

Sensing for Signals of Change

Kathy Robinson, CAE and SVP, Internal Audit

Chris Magno, VP, ERM

St. John's University – April 6, 2017



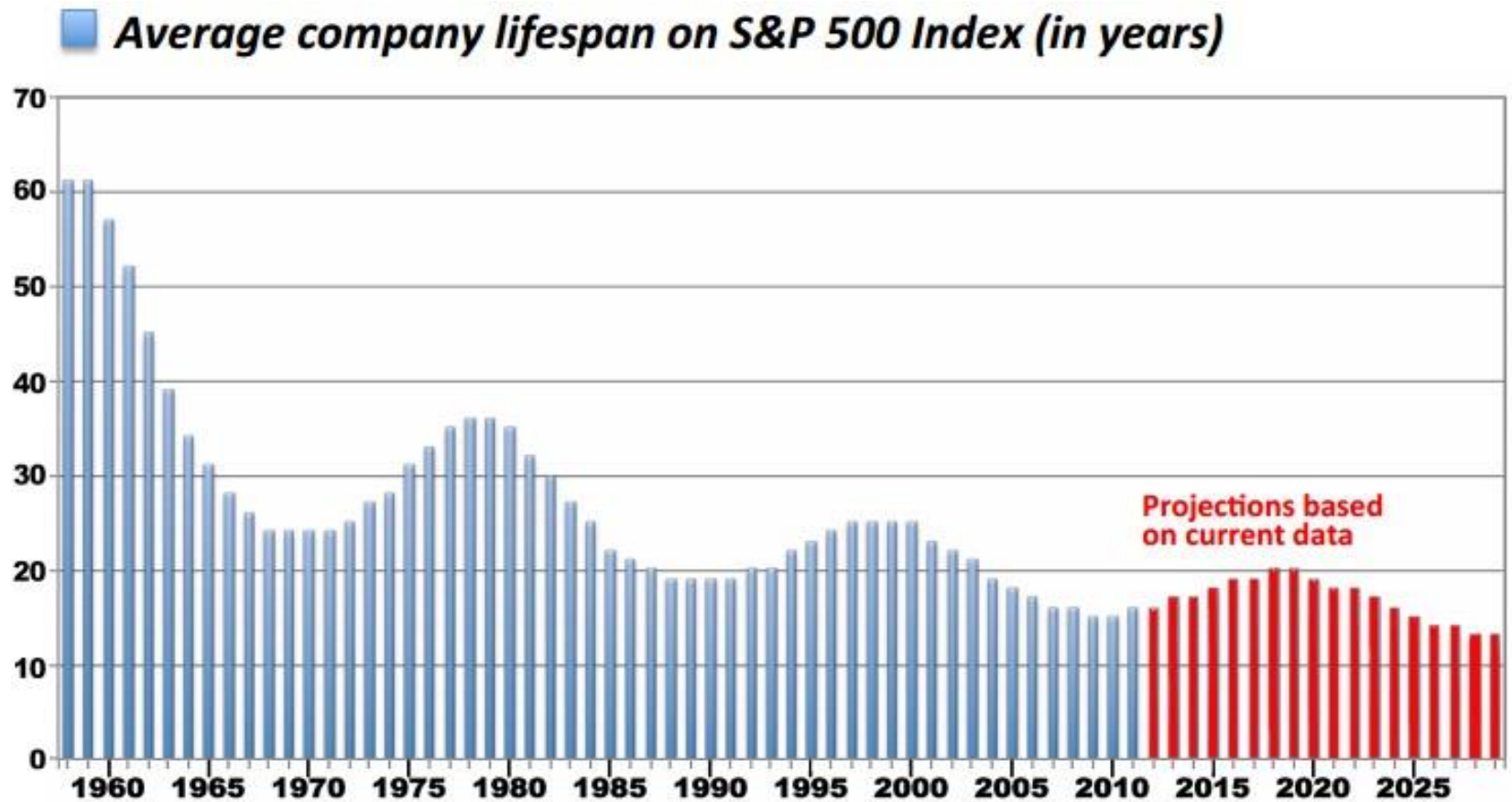
A more human resource.™

About ADP

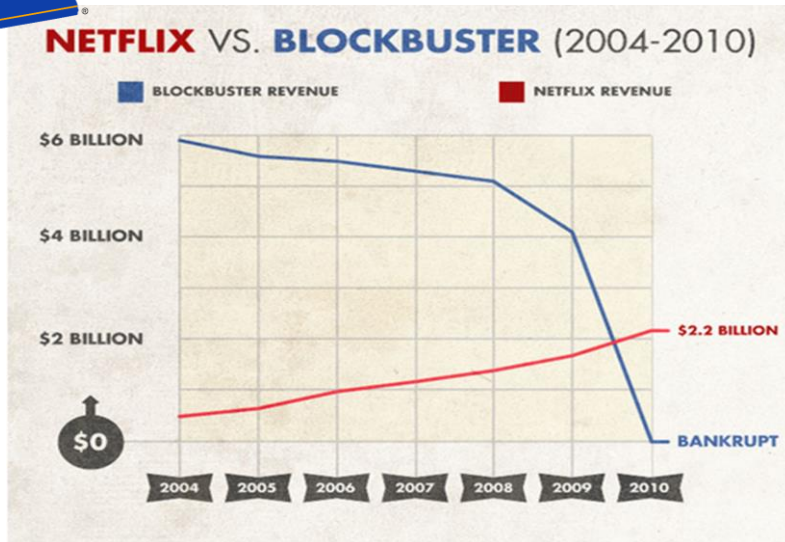


- One of the world's largest providers of Human Capital Management (HCM) solutions
 - Payroll Services
 - Benefits Administration
 - Recruiting and Talent Management
 - Human Resources Management
 - Time and Attendance Management
 - Insurance Services
 - Retirement Services
 - Payment and Compliance Solutions
