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# FUTURE INSIGHT

## Responding to Trends, Threats and Opportunities

Margaret Heffernan and Gillian Pillans

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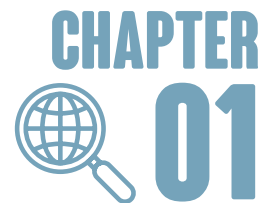
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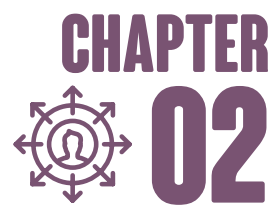
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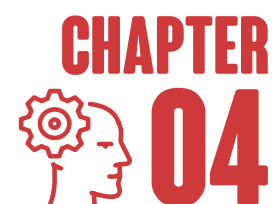
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# COMMENTARY



As we enter a new decade, organisations are undoubtedly contending with complex technological and socio-economic issues. Hence making confident predictions seems like an impossible task. As this CRF paper rightly argues, organisations face the twin challenges of navigating significant industry shifts, while also bringing their people along on the transformation journey.

In this context, setting up for success requires businesses to forge a workforce that's comfortable operating outside its comfort zone. People must be primed for multiple scenarios. If the past decade was one in which companies got to grips with the limitations and opportunities of artificial intelligence and automation, then the next decade will be characterised by the realisation that people, not technology, transform businesses. And yet we have a long way to go: 41% of HR leaders surveyed by Mercer say that workforce capability and skills is their number one transformation challenge, and executives believe only 45% of their workforce can adapt to the new world of work.<sup>1</sup>

There is no single guide, or indeed end-point, for building a workforce for the future. Yet we know the key tenets of workforce transformation: strategic upskilling and reskilling, enhancing the employee experience, and deploying an HR model based on targeted digital and human interactions. Successful companies will reskill at scale and speed to stay ahead. And delivering on experiences will attract top talent, and inspire people to improve, reinvent and innovate work activities.

Mercer sees five core challenges in building a workforce for the future.<sup>2</sup> Leading organisations will see these as opportunities to identify where they can focus energy and investment to evolve:

- **Future Readiness:** Prepare the organisation to meet changing market or industry needs and stay ahead.
- **AI & Automation:** Take advantage of technology advances to optimise the workforce and redesign jobs.
- **Future Skills:** Leverage a talent ecosystem and reskill the workforce to meet future needs.
- **New Work Expectations:** Acknowledge changing work expectations and build a thriving organisation.
- **Talent Agility:** Transform talent practices and align HR's operating rhythm with the business, centred on the employee experience.

Mercer is delighted to be associated with CRF's Future Insight: Responding to Trends, Threats and Opportunities report. It showcases the central role HR will have to play in creating the conditions to develop vigilance, foresight and agility. Mercer's research and work with clients reveals that those companies leading the charge predict what their people and the market demands, prepare their people for whichever potential scenario occurs and act to offer a brighter future.

**Puneet Swani**, Career Business Leader International Region for Mercer  
**Kate Bravery**, Mercer's Global Advisory Solutions and Insight Leader

1. Mercer, Global Talent Trends Study 2020. To learn more visit <https://www.mercer.com/our-thinking/career/global-talent-hr-trends.html>
2. Mercer, Workforce for the Future available at <https://www.mmc.com/insights/workforce-for-the-future.html>

# THE VIGILANCE IMPERATIVE



“When it comes to the future, what matters is to invigorate the search, not to determine the outcome.”

MARGARET HEFFERNAN, AUTHOR OF *UNCHARTED: HOW TO MAP THE FUTURE TOGETHER*, 2020

“Change has never happened this fast before, and it will never be this slow again.” This is the Change Pace paradox described by technology journalist Graeme Wood in 2015. We see its effects in our daily lives: the rise of digital technology is fundamentally changing the ways we communicate, shop, work, travel and find love. Its impact also plays out in the political sphere with the rise of populism and a shift in the geopolitical power base from West to East; in the business world where half of the world’s largest companies by market capitalisation didn’t exist twenty-five years ago; and in the physical environment where we appear to be approaching a tipping point regarding man-made climate change.

As the world has become more complex, so too has it become increasingly difficult to predict and plan for the future. It is in the nature of complex systems that patterns don’t always repeat, and small things can have a disproportionate impact. This also means the capacity of our organisations to forecast with any degree of accuracy has become much more limited. For example, the Good Judgment Project, a multiyear prediction tournament (outlined in the 2016 HBR article *Superforecasting: How to Upgrade Your Company’s Judgment*), found that even its own superforecasters could not predict with confidence beyond 400 days. Nowadays, long-term plans can’t be much more than informed guesswork.

History is littered with organisations which failed to anticipate – or to respond fast enough – to shifts in their market. We can be sure that companies like Nokia had armies of people responsible for developing multi-year strategies and financial plans. And yet Nokia stuck to business as usual for too long, and was unable to position itself to respond to technology-driven disruption when it hit. The management tools in use in most organisations were designed for more predictable times, when the pace of change was slower and it was possible to develop and stick to a long-range plan.

# THE VIGILANCE IMPERATIVE

Today, building businesses that are successful and sustainable in the long-term requires the careful development of an essential core competence, which Day & Schoemaker call *vigilance*: “a collective capability that firms must nurture, characterised by curiosity, candour, and a concern for the long-run welfare of the organisation. Above all, vigilance is a superior ability to anticipate serious threats, recognise major opportunities, and then act faster than others despite incomplete knowledge.”

Do vigilant firms outperform? Recent longitudinal analysis suggests they do. A study by Rorhbeck & Kum (see references) assessed the vigilance capability of 85 European multinationals and reviewed their performance after 8 years. The most future-prepared firms were 33% more profitable and experienced 200% higher growth than the average.

The purpose of this paper is to explore what stops organisations – and the people who work there – from spotting and responding to what is happening in front of their eyes, and to identify what it takes to build organisations that are more capable of anticipating and preparing for market shifts. We examine issues including leadership behaviour, culture, and planning practices to see how they can be reshaped to build greater agility into our organisational systems. We make practical recommendations for actions HR can take to help build these capabilities in their organisations.

## 1.1

### WHAT STOPS US FROM BEING VIGILANT?

“Blindness grows out of the small, daily decisions that we make, which embed us more snugly inside our affirming thoughts and values.”

MARGARET HEFFERNAN, AUTHOR OF *WILFUL BLINDNESS: WHY WE IGNORE THE OBVIOUS*, 2019

Organisations are complex human systems, and while complexity makes the world increasingly unknowable, a failure to sense and respond to impending change happens because individuals fail to see what is going on in front of their eyes. Look at any corporate failure and the chances are there were many people in the organisation who knew what was going on, and had ideas about what actions were needed. Either the critical information didn't reach key decision makers, or it wasn't acted upon. What are the human factors that make us so easily blinded to what's happening around us?

#### Organisations suffer from wilful blindness

The narrative that no one could have seen disaster coming is often false. Take the collapse of Enron or Carillion. Senior executives knew what was going on and experts and whistleblowers tried to sound the alarm. Moreover, wilful blindness applies not only when disastrous choices are made, but also when opportunities are overlooked. In 2000, Blockbuster declined the opportunity to acquire Netflix for \$50M and ten years later went bankrupt. In contrast, £25,000 invested in Netflix a decade ago would now be worth close to a million pounds. Some of the major hotel groups looked at whether they should try to acquire Airbnb in the early days but concluded they did not need to do anything to respond to it.



# THE VIGILANCE IMPERATIVE

When we are already committed to a course of action, it is often extremely difficult to admit we might have made the wrong choice and face a humiliating climbdown, even if that would allow us to avoid disaster further down the line.

## Our brains aren't wired to notice

The cognitive limits of the human brain mean that we have to subconsciously filter or edit the information we take in. Human brains have evolved to steer us away from experiences that are wild and different, and our brains are designed to admit information that makes us feel good about ourselves while rejecting information that makes us feel uncomfortable or brings our beliefs into question.

We suffer from cognitive biases that affect our beliefs, memories and actions. For example, confirmation bias leads us to favour information and ideas that confirm our existing beliefs, or to seek out information that justifies what we already think. The availability bias leads us to think unusual events are more likely to occur than commonplace ones. For example, we tend to overestimate the number of people who die in plane crashes and underestimate the number who die in car accidents. The brain's ability to only see what it's meant to see and ignore seemingly irrelevant information is demonstrated by Dan Simons' research into selective attention. In the Invisible Gorilla experiment, viewers are asked to watch a video and count the number of times players wearing white shirts pass the ball to each other. Viewers often fail to notice the human dressed as a gorilla who walks across the screen, pauses for several seconds, and beats its chest before walking off. How often do we exercise the same selective attention when faced with negative customer feedback or unusual competitor activity?

## Blind obedience to hierarchy

In most organisations conformity and obedience to authority are valued ahead of challenging the status quo. Psychologist Stanley Milgram's experiments sought to understand the degree to which obedience to authority is hardwired. Through a series of experiments designed to test how much pain an ordinary citizen would inflict on another person when ordered to do so by an authority figure (in this case an experimental scientist), participants showed a high propensity to abandon their individual humanity and leave decision making to a higher authority in the hierarchy. This effect can often lead to employees failing to speak up because they don't think their bosses want to hear the truth.

## Groupthink

The tendency of individuals to avoid responding to uncomfortable information or to obey authority can be amplified when teams come together. Sometimes the desire for harmony or to minimise conflict can override the need to critically evaluate decisions, leading to team members agreeing at all costs. Moreover, the sense of togetherness felt by some teams can encourage them to take even greater risks. It's not just that groupthink can make people collectively stupid, it can also make them collectively bolder. Groupthink was found to be at the root of numerous disasters over the years, including the US invasion of the Bay of Pigs in 1961 and the Challenger space shuttle explosion in 1986.

