

STRATEGY

## Dealing with Consequential Inflections and Surprises

by Herman Vantrappen, Francois Barbellion, and Olivier Feix



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*Have your response informed by the potential business impact of uncertainty and the company's agency.*

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Leaders who are familiar with the “black swan” metaphor, yet never managed to read Nassim Taleb’s eponymous book, might claim that black swans in the past few years have become the new normal.<sup>1</sup> That of course is an oxymoron: a “black swan” by definition is a

rare and unpredictable event. Nevertheless, it feels to businesses as if every year, if not day, springs a big surprise: a local virus outbreak unleashes a pandemic (COVID), a mega-acquisition changes the name of the game in the industry (Twitter), political insouciance encourages the start of a deadly war (Ukraine), a technological breakthrough captures users' imagination by storm (generative AI), interest rate hikes trigger the collapse of a beloved bank (Silicon Valley Bank), a new class of drugs promises remedies far beyond the initial indication (GLP-1 receptor agonists), an industrial icon stumbles direly (Boeing), the abusive exploitation of social media algorithms catapults an obscure presidential candidate into pole position (Romania), a structural mismatch between supply and demand multiplies prices and delivery times across the supply chain (electrical power equipment), etc.<sup>2</sup>

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P. J. Schoemaker and G. Day, "[Preparing Organizations for Greater Turbulence](#)," California Management Review, 63/4 (2021): 66-88.

Especially the last example shows that, depending on one's position, a surprise can be positive or negative, and constitute an opportunity or a threat. The question is: What could and should leaders do to deal as well as possible with uncertain trend inflections and discontinuities (e.g., the slowdown of globalization) or with surprise events (e.g., Credit Suisse's rescue by UBS)?<sup>3</sup> "Corporate foresight" serves as an umbrella term for a variety of concepts and tools that businesses have come to use over the past decades to interpret changes in their business environment, then outline and evaluate plausible futures based on these changes, and finally utilize this information to build and sustain competitive advantages (see Exhibit 1).<sup>4,5</sup> Unfortunately, leaders may find that these tools are still failing them whenever they must make sense of unfolding events.

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#### **Exhibit 1. Corporate foresight concepts and tools**

Various terms have entered the jargon of practitioners involved in corporate foresight.<sup>6</sup> Here is a selection:

- “Discontinuities” and “inflections” are rapid and significant shifts in trajectories without the aspect of being mostly unanticipated or deeply surprising. “Wild cards” and “shocks” are surprise events and situations that can happen but usually have a low probability of doing so, but if they do their impact is very high.<sup>7</sup>
- “Weak signals” are early signs of possible but not confirmed changes that may later become more significant indicators of future trends or discontinuities.<sup>8</sup>
- “Horizon scanning” is a process to explore, monitor and assess current developments and their potential implications for the future.<sup>9</sup>
- A “strategic radar” is a framework that monitors and integrates signals from various sources to trigger a response to changes.<sup>10</sup>
- “Scenario planning” is a process to envision alternative plausible futures.<sup>11</sup>
- “Backcasting” looks at a desirable or undesirable future endpoint, followed by looking backward from the future to the present so as to define required structural changes.<sup>12</sup>
- “Real options” provide flexibility in the timing of investment decisions so as to adapt to changing circumstances, which could improve the potential gains and limit the expected losses.<sup>13</sup>

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In this article we describe a pragmatic logic for reflecting on uncertain inflections and surprise events. It helps leaders prepare for the moment when such inflections and events materialize, and to respond to them effectively. It is particularly well suited to guide a discussion about vigilance, vulnerability and resilience at a strategy off-site by the senior leadership team. The logic consists of four steps:

1. Identify genuine uncertainties. Differentiate genuine uncertainties associated with secular trends and events from inconsequential one-offs and background noise.
2. Qualify each uncertainty in terms of impact and agency. Qualify each genuine uncertainty in terms of its potential business “impact” and the company’s “agency” vis-à-vis the uncertainty, so as to inform the type of response.
3. Formulate specific strategic choices. Make strategic choices that detail the response to each uncertainty in terms of business model, business scope and path forward.

4. Strengthen the organization's capabilities. Explore whether and where to strengthen the capabilities required to support the realization of the company's strategic choices.

## Identify genuine uncertainties

Dealing with uncertainty may feel like being trapped in a giant, frenzied and endless whack-a-mole game. To avoid that fate, one must resist an instinctive, knee-jerk reaction to each and every (weak) signal that is detected. One should first try to make sense of the signal, thereby differentiating secular trends and pivotal events from background noise and one-offs that may be annoying but otherwise of little consequence.

