



The Bulletin

A Deeper Look at Key Corporate Governance Issues

What It Means to Face Future Uncertainty Confidently

How confident are you in your company's ability to achieve its vision? To execute its strategy? To respond to extreme challenges? What are the essential attributes underlying that kind of confidence? How would you rate your organization's maturity in the development of those attributes? Is your enterprise sufficiently skilled in applying these attributes?

Confidence is neither a cliché nor an assertion of mere optimism, but rather a quality of the human spirit that drives leaders and their companies forward. Investing in the attributes of confidence is of vital importance in today's rapidly changing environment. This issue of *The Bulletin* discusses the

attributes of confidence that executives and directors can use to assess and advance their organization's ability to apply a set of behaviors that enables sustainable competitive advantage. A subsequent issue is planned to provide illustrative examples of companies demonstrating these attributes.

Confidence Defined

Confidence is a tricky, elusive topic to understand, as it is both an outcome of past experiences and a prerequisite for upcoming challenges. It overlaps with many other concepts like risk, uncertainty and trust.

The Oxford Dictionary defines confidence as “the state of feeling certain about the truth of *something*” and “a feeling of self-assurance arising from one’s appreciation of one’s own *abilities*.” We extrapolate this definition to include management’s and the board’s appreciation of the collective abilities of the enterprise, with the “something” representing the organization’s vision.

From an organizational perspective, true confidence suggests mature capabilities in which competent people with high accountability for results are engaged in the pursuit of a common purpose. The above definition emphasizes three strong convictions – one toward an outcome, a second acknowledging effective capabilities, and a third implying that the capabilities can be successfully applied to attain the outcome, no matter what the obstacles are. These convictions are used to express three fundamental questions relating to confidence:

1. **Directionally, do we as an organization know where we’re going and why?** Are our people committed to achieving a common vision? Is the vision clearly articulated, meaningful and aspirational?
2. **Are we prepared for the journey?** Do we have the capabilities to execute our strategy? Are people with the requisite

skills and expertise in place to form a great team? Are the required processes, systems and alliances identified? Is there a plan and means to obtain and maintain access to increasingly scarce resources needed to sustain the journey? Is there a planning process that generates strategies, priorities and an actionable road map? Is there a process for discovering and addressing opportunities and risks along the way?

Knowing where we are headed and that we are prepared is the price of entry to the high-stakes game of business, which brings us to the final question:

3. **Do we possess the ability, will and discipline to cope with change along the way to reach our destination, no matter what happens?** Do we have the mental toughness to stay on course? Is our management team agile and adaptive enough to recognize market opportunities and emerging risks and capitalize on, endure or overcome them with timely adjustments to our strategy and capabilities?

Due to the breathless pace of change, companies need to be proactive, poised and ready to navigate constant and even disruptive change. For that reason, confidence across the organization in facing the future is important in business. We believe that definitive, positive responses to the above questions – which executive management and the board both agree are true – enable that confidence.

Attributes of Confidence

Looking back on our collective experience working with successful clients regardless of industry, geography or legal structure, we can postulate seven attributes that organizations must have when facing an uncertain future. A future in which companies face even greater uncertainty, competition and disruptive change. A future in which executives need to be able to alter business models more rapidly than ever with leaner teams and strong leadership.

We begin with an analogy of an endeavor involving high potential for disruptive change: the risks of pursuing the summit of Mount Everest. Beyond the obvious threats – avalanches, crevasse falls, blinding whiteouts, frostbite and unexpected weather changes – there is the so-called “death zone” where one reaches a dangerous height of about 8,000 meters (26,250 feet). It’s an environment where oxygen deprivation, severe exhaustion and dehydration can cause the human body to literally begin dying. In fact, during the final 10 percent of the Everest ascent, the lack of atmospheric pressure near the summit reduces the oxygen intake from each breath by two-thirds.

Faced with such formidable obstacles, experienced climbers must not only prepare for months or even years in advance but also be able to acclimatize themselves during the ascent. The point is clear: The mountaineer, not Mother Nature, must have the last word on safety. To turn around, rather than reach for the summit, allows for new attempts. The time-honored rule is, “It’s wiser to fail than to die.”¹

Imagine yourself a talented climber who has decided to take on the challenge of scaling Everest. What would you do to give yourself the confidence to say, “I’m ready to face the challenge?” The value of this analogy is that it illustrates the superficiality of merely “appearing confident.” Bravado is a behavior to be ruthlessly avoided on Everest and in business. This sport, at this level, is not one for pretenders.