- ADP pays 26 million (1 in 6) workers in U.S. and 13 million outside the U.S.
- 650,000 clients in more than 110 countries
 - Includes 470,000 small businesses
 - Over 80% of Fortune® 500 companies
 - Over 90 Fortune® 100 companies
- 57,000 associates worldwide in 40 countries
- Manage 7,000+ global tax agency relationships
- Moved approximately \$1.7 trillion in U.S. client funds in FY 2016
- Committed to AA/Aa ratings category
- 41 years of consecutive dividend increases
- \$11.7 billion in revenue in FY 2016

Corporate Lifespan

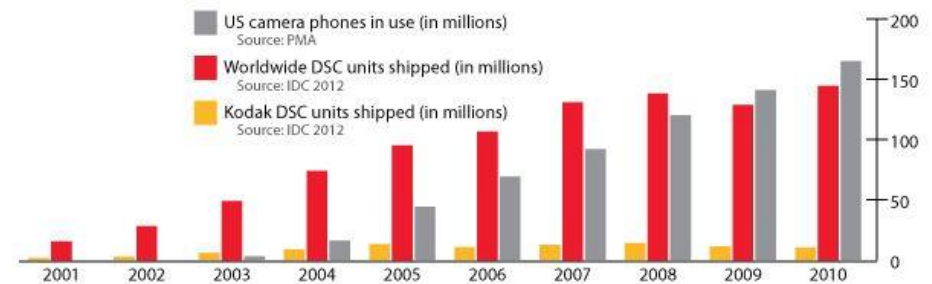
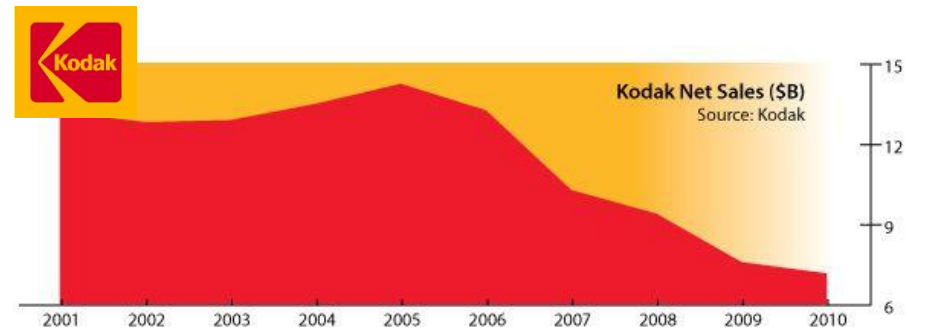


