Meyer's Management Models

16. Strategic Bets Framework

How do you select strategic options in an uncertain world?

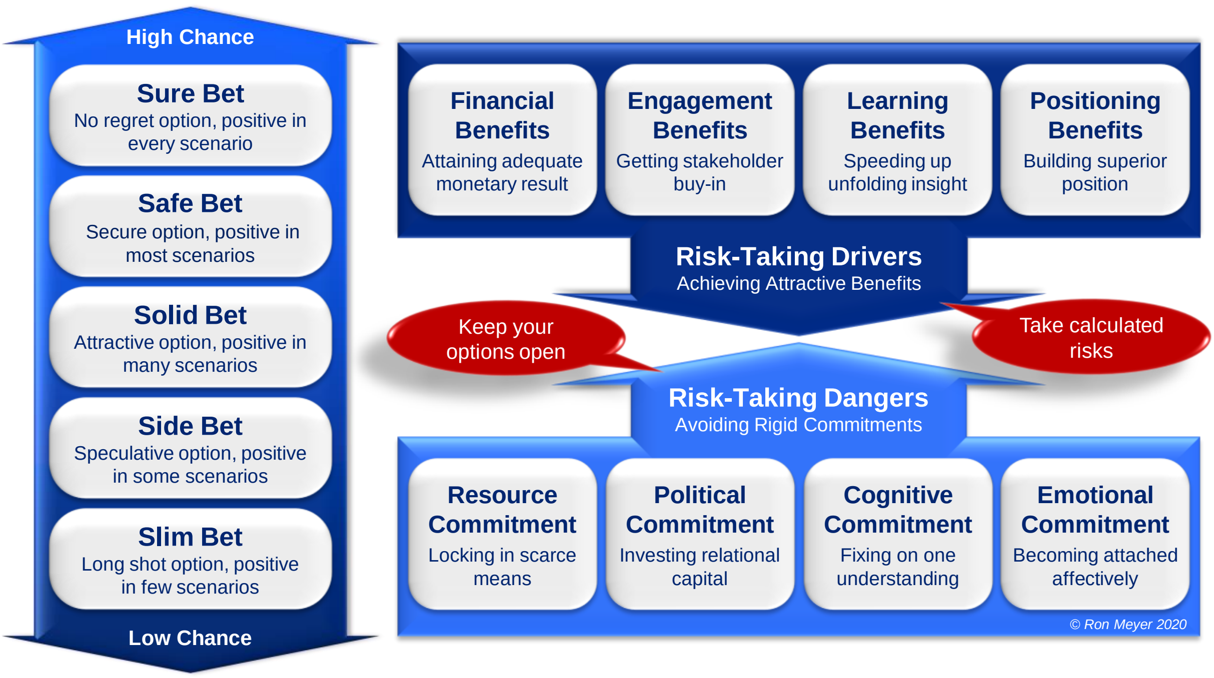
Key Definitions

Every strategy can be seen as a *portfolio of bets* – a package of initiatives in which the organization invests in order to achieve its objectives. Each strategic bet has a *risk/return profile*. The *strategic risk* of a bet depends on the chance of success/failure under differing future scenarios, but also on what is at stake (risk = stake x chance). The *strategic returns* of a bet consist of the potential benefits in each of the future scenarios (return = benefit x chance).

Strategizing is the process of generating options and choosing which options to bet on given their risk/return profile. As most organizations have limited low-risk/high-return options available, they also need to select strategic options with a higher risk and/or lower return.

Conceptual Model

The *Strategic Bets Framework* outlines the three key factors that need to be considered when deciding which strategic options to bet on. The first factor, the *chance of success in different scenarios*, is on the left and helps to classify each strategic option on a continuum from a high to a low chance of achieving the intended outcomes. The second factor, the *potential benefits*, is on the top right and details various possible rewards that will justify risk-taking. The third factor, the *required commitments*, is at the bottom right and specifies the various investments that need to be made ('at stake'), creating the strategic risk of getting stuck on the wrong path.



A strategic option's risk = stake (required commitment) x chance of not being successful. A strategic option's return = benefits x chance of being successful. The framework suggests that while bets with a high chance of success are preferable, strategists often need to 'venture lower down' on the continuum, taking calculated risks on more uncertain options. The most attractive are options with high potential benefits where commitments can be minimized.

