

On the horizon

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Article abstract

We all forecast all the time. Much of life is predictable. In the UK, people do not check if there has been an earthquake in the night before they get out of bed; people who live in an earthquake zone might need to do so. Forecasting of the external operating environment, the market, the competition, stakeholders, and regulation, is also an integral part of any strategy. This forecasting needed by strategists encompasses both predictable factors, and their impact, while being aware of potential changes in the operating environment.

Strategists also need to find methods for communicating to non-strategists about potential sources of disruption and appropriate levels of preparation and/or contingency thinking. The forecasting needed by strategists needs to go beyond the predictable. This article looks at three tools that can help strategists fulfil their challenging role and discusses when to use each.

On the horizon

Why forecasting is essential for strategy and the three tools that can help strategists overcome challenges. By **Gill Ringland**

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Drivers of change

The first step to forecasting is to develop an understanding of what forces might change the operating environment (drivers of changes). In this regard, strategists often find

it useful to start with a set of well-researched drivers of change. There are a number of sources of these, for instance the Organisation for Economic Co-operation and Development (OECD)¹, and the European Commission's Joint Research Centre.²

Many industry bodies also provide good input. For instance, the Association of Chartered Certified Accountants (ACCA)³ and Institute of Management Accountants (IMA) surveyed their membership to identify which of over 100 drivers were thought important for the global accountancy profession. In the short term, the three drivers thought to be most important were fuel and energy prices, cyber security, and corporate governance. In the medium term, all the drivers related directly to accountancy – particularly the broadening of their role. In the longer term, changes in the role of reserve currencies and the impact of an electronic world were flagged.

Superforecasting

Once they have chosen a set of drivers to work with, strategists can use the superforecasting tool to calibrate them. This tool, described in 'Superforecasting', results from the work of Professor Philip Tetlock, a

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social scientist now at the University of Pennsylvania, who designed and ran major experiments on the characteristics of successful forecasters. Prof. Tetlock has identified five approaches that can improve forecasting accuracy.⁴

Tetlock's CHAMP

- Comparisons are important: use relevant comparisons as a starting point
- Historical trends can help: look at history unless you have a strong reason to expect change
- Average out opinions: experts disagree so find out what they think and pick a midpoint
- Mathematical models: when model-based predictions are available, you should take them into account
- Predictable biases exist and can be allowed for. Don't confuse hopes with forecasts; don't cling to old forecasts in the face of news.

These five approaches should be an essential part of every strategists' toolkit – they all provide specific ways of challenging assumptions.

These ways of thinking are important for all strategists and provide a checklist for testing strategies. For instance, predictable biases can also be described as part of a culture, so they can be hard to challenge. Hans Rosling has a good framework for challenging them.⁵

It is worth noting the domain of applicability of superforecasting. First, the domain is specifically social and political forecasts where disruptive change is often due to events. Second, technology can provide disruptive change, which may challenge existing biases. Third, the timescale of the forecasts is relatively short – a few years at most. Fourth, because the

choice of expert is crucial when dealing with potential disruptive change and because the checklist points out that 'experts disagree', outsiders may have a better perspective than domain experts.

Finally, the characteristics of successful forecasters were that they were 'foxes' rather than 'hedgehogs'. The differences between foxes and hedgehogs are: "The fox knows many little things; the hedgehog knows one big thing." (Archilochus) For a case study of how this can help in practice, see Ringland.⁶

Three Horizons

Strategists can also use the Three Horizons⁷ tool (see Figure 1) for thinking about drivers of change that could cause the organization's operating environment to change, or to highlight predictable biases. This tool, which explores the timescale and type of impact of each of the drivers of change, divides drivers of change into three types. It is of most value when used in a participative workshop format rather than in desk research.

- Horizon 1 is about current working assumptions and systems that we take for granted when we make decisions (for example, the ongoing trend for decreasing family size, for migration, and for people to live longer, causes us to re-examine our assumptions on demographics⁸). All managers are expected to be aware of these.
- Horizon 3 is about changes emerging that are completely new paradigms and ways of understanding and undertaking various human activities. What are visionary leaders saying? (for example, The World Business Council for Sustainable Development believes that nine billion people can live well on the planet). Horizon 3 drivers may fuel experiments that are partially successful, in the medium term.

