



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

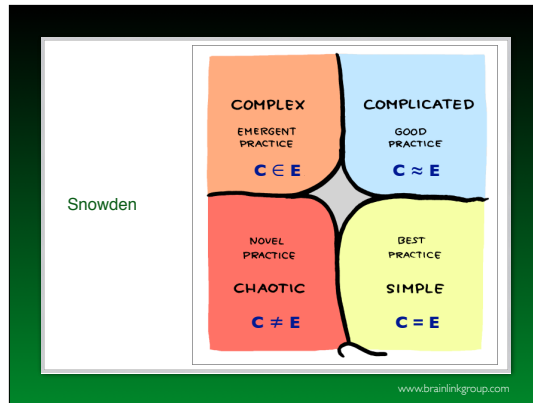
Strategy in Uncertain Times

Sydney
22 November 2018

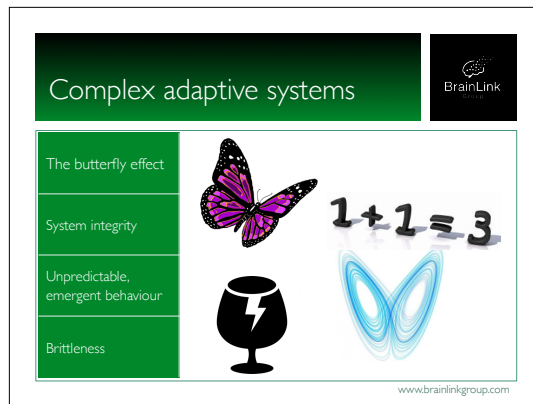


Dr Norman Chorn

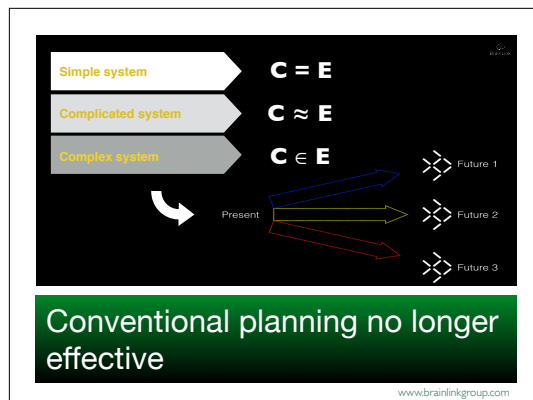




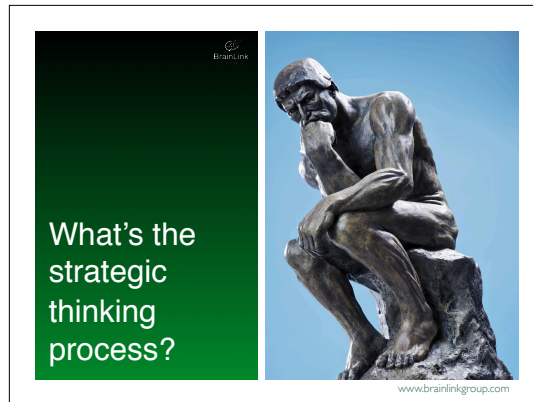
Our world and most organisations are complex systems. This affects the relationship between cause and effect. In these environments, it is not always appropriate to use 'best practice' solutions. The solution usually 'emerges' from the study and understanding of the system.



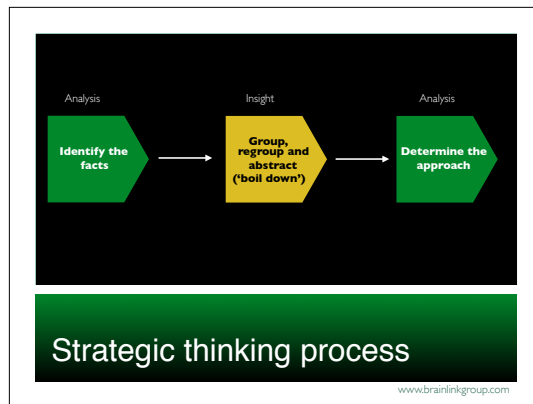
These are the four most important characteristics of a complex system.



Complex systems have multiple interdependent variables that interact constantly. Because of the unpredictability of these systems, we face multiple futures as we plan forward. Accordingly, conventional planning, which uses a linear approach and makes predictions about the future, is not effective.



