

Black Swan Strategy

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Black Swan Events

- World War I
- Black Thursday (10/24/29) -> Great Depression
- Black Monday (10/19/87)
- Fall of the Berlin Wall
- Collapse of the USSR
- 9/11
- Indian Ocean Earthquake -> Tsunami -> Fukushima 2011
- Covid-19
- next ???



The Black Swan Problem

- ✓ An Outlier
- ✓ An Extreme Impact
- ✓ Explainable after the Fact

=> Problem of Induction

Strategic Decision Making

EXHIBIT 2.9 Two Distinct Modes of Decision Making

System 1	System 2
Fast	Slow
Unconscious	Conscious
Automatic	Effortful
Everyday, Snap Decisions	Complex, Analytical Decisions
Error Prone, Higher Likelihood of Biases	Reliable, Lower Likelihood of Biases

Source: Author's creation based on D. Kahneman (2011), *Thinking, Fast and Slow* (New York: Farrar, Straus and Giroux).

reason by analogy A cognitive bias in which individuals use simple analogies to make sense out of complex problems.

confirmation bias A cognitive bias in which individuals tend to search for and interpret information in a way that supports their prior beliefs. Regardless of facts and data presented, individuals will stick with their prior hypothesis.

illusion of control A cognitive bias that highlights people's tendency to overestimate their ability to control events.

representativeness A cognitive bias in which conclusions are based on small samples, or even from one memorable case or anecdote.

groupthink A situation in which opinions coalesce around a leader without individuals critically evaluating and challenging that leader's opinions and assumptions.

The Rumsfeld Matrix

Known	Things we are aware of and understand	Things we are aware of but don't understand
Unknown	Things we understand but are not aware of	Things we are neither aware of nor understand
	Knowns	Unknowns