## Over-reliance on technology

Artificial intelligence and big data are making it possible to predict with ever higher degrees of accuracy what will be the outcome of any given situation. AI can now outperform radiologists in certain types of cancer screening, and is bringing self-driving cars closer to reality. However, as anyone who has got lost while trying to navigate with Google Maps will attest, technology can lead to us losing the capacity to make sense of what's happening in our world – and can even make us stupid. We can't rely on algorithms to give us the answers we need about the future – they are backward-looking, historical data can be irrelevant or useless, and unique or rare events may render what was formerly predictable suddenly unforeseeable.

Therefore, if we are to develop foresight to sense what's happening in our business context, and acknowledge and act on signals before it's too late, we need to:

- Recognise that these behaviours are likely to influence corporate decision making in negative ways;
- Design organisational planning systems and processes in ways that get around these natural biases.

# THE VIGILANCE IMPERATIVE

## 1.2 WHY IS DEVELOPING FORESIGHT ESSENTIAL FOR HR?

As we outline above, developing foresight to anticipate and prepare for strategic shifts requires the development of organisation capabilities around vigilance, sensing movements as early as possible, and acting in a fast and agile way by experimenting when complete knowledge is not available. Designing processes for developing corporate strategy or financial forecasting is not typically HR's domain expertise. However, we argue that HR can play a substantial role in creating the conditions for these organisational capabilities to be developed, and in raising awareness about the dangers of complacency. In particular:

- As we explore in Chapter 2, the attitudes, capabilities and practices of **leaders** determine how much attention the organisation pays to understanding what's happening in the external environment, and what actions to take. The selection of leaders and design of leadership development activities are key areas where HR can influence the skills and capabilities that are valued and fostered in the organisation.
- The organisation **culture** determines the degree to which the organisation is open to its external environment, and leaders are prepared to hear uncomfortable messages about what's really going on. HR can take the lead in promoting a culture that values divergent thinking and provides psychological safety, creating spaces where people can talk and leaders are prepared to listen.
- Designing an **organisation** that's open to outside-in thinking and has effective mechanisms for testing ideas and allowing unfiltered information to reach decision makers.
- HR can also benefit from developing foresight around key talent and social trends, being alert to external trends that may impact on the organisation's ability to execute strategy through its people.

# LEADERSHIP AND CULTURE

THAT ENABLE FORESIGHT



“Weak signals of an impending shift – when recognised early enough – can give you a head start to prepare to take advantage of it.”

**PROFESSOR RITA MCGRATH, AUTHOR OF *SEEING AROUND CORNERS: HOW TO SPOT INFLECTION POINTS IN BUSINESS BEFORE THEY HAPPEN*, 2019**

The life expectancy of companies has significantly reduced over the last 50 years. In the 1950s, the average listed company was 60 years old. Today, that has dropped by two-thirds to less than 20 years. This is in large part driven by disruption. The ever-increasing speed of change means this phenomenon is unlikely to be reversed anytime soon.

Whereas in the past, a slower pace of change might have let less responsive companies off the hook, giving them space to regroup and respond, today’s environment of digital turbulence penalises those organisations that are not poised to react. Therefore, leadership teams need to be constantly on the lookout for critical signals indicating potential new market entrants or emerging business models, and organisations need to be designed to sense and respond to changes in their environment.

Unfortunately, as Day and Schoemaker note, “vulnerability, not vigilance, is the norm in most companies. The immediate pressures of running day-to-day operations consume so much of the scarce attention of the leadership team that it lacks the time and resources to look beyond immediate concerns.”

What does it take to increase the vigilance capability of an organisation? We find that organisations that demonstrate foresight have several elements in common. In this chapter, we explore two: the capabilities, mindsets and behaviours of vigilant leaders; and the unique features of organisational culture seen in vigilant organisations. In Chapter 3 we focus on organisational processes for developing and testing strategies, and the unique organisation design features of adaptive organisations. In the final chapter, we consider the implications for people management and how HR can play a role in developing organisational foresight.



# LEADERSHIP AND CULTURE

THAT ENABLE FORESIGHT

## 2.1 LEADERSHIP CAPABILITY, MINDSETS AND BEHAVIOURS

“The critical leadership skills are those of convening: collecting voices, structuring exploration, keen listening and learning from successes and failures.”

MARGARET HEFFERNAN, AUTHOR OF *UNCHARTED: HOW TO MAP THE FUTURE TOGETHER*, 2020

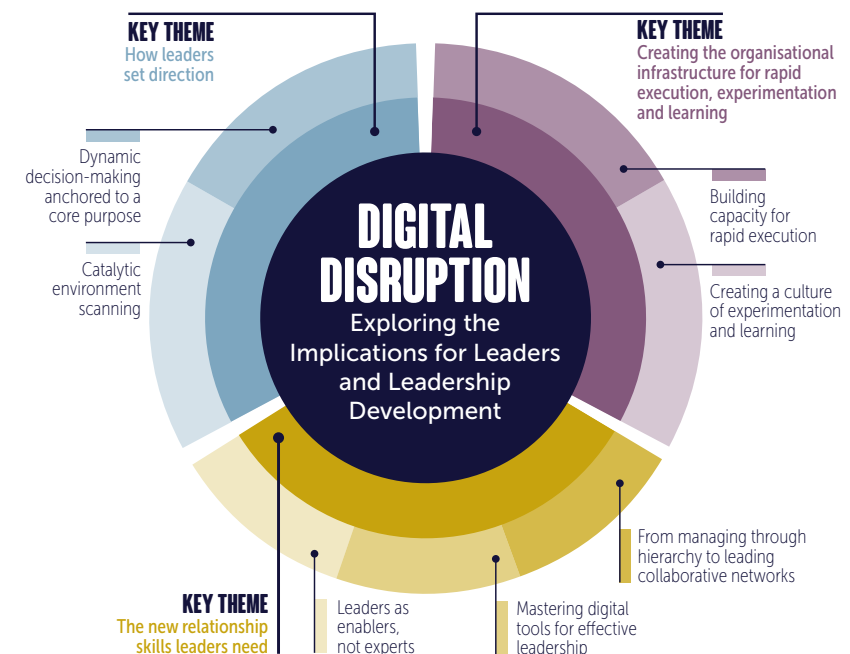
Developing foresight is a leadership imperative: whether an organisation is vigilant and responsive to change happening around it is driven from the top. For many leaders, developing foresight and adaptability means a shift in mindset, to overcome cherished beliefs about how the world works, and being receptive to uncomfortable messages about the future of the business. Ignorance of internal threats often arises because leaders turn a blind eye to what's really going on. Take the collapse of Theranos, the Silicon Valley blood testing company that turned out to be based on a fraud. Former US Secretary of State George Schultz was a member of Theranos's board. He played a key role in raising millions of dollars of funding and had been close to founder and CEO Elizabeth Holmes. When his grandson, whom he had helped find a job at the company, exposed Theranos's claims about the effectiveness of its blood testing technology as lies, Schultz refused to believe him. So what does the required mindset shift look like, and what leadership behaviours should we be promoting in our organisations?

CRF's 2018 research, [\*Digital Disruption: Exploring the Implications for Leaders and Leadership Development\*](#), found that the demands of leaders are changing in some notable ways, with behaviours such as adaptability, uniting people around a shared

purpose, and creating a culture of experimentation and empowerment, becoming more important. That's not to say that the fundamentals of good leadership aren't still relevant – being a good communicator, for example, or building trust remain essential elements of effective leadership. However, leaders increasingly are required to lead through uncertainty, building organisations that are capable of adapting to a constantly evolving context.

CRF's research looked at the ways in which the demands of leaders are changing, how models of leadership need to evolve, and what that means for leadership development. This is summarised in the CRF Digital Disruption Leadership Model, set out in Figure 1, which highlights seven major shifts in leadership, organised around three key dimensions.

**FIGURE 1**  
CRF Digital Disruption Leadership Model



# LEADERSHIP AND CULTURE

## THAT ENABLE FORESIGHT

### 1. How leaders set direction.

Traditional processes for determining strategic direction – typically top-down, multi-year, numbers-driven and formulaic – are becoming outdated as they are incapable of adapting fast enough to complex, fast-moving markets. Leaders need more dynamic ways of identifying and evaluating strategic opportunities, and developing timely responses that meet market needs. Two key capabilities underpin this shift.

- **Dynamic decision-making anchored to a core purpose.** Leaders need to manage a polarity: keeping their organisations focused on a consistent vision and purpose while being adaptable in the short term, capable of reorienting the organisation rapidly in response to threats and opportunities.
- **Catalytic environment scanning.** The ability to horizon scan, detect patterns and develop insights will be essential to remain competitive.

### 2. Creating the organisational infrastructure required for rapid execution, experimentation and learning.

In designing responsive and adaptable organisations, leaders need to attend to both the ‘hardware’ and ‘software’ of their organisational systems. ‘Hardware’ includes the processes, systems and skills needed to rapidly execute strategies and pivot as needed. ‘Software’ is about developing a culture that supports experimentation and enables learning from failure.

- **Build capacity for rapid execution.** Leaders not only have to detect market changes, they have to respond fast to emerging competitive threats and shifting customer expectations by building agility into processes for decision-making and execution.
- **Create a culture of experimentation and learning.** Success in the digital age requires experimenting with many different solutions, not all of which will be successful. Innovation requires a higher tolerance for risk, and to build mechanisms for learning from failure.

### 3. The new relationship skillsets leaders need.

The ways in which leaders lead are shifting from hierarchical management to being more network-driven, digitally enabled and based on influence rather than positional authority. This plays out in three important ways.

