

From contingency planning in times of change and uncertainty to risk control

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Abstract— *It is said that: "Nothing is permanent, except change." Indeed, at best the changes can be gradual and predictable; however, in the current era, most changes happen at unprecedented speeds, altering the status quo and placing organizations in conditions that can be favorable or unfavorable, depending on each particular case.*

The planning process, which incorporates uncertainty, must include several scenarios that include different contingency plans, that is, create short and long-term analysis models based on speculation about the behavior of different variables that may affect the company.

. The more changeable the environment, the greater the need for a wide range of settings; more contingent plans must be generated to be prepared for the emergency.

The COVID-19 crisis has made visible the importance of risk control and internal auditing in companies.

I. INTRODUCTION

In many organizations, there is a devaluation of strategic analysis and an overvaluation of operational efficiency. It is difficult to reconcile the day to day and the future because the future is not the sum of several day to day. When operational issues leave no time for strategic concerns, the consequences can lead to the closure of the company.

In 1980, Porter developed a model related to how the structure of the environment can affect a company's strategy.

According to Andrews (1971), the sources of competitive advantage have an internal origin but will only make sense if they have a framework in the external environment.

II. THE ENVIRONMENT

There are various environmental situations that can cause an emergency, for example: actions by the competition,

changes in customer preferences, technological advances or changes, social, political and economic problems, conflicts between countries, wars, etc. However, some of the changes that can have catastrophic consequences are natural disasters, such as fires, earthquakes, floods, climate change and pandemics; among others. The situation that the world has been experiencing since the beginning of 2020, related to the COVID-19 pandemic, has the attention of different sectors, precisely because it puts at risk the continuity of business, as well as the safety and health of humanity.

The speed of reaction to the speed of spread of the virus has become the decisive criterion for assessing the good or bad management of public and private organizations.

The prevalence of this criterion is a clear example of the generalized approach towards reactive management. The management of the pandemic is a case study, illustrative of the reactive culture versus the proactive culture of the strategic mindset. But, it is said that this is a situation that

none of them expected and they call it a health crisis and not an economic crisis with forecasts always lost in the economic models.

Barack Obama and Bill Gates in 2014 and 2015 will talk about global risk in a globalized world with the appearance of pandemics, pointing out the need to respond effectively and globally to the challenge.

Also the risk management consultancy Marsh, 15 years ago, in the annual study "The Global Risks Report", warned about the "imminence of a pandemic and the high degree of lack of preparation of countries and organizations to face a context of this nature".

So, how is it explained that the rulers and those responsible for the companies did not act with a strategic mentality?

For Taleb, The Black Swan is an event characterized by the following attributes:

1. It is a rarity, because it is outside of normal expectations;
2. produces a tremendous impact;
3. Despite its rarity, human nature causes us to invent explanations of its existence after the fact, which, erroneously, becomes explicable and predictable.

Why are we not aware of the phenomenon of black swans before they occur? Part of the answer, according to Taleb, lies in the fact that human beings are absolutely hardwired to learn specific things when instead they should be concentrating on generalities.

Therefore, we cannot really evaluate the opportunities, we are too vulnerable to the need to simplify, narrate and classify, as well as not being open enough to reward those who can imagine the "impossible."

III. PLANNING

At the moment it seems appropriate to conclude that we have to definitively banish the false idea that planning and managing the future is a futile effort. The sustainability of organizations cannot be based on the ideas of a reactive culture of Steiner or Igor Ansoff typical of the last century.

The current pandemic related to COVID-19 represents a disruptive event that has an impact of great consequences worldwide. Both public and private institutions must analyze their strategies, evaluate and prioritize their objectives and action plans, to make a risk analysis and rethink their strategies towards achieving business continuity and sustainability.

Strategic planning as a powerful tool is not enough, we will talk about contingency planning. The typical planning

process focuses appropriately on the most likely events, but such concentration can result in an incomplete set of plans.

According to Steiner (2008) "Contingency plans represent the preparation to carry out a specific action (s) when an event occurs in which no planning was carried out during the formal process."

