The Value of Foresight in a VUCA world – Results from a Survey of Organizational Foresight Capacity

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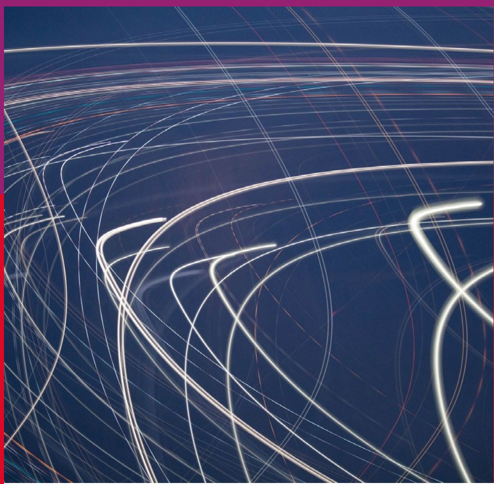

RESEARCH REPORT

The Value of Foresight in a VUCA world

RESULTS FROM A SURVEY OF ORGANIZATIONAL FORESIGHT CAPACITY

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Nürnberg Institut für Marktentscheidungen e.V.
Founder and anchor shareholder of GfK SE

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The Nuremberg Institute for Market Decisions (formerly GfK Verein) is a non-profit organization for the research of consumer and market decisions. At the interface of science and practice, NIM examines how consumer and corporate decisions in markets are changing. The objective is to better understand both the decisions of consumers and the decisions of marketing managers, and to use this knowledge to help improve the quality of market decisions.
The Nürnberg Institut für Marktentscheidungen e.V. is the founder and anchor shareholder of GfK SE. For more information, visit www.nim.org

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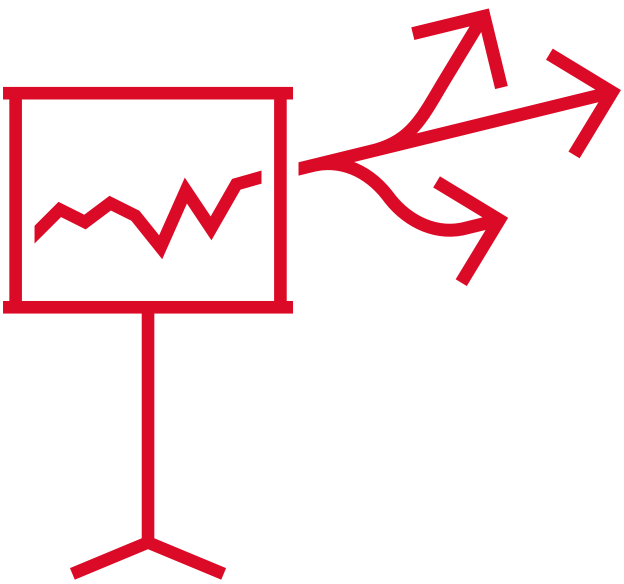
The value of foresight in a VUCA world

If anyone was still harboring doubts that we're living in a "VUCA" world, the coronavirus crisis has likely put them to rest. VUCA, an acronym for Volatility, Uncertainty, Complexity and Ambiguity, was first coined by the U.S. Army War College to describe post-Cold War geopolitics, but over the years it has increasingly come to be used to describe the market environment – or just the world in general. But while few would disagree with the general assessment that the world is, indeed, volatile, uncertain, complex, and ambiguous, not all companies experience it the same way. Some firms, even amidst the current chaotic environment, see their markets as more predictable than their peers do and research that we at the Nuremberg Institute for Market decisions have conducted suggests one reason might have to do with strategic foresight.



In contrast to reacting to short-term developments in the business environment, strategic foresight is meant to help organizations anticipate long-term change to make better decisions in the present day. But how do you measure and articulate the impact of strategic foresight? What is the difference between an organization that uses foresight effectively and one that doesn't?

To find out, the Nuremberg Institute for Market Decisions and Institute for the Future partnered to conduct 400 personal telephone interviews with high-level executives from large Europe- and U.S.-based companies and asked them about their current practices related to strategic foresight. What we learned is that executives from companies that rated highly in the "foresight performance" metric we applied in the study are more aware of larger issues beyond those specific to their industries, such as climate change and environmental degradation, even if the impacts of those issues may be felt on a time horizon that is longer than the usual 2-3 year planning cycles. And that there is some evidence that better foresight allows organizations to better deal with major system-level shocks like the COVID-19 pandemic, which took many companies by surprise.

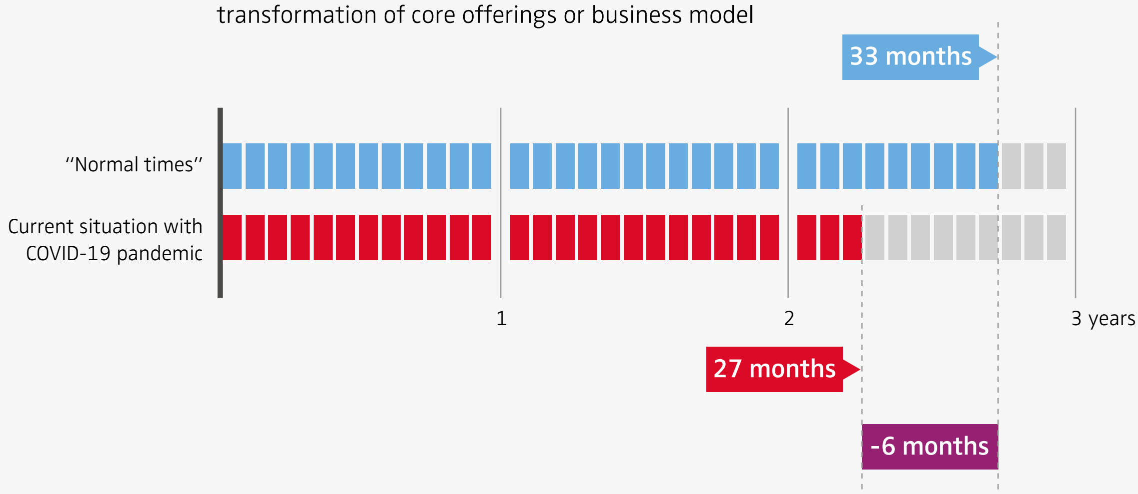
This article highlights what foresight professionals can learn from how top foresight performers organize their work and create value. Overall, our research shows that a relatively low number of executives rate foresight information sources in their companies as helpful for making decisions with strategic implications. We suggest redesigning foresight from an internal client perspective in addition to communicating the value and limitations of foresight more clearly to executives to set the right expectations.

