In uncertain world, power to choose is competitive advantage

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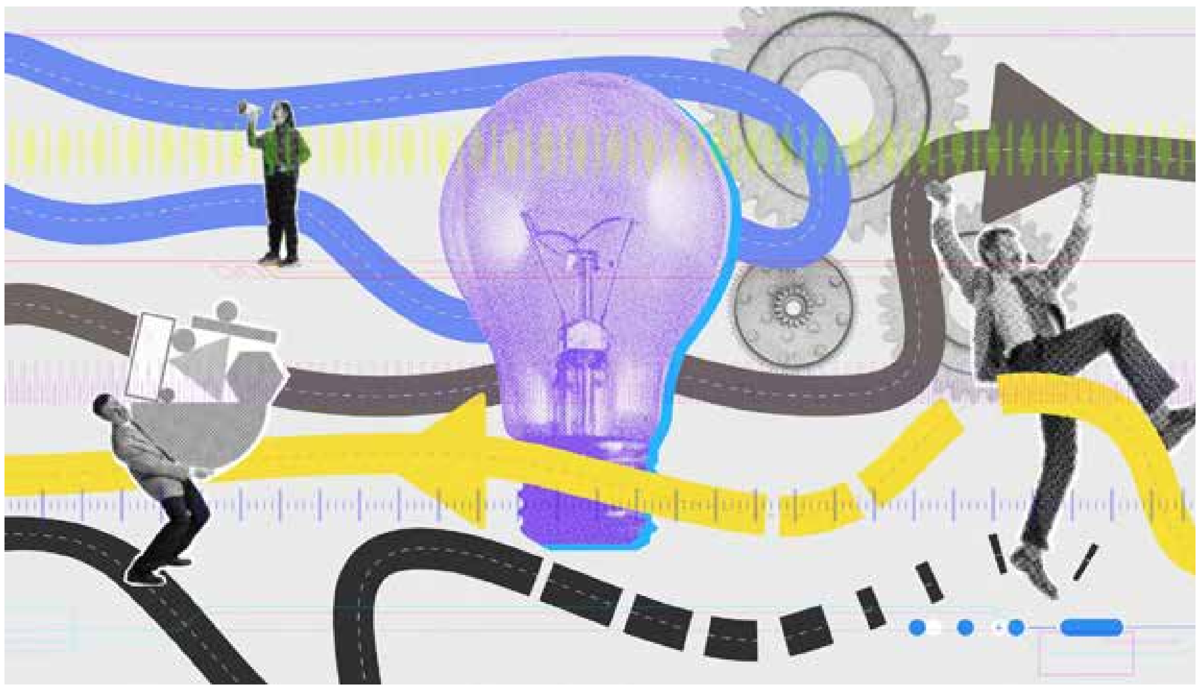
OPINION

EXCLUSIVE



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Corporate forecasting is a strange business. Companies spend vast sums predicting markets, demand, technology and the broader economy, yet many of the shifts that have reshaped entire industries over the past two decades appeared nowhere in anyone's five-year plan in a clear fashion. New technology platforms, supply-chain disruptions and sudden changes in consumer behaviour were rarely anticipated with much precision.

This is not simply a story about bad forecasting. It is a story about the limits of forecasting itself. Beyond a certain horizon, the future cannot be known in advance, regardless of how sophisticated the model or how extensive the data. Once that is accepted, the traditional model of strategy — predict, plan, commit — begins to look less like discipline and more like a comforting assumption.

The more useful response is not to abandon planning, but to change its purpose. In an increasingly uncertain world, strategy should not be about predicting the future with greater precision. It should be about building the capabilities, financial flexibility and decision-making systems that allow an organisation to benefit from several possible futures.

Consider two companies facing uncertainty over which of several emerging technologies will dominate their industry. One attempts to identify the winner and commits heavily to it. The other makes smaller investments across several alternatives, develops the necessary capabilities and waits for evidence before making a larger commitment.

The second company has not necessarily predicted the future better. It has simply preserved more choices. In a genuinely uncertain environment, that ability can be more valuable than being right at the outset.

Capital should create options

This principle has important implications for capital allocation. Most investment committees assess projects through expected cash flows, net present value, internal rates of return and payback periods. These measures remain essential, but they can overlook another source of value: the future opportunities created by an investment.

A modest investment in an emerging technology may generate little immediate financial return. Yet it could provide access to knowledge, talent, intellectual property, customers or infrastructure that becomes highly valuable if the technology succeeds.

The investment is therefore more than a project. It can be an option on a future market.

This suggests a question that should sit alongside the conventional investment case: What choices will this investment allow us to make later?

That does not justify funding every speculative idea. It requires discipline in identifying investments that create meaningful future choices rather than simply consuming capital.

Companies that evaluate every investment exclusively through near-term returns may, almost by design, underinvest in the experiments and capabilities that create tomorrow's opportunities. The cost of that mistake often becomes visible only when a competitor is better positioned to act.

Harder problem of leadership

Capital discipline is only part of the challenge. The harder problem is deciding how to lead when there is no clear answer. Uncertainty creates two familiar failures. Some organisations commit too early, investing heavily before they understand the underlying economics. Others wait for certainty that never arrives, allowing competitors to learn and move ahead.

Neither response is satisfactory. The more valuable leadership capability is the ability to act without requiring certainty. A limited experiment, pilot project or small market entry can generate information while keeping exposure manageable. If the evidence is encouraging, the organisation can scale. If it is not, it can withdraw before the consequences become material.

This also requires distinguishing between reversible and irreversible decisions. A decision that can easily be reversed should generally require less evidence and can be made quickly. A decision that commits substantial capital or fundamentally changes the organisation deserves considerably more scrutiny.

The amount of certainty a decision requires should therefore depend not simply on its importance, but on the cost of being wrong and the ability to recover.

From prediction to choice

Taken together, these ideas suggest a different approach to strategy. Organisations can use experimentation to generate information, use that information to narrow their strategic choices, and commit capital when the evidence becomes stronger.

Strategy, capital allocation and leadership must move together. An organisation cannot claim to value optionality while its investment processes reward only immediate returns. Nor can it create valuable options if its leaders are unwilling to act until uncertainty disappears.

The objective is not to remain flexible indefinitely. Optionality has value because it allows an organisation to delay irreversible commitment until it has better information, while still moving quickly enough to learn and capture opportunities.

This changes the meaning of long-term strategy. A five-year plan need not be a confident prediction of where a company will be. It can instead identify the capabilities, relationships and financial flexibility that will allow the company to succeed across several plausible futures.

Uncertainty, in this sense, is not merely a risk to be reduced. For organisations capable of responding when the picture becomes clearer, it can become a source of competitive advantage.

The strongest strategists of the next decade may not be those who can see furthest into the future. They may be those who understand which decisions to make now, which to postpone, and which capabilities to build while the future remains unclear.

When the future cannot be predicted, the smartest strategy may not be to make a better forecast. It may be to preserve the power to choose.

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