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Face the Future with Confidence

The Bulletin
Protiviti's Review of Corporate Governance

Attributes for Facing the Future Confidently

In a prior issue of *The Bulletin*,[1] we discussed attributes of organisations that are confident in executing strategy and advancing their respective visions successfully. We asserted that these attributes of confidence were important because executives and directors can use them to assess and advance their organisations along the journey to realise their vision. This issue of *The Bulletin* augments the prior issue by adding examples to illustrate the attributes in action.

The Attributes of Confidence

We defined confidence in the prior issue of *The Bulletin* 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 or qualities." In addition, we raised three fundamental questions that are vital to facing the future with confidence:

1. **Directionally, do we know as an organisation where we're going and why?**

2. **Are we prepared for the journey we are undertaking?**

These two questions are about knowing where we are headed and confirming that we are prepared. Are our people devoted to achieving a common future-state vision? Do we have a plan with a clear road map, as well as the capabilities and infrastructure in place to execute the plan and navigate the road map? Positive responses to these two questions are the price of entry to the high-stakes game of establishing sustainable competitive advantage, leading to the final question:

3. **Do we possess the ability, will and discipline to cope with change along the way?**

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[1] "What It Means to Face Future Uncertainty Confidently," *The Bulletin*, Volume 6, Issue 4, available at www.protiviti.com/US-en/insights/bulletin-vol6-issue4.

This latter question is about whether we can get to our ultimate destination no matter what happens. Definitive, positive responses to these three questions enable organisational confidence in facing future uncertainty.

The attributes that enable positive responses to these three questions are summarised in the schematic below:
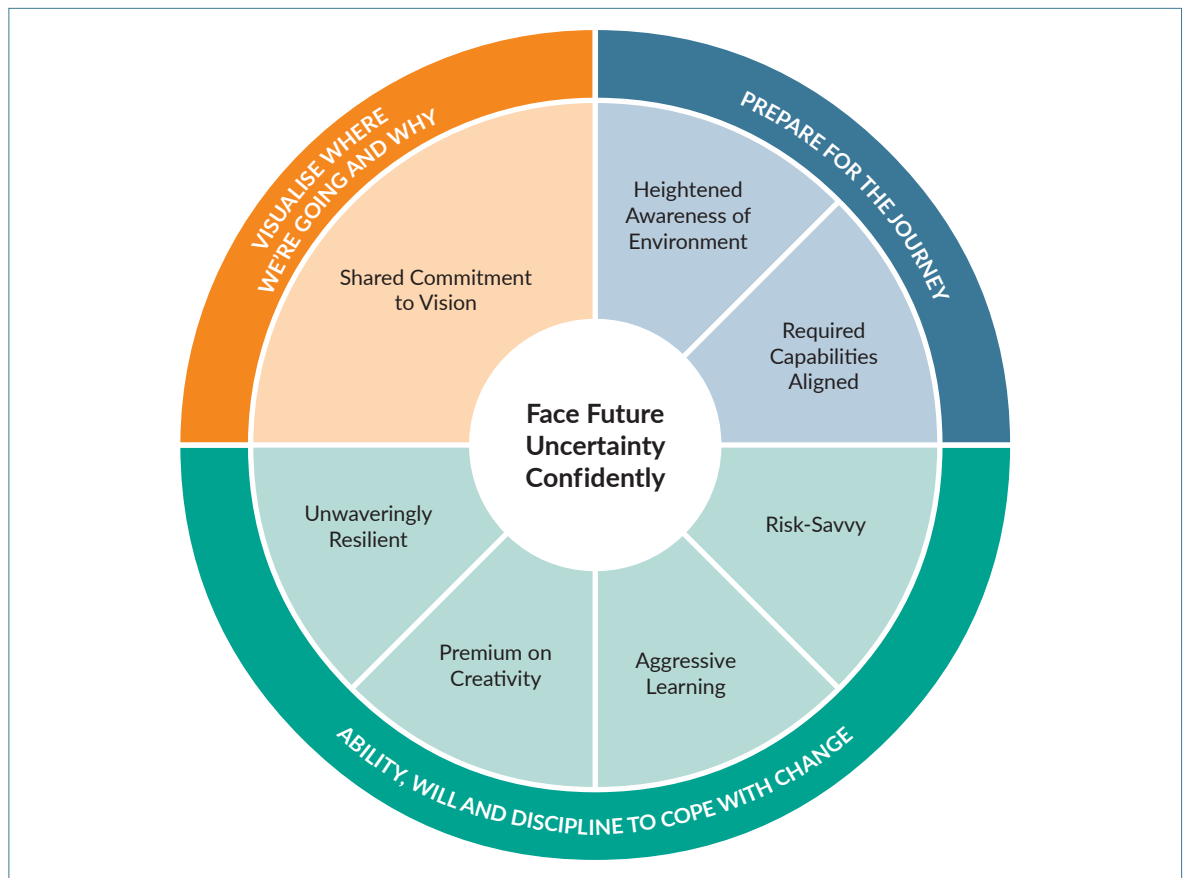
Attributes That Lay the Foundation