The life expectancy of business models is on the decline

Already before COVID-19, the world was undergoing rapid change. It is therefore not very surprising that managers assume that their business models have a rather short life expectancy. If the COVID-19 pandemic didn't happen, the interviewed senior executives expect that their company's business or core offerings would need a fundamental transformation in about 33 months from now to stay competitive. Now, in a business world under the influence of the COVID-19 pandemic, the average life expectancy of business models is assumed to be only 27 months – about half a year shorter than before (Figure 1).

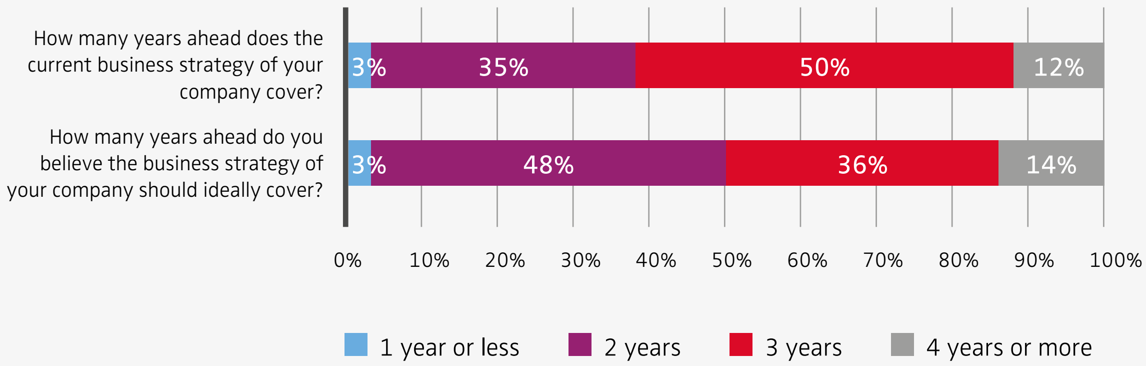
FIGURE 1 › The life expectancy of business models is on the decline

Average number of months that companies can be competitive without a fundamental transformation of core offerings or business model



 | Telephone interviews with n=400 high-level executives from the USA and Europe in April & May 2020 (non-representative sample)

FIGURE 2 > Planning horizons are rather short – 85% of respondents say their strategy looks two or three years ahead



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In other words, managers assume that they must restructure their companies about three to four times within a decade in order to remain competitive. Seeing business from that perspective makes it a process of constantly adapting to new circumstances and reinventing the business. It is therefore not very surprising that most companies plan just two or three years ahead in their business strategy (Figure 2). It seems that most managers are busy dealing with all the challenges in the short term and do not put much effort in planning further ahead.

Despite a rapidly changing macro environment, most decision makers are focused on comparatively narrow issues

While decision makers are currently focusing on the COVID-19 pandemic and its economic and societal consequences, we wanted to know what other challenges keep top executives up at night.

For many managers, we found that keeping pace with rapid technological progress and choosing the right technologies to invest in was their most pressing concern for the next 5 to 10 years (Figure 3). This was at least the most frequently given answer to an open question by our sample of high-level executives from Europe and the United States. The issue of dealing with new technologies was followed by the challenges posed by intensified competition, changing consumer behavior, and new compliance rules and regulations that force companies to change processes for things like collecting and handling personal data. In contrast to that, just a few respondents named the need to build more sustainable products, declining resource availability, or rising social inequality.

In order to obtain a more differentiated picture, we also confronted the executives in our study with a list of global developments that may impact every company's market to some extent and asked them to assess the market impact (Figure 4). The results are comparable to those from the open question

FIGURE 3 > Adopting new technologies is the number one top-of-mind challenges for senior executives

Question: From your point of view, besides the global coronavirus pandemic and its consequences, what is the emerging challenge with the biggest impact on your market in the next 5 to 10 years?

