Noise to Signals to Business Models —Tools and Challenges for Managing the Risky Waves of Change

by Dr. Paul L. Walker

Regular and increasingly sophisticated conversations about how noise, change, and disruption impact the business can make a prodigious difference. **Here's how leading companies are trying to get ahead of the game.**

THE WORLD IS CHANGING – SO MUST A COMPANY'S TOOLS AND TECHNIQUES FOR ADDRESSING STRATEGIC RISK DIMENSIONS

■ There is little doubt about how disruption and change are impacting companies today and forcing them to keep up or lose out. Some CEOs predicted that a large percentage of companies could disappear. Other headlines show CEOs admitting they missed how technology could disrupt their industry, company founders admitting they can't just sell more of their product but instead need to rethink the business model, and even stories targeted at CEOS that challenge CEOs to disrupt their industry, or else! But how companies react and change is what is not settled. Companies must get better at seeing the change, understanding the change, and adjusting the strategy, budgeting and planning process. Getting better means filtering through the noise and disruption on a more-timely basis and determining how it impacts your own business model.

Recently a Risk Summit was hosted by the Center for Excellence in Enterprise Risk Management at St. John's University Tobin College of Business in Manhattan. The summit theme was turning the waves of change into risk and opportunity and it is clear from the Summit that companies are beginning to change how they approach noise, disruption, and even the strategy and risk processes.
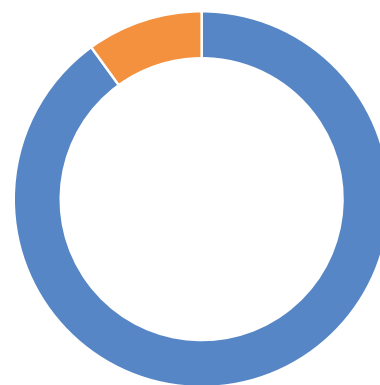
■ Agree or strongly agree ■ Other

Anticipating, interpreting, and reacting to signals and noise is vital.

How well our organization anticipates, interprets, and reacts to market changes, trends, and disruption is key.

In addition to presentations, workshop presentations, and facilitated discussions the executives also gave feedback about the process in a pre-conference survey. The survey showed that almost everyone agreed on the importance of the topic. Specifically, over 90 percent of the participants agreed about the importance of the ability to get better at anticipating, interpreting and reacting to noise. For all the daily reasons seen in the news and felt by organizations it is obvious that it is vital that companies build a process to anticipate, interpret, and react to the noise, disruption, and change. In fact, board members responsible for board risk oversight should demand that companies have some process to address this strategic risk dimension and exposure.

CULTURE MATTERS

■ The executives also agreed that they cannot do it alone. A full 98 percent believed that it takes a risk aware culture to turn the noise into signals (you can't just expect the CEO or CRO to do this by themselves). Much has been written about the role of culture in innovation or in major debacles when things fall apart and culture is to blame. The view of culture by companies at the summit suggests a new dimension; one that says if seeing change and disruption is important you better find a way to include the entire organization. An extension of this type of thinking arose in our FEI Research Report on the "strategic CFO." Leading financial executives and CFOs in that study pointed out that they try to solve these noise, risk, and future strategy problems with their customers. In that study, we highlighted how some companies bring in futurists and then get management and risk executives from their organization and their customer's organizations to solve the future strategic risk and noise problems together.

A risk aware culture matters.

A risk aware culture that encourages the entire organization to be aware of and identify emerging risks to the organization is critical.
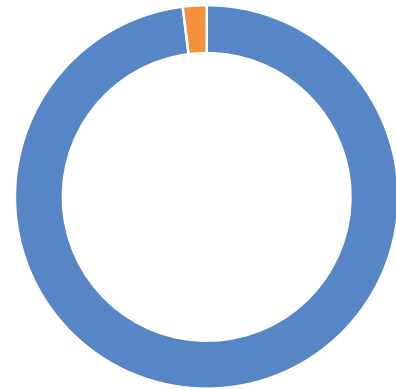

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TIMING MATTERS—MANY ARE LATE, FEW ARE EARLY