As an example, Russia's interference in the former Soviet republics is a secular trend, and its annexation of Crimea in 2014 a pivotal event. By contrast, the gyrations of the gold price could be considered background noise, and the occasional repatriation of physical gold reserves by central banks a one-off. The latter example shows also that sensemaking is contextual: What happens to gold is fundamental to commodity-traders, but much less so to biscuit-makers.

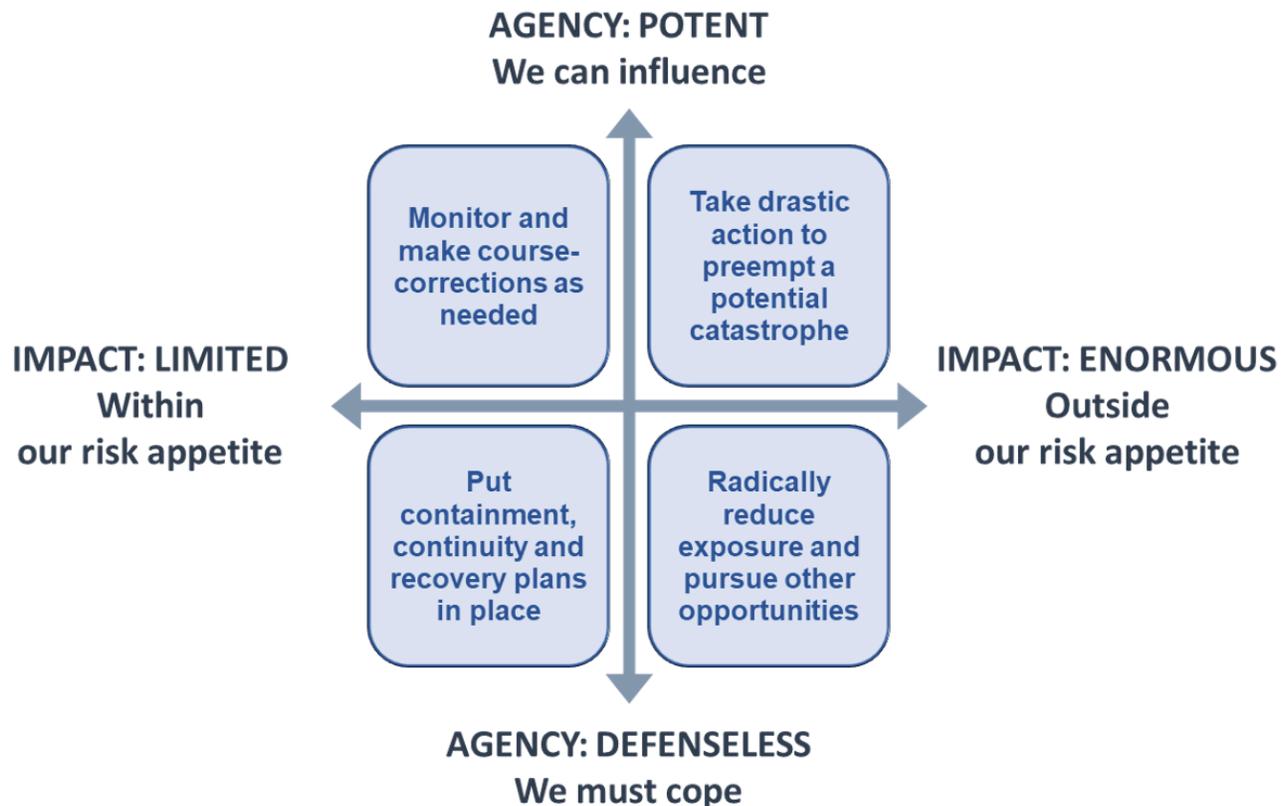
## Qualify each uncertainty in terms of impact and agency

The next step after sensemaking is to determine how to deal with each of the retained uncertainties. Of the various factors relevant for qualifying an uncertainty, two stand out:

- **Impact.** How significant are the consequences of an unforeseen inflection in a trend or a surprise event for the company's business? Would the impact be limited or enormous? Would the impact fall within or outside the boundaries of the company's risk appetite, i.e., the amount of risk that it is willing to accept to achieve its objectives?
- **Agency.** How much direct influence does the company have over the forces that give rise to the inflection or event? Is the company potent enough to prevent them from happening and/or inflicting damage? Or is it defenseless, and does it have no other

choice than to cope with such instances and attempt to minimize their impact whenever they occur?

