

Firms are facing challenging social–political situations in their home markets. Whether it's Brexit in the UK, the Yellow Vest Movement in France, civil unrest in Venezuela, or the U.S. government shutdown, firms are having to adapt their investment, growth plans, and allocation of resources to deal with greater political uncertainty. This uncertainty has a significant impact upon economic conditions, such as the cost of inputs (work, resources) and customer behavior. But it can also threaten business continuity: the simple ability for firms to carry out their daily activities. Operations may have to stop because goods can no longer cross the frontiers or because service provision becomes impossible. How should firms adapt? As part of our advisory work around Brexit uncertainty, we interviewed more than 150 executives from 50 UK-based organizations. Our goal was to better understand their challenges and whether firms were considering leaving the UK. This helped us devise a framework for how firms should think about restructuring operations in cases of extreme political uncertainty. Adapting corporate strategy to extreme political uncertainty first requires evaluation of the nature and the scope of uncertainty. Is the uncertainty limited to economic conditions, meaning that there is some significant variation in the costs of inputs and the competitiveness of the firm's product? Or is uncertainty extreme to the point of threatening business continuity? This assessment can differ depending on the industry (uncertainty around economic conditions might threaten business continuity for some industries more than others) and on the firm (some organizations can better predict and respond to uncertainty than others). A firm's strategy also has to consider the nature of the markets it has a presence on: Does the firm have a safe position in a steady (or declining) market, or in a growing one? Is the firm at risk of losing market shares? In the case of steady or declining markets, firms will have to remain prudent with regards to shifting operations abroad. Shifting activities to a new location is costly and might eat up the limited margin the market is offering — but it may be the preferable option to protect the key activities that will help the firm survive through the crisis. In the case of growing markets, firms are likely to have both the opportunities and the resources to be more aggressive in their reaction to uncertainty. Two strategies for steady or declining markets When firms perceive a limited level of uncertainty, or uncertainty around economic conditions, they can adopt a hedging strategy. The portfolio of activities will be rebalanced toward those that can survive the political turmoil – whether those are productive activities or transversal functions of a multinational firm, such as human resources or internal control. The firm can reduce the cost of those functions and put up with a drop in sales. For example, in response to Brexit, Sony decided to maintain a strong presence in the UK but moved its EU headquarters to the neighboring Netherlands. The cost of such move is limited and can be reverted, while at the same time it moves key activities to a safer location. However, in a case of high uncertainty, the threat to business continuity can be fatal to firms without reserves of cash and a presence on mostly declining markets. In such context, a salvaging strategy is the best option: the idea is to minimize the consequences of the situation and save what can be saved. In this situation, firms will have to deal with shrinking sales. They will have to burn their reserves of cash to compensate for the drop in profit, and avoid having to sell off previous assets that might be useful when the economy picks up again. Jaguar Land Rover for example, expecting important Brexit disruptions for its value chain, has simply decided to shut down their four UK plants to cope with the fall in demand and looming concerns around the possibility of a no-deal Brexit. The strategy is not

new for automotive car makers. Renault, the French car maker, for example, has had one of its main bases in Argentina for decades despite political turmoil. Renault Argentina was established in 1997 but when the country went through a deep crisis in 2001, Renault reduced its exports from Argentina to Brazil (where it could have moved a significant part of its production) but managed to maintain a 20% market share. Renault basically cadded in and its salvaging strategy worked out – it placed the firm in a strategic position to take advantage of the brighter economic spell which followed. Difficulties are still prevalent in Argentina, as the country is facing a 25% inflation rate, but Renault has been able to grow its sales by 16.3% in 2017.

