

Fixing System Risks

The Two Keys to Success!

Written by

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MBA



THE
KNOWLEDGE
INSTITUTE

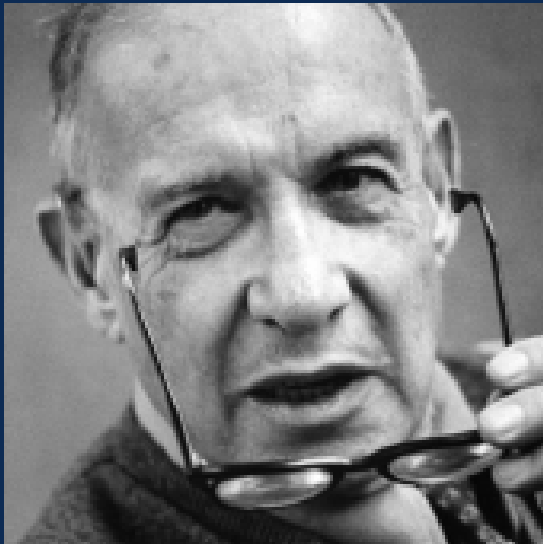


About the Author



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.”

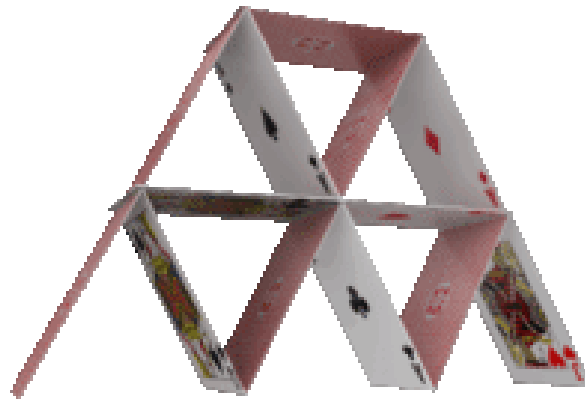


- Peter Drucker
(1909 – 2005)



Today's Topics

- ✓ The two mistakes we all make?
- ✓ Why we **unintentionally** 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?







lyft





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



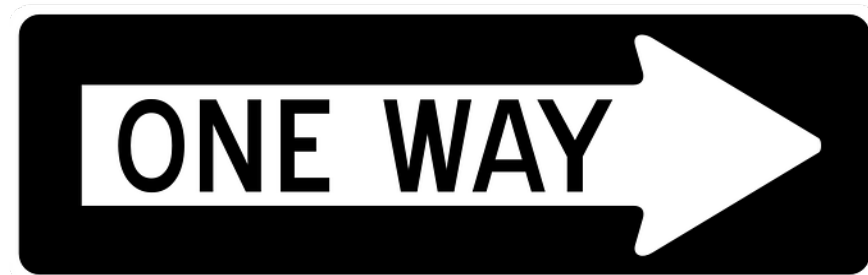
4) Don't point fingers





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?

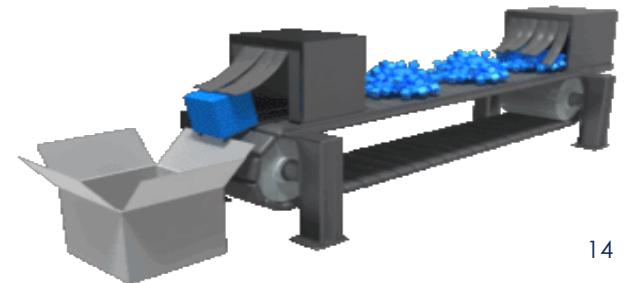
called in mathematicians,

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:

Kool-Aid



Other examples?



Do Not Change?

sears



Oldsmobile.



