C-SUITE MANAGEMENT SERIES – SEGMENT 5

Strategy Development - Predicting and Controlling Risk Versus Texas Hold'em

Nothing Is Certain Except Uncertainty

While I am not a big gambler, I do enjoy watching the dynamics associated with the final table at a good Texas Hold'em tournament. Here you have individuals with a keen understanding of statistics, probability, a deep historical base of experience, and the ability to directly see and read their competition. However, their ability to win is still never a given because even with all this expertise, they do not know what the next card will be that is turned, or what hand their competitor really has.

Therefore, it is amazing that so much of a C-Suite's strategic development efforts are predicated on the ability to predict the future when having a consistently reliable method to do so does not exist. In fact, there are studies that indicate the ability to influence the future because of wealth (like the largest stack of chips at the table) will more likely lead to increased success than any sort of actual methodology for predicting the future.

However, as borne out in Target's 2013 to 2015 failures at entering the Canadian market, even wealth (or the largest stack of chips) can have its limitations for successful strategic execution.

But there was more to learn from the dynamics at the Texas Hold'em table that help me reinforce what I learned after many years of C-Suite experience in strategic development and execution. Closely watching the players, you realize they **reassess** the dynamics of the game, and therefore their next move, after every new card appears on the table.

The key is that they do not start a tournament or a hand with a given strategy and just follow it through to the end no matter what is actually happening during the progression of the game. There is instead a constant reassessment of their strategies based on the progression of the actual known conditions.

Therefore, there is a better way for the C-Suite to develop and execute strategic change than repeating the same old approaches that in reality, have very poor success rates. Once again, there are indications that as many as 65% to 75%+ of strategic initiatives completely fail or fail to reach expectations.

The good news is that if the C-Suite steps out of the traditional box that experts and solution providers want to use, there are concepts, tools, and methods that can greatly improve the potential for successful strategic development and execution. **The key is to focus on the understanding, calculation, and control of risk versus just trying to accurately predict future events, outcomes, and conditions. THERE NEEDS TO BE AN ONGOING REASSESSMENT BASED UPON THE ACTUAL DYNAMICS THAT ARE TAKING PLACE!**

For some reason, once a C-Suite/organizational objective is established, there is a continuous willingness to follow a traditional approach of putting a lot of effort into developing an execution strategy, selecting an implementation plan and methodology, and then attempting to slam it through the organization to what is expected to be a successful outcome. See Segment 2 of the

C-Suite Management Series (Reality of Strategic and Operations Integration and An Introduction to Feedback Loops).

On top of that, there is often this belief and commitment that the organization has the perfect upfront execution strategy, implementation plan, and methodology. I believe this is based upon all of the frontend effort expended, often combined with an unyielding confidence a proven methodology has been selected and help from the right group of experts has been solicited. Therefore, if the organization is dedicated enough and pushed hard enough there will be a successful result.

Unfortunately, there has been a sufficient amount of success, together with ongoing promotion of these traditional approaches, to convince the C-Suite that this is the best alternative available. However, as will be more fully detailed in Segment 8 of this Series (Putting It All Together – Dynamic Execution), there are in fact innovative concepts, tools, and techniques that can be utilized versus these traditional approaches.

From a C-Suite perspective, success should be a focus on obtaining the important objectives they want to attain as quickly as possible. It should not be whether there was a successful ability to predict the future, select the best execution strategy, implementation plan, proven methodology, or experts. I have often found this real perspective gets lost in the shuffle surrounding the process of strategic development and the focus on a specific chosen implementation methodology.

The alternative C-Suite approach starts with a discussion and understanding of RISK.

The Basics Behind Obtaining A Successful Objective

It is best to start by exploring some basic concepts behind the dynamics surrounding how change, and therefore strategic execution, works.

1. The first thing to recognize is that all change/strategic execution requires the execution of a process.
2. Every process has a certain set of requirements in order for it to successfully execute. I can have a gasoline engine but need gasoline available in order for it to operate (a process requirement).
3. Therefore, all requirements for any given process must be available within the environment the process will execute in or that process will fail to execute. In Change Science we refer to this as the Environmental Override Principle. Consequently, it does not matter if you have selected a proven process/strategy, that process/strategy will not execute without the availability of all the necessary requirements.
4. If there are missing requirements, then an IMPLEMENTATION must take place with the goal of establishing the availability of any missing process requirements.
5. However, this implementation will be occurring in a world of complexity where perpetual change in any given environment is constantly taking place. The same complexity that makes it literally impossible to consistently and reliably predict the future. In Change Science this perpetual change is referred to as the Chain Of Events Principle.
6. Therefore, all of this perpetual change represents **RISK** to the implementation to obtain the necessary process requirements and thus, the ability to obtain the

successful execution of the selected process/strategy. <u>This risk is the real challenge for the C-Suite!</u>

