



## Session 1: Responding Effectively to Surprises

Dr. Milo Jones

 @inveniam

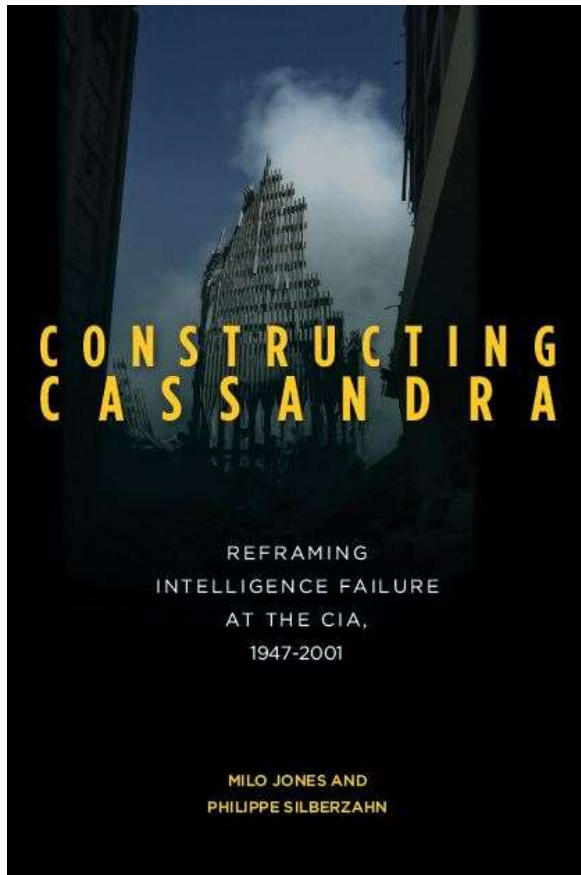
# Who am I?

## » I am:

- American; grew up in New York, Wisconsin & Virginia
- BA Northwestern, Art History
- US Marines; then archaeology, then a broker at Morgan Stanley in NY
- LBS MBA – Worked for Citibank Emerging Markets during MBA
- Accenture, London: Organizational Strategy and Change
- Dot.com startup; consulting , MA, & PhD in International Relations
- Now: I live in Warsaw; I'm a consultant; I'm a non-Executive Director of US FMCG company; I teach at IE and CEDEP about 12 weeks a year
- Fellow of the Salzburg Global Seminar, a Fellow of the Center for the Study of Digital Life, a member of the International Institute for Strategic Studies in London, and a member of the Association of Former Intelligence Officers

# Who am I?

- PhD focused on intelligence analysis, strategic surprise and internal culture of the CIA



**For a video summary, see:**

<https://www.youtube.com/watch?v=4MapLTtI2-A>

# Agenda

- » My agenda today is simple: to give you an analytic toolkit to be a more sophisticated consumer of news and a better analyst of “breaking events”

This is not me...





This is not me...



This is not me...





But this WAS me...

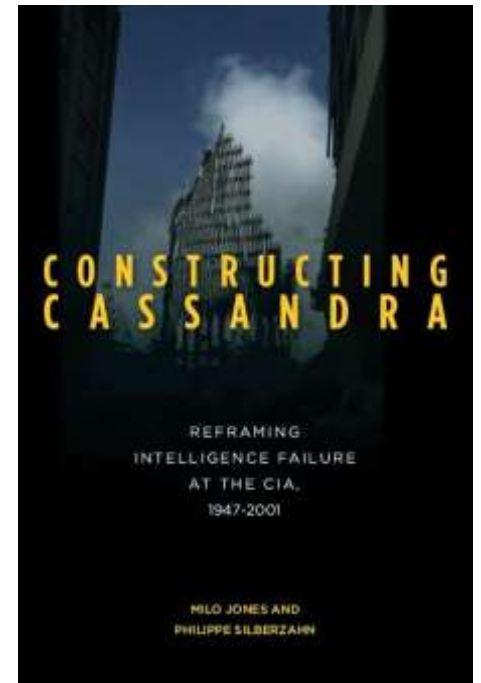
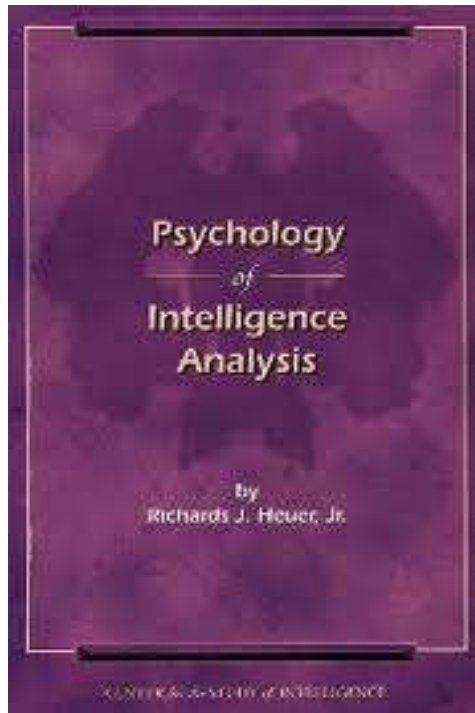




# How? Through Immediate Action Drills!



# Where this approach comes from...



**What kind of surprise am I talking about?**

WORLD NEWS    MARCH 15, 2019 / 2:47 AM / UPDATED 26 MINUTES AGO

## Dozens killed as gunman livestreams New Zealand mosque shootings

Praveen Menon, Charlotte Greenfield

8 MIN READ



WELLINGTON/CHRISTCHURCH (Reuters) - A gunman shot dead 49 people and wounded more than 40 at two New Zealand mosques, some as they were kneeling at prayer, livestreaming online some of the killings that Prime Minister Jacinda Ardern condemned as terrorism.



# Surprises



# Surprises



Russian soldiers Crimea. 'Polite, armed men' in Crimea 2014. 🐱 HOW IT WAS

3,098 views

👍 42 💬 1 ➦ SHARE ⚙️ SAVE ⋮

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## Turkey's coup attempt: What you need to know

🕒 17 July 2016

     Share

Scores of people have been killed in Turkey and more than 1,400 wounded as a result of an attempted coup overnight. But who was responsible, what happened and why?

### How did it start?

Bridges over the Bosphorus strait in Istanbul were blocked by troops late evening local time on Friday. Fighter jets and helicopters were seen flying over the Turkish capital, Ankara, and gunshots heard.

Soon after, Prime Minister Binali Yildirim announced that an attempt to overthrow the government was under way.

# SONY HACK

Continuing coverage of the hacking of Sony Pictures Entertainment.



Peter Jackson / NBC News/When the going gets tough

## 'Embarrassed' Affleck on Why He Asked to Hide Family's Past

"I was embarrassed," the Oscar-winning director said on Facebook after receiving backlash for the initial



Or...

# Bloomberg.com

Breaking News – 8 December, 2019

- » There are reports this morning that a massive earthquake, measuring at 7.6 on the Richter scale struck 20 kilometers southwest of Istanbul, Turkey at 04:46 today. The event lasted for about 45 seconds.
- » The earthquake appears to have been even more powerful than the tragic quake that hit Turkey in 1999 that left at least 17,000 people dead and 600,000 homeless.

# Clear your head (if you can)

- » Such a situation would obviously be an immense human tragedy. Nevertheless - and without in any way minimizing that fact - government, corporate and financial analysts around the globe would instantly begin to analyze what this event means for them.
- » In your next office, your boss, your team or your clients will ask, “What do we do?”
- » How do you do this type of analysis now?

**How would you “analyze” this situation?**



# Your routines

- » When a surprise occurs, whether you know it or not, you have established mental routines.
- » At best, people ask “What do we do now?!”



- » Business strategy demands better questions...and these can be learned as mental routines!

# Why this stuff works

- » The Greek root of our word “Analyze” is *analyein* meaning “to break up”.
- » By breaking up problems – “decomposing them” – and also “externalizing” them (i.e. writing them down), you overcome many barriers to careful and thorough thinking.
- » You learned this doing math problems on paper: you are “externalizing” and “decomposing” math problems when you first write them down, and then solve them in steps.
- » Now you will have a system and frameworks to do the same with unquantifiable problems (or to do pre-quantitative analysis).
- » These are like mental versions of “Immediate Action Drills”...i.e the stuff you practice in the military if you think you’ll be leaving a flying plane, are being shot at, etc.

# Why this stuff works

- » The we are not talking about prediction!
- » These tools will help you unlock “Tacit Knowledge” more effectively
- » They help orient you, help you ask better questions and help get you to second-level thinking!



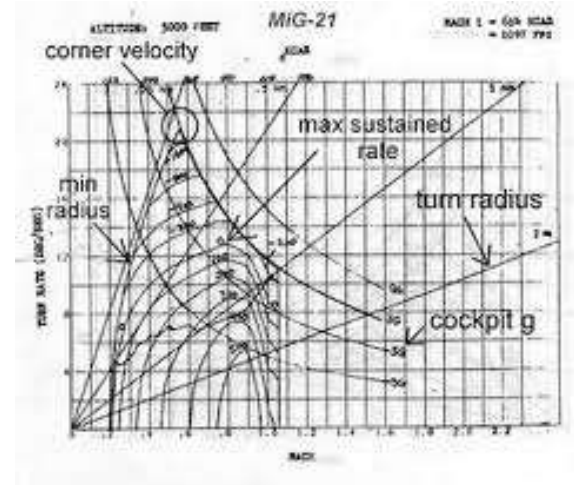
SOLID



LIQUID

# Why this stuff works

» What do I mean by “Orient yourself better”?



