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Managing Organisational Blind Spots and Disruption

With the pace of change, technological advancement, geopolitical developments and business-model evolution in the marketplace, the topics of organisational blind spots and industry disruption continue to command interest in the boardroom. Recent events hosted by Protiviti offer additional insights on these important topics.

In October, Protiviti hosted two events attended by more than 700 directors and senior-level executives to discuss organisational blind spots and industry disruption.[1] Prior issues of *Board Perspectives* have discussed these matters. Our intention in facilitating the expert panels at these two events was to solicit further commentary on these topics of interest to many directors. Following are 10 key takeaways discussed at these events.

> *Directors need to think broadly and holistically as they engage in strategic conversations regarding the organisation's risks. There should be emphasis on asking, "What would we do if this were to happen?"*

[1] The first event was a breakout session, "Blind Spots in the Boardroom," on October 8, 2024, at the National Association of Corporate Directors (NACD) Summit in Washington, D.C. The second event was a webinar, "Disrupt or Be Disrupted," conducted the following week on October 15.

TEN RECOMMENDATIONS TO MANAGE BLIND SPOTS AND DISRUPTION

1. Adopt an enterprise risk management mindset to identify blind spots.
2. Identify scenarios and gather around the table.
3. Foster more engagement and forward-looking dialogue.
4. Identify potential disruptors.
5. Don't wait to be disrupted.
6. Know where the company is on the disruption continuum.
7. Recognise promptly when the company is being disrupted — or face the consequences.
8. Make the company's crisis management plan world-class.
9. Reduce blind spots by interacting with employees.
10. Pay attention to board culture, skill sets and performance.

Adopt an enterprise risk management (ERM) mindset to identify blind spots. Risks are dynamic and shifting frequently, giving rise to multiple issues simultaneously. A strong focus on ERM emphasises having robust processes for analysing risk in the context of strategic objectives, designing cost-effective mitigation activities and evaluating preparedness for the unexpected. The management team should present its view of the top risks and the mitigation efforts in place to the board periodically. Directors need to think broadly and holistically as they engage in strategic conversations regarding the organisation's risks. There should be emphasis on asking, "What would we do if various scenarios were to happen?"

Identify scenarios and gather around the table. Because blind spots can result in the unexpected, tabletop exercises offer a useful process for playing out various scenarios to evaluate organisational preparedness. Examples of common scenarios cited were:

- Cyberattacks
- Loss of a major customer
- Loss of significant market share to a competitor
- Natural disasters
- Data centre outages
- Product failures
- Regulatory changes
- Pandemic outbreaks
- Social media attacks

At the events, some commenters suggested that not enough companies are looking at scenarios related to reputational issues involving high-profile lawsuits or negative media or to scenarios related to sourcing and retaining critical talent and the effects of changing demographics, declining population growth and generational differences on the workforce pipeline. In addition, changes in customer loyalty and experiences and the effects of innovation programs of major competitors were also mentioned as areas warranting more attention.

Tabletop exercises are useful in getting leaders to brainstorm and think outside of the box in their preparations. They should conclude with a debrief that enables participants to discuss what went well and what didn't so that improvements in the process can be identified and addressed. They can also feed the need for effective intelligence functions to understand what competitors and new market entrants are doing.

Foster more engagement and forward-looking dialogue. Blind spots interest directors because they understand that what they don't know can often be as impactful as what they do know. They also understand that the world is unpredictable. Thus, free-flowing strategic discussions in the boardroom regarding the issues that matter should be used to establish a context for identifying blind spots. For example, boards should keep the focus of their meetings on the three things going well for the company, the three things not going well and the three things with the greatest uncertainty. Directors should offer suggestions on how information can be presented and streamlined to highlight the most useful information in an organised way. Board decks should be condensed and focused so that they are a valued strategic tool rather than an administrative exercise. The boardroom culture and the supporting board materials should foster forward-looking critical thinking.

Identify potential disruptors. For this discussion, we define "disruption" as referring to various situations that could force significant adjustments to a company's strategy, business model, talent pool or supply chain, and in some cases could even disintermediate the firm's position in the value chain. Such situations may be technology-driven when a market player or new entrant creates

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transformative offerings that enable superior customer experience and competitive advantage. They may also result from sudden events (e.g., a pandemic or regional conflict) or long-term developing trends (e.g., shifting demographics).

