The accountant's curse

Uncertainty is a much tougher variable to deal with than its cousin, risk. Tony Grundy suggests how to address this 'clear and present danger'

In the *Harry Potter* books and films, our hero faces the constant threat of evil and destruction from his dark enemy, Lord Voldemort. While at times Potter's world seems tranquil and beneficent, Voldemort may at any moment emerge from the shadows. As Voldemort is to Harry Potter, so uncertainty is to Muggle accountants.

Accountants act as the guardians of shareholder value, quantifying the changing value of a business. But how can accountants do that effectively if business plans can be blown away so easily by uncertainty in its many forms – political, economic, market, competitive, financial and organisational?

Whereas risks arise in situations that have a number of quantifiable probabilities, uncertainty applies in situations that have only a few. Since prehistoric times, humans have had to deal with uncertainty, fighting sabre-tooth tigers and the neighbours, coping with floods, crop failures and plague. But when money was invented, uncertainties became systemic – that is, they operate within a complex and dynamic interactive system that is potentially 'wicked'.

But like all other sources of ambiguity in business, economics and finance, there are indicators to help deal with it. Take Brexit: while future outcomes are unpredictable, that doesn't mean the dynamic conditions at play can't be sensed, understood and then modelled – using indicators.

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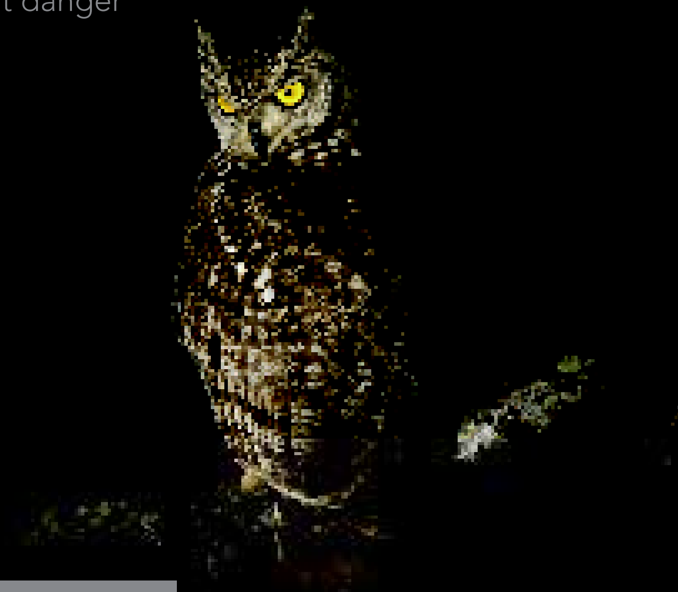
There are five key steps you can take to do this:

* Identify the key beliefs and assumptions about the future – not only the most obvious, but also the less obvious that are tacit and may be taken for granted.
* Rate these for certainty and importance – and as part of the process, also imagine scenarios where your assumptions work out and where they don't.
* Consider the interdependency of your assumptions. You could draw a diagram of how they are connected.
* Imagine the dynamics – how one thing could lead to another and set off other causal chains.



* Imagine one or more dynamic, future scenarios.

In addition, when dealing with uncertainty, senior finance staff should consider the following tips:

* Distrust all forecasts that are obvious, linear extrapolations.
* During the planning process, encourage the top team to reflect on the less obvious as well as the obvious assumptions that they are making.
* Dare to think about disruptive events that can lead to a different 'state of the world'.
* Tell the story backwards (how did a particular outcome come about?) and forwards (what transitional events and amplifying factors conspired to produce that result?).
* Go back to the original plans and projections, and rework them as part of an impact analysis.

Finance teams can apply this process to key plans, major decisions and projects, as well as to external developments. AB

Tony Grundy is author of *Dynamic Competitive Strategy: Turning Strategy Upside Down*