Responding to Extreme Volatility

A Bevington Group Vignette

May 2025

Prompt: Chessboard on fire

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Today we will cover…

Our current volatile context

Adaptability and anti-fragility

Responding in the middle of volatility

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Volatility, Uncertainty, Complexity, and Ambiguity

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Current context

We are living in a VUCA world

Volatility, uncertainty, complexity and ambiguity

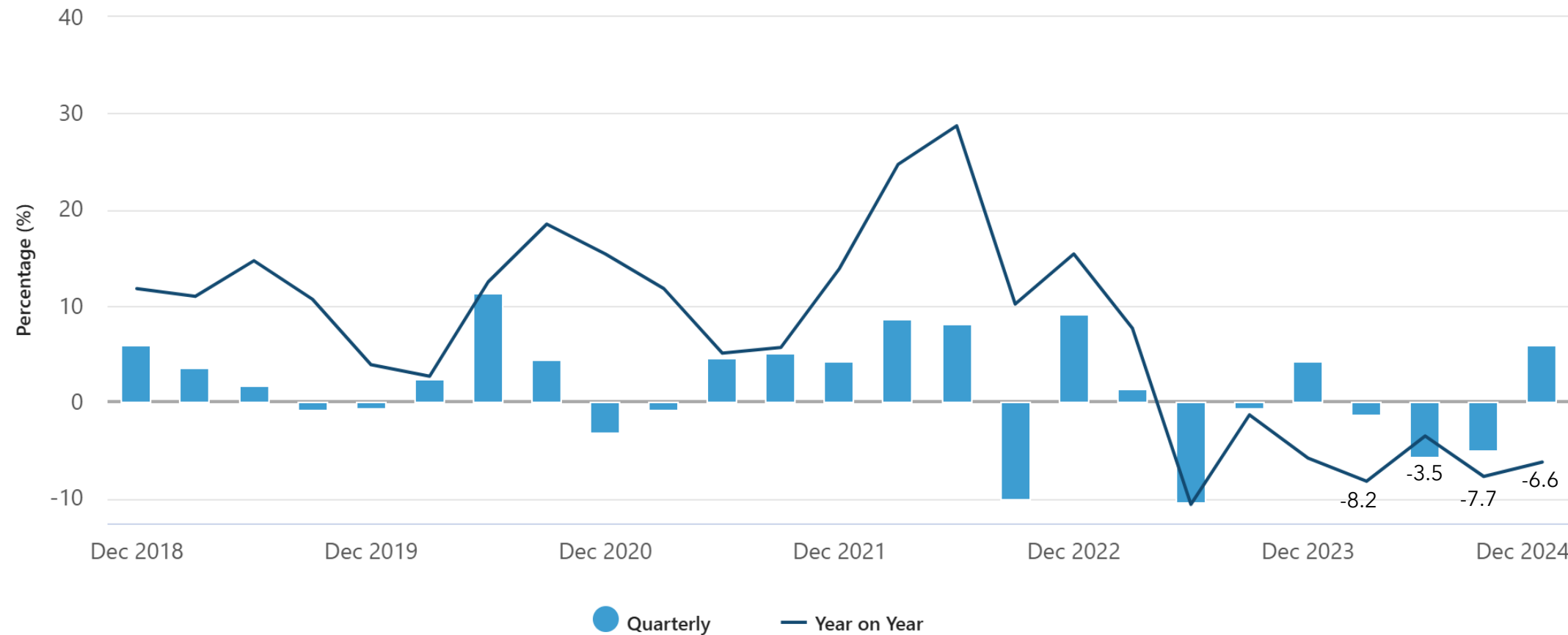| Volatility	• Rapid, unpredictable changes with significant impacts
Uncertainty	• Lack of predictability, where past data fails to forecast future outcomes
Complexity	• Interconnected factors creating tangled cause-and-effect relationships
Ambiguity	• Lack of clarity or misinterpretation of information

- We are **operating in a world shaped by volatility, uncertainty, complexity, and ambiguity**, driven by market fluctuations, global trade tensions, and unpredictable supply chain disruptions
- Economic shifts, declining productivity across organisations, and unclear or rapidly evolving regulatory environments further complicate strategic decision-making and long-term planning

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Given the current economic context, many organisational fragilities are being exposed

Company gross operating profits

Legend: ● Quarterly — Year on Year

Data labels shown: -8.2, -3.5, -7.7, -6.6

Source: ABS

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Australian labour productivity growth has slowed significantly over the past two decades