The accompanying box summarizes seven attributes, or behaviors, associated with the three questions introduced earlier. By examining an extreme vision – summiting Mount Everest – we have distilled the attributes that are necessary and sufficient to support positive responses to the questions. These attributes also reflect behaviors of successful companies that the market rewards – companies that exude confidence.

Attributes of Confident Organizations

Confident Organizations:

Visualize where they’re going and why:

1. Share commitment to a vision

Prepare for the journey:

2. Seek heightened awareness of the environment
3. Align required capabilities

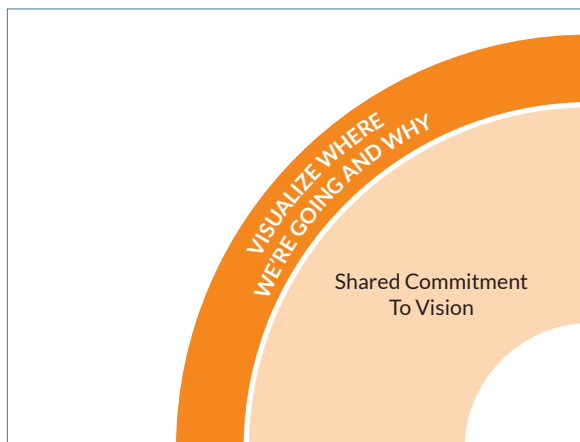
Have the ability, will and discipline to cope with change:

4. Are risk-savvy
5. Learn aggressively
6. Place a premium on creativity
7. Demonstrate unwavering resilience

¹ “High Altitude: What Happens to the Human Body in the ‘Death Zone,’” SummitPost.org, Jan. 7, 2008: www.summitpost.org/high-altitude-what-happens-to-the-human-body-in-the-death-zone/371306.

The Foundation for Confidence

For Everest adventurers, the first three attributes – commitment to a vision (the desired future state), high awareness of the environment and having aligned capabilities (preparation in the current state) – represent what one might describe as a base level of confidence for mountain climbing. Said another way, they are the table stakes or price of entry to undertaking the journey. Take any one of these three attributes away and it's time to go back to the drawing board before embarking on the chosen pursuit.

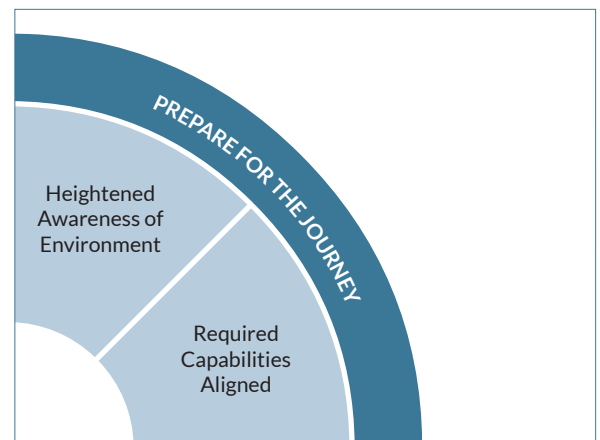


Confident organizations share commitment to a vision. Every climber of Everest aspires to reach the summit. This is the vision to which climbing teams have a shared commitment. Similarly, to be successful, an organization needs to ensure that its key stakeholders and employees share a commitment to the vision. It's not just having a vision nor commitment by some, it is a shared commitment by all with high mutuality of interests. Any doubts need to be addressed so that everyone's strides are in the same direction.

Commitment to vision provides a shared "future pull" that is both inspiring and motivating – fueling enterprisewide focus and energy to learn, encouraging participation, and spawning an altruistic camaraderie and culture.

In such environments, people at all levels recognize that the enterprise's success and their personal success are inextricably linked.

Confident organizations have a heightened awareness of the environment. Everest climbers undertake a concerted effort to understand the environment – the terrain, the elevation and the weather, and even the capabilities of their fellow climbers – so they can navigate from base camp to the next level with confidence. Similarly, the more thorough the understanding of the business environment, the more informed an organization is at the outset of its journey. Reliable, timely information is critical to the mountaineer; every reporting device is triple-checked for accuracy, precision and durability.



