



## **Driving Sustained Value Creation**

A New Management Model for Organizations

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October 2005

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## **Driving Sustained Value Creation**

Corporate executives recognize that ensuring strong future performance is a matter of consistently improving and adapting to the changing business environment. The paradox is that on one hand, organizations must now operate in highly dynamic environments; they must adjust and adapt quickly to changing market and operating conditions. On the other hand, outcomes are increasingly more uncertain and executives now face far greater scrutiny of their decisions and actions.

In an ideal world, organizations would be aware of change and be able to respond appropriately, while maintaining consistency with their operating guidelines and protecting their ability to achieve objectives. This would be true competitive advantage. There is tremendous value created from an ability to leverage change (to gain strategic advantage through a readiness to deal with the opportunity or threat that change brings).

But this is not an ideal world, and organizations do not have an inherent capability to always sense change nor quickly assess its potential effects.

Risk management is currently the leading method used to define a forward view of conditions, change and exposures. However, the practices and thinking behind risk management are fundamentally limited in their ability to help organizations make better decisions. Though models of risk work reasonably well in highly structured environments such as finance markets and insurance; they struggle to cope with the complexities inherent in a large organization. The result is that organizations are exposed to many unrecognized and unmitigated risks.

## Driving Sustained Value Creation

Organizations need more than risk management, more than the current unstructured, often ineffective means to understand forces of change. What is needed is a comprehensive forward management model.

Forward management enables the organization to drive sustained value creation by helping people at all levels in the organization make better decisions in an environment of change, uncertainty and risk. This requires a shift in perspective and a new consideration in work practices.

Those organizations that do not adopt a forward management model will continue to create significant excess costs and experience lower competitive capability. They will remain exposed to events that can limit growth, hinder their ability to execute strategy, or result in significant material losses.

Companies that manage change and exposures consistently will find they not only gain competitive advantage and boost financial performance; they will also enhance shareholder confidence and protect the value their business creates.

Leaders will be defined by this capability.

## **Forward Management Model**

Forward management can be defined as directing organizational investment and activities, through continuous analysis of forward conditions and exposures. In other words, it is developing a deeper understanding of ‘what could happen’ to ‘what we want to achieve’; and in response to new information and knowledge about the road ahead, adjusting our decisions and actions accordingly.

Within an organizational context, forward management requires a comprehensive model to work effectively. Specifically, organizations will need to introduce new processes and systems to:

- Provide a robust capability to easily identify exposures across all aspects and levels of the organization;
- Produce a new type of ‘forward measure’ that can represent information about all forms of exposure in an easy-to-understand format. This will provide a rigorous foundation for decision-making, prioritizing and actions in the face of change, uncertainty and risk;
- Allow collaboration across the relevant people/areas/relationships of the organization in determining how to deal with exposures;
- Create an advance capability to both strategically and operationally respond to exposures; and
- Manage the changing or emerging conditions that can shift executive and management priorities.

## Driving Sustained Value Creation

Implementing a forward management model will create a significant shift in the mindset, culture and behavior of the organization. Forward management activities will be aligned to and embedded in normal operations. Traditional forms of assessment will be enhanced by new forms of information, thinking and language. This will change the way the organization makes decisions and takes action. It will bring a new level of awareness and responsiveness to change, cost savings and enhanced ability to compete.

There are important principles that must be understood and applied for an organization to establish forward management capability. These are discussed in the following sections.

### Every Business Activity Is Subject to Risk

We will start from the premise that there are two basic truths in business:

1. Every business activity performed has either the intention of creating value or of preserving it; and every activity an organization undertakes carries risk that these intentions will not be fully met.
2. An organization relies on a vast portfolio of assets and resources in performing its activities; and every business asset is at risk of loss in either value or utility.

Historically, risk management models have generally focused on risk related to assets (financial assets, property, products, equipment, inventories, people). This is why we often associate the practice with financial risk and insurance. Many traditional risk practices are tied to predictable business activities and the assets they utilize (health & safety, emergency management, disaster recovery, product quality, credit management, business disruption, governance).

## A New Management Model for Organizations

In recent years, we have seen an important trend toward enterprise risk management, arising from recognition that the analysis of exposures in broader business activities is an essential part of business management. However, making the leap from the closed analysis that is possible when considering asset risk, to the inclusive analysis that must occur with complex activities is difficult. This is especially true because of human involvement; there is significantly greater subjectivity and uncertainty to be considered in activities and outcomes than exists in analysis of asset risk.

