

## **ERM VIDEO INSIGHTS**

### **Transcript of Rob Gould and Don Pagach Conducting Black Swan Workshops**

**Don:** Hi, I am Don Pagach, I am the Director of Research at the Enterprise Risk Management Initiative at NC State University and I am here today speaking with Rob Gould from one of the most iconic global companies Harley Davidson and I'm really happy to speak with you today Rob about something that is really successful in Harley Davidson which is black swan workshop that you conduct to really think about restarting in the future. Maybe you can give us an overview about that topic.

**Rob:** Sure, so initiation of the black swan workshop was really a request from the board, you know. If they felt quite comfortable and we had for our existing risk management activities. Typically looks out maybe two or three years you have your traditional risk map process and review the operational risk and things of that nature. But, they wanted to know really was how our we considering longer term risks, Issues that can really impact the success of our business strategic model in particular, so have we thought about those risks, the longer term issues that could severely impact the company if we not planning ahead. So that was rally the initiation of that activity. So, they came with this request it was kind oh that is not the easiest question to answer and I did a fair amount of research in identifying some examples that I felt we could use and one of the ones that really came out was identifying what are the critical assumptions that Harley Davison is really relying on to be successful. So, things like our water cooled V-Twin engine that a lot of the customers are so passion about. We have a very long standing effective dealer model that can be use for the start globally and it is being very successful and great differentiator. So, what will be the implications if those two critical assumptions if those two critical strategic assumptions were no longer effective – what will we do, what could we do, so that is really what initiated the activity.

**Don:** Ok, so when you conduct this black swan workshops, who is involved, how long do they take, and how much time is spent?

**Rob:** We've actually done a couple iterations of them. The initial one was really a cross section of the executive group. So we had direct reports of the CEO. So we had a motorcycle operations, the CFO, the head of our strategic planning group, a number of other execs, probably 10-15 and the intent was to really get a broad cross section from those execs about what they seen as critical strategic assumptions and the implications if those assumptions were not achieved and really helping to identify potential Black Swans. The workshop took probably four hours or so and really kind of came up with an

initial list of potential black swans you can imagine a number of those didn't fit the criteria for us about what could affect the business model, there were some things already covered in our current risk map process, some of them were duplicate in nature so we had to kind of consolidate those down into more consistent themes and eventually we arrived at about 5 or 6 that we really felt that these truly are black swans. So then the next iteration we did a couple months later were really refinement of those black swans and really identifying what would do about it, identifying what strategies we would do to help mitigate that risk, and then ultimately package that up to the board and that's really how that process started.

**Don:** So what kind of homework do you give to the participants to really help them think outside the box about this future risk.

**Rob:** So that is a great point because I think a lot of people has different perception about what black swans are. So what we really considered is not something like a natural disaster or something some act of god you really can't prevent. What we really thinking about are risks that the company kind of causes itself because we aren't thinking longer term about implications we are planning longer term so it is kind of this boiled frogs syndrome where the heats slowly gets turned up until you realize well now its too late and it is a real problem. So you want to be more proactive in nature in thinking through that. So that's really some training to get them grounded around what black swans were and then likewise some examples in industry, so for example what happened to Blockbuster, they had a very successful model but eventually they got taken over by Netflix. So that helped to give them some examples to kind of ground themselves on and then likewise some preparation in advance to the meeting say – hey please come to this workshop with what you view to be the 2-3 critical assumptions which companies rely on for success, so they kind of jointly share that and again went through those implications where – what if the converse happened? The implications of that happening, what would be the potential impact, do we see any of it coming, do we see signs of it coming, what do we need to do to be more proactive in monitoring and things of that nature.

**Don:** So were people is pretty enthusiastic about participating?

**Rob:** Very much, I think that was really one of the most interesting things I remember - one of the heads of the business units, he was quite skeptical of the topic, because he was like you know jeez is this going to be like an asteroid dropping on the earth or something, but that is not at all with what we're talking about and the dialogue really came to things that truly impact the strategy and things they were really interested in doing in recognizing they needed to be more proactive and just hearing all the dialogue

amongst themselves created truly something they were very much interested in and thought it was a great exercise.

**Don:** So these are workshops obviously are people really people thinking outside the box - How do you capture the insights when people may be a little bit cautious about expressing things at kind of off.

**Rob:** So we did a couple things, so first of all we had them break out into small groups so you know three or four people to kind of collectively think threw what these were and kind share and work through the details and then we brought those groups back together and they did a report out for the overall group and then we literally just captured them without really any type of filtering we kind of just wanted to get the information captured, so we identified it and logged it real time as the meeting progressed and the subsequent detail was more of the filtering that we talked about based on the criteria to really identify truly what a black swan – then of course get some feedback from the execs, what do you think, does this articulated properly and get some calibration back from them so there's some iterative processes but it ultimately funneled to something that they felt comfortable sharing with the board.

**Don:** Ok, so what kind of advice when you give somebody who wants to start this kind of workshop in their company?

**Rob:** So I think the first part is not being fearful, I think something that will the board really should be doing. I think about the fiduciary responsibility for a long term protecting the shareholders and making sure the company continues to be viable is important. And then doing a fair amount of research and really been very well grounded on what are the strategies of the company and I think some credibility and particularly regarding facilitation and really knowing the risk that the company at a deeper level - you need to have that. And then I think just bring executives together and having a very formal process where they can understand what the expectations are so they get it and they feel comfortable and raise some issues.

**Don:** So Rob thank you very much for sharing your experiences with black swan work shops and sounds like they been very beneficial for Harley Davidson.

**Rob:** They have were getting some really great feedback from the company and the executives and I think they really appreciate it is been a great experience for me to be involved as well, thank you.