An “early mover” is a firm that quickly recognizes a unique opportunity or risk and uses that knowledge to evaluate its options either before anyone else or along with other firms that likewise recognize the significance of what's developing in the market and seize the initiative. Failing to attain “early-mover status” can be fatal in today's complex business environment. It relates to recognizing market shifts affecting the validity of an enterprise's critical strategic assumptions and, if necessary, acting on them. The dichotomy is not “first” versus “second.” It is “early” versus “late,” where the market decides what “late” means.

Succeeding consistently in attaining early-mover status on significant issues affecting the strategy over time can lead to superior longer-term enterprise value performance. Early movers have the advantage of time, offering numerous decision-making options. More importantly, they are more likely to survive a major market shift than their less-aware, less-nimble and reluctant-to-move peers. Simply stated, the stakes of being an early mover can be as high as preserving the company’s right to play.

Issue
Strategic risks are the risks that either the business model is not aligned effectively with the strategy or that one or more future events may invalidate fundamental assumptions underlying the strategy. Arising from internal process issues and disruptive change in the external business environment, these risks can be lethal because they may be potential “enterprise value killers” and, more important, may not be known to management and the board, contributing to what are often called “blind spots.”

As many learned during the financial crisis, 100-year-old companies can evaporate or become near extinct in a matter of days – all due to a loss of market confidence and reputation. Given the speed of business, companies gain competitive advantage by adopting early-mover status so they can endure and prosper in the future. So when making decisions in a risky world, it is best to be careful when placing too much weight on what the organization thinks it knows than on what it doesn't know, because what it doesn’t know may be much more important to its future success. This starts with analyzing strategic risks.

Challenges and Opportunities
Analyzing strategic risks is not easy. Because these risks are not susceptible to the type of precise measurement that operational risks are, the analytical framework applied to them must be more qualitative in nature. Since strategic risks have a longer time horizon than other risks, the degree of flexibility in terms of options will be different from the shorter-term focus typically afforded operational risks.

Because an effective strategy is about pursuing the best bets in the context of the enterprise’s desired risk/reward balance, strategic risks are often “compensated” risks, as the potential for upside is sufficient to warrant accepting the downside exposure. For example, the risks associated with initiating operations in new markets, introducing new products, or undertaking large research and development projects are “compensated” risks because the act of taking them is inseparable from executing the enterprise’s strategy.

By contrast, “uncompensated” risks are one-sided because they offer the potential for downside with little or no upside potential. Many managers often think of risks as uncompensated. That mindset presents a challenge when integrating risk assessment with strategy setting.

Another challenge is that strategic risks are more about what the organization doesn’t know. What sets strategic risks apart from other risks is that they may arise from uncertainties requiring ongoing monitoring of the environment to track key risk indicators and trending metrics to ensure strategic assumptions remain valid over time. Research has shown that the strongest market players often experience difficulty in reacting to disruptive change in the business environment. And reaction is impossible if the company is flying blind by not monitoring what is most important. This “blind spots” deficiency can be fatal if the company’s strategic assumptions lag far behind industry realities and the corporate strategy does not reflect the new conditions.
Our Point of View

Companies aspiring to be early movers must quickly recognize the opportunities and risks that matter. Strategic risk analysis facilitates this recognition by assisting senior management with understanding the critical assumptions underlying the strategy and using contrarian analysis to challenge those assumptions. Contrarian analysis is driven by identifying the critical strategic assumptions and the scenarios that could impair or invalidate them. This analysis is important because at the root of every flawed strategy is one or more underpinning assumptions about the future that eventually prove to be erroneous.

PROVEN DELIVERY

How We Help Companies Succeed

Our Performance/Risk Integration Management Model – PRIM® is a framework for considering how an integrated approach and discipline to deploy strategy while also managing the associated risks will improve its probability of achieving strategic objectives. Among other things, it focuses on proactively identifying, sourcing and mitigating the risks inherent in the strategy.

We assist companies with integrating their risk assessment process with their core business processes, including strategy setting. We also assist companies with contrarian analysis and scenario analysis so they can visualize different future conditions or events and assess what their consequences or effects might be like and how the organization can respond to, or benefit from, them. We have found that management must be committed to the exercise to ensure it is sufficiently robust and discriminates the vital signs on which the company must focus going forward.

Example

We assisted a global manufacturing company with integrating risk assessment with strategy setting. The result: Management and the board of directors have increased confidence that they have a shared understanding of the key strategic assumptions and risks inherent in the strategy. We assisted management with applying contrarian analysis to enhance the ability of management to think “out-of-the-box” and challenge critical assumptions constructively as part of the strategic planning process. The objective was to better understand the uncertainties inherent in the strategy and identify key variables to monitor in the external environment.

Want to learn more? Read Protiviti’s white paper, Performance/Risk Integration Management Model – PRIM®, Early Mover Series: Analyzing Strategic Risk

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About Protiviti

Protiviti (www.protiviti.com) is a global business consulting and internal audit firm composed of experts specializing in risk, advisory and transaction services. The firm helps solve problems in finance and transactions, operations, technology, litigation, governance, risk, and compliance. Protiviti’s highly trained, results-oriented professionals provide a unique perspective on a wide range of critical business issues for clients in the Americas, Asia-Pacific, Europe and the Middle East.

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