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Face the Future with Confidence

Board Perspectives:
Risk Oversight

Oversight of Organisational Speed in the Digital Age

The results of a recent survey noted that the top two global risks are concerns over disruptive change to the business model and the organisation's resistance to change.[1] This incongruence captures perhaps one of a board's most fundamental fears.

No established incumbent wants to fall into the category of companies that were yesterday's success storeys but today are in decline, suffering "death from a thousand cuts." Yet it happens all too frequently. One well-known CEO says it begins with "stasis" — a state of inactivity that leads to "irrelevance" and is followed by an "excruciating, painful decline" until, ultimately, there is an abrupt demise of the enterprise.[2]

This kind of decline is unmerciful. Its low velocity is one of the primary reasons it is so difficult to spot. Left unabated, it leads a once-proud company to the point where very little can be done to save it as it continues down its committed path. The company may cut unnecessary costs, lay off people it doesn't need, restructure its debt, pare back underperforming operations and make other changes that add a few years to its life. But these measures are mere window dressing; they lack the transformational power needed to address the real problem.

That is what happens when the status quo business model is not adjusted in the face of significant market change.

So, what's so different about the digital age? Cloud computing, robotic process automation (RPA), machine learning and other technologies are disrupting every industry by presenting opportunities to reimagine business models and eliminate the entry barriers of the physical age. With physical locations, people and infrastructure barriers virtually gone, it's possible for startups to disrupt an established company with a hyper-scalable business model that can accommodate rapid growth without significant upfront capital.

In exposing incumbent businesses and their market shares to "born digital" players, these new realities reduce the window of opportunity to act as an early mover and avoid the dreaded position of becoming captive to events.

[1] *Executive Perspectives on Top Risks for 2018*, Protiviti and North Carolina State University's ERM Initiative, available at www.protiviti.com/toprisks.

[2] "2016 Letter to Shareholders" from Jeff Bezos, The Amazon Blog: Day One, April 17, 2017: https://blog.aboutamazon.com/company-news/2016-letter-to-shareholders.

The Relevance of Time and Speed

Time is often a revealing metric, especially when benchmarked against competitors. How long does it take for suppliers to deliver raw materials and components? What is the elapsed time for requisitioning raw materials and assembled components to the shop floor and converting them to ready-to-ship products? How long does the customer wait on the phone or sales floor? How long does it take to fulfil a customer order? In industries with short product life cycles, how long does it take to develop a new product from initial concept to launch and, once released, achieve a critical mass in sales volume? On top of all these questions is the big one: "Are we fast enough?"

Continuous process improvement tenets have stressed the importance of compressing cycle time as an element of increasing quality and reducing costs since the advent of total quality management methodologies over three decades ago. These methodologies emerged as companies in the United States and Europe responded to Japanese competitors offering higher-quality products at competitive costs. The quality differential was enough to enable these foreign competitors to gain market share.

Generally speaking, the longer a process, the more inefficient and costly it is. Therefore, taking time out of idea-to-market, procure-to-pay, order-to-cash and inventory-to-product cycles by eliminating nonessentials and streamlining and automating process activities reduces costs and improves quality. That's why businesses have been simplifying and focusing product design; speeding up inventory conversion, time-to-deliver and other processes; and tightening the coupling of supply chains to customer fulfilment processes for decades and are expected to continue doing so in the future.

A simpler process is more cost-effective — and thus, it is more conducive to higher profitability. And the digital age has placed even more powerful tools in the hands of management to reduce elapsed process time through automation and faster data analysis and decision-making.[3]

Managing to the Speed of Business

In the digital age, time and speed in business have evolved beyond the tactical to emphasise a more strategic and holistic view of challenging conventional thinking and disrupting traditional ways of working as well as long-established value chains. Armed with a deep understanding of maturing technologies and the ability to apply them in imaginative ways to drive innovation, management must constantly rethink how customer needs are evolving and the role of all key players — including upstream suppliers and downstream channels — in fulfilling those needs.

Thus, management cannot be content to merely achieve excellence in the company's internal operations. When evaluating business model performance, the focus is on the bigger picture of how technology, data and alliances can alter the customer experience. Driving value for the customer is at the heart of all decision-making to create new types of value for existing customers while also opening up new markets. This pursuit is a constant, never-ending drive to reimagine and improve business models and processes in an ever-changing operating environment. It is fuelled by attention to speed in gathering and learning from market feedback and making and executing decisions. Anything short of that is tantamount to playing to lose in the digital economy because it breeds sluggishness as the world flies by.

Managing to the speed of business may seem like a strange notion to some. But why shouldn't every organisation evaluate its processes, given the speed of change in the marketplace and within the industry? Is the company fast enough in the core processes that matter? Is it keeping pace or is it a laggard? Is it able to aggressively pursue important challenges and opportunities at speed by freeing up resources that are otherwise locked down to service the core business?

