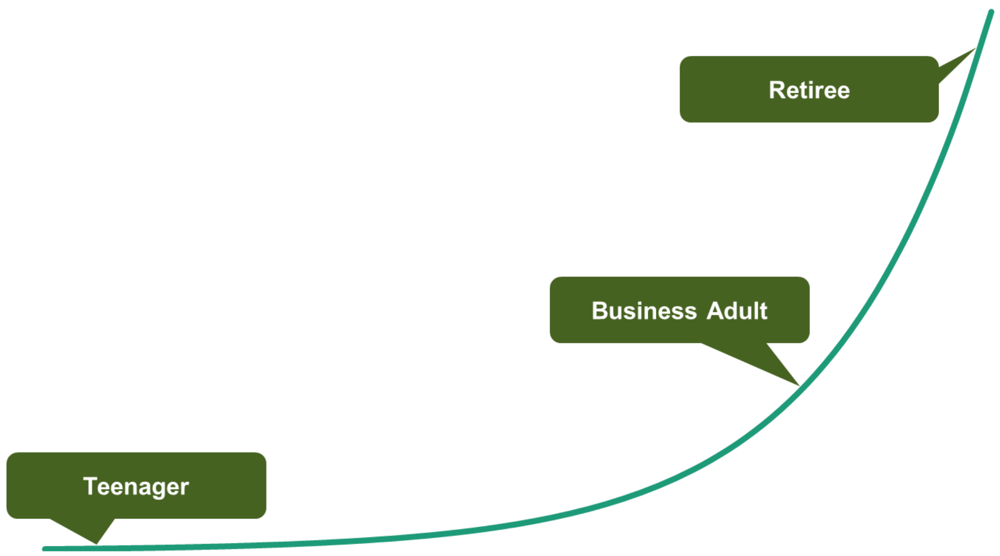
Uncertainties are a fact of life, and despite the current belief that the world is changing faster than ever before – both of these observations have been true for hundreds of years. Looking back at history, this may seem as stable and predictable. Compared to the current turmoil – it probably also was stable and predictable. The saying goes that in 1899 it was suggested to close the US patent office as *"everything that can be invented has been invented"*. Whereas the origin of this statement is being highly disputed, it was certainly wrong.

I am certain that 20 years from now, people will look back at the 2010's as being stable and predictable – and none of us have the imagination to describe the scope/concept and speed of change 50 years from now.



This curve shows a 10% annual growth or development on some or another parameter.

As a teenager, you are at the bottom of the curve, and find it hard to imagine the world could have changed any slower than it is today. You also foresee, that for the next several years, nothing much is likely to happen.

As a business adult, you find that the world is indeed moving fast. You remember the more stable period in your youth, and look into the future with some discomfort as you intellectually know development will not slow down.

As a retiree, you are at the end of the curve, and look back at your days as youth and business adult. Today you can no longer grasp the sped of change and find it hard to contemplate that it can move any faster. Yet – your grandson is 17, and stands at the bottom of the exact same curve. It is all about perception and frame of reference.

With this as undisputed facts of life, business leaders cannot just sit back and "give up", but must show their value in driving organizations into using and utilizing the volatility and turmoil as a strategic leverage and base for growth.

Many Business School students are taught from day one, *that "there is no such thing as the perfect market"* where all decisions are 100% rational and based on information everyone has.

The term is used to simplify business theory to enable the students to understand these prior to subjecting them to the imperfection of real life business.

In fact, whenever a business leader finds himself in a market that is becoming increasingly stable and predictable, the good ones start "rocking the boat" by launching new products, new services, new ways to market or some other disruptions that enables customers/consumers to distinguish the active company from its duller competitors. Some leaders talk about "mature markets", where one business leader stated *"there is no such things as mature markets, there are only tired marketers"*.

Some history of disruption

When talking about disruptions at this day and age, one tends to look at how Airbnb challenges the hotel industry, how Uber challenges the taxi industry, how iTunes changed the music industry etc. However, disruptions have always existed. Just a few examples:

- 2000 years ago, the Romans introduced bureaucracy to be able to manage their vast territory spanning from England in the North West to Egypt in the South East
- In the 15th century Gutenberg invented the printing and changed peoples access to the written word – initially the Bible, later other documents
- In the early 20th century, Ford established the assembly line and changed the newly established industrialization
- IKEA changed the furniture industry by making "customer assembled" furniture and selling these through large "warehouse & showcase" buildings outside of town
- Computers have, in multiple ways changed everything. I am currently writing on a laptop which has spelling and grammar controls etc. It has the computer power far exceeding what was used to travel to the Moon in 1967. I wrote my M. Sc. thesis on a typewriter, just a few decades ago
- Smartphones and the plethora of apps these can run, are changing the way things are done, from search for a restaurant or address to booking of flights and payment of bills – and you can still use them for phone-calls, although this is an ever decreasing share of usage
- Social networks connect people across the world at unprecedented speed and efficiency, leading to the tumbling of governments cf. the Arab spring

Yes – then lately, Apple changed the music industry by introducing iTunes and the iPod. Incidentally, it was never the target to change the music industry, but just to take the concept of a Walkman to the next technological level and providing more choice and eliminate the impact of "moving around" whilst listening to music. As is, it took the music industry the best part of 15 years to get "back on track" and prosper in a world of downloads and streaming.

