Predicable Surprises

The disasters you should have seen coming, and how to prevent them
I. Predictable Surprises

- **Predictable surprise**: An event or set of events that take an individual or group by surprise, despite prior awareness of all the information necessary to anticipate the events and their consequences.
  
  o Predictable surprises occur regularly in organizations, both public and private.

- Since the stakes are so much higher, and the risks potentially so much greater, for large groups – whether teams or organizations, local or national governments – one of the main responsibilities of leadership must be to identify and avoid predictable surprises.

- Most leaders recognize growing systemic weaknesses in their organizations that have the potential to flash into major crises over time.
  
  o Visionary and courageous leaders avoid tragedies by both anticipating and taking steps to mitigate the damage of such threats.
  
  o But far too many leaders are predictably surprised...

- It can be argued that given the information that was potentially available, a responsible leader should have anticipated a surprise and worked to prevent it.
I. Predictable Surprises

• Leaders need to confront predictable surprises in their organizations.
  
  o The challenge: While many leaders can identify the predictable surprises in their organizations, they are likely to overlook the potential magnitude of such problems.

• Need to distinguish between unpredictable and predictable surprises.
  
  o Unlike an unpredictable surprise, a predictable surprise arises when leaders unquestionably had all the data and insight they needed to recognize the potential for, even the inevitability of, a crisis, but failed to respond with effective preventative action.

II. Six characteristics of predictable surprises

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1. Leaders knew that a problem existed and that the problem would not solve itself.

2. Predictable surprises can be expected when organizational members recognize that a problem is getting worse over time.

3. Fixing the problem would incur significant costs in the present, while the benefits of action would be delayed.
   o Individuals, organizations, and governments have a strong tendency to discount the future.
   o It seems to be counterintuitive to spend scarce resources now to prevent an ambiguous and merely potential harm from occurring in the future.
II. Six characteristics of predictable surprises

4. (Like #3) Addressing predictable surprises typically requires incurring a certain cost, while the reward is avoiding a cost that is uncertain but likely to be much larger.
   - Leaders can expect little credit for preventing predictable surprises...
   - Measures aimed at avoiding predictable surprises require costs that will be noticed, yet leaders will not be recognized and rewarded for the disasters they help avert. For this reason, they may have little motivation to work to prevent predictable surprises and may choose instead to cross their fingers and hope for the best.

5. Leaders, organizations, and nations often fail to prepare for predictable surprises because of the natural human tendency to maintain the status quo.
   - Above and beyond concerns about cost and time requirements of change, when a system still functions and there is no crisis to catalyze action, we will keep doing things the way we have always done them.
   - Acting to avoid a predictable surprise requires a decision to act against this bias and change the status quo.
II. Six characteristics of predictable surprises

5. (cont’d).
   - By contrast, most organizations change incrementally, preferring short-term fixes to long-term solutions.
   - To avoid predictable surprises, leaders must make the case for change and eliminate the status quo as an option.

6. Unfortunately, in many instances, a small vocal minority benefits from inaction and is motivated to subvert the actions of leaders for their own private benefit.
   - In many instances, while people, organizations and nations are often desperate for leaders to take decisive action on an issue, special-interest groups that benefit from the status quo will fight hard to block reform...
• Why do leaders so commonly fail to act on predictable surprises?
  o People tend to hold positive illusions that lead us to interpret events in an egocentric manner and to undervalue risks.
  o Our natural tendency to discount the future reduces our willingness to invest now in order to prevent a disaster that may be quite distant and vague.
  o People tend to try to maintain the status quo, creating a barrier to the concrete and often large-scale changes that are needed to head off predictable surprises.
  o Most are more willing to run the risk of incurring a large but low-probability loss in the future rather than accepting a smaller, sure loss now.
    ▪ We don’t’ want to invest in preventing a problem that we have not experienced and cannot imagine with great specificity. Thus, far too often, we only address problems after we have experienced significant harm.

• To head off predictable surprises, we must understand the **barriers** that stand in the way of their prevention.
III. Why don’t we act on what we know?

• Research has shown that human judgment and decision-making can and does deviate from rationality.

• There are five biases that are most clearly responsible for predictable surprises:

  1. **We tend to have positive illusions** that lead us to conclude that a problem doesn’t exist or is not severe enough to merit action.
     
     o Most people view themselves, the world, and the future in a considerably more positive light than is objectively justified or than reality can sustain.

     o People can be biased in how they explain the causes of events, taking a disproportionately large share of the credit for successes and accepting too little responsibility for collective failures.

     ▪ “Victory has a thousand fathers, but defeat is an orphan.”

     o Self-serving attributions can motivate leaders to reach the false conclusion that the efforts they have already made toward preventing a predictable surprise are sufficient and that no further action is necessary.

     o Self-enhancement biases can extend to the groups to which individuals belong (“We are better than them...”).
III. Why don’t we act on what we know?

2. We tend to interpret events in an egocentric manner. That is, when considering the fairness of proposed solutions to a looming crisis, we allocate credit and blame in ways that are self-serving.

   - While related to positive illusions, egocentrism focuses on how one’s viewpoint leads one to interpret information in self-serving ways. In other words, egocentrism concerns the biased and preferential interpretation of events, and it highlights the difficulty of determining what is considered “fair.”