WaMu

xerox



Polaroid

Toys R Us

WANG

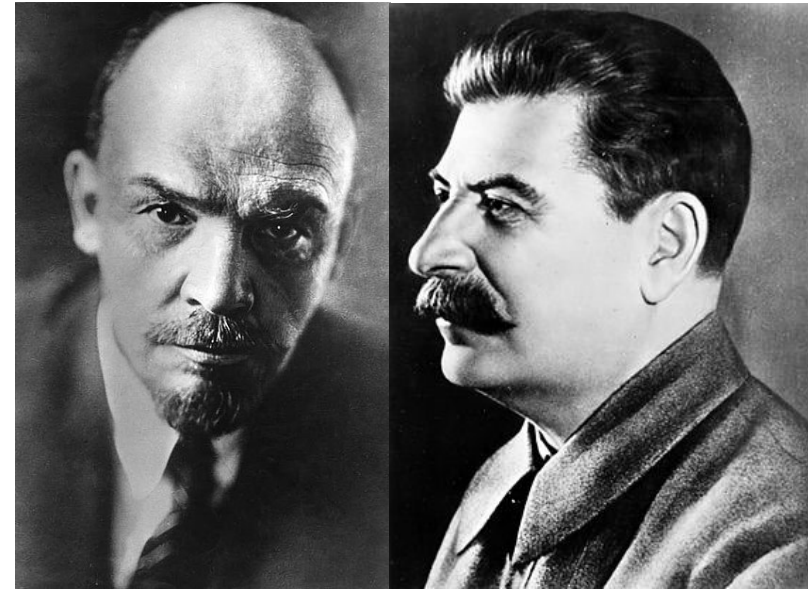




Communism 1917-1991



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?





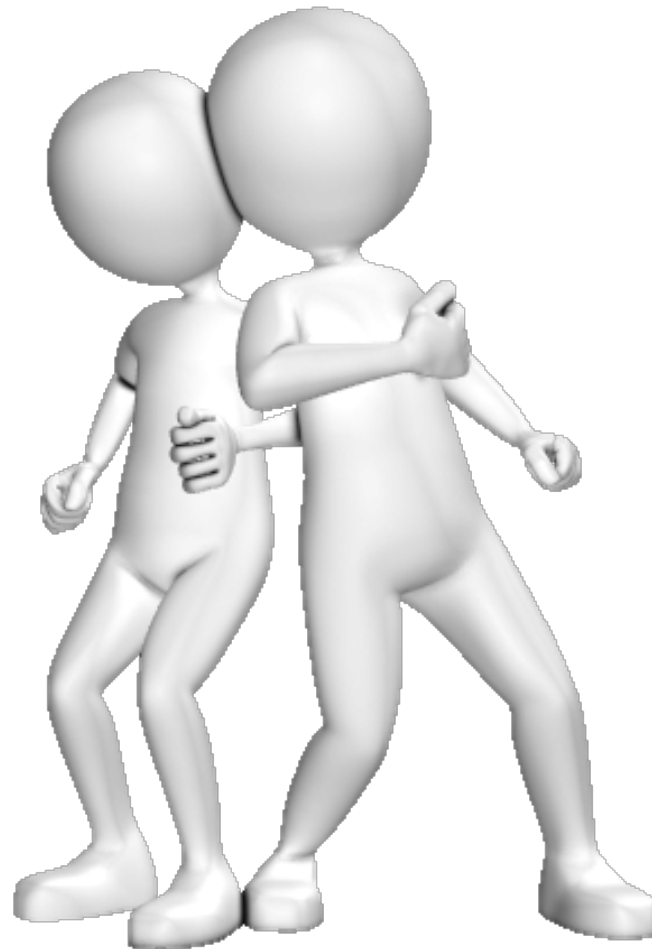
Recipe for Failure?

