

Overcoming the Root Causes of Anticipation Failure

Governing strategic risk is one of the most important functions a company's board performs. Research shows that companies frequently fail to anticipate, accurately assess, and adequately adapt to existential threats to the success of their strategy and the survival of their organization. Collectively, these failures are often termed "risk blindness."

In our last briefing memo, we described the root causes of anticipation failures. In this one, we'll review various ways these can be addressed at three different levels: the individual, the team, and the organization as a whole.

At the individual level, training in four key techniques can help us to identify potential strategic threats.

(1) For most of human history, we have used relatively simple stories that can be easily communicated orally to explain the past and predict the future. For example, most company strategies are communicated in the form of stories about the future, and how an organization will achieve its most important goals.

To avoid anticipation failures, we need to be able to **critique and correct our stories**, whose conclusions always rest on a mix of evidence and assumptions. The greater the number of assumptions that are used, and the greater the uncertainty surrounding these assumptions, the more likely a story will turn out not to be true.

In the presence of such complicated stories, we often feel a vague sense of what has been called "cognitive unease", or that voice in the back of our heads telling us that, "something isn't quite right." We need to force ourselves to pay attention to that intuition, and, when we feel it, spend more time foraging for more evidence and thinking through the implications of different outcomes for our most uncertain story assumptions.

(2) We also need to **generate more than one story about the future**. Most often, this is done via scenario analysis, tracing

alternative paths from the present to a range of future outcomes based on alternative outcomes for a few key assumptions. However, research has shown that an even more powerful technique is to reason from the future backward. In a “pre-mortem” analysis, you start from the assumption that it is some point in the future, and your strategy or company has failed, then create a story about how that happened, including the key warning signs that were missed and the actions that were not taken. It is an extremely powerful way to identify existential threats that may have been overlooked or assumed away in the formulation of the base case strategy.

(3) Stories, however, can only take us so far. Safety research into so-called “high reliability organizations” also teaches us that we must **be mindful and attentive to small negative anomalies and near-misses** that are weak signals of potential strategic risks that we have not considered. Given our natural human tendency to explain away or quickly forget evidence that does not cohere with our existing stories, it is also critical that we write down these weak signals, to force ourselves to consciously confront their potential implications.

(4) Technology is the fourth technique that individuals can use to identify overlooked threats. Monte-Carlo, system dynamics, and agent-based **modeling methodologies are powerful means to identify potential failure modes and overlooked causal pathways**. These modeling approaches can also be paired with machine learning technologies to provide more effective early warning of developing threats.

At the team level, the key challenges to overcome are our natural human tendencies toward conformity and groupthink. The critical techniques here are **process interventions that enable anomalous information and dissent to be surfaced in a group in a socially safe manner**. Key techniques include the use of anonymous written inputs and facilitation by neutral, external advisors to achieve these goals.

At the organizational level, the Board of Directors serves a critical antidote to anticipation failures. More specifically, **a key role of the board is to employ structured processes and external advisors to enable non-executive directors’ to constructively challenge the views of management**, which are subject to the normal biases reviewed in our last article.

For example, in the manger of defense and intelligence “Red Teams”, advisors who work only for the board can be tasked with independently monitoring warning indicators, and/or collecting information that disconfirms base case strategy assumptions, and/or identifying threats that could cause current plans to fail. External advisors can also apply the previously noted group techniques to meetings of directors with a management team, to ensure that difficult risk issues are discussed in a skeptical yet constructive manner.

In sum, while powerful root causes are at work, there are also techniques that can be used to address them, and help boards to “connect the dots” and avoid anticipation failures.

Next up: Why we fail to accurately assess the dangers from threats that we have identified.

For more information about how Britten Coyne Partners can help your organization manage and govern strategic risk, please contact us:

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