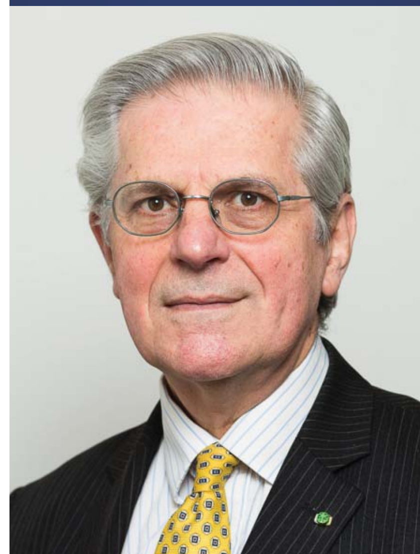
Strategic Risks, Existential Challenges and the Boardroom



**Prof. Colin Coulson-Thomas*

Many corporate boards face multiple inter-related and shared challenges that are strategic in their consequences and implications. Some like the Covid-19 pandemic are front of stage, while others such as anti-microbial resistance may lurk in the background. Environmental degradation, the loss of biodiversity, over-exploitation of natural capital, global warming and climate change are the result of collective human activity across our finite planet. Beyond a tipping point, recovery from some contemporary challenges may be problematic or already too late. Adaptation rather than risk mitigation may be the more pragmatic path to follow.

Our behaviours, whether as producers, consumers, travellers or voters, have created a set of problems that could be long-lasting and resistant to quick 'silver bullet' type solutions. They raise questions about the sustainability and desirability of many corporate activities and various aspects of current lifestyles. With these issues come associated opportunities that could be unprecedented in their scale, scope and duration. However, addressing strategic risks and existential challenges and their associated opportunities creates difficulties for organisations and societies. They arise together and already represent crises for some of those impacted. They have consequences for multiple activities.

Addressing Strategic Risks

Some existential challenges cannot be given to just one organisation, function or Government department to address. Collaboration and collective effort are required. As events unfold, there may also be winners and losers, and an unequal distribution of costs and benefits. There are likely to be vested interests to confront. People may want to hang on to what they have, preserve advantages and regain what they have lost. Action required may be opposed, resisted and undermined by those who do not wish to be disadvantaged. The lower growth rates and higher costs that may be necessary for sustainability tend not to attract votes.

Complex and inter-related risks and existential challenges can be difficult to predict and quantify. When faced with high impact but low probability of occurrence risks, some boards might be tempted to postpone action until a future financial year. Delay might be supported by suggestions that advance preparations could be overtaken by events, or may prove ineffective if a risk crystalizes in a form that differs from expectations. An acceleration of a trend such as climate change could result in an exponential increase in the cost of its impacts.

When events occur or situations arise there may be limited time to react and a lack of current and accurate information. A legal or regulatory framework and requirements for approvals might also inhibit rapid and pragmatic reaction. Government policies can be a risk factor. Some damaging activities actually attract state subsidies. A balance may need to be struck between reacting to unfolding or shifting events and dealing with issues as they arise, and the proactive addressing of the root causes of what is happening or looks possible.

Crisis Decision Making

As strategic risks crystalize and existential challenges materialise, there may be pressure upon directors to take control. Arrangements for dealing with certain contingencies could be agreed by a board. In crisis and other difficult situations, some people are better able to cope than others. Keeping a decision-making team tight might speed up decision making. However, excluding some players may complicate the securing of wider engagement. Establishing a sub-group of directors to deal with a particular situation, or delegation to a committee of the board, can sometimes result in other board members feeling excluded.

A shortage of time can lead to attempts to reduce inputs into a decision making process and result in over-simplification. Aspects of a situation may be overlooked. Beyond a certain point, further discussion might be curtailed in order to reach or force a conclusion. Such coping behaviours can increase the risk of significant aspects being ignored. Valid viewpoints may be excluded. These could include those of the risk management community. What should the role of risk specialists be in support of board and decision making when strategic risks are involved? Which voices should directors listen to? Whose advice should they seek?

Ensuring Responsible Strategic Direction

Not every board is blessed with a shared purpose, aligned stakeholders and/or corporate agility, flexibility and cohesion. In some cases, a decision against reaction might not be a viable option, but directors may also not be able to assume support of their responses. Trust and legitimacy may need to be earned through the balanced and responsible exercise of caring and enlightened leadership. How can one ensure that responsible decisions are taken when dealing with strategic issues, for example to ensure that a new business model or recovery from an imposed lockdown is resilient and sustainable?