- ? 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 

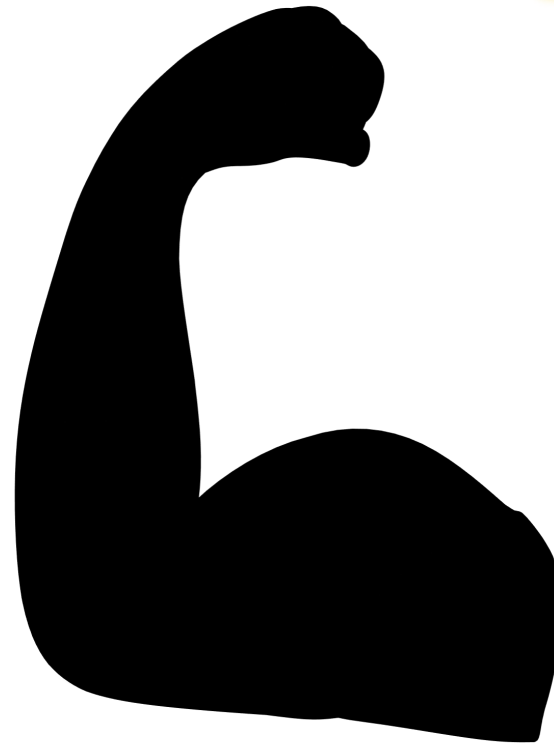




Mistake #1a - Expectations

a) Too optimistic on robustness;

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





Mistake #1a - Examples



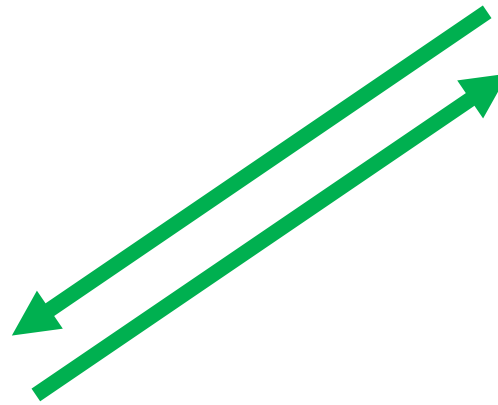


Mistake #1a - Examples





Mistake #1a - Example



August 9, 2013



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.