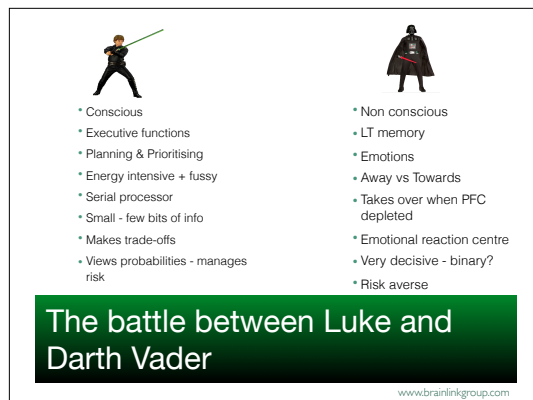
The strategic thinking process will be explored by using insights from brain science.



Three processes can be identified in the strategic thinking process, although the process is not strictly linear:

1. Identifying the facts - 'what's going on'?
2. Grouping and abstracting the information - 'what does this *really* mean'?
3. Determining the approach - 'what am I going to do'?

Fast moving cultures often bypass the middle phase - ie there is little time to derive any innovative insights.



The battle between the PFC (Luke Skywalker) and the Limbic system (Darth Vader) is constant. This is for control of the thinking and decision-making process. (NOTE: It is not intended to imply 'good' vs 'evil').

As we see, their approach to thinking and decision-making is quite different.

Darth Vader wins when....



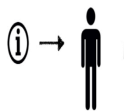
- highly stressed
- rushed
- overwhelmed by too many events
- tired and hungry

www.brainlinkgroup.com

Since Luke (PFC) is limited in capacity and endurance, Darth Vader (Limbic) often takes over in trying conditions. This results in a very different thinking and decision-making process. While Luke represents a more reflective and deep thinking approach, Darth Vader is reflexive and fast - often being quite risk averse.

REFLECTIVE

DELIBERATIVE



Purposeful focus on:

- systems view of situation
- understanding of multiple perspectives and needs
- what is most needed here
- reflection and careful consideration

Reflexive focus on:

- subjective view of situation
- your own needs and goals
- what you want and need from the situation
- preferences and habitual responses

Two kinds of thinking

www.brainlinkgroup.com

The reflective style - often referred to as the ‘high road’ - is more objective and strategic by nature. The reflexive style adopts a more subjective view and is quite reactive.

Reflexive thinking is our ‘default’ mode, as it consumes far less energy and is more time efficient. We have to invoke reflective thinking quite deliberately.

How can we operate more effectively in an uncertain world?




www.brainlinkgroup.com

Given the complex and uncertain conditions in our world, how can we operate more effectively? What can we learn by combining the insights of economics, strategy and brain science?

Much of the data is incomplete

Not all data is accurate

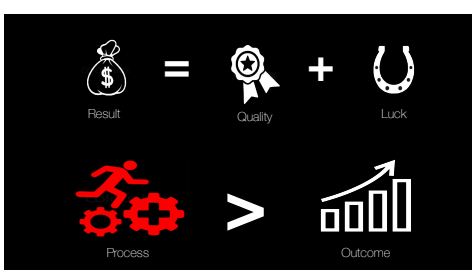
More like POKER than chess



Frame decisions as 'BETS'?

www.brainlinkgroup.com

Because of the nature of decisions in a complex world, decision-making is more like 'poker' than 'chess'. This is because of the incomplete information, posturing and bluffing. Perhaps we should treat decision-making as 'betting'?



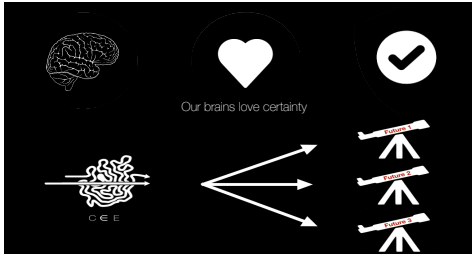
Result = Quality + Luck

Process > Outcome

Avoid 'RESULTING'

www.brainlinkgroup.com

Given the nature of decision-making in complex environments, we should avoid judging the quality of a decision only by the results we achieve. The outcomes are often a function of luck, rather than rigorous thinking and decision-making.