   - The problem: Our inability to interpret information in an unbiased manner (“What’s in it for me…”)

3. We overly discount the future, reducing our courage to act now to prevent some disaster that we believe to be quite distant.

   - Rather than consciously evaluating options from a long-term perspective, people tend to focus on short-term considerations.

   - At an individual level, we overly discount the future in ways that we are likely to regret later.
III. Why don’t we act on what we know?

3. We overly discount the future (cont’d)
   - At a organization/societal level, the problems brought about by this tendency are more severe.
     - Effective leaders must have the necessary vision to convince organizations and societies that it must act to maximize long-term welfare.
   - A critical aspect of most predictable surprises is that managing them requires the investment of resources now in return for some future, uncertain reduction to loss.
   - When a problem becomes so big that it can no longer be denied, wishful thinking leads us to blame others and let ourselves off the hook.

4. We tend to maintain the status quo, and refuse to accept any harm that would bring about a greater good.
   - In other words, we are reluctant to accept that some dramatic change will occur if we fail to address a mounting problem.
   - Rather than confronting unpalatable choices, we avoid action altogether.
   - Individuals, organizations, and nations tend to follow the often-heard maxim: “Do no harm.”
III. Why don’t we act on what we know?

4. We tend to *maintain the status quo* (cont’d)
   - As a society, we are much more prone to make errors of omission (doing nothing) than errors of commission (causing harm).
   - Related to the omission bias is the innate human tendency to maintain the status quo: People are unwilling to give up that they already have – their “endowment” – for a better set of options.
   - The tendency to keep our heads in the sand is understandable, but not acceptable...

5. Most of us don’t want to invest in preventing a problem that we have not personally experience or witnessed through *vivid data*.
   - Far too often, we only fix problems after we ourselves experience significant harm or after we can clearly imagine ourselves, or those close to us, in peril.
   - When an individual judges the frequency with which an event occurs by the availability of its instances, vividness matters: An event whose instances are more easily recalled will seem to be more frequent than an event of equal frequency whose instances are more difficult to recall.
III. Why don’t we act on what we know?

5. Most of us don’t want to invest in preventing a problem that we have not personally experience or witnessed through vivid data (cont’d)

- In many real-life situations, people fail to act until confronted with vivid data.
- In the case of predictable surprises, action is required to avoid the disaster, but until the disaster occurs, the need for change is not vivid.
  - Without the vividness of an actual disaster, leaders may fail to take the necessary action.

- **Summary:**
  - These biases are the most fundamental, innate sources of predictable surprises.
  - The errors work together, and they work in conjunction with other organizational and political factors.
How can organizations avoid being predictably surprised?

Organizations must efficiently and effectively engage in four critical information-processing tasks:

1. **Scan the environment** and collect sufficient information regarding all significant risks.
2. **Integrate and analyze information** from multiple sources within the organization and outside stakeholders to produce insights that can be acted upon.
3. **Respond in a timely manner** and observe the results.
4. In the aftermath, **reflect on what happened and incorporate lessons-learned** into the “institutional memory” of the organization, in order to avoid repetition of past mistakes.

Organizations become vulnerable to predictable surprises when one or more elements of this information-processing system break down.

Predictable surprises arise when organizations experience the following four types of failures:
1. Scanning failures: Occur when organizations fail to collect available information about emerging threats. There are three types of scanning failures:

   a. Selective attention.
      - Beliefs about what is “possible” or “impossible” can lead key members of the organization to focus their attention on certain problems, while allowing more serious ones to develop in plain sight.
      - Scanning failures also occur when decision-makers discount or ignore evidence that does not fit with their beliefs.
      - When multiple, potentially competing sources of information and analysis exist within an organization, leaders may “cherry pick” among them, choosing to listen to assessments that fit what they want to hear and tuning out dissonant opinions.

      - For example: “Cruise ships are their own best lifeboats.”
      - Impact: This can contribute to crippling self-censorship among those charged with identifying potential threats.
1. Scanning failures (cont’d)

b. Noise.

- This scanning failure occurs when signals associated with a threat are masked by a high level of background noise, which either emerges naturally from the environment or is intentionally created by an adversary aiming to confuse organizational leaders.

- **Signals**: Clues, indications, or other evidence of an impending crisis.

- **Noise**: Conflicting information that points to other critical problems or explanations for the threat.

- When the signal-to-noise ratio is LOW, it becomes difficult for the best analysts to discern genuine threats from false indications.

- **The signal-to-noise problem is further compounded by the organizational consequences of repeated false alarms.**

- Analysts tend to be over reactive, which causes multiple false alarms. These false alarms create an immunization – fatigue on the part of other organizational members, and a desire among analysts not to raise another false alarm...
1. Scanning failures (cont’d)

b. Noise (cont’d).

- When those responsible for scanning the environment move from being over reactive to being under reactive, the organization will fail to recognize a true threat when it ultimately arrives.

c. Overload.

- Those responsible for the environment can also suffer from information overload, which keeps them from recognizing the full range of potential threats.

- Result: Their efforts either become too diffuse to be useful, or they are forced to ignore “lower priority” areas. In either case, the organization fails to see an emerging threat until it is too late.

