Fixing System Risks

The Two Keys to Success!

Written by

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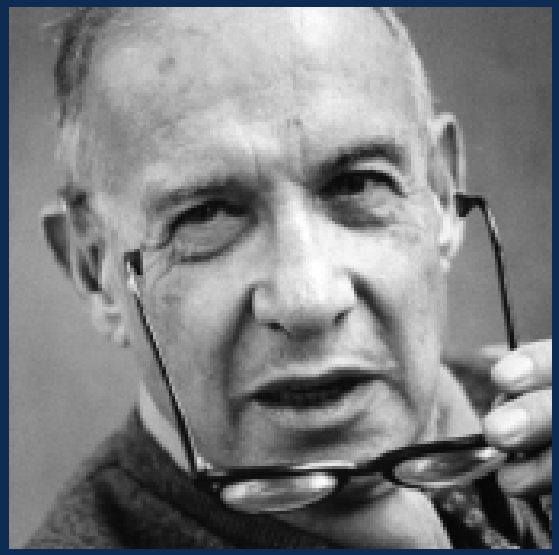
THE KNOWLEDGE INSTITUTE

About the Author

Don Minges, MBA, is a fractional CFO based in Charlotte, NC. His expertise is in profitability enhancement, mergers & acquisitions, strategic planning, venture capital, turnarounds and financial analysis. He has experience raising equity for several organizations and has invested equity capital into promising businesses. Don graduated with highest honors from the Fuqua School of Business at Duke University.

”The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday’s logic.”

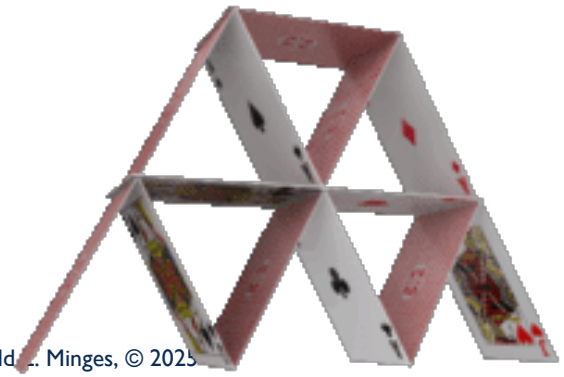


- Peter Drucker

(1909 – 2005)

Today's Topics

- ✓ The two mistakes we all make?
- ✓ Why we un**intentionally** make flawed, weak systems?
- ✓ Why we do not build in what is really needed - from the start?



Case #1

Discussion

Think about some of the professional mistakes, errors, miscalculations or failures you have experienced.

a) In your opinion, what were the root causes?

b) What were the commonalities?

Some System Failures Are ____

Some System Failures Are ____

You Decide

Why are Accounting and Finance Leaders Skilled at Analyzing Broken Systems?

1) Want to improve 
2) Want to learn 
3) Hate waste 
4) Don't point fingers 

Polling Question #1

Prefect Systems?

In your experience, how many systems have been or are perfect?

Two Types of Systems

a) **Open** loop system;
incorporates feedback, learns,
evolves, changes and improves.

b) **Closed** loop system;
does **not** incorporate feedback,
"My way or the highway."

Open Systems

Production problem?

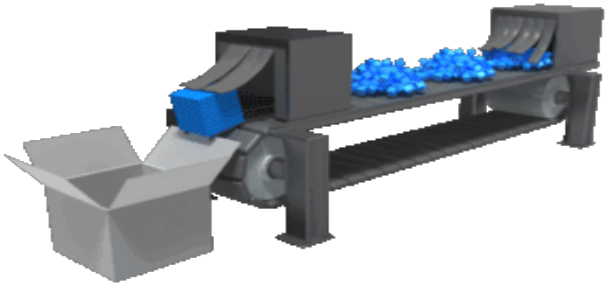
called in mathematicians,

called in several specialist groups,

called in biologists who

used the scientific method,

449 trials, before success.



You Decide

- ✓ Evolution,
- ✓ Natural selection in business,
- ✓ 'Trial and error',
- ✓ Crowdfunding and
- ✓ Successful entrepreneurs.
- ➡ **Experience is an effective teacher.**

Bottom up!

Closed Systems

Example:

Other examples?

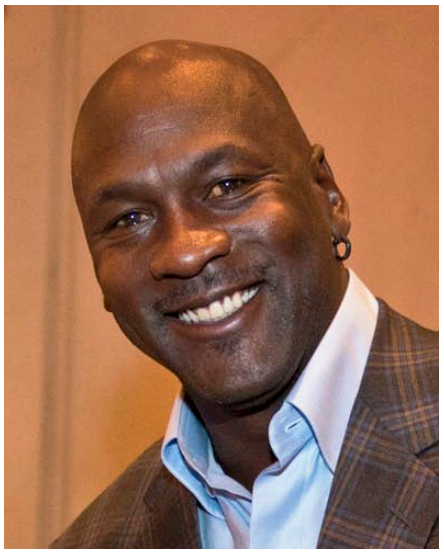
Do Not Change?