The first three attributes of confidence represent what we refer to as a base level of confidence for doing business. They represent the table stakes — the price of entry — that lay a solid foundation for engendering confidence. Take any one of these three attributes away and the organisation's leadership must take corrective action, and soon. We discuss these attributes further below.

Confident organisations share a commitment to a long-term vision. Confidence is maximised if there is a commitment to the enterprise's long-term vision, which provides its people a shared "future pull" perspective.

That perspective fuels enterprisewide focus and energy to learn, encourages participation, and spawns an altruistic camaraderie so that people at all levels recognise that the enterprise's success and their personal success are inextricably linked.

Confident organisations seek clarity of, and are in touch with, the environment. A confident organisation constantly "reality tests" its understanding of the market through an open and sharing culture that encourages dialogue and discussion up, down and across the enterprise, and in which people can share what they know and think as well as express disagreement without fear of repercussions.

For example, a confident organisation implements processes that facilitate real listening to customers, suppliers, employees and other stakeholders as sources of new learning. Formal and informal continuous feedback loops flatten the organisation and enable systemic thinking in distilling and acting on the feedback received to drive continuous improvement and foster preparedness.

Confident organisations align their capabilities. Every successful company has differentiating capabilities. Examples include an entity's superior know-how, innovative processes, proprietary systems, distinctive brands, collaborative cultures, and exclusive supplier and customer relationships. Appropriate policies, processes and organisation must be in place to support the company's strategy. In confident organisations, leaders ensure that the capabilities needed to differentiate the company and execute its strategy successfully are in place and appropriately aligned.

The Attributes That Sustain Confidence

While important, a base level of confidence is not enough to face the future confidently. Astute business leaders know that the ability, will and discipline to cope with change are also needed to advance their organisation's journey. Below we focus on these attributes for sustaining confidence using case examples.

Confident organisations are risk-savvy. Few companies can boast of anything similar to the Walt Disney Company's legacy of making big bets to transform itself. After several setbacks, including bankruptcy in his early twenties, founder Walt Disney created a new cartoon character that would later become the symbol of the entire company. The early successes of Mickey Mouse gave Disney the confidence to keep taking calculated risks.

Despite concern about the profitability of cartoon shorts, Disney branched out into animated films, beginning with *Snow White and the Seven Dwarfs* in 1937. A resounding success, the movie positioned the company as a major force in Hollywood, paving the way for additional animated feature hits.

Later, Disney invested heavily in making another full-length animated film: *Cinderella* (1950). The production of the movie cost as much as US$50 million in today's dollars, a crippling cost that might have threatened the company's viability if the movie were a flop. But *Cinderella* became a blockbuster and is generally considered a classic American film of the 20th century.[2]

When television emerged, Disney made long-term commitments for television projects while the major Hollywood studios pressured each other not to support televised productions, believing the medium would ruin the movie business. The result of Disney's decision was exceptional: an array of classic programs that helped define early television.

Disney's success with the new medium enabled him to obtain the necessary financing to build Disneyland, a theme park for families. Operating under Disney's high standards of customer service and attention to detail, Disneyland became a phenomenal success, spawning other parks and becoming a critical component of the Walt Disney Company business.[3]

Since Walt Disney's death in 1966, the company has followed in its founder's footsteps by taking calculated risks that have helped make one of the world's most well-known and beloved brands even more successful. For example, after expanding its theme park operations and continuing its focus on feature films, the Walt Disney Company experienced an animation renaissance when it released several hugely

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[2] "Of Failure and Success: The Journey of Walt Disney," by Jeff Kober, MousePlanet, Aug. 26, 2010: www.mouseplanet.com/9365/Of_Failure_and_Success_The_Journey_of_Walt_Disney.