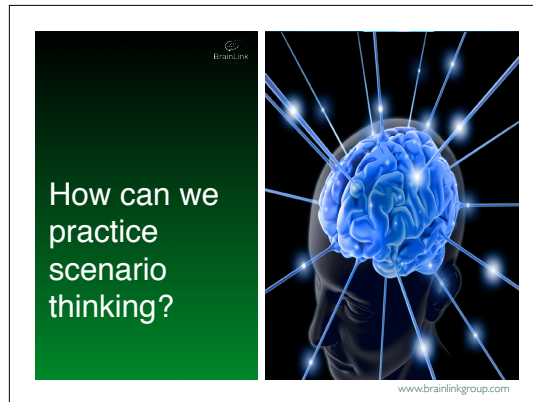


Our brains love certainty

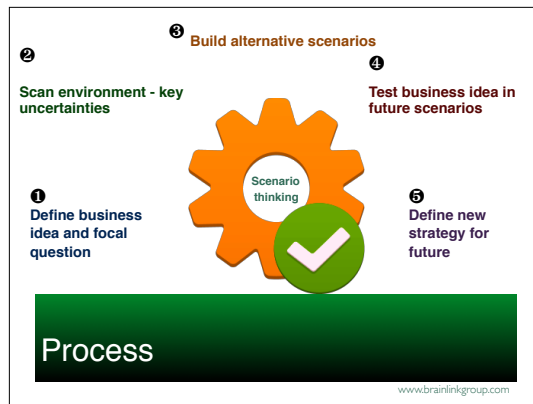
Get comfortable with uncertainty

www.brainlinkgroup.com

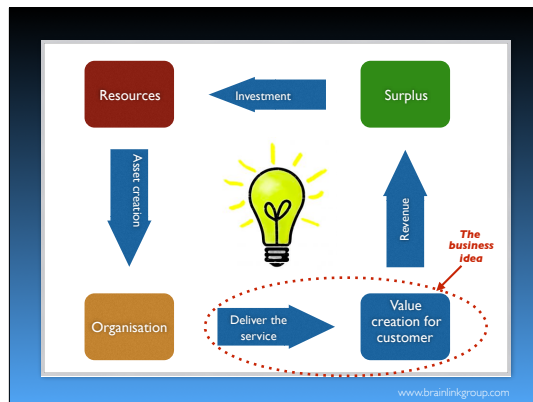
While our brains prefer certainty and clarity, we need to become more comfortable with uncertainty. This includes accepting that we face multiple futures - each of which has to be taken into account when planning for the future.



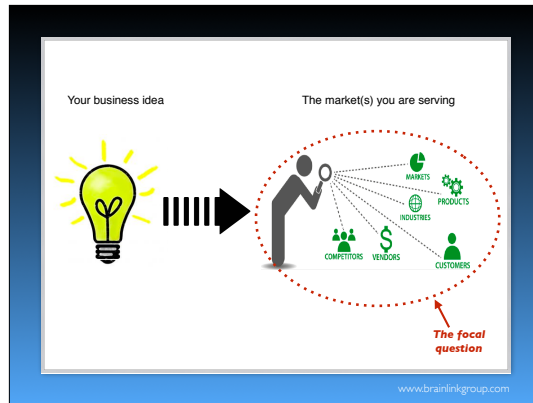
Scenario thinking and planning is an approach to deal with multiple futures - the condition we frequently find in complex and uncertain environments.



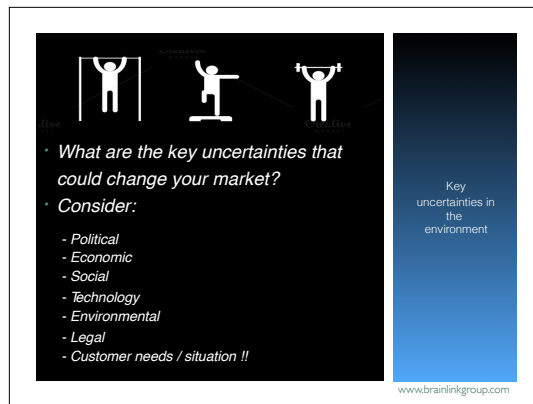
There are five key elements in the process of scenario thinking.



