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Kate Sayer: Planning in a time of uncertainty

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Organisations need to change their thinking about risk management, says our columnist



Kate Sayer

The future is always unknowable, but just now it feels like it is even more difficult than usual to plan. However, the problem might be our state of mind and what we really need is to change our approach to planning.

The roots of the problem lie with the systems we use for planning. These were developed for a "make-and-sell" model of working based on manufacturing as it was in the first half of the 20th century. Assuming that they were operating in a closed

system, managers prepared annual plans with predictions about supply and demand, and treated labour costs as variable. Although we have changed many of our employment practices and ways of thinking, we still approach planning and budgeting as if we live in a closed system. We assume that we can predict the future from the past and that we know "what works".

We need an approach that recognises we operate in open systems and our organisations are connected to and affected by a whole range of external forces. This makes our operating environment much less predictable. We need people and systems that can respond to changes and adapt to the emerging demands on our organisations. Plans reflect our current understanding, but need to be updated regularly.

Typical approaches to budgeting treat the budget as fixed, suggesting that a good performance is delivering to the plan and the budget. Management accounts focus attention on "getting back to the plan". How is that helpful if the external environment has changed and your plans and budgets are no longer relevant?

In a time of uncertainty we need a clear sense of purpose that is focused on the outcomes we want to achieve for our stakeholders, both beneficiaries and customers. Precisely how we achieve those outcomes is not necessarily known, but can emerge as we collaborate with others and interact with our stakeholders. We can allocate resources at a high level to strategic objectives and outcomes, rather than detailed budgets prepared for every accounting category. So outline plans and financial frameworks rather than micro plans.

Organisations also need to change their thinking about risk management. It is not possible to identify all possible risks, then come up with plans to mitigate them. This is missing the point about risk management: risks are uncertain and unpredictable events and outcomes. We should be equipping managers and staff to respond to unforeseen events, developing our ability to scan the horizon, develop scenarios and think laterally. All these skills will help managers today far more than a risk register. We need to open our minds to a much larger range of possible outcomes, rather than closing down the options. Untried and untested opportunities will naturally be higher risks, but can be part of a portfolio that includes some established activities where the risk is much lower.

Integrating risk management into planning processes helps to develop these skills, particularly applying probability to possible outcomes, scenarios and funding sources.

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