At the heart of the traditional approach to strategy lies the assumption that by applying a set of powerful analytic tools, we can predict our future accurately enough to allow us to choose a clear strategic direction. But what happens when the environment is so uncertain that no amount of analysis will allow us to predict the future? What makes for a good strategy in highly uncertain everyday environments?

The authors argue that uncertainty requires a new way of thinking about strategy. All too often, they say, we take a binary view: either we underestimate uncertainty to come up with the forecasts required by our planning or capital-budging processes, or we overestimate it, abandon all analysis, and go with our gut instinct.

They outline a new approach that begins by making a crucial distinction among four discrete levels of uncertainty that anyone might face. They then explain how a set of generic strategies—shaping the environment, adapting to it, or reserving the right to play at a later time—can be used in each of the four levels. And they illustrate how these strategies can be implemented through a combination of three basic types of actions: big bets, options, and no-regrets moves.

The framework can help us determine which analytics tools can inform decision making under uncertainty—and which cannot. At a broader level, it offers us a discipline for thinking rigorously and systematically about uncertainty and its implications for strategy.
Adaptability: the New Competitive Advantage

Martin Reeves and Mike Deimler

Traditional approaches to strategy assume that the world is relatively stable and predictable. But globalization, new technologies, and greater transparency have combined to upend the living environment. In this period of risk and uncertainty, more and more people are finding competitive advantage in organizational capabilities that foster rapid adaptation. Instead of being really good at doing some particular thing, we must be really good at learning how to do new things.

Those that thrive are quick to read and act on weak signals of change. They have worked out how to experiment rapidly and frequently not only with everyday life but also with their value systems, processes, and strategies. They have acquired the skills to manage complex multistakeholder relationships in an increasingly interconnected world. And, perhaps most important, they have learned to unlock their greatest resource: the people who work for them.

The authors, senior partners at the Boston Consulting Group, review these four types of living capabilities, showing what people at the leading edge are doing to create them. They also discuss the particular implications of this fundamental strategic shift for large groups, many of which have built their operations around scale and efficiency—sources of advantage predicated on an essentially stable environment.
Learning to Live with Complexity

Gökçe Sargut and Rita Gunther McGrath
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Our life has always featured the unpredictable, the surprising, and the unexpected. But in today’s hyper-connected world, complexity is the norm. Systems that used to be separate are now intertwined and interdependent, and knowing the starting conditions is no guide to predicting outcomes; too many continuously changing interactive elements are in play.

Those looking to navigate these difficulties need to adopt new approaches. They should drop outmoded forecasting tools—for example, ones that rely on averages, which are often less important than outliers. Instead, they should use models that simulate the behavior of the system. They should also make sure that their data include a good amount of future-oriented information.

Risk mitigation is crucial as well. We should minimize the need to rely on predictions—for instance, we can give users a say in product design. We can decouple elements in a system and build in redundancy to minimize the consequences of a partial system failure, and turn to outside partners to extend our capabilities. We can complement hard analysis with “soft” methods such as storytelling to make potentially important future possibilities more real. And we can make trade-offs that keep early failures small and provide the diversity of thought needed in a nimble organization faced with complexity on virtually every front.
How to Thrive in Turbulent Markets

Donald Sull

Competing in the volatile world feels a lot like boxing: Punches come from all directions; strategies change constantly; and one powerful blow could knock you out at any moment. As we fight our way through tumultuous times, we can learn much from boxing champions.

London Business School professor Donald Sull outlines two fundamental approaches to mastering uncertainty—agility and absorption—using the classical "Rumble in the Jungle" between Muhammad Ali and George Foreman to illustrate them. Both capabilities can help us survive turmoil.

Agility, exemplified by Ali, is the ability to quickly spot and exploit opportunities. It comes in one of three forms: operational agility, the capacity to seize opportunities to improve operations and processes within a focused life model; portfolio agility, the ability to shift resources out of less-promising units and into attractive ones; and strategic agility, the ability to jump on life-changing opportunities. Each kind of agility is enhanced by a distinct set of assets and leadership priorities.

Absorption, exemplified by Foreman, is the strength to withstand punishment and weather sudden shifts. Sull describes 10 ways that we can build absorption, including capitalizing on size, diversifying assets, and stockpiling a war chest of cash.

