

A Crystal Ball is Not Enough

Risk management in the post-pandemic world

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Source: [Psychology Today](https://www.psychologytoday.com)

Since the dawn of humankind, predicting future occurrences has been one of our main obsessions. From reading tea leaves to observing the movement of planets, people have always been very resourceful in their forecasting attempts. And science has enabled us to step up the game considerably. Especially with today's availability of big data and sophisticated algorithms, our forecasting prowess would make us the envy of the greatest ancient prophets – even the Sphinx itself. Yet despite these advances, our ability to prepare for and respond to shock events is modest at best. Here, we look at some of the reasons behind these shortcomings and what organizations can do to develop a culture of change-readiness.

“It’s difficult to make predictions – especially about the future,” says a quote attributed to everyone from Albert Einstein to baseball coach Yogi Berra. Still, we continue to get better at projecting future outcomes based on past experience and close monitoring of developments. Weather forecasts, for example, have vastly improved over recent decades, based on real-time satellite imagery coupled with long-term observations of patterns and smart algorithms. Meteorology has reached an unprecedented level of accuracy and keeps getting better – in fact, statistician and founder of the forecasting Website FiveThirtyEight.com Nate Silver writes in “The Signal and the Noise” that weather forecasts are *the* most accurate predictions humankind has ever been able to make.¹ Bearing this in mind and considering how often meteorology misses its mark helps place other predictions in perspective. As John Kenneth Galbraith once said, “The only function of economic forecasting is to make astrology look respectable.”

Suffice it to say that forecasting is and will remain an inexact science, yet efforts to model future outcomes in many areas do indeed continue to make advances, at least in terms of the statistical likelihood of a given occurrence.

A good place to observe the state of the art is a sector with skin in the game of forecasting: the insurance industry. In life insurance, for example, exclusions and surcharges for obesity have long been determined based on body mass index (BMI) alone. This is clearly a blunt instrument, as many individuals with a high BMI live to a ripe old age. It is now possible to calculate average life expectancy among the clinically obese using a [multivariate system](#) that takes blood pressure, cholesterol and other factors into account alongside BMI. As a result, more people can take out life insurance at reasonable rates, and insurance companies can write more policies – win-win.

So, can we assume that the imperfect art of forecasting will steadily improve, that our understanding of what the future looks like will become increasingly accurate? The answer is a resounding “Yes!” But the further question is: “Will it make any difference?”

The current pandemic clearly demonstrates how difficult it is to respond to adverse outcomes even though they have been on radar for many years. In a 2007 position paper for the international insurance industry organization Chief Risk Officer Forum “[Emerging Risks Initiative Position Paper, Influenza Pandemics](#),” the scenarios and necessary measures we are currently experiencing are precisely detailed.² The US, which has struggled to deal with the COVID-19 crisis and seen some of the world’s highest per-capita fatality rates, was also well equipped with knowledge of the risk of a global pandemic. Shortly before Donald Trump’s inauguration, Barack Obama’s

¹ Nate Silver (2012). *The Signal and the Noise: Why So Many Predictions Fail--but Some Don't*, Penguin Books.

² Grondin, et al. (2007). “[Emerging Risks Initiative Position Paper, Influenza Pandemics](#),” CRO Forum.

National Security Adviser Susan Rice told reporters that “[a pandemic that spirals out of control](#)” was her single biggest security concern. During the transition to the Trump Administration, officials from the outgoing Obama Administration actually walked their incoming counterparts through [pandemic preparation plans](#).



Source: [The Atlantic](#), photograph of National Security Advisor Susan Rice

To be fair, contagious disease outbreaks can evolve in many different ways – epidemiologists like to say, “If you’ve seen one pandemic – you’ve seen one pandemic.” And like most risks, no one can predict precisely when they will strike. Of course, the responses of different countries around the world have varied, as has their effectiveness. But some failings have been universal, and may be an indication of a larger trend. A recent [study](#) by the Bertelsmann Foundation cites a number of factors contributing to compromised crisis preparedness. These include declining growth, high debt levels, sustainability setbacks, a rising risk of poverty, democracy under pressure and dwindling reform capacity.