Given the stakes, it's worth a serious look. Following are 10 thoughts on managing to the speed of business and its implications to board oversight:

1. **Set the Tone for Speed at the Top** — The board should support the chief executive officer in setting the tone for speed through both actions and words, emphasising the importance of staying

[3] For example: Cloud computing offers the ability to scale up and down on demand faster, at lower cost and with less risk than traditional IT infrastructure and legacy systems; big data solutions enable data-intensive companies to uncover insights and early alerts from large amounts of data to facilitate decisions regarding customer behaviour, pricing strategy, operational improvements, fraud investigation and risk management much faster and more efficiently than traditional business intelligence solutions; and RPA can be applied to perform manual repetitive administrative and data entry tasks pertaining to accounting, procurement, purchase order creation and new customer onboarding faster and more reliably than people.

close to the customer, keeping an eye on relevant market trends, organising for speed and embracing change.

2. **Focus on High-Velocity and High-Quality Decision-Making** — Decision quality is not enough. Amazon founder and CEO Jeff Bezos, in his 2016 letter to shareholders, states that "to sustain … energy and dynamism" leaders must "keep … decision-making velocity high." Many large companies make high-quality decisions but make them slowly. To speed up decision-making, Bezos suggests that companies:[4]

   - **Avoid a one-size-fits-all decision-making process** — Many decisions warrant a "light-weight process."
   - **Follow the 70-90 rule** — Most decisions should probably be made with about 70 percent of the information decision-makers prefer to have. Waiting for 90 percent, in most cases, slows down the process. Either way, leaders need to be good at course correction in case initial decisions are flawed.
   - **Save time with "disagree and commit"** — Building consensus when there is a genuine disagreement after a candid and full exchange of views often takes too long. It may be helpful to agree to disagree but agree to gamble on the matter (i.e., disagree and commit).
   - **Recognise misalignment early and escalate immediately** — If teams are not aligned because of different objectives and fundamentally different views, don't waste time: quickly escalate for resolutions.

   The context of Bezos' advice can be summed up as "remember what it was like to be a startup" — that includes keeping things simple, avoiding over-planning, focusing on the customer, taking necessary risks and listening to feedback. There is a time and a place for formality, but for many activities, an unstructured approach is sufficient.

3. **Inculcate a Culture of Speed** — Members of the executive team should have a stake in initiatives to improve and sustain speed. For example, people performing administrative, data entry and other repetitive, manual tasks can represent bottlenecks and barriers to efficiencies; accordingly, these tasks should be automated. If the organisation doesn't do it, the potency of digital-age tools virtually assures that a competitor will. In this sense, business in the digital age is like a Formula One race. If a car isn't fast enough, its driver has no chance of winning. A company may think of itself as fast, but to manage at speed, it must be at least as fast as — and endeavour to be faster than — agile followers in its industry.

4. **Focus on the Customer Experience** — The speed-conscious organisation is customer-centric, putting the end-to-end customer experience at the heart of decision-making. Management knows customer preferences are constantly changing in the digital economy and customers will always gravitate to something better, rendering their loyalty fleeting unless it is earned with superior products and services. Accordingly, a strong emphasis is placed on gaining access to market insights efficiently and in a timely manner, likely through big data solutions and advanced data analytics.

5. **Establish an Organisational Structure That Directly Supports Lean Behaviours** — With the board's support, the CEO should encourage an open, flexible and agile organisational structure with a flat hierarchy that drives efficiencies, speeds up innovation cycles, and facilitates collaboration, communication, and rapid decision-making and execution. Focused, dedicated teams armed with both a purpose and clear objectives are empowered by executive sponsors to tackle well-defined tasks, assisted by appropriate alliance partners. Sponsors set expectations and keep the effort on the fast track with a "fail fast" mentality.

6. **Select the Talent Who Will Lead to Success** — The best and most diverse talent wins in the digital era. Talent strategy must set the foundation for speed. Accordingly, directors and executive leaders should understand technology and digital business models and take an active role in digital leadership. Digital capabilities are considered core competencies and are assessed on a regular basis, and the organisation focuses on attracting the talent it needs to be competitive. Significant investment is made in training, education and development, as employees find it easy to access sandbox environments to test data and experiment with new technologies.

7. **Understand External Trends** — Speed places a premium on recognising global megatrends and their impact in a timely manner. Aside from rapid shifts in customer preferences, these

[4] "2016 Letter to Shareholders" from Jeff Bezos, The Amazon Blog: Day One, April 17, 2017: https://blog.aboutamazon.com/company-news/2016-letter-to-shareholders.

include market volatility, changing technologies, reduced entry barriers, moves by existing and potential competitors, evolving demographics, and growing concern over environmental, social and governance issues. Growing dependence on suppliers, market channel partners, service providers and other third parties have made organisations boundaryless. Boards should ensure that management is focused on becoming more future-oriented, mindful of external developments, and resilient in the face of these market dynamics and growing complexities as they challenge the viability of traditional business models.