■ The executives also revealed the importance of timing and the results are not necessarily good. The survey revealed that most companies admit that they have been late on seeing significant changes in their business. And if that wasn't bad enough, most also state that they have rarely been early in seeing these significant changes. Seeing the changes before it is too late can be a fatal flaw in certain services and products. Organizational attempts to get better at this will require additional tools, a review of key sources, and a strong effort to overcome corporate challenges.
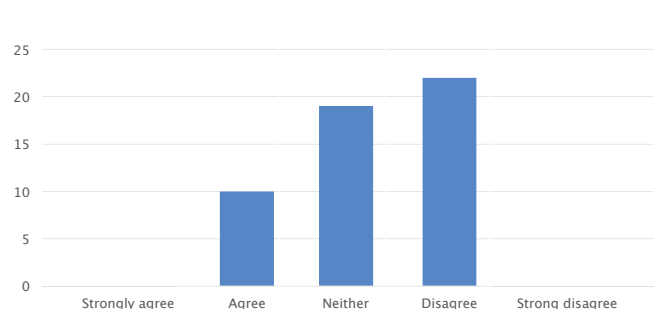
Many are late

We have sometimes been too late on seeing significant changes in the business
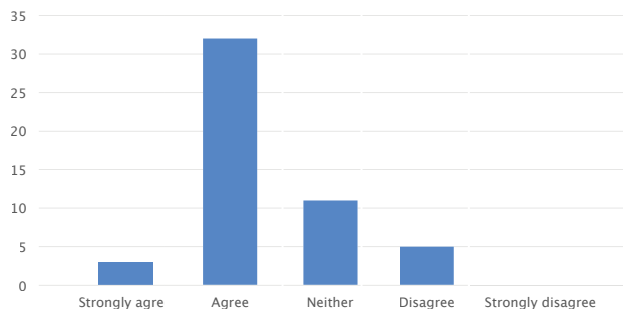
Few are early

We have sometimes been too early on seeing significant changes in the business

APPROACHES TO THE NOISE TO SIGNAL TO BUSINESS MODEL PROBLEM

■ Strategic Disruption Workshops—Various approaches were presented and discussed during the Summit about how to identify the noise and disruption and link that potential change to the business model. One tool was a strategic disruption type workshop. This tool is designed to identify strategic risks from the strategy chosen. In essence, they help a company know if their strategy is currently correct and, potentially, if there are untapped opportunities, or changes needed in the strategy. These workshops can challenge assumptions around current business strategy, ask executives to consider potential disruptions to the strategy, and ask executives about opportunities. The importance of opening the executives' minds to potentially new customers, new business models, and new product and service dimensions is challenging but must be done. Equally important is peeling back the old belief system and assumptions about how the business works. It is sometimes valuable to imagine how to destroy the current business model—in essence, writing a future scenario about how the business could get into serious trouble. Outputs from these workshops can include potential disruptive risks and opportunities, rankings of such risk and opportunities, action plans, velocity and impact assessments, and include subsequent reports to the CEO and Board (if they weren't involved). Some companies had the CEO participate in the workshop. At a minimum, the reports from the workshop should be discussed with the CEO and Board.

> Every board should desire a timely deliverable that shows how the organization knows (or at least has some assurance) that the current business model and strategy is both the right strategy and that the strategy is on track.

IDENTIFYING AND MANAGING THE SIGNALS

■ Other tools presented and discussed at the Summit including tracking of signals and emerging risks. One tool discussed was an analytic and cognitive technology tool with the goal of being better prepared to take advantage of emerging risks and opportunities. Another goal of that tool is to analyze "big data" in order to identify emerging risks using early warning indicators for incidents that could happen and assess their business model impact via several scenarios in order to support further risks discussions. Tools such as this are used to train executives and CFOs throughout the organization.

This particular approach involves researching the relevant business scope to identify potential risks and associated drivers. Once these drivers and risks are modeled and connected, the analytic and cognitive technology of the tool automate the assessment of risk and development of scenarios. The tool scans internet news and social media for signals related to the drivers, which are then cascaded through the models leading to the development of possible futures (both positive and negative scenarios should be considered). A key output of the tool is the "business implication" of the emerging risks. These implications include both an upside and a downside. As additional models are added, the cognitive technology considers a greater complexity and combination of risks in the potential scenarios.

Another tool used to identify the signals of change uses a broad spectrum of signals from both internal and external sources. The signals are validated with additional data and surveys to stakeholders and eventually consolidated into trends of key signals for deeper looks. A unique aspect of this tool is a that it crowdsources employee input using a bracket tournament game to get employees involved. The best signal is voted on and an employee gets recognized for having generated the best signal. Key signals are evaluated for potential risks, recommended strategies, and options going forward (stay the course, slightly accelerate, or fast track).