» They help you go through the “O-U-D-A Loop” faster:

- Observe
- Understand
- Decide
- Act



# Why this stuff works

- » Another way to think about the advantage of a faster “O-U-D-A Loop”:



**What if I gave you two or three moves for every one of his?**

# Bloomberg.com

Breaking News – 8 December, 2019

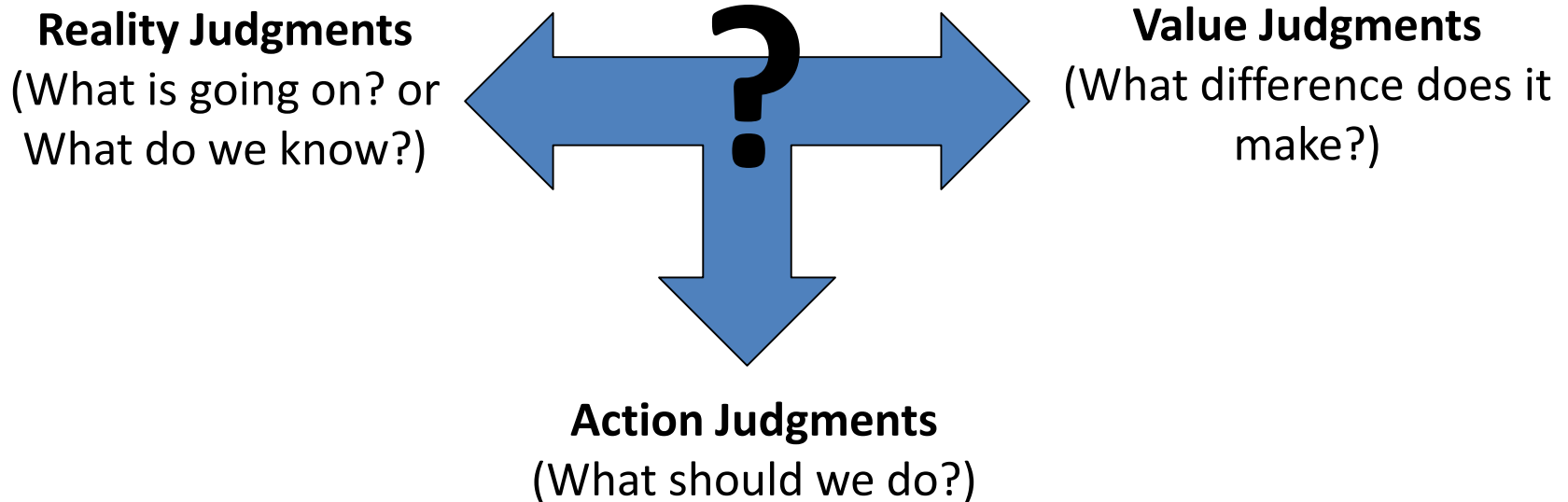
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# The Surprise Reaction Framework



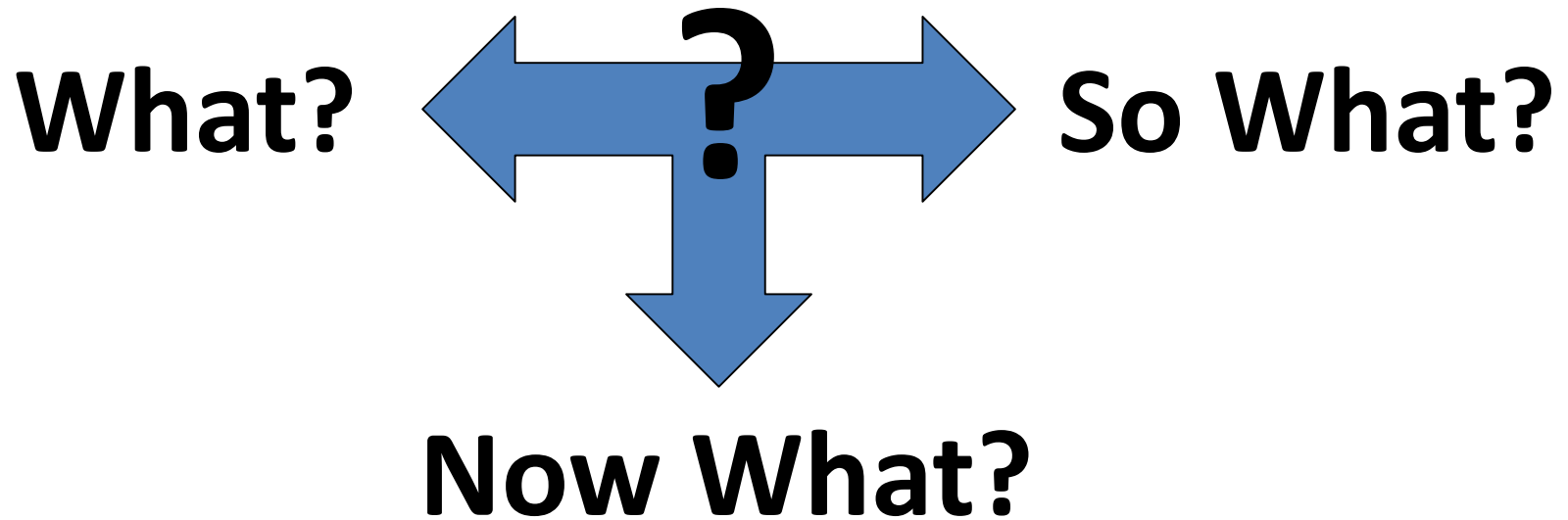
# The Surprise Reaction Framework

- » The Surprise Reaction Framework (SRF) has three basic parts, or judgements:



# The Surprise Reaction Framework

» You can think of them as very basic questions:

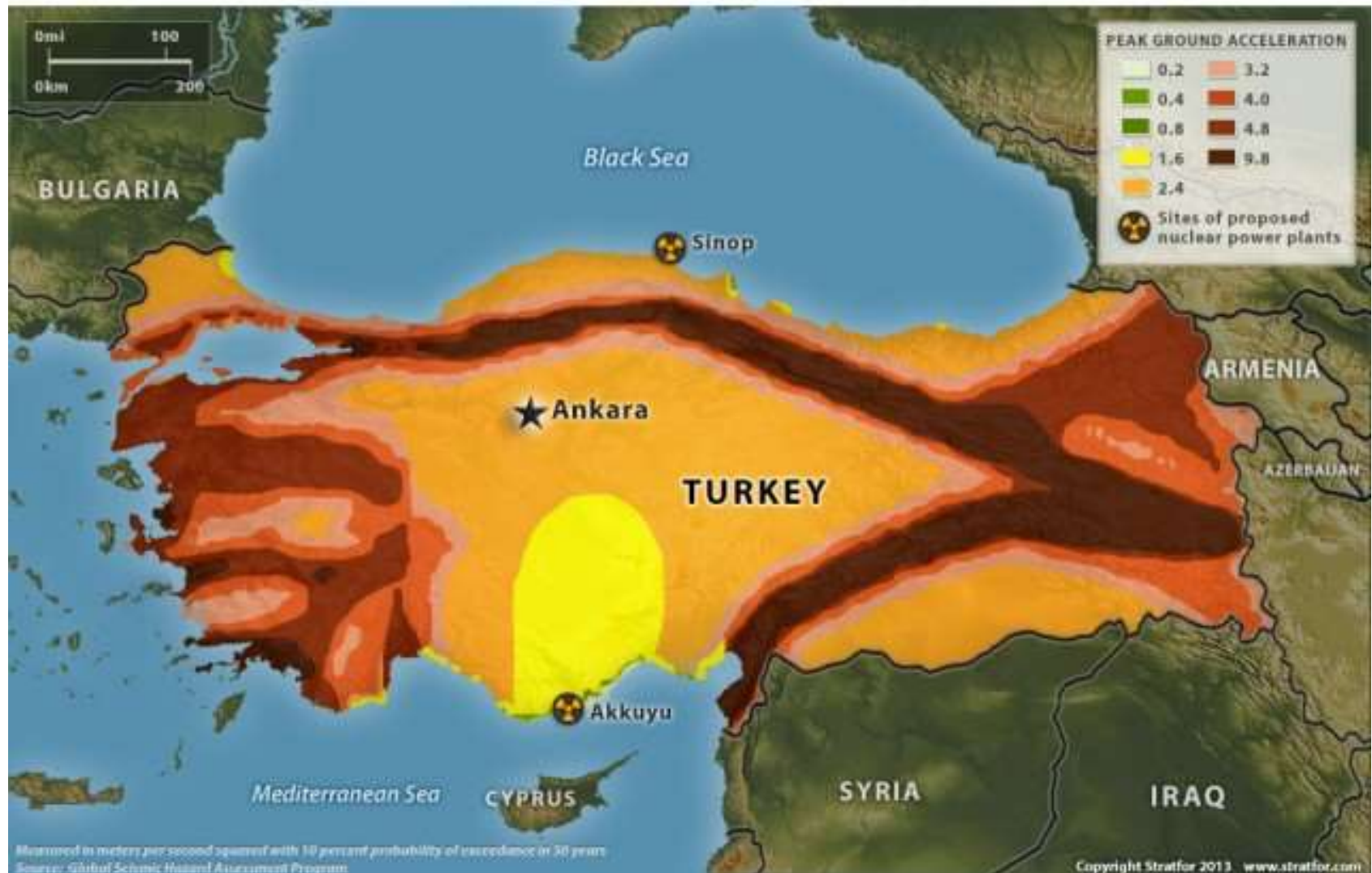


## A bit of background



# Some quick background

## TURKEY'S SEISMIC HAZARD



# Some quick background

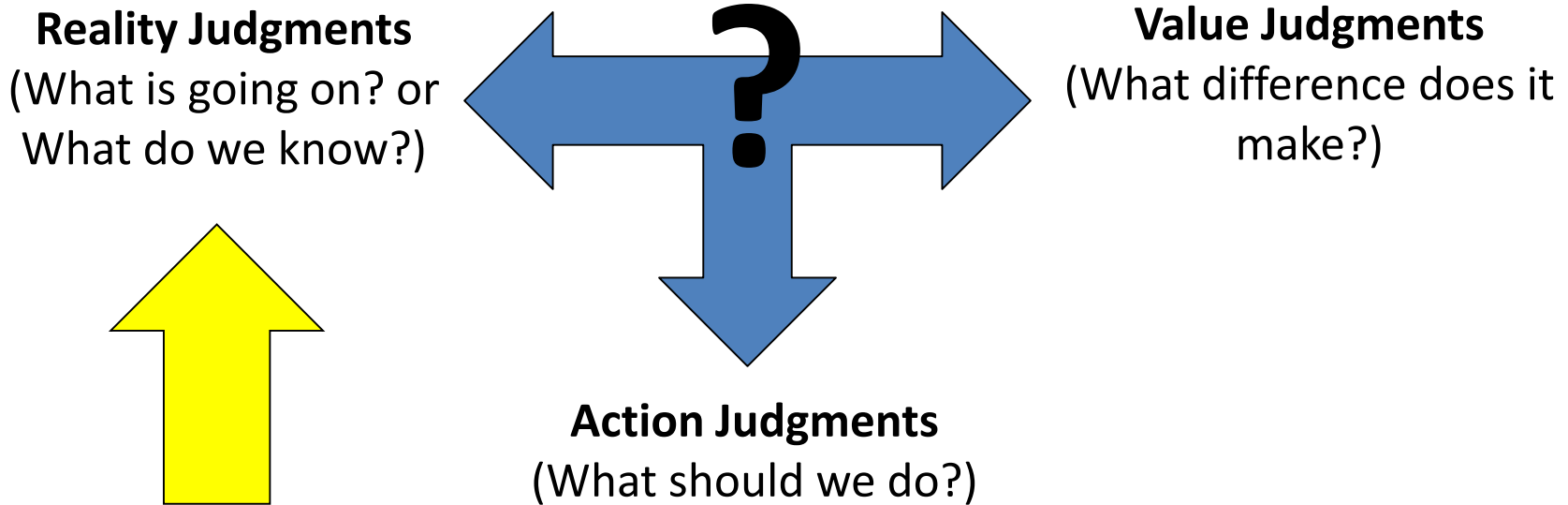
» <http://www.bbc.co.uk/news/world-europe-16377254>



**Now let's do some analysis...**

# The Surprise Reaction Framework

- » The Surprise Reaction Framework has three basic parts, or judgements:



# Bloomberg.com

Breaking News – 8 December, 2019

- » There are reports this morning that a massive earthquake, measuring at 7.6 on the Richter scale struck 20 kilometers southwest of Istanbul, Turkey at 04:46 today. The event lasted for about 45 seconds.
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# Istanbul Tragedy – step one: look at a map!

» Remember, it's GEOpolitics: being able to "think in space" is a crucial tool for decision-makers





# Step one: look at a map!

- » Remember, it's GEOpolitics: being able to "think in space" is a crucial tool for decision-makers



# Step one: look at a map!

- » But maps distort, too! You usually see Mercator projections
- » **It is exceptionally useful for ocean navigation**, but creates significant distortions of land distance and area!



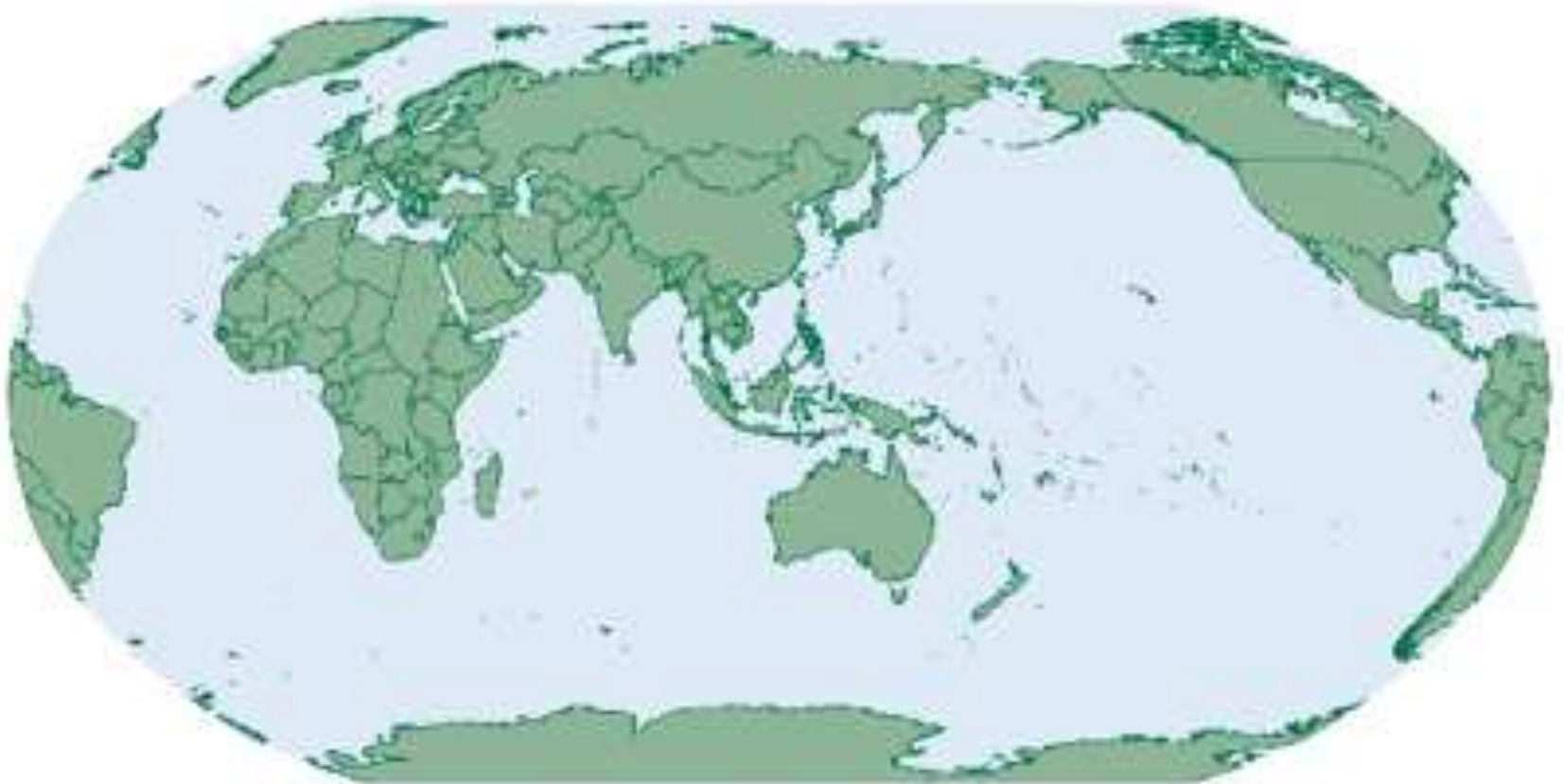
# Step one: look at a map!

- » **Goode Homosoline:** Distortion is reduced by interrupting the map in areas less important to the user.



## Step one: look at a map!

- » **Robinson:** Compromise to reduce distortion of shape, area, and distance.