7. To add to this challenge, it needs to be recognized that the amount of complexity/perpetual change increases as the interval of time it takes to obtain all of the necessary process requirements increases. In Change Science this is referred to as the Change/Time Continuum Principle.
8. Therefore, the length of time it takes to execute an implementation or the execution of a process/strategy represents a major **RISK**. In other words, time can be a major enemy of the C-Suite.

<u>Disconnect Analysis</u>

Fortunately, there is a tool the C-Suite can utilize within the organization to help assess and address these risks. Disconnect Analysis is a tool that determines and analyzes the disconnects between the requirements of any given process/strategy and the actual conditions that exist in the environment where that process/strategy will be executed in.

Obviously, if all the necessary requirements already exist in an environment, the strategy will already be able to be executed and the C-Suite's objective will be obtained. No implementation to provide missing requirements will be necessary.

However, if there are missing requirements, then a Disconnect Analysis can determine the context and exactly what requirements are missing.

In addition, it is important to recognize that each potential alternative strategy under consideration for use to obtain a desired objective will have its own set of disconnects. That means that each alternative strategy will also have its own implementation requirements.

Given that each set of disconnects and implementation plans will be unique, there will exist an opportunity to at least estimate the TIME required to execute each alternative implementation plan and strategy.

Therefore, Disconnect Analysis becomes an incredibly powerful tool for not only assessing the scope, disconnects, efforts, and time requirements for any given potential strategy, but for comparing and selecting between alternative potential strategies.

Disconnect Analysis is an easy-to-understand straightforward way to begin to assess the RISK associated with strategic development, selection, and execution. It also becomes a great starting point for the use of the Dynamic Execution Methodology described more fully in Segment 8 of this Series and for use within the context of the Feedback Loops introduced in Segments 2 and 3.

In order to successfully use the Disconnect Analysis, an organization must not only determine all of the critical requirements of a strategy, there must also be a determination of the actual conditions that exists within the environment that strategy will be executed in. It is the missing conditions that represent the disconnects.

Therefore, comprehensive top to bottom integrated Feedback Loops become an excellent way to increase the ability to accurately determine requirements, actual conditions, and disconnects. As we will see, Feedback Loops also provide a basis for ongoing monitoring and control of the assumptions used during the Disconnect Analysis and strategic selection process.

Assumptions/Predictions/RISK

Given the discussion above on predictions, some might be questioning how I differentiate between predictions and assumptions. An assumption is to have an expectation of something with some, little, or no proof. It can be in the context of current or future. Current - I assume the product is upstairs. Future - I assume the product will be delivered on time.

A prediction is to have an expectation of a future event or outcome generally based upon data, knowledge, or experience, but not always. It is a best or informed guess of the future. Future – Based upon a historical on time delivery rate of 90%, I predict the product will be delivered on time.

A prediction can be considered an assumption focused on the future generally based upon some sort of informed or analytical basis. Therefore, it is easier for C-Suite purposes to just use the single term assumption recognizing that it is in the broader context that includes predictions.

However, the important concept to focus on is not the definition of assumptions versus predictions. Instead, in both cases, the focus must be on the RISK associated with these assumptions/predictions and how to determine, monitor and control that risk.

There is a reality that exists that is often missed, ignored, or viewed as a weakness. All decisions are based on some level of assumptions. While these assumptions can have a wide range in the variable of probability, and therefore importance of consideration, **assumptions in fact represent a potential RISK in strategic development, selection, and execution**.

Therefore, besides defining disconnects between actual existing conditions and strategy requirements, a Disconnect Analysis must document any critical assumptions being used in the process.

For example, an assumption might be that there will be a consistent level of sales during the time frame of the implementation. Therefore, a major deviation in sales represent a potential risk and the monitoring of this assumption as it relates to the strategic initiative would be valuable.

Clearly documenting the critical assumptions used in the selected strategy and implementation creates a strong basis for the communication and monitoring through the use of Feedback Loops. This in turn, allows the C-Suite and organization to quickly address and react to any issues that arise from any inaccurate or missing critical assumptions or conditions.

I cannot stress this concept enough – The determination, documentation, monitoring, and ultimately control of critical assumptions provides a major tool for the C-Suite to reduce risk and increase their potential for successful results!

