

Covid-19: Long-term Planning in Times of Environmental Uncertainty



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Covid-19 is disrupting whole industries: Every year, the World Economic Forum (WEF) asks many decision makers, prior to the annual meeting in Davos, what they consider to be the greatest risks for the world. For 2020, environmental issues such as climate change as well as cyber-attacks and data breaches were named as the most probable global risks. Several months later, the world looks different: the disease Covid-19 is spreading across the globe, causing significant changes 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.¹ How is it possible that so many decision makers seem to be surprised and overwhelmed by Covid-19?

1. Covid-19 is not a Black Swan but an increase in uncertainty in the external environment.

There is no doubt that globally spread infectious diseases are relatively rare events. The high damage potential is usually assigned a very low probability. This also means that pandemics are assigned a subordinate role compared to other risks. That 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. BoDs of such organizations are asking 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' in press articles or consulting reports.²

- 1 For example, the aviation industry with a 95% decrease in air traffic in April 2020 and a projected decrease in demand of at least 75% in 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: Taleb (2007). *The black swan: The impact of the highly improbable* (Vol. 2). Random house. He uses the term to describe the extreme impact of rare and unpredictable outlier events and the human tendency to find simplistic explanations for these events, retrospectively - such as financial crises.

To be called a black-swan event, the event must first of all be a surprise to the observer. Second, it has to have a major effect. Third, after the first recorded instance of the event, it must be rationalized in hindsight, as if it could have been expected. These criteria are all true for the pandemic Covid-19. Nevertheless, Covid-19 obviously did not arise in a vacuum. Pandemic plans and precautions have already been made by many countries, politicians, and organizations. Even the WEF decision makers rated 'infectious diseases' as their number 10 risk over the next 10 years. This is why Nassim Nicholas Taleb would not call Covid-19 a Black Swan.

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 above-mentioned problems may be found in the management of uncertainty. It seems obvious that Covid-19 is an event in the external environment of an organization that creates high levels of uncertainty.³ Thus, tools and frameworks that help managers cope with uncertainty of the external environment are seem to be very useful. These frameworks will help to answer the following questions: How should BoDs cope with uncertainty of the external environment? Is making long-term plans possible in an environment with high levels of uncertainty?

2. Introduce uncertainty as standard factor for long-term planning and manage it proactively.

Answers to the above-mentioned questions may be provided by proactively managing uncertainty in the long run. It may not be possible to predict Covid-19 or Black Swans in the form of occurrence nor can they be measured, or the organizational impact quantified in detail. In times of Black Swan events such as Covid-19,

it is tempting firefight and otherwise be paralyzed by high levels of uncertainty, but it is crucial to consider the future and thus long-term assumptions and changes to the strategy and the organization overall as well. Being open to change and uncertainty and learning as individuals but also as an organization as a whole might help to do so. Thus, embracing uncertainty in the short- but also in the long-run will support top managers in making more effective decisions about the future of their organization.

Although embracing uncertainty of the external environment being a vital factor for long-term planning, 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 action, practice, or decision-making creates new uncertainties. Thus, uncertainty also develops internally through decision-makers taking decisions about future directions and plans of their organization. Therefore, especially for strategic decisions about the future of an organization, uncertainty should be a standard factor since it will be regardless. BoDs 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 own decision-making praxis and practices. Consequently, a culture of uncertainty should be built in combination with a «Just Culture»⁴ that allows honest errors or deviating assumptions to occur. From these honest errors, individuals and organizations should learn and derive future actions and plans and we should learn from them – again as an individual but also as an organization.

3 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: Knight Frank, H. (1921). Risk, uncertainty and profit.

4 Just Culture refers to an aviation-related term that describes the reporting and 'no-blame' culture when dealing with mistakes or issues. A Just Culture in aviation describes an atmosphere of trust in which people are encouraged, even rewarded, for providing essential safety-related information, but in which they are also clear about where the line must be drawn between acceptable and unacceptable behavior. Hence, a Just Culture supports learning from unsafe acts in order to improve the level of safety awareness through the improved recognition of safety situations and helps to develop conscious articulation and sharing of safety information.

3. Develop 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 and BoD members. In times of high levels of uncertainty, such as in times of environmental shocks, 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 important to demonstrate determination to sense what is happening in the environment, seize the opportunities arising from the environmental change, and transform the organization accordingly. This means managing the associated uncertainties proactively and more often and regularly in times of environmental change. The following three-step process of sensing, seizing, and transforming might enable an organization to better manage uncertainty of the external environment and to develop into a learning organization that is more resistant to change:⁵

3.1 Sensing

First of all, in a situation of uncertainty, it is important to grasp and describe the problem. It is essential to learn quickly and build strategic assets. This requires routines of interaction in coordinated search and learning procedures. What was certain historically might be uncertain in a new situation. Therefore, one should define the most important key performance indicators for the uncertain situation – both for the short and long term.⁶ What are the most critical factors of the event and for the organization? It is crucial to distinguish between the short- and the long-term impact, for example on the strategy, the business model, the supply chain or the workforce of the organization. It is very useful to work with scenarios to embrace uncertainty.