Known

Things we are aware of and understand

Things we are aware of but don't understand

Unknown



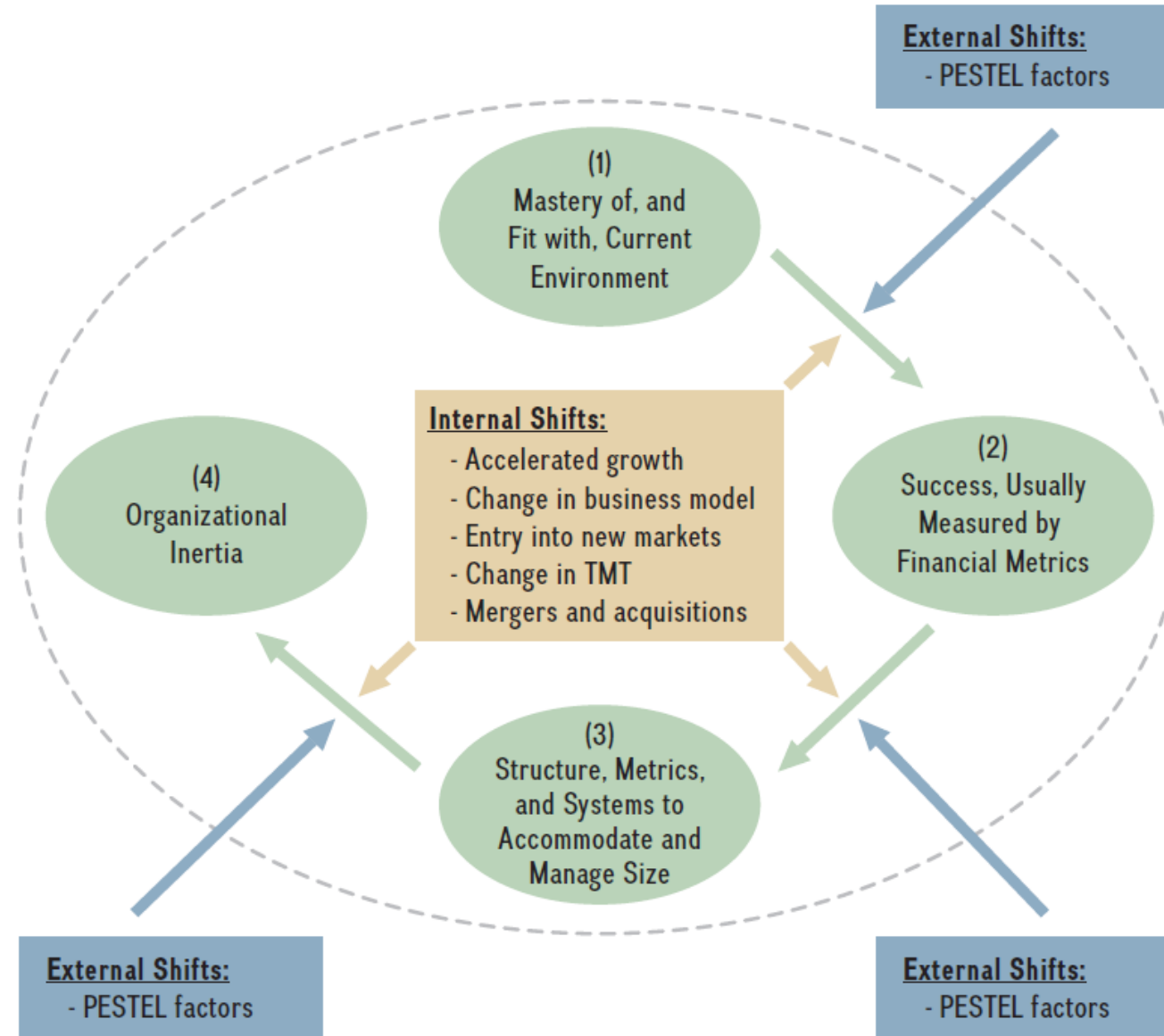
Knowns

Unknowns

Why do Black Swans have an Extreme Impact?

EXHIBIT 11.2

Organizational Inertia and the Failure of Established Firms to Respond to Shifts in the External or Internal Environments



How to Scan for Black Swans?

