



Thinking about growth in a highly uncertain environment? Analyze, discuss, and act.

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In uncertain times, many mid-market firms find it difficult to make choices about where and how to grow. If the uncertainty is expected to resolve itself over time, hesitation may be a valid and rational response. In fact, such prudent hesitation may be contributing to the relatively low levels of mergers and acquisitions observed thus far this year — especially in light of historically low interest rates. But, for those mid-market companies who emerged from the financial crisis with healthy balance sheets and have in mind mergers, acquisitions or organic growth, prolonged hesitation may not be necessary.

There is always a tradeoff between acting now, with only the information currently available, and acting later, when some amount of additional information will come to light. Additional information can be obtained from paying attention to emerging environmental cues about the future and from analyses conducted using existing data. At the present time, you may need to make numerous assumptions about a highly uncertain future. As more time passes, more of your assumptions will be replaced by facts. As your “ratio of assumptions to facts” decreases, your confidence in your decision grows. But what mid-market firms actually do — aside from waiting — during the interval between today and a more certain future date is of critical importance in achieving their growth goals. Passively waiting for the future to arrive before taking action defers not only the risk but also the associated returns (in the form of revenue growth).

Waiting also carries significant competitive risk. By the time the current regulatory and economic uncertainties have resolved themselves, not only your firm, but everyone else knows the outcome. You want to get ahead of your existing rivals and potential new entrants. Rather than passively waiting, we recommend analyzing potential future risk, conducting internal diagnostics, and encouraging greater communication with your employees and customers.

Consider both risks and returns based on possible futures

To analyze risk effectively requires an understanding of your firm’s potential vulnerabilities. In what ways might you jeopardize key customer accounts by acting too soon? Will you sully your reputation irreparably by moving in the wrong direction? Even the most thorough analysis will not eliminate external uncertainties, but incorporating uncertainties into your analysis will provide context for the choices you make about where to invest for growth. For example, you may realize that you expose yourself to roughly equivalent downside risk if you act aggressively (“too soon”), conservatively (“too late”) or passively (“not at all”). These three alternatives may look roughly equivalent in terms of risk. When you consider the upside and calculate possible returns, you may see a quite different picture.

Even if one of the options may have a much higher potential upside than the other alternatives, it is not enough to rank order the various options you have for growth. Conduct a thought exercise or a simulation to compare both the downside risk and the upside potential of different scenarios. You want to rule out poor choices, and refine better choices, so you can invest with confidence in your chosen growth path.

Get your house in order

When facing significant external uncertainties, it is more important than ever to address your own firm's weaknesses, identify and address your talent gaps, and get every aspect of your firm aligned in readiness for growth. The firms which can move most quickly when uncertainty begins to resolve itself are already functioning well. They typically have lean balance sheets, strong IT backbones, scalable system infrastructures, insightful market research, up to date competitive intelligence, consistent operational excellence, keen strategic focus, and an unwavering commitment to their clients. If this sounds like a long list, it is. You don't need to do everything, but select the most important areas for improvement to ensure you are ready to grow.

Establish effective (rather than efficient) communications

In uncertain times, highly efficient communication can hide potential growth opportunities. Standardized communications (e.g.; templates, dashboards and recurring reports) may help manage time and cost, but their sleek design often exposes only a limited view of what is really going on. Encourage candid dialogue to provide the backstory and context of reported data. Declare gripe sessions off limits, but encourage your team to describe and discuss your current situation.

As you strengthen your internal communication, various opinions and perspectives may lead to unexpected benefits. For example, a discussion about uncertain customer demand might prompt employees in two unrelated departments to bundle some of their products in new ways.

Uncertainty can be a prelude to growth, but only if you assess future risks, consider current vulnerabilities and engage the right people in your growth dialogue. Ensure your team is well prepared to act swiftly and confidently as the direction of a policy decision or regulatory change becomes clear.

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Candid communication

Don't wait until you have good news to share. Get your people talking to you and to each other. Start an organizational conversation about growth. Discuss the current situation, then shift focus to customer opportunities. You may hear about staffing or other concerns which can be addressed in the near term. Increasing the level and quality of internal communications is a good move for two reasons:

First, the stress of the uncertain environment, especially if the team is worried about meeting growth goals, can foster rumors. Open dialogue and sharing of available information and concerns can dispel negativity.

Second, the communication channels you establish will be useful later. Early signals of change in the environment may travel faster, and implementing your growth plans when you are ready to act might meet less resistance.

Perspectives

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