Sailing in uncharted waters

Political risk: How market leaders create resiliency in uncertain times

Growing political uncertainties affect today's global businesses and can pose great risk. The recent US presidential election and BREXIT are but two examples where the unexpected became the new reality literally overnight, creating the potential to trigger multiple, discontinuous disruptions over time.

But business leaders don't have to be caught like a deer in the headlights of uncertainty. Disciplined methods and a willingness to question the "most likely" scenario can create true resiliency—the ability to adapt quickly and confidently to potential disruption—where risk can indeed power your enterprise's strategy and performance.

Economic and geopolitical volatility create uncertainties. So, too, do changes in the deep-seated assumptions that drive business strategies. But what happens when the truly unexpected occurs? When models, simulations, and forecasting all fail critically? Typically one of two things: denial or paralysis. Both are understandable, but they do nothing to help an organization maintain or gain competitive advantage. There is a potential upside, however, for organizations with the foresight to mobilize in light of disruptive scenarios.

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BREXIT took the world by surprise

Such was the case with the referendum in which UK voters unexpectedly elected to leave the European Union. The so-called "BREXIT" and its economic, political, and cultural knock-on effects created a disruptive scenario in which leaders scrambled to understand exactly how their business models might weather the transition to a UK outside the EU.

Some impact was immediate: The pound lost about 16 percent of its value against the dollar.[1] What remains less clear are the short-, medium-, and longer-term effects of BREXIT, which could result in a series of disruptions over many years. Regulatory shifts are imminent. But what's more unpredictable are business model consequences as competitors realign their strategic positions to the new—and as yet unknown—landscape.

Enterprises will continue to struggle as the aftershocks of the unprecedented move unfold. Those that recognize the complex geopolitical variables and develop a plan of attack should be better positioned in the evolving UK and EU marketplace. Others that sit on the sidelines may see opportunity pass them by.

Ask the tough questions: US geopolitical uncertainty is in the air

Today, more uncertainty and potential disruptive events are on the horizon. Where forecasting and modeling might have helped in the past, recent events show their limitations all too clearly. Relying solely on past patterns as a guide to future possibilities isn't enough. Exploring a broader range of outcomes through scenario planning or related processes may be needed to combat the tendency to mistake the unfamiliar for the impossible. Newly urgent questions that can help move past yesterday's assumptions could include:

- What will the change in political leadership mean to current geopolitical agreements or economic and fiscal policy? What assumptions are likely to remain and what may change significantly?
- How might one predict what campaign rhetoric will be enacted and translated to new policy? What could surprise us, either positively or negatively?
- Will there be a rise in nationalism or new trade tensions? How will that impact US trading positions or the perception of US brands and US-based companies in a global marketplace?
- How might new policies drive government spending and investment?
- What should organizations do to scan for signals and potential disruptors?

The challenge for leaders today is two-fold: They must look for variables beyond their immediate control, and they must test the assumptions upon which their strategies are based. To address this, executives must first create the capability to spot, assess, and manage emerging challenges and risks to the business. This will allow leaders to develop well-thought-out models to better test prospective risks.

Think the "unthinkable" and get ready to act

One key challenge in leveraging risk is assigning and interpreting probabilities, rather than simply ranking or broadly assessing the likelihood of the risk event (e.g., high, medium, low). For example, the day before the election, major news organizations with sophisticated data analytics teams gave Donald Trump a 15 percent chance of winning, which caused many to conclude that he had practically no chance. In other words, complex data-driven assessments and forecasting models actually created a misunderstanding of what was happening. This is another way leadership may fail to see a looming disruption: Once a low probability is assigned, that's often taken as permission to not pay very much attention to it.

Just as important, the discovery of risk without response is little more than entertainment. While you might be better informed, you're not necessarily better prepared. This should be what keeps many executives up at night. Addressing this disconnect is crucial in building a resilient enterprise, as past examples demonstrate.

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1 "BREXIT Results Prove Increasingly Costly To Britons," *NPR Morning Edition*, October 11, 2016, http://www.npr.org/2016/10/11/497487391/brexit-results-prove-increasingly-costly-to-britons

Be proactive in your view of risk
Organizations that weather disruption are those that not only effectively assess the risk, but understand what to do about it once the risk event takes place. In short: If properly addressed, the way that organizations anticipate, prepare for, manage, and respond to risk can empower business performance. What's negative for some companies can be a positive source of strength and competitive advantage for others.

The ability to understand risk has come a long way in recent years. Advances in sensing and analytical technology, better modeling, and an interdisciplinary approach to proactively and continuously "scanning" for new and emerging signals of change have enhanced the assessment of risk. (Although interpretation is still key.) Leaders who tap into this capability can take a much more dynamic view and continuously track change in the environment that would affect the future of their businesses. But that isn't enough, especially when trying to spot and prepare for the kind of change that defies the models or has no real precedent.

Broaden your view of disruption
An enduring lesson is that scanning, evaluating and, when necessary, adapting to risk should be key parts of an enterprise's business strategy. Executives and their teams must constantly challenge their own assumptions about what could disrupt their industry. And they must work to think about the broader context, considering adjacent industries, for example, and other trends beyond their immediate business environment. Gauging your environment holistically, based on geopolitical, ecological, and social factors, among others, is a key consideration when building a clear and comprehensive risk assessment.

Although factors related to risk can change quickly and broadly, what appears to happen "overnight" usually has roots that were overlooked or discounted until too late. With hindsight, we can look back and see what we missed. What, if anything, would make leaders take these clues seriously—and notice them earlier?

What you can do to create resiliency
It's easy to get caught up in, and be intimidated by, the complex and ever-changing factors that pose risk to your enterprise. Still, the downsides of ignoring risk can be far more complicated than trying to understand it (and manage it).

Here's what savvy enterprises can do to embrace risk and build resilience:

- Bring risk into decision making and strategy setting
- Accelerate the discovery of risk and disruption
- Scan the horizon ruthlessly
- Confront your known biases (and challenge those of your team) that could tie your organization to conventional wisdom or keep you from spotting surprise
- Prepare for surprise

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