



Nadeem Ul Haque  
(https://www.thenews.com.pk/writer/nadeem-  
ul-haque)



Malik Ahmad Jalal  
(https://www.thenews.com.pk/writer/malik-  
ahmad-jalal)

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## Only the paranoid survive

Andy Grove, founder of Intel, coined the fundamental management principle to navigate the exponential and unpredictable dynamics of the semiconductor sector, 'Only the Paranoid Survive'.

The semiconductor

market grew 22

times in the two

decades since 1975,

or the market

doubled every 1.2

years. Many initial

players did not

survive.

In the 1980s,

telecommunication

giant AT&T hired the blue chip strategy consultancy

McKinsey & Co to predict the number of cellphones in the US

in the year 2000. McKinsey churned historical data, case

studies and projected 900,000 cellphones.

The actual figure turned out to be 120 million. McKinsey miscalculated by a factor of 121x. This highlights the difficulty of using past data based extrapolation models to predict the future in an exponential market.

A pandemic is an exponential force. In the initial phases, we received memes of how the Covid-19 risks were overblown since there are many more victims of the common flu. Within one month, the Covid-19 death rate accelerated to more than the number caused by flu, but also deaths due to heart disease and cancer. This demonstrates that only paranoia and pre-emptive action can mitigate a pandemic, and underestimating an exponential force can eventually overwhelm a system, as happened in Italy, the US and the UK.

The devastation wrought by the pandemic is evident:

Pakistan's economic loss due to Covid-19 is estimated to be \$15 billion with 12 million jobs lost. In the US, the number of unemployed rose by 2.6 million in a week, the same level of unemployment as the entire first year of the 2008 recession. Effective management and mitigation against an exponential risk is critical to avoid systematic failure to the economy, society and institutions. Yet, all governments and healthcare institutes failed to forecast the pandemic, despite pandemics being common throughout history.

Our future is changing rapidly as we speak. Technological disruptions too are sweeping societies much like a pandemic. Same is the effect of environmental changes on small communities, cities and countries. All exponential forces that are difficult and costly to contain once their momentum builds up. So how do we mitigate or deal with a rapidly

changing environment? What might be effective risk management techniques against shocks from technology and disasters such as pandemics or climate change?

The Covid-19 pandemic has illustrated how unprepared we were with risk management and policies for dealing with an uncertain future. The reliance of experts on so-called predictive mathematical models, which rely on historical data, even if stressed tested with extreme data points, failed spectacularly. These models rely on historical input data, which by its nature is constrained to only predict the future with a lens of the past. Such models will be incremental and won't predict unique 'black swan' events, which have not occurred in the model's data set.

To plan for the future, which is so uncertain, policy and risk management has to use data but go beyond it – apply imagination, blank-canvas scenario building without the influence of past data or evidence. Most importantly, this approach will require nimble but surefooted learning-while-doing technique, rapidly incorporating evidence into an evolving strategy to respond to the crises.

During the Covid-19 crisis we witnessed either fearful overzealous action or over-confident inaction by governments. Both extremes end up being static and can be harmful for the economy or lives of the citizens. The right way to respond to pandemics, or emerging climate and technology risks requires us to be institutionally prepared to deal with all future eventualities.

Such preparation has to be fluid, iterative and dynamic, capable of quick learning and adaptation to possible eventualities that are hard to foresee. It requires a readiness to imagine, experiment and deep connection to the global expertise pool. While data-driven risk management will be involved, it is important to be proactive in a methodical manner to lead citizens with confidence, thereby avoiding panic.

The UK created a National Risk Register, a five year plan of emerging risks along with prevention and response plans, based on inputs from various line ministries.

We think from one mini budget to the next without a long-term plan, and hence are caught-out by the external shocks of oil and commodity price fluctuations. We need to create a structured process of collective brainstorming for our own Risks Register, and proactive plans leveraging all our thought resources – ministries, think tanks, universities and civil society. This network of national thinking should be coordinated by the Planning Commission, greatly enhancing our self-reliance, internal capacity building and ability to respond to pandemics, climate events and technological disruptions.

The mathematician and philosopher who predicted the 2008 financial crisis, Nassim Nicolas Talib, quoted that if you are paranoid, you can be wrong a thousand times yet you will survive. But if you are not paranoid and you make a single mistake in assessing a major risk, then you or your system can be wiped out.

Covid-19 has demonstrated the urgency of overhauling our risk management methodologies by reducing reliance on evidenced-based models, and instead have greater use of imagination in predicting and planning against an unseen enemy.

Dr Nadeem ul Haque is the vice-chancellor of PIDE.

Malik Ahmad Jalal is the Founder of Zambeel Partners and Pakistan2047.