These two factors form a 2x2 grid. The quadrant into which a given uncertainty is categorized informs the type of response to that uncertainty (see Exhibit 2). **Exhibit 2. 2x2 grid to qualify an uncertainty**



Here are examples for each quadrant:

- *Upper left quadrant (Limited x Potent)*. The response should be to monitor the uncertainty and course-correct the implementation of the company's strategy as needed. For example, infrastructure development & construction companies routinely face organized citizen opposition to large new project plans (ring road, airport extension, etc.). Handling the impact of this secular trend is part of the cost of doing business. For example, five European high-voltage transmission system operators co-developed with environmental NGOs an approach to improve public acceptance for grids and speed up permitting procedures, while respecting environmental protection standards.

- *Lower left quadrant (Limited x Defenseless)*. The response should be to contain the fallout, ensure continuity, and focus on recovery. For example, culture wars and political polarization are another secular trend. Any consumer-facing company could suddenly be the victim of a consumer boycott originating from a pressure group that takes issue with the one or the other routine decision by the company. For example, in 2023 AB InBev sparked controversy and calls for a boycott when deciding to work with a transgender influencer to promote Bud Light beer.
- *Upper right quadrant (Enormous x Potent)*. The response should be to take drastic action to preempt a potential catastrophe. For example, hybrid warfare is yet another secular trend, including cyber-attacks by rogue actors. Operators of critical infrastructure are almost certain that they will be targeted at some point, with potentially catastrophic effect on the provision of essential services to large parts of the population. While the operators can hardly prevent such attempts, they can take far-reaching measures to better defend themselves.
- *Lower right quadrant (Enormous x Defenseless)*. The response should be to radically reduce exposure to the uncertainty and pursue other opportunities. For example, as a result of rising geopolitical tension, Western companies may experience growing intrusiveness of the Chinese government in the local management of their Chinese subsidiaries. They cannot exclude the possibility that some of their local staff dealing with routine market data are arrested and detained on spurious charges of espionage, which obviously would fall well outside the boundaries of these companies' risk appetite. For this or similar reasons, they may well call it quits, leave the country, and refocus on other Asian countries, as some law firms have done.

## Formulate specific strategic choices

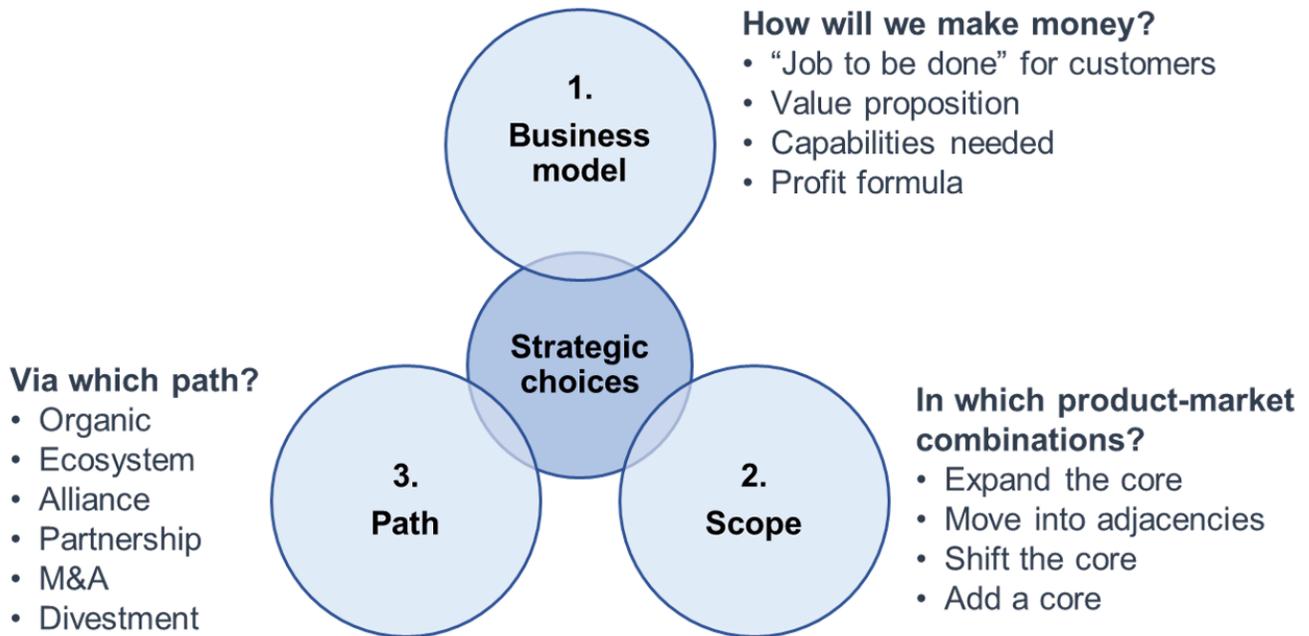
The next step is to convert the generic responses shown in Exhibit 2 into specific strategic moves. That is because the impact of any specific uncertain inflection or surprise event on a particular company depends on various factors, such as: the clockspeed of the industry in which it operates (for example, life insurance or aircraft manufacturing companies can afford to be more stoical about turbulence than non-life insurance or footwear