## Step one: look at a map!

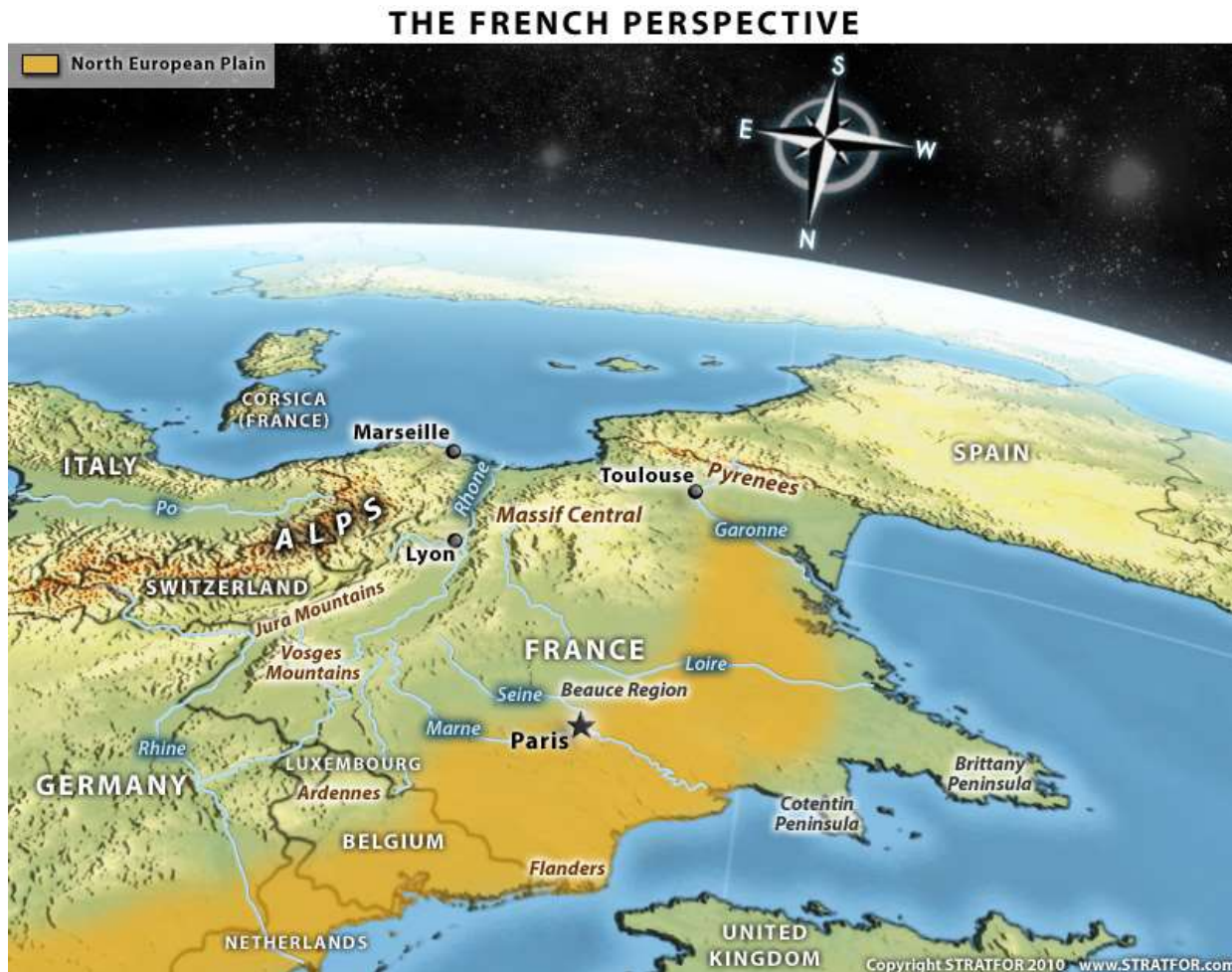
- » **Orthographic:** Realistic “globe” view, but shapes and area are distorted. Can only depict one hemisphere.





# Step one: look at a map!

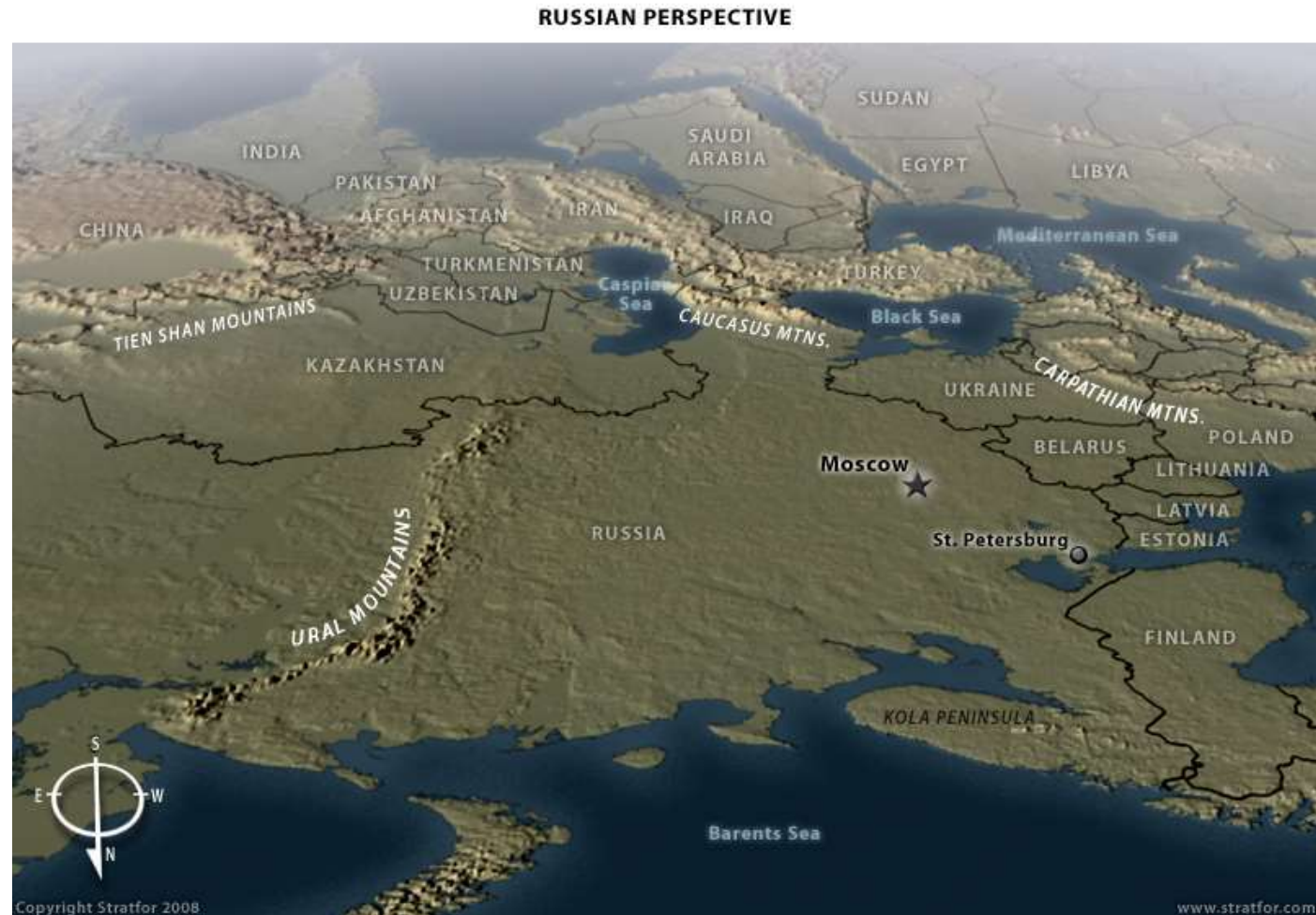
» Custom maps help you “see the world from a place..”.





# Step one: look at a map!

» Custom maps help you “see the world from a place..”.



# Step one: look at a map!

» Custom maps help you “see the world from a place..”.

## CHINA'S PERSPECTIVE



# Reality Judgments: KPUU Framework

» A key tool to answer Reality Questions:

<u>Known</u>

# Reality Judgments: KPUU Framework

» A key tool to answer Reality Questions:

<u>Known</u>	<u>Presumed</u>

» Maybe a bit more digging?

**But what about stuff we really can't know?**

# Reality Judgments: KPUU Framework

» A key tool to answer Reality Questions:

<u>K</u> nown	<u>P</u> resumed	<u>U</u> nknown



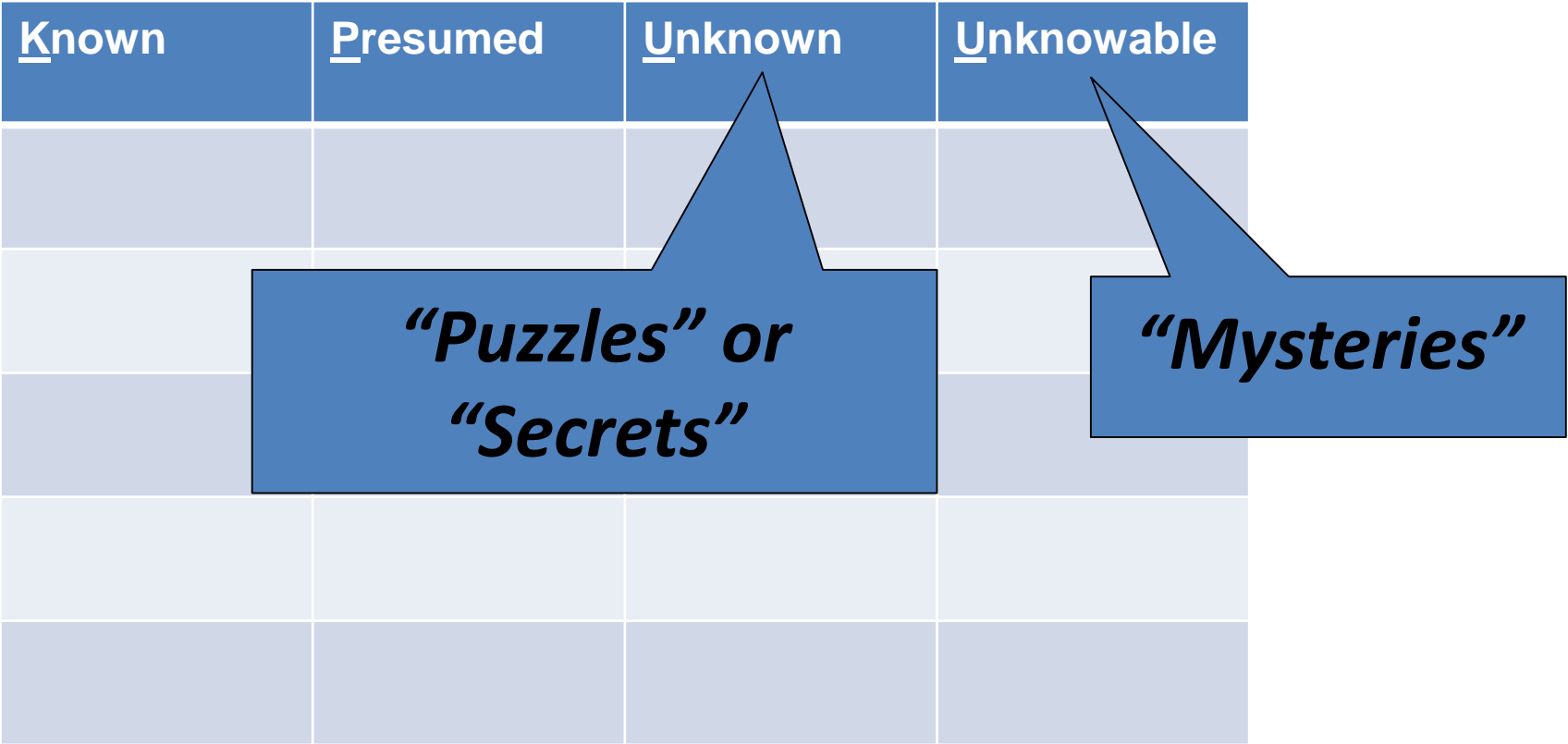
# Reality Judgments: KPUU Framework

» A key tool to answer Reality Questions:

<u>K</u> nown	<u>P</u> resumed	<u>U</u> nknown	<u>U</u> nknowable

# Reality Judgments: KPUU Framework

» A key tool to answer Reality Questions is the KPUU framework:



## Sidebar: Secrets & Mysteries

# Secrets Versus Mysteries

- » “Secrets” are information that states/people have (and spies try to steal).



- » “Puzzles” are questions that may be very difficult to solve because their color and pattern are hard to discern
- » Maybe the puzzle has many pieces, some missing, and other pieces may be damaged or discolored (perhaps purposefully)
- » Examples: estimating the range and payload of an enemy's new missile system—characteristics that are knowable, just hard to figure out

# Secrets Versus Mysteries

- » “Mysteries” are tougher
- » Mysteries involve estimating the likely causes and significance of future events, beyond the control or intent of anyone at a given moment,
- » They are products of the complex, dynamic interactions of many people and institutions



# Secrets Versus Mysteries

» Secret:



» Mystery



**Another sidebar: Do you need secrets?**



# Do you want or need Secrets?



# “Secrets”



THE WALL STREET JOURNAL.  
**WSJ**



**Fact 1**



**TOP SECRET !**

**Back to our task....**

# Reality Judgments: KPUU Framework

» A key tool to answer Reality Questions:

<u>Known</u>	<u>Presumed</u>	<u>Unknown</u>	<u>Unknowable</u>

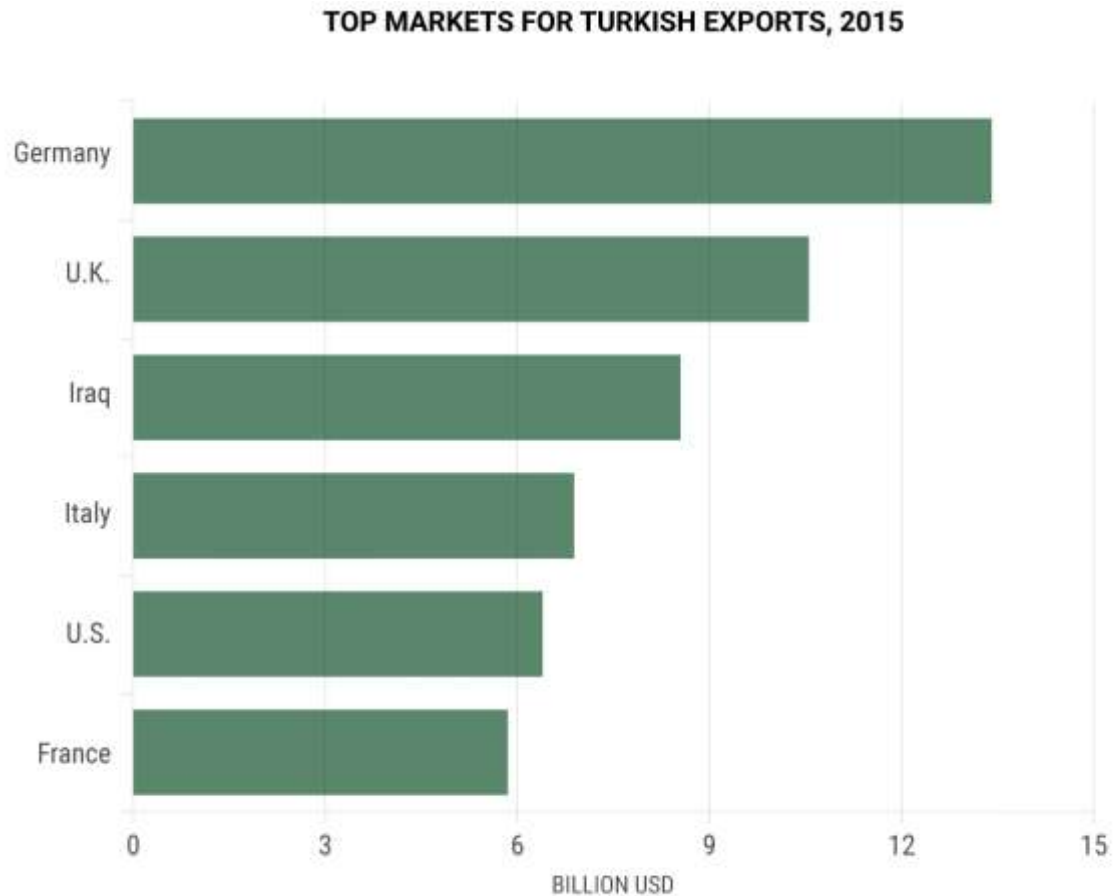
## Step one: look at a map!



» See: [http://atlas.cid.harvard.edu/explore/tree\\_map/export/tur/all/show/2014/](http://atlas.cid.harvard.edu/explore/tree_map/export/tur/all/show/2014/)



» Maybe simple is better?



Source: UN Comtrade

© 2016 Geopolitical Futures

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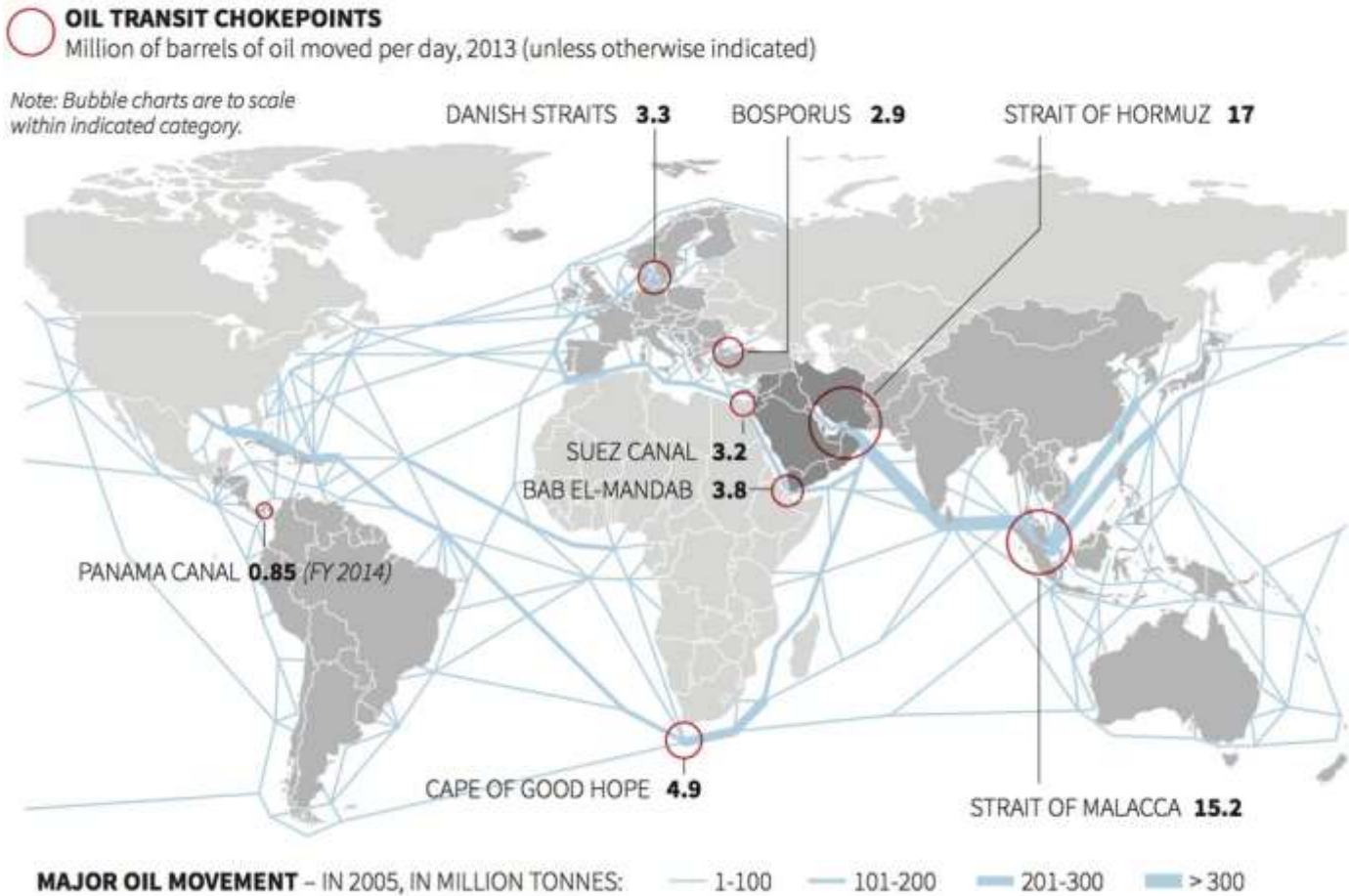




# Istanbul Tragedy

## Oil transit chokepoints

About half of the world's oil production is moved by tankers on fixed maritime routes. The blockage of a chokepoint, even temporarily, can lead to substantial increases in total energy costs. Oil transit chokepoints are therefore a critical part of global energy security.