- **From managing through hierarchy to leading collaborative networks.** Increasingly, work in the digital economy is done through networks that cross organisational silos and often include contributors from outside the organisation. For instance, [Mercer’s Leadership in Disruption](#) research found 79% of executives expect that contingent and freelance workers will substantially replace full-time employees in the coming years. Leadership becomes more about orchestrating a looser network of contributors than directing work from the top of a hierarchy.
- **Mastering digital tools for leadership effectiveness.** Leaders have to get comfortable with using digital communications tools to build trust, engage and motivate their teams, and connect with the wider community outside the organisation.
- **Leaders as enablers of experts.** The work of leadership, particularly in knowledge-driven work, is shifting away from telling others what to do to developing a context where others can bring their expertise and customer insights, make good decisions and do their best work.

The new models of leadership have implications for leadership selection and development. More specifically, moving away from a programmatic and formulaic approach to leadership development towards strategies focused on experiential and action-oriented learning. For a more in-depth exploration of these topics, see our full report [here](#).

# LEADERSHIP AND CULTURE

## THAT ENABLE FORESIGHT

### Vigilant leadership teams

"In an increasingly complex world, the scarcest collective resource of the modern leadership team may be the most important: attention."

GEORGE DAY & PAUL SCHOEMAKER, AUTHORS OF *SEE SOONER, ACT FASTER: HOW VIGILANT LEADERS THRIVE IN AN ERA OF DIGITAL TURBULENCE*, 2019

As we outline above, the need to be ready for disruption has implications for individual leaders. When we broaden the focus to leadership teams, who are generally overloaded, in what practical ways can they expand their collective ability to pay attention to market signals that may indicate a fundamental shift is underway?

#### 1. Commit the organisation to developing sensing as a core capability.

Leaders determine what the organisation pays attention to. As Day and Schoemaker note: "Attention is the scarcest of all organisational resources." Therefore choosing what to attend to is a critical leadership decision. Key questions to ask are how much time the leadership team spends exploring the future together, or how much time leaders spend networking outside the organisation to understand key trends and their potential impact. By committing to spend time together as a leadership team to explore the future, or to take part in foresight activities such as scenario planning or war-gaming, leaders send a strong message about what's valued.

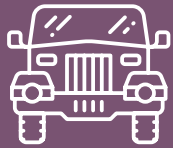
#### 2. Increase the diversity of voices in the room, in particular to bring in the perspectives of people who are not wedded to the status quo. It's much more difficult for new ideas to emerge when the same old people have the same old conversations. However, greater diversity tends to be accompanied by increased conflict. Leaders need to be prepared to engage constructively with conflict to release its value, rather than shutting it down. Leaders have to create spaces where people with divergent views can safely speak up. This requires leaders to be open to hearing things they find uncomfortable. For example, Heffernan (2020) describes how Eliza Manningham-Buller, when she was head of MI5, the British Intelligence Agency, was explicit about requiring people not to tell her

what she wanted to hear, but rather to have the courage to argue and present alternative points of view. She would instruct multiple teams to examine and analyse the same data in different ways. This allowed teams to uncover different ways of interpreting the same information and develop multiple scenarios to test.

3. **Designate a member of the team who's responsible for collecting weak signals and interpreting their significance.** Ideally this is someone who has a broad view across the organisation, for example the Strategy, Customer or perhaps even the HR Director.
4. **Appoint a devil's advocate** whose role in leadership team meetings is to think critically, ask awkward and difficult questions, make sure divergent viewpoints get aired and encourage dissenting voices to speak up. This role can be rotated to make sure its voice does not get tuned out over time.
5. **Get out to the edge of the organisation.** Rita McGrath, Professor of Management at Columbia University, says that, in the same way that snow melts at the edges, "the changes that are going to fundamentally influence the future of your business are brewing on the periphery." Therefore, it is imperative for leaders to get out to the edges of the organisation to hear what's going on there, to foster relationships with people who can act as ears and eyes, and to spend time with customers, researchers, industry influencers, or to attend forums where emerging ideas in the industry are being discussed.
6. **Choose leaders who have a deep sense of curiosity** about what customers are saying, about unusual competitor actions such as hiring a different talent profile, or technology trends that might indicate a market shift. The models and frameworks for selecting and developing future leaders need to emphasise these capabilities.
7. **Review past blind spots to identify what went wrong,** and work out what can be learned to avoid repeating the same mistakes.
8. **Use leadership development interventions to help leaders build adaptability,** for example through experiential learning, games or scenario planning.
9. **Invest in reverse mentoring,** to give leaders exposure to divergent perspectives and learn from people who are diverse in age, seniority, gender, ethnicity, and background. Foster level-skipping conversations where leaders talk to front-line employees about what's going on with customers and competitors.

# LEADERSHIP AND CULTURE

THAT ENABLE FORESIGHT



## FORD'S TRANSFORMATION UNDER ALAN MULALLY

When Alan Mulally took over as CEO of Ford Motor Company in 2006, the company had lost 25% market share in the prior seven years, posted a record \$12.7 billion loss for the year, and was widely expected to file for bankruptcy. One of his first moves was to initiate a weekly business plan review meeting with his senior leadership team. He asked everyone to share progress against their priorities on a coloured chart. Red signified the department was not on plan and did not have a strategy to get on plan. Yellow signified the department was not on plan but had a strategy to get on plan. Green meant the department was on plan and all was good. At the first meeting, in spite of the company facing record losses, everyone reported 'Green'. Mulally's response was: "Well, we're all on plan, but we're losing billions of dollars. I guess our plan must be to lose billions of dollars! Let's try this again next week." Several weeks went by with lots of greens until finally someone posted a red. Mulally's reaction was to applaud that leader's honesty, and to encourage his team to work together to support that leader in finding solutions to the business problems faced.

During his tenure at Ford, Mulally developed a culture of candour and vigilance in his leadership team. He started each meeting by inviting senior executives to share their internal problems, as well as any anomalies they were noticing in the external environment. Over time, he shifted the culture away from perceiving any admission of problems as a sign of weakness towards recognising problems early and tackling them honestly and collaboratively. By the time he stepped down in 2014, Mulally was recognised as having turned around the carmaker's fortunes.

## 2.2 ORGANISATIONAL CULTURE

Every organisation has a unique culture: the norms, rules and behaviours that determine how things get done. Positive organisation cultures can foster a strong sense of mission and purpose, and an environment of trust, camaraderie and reciprocity. Negative cultures can stifle ideas and creativity and leave people living in fear. If we are looking to build an organisation that's open and responsive to the outside world and capable of agility and fast adaptation, what would the culture of that organisation look like?

Professor Chris Worley's research into organisation agility has examined the common features of organisations that succeed in adapting to changes in their environment, and deliver top quartile performance over the long term. CRF's [Organisation Agility](#) research, co-written with Professor Worley, found that agile organisations tend to share some common cultural characteristics:

- A high-trust, transparent culture, where employees are treated like adults, and are encouraged to 'tell it like it is'.
- A culture that's open to learning from experiments and using that learning for continuous improvement.
- People are trusted to make good decisions and act in the best interests of the organisation.
- There is an assumption that employees' intentions are honourable and that they can be relied on to 'do the right thing', even if they sometimes make mistakes.



# LEADERSHIP AND CULTURE

THAT ENABLE FORESIGHT

## Psychological safety

“Vigilant leadership teams create the kind of psychologically safe space required for employees at all levels to share perspectives about relevant issues outside their immediate domain. Employees deep down in the organisation may be closer to weak signals at the edge of the organisation and must believe they will receive an open hearing when raising concerns or suggesting ideas.”

**GEORGE DAY & PAUL SCHOEMAKER, AUTHORS OF *SEE SOONER, ACT FASTER: HOW VIGILANT LEADERS THRIVE IN AN ERA OF DIGITAL TURBULENCE*, 2019**

Harvard Professor Amy Edmondson has shown that psychological safety is an essential feature of organisation cultures that support learning and innovation. When psychological safety is present, team members can propose ideas or raise concerns without feeling they will be negatively judged or ridiculed. One of the success factors for scenario planning at Shell (discussed further below), according to a member of the scenario planning team, is that members needed to feel free enough to “push within an inch of being fired.” Sadly, it’s unusual to work in an environment where people feel comfortable raising concerns and issues. A study by Milliken and Morrison (see references) found 85% of executives said they had, at some point, felt unable to raise an issue or concern with their boss. Only 51% said they felt truly comfortable raising issues and a mere 15% said they had never felt unable to express themselves openly.

Psychologically safe organisations recognise that growth and adaptation mean taking risks, and sometimes the most well-intentioned and best-planned projects are unsuccessful. Rather than viewing this scenario as a failure, they treat situations that didn’t go to plan as an opportunity for learning and improvement.

Building psychological safety requires a leadership approach that encourages people to speak up, ask questions and share ideas. It means that no one is penalised if they ask for help or admit to a mistake. Signals sent by people in power are critical to employees’ ability and willingness to offer their ideas and observations. What can leaders do to create a culture of psychological safety? To summarise the research around psychological safety by Edmondson and others, this means:

- Communicating (by words but, more importantly, through their actions) that they respect employees, and the skills and expertise they bring.
- Actively encouraging speaking up and reporting mistakes.
- Being accessible and approachable.
- Acknowledging that they don’t know all the answers, as this shows humility and encourages others to follow suit.
- Tolerating failure while setting high standards and holding people accountable for their mistakes.
- Using failures or mistakes as opportunities for learning.
- Using direct, actionable language, which creates the kind of blunt, straightforward discussion that enables learning.
- Inviting participation from all team members, and actively bringing in those who naturally tend to hold back.
- Autocratic behaviour, inaccessibility, or failure to acknowledge their own fallibility all work against psychological safety.

Building psychological safety doesn’t mean treating the workplace as a holiday camp. Leaders must strike a balance between psychological safety and employee accountability by setting high performance aspirations while acknowledging areas of uncertainty.

