

## TIME TO TEST SOME AXIOMS OR – AVOIDING THE BLINDFOLDED BUS DRIVER'S SYNDROME

### Quick Points: An overview in 60 seconds

This briefing takes the position that the current crisis is at least partially due to the acceptance of certain assumptions or rules about the way that the world works. The problem is that these assumptions may have passed into common usage as they sound plausible. However, they have not been subject to rigorous testing and may be misleading in a future, post recession, world.

An approach to start this process of testing is introduced here.

### Avoiding the Blindfolded Bus Driver's Syndrome

Before going any further, I should warn you that this briefing is longer than usual. But it does include a small, but I think informative, exercise that you might like to try with your business colleagues to ensure that you avoid the blindfolded bus driver syndrome.

On the 7<sup>th</sup> April Nassim Taleb (the author of the *Black Swan*) published a range of pointers in the *Financial Times*[1] in an endeavour to help the world avoid another meltdown.

The problem is that I feel he missed one out – the need to bust some paradigms – or “stress test” some axioms.

But possibly it's unfair to say he missed something out as (a) he was writing in the context of preventing another *financial* or *banking sector* meltdown - I'm going to be focusing on the broader issues of *strategic* meltdowns here - and (2) he did mention “blindfolded bus drivers”. By blindfolded bus drivers, Taleb means the “experts” who were responsible for getting the financial sector into its current state.

I am going to borrow this term and use it in a slightly different way to refer to a culture in business and arguably in broader society whereby our actions are driven by a commonly and almost universally accepted series of rules, assumptions or “axioms”.

These “rules” that I will now call “doubtful axioms” are applied almost ubiquitously to guide behaviour in business I would argue.

The problem is that the doubtful axioms may lack any real foundation. I would propose that they have received common acceptance as:

- (a) They sound plausible.
- (b) The doubtful axioms reflect our desired outcomes.
- (c) The doubtful axioms are widely applied. Group behaviour is naturally attractive. It makes us feel secure to be “one of the crowd”.
- (d) In some cases they reflect an all too comfortable world.
- (e) They, that is the doubtful axioms, appear to have been “tested”.

But, dealing with the last point, the “tests”, if they were applied, were conducted over a relatively short period of time. A period when, in hindsight, the world was going through an uncharacteristically stable period. Too short and too unrepresentative a period to now bet the company's future on.

There is an emerging proposition that the doubtful axioms are largely responsible for the mess that we're in. Doubtful axiom followers apparently range from the London G20 protesters[2] to the banks themselves[3]. The latter reference holds that, in effect, sophisticated models designed to guide decisions actually were based upon a false reality[4].

A false reality that encouraged false confidence.

Let us take one doubtful axiom as an example. This is the assumption that globalisation will lead to the benefit of all – those in both the emerging and developed economies alike. It sounds sensible and reflects the desires of any decent thinking person. But is globalisation really feasible? Some think that it may not be[5], [6].

The *true* reality may have been that we have created a vast inter-connected world that is far far too complex and irrational to predict or manage. Which is probably why no one knows how the global economy will react as new emergency measures, including quantitative easing, are applied.

It may also be a world too that is all too easy to disrupt.

Another example of a doubtful axiom is *decoupling*.

About 12 months ago many held that the emerging economies could stand on their own two feet. If the established economies of the developed world went into recession, the emerging economies would not be overly troubled. In other words, the emerging economies were decoupled from the developed economies. This “rule” now looks as if it will be consigned to the bin[7], [8], [9].

We don't know which of the many doubtful axioms that underpin our business plans hold water and which don't.

If you were to talk to academics (like me) who study why organizations fail they would tell you that success is potentially a fatal enemy for an organization as it can breed the development of an “enacted world”. The term “enacted world” means an artificial world that does not reflect reality but the shape of the world that we would *like* to see. Because we were successful we like to protect and return to the formula or strategy, that created this success. In time this affects the way that we choose to see the outside world. Over time we could end up looking at a false reality. I have dealt with this issue in an earlier briefing – [Success – Your Biggest Problem?](#) - it is a very common trap – one that without certain safeguards we are all capable of becoming ensnared in.

### **The Priority**

The immediate priority appears therefore to be to check that we are not exposed to “doubtful axioms”.

I will suggest that you question the broad assumptions that you may have used in strategy making over the last few years. Some may be “true rules” others may prove to be either “doubtful axioms” or axioms that are too fragile to bet the company's future on.

### **An Exercise**

So how do we check our assumptions for exposure to “false rules”?