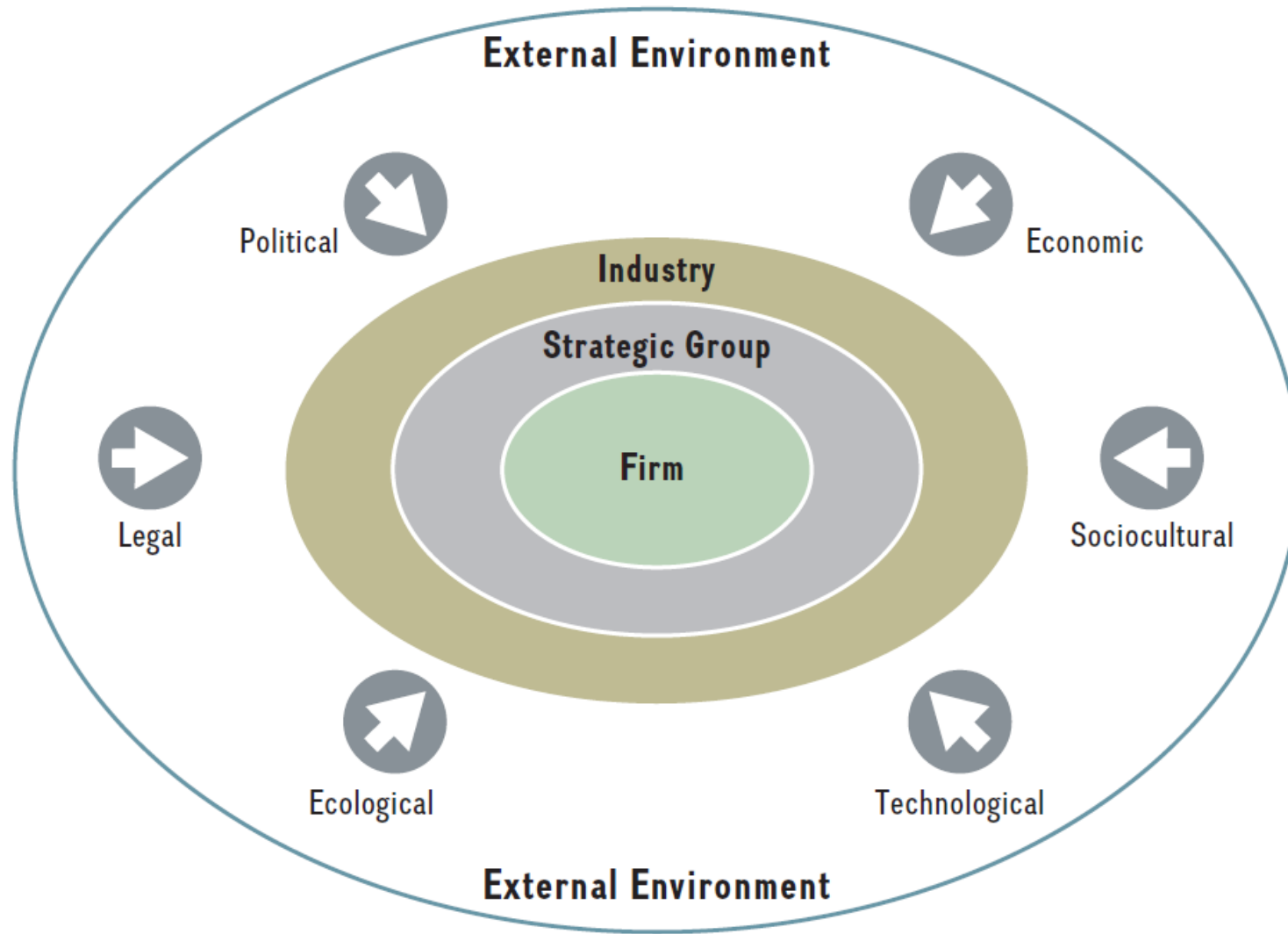
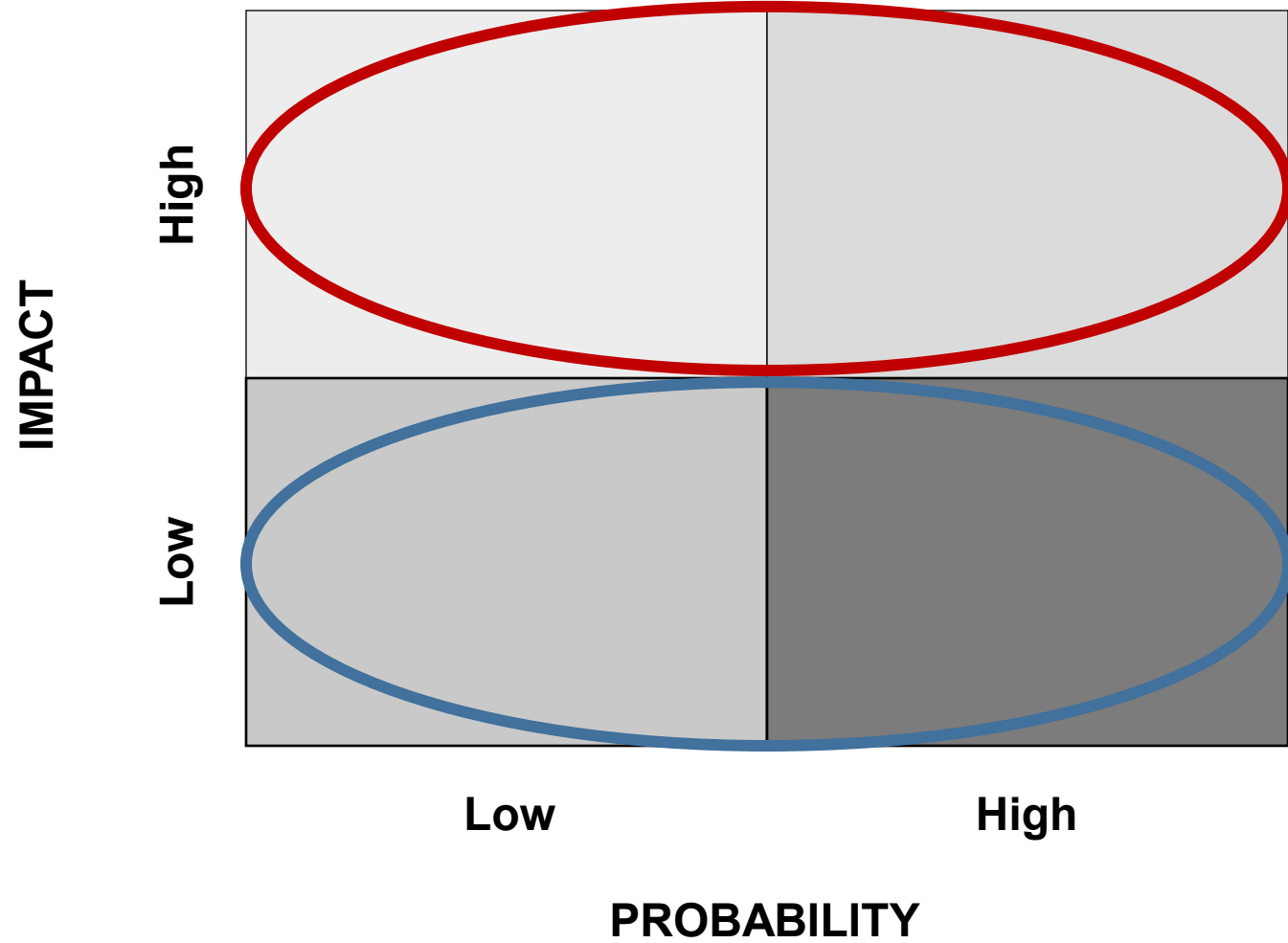