# LEADERSHIP AND CULTURE

## THAT ENABLE FORESIGHT

### Creating an inclusive culture

Can improving team diversity lead to better outcomes in terms of the organisation's capacity to sense and respond? Are inclusive teams better at developing future insight? Research on the effectiveness of diverse teams suggests that they can result in higher performance, but only in certain circumstances. In summary, researchers recognise that there is a price to pay for diversity – a 'process loss' arising from conflict and communications difficulties among team members, and greater ambiguity. This needs to be managed. Leaders of inclusive teams have to buy into the idea that conflict is a source of great ideas. They have to be very good at managing conflict, and willing to accept that it will take more time and effort to achieve the desired results.

Research by Robin Ely and colleagues (see references) found the following conditions need to be met in order to realise the benefits of diversity.

- All team members must perceive that the team encourages members to share their ideas and insights – in other words, they perceive the team's environment to be 'supportive'.
- Where all team members feel comfortable that the environment is safe for interpersonal risk-taking, they are more prepared to share information and insights and put forward ideas, which enhances team performance.
- Where teams adopt supportive behaviours, trust can be built, which allows the team to overcome stress and conflict and equips it to better handle challenges, leading to enhanced performance.

The implications are that diversity does not automatically result in better performance: the task of leaders is not just to hire a diverse workforce, but to keep it diverse in its thinking. The gravitational pull of conformity can be hard to resist over time. In order to benefit from diversity, organisations need to focus on:

- Creating team environments that build trust and encourage team learning behaviours such as sharing information and insights and giving feedback.
- Training leaders in the skills needed to create and sustain such teams.
- Developing better capability in managing disagreement, tension and conflict without either damaging relationships or avoiding difficult issues.

Exploring new territories inevitably involves debate, and sometimes argument and conflict. Argument can allow weak ideas to be made strong and blind spots to be revealed. Yet in many organisations argument is interpreted as aggressive, damaging or rude. Heffernan's work on Wilful Blindness (2019) concluded that conflict can be better framed as a way for organisations to think. Creating a culture that makes people with divergent viewpoints feel included is therefore essential to fostering the right kinds of conflict. It's not about creating disagreement or division for its own sake, or to play politics. Neither is it diversity in the interests of political correctness, but to stimulate vigorous debate and divergent thinking.

Dissonance has value but it has to be practical. Leaders have to ask: what issues are so critical that we create structured dissonance around them? Where do we need a different perspective to make sense of the problem?

Creating environments of safety – both psychological and social – allows information, ideas and insights to be let loose. Sociology teaches us that communities where people know each other are more resilient. One implication for organisations is that people at work need to have time to spend together, to get to know one another as human beings, and to build trust. Establishing norms of generosity, reciprocity and trust within businesses enables information to flow more freely to where it is most useful. People are then more likely to ask: do you see what I see? Does it worry you too? What do you think?

# LEADERSHIP AND CULTURE

THAT ENABLE FORESIGHT



## CREATING A 'SPEAK UP' CULTURE AT THE CIVIL AVIATION AUTHORITY

In 1972, a British European Airlines plane crashed moments after take-off, killing all 118 people on board. The subsequent investigation found the crash had been caused by a series of small faults and problems that many people had known about, but they had failed to speak up, ask difficult questions, or share concerns.

In response, the CAA put in place rules and processes to make it easier to raise concerns or ask questions. A new test was applied to mistakes: if the same error could have been made by anyone, then whoever was in the wrong could not be blamed or punished. Mistakes were shared and examined as a form of learning. In this way, near-misses and errors became opportunities not for recrimination but for continuous improvement. The CAA called this new way of working the 'just culture'. By 2015, 14,000 concerns had been raised at the CAA. Similar approaches have been adopted at airlines and in other safety critical operations such as healthcare. Indeed, the air industry has become one of the safest modes of transport. (Heffernan, 2019)

## 2.3 PRACTICAL WAYS OF INCREASING THE RANGE OF VOICES INVOLVED IN STRATEGY DISCUSSIONS

"If you don't know what you want, what you really need are options."

MARGARET HEFFERNAN, AUTHOR OF *UNCHARTED: HOW TO MAP THE FUTURE TOGETHER*, 2020

No one can claim to be an expert on the future, as nobody has been there yet. Therefore, when seeking to map out the future, it makes sense to involve as broad a range of perspectives as possible. As well as attending to the corporate culture, there are other practical ways of bringing a broader set of voices – and therefore a wider range of insights – into discussions around future direction.

### Tapping into the wisdom of the crowd

Studies have shown that large groups or crowds often make more accurate collective judgments than individual experts. Often, groups that cross disciplines, age groups or backgrounds will come up with better solutions or more accurate predictions than 'experts'. This effect can be harnessed to amplify signals of looming threats and opportunities, and to distinguish between meaningful signals that require the organisation's attention and 'noise'. Large group processes such as hackathons can also widen the range of options that are considered. For example, Microsoft runs an annual hackathon, Microsoft One Week. The event, described as the largest

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private hackathon in the world, brings Microsoft employees together to drum up new ideas and work together on thousands of speculative projects. In the last two years Microsoft has extended the scope of the hackathon to include some of its customers. Similarly, IBM has run all-employee hackathons on its social media platforms to generate and evaluate strategic options.

Hackathons are not such a new idea. For example, during the Cuban Missile Crisis in 1962, President Kennedy consulted two sets of advisors. As well as his regular experts, he set up a shadow advisory board consisting of more junior and inexperienced advisors. Recognising that the more junior group might be intimidated by their more senior and experienced colleagues, both groups reviewed the same information and had the same arguments in parallel, and helped the Kennedy administration avoid the groupthink that had foxed the Bay of Pigs invasion the previous year.

### Open innovation

Open innovation is another method some organisations have used to bring in new ideas from outside the organisation. Open innovation is a distributed innovation process that manages knowledge flows across organisational boundaries. Open innovation approaches may involve a company's extended network of partners, suppliers and distributors, and can also include customers and other interested parties. Sometimes problems are routinely solved by people outside of their domain expertise, as non-experts can reframe questions and see a different angle from which to approach the issue.

For example, Procter & Gamble's approach to innovation historically relied on internal R&D capability and a small network of trusted suppliers. Ten years ago it set up the Connect + Develop initiative to bring the outside in to the organisation and to accelerate innovation. Now, the company estimates that 35% of new products originate from outside the company, and this has led to a 60% increase in R&D productivity.



# COMMENTARY



Since economist Joseph Schumpeter first coined the evocative phrase “gale of creative destruction” in 1942, the pace of industrial disruption has been accelerating. While anticipating change is not new to business, being able to manage it successfully remains elusive.

This timely CRF report shares practical advice on how to navigate market forces and respond to change in your business.

Spotting change is a very human challenge, which puts HR in the driving seat of developing leaders and designing organisations that are sensitive to threats and opportunities, and resilient in the face of change.

Among OrgVue’s clients, we see three stages of organisational evolution:

1. Maintain and fund a steady operating state
2. Move into new markets through agile, incremental innovation
3. Cannibalise and kill their core market, as seen in the music and tobacco sectors.

Confronted with unexpected market shifts, strategy often has to change tack, which calls for corresponding updates to organisation design and workforce planning. Although corporate strategy and finance aren’t areas that HR professionals typically find comfortable, their knowledge of organisational strategy, human capital costs and talent gaps makes their contribution to the conversations on business direction indispensable.

Chapter three of this paper covers the power of scenario modelling and experimentation in developing organisational capability for market vigilance and foresight. This capability is critical for every HR leadership team faced with continual change and today’s disruptive market conditions.

Too often we see organisations working with plans built in Excel or PowerPoint that are onerous and quickly outdated. To lead any organisation through times of change, people planning needs to be much more agile and adaptable.

We designed OrgVue for this very purpose. It brings data, technology and organisational expertise together in one platform to help businesses plan for the best possible future and prepare for the worst. OrgVue can help HR and business leaders make better, data-driven decisions about their workforce based on robust analysis. If you’d like to find out more, visit [www.orgvue.com](http://www.orgvue.com).

**Rupert Morrison**, CEO, OrgVue

# 03

DEVELOPING ORGANISATIONAL CAPABILITY FOR

## EXPLORATION AND FORESIGHT



In Chapter 2 we considered the nature of vigilant leadership and the ideal underpinning culture for developing organisational foresight.

In this chapter, we look in more depth at how organisational processes may need to be reshaped to allow for exploration of new ideas, and consider the implications for organisation design.

# EXPLORATION AND FORESIGHT

## 3.1

### ORGANISATIONAL PROCESSES FOR PLANNING AND EXPLORATION:

#### SCENARIO PLANNING, EXPERIMENTATION AND LEARNING

The superforecasters research discussed in Chapter 1 found that even the most expert forecasters struggle to predict possible futures with confidence beyond 400 days ahead. In an age of turbulence, it's extremely challenging for organisations to develop robust strategies and plans that are capable of remaining intact once they make contact with the real-life context of the organisation.

So, what should we do? Organisations today need a more adaptive approach to planning. They have to be prepared for a range of different future scenarios, know how they might act if different scenarios come true, and run smaller-scale experiments to test which responses might work before making 'bet-the-farm' decisions that lock the organisation in to a particular course of action.

In this section we explore how scenario planning, experimentation and 'just-in-case' preparation can help organisations develop adaptability and be prepared for even the most unlikely eventualities.

## 3.2

### SCENARIO PLANNING

Scenario planning is a method some organisations use to identify and make sense of multiple possible futures simultaneously. It first emerged after the second world war as a response to growing complexity, and in recognition of the impossibility of identifying all the forces that define the future. It is based on the principle that good

judgment is not about making binary forecasts, but about identifying and assessing multiple possible outcomes:

- What are the range of scenarios that might occur?
- What actions will we take if a specific scenario arises?
- How would we know that a particular scenario is coming true?

