Provoking the future: How CFOs can take action to illuminate uncertainty

Until recently, business leaders could assume that the future would bear enough resemblance to the past that they could construct sturdy forecasts out of the data, assumptions, and real-world experience they'd been accumulating for years. Those days are decidedly behind us.

We'd have to go back at least a decade to find a time when most of the change in the business world unfurled at a manageable, linear pace. Today, in a digitally enabled world changing at an exponential speed, companies can't assume that historical successes are a guide to future triumphs. The scope and influence of technology is so extensive that delaying action to do more analysis is tantamount to inviting startups to swoop in with business models that are magnitudes better, or less expensive.

Finance leaders no longer have the luxury of waiting for complete data before confronting uncertainty. Instead, they need to be willing to act based on imperfect data. Prolonged analysis raises the likelihood that some uncertainties will invariably shift from being a question of "if" they will come to fruition to being a matter of "when" they will do so. As that happens, the company's ability to shape the future narrows; by the time CFOs have all the data they want, it's generally too late to avoid attacks from competitors arriving from completely different industries, or to adopt the new cost-saving operational technology that others in the market have already brought on board.

This historical tendency—to wait for better data—doesn't reflect a lack of urgency among CFOs about the imperative to act. It's because they're humans. And humans are subject to cognitive biases that make it hard to see when important trends make the "if" to "when" shift. CFOs, and their teams, need to actively mitigate these biases, as well as counteract the troublesome ways people tend to interact with each other at large organizations.

Authors Geoff Tuff, principal, Deloitte Consulting LLP, and Steve Goldbach, chief strategy officer, Deloitte LLP, argue just that in their new book, *Provoke: How Leaders Shape the Future by Overcoming Fatal Human Flaws* (John Wiley & Sons, 2021). According to them, certain management tendencies, such as turning a blind eye in response to new, unsettling information, are a result of cognitive biases that can block the company's view of the horizon (see sidebar, "Discriminating tastes").

The co-authors also maintain that companies should increasingly (and mostly) acquire insight into uncertainty by designing and conducting exploratory tests to probe the marketplace—a concept of "minimally viable moves" that they explored in their first book, *Detonate: Why—and How—Corporations Must Blow up Best Practices to Survive* (John Wiley & Sons, 2018).

Early detection as to how an uncertainty is resolving can give businesses an edge in successfully navigating through it, the authors insist. By provoking reactions from the marketplace, companies can sense change sooner than their peers, seize opportunities early, and tap into their portfolio of strategic options to act fast. In this issue of *CFO Insights*, we'll explore what companies may have to do to strip away their individual and organizational blinders in order to widen their view of the horizon.

Pride and prejudice

In the familiar world of linear change, CFOs have typically focused on using data to make choices that reduced risk. In an exponential economy, risk has been supplanted by uncertainty, which can neither be managed nor measured.

Dealing with this paradigm shift requires new behaviors to spot important trends. In a linear world, for example, leaders faced a number of choices when it came to deciding how to consider emerging trends. When one was brought to their attention, they could choose to take some time to assess its validity, flatly dismiss it, or wait to see whether and how it unfolds. Some CFOs were inclined to petition for an analysis, seeking to examine what's afoot from every conceivable angle.

In today's world, such time-consuming inclinations lead to actions that may be too meek—or too late—to have a sufficient strategic impact on the business. With exponential technologies reshaping many markets at a vastly accelerated pace, companies need to reinvent themselves even as the future unfolds.

That means CFOs need to help their companies pick up weak signals of big changes, scanning diverse sources and nurturing their internal capabilities to act in a timely manner. Consider one example from *Provoke* of how an executive of a large media entity rejected the potential importance of a small segment (1.75%) of customers that preferred to have high-speed Internet access, without the bundled TV service that normally accompanied it. The company insufficiently invested against this small part of its existing customer base, without imagining how the segment, now known as cord-cutters, might become more significant. Instead, they implicitly ceded that market to a competitor. The case illustrates that the risks are now such that making a mistaken move—investing in the wrong area, for example, or at the wrong time or not at all—can leave a company scrambling. The impact of early signals may be difficult to assess, as some will dissolve while others scale rapidly, but they ought not to be ignored.