- When stressed by overload and forced to focus their resources, the mind-set of key people in the organization can create serious vulnerabilities.
2. Integration failures: Adequate scanning is just the first step toward preventing a predictable surprise. Leaders must make sure that the information gathered is effectively integrated and analyzed. There are two types of integration failures:

a. Silos.

- Integration failures are typically caused by the existence of distinct “silos” of expertise and information flow within an organization – storehouses of valuable resources that others in the organization cannot access.

- The simplest type of integration failure occurs when various members of an organization have pieces of the puzzle, but no one has them all, and, critically, no one knows who knows what.

- Bottom line: An organization’s knowledge never equals the sum of its member’s knowledge.

- Various parts of the organization may have all the information necessary to perceive and prevent a predictable surprise, but no person or unit is capable of putting it all together.

- Senior management should play the role of synthesizer, compiling the fragmented information into “the big picture.”
IV. Organizational roots

2. Integration failures (cont’d)

a. Silos (cont’d).

 But the barriers to this are great.

 Organizational members filter information as it rises through hierarchies. The temptation to withhold or gloss over sensitive, confusing, or embarrassing information is great.

 Those at the top inevitably receive incomplete and distorted data, and overload may prevent them from keeping up-to-date with incoming information.

b. Secrecy.

 Sometimes information gathered through environmental scanning and analysis seems too sensitive to be shared broadly within an organization – which can cause problems.
3. Incentive failures: An organization’s leaders may have actionable insights about impending predictable surprises, but lack sufficient incentives to prevent them.

- Incentives are an excellent predictor of the behavior of individuals within organizations.

- Incentive failures occur when people in the organization have the requisite insight needed to prevent emerging problems, but fail to do so either because they lack an incentive to take action or, even more maliciously, because they have an incentive to cause the organization harm.

- There are three types of incentive failures:

  a. **Collective action problems.**

     - Organizational members often confront situations in which their individual incentives encourage them to act in a manner that harms the organization as a whole, and thus contributes to predictable surprises.

     - One major class of incentive failures is known as **collective action problems**: people are collectively better off if they cooperate and contribute to solving (or avoid creating) a problem, but have individual incentives not to cooperate.

     - Efforts to create or preserve social value fail in the fact of individuals claiming value for themselves.
3. Incentive failures (cont’d)

a. Collective action problems (cont’d).

- Defection – choosing not to cooperate and looking out exclusively for one’s own interest – occurs in organizations as well as individuals.

  - Trust is one antidote to the problem, but it can be difficult to build and sustain.
  - Another remedy is the ability to punish those who defect.

- Members of an organization may also take a “free ride” in the hope that others will assume responsibility for emerging problems.

  - Organizational silos disperse responsibility as well as information.
  - Sometimes everyone behaves as if someone else were in charge of heading off looming problems, and no one feels compelled to act.
  - This situation becomes especially dangerous when organizational members perceive that taking preventative actions will yield them little reward if they are right and significant penalties if they are wrong.
3. Incentive failures (cont’d)

a. Collective action problems (cont’d).

- Organizational decentralization also can play a role in exacerbating collective action problems.
  - Leaders of decentralized units are often explicitly rewarded for pursuing parochial interests, but not for looking out for the good of the larger organization.
  - Decentralization is not a problem when a crisis falls within the scope of defined units.

- Notably, predictable surprises often play out over time frames substantially longer than the typical tenure of organizational leaders.
  - This creates a variation on the “free-rider” problem.
  - “Why,” a leader might ask, “should I be the one to grapple with this problem and take all the heat when nothing is likely to go wrong during my watch? Better to focus on my short-term goals and reap the rewards.”
3. Incentive failures (cont’d)

b. Conflicts of interest: People have incentives to take actions that can be expected to benefit them (at least in the short term) but harm people or groups whose interests they ostensibly represent.

- The classic conflict of interest: principal-agent problem.

- While agents can provide their clients with invaluable advice and service, a fundamental problem is built into the principle-agent relationship: An agent is likely to have his own distinct interests – oftentimes financial – which he may illegitimately seek to advance at the expense of the principal’s interests.

- Conflicts of interest can render an organization vulnerable to predictable surprises.

c. Illusory consensus.

- It is all too easy to treat lack of active opposition to a course of action as positive support.
3. Incentive failures (cont’d)

c. *Illusory consensus (cont’d).*

- Those who harbor doubts may keep quiet because they assume that decision makers are armed with better information, or because they want to avoid being held accountable for mistakes.

- As soon as a predictable surprise occurs, however, those who were silent suddenly have an incentive to distance themselves from failure by going public with their concerns.

- The mirror image of the “illusion of consensus” problem is the problem of “suppressed dissent.”

  - Suppressed dissent can arise when one part of an organization is vested with too much responsibility for a particular issue and seeks to retain its primacy.

  - In such situations, other parts of the organization, including those with important information or perspective to add, aren’t consulted or may even be actively pushed out of the decision-making process.

  - The result? Too narrow a perspective is brought to bear on the issue, and potential problems go unrecognized or are given too low a priority.
3. Incentive failures (cont’d)

c. Illusory consensus (cont’d).