By generating multiple scenarios and mapping out potential responses, scenario planning builds the capacity to adapt to changing circumstances, and enables leaders to prepare for the emergence of unpredictable situations.



#### CASE NOTES SHELL

The energy company Shell has engaged in scenario planning since the 1970s. One scenario challenged the conventional wisdom that finite natural resources would always command rising prices, and allowed the company to predict and plan its response to the oil price shock of the 1970s. When the scenario came true in 1973, it had already taken steps to reduce stockpiles and costs, and this enabled Shell to move from being one of the weakest to one of the strongest global oil majors. More recently, Shell's scenario planning approach led to the company putting sustainable development on the corporate agenda earlier than competitors. (Heffernan, 2020).

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Scenario planning involves:

- Evaluating multiple options, including some that may seem outlandish or extreme, or are considered so unlikely that they are not receiving serious attention. For example, the impact of a virulent strain of avian flu, a major terrorist attack in a core market, or the company going out of business in the next five years.
- Determining the feasibility or probability of each coming true.
- Mapping out what actions to take in the event of different scenarios arising. This can include exploring what actions to take to increase the likelihood that the most desirable scenario would come to pass, or to avoid the least desirable.
- Keeping alternative scenarios under continuous review.
- Allocating resources to different scenarios based on the perceived likelihood of each occurring. This might include kicking off actions to prepare for more than one scenario.
- Scenarios should take account of soft data such as cultural differences in different markets as well as hard data.
- Asking questions such as “where is our current plan fragile?”, “what would really throw us off course?”, or “what would have to happen for that particular scenario to come true?”
- Experts recommend developing at least four scenarios, to avoid the natural tendency to pick the one in the middle.
- It’s also important to test the extremes by modelling low probability but high impact events.
- Experts also recommend giving each scenario a catchy, memorable name. This helps the scenarios become a living part of the corporate discourse. For example, in 2013 Shell published its ‘New Lens on the Future’ scenarios. Two scenarios – named ‘Mountains’ and ‘Oceans’ – set out contrasting views of key geopolitical trends, their likely trajectory into the future, and the implications for the pace of global economic development and the types of energy people use to power their lives.

The predictions themselves are less important than the quality of the response to them. The process of thinking through different scenarios often illuminates underlying drivers of change that are already at work and that the company will need to address. It can make the organisation better prepared to make sense of and

respond to new information more quickly. It also gives visibility to the underlying assumptions, which are often obscured in the typical spreadsheet-driven approach to planning in most organisations.

Exploring scenarios can also allow organisations to avoid groupthink by creating an environment where contrarian thinking is encouraged. For example, Shell has found that the practice of scenario planning has bred habits of challenge and scepticism among the people involved. It may well be that the greatest benefit of scenario planning is that it changes how people think.

## 3.3

## FROM ‘JUST-IN-TIME’ TO ‘JUST-IN-CASE’ PLANNING

Having defined the range of potential scenarios we might face, how far should we go in preparing the organisation to deal with multiple possible futures? Is it good enough to have plans filed away that we can metaphorically pick up and dust down as a particular scenario emerges? Or should we be actively preparing for multiple scenarios, making targeted investments to create bridgeheads from which we can advance when the situation changes rapidly? Should we act ‘just-in-case’ to be ready to manoeuvre early, or can we wait to activate plans ‘just-in-time’?

The answers to these questions will depend on a number of factors, such as just how fast the situation is likely to evolve once a specific scenario looks like it will come about, how high are the barriers to entering a new market, or how much it costs to prepare for different scenarios. It means trading off potential sunk costs incurred in preparing for a scenario that never comes about against leaving it so late to take action that the opportunity is missed or it’s impossible to catch up with competitors.



# EXPLORATION AND FORESIGHT



## CASE NOTES

### JUST-IN-CASE PLANNING FOR EPIDEMIC PREVENTION AND RESPONSE CEPI

Historically, developing vaccines to tackle outbreaks of infectious diseases has been a long, risky and costly endeavour.

Planning for emerging infectious diseases is especially challenging and developing and testing suitable vaccines is difficult. CEPI, the Coalition for Epidemic Preparedness, is a global partnership between public, private, and philanthropic organisations. It was launched in 2017 as a result of a consensus that a coordinated, international, and intergovernmental plan was needed to prepare for future epidemics. Its mission was to accelerate the development of vaccines against infectious diseases and enable equitable access to vaccines for people during outbreaks. CEPI's approach focuses on coordinating activities to improve the collective response to epidemics, to strengthen capacity in countries at risk, and to advance the regulatory science that governs vaccine development.

CEPI grew out of a recognition that the ambiguity and complexity of epidemics meant that prediction was impossible, and they had to think of other approaches that would work.

CEPI's approach sought to learn from experience of the 2015 Ebola outbreak in west Africa. While in some ways 2015 was a success (the vaccine worked), in other ways it was a failure as it took so long to develop the vaccine that many thousands of lives were lost. CEPI set out to identify how to be better prepared for similar epidemics in the future. At the heart of CEPI's approach is the idea that predictions and forecasts are not the answer – but preparedness could be.

One answer was to focus on developing more vaccines for the diseases that pose the biggest risk, and where a successful vaccine is most likely. Researchers

develop three to six vaccine candidates for each – 'just-in-case' candidates – recognising that some will fail. While developing several options may look inefficient – some of them, after all, might never be needed and some probably won't work – it makes it more likely that a vaccine would be at an advanced stage of development when an outbreak occurs.

The other key element to CEPI's approach is to recognise that close collaboration among partners would be essential to successfully developing and deploying vaccines, but that these relationships need to be forged before an outbreak happens. It was essential to develop a network of relationships of trust, reciprocity and generosity, ahead of time, that would facilitate the fast response required.

Therefore, as important to CEPI as the vaccines and manufacturing platforms are the human relationships between key stakeholders in the countries where outbreaks are most likely. Relationships have to be negotiated and nurtured, and a public that's suspicious of vaccines needs to be engaged ahead of time. So, in Nigeria, CEPI brought the key players together to make joint decisions about advancing vaccines at an early stage, so that when an outbreak happened, everyone had taken time to build a shared approach. CEPI created an ecosystem of partners with a mindset ready to adapt and evolve. Relationships were built before they were needed, and in some cases these relationships might not be needed at all. While this is inefficient, in complex environments, efficiency amplifies risk.

As a result, CEPI has been able to demonstrate the value of preparedness: the 2018 ebola outbreak in Nigeria did not develop into an epidemic, and within 11 days everyone who had been in contact with the disease had been vaccinated. (Heffernan, 2020).

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A potential criticism of 'just-in-case' planning is that it can be inefficient. After all, by preparing for multiple futures, not all of which will come to pass, some of that effort will prove to be redundant. However, Professor Chris Worley's research into organisation agility found that, contrary to what we might expect, organisations that demonstrate adaptability by delivering sustained high performance over the long term tend to maintain some 'slack' in the system where it matters. Agile organisations make sure they have sufficient capable resources (people, time, money and tools) to deploy readily to experiment with new ideas and exploit opportunities as they arise. While efficiency may be ideal for predictable environments, for example in manufacturing, agile organisations find they can't be 'lean-and-mean' always and everywhere. Investments in testing and learning mean they sometimes have to trade off short-term profitability for long-term growth. Therefore, those brought up on efficiency are ill-prepared for the demands of complexity.

## 3.4 THE POWER OF EXPERIMENTS

"Action is how you search."

MARGARET HEFFERNAN, AUTHOR OF *UNCHARTED: HOW TO MAP THE FUTURE TOGETHER*, 2020

When it's impossible to predict further than a few months out, it's important to have other ways of sounding out what's happening in your environment, and testing out which strategies might work. When it comes to existential threats, it's risky to put your faith in a single masterplan. This is where experiments come into play. Experimentation is an ideal response to complex, unpredictable situations, as experiments are relatively low-risk actions that can yield clues about where you are and what might work.

Experiments allow us to execute and learn at the same time. They are a pragmatic way of testing out the future. They allow us to develop and test hypotheses about how customers, markets or competitors are evolving. They enable us to build 'fast-fail' prototype products, services and business models, learn about what might work in different situations, and hold back scaling up a solution until there's a reasonable degree of confidence that it's going to be successful. Small bets can be quickly unwound if necessary.

According to Day and Schoemaker, experiments "can liberate [...] leadership from the false dichotomy of either overcommitting in haste or doing nothing while waiting to see how things play out. Rather than embracing an all-or-nothing approach, these staged commitments allow a leadership team to move onto new opportunities sooner and avoid defensive overreactions later."

When designing experiments, it's important to include a careful examination of *why* the results were achieved – particularly if the experiment was a failure – so the learning can be acted upon. Success is about finding the right idea *at the right time*, and sometimes a good idea emerges too early, before the ecosystem is ready to support and sustain it. This was true of the earliest forays into e-commerce, when unreliable dial-up internet connections and a lack of online payment platforms made online shopping a frustrating experience. 3M keeps failed experiments under review, which means they are poised to act when something shifts in the ecosystem to make an idea feasible. This allows them to retrieve an experiment, act quickly and stay ahead of the game.

# EXPLORATION AND FORESIGHT



## CASE NOTES EXPERIMENTATION IN PRACTICE

When Adobe first realised its market was moving away from shrink-wrapped software towards cloud-based software as a service, it chose to test different business and pricing models in one of its markets before moving wholesale to the cloud. It piloted a subscription-based model for its Creative Suite software in Australia. By offering both a subscription-based and traditional pricing model side-by-side, Adobe was able to test hypotheses about customer experience, pricing models, and service plans, and to iron out teething problems with the new service before deciding which model to roll out globally.