Sources: U.S. Energy Information Administration, International Tanker Owners Pollution Federation



# Istanbul Tragedy

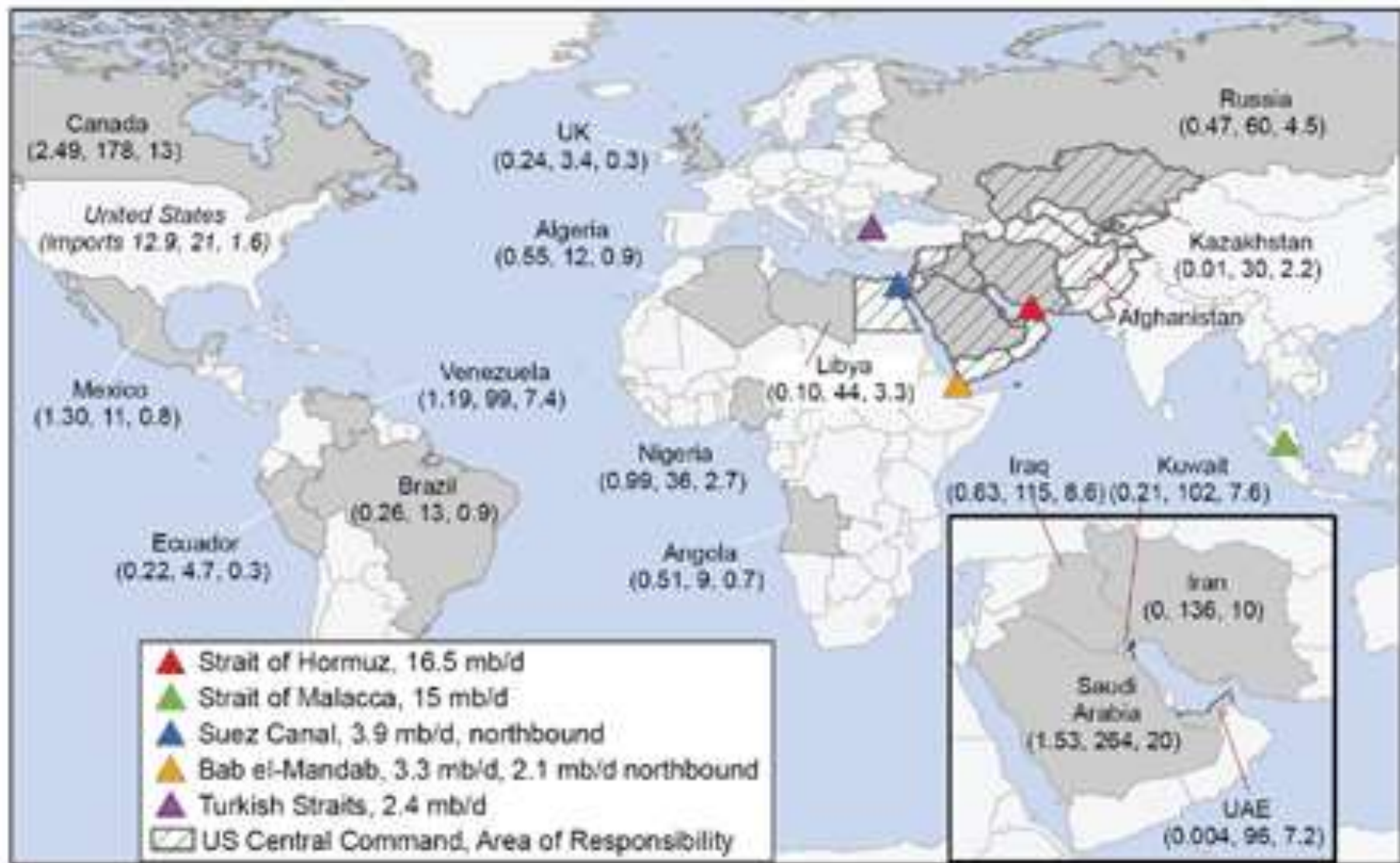
**Table 1. Volume of crude oil and petroleum products transported through world chokepoints and the Cape of Good Hope, 2011-16 (million b/d)**

Location	2011	2012	2013	2014	2015	2016
Strait of Hormuz	17.0	16.8	16.6	16.9	17.0	18.5
Strait of Malacca	14.5	15.1	15.4	15.5	15.5	16.0
Suez Canal and SUMED Pipeline	3.8	4.5	4.6	5.2	5.4	5.5
Bab el-Mandab	3.3	3.6	3.8	4.3	4.7	4.8
Danish Straits	3.0	3.3	3.1	3.0	3.2	3.2
Turkish Straits	2.9	2.7	2.6	2.6	2.4	2.4
Panama Canal	0.8	0.8	0.8	0.9	1.0	0.9
Cape of Good Hope	4.7	5.4	5.1	4.9	5.1	5.8
<b>World maritime oil trade</b>	<b>55.5</b>	<b>56.4</b>	<b>56.5</b>	<b>56.4</b>	<b>58.9</b>	<b>n/a</b>
<b>World total petroleum and other liquids supply</b>	<b>88.8</b>	<b>90.8</b>	<b>91.3</b>	<b>93.8</b>	<b>96.7</b>	<b>97.2</b>

Note: Data for Panama Canal are by fiscal year.

Sources: U.S. Energy Information Administration analysis based on Lloyd's List Intelligence, Panama Canal Authority, Argus FSU, Suez Canal Authority, GTT, BP Statistical Review of World Energy, IHS Waterborne, Oil and Gas Journal, and UNCTAD, using EIA conversion factors.<sup>4</sup>

# Istanbul Tragedy



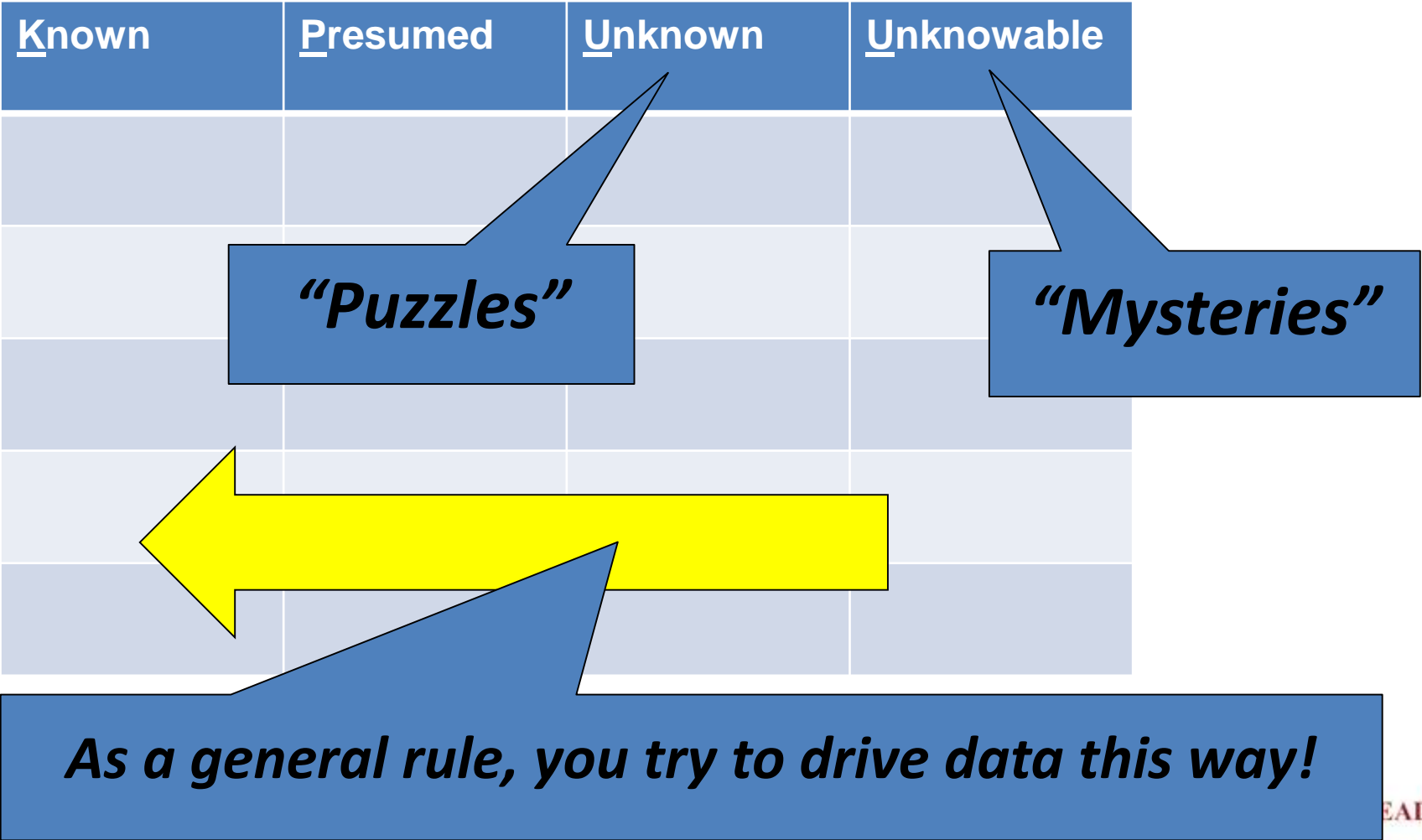
# Break



- » As you work with KPUU, you'll realize that:
  - A) People disagree about what goes in each column, and,
  - B) That's good!

