization, and this future is per se uncertain. Every decision itself creates new uncertainties. Thus, uncertainty also develops internally through decision-makers making decisions on future directions and plans of their organizations. Therefore, especially for strategic decisions on the future of an organization, uncertainty should be a standard factor, since uncertainty will always be part of long-term planning. Managers need to cope with uncertainty and make it their daily routine and habit to work with uncertainty – not solely for the sake of reacting to the environment, such as in the case of Covid-19, but also for their decision-making praxis.

Foster an internal and external dialogue on environmental uncertainty: A critical and open discussion on internal and external environmental changes should be fostered between the main stakeholders of the organization. The conversation between management and the BoD is especially relevant. One should reduce the natural information asymmetry between the two most critical strategic teams. This dialogue also fosters cognitive and reflexive functions, which are vital for strategy-making. A focus should be placed on the interactions of the chairman and the CEO, who are the most influential and important actors for the long-term success of organizations. Strategy dynamics should be fostered, and a more agile strategic planning process be implemented. This includes introducing more formal as well as informal strategy interactions for exchanging ideas and thoughts on recent changes in the environment

and developing strategic initiatives or programs. This should be done on different levels as well as with the main stakeholders of the organization⁸. These interactions may establish fast and interactive iterations of thinking and acting in the best case resulting in commitment, motivation, and strategic change in- and outside of the organization more rapidly. It might be useful to integrate the results of these interactions into a centralized “Governance, Risk and Compliance Management” tool. However, managers should be aware of the tools. They will affect the success of the long-term planning process as well as firm performance. Tools, such as scenarios, might help to reduce uncertainty, but only if addressed correctly and for the right purpose. A manager should, therefore, always be able to answer the following questions: which information, planning, controlling, and risk tools are we using? Will, e.g., scenarios and strategic alternatives, initiatives, or programs be developed in response to uncertainty?

Make the BoD a co-creator, especially in times of uncertainty: Many organizations have problems and struggle with who is responsible for strategy-making in times of uncertain environments. E.g., in Switzerland, the Board of Directors are the key strategizing actors.⁹ Among other duties, the BoD is responsible for the development of strategic objectives, the determination of the means necessary to achieve the goals, issuing the required instructions to the executing bodies, and controlling the implementing bodies about the achievement of objectives. To do this, the BoD needs to be in a cooperative strategic dialogue with management and steer through strategic guidelines. Despite strategy being a non-delegable duty, the strategic role of the BoD is not self-determined in organizations today. Hence, and especially in times of environmental uncertainty, it is essential to define the role, function, responsibilities, and involvement of the BoD. This might diverge from solely supervision, to coaching or even a co-creating role¹⁰, depending on the context of the organization. The BoD needs to play a control and supervision role at least and be dynamic. In times of highly uncertain environments, such as in times of Covid-19, it might be advisable for BoDs to be co-creators, not only a controlling-, supervising- or coaching-BoD (see figure 1).¹¹ Especially in terms of accountability, not playing this active role might even lead to criminal charges for BoD members.¹² Thus, in this so-to-say chaotic environment of Covid-19, the BoD needs to spend an equal amount of time on co-creating as on supervision. This would mean making most of the capabilities and, in the best case, the experience of its members. If the BoD does not have these capabilities and experiences, compose the team differently, since this is key for the success of the organizations – independent of the environment and level of uncertainty.

Covid-19 undeniably disrupts whole industries, increasing uncertainty for long-term planning. Thus, management of uncertainty is vital for the long-term success of organizations. Strategy actors need to embrace uncertainty proactively and make long-term plans accordingly to address the following questions: who (roles and involvement) is responsible for strategy interactions? When (process), how regular, for how long, with whom, and with what tools do strategy interactions happen? Covid-19 is a strong call for action for strategy actors.

oul⁸ According to the stakeholder management approach for strategic management, among others by Freeman & McVea (2001) and Buysse & Verbeke (2003). This is especially important in industries, which are highly dependent on main actors and dynamic.

⁹ Long- term planning is one of the major tasks the Board of Directors in accordance with OR 716a of the Swiss Code of Obligations (OR). See more details to the role and duties of Swiss BoDs in Müller et al. (2014).

¹⁰ See Cossin & Metayer (2014) with their article on “How Strategic Is Your Board?” in the MIT Sloan Management Review. See also Figure 1, which has been designed according to their article.

¹¹ Roles for communication are delegable. But it is important to define who communicates, how and to whom.

¹² In Switzerland and according to the so-called “Business Judgment Rule” (Gauch, 2018).