Top 10 coded open answers

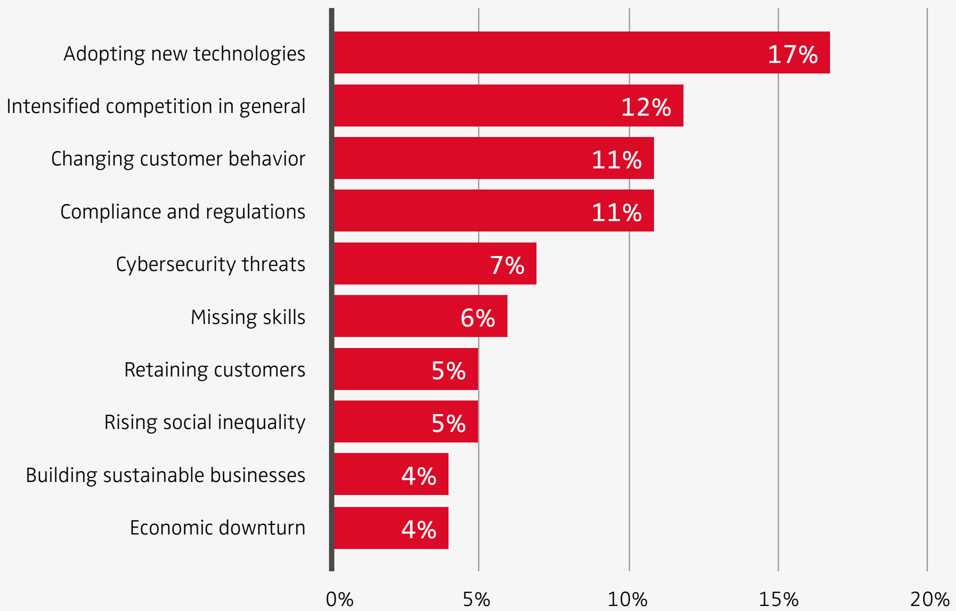

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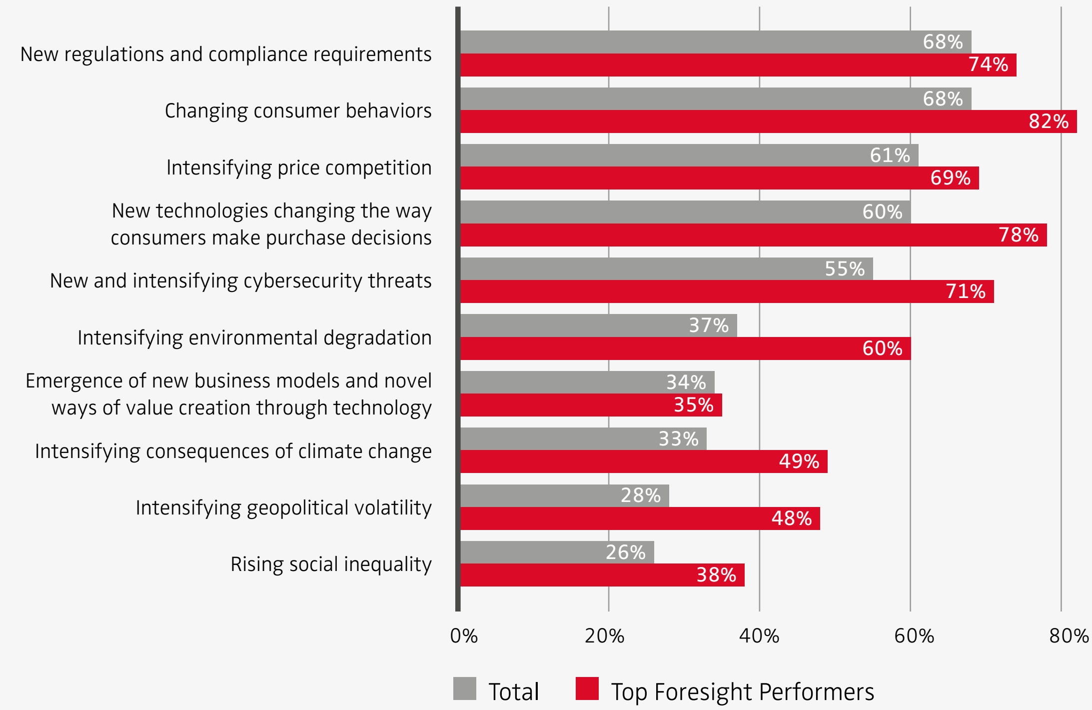
FIGURE 4 > Executives from companies that are top foresight performers are more aware of the impact of societal and environmental challenges on their markets

Question: To what extent will the following challenges directly or indirectly impact – either positively or negatively – what the market your company currently operates in will look like over the next 5-10 years?

Percentage of cases with answer "Strong impact" or "Exceptionally strong impact"



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mentioned above: more than 60% of the respondents perceive new regulations and compliance requirements, changing consumer behavior, intensified price competition, and new technologies that influence customers' purchasing decisions as having a strong or even exceptionally strong impact on their markets. Existential long-term societal and environmental challenges like climate change and its consequences or rising social inequality fall rather short in the top list of challenges. It looks like, despite a rapidly changing macro environment, most decision makers are focused on comparatively narrow issues – even when being asked to consider longer-term, foresight-oriented issues for the next 5-10 years.

To be clear: there is no doubt that technological development is one of the main drivers of change, that regulations are important constraints for businesses that need to be taken into account, and that new competitors need to be considered in strategies. However, underestimating the impact of long-term developments in the larger business environment may lead to severe risks for businesses that cannot be mitigated unless they act well in advance to increase adaptive capacity and build resilience. In addition, companies that do not see those long-term challenges as being among their problems will likely not be able to become part of the solution for these existential threats for humankind.