One should also be aware of other techniques for creating alternative futures such as the delphi method, time series methods, artificial intelligence methods, simulations, visioning or backcasting. In any case, it is necessary to work with extreme alternatives, e.g., for the impact on liquidity, other financial measures, and operational metrics. BoDs should try to design dashboards or other virtual tools to cope with the high levels of complexity. Most organizations today have at least some sensing practices in place but are missing an institutionalized and routinized approach to gather and share relevant information. The better uncertainty is understood on various levels of the organization, the more likely it is that trade-offs can be made between different outcomes for the organization and decisions to be taken more objectively. Please see the section on «fostering an internal and external dialogue» for more input on the activity of ‘sensing’.

3.2. Seizing

Once important parameters have been identified in a larger context, the next step is to analyze causal relationships for the organization. It is vital that BoDs are able to link, e.g., customer experiences with their business model, thus with 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, and partnerships. The effective and efficient internal coordination or integration of strategic assets is key in this phase. If possible, the big 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. This discrete and manageable set of options should be made clear and definite to build loyalty and commitment.

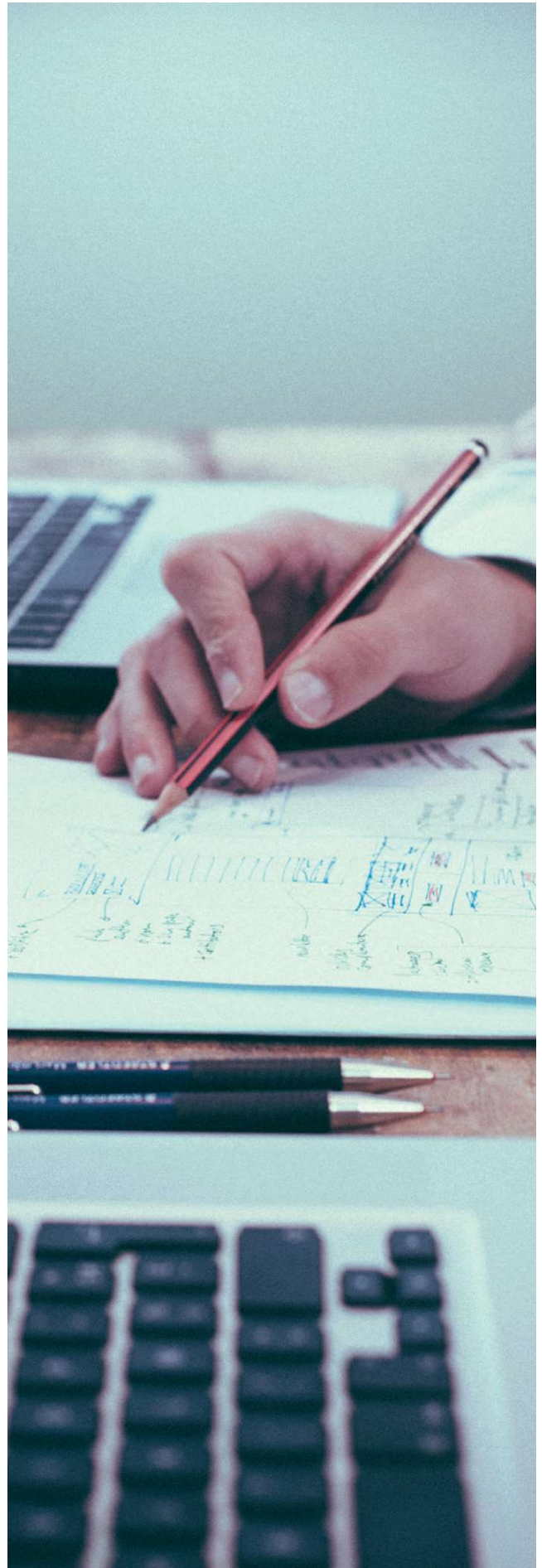
5 The terms sense, seize and transform are important terms for the long-term planning of organizations and refer to the theory of dynamic capabilities by Teece et al. to integrate, build, and reconfigure internal and external competences to address rapidly changing environments: Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic management journal*, 18(7), 509-533.

6 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.

3.3. Transforming

Thirdly, environmental change requires the ability of an organization to transform its asset structure and accomplish the necessary internal and external transformation. In this phase, managers should maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the organization's assets. One should develop an action plan for the management of 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, BoDs should think of possible turnaround or exit strategies and their communication of such strategies. Roles and responsibilities should be clearly defined in this phase and transformation, if needed, should be communicated transparently to accomplish an effective and efficient transformation process in times of environmental uncertainty.

Despite this three-step process being vital for aligning the organization to the environment, one should always reflect on whether the transformation is really necessary and possible in the long run. BoDs need a high sense of prudence to not overexaggerate short-term developments and overreact to pressure from, e.g. stakeholders or the owner(s). BoDs should therefore also remain patient in times of environmental change. One should not overreact to environmental change or act too soon and align strategic assets based on short-term thinking. This might counteract established and successful long-term plans. Thus, one should not be an actionist in times of high levels of uncertainty in the external environment.