sears

xerox

Polaroid

Oldsmobile



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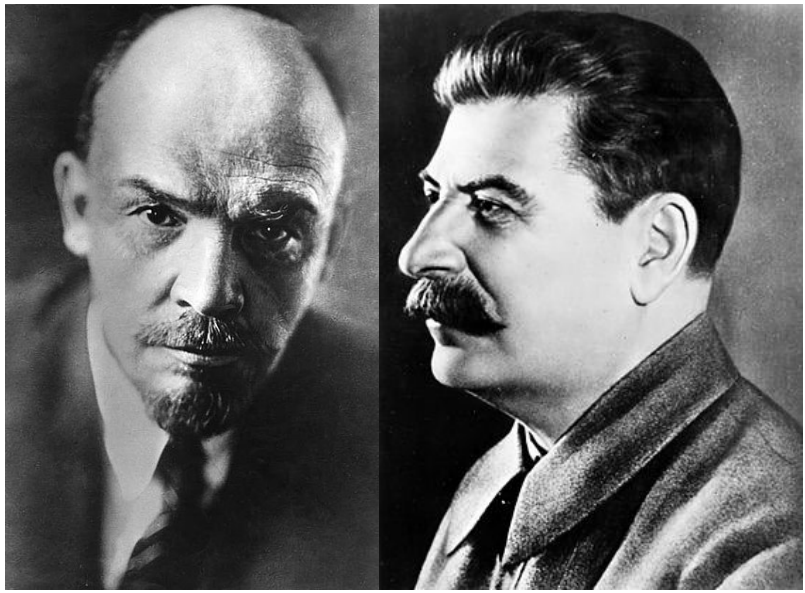
Communism 1917-1991

Lenin to Stalin, …
to Gorbachev



Why did it fail?

Closed loop systems eventually fail

Recap

- ✓ Open systems
  - Learn
  - Grow
  - Flexibility
  - Accept change
  - Adapt
  - Survive
  - Resilient

Case #2

Group Discussion

When we design a system? (For example, selecting a new G/L system.)

a) Who gives us direction?

b) What do our customer(s) want?

c) Do we debate and discuss with our customer(s)? Why, or why not?

d) Any constraints, limits, rules?

e) Do we know what is 'success'?

How Do We Design Systems?

The four goals;

1) 

2) 

3) 

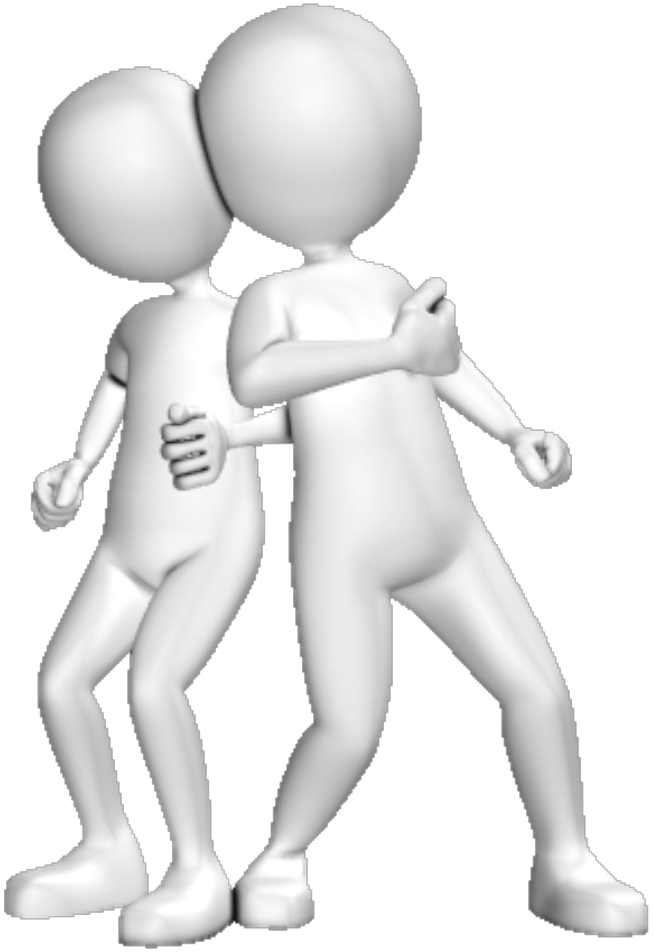
Realistic?

- ? Fast,
- ? Cheap and
- ? Perfect?

Recipe for Failure?

- ? Fast,
- ? Cheap and
- ? Perfect!

Takeaway



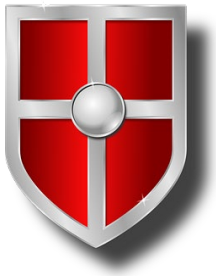
Case #3 (Optional)

Our Plan?

a) **Why** don't we tell the leader that the plan or expectation(s) is/are unreasonable?

b) **How** do we tell the leader, or CEO, that the plan or expectation(s) is/are unreasonable?

