

Can you Predict the Future?

- by *Arnab Mukherjee*

Kings dethroned

Nokia, a household name in the mobile phone industry in the early 2000s, took rapid strides to emerge as market leader in the mobile phone industry in a short span of time with ~40% market share at one point. However, its fall from the summit was as swift as its rise. One of the key reasons attributed to its failure was its inability to foresee the future disruption of the mobile industry by smart phones.

Kodak, the King of photography for large parts of the 20th century, after years of decline finally filed for bankruptcy in 2012. Kodak failed to see potential in the technology that it itself had invented...digital photography!

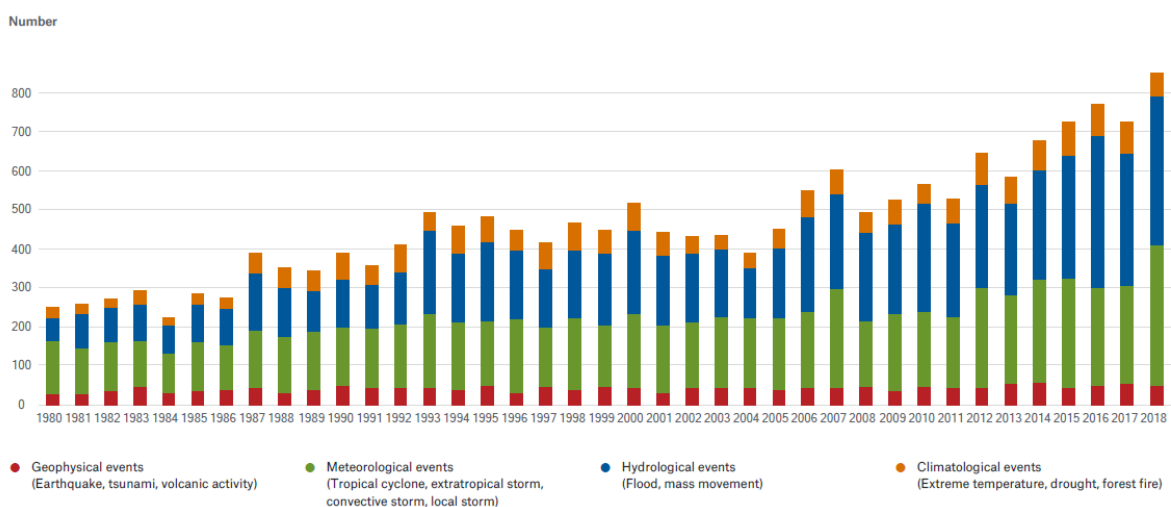
Disruptions however are nothing new. More than 100 years ago, the Ford Motor Company revolutionized transportation through the mass production of the automobile which disrupted several industries, including wagon and carriage businesses.

In more recent times, e-commerce, the sharing economy, alternative media platforms such as Netflix have all disrupted traditional business models.

Innovative business models however are not the only source of disruption. Increasingly, forces such as extreme weather events, climate change, geopolitical instability, and even global pandemics (as we witness now) are emerging as severe threats to businesses.

Number of events

Relevant natural loss events worldwide 1980 - 2018



Source: *Munich Re*

The number of natural disasters occurring annually across the world has steadily grown over the past 40 years.

Modern software, archaic hardware

Businesses large and small develop strategic plans against which they operate. These plans typically cover a time frame of 2-3 at most 5 years into the future. They include the direction the firm plans to take, its near-term targets, resource commitment and the immediate risks to the successful execution of the plan.

Disruptions or risks emerging in the longer term are however blind spots for most businesses. Nothing unusual though given that human brains are wired to respond to near term challenges. Throughout our evolution, our minds have evolved to handle immediate problems and threats. To this end Ronald Wright, the Canadian author, describes modern humans as *“running 21st century software on 50,000-year-old hardware”*.

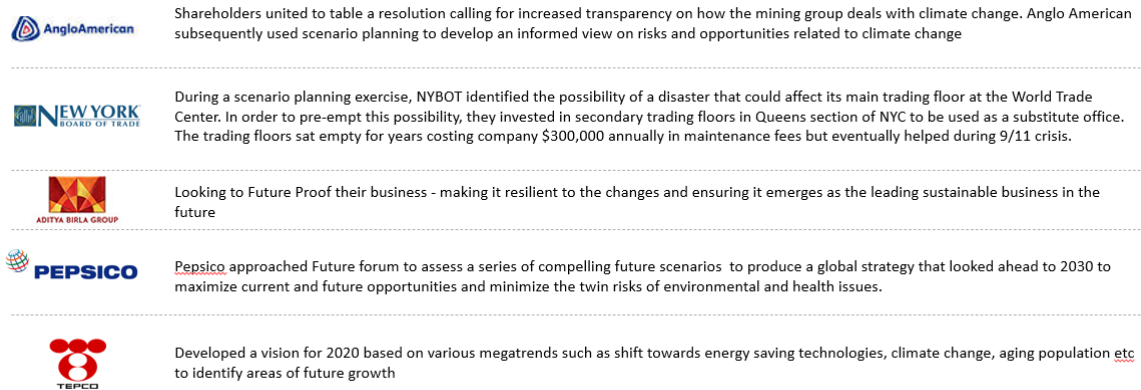
Predicting the future however is not an easy task. Future trends and events are often unforeseeable and some even unprecedented in human history. In addition, as leadership remains deeply engaged in meeting near term targets and keeping the shareholders happy, there is a dearth of bandwidth available to plan for the future.