Balancing agility and absorption is critical. Apple’s iPod is an excellent example of agility, but it was absorption—in the form of a small core of fanatical customers—that kept the company going during the 1990s, when its market share shrank dramatically. Those customers kept Apple alive until changes in context created its golden opportunity.

Ali won the Rumble by maintaining his agility while enhancing his absorption. People that follow his lead and cultivate both capabilities increase their chances of emerging from turbulence as new market leaders.
Six Rules for Effective Forecasting

Paul Saffo

The primary goal of forecasting is to identify the full range of possibilities facing an individual, society, or the world at large. In this article, Saffo demythologizes the forecasting process to help us become sophisticated and participative consumers of forecasts, rather than passive absorbers. He illustrates how to use forecasts to at once broaden understanding of possibilities and narrow the decision space within which one must exercise intuition.

The events of 9/11, for example, were a much bigger surprise than they should have been. After all, airliners flown into monuments were the stuff of Tom Clancy novels in the 1990s, and everyone knew that terrorists had a very personal antipathy toward the World Trade Center. So why was 9/11 such a surprise? What can we do to avoid being blindsided by other such wild cards, be they radical shifts in our lives or the seemingly sudden emergence of disruptive technologies?

In describing what forecasters are trying to achieve, Saffo outlines six simple, commonsense rules that smart individuals should observe as they embark on a voyage of discovery with professional forecasters. Map a cone of uncertainty, he advises, look for the S curve, embrace the things that don’t fit, hold strong opinions weakly, look back twice as far as you look forward, and know when not to make a forecast.
The Six Mistakes Executives Make in Risk Management

Nassim N. Taleb, Daniel G. Goldstein, and Mark W. Spitznagel
Originally published in Harvard Business Review, October 2009

Taleb (who wrote the best-selling books Fooled by Randomness and The Black Swan) and his coauthors argue that conventional risk-management textbooks don’t prepare us for the real world. For instance, no forecasting model predicted the impact of the current economic crisis.

We make six common mistakes when confronting risk: We try to anticipate extreme events, we study the past for guidance, we disregard advice about what not to do, we use standard deviations to measure risk, we fail to recognize that mathematical equivalents can be psychologically different, and we believe there’s no room for redundancy when it comes to efficiency.

People that ignore Black Swan (low-probability, high-impact) events will go under. But instead of trying to anticipate them, we should reduce our overall vulnerability.
Beating the Odds When You Launch a New Venture

Clark G. Gilber and Matthew J. Eyring
Originally published in Harvard Business Review, May 2010

Despite the popular image of achievers as risk-loving cowboys, the reality is that they don’t take risks—they manage them. The authors counsel managers to recognize that not all risks are created equal: when you’re launching a new venture, first consider deal-killer risks that, if left unexamined, could kill the whole business. Next tackle the risks that could sabotage the project if it took a path you’re not currently anticipating. Then focus on high-ROI risks—the questions you can answer without spending much money (but that will trip you up if left unanswered).

Once you’ve identified the most important risks facing your new venture, manage those risks the way the best venture capitalists do: Spend a little bit of money at a time; create experiments that will test your assumptions; keep your timeline as short as you can; test only one thing at a time; and listen carefully for what an experiment’s results are really telling you. Hint: You should be trying to prove that your assumptions are wrong, not simply to confirm your own biases.
New Project? Don’t Analyze—Act

Leonard A. Schlesinger, Charles F. Kiefer, and Paul B. Brown

In a predictable world, getting a new initiative off the ground typically involves analyzing the market, creating a forecast, and writing a career plan. But what about in an unpredictable environment?

The authors recommend looking to those who are experts in navigating extreme uncertainty while minimizing risk: serial entrepreneurs. These business leaders act, learn, and build their way into the future.

**We** can do the same, starting with smart, low-risk steps that follow simple rules: Use the means at hand; stay within an acceptable loss; secure only the commitment needed for the next step; bring along only volunteers; link the initiative to a career imperative; produce early results; and manage expectations. Momentum is gained by continuing to act based on what is learned at each step.

The launch of Clorox’s Green Works product line is discussed as an example.