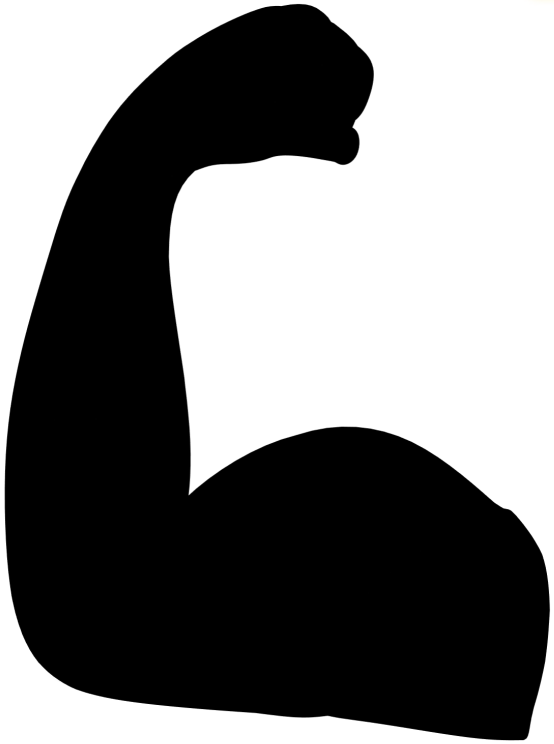
Fast and Cheap?

- SOP
  - Normal and customary
- Meet the specifications
  - Bare minimum
  - "Enough"
- Saves  and 
- Provides safety for us 

Mistake #1a - Expectations

a) Too optimistic on **robustness**;

- Requirements,
- Assumptions,
- Reliability,
- Timing, and
- Resources.



Mistake #1a - Examples

Mistake #1a - Examples

Mistake #1a - Example

August 9, 2013

Polling Question #2

The Internet is Down!

What would your firm do when the internet goes down for two weeks?

a) Pray
b) Start using 32 column ledger paper
c) Sue someone
d) Resign
e) Other

The Fix

Consider:

- The **cost** when the system does not perform as expected?
- What happens **when** the system fails?
  - Pecuniary
  - Reputational
  - Emotional
  - Resources
  - Ripple effects?

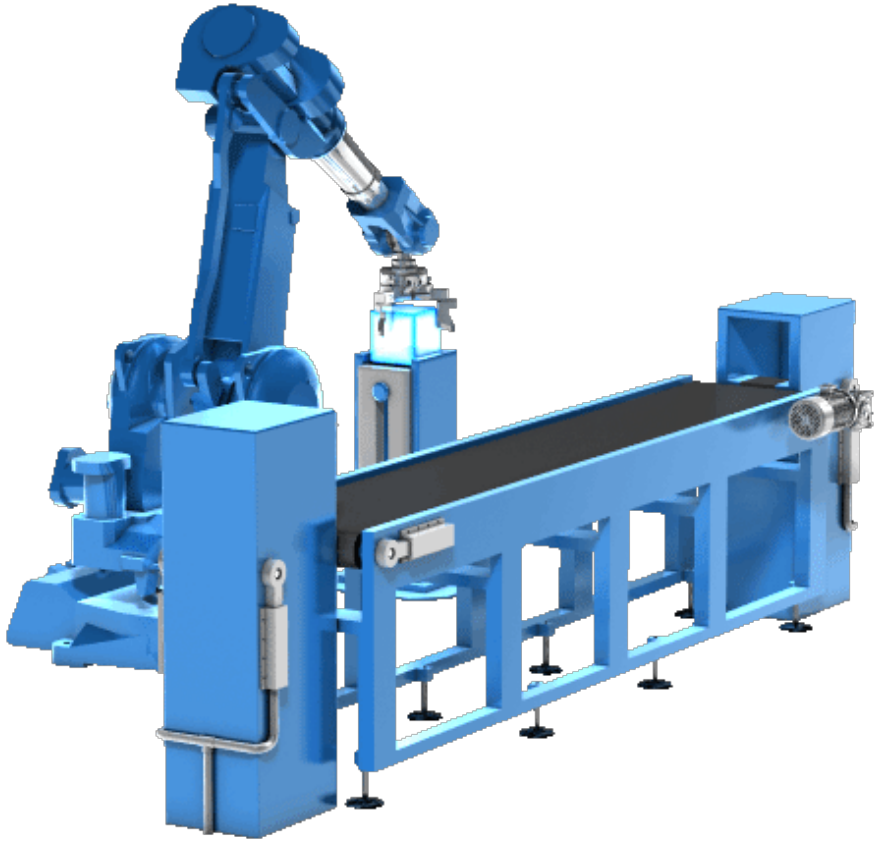
The Fix

- ✓ Do not *assume*!
- ✓ Search for potential 'issues' now.
- ✓ Longer timeframe.
- ✓ Pre-mortems.

The Fix

- ✓ Build in

The Choice?



The Choice?