- Illusory consensus is closely compatible with the concept of groupthink, which describes how members of an organization suppress their critical doubts and allow the false appearance of a consensus to emerge.

4. Learning failures: Organizations suffer learning failures either when they fail to learn from experience or to disseminate lessons within the organization, or when hard-won knowledge is lost through erosion of institutional memory. There are two types of learning failures:

o The predictable result of failures of knowledge creation and preservation is the unnecessary reoccurrence of problems that the organization has previously confronted.

a. Organizational learning disabilities.

- In the aftermath of an organizational crisis, leaders have the opportunity to reflect on the experience and generate “lessons learned,” which can then be disseminated throughout the organization.
IV. Organizational roots

4. Learning failures (cont’d):

   a. Organizational learning disabilities (cont’d).

   - Lessons can be taught to individuals in the form of cause-and-effects models and rules of thumb, or they may be codified into more formal guidelines, checklists, procedures, and processes.

   - Organizations suffer from “learning disabilities” when leaders miss out on opportunities to reflect and codify the lessons generated from past mistakes.

     - Even when leaders do capture lessons-learned, they may fail to disseminate these lessons appropriately within the organization.

     - Learning disabilities emerge when key lessons are not translated from the point of generation back to the front lines.

     - Organizations often fail to learn from past mistakes because they lack the mechanisms needed to share and codify, to the greatest extent possible, key lessons-learned.

   - Such failures may occur because the organization is in a state of overload.
IV. Organizational roots

4. Learning failures (cont’d):

   a. Organizational learning disabilities (cont’d).

      □ Organizations in a reactive, “firefighting” mode can become trapped in a permanent state of crisis-response that impedes learning.

      □ When organizations are driven to the point where they have to repeatedly “patch” serious problems, because they lack the time to identify and correct underlying root causes, the stage is naturally set for predictable surprises.

         ▪ Organizations can identify and learn from their mistakes by conducting post-crisis reviews.

   b. Memory loss.

      ▪ Even when an organization is diligent enough to capture and disseminate lessons-learned from past crises, these lessons learned can slip through the cracks when another problem area emerges. Predictable surprises can occur when an organization fails to remember key lessons-learned from the past.

      ▪ Absent ongoing investment in preserving organizational memory, erosion will occur. It may be rapid or creeping, but it is inevitable.
4. Learning failures (cont’d):

b. Memory loss (cont’d)

- Organizations suffer memory loss every time an experienced employee leaves his or her job and is replaced by someone less experienced.

  - Explicit knowledge can be transmitted in written or verbal form, but tacit individual knowledge can only be transmitted from person to person, and this transmission takes time.

  - As a result, the loss of experienced personnel can be devastating.

- Any time that a significant change in personnel occurs – in a project, a team, or a critical organizational unit – important knowledge can be irretrievably lost.

- Leaders must therefore make knowledge preservation a core activity.

  - This means identifying when key transfers of personnel and responsibility occur in their organizations and intervening to make sure that thorough and accurate knowledge-transfer is high on the agenda.
IV. Organizational roots

4. Learning failures (cont’d):

b. Memory loss (cont’d)

- Leaders must therefore make knowledge preservation a core activity (cont’d)
  - Often this means pushing units to delay personnel shifts or to provide employees who can serve as the “bridge” between the unit that is passing on responsibility and the one that is taking it on.

5. Summary

- Failures in scanning, integration, incentives, and learning are key contributors to predictable surprises.
- A weakness in any link in this chain of information-processing renders an organization vulnerable.
- One of the problems is these failure modes also often compound and reinforce each other.
V. Preventing predictable surprises

• Overview
  o To prevent predictable surprises, leaders must enhance the capacity of their organizations to recognize emerging threats, prioritize action, and mobilize available resources to mount an effective preventative response.
  o Leaders must begin with an assessment of the adequacy of their organization’s systems for recognition, prioritization, and mobilization. We need to ask the following questions:
    ▪ Recognition: Should the threat have been recognized?
    ▪ Prioritization: If recognized, was the emerging threat prioritized appropriately?
    ▪ Mobilization: If prioritized, did the organization mobilize effectively to deal with the problem?
  o A prerequisite for surprise prevention is the personal involvement of the organization’s leaders in providing focus, energizing the organization, exercising judgment, and having the courage to take unpopular stands. But while strong personal leadership is essential, it is not sufficient. The organization itself must be made more responsive and resilient.
• Some disasters can’t be foreseen.
  o But in examining the unforeseen disasters that have stricken organizations, the vast majority should have been recognized.
  o Recognition failures are caused by some combination of cognitive and organizational vulnerabilities.
  o Cognitive biases may blind individuals to emerging threats.
  o Organizational factors may prevent the necessary integration of information until it's too late.
  o To avoid recognition failures, leaders must strive to mitigate the impact of biases and to ensure that organizational resources are appropriately allocated.

1. Individual recognition failures
  o Individual recognition failures occur when organizational leaders remain oblivious to an emerging threat or problem.
  o Positive illusions, self-serving biases, and the tendency to discount the future may prevent people from acknowledging that a problem is emerging. If their state of denial is strong enough, they may not even “see” the storm clouds gathering.
VI. Recognition
(Identifying emerging threats earlier)

1. Individual recognition failures (cont’d)
   - Even if leaders do see the storm clouds gathering, they may downplay the likelihood and significance of ominous developments.