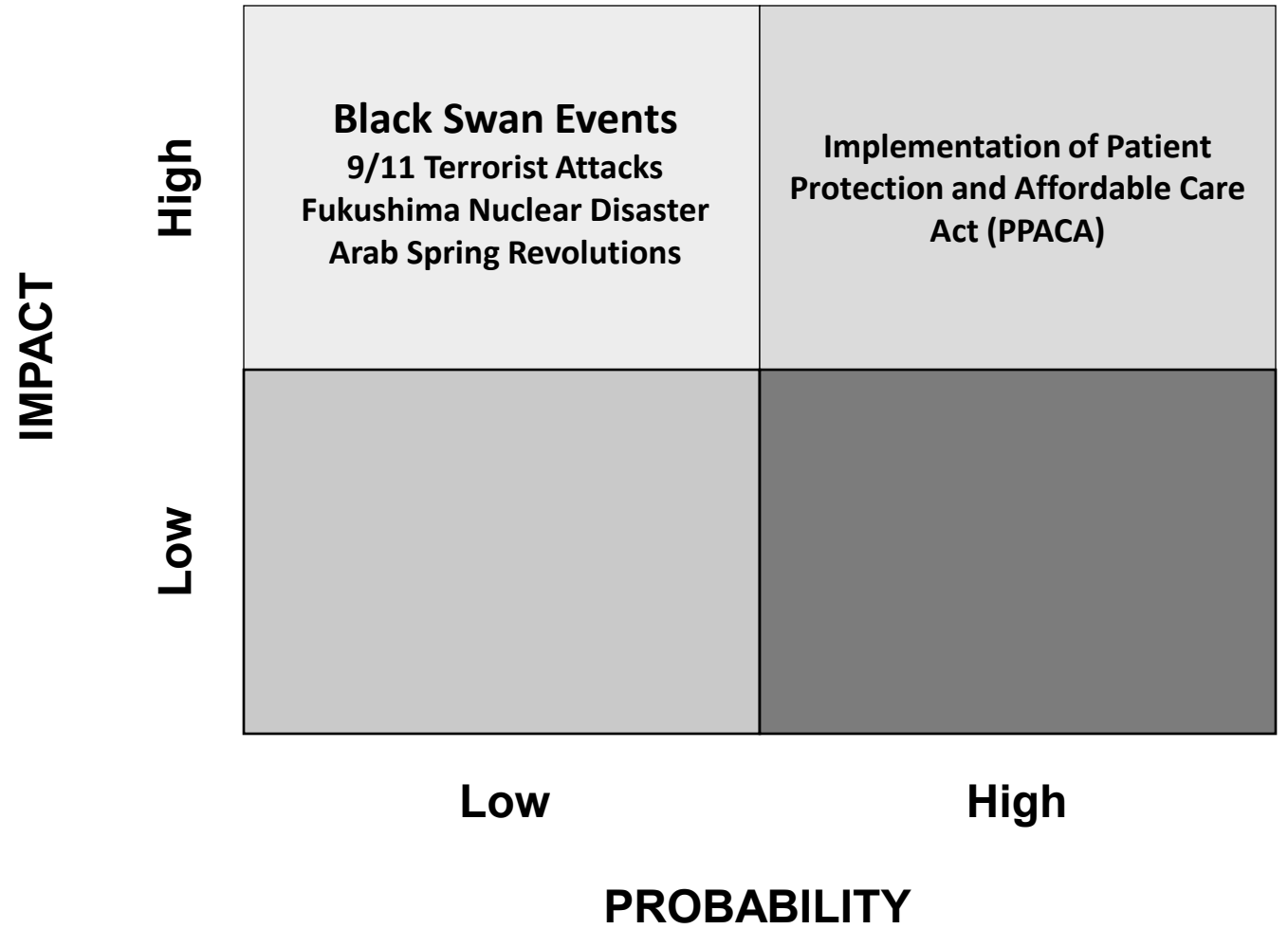


