

**STRATEGY UNDER
UNCERTAINTY**

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**OPPORTUNITY & THREATS
ANALYSIS**

BY
LEVEL OF UNCERTAINTY
OF BUSINESS ENVIRONMENT
FOR YOUR INDUSTRY /
ORGANIZATION

BASIC TRUTHS:

- Binary (2 way) thinking is RISKY THINKING for managers.
- **Under-estimate** the risks of the environment
- **Over-estimate** the risks

BASIC TRUTHS:

RISK ASSESSMENT:

- It is rare that managers know **ABSOLUTELY NOTHING** of strategic importance about the decision at hand.
- It is rare for managers to know **EVERYTHING** of strategic importance about the decisions at hand.

THE FOUR LEVELS OF UNCERTAINTY

RESIDUAL UNCERTAINTY (RU)
Where the decision Lies.

1. Recognition of industry **TRENDS**
2. Information that is currently not known, but can be discovered with full and proper **ANALYSIS**

Complete Information minus (1 + 2) = RU

**LEVEL 1:
A CLEAR-ENOUGH VIEW**

- Residual uncertainty is **NEAR ZERO**;
- Single forecast of future that is precise enough
- Usual tools for making decisions can be used.
- The Most common situation

EX: 1988: Should United AL develop a small regional operation to compete?



LEVEL 2:
ALTERNATE FUTURES

- Residual uncertainty is low but not zero
- The Future - a few discrete scenarios.
- Strategy would change if scenario were known.
- Common problem to face

EXAMPLE:

Proposed new regulations by the FAA to limit the number of hub cities open to large airlines like United AL.

**LEVEL 3:
A RANGE OF FUTURES**

- CONTINUUM of scenarios
- Limited number of key variables
- Strategy would change if scenario were known
- Another COMMON problem

EXAMPLE

1990:
How should United AI service Asia?

**LEVEL 4:
TRUE AMBIGUITY**

- Multiple levels of UNCERTAINTY
- OVERWHELMING POSSIBILITIES
- Too MANY Variables seem key
- Remember- A RARE situation

Level 4: True Ambiguity

- DO NOT PANIC
- DO systematic search for what information is known, unknown
- Identify TRIGGER VARIABLES to monitor

EXAMPLE

Can United AL continue to service Baghdad in 2003, after US invasion of Iraq?

Remember BINARY THINKING?
Level 1 Uncertainty OR
Level 4 Uncertainty

- Make a list :
Known and Unknown
INFORMATION -
- Level 2 or 3 Uncertainty is likely
- Less risky

EFFECTIVE LEADERS DO 3 THINGS REGULARLY

1. DEFINE Level of Uncertainty TODAY
Level 2 or 3 most common

2. SELECT Strategic Posture
for vision of the future:

- Shape it,
- Adapt to it,
- Reserved for Later

3. DECIDE Action to Take

- Make Big Bets
- Provide Options
- No-regrets Moves

When to REVISIT this article :

- 3 months after next promotion;
- New regulations change the game;
- When PANIC has set in;
- S&P 500 and DJIA Peak or Tank.

KEY IDEAS

- Base strategy on the assessed Residual Uncertainty Level (1-4)
- Avoid BINARY THINKING
- Recognize DECISION PARALYSIS & treat it with updated information

SUMMARY

UNCERTAINTY ANALYSIS :
A Disciplined approach
SYSTEMATIC data collection
RIGOROUSLY applied
FOR ANY SITUATION

MY RECOMMENDATION:

NON-PROFIT AND GOVERNMENTAL LEADERS WOULD DO WELL TO USE THIS APPROACH TO STRATEGIC DECISION-MAKING AT ALL TIMES.

THANK YOU.

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