# To create value in the COVID-19 era, set aside standard risk management



It's often been said that nothing is certain in this world except death and taxes. Now the COVID-19 crisis has brought uncertainty to dizzying new levels. For the past few months, the world has been grappling with unanswerable questions – from pangolins and masks at the height of the crisis, to economic damage and a possible new normal in recent weeks. Yet, although it seemed lockdowns were slowly lifted and business picked up again, the early fall dynamics prove that the fog has not cleared and is not likely to clear quickly. Uncertainty has seeped into every domain on a massive, unprecedented scale. Companies must navigate more unknowns than ever in the aftermath of the crisis: Will our business model still work? What do we do if it does not?

Those life-and-death questions (yes, they *are* questions of survival) are par for the course for entrepreneurs. In fact, it is pretty much a tenet in the field of entrepreneurship that the ability of entrepreneurs to interpret and respond to [...] uncertainty [...] determines the degree of success or failure achieved by the venture. We believe that "uncertainty competence", or the ability to create new value in the face of uncertainty, is a necessary skill in all companies, even the most established ones, to adapt to the post-COVID-19 world. However, as present as uncertainty may be, there is substantial confusion about its real nature and implications.

# How uncertainty is different from risk

Frank Knight's seminal work on the matter was written almost a century ago, yet is still relevant. Knight defined true uncertainty as a situation in which there is no basis for classifying potential outcomes. Conversely, risk can be quantified, with probabilities assigned to possible future outcomes. But in the context of the Covid-19 crisis, there is no solid prior experience, hence no way of estimating the likelihood of different scenarios, or for some even no way of knowing the range of possible scenarios. Uncertainty permeates everything: What can I do now that will make me successful given all these new circumstances? But while uncertainty is different from risk, from a business perspective is it important to view uncertainty, risk and certainty on a continuum that companies have to navigate. And the degree of uncertainty therefore determines the choice of the right tools and concepts to use.

## Tools to handle (and decrease) uncertainty

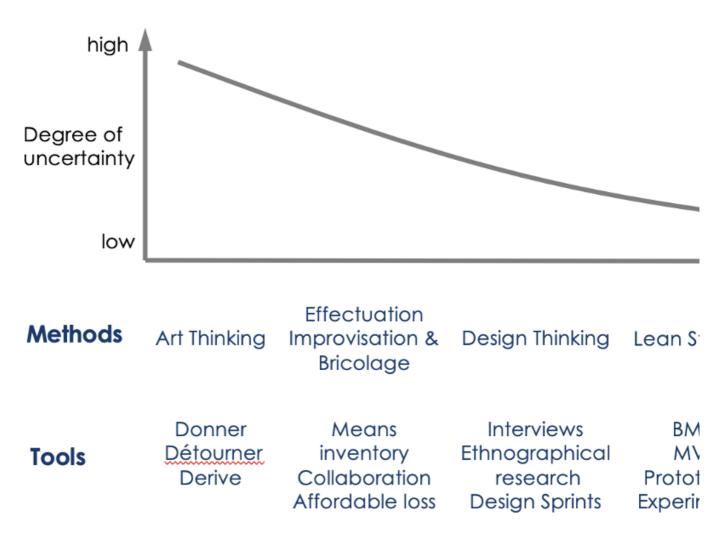
Standard management practices adopted from the realm of business administration (business plans, pitching, market analysis...) may have been helpful in making burgeoning ventures more professional, but are less so when dealing with uncertainty. On the contrary, approaches such as design thinking, improvisation, effectuation and bricolage, are effective under uncertainty, as they allow entrepreneurs to explore and co-create possible futures. These tools and methods are based on small iterations (testing and experimenting), agility, early customer interaction and collaboration – all principles which, over the past decade, have sparked interest even in traditional companies in their permanent quest for innovation. Now that even the most established organisations are in a post-coronavirus haze it is time for them to build uncertainty competence. We even call for it to become a fundamental element of today's management education included in business school curricula.

#### The three steps to building uncertainty competence

# 1. Broaden the range of decision logics

Leaders, managers and employees need to have the knowledge to assess the specific decision-making situation they are in, determine its position on the uncertainty spectrum, then decide on an adequate approach. For instance, in the face of high uncertainty, business planning is not only time-consuming but also ineffective. We therefore propose that companies develop and allow a wide range of decision logics with matching methods and tools, again borrowed from entrepreneurship.

Figure 1. Entrepreneurship as uncertainty reduction



Source: own visualisation based on Grichnik et al. 2017

#### 2. Shift from an optimisation mindset to an exploration mindset

Methods and tools most suited for highly uncertain situations have a bias towards action, collaboration, iteration and customer centricity. In order to successfully apply them, people must shift from an optimisation mindset (finding the best solution to a problem) to an exploration mindset. We need to become a lot more like artists. The required mindset allows acting without knowing what the right direction is. Failure needs to be part of the process – not quite a standard operating procedure in companies today.

### 3. Develop leadership and make room for creation

While company rules are not always conducive to creation and emergence, it is up to leaders to be aware of this limitation, and make room for the entrepreneurial mindset to explore. This room comes through developing leadership skills in people who are supposed to do [exploratory] projects, they need to feel safe in following their procedures and take other people with them on their journey of exploration. However, this is not about replacing an existing operating system with a new one, but rather about running the two in parallel and creating fruitful connections.

The project of building uncertainty competence – a worthwhile investment – is in itself... a decision under high uncertainty.



#### Notes:

- This blog post is based on the paper <u>Building uncertainty competence</u>: <u>applying the entrepreneurial method</u>, ESCP Impact Paper No. 2020-13-EN. See the "Managing a Post-Covid19 Era" <u>series</u>,
- The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.
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