EXHIBIT 3.1

The Firm within Its External Environment, Industry, and Strategic Group, Subject to PESTEL Factors





Black Swans & The Strategy Process

EXHIBIT 2.5

Top-Down Strategic Planning in the AFI Strategy Framework

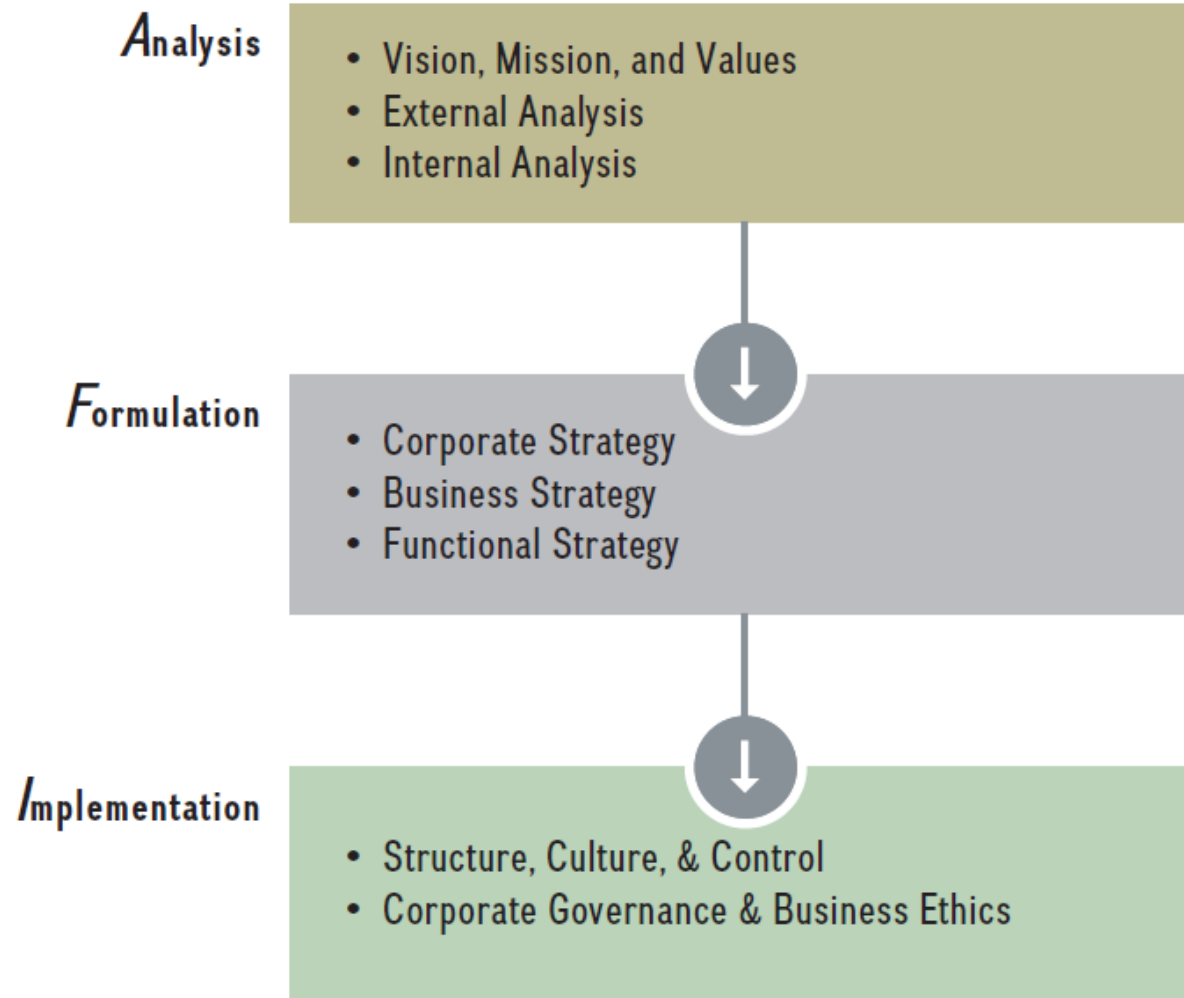


EXHIBIT 2.7

Realized Strategy Is a Combination of Top-Down Intended Strategy and Bottom-Up Emergent Strategy