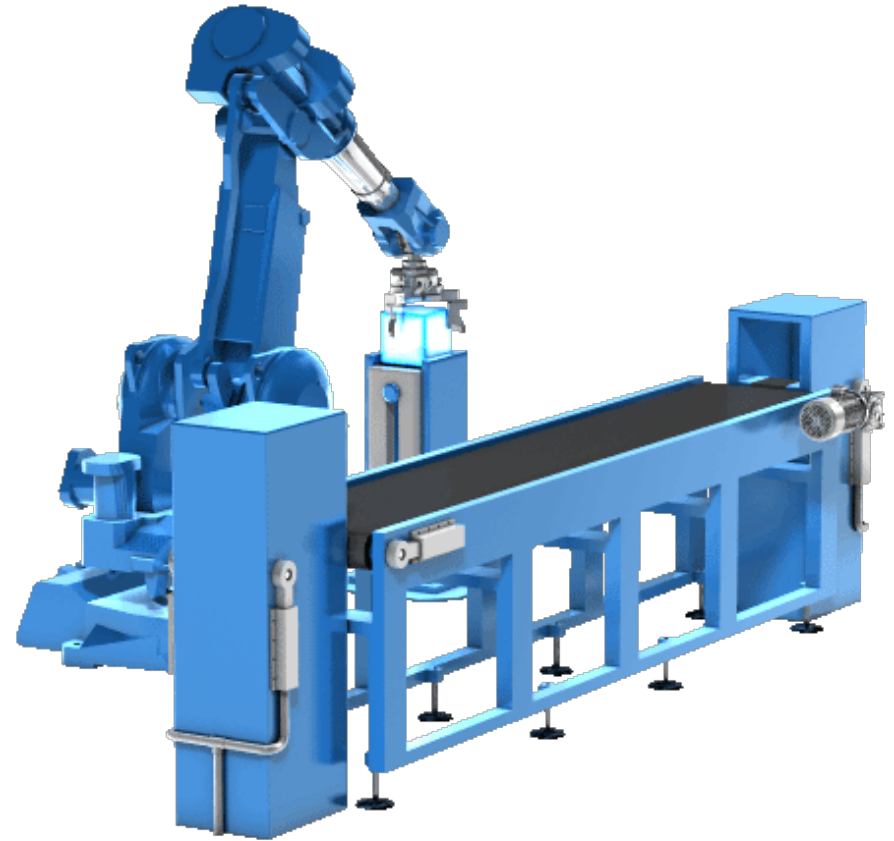
The Fix

✓ Build in





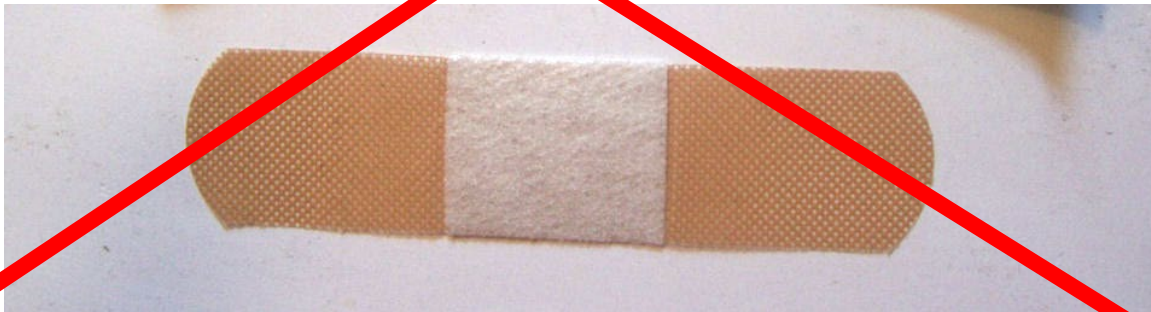
The Choice?





The Choice?

BAND-AID[®]
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





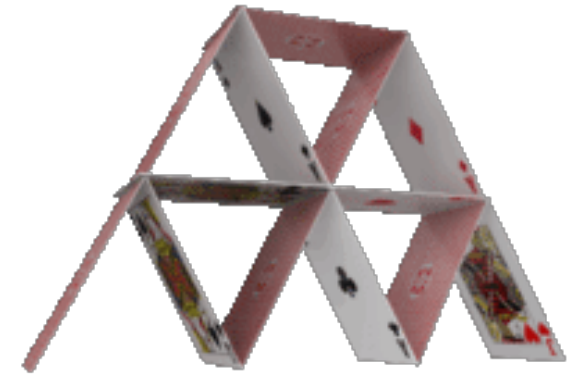
Mistake #1b - Example Outcome

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?





