

Board Perspectives: Risk Oversight

Is Your Organization an Early Mover?

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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 seize the initiative. Early movers have the advantage of time, which brings with it more decision-making options before market shifts invalidate critical assumptions underlying the strategy. Failing to attain “early mover status,” as we define it, can be fatal in today’s complex and rapidly changing business environment.

Key Considerations

Our use of the “early mover” term is broader than the focus on “first mover advantage,” as that advantage typically refers to the initial significant occupant of a market segment. The “early mover” concept, as we define it, relates to recognizing market shifts affecting the validity of an enterprise’s critical strategic assumptions and making conscious decisions on whether to act on them. Thus, an “early mover” can also include a second mover. The dichotomy is not “first” versus “second”; it is “early” versus “late,” where the market decides what “late” means (i.e., second movers could be either late or early). The stakes of being an early mover can be as high as preserving the company’s right to play.

We define the attributes of an early mover using three R’s – RECOGNIZE, REACT and REFLECT:

- RECOGNIZE: An early mover quickly recognizes the opportunities and risks that matter. It:
 1. Understands the critical assumptions underlying its strategy
 2. Applies effective scenario analysis capabilities to evaluate situations arising from an event or combination of events that could invalidate one or more of its critical strategic assumptions
 3. Aligns its competitive intelligence process and capabilities with the key drivers evidencing that the scenarios of greatest concern are either developing or have occurred
 4. Distills all of the above in a timely manner and reports on insights obtained
- REACT: An early mover reacts to the significant opportunities and risks it recognizes. It:
 1. Fosters an organizational culture that facilitates consideration of the impact of changing market realities on critical strategic assumptions
 2. Stimulates managerial intuition and ingenuity to translate information regarding the reality of altered strategic assumptions into actionable revisions to strategic and business plans
 3. Seeks organizational resiliency (i.e., the ability and discipline to act decisively on revisions to strategic and business plans in response to changing market realities)
- REFLECT: An early mover learns from experience, especially circumstances in which it failed to RECOGNIZE or REACT. It:
 1. Encourages admission of errors and learning from them

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- Commits to continuous improvement, as evidenced by the ability to internalize lessons learned by converting them into process improvements

Both RECOGNIZE and REACT are hard. This is why there are so few early movers in an industry (i.e., it is rare for most players within an industry to move quickly in response to a changing business environment). Early movers are informed, meaning they obtain the right information at the right time and have the right tools in place to analyze the information that supports decision-making. While they may be the first to react or may decide not to act at all, they are usually among the first to recognize a shift in markets. Sometimes, they may choose to learn from the actions of others and exploit opportunities not seen by others. With respect to the iPod, Apple was nowhere near being the first mover – rather, it watched what others did and made its products better. In the case of the iPad and the iPhone, however, Apple was very close to being a first mover, considering the combination of features and functions. In both instances, Apple was an early mover.

Our focus on early movers concerns strategic matters. All airlines moving in unison to raise prices is an operational matter, not a strategic matter. The pervasive decline of the housing market that precipitated the financial crisis is an example of a strategic matter. The timing in which market participants recognized and reacted to the decline in housing made a huge difference in terms of their reputations and standing within the industry today.

Attaining “early mover status” on significant strategic issues consistently over time can lead to competitive advantage and superior longer-term enterprise value performance. More important, it can increase the chances of surviving a major market shift.

Questions for Boards

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

- Is the board knowledgeable of the critical assumptions underlying the corporate strategy?
- Is the company’s competitive intelligence aligned with the drivers that could invalidate the most important strategic assumptions and does it provide an effective early warning capability?
- Is the board satisfied that management pays attention to the warning signs and gives timely consideration to the organization’s options?
- Does past experience demonstrate that the organization has the attributes of an early mover?

How Protiviti Can Help

Protiviti assists organizations with identifying the risks that can impair their reputation and brand image. Our intent is twofold: Help companies (1) increase the robustness of their business strategy through better anticipation and management of risk, and (2) integrate risk and risk management with the core management activities that matter.

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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