

## **COVID-19: Confronting uncertainty through and beyond the crisis**

The power of scenario-thinking to  
enhance decision-making

**April, 2020**

# The changing calculus of uncertainty

For a generation of business leaders, we have been operating in and living through what we believed were uncertain times. Continual upheavals, disruptions and global shifts like digitization, technology transformation, changing geopolitics, evolving business models, and a changing consensus on globalization and trade have for decades challenged the very notion of executive decision-making. We have been talking about a volatile, uncertain, complex, ambiguous (VUCA<sup>1</sup>) environment for most of our lives in business; two futurists even recently averred that acceleration itself was accelerating.<sup>2</sup>

The COVID-19 pandemic, however, is changing—or has already changed—our collective calculus of uncertainty. The reality is, there exists no reference case for the COVID-19 crisis in living memory. Yes, there have been flu pandemics. Yes, there was Black Monday and the 2008 financial crisis. And yes, there have been localized threats and disasters with regional or national implications: Chernobyl, the Iraqi invasion of Kuwait, 9/11, Hurricane Katrina. But from our vantage point, the COVID-19 pandemic is more global in scope, more profoundly impactful and far-reaching, and more complex than any other crisis that today's decision-makers have experienced or contemplated.

Questions abound, for which – at the time of writing – there are few, if any, answers.

What, for example, will be the global health consequences of the pandemic? What will be the near-, mid-, and longer-term consequences of our responses to it, and to the various measures that countries are taking to “flatten the curve”? How might the crisis change the way we live and work in the future? How will the crisis influence relations within and between major countries? How will a country's role in – and dependence upon – global supply chains and trade change, based on its responses to the crisis? What will be its impact on the roles of the private and public sector? How will these changes be amplified by technological disruption? What will be the nature of the recovery and rebound? And for those looking beyond the crisis, what opportunities may be captured by the fortunate or the bold?

**No country or sector, and no company, executive team, or individual leader will be immune from COVID-19's impact and consequences. No strategy will survive fully intact. Moreover, it's likely that the choices organizations face will only get tougher and more complex as we collectively anticipate the post COVID-19 environment.**

## Typical responses to uncertainty

In uncertain times, executives aren't spared the responsibility of critical decision-making. If anything the time-frame for making choices shortens, even as the contextual uncertainty makes decision-making commensurately harder.

In our experience, though, many executives and boards tend toward one of two types of response to uncertainty. The first is to recognize its existence, depth, and complexity but to become paralyzed by it, which often manifests as slow, timid or erratic decision-making.

The alternative is brashness in the face of uncertainty, as though to wish away complexity. One potential outcome is the pre-disposition to arrive at fast, superficial assessments and simple answers, often mis-analogizing

the past experience<sup>3</sup>. Another is to be over-confident about the outlook (whether good or bad) and the inherent veracity of choices.

Recent business history provides many instances of giants toppled by misunderstandings of uncertainty – whether they be financial players taken by surprise during the last financial crisis, phone manufacturers failing to anticipate the smartphone revolution and, later, the iPhone's potential to rewrite the industry, or computer manufacturers that missed the PC market's bullet train in the 1980s. Misinformed bullishness and complacency caused these organizations either to overlook a firm-diminishing downside or to completely miss a significant upside opportunity.



# Embracing uncertainty

So, what is the antidote to indecision or, conversely, over-confidence? According to common business wisdom, the best leaders embrace uncertainty. But what does that actually mean?

Embracing uncertainty means knowing what you know, knowing what you don't or can't know, and knowing the difference.<sup>4</sup>

Acting in the face of uncertainty has been a defining theme of modern business, even within a context of macroeconomic stability and continuity. But it's becoming harder to shock today's executives; potential responses to what were considered black swan events even a generation ago are today built into most strategic scenarios. By any standard, however, the COVID-19 pandemic qualifies as a true outlier.

Embracing this fundamental reframing – widely described as the “next normal” – means confronting uncertainty head-on, and building it into your decision-making. Our perspectives on how to do so entail the following:



## Consider uncertainty under different time horizons.

The near-term uncertainties of COVID-19 and its consequences are fundamentally different from the pandemic's mid- and longer-term uncertainties and *their* consequences. Depending on where we live in the world and our relevant industries, right now we're asking either how long this will last or what the nature of the rebound might be. At the same time, we need to consider the contours of the recovery. Which sectors will ascend or, conversely, recede? How might our collective experience with the pandemic reshape business, society, and politics? What will the “next normal” look like? Will new habits that are flourishing or required under COVID-19, such as online shopping, working from home, and physical separation, persist or recede?