Sobering Lessons



65% of Market Decline Drivers for Top Fortune 1000 Companies are Strategic*

*Source: The Corporate Executive Board (2009)



Known vs Unknown Risks

Opportunities to dive deeper and uncover gaps



Known Risks



Identify top risks to the enterprise



Develop governance, assign ownership and track actions



Report and monitor top risks



Connect smaller, disparate risks; Review mitigation plans and identify gaps



Unknown Risks



Align risk assessment process with Strategy



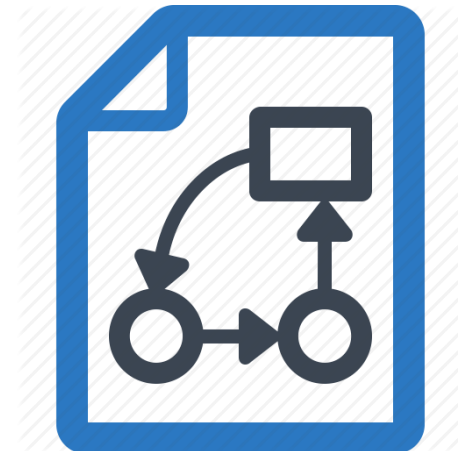
Develop a coordinated process to identify and size key disruptive trends (SoC)



Develop a “Point of View” on a select number



Agree on appropriate actions and follow-ups on several Signals of Change



So Many Signals, So Little Time

Filtering out the noise

Privacy Enforcement / Data Protection
Accounting Requirements
Anti-Corruption Consumer Protection
(e.g. Dodd-Frank)
Anti-Trust / Competition
POLITICAL

Market Crises Geopolitical Uncertainty
Investment Corridors **Global**
Emerging Markets Talent Pools
Environment Consciousness