Time

There are many differing opinions on the pluses and minuses regarding the time it takes to execute an implementation and selected strategy. Some have justifiable logic and some often appear to be self-serving, like solution providers where the fact that their fees for services are based upon hours or scope and their ability to staff a project becomes easier if a project has a long implementation timeframe.

However, rather than getting further into the specifics of the pluses and minuses, I want to cut to the chase and discuss time from the perspective of the C-Suite and risk. We can start by noting the following:

1. Risk - When you lock yourself into a ridged implementation or strategic execution methodology, it is easy for the success of that methodology to become the focus versus what is the real critical issue for the C-Suite, successfully obtaining the desired objective.
2. Risk – As already discussed, the amount of complexity/perpetual change increases as the interval of time it takes to obtain all of the necessary process requirements increases.
3. Risk – Failure to monitor and adjust to inaccurate assumptions and/or unexpected conditions over long periods of time not only can represent additional effort to correct these issues later on in the process, but in the worst case, can lead to complete failure to execute.

Once again, this is where our concepts, tools, and methods deviate from the traditional and ultimately address much of the C-Suite risk associated with the time of execution:

1. A paradigm shift to a Blending Of Strategic Initiatives With Day-To-Day Operations provides an opportunity to reduce risk. It allows a shift away from discrete time dependent project initiatives to a continuous flow of strategic execution that can help avoid many of the time sensitive issues. To be clear, the selection of specific strategies and associated implementation requirements will still be created. However, the execution will be layered in as part of a continuous strategic to operations process giving a) flexibility of timing, b) an ability to simultaneously be executing multiple strategic initiatives, and c) an ability to adjust priorities when necessary and assess and address any associated impacts due to these changes in priorities.
2. The use of Disconnect Analysis will not only define the assumptions used and the disconnects that need to be addressed for a selected strategy, but will also provide an opportunity to more analytically determine time and resource requirements. All of this represents an ability to reduce risk through providing critical information in the Blending Of Strategic Initiatives With Day-To-Day Operations and establishing critical factors that need to be monitored and controlled during the execution process.
3. When taken together with a Blending Of Strategic Execution With Operations and Disconnect Analysis, the use of Feedback Loops now creates an <u>organizational closed loop system of strategic execution</u>. Feedback Loops provide the communication flow of strategic initiative information down into the organization and the upward communication of critical considerations and information generated from the ongoing monitoring of critical factors. A communication structure that represents an ability to greatly reduce risk, including the risk associated with the length of time to execute.

This closed loop system for strategic initiative development and execution becomes the basis for the DYNAMIC EXECUTION METHODOLOGY described in detail in Segment 8 of this Series (Putting It All Together – Dynamic Execution).

<u>Staff Participation And Commitment</u>

Staff participation and commitment to strategic development and execution can represent a major risk to the C-Suite's ability to obtain their desired objectives. Obviously, the level of time committed by an individual to participation in strategic initiative development and execution versus day-to-day operations can vary significantly depending on the position and responsibilities any given staff member has within the organization.

However, the expectation of top to bottom staff participation and commitment is not an unrealistic goal. The structure created through a Blending Of Strategic Execution With Operations is accomplished through the proper level of incorporation of strategic development and execution into each position within the organization. This creates the potential for a seamless structure with little to no differentiation at the positional or individual level between strategic initiative and operational responsibilities. In other words, the goal is to make an appropriate level of strategic participation and commitment a routine part of each individual's responsibilities.

The Human Resource Categorical Organization Modeling and Analysis Methodology described in Segment 4 (A Truly Integrated HR Management System for A Dynamic World) becomes the starting point and represents an integral part of the solution in reducing the risk associated with staff participation and commitment to strategic development and execution.

This methodology not only defines and differentiates what is significant at a positional level, but more importantly, incorporates an evaluation, communication, and discussion capability regarding strategic initiative activity, participation, and commitment all the way down to each individual in the organization.

Ongoing participation and commitment are then obtained and reinforced through Feedback Loops. Once again, this downward communication of strategic initiative information and feedback upward of critical information regarding strategic initiatives should become a seamless part of each individual's day-to-day activities. The level and context of this feedback activity can, and will, vary depending on the position, timing, and requirements of the strategic activity taking place.

The creation of this comprehensive top to bottom blended structure will greatly enhance the C-Suites ability to reduce the risk associated with staff participation and commitment.

Eliminate And Mitigate

To describe the obvious, it is important to recognize that not all risk is created equally. In the broadest context, the significance, probability, and ability to control a given risk varies. But what are the implications of this variability to the C-Suite and what can they do about it?