Do some boards need to put a higher priority upon building resilience, particularly in relation to coping with and responding to contemporary challenges and/or rebounding from them? Many stakeholders might hope that recovery from the Covid-19 recession will involve achieving greater resilience in respect of future challenges and building back better. What support can risk management provide to this process? What should their contribution be and where along the continuum of increasing awareness, building understanding, securing commitment and supporting action could they help?

There are certain questions that many boards need to address when responding to challenges, recovering from crises and setting future direction. Were previous activities and lifestyles sustainable? Can the adversity and tragedy of Covid-19 be turned into an opportunity to rethink, reposition and move towards a more sustainable future? Should boards look beyond a particular 'new normal'? Should they instead seek to inspire, initiate and champion evolution, transition and transformation to more responsible and inclusive models of development that are less environmentally damaging?

Championing Responsible Innovation

In order to cope with certain challenges, innovation is required rather than incremental improvement. Social innovation is also needed as well as business and economic innovation. Creating and adopting simpler, healthier and less stressful lifestyles could benefit people and safeguard natural capital. Boards should encourage diversity, challenge and questioning. Championing experiment and exploration might result in bouncing back to a better place. Many companies require socially and environmentally responsible innovation, enterprise and entrepreneurship if they are to operate sustainably and in harmony with the natural world.

All living beings have to incur and manage risk and uncertainty. Arguably risk management should be regarded as a core element of the education of all members of a society. Too often, risk is perceived as negative rather than positive. It is seen as something to be avoided rather than sought. However, many activities such as exploration, investment or transition from one business model to another involve risk. It is often difficult to increase the speed of change, transition and/or progress without taking risks.

Risks inherent in innovation may be outweighed by the negative consequences of not innovating. Situations may demand that certain risks be taken to avoid procrastination, prevent stagnation and achieve progress and step change improvements. There might be new technologies, business models and ways of operating to explore and evaluate. What can and should risk managers do to help boards build responsible innovation into the purposes, visions, values, goals, objectives and operations of organisations?

Questioning Risk Governance and Management

Are cautious and risk-averse boards and the risk management community inhibiting necessary innovation and dissuading people from desirable risk taking? Are some risk managers too negative and lacking positivity in their instincts and approaches? Are they so focused upon mitigating risks and reducing downsides that they are devoting insufficient attention to addressing opportunities and adding value? Are they avoiding or mitigating the known rather than preparing for the unknown?

In relation to innovation, where are creativity, flexibility and novel thinking to be found within the risk management community? How are its members perceived by others? Are they sometimes viewed as bringing problems rather than solutions to the boardroom? Busy directors often find themselves expected to think, and perhaps worry about, ever more areas in which objective counsel and holistic advice may be difficult to obtain. Specialist professionals sometimes lack the courage to challenge corporate practices and priorities.

Boards can vary in the relative emphasis they give to seeking assurance and/or providing direction. Maybe some directors get the risk support they deserve and/or request. Does risk management need to become more strategic, relevant and collaborative? Should it be less of an overhead cost concerned with compliance and avoiding risks, and instead become more of a proactive enabler of innovation, enterprise and entrepreneurship and reducing risk when decisions are taken? Some directors may need to be helped to embrace higher levels of risk.

Future of Corporate Risk Management

Boards should clarify their risk governance role, their risk appetite and their expectations of risk management. They should articulate a vision of how they would like risk handled, where, when, by whom and for what purpose. Should risk be an element of many if not most corporate roles? If there are to be specialist risk professionals, what should their remit be? Do they need to be more engaged and embedded within business units? Should they be more involved with the front-line and risk aspects of decisions and choices? Are they too often on the margins, watching from the touchline, or office bound at a corporate headquarters?

Some risk managers may be overly preoccupied with internal corporate issues and risks to an existing position. Greater focus on the monitoring and management of external issues and developments and their risk implications may be required. More engagement with stakeholders may be needed to better ascertain their attitudes towards risk in current and evolving situations. Internally, could some risk managers be better aligned with their colleagues from other professional areas? Could they cooperate more to exchange assessments, share concerns and discuss common root causes?

Externally, there might need to be more liaison and collaboration with peers in other organisations. For example, should the handling of risks involved in collective action to address shared challenges be discussed with supply chain and other partners? Should boards encourage a greater diversity of approaches to better reflect the stage of development, context and changing priorities of individual companies? Recent experience has highlighted the imperative of re-tasking the contributions expected of risk experts beyond avoiding and/or mitigating risks to embrace supporting board and management decision making.

