One swallow doesn't make a summer:
taking weak signals seriously without constantly rewriting your strategy

Jeroen Toet | Jester Strategy

One swallow doesn't make a summer, as the saying goes. The idea originally comes from a fable by Aesop. A man who has squandered all his money sees a swallow. He takes it as a harbinger of warmer weather and sells his coat to bring in a little cash. Sadly, the swallow freezes to death and the man meets the same fate. In short, a single observation is not necessarily a guarantee of structural change.

You can therefore read this article as a sequel to the earlier piece on the canary in the coal mine. The lesson of the canary is to see signals in time and not to wave them away too quickly. The lesson of the swallow is not to go too far, or too fast, in the other direction.

In fact, both the canary and the swallow stand for organising a good strategic monitoring system. A system that picks up signals of change early enough, but that does not lose itself in overrating and over-hyping every fledgling signal. And of course you can always explain such misjudgements after the fact, but you can also organise a number of things to reduce the risk of overrating them in the first place.

A. Types of phenomena and signals

Before I offer some tips on how to organise a good strategic monitoring system around signals, it is worth first distinguishing between the various (signal) phenomena that often get confused in discussions about signals.

Phenomenon	What is it, or what could it be?	What should you do with it?
Noise	Normal fluctuation, measurement error	Note or track it, but action is not necessarily needed
One-off event	A notable or meaningful shock, but not a recurring phenomenon	Mitigate it or benefit from it, but do not extrapolate
Emerging trend	A development with a direction whose momentum increases over time	First monitor, then investigate further, then prepare and execute options
Trend or system break	The (underlying) system and/or the relationships within it have fundamentally changed	Hold the assumptions beneath your strategy up to the light (thoroughly), and possibly change the strategy itself

These phenomena form a spectrum. Only over time does it become clear where a signal fits within it. A first signal may be noise, but it may equally be the start of a trend. We only speak of a recession after at least two consecutive quarters of economic contraction; before that, it may still be a normal cyclical fluctuation.

With enough momentum, a trend can grow into a system break. A one-off event can be strategically relevant too, such as a far-reaching court ruling or a major acquisition by a competitor. Such an event may stand on its own, but it may also point to an underlying trend, such as accelerating consolidation. Because this is often still unclear at the first observation, you have to keep testing signals continuously.

B. Seven tests for an (early and fledgling) signal

To build a little more evidence around a signal, and to see where it fits in the classification for now, it helps to examine it more closely. The questions below help you develop a better picture.

1. Is the observation reliable?

Start with the quality of the observation itself. Is the source independent? Have definitions or measurement methods changed? How large is the sample? What interests does the sender or source have? Three news reports that all trace back to the same press release are not three confirmations, but one source repeated three times. With weak signals in particular, source hygiene is essential, because the evidence is still scarce.

2. How surprising is the signal relative to normal variation?

A number only acquires meaning against some kind of baseline. How often, and how much, does this indicator normally fluctuate? How often has a comparable signal announced real change before? And how often did it simply disappear again? A rare, highly diagnostic signal can carry more weight than five banal observations.

3. Is there a mechanism that could sustain the development?

A structural interpretation of a signal requires more than a recent pattern alone. There has to be a credible mechanism through which the development can continue. Have incentives in the market changed? Has a legal restriction disappeared? Is new infrastructure being built? Are scale, learning or network effects emerging? Is behaviour being locked into budgets, contracts or standards?

4. Can you find corroborating (independent) signals elsewhere?

Don't look only for more of the same evidence, but for indications at different points in the causal or value chain. At the front end, do you see relevant indicators in particular investments, vacancies, patents or regulation? Do you see competitors setting up relevant pilots? Do you see changes in customers' buying or switching behaviour? Other indicators may show changes in volume, price, market share or margin. Qualitative signals from customers, suppliers and employees can round out the picture. A trend becomes more credible when independent sources and different types of indicator start telling the same story.

5. Is the signal becoming more persistent, spreading, accelerating?

Repetition alone is not enough. Look at spread and acceleration too, for example. Does the signal hold up across several relevant measurement periods? Does it also surface among other customer groups, in other regions or in other parts of the value chain? Is it growing in size? Does it persist after a temporary trigger has disappeared?

The relevant unit of time for this test differs enormously by question, though. Three days are nothing when it comes to a demographic shift, but crucial in a bank run.

6. **What would disprove our interpretation?**

A mature monitoring process does not only record the favoured explanation. It also formulates and investigates competing hypotheses. Could it be a regular fluctuation or a measurement error? Could it be temporary? Or something that is very local or sector-specific? Might there be something else at system level that offers a plausible alternative explanation for this signal? For every hypothesis you can state in advance what you expect to see, and include in your measurement rounds whether you can find evidence for it. Looking at alternative explanations stops every new fact from being absorbed unquestioningly into the existing narrative, and forces you to stay critical.

7. **What do a false alarm and a missed signal cost?**

Unfortunately, there is no universal threshold ('42', a colleague of mine would joke) at which evidence is 'enough'. How high or low you set that threshold depends on two possible errors: acting when there is no structural change (a 'false alarm'), and failing to act when there is (missing the boat). When the potential damage is enormous but preparation is cheap, an organisation can happily accept a few false alarms. Erring on the side of caution does not cost much then. For an irreversible, far-reaching decision, such as an acquisition, a reorganisation or withdrawal from a market, you will want to see stronger evidence first.