OTHER TOOLS

■ In addition to the specific tools discussed above, participants also shared additional tools they had used. The additional tools identified included:

Bow tie analysis	**Business cases**
Scenario planning	**Influence diagrams**
Trend analysis	**SME interviews**
Statistical modeling	**Predictive analysis**
Effort X Benefit	**Key risk indicators**
Decision tree analysis	**War games.**

SOURCES

■ As a group, the risk summit participants identified numerous sources of data that they used to help identify these unknown or emerging noises and signals. The sources help the companies before they enter the workshop or they serve as inputs to the noise detection and interpretation tools. The sources of noise identified by the participants included:

Operational incidents	**Internal risk assessments**
RSS feeds	**Macroeconomic news**
Political timelines and stories	**Strategic plans**
Where startups and angel investors are focusing	**Surveys**
	Employee feedback
News	**SMEs**
Industry reports	**Industry conferences**
Customer complaints	**Client input**
Social Media	**Regulator and competitor actions**
Academic studies	**Value shifts appearing in the market**
New implementations	
Published risk surveys	
NGO agendas	
Customer satisfaction surveys and metrics	
Annual plans	

When asked to rank the best sources the top four internal sources were (descending order):

Strategic planning

ERM process

Risk scenario workshops

Communications with executive management.

The top four ranked external sources were (descending order):

Customer data

Customer relations

Industry market research

Competitors.

The sources are valuable and are important. However, sometimes a blank sheet of paper is a better way to start. A blank sheet can help shed the long-held mindsets and biases. Drucker's Theory of Business article would also strongly suggest that studying non-customers might be a huge source. They are, after all, the ones you want as customers.

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CHALLENGES TO OVERCOME

■ Despite the sophistication of the efforts noted by the prestigious companies in attendance many participants believe there are major challenges to overcome. Most companies agreed that one of the biggest challenges was overcoming their own cultural and organizational barriers. This organizational challenge was discussed as overcoming a company's complacency and status quo and even breaking down internal silos. Other challenges mentioned were getting people to open and share. Some mentioned the challenge of changing decision making and finding a way to get this type of risk thinking embedded into decisions.

The organization itself can be a barrier.

Overcoming cultural and organizational barriers is critical to managing unkowns and disruption.
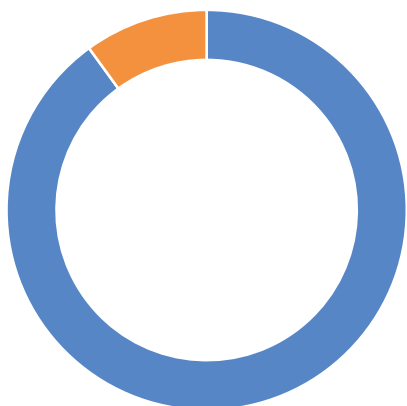
■ Agree or strongly agree ■ Other

There were also challenges around tying the noise to signal process to the ERM and strategy practices and how to ensure these practices were finding something the business wasn't already addressing. Integrating various data sets was a challenge as well as the challenge of how fast a risk is moving – perhaps faster than the process to identify it. A significant challenge discussed was getting buy-in from the board and senior management.

The full list of challenges included:

- **Challenge to status quo**

- **Breaking down internal barriers**

- **Culture**

- **Cultural differences**

- **Collaboration across teams**

- **Strategy setting**

- **ERM value proposition**

- **Getting people to open up about risks**

- **Strategy alignment**

- **Compensation structures**

- **Integrating various data sets, internal and external, and then apply deep machine learning to find patterns and risks (listed as a tool and a challenge)**

- **Complacency**

- **Identifying plausible emerging risks – things the business is not thinking about from a strategy or business plan...**

- **Regulatory uncertainty**

- **Integrating ERM**

- **Commitment from the board and senior management**

- **Embedding risk awareness in decision making**

- **Identifying risks requires work to mitigate. Why make work for yourself?**

- **Speed to apply these techniques**

THE KEY: FOCUS AND DISCIPLINE

■ The participants also identified the top five keys to managing the noise, change, and disruption. Ranked fifth and fourth were seeing the change before others and being resilient (respectively). Despite the fact that many are late and few are early, participants still believed in the value of timing. The process has to catch things at the right time. The importance of resilience should never be underestimated. If the noise cannot be timed companies must know that they are resilient enough to survive.

The third highest-rated key was seeing and understanding the impact and speed of the event. Organizations that fail to understand how disruption will impact them or how fast it is moving could be in big trouble. Deeper dives and validation of the risks must be done, especially from a strategic perspective. The second highest ranked key was interpreting and assessing the change. This is getting to a deeper understanding of the risk and necessitates the application of new tools. The highest ranked key and presumably number one thing companies must do correctly was link the change to the business model and strategy. It is not enough to see it and assess it. Several of the companies present specifically mentioned the importance of this step.

