



Getting better at seeing ahead



J. Peter Scoblic

The deep and ongoing impact of COVID-19 has clearly sharpened the focus in boardrooms today on the company's risk management and forecasting efforts—identifying and modeling critical operating and strategic risks that are in view or “just around the corner.” But the upending events of the past 12 months have also highlighted in stark relief the imperative—and the difficulties—of peering further into the future, where uncertainty and ambiguity prevail.

From climate change, artificial intelligence (AI), and evolving consumer expectations, to the growing influence of China and the rise of stakeholder capitalism, grappling with the megatrends and uncertainties potentially affecting the company's long-term success can quickly move beyond probabilities and into the realm of possibilities and the imagination. “Often, though not always, the further out you go, the greater the uncertainty and the more difficult it gets,” says J. Peter Scoblic, cofounder of Event Horizon Strategies, former executive editor at *Foreign Policy*, and Senior Fellow in the International Security Program at New America.

It's clear to Scoblic that organizations aren't devoting enough time or resources to thinking about the future. “Last year, we saw the future come rushing at us,” he notes, suggesting that companies need to be adept not only at navigating near-term risk, but also at imagining a range of scenarios that could affect the company's long-term future.

In this conversation with the KPMG Board Leadership Center (BLC), Scoblic shared his thoughts about how organizations can become more effective at envisioning the future and integrating future-thinking into near-term decision-making.¹ Among the key elements: establishing a “strategic foresight function” that is free to imagine the future and challenge the company's strategic assumptions and inherent biases; instilling a forward-thinking culture and mindset; making scenario planning an ongoing, iterative process; and using signposts to monitor and regularly calibrate the company's vision of the future.

At a glance

To think about the future more systemically, consider:

- Establishing a “strategic foresight function” (distinct from strategic planning) that is free to imagine the future and challenge the company's strategic assumptions
- Instilling a forward-thinking culture and mindset, whereby future scenarios factor into current thinking and decision-making
- Making scenario planning an ongoing, iterative process
- Using “question clusters” to focus on disconfirmatory evidence and combat the allure of a compelling narrative that may no longer be valid
- Creating signposts to monitor and regularly calibrate the company's vision of the future.

¹ Also see “A Better Crystal Ball: The Right Way to Think About the Future,” J. Peter Scoblic and Philip E. Tetlock, *Foreign Affairs*, November/December 2020.

BLC: When it comes to “seeing ahead,” what do you see organizations struggling with the most?

Scoblic: Typically, there is not enough emphasis placed on uncertainty and long-term scenario planning, and there’s too much emphasis placed on near-term risks. While both pertain to the company’s possible futures—and the optimal approach is to try to blend the two—gauging uncertainty is far more subjective and more difficult, which is probably why it gets less attention.

Last year, we saw the future come rushing at us. So, to the extent that companies make the future—particularly the longer term—part and parcel of their everyday work, I think they are much better off. To the extent that they account for uncertainty, they’re better off. Envisioning what the future might look like once a year at a strategic retreat, and assuming that the future will stay still while the company moves toward it, is where companies tend to falter.

BLC: In your recent article in *Foreign Affairs*, you write: “The greatest barrier to a clearer vision of the future is not philosophical but organizational.” How can boards help companies establish an appropriate organizational capability for scenario planning and envisioning the future?

Scoblic: The first thing that boards should do is combat a culture of short-term thinking. Such a mindset emerges for several reasons. Corporations focus on the short term because there’s less uncertainty—the returns on actions that you take in the short term are more visible, more proximate, and more tangible. There are incentives, whether focused on quarterly earnings or share price or other goals. There’s a cultural hurdle to get over.

Then, from an organizational standpoint, help management establish a strategic foresight function. It’s important to distinguish strategic foresight from strategic planning. In planning, you come up with a one-, three-, five-year plan, often based on extrapolation.

A foresight function is an adjunct to planning and addresses the uncertainty of the longer-term future, incorporating forecasting to help mark or anticipate signposts along the way that give you a sense of which “uncertain future” you’re headed toward. If you establish a function like this, you’ve got to give it enough room away from operational demands so that it does not get subsumed into the daily world of work. At the same time, it needs to have close enough proximity to decision-makers that it actually makes a difference, and it doesn’t end up just producing “shelf-ware” in the form of glossy reports or binders.

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—J. Peter Scoblic, cofounder, Event Horizon Strategies

The function should establish the things that might prevent the company from reaching its long-term strategic goals. “Here is the range of plausible futures that we might be headed toward, and in not all of them or perhaps even in any of them does the preferred future that we want manifest.”

BLC: One caution that you raise is the bias/irrationality that can be triggered by “the compelling nature of a good narrative.” How can boards challenge “the seductiveness of a particularly good narrative” that could undermine decision-making?