manufacturing companies); its business model (for example, commodity traders and providers of back-up systems thrive on volatility); and its ownership (private firms in general may have more patient and forgiving owners than listed firms).<sup>14</sup>

In the context of preparedness for uncertainty we find it useful to formulate a strategic move through three well-known types of choices (see Exhibit 3):

- **Business model.** Changes may have to be made to the business model in parts of the company. A business model is about how the company makes money. It answers questions such as: What is the “job to be done” for customers? What is our value proposition? What capabilities do we need (resources & processes)? What is our profit formula (cost structure & revenue streams)?
- **Scope.** Changes may have to be made to the scope of the business, which can be expressed in terms of product-market combinations: Which products/services do we sell to which customer segments? When making such choices, one can just aim to expand the company’s current core (offering new products, stimulating demand, ...); or one can move into adjacencies (move upstream or downstream in the value chain, enter new customer segments, expand geographically, ...); or gradually shift the company’s core; or ultimately add a new core.
- **Path.** The third choice is about the path via which such business model or scope changes will be realized: by growing organically; nurturing an ecosystem; establishing an alliance or partnership; acquiring or merging; or divesting part of the business.

**Exhibit 3. The three components of a strategic choice within the context of uncertainty**



Let’s take the example of Schneider Electric, a global leader in energy management and industrial automation solutions.<sup>15</sup> For a company that is deeply involved in digitization, electrification and sustainability, continual disruption in emerging areas is a source of both opportunity and vulnerability for its core business: The downward trend in the cost curve of a core component may suddenly accelerate or be discontinued; a mainstream technology may be rendered obsolete through a radical innovation; the belief and investment in a disruptive technology may turn out to be a bet on the wrong horse; a new entrant’s legacy-free business model may lead to customer churn; etc. Within that context, Schneider Electric (SE) set up SE Ventures, a venture capital (VC) platform with a broad mandate to invest in emerging areas. One can describe this strategic move in terms of the three abovementioned choices:

- *Business model.* SE Ventures is structured and incentivized like a traditional VC firm, with Schneider Electric as Limited Partner. It provides innovators and entrepreneurs with access to SE’s ecosystem of business leaders, customers and partners. It also has an incubation practice next to its VC investment platform. Its operational headquarters are in Menlo Park, California.
- *Scope.* SE Ventures creates opportunities for SE to expand its core and move into adjacencies through new offerings and customer segments.