[3] Ibid.

successful animated films in the late 20th century, including *The Little Mermaid* (1989), *Beauty and the Beast* (1991), and *The Lion King* (1994). It became a major media company with the purchase of Capital Cities/ABC in 1995. It launched the Disney Cruise Line in 1996, and acquired Pixar Animation Studios in 2006, Lucasfilm Ltd. in 2012, and Marvel Entertainment in 2015, all for hefty price tags. Disney CEO Robert Iger has said, "I worry about our ability to sustain creative success. There's always risk in the creative process." Iger points out that a company can "never let a brand rest on what it was."[4]

In more than nine decades, Disney has provided a valuable lesson: The biggest risk of all is not taking one. Walt Disney said, "To some people, I am kind of a Merlin who takes lots of crazy chances, but rarely makes mistakes. I've made some bad ones, but fortunately, the successes have come along fast enough to cover up the mistakes. When you go to bat as many times as I do, you're bound to get a good average."[5]

As we learn from the experiences of Disney and similar organisations, it is important to note that a risk-savvy organisation doesn't make casino-style bets; nor does it operate based on gut feelings. When the organisation goes to bat, to paraphrase Walt Disney, it does so based on its knowledge of markets, customers and competitors, coupled with robust decision-making processes and reasonable assurances that it can execute and overcome anticipated obstacles. That knowledge and assurance drive confidence.

The confident organisation routinely identifies the risks from its strategic choices, as well as the risks to executing its strategy successfully and achieving its performance goals so that it can ensure the most critical exposures are managed effectively.

Confident organisations also understand the critical assumptions underlying the strategy pertaining to such drivers as the enterprise's capabilities; competitors' capabilities, behaviours and actions; customer preferences and bargaining power; supplier availability, performance and bargaining power; technological trends and innovation; capital availability; legal and regulatory trends; and the absence of catastrophic physical phenomena. This understanding gives them a focused line of sight on key factors to monitor as the strategy is executed.

Confident organisations cultivate an aggressive learning environment. Organisations that focus on learning are able to adapt better to change. General Electric (GE) is a pioneer and global standard-setter for leadership development and learning through advancing an evolutionary culture, where learning shapes strategy and leaders are equipped and inspired to succeed. This commitment to the learning environment is important because, in today's rapidly changing environment, acknowledging that individuals alone can't possibly know everything is vital to building a confident organisation. It is the collective knowledge and genius of the organisation that really matters and lies at the very foundation of truly confident organisations.

Sixty years ago, GE built its first learning centre in Crotonville, N.Y., with a focus on continuous learning. Led by up-and-coming managers and leaders, Crotonville became a nexus of innovation, ideas and learning where leaders congregated to learn, teach and share at critical transitions during their careers. Every day, thousands of GE employees and customers around the globe take part in state-of-the-art experiential learning opportunities offered at the 59-acre New York campus, at GE learning centres and local GE sites worldwide, and across its digital platforms.[6]

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4   "Bob Iger Talks Risk, Change and His Legacy," by Marc Graser, *Variety*, Jan. 23, 2013: variety.com/2013/film/news/bob-iger-talks-risk-change-and-his-legacy-1118065054.

5   "Of Failure and Success: The Journey of Walt Disney," by Jeff Kober, MousePlanet.

6   "Life at GE," GE: www.ge.com/careers/culture/life-at-ge.

As a backdrop, GE's focus on innovative solutions leverages the driving forces behind global disruptive trends such as the Industrial Internet of Things (IIoT) and innovative technology to improve products and processes (advanced manufacturing). In partnering with organisations and investing in companies and projects to promote entrepreneurship and incubate ideas through innovation centres, GE has embraced its industrial roots digitally. For example, GE plans to develop the IIoT to create technology that makes its products more efficient and enables businesses to use them more effectively.[7] In the words of GE's chairman and CEO Jeff Immelt: "We act. We learn. We get better. We insist on being more than we are today. Some companies are retreating; we are moving forward to become the Digital Industrial."[8]

GE operates in more than 170 countries and has over 300,000 employees worldwide. To compete and win in demanding markets, it needs leaders who share common values in an open, informal, trust-based culture. Consistent with a "We Company" approach, GE relies on its learning environment to train its people and develop its leaders while instilling consistent values across its management structure.