2. Organizational recognition failures
   - While individuals may recognize key pieces of the puzzle, failures of environmental scanning and information integration may prevent the organizations they belong to from perceiving dire emerging threats.
   - Organizations often possess all of the information they need to recognize emerging problems, but fail to “connect the dots” among employees and departments.
   - Different divisions of the organization may possess separate pieces of the puzzle, while the organization as a whole lacks the personnel and systems necessary to integrate and distill them into actionable insights.

3. Tools for enhancing problem recognition
   - To increase their likelihood of recognizing emerging threats, leaders must establish and institutionalize effective early-warning systems in their organizations.
   - There are four techniques that can be used to improve an organizations ability to recognize looming predictable surprises in time to take corrective action.
3. Tools for enhancing problem recognition (cont’d)

a. Technique #1: Measurement system redesign.

- Measurement systems are implemented to track performance of an organization
- Measurement systems exert a powerful influence on human behavior: “You can’t manage what you don’t measure.” However:
  - Problem #1: Organizational members tend to focus too narrowly on whatever the organization measures, especially when these measures are used as a basis for individual rewards.
  - Problem #2: People tend to ignore, and perhaps not even “see” that which the organizations does not measure, especially if they have no incentives to pay attention to these unknown quantities.

- A number of common measurement problems can contribute to predictable surprises:
  - The organization engages in measurement activities either infrequently or too frequently. Lack of measurement may keep the organization from being adequately warned about a predictable surprise. Overly frequent measurement can mask the magnitude of changes that are occurring because each incremental rise or fall appears to be small and creates a new baseline.
VI. Recognition
(Identifying emerging threats earlier)

3. Tools for enhancing problem recognition (cont’d)

   a. **Technique #1: Measurement system redesign (cont’d).**

      - The organization has inadequate triggering and response procedures. If the organization does not establish appropriate thresholds, or rules that determine when changes in key measures trigger action, it risks either under responding to significant changes or over responding to statistically insignificant fluctuations.

      - The implications of these pitfalls is that leaders should (1) refocus organizational attention on areas in which they believe predictable surprises may be lurking; and (2) carefully decide upon measurement frequency and triggering thresholds.

      - The goal of refocusing attention on problem areas can be achieved by defining new metrics and disciplining the organization to pay attention to them.

   b. **Technique #2: Intelligent network building.**

      - While it is impossible to eliminate all internal barriers to information sharing within an organization, it is possible to mitigate their impact by establishing cross-organization intelligence-gathering networks.

      - Leaders should establish one or more dedicated cross-functional teams responsible for collecting and synthesizing relevant information from all corners of the organization.
VI. Recognition
(Identifying emerging threats earlier)

3. Tools for enhancing problem recognition (cont’d)

   b. Technique #2: Intelligent network building (cont’d).

   ▪ To effectively avoid surprises, leaders must also focus on building networks for personal intelligence-gathering and analysis.
   ▪ Too often, leaders’ beliefs about the potential challenges facing their organizations are based solely on their intuition.
   ▪ By assembling a set of knowledgeable advisors from both inside and outside the company, leaders can test and refine their early impressions and help counter their own unconscious biases.

   c. Technique #3: Scenario planning.

   ▪ Scenario planning is a structured technique for envisioning and analyzing alternative visions of the future and the implications of those visions for the organization.
   ▪ The goal of scenario planning is to help organizations identify and quantify risk, so that they neither take on unrecognized risks nor, critically, become overly risk-averse.
VI. Recognition
(Identifying emerging threats earlier)

3. Tools for enhancing problem recognition (cont’d)

c. Technique #3: Scenario planning (cont’d).

- Scenario planning can be an informal process.
  - Ask yourself and others within the organization: “What predictable surprises are currently brewing in our organization?”
  - This question may seem obvious, but it’s rarely asked.
  - Members are often aware of approaching storms but choose to keep silent, often out of fear of rocking the boat or being viewed as troublemakers.
  - By actively encouraging people to speak up, leaders can bring to the surface problems that might otherwise go unmentioned.
  - Anonymous polls can also be sued to help uncover emerging problems.

- Formal scenario planning process
  - A knowledgeable and creative group of people from inside and outside (to keep the insiders honest) the organization reviews organizational strategies, digest available information on external trends, conduct interviews, and identify alternative futures and potential discontinuities.
VI. Recognition
(Identifying emerging threats earlier)

3. Tools for enhancing problem recognition (cont’d)

c. Technique #3: Scenario planning (cont’d).

- Based on this analysis, the group constructs a plausible set of scenarios – both positive and negative – that could emerge in a given period (e.g., 2-3 years) both inside and outside the organization.

- Experts in scenario planning recommend that such exercises be conducted annually and that formal updates of changes in the organization and its environment be scheduled every quarter.

d. Technique #4: Disciplined learning processes.

- Not all emerging threats are novel: often the organization has confronted some version of the problem before.

- If the organization is effective at learning and at preserving institutional memory, emerging patterns may trigger early recognition of looming problems in time to mount an effective preventative response.