Australian 'market sector' labour productivity growth, 1981-82 to 2023-24

'Productivity cycles' as determined by the ABS
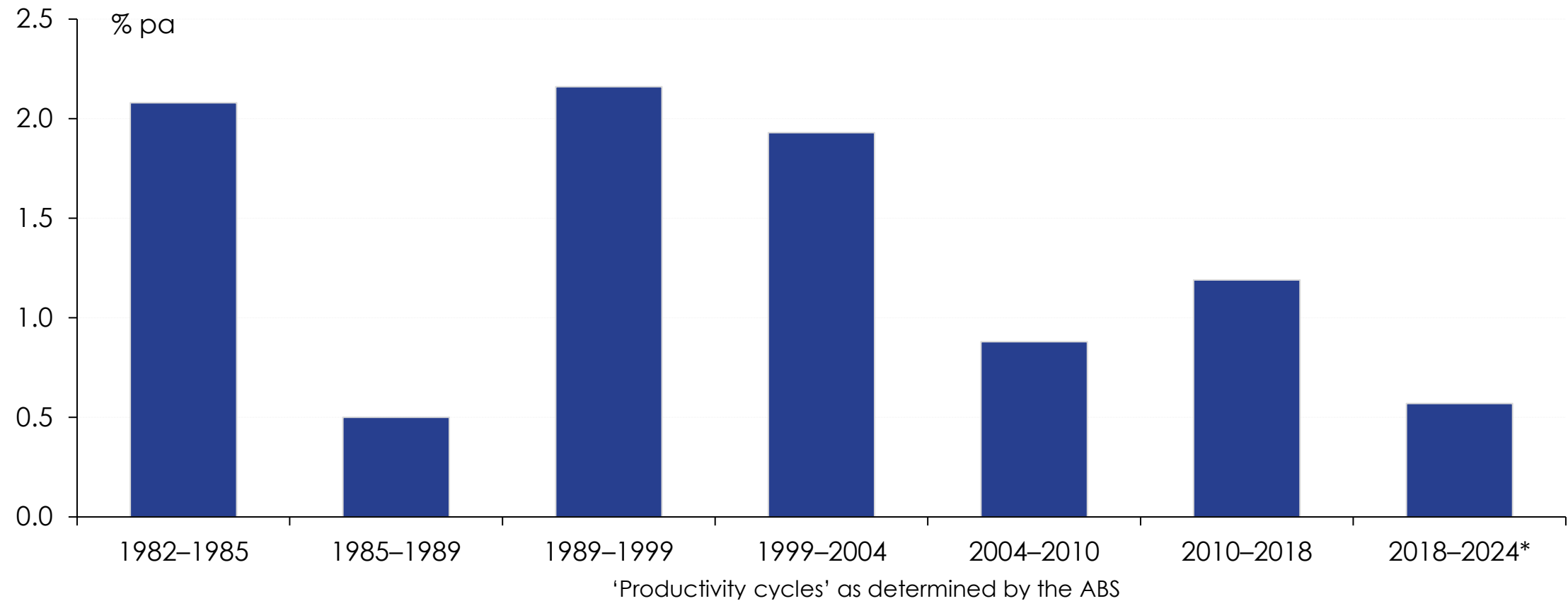
Note: The 'market sector' excludes public administration & defence, education & training, health care & social assistance and ownership of dwellings. 2018-2024 is an incomplete productivity cycle.
Sources: Australian Treasury, 2023 Intergenerational Report, August 2023; ABS, Australian System of National Accounts, 2023-24, October 2024, Table 13.

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The relentless pace of change is not slowing and is amplifying leadership challenges

- **Rising geopolitical tensions** (e.g., widespread tariffs) are increasing global trade uncertainty and market volatility

- AI and technological change almost "demands" adoption

- **Declining productivity** has become a common concern across a range of industries
  - Many organisations are also grappling with **process debt** - outdated, inefficient ways of working that have accumulated over time and now hinder agility and performance
  - Regulatory demands are steadily increasing, adding **compliance complexity**
  - Many industries are still **struggling to attract and retain skilled, experienced talent**

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Adaptability and Antifragility

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Risk Intelligence is much broader than Risk Management

Risk Management is an activity or a family of activities.