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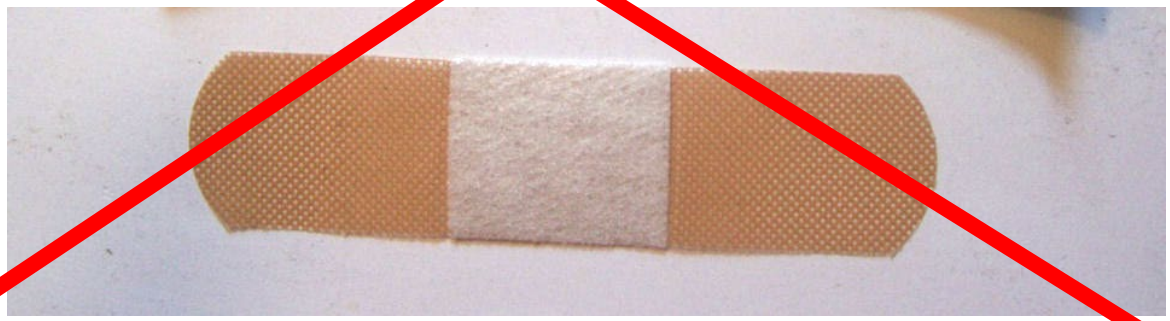
BRAND ADHESIVE BANDAGES



The Choice?

The Choice?

The Choice?

Mistake #1b - Expectations

b) Overly **pessimistic** on;

- Requirements,
- Assumptions,
- Reliability,
- Timing,
- Resources.

Fear of Failure

Mistake #1b - Examples

Snap-on

Mistake #1b - Examples

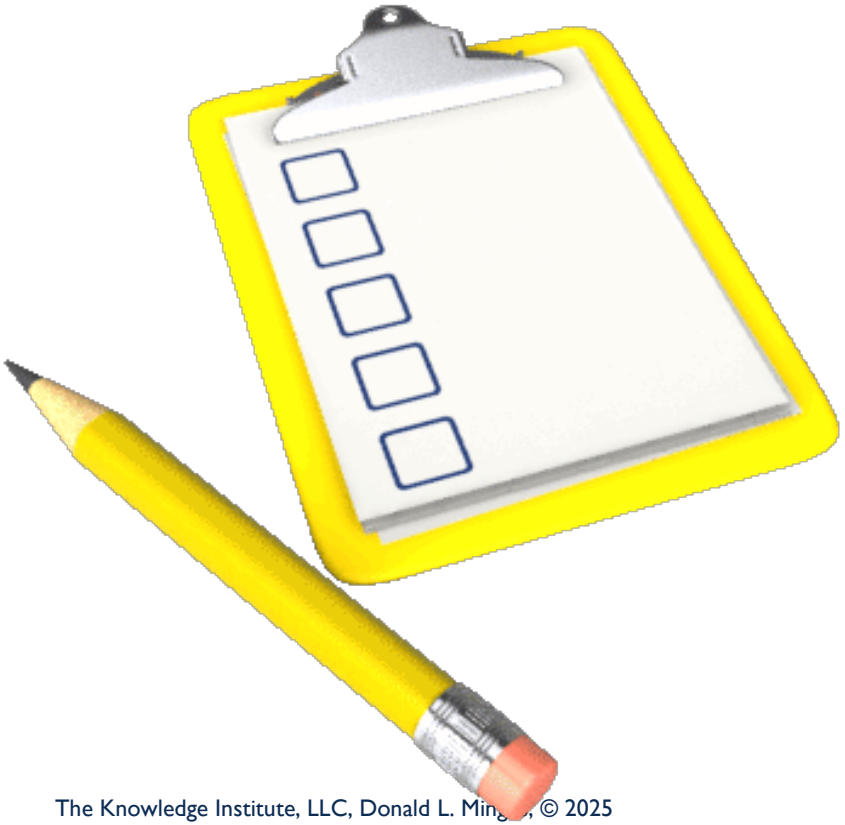
Mistake #1b - Example Outcome

The forecast becomes;

Extraordinarily complicated and elaborate with; 3,041 variables, 134,543 G/L accounts, Three ERP systems, staff of ten (Masters degree required), separate computer systems, etc.

The Fix For Mistakes 1a &1b

✓ Better



The Fix For Mistakes 1a &1b is Better Planning

Navy SEALs Preparation

- 20% Planning
- 75% "What could go wrong?"
- 5% Action

100%

US Navy SEAL Trident

Better Planning & Analysis Provides

- ✓ Understanding
- ✓
- ✓

1b Mistakes Are Expensive!

- Over-engineering
  - Medical costs
  - Diminishing returns
    - Cost of 97.5% vs. 99.1%
    - The ‘last mile’ for fiber
  - Perfection?