8. **Speed Must Deliver Desirable Outcomes** — It is one thing to speed up processes and decisions, but that is not the endgame itself. Desirable outcomes validate a faster process, particularly outcomes that are on-strategy. Without such outcomes, the pursuit of speed is misguided. No one should ever be in a rush to make a serious mistake.

9. **Learn at the Speed of Business** — In publicising a conference in Amsterdam in April 2018, Oracle pointed out that "speed matters — the faster an organisation learns, the faster it evolves." A committed learning organisation fosters a positive culture that embraces open-mindedness, critical thinking, fresh ideas and contrarian points of view. It has a transparent environment that consists of ongoing knowledge-sharing, networking, collaboration and team learning. Admission of errors and learning from them in the spirit of continuous improvement is encouraged and viewed as a strength. The learning organisation also promotes feedback loops regarding interactions with customers, suppliers, regulators, and other outside parties that maximise broad employee participation. A commitment to learning helps to root out unconscious bias.

10. **Speed Requires Effective Change Enablement** — When processes and functions are reimagined, and products and services require improvement, the organisation should have an established process to organise the necessary stakeholder commitment and drive the needed change.

What do Atari, Blockbuster, Borders, Palm and Polaroid have in common? Each failed to keep pace with the market and suffered a long decline before entering bankruptcy or being acquired or liquidated. Each case illustrates how difficult it is to turn away from a business model or a segment of the market that has served the entity's stakeholders well over the years. Each demonstrates the lethal danger of clinging to the status quo in the face of changing business realities and serves as a reminder that ignoring or fighting trends rarely works. In the digital age, resisting global and technological trends carries more risk than embracing them. It's a question of choosing to manage with a tailwind or always facing a headwind.

Confidence in facing the future is what every director and leader wants. Speed is dictated by the market — meaning that external and internal factors influence it. The tailwind effect of embracing change and managing to speed breeds desirable confidence in the digital economy.

Questions for Boards

Following are some suggested questions that boards of directors may consider, based on the risks inherent in the entity's operations:

- Does the organisation have a deep understanding of digital business concepts, building digital ecosystems and the potential of digital hyper-scaling platforms that are ready to facilitate rapid global growth? Is the company driving innovation in its industry and investing in data and technology to enable continuous improvement?
- Do management and the board both have access to sufficient intelligence regarding changes in competitors, customers, suppliers, new technologies, regulators and other relevant external forces? Is the velocity of the organisation's decision-making sufficient to manage the business, including the initiation, development and deployment of new capabilities, at the speed of change?
- Is the board satisfied that the organisation views success and failure as equivalent experiences, with emphasis on proactively avoiding the plague of complacency with past successes becoming ingrained within the culture? Are learnings used to continuously transform the organisation to become more competitive in response to dynamic market forces through the ability to convert lessons learnt into process, product and business model improvements?

How Protiviti Can Help

Protiviti works with more than 60 percent of the *Fortune* 1000®, 35 percent of the *Fortune* Global 500®, as well as smaller companies, including fast-growing technology organisations, both pre- and post-IPO. We have a proven track record of bringing innovative solutions to help companies solve some of their most difficult business problems. Our digitalisation offerings help enhance the innovation culture of companies by focusing on:

- **Customer Engagement** — Exploring new ways to build strong relationships with customers.
- **Digitising Products and Services** — Launching new and enhanced products and exploring new business models.
- **Better-Informed Decisions** — Enhancing information available to enable timely and effective data-driven decision-making.
- **Operational Performance** — Creatively using technology to improve performance.

Is It Time for Your Board to Evaluate Its Risk Oversight Process?

The TBI Protiviti Board Risk Oversight Meter™ provides boards with an opportunity to refresh their risk oversight process to ensure it's focused sharply on the opportunities and risks that truly matter. Protiviti's commitment to facilitating continuous process improvement to enable companies to confidently face the future is why we collaborated with The Board Institute, Inc. (TBI) to offer the director community a flexible, cost-effective tool that assists boards in their periodic self-evaluation of the board's risk oversight and mirrors the way many directors prefer to conduct self-evaluations. Boards interested in using this evaluation tool should visit the TBI website at http://theboardinstitute.com/board-risk-meter/.

Learn more at
www.protiviti.com/boardriskoversightmeter

Protiviti is partnering with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on https://blog.nacdonline.org/author/jdeloach/. Twice per year, the six most recent issues of Board Perspectives: Risk Oversight will be consolidated into a printed booklet that will be co-branded with NACD. Protiviti will also post these articles at protiviti.com.