- Organizations that suffer from learning disabilities or disabling memory loss are less likely to recognize emerging threats. In this case, the organization may be doomed to fall prey to the same kind of problem over and over again: a predictable surprise.
3. Tools for enhancing problem recognition (cont’d)

d. Technique #4: Disciplined learning processes (cont’d).

- Each surprise provides an opportunity for organizational learning. But organizational barriers can impede this learning, and institutional mechanisms must be in place for it to occur.

- Leaders can strengthen their organization’s early-warning capabilities by institutionalizing organizational learning and memory preservation systems.

- After any significant, unexpected event or crisis, a thorough “after-action” review should be conducted. The questions guiding such review should be

  - Why did the surprise occur?
  - What were the highlights and drawbacks of the organization’s response to the surprise?
  - What are the key lessons learned?
  - What changes need to be made to the organization’s procedures and support resources to prevent a reoccurrence?
VI. Recognition
(Identifying emerging threats earlier)

3. Tools for enhancing problem recognition (cont’d)

d. Technique #4: Disciplined learning processes (cont’d).

☑ The results of this review must then be integrated into the organization’s management practices.

☑ Document the results to ensure that lessons learned are disseminated throughout the organization.

• From recognition to prioritization.

  o Recognition is the first essential link in the chain that leads to the prevention of predictable surprises.

  o Once recognized, leaders then must make preventative action a priority in the midst of a noisy environment rife with competing priorities.

  o The potential for emerging threats to be recognized but not prioritized is considerable.

  o Leaders must then make prevention an individual and organizational priority.
VII. Prioritization
(Focusing on the right problems)

1. Individual prioritization failures
   - Given the level of **background noise** – the many potential distractions that bombard senior executives each day – prioritization is arguably the biggest challenges they face.
   - The key is to identify and focus on critical priorities and investigate them in an open and disciplined manner.

2. Organizational prioritization failures
   - If individuals can fall prey to prioritization failures, it should come as no surprise that organizations, whether made up of dozens or thousands of members, are even more susceptible.
   - Incentive systems, collective-action problems, and conflicts of interest can lead members of organizations to pursue the wrong priorities, and set the stage for predictable surprises.

3. Beyond recognition: Strengthening priorities
   - To successfully move from recognition to prioritization, leaders must focus their attention as individuals on setting priorities.
   - There are three techniques that can help provide a foundation for organizational priority-setting tasks.
3. Beyond recognition: Strengthening priorities (cont’d)

a. Technique #1: Structuring dialogue.

- Appropriate priorities emerge from healthy debate within senior management teams in organizations.
- Unfortunately, the barriers to productive debate are considerable.
- The courses of action that would prevent predictable surprises often create winners and losers in organizations; budgets must be expanded in some areas and cut in others, favorite projects must be shelved, and the distribution of power among organizational units and individuals inevitably shifts.
- When an effective response is likely to generate winners and losers, debate unfortunately tends to degenerate into unproductive advocacy of the positions of entrenched constituencies.
- Passions can flair as individuals stand firm on cherished positions. To shift decision making dialogue from advocacy for a cherished position to inquiry, leaders must impose structure on debated-over alternatives.
3. Beyond recognition: Strengthening priorities (cont’d)

a. Technique #1: Structuring dialogue (cont’d).
   - One such approach, “dialectical inquiry,” involves dividing a team into two subgroups that develop alternative courses of action.
     - The groups then come together to debate the merits of each plan.
     - Under the “devil’s advocacy” method, the team’s leader can assign an individual member to observe and critique advocates’ positions on different courses of action.
     - Such methods help ensure that even low-status team members can express their views.

b. Technique #2: Decision analysis.
   - Rigorous decision analysis combines a systematic assessment of the probabilities of future events with a hard-headed evaluation of the costs and benefits of particular outcomes.
     - It can be an invaluable tool in helping organizations overcome the biases that hinder them in estimating the likelihood of unpleasant events.
3. Beyond recognition: Strengthening priorities (cont’d)

b. Technique #2: Decision analysis (cont’d).

- Decision analysis begins with a clear definition of the decision to be made, followed by an explicit statement of objectives and explicit criteria for assessing the “goodness” of alternative courses of action, by which we mean the net cost or benefit as perceived by the decision-maker.

- The next steps involve identifying potential courses of action and their consequences (also known as “decision tree analysis”).

- Finally, decision-makers must assess and make trade-offs based on the potential costs and benefits of different courses of action.

- To conduct a proper decision analysis, leaders must carefully quantify costs and benefits, their tolerance for accepting risk, and the extent of uncertainty associated with different potential outcomes.

  - These assessments are inherently subjective, but the process of quantification is nonetheless extremely valuable; it forces participants to express their assumptions and beliefs, thereby making them transparent and subject to challenge and improvement.
b. Technique #2: Decision analysis (cont’d).