Key Elements

The three factors to consider when selecting strategic options are the following:

1. ***Chance of Success***. Strategic options can be placed on a continuum from no-regret options (*sure bets*) with a high chance of success in all future scenarios, all the way to long shot options (*slim bets*), with a chance of success in only a few scenarios. The future scenarios and the assessment of chances of success are both necessarily guestimations.
2. ***Potential Benefits***. The rewards to be gained from each option fall into four categories:
    a. *Financial Benefits.* A bet can deliver a monetary result, typically expressed as a return on investment.
    b. *Engagement Benefits.* A bet can attract the buy-in of internal and external stakeholders, getting them to commit themselves to supporting the organization.
    c. *Learning Benefits.* A bet can speed up unfolding insight, helping the organization to learn and find new opportunities faster than its rivals.
    d. *Positioning Benefits.* A bet can help to secure a superior market position, bringing dominance over rivals and negotiation power towards buyers and suppliers.
3. ***Required Commitments.*** To pursue an option often demands four types of investments:
    a. *Resource Commitment.* A bet requires dedicating scarce resources such as money, capabilities, time and attention, limiting the possibility of shifting them to other uses.
    b. *Political Commitment.* A bet also requires the investment of relational capital by asking for support and putting one's reputation on the line, making it harder to back away.
    c. *Cognitive Commitment.* A bet also requires people to embrace a certain understanding of the market, making them mentally invested in a particular view of the world.
    d. *Emotional Commitment.* A bet also requires people to invest their heart, dedicating themselves to making it a success, limiting their emotional ability to 'play the field'.

Key Insights

- ***Selecting strategic options as betting***. Strategy formulation is about generating a variety of possible strategic initiatives and then deciding which of these to pick. This selection process is very much like betting, as one needs to think beyond straightforward cost-benefit analysis to factor in the chance of an option succeeding in different future scenarios.
- ***Selecting strategic options to pursue benefits***. Each strategic option needs to be judged on its potential to generate positive results. Strategists need to weigh more than only likely financial rewards, to also consider engagement, learning and positioning benefits.
- ***Selecting strategic options to avoid commitments***. Each strategic option also needs to be judged on the level of commitment that it requires. Next to resource investments, strategist will also try to avoid political, cognitive and emotional commitments.
- ***Selecting strategic options based on different future scenarios***. Each option needs to be evaluated considering different possible futures. The more likely an option will be successful across various scenarios, the more certain the bet and the projected return.
- ***Selecting strategic options as calculated risk-taking***. As strategists 'know that they don't know the future', they need to avoid high risk 'big bets'. On the contrary, they need to spread their bets, balancing some sure and safe bets that have lower returns, with some solid, side and slim bets that have higher returns. To decrease the higher risks, they need to limit their commitments, keeping their options open to switch as the future unfolds.

Meyer’s Management Models
Insightful Tools to Kickstart Your Thinking

Publication Schedule

July 2019	***Mind the Gap Model***	***Change Management***
August 2019	***Digital Platform Map***	***Digital Strategy***
September 2019	***Interaction Pressure Gauge***	***Interpersonal Interaction***
October 2019	***Revenue Model Framework***	***Revenue Model Typology***
November 2019	***House of Engagement***	***Organizational Engagement***
December 2019	***Confidence Quotient***	***Trust Building***
January 2020	***Competition Tornado***	***Competitive Strategy***
February 2020	***11C Synergy Model***	***Corporate Synergy Management***
March 2020	***Leadership Fairness Model***	***Leader-Follower Interaction***
April 2020	***Strategic Agility Model***	***Strategy Process Approach***
May 2020	***Control Panel***	***Corporate Control Dimensions***
June 2020	***Rising Star Framework***	***Talent Management***
July 2020	***Strategy Development Cycle***	***Strategy Process Steps***
August 2020	***7I Roles of the Corporate Center***	***Corporate Organization***
September 2020	***Storytelling Scripts***	***Leadership Communication***
October 2020	***Strategic Bets Framework***	***Strategic Decision-Making***
November 2020	Fruits & Nuts Matrix	Priority-Setting
December 2020	4C Leadership Levers	Leadership Competences
January 2021	Digital Business Model Dials	Digital Strategy
February 2021	Innovation Box	Innovation Approaches
March 2021	Empowerment Cycle	Employee Empowerment
April 2021	Corporate Value Creation Model	Corporate Level Strategy
May 2021	Team-Building Cycle	Team-Building Process
June 2021	Followership Cycle	Leader-Follower Interaction
July 2021	Partnership Distance Model	Interorganizational Relations
August 2021	Rebound Model of Resilience	Organizational Resilience
September 2021	Deft Dialogue Model	Interpersonal Communication