To avoid unintentionally becoming a "wind-down" company (one that is expected to have a finite life), CFOs in particular need to exert a firm grasp on the fundamental drivers of demand, revisiting and exploring them with increasing frequency and depth. Sensing marketplace anomalies is important, but the ones that matter are those that threaten the company's fundamental business model. Cable companies, for instance, would likely have benefited by tuning into the cord-cutting phenomenon in its earliest incarnations since it was a harbinger of decline of the industry's dominant profit model. Even low probability shifts that could be massively disruptive merit attention. Such as? The prospect of a global pandemic, say, or a major supply-chain snarl.

Principles of provocateurs

Human biases create the pre-condition for systemic organizational blind spots. Such biases, as identified by behavioral scientists, have long been identified with human nature. But when members of a management team convene all of their biases, the company develops organizational blinders, cramping its ability to recognize the crucial "if" to "when" phase changes that reveal the contours of market uncertainty (see Figure 1).

Figure 1. Origins of short-sighted thinking

Examples of how individual cognitive biases can lead to organizational blinders.

Fatal flaw	Organizational behavior
Availability bias	Embarassment avoidance
Status quo bias	Over politeness
Egocentric bias	Crumbling cognitive bandwidth
Overconfidence bias	Escalation of commitment
Affect heuristic bias	Structural dismantling of curiosity

Source: *Provoke: How Leaders Shape the Future by Overcoming Fatal Human Flaws* (John Wiley & Sons, 2021).

Such a constraint may obstruct management's view at a time when the playing field they compete on is wider than ever. But there are ways to mitigate those biases. What follows are four practices of organizations that seek to provoke uncertainty to get a better view of the future:

1. **They fund exploratory research**. Making bets about the future is a constantly evolving challenge, with potential threats or opportunities continually threatening to ambush the business. In their efforts to understand buyers, for example, CFOs need to allocate funds for ethnographic studies of customers who don't use the company's product or service, as well as for advanced power-users. What barrier is preventing them from becoming your customers? Do competitors see something that you don't? Studying non-clients, in addition to existing ones, may unearth valuable information about how they are getting the same needs filled in other ways—and where the next potential disruptor may come from. CFOs should find ways to spend time with customers and non-customers alike.
2. **They prioritize human behavior above technology**. As they undertake digital transformations, companies too often make a habit of focusing on use cases, applications, and advantages of new technology. By leaving human nature out of the equation until after they've made decisions about what to purchase, companies may miss out on the opportunity to maximize the outcome they seek. CFOs need to know which behaviors they want to change before aligning resources accordingly. Employee-centered innovation should drive cost reduction and investment in differentiation.
3. **They make "minimally viable moves."** In the world of product development, bundling too many new features in a product before testing it leads companies to get unspecific feedback that amounts to not much more than noise. That same principle can be applied to any management decision: boil down any path forward to the smallest, testable hypothesis and take action to see what happens. If it goes well, keep going; if it doesn't, correct your course. Management needs to make sure that those responsible for the experiments are absolutely clear about what they are testing and how to interpret any results.
4. **They want to know more. Always**. Management's willingness to learn and adapt is a key component of succeeding in an era of exponential change. As new data challenges existing positions, CFOs and others need to demonstrate a "beginner's mind" by displaying curiosity as well as developing new skills, such as a facility with digital technology or an openness to working through ecosystems. Leaders who believe they are right about everything are not inclined to try to provoke answers out of uncertainty.

CFOs as early-warning systems

The need for CFOs, among others, to be aware of any activity that could knock their company off track may sound overwhelming. And it can be. After all, leaders can only take so many uncertainties into account. Building a sensing capability to catch early, weak signals is a foundational step to exploring what to pay attention to. But then purposely considering what matters and what doesn't—relative to the company's core source of competitive advantage—is a critical next step.

Consider the future of the energy industry, for example. In *Provoke*, the authors identified 92 different driving forces, as wide-ranging as talent and policy uncertainties, that might affect the rate and nature of the industry's transition. By re-examining which ones were central to how the industry's future would unfold, however, they were able to winnow the list to 19 genuine uncertainties. For now.

For CFOs in other industries, here are some ways to help pinpoint traits of uncertainty:

- **Build scenario-planning muscles**. In a linear world, it was customary to consider a dominant version of the future and construct possible variations around it. Now, with so much about the future up for grabs, CFOs need to have sufficient humility to acknowledge that nobody knows how things are going to turn out and to consider multiple, equally plausible futures. As they explain that future using numbers and models, the gaps will enable them to identify uncertainties. As the actual future develops, they may adjust those scenarios dynamically. Every five years, they may even have to start over.
- **Establish and follow leading indicators**. For each future they invest in, CFOs should develop and monitor leading indicators—both qualitative and quantitative measures—to track when specific uncertainties are no longer questions of "if" but "when" they will

happen. CFOs need to pay attention, and interpret, those signals on an ongoing basis and in real time, making use of AI tools (see "Intelligence gathering: Bringing AI technology into strategic planning," *CFO Insights*, June 2021). As the uncertainties resolve around a specific scenario, CFOs can leverage the early-warning mechanisms to the company's advantage.