The keys

The keys for navigating the noise and related uncertainty
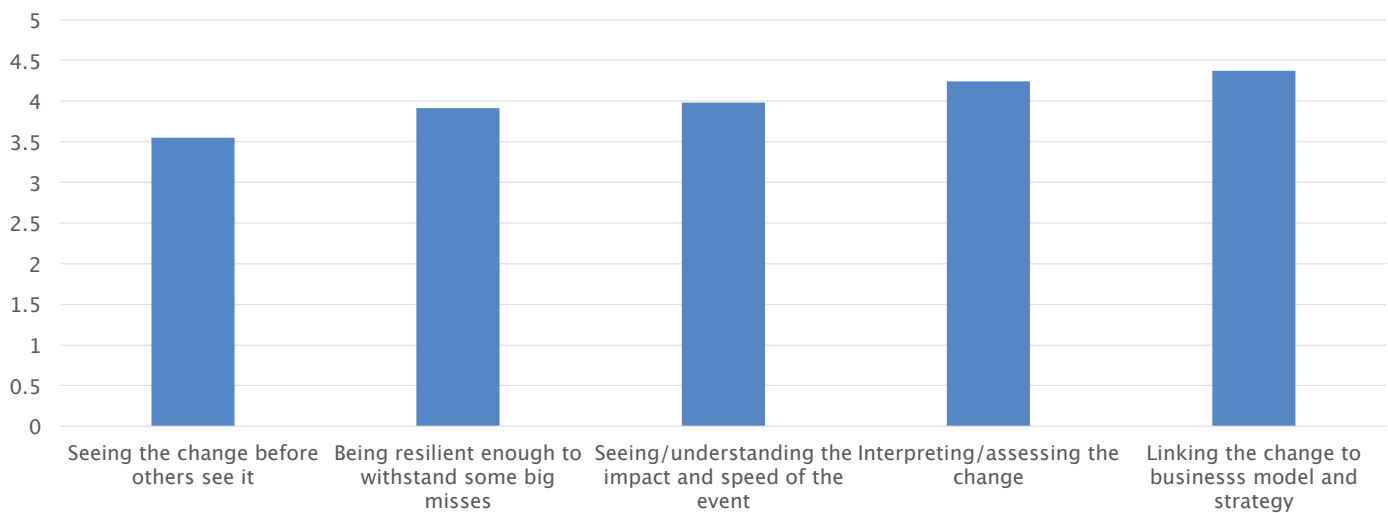

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STRATEGIC EXECUTION STILL MATTERS

■ Several studies have shown that the number one killer of value is strategic risk and uncertainty. A common view of strategy is that it has multiple dimensions and risks to each one. Some view the three dimensions as aligning, setting, executing. The tools mentioned in this study are primarily helping companies understand if they are setting the right strategy and also somewhat helping them know if they are aligning their strategy with the changing world. While some focus on these important aspects of strategy and risk and how it leads to long-term success we should not lose sight of focus and discipline on executing the chosen strategy once an approach has been chosen. When asked about this dimension, most companies stated that they sometimes had the right idea but failed to execute.

Strategic execution still matters.

We have sometimes had the right idea but failed to execute on the idea.
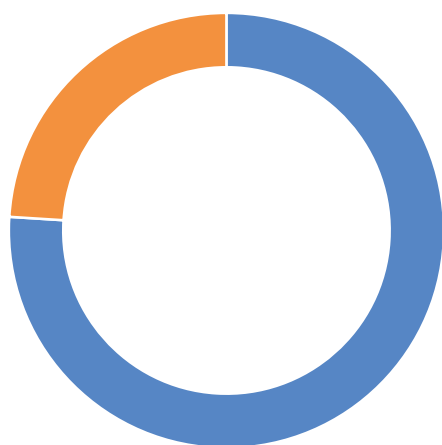
■ Agree or strongly agree   ■ Other

LESSON(S)—A STRATEGIC RISK AND UNCERTAINTY APPROACH

■ How can organizations begin to rethink the noise in their market and pivot their organizations in the right direction? Some great old advice was to think about who is aiming their one silver bullet at you or who you would aim your one silver bullet at to take out. In today's world, the disruption and noise can come from so many places that companies realize they need something more than one silver bullet. They need a new approach.

The pattern that appears to emerge from the Risk Summit is as follows:

Create/consider future customers; future products/ services.

Search—with a blank slate and by using sources, especially consider non-customers.

Assess and interpret the noise.

Translate to current or future business models.

Rethink current strategy needed to implement that model.

Consider how you know you're aligned with this new vision and measure that alignment.

Rethink strategic capabilities, the right spending, and the ability to deliver on any change in the strategy.

Execute—focus and discipline; ensure you are doing and measuring the right things.

Be indefatigable; a lot is at stake (perhaps your own company).

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List of Participating Companies at the Center for Excellence in ERM April 6, 2017 Risk Summit:

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