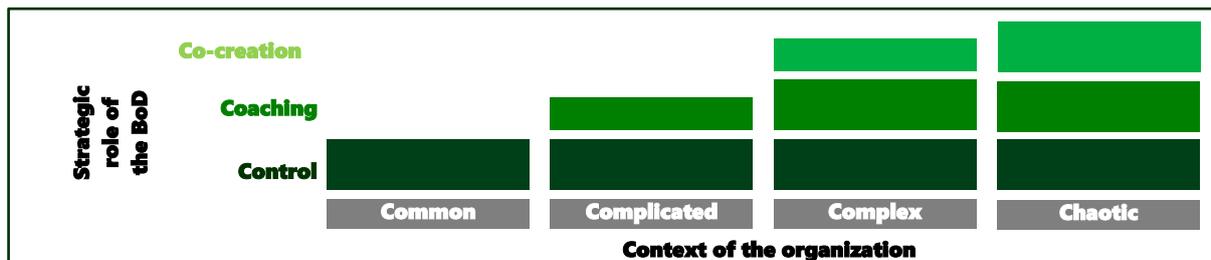


Figure 1: Strategic role of the BoD depending on the context of the organization.

Checklist for long-term planning in times of environmental change

Managers may use this checklist to test if they consider long-term planning in times of environmental uncertainty:

- Manage uncertainty proactively and make long-range plans accordingly.
- Introduce a three-step process to embrace uncertainty in the organization by sensing changes, seizing opportunities from them, and transforming the organization accordingly.
- Do not exaggerate the current, short-term developments, and do not be an actionist!
- Introduce uncertainty as a standard factor for long-term planning, since it will be anyways with decisions on future developments that are uncertain per se.
- Foster a dialogue (formal & informal) on environmental change. Be aware of the tools being used – they might be vital for the success of long-term planning and firm performance.
- Define the roles and involvement of strategizing actors: who is responsible for what in which sequence of the communication and the strategic planning process?
- Make the BoD a co-creating team in times of high uncertainty.
- If the BoD does not have the necessary capabilities and experience, compose it differently.

Sources

- Buysse, K., & Verbeke, A. (2003). Proactive environmental strategies: A stakeholder management perspective. *Strategic management journal*, 24(5), 453-470.
- Cossin, D., & Metayer, E. (2014). How strategic is your board?. *MIT*.
- Furr, N. (2020). Don't Let Uncertainty Paralyze You. *Harvard Business Review*.
- Freeman, R. E., & McVea, J. (2001). A stakeholder approach to strategic management. *The Blackwell handbook of strategic management*, 189-207.
- Gauch, S. (2018). Grundlage und Bedeutung der Business Judgment Rule in der Schweiz. *Dike*.
- Knight Frank, H. (1921). Risk, uncertainty and profit.
- Müller, R., Lipp, L., & Plüss, A. (2014). *Der Verwaltungsrat: Ein Handbuch für Theorie und Praxis (Vol. 4)*. Schulthess.
- Taleb, N. N. & Spitznagel, M. (27 March 2020). Die Corona-Pandemie ist kein schwarzer Schwan: Warum 2020 nach Nassim Taleb nicht mit 2008 zu vergleichen ist. *NZZ*. Zurich.
- Taleb, N. N. (2007). *The black swan: The impact of the highly improbable (Vol. 2)*. Random house.
- Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic management journal*, 18(7), 509-533.

About the Author

Erik Linden



Erik is a Doctoral Candidate at the University of St. Gallen in Switzerland. His research focuses on long-term planning, with a particular focus on strategy-as-practice, strategy processes, business models, business plans, future research as well as aviation and transportation management. He studied Business Management at the University of St. Gallen and has a professional business background in transportation management, business management, and public transport. Further, he is currently Managing Director of the Swiss Aerospace Cluster and lecturer at various Universities and Universities of Applied Sciences.

Cover letter

In April 2020, the business world looks different from months and years before: The disease Covid-19 is spreading across the globe, causing significant change to society but also to organizations. Obviously, the business world was surprised by Covid-19 and its impact. Some industries are even undergoing an unprecedented, historical change. How is it possible that so many decision-makers seem to be surprised and overwhelmed by Covid-19, and what should their reaction be in times of uncertain environments? This article gives guidance to strategic actors struck by Covid-19 and its resulting increase in uncertainty in the external environment of organizations. The frameworks and checklist of this article help managers to proactively embrace uncertainty as a standard factor for their strategizing. The author defines possible avenues for key strategizing actors to manage the uncertainty of their external environment and move forward, focusing on the long-term perspective and long-term planning processes of their organizations.