

# FINANCIAL TIMES

MASTERING UNCERTAINTY/THE NATURE OF UNCERTAINTY

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## The Tall Order of Taming Change

We crave certainty and straightforward answers in our business and intellectual lives, but are more likely to be confronted by paradox and the unknown. Here, Eamonn Kelly explains the need for a new way of thinking to deal with an uncertain environment.

The world has never been certain—the unknown, unexpected and unimaginable have long been central to the human drama. Still, two themes emerged during the 1980s and 1990s that set the stage for the radically increased uncertainty we experience today—the dual imperatives of change and competition. We have all learned the story of change by heart. Factors such as globalisation, accelerating technological shifts, deregulation, a faster pace of innovation, the convergence of industry sectors, and mounting expectations of customers and capital markets have combined to shake even the sleepiest corners of our economies. The survivors have been those companies that were able to respond by speeding up their competitive metabolism. There have been various approaches taken, but the most common have included the re-engineering of processes, management structures and business models and the careful managing of external relationships using alliances, outsourcing and mergers.

These dynamics have helped to reshape the world well beyond the sphere of commerce alone. Our newspapers today are filled with momentous and as yet unanswered questions. Are we facing a terrifying “clash of civilisations”? Can China maintain its extraordinary growth as a major global power, or will its internal political, social, economic and environmental tensions lead to implosion? Is ageing, polarising Europe in terminal decline or on the brink of its next renaissance? Will technology standards globalise and converge, or regionalise and fragment? Will free trade continue to override growing protectionist instincts? Are we on the brink of a new flu pandemic and, if so, how severe will it be? How fast, and how dramatic, will climate change prove? With entirely new business models being forged by mighty upstarts like Google and Ebay, do we even know where our competition lies?

There are two additional twists that can be thrown into this mix. First, we live in an

age of paradox, with every trend seemingly matched by a counter-trend. For example, the economy is becoming increasingly intangible as we sharpen our focus on services, experiences and virtualisation, yet the physical economy matters more and more with the need to update critical infrastructure. The Nobel prize-winning physicist Niels Bohr summed up this tension well when he wrote: “The opposite of a correct statement is a false statement. The opposite of a profound truth may well be another profound truth.”

Second, information is ubiquitous and instantaneous. What is “known” is a diminishing source of competitive advantage, so successful futures will increasingly be forged through mastery of the unknown.

Yet paradox and the unknown are uncomfortable. Most of us have learned to present our bosses with answers and solutions, not questions and problems. But by adopting this approach and sticking to certain tried and tested strategies, we run the risk of using counterproductive coping mechanisms and ultimately moving backwards, rather than forwards. For example, we might try to:

- Increase control through centralisation and bureaucracy. Yet, was it really hard to predict that the formation of the US Department of Homeland Security was unlikely to improve the effectiveness of any of the agencies swept under its monolithic umbrella?
- Escape into “busyness.” Are we becoming addicted to endless, relentless activity—empowered by the ubiquitous “Crackberrys” and reinforced through constant, often unproductive meetings? All this motion seems to stem, at least in part, from a subconscious desire to avoid the discomfort of sitting in the mess and ambiguity of our times.
- Rely on metrics. But does boiling down the complexity of business realities into

a few key numbers sometimes end up driving rather than measuring performance? As Einstein observed: “Not everything that can be counted counts, and not everything that counts can be counted.”

- Look for scapegoats. Do we too often apportion blame and punish others for failures that may have been inevitable? The highest-level victims of this syndrome have been CEOs—turnover at the top has never been higher as executives face intense pressure to achieve guaranteed short-term results in a volatile, uncertain world.

The effect of all this is that uncertainty can prevent the very learning that it so profoundly requires. The western ideals of secular modernity are based upon core concepts of certainty, such as empiricism, rationality, objectivity, analysis and measurement. These remain critical values, but they are only part of our future, and must be integrated with ways of thinking that rely as heavily on intuition, collective insight, emotional and spiritual intelligence, morality and wisdom. This will be a difficult journey, especially for the traditionally hard-headed world of business. But, provided they can embrace and understand uncertainty, corporations are well positioned to establish new paradigms of human organisation and learning.

How might we proceed? Following are six concepts that every business should consider. Each requires consistent effort and commitment, but none involves rocket science or prohibitive expense.