# Reality Judgments: KPUU Framework

» A key tool to answer Reality Questions is the KPUU framework:





# Istanbul Tragedy

# Bloomberg.com

Breaking News – 8 December , 2019

- » Reports of aftershocks continue to arrive from Istanbul. Smoke is rising from many areas of the city. Reports from amateur drones on the scene seem to indicate that both bridges over the crucial Bosphorus waterway appear to be intact.
- » There is no word from the Marmaray tunnel which opened in 2013. It extends underground for 6 km, including 1.5 km buried under the seabed, about 60 meters under the waters of the strait.
- » From Ankara, Turkish President Recep Tayyip Erdoğan has declared a (another?) State of Emergency.



# Istanbul Tragedy



# One trick...



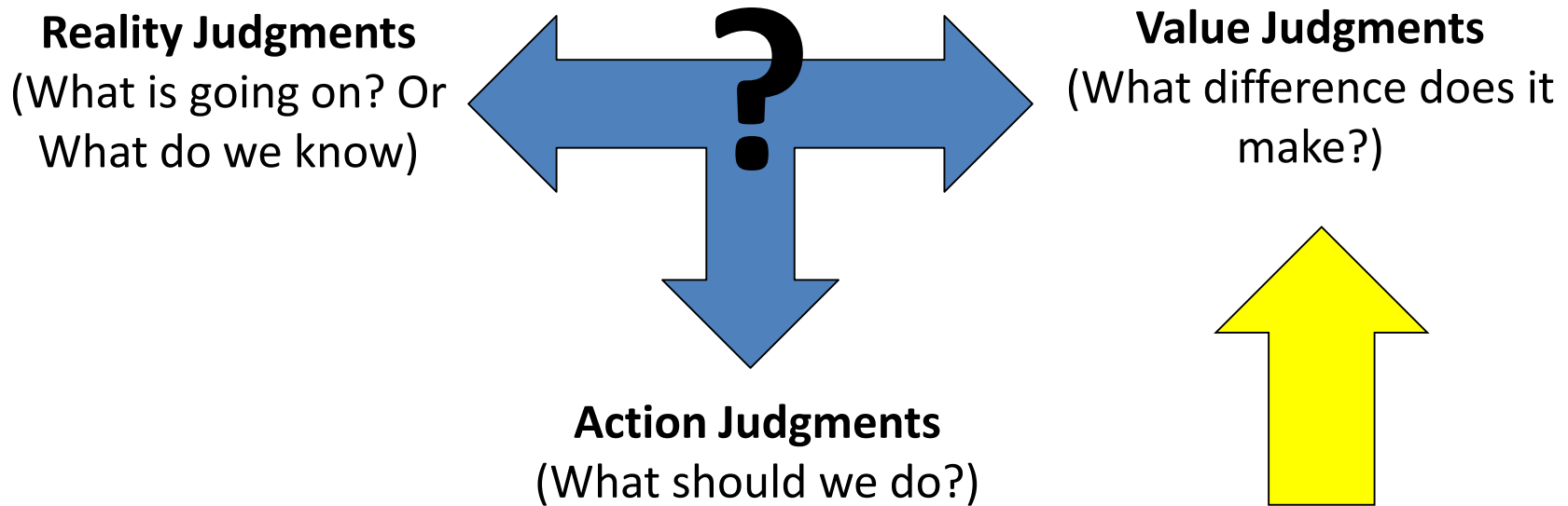
# Reality Judgments: KPUU Framework

» What else can be filled in?

Known	Presumed	Unknown	Unknowable

# The Surprise Reaction Framework

» Let's move on to the next part of the SRF:



# Value Judgments: Milo's Three Questions

- » For “So what?” start with a checklist of three basic questions:
- » 1) Does this event “Change the way things change”?
  - Does it reinforce a trend, change a trend, or will its market effects quickly decay?
- » 2) What drives the timing of this issue/market event's impact?
  - The 24 hour News cycle?
  - The Political cycle?
  - The Economic cycle?
  - A technology cycle?
  - It's own cycle?
- » 3) Is it likely to surprise on the “upside” or the “downside”?



# Value Judgments: Milo's Three Questions

- » 1) Does this event “change the way things change”?
- » 2) What is the timing of this issue/market event?
- » 3) Is it likely to surprise on the upside or the downside?



# Value Judgments: Historical Analogies

- » People use historical analogies either consciously or unconsciously to decide what difference an event makes



## Brexit lessons from Black Wednesday (updated)

Kadhim Shubber | Jun 22 09:42 | Comment

Friends, advisors, clients, counterparties: it's almost over.

By Friday we'll have emerged from the tyranny of the Brexit campaign into a brave new world where either: a) things will be the same and we'll still be arguing about it; or b) things will be the same but we'll be arguing about it in Brussels and maybe there'll be less immigration, eventually, who knows.

In the meantime, the Civil Service is trying to remember what trade negotiations are like; currency traders are girding their loins for an orgy of volatility; and the FX strategists over at Credit Suisse are looking back to Black Wednesday for clues on just how royally screwed (or Absolutely Fine) we'll be in the event of a Leave vote and a subsequent sterling crash.

In the event the Bank of England decides to intervene in the currency market to protect the pound, will it be successful and can it depend on help from the

***"This reminds me of..."***

# The Surprise Reaction Framework

- » Analogies can be especially useful or especially dangerous!
- » To make them useful, I recommend that you make the analogies explicit, and then jot down two columns:

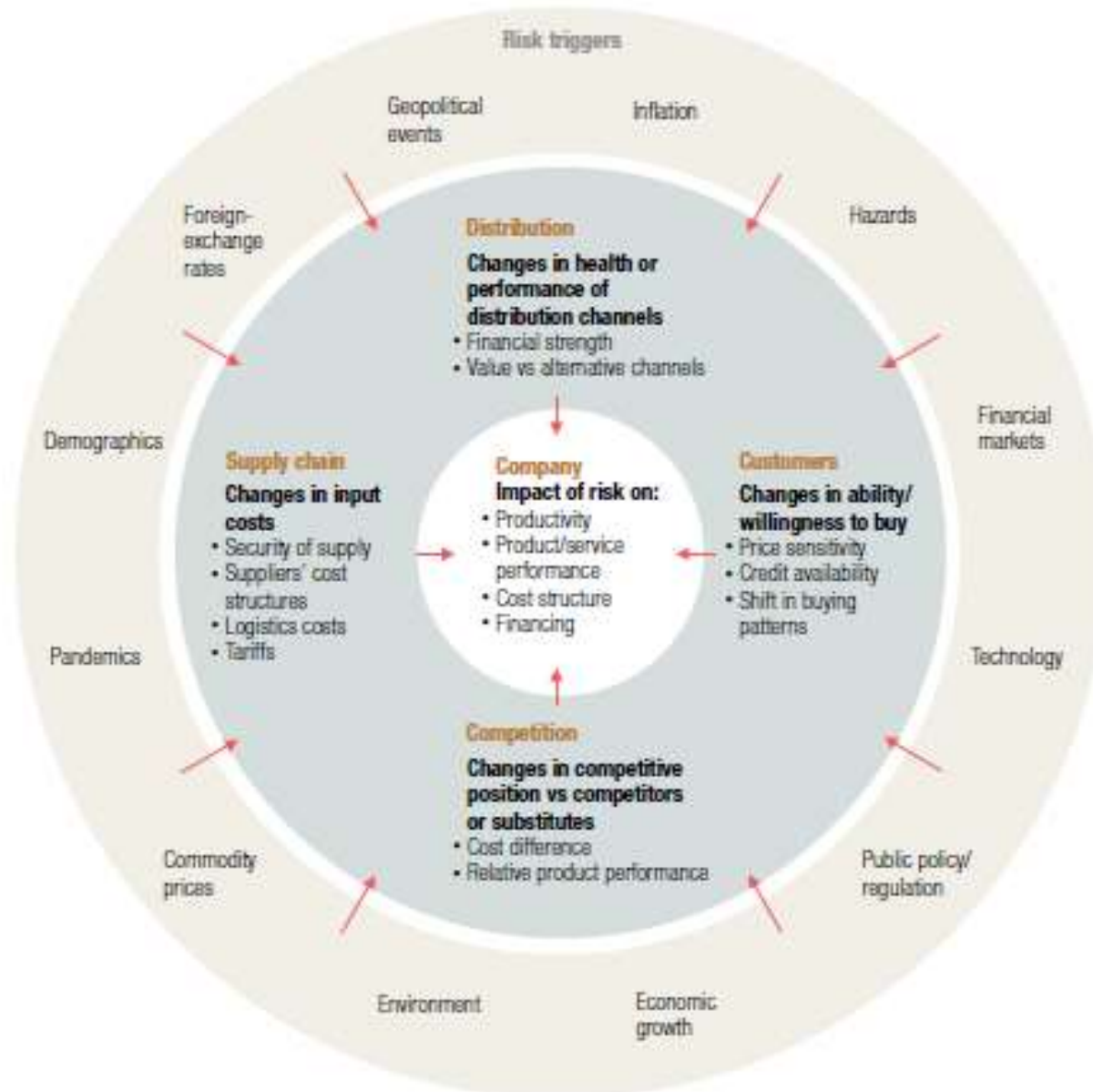
Similarities	Differences

- » Not exactly “rocket science”, but keeps you from batting away facts that mar/complicate your analogies; that makes you less captive to them

# Value Judgments: Event Cascades

- » Another common tool people employ to figure out “What difference does it make?” are “Event Cascades”
- » These are a way of thinking clearly about market contagion or the “transmission belts” between events, economies and companies
- » Use Event Cascades to ask questions about cause and the effect of an event about in a 360 degree:
  - 1) Individual nation, companies or sectors?
  - 2) Their competitors/rivals?
  - 3) Distribution channels?
  - 4) Supply chains?
  - 5) Customers/allies?

