Managing in an Unimaginable World

By José Santos, INSEAD

**Business leaders can leverage serendipity to help their companies deal with far-reaching market shocks.**

Every so often businesses face shocks that have unknown and unpredictable implications for the future performance of their existing strategy and business model.

In an increasingly global world, the repercussions of a significant shock – such as the Covid-19 pandemic – simply cannot be imagined. When the virus first started circulating, nobody could begin to fathom all the ways in which it would impact their businesses and personal lives.

In such instances, managers face a set of known unknowns (risks they are aware of) and unknown unknowns – a phrase popularised by former United States Secretary of Defense Donald Rumsfeld to describe the things “we don’t know we don’t know”. When known unknowns arise, managers have a good idea what their alternative strategy options look like, but don’t know which one will afford them future competitive advantage. But when managers face unknown unknowns, future strategic options are unclear and
In a recent research paper, my co-author Peter Williamson* and I propose a set of practical tools that managers can use to help their companies deal with unknown unknowns in the wake of external shocks.

Uncertainty in an emerging, global world

Many still consider globalisation to be a simple, linear and reversible connection of economies or aggregation of markets. According to conventional wisdom, as the world globalises, countries become more similar, borders disappear and the world becomes one market. But globalisation is no longer linear, nor predictable and it is certainly not reversible.

We are living in an emerging, global world. While the flow of goods has slowed with more pronounced patterns of deglobalisation, the flow of information, ideas and data across borders is increasing like never before. Living through this new phase of globalisation means also coping with extreme uncertainty.

The Covid-19 pandemic is a prime example of a shock to the business environment that left companies, customers, suppliers, consumers and even governments and regulators not knowing how they could – or should – respond. Yet it also led to unparalleled levels of international cooperation to develop efficient vaccines in record time. This kind of scientific breakthrough could only occur in a global world.

But discovering unexpected opportunities to adapt to or shape the future market of the business is not an easy task. When it is unclear what the repercussions of a given shock will be, and who will change their behaviours and how, you need serendipity to point you in an unexpected new strategic direction.

We have observed three ways in which a company can increase the odds of a serendipitous discovery following a significant shock:

Look for serendipity in your operational responses to unforeseen events

Operational staff are often forced to improvise when dealing with new challenges that established processes and procedures can no longer handle.
Some of these “work arounds” may reveal serendipitous opportunities in the form of unexpected directions your future strategy could take.

Swedish furniture retailer IKEA’s shift in strategy and business model after the shock of World War II provides a good example. In the 1960s, increasing industrialisation and urbanisation in Sweden had created a new class of customers setting up home in cities and needing to make empty apartments liveable quickly.

As a result, IKEA’s first retail store in Stockholm in 1965 was an immediate success, drawing long queues of customers. The local manager improvised a solution by opening the warehouse and letting customers pick the products they wanted for themselves. Surprisingly, customers showed no hesitation or dissatisfaction in adopting this new, radical arrangement.

While IKEA was looking for growth by opening a new store and exploiting its existing business strategy, it found something even more valuable: the novel and unforeseen possibility of changing its business model in a way that delivered more value to customers while improving profitability.

**Suspend your beliefs about the business environment**

In order to recognise the potential of serendipitous events, you need to discard assumptions about key relationships between the business environment and your business model. This is how Advanced RISC Machines (ARM) came up with its first break-through product. Today, ARM’s Reduced Instruction Set Computing (RISC) chip designs are found in over 95 percent of smartphones in the world, including Apple, Huawei, Samsung and Xiaomi.

The business environment of microprocessors was hit by a shock in the 1990s when a potential mass market for digital handheld, mobile devices began to emerge. ARM, experienced in designing chips for low-price desktop computers, thought it saw an opportunity for its simple, cheap chips. It decided to pitch one of its existing designs to Nokia, then a leader in mobile phones.

When Nokia pointed out a long list of deficiencies with the offering, ARM realised it had discovered something it had neither known nor expected: Nokia’s key problem wasn’t how to reduce the size or cost of the chip, but how to cut its power consumption and heat generated. ARM then launched a set of experiments with its partners to understand how to redesign its
architectures and reconfigure its resources and processes to deliver such designs.

ARM’s realisation that it could benefit from working with partners several steps removed in the value chain led to a profound shift in strategy. Following this serendipitous discovery, through search, experimentation and agile reconfiguration of its organisation, ARM was able to craft a systematic set of policies and processes to lead a global ecosystem of diverse partners, each with specific capabilities.

**Develop your business ecosystem as a source of serendipity**

Serendipitous opportunities are more likely to arise when businesses take steps to attract more diverse partners – possibly from different industries – to the ecosystem, promote connections between partners and launch initiatives to improve the quality of those connections.

For example, when medical practice Athena Women’s Health faced a problem with customer payments, it developed a web-based billing system to track patients, handle medical billing and carry out insurance eligibility checks. When the founders approached potential venture capitalists to fund the growth of the clinic, they found that investors were more interested in backing the software than the medical practice itself.

This discovery led them to launch a healthcare IT company, athenahealth, and eventually generate annual revenues of almost US$250 million. They then developed an ecosystem where partners would bring in new capabilities and knowledge from different businesses. Encouraging diverse partners to collaborate led the way to the creation of an array of innovative solutions for their client base, helping their revenues surpass US$1.2 billion.

**From serendipity to a new strategy**

When you discover something unexpected and surprising, instead of treating it as an outlier or a failure, try to understand what shifts in the market caused it and what implications they might have for your company’s future strategy. This will enable you to turn unknown unknowns into known unknowns.

Then ask yourself where alternative responses to the serendipitous event might lead your strategy in the future. Now that you know what to look for, refine these alternatives through search and experimentation. These
techniques of exploration, guided by risk management, will turn known unknowns into known knowns.

Now your new strategy can take shape. This will require strategic agility: the capability to quickly reconfigure resources, nimbly adapt the organisation’s structures and processes and possibly revamp the business model to deliver that new strategy.

As businesses continue to face situations so uncertain that possible future scenarios can’t be articulated, foresight and flexibility alone are not enough. Managers need to embark on this process of strategic discovery to find a previously unimagined strategic path for the future.

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About the research
This article is based on José Santos' lecture "Era of Deglobalisation or Reglobalisation?" at INSEAD Directors Forum: Governance Imperative in a New World Order.

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