Polling Question #3

Does Your Firm Offer Some Products/Services That are 'Over-engineered'?

a) Yes
b) No
c) Possibly
d) I don't know

Mistake #2 - Friction

- n/a
- Where and how?
  - Eliminate or reduce
- Tyranny of the status quo
- Who 'wins' and who 'loses'?
- NIMBY
- Politics
- 

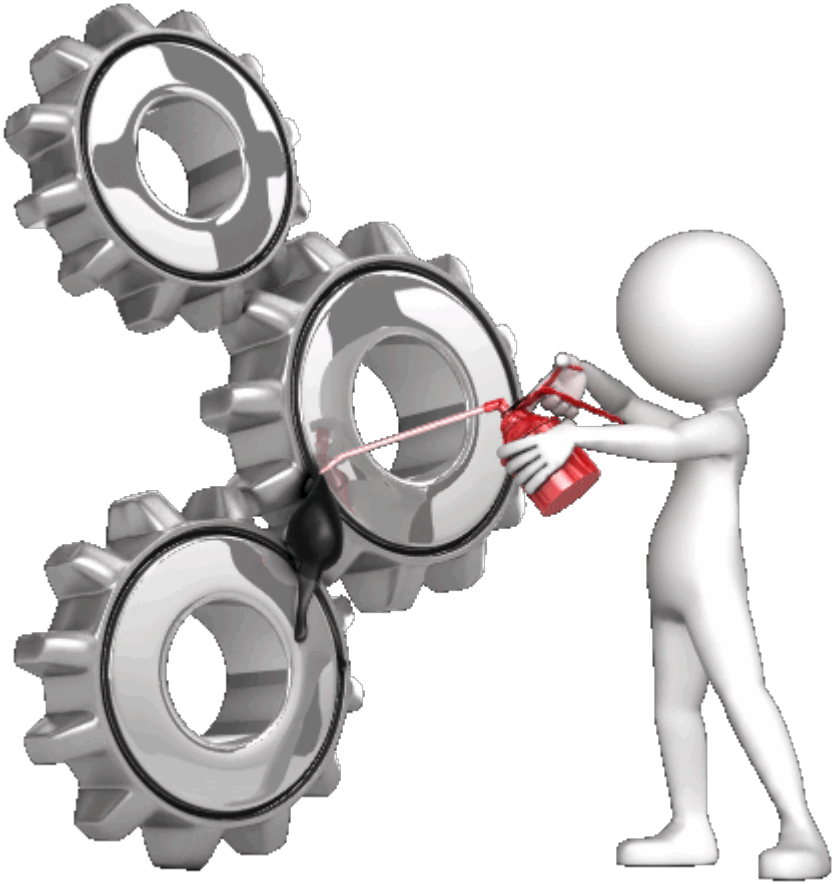
Mistake #2 - Friction

Results in

- Over-engineering,
- More complexity,
- Unnecessary costs,
- Additional time,
- Redundant redundancies,
- Seeking perfection.

The Fix

- ✓ Reduce



The Fix

- ✓ Proper assessment
- ✓ Proper resources

- ✓

Reduce Friction By

- ✓ Make it new
- ✓ Incentives
  - Proper and effective
  - Remove disincentives
- ✓ Communicate rationale
- ✓ Remove obstacles

Another System Risk?

- "We'll get to that later."
- "We'll fix it next time."
- "Schedule that for the next update."

Polling Question #4

"We Will Get to That Later"

How many times have you heard this statement?

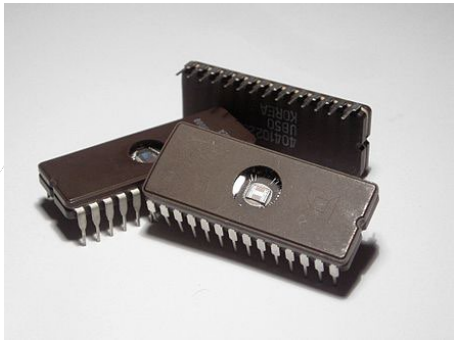
a) Never
b) Less than five times
c) Five to ten times
d) Eleven to nineteen times
e) Too often

Two Keys to Fix System Risk

1) Better estimates
   a) Too optimistic on strengths
   b) Too pessimistic on weaknesses

2) Prepare for friction
   a) Not ignore!
   b) Do not plan for ___
   c) Misunderstand
   d) Underestimate
   e)

Supply Chain?

