

What is the strategic risk most often missed by Boards and Executives?

Executive summary of an article by Frederick Funston.

My alma mater, Deloitte and Touche, recently published an article on their web-site called "Confronting assumptions to find risk and opportunity" based on a book: "Surviving and thriving in uncertainty" by Frederick Funston and Stephen Wagner. The paper although written in a slightly academic fashion contains some excellent ideas. This document summarises those ideas and builds upon them to suggest a tool to reduce the likelihood of succumbing to this risk.

What is this blind spot, in terms of a strategic risk, that is so often missed?

The answer is best described by this quote from Mark Twain:

*"It ain't what you don't know that gets you into trouble.
It's what you know for sure that just ain't so."*

The Deloitte paper says that many Boards and executives go to a lot of trouble to identify those threats that could potentially block the execution of their strategy. However, what they often miss is the failure to consider that **the strategy itself is flawed**. That is, that the strategy is based on **certain underlying assumptions that may be no longer valid**.

A strategy that was developed to thrive under certain circumstances may no longer work when those circumstances have changed. This can be difficult to see – especially if the strategy has previously been successful. However, in a world of massive, and often rapid, change – the underlying assumptions are **likely to shift**. And a strategy based on false assumptions is almost bound to fail – no matter how well it is executed.



Where do these assumptions come from?

Many of our strongest held assumptions come from our past experiences which in itself is not bad, as the human being has learned and adapted from using these experiences to the good. However, this same trust in past experiences can also be the cause of destruction as it is hard to give up on those ideas that previously proved successful. When the circumstances seem similar (even when they are not), we have a tendency to repeat the actions that worked before.

Challenging our own assumptions is always a tough process – and it is often the most successful who find it hardest to do. As the article says: "our most deeply held assumptions are the sea we swim in" and so we tend to be blind to the fact that they are indeed assumptions, not facts!

Why should the assumptions change?

Actually, a better question is why should these assumptions stay the same? The world we live in is fast moving. We are just (hopefully) recovering from a major recession which has resulted in seismic shifts in many industries and sectors. Fundamental shifts that mean things will not return to the way they were before. On top of the recession, we have had our normal leapfrogs in technology advancements and differential growth in populations and economies. The most surprising thing is that anyone still believes that old strategies are still likely to work as well as they did before!

Great, but so what do we do?

Most organisations do not have the resources or flexibility to develop strategies from scratch every year – and so most of us live with the cycle of development – refine – refine – redevelop; and only get swayed from this path when faced with massive changes that even the most-myopic can see.

However, there is perhaps an alternative whereby on a regular basis we make a critical review of our strategy – and more importantly, identify, unpack and challenge the underlying assumptions. Even when an executive committee has the maturity to agree to such an exercise, admittedly it is not easy to do. It is **difficult to identify those underlying assumptions** and it is sometimes even harder for us to challenge them. Ego, politics, behavioural dynamics and sheer "cussedness" can get in the way.



The Deloitte article suggests a tool called Thesis-Antithesis-Synthesis (TAS) whereby one states the assumption, then states the opposite view and then finally considers the implications of both views on the. Genesis recommend combining this idea with the use of a **Challenge Board** (refer our article on "Unknown unknowns") where one brings together an independent group of people (internal, external or a mixture of both) and tasks them with challenging the assumptions (there are various tools and techniques available to facilitate this process). The results of the Challenge Board are then presented to the Executive Committee for discussion. After the 1 to 2 day exercise, one can then proceed towards strategy refinement (if still feasible) with a level of security that the level of this strategic risk has been tested.

Execution and conclusion.

The picture painted may have appeared somewhat negative, but this need not be the case. Being an early identifier of an "assumption-shift" can allow one to steal a march on competitors – and even create an opportunity to introduce an **industry-disruptive intervention** that presents massive competitive advantage. In this way, you can become the creator of the shift that benefits your business.

For more information about undertaking an assumption challenging exercise and what tools may be used to facilitate the process, contact Simon Gifford at Genesis Management Consulting Limited (contact details below).

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