Interestingly, a high percentage of CEOs express concern that their companies may not remain viable over the next 10 years.[2] Uncertainty may be at the root of this concern. It is inevitable that innovations will reshape every industry, giving rise to questions regarding which new products and services companies are currently developing that will replace the ones that will eventually lose relevance.

Following are examples of disruptive blind spots cited in the discussion during the two events that augment the summary of scenario examples noted earlier:

- The related uncertainties around the responsible deployment of AI strategy and other advanced technologies and the related impacts on business models and customer experiences.
- The potential for supply chain disruption — not just the direct supply chain but also the indirect supply chain comprising those tier 2 and 3 companies further upstream whose raw materials and components are critically vital to the organisation's success.
- Attacks on the electric grid and disruptions to other sources of energy.
- Succession planning, with an emphasis on who can step in immediately. (For example, if something were to happen to a key executive, what is the plan to keep the company running? Are there travel rules regarding which and how many executives can fly together?)
- The effectiveness of secondary and higher education in supplying essential skills to the workforce over the next 10 years.
- The business interruption plan to address a ransomware attack.
- Other events that can impair reputation and brand image.

These matters provide context for boardroom discussions. They suggest a need to identify potential disruptors that could affect the company. To that end, it was noted that Blockbuster's CEO had been approached by the founders of Netflix to invest in streaming. It was a rare situation in which an eventual industry disruptor walked into the CEO's office and presented a timely opportunity to reimagine the company's approach to the market. In turning it down, Blockbuster forgot its value proposition: Offer convenience to the customer. This example illustrates the blinding effects of clinging to a soon-to-be-obsolete business model.

[2] "More CEOs fear their companies won't survive 10 years as AI and climate challenges grow, survey says," by Courtney Bonnell, AP News, January 15, 2024: https://apnews.com/article/davos-ceo-survey-ai-climate-change-economy-cdf526bec5ce12812b5d2704dc054867.

Also, the conversation regarding potential disruptors suggests a need to keep an eye on activists. To that point, conduct a tabletop exercise with investment bankers or other seasoned outsiders and ask them to play the role of an activist and inform management about what the company's weak spots are.

> *Often, the companies disrupted are those that embrace the status quo, are digitally underdeveloped, are too asset-heavy, are complacent in hiding behind moats they believe to be impregnable, are constrained by short-termism, or are content with incrementally improving processes, products and services. And, unfortunately, they may not see what's coming until it is too late.*

Don't wait to be disrupted. Recently, *Fortune* featured Mary Barra, CEO of General Motors Co., on the cover of its magazine with a quote, "We're not going to wait to be disrupted." Barra is leading GM to adapt and transform the company proactively rather than passively waiting to react to the inevitable changes in the industry, particularly in the face of the growing electric vehicle market and continued technological advancements.[3] Her point is clear: No organisation is immune to disruptive forces; therefore, waiting for disruption is incongruent with an organisation's intent to thrive.

During the October events, various steps were suggested for companies to stay ahead of the disruption wave before it crests. The basic suggestions include focusing on customer feedback, continuously analysing market trends, gathering competitor intelligence, investing in innovative products and processes, upskilling the workforce to succeed, embracing digital transformation opportunities, and implementing strong cybersecurity measures. The fine points include adopting agile practices, entering into strategic partnerships, diversifying revenue streams, maintaining liquidity and adopting sustainable practices. Directors should insist that these and other appropriate proactive measures be considered during the strategy-setting process to better manage the risk of disruption.

Know where the company is on the disruption continuum. Often, the companies disrupted are those that embrace the status quo, are digitally underdeveloped, are too asset-heavy, are complacent in hiding behind moats they believe to be impregnable, are constrained by short-

[3] "GM CEO Mary Barra has spent a decade determined not to be disrupted. How she's transforming the auto giant for the EV future," by Michal Lev-Ram, *Fortune*, October 2, 2024: https://fortune.com/2024/10/02/gm-ceo-mary-barra-cruise-electric-vehicles/.

termism, or are content with incrementally improving processes, products and services. And, unfortunately, they may not see what's coming until it is too late. As the late academic and business consultant Clayton Christensen indicated, disruption is more about anticipating customers' unstated or future needs than meeting their current needs.[4]

Thus, the phrase "disrupt or be disrupted" is an implicit call for businesses to become more proactive and agile. It is a question of where a company chooses to position itself on the disruption continuum. Is the company:

- A *disruptive leader* that transforms the industry or even creates an entirely new industry (e.g., Amazon, Netflix)?
- A *disruptive aspirant*, meaning it aspires to become a leader but isn't there yet? (This may include startups.)
- An *agile follower* that can quickly pivot and stay in the game and even make first-mover offerings far better (e.g., Apple)?
- A *reactive follower* (i.e., slow to respond)?
- A *skeptical laggard* that clings to the status quo (e.g., Blockbuster)?