Risk Intelligence is a cluster of competencies that define, broadly, how we approach risk, with implications for how we think and act in a variety of business (and personal) situations.
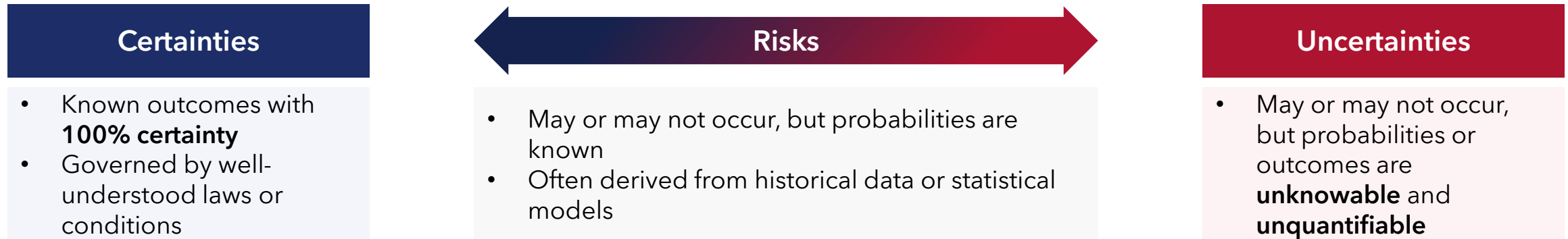
Risk Intelligence (or its absence) can be apparent in decision-making from strategic to operational and transactional levels.

Elements of Risk Intelligence

- Risk perception and awareness, including foresight and scenario agility
- Analytical and critical thinking
- Strategic thinking
- Decision-making under uncertainty
- Emotional and interpersonal communication and influence
- Cognitive regulation
- Technical skills for designing and applying risk frameworks and quantitative models
- Adaptability

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It's crucial to recognise that risks lie along a continuum, and that risk aversion often conflicts with the need for adaptation

Certainties

- Known outcomes with **100% certainty**
- Governed by well-understood laws or conditions

Risks

- May or may not occur, but probabilities are known
- Often derived from historical data or statistical models

Uncertainties

- May or may not occur, but probabilities or outcomes are **unknowable** and **unquantifiable**

Adaptation and risk aversion are NOT good bed-fellows. Risk aversion is different from risk management – in the latter the risks are taken on *a calculated basis with an understanding of "expected value"* (think of it as a risk-weighted likely outcome in probability theory)

You cannot adapt if you are not aware of the dangers or market changes – so great organisations invest in first rate "sense and respond systems"

Risk intelligence combined with fortification and adaptation are partners in enterprise

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Fortifying your organisation provides critical time to transform and adapt

Fortifying the organisation

- Traditional Risk Planning
- Sense and Respond Systems
- Financial reserves
- Non-financial reserves
- Firebreaks

Increasing organisational adaptation

- Agile organisation model design (a balancing act)
- Sensing, Scaling, Swarming
- Mission Directed Leadership
- De-bureaucratised decision-making
- Strategy 1 / Strategy 2 thinking

Source: *Bhamra, R. (2019). Organisational Resilience: Concepts, Integration, and Practice. S.l.: CRC PRESS.*

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Taleb (2007) introduces a concept of *fragility,* where systems may appear to be stable but are highly *vulnerable* to shocks or stress due to hidden weaknesses
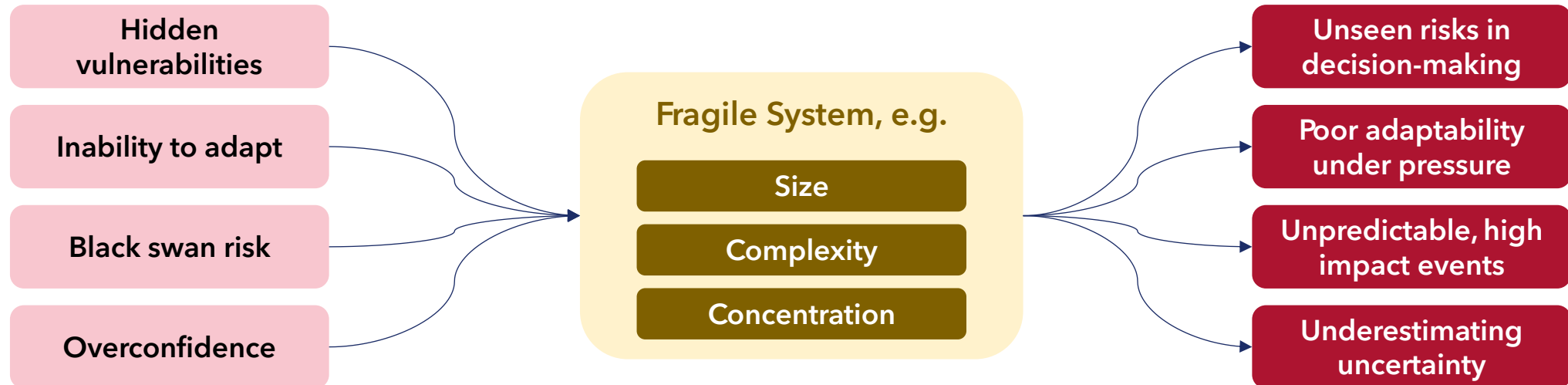
1