4. Foster an internal and external dialogue on environmental uncertainty.

In times of environmental change, a critical and open dialogue on internal and external environmental changes should be fostered between the main stakeholders of the organization. The dialogue between the management and the BoD is especially relevant. One should reduce the natural information asymmetry between the two most important strategic teams as far as possible and needed for effective advice and control by the BoD. This internal and external dialogue might have cognitive and reflexive functions which are vital for strategizing. A focus should be placed on the interactions of the chairman and the CEO. They are the most influential and important actors for the long-term success of an organization. Strategy dynamics should be fostered, and a more agile strategic planning process should be implemented with more frequent and intense strategy discussions. This might include more formal as well as informal strategy interactions for exchanging ideas and thoughts on recent changes of the environment and developing strategic initiatives or programs that are based on solving the most pressing strategic issues. This should be done on different levels as well as with the main stakeholders of the organization to become accustomed with uncertainty.⁷ These interactions should be establish fast and interactive iterations of thinking and acting more rapidly, resulting, in the best in higher levels of commitment, motivation and strategic change in- and outside of the organization. It might be useful to integrate the results of these interactions into a centralized «Governance, Risk and Compliance Management (GRC)» tool. Despite such a GRC tool, one should be aware of and constantly challenge the strategic tools in use. They might have an effect on the success of the long-term planning process as well as the firm's performance. Tools, such as GRC, might help to reduce uncertainty, but only if addressed correctly and for the right reasons. A BoD 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?

5. Make the BoD a co-creator, especially in times of environmental uncertainty.

Many organizations have problems and struggle with the question who shall be responsible for the strategy in times of uncertain environments. In Switzerland, for example, the BoD is the vital strategizing actor.⁸ Among other duties, the BoD is responsible for the development of strategic objectives, the determination of the means necessary to achieve the objectives, for issuing the necessary instructions to the executing bodies, and for controlling the implementing bodies with regard to the achievement of objectives. To do this, the BoD needs to be in a cooperative strategic dialogue with the executive management and steer the company through strategic guidelines indirectly or by orders directly. Despite strategy being a non-delegable duty, the role 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 in terms of strategizing. This might diverge from a sole supervision to a coaching or even a co-creating role⁹, depending on the environment of the organization and the situation the organization is in. In times of highly uncertain environments, such as in times of Covid-19, it might be advisable for BoDs to be co-creators and to not just take on a controlling, supervising or coaching function.¹⁰ Especially in terms of accountability, not playing this active role might even lead to accountability charges for BoD members.¹¹ Thus, in this so-to-say chaotic environment of Covid-19, the BoD needs to spend equal time on co-creating as on supervision, making the 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 and structure the team differently. The BoD team and its processes and functioning are crucial for the success of the organization – even independent of the environment and the level of uncertainty.

7 According to the stakeholder management approach for strategic management, among others by Freeman, R. E., & McVea, J. (2001). A stakeholder approach to strategic management. *The Blackwell handbook of strategic management*, 189-207 and Buysse, K., & Verbeke, A. (2003). Proactive environmental strategies: A stakeholder management perspective. *Strategic management journal*, 24(5), 453-470. This is especially important in industries which are highly dependent on main actors and are very dynamic.

8 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 on the role and duties of Swiss BoDs in: Müller, R., Lipp, L., & Plüss, A. (2014). *Der Verwaltungsrat: Ein Handbuch für Theorie und Praxis* (Vol. 4). Schulthess.

9 See Cossin, D., & Metayer, E. (2014). How strategic is your board? MIT. 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.

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

11 In Switzerland and according to the so-called «Business Judgment Rule». Find a comprehensive overview in Gauch, S. (2018). *Grundlage und Bedeutung der Business Judgment Rule in der Schweiz*. Dike.

Covid-19 is having an undeniable effect on every organization and is increasing the level of uncertainty of the external environment. Thus, the management of uncertainty is vital for the long-term success of an organization. The key strategy actors, among others, BoD members need to embrace uncertainty proactively and make long-term plans accordingly to address the following questions: Who is responsible for strategizing (roles, responsibilities and involvement)? When, how regularly, for how long, with whom, and with what tools should strategy actors meet? Covid-19 is a strong call for action in terms of strategizing – not only for strategic managers but also for Board of Directors. BoDs need to be aware that they are responsible for shaping the long-term success of their organization in better advising and controlling the Executive Management.

Checklist for Long-term Planning in Times of Environmental Change

Managers may use this checklist to test whether and how they should implement long-term planning in times of environmental uncertainty:

- Introduce uncertainty as standard factor for long-term planning and make long-term plans accordingly.
 - Introduce a three-step process to embrace uncertainty in the organization by sensing changes, seizing opportunities, and transforming the organization accordingly.
 - Do not overexaggerate the current short-term developments and do not be an actionist!
 - 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 the company's performance.
 - Make the BoD a co-creating team in times of high levels of uncertainty.
 - If the BoD team does not have the necessary capabilities and experience, compose and structure it differently to be efficient and effective as literal strategizing team.
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