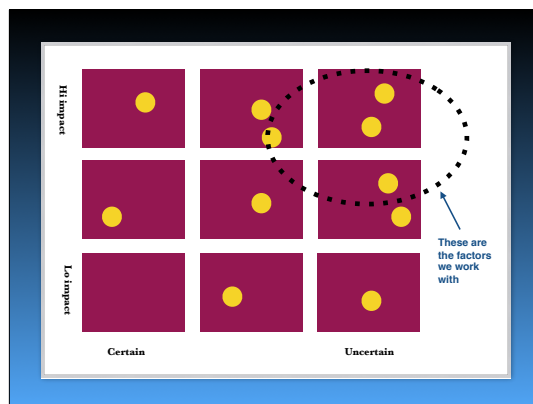
1. (A) Define your business idea - the way you create value for your customers. This MUST move beyond a description of your product and generic descriptions of benefits



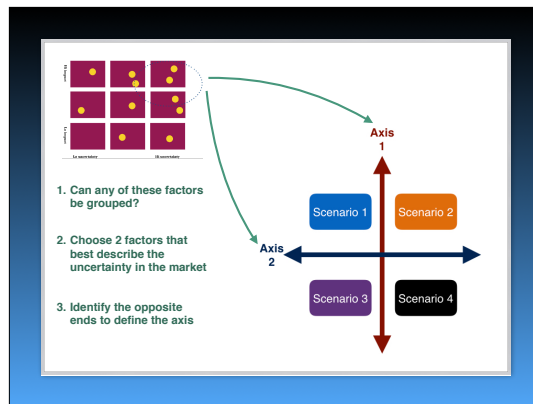
1. (B) Define your focal question. This is usually about the need to understand the future shifts and uncertainties in the specific market you are targeting. NOTE: You have to be specific about your target market and the business idea you are using to address this market.



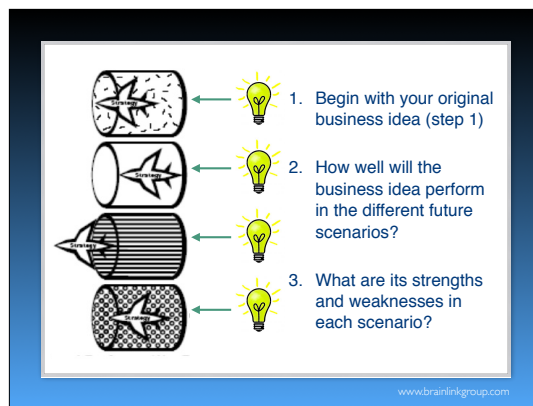
2. (A) Identify the key uncertainties that could change your market in the future. Do not forget to identify the uncertainties about your customer / clients' needs and situation as well.



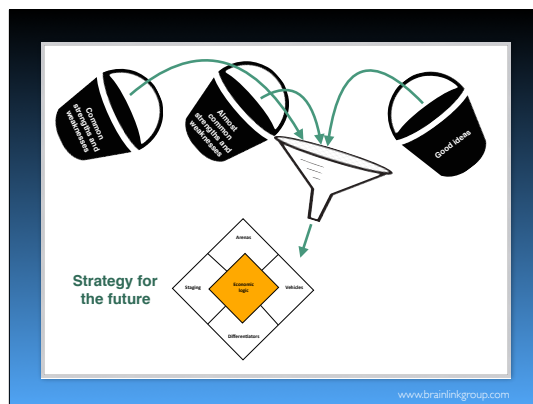
2. (B) Rate each of the uncertainty factors in terms of their certainty and impact.
Certainty = how certain are you that this will occur?
Impact = how important is this factor to the way that your market might change?



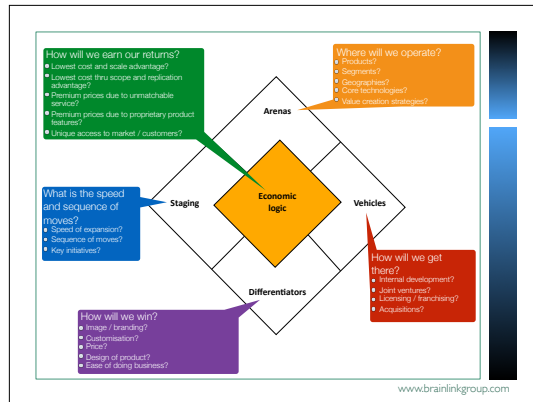
3. We use the most uncertain and high impact factors (top high corner) to identify those things that will have the most significance in shaping the future of this market. These factors are then used to build the two axes that define the four different scenarios of the future.
- We are looking to produce the four most diverse scenarios of the future. This ensures that we think of (almost) all the future possibilities in our planning. In this way, we limit the possibility of a 'black swan' event occurring and blindsiding us.



