Britten Coyne Partners
Strategic Risk Governance Briefing Memo #4

Overcoming the Root Causes of Assessment 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 assessment 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, when assessing strategic risks it is critical to go beyond discrete events and focus on the system level factors that drive non-linearity and dramatic change. This includes identifying positive feedback loops that can accelerate adverse trends and strengthen relationships between them; evaluating the pressures for change that are building up within a system (e.g., Herbert Stein's famous observation that "if something cannot go on forever, it will stop"); identifying critical system thresholds that can give rise to sudden and substantial change; and defining the key features of new regimes that could result.

As one of us learned while participating for four years in the U.S. Intelligence Advanced Research Projects Activity's forecasting tournament (later made famous by Professor Philip Tetlock's book, "Superforecasting"), individual training can significantly improve assessment skills. One key takeaway from this training is the value of taking a disciplined approach to developing foresight, including (1) starting with reference cases to establish an initial baseline estimate; (2) formulating a second estimate based on evidence specific to the case at hand; (3) combining the two estimates based on the extent to which the specific case deviates from the reference cases; (4) conducting a quick "pre-mortem" analysis that assumes the forecast turns out to be wrong, and identifying the most likely reasons for that result; and (5) using these failure scenarios to identify high value early warning indicators to monitor and/or additional information to collect.

Assessment accuracy can also be improved through training in the use of advanced modeling techniques that produce non-linear outcomes, including Monte-Carlo, Systems Dynamics, and Agent Based Modeling methods.

Group level interventions are also critical for reducing assessment failures.

First and foremost, it is critical that group members make explicit the time horizon for their estimate; that their underlying evidence and logic are made explicit (especially their private information); and that "words of estimative probability" are understood to have a common meaning in terms of the degrees of belief or likelihood that they represent. For example, the most recent guidance on estimative assessments in the U.S. intelligence community is as follows:

- Almost Certainly, Nearly Certain (95% - 99% estimated probability)
- Very Likely, Highly Probable (80% - 95%)
- Likely, Probable (55% - 80%)
- Roughly Even Chance (45% - 55%)
- Unlikely, Improbable (20% - 45%)
- Very Unlikely, Highly Improbable (5% - 20%)
- Almost No Chance; Remote (1% - 5%)

Assessment accuracy can also be improved by using different methodologies to attack the same assessment problem, by ensuring that the people performing assessments come from a variety of backgrounds (including both company insiders and outsiders), and by combining individual estimates (even simple averaging can have a substantial impact).

At the organizational level, the Board of Directors plays a critical role in avoiding assessment failures. A key role of the board is to employ structured processes (and sometimes external advisors) to enable non-executive directors' to constructively challenge assessments by management, which will typically be overoptimistic, given normal human biases and the impact of incentives.

Critically, directors need to recognize the shortcomings of typical "risk registers" and "heat maps" (as we described in our last briefing), and dig more deeply into the implications of the most threatening trends and uncertainties facing their company.

Boards also need to receive regular updates on early warning indictors associated with these trends, and to systematically collect evidence that is inconsistent with the critical assumptions that underlie current strategy.

It is also important that boards take the time required to work through and reconcile any conflicts between the analytical results they receive from management and directors' intuition. A sense of foreboding is a very important red flag that should not be dismissed.

External advisors who work exclusively for the board and aren't conflicted by their work for the management team can play an important role in these processes. In the most important assessments, external advisors can be used to perform Team A/Team B assessments as are used from time to time in the intelligence community.

In sum, while powerful root causes are at work, there are also techniques that can be used to address them, and help boards to avoid assessment failures.

Next up: The root causes of failure to adapt in time to strategic risks you have anticipated and accurately assessed.

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

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