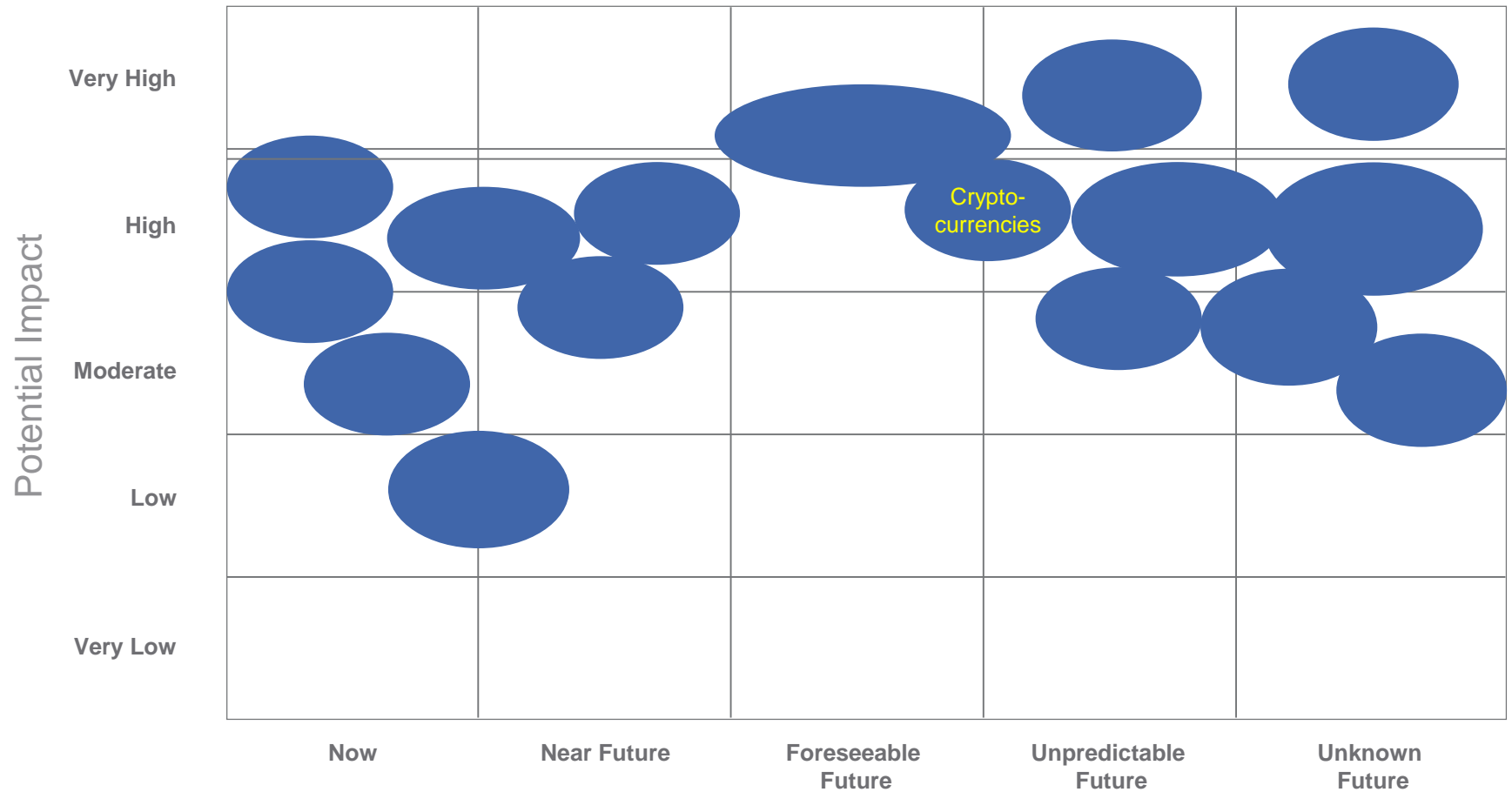
ECONOMICS

SOCIAL
Increasing Wealth
Aging Population
Urbanization
Social Connectivity **Millennials**
Increasing Service Expectations

TECH
Data Aggregation
Low Cost / High Functioning Devices
Digital Disruption
Peer to Peer Models **Big Data & Analytics**
Data Aggregation

Map Potential Signals of Change

Provide an initial view from several sources



Speed of Change

Source: KPMG

Signals of Change Defined

Definition:

A **signal of change** is a an event or trend in the future that could disrupt or influence the market. Each signal of change will have varying degrees of likelihood, impact, and urgency (how fast it is approaching).

History has shown, that companies that do not identify, plan, or execute appropriately for “signals of change”, often times do not have ample time to react and ultimately fail. As technology evolves, the velocity of these signals has increased.

Examples of failures to identify and react to a signal of change



Transportation
Logistics

Touch Based Smart
Devices



Smart phones as general
purpose computing devices

On demand / streaming
movies & videos



Online Book Purchases /
Electronic reading devices

Signals of Change

Focusing on the most probable and impactful

Customer behaviors and expectations are changing



Technology innovation is accelerating and transforming every business sector

Tech giants are making significant innovation investments outside their core business

Startups are proliferating, funded by VCs intent on disrupting business models

An environment of constant change requires “signal foresight”

Signals of Change

Partnering with Corporate Strategy

Internal

- Employee Feedback
- Research Institute
- HR Labs
- **Crowdsourcing**

External

- Subject Matter Experts
- Industry Conferences
- Client input
- Venture Capital Funding

A wide range of internal and external sources are used to create an initial list of signals.