The value of foresight: understanding that businesses operate in a larger environment

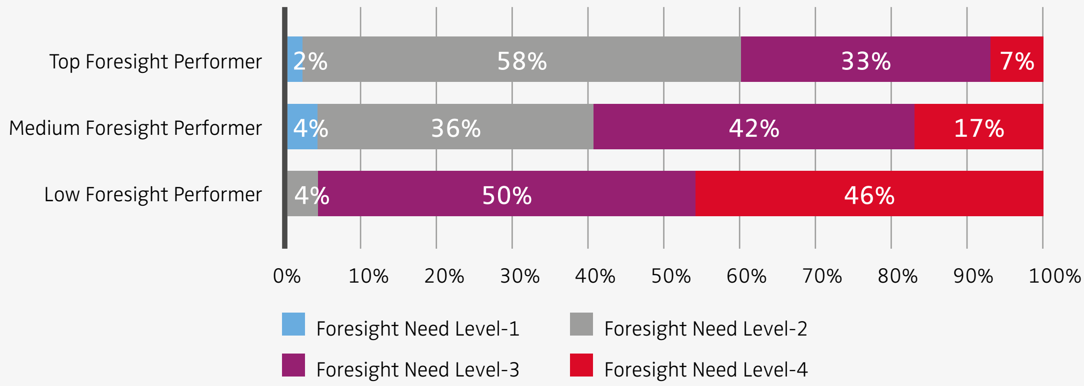
Executives from companies that are "top foresight performers" more often than average executives see a strong or even exceptionally strong impact of potential challenges (Figure 3). See Checklist 1 at the end of the article for how we measured foresight performance and take the test to check how well your company performs in comparison to our sample. On average, executives from top foresight performer companies apply a higher impact rating to all challenges. Differences between the top foresight performers and the average performers are particularly high regarding the more long-term environmental and societal challenges.

Executives from top foresight performer companies appear to better understand that their businesses operate in a larger environment where issues such as climate change and environmental degradation also matter – even if the impacts of those issues may be felt on a way longer time horizon than the 2- to 3-year planning cycles. We see such understanding as the first step toward better preparation and a prerequisite to create more preferred futures instead of just reacting to external impacts.

Our study suggests two major benefits of better foresight. First, executives from top foresight performers perceive their markets as less complex and more predictable than their competitors (Figure 5) – those companies with better foresight performance often have a lower "foresight need level." See Checklist 2 at the end of the article for how we measured "foresight need levels" and assess the extent of uncertainty in your business environment.

FIGURE 5 > Top foresight performers perceive markets as less complex or unpredictable

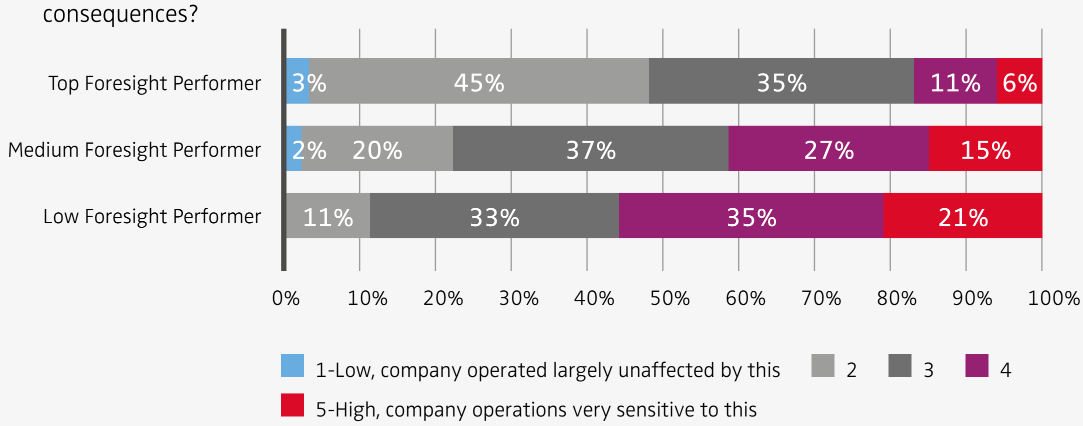
Foresight Need Levels: multi item index with lower values indicating less complex or more predictable decision environments.



 | Telephone interviews with n=400 high-level executives from the USA and Europe in April & May 2020 (non-representative sample)

FIGURE 6 > Top foresight performers are less impacted by the 2020 global coronavirus pandemic

Question: How strongly is your company currently affected by the 2020 Coronavirus pandemic and its consequences?



 | Telephone interviews with n=400 high-level executives from the USA and Europe in April & May 2020 (non-representative sample)

Second, top foresight performers appear to have been less affected by the 2020 global coronavirus pandemic, providing at least some evidence for the value of foresight for companies in the event of major shocks on a systems level. While 56% of executives from companies with low foresight performance reported that the pandemic had a high impact on their company's operations, only 17% of the top foresight performers reported the same (Figure 6).

