

Uncertainty is now the new normal

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ALTHOUGH a casual glance at newspaper headlines in most parts of the world indicate that we are returning to normal after the lockdowns of March and April, there is significant evidence to suggest that such optimism is misplaced — and the sanguineness will probably be dangerous for businesses.

Look past the silver lining, and the dark cloud of Covid-19 is very much still here. New cases grow exponentially in the US and Brazil, there are flare-ups and second waves in South Korea, Spain. Parts of Australia have had to lock down again.

A realist look at the evidence leads us to conclude that returning to the old normal - how we used to live and work in 2019, before physical distancing became a problem - will take a long time.

Most experts believe that normality can return only when a reliable vaccine or therapy is widely available. However, this will probably take longer than lay people expect, despite optimistic proclamations by politicians. Even if we were to break all previous records for finding and testing a vaccine, the best case scenario seems to be that it will take another year to find a vaccine that works reliably, safely, and durably. Once the vaccine(s) are found and validated, we would need to ramp up production, distribution and vaccination on a global scale. The logistics of doing this are daunting. And all this assumes that we find a vaccine that is safe and works reliably - which is by no means a certainty.

Much has been written on the economic damage imposed by lockdown measures to control coronavirus spread - but it is important to recognise that there is also enormous economic disruption if Covid-19 is allowed to spread uncontrolled. This will come from

nonlinear disruption to business from:

- Unpredictable shutdowns in ability to trade
- Clusters of cases causing employees to be absent
- Variable demand from consumers due to loss of work or access to consumption
- Disruptions to supply chains

These effects are already beginning to show in the US, and are likely to become abruptly more pronounced as the pandemic gets worse there.

Until a vaccine is widely available, prevention is the only viable strategy for controlling coronavirus spread. Physical distancing will have to become the norm. Large gatherings, especially in enclosed spaces, become ill-advised based on the documented cases of contagion at restaurants, entertainment venues, and places of worship. Businesses in F&B, entertainment and hospitality, where capacity must be limited and operating procedures will need to be redesigned, are hit. This means that product/service offerings and business models will have to change too.

There will also be much broader ramifications even for businesses outside these directly affected industries. For example, the configuration of office space will change, which in turns affects the economics and desirability of physical office space. Real estate and co-working are just two industries that will be impacted. More generally, existing business models in every industry will need to be re-examined. Some will no longer work, perhaps permanently.

In fact, the very nature of work and how it is done in most companies would need to change. This will also cascade down to company processes, such as recruiting, performance management, and other basic administrative functions.

These changes in businesses that are directly and indirectly affected will have to be in place until there is a vaccine - so they will have to last for at least a year. The long duration of these changes is likely to change habits so that we may never return completely to carefree global travel, large social gatherings, offices densely packed with workers, even the default of working in an office instead of remotely. What that post-vaccine new normal will be is entirely unclear.

Until that time, it is likely that we will see new clusters and flare-ups of cases now and then, as is already happening in Australia and Hong Kong. Tentative moves to open up can be quickly reversed, as has happened at state level in Texas and Florida in the US. It seems unlikely that these will turn out to be the only such incidents.

Economists have been arguing about the shape of what will happen to the economy in the future: Will it be a V-shaped rapid recovery, a U-shaped and more protracted recovery, or an L-shaped permanent output reduction? No one now expects that recovery will be linear and easily predictable. Instead, we should expect volatility, with economic activity surging and pulling back in inverse correlation with cases in the city, state or country.

While we await a vaccine or at least a therapy that works well enough to make contracting Covid-19 trivial, disruptions will become the norm, often from unexpected sources. This is an inevitable consequence of setting up complex, highly-optimised global supply chains with minimal room for error, which are vulnerable to disruption.

An outbreak affecting any one link can quickly cause the whole chain to collapse, and production to grind to a halt. This is because the shortage of any one part can halt the biggest production line. Hence the biggest risk to global industry is not that the mega multinational corporations shut down, but that they are forced to stop production because they have run out of one specific type of fastener, or packaging materials, or delivery drivers.

The near future, in other words, is not merely risky - it is truly uncertain. Risk treats the future as unknown but in known ways. In former US defence secretary Donald Rumsfeld's words, risk is known unknowns, while uncertainty is unknown unknowns.

To survive in this uncertain environment, businesses should adopt an uncertainty mindset. This means explicitly treating the future as unknown, assuming that it will remain at least partly unknowable in advance, and acting based on that assumption.

UNCERTAINTY MINDSET

The uncertainty mindset influences the design of business models - a business' product offering, value proposition, target customer segments and price points. Building a business model with the uncertainty mindset is inherently different from classical business modelling, which ultimately assumes a knowable future by projecting trends and anticipating changes when designing a long-term grand strategy.

In contrast, business models driven by the uncertainty mindset treat the future as unknowable, but incorporate realistic information that is currently available. These business models tend to be:

- Oriented around taking multiple small actions designed to be learning opportunities (instead of developing and committing to a long-term grand strategy in advance)
- Iterative by design, with each iteration building on information gathered in previous iterations (instead of one-shot, and solely built on information gathered in advance)
- Oriented towards survival in the near term (instead of oriented towards scaling or high profitability)

Operating models should also change in this time of great uncertainty. There are changes that will not be regretted even if the old normal were to suddenly return - and most of these are in employment and work patterns.

Companies should move from relying primarily on full-time employment to blending contract, freelance, part-time and gig employment. This greatly increases flexibility to adjust the workforce to accommodate unpredictable changes in the economic situation.

Another is to optimise operations for remote work. One of the most consistent findings in global surveys before the pandemic is that overwhelming majorities of workers would like some flexibility to work remotely, even if it just some of the time. This is especially pronounced among younger talent. This is part of the formula for creating work environments and situations that outcompete other companies. Companies that fail to support remote working will struggle to attract the kind of talent they need to drive their organisation forward - companies that double down on remote work will benefit from their competitors' failures.

These are not trivial changes. Changing business and operating models as outlined above would require doing things differently across the entire scope of the business. For example,

- Goal-setting moves away from purely fixed, concrete goals towards more open-ended goals that evolve with the situation
- How work is conceptualised, executed and measured in the company changes as people are forced to work remotely
- Hiring moves away from fixed job descriptions towards more open-ended roles, as it will not be possible to specify the scope of work in advance

- Decision-making mindset needs to not be anchored on cost-benefit analyses, given short-term survival focus

How companies run will need to evolve in anticipation of the new normal. This will require changes across the entire operating model, for example:

- Hiring moves towards a contactless model as you may not be able to meet candidates
- Performance measurement and management needs to evolve depending on how work has changed, eg focusing on key behaviours, or on group metrics if work is team-based
- Employee motivation becomes a more deliberate exercise, focusing not just on compensation and rewards, but on constant engagement and feedback
- Company culture needs to be redefined and updated for the new ways of working

While these changes may seem difficult, confusing or downright impossible, we argue that failure to act is not an option. If you stick to the old model, it is likely that the company will not be sufficiently robust if there is long-term/frequent disruption. Even if it could survive, it would likely be outcompeted by rivals who have explicitly evolved and adapted to the new environment.

Uncertain times call for an uncertainty mindset. The time to develop one is now.

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BUSINESS SENTIMENT COVID-19