Likewise, a confident organization constantly "reality tests" its understanding of the market – both in preparation for and during the journey – as the pace of change demands it. For example, it implements processes that: facilitate effective listening to customers, suppliers, employees and other stakeholders; generate sources of new learning; and encourage systemic thinking in distilling and acting on the environment feedback received with the objective of driving continuous improvement. It fosters an open, sharing culture that encourages dialogue up, down and across the

enterprise, allowing people to say what they think and express disagreement without fear of repercussions. Finally, it supports formal and informal continuous feedback loops to flatten the organization, get closer to the customer and foster a preparedness mindset. Executive management and the board receive quality feedback, straight talk and market insights from all, not just a few, and promote a culture where diversity is cherished and failure is valued as a learning process. Messengers of unwelcome news are embraced, not shot.

Confident organizations align their required capabilities. Mountain climbers know the core competencies for success – they must be well-conditioned and armed with the appropriate equipment, outerwear and other gear for the climb. Everest mountaineers optimize the effectiveness and efficiency of their bodies and equipment. They engage in team building before departing base camp because it takes teamwork to scale a demanding summit successfully. There can be no weak links in the team or in the equipment used when the vision and price

of error are this high. By the same token, confident organizations make it a never-ending priority to ensure that the core capabilities they need to differentiate themselves in the marketplace and execute their strategies are in place and aligned.

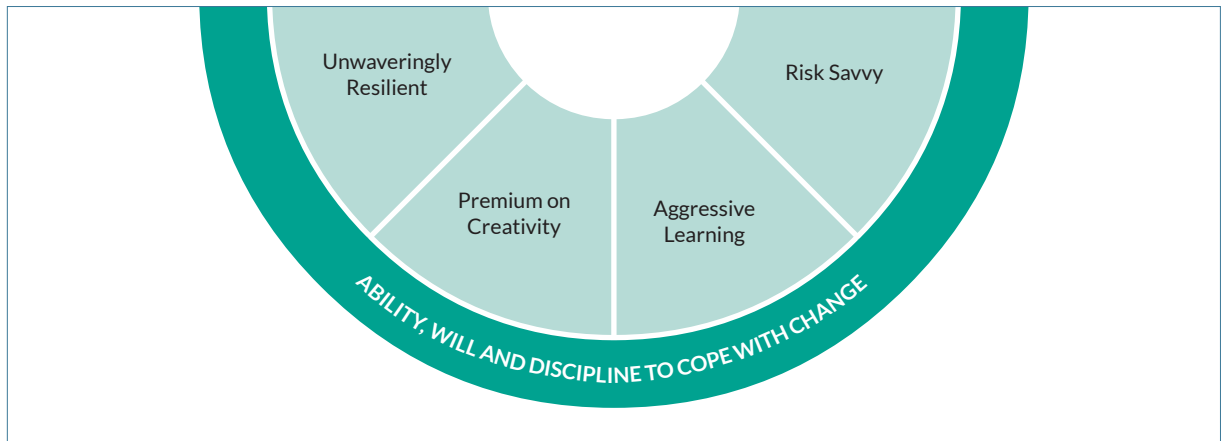
Capabilities include an enterprise's superior know-how, innovative processes, proprietary systems, distinctive brands, collaborative cultures, and unique set of supplier and customer relationships. Depending on the company's strategy, the right policies, processes and governance must be in place. The necessary reporting, systems and data are developed and built for scale.

Additionally, performance metrics at the organizational, process and people levels are aligned to optimize effectiveness and efficiency. Alignment breeds confidence because leaders know it is a huge enabler to their company's execution of the strategy; alignment allows for greater focus on the customer, key performance goals and realizing the vision.

Sustaining Confidence

The base level of confidence achieved by the above attributes is necessary but not enough without concerted efforts to sustain confidence. Astute climbers and business leaders alike know that the ability, will and discipline to cope with change are also needed to sustain their journey. This coping mechanism is much more than having strong survival instincts and being adept at fighting crises. Organizations that cope well are sophisticated at anticipating opportunities and risks. They can read the tea leaves to recognize market developments and trends – sometimes well in advance of significant events occurring. They are able to monitor and address market opportunities and emerging risks in their environment, aggressively learning along the way.