Signals validated with a broad-based survey to internal and external stakeholders, along with existing data assets.



Signals that are already been worked on across the firm are removed from the list

**30 Key Signals for
Deeper Analysis**

Signals of Change

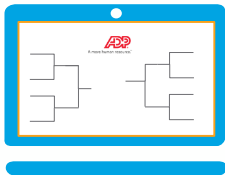
Crowdsourcing employee input

Crowdsourcing Structure



Initial Ask for Employee Ideas

CSO records a brief video outlining the firm's strategic direction and inviting feedback.



Online Bracket Tournament

The most interesting and valuable signals are collected and voted on in a bracket-style event



Winner Recognition

Employee supplying the winning idea presents it to the firm in another brief video.

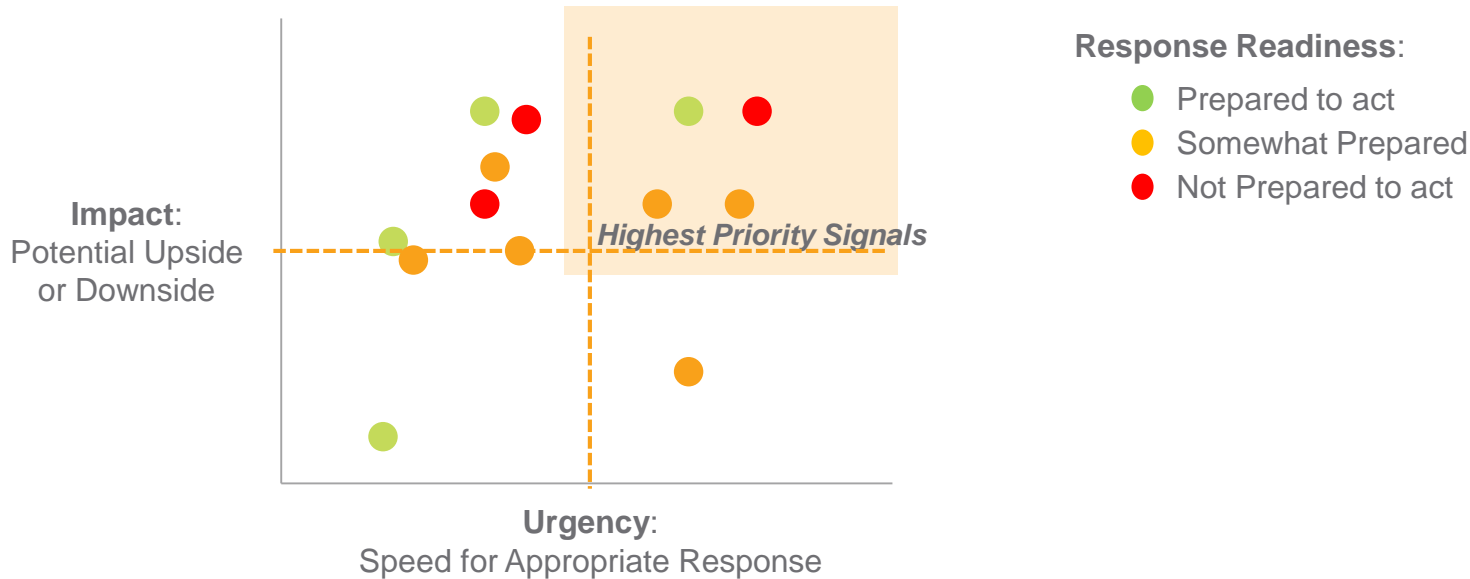
Output of Tournament Provides a Range of Useful Data

