Uncertainties and risks of strategy implementation

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In a previous post, we talked about how two major dimensions shape the type of strategy work we need to do: 1) the degree of people impact, i.e., how many people the task at hand affects and how much it affects them; and 2) the degree of uncertainty it faces and subsequently addresses.

With this post, we are going to dive deeper into the uncertainty dimension. What are the key uncertainties (and subsequent risks) to successfully implementing a strategy? The point of departure for our research into this question was our risk management experience in large-scale technology programmes, for example in aerospace and defence, infrastructure development and autonomous vehicles. Those programs are good proxies for strategy initiatives in technology-driven companies – their success usually makes or breaks organisations, and the careers of people running them.

At the end of the day, there are two big uncertainties in strategy implementation: a) does the strategy make sense in the first place (i.e., is it actually a good strategy?), and b) if yes, can you execute it?

Through a number of case studies as well as a series of interviews with senior executives and their staff involved in strategy work, we collected examples of critical uncertainties and their related risks. We developed a framework to collect and describe them, so executives can use it as a checklist to properly classify and understand the risk profile of a strategic initiative. We have identified three major categories of uncertainty sources:

*Uncertainties regarding ability to execute*
The ability to gain buy-in from people at all levels of the organization, from senior
management to operational managers and employees, is an essential concern and
constitutes an important internal uncertainty factor. Will people understand the strategy,
own it, and make it happen, or will they feel the intent is unrealistic or even wrong? This
may be enforced by lopsided information processing, where diverse insights are ignored
or essential constituents are excluded from discussions. This can create opposition,
reflected in an unwillingness to engage in proposed changes, or an inability to accept the
underlying rationales.

These uncertainties can be partially eliminated by engaging in a more inclusive iterative
process where the strategic analyses at the corporate centre consider the ongoing
experiences gained from the operational tasks as the strategy is executed. People-
related uncertainties regarding the ability to execute then extend into process-related
uncertainties. Can we run the quality process required to pull off the strategy, for
example running a change management process or fulfilling some regulatory
requirement? And finally, there is also a technical component here: are our IT systems
able to support what we are trying to do, e.g. by providing timely, relevant and accurate
data to support the ongoing decision-making?

Uncertainties regarding technical feasibility

Depending on the strategy initiative, novel technological capabilities will be at the heart
of what you are trying to exploit. This is particularly true if the strategy has elements of
technology leadership – say operationalising artificial intelligence in a meaningful way in
your business, or using blockchain. As every engineer will happily tell you, research and
development results are notoriously hard to predict, and even harder to bring to a
successful conclusion. Technical feasibility also has a cost and time component: While
you can be virtually certain that you will get a technology to work at some point and at
some cost, this is usually not good enough. The successful technology-dependent
strategies we observed were very good at matching technology readiness levels with
time horizons, cost budgets, and expectations. But, this requires a willingness to iterate,
exchange honest critique, and learn among the involved stakeholders.

Uncertainties regarding market needs

The third category of uncertainty sources in strategy is no less important than the first
two: It basically asks the question if the strategy makes any business sense. And while we
enjoy pretending that we checked and double-checked that it does, it is not always that
simple in an uncertain environment. And the bigger you go with your strategy initiative,
the worse it usually gets: You may decide to compete against non-consumption, or
disrupt an existing market with a new product – but how sure are you that your
customers are going to buy the story (and subsequently the product or service)?

So, acknowledge the size and type of residual uncertainty around your key market
assumptions and adapt your strategy accordingly. This gets more important – and harder
– as your strategy covers longer time horizons. Again, the question is not so much what
exactly the market looks like in 5 years, but rather what can we really know today about
the market in five years? In view of this, we should consider the fastest and cheapest way
to learn what we can along the way.

**Three sources of uncertainties: impact of external factors**

In our discussion so far, we have emphasised elements internal to the organization.
Obviously, external market factors shape the uncertainty landscape at least as much,
and they affect each of the three categories. The actions of competitors and customers
are beyond your control, as are new unknown innovation activities you do not execute
yourself. Even your ability to execute may be impacted by these external factors, e.g. by
affecting the ability to retain or attract key people to the organisation.

**Successful strategy risk management = successful learning**

We are working to distill the key practices from our current round of field observations.
One candidate for the top spot is the realisation that good risk management in strategy
work really is about reconciling your ‘predict and plan’ mindset with one that ‘monitors
and adapts’ (the research on ‘deep uncertainty’ focuses exclusively on applications of the
latter approach). In practical terms, it is about asking the question “What is it that we
don’t know?” and then “What can we know within a reasonable time frame?”, and then
“How do we go about exploring it without incurring excessive costs?”

We argue that the ability to construe an effective adaptive strategy-making process relies
on the ability to manage the interplay between these external and internal uncertainties
that will affect the strategic outcomes. This can be achieved by engaging in interactive
information exchanges between the slow analytical forward-looking reasoning where the
external conditions update the strategic direction and the fast experiential insights about
what works and what doesn’t as the operating entities respond to the changing business
conditions.

Our empirical findings suggest that organizations with a ‘monitor and adapt’ culture of
strategy execution are successful because they impose a harmonious updating process
that combines both current operational learning as well as the organization's need for
coordinated actions.

Another key point is this, that in our opinion, there are no ‘good risks’ or ‘bad risks’ per
se. Or put differently: a ‘good risk’ is a risk that the organisation recognises and has a
shared mental model of. A ‘bad risk’ is a risk that remains undiscovered, or is ignored
due to traits of the organisation’s culture.

As we briefly discussed in our article on resilience, in the perfect world, we know
everything and can thus eliminate risk and uncertainty. Or we are chronically lucky, and
do not need to worry.

In the real world, we are stuck with managing risks and uncertainties the best we can.
Figure 1. Sources of uncertainty in strategy implementation

Notes:

- *This is the third in a series of five articles based on research carried out at the engineering systems division of the Technical University of Denmark (DTU) and supported by Brightline Initiative.*
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