Maintaining sightlines across each of the response, recovery, and thriving beyond the pandemic phases will be critical to long-term success.



## Identify the most salient uncertainties for your industry and business.

It's easy to get caught up in the scope of uncertainty that surrounds COVID-19; all at once, it can seem like everything is uncertain. It is imperative, however, that decision-makers understand which uncertainties are most critical to their business or organization within the time-frames they are considering. In the immediate term, that has meant understanding and weighing the pandemic's impact given the uncertain outlooks for health and economics and, in turn, their interaction with crucial dimensions like business continuity, liquidity, assets use, and redeployment. Over the middle to longer term, the focus needs to shift to factors that influence the direction of a company's strategy, position and resilience<sup>5</sup>, supply and demand, and

competitive dynamics. Broader structural shifts need to be considered, along with regulatory changes that might apply to industries and ecosystems relevant to your company.



## Use uncertainties to envision multiple different futures.

Embracing uncertainty means acknowledging that we can't know for certain what the future holds, and being comfortable with that notion. The key is to imagine and consider divergent futures, whether short term or longer term. The most proven and powerful way to do this is to use scenarios. As described in a Harvard Business School note on the topic, “[Scenarios] are plausible alternative hypotheses about how the world might unfold, specifically designed to highlight risks and opportunities facing the organization. Effective scenarios challenge ... thinking ... by instilling a deeper appreciation of the many factors that could shape the future”<sup>6</sup>. For example, had we hypothesized scenarios for the future of mobility before COVID-19 struck, we might have twinned the rapid proliferation of autonomous vehicles with the rise of shared transport solutions to come up with very different possible futures – for cities, automotive OEMs, and other mobility ecosystem participants.

In the case of COVID-19, we might instead begin by weighing the various health and economic factors that point to the potential duration and depth of the economic shock, and potential recovery. Over the longer term, we might consider the ultimate pattern of disease infection, the level of collaboration within and between countries, the ways global supply chains might reconfigure, and the possible waves of innovation that COVID-19 may trigger. Since all these drivers are deeply uncertain right now, we need the disciplined approach of scenario-thinking to help us model and examine how such factors might interact in expected, unexpected, and possibly extreme ways.

Importantly, scenarios are neither accurate predictions of the future, nor simply sensitivities as to how any one business might incrementally deviate from a base case. At their core, the best scenarios are coherent stories that push leaders to consider very different ways that the environment might evolve.




**Seek diverse perspectives.** If there has been any moment to incorporate diverse perspectives into decision-making, now is it. Not with the intention of slowing down the process, but to make it better. Peter Schwartz, SVP Strategic Planning, Salesforce, and co-founder of Global Business Network, had it right when he opined: *"Diversity really does matter. Inviting people into the conversation who make you uncomfortable is a very good idea."*<sup>7</sup> Seek perspectives from younger generations, and from those outside your industry, geography, or company. Identify and draw upon those whom you know disagree with you or have a different opinion. Strive to understand those perspectives and the logic that underpins their views of the future. And collaborate wherever possible with supply chain and ecosystem partners to align on variables and potential outcomes.



**Incorporate scenarios into decision-making** While scenarios are interesting in themselves, their full power is revealed in their ability to enhance decision-making. One obvious use of scenarios during the COVID-19 crisis is that of stress-testing operations, current strategies, investments, financial strength, and forecasts. How does each of these hold up in different yet plausible futures? Scenarios can also be used to provoke consideration of multiple possibilities. What business models, for example, might emerge over the near and longer term? What will it take to win in different futures? What investments - in capabilities, innovation, M&A, or partnerships - can be made to strengthen one's future competitive position? Ultimately, scenarios can support the future-proofing of new strategies and options and, as executives weigh possible strategic directions, help in assessing the viability of those options in different possible futures.

Of course, the best discussions around scenarios and their implications explore both risk and opportunity. Yes, there could be a downside... but what might the upside look like, and how might we best prepare to take advantage of it—or create it ourselves?



Embracing uncertainty means knowing what you know, knowing what you don't or can't know, and knowing the difference.



**Distinguish implications.** Considering a range of plausible futures allows leaders to explicitly distinguish between different types of decisions.

