MANAGEMENT ACCOUNTING – BUSINESS STRATEGY

The examiner for paper P6 explains the commercial value of foresight and outlines some of the key methods available for envisioning the future.

Most managers look no further than two or three years into the future. This is the usual amount of time they spend in one post and, after that, it becomes someone else’s problem when they move on. After all, no one can really forecast the future, can they?

In the past, managers had the luxury of assuming that their business models were more or less immortal. Organisations always had to work hard to become more efficient, but they seldom had to worry about changing their core products and services. Of course, there will always be tremendous value in having a strong brand, a stable of loyal customers, excellent industry know-how, preferential access to distribution channels, unique physical assets and a strong patent portfolio. But the value of all of these resources has diminished steadily as the threats to momentum have increased in both number and strength. Technological advances, regulatory upheavals, political shocks, industry disintermediation, shifts in consumer tastes and the rise of non-traditional competitors are only a few of the forces undermining a company’s dominant position in an industry.

Why was it that IBM and Compaq understood the significance of the personal computer while DEC and Unisys did not? Why was it that Viacom and not Bertelsmann created MTV? Why was it that CNN rather than the BBC foresaw a world of global television news? This happened not because CNN did a lot of forecasting but because its bosses saw that things around them were already changing – things that had been missed by other broadcasters. There were changes in lifestyle, technology and regulation, all of which would have a significant impact when combined.

The challenge for managers is not one of prediction but of developing a deep understanding of the discontinuities that, if managed properly, could be the foundation of new opportunities.

Any organisation that can’t imagine the future is increasingly unlikely to be around to enjoy it. Living in the present, caught inside conventional views of standard practice and concerned only about half-yearly results, many managers fail miserably at the task of “visioning” what could be around the corner. If their goal is to shape the future, rather than be victims of it, then companies must live in the future. It must be perceived as effectively and as tangibly as the present. The only dependable competitive advantage a company can have is the ability to reinvent its business model before circumstances force it to do so. Unfortunately, for many businesses the future is more unthinkable than unknowable; more unpalatable than inscrutable.

With this in mind, boards must develop vision and foresight. Foresight has been described as the art and science of anticipating the future. Unlike forecasting, foresight does not attempt to predict the future. The concept is about “rehearsing” alternative futures for an organisation. This is particularly true of the societal and technological elements of Pest analysis, which tend to have longer timeframes.

All foresight techniques assume that actions taken today will shape the future. Such methods allow us to think seriously about significant technical trends and their relationship to socioeconomic needs.

Within this general view of foresight, there are many purposes for which it can be used. In 1996 the Organisation for Economic Co-operation and Development (OECD) defined technology foresight as “systematic attempts to look at the longer-term future of science, technology, economy and society with a view to identifying emerging generic technologies likely to yield the greatest economic and/or social benefits”. This emphasises the potential of foresight to help researchers, and those making public investments in research, identify new technologies with particularly big long-term benefits for society and/or which help to meet societal goals in the longer term. The OECD definition gives a direct link between foresight and priority-setting, but there are a number of uses for the outputs of foresight that go beyond it. These include:

- To clarify thinking about fields and targets that are regarded as important in the long term (up to 30 years).
- To set priorities within broad fields of technology – eg, nanotechnology.
- To prioritise among broad fields of science and technology.
- To identify fields of “technology fusion” and co-operation that may be overlooked because they fall across or between administrative or discipline boundaries.

The process benefits of foresight are often cited as being equally critical, particularly in a business. Involvement in foresight processes can overcome vested interests, expand mindsets and help participants to form new strategic views on research activities and user needs. The use of foresight methods will often persuade participants to buy into, or even develop, an organisation’s strategic vision.

These aspects of the process have been summarised by John Irvine and Ben Martin in

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their book Research Foresight: Creating the Future (Netherlands Ministry of Education and Science, 1989) as the “five Cs”:

- Communication: bringing together disparate groups of people and providing a structure in which they can communicate.
- Concentration on the longer term: forcing individuals to focus seriously and systematically on the longer term.
- Co-ordination: enabling different groups to harmonise their future R&D activities.
- Consensus: creating a measure of agreement on future directions and research priorities.
- Commitment: generating a sense of commitment to the results among those who will be responsible for translating them into research advances, technological developments and innovations for the benefit of society.