Learnings from top foresight performers

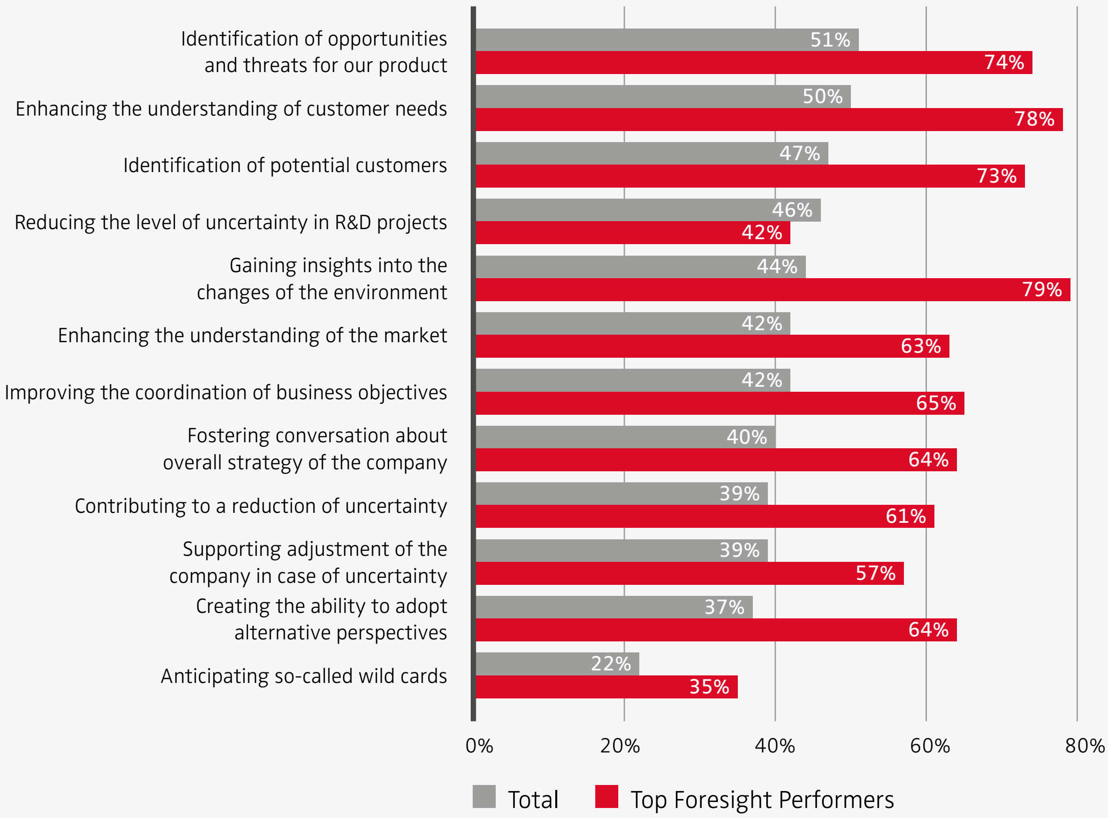
Managers at companies that are top foresight performers get, by definition, more value from foresight activities (Figure 7). And top foresight performers differ from the average company in some key ways.

In terms of the value firms get from foresight activities, the biggest difference between the average company and the top foresight performers is that the top performers seem to use foresight to generate specific information that helps managers

FIGURE 7 > Top foresight performers create more value for decision makers, particularly by providing more specific future information about markets and customers, and by helping them to broaden their view by adopting alternative perspectives

Question: What is the value that strategic foresight activities generate for your company? For the following list of potential value contributions, please indicate whether your company gets this value from strategic foresight activities.

Percentage of cases with answer "Yes, company gets this value from strategic foresight activities"



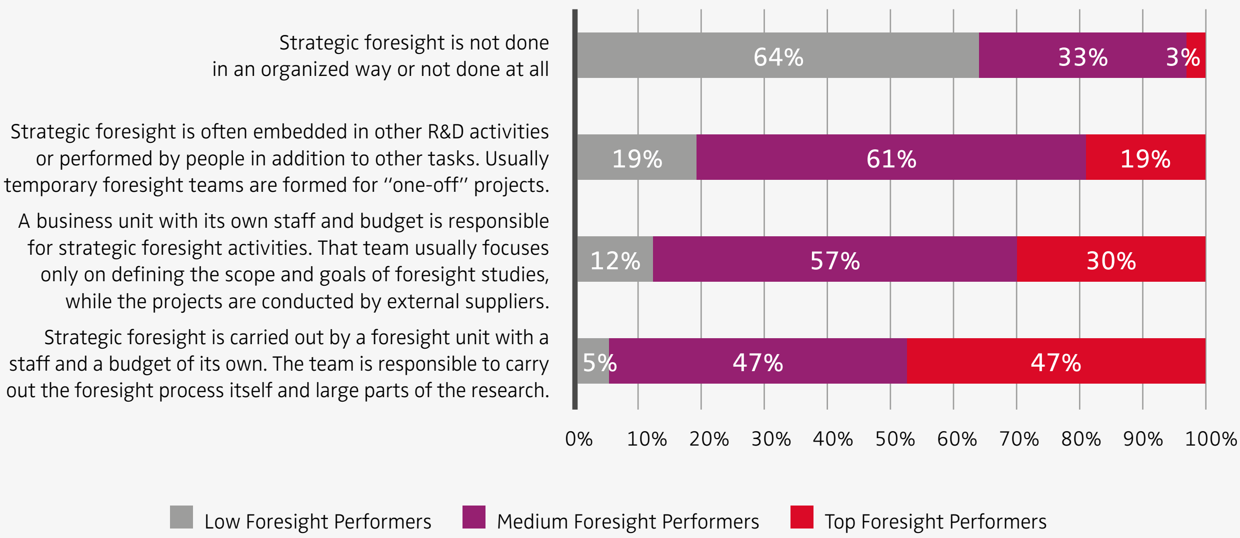
 | Telephone interviews with n=400 high-level executives from the USA and Europe in April & May 2020 (non-representative sample)

prepare their business for the future. While only 44% of all executives in our study say that strategic foresight in their companies helps them to gain insights into changes in the environment, almost 80% of the top foresight performers create that value for executives. The same applies to enhancing the understanding of customer needs.
In addition, top foresight performers seem to be able to help managers build the capacity to adopt alternative perspectives to a much larger extent. This suggests that top foresight performers not only deliver more specific information for managers but also help them to broaden their view and get a more open mindset.

Top foresight firms also treat strategic foresight as a job for properly equipped professionals. As Figure 8 indicates, a larger share of companies that have a business unit dedicated to strategic foresight, with its own staff and budget, fall into the top foresight performer category compared with those companies that see strategic foresight as a task in addition to daily business tasks. Unfortunately, relatively few firms in our sample have such units.