Hence, for a business to be sustainable, It is imperative for the leadership to take a structured approach to identify the key trends that can potentially affect their business and the way those trends can shape the future business environment. Incorporating these ideas into the strategic plan helps to Future Proof the business.

Imagine the Future

Scenario planning is used by a large number of corporations to understand and prepare for an uncertain future – to be more adaptive and agile in times of change. Firms have applied scenario planning to a wide range of risks such as climate change, financial crisis, geopolitical risks etc.

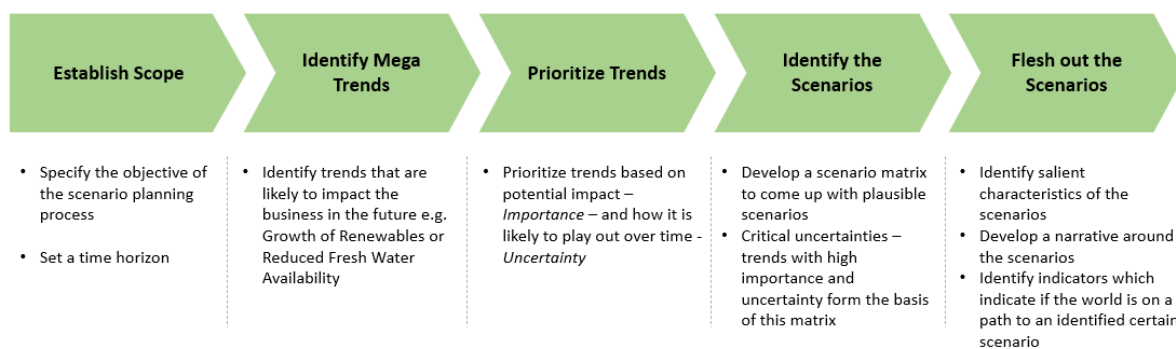
Fig 1. Select examples of corporate scenario planning efforts



Scenarios, in essence, are different visions of the future formed through the understanding of the major trends that are likely to shape the future. The exercise therefore involves establishing realistic future scenarios based on key uncertainties and interplay of various mega trends and assessing how those scenarios might impact business. This facilitates informed strategic decision-making for the management on associated risks and potential opportunities.

The most widely used scenario planning approach is the 2x2 matrix approach. The planning process in this approach involves the following key steps –

Fig 2. Major steps in a scenario planning exercise



Scenarios are a powerful tool in the strategist’s armory. They are particularly useful in developing strategies to navigate the kinds of extreme events we have recently seen in the world economy. Each of the scenarios should be evaluated individually as to the risks and opportunities they present to the organization. Opportunities should be assessed, and the more attractive options developed further from financial, social and environmental perspectives.

Business leaders who can expand their imaginations to see a wider range of possible futures will be much better positioned to take advantage of the unexpected opportunities that come along.

Advantages of using scenarios

- ✓ allows people to challenge conventional wisdom
- ✓ organizes possible future states into narratives that are easier to grasp and use as opposed to analysis leveraging large volumes of data
- ✓ enables radical thinking...else humans tend to think of the future as similar to the present with only small incremental changes
- ✓ as scenario analysis proceeds, it is possible to identify powerful drivers of change. These drivers often result in outcomes that are the inevitable consequences of past events – the essence of which was captured well by Shell in the phrase - *It has rained in the mountains, so it will flood in the plains*

Though it is tempting to focus on the most probable outcomes from the scenario planning exercise, it is wise to note that even the best-laid plans can go wrong. Hence, an astute business leader should examine a broad range of possibilities and the forces driving them, to understand the dynamics of change so as to identify initiatives that may do well under a range of different circumstances.

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Sattva has been working with various corporate clients to help them define their social impact goals and maximise the return on social investment. Our focus is to solve critical problems and find scalable solutions. Several corporates have been a partner to many such collaborations where effective CSR programmes have strategically aligned with business and have provided meaningful solutions to social issues.

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