One aspect of the global response to the pandemic is especially telling: as challenging as it may be to predict the evolution of a pandemic, governments and public health experts know that every outbreak results in a massive demand for personal protective equipment (PPE). And yet global supply chains were unprepared to meet the need on a

short-term basis. (It should be noted that many PPE items cannot be stockpiled and stored for an unlimited period.) It took months to ramp up production and delivery. As late as December 2020, there were still [reports](#) of insufficient PPE availability for healthcare workers in the US.

This points to a fatal flaw in globalized industries: from the Time and Motion Study that Frederick Winslow Taylor used to speed up factory work in the late 19th century to today's lean manufacturing and just-in-time delivery of materials and components from suppliers all over the world, industries have systematically pursued cost-effectiveness and efficiency. And they have achieved breathtaking advances – at the cost of agility.

You can't have it both ways.



Source: [Learn Ship Design](#)

Consider the vehicles we use for mobility and logistics. Some are engineered for speed, like the Shinkansen bullet trains of Japan, capable of velocities exceeding 300 km/h. Others offer exceptional energy-efficiency, such as the Green Dolphin class of cargo ships, which use approximately 40% less fuel than their older counterparts. But no vehicle exists that can change direction without compromising speed and efficiency.

Compare your favorite high-performance sports car's straightaway and slalom stats and you'll quickly see what we mean.

This conflict between agility and efficiency will play a key role in our future. Without attempting to paint a picture of how the many megatrends – urbanization, rising affluence, aging populations, climate change, digitalization etc. – will play out, we can be pretty sure that the future will bring many shocks on the scale of COVID-19. Considering that these megatrends have interactive and compounding effects, we should expect the complexity of risk scenarios to increase. Our ability to launch agile responses will be critical to the wellbeing of humankind and the planet.

So what can we do to enhance agility alongside efficiency? No. 1, we can introduce parallel systems that can be deployed on short notice when an agile response is needed. For example, a European fashion retailer introduced an online shop some years back. Anticipating teething pains in logistics processes, it prepared to have its own staff members deliver orders when necessary. This was, of course, highly inefficient, probably resulting in negative profits. But the practice enabled the company to keep its customers happy and smoothly transition to omnichannel retail while retaining control of the entire value chain. It may not always be as straightforward as in this example, but the principle holds true.

Peter Drucker: “Culture eats strategy for breakfast.”

A classic example of how cultural stasis can undermine important development is the digital camera. In 1975, Steven Sasson, an engineer at Eastman Kodak, invented and built a [self-contained electronic camera](#) that used a charge-coupled device (CCD) image sensor. And yet, the company – dedicated to the analog-picture concept it was based on – failed to recognize the potential of digital photography. Kodak had patented the technology, and profited from license fees, but never became a major player in the digital photography space.

Returning to the fashion retailer mentioned above, let's assume it already had a strongly customer-centric attitude. It didn't require a leap of faith to get staff members to go the extra mile for customers. The fact that the goods deliveries were a money-losing exercise was irrelevant to them. Quick pivots and agile responses are rarely this easy, because every organization has established ways of doing things based on a deep-seated culture. Each change process hinges on culture, and demands deep

insights into the cultural dynamics that come into play, which is why we need an understanding of what culture is in the first place.

So what is culture? Think of your first encounter with an unfamiliar national culture – you are acutely aware of how people dress, what they eat, how they greet one another and what their art looks like, among other things. These are the artifacts, the visible outer layer of a culture. Culture-specific behaviors are as natural as breathing. One layer deeper we find values, the reasons behind the artifacts and behaviors. The behavior of breathing, for example, is the visible manifestation of the fact that we value air and fear suffocation. We like fresh air and get suspicious whenever the air smells funny. At the very core are tacit assumptions, the way we experience life in a given place and time, generally without even being aware of it. Sticking with our relationship to air as an analogy, our tacit assumption is that a human being deprived of oxygen will die.

- Artifact: we breathe.
- Value: air is good and good air is best.
- Tacit assumption: without air we die.



Source: [VisittheUSA.com](https://www.visittheusa.com)

In change processes, the first thing we must accept is that we can't (and usually shouldn't) change tacit assumptions. There are good reasons why they exist. What we can and must change are the values and, in turn, behaviors. Think of someone learning scuba diving. He or she has no illusions about the need for air (tacit assumption), but the value is shifted from "fresh air is good" to "a well maintained aqualung and a full tank

are good.” With surprisingly little training, novice divers learn to trust the technology and do something completely contrary to human nature: breathe underwater (artifact).