Despite the fact that a large majority (90%) of executives say that their companies are conducting strategic foresight activities in one way or the other, the group of companies that has a business unit with a staff and budget of its own is rather small. Only about a third of the interviewed executives work for such companies while more than half of the companies (57%) in our study see strategic foresight as an additional task for people with other jobs.

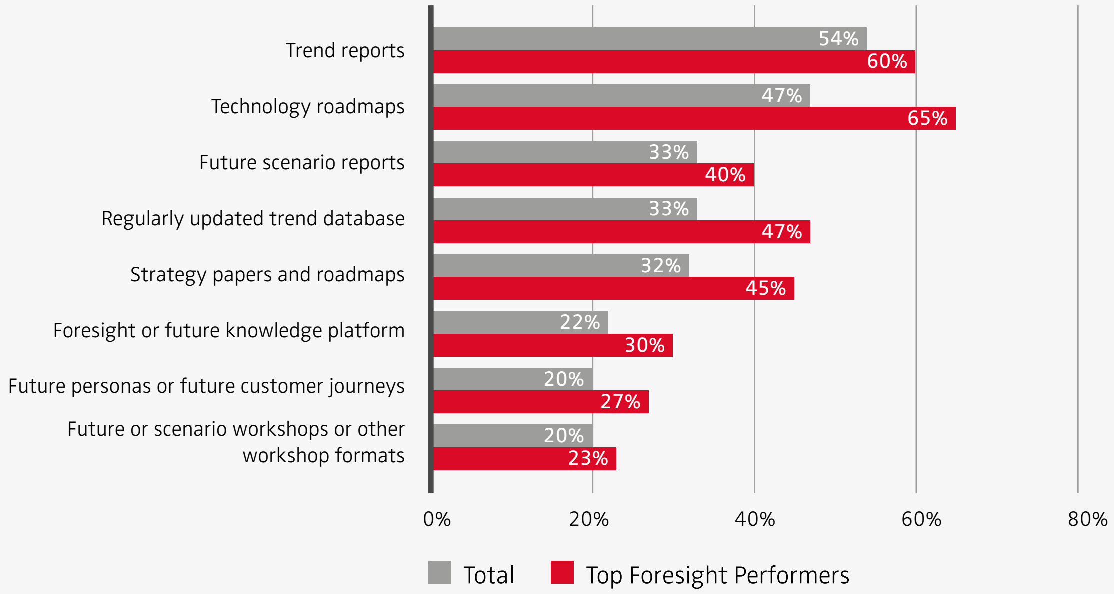
FIGURE 8 > Companies with business units and staff for strategic foresight generate more value for decision makers than companies that see foresight as a task for everyone



 | Telephone interviews with n=400 high-level executives from the USA and Europe in April & May 2020 (non-representative sample)

FIGURE 9 > Top foresight performers provide more helpful information for decision makers – who seem to be rather skeptical regarding foresight

Question: How helpful are these sources for business decisions with strategic implications from your point of view?



 | Telephone interviews with n=400 high-level executives from the USA and Europe in April & May 2020 (non-representative sample)

While it is not a complete surprise that companies with more budget and staff get overall better results from their strategic foresight teams, the executives' views on the helpfulness of different information sources for their business decisions with strategic implications may surprise some foresight professionals. The results in Figure 9 suggest that executives prefer reports over interactive formats like workshops. The sources that are rated as helpful or even very helpful by executives in our study are the more traditional reporting formats like trend reports, technology roadmaps, and future scenario reports. Overall, the ratings are surprisingly low.

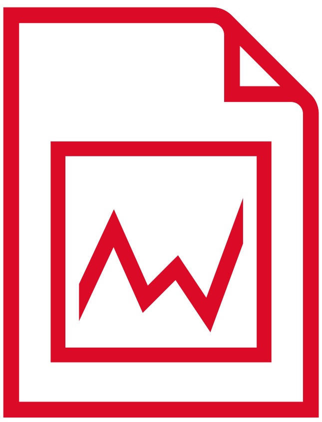
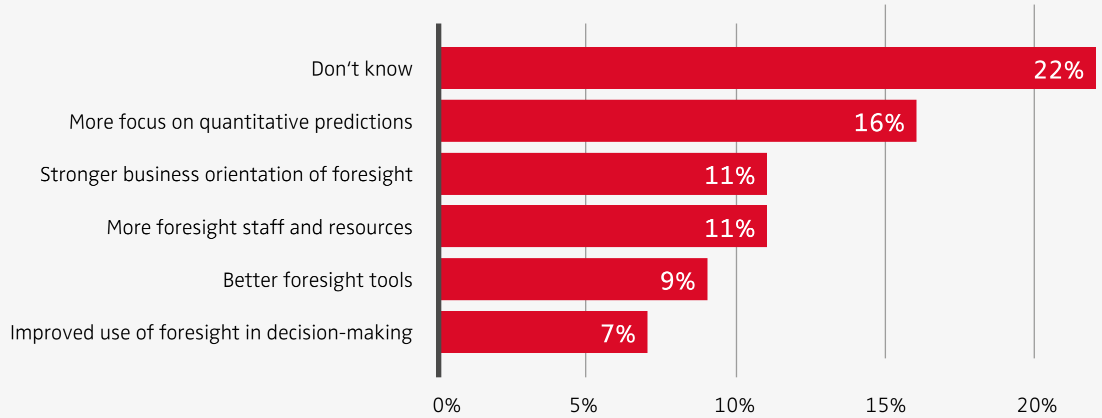


FIGURE 10 > Executives have a hard time naming ways to improve strategic foresight

Question: How could strategic foresight in your company be improved to better support decision makers in managing the company in general?