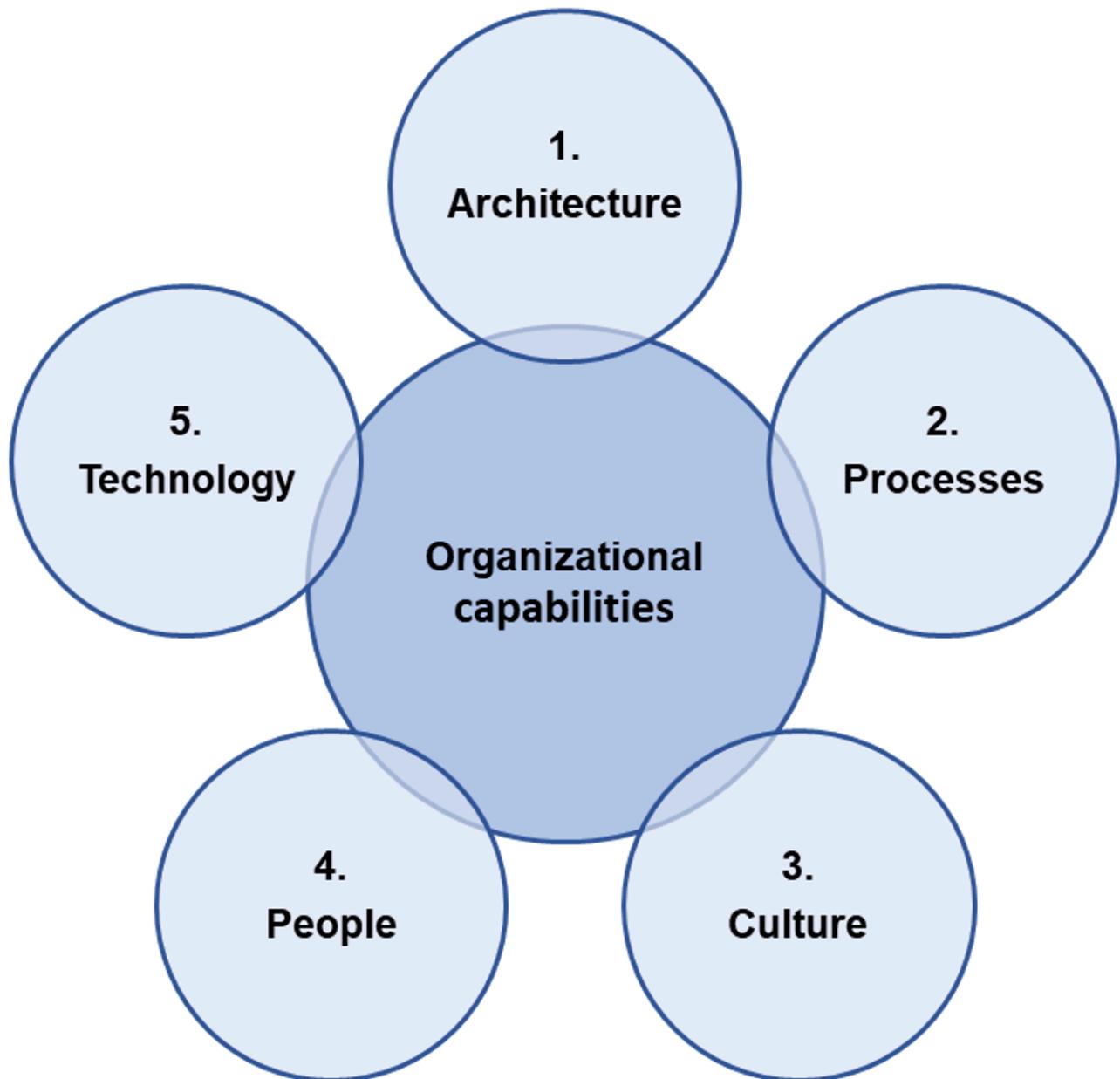
- *Path*. SE established Fund I with €500 million of committed capital in 2018 (leading to investments in over 40 startups and seven venture funds alongside partnership engagements with over 200 startups), and then Fund II with again €500 million in 2022.

## Strengthen the organization's capabilities

The final step of the logic is to explore whether and where the company may need to strengthen its organizational capabilities in support of its strategic choices. Any such changes are company-specific, but they tend to relate to one of five well-known aspects (see Exhibit 4):<sup>16</sup>

- **Architecture.** For example, to improve the quality of sensemaking, some activities may have to be decentralized to the local level, while others may have to be centralized at corporate level.
- **Processes.** For example, some companies mandate a dedicated strategic foresight team to run a methodical cross-functional process.<sup>17</sup>
- **Culture.** For example, “resilience” is one of the four explicit company values of Muck Rack, a company offering a workflow management platform for Public Relations teams and journalists.
- **People.** For example, some companies have availed themselves of a contingent workforce consisting of recently retired employees who can hit the ground running whenever demand for a specialist skill suddenly spikes.<sup>18</sup>
- **Technology.** For example, the deployment of an AI-enhanced Digital Twin of the supply chain enables disruption prediction and event-driven responses.<sup>19</sup>

### **Exhibit 4. The five aspects of organizational capabilities**



The world continues to be rife with uncertainty linked to inflections in trends and surprise events. Uncertainty may be seen as a well of opportunities, but more often it feels like a puddle of vulnerabilities. To prepare an effective response to inflections and surprises, leaders should not rush head over heels into strategic moves or organizational changes. They should make a habit of first qualifying any given uncertainty in terms of its potential impact on the business and in terms of the company's agency vis-à-vis that uncertainty.

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