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Are you heading for trouble?

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"Major intelligence failures are usually caused by failures of analysis, not failures of collection. Relevant information is discounted, misinterpreted, ignored, rejected or overlooked because it fails to fit a prevailing mental model or mind-set". This is the conclusion in R. J. Heuer's book "Psychology of Intelligence Analysis", published by the **Central Intelligence Agency (CIA)**, where he reviews major cases of intelligence failures, including the attack on **Pearl Harbour** in 1941.

While faulty judgments can lead to disastrous results, intelligence failures do not only apply in the intelligence and military domains, but also in business. **Warren Buffett** wrote in his 2001 annual letter to the shareholders of Berkshire Hathaway Inc. the following statement in relation to having actually predicted a Sept. 11 type catastrophe, but failing to convert thought into action: "I violated the **Noah rule**: **Predicting rain doesn't count; building arks does**. I consequently let Berkshire operate with a dangerous level of risk…"

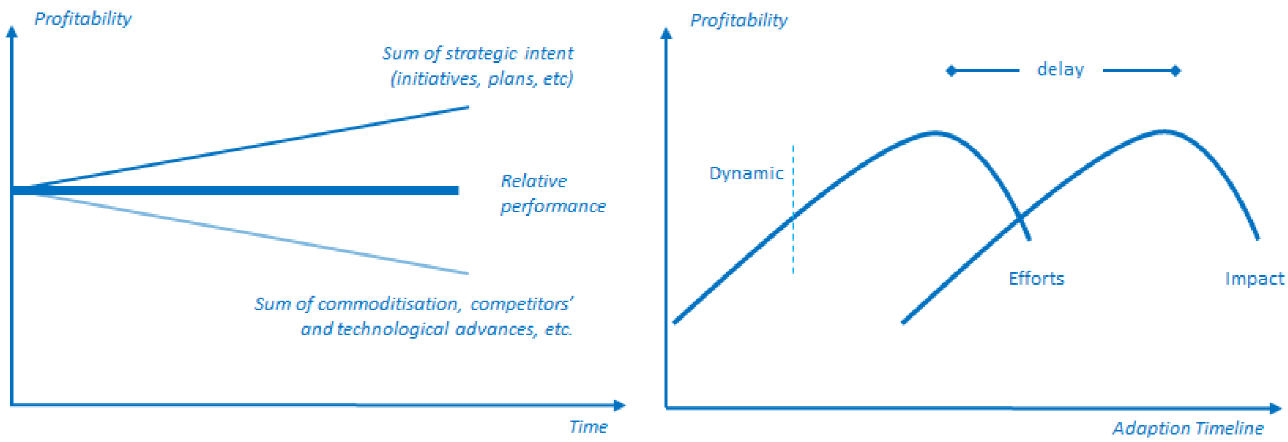
Whether caused by inaction or relevant information being discounted, misinterpreted, ignored, rejected or overlooked, the impact on the organisation will be the same. In my two previous posts, I explained the effects of biases and wicked problems in larger organisations, and ways of handling these. The mind-set failures mentioned by Heuer and Buffett supplement these, and add new dimensions to where leaders and organisations can go wrong.

A common answer to avoiding major failures and limiting exposures are the disciplines of corporate governance and risk management. However, also these measures will fail if they conflict with the prevailing mental model or mind-set of the company executives and board, in which case even the best analyses will be rejected, ignored or even ridiculed. The basic governance and risk disciplines are thus inadequate and should be enhanced, evolving into a broader and more profound **Business Governance** of the entire business model that includes a shift of mind-set.

So, what about your organisation – are you heading for trouble? Are you keeping an eye on the market, customers, competitors and mega trends? If you are, how are you then managing your mental models, minimising your blind spots, and converting thought into action? Are you building the ark?

Many companies are good at identifying and managing risks in individual markets, customer segments, products, etc. However, the biggest risk to any company is that the combined business model is failing, and become obsolete. Grasping and managing this overarching risk of the entire business model failing is less common. True business model sustainability requires much more than basic governance and risk management – and if you are not evolving faster than competition, you risk becoming obsolete. The ark needs to be built before the rain starts – why organisations need to be fast, efficient and built for maximum agility. Efficiency means that the company business model is configured for zero resistance and loss across the combined strategic and operational dimensions requiring robust business governance. It also requires that the drivers of business model complexity are managed, the value disciplines understood and the barriers and internal conflicts are removed. Then the company execution will function seamlessly and without leakages (waste/losses), and the company business model becomes superconductive. An agile organisation is one, which is able to react swiftly to external or internal change, adopting and implementing the new strategy with a minimum of effort. Consequently, business leaders should always work on the next evolutionary step in business model maturity – that is, developing the next generation business model that is faster, more agile and superconductive.

It might seem counter-intuitive, but the time to react and plan is on the profitability upswing. Profits within the original business model will not increase forever, and there will always come a plateau followed by a decline. The secret is looking beyond the current cycle and market conditions and having a long-term perspective on the many different aspects of business model excellence, including how the company should continuously improve. Companies should start timely, adapt dynamically, and develop the next generation business model and new capabilities ahead of the curve, and well before the profitability drops. The impacts of any larger project or transformation are always delayed and sometimes appear months or years after the efforts. However, each day the company business model is likely eroded by commoditisation, technological and competitors' advances, etc. The aggregated sum of all the company progression and business model development against the ongoing deterioration will yield the relative performance:



Where is your company on the adaption curve, and are you preparing timely and evolving fast enough? What is the expected Relative Performance of your company business model in the years to come? There are many examples of companies going out of business because they have not evolved fast enough or ignored the market developments. Quite often people overestimate their own capabilities and what benefits their existing plans and initiatives will bring, whereas they underestimate the effects of competitors, commoditisation, technological advancements, etc. The result is that they start late and develop less aggressively, and only "wake up" when the profitability has dropped significantly, and the company is in a crisis.

A range of **Business Governance assessment questions** can give you an initial understanding of where you stand. Try scoring your company on a scale from 1-4 on the below assessment questions (1="Completely Disagree", 2="Disagree more than Agree", 3="Agree more than Disagree" and 4="Completely Agree")

- **We understand the impact of customer, technology and market changes, etc. on our business model.**
- **We understand the impact of commoditisation, learning curves and competitors' advancements on our business model.**
- **We anticipate and dynamically adapt our business model to changes and market shifts.**
- **We recognise our business model complexity drivers and ways of mastering them.**
- **Our business model is fast, efficient and agile.**
- **Our company strategy and execution capabilities are completely synchronised.**
- **We know the next stage of business model evolution in our industry.**
- **We work dynamically and diligently on developing the next generation business model.**
- **We are industry leading in terms of business model maturity and sophistication.**
- **The relative performance of our business model will improve in the coming years.**

- **We have the required business governance mind-set and competences within the organisation.**
- **There is a company belief in business model excellence, which is deeply embedded in the organisation and board.**

So are you heading in the right direction – or heading for trouble?

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Søren Laungaard is the author of **Business Model Excellence**, which is a book about outperforming competition through faster and more dynamic business model innovation.

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References:

Richards J. Heuer's book Psychology of Intelligence Analysis, published by Center for the Study of Intelligence (CSI), part of CIA

2001 annual letter to the shareholders of Berkshire Hathaway Inc.