IV. CONTINGENCY PLANNING

The two key concepts in contingency planning are probability and impact. In other words, contingency plans imply a high impact that do not have the highest probability of occurring, on the contrary, strategic planning also implies a high impact but with a high probability of occurring.

The most important contribution that contingency planning can make to an organization is the development of a process to identify and respond to unanticipated or unlikely events.

According to Goodstein (2000), the following key concepts should be considered in contingency planning:

- the contingency planning matrix
- the organizational status indicator
- macroeconomic indices
- business expansion rates
- composite indicators of budget variation

Contingency planning can be divided into two categories: internal vulnerabilities/ opportunities and external vulnerabilities/opportunities. Although most companies are more aware of internal than external contingencies, contingency plans should be established for each quadrant of the contingency planning matrix.

Uncertainty, volatility, change. Three words that describe the present and probably the near future. Churchill defended the need to "anticipate what will happen and then explain what did not happen." Anticipating future challenges is a necessary but fallible exercise, as is the diversity and complexity of the variables that can shape it.

This is where we must ask ourselves, how to plan in this context? Many planning processes are usually the main limitation to planning. Since they do not allow enough flexibility to make quick decisions. In a world of rapid and constant change, uncertainty is a key element to incorporate into planning and, in general, these types of decisions cannot wait for a slow and rigid planning process.

V. RISK CONTROL

No risk map included the impact of a pandemic on an irruption company and the need to confine the population. The ability to react has marked the survival of companies, and management teams have had to develop action plans and business protection based on uncertain scenarios and taking into account multiple factors. And in the face of the new reality, the key is flexibility.

It is important to carry out an in-depth risk management analysis, under a comprehensive and continuous approach over time, covering key areas such as fraud risk management, allowing concrete and realistic measures to be taken that include the most appropriate tools and technologies. It must be based on continuous access to data and information, and the criteria for defining risk events must be refined taking into account the lessons learned from these months.

The health crisis has made visible the importance of risk control and internal auditing in companies. For months the focus has been on external threats that jeopardized its viability, but in some cases internal control has been neglected, increasing risk in critical areas such as fraud, regulatory compliance and internal information systems. Protocols have probably been relaxed that now need to be restored before it is too late.

These weak times are exploited by fraudsters to commit irregularities. They are times of perfect storm for fraud, due to financial pressures, disruption of supply chains and changes in the ways and processes of doing business.

In the turbulence of these times in which the priority is to keep the business wanting to return to normality, but in which the past normality will no longer exist, companies have compromised the verifications and controls of key processes and has led to supervision less stringent control framework gaps, threatening assets such as inventory, equipment, software, and data.

The risks have multiplied exponentially due to the reduction of some basic protocols, due to supply problems and the stoppage of transport on a global scale, together with the need to seek suppliers in markets where it had not operated before.

In this sense, a differentiation must be made between the short-term adjustments that companies must make and the more strategic actions as life returns to a more stable scenario. Immediately, there is a need to assess whether activities related to fraud, compliance, cash control, contract management, business resilience, and security are working as they should or have been significantly disrupted.

VI. CONCLUSION

In turbulent and uncertain times like today, companies are increasingly vulnerable. In this context of accelerated change and ambiguity, promoting a long-term vision and exploring the future rigorously helps to decide better in the present and to prepare the company for inevitable changes.

We do not have control over many variables, but as Viktor Frankl said in his book *The Search for the Meaning of Man*, "everything can be taken from a person, except one thing: the last of freedoms: to choose your attitude in all circumstances." We have that last power. And to help us in the most difficult moments, our mind gives us two other powers: that of visiting the past, through our memory, and that of exploring the future, through our imagination.

For the future, it requires changes in the way of thinking and acting, it requires awareness, imagination and planning with enough flexibility to make quick decisions.

Exploring the future to revolutionize the strategic formulation process in the organization allows organizational agility to respond in a context of uncertainty and the development of more resilient and better prepared managers to deal with change.

In this context, managers must have competencies in three critical aspects for today's world: scanning the organizational environment, exploring different types of approaches and tools, simulating possible futures through the development and exploration of strategic scenarios and, lastly, building agility strategic and resilience, through the explicit articulation of the perspective with strategic management.

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