

# How firms can overcome the 'paradox of preparedness'

July 19 2022

---



Credit: Pixabay/CC0 Public Domain

When major threats are looming, but their timing is uncertain, it's hard for business leaders to make an action plan for dealing with them. Wharton marketing professor emeritus George Day and global

management consultant Roger Dennis call it "the paradox of preparedness." In this essay, they offer four steps to help leaders heed the warning signs of disaster before it's too late.

What happens when there is credible warning of a looming problem that could disrupt an organization, but the timing and consequences are uncertain? Most likely, nothing. This is the paradox of preparedness, and it happens no matter how loud and clear the alarm. Consider how little happened in response to Bill Gates prescient [TED Talk](#) in 2015, when he warned that the world wasn't ready for the next pandemic. While it's easy to write off the lack of [attention](#) to an uncertain threat, like a viral outbreak at some point in the future, more specific warnings are frequently dismissed as well. The antidote to this disruptive paradox is four attention-getting actions that prompt low-cost preparations, which we outline below.

The paradox of preparedness often prevails because leaders filter warning signals through cataracts of self-deception, myopia, and inertia. Compounding these biases are warning messages that are too cautious and lack a compelling call to action. When there is little incentive to pay attention and prepare, it is too easy to postpone preparations. This was a lesson learned when Roger and his team warned New Zealand businesses in 2015 that their lengthy and fragile supply chains could be disrupted by a global pandemic, yet very little action was subsequently taken.

The prompt for the warning was the 2013–2016 outbreak of the Ebola virus in Africa. Although Ebola was contained, the earlier outbreak of the coronavirus that caused SARS showed that a global pandemic would likely happen again. Two New Zealand companies in the energy and retail sectors agreed with this threat assessment and commissioned a study to prepare themselves and the country. The project included interviewing senior New Zealand government officials and supply chain experts from many of New Zealand's largest companies. The result was a

publicly available [report](#) with detailed recommendations for the government and private sector.

The report sent a stark warning that the economy of New Zealand was exposed to the damaging consequences of a global pandemic. It urged companies to improve their visibility into their supply chains, to see which transportation links and suppliers could be at risk, undertake low-cost preparations to make the supply chains more resilient, and strengthen their vigilance capabilities. These vigilance capabilities were needed for the early detection of looming threats and to gain valuable time.

Given the graphic warning, Roger expected leaders to pay attention and act. He was wrong. Neither the government nor the private sector made noticeable changes. Leaders in New Zealand had not experienced a pandemic, and a deadly disease in Africa seemed remote.

Five years after the report was published, it was apparent that an alarming virus was emerging in China. The authors of the 2015 supply chain vulnerability study called the firms involved in the study and recommended they urgently review the report. But it was too late. By 2021, the problems with [global supply chains](#) were metastasizing; semiconductor chips were scarce, shipping costs and delays were mounting fast, and many ports were severely clogged.

The pandemic was a classic gray swan event—possible, well-known, and potentially extremely damaging. Compared to black swan events that are entirely unpredictable, gray swans have low expected probability in the near term, and the damage can be contained with low-cost preparations. However, if leadership teams are to pay more attention to the possible threats from supply chain fragility, regulatory exposure, climate change, or digital disruptions, they first need to be persuaded.

## Getting and keeping attention

The capacity of a leadership team to pay attention is like a sponge. To avoid oversaturating their attention resource with immediate and pressing issues, two principles need to be observed.

First, the collective attention of a leadership team is a scarce resource and can be easily squandered. "Pay attention" is a helpful dictum for parents with distracted children, or leaders overloaded with weak signals of possible threats and opportunities while preoccupied with operational issues. While individual attention may be a fixed resource, a leadership team's collective attention can be expanded (through setting priorities and changing incentives) while improving the transfer of knowledge via gatekeepers. Someone should be the point person on an issue and accountable for "collecting the paranoia." Increasing the diversity of a leadership team also expands the collective attention span.

Second, leadership attention must be earned. New information creates the most value when it connects with existing know-how. The richer a team's existing knowledge base, the more likely they are to pay attention to new information about an issue. There are many ways to get attention. The four approaches we recommend are: learning from past experience, staying alert to anomalies, creating engaging experiences through simulations, and narrating credible stories about the future. Dense reports and PowerPoint presentations rich with detailed recommendations are too easy to forget or set aside.

The choice of approach to emphasize depends on knowing the audience. How do they like to learn? What are their most pressing concerns and priorities? Who do they trust as a source of information and warnings? What barriers to gaining their attention have to be overcome? Answering these questions is key to gaining leadership attention.

## 1. Start by learning from experience

The past is not necessarily a prolog to the future, but it can yield clues about persistent blind spots. A revealing and attention-getting [approach](#) is to surface and acknowledge past "hits and misses" by the firm.

Leadership teams are asked to recall recent instances when the firm was late in seeing threats and opportunities and had to react—a clear "miss." The "hits" are when key trends or turning points were seen in time to plot the best moves.

The aim is not to finger-point or scapegoat but to surface persistent patterns in collective foresight or inattention that can be corrected or strengthened. Was there a recurring reason why some events were seen in time and others were missed? This prompts a rich conversation as the leadership team surfaces the underlying reasons in the culture, incentives, or information-sharing systems. A hits-and-misses analysis needs to be done openly. It is prone to hindsight bias due to the tendency to recall past events as more predictable than they actually were.

