Perspectives of Business Resilience

There are many facets to the concept of Business Resilience which in traditional risk management has focused on how to survive a disaster. Elaborate and valuable efforts have been, and are, taken in companies to “get over” a disaster as effective, efficient and not least, as fast as possible.

In most “good practice” companies, three plans are put in motion when the disaster strikes:

- A **contingency plan** which deals with the immediate here and now. Who contacts the rescue services, police, insurance companies, etc. Who prepares for meeting the press and with what. Who contacts the families of employees involved, etc.

- A **disaster recovery plan** which assesses the damage, and starts addressing whom to contact to “clean up”, and “rebuild” so the company can get back on track as fast as possible.

- A **business continuity plan** which addresses “how do we manage the rest of the company whilst this is ongoing and affects performance, capabilities, reputation, etc.”. This is about reallocation of resources, supply routes, market plans etc.

A lot of companies have such plans well prepared, documented and not least trained to the extent relevant people know what to do if … Alternatively, just imagine a fire brigade coming to a burning building, and their first thought is “Now, what do we do … ideas, anyone?”. When the disaster strikes, it is too late to start thinking about handling – if the concept of risk management has any weight at all.

In “better practice” companies, similar plans etc. are in place for foreseeable environmental, reputational, market and other key business risks. The contents of such plans are quite different, but the key questions are the same in terms of “immediate response”, “recovery” and “continuity” – ready to be invoked at a moment’s notice if and when necessary. One tricky element is, that the materialization of some risks may not be as imminently visible as “a fire”. Hence, one added element is a detecting metric. How do we know it is happening?

Strategic Resilience

Most of these resilience plans are related to instances, situations where something sudden happens that has a negative affect on the company. However, the world is ever changing and the conditions any company is operating under, changes over time.

To plan [for] the future, many companies have longer term strategic aspirations and plans, based on which they decide on year-on-year activities and projects. A continuous development and improvement of is necessary to meet the changes of the world.

One paradigm is *“that business development is like walking up a down escalator”.* Whenever you stop, or are too slow, you will find yourself moving in the wrong direction.

To develop without a target and a plan is doomed to be ineffective, and hence explicit strategies are needed.

Strategic plans are bringing the company into the future, which is unknown. To address that, company management implicitly and/or explicitly apply a set of expectations and assumptions about the future – upon which, they define the strategic initiatives they assume are needed and sufficient to meet the strategic aspiration.

Now … what if these assumptions do not pan out as expected and the world changes in a different direction than the one planned for. It very often will, and that could happen in any number of ways:

- Management often expects (in fact, somewhat naïvely) there will be a largely unchanged competitive landscape … what if an incumbent competitor changes their approach or a new competitor enters your market.

- A key product line becomes irrelevant to your customers by some new approach or technology (cf. Kodak, VHS, DVD, Walkman, …etc.).

- Consumer/customer awareness changes, and you find that key processes or products are no longer "politically acceptable" for some reason (cf. use of asbestos, use of child labour, furs, nuclear power, etc.).

- Your key manufacturing technology, for which you have a lot of equipment and assets tied up, is surpassed by a new technology (cf. coal based energy).

… to name but a few. There are many other such reasons leading to your strategy becoming at risk of being ineffective – depending on business, strategic horizon, and like aspects relevant to each individual company or organisation. In fact, business analyses by Corporate Executive Board and Booz & Co both show that 80% of companies losing value do this, due to strategic failures – and not due to operational, compliance of external risks.

Ensuring strategic business resilience, i.e. having the ability to adapt strategic initiatives and meet the defined aspirations even if/when conditions change unfavourably is another – and highly valuable – way of applying risk management.

To do this, risk management must become an integral part of the strategic planning, and systematically identify, assess and address the risks [as well as the opportunities, why not] of the strategies <u>as they are planned</u>, and not after decisions have been made.

