(16) Planning for uncertainty

- Uncertainty—in the economy, society, politics—has become so great as to **render futile**, if not counterproductive, **the kind of planning most companies still practice**: forecasting based on probabilities.
  - Unique events, such as the Perot phenomenon or the dissolution of the Soviet empire, have no probability.
- Yet executives have to make decisions that commit to the future current resources of time and money.
  - The lengths of such commitments are steadily growing: in strategy and technology, marketing, manufacturing, employee development, in the time it takes to bring a new plant on stream or in the years until a commitment to a store location pays for itself.
  - Every such commitment is based on assumptions about the future.
- Worse, they have to make decisions not to commit resources—to forgo the future.
- To arrive at them, traditional planning asks, "What is most likely to happen?"
- <u>Planning for uncertainty asks</u>, instead, "What has already happened that will create the future?"
  - Demographic changes
    - Business people need to ask: "What do these accomplished facts mean for our business?
      - What opportunities do they create?
      - What threats?
      - What changes do they demand—in the way the business is organized and run, in our goals, in our products, in our services, in our policies?
      - And what changes do they make possible and likely to be advantageous?"
  - The next question is: "What changes in industry and market structure, in basic values (e.g., the emphasis on the environment), and in science and technology have already occurred but have yet to have full impact?"
    - It is commonly believed that innovations create changes—but very few do.
      - Successful innovations exploit changes that have already happened.
    - They exploit the time lag—in science, often twenty-five or thirty years—between the change itself and its perception and acceptance.
    - During that time the exploiter of the change rarely faces much, if any, competition.
    - The other people in the industry still operate on the basis of yesterday's reality.
    - And once such a change has happened, it usually survives even extreme turbulence.
  - Closely related are the next questions: "What are the trends in economic and societal structure?
    - And how do they affect our business?"
    - Similar structural trends can be found in most industries and markets.
    - They do not make the "weather" for an industry or a company—they create the "climate."
    - Over any short-term period their effects are slight.
    - But in the not-so-long run these structural trends are of far greater importance than the short-term fluctuations to which economists, politicians, and executives give all their attention.
    - Whoever exploits structural trends is almost certain to succeed.
    - It is hard, however, to fight them in the short run and almost hopeless in the long run.
    - When such a structural trend peters out or when it reverses itself (which is fairly rare), those who continue as before face extinction and those who change fast face opportunity.
    - The most important structural trends are those that many executives have never heard of: in the distribution of consumers' disposable income.
- The answers to the question "What has already happened that will make the future?"

define the potential of opportunities for a given company or industry.

- To convert this potential into reality requires matching the opportunities with the company's strengths and competence.
  - It requires what I first (in my 1964 book Managing for Results) presented as "strength analysis" and what now—thanks mainly to the work of Professors C. K. Prahalad and Gary Hamel—is coming to be known as the analysis of "core competence."
- There is, however, one condition: that the business create the resources of knowledge and of people to respond when **opportunity knocks**.
  - This means developing a separate futures budget.
  - The 10 percent or 12 percent of annual expenditures needed to create and maintain the resources for the future—in research and technology, in market standing and service, in people and their development—must be put into a constant budget maintained in good years and bad.
  - These are investments, even though accountants and tax collectors consider them operating expenses.
  - They enable a business to make its future—and that, in the last analysis, is what planning for uncertainty means.