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

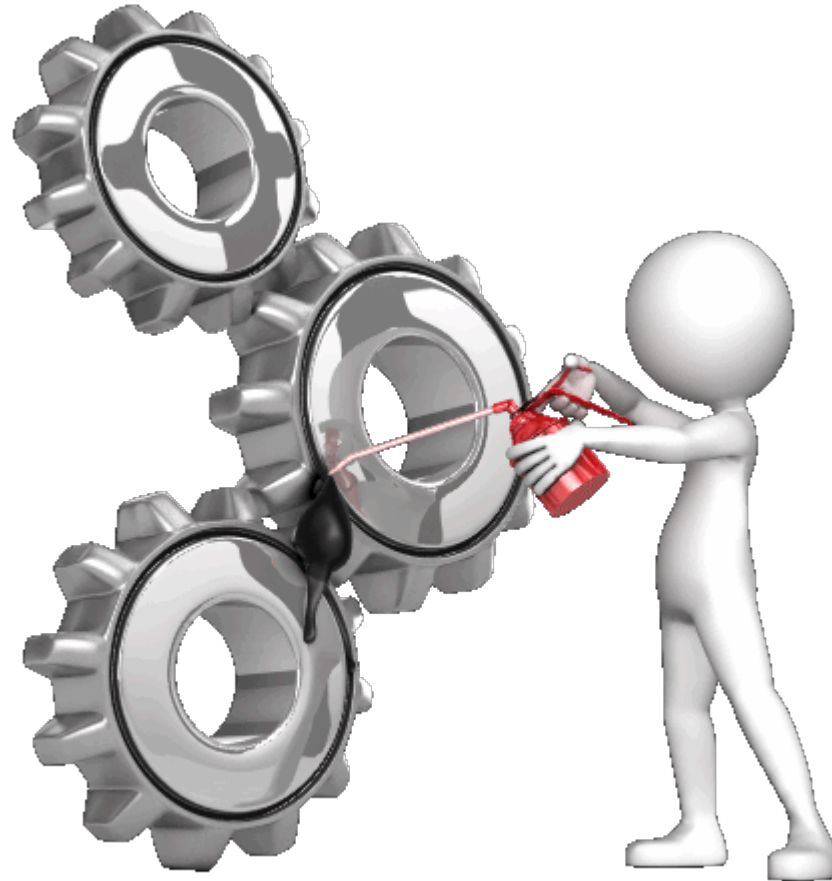
Results in

- 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.”





Two Keys to Fix System Risk

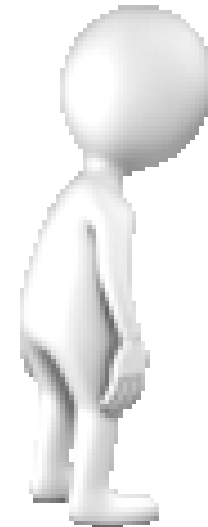
1) Better estimates

- a) Too optimistic on strengths
- b) Too pessimistic on weaknesses



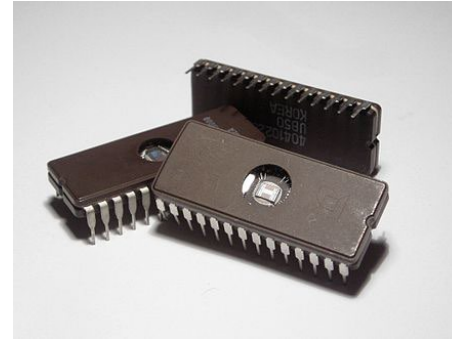
2) Prepare for friction

- a) Not ignore!
- b) Do not plan for ____
- c) Misunderstand
- d) Underestimate





Supply Chain?





Supply Chain

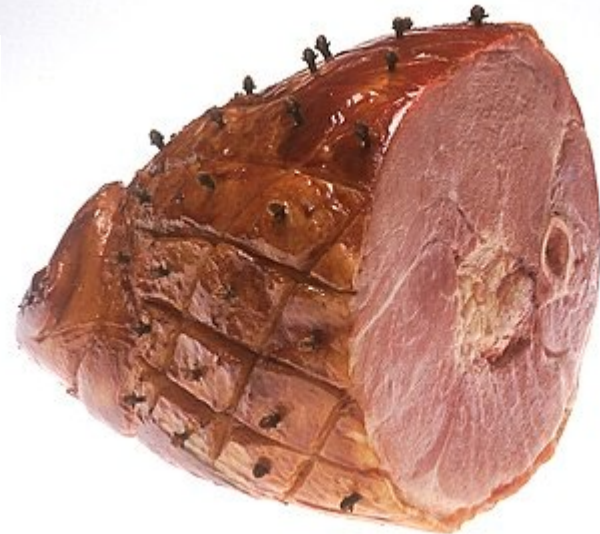
- 115 days
- Twelve
- Twice
- Six months - 2 to 280