# Event Cascades – an organized view of cause and effect



**Bloomberg.com**

» The Department of Vessel Traffic Services for the Turkish Straits has confirmed that the Vessel Traffic Centers in İstinye-İstanbul and Akbaş-Çanakkale are open. They state, however, that “the condition of the 16 unmanned traffic observation stations and their radar systems, Closed Circuit TV and infrared cameras is unknown.”

[illegible]



# Istanbul Tragedy

# Bloomberg.com

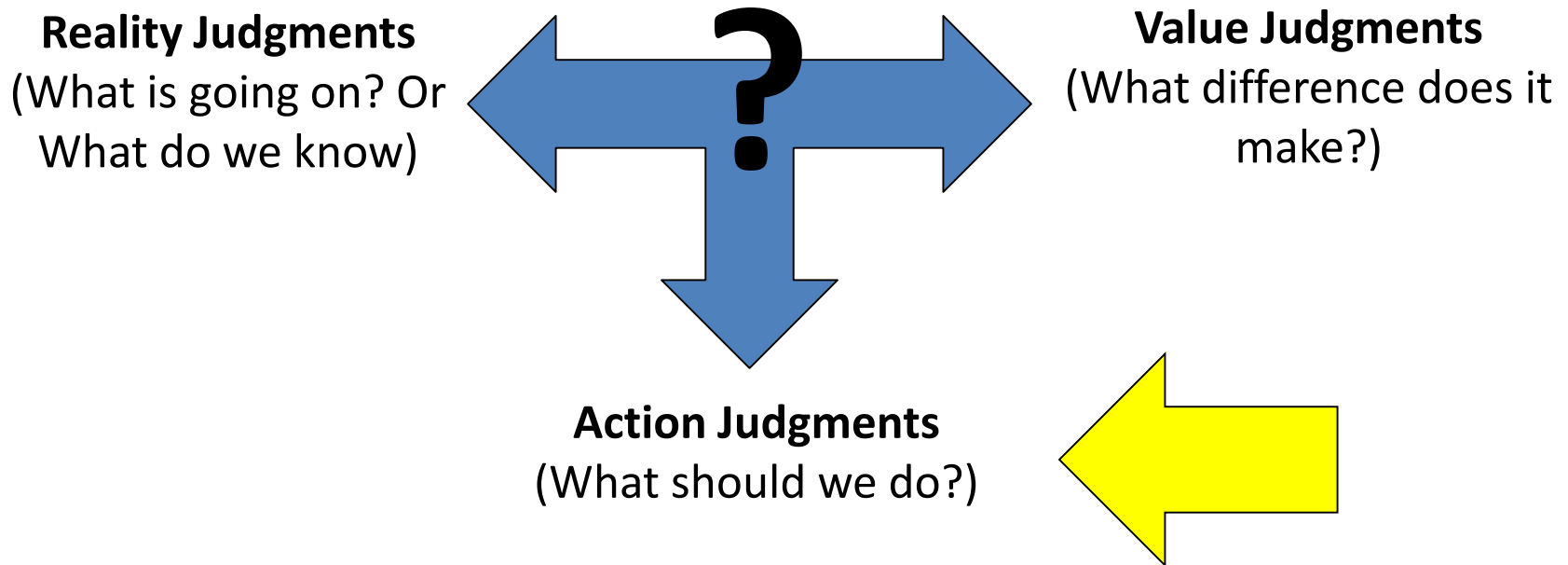
Breaking News – 8 December, 2019

- » Bulgaria reports that pressure levels in the natural gas pipeline connecting the two nations are “incorrect”.
- » The Ukrainian cities of Sevastopol, Yalta, Odessa, and the Romanian port of Constanta all report “unusual behavior” along their waterfronts.
- » European and Israeli rescue teams are said to be preparing to descend on the city; German Chancellor Merkel is reportedly assembling the European Council.
- » Syria’s President Assad has just offered “all available aid and comfort to the Turkish people”.



# The Surprise Reaction Framework

- » Finally, you can use parts of Surprise Reaction Framework to decide what to do:



# Action Judgments

- » First, use the Gavekal Framework to differentiate your point of view;

Event	Consensus View (s)	Our view	Implications

- » “What would make me change my mind about this situation”?
- » This question points towards an entire method, the Analysis of Competing Hypotheses (ACH), which I can give you sources about
- » It draws upon the scientific method to work against cognitive biases

News | Europe

Europe

Turkey Presses Ahead With Nuclear Power Plant Plans

March 25, 2011

Dorian Jones | Istanbul



Photo: Reuters

Activists march during a protest against the Turkish government's plans to build a nuclear power plant in the country in Istanbul March 19, 2011. The banner reads, "No no no."





Be careful...

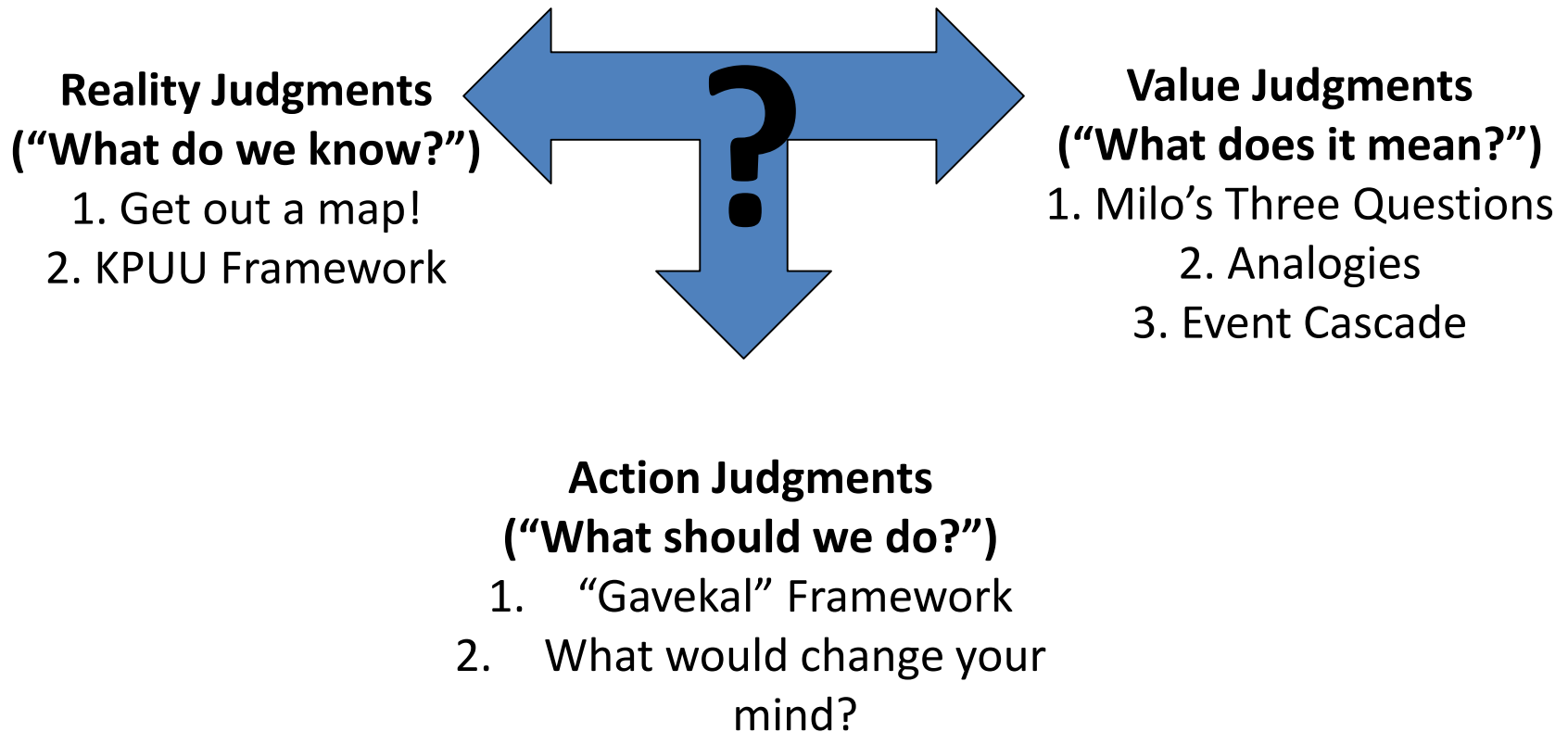


**If you want to layer on a bit more info...**

(probably over the long term)



# The Surprise Reaction Framework: A Summary



Thank you! – Questions?

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<https://www.linkedin.com/in/inveniam>

**Twitter:** <https://twitter.com/Inveniam>  
@inveniam