

ERM SEMINAR

"RESPONDING TO DISRUPTIONS : A RISK MANAGEMENT PERSPECTIVE"

Presentation by

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Presentation outline



‘partners in managing the waves of disruption’

- Introduction
- Disruption
- Disruption: An ERM perspective
- Disruption Effects and extent of disruption
- Effective ERM response to disruption
- Conclusion



MAN IN THE VAN VIDEO: NETFLIX ADVERT.....vs Traditional
Satellite installation

<https://www.youtube.com/watch?v=PdcvDbYyazQ>

“Enterprise risk management is a process, effected by an entity’s board of directors, management, and other personnel, applied in a strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

-ERM, applied properly and strategically, is also about creating opportunities to grow the business in a differentiated and sustained manner that aligns nicely with innovation.'

Jeffrey C. Thomson, President and CEO, IMA

- 'In the old days, companies used strategy mostly to look for opportunities to grow. Today, many companies are looking to not be disrupted.'

Blake Eisenhart, Chief Audit Executive, Unisys

- 'A wave of change and disruption is coming. Disruptive factors such as Big Data, increased competition, the Internet of Things, and commodification are causing increased risk and uncertainty for companies, and leading to pressure to rethink the business model and value proposition on a regular basis'.

ACCA Article on Innovation and ERM

- 'A disruption displaces an existing market, industry or technology and produces something new and more efficient and worthwhile. Its at once destructive and creative.'

Clayton Christiansen

Introduction



- *Success today requires the agility and drive to constantly rethink reinvigorate ,react and reinvent.*
Bill Gates
- *Disruptive innovations are like missiles launched at your business.*
Harvard Business review.
- *“Disruption to a business model is both a threat and an opportunity. It’s almost impossible to address both with one strategy. There are outliers that can, but I call them magicians. The rest of us can’t do it. You have to defend the threat to the core business with one strategy and attack the disruptive opportunity with another.”*

Costas Markides, Professor of Strategy and Entrepreneurship at London Business School

Disrupters are innovators but not all innovators are disruptors. Forbes:

Innovations can be categorised into two categories:

- 1. Sustaining : Maintain the rules of the game whether incremental or radical they sustain the direction of improvement set by market leaders.*
- 2. Disruptive. Can be game changers. Products services or processes that reshape and transform the markets into which they are launched.*

Video by Former Nokia CEO Olli -Pekka : https://youtu.be/jR5a_DBYSmI

Disruption



- Disturbance or problems which interrupt an event, activity, or process. Synonyms: disturbance disordering, disarrangement, interference
- Many people look at it as a negative that's its an attack on their business. Those who embrace it often find it can benefit their business and contribute to success.
- Digital: Amazon, Netflix, Alibaba, Facebook, cloud computing, Uber, Airbnb, playlist (no need to buy album), Kenya: Mpesa, Jumia,
- Genesis/catalyst of disruptions: legal/regulatory, political ,needs, social, competition etc....

Introduction



- According to recent work, the US economy stumbles about every 16 years (Kelly 2015).
- Other work reveals that hundreds of companies suffered massive shareholder value drops from 10% to 90% within a 30day period; and these 'value killers' were in both a good and a bad economic environment (Deloitte 2014).
- It's not just drops in value that is happening— the average life of a Fortune 500 company has declined from 75 to 15 years (Foster 2001).
- The business environment is unstable. It seems that no one economy or company is immune to dramatic change.
- In fact, a recent IMA (Institute of Management of Accountants) member survey showed that 75% admit to the need to evolve or reinvent their business value proposition every five years (Stroh 2015).

An ERM Perspective



- ERM does not only enable an entity to innovate but can also protect it from the downside of innovation.
- Innovating without knowing the associated risk is a primary reason for failure in business.
- Being proactive in planning against possible challenges paves the way to succeed in times of uncertainty.
- Businesses need to be prepared to expect the unexpected through being open to the possibilities of new inventions, but also new ways of thinking about combating the risks in their industries.
- Through using emerging risks to fuel innovation, businesses are better adapted to the changing business environment and can devise a strategy for success.
- Through integrating risk management into their core operations, firms are more likely to achieve their goals and objectives, even when they encounter obstacles.
- Enterprise-wide risk management (ERM) is the key to building an organization's risk competency; its ability to identify, assess and prepare for any risks that may interfere with the entity's goals and objectives and is crucial for its growth and development.