Try running through this exercise with your team and business colleagues:

#### *Activity Step 1: Rule Identification*

Individually, as preparation work, list out all the assumptions made when preparing your business plan. Remember that such assumptions can be both both written and “subliminal”. By subliminal I mean “rules” that we and our colleagues just take for granted. A good example is the view that globalisation is unstoppable.

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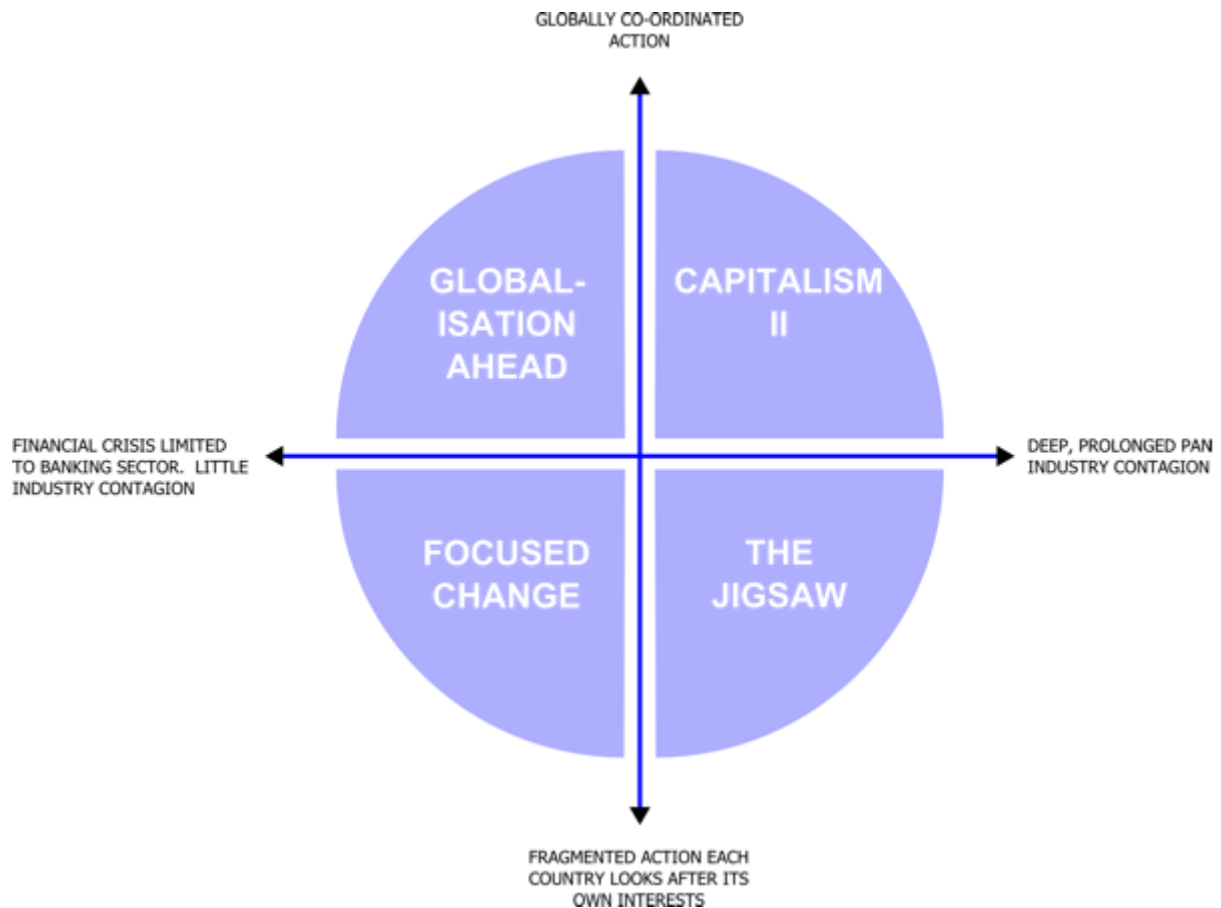
I looked at a good few business plans that were prepared around 6-12 months *before* the meltdown of 2008 and here are examples of common “rules” or axioms:

- (a) “Globalisation is good for all – and is an unstoppable force.”
- (b) “What gets measured gets done”.
- (c) “If we have an economic slowdown – it will be short – a year or less.”
- (d) “Our primary quest is to maximise shareholder value”.
- (e) “The boom bust cycle is dead.”
- (f) “All the BRICs will win through.”
- (g) “China will overtake the US economically but US-led definitions of capitalism will prevail.”
- (h) “Service based economies are a sustainable platform for developed economies”.

I'm sure that you will find more.

*Activity Step 2: Axiom Testing*

Readers will now be familiar with my set of four scenarios from *2009 – Signposts to Where?* reproduced below:



Let's now take two of the more challenging scenarios, *Capitalism II* and *The Jigsaw*.