Consider three key areas of business activity and their associated expectations and exposures.

- Strategy, as an activity, can be a path to achieve revenue growth. Strategic exposures can stem from many internal and external factors, such as shift in market demand, competition; globalization; regulatory change; technology acceleration; changes in key partnerships; implementation of major change initiatives; or events that can devalue brand. These exposures can result in loss of revenue opportunities, eroding the long term ability of the organization to generate value.
- Operations, especially within the supply chain, are activities intended to create revenue results and drive predictable operating margin. Operations exposures can arise at any point within demand, production or supply. Some examples include disruption in critical materials, resources, services or infrastructure; a catastrophic loss of production assets; or erosion of process or product integrity. These exposures directly affect the value of the organization, because they can reduce operating margin.
- Administration activities are essential management functions intended to protect corporate assets in accordance with policy, regulation and ethics. General administrative functions, business oversight and corporate governance activities are intended to mitigate exposures that can result in asset value or asset utility losses, penalties, or censure of activities by authorities.

## Driving Sustained Value Creation

These are distinct activities, yet they are fundamentally linked in that they collectively contribute to achieving outcomes, meeting expectations, creating and preserving organizational value. These activities are also exposed to significant change pressures, which continuously generate new considerations of uncertainty and risk.

### Risk Affects Performance

An organization can examine its activities, objectives and value in two ways: backward (performance) or forward (projections and risk). Both views are important. The views enrich one another and both contribute vital information to future decisions.

Organizations measure performance to determine their effectiveness at achieving objectives, of performing successfully to meet strategic, operational and administrative expectations. Performance management essentially looks at 'what did happen' and measures it against 'what should have happened' in order to make decisions that direct a future course of action.

Forward management gives a different perspective. This discipline looks at 'what could happen' and – through new forms of information – measures the effects on 'what we want to achieve'.

Consider the following strategic example.

	<b>Activity</b>	<b>Objective</b>	<b>Value</b>	<b>Backward Measure Performance</b>	<b>Forward Measure Risk</b>
Strategy	<p>Create healthy product offering in response to shift in consumer preferences</p> <p>Involves key business areas:</p> <ul style="list-style-type: none"> <li>• Marketing/Sales</li> <li>• Product Development</li> <li>• Demand &amp; Supply Planning</li> <li>• Materials Handling</li> </ul>	<p>Generate new product revenues to offset core product revenue loss (zero sum strategy)</p> <p>Create new revenue stream without eroding core product revenues (growth strategy)</p>	<p>Revenue growth</p> <p>Operating margin</p> <p>Brand value</p>	<p>Historical product line revenue results will highlight actual shifts in revenue source after the fact and will provide trending data</p> <p>Historical results will show effects of risk events (impact) after the fact</p> <p>Historical results will show effects of change in conditions after the fact</p>	<p>Concerns over competitor position &amp; products</p> <p>Concerns over longevity of shift in consumer preference</p> <p>Concerns over brand erosion from core products</p> <p>Concerns over brand erosion from new products</p>

## Driving Sustained Value Creation

In the previous example, a consumer products company defines its objectives for a set of activities that are intended to create revenue growth, sustain operating margin, and enrich brand value. Under a forward management regime, the company will define expectations and develop new insights into the exposures that could limit its ability to achieve them. This enhances strategy by enabling cost effective risk mitigation to be built as part of normal strategy activities. Forward management will provide greater awareness of and responsiveness to the risks that can affect performance, and performance measurement systems will enable monitoring of key indicators during execution.

The following operational example examines a company's objective to operate a responsive model for raw materials management that meets production and forward management needs (Demand Driven Supply Network or DDSN).

	<b>Activity</b>	<b>Objective</b>	<b>Value</b>	<b>Backward Measure Performance</b>	<b>Forward Measure Risk</b>
Operations	Source and inventory raw materials	Operate a responsive DDSN model for raw materials management	Operating margin Continuity Customer value Brand value	Historical inventory turns, supply lead times, supply pricing results will inform how well the model is meeting its targets, after the fact and will provide trending data Historical results will show effects of risk events (impact) after the fact Historical results will show effects of change in conditions after the fact.	Concerns over supply disruptions Concerns over storage & handling problems Concerns over materials quality Concerns over materials pricing fluctuations Concerns over demand volatility

## Driving Sustained Value Creation

In this example, there is a clear representation of operational exposures that can negatively affect operating margin; either by stalling revenues or increasing associated operating costs. There is a link between risk and the company's bottom line performance in financial terms. As well, there is an association of risk and its effects on customers and brand value, which can impair long term value opportunities.