Crotonville is a strategic enabler for corporate transformation and the nerve centre for cultural change — from customers, competitors, peers and others — and a relentless drive to invest and build things that better serve customers around the world. GE's strong focus on learning and development enables its employees to grasp the key overarching concepts with which the company must reshape itself every few years to keep pace with a rapidly changing world.[9]

The lesson is that learning organisations breed confident organisations. A commitment to learning facilitates the pursuit of opportunities and the undertaking of risks and all that entails, including the inevitability of mistakes that stimulate further learning. The confident organisation views success and failure as equivalent experiences to proactively avoid the plague of complacency with past successes becoming ingrained within the culture. Learning is used to continuously transform the organisation; by converting lessons learned into process improvements, the organisation is better able to respond to dynamic market forces and become more competitive.

Confident organisations place a premium on creativity. Confidence in an organisation's vision and infrastructure is one thing; confidence in the organisation's ability to transform continuously no matter what is thrown at it — whether it be new regulations, technologies, changing workplace and customer demographics, or other market forces — is a source of competitive advantage.

Not many successful technology companies in the marketplace today can trace their origin to the 1980s, let alone the 1960s. But IBM can.

Technology industry pundits have been predicting the demise of the mainframe computer for decades. Yet mighty IBM continues to reinvent itself while embracing the mobile internet, cloud computing, big data and other aspects of the latest technologies. In a world where product life cycles are measured in web years,[10] the mainframe's longevity is an amazing story that illustrates IBM's staunch commitment to innovation in one of the fastest-changing industries.

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[7] "GE's $5 Billion Annual R&D Budget Is Transforming Advanced Manufacturing and the Industrial Internet," *Quartz*: http://qz.com/355116/ges-5-billion-annual-rd-budget-is-transforming-advanced-manufacturing-and-the-industrial-internet.

[8] *GE 2015 Integrated Summary Report*, March 14, 2016: www.ge.com/ar2015/assets/pdf/GE_AR15_Integrated_Summary_Report.pdf.

[9] "How Do You Make Better Managers?" by Seth Stevenson, *Slate*, June 9, 2014: www.slate.com/articles/business/psychology_of_management/2014/06/ge_s_crotonville_management_campus_where_future_company_leaders_are_trained.html.

[10] A "web year" has been said to be the length of time it takes for internet technology to evolve as much as technology in another environment might evolve in a calendar year. The term was coined at a time when the internet and web technology and culture were progressing at a phenomenal rate. The term is sometimes attributed to Louis V. Gerstner, Jr., the former head of IBM.

IBM's business transformation during the information revolution is partly a result of two major architectural innovations:

1. **A family of computers.** IBM created an entire series of computers — from small to large, low- to high-performance, all using the same instruction set — that allowed customers to invest in a model they could afford and then upgrade the capabilities of their systems as their needs dictated. The eloquent storyline behind this design was easy for the market to understand.

2. **A common operating system (OS).** IBM designed OS/360, which supported the various members of the S/360 family (except for the smaller ones, which ran a subset with more limited capabilities). Today's z/Architecture and z/OS are direct descendants of the original S/360 and OS/360 design.[11]

The above innovations ushered in a whole new way of thinking about designing and building computer systems. Previously, manufacturers built a new computer and its OS from scratch, sometimes to customer specifications. The modular family design concept supported by common components was a huge paradigm shift for the industry, as it eliminated the need to rewrite software and redesign components, such as processors and memory, for each machine. IBM was therefore able to offer more economies of scale to serve an ever-growing market.

With the emergence of the cloud-based model of computing, systems are needed to provide very fast response times to huge volumes of requests. Mission-critical services in healthcare, finance, transportation, electric utilities and other industries require very high levels of availability, security and other industrial-strength capabilities. IBM's new zEC12 mainframes are designed to support these demanding cloud-based workloads.[12]

Today, IBM's architecture and business ideas are well-accepted and widely taught in engineering and management schools. They're embodied in the concept of platforms, which make it possible to implement an architectural design across different technologies and models. In addition, platforms are generally accompanied by an ecosystem of complementary products and services.[13]

Over a decade ago, IBM, concerned with replacing retiring mainframe engineers to support its mainframe business, reached out to universities to advocate for mainframe courses and offer support. Today, after an investment of over $10 million during the first decade, more than 1,000 schools in 67 countries participate in IBM's academic initiative for mainframe education — yet another powerful example of IBM's out-of-the-box thinking in adapting to the market.[14]

In summary, companies committed to innovation are confident in facing the future because they know the market, their suppliers and their channels, and are passionate about focusing on their customers. Because innovation is a strategic imperative, these organisations empower and reward employees to test new ideas and take the appropriate risks to make those ideas a reality without paralysing them with the fear of repercussions if they are not successful.

