

CREATING VALUE FROM CHAOS: Rethinking Strategy in a Turbulent Environment

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Professor Chris Ogbechie



The business environment in Nigeria is expected to deteriorate in relative terms as the administration struggles with reform process and other countries make more significant improvements. What assertive steps can be taken towards improving the environment for the non-oil private sector? There is still some confusion over oil sector reform, which has created some degree of uncertainty. There is still a premium between the official and black-market foreign exchange rates as a result of restrictions on end-users of foreign currency.

These paint a picture of chaos in the economic environment and the challenge to CEOs is how to create value from chaos and harness opportunities in a period of uncertainty. They have to cope with the dilemma of how to provide a strong return for their shareholders, grow their businesses, and meet the human needs of societies around them, while at the same time reducing their environmental footprint.

Navigating through the Complexity



Figure 1: Source Author

Navigating through the complexity to create value will require pulling several levers as illustrated in figure 1 above.

The first of these levers is a ***focused-strategy***. To succeed, the firm must have a focused strategy developed from a good understanding of the competitive environment and trends. This will also entail re-inventing the firm's ***business model*** by redefining the primary target customers and the value proposition. Some of the significant changes that take place during turbulence and uncertainty include a change in customer values and competition from new and unexpected sources. It is, therefore, necessary for a firm to redefine its primary target customers and then ensure that its customer value proposition is superior to the competition and that it is in alignment with target customers' values. The next step is to evaluate the key resources and processes required to deliver this superior value proposition and be

profitable. Management guru, Peter Drucker, once warned that “the greatest danger in times of turbulence is not the turbulence; it is to act with yesterday’s logic”.

Strong **leadership** is needed to ensure that the firm drives the agreed strategy successfully. Turbulence and uncertainty drive cost upwards while restricting growth opportunities and as such, a firm must vigorously pursue cost containment through efficiency and productivity. It is also an opportunity to imbed customer-led innovation in the firm. Innovation is the best way to get off an economic downturn induced by turbulence and uncertainty.

In a period of turbulence and uncertainty, there is an urge to cut cost and go into ‘lockdown’ until things get better. **Cost containment** must streamline the business without hurting future revenue potential. Too much cost-cutting can be fatal, leaving the company under-resourced for the future. The challenge is fundamentally changing the company’s cost structure to be more flexible and better equipped to deal with the market. A company can achieve effective cost-cutting through operational efficiency and productivity improvement. Although layoffs may reduce costs quickly, they often make recovery more difficult. Top management team must realise that cost-cutting may improve the bottom-line but it does not grow the business, only customers grow the business.

In a period of turbulence and downturn, a company’s best opportunity to grow and leapfrog competitors is through innovation. However, it has to be **customer-led innovation**. It is an opportunity to explore new products, services, markets and business ideas; and exploit existing resources increasing efficiency and effectiveness of resources. A company has to shape the competitive landscape proactively as opposed to reacting to it and must have a platform to funnel innovation. A company should focus on the one element that truly counts, the customer as her needs, habits, trends, aspirations, tendencies, values, etc can give several cues.

The last lever to pull in navigating any turbulent business environment is **stakeholder engagement**. In a period of turbulence, every stakeholder is potentially a source of risk. Regulators are also more demanding with new regulations and compliance issues. Managing these key stakeholders and building strong relationships will be critical for success.

Flawless execution will be important for all these six levers to work seamlessly and this will require courageous leadership and good risk management culture. Strategy execution should be the number one priority for top executives and there must be a formal process or framework to manage strategy execution.

Senior management must move from a mindset of survival to a mindset of thriving and leapfrogging competition. This can be achieved by a proper understanding of

market/consumer trends and their business implications as building blocks for growth. This will entail an exploration of new products/services, new markets and new business ideas. It is also an opportunity to exploit existing resources increasing efficiency and effectiveness of resources and finding new uses for existing assets.

For success in a turbulent environment, certain capabilities are critical for competitive advantage:

Change management capability;

Go to market (route and speed) capability;

People capability – ruthless focus on developing people and functional capability.

There is a need to keep an eye on trends that will shape the future. In a period of turbulence or slow economic growth, it pays to focus on the demand side for growth. Non-customers provide new opportunities. It is important to find out the factors that have kept them as non-customers and work on eliminating or reducing those factors to induce demand. In addition, it will be of interest to know the factors that should be raised above industry standards and those to be created (that have never been offered) to generate demand from non-users. This requires creativity and innovation.

Many of the problems of turbulence or uncertainty can be minimised through scenario planning. This entails identifying the range of possible future outcomes; analysing trends and discontinuities; projecting the evolution of factors within the sub-environments, and building a set of scenarios that takes account of all these factors.

Scenarios serve two main purposes, the first is PROACTIVE – anticipating and understanding risk. The second is ENTREPRENEURIAL – discovering strategic options of which you were previously unaware. Scenario planning stimulates imaginative, creative thinking to better prepare an organisation for the future. Its main purpose is to highlight large-scale forces that could push events in different directions and accordingly create different possible futures.

In conclusion, chief executives must take ultimate responsibility for responding to particular challenges such as market disruption, transformational change and reputational risk.

1. What are the biggest strategy lessons you have learned from turbulence and uncertainty in business?

2. As a business leader, have you ever experienced a chaotic period? What was the first step you took towards managing the situation?