- Decision analysis is particularly beneficial in focusing decision-makers’ attention on outcomes that are low in probability but very high in potential costs.
- In the absence of rigorous quantification of costs, benefits, probabilities, biases (e.g., positive allusions), self-serving assessments, and the tendency to discount the future lead decision-makers to downplay these low-likelihood yet potentially catastrophic events.
- Decision analysis also compels groups to discuss and reach consensus on the decision to be made and its associated objectives, alternatives, consequences, trade-offs, and risks.
  - It is a natural complement to scenario planning, which helps to identify potential outcomes or events that might not otherwise have been recognized.
  - Decision analysis provides a sound basis for assessing the implications of various scenarios and planning preventative action.
- Effective decision analysis must include an awareness of the decision biases that affect the decision-making process, lest biased inputs result in a biased analysis.
3. Beyond recognition: Strengthening priorities (cont’d)

c. Technique #3: Incentive systems redesign.

- An understanding of what needs to be done to avoid a predictable surprise does not necessarily translate into preventative action.

- Key members of an organization may either lack the incentives to take action, or their self-interest may lead them to contribute directly to the genesis of a predictable surprise.

  - For these reasons, leaders must pay close attention to the design of organizational incentive systems.

- Organizational members should have the incentive to make decisions that are good for the organization as a whole rather than decisions that benefit only particular individuals or members of specific units.

  - In addition, conflicts of interest involving people outside the organization (advisors and other interested parties) should be identified and eliminated.

- These seemingly straightforward principles become complicated in execution.
3. Beyond recognition: Strengthening priorities (cont’d)

   c. **Technique #3: Incentive systems redesign (cont’d).**

   - Individual incentives can never be completely aligned with the best interests of institutions or society, to the extent that those interests can be defined at all.
   - Likewise, it is impossible to completely eliminate conflicts of interest for all of the people who permeate the boundary of an organization.

   - In organizations, the issue of whether to reward individual or group performance and whether to provided fixed or incentive-based rewards looms large.

   - When success depends heavily on group cooperation, an organization that rewards individuals can run into trouble.

   - Hand out too many bonuses, and individuals may do whatever it takes to “hit the numbers.” Or, employees who lack adequate incentives can become a drain on a company.

   - Designing incentive systems that effectively calibrate this delicate scale is a challenge, but failing to do so can be fatal.
VII. Prioritization
(Focusing on the right problems)

• Success in moving from recognition to prioritization sets the stage for the final element of the RPN model – mobilization.

• Leaders seldom have the direct authority to translate their priorities into action. Therefore, if they are to prevent predictable surprises, they must persuade, negotiate, and build coalitions.

VIII. Mobilization
(Building support for preventative action)

• Mobilization failures occur when leaders recognize impending predictable surprises and acknowledge that action to avoid the surprise should be a priority, but fail to do their utmost to mobilize a preventative response.

• Potent organizational and political barriers can impede the mobilization to forestall predictable surprises.
• Organizations tend to embrace continuity and stability – often for good reasons, such as employee and customer loyalty.
  o But malicious incentives, collective action problems, or simple inertia can stand in the way of needed action, rendering the organization vulnerable to a crisis.

• On the political side, people with vested interests will predictably organize to defend their prerequisites, creating coalitions and lobbies that seek to block action.

• When an emerging threat has been determined to have serious potential consequences, leaders must mobilize to prevent it.
  o This means marshaling support, educating important external constituencies, focusing the attention to key people in the organization, and making surprise prevention a personal priority.

1. Organization mobilization failures
  o Some organizations mobilization failures result from inaction on the part of leaders.
  o Others are the result of misguided mobilization of energetic efforts to confront serious problems that go badly awry.
VIII. Mobilization
(Building support for preventative action)

1. Organization mobilization failures (cont’d)
   - From others mistakes, a straightforward and general lesson for leaders hoping to prevent a predictable surprise: Avoid taking actions that could contribute more to the opposition’s mobilization than to mobilization of support for your own cause.

2. Political mobilization failures
   - In the political realm, special-interest groups contribute to predictable surprises by resisting mobilization for three primary reasons:
     a. *Loss of comfortable status quo:* People grow comfortable with their current situation, with its power and perquisites, and fight to preserve it.
     b. *Threats to self-defining values:* Needed changes may challenge traditional notions of what is valuable. As a result, people may fear that they will have to behave in ways that are antithetical to their self image.
     c. *Loss of sense of competence:* People fear they will fear incompetent in post-change environments and will be unable to perform as required.
3. The role of leadership

- The responsibility of leaders to recognize, prioritize, and mobilize to prevent predictable surprises must be stressed.
  - Of these, mobilization of the few in concerted opposition may be the most difficult task.

- Courage – the willingness to, as John F. Kennedy put it, “speak truth to power” – is one leadership quality that is indispensable in efforts to mobilize to prevent predictable surprises.

- This is not to say that individual leadership is sufficient to address all predictable surprises.
  - Leaders must have the wisdom to recognize when they are swimming against a floodtide and when the time is ripe for change.

4. Tools for accelerating mobilization

- While essential, individual courage is rarely sufficient to head off a predictable surprise.
4. Tools for accelerating mobilization (cont’d)

- Leaders must also be relentless in raising awareness and building support for needed action.
- Leaders can adopt a number of techniques to enhance their ability to mobilize to avoid predictable surprises.

a. Technique #1: Persuasive communication.