Zara, the Spanish fast fashion retailer, engages in what Gothelf and Seiden describe as a constant 'two-way conversation with the market'. The retailer produces as many as ten thousand designs annually, many of which are available only for a short time. It produces designs in small quantities, observes what works, rapidly communicates to design centres and adjusts production based on what it learns. Similarly, at any time Facebook may have many thousands of different versions of its platform running, as it constantly tests and refines the user experience.

Experimentation is how we all learn as humans. When babies learn to walk, they stand up and fall over multiple times before they can walk independently. However, executives often want safety and certainty, not the creativity and risk that come with experimentation. The irony is that the more executives expect certainty, the more they constrain their chance of mapping a sustainable future. We often hear a Catch-22 play out: we can't run the experiment unless we are certain it will work, and yet we can't know if it will work unless we experiment. The philosophy of getting things done fast and 'right-first-time' that characterises many modern organisations often inhibits learning.

Professor Amy Edmondson, who advocates 'execution-as-learning' enabled by experimentation, also cautions against running experiments only in best-case situations – for example, testing a new product with the most loyal customers who are bound to like it, but may not be representative of the broader market. It's important to run tests in more realistic, typical scenarios, planning for all the things that might go wrong. Learning – and not just making the idea look good – should be the goal of a pilot.

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## CASE NOTES

### DEVELOPING A CULTURE OF EXPERIMENTATION

Some organisations – Facebook and Zara are examples discussed above – have the idea of experimentation so baked into their organisational philosophy that, at any one time, they will be running many thousands of experiments. Is it possible to make a shift towards a more experimental culture in a traditional organisation? Heffernan (2020) recounts the experience of Oliver Burrows, Chief Data Officer at the Bank of England, which suggests sometimes the constraints to experimentation are more perceived than real. “Lots of people have only ever known control, so they think change has to come from the top,” he said. “So I’ve been quite deliberate, provoking people to challenge the constraints they work under, to ask if they’re real or meaningful – or just an excuse for keeping life simple.” It’s easy to make the assumption that organisations like the Bank are very hierarchical, but when Burrows dug into the governance, he found it was more permissive than he expected. “At my level, we all have quite a lot of freedom to decide *how* we achieve our objectives but it is a social norm *not* to use it.”

Burrows chose to experiment with different ways of working. He enlisted volunteers to share ideas, and found that people were inspired by the prospect of inventing change rather than having it foisted on them. He initially ran twelve experiments, some of which worked and some didn’t. The decision to allow anyone to sit in on senior management meetings didn’t take off, but suggestions of technical coding projects that the management team wouldn’t otherwise have considered, were successful. Burrows found that, by eliciting strategy ideas from the ground up, he could tap into a previously unexplored source of new ideas. By running experiments he discovered there was more give in the system than he had expected.

## 3.5

### DESIGNING ORGANISATIONS FOR FORESIGHT AND RESPONSIVENESS

“The wisest decisions are made by those closest to the problem – regardless of their seniority.”

**GENERAL STANLEY MCCHRYSTAL, FORMER COMMANDER,  
JOINT SPECIAL OPERATIONS COMMAND**

If your market is being disrupted, the chances are someone in the organisation already knows about it. The challenge is to make sure the design of the organisation creates the best chance of that information reaching decision makers who can act on it in a timely way.

We discussed above how organisations that are open to their external environment feel different in terms of culture and leadership behaviours. Agile and responsive organisations also look different in terms of their organisation design. CRF’s research on the design of agile organisations has found organisations that are more capable of sensing and responding to change tend to share some common features:

#### 1. They maximise the ‘surface area’ that’s in contact with the external environment.

Being able to pick up on weak market signals relies on having strong connections with customers, markets and the external environment rather than being parochial and obsessed with internal politics. Organisations can increase responsiveness to the external environment by:



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- Being close to customers and decentralising decision-making as much as possible. This means taking an 'outside-in' approach by viewing the organisation through the eyes of its customers, and cultivating external touchpoints where the organisation can learn from its extended network of partners, suppliers, customers and other external stakeholders. For example, both W. L. Gore and 3M – two organisations widely recognised for their innovation – send scientists and engineers out into the field to observe their customers and understand pain points.
- Valuing people close to the 'coal face' who have real insight about what's going on.
- Adopting flatter structures, with fewer layers, minimal hierarchy and broader spans of control. At W. L. Gore, once the workforce of a factory exceeds 150 people, it will build another self-contained unit next door. Founder Bill Gore understood that limiting unit size meant all workers could know one another, and share a commitment to group goals and values.
- Developing mechanisms for scanning the environment and identifying emerging customer needs or potential opportunities early.
- Using digital technologies such as customer and employee sentiment analysis or organisational network analysis to pick up on trends as early as possible.
- Creating channels for insights to be shared, for example by developing networks that cut across internal silos, and empowering those with the best knowledge to do something about them.
- Defining roles and responsibilities in such a way that people are expected to watch and understand the trends associated with particular stakeholders and bring those observations to bear on decisions.
- Being clear about who is accountable for acting on weak market signals.
- Designing rewards and incentives that value information sharing and risk taking.
- Enhancing the employee experience. Research by [Mercer](#) finds that companies with high employee experience ratings have twice the innovation and customer satisfaction compared to their lower-rated peers.

For example, in his book *Hit Refresh*, Satya Nadella, the CEO of Microsoft, describes his philosophy that it is everyone's responsibility to spot inflection

points and act on them: "We sometimes underestimate what we each can do to make things happen, and overestimate what others need to do for us. I became irritated once during an employee Q& A when someone asked me, 'Why can't I print a document from my mobile phone?' I politely told him, 'Make it happen. You have full authority.'"

## 2. They explicitly design the 'lateral' organisation that allows for collaboration across formal organisational boundaries and silos.

The formal organisation structure – the units, functions and divisions that appear on the organisation chart – often do not reflect how work actually is – or should be – done. As organisations grow in scale, so too does the complexity of the organisation design tend to increase. This can lead to complex matrix structures and a lack of clarity around who is responsible for what, which can slow down decision making.

Agile, responsive organisations tend to avoid allowing functional boundaries to slow work down. They do this by supplementing the formal organisation hierarchy with a more fluid, 'lateral' organisation design that allows for collaboration across organisation silos. The lateral organisation consists of processes, projects and cross-functional teams that complement the vertical hierarchy and allow work to be done effectively across organisational boundaries.

The lateral organisation is an important tool for managing complexity, allowing decisions to be devolved and made at speed. Decision bottlenecks can be avoided by empowering junior staff to resolve problems together with colleagues in other functions without having to refer decisions upwards. The lateral organisation also allows the organisation design to be adapted more rapidly and flexibly than changing the formal hierarchy. Focusing on lateral design allows organisations to respond quickly to strategy shifts without having to restructure every time.

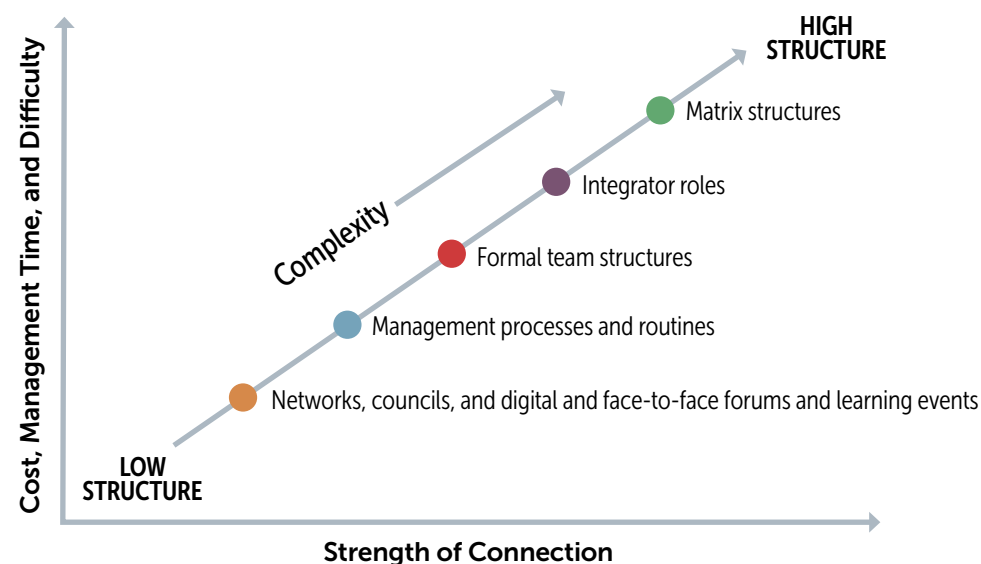
# EXPLORATION AND FORESIGHT

## Five Types of Lateral Capabilities

Jay Galbraith, a leading thinker in the field of organisation design, identified five types of lateral capability that can help an organisation to achieve the adaptability it needs to respond quickly to changes in the business environment. These capabilities sit along a continuum, reflecting the degree to which they are formalised.

**FIGURE 2**

Galbraith's continuum provides the toolbox for building the network



Source: Adapted from Galbraith (2002)

### 1. NETWORKS

Interpersonal relationships that co-ordinate work informally.

### 2. MANAGEMENT PROCESSES

Move decisions and information through the organisation in a formal flow. Recently we have seen agile management frameworks such as Scrum move out of software development into the mainstream as they are more broadly deployed, for example to develop new customer solutions.

### 3. TEAMS

More formal cross-unit structures bring people together to work interdependently and share collective responsibility for outcomes. These can be temporary project teams – or a more permanent arrangement such as a cross-functional team focused on a large global client.

### 4. INTEGRATIVE ROLES

Co-ordinating or boundary-spanning roles that orchestrate work across units. For example, some organisations have recruited Chief Digital Officers whose role is to coordinate the company's digital strategy across different business units.