Many of the best-known foresight methods were designed by US military planners when the cold war made it critical to “think the unthinkable” and be prepared for it. Many of those planners joined the Rand Corporation – the first think-tank – and developed a range of new methods of thinking about the future. The task of these so-called futurists was to consider what technologies might emerge and how these might affect national security. Today, most western governments have a department that uses foresight methods to aid policy decisions. The UK’s is contained in the Office of Science and Technology (www.foresight.gov.uk).

Futurists argue that the future is continuous with the present, so we can learn a lot about what may happen in future by looking systematically at what is happening now. The most important things to monitor are not only events (sudden developments) but trends (long-term shifts in such things as population, land use and technology).

A number of techniques can be used to improve an organisation’s foresight. They include the following:

- **Scenario planning.** A scenario is a plausible picture of what an industry might look like in future. By conducting an environmental analysis; identifying major uncertainties, drivers and causal factors; and then combining these into internally consistent and plausible stories, an organisation builds a number of alternative futures for its industry.

- **“Visioning.”** A possible or desirable future state of the organisation is developed as a mental image by the management. This vision may start off as vaguely as a dream but should be firmly put up into a concrete statement of where the organisation wants to be. The critical point is that the vision articulates a view of a realistic, credible and attractive future for the organisation – a condition that is better in some important ways than its current state.

- **The Delphi method** is a technique for systematically gathering expert opinion. A carefully selected group of experts are sent questionnaires seeking their insights on a particular trend and how it may develop. The responses are summarised and the results are returned to the respondents, who have the opportunity to re-evaluate their original answers based upon the responses of the group. This process is repeated a number of times until a consensus is established. The respondents do not meet, or even know the identities of, their co-respondents.

- **Morphological analysis** involves the systematic investigation of all the components of large-scale problems, products or processes. A matrix is used to identify new, reasonable, combinations of these components that could result in plausible new outcomes. The results are, by definition, qualitative. The technique can be used to identify non-obvious opportunities for a company. At a different level, it can be used to identify products and processes that competitors might be developing or considering.

- **Relevance trees** are a systematised approach that starts with a clear goal. The desired outcome is traced back through the trends and events on which it depends so that the organisation can determine what needs to change or be developed for the desired outcome to be achieved.

- **Issues analysis.** Issues arise through the convergence of trends and events. A trend is the trajectory an issue takes because of the attention it receives and the sociopolitical forces that affect it. This convergence usually manifests itself because: there are unfavourable events in the industry; there are sudden unanticipated events in the industry; public-interest causes become more important; or there is increased political pressure. The issues should be analysed in terms of their impact on the organisation and their probability of occurrence.

- **Opportunity mapping.** An opportunity map is a qualitative and experience-based analysis aimed at identifying gaps in the current environment in order to reveal new business opportunities. The analysis is often structured through a matrix of roles, career stages and tasks, or a description of activities, information sources and needs. Opportunity maps aid the discovery of desired organisational characteristics.

- **Cross-impact analysis** involves recording events on a matrix and at each matrix intersection asking: “If the event in the row were to occur, how would it affect the likelihood of occurrence of the event in the column?” The judgments are entered in the matrix cells. Cross-impact analysis is concerned with the identification of possible outcomes and is a systematic way to examine possible future developments and their interactions.

- **Role-playing** involves a form of group judgment. The technique was one of the first used by the Rand Corporation since it built on the techniques used to second-guess the enemy in military exercises. A group of people are given a description of a hypothetical future situation. They are told to behave as they believed they would if that situation were true. Analysing their actions gives useful insights and depth to the original hypothetical description. This is not a complete list and you may wish to conduct further research to find out about other foresight methods that are in use.

Foresight, then, is a skill developed by organisations (or those who manage them) to capitalise on the inevitable surprises that the future brings. As Paul Baran, a former Rand Corporation futurist and one of the founding fathers of the internet, said: “No one is ever as shocked and surprised as when the inevitable occurs.” So it’s better to be prepared and to think the unthinkable, as futurists encourage us to do.