The key is to make sure that a level of analysis is undertaken so that when the potential exists, critical risk can be eliminated or mitigated whenever possible. Consider the following guidelines:

1. Significance (that is, impact) a specific risk has on a strategic initiative can be different depending on what the particular risk is. For example, assume an execution of some event that needs to take place during the strategic initiative has the potential to be delayed by one day (a risk). This delay would in turn impact the timing of completing the execution by a day. However, this risk of a one-day delay is probably insignificant and can easily be compensated for. On the other hand, if the delay in the event turns into weeks, then the level of significance/impact of this risk might increase substantially.
2. The advantage of assessing what the impact will be from the various specific risk exposures helps filter out the risk that has low significance while focusing on the risk that signifies the greatest potential impact on the objective we want to obtain.

3. Just like significance, the level of probability that a specific risk will, in fact, occur can influence the level of effort and concentration we want to place on that particular risk.
4. However, having a risk that has a high probability in and by itself may not be an issue. This is due to the fact that unless the probability of a risk is also associated with the significance of that specific risk, it will be difficult to determine the true ramifications associated with the probability.
5. A big mistake is looking at risk in a homogeneous context. One of the easiest ways to manage, control, and reduce risk is to separate and analyze it into two categories: controllable and uncontrollable. It is a sad situation when there is a negative impact on a strategic initiative caused by a risk that had the potential to either be eliminated or mitigated. Unfortunately, I have seen this situation transpire more times than I want to count.
6. The analysis of risk from the perspective of being controllable and uncontrollable can be built into the Disconnect Analysis and becomes the starting point for the avoidance of these negative situations.
7. The first question that should be explored when dealing with controllable risk is: are there ways to eliminate the controllable risk? Since controllable risk is a risk that is subject to an organization's direct influence, controllable risk should be eliminated whenever possible. This should apply not only to highly significant and probable risk, but also to any controllable risk that can be justified from a time, effort, and cost perspective. The elimination of controllable risk is often low hanging fruit and represents an easy way to reduce risk.
8. Unlike controllable risk where the potential for some sort of direct influence exists, no such capability exits in the case of uncontrollable risk. Therefore, uncontrollable risk represents any risk for which direct influence is outside of the control of the organization.
9. The sad situation with uncontrollable risk is that organizations often assume that because a risk is uncontrollable, there is nothing they can do and must live with the ramifications. However, if we want to manage, control, and reduce risk, then this perspective is not acceptable, especially in cases where the risk is of high significance and moderate to high probability.
10. Instead, the proper perspective should be one of mitigation. While certain risks might be outside of an organizations direct control (for example, the weather and the actions of other organizations), that does not mean that there is not an opportunity to mitigate the risk if it should occur.
11. I like to refer to this as a form of <u>strategic initiative protectionism</u>, which is developing a plan that, if executed, has the potential to counter the impacts of an uncontrollable risk if and when it occurs.
12. Finally, once again, in addition to the initial activities performed as part of the Disconnect Analysis, Feedback Loops become an effective built-in continuous strategic execution tool to recognize, monitor, and control the elimination and mitigation of controllable and uncontrollable risks.

In summary, Eliminate and Mitigate is the concept that risk can be viewed in the context of risk factors that are controllable and uncontrollable. If you have a risk factor that is controllable, then that risk factor should be eliminated provided the significance of the risk factor justifies the time, effort, and cost of elimination. However, if the risk factor is uncontrollable, then, when possible, that risk factor should be mitigated provided the significance of the risk factor justifies the time, effort, cost of mitigation.

The following table depicts the interrelationships between probability and significance along with some suggested potential high level actions.

- A significance of High means an inability to obtain the C-Suite objective.
- A significance of Medium means the potential for a major disruption including the possibility that the objective will not be obtained.
- A significance of Low means minor disruption to the ability to obtain an objective, which is anticipated to be easily correctable if the risk occurs.

Risk Assessment	**Probability of a Specific Risk = High**	**Probability of a Specific Risk = Medium**	**Probability of a Specific Risk = Low**
Significance of Risk = High	Requires high level of attention and a detailed eliminate/mitigate action plan	Requires high level of attention and a detailed eliminate/mitigate action plan	Eliminate/mitigate risk where cost justified and monitor closely during execution
Significance of Risk = Medium	Requires high level of attention and a detailed eliminate/mitigate action plan	Requires high level of attention and a detailed eliminate/mitigate action plan	Eliminate/mitigate risk where cost justified and monitor closely during execution
Significance of Risk = Low	Eliminate/mitigate risk where effort is minimal	Eliminate/mitigate risk where effort is minimal	Little to no attention or effort

<u>Summary</u>

The following summary will help reinforce our discussion of RISK from a C-Suite perspective.