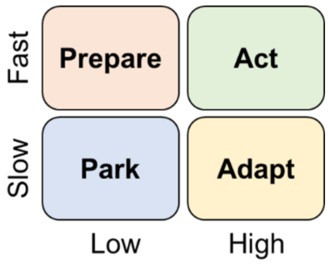
Traditional risk management seeks to ensure business resilience by prepare before the disaster materialises as risk managers know "a stich in time saves nine" (a fact of life which apparently still eludes many executives). Looking at strategy and strategic planning both the uncertainties and the stakes are higher – and hence the value of risk management so much bigger.

Process wise, strategic business resilience planning is not very different from the traditional, but the questions and issues are naturally quite different. This means that the risk manager driving this, needs solid business understanding and strategic insight – in parallel to the technical insight required for traditional risk management. Still, the steps are somewhat the same:

- **Identify** potential issues to address. Note that it is not about risks, but about issues – as most of the identified issues may be opportunities if the company wishes to actively pursue these. If not, they may become risks if a competitor pursues the opportunity.

  The approach can be a range of analytical approaches such as scenarios, "what has to be true", backward testing, business system review, strategic risk management etc.

- **Assess and prioritise** the issues identified. Due to the opacity of the future – a simple high/low scale is advocated, as companies rarely have data or insights to granulate further – and wishing to avoid analysis/paralysis.

  In this assessment, impact is in fact rarely very effective as most issues will have a high impact. More often, likelihood and speed are good parameters to apply. These may lead to a somewhat generic strategic response, which I have advocated as a PAPA" model.

  - <u>Park</u> issues are not expected to happen, and even if they do, the company expects to be fully able to adjust as needed, if they should happen. These can be parked, i.e. for these there are no explicit actions taken.

- Adapt issues are expected to happen, but to do so slowly/gradually, and [all] the company has to do is to define how to monitor and follow whatever trend this issue reflects. This becomes an integrated part of strategic planning.
- Prepare issues are not expected happening, but if they do materialise the company is NOT assumed able to handle these effectively unless there are well defined plans (essentially, business continuity plans) ready to kick-off. This becomes an integrated part of strategic risk management along with initiatives taken to pre-emptively reduce both likelihood and impact.
- Act issues are expected as well as fast moving. Handling these need – by design – to be embedded in the strategic plan for this to be addressing the expected future.

- **Handling** the issues is generically defined by the PAPA model, and it is up to company management to decide explicitly who is doing what by when, and how is that monitored.

To follow through, the prioritised issues, including those parked, will be relevant to readdress e.g. annually as part of the budget/resource allocation process. Some will have "disappeared" as having become inconsequential or have been resolved based on actions taken, others will change changed status and need other actions, and new issues may evolve and need to be included.

Addressing this enables the strategic business resilience plan to be updated and sustain its relevance and value to the company in pursuit of its aspirations.

The risk manager opportunity

If you as risk manager, is not doing this already – some of your colleagues are – you are these days provided with a perfect lever to enhance and widen your job and business impact.

Prepare how you wish/plan to apply this in your company, and leverage as hard and as much as needed, that both the COSO and ISO 31000 standards have been recently updated (ISO is expected published early 2018) and both clearly emphasizes that:

- Risk management MUST be linked to meeting objectives.
- Risk management MUST be integrated into decision processes throughout the company.

Essentially, none of this is really new – both were in the former editions of both standards as well, but too many executives and risk managers have apparently ignored that fact, so you can create the thunder needed by next to shameless exploiting the attention of an updated standard.

Step up and take the challenge to the benefit of:

- Your company, which will have a strategic resilience it never had before.
- Your boss/executive/management, who will shine as the leader behind this resilience when something does happen (as it will).
- Yourself, who will get more business impact and recognition than you have ever had before – as well as position with much wider perspectives and growth opportunities.

Every cloud has a silver lining. In the case of the risk manager – the more volatility the world is affected by, the more need there is, and the more value is created by risk management.

Good luck
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