- Surface New Trends
- Test for Company Interest
- Evaluate Trend Urgency
- Assess Trend Impact
- Elevate Employee Vigilance & Engagement

Signals of Change

Prioritization

Primary Signals Prioritization Matrix



Designed to Avoid Common Digital Trend Assessment Traps

- **Impact:** Based on breadth of impact to ADP (# of products, business lines & employees), rather than potential value (which is highly uncertain and difficult to assess).
- **Urgency:** Measured by observable facts (such as degree demanded by clients or VC investment dollars), rather than predicting specific timeframes or dates of impact (invites false precision)

Signal Overview: Blockchain

Crux of the issue:

Demographic changes and shifting work demands have led to pockets of talent gaps, most notably in critical roles such as engineering, sales, marketing, and operations. Companies are taking a wide range of measures, including investing in talent development, offering flexible work arrangements, and leveraging technology to increase productivity. However, the talent gap remains a significant challenge, and it is likely to persist for some time.

Impact:



Urgency:



Our Preparedness:

Our organization is well-prepared to address the talent gap. We have a strong talent development program in place, and we are leveraging technology to increase productivity. We are also offering flexible work arrangements to attract and retain talent. However, we recognize that the talent gap remains a significant challenge, and we are committed to continuing our efforts to address it.

Path Forward: Blockchain

Consensus:

Point of View:

Blockchain is a distributed ledger technology that allows for secure, transparent, and immutable record-keeping. It is a decentralized system where data is stored across multiple nodes, making it resistant to tampering and fraud. Blockchain has the potential to revolutionize various industries, including finance, supply chain, and healthcare, by enabling secure and efficient transactions.

Key risks:

Blockchain technology faces several key risks, including scalability issues, energy consumption, and regulatory uncertainty. Scalability is a challenge as the network grows, leading to slower transaction times and higher costs. Energy consumption is a concern for some blockchain networks, particularly those using proof-of-work consensus. Regulatory uncertainty is another risk, as governments are still developing frameworks to govern the use of blockchain technology.

Recommended strategy:

The recommended strategy for blockchain adoption is to start with a pilot project, focusing on a specific use case where the technology can provide clear value. This allows organizations to gain experience and build trust in the technology. It is also important to engage with regulatory bodies and industry partners to ensure compliance and interoperability. A phased approach, starting with a small-scale pilot and gradually expanding, is the most prudent strategy.

Passive

Sample options for path forward

Aggressive

A – Stay the course

Stay the course means maintaining the current level of blockchain adoption, focusing on incremental improvements and maintaining the status quo. This approach is suitable for organizations that are not yet ready for a full-scale transformation but want to continue exploring the technology. It involves ongoing research, small-scale pilots, and maintaining a watchful eye on the market and regulatory developments.