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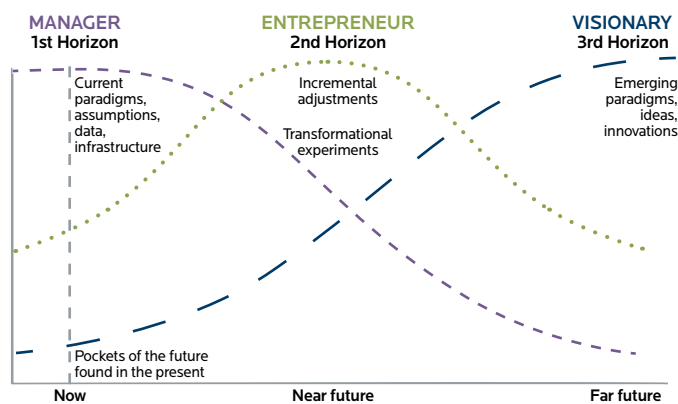
Figure 1: Three Horizons is an excellent tool for creating a shared set of assumptions about the planning horizon within a team

Three horizons: Mindsets

Robust decisions in uncertain times

THE THREE HORIZONS FRAMEWORK

Wendy L. Schultz (from Sharp, Curry, and Hodgson)



“Strategy needs to reflect both predictable and unpredictable operating environments.”

”

- Horizon 2 is about drivers that represent a transition or accommodation for evolving tensions as current assumptions and work patterns obsolete, and transformative changes affect industries and markets (for example, “I believe we will see more change in our industry in the next five to ten years than we have in the last fifty. We are at the start of a technological revolution that is going to change the way we drive and interact with our cars, trucks, and crossovers.” Mary Barra, CEO of GM)⁹.

While many Horizon 3 drivers are longer term, the emphasis here is on changing the paradigm. Many strategists find they need to concentrate on a few Horizon 1 drivers of change for their core strategy, with sensitivity analysis on the Horizon 2 and 3

factors. And it is important to consider Horizon 3 drivers before analyzing Horizon 2 in more detail.

Three Horizons can be used to explore drivers of change of all types, though it is most useful when a team with diverse backgrounds use it to create a shared language.

Impact (or Futures) wheel

The last tool, the Impact wheel, can stimulate an understanding of the changes caused by a driver. This is a structured brainstorming tool to organize thinking about potential impacts, for instance on Horizon 1 drivers of change within an organization. (Its use is described in Lustig, 2015.)¹⁰ It is often also used with large groups to create public awareness and discussion of change.

To use an impact wheel, a sheet of paper flip chart-sized or larger is printed with a template (see Figure 2). A driver of change is placed at the center. The driver in the template is ‘solar energy reduces the price of electricity’. Starting from the driver at the center, effects are mapped outwards.

The main areas likely to be affected are the first circle – for instance, customers, electricity industry, travel, stakeholders, regulation, and so on – are colored in red. The next circle – what impacts may influence each of these groups within the next three to five years – are green here. Quite often, the group needs to add additional rings of circles in order to think through the range of impacts of the driver in the longer term.

The final chart will be useful, but the connections made during the discussion may be even more valuable. If the organization or group has not chosen an important driver to explore, the outcomes can be unhelpful.

Three tools together

Forecasting is important for strategy. Strategy needs to reflect both predictable and unpredictable operating environments. The superforecasting capability varies

Figure 2: The Impact wheel is used to explore the ‘so what?’ or impact of previously identified drivers of change



considerably between people, while both ‘hedgehogs’ and ‘foxes’ can improve their performance through training. The CHAMP checklist should be part of every strategist’s thinking about change.

Three Horizons is useful in workshops to help a management team create a shared language about their operating environment, the important forces for their organization, and the timescale and predictability of their effect. This often builds on existing sets of drivers of change developed by outside organizations.¹¹ Finally, the Impact (or Futures) wheel allows groups to explore the impacts of a single driver of change on their operating environment.

All three aspects of forecasting have in common a dependence for quality of output on the quality and diversity of participants. This quality is as important as the process.

These three tools together support the development and exploration of a set of drivers of change, which are relevant for the organization and provide an informed basis for strategy. ■

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