For the board, a company's positioning on this continuum is indicative of its commitment to: adapting to evolving customer preferences, employee expectations and competitor actions; making data-informed decisions at market speed; and continuously innovating to create value for their customers in new ways.

In today's digital world, companies must be either proactive in shaping their future as well as the future of their industry or agile enough to qualify as an *early mover* in the marketplace. Alternatively, they cede this opportunity to their competitors.

Recognise promptly when the company is being disrupted — or face the consequences. In the October webinar, we asked two questions: *How would you know you are being disrupted, and when would you know it?* To the first question, the top three responses from over 400 directors and C-level executives were:

- Monitor emerging disruptive trends or technologies (33%).
- Monitor industry fundamentals and competitor actions (32%).
- Monitor significant revenue decline and losses of major customers (10%).

[4] *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, by Clayton M. Christensen, Harvard Business Review Press, 1997.

To the second question, the top three responses were:

- In time to pivot with necessary adjustments (28%).
- When strategic assumptions are no longer valid (26%).
- When our core market offerings are no longer relevant (17%).

These two questions are highly relevant in the boardroom.

Many board members serve on multiple boards, giving them a broader perspective as they look across more than one company. In addition, board members can minimise their blind spots by interacting with managers and employees at levels below the C-suite — particularly those who are market-facing.

Make the company's crisis management plan world-class. The existence of blind spots suggests it is impossible to anticipate every possible disruption. Therefore, any discussion of blind spots and disruption must acknowledge the need for a world-class crisis management plan that ensures clear, transparent and timely communication during a crisis to maintain stakeholder trust.

The plan should outline scenarios that may potentially lead to crises and detail specific actions, communication strategies, and roles and responsibilities of crisis management team members for each scenario. There should be designated spokespeople who interact with the media and other external parties promptly following a crisis event, followed by frequent updates to reduce speculation and misinformation.

The plan should be updated and tested with periodic walk-throughs. ("Here's a crisis. Go!") Also, a postmortem should be conducted following a crisis. For directors, the important question is "When does the board engage?"

Reduce blind spots by interacting with employees. Many board members serve on multiple boards, giving them a broader perspective as they look across more than one company. In addition, board members can minimise their blind spots by interacting with managers and employees at levels below the C-suite — particularly those who are market-facing. To that end, they should take advantage of opportunities to meet people outside of the boardroom (e.g., at a reception before the board's dinner with all the company's officers) and use their EQ (emotional quotient) to pick up on colour commentary regarding organisational culture issues and the company's strengths and weaknesses.

Board members should not hesitate to ask management to meet with them outside of board meetings if there is anything they do not understand. For example, 30 minutes outside of formal meetings one-on-one with the chief information officer, chief technology officer or another executive to discuss complex matters offline can not only be effective but will also help them avoid disrupting the flow of meetings.

Pay attention to board culture, skill sets and performance. In today's digital world, the big question is whether the board's composition (its skills, and diversity of experience and thought) and culture (its personalities, soft skills, trust, commitment to lifelong learning, and capacity for open dialogue and asking the tough questions) is a fit with the company's needs looking forward three, five and 10 years from the present.

To that end, is there a board, committee and director evaluation process, and if so, are there means of removing someone who isn't meeting the needs of both the board and the company? Is there education on developments in the industry and relevant technologies? Are executive sessions deployed to examine, as a board, what it is that its members don't know or understand as a prelude for planning further interactions with management?

The point was also made that when evaluating uncertainties and judgmental issues, board minutes should focus on decisions made and conclusions reached rather than covering everything board members say.

The above discussion is neither the first nor the last on blind spots and disruption. The challenges of this complex and unpredictable world place a premium on agility and resilience. For that reason, board members would be wise to continue to highlight these matters in the boardroom for a long time to come.

How Protiviti Can Help

Protiviti assists boards and executive management with assessing enterprise risks and the organisation's capabilities for managing those risks. We help companies identify and prioritise their risks, including emerging and disruptive risks that can impair their reputation, brand image and enterprise value. We assist companies with integrating their risk assessment process with their core business processes, including strategy-setting, business planning and performance management. We also help organisations improve their risk reporting to better inform the board's risk oversight process.

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