- Persuasive communication can be viewed as the use of data, argument, and analogy to create a favorable definition of the problem to be solved and the set of potential solutions.
- There are a number of classic tactics for persuasive communication:
  - *Invoking the common good*: This approach emphasizes the collective benefits, downplaying individual costs, and casting the stakes of action in terms of social responsibility.
  - *Linking choices to core values*: There is power in linking choices to the values that define self-identity.
VIII. Mobilization
(Building support for preventative action)

4. Tools for accelerating mobilization (cont’d)

a. Technique #1: Persuasive communication (cont’d).

- **Heightening concerns about loss or risk:** Desired courses of action should be cast in terms of potential gains or as risk reduction, and undesired choices should be cast in terms of potential losses or dangers.

- **Narrowing or broadening the focus:** A choice that could be construed as setting an undesirable precedent might best be framed as a highly circumscribed, isolated situation independent of other decisions. Other choices might be better situated within the context of a higher-level set of issues.

- **Enlarging the pie:** Choices perceived as win-lose propositions are particularly difficult to sell. Broadening the range of issues under consideration can facilitate mutually beneficial trades that “enlarge the pie.”

- **Repetition of resonant messages:** Simplifying the message makes it more memorable. Repetition, as long as it is not parrotlike, helps cement messages in target audiences. This principle underlies the use of “sound bites” on TV and radio.
4. Tools for accelerating mobilization (cont’d)

a. Technique #1: Persuasive communication (cont’d).

- Inoculating against expected challenges: Leaders need to inoculate their audiences against the arguments they expect their opponents to make. Presenting and decisively refuting weak forms of expected counterarguments immunizes audiences against the same arguments when they are advanced in more potent forms.

- Based on their analysis of the intended audience, leaders can draw selectively upon these techniques to get their message across.

b. Techniques #2: Coalition building.

- When leaders must mobilize people outside of their direct lines of control to confront a difficult problem – as is almost always case – they need to build coalitions.

- Coalition building is an essential component to change.

- Effective coalition building draws on the power of social influence.
4. Tools for accelerating mobilization (cont’d)

b. Techniques #2: Coalition building.

- Research in social psychology has established that people prefer making choices that enable them to:
  - **Remain consistent with strongly held values and beliefs:** They tend to share these beliefs with important reference groups such as peers or professional associations. People asked to engage in behavior inconsistent with their values or beliefs experience internal psychological “dissonance,” external social sanction, or both.
  
  - **Remain consistent with their prior commitments:** They do so because failure to honor commitments tends to incur social sanctions. People prefer not to make choices that require them to reverse themselves or that overtly constrain their future choices by setting undesirable precedents.

  - **Preserve their sense of control:** Choices that threaten one’s position in a social hierarchy and sense of control are likely to provoke anxiety.

  - **Repay obligations:** Reciprocity is a strong social norm; people are vulnerable to appeals for support that invoke past favors they have received.
4. Tools for accelerating mobilization (cont’d)

b. Techniques #2: Coalition building (cont’d).

- **Preserve their reputations**: Choices that preserve or enhance one’s reputation tend to be viewed favorably, while those that could jeopardize one’s reputation are viewed in a negative light.

- **Gain the approval of respected others**: These might include opinion leaders, mentors, and others to whom people look for clues about the “right” way to think.

  - In sum, people rarely make important choices independently; most are influenced by their networks of relationships and the opinions of key advisers.

  - Understanding these relationship networks and leveraging them to build momentum dramatically increases leaders’ ability to identify supportive coalitions.

  - Leaders hoping to avoid predictable surprises should also keep in mind that coalition *breaking* often is as important as coalition *building*.

  - Effective assessments of the strength of opposing coalitions can help to predict – and lessen – their impact.
VIII. Mobilization
(Building support for preventative action)

4. Tools for accelerating mobilization (cont’d)

c. **Techniques #3: Structured problem solving.**
   - Structured problem solving is one technique for fostering group learning.
   - It is used to sift through the alternatives to identify the best few.
   - It is a powerful tool because it fosters a deeper awareness in groups of the existence of predictable surprises.

d. **Technique #4: Crisis response organization.**
   - When crises do erupt, leaders must ensure that their organizations are ready to meet them. For this reason, effective leaders put in place the organizational structures, dedicated resources, and procedures necessary to respond rapidly to crises.
   - A rapid, centralized response requires a clear line of command and the ability to shift rapidly into “war-fighting mode.”
   - Without such preparation, the organization will respond incoherently and ineffectively.
4. Tools for accelerating mobilization (cont’d)

   d. Technique #4: Crisis response organization (cont’d).

     ▪ All but the smallest organizations should devote the resources necessary to set up dedicated crisis-response facilities and other infrastructure to respond to the emergency.

     ▪ Crises rarely occur exactly as they did in preparation scenarios.

       ❖ The danger exists that plans tailored to a rigid set of planning scenarios will prove “brittle” – unable to be rapidly adapted to the circumstances at hand.

       ❖ Flexibility must be built into an organization’s crisis-response routines.

     ▪ Why include crisis organization as a tool for preventing predictable surprises? The act of preparing for crises contributes to their avoidance.

       ❖ “One of the best ways to understand what you need to do before a crisis takes place is to understand what you need to do during its occurrence.”