C. From observing to acting, with an escalation ladder

It is tempting to turn every signal too quickly into a binary decision: act, or do nothing? Fortunately, there is another way. A practical process has six levels, reasonably comparable to the table of four types of (signal) phenomena shown earlier.

- **Record**: capture the observation, the date, the source and a first interpretation.
- **Track**: assign an owner and determine which further evidence is relevant.
- **Investigate**: not noise, but possibly a genuine emerging trend? Then gather more primary information and test alternative explanations.
- **Prepare**: is it plausible that the trend could become structural? Take small, reversible measures first: a pilot, a partnership or a capacity investment.
- **Commit**: is the trend likely to turn the system upside down? Adjust your strategy and resource allocation when the evidence and the urgency justify it.
- **Stop or reverse**: are counter-signals emerging? End or revise your response

This ladder chimes with Ansoff's classic thinking on weak signals: as knowledge becomes more specific, the response can become more specific and more substantial too. *Real options thinking* adds an investment logic to that. Under uncertainty, it is often wiser to buy information and flexibility first than to choose between doing nothing and going all in. A pilot, a minority stake, a contract option or the development of a scarce capability can buy your organisation time without committing it to a single view of the future.

D. Organising a good monitoring system

The previous sections say more about how to evaluate signals and about the steps for dealing with them in a fairly technical, theoretical way. They say rather less about how you organise a process and the discussions around it in practice, and how you set up and run a good monitoring system together. Below, therefore, are a number of useful tips and best practices for setting up such a system or routine.

1. **Use 'bundles' of indicators**

Don't rely on one 'magic' measure or indicator. For strategic uncertainties, combine several (types of) indicators for a fuller picture. Combine quantitative with qualitative data. Deliberately add a counter-signal: are there observations showing that the expected pattern is not continuing? Once you have gathered that package of indicators for a development, draw conclusions together: do the various indicators mostly point the same way? Or are they (still) all over the place?

2. **Set thresholds ('tripwires')**

Determine in advance which combination of indicators, and which values of them, leads to further investigation, the launch of a pilot, or escalation to a strategic agenda item for the board. This brings calm: you don't have to start running at every signal, but you know exactly what to do and when. Such 'tripwires' need not work entirely 'automatically', but they do force you to make explicit agreements first. An added benefit is that such agreements also make it visible when directors later adjust the rules because a signal doesn't suit their preference.

3. **Organise regular monitoring and shared interpretation**

This need not be a permanent 'war room'. An accessible and enjoyable monthly meeting, or one per quarter, can already work wonders. By looking outward together more regularly, you see things coming sooner. That gives you more time to investigate them properly, interpret them and decide on the right actions. So what should you talk about in such sessions? Consider the following questions for the relevant developments you are monitoring:

- What has changed? Which signals have we observed (what is the evidence)?
- What had we expected?
- Which assumptions beneath our strategy are affected by this?
- Are there other possible explanations for this development?
- If this continues, what might we expect to see by the next meeting?
- What action is needed now?

Research (including Dutton and Jackson, as far back as 1987) has shown that it is better not to label developments as an opportunity or a threat at this stage. Thinking in such labels can colour observation, and that brings us to a next tip that is closely related.

4. **Have someone other than the 'owner' of a strategy do the monitoring**

Someone who is responsible for steering a part of the strategy and the actions beneath it should not be put in charge of monitoring the relevant developments and the signals for them. Why not? The strategy owner may, for instance, have an interest in looking only for confirming signals. And in playing down or ignoring signals that *don't* suit them. So place it with someone who has no skin in the game and can look at it more objectively. And if that really isn't possible, always try to organise some form of challenge anyway: can someone in the group come up with a good alternative explanation for a signal?

5. **Keep records and evaluate**

Keep good records of signals, the meetings and the outcomes. So assign that to someone too. Above all, look back at all that information together once a year. What turned out to be 'false alarms'? What did we miss? How quickly were we able to act as a company? Talking about this together generates good ideas for doing it better next time.

The mature response is usually: act small and flexibly, keep looking big

The purpose of strategic monitoring is not to eliminate all false alarms. On the contrary: a system that never raises a false alarm is probably so insensitive that it fails to see important changes, or sees them too late. Nor should every signal become a board priority. The aim is to build an organisation that knows its own sensitivity, learns faster than its environment changes, and can step up its commitment in stages.

That calls for keeping three questions apart. 1. How **certain** are we that something really is changing? 2. How large are the **consequences** if it is true? And 3. how much **room for manoeuvre** do we lose by waiting? An uncertain signal with enormous consequences and a long lead time can justify early, reversible (!) action. A likely signal with limited consequences may only need to be managed within a specific market or business unit, without throwing the entire strategy into doubt.

Mature organisations do not wait for certainty, but nor do they confuse paying attention to signals with full commitment. They record weak signals, investigate further, test competing explanations, update their probabilities and take reversible (scalable and flexible) action for as long as uncertainty is high. Only when evidence piles up from more and more indicators does a weightier strategic decision follow.

One swallow doesn't make a summer, but it can be a reason to check the weather forecast a little more often and a little more closely, and to discuss it together.

About the author

Jeroen Toet is a managing consultant at Jester Strategy. He is co-author of the book Scenarioplanning in de praktijk. Using foresight methods such as scenario planning, Jeroen helps organisations, ranging from Fortune 500 companies to SMEs and from (G4) municipalities to housing associations, to get a grip on uncertainty and to give structure to the strategic conversation in the boardroom.

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