Top 6 coded open answers



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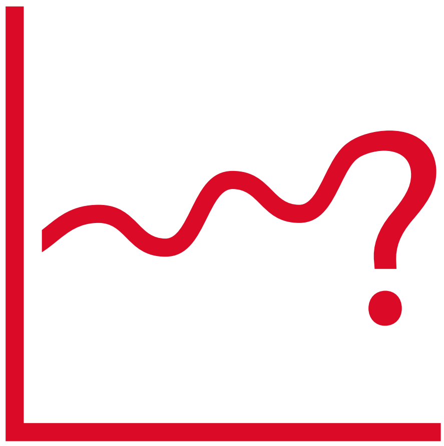
How would executives improve foresight in their companies? As Figure 10 shows, the most frequent answer for such a question was "Don't know." Second most often, executives expressed the wish for more quantitative predictions. While this is perfectly understandable, it may simply be impossible for cases in which strategic foresight focuses on exploring a range of plausible futures that cannot be quantified effectively.



Collaboratively reinvent strategic foresight with organizations' key decision makers

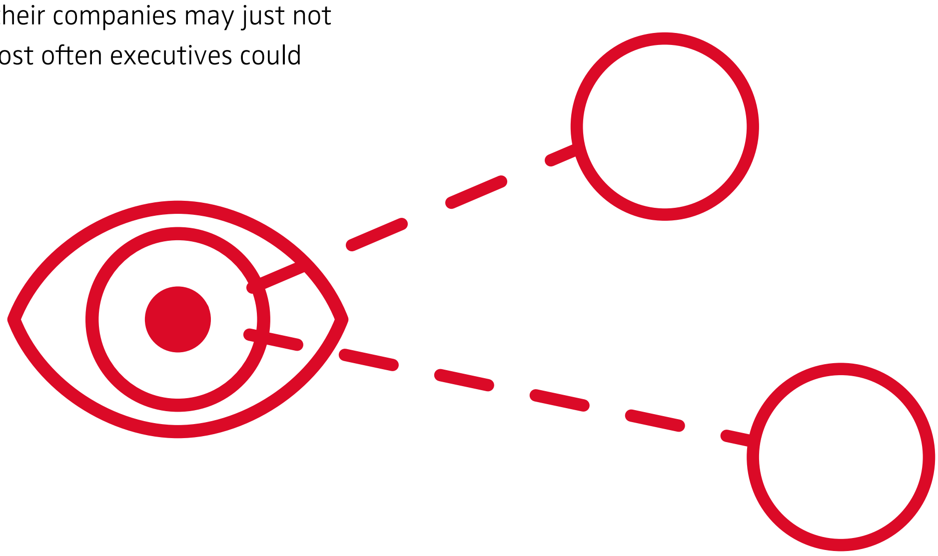
Some companies create significantly more value through their foresight activities than others. Many among those companies that create more value – the top foresight performers in our study – do not see foresight as a side job for regular staff but instead have a specific business unit dedicated to foresight.

Overall, the relatively low number of executives that rate foresight information sources in their companies as helpful for making decisions with strategic implications may be taken as evidence for a rather low level of "customer" satisfaction.

For low-rated formats like future workshops or simulation tools, it might make sense to check with the "clients" (aka the executives in the company), on what needs to be improved to create more value. Foresight professionals should bear in mind that foresight is not done for its own sake but for making better business decisions about the future.

Simply asking executives how they would improve strategic foresight in their companies may just not work – in our study most often executives could not answer that question. However, co-creating new approaches from an internal client perspective using methods from design thinking and business model design may prove more fruitful. The basis for the design of a new product or service in the value proposition canvas by Osterwalder et al. (2014) are the jobs that decision makers need to do, their pain points, and their potential gains. Methods that start with the problems and not with the product or service are strongly recommended.

In addition, some answers for the question of how to improve foresight suggest executives' expectations are not aligned with the value foresight creates. It may make sense for foresight professionals to communicate the value and limitations of foresight to executives more clearly to set the right expectations and help them to use foresight in the proper way so that they get better results and are better able to navigate our increasingly complex world.



Data & Methodology

To find out more about the value of foresight and the demands of decision makers, we targeted senior executives who report directly to the "C-suite" or executive board and are members of the executive management team in specific areas such as marketing and operations. Members of the C-Suite were specifically excluded from the sample. Instead, we chose senior executives right below the C-Suite who we assume are more likely to understand the issues "on the ground" and get more unfiltered information than the C-Suite. The targeted senior executives represented large, publicly listed companies with 250 or more employees, in the top five European Union economies and the top five state economies in the United States.

The survey began fielding on March 9, 2020 and continued through May 25, 2020. During the fielding it became clear that the COVID-19 pandemic would greatly affect businesses and we therefore added some questions to address it.

The survey was fielded by Beresford Research of Westport, Connecticut, using CATI (Computer Assisted Telephone Interviewing). CATI is a telephone surveying technique with questions displayed on a screen for the interviewer who enters responses directly into the computer program. Interviewers followed a standardized questionnaire developed by Nuremberg Institute for Market Decisions (nim.org).

