



Coronavirus: Discontinuous events and inoculating your business

By: [Dr Lynette Nusbacher MA, Nusbacher Associates](#)

When we make strategy for our businesses, we must look to the future; but if we give in to our biases, we will look to the wrong future.

If strategy is designed to take us to the wrong future, it's worthless. But if it's well-crafted, it can get us out of some dark operational depths.

Taking a look at the future, after the quarantine and the panic hoarding, can get us out of the present mess. Doing it right can keep us out of the next one.

How could we miss this?

In 2008, when I worked for the British government's Joint Intelligence Committee, I attended a presentation by the Prime Minister's Strategy Unit on the future of China. My colleague in the Strategy Unit talked about China's steady, unbroken rise to world domination by 2030.

The slide deck was plausible, but it had a certain weighty inevitability that seemed inappropriate.

I asked about two things: the effect of the credit crunch, which had just begun, and the effect of pandemic disease. Both, I felt, were critical to understanding China and its relationship to global economies.

My colleague's response was that their study did not take discontinuous events into account.

I was amazed that anyone could project trends almost 25 years into the future without taking events into account. There was a significant risk of another SARS or influenza epidemic, and the global economy was about to crash.

But here's what I hadn't yet learned: politicians and people who work directly for politicians hate discontinuity. They hate it because politicians and the people who vote for them like to make their decisions based on intuition, and human intuition loves trends.

Trends and biases

We humans are natural trend analysts. When we use our intuition to imagine the future, the picture we envision is a projection from the present. We look to a future that is either a bit better than the present (if we're optimists), or a bit worse than the present (if we aren't).

Even the worst worriers find it difficult to envision truly discontinuous events. The significant upward trend in China's economic output, which began in the mid-90s, and which had begun to accelerate in the mid-noughties, was easy for us to understand. The idea that thousands of people might die in one quarter and change that growth pattern was hard to imagine.

The 2002 SARS epidemic, which killed 774 people, demonstrated that in China, population growth, increased construction and increased farm production were forcing people, domestic animals and wild animals into closer contact with each other. It was inevitable that at irregular intervals over the following years, viruses living in wild animals would move to domestic animals and to humans. The viral outbreaks that result have punctuated the first two decades of the 21st century.

Strategic shock

The trend lines of our intuitive future have hit a kink. Smooth sailing in America towards November's presidential election has become rough. Tough bargaining in Britain towards a trade deal with Europe and the rest of the world has disappeared from the schedules. European borders, unmarked for decades, have been closed. Korea and Taiwan have demonstrated remarkable resolve, with apparent positive results.

Economies and public health capabilities have been shocked. For some businesses, it has been more than an operational shock that can be solved with an application of expertise and money. For some, this is breaking value chains and value networks, and undermining business models: a strategic shock.

Strategic shock comes from significant events that challenge conventional wisdom. It's hard to imagine these things happening, and hard to imagine solutions. These shocks render our strategic planning meaningless: everything we are doing is suddenly working towards the wrong goals. By definition, strategic shock can make the difference between having a bad quarter and having to build a relationship with an insolvency practitioner.

You avoid strategic shock the same way you avoid becoming ill from a virus: inoculation. You inoculate against strategic shock by forcing yourself to look at outcomes that challenge your own preconceptions, and the body of preconceptions we call conventional wisdom. This needs to be a finely calibrated process: if you challenge preconceptions too strongly, you'll ignore the result. If you challenge someone else's preconceptions too strongly, they'll think you're wacky.

Strategy methods

Good strategy starts with a clear picture of potential futures. You don't have to accurately predict the future. But you do have to understand what the possibilities are. Reading about potential futures is useful, but there is no better way to understand the future of your business than good scenario work. You need to get the best brains in your organization to use structured methods to imagine futures that push away from trend lines, and use their knowledge and expertise to understand what those futures could mean for your value network and your business model.

Right now, operational tasks are threatening to overwhelm us: from business continuity to basic hand-washing. Nonetheless, in six to 18 months we'll still have businesses to run. That 2021 version of us will be thoroughly uninterested in the heroic achievements of 2020, when we kept things going in the teeth of adversity. That 2021 version of us will want to know we kept working and thinking strategically. We owe it to our people to start making strategy for COVID-19 recovery now.

Even if coronavirus has made the first quarter of 2020 a rough moment, the second quarter of the year can be the moment when COVID-19 recovery strategy starts.

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