Systems often exhibit hidden weaknesses **masked by a superficial sense of order and predictability**

2

Often, we fail to recognise the fragility of systems because we tend to **mistake the unknown for the non-existent**

3

This tendency to ignore underlying vulnerabilities can lead us to **overestimate the reliability of systems**, especially when they appear to function smoothly on the surface

Hidden vulnerabilities

Inability to adapt

Black swan risk

Overconfidence

Fragile System, e.g.

Size

Complexity

Concentration

Unseen risks in decision-making

Poor adaptability under pressure

Unpredictable, high impact events

Underestimating uncertainty

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There is a sensible approach is to building antifragility into our organisations, teams, and indeed personal lives
The concept of antifragility can be applied to systems through a series of principles

Optionality

Seeking situations / approaches that allow choices, and flexibility can enable you to exploit favourable opportunities, while mitigating harm
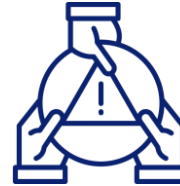
Skin in the Game

Decision-makers should have personal exposure to the risks and rewards of their choices

Barbell Strategy

Taking a pragmatic approach with the bulk of a portfolio provides a safety net to go after high-risk, high-reward opportunities in a controlled fashion
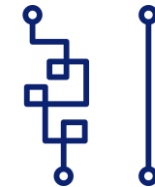
Decentralisation

Small, loosely connected systems adapt better (and much more quickly) than rigid, centralised ones

Redundancy / Slack

A degree of slack facilitates rapid responses to unforeseen circumstances

Via Negativa

Removing sources of fragility (e.g., bureaucracy, excessive complexity) often strengths a system more than adding new features

Taleb, N. N. (2012) Antifragile: Things that gain from disorder, Random House.

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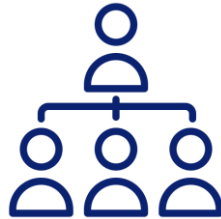PERFORMANCE OUTCOMES DELIVERED

Adaptability is a key element of resilience, because you can account for the new circumstances you face

If you want to improve the adaptability of your organisation, you may have to face some uncomfortable truths…
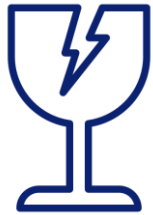
Sourcing	Management Discipline	Financial Structure	Information	Functional Design
• Offshored supply chains without redundancies are more fragile	• Organisations that can make faster decisions in local contexts have the flexibility to adapt quickly to their market context	• Firebreaks between organisational units are important to ensure that contagion does not spread • E.g. corporate structures that mean one unit going bankrupt will not bring down the whole enterprise	• The ability to sense changes in markets or other contexts is key • Adaptive organisations can "smell a change in the air" early	• The "corporate centre" needs to be lean and focused on the allocation of "crisis" resources to the leadership teams that most need it (and can realistically benefit from these)

These attributes can be considered when you review your strategy, business model, and operating model

Zolli, A and Healy A. (2013). Resilience: Why Things Bounce Back, HBR, https://hbr.org/2014/05/why-you-need-a-resilience-strategy-now

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Another useful framework is Roberts' (2020) RRR approach: Risk, Reward, and Resilience Framework

Risk, Reward, and Resilience

- Some frameworks for assessing and managing risk adopt a narrow scope that fails to account for the full range of impacts a decision can have

- The RRR framework is a general model to assist informed decision-making

- RRR models situations in a way that illuminates the synergies and trade-offs between risk, reward, and resilience

- Each component of RRR can be assessed independently through a rigorous and detailed analysis, based on three drivers