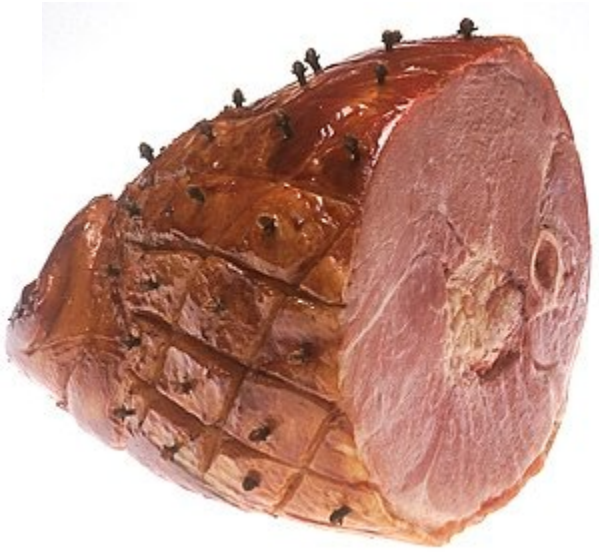


Supply Chain

- 115 days
- Twelve
- Twice
- Six months - 2 to 280

Supply Chain

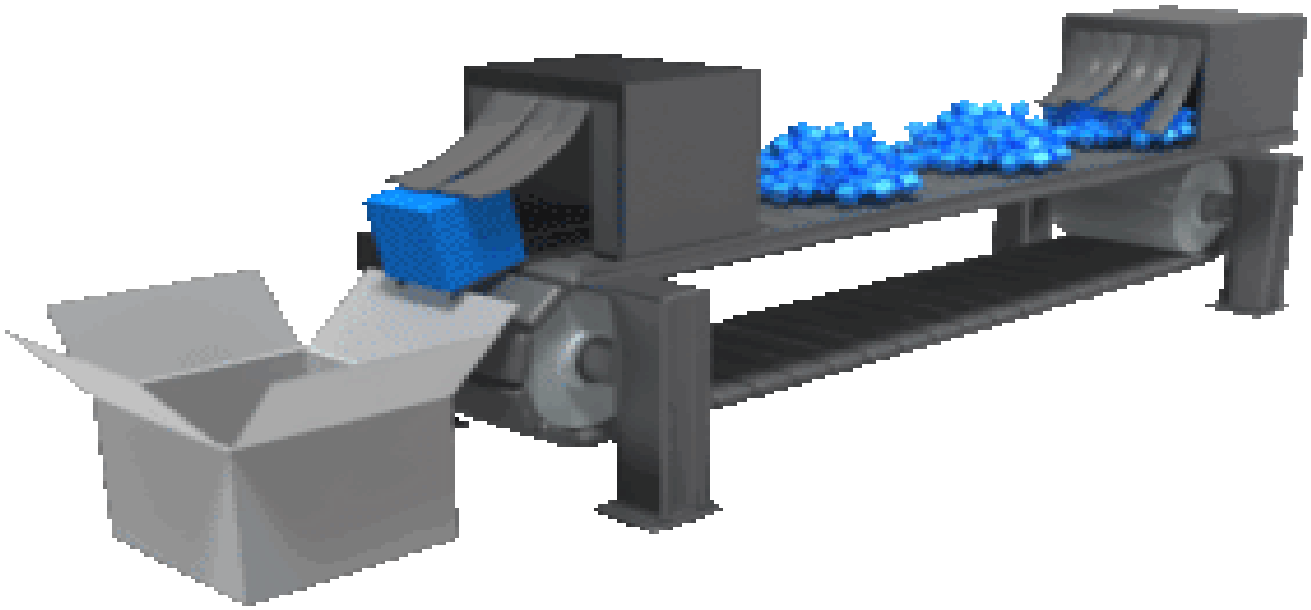
- 280 lbs. = ready
- Logistics; timing, transportation, etc.
- Production line



Supply Chain

Optimized for;

- Weight, size, length,
- Delivery schedules,
- JIT.



Supply Chain

- Chasing

Supply Chain – May 2021

The Fix

- ✓ Demand will be 235,524.3454 on ___!
  - Variability?
  - Scenarios?
- ✓ Talk to suppliers and customers
  - Repercussions!
- ✓ Flexibility!
- ✓ Backup systems
  - Plan B, C, D?

Supply Chain?