Confident organisations know that clinging to the status quo is not sustainable. That is why they make innovation an integral part of their cultural DNA. They also set accountability for results with innovation-related metrics at the organisational, process and individual levels. In doing so, these organisations encourage and reward creativity.

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[11] "Why the Mainframe Is Alive and Well in the Era of the Cloud," by Irving Wladawsky-Berger, *The Wall Street Journal*, "CIO Journal," Sept. 16, 2012: blogs.wsj.com/cio/2012/09/16/why-the-mainframe-is-alive-and-well-in-the-era-of-the-cloud.

[12] Ibid.

[13] Ibid.

[14] "What Is the IBM Academic Initiative?" IBM, 2014: http://slidegur.com/doc/1220300/what-is-the-ibm-academic-initiative%3F.

Confident organisations are unwaveringly resilient. Companies that are resilient in the face of change and unexpected crises are generally more successful — and ultimately, more profitable — than their less agile counterparts. To learn what makes a company resilient, researchers from the Cranfield School of Management interviewed executives with risk management responsibilities, as well as chief executives, at several companies in different industries, including AIG, InterContinental Hotels Group, Jaguar Land Rover, Virgin Atlantic and Zurich Insurance. They found that enterprises become more resilient by being more responsive to their customers and the markets they serve. Thus, resilient companies have an embedded culture that encourages employees to be flexible, customer-focused and alert to danger.[15]

Organisational resiliency is the ability and discipline to act decisively on revisions to strategic and business plans in response to changing market realities. Organisations with adaptive processes are supported by a strong decision-making discipline and a commitment to embrace both continuous change and breakthrough change. Such organisations are more likely to respond to sudden incidents rapidly enough to ensure they do not escalate into crises. The qualities underpinning their resiliency also enable them to seize market opportunities and respond to emerging risks as early movers.

Using "what if" scenario planning, stress-testing and other tools, confident organisations visualise different future conditions or events, what their consequences or effects might be, and how the organisation can respond to or benefit from them. They avoid the blind spot of a single view of the future by focusing on identifying the likely direction and order of magnitude of the effects of changes in

the business environment that can impact the enterprise's revenues, costs, profits and market share. They also develop appropriate contingency, exit and response plans to maximise their preparedness.

Summary: What About Overconfidence?

Personal confidence and organisational confidence are like the proverbial chicken and egg: You can't have one without the other. Confident executives build confident organisations. And confident organisations breed confident employees. It's one thing to have a confident CEO, but if the people within the organisation lack confidence, they may not have the creativity and resiliency needed to sustain a winning strategy.

In this and a prior issue of *The Bulletin*,[16] we've articulated a deeper understanding of the requisites of organisational confidence so that leaders can embed them within their culture in ways that can lead to superior performance relative to competitors. Organisations can shape their internal environment and culture to support the execution of their strategies and better cope with change if they study, replicate and apply the attributes of confident organisations. However, in making this assertion, an important question arises: How do leaders distinguish between "very confident" and "overly confident"?

Given the complexity of the business environment, executives need to be careful to avoid overconfidence driven by the successes they have experienced in the past and the quality and coherence of the storyline they've constructed to frame the future they envision. Countering the perilous risk of overconfidence and the "organisational bias" it spawns is the humility

15 "Resilient Companies Succeed," by John Hurrell, *Raconteur*, March 26, 2014, available at http://raconteur.net/business/resilient-companies-succeed.

16 "What It Means to Face Future Uncertainty Confidently," *The Bulletin*, Volume 6, Issue 4, available at www.protiviti.com/US-en/insights/bulletin-vol6-issue4.

to recognise the need for interdependencies and collaboration to achieve success in a rapidly changing environment. Unchecked, overconfidence hinders collaboration.

Overly confident people are prone to failure when they undertake a shortcut or underestimate a task or a competitor. More important, they typically don't address the three fundamental questions posed earlier.

By contrast, highly confident people are able to address these questions extremely well because they have the inner assurance of their creative abilities to cope with change, the humility to recognise the vital importance of remaining fixated on delivering value, and the fortitude and mental toughness to stay the course when things get tough.

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