In *Capitalism II*, the following picture could unfold:

- The global recession continues into early 2010.
- Further toxic debt and derivative based losses are largely avoided.
- The US government bails out GM, but the recovery plan heralds a slow dwindling death for western car makers.
- The US and most EU economies emerge from recession in early 2010 but a period of low economic growth – between 1% to 1.5% of GDP – follows for these economies over the next 2 years. The world enters a period of low, but stable growth. The UK in particular faces difficulties. Employment in financial services slowly declines as a result of a mix of continued offshoring and contraction in investment banking.
- The G20 establishes itself as a powerful body for economic reform, but the roles of the US and the UK in particular diminish. France and Germany initially become the architects of regulation in the financial services sector, but India and China steer the long-term shape of capitalism.
- The “57 state” initiative[10] is successful and heralds a period of conciliation in the Middle East and Asia.
- In summary, a new, arguably more mature and aligned world emerges. The ravages of protectionism and conflict are largely avoided. The migration of economic and political influence shifts more quickly than previously envisaged from west to east. Capitalism is redefined over a 10 – 15 year period.

*The Jigsaw* is more demanding and, illustratively, could unfold as follows:

- Further write-downs appear in the banking sector. Total write-downs exceed the \$4.7trn estimated by the IMF in April 2009[11].
- Economic contraction in the developed countries continues through 2010. A slow recovery period emerges with GDP growth not exceeding 1.5% over a 4 year period.
- Eastern Europe suffers. Political instability ensues. One or more of the so called PIIGS (Portugal, Ireland, Italy, Greece, Spain) suffer a sovereign debt default.
- The US government bails out GM, but the recovery plan heralds a progressive death for western car makers. Further employment cut backs are made beyond the scale estimated in the current GM recovery plan.
- Despite their best efforts, the NATO intervention reaches stalemate in Afghanistan. Politicians lack the stomach (and both the funding and public support) for the continuance of this venture. A withdrawal is negotiated. The Afghan government falls and instability progresses through Afghanistan, Pakistan and into India and Southern Russia.
- US attempts to “reset” relationships with Russia falter.
- The world starts to divide. Globalisation dies. History shows in this scenario that a globally inter-connected world is just too unstable and too vulnerable to survive in the long-term.

Both these scenarios challenge established views.

But they can help you to “stress test” the axioms that guide your business.

## References

- [1] N. Taleb, "Ten principles for a Black Swan-proof world," *FT.com*, Apr. 2009.
- [2] M. Livermore, "The age of stupid or the age of gullible?," *Adam Smith Institute*, Apr. 2009.
- [3] D. Brooks, "Greed and Stupidity," *The New York Times*, Apr. 2009.
- [4] J. Muller, "Our Epistemological Depression," *The American*, Jan. 2009.
- [5] R. Florida, "The World is Spiky," *The Atlantic Monthly*, Oct. 2005, pp. 48-51.
- [6] J. Bivens, "Everybody wins, except for most of us," *Economic Policy Institute*, Nov. 2008.
- [7] J. Bajoria, "Financial Crisis May Worsen Poverty in China, India - Council on Foreign Relations," *Council on Foreign Relations*, Nov. 2008.
- [8] S. Johnson, "Testimony: The Economic Outlook and Options for Stimulus," *Peterson Institute*, Nov. 2008.
- [9] M. Wolf, "The world wakes from the wish-dream of decoupling," *FT.com*, Oct. 2008.
- [10] R. Beeston and M. Binyon, "King's Ultimatum: peace now or it's war next year," *The Times*, May. 2009, p. 1.
- [11] "IMF Global Financial Stability Report -- Responding to the Financial Crisis and Measuring Systemic Risks," *International Monetary Fund*, Apr. 2009.

## Finally

I hope that you have enjoyed this briefing.

You can find more on the website or e-mail me using the link below. I enjoy personally helping businesses - some of the work I undertake includes:

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| § Forward looking business scenarios – what are your future challenges?  | § Training: Strategic Thinking, Scenario Planning, Performance Measurement and Strategic Change Workshops.  |
| § Facilitating board level strategic reviews, with a particular emphasis upon the definition of tomorrow's competitive environment | § Product portfolio assessment. Helping the business to define the optimal product portfolio – balancing future competitive conditions with the probability of achieving future planned performance |
| § Design and implementation of Balanced Scorecard performance measurement systems  | § Communication programmes  |
| § Research to help identify what potential capital providers will look for in your business plan                                   | § Organisational audits – assessing the innovative capability of your organisation  |

Best regards,

*Robert Davies*