Culture and agile responsiveness

The above example of learning to scuba dive seeks to illustrate an essential element of reconciling agile responsiveness with an existing culture: *The key to change is that nobody needs to change to achieve it.* The novice scuba diver is not expected to renounce air. The change in behavior is built on the solid foundation of existing tacit assumptions.

To prepare for an uncertain future in which the only certainty is change, organizations need to do the homework and understand their existing cultures. Here, the literature – specifically, the works of Edgar Schein, Geert Hofstede and Fons Trompenaars along with his co-author Charles Hampden-Turner – offers a set of cultural dimensions that enable a nuanced view of behavior, values and tacit assumptions. In “Riding the Waves of Culture: Understanding Diversity in Global Business,” the authors present a [model](#) comprising seven dimensions, each representing a continuum.³ As the positions of a given culture within these dimensions are not absolute, but rather “scores” on sliding scales, the model offers a detailed view that seeks to avoid stereotypes (see table below).

Universalism vs. Particularism
Individualism vs. Communitarianism
Specific vs. Diffuse
Affective vs. Neutral
Achievement vs. Ascription
Sequential vs. Synchronic time
Inner vs. Outer directed

³ Fons Trompenaars and Charles Hampden-Turner (1997). “[Riding the Waves of Culture: Understanding Global Diversity in Global Business](#),” Allen & Overy.

The Trompenaars-Hampden-Turner model of 7 cultural dimensions

For example, in an organizational culture characterized by a high level of universalism – a normative approach that favors sticking to a universal rulebook and regards making exceptions for particular situations with suspicion – risk aversion is likely to be high. Its decision-makers will encounter crippling resistance to any organizational change that threatens the status quo. If, on the other hand, they succeed in portraying the necessary change as essential to avoiding an imminent threat and enabling the organization to continue its existence, the pivot can succeed. With an understanding of the tacit assumptions that form the foundation of the prevailing universalistic attitude, leaders can turn the change project into a way of supporting the sense of continuation and security rather than undermining it.

Of course there are many different cultural factors that can trigger resistance to change. The point is to cultivate change-readiness before the next shock event forces rapid change, and this is possible only by building on existing tacit assumptions. For this reason, public and private organizations are well advised to keep their fingers on the pulse of their respective cultures. But achieving enhanced agility requires more than an understanding of how the organization scores within the various dimensions.

Listening to culture

An effective method of gaining insights into a given corporate culture is through a series of one-on-one interviews with staff and managers on different levels. Ideally, the interviews should be oral rather than written, as we tend to express ourselves more openly and spontaneously when speaking. These must be based on guaranteed anonymity and non-threatening, open questions – nobody likes to be interrogated, but we all love to be listened to.

This individual listening process avoids the groupthink of meetings and workshops, empowering each individual to voice his or her thoughts regardless of hierarchical position. It also signals that each stakeholder's personal input is valued.

By aggregating the results, it is possible to gain an accurate view not only of prevailing attitudes and behaviors, but also of the underlying values and tacit assumptions. This way, decision-makers are in a position to tie agile responses to existing sources of motivation and commitment. A further aspect is that stakeholders who feel respected, understood and empowered are far better equipped to launch agile responses than those locked in top-down, command-and-control environments.

Conclusion

Alcoholics Anonymous says the first step is to accept that you have a problem. (Or so we've been told. Besides, it's supposed to be anonymous.) Similarly, the first step toward greater preparedness for agile responsiveness is to admit that efficiency comes at a price. Forecasting has made huge advances in many fields, no question. But our global addiction to ever-greater efficiency and cost-effectiveness has weakened our immune system in its capacity to protect us from the worst outcomes of shock events – even if we know they are on the horizon.

It's time to reckon with the downsides of the efficiency humankind has been obsessively pursuing for over a century, and develop strategies for rapid, agile and flexible responsiveness to sudden change. To a large extent, in our globalized world, this will depend on our ability to adapt to cultural norms. This is more than a challenge, it's a duty: we owe it to our children and grandchildren to leave a world behind in which risks are more manageable.

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