Not all choices are equal; creating and exploring scenarios can help to weigh and extrapolate the implications of any of a portfolio of possible moves:

- **Required moves** – those choices/actions that must be taken to ensure the viability of the organization in the near term
- **No-regrets moves** – the choices/actions that make sense under any scenario
- **Big bets** – substantive choices/investments made now, with the clear hope or expectation that one or more of the scenarios emerge (or can be made to emerge)
- **Contingent moves** – moves that are contingent on one or more of the scenarios emerging
- **Satellite moves** – smaller moves or investments placed selectively across one or a number of the scenarios, in conjunction with bigger bets.

There is no magic formula for the mix of moves any organization should make. Clearly, the best strategies are explicit about the nature of choices made<sup>8</sup>, and moves to be taken, and typically involve some form of commitment or substantive bet; after all, you can't hedge your way to success. Of course, in these times, for many companies, there are required and no-regrets moves, which should be pursued decisively and with maximum confidence. The remainder of the portfolio should be filled out appropriately using available resources and with overall risk tolerance in mind. One rule we like to abide by is that any choice should be pursued aggressively (with full resources and no half-measures) on the basis of a clear and testable logic, so that it can be refined or abandoned if it becomes clear the preconditions for success are unlikely to be met.



**Make choices and monitor.** Ultimately, choices must and will be made: to keep doing certain things and not do others, to make or defer investments, to repurpose assets, to hold firm, or to invest for the future on a committed or contingent basis. Confronting uncertainty will not make the tough decisions any less difficult. It should, however, help to reveal trade-offs and assumptions, and ultimately strengthen conviction.

Moreover, a clear view of scenarios relevant to a business helps to reveal the indicators that should be monitored, so as to sense the direction of the business environment and either confirm the validity of a strategy or set of moves, or prompt their refinement. Scenarios point toward which indicators need to be observed in a structured way. Sensing tools can identify weak signals that appear to be less plausible at first glance, yet may turn into game changers. For this reason, objective monitoring<sup>9</sup> becomes critically important to business leaders in times of crisis.

Currently, we are all closely watching indicators of virus spread and containment, and at the health, sentiment, financial, and economic indicators that can point to the nature and pace of potential recovery. It's critical that executives also identify the relevant industry and company-specific indicators they need to monitor, so they can identify whether one of the scenarios modelled is in fact emerging in expected or unexpected ways.

While scenarios are interesting in themselves, their full power is revealed in their ability to enhance decision-making. One obvious use of scenarios during the COVID-19 crisis is that of stress-testing operations, current strategies, investments, financial strength, and forecasts. How does each of these hold up in different yet plausible futures?

# Confronting uncertainty throughout the organization

Confronting uncertainty is critical across and at all levels of the organization.

For **CEOs and their leadership teams**, it is paramount to weigh enterprise risk and opportunity in relation to both the stress of the situation today and the different ways industries and company positions might be reshaped after COVID-19. Similarly, for CFOs and finance professionals, it's vital to weigh liquidity, balance sheet strength, and financial forecasts through a scenario lens, while also using scenarios to provoke thinking about M&A and partnership opportunities and other offensive strategies. In each instance, it is important to resist the temptation to simply consider sensitivities to an existing or new forecast, as this may lead one to badly underestimate downside risk, or miss the full upside potential.

For **functional leaders**, scenarios can help anticipate shifts in markets and input factors, providing foresight on

questions like: How will supply chains evolve? What will the talent models of the future look like? What might change about how best to reach and engage consumers? How will consumer expectations evolve? And which new technologies and business models will emerge as a result of the crisis?

**Boards** play a pivotal role in helping the organizations they govern confront uncertainty. They can do so by ensuring management is alert to future possibilities and actively considering different and sufficiently divergent scenarios. They should also ensure management is considering a range of time horizons so as to weigh opportunities and risks, make difficult choices with conviction, and review and refine scenarios and strategies over time.