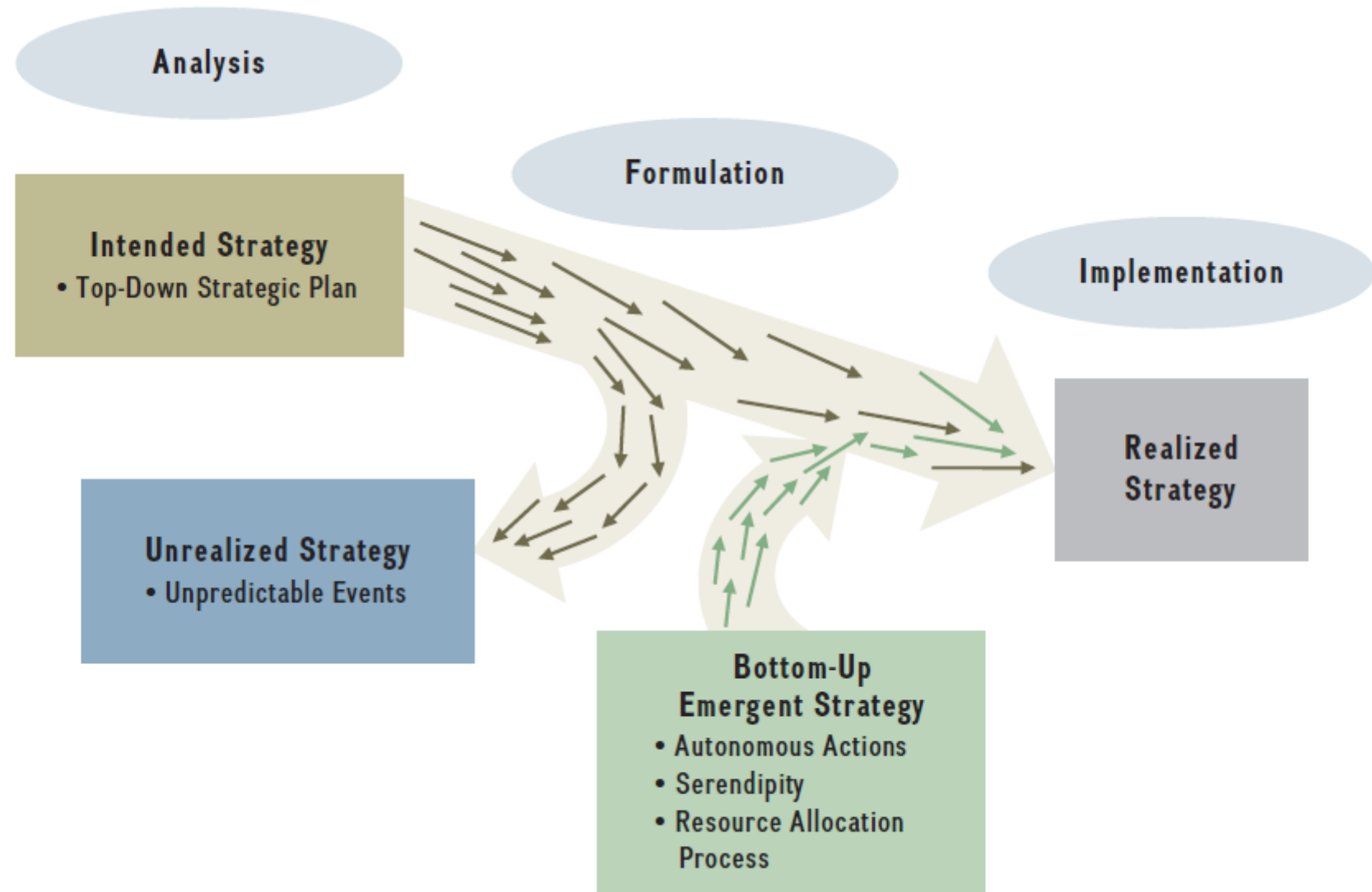
