When It Takes Senior Leadership To Help Forecast The Future

Latest research suggests that companies can do better in preparing for the future when breaking both established routines of future forecasting and embarking on seemingly counterintuitive procedures. When and how to break away from forecasting routines.

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Senior leaders apply a simple rule when deciding whether to delegate a problem to their management or to deal with it themselves. Speaking plainly, there are two categories: challenges that require persuading corporate staff to a new course of action and necessitate translating visions to routines are reserved for senior leaders. When it comes to dividing and integrating work using established procedures, on the other hand, you are dealing with executive issues, no matter how technologically complex they may be – this is the domain of mid- and lower level managers. Latest research suggests that companies can do better in preparing for the future when breaking with established routines of future forecasting and embarking on seemingly counterintuitive procedures – something that is requiring leadership's full engagement in convincing and enabling their staff to come along.

Forecasting trends – e.g. pertaining to the global competitive environment or customer behavior – is a technologically complex set of tasks. Many of these can, however, be addressed by simply following standard routines – predefined exchange patterns among selected employees.

To assess likely developments in their global competitive environments, for example, firms will usually bring together senior managers and external consultants from think tanks on a (semi-)annual basis and pool expert knowledge from central HR, finance, and technology. A good example for this are the regular round-table workshops by Royal Dutch Shell. Here, a selected group of highly experienced senior industry experts comes together to develop scenarios for the future of the oil industry.

Similarly, when predicting trends in selected geographical markets or demographic segments firms will also rely on expert teams, albeit different ones. Here, organizations will typically draw on the expertise of decentralized and local sales teams, i.e. the people who are there in the thick of it.

What both of the above scenarios also have in common is that exchanges will be personal among the selected individuals, and discussions will be transparent to foster a good debate.

Following this standard approach of having pre-selected individuals (chosen by their position in the corporate hierarchy) discuss the future with one another is what managers can and should do whenever it makes sense. "Don't change a winning formula" is how the saying goes, after all.

Breaking away from this established procedure, however, requires leadership intervention. And break away companies should in some instances – as recent research shows.

Over the past years, scholars in organizational decision-making have made significant advances in better understanding what it takes for groups of people to arrive at the best possible judgments of future events. Arguably the most provocative notion in this area comes from a stream of inquiry focusing on the "wisdom of the crowd" or WOC. In a nutshell, related scholarship has shown that large groups of random individuals will outperform even experts in predicting the future under two conditions.

First, the individuals simply pool (i.e. average) their judgments. Second, they make their forecasts independently of one another (i.e. do not interact).

What seems like a mathematical stage magician's trick without practical relevance at first has turned into a viable prediction technique for some companies over the recent past. Take a film production company such as Paramount: they rely on forecasts generated by asking a large number of individuals to make bets on the box-office success of movies and then pooling those judgments, re-

placing some of the corporations' standard marketing research.

If taken more seriously, however, WOC techniques hold even more potential than that. Notably, they could even replace certain "expert" assessments in companies and draw on the distributed knowledge of a broader number of staff members instead. This would, of course, be a much bigger breach with the status quo of corporate forecasting in most firms, however. Not least because it will require changing the mindset of who should be taking certain decisions on the firm's future.

If the spectrum of forecasting ranges from face-to-face expert discussions to anonymous WOC assessments of seemingly less knowledgeable individuals, the question is under which conditions one approach can beat the other.

Our own research suggests that standard forecasting approaches in which selected employees discuss with one another can lose out against WOC techniques when it is difficult to pin-point the specific expertise required. In other words: when management cannot tell if e.g. senior or junior people, or marketing or technology people have the corner on the market – as would normally be the case.

Case in point, consider the impact a disruptive new technology may have on a given industry. By its very nature, the technology's consequences for a group of businesses cannot be determined from past data. Different employees within the company may assess the likely impacts differently – depending on their own experiences and current impressions. At first glance it is impossible to tell who has a better instinct – those who have experienced the many technological changes over the last decades, or those who have already grown up in the times of "smart technology"? The best forecast will likely be the pooled assessment of many staff members who all can relate to the industry in some form or fashion; at least, so science suggests, when they can take their decisions truly independently, and not in a group headed and subtly influenced by top management.

Making a first step in this direction, a small number of firms such as Google and Pfizer has employed WOC methods to pool widely distributed information by asking a large number of employees to make judgments about the likelihood of future events, such as the launch date of new products or the success of in-house R&D projects, and then aggregating those predictions into a joint forecast.

Using WOC methods has its hurdles: implementing such a process seems difficult enough given the large number of people involved. Moving a step up the ladder and convincing management to then go ahead and work with the assessment seems even more challenging, because it marks a departure from the forecasting practice of most established companies, and change can be daunting. Still, this is where it would have to start, since only senior managers can set these things in motion.

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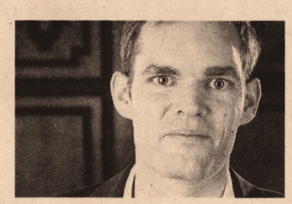

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