- **Base action on imperfect data**. Perfect information about the future is, and has always been, nonexistent. Rather than spending time stockpiling more data, CFOs need to make moves. Instead of focusing on the precision of the data, which companies have done in the past, focus on buttoning down the logic behind any test you decide to bring to the marketplace. What hypothesis are you taking action around, and how quickly can you gather the minimum information to understand whether it is true? How will you read the signals that come back from the experiment? Finally, what actions will you take based on the outcome of the test (or tests)? Unmasking uncertainty requires taking a very rapid sequence of steps forward.
- **Promote diversity and inclusion**. Diversity can be an antidote to a company's narrowing vision. Listening to a variety of voices, from those with different backgrounds, ethnicities, and life experiences, for example, can help offset biases. A cognitively diverse team will often process and source data better than a homogeneous team. Taking action may require active efforts to increase the diversity of candidate pools and foster a more inclusive workplace, something many CFOs say they are starting to do (see *CFO Signals™:* 2Q 2021).

Curious notions

Diversity is also critical to overcoming the lack of curiosity that can leave companies vulnerable to a future rife with uncertainties. CFOs, among other leaders, need to be willing to admit what they don't know and commit to learning. They are also in the position of enabling the rest of the organization's curiosity. Too often, for example, CFOs press for answers regarding the ROI of a project designed to reveal aspects of uncertainty. In doing so, they may inadvertently force project leaders into either dropping the idea or, worse, faking it.

Better to share whatever data there is and make any assumptions explicit. Understanding uncertainty is, in its own way, a discipline to be learned and systematically improved. Is there any better way to do it? Without trying, there's no way to know for sure.

Discriminating tastes

Before they can gain a complete view of the marketplace, leaders may first want to take a hard look at their own blind spots.

Faced with nearly unlimited pools of data, how CFOs and other top executives sift through it, process it, and draw conclusions from it can make a big difference in how the business positions itself for the future. As the authors of *Provoke: How Leaders Shape the Future by Overcoming Fatal Human Flaws* argue, individual cognitive biases typically guide people toward seizing on certain information while failing to recognize other pieces of data. The management team's personal biases can combine to produce organizational blinders, hampering its ability to uncover the traits of market uncertainty.

At a time when companies face competition that is both fiercer and faster, such an obstructed outlook can hamper decision-making. What follows are some of the most common individual biases that can cause leaders to miss important trends:

- **Availability bias**. This refers to the tendency to rely on information that is easily accessible—rather than, for instance, wading through the harder-to-access market research that has been undertaken.
- **Egocentric bias**. As it sounds, it's all about you—in this case, your inclination is to overweigh data that is consistent with your previous point of view. By selecting and using data that conforms to a pre-existing world view, it becomes more difficult to incorporate different views into your overall perspective. Any strategic decisions that flow from a constrained stance risks being flawed.
- **Affect heuristic bias**. The inclination of some people to overweight factors that cause them high degrees of emotion, whether positive or negative.
- **Overconfidence bias**. What are the chances that you are wrong about any given decision? Those who display this bias tend to underestimate that possibility and overestimate the likelihood that they are correctly judging a situation.
- **Status quo bias**. Humans are naturally loss-averse, which means they may lean toward choosing the way things are over any deviation. Thinking about change also requires more effort—up front, at least. But while maintaining the status quo doesn't feel risky, that may turn out to be a misguided approach. In a world of exponential change, taking action may be the less risky option because no matter what happens, the company will learn from it.

Combining these biases could be a recipe for a management team that may misevaluate the potential impact of any emerging trends that are not yet pervasive. Perhaps, though, that's strictly the fault of your colleagues, whose flawed thinking is easy to recognize. Could you be immune? Actually, it's much more likely that you are falling prey to the king of all biases: the "I'm-not-biased" bias, as coined by psychologist and author Adam Grant[1].

[1]Grant, Adam, *Think Again: The Power of Knowing What You Don't Know*, Viking, 2021.

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