In an operational sense, risk tends to materialize as disruptions, product integrity issues or productivity loss. The effects of such events are well-publicized. Consider companies like Nike, Sony, Qualcomm, Ansett Airlines (Australia), and Ericsson that have all suffered disruption in recent years. An article in the May 2005 edition of CFO Magazine quotes Professor Vinod Singhal, a professor of management at the Georgia Institute of Technology, as saying "There is no doubt that disruptions cause steep drops in profitability, reduce sales growth rate, increase cost of manufacturing and selling products as well as increase assets and inventories."

But, there are other exposures, hundreds or perhaps thousands of smaller risks that exist within business activities that combine to erode performance. This is a significant, yet often unrecognized, burden that organizations carry. Many of these smaller risks will materialize as minor disruptions. Minor delays, obstacles, stresses and constraints in the organization's operating environment individually may not register on an executive's radar; but collectively, they erode performance and limit the organization's ability to compete.

Supply chain risks pose a significant threat to operating margins (short term results) and revenue growth (longer term value creation). The ramifications of not addressing operational vulnerabilities can be significant: a supply chain disruption can cause a company's stock value to drop by as much as 20 percent over six months, according to Singhal.

### Change Will Affect Your Position

Change is an important consideration in determining an organization's position regarding strategy and risk. Without consideration of change, views on risk will quickly become outdated. So too, will the company's capability to respond. As a consequence, the nature of uncertainty faced throughout the organisation will vary constantly; new and different forms of exposure will emerge. Accordingly, changing exposures and emergent risks can affect performance. Variable aspects to risk can lead to disruption due to gaps in readiness; this is what we mean in saying that change will affect your position. Change alters operating conditions and can leave an organization in an ineffective position to respond to risk.

To address this, the organization must be tuned to both internal and external volatility, and must be able to rapidly detect and appropriately respond to shifting conditions and new issues. Executives and managers who are more aware of the emerging conditions and their impact on objectives, outcomes and value can face change and uncertainty with greater confidence.

### Capability Must Extend Across The Enterprise

Organizations must significantly improve their capability – at all levels – to understand, measure, and act appropriately in response to risk, uncertainty and change. To truly be forward managing, they must establish mechanisms to actively detect and respond to a diversity of exposures and changing conditions across the organization and across the extended enterprise.

Decision-making at the 'coal-face' where exposures and change first materialize is critical. Management and operational personnel play a key role here; however, with a potentially large number of threats competing for limited time and resources, a model that clarifies and enables effective decision-making and the development of cost effective responses is critical.

## Driving Sustained Value Creation

It is imperative that organizations have sufficient visibility and clarity of information to ensure there is an opportunity to respond to risk before it affects performance and, ultimately, value. However, to obtain visibility and clarity of information, organizations need an ability to identify and capture vast and diverse forms of exposure information, translate it into meaningful forward measures, and track complex changes in the information.

The fact is that most organizations simply cannot gain adequate visibility to risk; much less employ effective means to mitigate it consistently. To successfully address risk and change, information must be sourced from and accessible to all levels of the organization, not just a few centralized groups. It is the organization's people that possess the knowledge, experience, and perception of emerging issues, threats, and change; not its information technology systems. Individuals and teams must be able to inform exposures, actions, decisions and emerging trends, and must have the capability to collaborate on treatment strategies. This is an enormous – largely underutilized – resource. Under a forward management model, the organization would set the eyes and minds of its people toward sensing change, sensing risk and enabling critical tuning, which can subsequently improve performance. This is a capability and attitude that must permeate the organization's entire culture and all of its practices.

Organizations seeking to improve overall performance must include vital partners in their activities. Collaboration of forward management activities across the supply chain enables a continuous assessment of exposures and response capabilities, as well as changing conditions. This can provide far greater responsiveness, resilience and exceptional competitive positioning.