**Exceptional circumstances, such as those of COVID-19, require a blend of courage, clarity, and humility. The biggest enemies of good decision-making in times of deep crisis are neither uncertainty nor ambiguity; they are, rather, over-confidence, procrastination, and incomplete or biased data. Intelligent scenario-thinking, when executed well, can mitigate the risk of falling into the trap of over-confidence when anticipating future possibilities. It can reduce or remove hesitation altogether by providing a logical structure to challenge and validate underlying assumptions. And it can mitigate the risk of incomplete and biased data by combining expert intuition with objectively measured qualitative data.**

**For us, the current pandemic is further encouragement to build scenario-thinking and sensing capabilities more comprehensively into strategy and decision-making. Doing so doesn't make the uncertainty go away or reduce the doubt, but it should strengthen the courage and conviction of executives to lead their businesses through unprecedented times such as these.**



# Footnotes

1. VUCA is an acronym used by the US Army War College in response to the collapse of the USSR in the early 1990s. VUCA-WORLD, <https://www.vuca-world.org/>, accessed April 2, 2020.
2. Peter H. Diamandis and Steve Kotler, *The Future is Faster Than You Think* (Simon And Schuster, 2020).
3. Be careful of recognizable “letters” (V, U, W, L) being the only scenarios of the economic shock and recovery.
4. Adapted from Donald Rumsfeld, former United States Secretary of Defense, who is reported to have introduced the concept of known knowns, known unknowns, and unknown unknowns in response to a question at a news briefing on February 12, 2002, about the lack of a direct link between Baghdad and some of the terrorist groups; <https://archive.defense.gov/Transcripts/Transcript.aspx?TranscriptID=2636> , accessed April 3, 2020.
5. Roger Martin, former Monitor Director and Dean of the Rotman School of Management, has been developing the notion of resilience and its importance to business strategy. See his articles “The High Price of Efficiency,” *Harvard Business Review*, January–February 2019, and “The virus shows that making our companies efficient also made our country weak,” *Washington Post*, March 27, 2020, specific to the perils of America’s focus of efficiency in the lead up to the COVID-19 crisis. <https://hbr.org/2019/01/rethinking-efficiency#the-high-price-of-efficiency> and <https://www.washingtonpost.com/outlook/2020/03/27/economic-efficiency-resilience-coronavirus/> , accessed March 31, 2020.
6. Donald A. Garvin and Lynne C. Levesque, “A Note on Scenario Planning,” *Harvard Business Review*, revised July 31, 2006. This article draws heavily on the learning and perspectives of Global Business Network, which was acquired by Monitor (now Monitor Deloitte) in 2000.
7. Peter Schwartz, *Learnings from the Long View* (GBN Global Business Network, 2011), reflecting upon a career of scenario development.
8. We think of strategy as best expressed as an integrated set of choices – about aspirations, where to play, how to win, and required capabilities and management systems. See A.G. Lafley and R. L. Martin, *Playing to Win: How Strategy Really Works* (Harvard Business Review Press, first edition 2013).
9. A system that draws upon multiple, quality sources.

## Report authors

**Jonathan Goodman**

Global Managing Partner, Monitor Deloitte  
jwgoodman@deloitte.ca

**Gavin McTavish**

Corporate & Business Unit Strategy Lead,  
Monitor Deloitte  
gmctavish@deloitte.ca

**Florian Klein**

Head of the Center for the Long View  
fklein@deloitte.de

**Gopi Billa**

US Market Sensing and Scenario Planning Leader  
Monitor Deloitte  
gobilla@deloitte.com

## Contributors

**Jerry O'Dwyer**

Global Strategy, Analytics and M&A Leader  
jodwyer@deloitte.com

**Andrew Blau**

US Leader, Signature Issues  
ablau@deloitte.com

**David Redhill**

Global CMO,  
Deloitte Consulting  
djredhill@deloitte.com.au

**Jason Dess**

Global Finance & Performance Leader  
jadess@deloitte.ca

**Steven Goldbach**

Chief Strategy Officer, US  
sgoldbach@deloitte.com

**Jeremy Drumm**

Asia Pacific Lead Partner -  
Strategy, Analytics and M&A  
jdrumm@deloitte.com.au

**Bill Marquard**

Global COVID-19 client response PMO  
Deloitte Consulting  
bmarquard@deloitte.com