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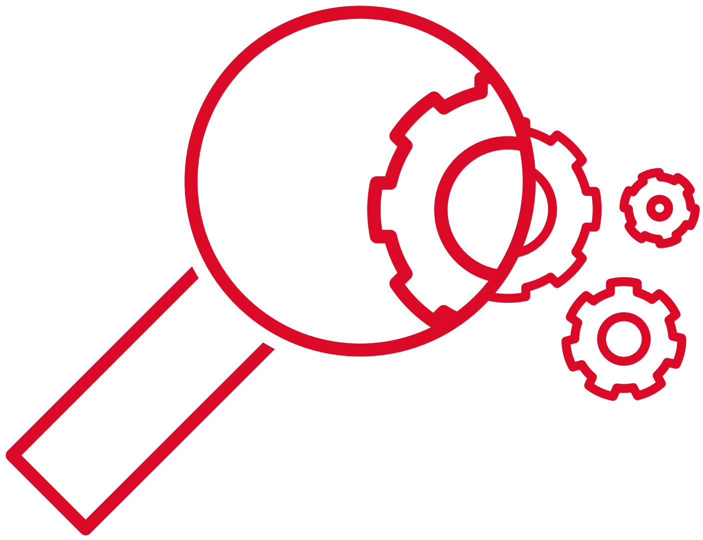


Checklist 1: Assess foresight performance at your company

To measure the performance of companies regarding strategic foresight, we asked executives in our study to assess the extent to which strategic foresight in their company is delivering different value contributions (scale based on Rohrbeck & Schwarz 2013). We used the answers to calculate a score (sum index) and calculated separate foresight performance indices for B2B companies, B2C companies, and companies that are both B2B and B2C. Using the index values, we classified the sample into top foresight performers and low foresight performers by selecting the approximately 20% of firms with the highest and lowest index values. The remaining firms were categorized as medium foresight performers.

Please follow the instructions below to calculate the foresight performance index[1] for your company:

1) Please think about the strategic foresight activities in your company. What is the value that strategic foresight activities generate for your company? For the following list of potential value contributions, please indicate whether your company gets this value from strategic foresight activities. Calculate the sum in the last row.

2) Sum up the columns in the last row of the table and compare the value with the following table:

Sum 0 to 12 ↦	Low Foresight Performance
Sum 13 to 18 ↦	Medium Foresight Performance
Sum 19 to 24 ↦	Top Foresight Performance

Value contribution	No	Partly	Yes
Gaining insights into changes in the environment	0	1	2
Contributing to a reduction of uncertainty (e.g., through identification of disruptions)	0	1	2
Fostering conversation about overall strategy of the company	0	1	2
Supporting adjustment of the company in case of uncertainty	0	1	2
Improving the coordination of business objectives	0	1	2
Creating the ability to adopt alternative perspectives	0	1	2
Reducing the level of uncertainty in R&D projects	0	1	2
Enhancing the understanding of customer needs	0	1	2
Identification of potential customers	0	1	2
Enhancing the understanding of the market	0	1	2
Identification of opportunities and threats for the product and technology portfolio	0	1	2
Anticipating so-called "wild cards", low probability, high impact events that, were they to occur, would severely impact the business	0	1	2
Sum			

[1] Simplified calculation based on question items from our study.

Checklist 2: How uncertain is your company's business environment?

The need for strategic foresight depends on the level of understanding of the market. To operationalize executives' understanding of markets, we created a relative measure for foresight need. This measure takes into account the complexity of the market environment and its predictability. Based on the assumption that the need for foresight is independently driven by the complexity of markets and their predictability, we operationalized foresight need as the maximum function of the average values of two brief multi-item scales for complexity and predictability (scales for market complexity and volatility developed by Day & Schoemaker (2005), calculation of index based on Rohrbeck & Kum (2018).

Please follow the instructions below to calculate the foresight need level for your company.

1) Answer the questions to assess complexity and predictability of your company's environment

Index 1: Market Complexity – How complex is the environment of your company?

How complex is the market structure of your company's market?

Fixed boundaries and simple segmentation ① ② ③ ④ ⑤ → Fuzzy boundaries and complex segmentations

Does your company have a high number of competitors?

Few competitors ① ② ③ ④ ⑤ → Many competitors

Are your company's competitors easily identifiable?

Competitors are very easily identifiable ① ② ③ ④ ⑤ → Competitors come from largely unexpected sources

Index 2: Market Predictability – How predictable is the environment of your company?

How well can the direction of technological change be forecasted in your company's industry sector?

Highly predictable ① ② ③ ④ ⑤ → Highly unpredictable

How well can the behavior of your company's customers be forecasted?

Highly predictable ① ② ③ ④ ⑤ → Highly unpredictable

How well can the behavior of your company's competitors be forecasted?

Highly predictable ① ② ③ ④ ⑤ → Highly unpredictable

How well can major changes in your company's environment be anticipated?

Highly predictable ① ② ③ ④ ⑤ → Highly unpredictable

2) Calculate the Foresight Need Level

Average value of **Market Complexity (Index 1)** questions: __________

Average value of **Market Predictability (Index 2)** questions: __________

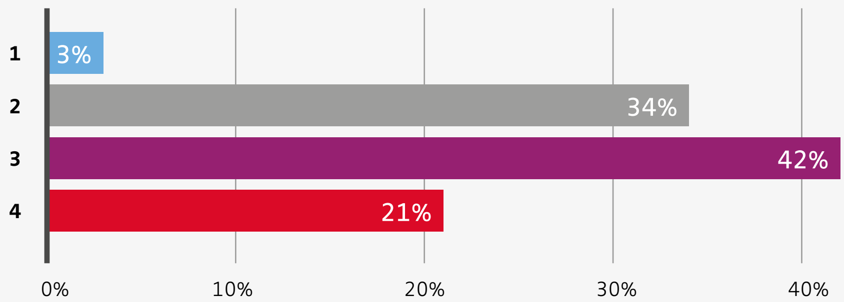
Take the higher value of the two index values and check the following table to get your Foresight Need Level:

Your value	**Foresight Need Level**
Less than 2	1
From 2 to less than 3	2
From 3 to less than 4	3
From 4 to 5	4

3) Compare your company with our sample

Need Level

Foresight Need Levels: multi item index with lower values indicating less complex or more predictable decision environments.



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