### 5. MATRIX STRUCTURES

Formalise dual or multiple reporting structures in order to manage the conflicting needs of different dimensions of the organisation.

The key message is that creating an organisation that works well across silos doesn't happen by accident – it has to be explicitly designed. Lateral elements of the organisation design need to be designed with the same degree of rigour as the vertical structure.

For example by clearly defining accountabilities and hand-offs between different parts of the organisation, it's possible to reduce the risk of decision-making getting bogged down in the complexity of the internal functioning of the organisation. CRF's research report [Designing Adaptable Organisations for Tomorrow's Challenges](#) explores this topic in more depth.

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## CASE NOTES BIRD & BIRD

Bird & Bird, the international law firm, has developed a HR and Employment Law Horizon Scanning process that identifies key trends and coordinates its response across its global network. Its approach involves picking up employment trends in one part of the globe and analysing how these might play out elsewhere. It uses this information to advise clients on the issues that are likely to have a broader impact across different regions, and how they might prepare a coordinated global response. Examples of topics covered include the impact of automation on workers, the development of data protection laws across the globe, and developments in attitudes towards mental health at work.

According to Ian Hunter, Partner and Co-Head of the International Employment group, this has given the firm a competitive advantage over rivals, particularly with global clients operating in multiple jurisdictions. "Our competitors tend to work in geographical silos, which makes it very difficult for them to coordinate across different markets," he said. "Clients appreciate that by leveraging our global network in this way, we can help them identify early on the employment risks they might face, for example if they are planning an acquisition in a new market."

What's interesting about Bird & Bird's approach was that it did not come about as a formal, top-down process initiated by the partners. "It developed as an informal lateral network driven by junior lawyers who have a global outlook and could see the benefits for clients in coordinating across the firm," said Hunter.

### 3. They create new organisational forms that allow emerging businesses to thrive without being crushed by corporate bureaucracy

"Your organisation design has to be fluid and dynamic enough to allow you to do multiple things at once: running an efficient, profitable core business while establishing new ventures; creating space to work out how your core market might be cannibalised and developing your response quicker than anyone else."

**RUPERT MORRISON, CEO, CONCENTRA**

Organisations today face a paradox: shareholder demands and economic conditions mean they must achieve scale and operational efficiency, while simultaneously finding new sources of growth through innovation. However, the planning and reporting processes that enable established operations to be effectively managed can easily crush an emerging business which is being developed for the long term. Organisations that are focused on optimising core operations tend to have tight controls and governance, clear hierarchies and rigid processes. However, what is needed to support emerging opportunities is different: more fluid approaches to strategy, organisation and innovation, dynamic deployment of resources and non-hierarchical structures and processes that encourage collaboration. It can be extremely difficult to allow these approaches to co-exist in the same organisation. Holding those responsible for developing and growing new ventures to the same standards as the core business in terms of return on investment or regular reporting can stop innovation in its tracks.

A solution is to establish separate organisational units for emerging businesses, which operate independently of the normal chains of command, and may be governed by

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different processes. This is often referred to as the ‘ambidextrous organisation’ and is a way for large organisations to emulate smaller, more nimble businesses. Rupert Morrison, CEO of Concentra, said: “If you have vested interests in delivering results quarter by quarter, you are never going to develop the ability to disrupt yourself. You have to create a separate organisation, that’s focused on opportunities for cannibalising the core business and getting there faster than competitors.”

Organisational forms such as the ambidextrous organisation allow even large, complex organisations to create a ‘small company’ feel, which makes it easier to respond to market developments at pace. Creating small units focused on specific opportunities allows distinctive cultures and processes to develop, and can make it easier to attract the different talent needed to make the new business succeed. At the same time, being connected to the larger organisation gives the emerging unit access to the resources and executive sponsorship available in the larger organisation.

Other organisational forms that allow a more fluid, flexible organisation to be quickly established include networked or virtual organisations. Networked organisations allow multiple entities to collaborate to meet specific objectives, bringing together flexible sources of talent and capability. Virtual organisations remain nimble by outsourcing or crowdsourcing non-core tasks through a network of service providers.

## 3.6 THE ATTRIBUTES OF VIGILANT ORGANISATIONS

In summary, what are the key attributes that vigilant organisations demonstrate that distinguish them from their more vulnerable peers? Day and Schoemaker identify four behaviours that typically distinguish vigilant organisations and leadership teams.

- They exercise vigilant leadership with a deep sense of curiosity, embrace openness to diverse inputs, and project a willingness to play the long game.

- They invest more in foresight activities and adopt flexible, option-based approaches to help contain uncertainty.
- They adopt a flexible and adaptive process of strategy making that features outside-in and future-back approaches.
- There is coordination and accountability for acting on weak signals, reinforced by an organisation readiness to share information.

The figure below summarises what these attributes look like in practice.

**FIGURE 3**  
What is your vigilance quotient?

LOW	MEDIUM	HIGH
<i>Vulnerable Organizations</i>		<i>Vigilant Organizations</i>
<ul style="list-style-type: none"><li>• Short-term focus</li><li>• Conventional thinkers</li><li>• Limited interest in outliers</li><li>• Favor familiar settings</li></ul>	<b>LEADERSHIP POSTURE</b>	<ul style="list-style-type: none"><li>• Play the long game</li><li>• Willing to challenge assumptions</li><li>• Seek diverse inputs</li><li>• Involved in external networks</li></ul>
<ul style="list-style-type: none"><li>• Reactive posture</li><li>• Formulaic/budget driven</li><li>• Failures are errors</li></ul>	<b>APPROACH TO FORESIGHT</b>	<ul style="list-style-type: none"><li>• Disciplined search</li><li>• Flexible, real options approach</li><li>• Experiment-to-learn</li></ul>
<ul style="list-style-type: none"><li>• Inside-out thinking</li><li>• Avoid uncertainty</li><li>• Myopic and rigid process</li></ul>	<b>STRATEGY MAKING</b>	<ul style="list-style-type: none"><li>• Outside-in thinking</li><li>• Embrace uncertainty</li><li>• Built-in flexibility/options</li></ul>
<ul style="list-style-type: none"><li>• Operationally focused</li><li>• Information is silo bound</li><li>• Weak signals left unattended</li></ul>	<b>COORDINATION &amp; ACCOUNTABILITY</b>	<ul style="list-style-type: none"><li>• Focus on strategic accountability</li><li>• Information shared across boundaries</li><li>• Incentives for timely action</li></ul>

Source: Adapted from Day & Schoemaker, 2019



# COMMENTARY



Technology has revolutionised the way that businesses have acquired talent over the last 20 years. Corporate websites, online job boards, and social media are now amongst the most popular recruitment channels. These digital recruitment channels have made it easier for candidates to find and apply for vacant positions, as well as giving recruiters more places to advertise for new talent, but what will the future of recruitment technology have to offer?

New technologies are already helping businesses level the playing field for their international applicants. Video interviewing software and online assessment centres facilitate businesses interviewing a wider range of candidates, ensuring they can find the best applicants, wherever they are located. This may be particularly important for multinational companies who may not have HR support in every country they are hiring in. In addition, these technologies can help recruiters who need to find talent further afield, when they require skills that may be in short supply in their own country.

However, with these changing technologies comes a shift in the way candidates are applying for new roles. Most job applications can now be completed online with just a few taps on a mobile phone, making it

easier than ever for candidates to bend the truth in their CVs, hoping that it goes unnoticed. [HireRight's 2019 EMEA Report](#) showed that 83% of HR professionals have found candidates misrepresenting information on their job applications, with employment discrepancies being the most common. So how can you ensure that your future candidates are who they say they are and have the qualifications and experience that they claim? And how can you identify somebody who may pose a threat to your company's reputation or security?

At HireRight, we partner with businesses around the world to help them mitigate employment risk. We believe that screening candidates pre-hire, as well as periodically throughout their employment, is the best way to futureproof your workforce and minimise the risks that come with every new hire. While it can be difficult to predict if a candidate poses a threat to your business, background screening can provide extra information, verifying your candidate's history is accurate, so you can make well-informed, confident hiring decisions.

HireRight is pleased to co-sponsor this CRF paper, which looks at how businesses can ingrain vigilance and foresight into their workforce, to help them respond to trends, threats and opportunities. These are also key components of any successful background screening programme. Vigilance is required to identify the risks of any given role, to assess the level of background screening needed. And foresight into your company's future recruitment plans is essential to setting up a futureproof screening framework for your new and existing workforce.

I hope that you will find this paper a fascinating read, as I have, and wish you and your business every success in 2020 and beyond.

**Peter Cleverton**, General Manager EMEA, HireRight

## CONCLUSIONS AND RECOMMENDATIONS

# HR'S ROLE IN DEVELOPING FORESIGHT CAPABILITY



## 4.1 CONCLUSIONS

The business context described in this paper, characterised by complexity, ambiguity and a rapid pace of change, is unlikely to change anytime soon. However, many organisations are stuck in a status quo trap. They speak the language of transformation but are struggling to live it.

Therefore we have a responsibility to develop organisations that are capable of adapting and thriving in the face of uncertainty. The risk in sticking to what we know is that, although it may make us feel safer, it allows the gap between where we are and where we need to be to grow dangerously wide. Building vigilance and adaptability is not a nice-to-have: the future survival of our organisations depends upon it.

However, many of today's accepted business practices, while they might have been suitable for a more predictable era, are no longer fit-for purpose.

