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Execution Risk

What is execution risk?

Execution risk is high when a startup will not be able to deliver on its plans and promises, risking to lose customers, disappoint partners and investors, and ultimately fail. This is usually the result of insufficient resources (either financial or human) or poor planning and orchestration of the resources the business does have.

The first risk is easily identified, but not easily resolved: inadequate budget. In this case, the startup has committed to delivering a service or product, but finds that they lack the finances to purchase inputs, staff time, or other resources necessary to deliver on that commitment. Many startups, especially those at an early stage, have just a few months of financial runway or may still depend on the personal savings of the founder. In these instances, securing (or committing to) longer-term contracts may be difficult as there may be concerns about the durability of the business.

The second type of execution risk has to do with skills and abilities within the startup team. In this case, lack of expertise, or incomplete information about the market may cause the team to make decisions or take actions that cause the startup to fall short of customers' expectations. This often happens when the team does not have sufficient experience in the relevant market, or does not have the right mix of skill sets needed to execute on their vision t. Since startup teams are small, there may be holes in technical abilities or product expertise that cause execution to falater.

The third, related, risk has to do with leadership, management, and oversight. In these instances, the management team lacks processes to adequately plan the activities needed to execute, an lack oversight to supervise and motivate the team. This is often the case when startups have too many ideas going at once and are unable to maintain focus on what will really help the business succeed. This can also happen when the team grows too quickly and there are no processes in place to manage increased demand, or when there is insufficient alignment among its members, or when the team is not sufficiently motivated to deliver.

A fourth execution risk is mission drift. In this case, the team gets distracted by a big customer or an idea that causes it to slowly (or quickly) drift away from their mission, creating another sort of execution risk in which objectives are continuously changing.

Key factors of execution risk

- Insufficient technical skills
- Weak leadership abilities
- Poor local knowhow/expertise
- Limited financial runway
- Insufficient human resources
- Weak processes and structures
- Poor incentive structure
- Mission drift

Mitigation strategies

Build a thorough product roadmap

The first step to managing execution risk is to create a thorough product roadmap that illustrates how your offering will evolve over time, keeping in mind the resources available. Such a roadmap is central to your strategic planning process as it describes how resources and time are allocated against the various projects the team is developing to improve and expand the offering. Roadmaps often include a series of sprints to develop, test, and integrate refinements in additions. Once you have your overall roadmap in place, you can also start creating mini roadmaps for these dedicated sprints and experiments.

Not only do these tools create reasonable expectations, given available resources, they also help discipline the team by allocating resources proportionate to their importance. With a roadmap, leadership can help ensure that those things that really matter, get done. They also ensure that decisions are made at appropriate times, according to a schedule, once adequate evidence has been accumulated.

With the roadmap, leadership has an overview of the talent, expertise, and funding that the team needs to more ably deliver on the roadmap. It should serve as the basis for a plan for acquiring talent and building your team. It will be important to ensure you have adequate talent across the startup's verticals, including local expertise, which can often be overlooked.

Achieve team alignment via management tools (OKRs)

The second step to addressing execution risk is to build internal processes that align your team so that leadership can support and track efforts towards delivering on the roadmap. One powerful and proven approach to this alignment is to create Objectives and Key Results (OKRs) in which employees outline their major objectives in terms of measurable, quantifiable actions. These actions are grouped into buckets that align with the startup's overall goals. They should have a good balance of achievable goals (70%) and a few stretch goals (30%), and could be integrated into a dashboard that is easily trackable by leaders. OKRs are a powerful tool to make sure that everyone is working towards common goals, understands their contributions towards the bigger picture objectives of the company, and remains accountable to deliver on results on a quarterly basis. Establishing a company-wide OKRs tracking sheet can be a central place that anyone in the company can look at to stay in the know, ask clarifications, and contribute ideas. "With everyone operating off the same list of goals as everyone else, everyone can learn from everyone else, and that levels the playing field in astonishing ways, says one CEO.

Set incentives that work for your team

Part of building internal processes is to create adequate incentive schemes that motivate employees to meet and even exceed expectations. These incentive schemes should go beyond staff to include the broader sales and distribution team like agents and contractors. When financial resources are scarce, other motivating factors can include titles, vacation time, team retreats, other perks, or even stakes in the company.

Additional resources

- Intro to roadmaps
- Step by step elements of a roadmap
- Roadmap guide via an example
- Mind the Product's product roadmap resources
- Experiments template
- Product experiments worksheet
- How to make OKRS actually work at your startup
- How to implement OKRs as your startup
- MeasureWhatMatters
- Compensation strategies for cash-strapped startups