## **Forward Terrain® and the Forward Management Model**

The Forward Management Model offers valuable new capabilities arising from comprehensive information about the forward view. The model continuously clarifies the organization's risk position; focusing on threats to objectives and expectations across all business activities. As the organization moves ahead in its execution of strategies and operations, this view moves forward to capture change and clarify uncertainties they face. This enables the organization to be truly responsive and offers an unprecedented capability to achieve objectives and meet expectations.

Through groundbreaking inventions, Metatheme has created a solution that is generations ahead of current thinking and practices. The result is a new management model – and a new type of management solution that is driven in real-time across all business activities: providing vital forward information for business analysis and decision making.

Forward Terrain is a comprehensive application designed for mid-size to very large multinational organizations. The system provides an unparalleled capability to anticipate threats, understand change and direct business activity. Our application and its underlying forward management model shift the approach to business management through an unprecedented capability to sense and respond to uncertainty and changing conditions.

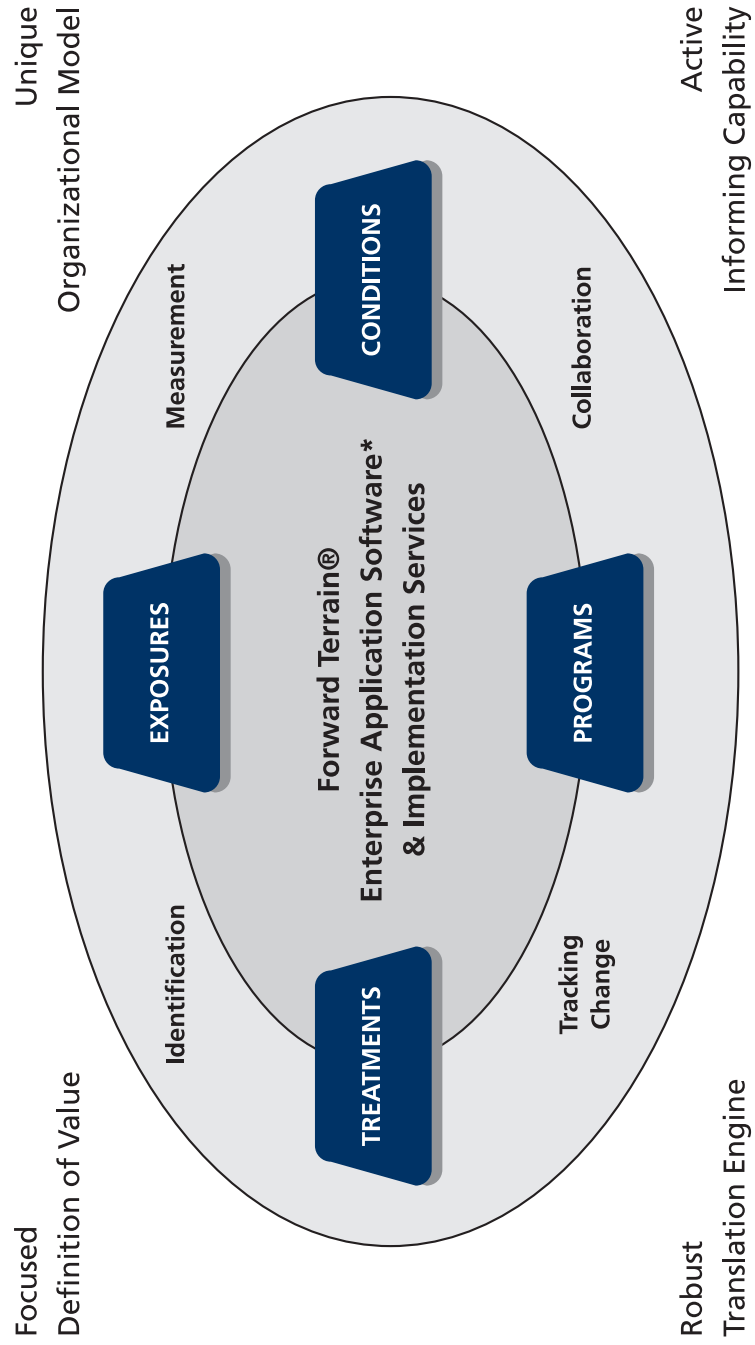
## Driving Sustained Value Creation

Focused on the effects of change and exposure to the organization's core objectives, Forward Terrain provides:

- Translation of diverse forms of exposure information into rigorous, yet easy-to-understand forward measures
- Active capability to inform emerging conditions and trends
- Integrated access model, enabling key partners to participate in forward management activities
- Unparalleled capability to drive risk capital efficiency and performance
- Unprecedented executive analytics
- New forms of transparency of assessments and actions for stakeholder confidence

Forward Terrain is a web-based enterprise software application that incorporates core inventions into a practical system that can be used by anyone. It functions as a management environment that extends to all levels of the organization; from board level to plant floor.