Scoblic: As soon as we tell ourselves a story about the future and what it’s going to look like or what we want it to look like, we start seeing evidence of it emerging everywhere. Stories trigger a whole host of judgmental biases. What the research psychologists would say happens is that a story we tell ourselves about the future becomes a focal hypothesis. It’s essentially an assumed-to-be-true belief about how the future is going to work out.

Better framing and organization of questions—into what Wharton Professor Philip Tetlock calls question clusters—can help the board better evaluate whether the future the company has in mind is materializing or not. Question clusters do this by forcing us to establish markers in advance of what would signal that a future is coming to pass, but also what would signal that it’s not. Confirmation bias is a decision-making bias whereby we look for evidence that backs up our preexisting beliefs, and we tend to ignore evidence that doesn’t. Question clusters focus us on disconfirmatory evidence.

BLC: For management, what would you recommend as an exercise or leading practice to help ensure that daily operational demands don’t overwhelm their ability to plan or forecast?

Scoblic: If you think of the notion of mental models—the maps we have in our head about how reality works, the relationships between cause and effect, and so on—what scenario planning exercises are very good at is changing mental models and making them more malleable. You can hold a scenario planning exercise, and people will come away not only thinking differently about the future, in the sense that they think what is possible is different than the assumptions that they went in with, but also come out thinking differently in their day-to-day.

Scenario planning seems to affect people whereby they stop thinking that the long term and the short term are competing necessarily, and they are more complementary. Beliefs about the future influence our

actions in the present. As people go about their daily work, they start thinking more about what their actions mean for the long term. It becomes like software running in the background. You're not walking around constantly thinking about the future, or about the long-term future and about future uncertainty, but when you stop to make a decision, especially a difficult-to-reverse decision that may have long-term consequences, it's easier to think about long-term implications.

For this type of thinking to permeate an organization, bring in a wider range of participants to scenario planning exercises. And hold them more frequently than once-a-year. Involve as much of your organization as you can, or at least the decision-making components of your organization, so that they stop thinking of the present and the future as competing.

BLC: What role do you see technology—data analytics/AI—playing in all of this?

Scoblic: There's great potential for using technology in combination with these techniques to aid in the discovery of weak signals of the future, of patterns that are occurring before human beings may notice them. Take the early outbreak of disease, for example. AI or just large swathes of data may enable identification of case trends sooner.

But I think there is danger in believing that the predictive capabilities of AI are all that we need, or that everything that we need is in the data. The feedstock for these things is data from the past. There's no way to account for the uncertainty of the future or the fact that maybe we haven't even conceived of all the things that may come to pass, and so there will never be a substitute for the imagination that goes into scenario planning, and the ability to account for a wide range of plausible futures.

There's a lot of potential for hybrid human/AI interaction to work. But there's just a very strong temptation to say now that we have this technology, we're going to have a much clearer vision of the future. This kind of belief comes in waves, where suddenly new worlds of data or data analysis open up, and people think, "Okay, we've solved the riddle, we can now see the future." And then, of course, surprise inevitably follows.

BLC: How can companies build robust strategies related to climate change?

Scoblic: Climate change poses situations of both risk, which we're already beginning to see and model, and future uncertainty. We know that the planet is

warming, and that climate scientists are able to model many ways in which that will manifest—sea-level rise, for example. The models aren't perfect—no model is—but we can still probabilistically state what the impact of climate change will be on a given physical system. Admittedly, given the complexity involved, there will be surprises—it is hard to pin scientific probabilities on specific severe weather events. Still, firms can go a long way toward planning for the physical effects that climate change could have on their business. It is possible to get quite granular about how climate change will affect a business's ability to create value.

The greater business challenge comes in assessing the impact that climate change will have on social, economic, and political systems. That is where uncertainty really enters in. It is very difficult to pin "objective" probabilities on those second- and third-order effects because we've never seen a change of this kind and of this magnitude before. We lack analogies to past experience. So, we are left with far more subjective estimates of possible effects, and we must face the fact that there may be impacts we have not even considered. There is not only uncertainty about the future, but ignorance.

Here, scenario planning can play a useful role. It can help reduce ignorance by providing a structured framework to aid imagination. We may think of potential developments that we hadn't before and consider whether we need to formulate strategy to account for them. And scenario planning can help us map uncertainty, so that we can get a better grasp on the range of plausible futures. The effects of climate change on business are likely to be wide-ranging, and scenario planning helps put boundaries on those uncertainties. It is neither true nor useful to say that anything can happen, and scenario planning puts some guardrails on the road to potential futures. That, in turn, can enable businesses to formulate smarter strategy.

Scoblic, a Fellow at Harvard's Kennedy School, was awarded the 2019 Wyss Award for Excellence in Doctoral Research from Harvard Business School. He is a cofounder and principal at Event Horizon Strategies.

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