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Enterprise Performance Management

Effective decision making for uncertain times: Strategies and practices for high performance

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As companies grapple with the current economic situation, many are recognizing that this particular downturn in the business cycle is different from those that preceded it. Indeed, today's business context—characterized by rapidly intensifying globalization that has substantially increased the complexity, risk and uncertainty of doing business—has only served to exacerbate the challenge of managing through a difficult economy.

Many of today's biggest challenges come down to the different kind of decision making required to be successful. Organizations seeking high performance must make faster and bolder decisions, usually based on uncertain or incomplete information. Companies must think through both the positive and negative consequences of decisions made in this fast-paced environment. Gaining the benefits of first-mover advantage is paramount, because many open or partially open doors will shut as the competitive paths forward become clearer.

A recent Accenture research initiative has explored the unique challenges of strategic decision making in uncertain times. First, we created and tested a general framework for determining an organization's short-term state of readiness to take on economic uncertainty. We then linked that diagnostic to four principal strategies—each with different effects on shareholder value—that a company could pursue to help manage through uncertain times. The four types are scale strategies, growth strategies, operating strategies and financing strategies.

Armed with this knowledge, companies can more effectively plan and execute the performance management, talent, change management and leadership programs that can keep them on the path to high performance, even during challenging times.

Readiness to respond

Accenture's strategic readiness framework assesses a company's ability to meet the challenges it faces. The framework is based on three principal criteria: economic profit performance; balance sheet strength; and degree of country diversification achieved (percentage of domestic business versus the rest of the world).

A company's performance in those three dimensions—combined with the context of the industry in which it operates—results in a score from 1 at the top to 8 at the bottom. That score indicates the company's readiness to pursue various alternative strategies:

- Growth strategies: Expanding either through product or market, or both.
- Scale strategies: Reducing operating costs by more effectively leveraging existing infrastructure or competencies.
- Operations strategies: Strategically reducing cost and optimizing price.
- Financing strategies: Boosting the share price and repairing the balance sheet.

Industry context is important. For instance, an electronics and high-tech company that scored a 1 on the strategic readiness framework would likely want to pursue growth opportunities. On the other hand, a company that has major exposure to the residential housing sector would probably be pursuing operations strategies to reduce costs, even if that company scored an 8 on the framework.

In some respects, the strategic emphases described by this model are constant for corporate strategic decision making, regardless of the operating environment characteristics (boom or recession). The difference today lies in the need for companies to formulate and articulate their strategies in terms of their expected outcomes: what outcomes, how soon delivered and with what degree of associated risk. This process, in turn, can lead to better transparency for situations and expectations, and thus can help a company be more action-oriented as circumstances and strategic intent dictate.

Struggles with strategic readiness

Our research reveals that not all companies are equally well positioned to respond to today's economic downturn. In fact, an analysis of US companies in the S&P 500 has revealed that just one-third are in solid financial condition and able to take advantage of scale and growth opportunities. Another third have good balance sheets but a less-than-superb recent economic performance.

Companies that are most vulnerable in the current economic downturn are those that do not have significant balance sheet strength, because any interruption to economic profitability will make it harder for them to respond. They are the least able to take advantage of new strategic opportunities.

Keys to effective strategy execution

So what separates the best from the rest when it comes to strategic readiness? Regardless of the particular strategies relevant to companies' situations, those that benefited most in the marketplace were companies that took decisive action earlier and with less clear information—and, equally important, that were able to effectively execute their strategies.

The ability to execute is arguably the most critical factor in whether a company can achieve high performance during uncertain times. In Accenture's experience, there are three critical elements in effective execution:

- Enterprise performance management (having access to the right information at the right time).
- Talent management (having the right people with the right skills in the right roles).
- Change management (managing the organization's people through the difficult journey of the current downturn).

Enterprise performance management

Companies need effective enterprise performance management capabilities to make rapid, fact-based decisions at the points in the organization closest to the customer. Such capabilities are even more critical in today's business context, which is characterized by rapidly intensifying globalization that has substantially increased the complexity, risk and uncertainty of doing business.

Two components of enterprise performance management are especially important: (1) the quality and comprehensiveness of information available to make decisions and (2) the ability to think through the consequences of decision options. Better planning and resource allocation is in order for most companies seeking to improve their enterprise performance management capabilities, as is better performance monitoring and integrated analytics support.

Talent management

Effectively executing strategy comes down to people: a strategy is only as good as the workforce that is charged with making it happen. However, the task of finding and managing talent has become more difficult than ever before.

Here are some specific keys to success when it comes to managing talent through the downturn:

- Look to hire highly qualified talent from competitors forced to make workforce cuts.
- Hold onto your own top talent by maintaining regular, proactive contact with employees and by providing feedback on performance and career development.
- Avoid extreme responses such as salary and hiring freezes or mass layoffs; instead, adopt performance-oriented reward programs and reduce headcount through natural attrition.
- Promote a highly engaged culture to maintain a strong relationship between employees and immediate supervisors.
- Take a more focused approach to training cuts, eliminating selected courses without gutting entire budgets.

Change management and leadership

For most companies, managing through uncertain times requires the openness and capacity to operate effectively in an environment of constant change. By definition, uncertain times involve a high degree of instability. Regardless of the strategies employed, companies must develop "change management" as an actual competency in the business. This makes them more adaptable and able to execute change quickly.

One of the factors influencing how well a company manages change is leadership. The companies most effective at managing in uncertain times are those with leaders who can set a strong course for the company, inspire the workforce and keep employees focused on business objectives during periods of turmoil and instability.

The importance of rapid decision making and execution

In today's highly volatile and complex economic environment, critical decisions must be made faster than ever before. For companies to succeed, they must strengthen the capacity we are calling "strategic readiness"—the ability to systematically evaluate all available information, consider multiple potential outcomes, and then to transform those considerations into action. Such a capability plays a key role for those companies that not only want to flourish in a downturn but also position themselves to be even stronger when the economy improves. Strategic readiness helps a company be nimble and ready for action … and then to strike when the moment is right.

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