Toyota executives absorbed some hard lessons after the Fukushima earthquake and the resulting tsunami disrupted their supply chains in 2011. They learned that their famed Just-in-Time production system, with parts reaching their assembly lines only when needed, was an acute point of vulnerability for critical items such as the chipsets powering the onboard computers in their cars.

In a change in practice, Toyota suppliers were required to hold a buffer stock of chips to satisfy Toyota's requirements for up to six months of production. To add resiliency to their supply chains, Toyota began to practice parallel sourcing. They now have several suppliers of critical components in case one should falter, as happened during the early stages of the pandemic in 2020. Because Toyota learned to protect their supply chains, they were able to operate at 92% capacity, while Ford and



GM operated at 60% percent production capacity in the first half of 2021.

## 2. Stay alert to anomalies

The route to preparedness starts when the leadership team is collectively curious about anomalies. Shell CEO Ben van Beurden did this by asking the question: Pushed to the extreme, how quickly could electric vehicles come? His attention had been caught by an alarming [anomaly](#) between 2014 and 2016, when oil prices fell while electric vehicles doubled in global sales from 323,000 to 753,000 units per year. In the six years before 2016, the price of lithium-ion batteries used in electric cars had dropped 73%. Shell's head of planning characterized the resulting challenges facing the company as "radical uncertainty."

Anomalies are weak signals that are in some way surprising because they don't fit received wisdom but are not entirely clear in significance. Many anomalies are missed or ignored because people are susceptible to confirmation bias. They are not obviously actionable because they are ambiguous, so pursuing an anomaly requires the exercise of curiosity. But they may be signposts to the future and reveal potential opportunities. This is what Intuit calls, "savoring the surprise."

Intuit leadership realized that many users of their online money management service Mint weren't behaving the way they were expected to behave because they were using Mint to manage their self-employment income. They were operating in the expanding gig economy. Embracing this insight, Intuit designed a variation of QuickBooks for self-employed workers, and it became their fastest-growing product.

An anomaly comes to life when it narrates a story about what might happen should it become a reality. A compelling narrative helps spread

the news of a potential opportunity or looming threat throughout an organization by capturing the collective attention. It should address these questions: Why is it a departure from our existing assumptions? What could it lead to? What new information would validate or deny the reality of the narrative?

### **3. Engage the organization**

Preparing an organization for a major change means that key implementers know why the change is needed and accept their responsibility for making it happen. Immersion in role-playing or simulations will help them get there. That was the approach taken by a major health system in New Zealand when leaders foresaw reduced government funding, an aging population to serve, and a shrinking workforce. They needed to fundamentally rethink how health care was going to be delivered.

The process was nontraditional by design. Instead of a top-down vision decided by the leadership team, the process began with the people who worked daily on the front lines. A collaborative view was created of the needed preparations for the future of health care in the region. This became an immersive experience called Showcase—a collection of interactive exhibits that brought to life the vision for their staff. The key question at the end was simple: "What does this mean for you?" The overwhelming response was, "I need to make this change happen."

Showcase became the foundation for a successful decade-long transformation that also prepared the system to respond to the chaos created when a major earthquake devastated the region. The health system responded incredibly well. When the CEO was asked how people had coped so well, his response was that the leaders had already been preparing the organization for years.

## 4. Learn from the future

Preparations against possible threats can be [simulated](#) with scenarios. This is a method of rehearsing the future to avoid surprises. It is an engaging process that considers multiple plausible futures and highlights the need to build resilience. Scenario-learning takes intense dialogue that challenges embedded assumptions and conventional wisdom. This provokes a healthy tension that is an essential fuel to collective learning.

A useful set of scenarios is organized around the main uncertainties and offers diverse narratives about what the future might bring. When Shell Oil was trying to grasp the implications of electric vehicles in 2017, company leaders focused on two pivotal uncertainties: (1) global demand for energy, and (2) the likely penetration of alternative energy sources that would reduce the demand for fossil fuels. This created four possible scenarios. One scenario, optimistically labeled Brave New World, combined low energy demand and rapid technological substitution. This worst-case scenario described a world in which demand for crude oil would peak around the mid-2020s. In 2017, Shell leadership had no idea which scenario would best describe the future, nor how quickly each scenario would unfold.

Scenarios work best when they challenge and stretch thinking, and prime the leaders to pay attention to early warning signals that suggest possible preparations. To guide these preparations, a [strategic radar](#) is needed to monitor in real-time the leading indicators of the important uncertainties. This is not a dashboard of backward-looking performance metrics, but a forward-looking track of unfolding uncertainties.

"Be prepared" is a useful motto that falls short as a call to action. In retrospect, Roger's pandemic alert didn't capture the attention of influential leaders in the New Zealand economy in 2015. The dense report should have been accompanied by an engaging video on the



consequences of inaction, an image-rich executive summary, and a press release to highlight the message. We should have convened a meeting of key influencers to push for stress-testing the ability of their supply chains to recover from a future shock. An early warning system to capture indicators of uncertainties and anomalies could have been put in place. The unrealized goal was to create more resilient organizations with robust supply chains that could weather abrupt change. We hope that you use our four action steps, along with the hindsight gained from Roger's experience, to prevent a miss within your own organization and surmount the paradox of preparedness.

Provided by University of Pennsylvania

Citation: How firms can overcome the 'paradox of preparedness' (2022, July 19) retrieved 4 May 2024 from <https://phys.org/news/2022-07-firms-paradox-preparedness.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--