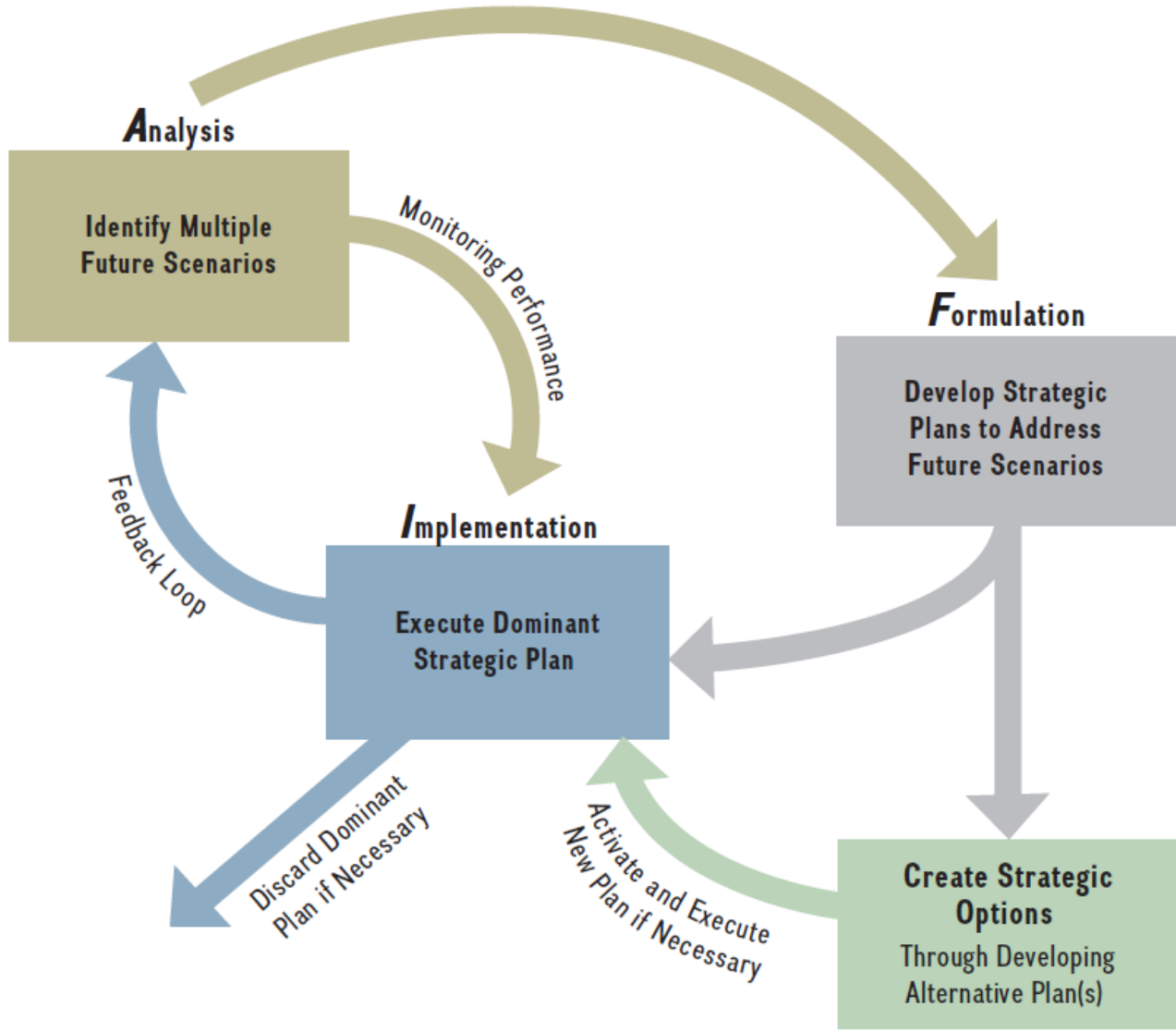