Supply Chain

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

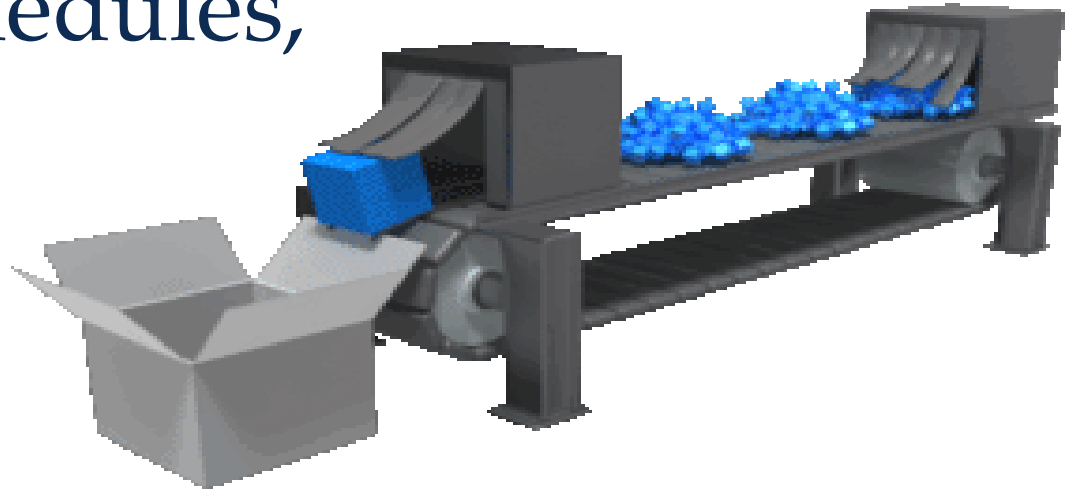




Supply Chain

Optimized for;

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





Supply Chain

- Chasing





Supply Chain – May 2021



74% No Gas



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?



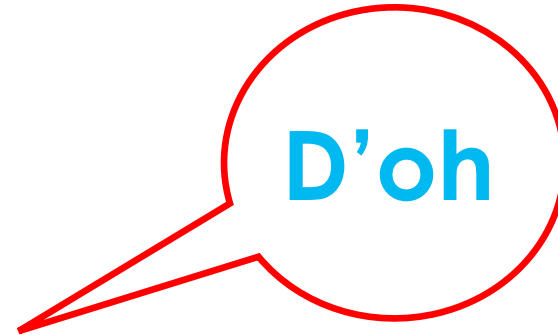


Case #4 (Optional) One Supplier?

- 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 & Aurora, CO (2012)
- Ebola Epidemic (2013-16)
- Hurricane Harvey (2017)
- Coronavirus (2020)



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, train and explain.





Solutions

2) Communicate (cont.)