B – Slightly Accelerate

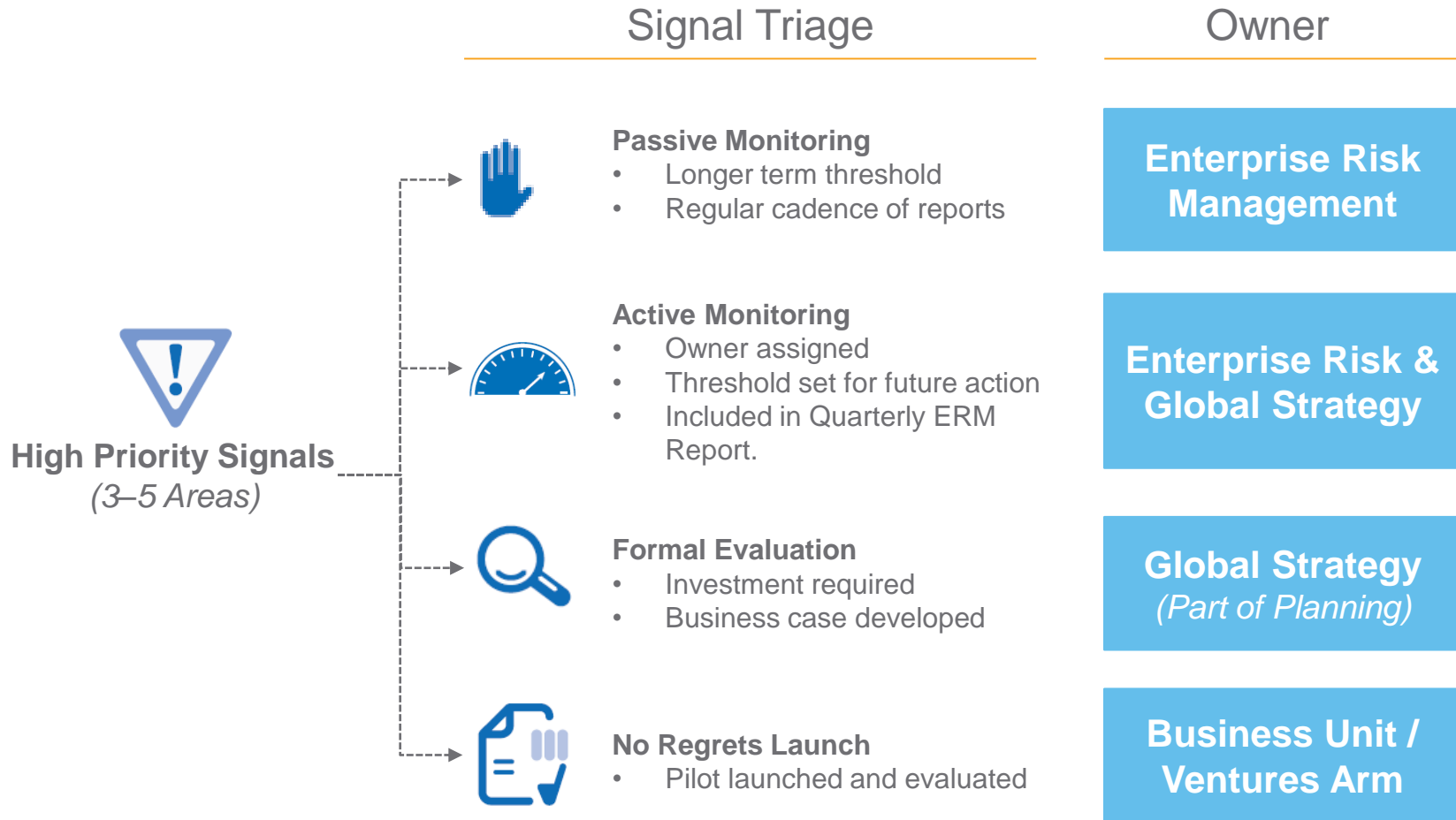
Slightly Accelerate involves increasing the pace of blockchain adoption, moving from pilot projects to more widespread implementation. This approach is suitable for organizations that see the potential of blockchain but want to take a more measured approach. It involves expanding the scope of pilot projects, investing in talent and infrastructure, and engaging with regulatory bodies to ensure compliance.

C – Fast track

Fast track involves accelerating blockchain adoption significantly, aiming for a full-scale transformation within a short timeframe. This approach is suitable for organizations that are highly committed to blockchain and see it as a critical competitive advantage. It involves large-scale investments in technology, talent, and infrastructure, as well as close collaboration with regulatory bodies and industry partners.

Signals of Change

Ongoing ownership



How Do You Turn Risk Into Value?

1. What are some Signals of Change on your horizon?
2. What are some of the risks associated with these emerging signals?
3. How can risk management present the opportunities and mitigate the risks associated with these signals?



Ultimately we need to determine how best to partner with Strategy, engage executive management, and collectively action.