- By analysing the drivers of all three areas together, we can understand better the ways they interact with each other

Diagram adapted from 'Roberts, A. (2020).'
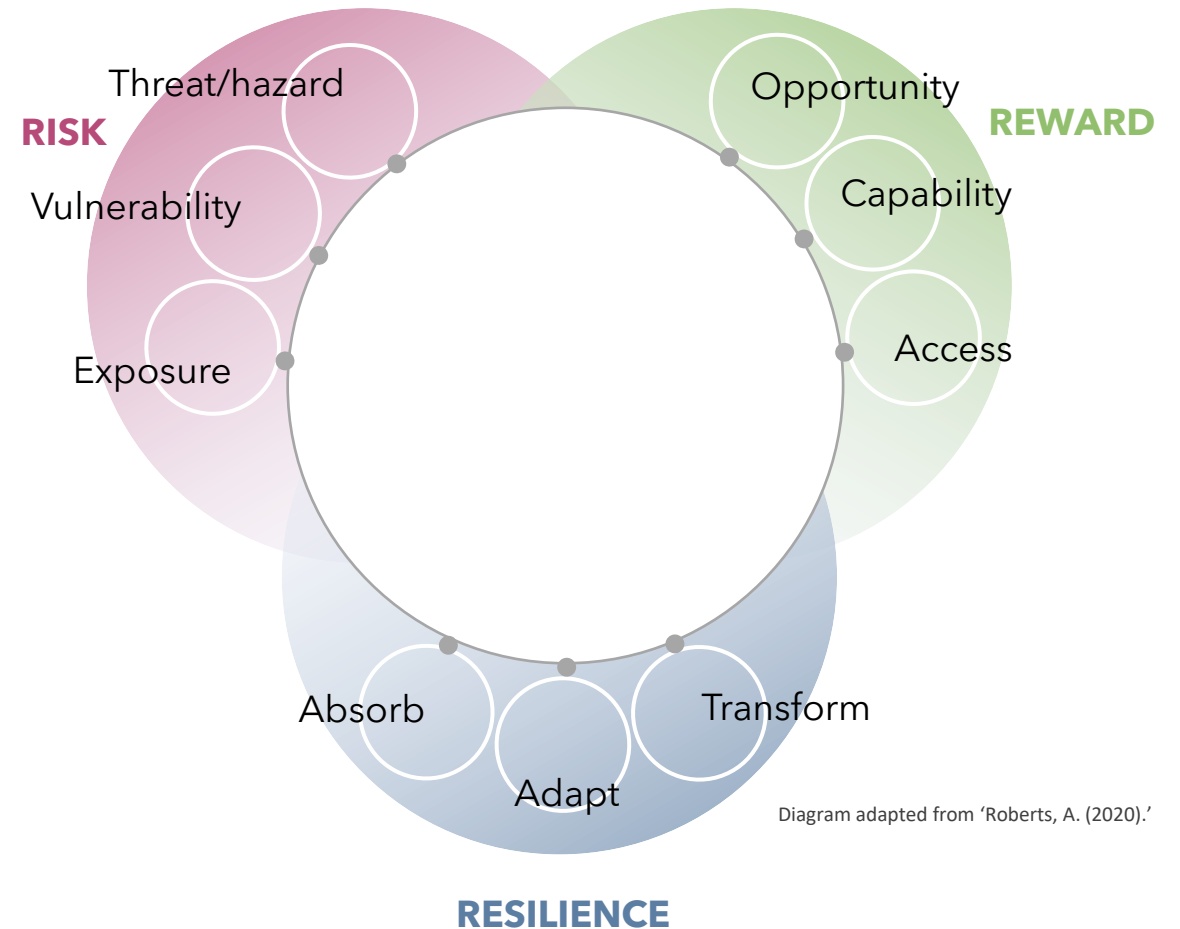
Roberts, A. (2020). The RRR framework: A new approach to understanding risk, resilience, and responsibility. [Journal of International Economic Law]. [https://doi.org/10.1093/jiel/jgad009]

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So, to move in an antifragile and adaptable direction, consider the following

Understand when to use deep analytics vs faster styles such as TEC or "rules of thumb" are very handy – but test them!