1. The main goal in strategic selection and execution for the C-Suite should be to obtain their desired critical objectives.
    a. Therefore, the very first risk the C-Suite needs to recognize and avoid is that the main focus on their desired goal does not get lost because the objective shifts instead to a focus on the successful execution of a specific strategy, implementation plan, or execution methodology.
    b. I know to some it can sound counterintuitive since in theory, having a successful execution of a specific strategy using a recommended implementation and execution methodology should result in reaching the desire C-Suite objective. Especially if there is a great deal of frontend time and effort committed to the

selection. Unfortunately, in reality, given the complexity that exists, there are too many unknowns to give the confidence level required on the frontend that the selections made are in fact the best, unknown conditions do not exist, unexpected environmental dynamics do not take place, or even with certainty the selections made will even result in the desired C-Suite's objective. This is especially the case if there is a long implementation/execution time frame and/or a proper frontend Disconnect Analysis is not performed.

   c. Therefore, as explained in more detail in Segment 8 of this C-Suite Series on Dynamic Execution, these initial selections need to be viewed as the starting point of a dynamic execution process. For example, assume the C-Suite objective is to increase sales by 5% per year for the next three years. Why would you proceed with the execution of an online sales strategy if during the implementation process, the dynamics uncovered there are indications that the expansion of the sales force in selected markets would be a superior strategy. Or, what if it is determined during the execution that the online sales software selected along with its associated implementation plan will not perform to the level or in the time frame required to meet the sales target?
   d. Bottomline, having a dynamic strategic development and execution methodology within a Blended Strategic To Operations organization that is using Disconnect Analysis and Feedback Loops is the best approach to minimize risk and maximized the potential for C-Suite success.

2. The starting point in reducing risk is for the C-Suite to focus the organization on the use of a Disconnect Analysis that includes a determination and analysis of assumptions across various strategic alternatives.
   a. As discussed, the determination, documentation, monitoring, and ultimately control of critical disconnects and assumptions provides a major tool for the C-Suite to reduce risk and increase their potential for successful results.
   b. Comprehensive top to bottom integrated Feedback Loops become an excellent way to increase the ability to accurately determine requirements, actual conditions, and disconnects. They also provide the communications capability necessary for ongoing and timely monitoring and analysis of critical factors. This allows the C-Suite and organization to quickly address and react to any issues that arise from inaccurate, changing, or missing critical assumptions or conditions.
3. The closed loop system created by an organizations use of a) Blending Of Strategic Execution With Operations, b) Disconnect Analysis, and c) Feedback Loops is one of the best ways the C-Suite can address the risk issues associated with the time it takes to develop and execute a strategic initiative.
   a. This closed loop system becomes the basis for dynamic execution in which TIME becomes a critical factor to analyze, monitor, and control.
   b. In turn, this closed loop structure represents an ability to greatly reduce the risk associated with the length of time to execute.
4. The incorporation by the C-Suite into the organization of Feedback Loops and the Human Resource Categorical Organization Modeling and Analysis Methodology outlined in Segment 4 of this Series will provide a major capability to mitigate the risks associated with staff participation and commitment to strategic initiatives.

   a. The key is the seamless blending of strategic initiative activities into the day-to-day operational responsibilities all the way down to the individual level.
   b. The Human Resource Categorical Organization Modeling and Analysis Methodology allows the organization to incorporate the communication of strategic initiative activities and opportunities, and just as importantly, reinforce expectations and evaluate actual participation, all the way down to the individual level.
   c. Feedback Loops then address the ongoing participation of individuals in strategic development and execution activities through the proper level of an integration of associated communications into each individual's day-to-day activities.
5. Finally, not all risk is created equal. Some risk is more controllable than other risk and the significance and probability of risk can differ considerably. Therefore, an organizational focus by the C-Suite on an ongoing analysis and ability to eliminate or mitigate certain risks can greatly increase the potential to obtain their desired objectives.
   a. The significance and probability of risk should be evaluated and when appropriate, a given risk should be eliminated or mitigated whenever feasible.
   b. This should be an analysis that starts as a part of the Disconnect Analysis and Strategic Selection and continues all the way through the execution process fed by the information received via ongoing monitoring and feedback.