And yet, dramatic surprises can arise that can catch even the most well-run organizations unprepared. World-class reaction is essential when the unexpected happens; no individual, team or business is immune to a crisis. That's why the ability to cope with change must come from within and requires creative and resilient people who are steadfast in their commitment to the vision, confident in their ability to understand the environment, and well aware of their capabilities. The application of these attributes sustains a mountain climber's successful summits, as well as a business enterprise's competitive advantage. This is what facing the future confidently is all about.



Confident organizations are risk-savvy.

Climbers aspiring to scale the Everest summit know that attaining their vision is not going to be easy. They know the risks. The environment cannot be expected to remain stable and may prove to be unforgiving. Equipment could fail in the harsh conditions, and a member of the team could make a dangerous, even fatal mistake.

In short, they know they are operating in new territory and learning and adapting as they advance. There has to be an element of humility in the face of the challenge and pursuit, as it sharpens focus and facilitates learning. Accordingly, accomplished climbers value risk-mitigation preparation and real-time information when they are confronted with situations that they may not have experienced, which may likely test them to their limits. If a life-threatening risk has to be taken, it must be a last resort.

Likewise, the confident organization routinely identifies the risks arising from, and the risks to, executing the strategy and achieving its goals. The most critical exposures are routinely covered in the C-suite and boardroom. No idea or person is above challenge and contrarian views are welcomed. Contingency plans are in place to minimize reputation damage should a major risk event occur. Risk appetites and tolerances are set and managed. Policies and procedures are established and updated with changes in the environment and feedback from performance.

The confident organization is risk-savvy because it is secure in the knowledge that: it has considered all plausible scenarios; its breakpoint in the event of extreme scenarios is understood; effective response plans are in place, including plans to exit the strategy if circumstances warrant; and, most important, an effective early-warning capability is in place to alert decision-makers of relevant trends and changes in the marketplace that affect the validity of critical strategic assumptions. In summary, the confident organization averts the danger of embracing the status quo by empowering the pursuit of opportunities and undertaking of risks with a higher potential for strategic success and avoiding unnecessary, off-strategy risks.

Confident organizations learn aggressively.

Everest climbers must network and build interdependencies with other climbers to reach their common goal. This connectivity allows team members to access more resources, learn faster and accomplish their objectives much more safely as a team than they can as individuals. Simply stated, accomplished climbers are aggressive learners who constantly adapt and rely on being connected to their surroundings and others. There is no time for blame; all energy is focused on building on successes and learning from mistakes – rapidly.

In the wake of the financial crisis, we wrote about aggressive learning as a key “secret” enabling a chief risk officer’s success.² Our view is that learning is critically important from a performance achievement perspective. The expert mountaineer has the ability to almost instantaneously translate a lesson to an action; opportunities are accelerators. An unexpected break in the weather or patch of good terrain is exploited.

Likewise, confident organizations aggressively pursue fresh market opportunities. They improve their learning ability by: creating centers of excellence; embracing cutting-edge technology to drive the vision forward (e.g., establish mobile apps, exploit social media, etc.); fostering an open, transparent environment of ongoing knowledge sharing, networking, collaboration and team learning; viewing admission of errors as a strength and learning from them as a necessity; converting lessons learned from mistakes into process improvements; and offering multifaceted formal and informal experiential learning opportunities.

In today’s rapidly changing environment, acknowledging that individuals alone can’t possibly know everything is vital to building a confident organization. A positive learning culture embraces and encourages such things as open-mindedness, critical thinking, and exchanges of fresh ideas and contrarian points of view. It promotes quality feedback loops regarding experiences with customers, suppliers, regulators and other outside parties that maximize employee participation; withholding success tips and lessons learned only impedes progress and undermines confidence. Aggressive learning stimulates the collective knowledge and genius that lie at the very foundation of truly confident organizations when fully deployed.

Confident organizations place a premium on creativity. Everest climbers generate innovative

ways to take advantage of opportunities and address obstacles. Whether it is scaling a steep, rugged cliff in a unique way or augmenting a tool to cross a ravine more safely, Everest climbers know summiting requires instances of brilliance and moments of enlightenment – preparation, environmental knowledge and the other attributes of confidence are not sufficient. Likewise, companies committed to innovation are more likely to have their moments of brilliance. The innovative outcomes of creativity displayed by leading companies are often rewarded with increased market share and improved brand reputation that help them achieve their vision. These organizations are confident in facing future markets because they put a premium on creativity.