Be aware that your decision-making culture can have an enormous impact on your innovation profile (e.g. defensive decision making)

Have a broad set of deep decision-making capabilities

Understand when to dig into detailed analysis and the value of having a broad range of available analytical tools to be used in a framework

Take a "risk learning" on your portfolio of projects or investments
- Some risks are "learnable"
- Some risks you can learn faster than others (you have greater risk intelligence for that risk) – and this can give you a relative advantage
- All things being equal, pursuing projects with risks you can understand better than others is a good idea
- Doing so allows you to avoid all sorts of errors and to improve returns

Accept that not all the information required for statistical decision making will be available

Take a "risk portfolio" view of your projects

Recognise the difference between Certainty, Risk and Uncertainty

Yet be aware of common errors in decision making (e.g. being overly influenced by the fear of loss)

Overall – *Remember that Risk Aversion is not Risk Intelligence*

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So, how can we respond in the middle of volatility?

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The good news is, your organisation almost certainly has inefficiencies that are independent of the current macro-economic climate – addressing these can amount to a fortification

Common inefficiencies include:

Process inefficiencies	Capability gaps
Excessive manual effort (no automation)	Flexibility challenges
Ineffective structures	Legacy technology challenges
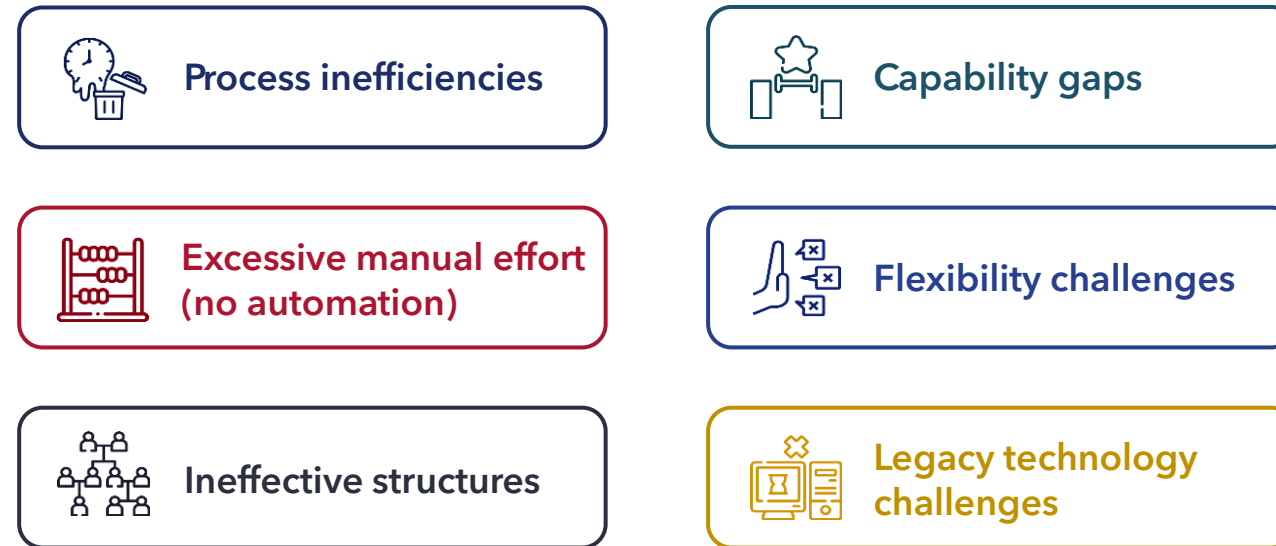
Addressing these inefficiencies can provide a sustainable solution that helps you navigate the currently tough environment, while also setting you up for greater success in the future…

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To target productivity, Bevington Group recommends adopting rational, strategic responses

Create Capacity through Process Reengineering

- Process reengineering involves rethinking and redesigning existing workflows to eliminate inefficiencies, redundancies, and bottlenecks

- By streamlining and optimising processes, you effectively **free up capacity within your teams**

- This additional capacity allows employees **to focus on higher-value, more strategic tasks**, such as innovation, customer relationship management, or tackling complex problems that require human judgment and creativity

Invest in the Future through Process Automation

- Once capacity has been created through process reengineering, the next step is to invest in the future by leveraging process automation

- Investing in these technologies positions organisations to **stay ahead of competition** and remain **agile in a rapidly changing business landscape**

- Additionally, this **unlocks scale without compromising quality** or increasing operational complexity

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Process inefficiency is very common

Examples of inefficient processes

Outdated approval workflows

Manual data entry

Redundant approval steps
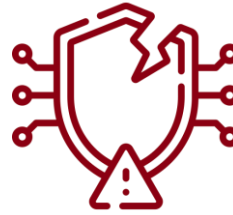
Consequences of not updating processes