Limiting Risk When Taking Decisions

Traditional approaches to limiting risk have included the undertaking of various checks and reviews during decision making processes, which can result in higher costs. Resulting delays sometimes lead to missed opportunities and/or undermine timely responses in rapidly changing situations. People in certain contexts have been forced to focus on compliance with limits set in the past, at the expense of confronting new situations, meeting pressing customer requirements and addressing urgent issues. Are the prospects of lengthy and bureaucratic risk reviews and wrestling with compliance rules discouraging creativity, deterring innovation and resulting in dull uniformity?

Do more boards need to encourage the adoption of approaches to risk management that better enable innovation and lead to greater diversity? Building checks and reviews into support tools can allow people to avoid issues as they explore new possibilities and help them to develop lower risk, bespoke and faster responses at reduced costs. For example, it could prevent sales teams from suggesting solutions that would not work or producing proposals that mis-sell. People could be set free to be pro-active and more imaginative.

Directors can do more than just agree policies. Should they also ensure people in key work groups are helped to do the right thing and to act responsibly? Should the support they are given make it difficult for them to do the wrong thing and to behave irresponsibly? Effective use of performance support can move the risk and return curve upwards and outwards, increasing return while at the same time reducing risk. The aim could be to provide 24/7 personalised support as and when and wherever required in order to simultaneously achieve multiple outcomes with a company's existing people and cultures while at the same time enabling transition to better and more sustainable business models.

Adopting Alternative Approaches

Practical steps can be taken to incorporate critical success factors for key corporate activities into support tools and enable individual and shared learning. Too often, applications of technology deskill. Directors should ensure executives commission support tools that integrate learning and working and increase competence and confidence with use, thus increasing corporate capability, flexibility and resilience. Boards should also ensure adoption of applications that implement policies to protect the environment and enable sustainable operation. More responsible purchasing could be encouraged by making people aware of the consequences of different options when they make acquisition and consumption decisions.

Affordable performance support tools have been quickly adopted to reduce contract risks in bespoke applications of telecoms technologies and avoid mis-selling claims when independent financial advisers are involved in the marketing and selling of financial services. Other applications have allowed a massive increase in the product range of a retail chain and enabled the more rapid roll out and adoption of new technologies and innovative approaches. Adoptions of performance support can also support new business and operating models, more flexible ways of working and the offshoring and/or on-shoring of various activities.

A consortium of professional practices specialising in legal, financial, physical, cyber and other categories of risk shared the cost of developing a support tool to help their clients address the full range of risks in a systematic way. It enabled users to more cost effectively access the specialist help they needed, as and when required. As a result, much more of the time of risk experts could be devoted to providing decision support rather than collecting information on the particular problem. The clients themselves can use their employment of the tool as evidence of what they do to ensure effective risk management and governance.

Lessons and Outcomes

Effective corporate risk governance and management involves awareness of risks, understanding their consequences, assessing options, building confidence, securing commitment and the support of responsible action. Addressing strategic and existential risks can require shared understanding, collective and aligned responses and pro-active innovation. Personalised decision and performance support can help people to help themselves, incorporate social networking, enable average performers to adopt the approaches of superstars and facilitate peer-to-peer collaboration.

Directors could ask that support provided makes it easier for people to do demanding jobs and take responsible decisions. Quick paybacks and large returns on investment can be obtained. Other objectives that can be simultaneously achieved include improved effectiveness, speeded up responses, greater understanding, reduced stress, lower compliance costs, avoidance of risks and the enabling of bespoke responses. Tools can be used to free people from dependency on particular locations, support flexible and mobile activities, internalise externalities, safeguard natural capital, protect bio-diversity and combat climate change. They can also enable transition to more sustainable models of operation.

Boards face pressing contemporary challenges. Action is needed while there are still windows of opportunity. Many boards need to strategically steer companies through rapidly evolving situations. The strategic direction that they provide can help to ensure prioritisation and focus on the support of high impact decisions and critical jobs within key processes and activities. Costly, distracting and time-consuming initiatives should be avoided in favour of more practical and pragmatic approaches that enable existing teams to deliver multiple benefits for individuals, organisations and the environment. ■

***Prof. Colin Coulson-Thomas** *holds a portfolio of leadership roles and is IOD India's Director-General, UK and Europe. He has advised directors and boards in over 40 countries.*