4. Now we 'wind tunnel' our original business idea to test its robustness (strengths, weaknesses, opportunities and threats) in each alternative scenario of the future. This ensures that we are considering our current plan against all the future possibilities. And we are identifying the different ideas to improve our plan.

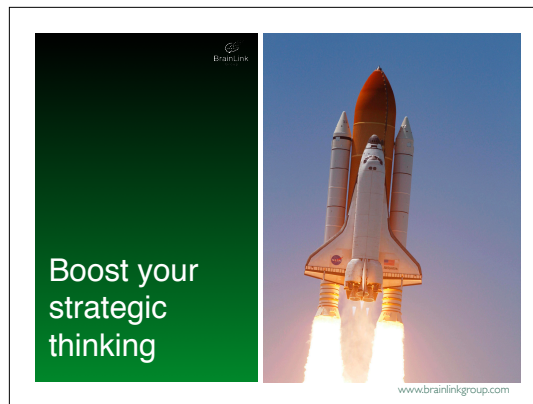


5. Finally, we pool all the common ideas, nearly common ideas, and innovative ideas and construct our strategy for the future. We use the 'Strategy Diamond' model to capture all the thinking.

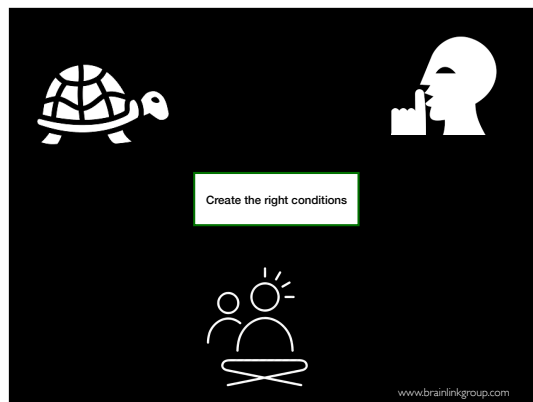


The 'Strategy Diamond' addresses five key factors:

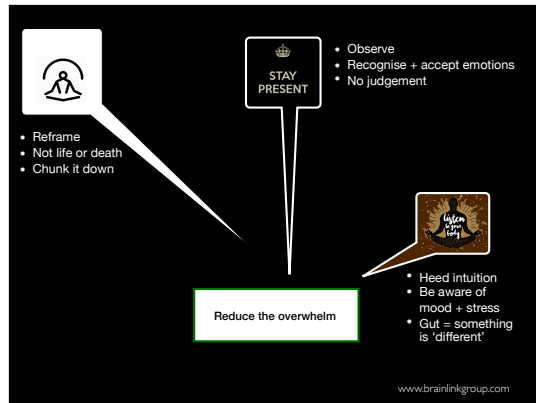
- i. Which markets, customers, and what value proposition do we use?
- ii. What arrangements / partnerships will be use to compete?
- iii. How will we win / differentiate ourselves?
- iv. What are the key moves we will make - and their timing?
- v. How will we make our returns?



Some tips to boost the quality of our strategic thinking



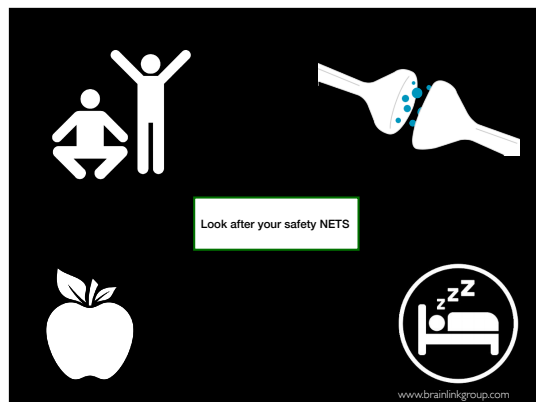
- Slow down to get some time for reflection
- Ground yourself and still the mind - good ideas almost never come from a noisy mind
- Brainstorm with your colleagues - keep quiet when they talk



- Reframe the situation by reminding yourself that everything is life or death
- Be aware of your emotions - but don't react to them
- Listen to your gut and intuition - it's telling you something that you learned many years ago



- Use both analysis and intuition



- Eat properly - a balanced diet. Lay off the high density carbs. Drink plenty of water
- Exercise regularly. You can't have a healthy brain in an unhealthy body
- Practice reflective / strategic thinking - neurons that fire together will wire together. Good practice will become a habit
- Sleep 7-8 hours a night in a cool room. Limit alcohol, coffee and screen time before bed.