Frustrated customers

Irritated staff

Increased risks

Higher costs

Opportunities in process optimisation

Improve efficiency

Enhance customer experience

Reduce technology implementation risks

Reduce technology implementation costs

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Process reengineering is the thorough and detailed redesign of organisational processes to remove inefficiencies and friction points

Process Reengineering

Capture Current State ("As Is") Process

Perform Structured Analysis of Current State

Conduct Scenario Modelling

Confirm & Map Future State ("To Be") Process

We find that process reengineering exercises will typically release up to 20% of capacity in an existing process

There are various sources of insight into current state processes:

Process Modelling

Manual, or semi-automated, mapping of activities, decision points, system usage, and documentation

Business Performance Analysis

Capture of key metrics / performance indicators and trends to quantify current state performance

Customer Journey Mapping

Description of customer perspective, aligned to process, providing insights into end-user needs, attitudes, and behaviours

Process Mining & Task Mining

Capture of enterprise platform logs and/or detailed tracking of user interactions with systems to automate modelling of the current state, including variations

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RPA is good for basic processes, while complex processes may require intelligent automation / soft process automation

Robotics process automation (RPA)

- RPA bots are designed to interact with applications and processes in the same way a human would complete a task

- They 'emulate' human actions according to a pre-defined series of instructions or steps to achieve an outcome without the need for human intervention

- RPA works well on standardised, repetitive, mundane and/or tedious tasks such as:

  — Processing invoices and applications

  — Sending reminders to customers via text

  — Fraud detection

  — Payment execution

- However, the same attributes that enhance RPA's efficiency limit its ability to tackle nuanced processes and complex tasks

  — For example, if a customer fills out a straight-through-processed form incorrectly, RPA may be unable to interpret it as it falls outside of its rigid rules, therefore creating manual work for a human

- RPA can "break" if the underlying system changes

Intelligent automation / soft process automation

AI ➕ RPA ＝ IA

- Intelligent Automation can not only streamline inefficiencies but also automate value-added activities

If RPA can	Intelligent Automation can
Open and scan emails	Summarise the information
Download invoice attachments	Apply conditional rules
Read / copy key data from documents	Write an email or letter
	Change the status on a file

- To a modern process engineer, the RPA agent is removing waste, while the Intelligent Automation agent is assisting the human in value added activity

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IA can be incrementally delivered over time; similar to AI agentic workflow implementation

Form received
(e.g. claim, application)

	Column 1		Column 2		Column 3
	Validate form		Validate form		Validate form
	Read form		Read form		Read form
	Enter relevant data to DB		Enter relevant data to DB		Enter relevant data to DB
	Analyse form		Analyse form		Analyse form
	Identify supporting data required		Identify supporting data required		Identify supporting data required
	Source supporting data		Source supporting data		Source supporting data
	Assess supporting data		Assess supporting data		Assess supporting data
	Make decision		Make decision		Make decision
	Draft communication		Draft communication		Draft communication
	Send communication		Send communication		(Review communication)
					Send communication

Partial Automation

End-to-End Automation

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Automation coupled with process reengineering delivers significant benefit. Often a case of 1+1 is greater than 2

01 Determine which processes to improve

Value Driver Trees can assist with determining the processes that matter most given the goals of the organisation (e.g., volume, cost, ROE, ROA)

Process reengineering

02 Process map to understand the current state – identify reengineering and automation opportunities

If you automate without considering the 'big picture' process, you might be 'missing the forest for the trees' and leaving potential efficiencies unrealised

03 Reengineer the process as appropriate before automating

Automation can make a process more efficient, but it does not itself improve the fundamentals of the underlying process. For example:

- You could automate a second check in the process, but it is still duplicated effort in the new process

- You might be collecting data that is not useful, it would be a waste of resources to automate this collection

04 Confirm the specific parts of the new business process to be automated

05 Implement the chosen solution

In partnership with a technology vendor that matches your key process requirements

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And, of course, we are here to help if you need it...

If you have any additional questions or require further information, please contact

webinar@bevingtongroup.com

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Contact details and disclaimer

Bevington Group is a specialist consultancy with six core practices:

Operating Model Design and Restructuring

Lean Process Reengineering

Process Automation, Digitisation and AI

Accelerated Implementation

Change Management

Risk Intelligence

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