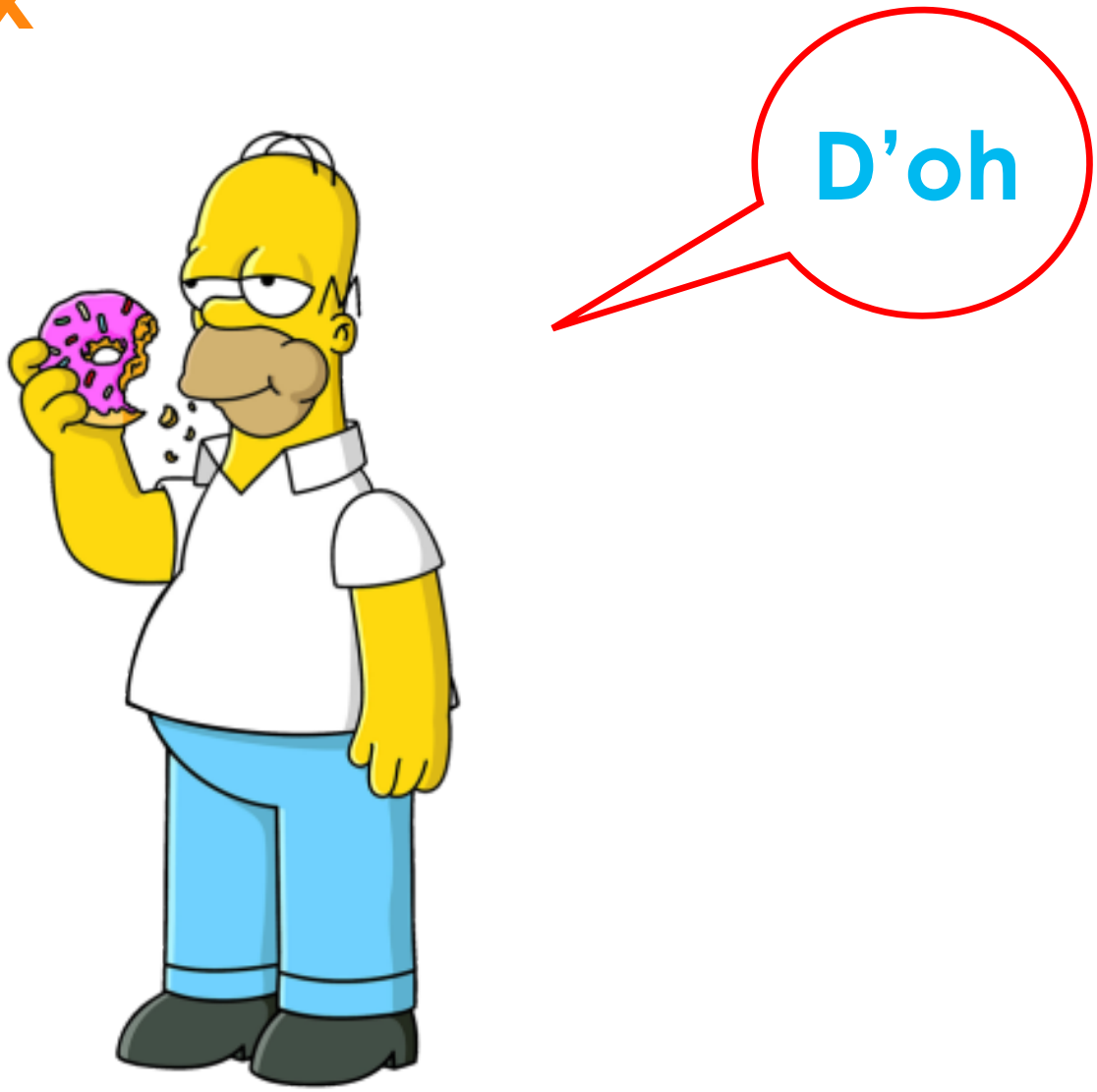
Case #4 (Optional)

One Supplier?

a) Why should we have one supplier? Pros?

b) Why should we have more than one supplier? Pros?

The Fix



Is There Friction in Our World?

Some Major Stressors (Since 2000)

- 9/11 (2001)
- SARS (2002-4)
- Iraq War (2003)
- Great Recession (2007-9)
- Swine Flu (2009)
- Arab Spring (2010)
- Japanese Tsunami, Syrian Civil War (2011)
- Shootings in Sandy Hook, NJ & Aurora, CO (2012)
- Ebola Epidemic (2013-16)
- Hurricane Harvey (2017)
- Coronavirus (2020) **etc…..**

Practical Solutions

- ✓ Training
- ✓ Communicate rationale
- ✓ Remove obstacles
- ✓ Planning to gauge the right choice
  - Requires time
- ✓ Address friction

Solutions

1) Proper training

Polling Question #5

Adequate Training?

Does your department have all the training that they need?

a) Yes
b) Somewhat
c) No
d) I don't know

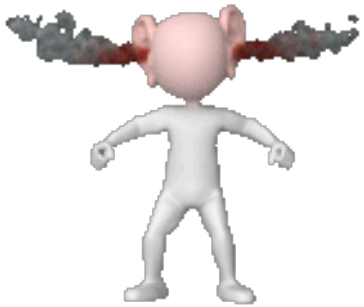
Solutions

2) Communicate

- Teach, share
-

Solutions

2) Communicate (cont.)

-
- 


- Make a sound business case

Solutions

3) Remove obstacles

- New, effective incentive plans
  - Positive and negative
  - Financial and psychic
- Provide proper tools
- Politics
- Personalities

- Process - not an event

Solutions

4) Plan properly!