Airbnb and Uber are business systems based on the economy of sharing, where ownership is not needed to have access. This is not new, but also applied in a more traditional shape and form in leasing. It is now predicted that this element of sharing will lead to crowd-funding and hence eliminate the need for banks to fund initiatives. Again – business crowd-funding is not really new, today it is called the stock-market. Yet – an app-based public and easy approach to crowd-funding will severely affect the financial industry.

Klaus Schwab's *"The 4th Industrial Revolution"* gives several valid and thought-provoking avenues as to where and how the world will change based on the increased speed of computing and information handling. No-one will be unaffected. Despite predictions that executive positions being amongst least subject to automation, Jack Ma, the founder of Alibaba, has recently suggested that 20 years from now, the best CEO is a robot. Further, surgery is predicted as less likely to be automated, yet Johns Hopkins university is demonstrating the potential of robot-based surgery as more precise and effective than human surgery.

There is no *"stop the world, I want to get off"* – there is only – *"how can I or my organisation prosper in this future?"*. The issue is further exacerbated by the fact that politicians are almost doomed to be "behind" and hence developments materialise, for which legislation and governance structures are clearly inadequate or in some cases non-existing.

Dealing with the uncertainty

Dealing with uncertainty comes in stages. Most organisations have an operational risk management, whether or not they see this as merely planning or actually recognize this as an element of risk management. Companies with dealings in multiple currencies, have currency rates as a risk and address this systematically. Most companies have taken out insurances for a number of incidents and calamities that may hamper the company. Not just fire and natural disaster, but also fraud, cyber, director/officer liabilities, and a wide range of other insurance policies. All of this is considered basic standard in most companies, who "just do it".

Many, and an ever-growing share of companies are adding Enterprise Risk Management as a separate entity, where a holistic approach to managing risks is taken and the Board of Directors is provided with a reporting on the overall exposure of the company. This step involves consolidating the portfolio of risks from across the organization – and also involves externally induced risks such as changes in legislation, competitive landscape, technology etc.

Some, even many, companies have added Strategic Risk Management to ensure that risks pertaining to or emerging from their strategic aspirations and choice of strategies as well as the deployment of these are being identified and addressed. This to ensure that if the company strategy is to enter a new market, then the approach to this and the investments deployed are carefully risk managed to limit the risk of wasting resources.

All of the above is, on the other hand, focused on risks and the notion of "what do we do to reduce the risk exposure we have". This is prudent and careful company management, which you are expected to deliver on.

Dealing with the uncertainties is based on knowing the risks you are facing, and prudently and explicitly handling this through reduction of likelihood and/or impact of the risk, should it materialize.

Uncertainty as strategic advantage

The above is prudent, even cautious business management. This may ensure that you do not fail, but it will not directly help you to win. As stated by one Chief Risk Officer *"We make money by taking risks, and we lose money, when we do not manage the risks, we are taking"*.

Supported by the risk management tools and processes, the organization must have the boldness to take chances in order to prosper. 30 years ago, the notion was "Dominate or Die", i.e. if you were not among those dominating your industry – bail out, because you will be succumbed to live by the rules of those who do. Today, in a more volatile world with new technologies and options at hand, size is "nice", but no longer pivotal. Today it is more "disrupt or die". If you are not willing to change the game rules of the industry you are in, you will be forced to live by the rules made by other organizations, who do change the rules of the game, cf. IKEA, iTunes, Airbnb, Uber etc.

To successfully do that, you need to be certain you can handle uncertainties prior to adding these to the industry. Hence, your traditional risk management, including the strategic and enterprise risk management systems and tools must be in place. Otherwise, it will be dangerous to start introducing risks to the business system.

Then – on top of this, you start utilizing the risk management processes you have to identify how much more risk, you can take – and define, where and how to do this to optimize your benefit relative to the competition.

Now, a new set of questions comes to play, e.g.:

- What is the core money making logic in our business system … and what would it take to change this to something, where we are/can be more competitive?
- What is the key strength of our key competitors … and how can we change the dynamics of the industry to render these obsolete
- What are potential synergies to our industry … and how can we leverage these ourselves or in partnerships with other players
- What is our core capability … and how can be leverage that in another industry
- How, beyond our current products/services, can we deliver the value our customers want
- Which options would we have, if each of our products had its own IP address and hence gave us a direct link to each and every consumer of our products

As stated in the principles behind the 4th industrial revolution, we need to look at systems rather than technologies, and value rather than products.

The role of the risk manager becomes one of a strategic partner enabling, and perhaps even inspiring/pushing top management to know and operate within, but close to, the risk tolerance or risk capacity of the organization – and hence drive executives to take more risks rather than working to limit risk exposure. Similarly, the role of the CFO changes from the former role of protecting the bottom line, to be that of the "smart investor" focusing on where to go to increase the top and bottom line of the organization.

Such changes in roles requires boldness and a change of mindset – not an easy task, but a journey to embark on for most organizations. However, the sooner you start, the better off you will be relative to your competition.

According to legend, Napoleon was in the early 19th century told that one problem of invading Russia was, that the army had to march through Europe, when the sun was blazing during summer. He suggested to plant trees to create a shadow for the soldiers. When informed by his generals that it would take decades for such alleys to be worth anything, Napoleon is stated to respond "*well, then we better get started right away, don't we?".* The legend may very well be false, but the point made is perfectly valid.

In the rapidly changing world we experience today – and the even more volatile future of the coming decades, there is zero benefit in waiting. To prosper, we have to take ever larger risks, and to be successful, we have to ever more diligently manage the risks, we are taking.

Good luck

Hans Læssøe

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