An ERM Perspective



The key issues for companies during this times of disruption and change are:

- Seeing and interpreting the waves of risk
- Creating waves and responding to the waves (through new strategies, risk assessment, innovation, mergers, and other methods),
- Identifying and managing the risk and uncertainty caused by the waves along the way and, in the waves created, not limiting the outcome, but achieving greatness or perhaps surviving.
- No industry is resistant to change.... We can see disruption on the horizon, but how close is it?
- Need to learn to adapt to remain competitive while innovating new methods of doing business
- Some companies are improving the effectiveness of their programs while maintaining their cost and convenience advantages, thus attracting customers away from traditional alternatives
- Consider/understand what people are really doing when they buy their products and services. (value proposition to customer)

An ERM Perspective



- The stories of Kodak, blockbuster, Nokia, Taxi industry (uberized)
- Leaders need to understand the process of disruptive innovation because eventually it will leave their processes products and services obsolete marginalised or severely challenged.
- Disruptions Coming in to meet demands of a better customer experience, faster customer service and delivery.
- Its crucial that you prepare your business for disruption before its too late. Companies have enough time to change
- Be prepared: understand product service and how it can be disrupted stay vigilant, Open eyes. Need to navigate the process of disruptive innovation if they want to truly generate huge returns on investments and beat established status quo.
 1. Understand your risks
 2. Be flexible. Understand that you will need to change to stay in the market ,business.
 3. Learn to adapt. Cultivate a culture of innovation and change.
 4. Prepare people, staff to meet these changes head on, upskill staff

An ERM Perspective



- Have systematic way to chart the path and pace of disruption so that you can fashion a more complete strategic response. Determine whether a missile will hit you dead-on, graze you, or pass you altogether.
- Alibaba : Collected data on merchant performance and consumer buying patterns. Then became confident enough to offer loans to consumers who wanted to buy more, and working capital loans so that merchants could make more. The results would feed directly to its own bottom line as business on the platform increased.
- By 2013, Alibaba had also moved into wealth management and, not long after, secured a banking license through its Ant affiliate, while it was already supporting 350 million customers. (some reports suggest worth more than Goldman Sachs)
- The organizational form that allows this scale and breadth (the company also offers taxi rides, table bookings, ticketing insurance, mobile devices and more) is a business platform. In particular, a service platform, one holistic aggregation of many services and transactions.
- Alibaba disrupts at the level of the industry. It has changed e-commerce and has changed finance. The challenge of industry-scale disruption is that it can reduce incumbents to a minor role extremely quickly. But it is also the hardest form of disruption to accept.

An ERM Perspective



Companies that are 'switched' on :

1. The business is clear on the disruption that is shaking their market.
2. They Create a sense of urgency. Making the need for change both personal and emotional. There has to be belief in it....not a lab result..
3. They see and frame disruption as both a threat and an opportunity. Active ERM..
4. Create strategies and plans to defend their core business and attack the disruption
5. Come up with ideas about what to do (some organizations have incubation labs for these ideas), forget your core business and think like an entrepreneur.
6. Avoid imitating (counterfeit....) the disruption. Instead, disrupt the disruptor.
7. Identify the strengths of your disrupter's business model.
8. Identify your own relative advantages.
9. Evaluate the conditions that would help or hinder the disrupter from co-opting your current advantages in the future.
10. Ensure the organization does not sit in silos.... All departments must work together
11. Paradoxically, the more aggressive the march of technology in an industry, the higher the premium on maintaining a personal touch in dealings with customers and employees.

Effective ERM response to disruption



- Enterprise risk management (ERM) can be successfully tied to strategy and innovation, including: Interpreting disruptive waves: By incorporating risk-sensing tools, companies can more easily predict and respond to waves of disruption.
- Rethinking strategy and tools: With tools that enhance understanding of risk, companies can develop and alter key assets to combat changes in the external environment.
- Innovating business models: When responding to risk, it's important for businesses to not only innovate in their fields, but also consider business model innovations

Effective ERM response to disruption



Risk tools for understanding risk waves

- Business model and value proposition calibration -
- Strategy analysis. Matching of strategy to expected competitive and economic environment
- Value killer workshop
- Black swan workshop –unpredictable unseen event with extreme consequences
- Strategic bow-tie analysis –shaped like a bow tie and gives two clear differentiation btw proactive and reactive risk management.
- Emerging risk analysis Risk deep – dive Scenario analysis
- Game theory Opportunity workshop –(logical decision making and expected behaviour)

Conclusion



- It has been predicted that there will be dire consequences for those companies who fail to innovate.....Others have predicted many companies will be subject to serious disruption.
- The key to addressing these challenges is rooted in these approaches:
 - Companies must see and understand the waves of disruption, change and risk coming their way.
 - Companies must be quick to respond appropriately to waves coming at them. They must consider innovating themselves, and that innovation should include innovation around the business model. Both approaches may need a re-examination of the business model and strategy of the company. Innovating without first understanding the risks around the business model is likely not a wise approach.
 - Companies must acknowledge that although innovation is a response to strategic risk, innovation and strategy change create risk. To get the greatest results, companies must learn to manage the risk in innovation.

“There's nothing permanent except change.” Philosopher Heraclitus

Interactive Session



References

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