EXHIBIT 2.6

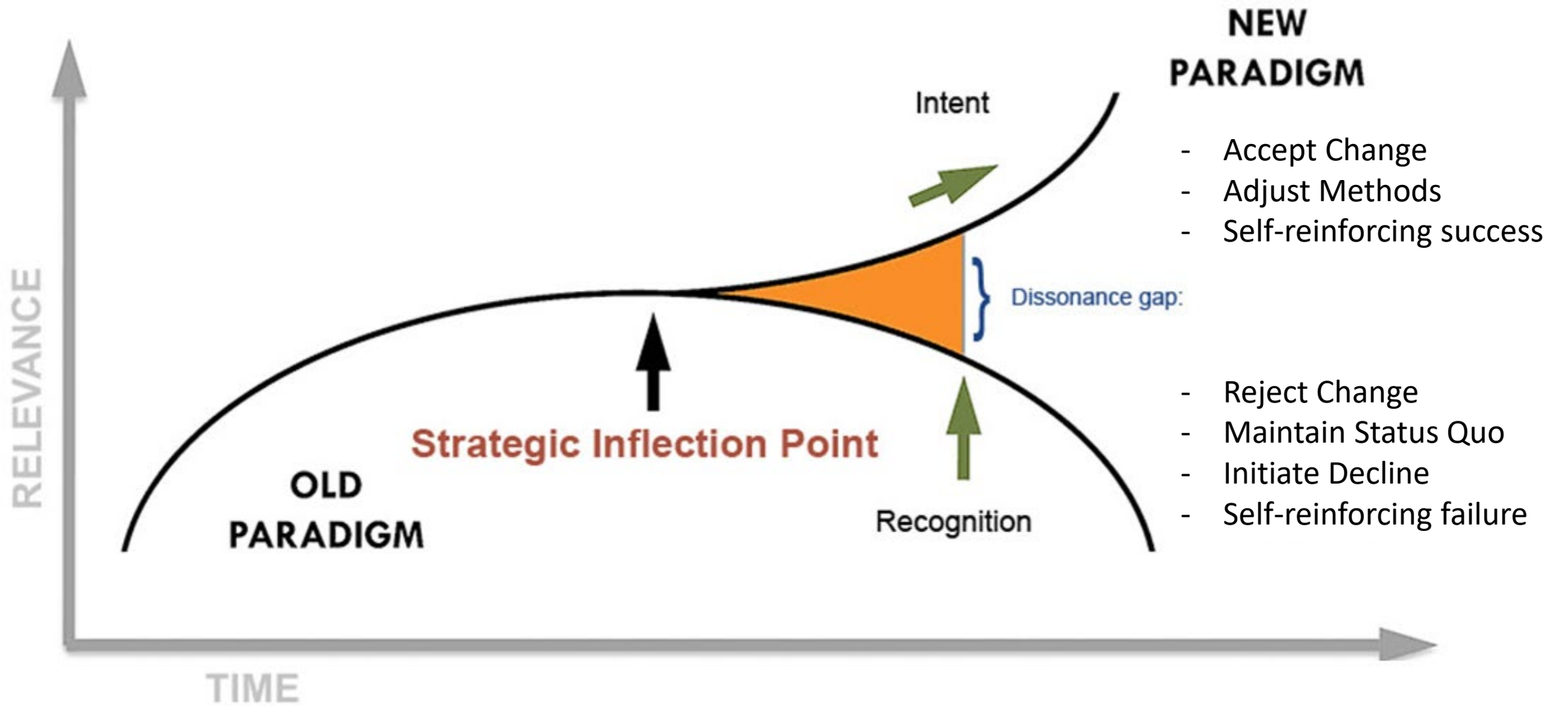
Scenario Planning
within the AFI
Strategy Framework



How to Navigate Black Swans?

Black Swan Strategy

- Do NOT attempt to predict the next Black Swan, but rather prepare for its impact
 - Anti-Fragile System
 - Cash is King
 - Redundancy and Buffers
 - Independence
 - Insurance
- We will not go back to “normal”
 - Schumpeterian Churn & Creative Destruction accelerated



Black Swan Strategy

- What does this crisis expect of me?
- Make investments in your human capital
 - Are you a stock or a bond?
- Every crisis bears opportunity
 - Entrepreneurship
 - “buy when it feels worst”

Black Swan Readings

- Nassim Talib “The Black Swan: The Impact of the Highly Improbable”



Nassim Nicolas Taleb's "The Incerto series" is about dealing with matters of probability, complexity, and risk. The books underline that everything becomes more and more interconnected and entangled, requiring an altogether different approach to knowledge and revision of our habitual ways of thinking about certain things.

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