Two strategies for fast-growing markets

For firms that can capitalize on a fast-growing market, the objective is to avoid letting uncertainty drag them behind their competitors. If the uncertainty is limited to economic conditions, meaning it has implications for the costs of resources and for the cost competitiveness of products, firms can engage in a rebalancing strategy. The idea is to move strategic and leadership assets to another geographical base, close to a well identified growth engine. (Unlike the hedging strategy, which is mostly defensive and aimed at survival, rebalancing is aimed at reducing the exposure to the uncertain market and taking advantage of growth opportunities elsewhere.) Rebalancing involves costlier and strategic moves. Dyson, for example, although it claims it has nothing to do with Brexit, is shifting its headquarters and its center of gravity to Singapore, hoping to capitalize on the growth of the region. If business continuity is at risk in fast-growing markets, firms have to consider a shifting strategy: quickly moving a significant part of their activities abroad, starting with those functions that can be shifted at minimal costs. This strategy also implies a reallocation of resources to more secure and stable markets. Like the rebalancing strategy, it is a proactive approach that taps into the resources of the firm to avoid the consequences of uncertainty. But in this case it's a more radical approach: a shifting tactic is more systematic and fast-paced, and it also aims at ultimately reducing the exposure to the uncertain market to zero. In the UK, a number of banks including Barclays, Goldman Sachs, and HSBC have already transferred a share of their activities and staff to Paris and the Frankfurt. Finding certainty in uncertain times

Paradoxically, the businesses that will survive and ultimately stand out are those that create certainty for themselves, forging a path depending on how the situation unfolds. In the case of Brexit, a no-deal scenario will almost surely threaten business continuity, and we could expect numerous firms to engage in salvaging or shifting strategies. For example, while most business commentators have gasped at Jaguar– Land Rover's idea of closing down their plant in the days following the Brexit cliff-edge, this strategy suggests that the firm is planning for the worst case scenario. At least, it expects Brexit to impact the automotive industry to an extent that can only be minimized rather than dealt with. Among the executives we talked to, we found two significant groupings of respondents. The first are paralyzed: they are waiting for the Brexit uncertainty to resolve before committing to any strategic decisions. They have considered shifting activities abroad but have not thought about how this can be adapted depending on the outcome of Brexit; they are waiting to understand the value of the pound before undertaking financial forecasts and cost analyses. Most of the people in this group worked within English companies. The second group, mostly representing Scottish Companies, were more optimistic and, in fact, were thriving on the uncertainty, looking for the market opportunities created by the paralysis of their English competitors. One of the primary reasons for this

proactive behavior we discovered, was that many Scottish leaders expect in the near future for the nation to achieve independence from the United Kingdom and to subsequently (re) join the European Union. They're panning for the long term where as many English counterparts are focusing on the immediate horizon. Scottish firms expect Brexit to generate limited uncertainty, mostly around economic conditions, and are therefore going for limited strategic changes – mostly a rebalancing or a hedging approach. They seem to be adapting much quicker in a post-Brexit world than their English counterparts. Scottish exports to the European Union have increased by £1.7 billion (to £14.9 billion) in 2017, a 13.3% rise on the previous year; while international exports (excluding oil and gas) increased by 6.2% to £32.4 billion. These businesses are finding their exports become more competitive due to a falling sterling currency. They are trying to exploit this short-term advantage as much as they can to gain market share before their cost structure adapts itself to the new currency exchange rate. It's clear that firms should be mapping out potential Brexit deal scenarios and preparing their operations for change. For example, firms should be assessing what they'd do if trade barriers are erected. Can production be shifted to another country? What will be the costs and consequences of such a move? In such case, a rebalancing strategy – meaning only a limited adjustment – might be a safer option than a shifting tactic. By anticipating different political scenarios and preparing a range of strategic responses that make sense for each, firms can create certainty for themselves. Whether firms decide to rebalance their activities, or to flee as fast as possible through a shifting strategy, not only depends on whether they have the resources to do so – it also depends on their assessment of the level of uncertainty and their evaluation of both the risks at home and the risks of expanding abroad. Ultimately, the firms that will survive uncertainty are those that will have thought about how they would move forward once the storm has passed.