Confident companies make innovation an integral part of their cultural DNA by setting accountability for results with innovation-related metrics at the organizational, process and individual levels to encourage and reward creativity. They understand that transformation is more of a continuous process than a dramatic event. Innovation is an organizational imperative not to be left in the hands of a few (e.g., the R&D department) but should be evident across all aspects of the business, including third-party partnerships.

Because innovation is a strategic imperative, confident organizations empower and reward employees to test new ideas and take the appropriate risks to make those ideas a reality without encumbering them with the paralysis of fearing repercussions if they are not successful. They understand that, to paraphrase something British statesman Winston Churchill once said: Success is not final, failure is not fatal, and it is the courage to continue that counts. They know that stubborn reliance on pre-existing routines is not sustainable. By definition, innovation is an entrepreneurial activity. The importance of

² “The Name of the Game Is Risk: Secrets of the Winning Hand – Enabling the Chief Risk Officer’s Success,” Protiviti, 2010, available at www.protiviti.com/sites/default/files/united_states/insights/cro-series1-secrets-winning-hand-protiviti.pdf.

creativity is not new; economist and political scientist Joseph Schumpeter coined the term “creative destruction” almost 75 years ago, referring to the incessant product and process innovation mechanism by which new production units replace outdated ones.

Confident organizations are unwaveringly resilient. Extreme mountain climbers never really know what they might run into. Chaotic conditions, bad weather and natural obstacles can present formidable, unexpected challenges that necessitate adapting and making tough choices to manage the inevitable tension between “no going back” and preserving life. The theme of unwavering resilience is characterized by courage under fire, a supportive environment, mental toughness and a positive attitude. It also incorporates sound judgment as to when it makes sense to continue or revisit the pursuit. A mountaineer’s resiliency provides space and time to study the environment, reflect on the depth of abilities, assess risks and develop creative solutions.

In business, resiliency may include having a fall-back or exit plan for key initiatives. The goal is to win the war even at the cost of losing a battle. As with mountain climbing, the goal is to eventually summit the peak, not die trying. The mountain

isn’t going away; therefore, the resilient climber debriefs and learns what happened, then returns for another attempt both smarter and rested.

In a business context, confident organizations seek to attain and practice organizational resiliency. This is the ability and discipline to stay the course when the going gets tough or act decisively to revise strategic plans in response to changing market realities and not allow competitors to gain advantage. They have adaptive processes supported by a strong decision-making discipline and commitment to adapt to continuous and breakthrough/disruptive change as an early mover. They build large capital reserves and have great relationships with their lenders and trusting relationships with their customers, vendors and shareholders.

Resiliency is not blind stubbornness but an essential attribute of confidence. For example, the strategy at resilient organizations includes triggers for alternative contingency plans that management has decided to implement if certain predetermined events occur or conditions arise. These entities foster an enterprisewide culture that encourages managerial ingenuity to translate information regarding altered strategic assumptions into actionable revisions to established strategic and business plans.

A Call to Action

In this issue of *The Bulletin*, we’ve articulated a deeper understanding of the requisites of organizational confidence so that leaders can cultivate them in ways superior to competitors by creating sustainable competitive advantage. In doing so, we hope we’ve demonstrated that facing the future confidently is much more than superficial projections of “appearing confident” (i.e., we’re not talking about “the smartest people in the room” who appear to know what they’re doing or what they’re talking about).

Executive managers should think of their organization as positioned at base camp facing the challenges they have elected to undertake in a tough market environment – their organization’s chosen Everest. They should ask the following questions:

- Is the organization confident in facing future uncertainty? Can it survive and thrive in a rapidly changing environment?
- How does the organization rate against the seven attributes?

- Using these themes and the behaviors they represent, what attributes does the organization need to improve upon?

The speed of change continues to escalate, creating more uncertainty regarding future developments and outcomes. If there was ever a time to bolster an organization's confidence, we believe it is now. Implement refinements at base camp. Explore the sustenance of the confidence attributes that the organization needs to ensure its journey's success. Establish a process to enhance the attributes to sustain performance during the journey as extended periods of success and inevitable downturns are encountered.

It's one thing to have a confident CEO, but if the people within the organization lack confidence, the organization itself may not have the creativity and resiliency needed to sustain a winning strategy. A new product or service may offer a temporary, fleeting market advantage, whereas the attributes of confidence can be a source of sustainable competitive advantage. Whether an organization is an established incumbent or a new market entrant, cultivating and practicing the seven attributes enhances its ability to face the future confidently.



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