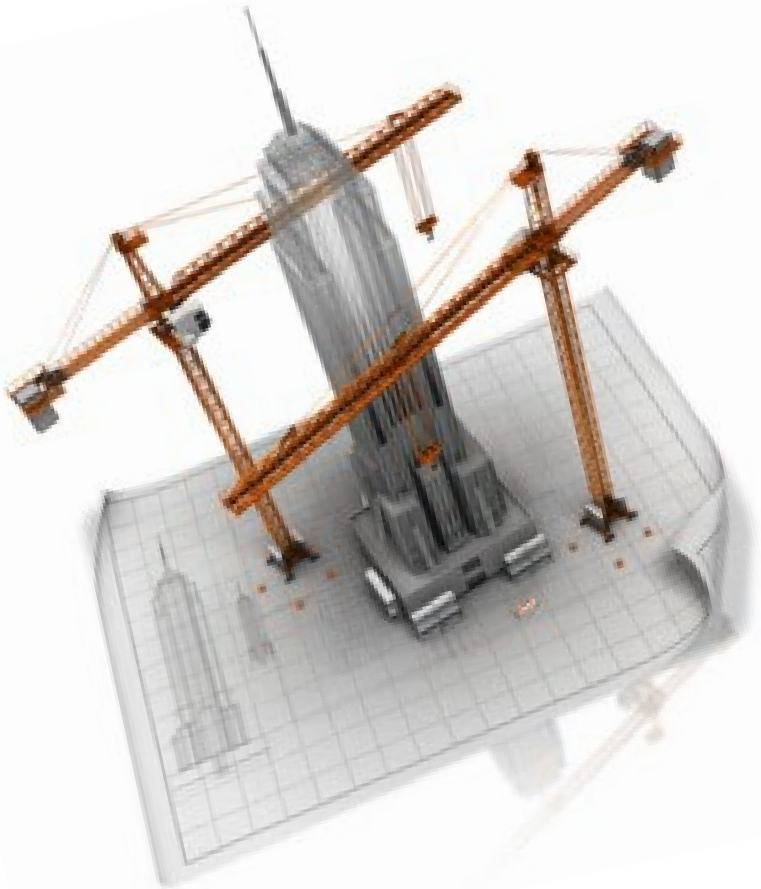
- Navy SEALS
  - 20% Planning
  - 75% "What could go wrong?"
  - 5% Action
- Ready, ready, ready, ready, ..., aim, ...
- 
- Ask, "What happened last time?"

Solutions

5) Deal with friction!

- Understand adversaries
  - Who, where, how?
- Remove obstacles
  - Physical
  - Provide tools
  - Cleaning
- Politics
  - Leadership
- Pre-mortems

Inadequate Estimates



The Future?

- ✓ How did we react to the Great Recession?
- ✓ How did we react to the Coronavirus pandemic?
- ✓ **Why** do we assume the past is an indication of the future?

Why do we refuse to change?

The Fix

Consider:

- "What would the **cost** be - if the system does not work as expected?"
- "What happens **when** the system fails?"
  - Pecuniary
  - Reputational
  - Emotional
  - Customers
  - Reliability
  - Timing, resources and ripple effects?

Risk Problem?

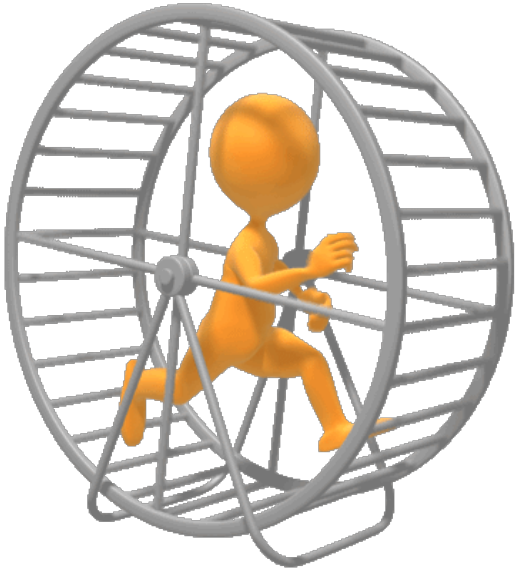
Is risk the real problem?

Or is it that we lack the data?

Systems

Complexity

- Response to change?
- Reduces focus and clarity
  - Devours resources
    - Missed opportunities



- Much harder to manage

Consider

- Repeat the same mistakes?
- Stop doing things that will not be part of the future

- A cycle?

Polling Question #6

A 'Stop Doing' List?

Do you believe that a 'Stop doing' list will be effective for you?

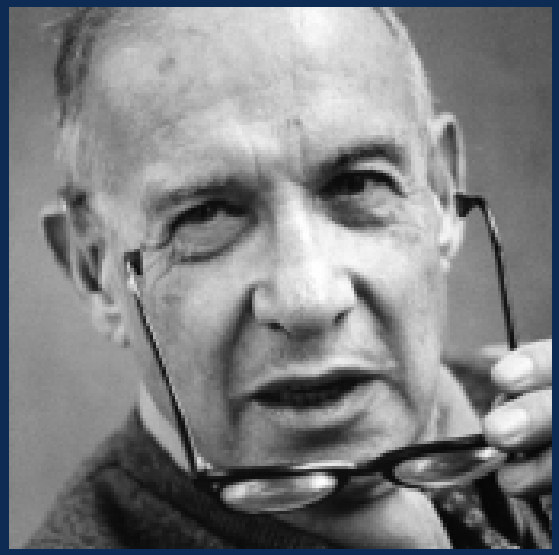
a) Yes
b) Possibly
c) No
d) I don't know

Hope Is **NOT** a Plan!

Summary

- Plan!
- Fully grasp the requirements
- What is the better fitting solution and the best solution?
- Estimates not too pessimistic, not too optimistic
- Plan for changes in scope
  - Adaptable
  - Flexible
- Prepare for friction
- SEALs = 95% planning and 5% action

”The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday’s logic.”



- Peter Drucker

(1909 – 2005)

Thank You!

Please share your thoughts and comments.

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