- Describe the cost of failure in non-emotional ways



- 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

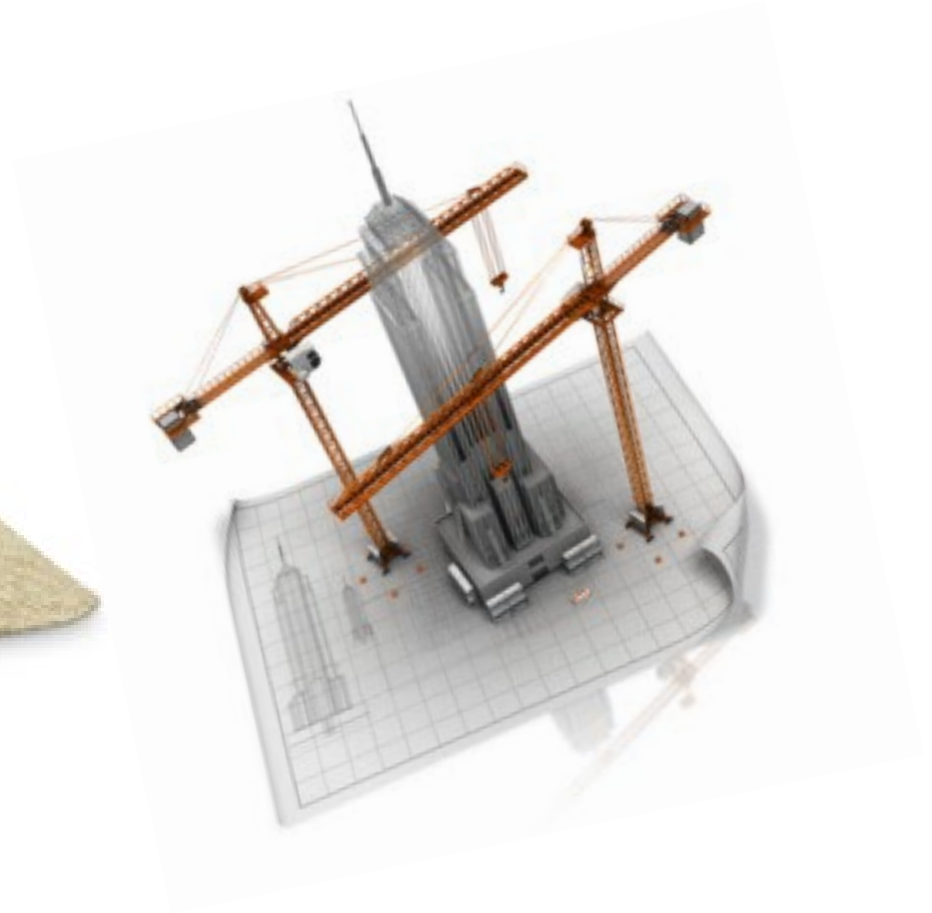
5) Deal with friction!

- 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?





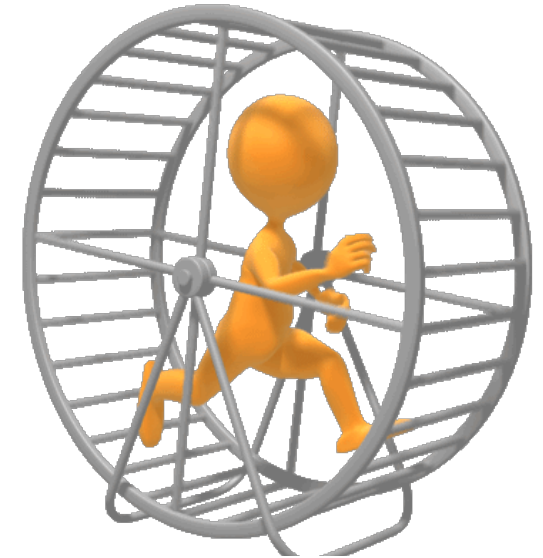
Systems





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?



Hope Is **NOT** a Plan!



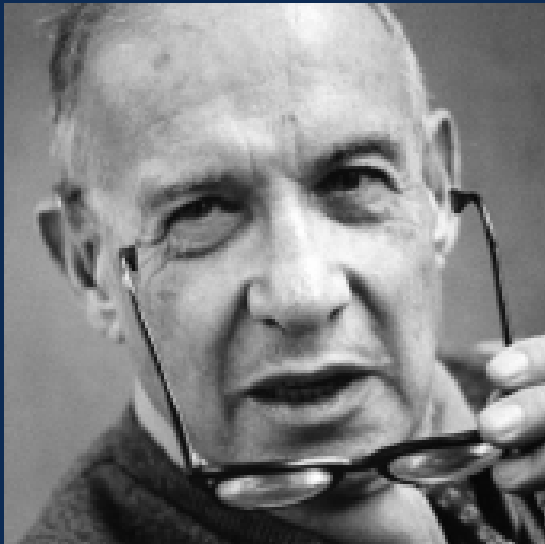


Summary

- 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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You can also connect with us on LinkedIn, or call us at 704-942-0413