### Create a dialogue between risk and opportunity

Thirty years ago, it was commonplace for a company's product development activity to be housed in silos that were insulated from sales and marketing groups. How could we have been so misguided? Yet most businesses replicate this error today by separating the functions of risk management from

business innovation and development. Both activities are at the forefront of exploring uncertainty. Great opportunity can be found in the most “risky” areas, while new risks emerge from every innovative corporate endeavour. Bringing together the skills and focus of each of these disciplines in a new dialogue can help turn risk and uncertainty into a powerful source of advantage.

### **Forge external networks and internal communities of practice**

Most companies acknowledge the need for better processes to make sense of complex situations and more powerful antennae for extracting critical signals from external noise. It is difficult, however, to develop such a function in-house because we quickly become captives of our organisation's acceptable “thought boundaries”. To achieve the necessary multiplicity of perspectives and insights, organisations are increasingly nurturing external networks of thought partners and sensors—people who are attuned to the deep trends they see in the world around them and can help translate them for specific organisations.

Informal, self-organising “communities of practice” housed within organisations can also be powerful sources of knowledge and learning in the face of uncertainty. These communities perform much the same function as guilds did for craftsmen 500 years ago or open source communities do for software developers today. Provided the organisation can support, nurture and empower these “communities of practice” without destroying their vitality and integrity by overformalising them, these communities can help to ensure that unexpected issues encountered (and successful adaptations made) are socialised and adopted as widely and quickly as possible.

### **Test strategies and decisions against critical uncertainties**

Whenever we develop a strategy or make big decisions, we habitually reference our “official future”—an implicit set of beliefs about how the world works today and should in the future. Mounting uncertainty renders this approach increasingly hazardous. There is proven merit in stepping back and considering the critical uncertainties surrounding our choices. One very well established method is to develop a set of alternative “scenarios” of the future—coherent logical stories that set out credible and very different alternatives. Through these, we can systematically “stress-test”—and, hence, improve—our decisions. Additionally, we can develop a deeper

understanding of critical uncertainties by improving our appreciation of inter-relationships, causalities and potential outcomes, and then contrasting and comparing these against our most important options and choices.

### **Develop “masters of uncertainty”**

In the past decade, practitioners of quality management programmes, such as Six Sigma, have become acknowledged enablers of the drive towards excellence. In the coming decade, they will be joined by a new and arguably even more powerful force—let us call them “masters of uncertainty”. These will be leaders and talented contributors in our organisations who manifest a range of increasingly essential capabilities, which include the ability to:

- Stay relaxed in the face of overwhelming disorder, confusion and ambiguity
- Seek out multiple and conflicting views, while being aware of one's biases and blind spots
- Focus on the future, the emergent as well as the planned
- Embrace risk-taking
- Learn rapidly from failure
- Be open, flexible and even, on occasions, playful

These are not necessarily the attributes we associate with our current generation of leaders—but they will characterise the next generation. The good news is that the capabilities required for these leaders can be developed in our existing high-potential talent using a range of tools and techniques, such as learning journeys, simulations, scenario and systems training, job rotations, cross-functional and even cross-company mentoring, storytelling experiences and uncertainty coaching. Uncertain times will demand and reward untraditional talents—and we must invest in the next generation as soon as possible.

### **Intentionally evolve as an adaptive organisation**

Just like the elusive “learning organisation,” no one has ever seen a truly “adaptive organisation” in the wild. But we can certainly identify the hazy outlines of some vital characteristics of the responsive, enduring and evolving business of the future. It should be:

- Externally oriented
- Flexible and nimble

- Patient but opportunistic
- Capable of balancing exploitation of the known with exploration of the unknown
- Visionary but open to corrective feedback
- Attentive to stakeholders
- Capable of balancing both economic and moral wisdom

The question today is not whether we can see this vision on the horizon—we all can—but whether we decide to move towards it with conviction and sustained attention, or hold back in fear that we may only be glimpsing a mirage.

### **Add an “uncertainty mapping” dimension to strategic decision-making**

We should also learn to acknowledge explicitly uncertainty as a matter of habit. In every conversation of consequence, we should acquire the discipline of asking what important uncertainties are in play—and challenge our beliefs and default positions. Over time, we can also learn about our deeply embedded assumptions, and come to understand better and improve our decision-making habits. This is a readily achievable and remarkably important tool; indeed, there is probably no single greater contribution to the mastery of uncertainty.

Finally, we must appreciate that there are very different forms and sources of uncertainty. In business, as in life, every important decision is actually a bet—that we understand the context of our choice, and that our sense of the future is reasonably accurate. In an increasingly uncertain world, the odds are lengthening against each and every bet, and the need for new thinking and better decision-making processes is growing. The ability to rise to this challenge will be the defining characteristic of the successful, adaptive organisation of the future.

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