- For much of the last hundred years, we have been focused on turning business management into a science, where everything is seen as measurable and optimisable. In a complex environment, this may be the wrong thing to do. Instead, we need companies to be full of curious, observant explorers and makers of meaning who can articulate the company's identity and its relevance in the world.
- Many traditional business practices, specifically the focus on business planning as a numbers-driven process run by the finance function, have to change. Preparedness may be more valuable than planning. 5 year plans are most likely a waste of time, and expecting to predict 10, 20 or 30 years out is absurd.
- Instead of trying to predict the future, we would do better to sense it and act on what we see. As Satya Nadella advised the employee at Microsoft who questioned why it was hard to get things done, perhaps we should just get out there and make the future for ourselves.

# HR'S ROLE IN DEVELOPING FORESIGHT CAPABILITY

## 4.2

### RECOMMENDATIONS: HOW CAN HR HELP DEVELOP FORESIGHT CAPABILITY?

HR sits at a unique vantage point in the organisation. It is one of the few functions that has an end-to-end view of the enterprise. It has many touch points with the world outside the organisation, for example through interactions with headhunters, working with consultants, or collaborating with academics or business schools on leadership development. It has a say over the culture and design of the organisation. It has significant influence over who gets hired, how leaders are selected, developed and rewarded, and which leadership behaviours are valued.

HR is also well placed to track how the expectations of the current and prospective workforce are shifting. For example, the transparency fuelled by social media provides employees with an abundance of information about how companies conduct their business and means a single customer or employee can hold a company or CEO to account. Similarly, employees, customers and regulatory bodies are driving ethical and sustainable business practices. This is highlighted in research by [Mercer](#) which found that 38% of executives are taking on more responsibility for societal issues. HR needs to take account of this power shift in designing the external employer brand and internal employee experience to enable the attraction and retention of top talent.

In what ways can HR support the business in developing strategic foresight capability? And how can HR bring more outside-in thinking into its work?

#### 1. HR's role as member of the leadership team.

HR leaders can use their position on the leadership team to influence how strategy is developed, and to shape how the leadership team spends its time together. Some of the most effective HR leaders we encounter play a significant role in bringing the outside into the organisation. For example, by representing the customer viewpoint in leadership team discussions, organising the agenda for strategy away days, facilitating leadership meetings, or bringing in external experts to help the leadership team understand the implications of political, economic, technological, social and demographic trends.

##### Questions for reflection:

- How much time does your leadership team devote to exploring the future?
- Where do they go for inspiration, to stimulate ideas or understand key trends?
- In what ways can you influence the leadership agenda to make this a greater priority?

#### 2. Talent identification and resourcing.

A key deliverable for HR is to help the organisation source and develop talent to support both current and future operations. This starts with workforce planning – understanding what the organisation needs and the capabilities of the people you already have. Tools such as social network analysis can be used to identify who are the most influential voices in the organisation, whose insight and connections are most worthy of nurturing. When jobs are designed, it needs to be made explicit where future sensing is a key requirement of the role. Hiring criteria such as curiosity and critical thinking skills need to be prioritised and assessed during recruitment. It's also important to make sure that people who are different to the cultural norm or who bring a novel point of view are valued and nurtured, to avoid 'organ rejection'.

# HR'S ROLE IN DEVELOPING FORESIGHT CAPABILITY

## Questions for reflection:

- Do you know who the people are in your organisation who have a particular talent for spotting external trends and identifying future opportunities?
- Are those people well connected with senior leaders? Do leaders listen to them and act on their insights? Could their voices be amplified?
- How easy is it for people with different perspectives to be recruited and to be successful in the organisation?
- Are you clear about where in the organisation you need to invest in building foresight capability? Which critical roles should be targeted?

## 3. Deploying talent.

One of the most effective ways of helping people develop a broader understanding of the business, educating people about what's happening in the market and joining the dots between different parts of the organisation is to move people around. Mobility helps people understand the complexity of the organisation as they see and experience the whole system. It also builds social capital by helping people build relationships laterally. It makes it more likely that an emerging trend or practice in one area will be spotted and shared elsewhere. Organisations tend to be better at moving top talent around. However, it's often at the intersection of disciplines that opportunities or risks arise. Organisations that create dynamic flows of talent, avoiding people getting stuck in narrow disciplines, are at an advantage. One organisation that's designed for this is Arup. It has a fluid, project-based structure. People can self-select to participate in projects that allow them to develop new skills. Individuals are responsible for owning their own development plan and understanding enough about the available work to make good choices. The firm encourages people to volunteer for projects, and sees a higher level of commitment and enthusiasm when people self-select rather than being appointed.

## Questions for reflection:

- Are our talent processes sufficiently flexible and dynamic to allow talent flows at all levels across the organisation?
- Are there opportunities to create projects or other initiatives that cut across organisational boundaries, allowing us to deliver critical work while building social capital?

## 4. Developing leaders.

Leadership development can be used as a way of creating space for leaders to explore the future and practise sensing skills. For example, action learning projects can be created to bring leaders together to develop solutions to the key strategic challenges faced by the business. Simulations, games or virtual reality can help leaders develop adaptability by placing them in unfamiliar situations. Taking leaders out of the organisation to experience new industries or markets, or to meet customers and suppliers to understand how their context is changing, can open leaders' eyes to new possibilities. Rupert Morrison suggests using exercises such as imagining how a new competitor might disrupt your business to explore how the organisation might react, and then work out which of those options would be feasible to implement today.

## Questions for reflection:

- Do our leadership models prioritise capabilities we need to develop for future success or do they over-emphasise what made us successful in the past?
- Do leaders have opportunities to practise future sensing, or to imagine things they've never seen before?
- Could we do more to expose leaders to fresh ways of thinking, for example through reverse mentoring or partnering with start-ups?



# HR'S ROLE IN DEVELOPING FORESIGHT CAPABILITY

## 5. Improving foresight capability through training and development.

Training can help people get better at identifying trends and patterns, making good judgments and setting and learning effectively from experiments. Examples of investments we have seen organisations make include:

- Running foresight development programmes. For example, the California-based Institute for the Future runs a curriculum of foresight training that teaches tools and techniques for developing strategic foresight and leading large-scale change.
- The Good Judgment Project discussed in Chapter 1 has developed an online curriculum, Good Judgment Fundamentals, that teaches the foundations of superforecasting. It has found that individuals and groups can be taught to make better predictions by helping people understand the psychological factors that lead to biased probability estimates, or by training people to look out for confirmation bias that can create false confidence.
- Teaching techniques such as design thinking, agile development methodologies and scenario planning.
- Teaching people to speak up. For example, the Giving Voice to Values programme developed by Mary Gentile at the University of Virginia teaches people the best ways to speak up in order to effect change. The programme teaches how to define a problem, rehearsing how conversations might go and considering questions such as: How might the story end if you stay silent? How might it end if you don't? What do the key people concerned need to know – and how might they best be disposed to pay attention?

### Questions for reflection:

- What proportion of training and development spend is focused on building the skills needed to make sense of the future? Is this enough?

## 6. Organisation design and culture.

HR can have significant influence over the organisation design, but in practice many HR teams lack expertise and impact. Deepening knowledge and expertise in organisation design is something many HR professionals would do well to prioritise. HR can also play a key role as guardian of the organisation culture, for example through diagnosing the current state and leading culture change activities.

### Questions for reflection:

- In what ways does your current organisation design enable or work against agility and responsiveness?
- What lateral elements of the organisation design might need to be developed in order to increase communication and collaboration across organisational boundaries, to increase decision making speed and make the organisation more responsive to change?
- To what extent does the organisation culture support experimentation, inclusion and psychological safety? What needs to change?

## 7. Role-modelling the right behaviours in HR.

HR has an opportunity to lead the way in being externally-focused and future-oriented. Being on top of talent and social trends, bringing experts into the organisation to raise awareness of technology or industry trends, are all ways HR can take a lead. HR also needs to be deeply familiar with the organisation's strategic plans and scenarios to understand what they mean for talent planning and organisation design.



# HR'S ROLE IN DEVELOPING FORESIGHT CAPABILITY

## Questions for reflection:

- Where do you as an HR leader go to understand the trends shaping your industry and organisation?
- What's the state of your networks with peers from organisations outside your industry – external influencers such as academics, headhunters and consultants?
- How much time do you spend reflecting on the future and what it might mean for talent in your organisation?
- How well do you understand the different future scenarios being developed by the organisation?
- Are you clear how HR might need to respond differently to each scenario? Do you have 'just-in-case' plans ready to deploy as different scenarios emerge?

## 8. Communication.

One element that HR can drive is communications between the company and its employees to make sure the purpose and strategic direction of the firm is well understood. HR can do this by creating two-way communication channels to ensure that strategic priorities are effectively communicated and to test that employees are aware and understand. It can open up channels – such as hackathons – to allow employees to feed operational and customer insights into strategy discussions. HR can make sure scenario plans are widely shared and employees understand the implications of different scenarios for the business.

## Questions for reflection:

- How are scenario plans shared with the wider workforce?
- Do employees across the board know what issues concern leaders the most about the future of the organisation?
- What channels are available for employees to communicate directly with leaders about what's happening at the edge of the organisation? How well are those channels used?

## 9. Reward and recognition.

Reward policies and performance measures may need to be reviewed to make sure they promote the right behaviours.

## Questions for reflection:

- Are people who demonstrate important foresight skills adequately recognised and rewarded?
- Do our performance measures encourage innovation? Do people have a big enough stake in the organisation's future?

Shifting the organisation in the ways we describe in this paper is difficult work. However, in today's business context of continual disruption, building the capacity of the people and organisation to spot trends, and to develop and experiment with potential solutions faster than competitors will be essential to long-term survival. This is both a challenge and an opportunity for HR.

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CORPORATE RESEARCH FORUM

**Corporate Research Forum**

Southside  
105 Victoria Street  
London SW1E 6QT  
United Kingdom

T +44 (0) 20 3457 2640   [www.crforum.co.uk](http://www.crforum.co.uk)   [info@crforum.co.uk](mailto:info@crforum.co.uk)  
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