Forward Terrain establishes a powerful, real-time forward management environment. Our solution can have a significant impact on value and make the organization immensely more competitive and responsive. Forward Terrain offers unique capabilities.



\* Worldwide Patents Pending

## Driving Sustained Value Creation

### Focused Definition of Value

Forward Terrain enables the organization to establish a focused definition of value that reflects its unique objectives, intentions and operating guidelines. Forward Terrain enables a complete understanding of how value is defined for the organization (financial value, brand value, customer value, etc.). Each exposure captured in the system is measured against all relevant value dimensions in accordance with the organization's policy and its need for precision in certain critical risk assessments.

### Unique Organizational Model

Forward Terrain captures a unique organizational model that is a clear representation of the organization processes, structure, and locations. This enables exposures to be consolidated and sorted according to specific organizational areas. This design allows users to access Forward Terrain information according to their user profile and accountabilities and supports the forward management workflow process.

### Robust Translation Engine

The Forward Terrain rigorously translates the results from virtually any risk assessment approach into a meaningful measure. The system handles broader analysis of uncertainty and subjectivity – supported by unique forward analytics – whether initial assessments are quantitative or qualitative in nature. The translation engine has two primary components: the Confidence Score System™, which provides a complete representation of exposure faced by the organization; and the Three Objects Model™, which captures and tracks very large numbers of risks, actions and underlying information.

Forward Terrain provides complete interpretation of risk and their effects on value through its robust translation engine to produce simple – yet rigorous – measures that are a complete representation of the exposure.

This is an important new capability that enables quality and consistency in risk-based decision-making throughout the organization and development of the most cost effective responses to uncertainty and risk

### **Active Informing Capability**

Forward Terrain provides an active informing capability that will keep all the appropriate people notified about relevant changes, actions or new exposure information; occurring anywhere in the organization. Through one simple environment, thousands of personnel can collaborate; capturing and tracking information across the business.

Some of the tracking and messaging features in Forward Terrain include: active reporting, alerts and notifications; sophisticated workflow and task management; user-designed notices; ability to track changes by groups, areas, types of exposures or risk portfolios; sophisticated security to control access to views; and an ability to extend notification to key business partners.

### **Unprecedented Analytics**

Forward Terrain provides unprecedented forward perspective of material concerns, priorities and effects. The application provides the capability to more accurately measure risk effects on company value; expressed in both financial and non-financial models. Forward Terrain offers unique analysis of forward value expectations, forward exposures, forward effects of treatments, and risk capital efficiency. Analysis can be based on consolidated or segregated portfolios of risk.

## **Benefits of Forward Terrain**

Forward Terrain provides a unique set of benefits to organizations. With Forward Terrain, organizations are more prepared than their competitors to manage what lies ahead. This is clarity of foresight that has not been achieved under any other management model or with any other management application. Organizations will have the ability to clearly understand their forward view and position in strategies, major business initiatives and operations.

This goes beyond how organizations make decisions... it is about how they take action. With Forward Terrain, organizations will not just react to change and disruptions ... they will sense threats and take action well before others can.

## **Leverage Forces of Change**

Wharton, et al, notes that failures in strategic planning and change initiative implementation generally come down to not taking critical perspective of emergence [change] and its potential benefits into account. They go on to say that many leaders are using old tools and behavior to address new, and very different, problems. These problems are in a constant state of fluidity and change, and thus not subject to normal methods of attack.

At this level, change and risk have a fundamental effect on the organization meeting its mission, on its position in the market, on its brand value and on longer term competitiveness. The result is a significant, lasting impact that can leave an organization and its market position vulnerable.

Forward Terrain enables anticipation of possible future events, changes and conditions, so that action can be taken to influence their effects. The organization utilizing Forward Terrain can monitor emerging trends and act on those before competitors have any idea there was something to react to. Forward Terrain provides the tools necessary to gain strategic advantage through a readiness to deal with the opportunity or threat that change brings.