**Jim Kilpatrick**

Global Supply Chain & Network Operations Leader  
jimkilpatrick@deloitte.ca

## Monitor Deloitte Strategy Leaders

### Americas

#### Brazil

Heloisa Helena Montes  
heloisamontes@deloitte.com

#### Canada

Gavin McTavish  
gmctavish@deloitte.ca

#### Mexico

Eduardo Pacheco  
edpacheco@deloittemx.com

#### S-LATAM

Gianni Lanzillotti  
glanzillotti@deloitte.com

#### United States

Rich Nanda  
rnanda@deloitte.com

Tom Schoenwaelder  
tschoenwaelder@deloitte.com

Amelia Dunlop  
amdunlop@deloitte.com

### Asia Pacific

#### APAC Leader

Mohit Mehrotra  
momehrotra@deloitte.com

#### Australia

Giselle Hodgson  
ghodgson@deloitte.com.au

#### China

Jia Ming Li  
jjamli@deloitte.com.cn

#### India

Anjani Kumar S  
anjanikumar@deloitte.com

#### Japan

Takeshi Fujii  
tfujii@tohatsu.co.jp

#### Korea

Je Won Lee  
jewlee@deloitte.com

#### New Zealand

Chris Rodgers  
croddgers@deloitte.co.nz

#### SE Asia

Mohit Mehrotra  
momehrotra@deloitte.com

### EMEA

#### EMEA Leader

Wayne Nelson  
wanelson@deloitte.de

#### Belgium

Catherine Hannosset  
channosset@deloitte.com

Koen Segers  
kosegers@deloitte.com

#### Central Europe

Grzegorz Cimochoowski  
gcimochoowski@deloittece.com

#### CIS

Joerg Doerler  
jdoerler@deloitte.ru

#### Denmark

Jens Rommer  
jrommer@deloitte.dk

#### Finland

Tuomo Saari  
Tuomo.Saari@deloitte.fi

#### France

Thomas Croisier  
tcroisier@deloitte.fr

Marc Becker  
MaBecker@deloitte.fr

#### Germany

Egbert Wege  
ewege@deloitte.de

Alexander Mogg  
amogg@deloitte.de

#### Israel

Eli Tidhar  
etidhar@deloitte.co.il

#### Italy

Carlo Murolo  
cmurolo@deloitte.it

#### Luxembourg

Benjamin Collette  
bcollette@deloitte.lu

#### Middle East

Bart Cornelissen  
bpcornelissen@deloitte.com

Sultanbek Khunkaev  
sukhunkaev@deloitte.com

#### Netherlands

Jan-Piet Nelissen  
jnelissen@deloitte.nl

Klaasjan Doeswijk  
KDoeswijk@deloitte.nl

#### Norway

Katrine Minken  
kminken@deloitte.no

#### Portugal

Goncalo Nogueira Simoes  
gsimoes@deloitte.pt

#### South Africa

Louis Kruger  
lokruger@deloitte.co.za

#### Spain

Gorka Briones  
gobriones@deloitte.es

#### Sweden

Jonas Malmlund  
jmalmlund@deloitte.se

#### Switzerland

Barri Falk  
barrifalk@deloitte.ch

#### United Kingdom

Alex Curry  
alcurry@deloitte.co.uk

# Monitor Deloitte.

Monitor Deloitte is Deloitte's strategy consulting team. We help leading global organizations to navigate the future with confidence by making clear, timely, and inspirational strategic choices that deliver growth in a dynamic, disrupted world. We achieve this through a combination of deep industry experience, cutting-edge capabilities, and an entrepreneurial mindset, which allows us to collaborate with our clients to resolve their most critical decisions, drive value, and achieve transformational success.

## center for the long view

The Center for the Long View (CLV) is Deloitte's Competence Center for the development of innovative strategies based on the design of scenarios. We assist decision-makers in developing robust strategies for companies and organizations. Our portfolio includes innovative methods, processes, and solutions for the development of strategic future scenarios and the corresponding courses of action - individually tailored to industries and the specific situation of our clients. The future is yours to manage!

# Deloitte.

[www.deloitte.ca](http://www.deloitte.ca)

This communication contains general information only not suitable for addressing the particular circumstances of any individual case and is not intended to be used as a basis for commercial decisions or decisions of any other kind. None of Deloitte Consulting GmbH or Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/de/UeberUns](http://www.deloitte.com/de/UeberUns) for a more detailed description of DTTL and its member firms.

Deloitte provides audit, risk advisory, tax, financial advisory and consulting services to public and private clients spanning multiple industries; legal advisory services in Germany are provided by Deloitte Legal. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 286,000 professionals are committed to making an impact that matters.

Copyright © 2020 Deloitte Development LLC. All rights reserved.  
Designed and produced by the Deloitte Design Studio, Canada. 20-6536T