## Optimize Risk Capital

Forward Terrain provides the capability to compare the projected impact of risks against treatments costs and effectiveness, to derive a view of risk capital efficiency. This unprecedented forward perspective of material concerns, priorities and effects enables the organization to better direct its investment in risk treatments and track risk capital performance.

For example, an untreated risk may have a potential impact of \$500k reduction in revenue. A proposed treatment would reduce that potential impact to \$250k and would cost \$50k to implement. In this example, \$50k would be spent to protect \$250k in revenue. The company is making a decision to spend 10% of the net exposure to reduce 50% of the risk. The organization can determine how valuable a treatment investment is (or has been) as an integral part of decision-making. Treatments would be more highly tailored to potential disruptions as well as company objectives; therefore, more effective responses can be implemented, resulting in an optimization of the use of capital to manage risk.

## Significantly Improve Governance and Transparency

An organization must contend with greater scrutiny of its decisions and actions in a demanding environment of governance, transparency and control. Forward-looking statements in SEC 10-k and other reports cannot be substantiated with any confidence through current approaches. Markets will soon demand that organizations employ a model that not only gives greater clarity about the exposures they face, but also provides the capability to easily verify base assumptions, and information about operating conditions, decisions and actions.

Forward Terrain provides a new model for transparency. Through its unique translation engine, each forward measurement is a valid representation of risk, and that validity can be easily verified in real-time. Forward Terrain also enables tracking of specific decisions; who made them; based on what information; the flow of information; and what limitations or conditions supported the decision.

Beyond this, Forward Terrain also enables tracking of work plans, actions, and results, as well as an ability to drill through, consolidate, relate, and support assessments of change and exposure. Supporting documentation and evidence supporting the measures is readily accessible and clear. This is achieved as a normal outcome of the system, not an overhead to business activities.

Consider administration activities outlined in the following example. Current approaches to addressing compliance and governance concerns – whether in financial processes, production or other critical activities – do not provide significant strategic benefit; they are cumbersome and costly. Forward Terrain enables a more focused, active approach to managing these activities and providing the transparency needed to support governance objectives.

Forward Terrain has the ability to provide confident, transparent assurance of decisions and actions with unprecedented traceability.

	<b>Activity</b>	<b>Objective</b>	<b>Value</b>	<b>Backward Measure Performance</b>	<b>Forward Measure Risk</b>
Administration	Monitor product quality Govern product-related regulatory compliance	Preserve product quality and brand integrity	Corporate citizenship Continuity Customer value Operating margin Brand value	Audits will show quality problems after the fact Penalties/recalls will highlight failures in compliance after the fact Historical results will show compliance failure effects and trends after the fact	Concerns over product quality and its effects on consumers Concerns over compliance failures Concerns over regulatory and policy changes

## Driving Sustained Value Creation

### Drive Sustained Financial Performance

Organizations that do not adopt a forward management model will continue to create significant excess costs and experience lower competitiveness. They will remain exposed to events that can limit growth, hinder their ability to execute strategy, or result in significant material losses.

Through Forward Terrain, organizations will establish new capabilities and new information; they will drive value creation more rapidly, more effectively, more strategically through:

- Comprehensive, consolidated views of objectives, conditions, exposures, and change; to focus strategies and operations on what really matters;
- Significantly improving the ability to understand and deal with change, uncertainty and risk; reducing the cost and time required to respond; and
- Avoiding the situation where exposures and change go unreported, are not visible, or are not actioned; resulting in avoidable consequences and costs.

Forward Terrain provides valuable foresight – that to date has not been available – to guide business decisions and investment. Forward Terrain enhances resilience, productivity and responsiveness and the ability to achieve sustained financial performance.

Companies that manage change and exposures consistently will find they not only gain competitive advantage and boost financial performance; they will also enhance shareholder confidence and protect the value their business creates.

## About Metatheme

Metatheme is a company dedicated to developing and implementing forward management methods and solutions. In 1998, Metatheme began as a research exercise into better ways for organizations to understand and deal with risk. Since mid-2000, Metatheme has undertaken a dedicated research, development and testing program for Forward Terrain; our flagship product.

Forward Terrain is a web-based enterprise software application that incorporates core inventions into a practical system that can be used by anyone. It functions as a collaborative environment throughout all levels of the organization, providing forward management capability to personnel from board level to plant floor.

Metatheme offers an integrated suite of products and services, built around our Forward Terrain enterprise application, through direct engagements and our network of distribution partners.

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