

Roads to Resilience: Building Dynamic Approaches to Risk

Protecting and championing trusted reputations
in complex and uncertain business environments

Executive Briefing

A report by Cranfield School of Management on behalf of Airmic
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In complex and constantly changing business environments with ever more complex risk, one of the key questions that boards ask of themselves is: “What can we do to future-proof ourselves against the growing array of risks?”

In a search to answer this question, case study based research, undertaken by Cranfield School of Management on behalf of Airmic, looked at eight leading companies that constantly have to deal with significant uncertainty and risk and yet have survived, maintaining both their reputation and balance sheet. The ways they approach risk management and have achieved resilience was investigated at:

AIG, Drax Power, InterContinental Hotels Group, Jaguar Land Rover, Olympic Delivery Authority, The Technology Partnership, Virgin Atlantic and Zurich Insurance.

The research found that these organisations go beyond what would be regarded as traditional risk management. These companies recognise that dynamic business environments require a dynamic approach to risk. The traditional tools, techniques and structures of risk management are seen as necessary but not sufficient.

Managers in these organisations perceive risk management to be about protecting and championing company reputation and creating a resilient organisation. Such organisations are adaptive. They do not just focus on building heavier and stronger defence mechanisms - they build the capability to deal with both expected and unexpected crises, while still remaining focused on fulfilling the organisation’s purpose and protecting its reputation and integrity. They understand that risk is a strategic business activity, not just an operational one, and are acutely aware that risk exists at every level of the organisation and lies within every decision made.

Such companies harness the capabilities of everyone within the organisation, as well as other key stakeholders, to create a holistic, embedded approach to risk management and a culture where everyone is acutely aware of risk and acts as a risk champion. They are organisations bristling with risk awareness!

Although these companies operate in very different business environments and take very different approaches to ensuring their ongoing relevance and success, five common principles were identified. These principles are underpinned by four intertwined and dynamic ‘enablers’ of:

- People and culture
- Business structure
- Strategy, tactics and operations
- Leadership and governance.

Principles

1. **Resilient companies have exceptional radar.** Recognising that no one individual, no one function, no one organisation is as smart as many thinking together. Radar helps an organisation consider risks in aggregate, collate different types of information and respond effectively in a controlled and considered manner.
2. **Resilient companies value and build strong relationships internally and externally.** By building strong internal and external relationships, and engendering trust and a desire to collaborate and share information means that when disruption hits the organisation, all stakeholders can communicate with each other to rapidly adapt to change. Resilient companies do not just manage risk within their organisational boundaries – they proactively manage risk throughout their networks of suppliers, contractors and franchisees.
3. **Resilient companies have leaders that are respected and respectful.** Resilience is ultimately rooted in trust, respect and inclusion, and needs to be nurtured. This requires leaders who can relate with suppliers, investors, business partners and others, pull them together, facilitate the sharing of information, and provide direction and guidance to their joint efforts. Such leaders demonstrate to the whole organisation the importance of risk management by their understanding and direct involvement.

Summary of research findings

What links Roads to Ruin and this new research is the central role executives play in building and sustaining strong and productive relationships, based on mutual trust, respect and inclusion, with customers, employees, shareholders, investors and other key stakeholders, which over time develop into loyalty and contribute to resilience.

The case studies in this new research show that while there are some core principles, the road to resilience for each company will be different. It will be profoundly shaped by the nature of the business environment in which a company operates, combined with its own vision for a better world and concept for realising it. Any route taken requires a compelling purpose that instils unity of effort; that engenders foresight and situational awareness to proactively avoid or minimise the impact of potential incidents and crises; and that creates an ability to turn instability and uncertainty into a source of strategic opportunity.

4. **Resilient companies have the ability to respond rapidly.** They are able to respond swiftly to major incidents, ensuring that these do not escalate into crises, and to restore the organisation to (a new) normal as quickly as possible. Such companies use emergency response teams that can be rapidly mobilised so that senior leaders do not have to manage every aspect at once, while keeping an eye on the rest of the business.
5. **Resilient companies have diversified resources.** To avoid single points of failure, resilient organisations reduce their dependency on single critical 'resources': suppliers, markets, brands, products, investors, knowledge, etc. They identify these potential weaknesses through scenario analyses and stress-testing operations and strategic plans, and increase the diversity of resources. They develop the necessary skills for risk management throughout the organisation.

"This research illustrates an exciting role for risk professionals operating at the heart of the organisation and helping to bring together all critical stakeholders to create a resilient business"

John Hurrell Airmic CEO

What does this mean for the board?

Boards own the risk agenda and need to assure themselves that the approach taken is being followed through.

But achieving resilience is a 'joint effort'.

Such a joint effort depends on the strength of the bonds between people internally, as well as with external organisations such as suppliers, business partners, investors and others. People have the ability to learn and respond in the face of change. Processes and structures do not.

"We've got to have the ability to learn – we need to be asking, enquiring, [and] learning from others."

Generation Manager Drax Power

Strong bonds are rooted in trust, respect and inclusion, which emerge when people share a clear and compelling purpose and values. Resilience cannot be imposed top-down; this requires executives to understand the business intimately through regular engagement, to role model desired behaviours and to foster open and honest communications within and without the organisation.

"The executives sit in open plan offices. People know where we are, we immerse ourselves in the business, and they can come and talk to us."

Chief Operating Officer Virgin Atlantic

Creating the trust, respect, admiration and confidence required to bring these diverse groups together to integrate their efforts and facilitate the sharing of information also helps to avoid the risk 'glass ceiling' found in the 'Roads to Ruin' research.

"The more questions you have, the more you can learn and the fewer gaps you have, so...it is absolutely correct to put them on the table."

Managing Director UK, AIG

What does this mean for risk professionals ?

Risk professionals at resilient companies recognise that not every risk can be predicted, avoided and mitigated, and therefore defining and implementing more and more risk management processes and structures is not the answer.

"We believe that speed of response to the unexpected is more important than the predictions of a soothsayer."

Chairman TTP

Their role in achieving resilience through the five principles outlined is to support the board in creating a risk-aware culture and developing the capability and learning of the wider organisation and network to deal with risks.

"The purpose of risk management is to champion and protect the trusted reputation of IHG and its brands. To really manage risk, you've got to have the right culture."

SVP Head of Global Risk Management IHG

This can be achieved, for example, through leadership in risk:

- Communications
- Training
- Contingency plans
- Scenario analyses
- Competencies

For example, encouraging organisation-wide risk discussions through regular forums.

The role of risk professionals needs to evolve from managing risk to helping build the organisation's capability to manage risk.

Background to the Research:

In 2011, the report *Roads to Ruin: A Study of Major Risk Events: Their Origins, Impact and Implications* was published by Airmic.

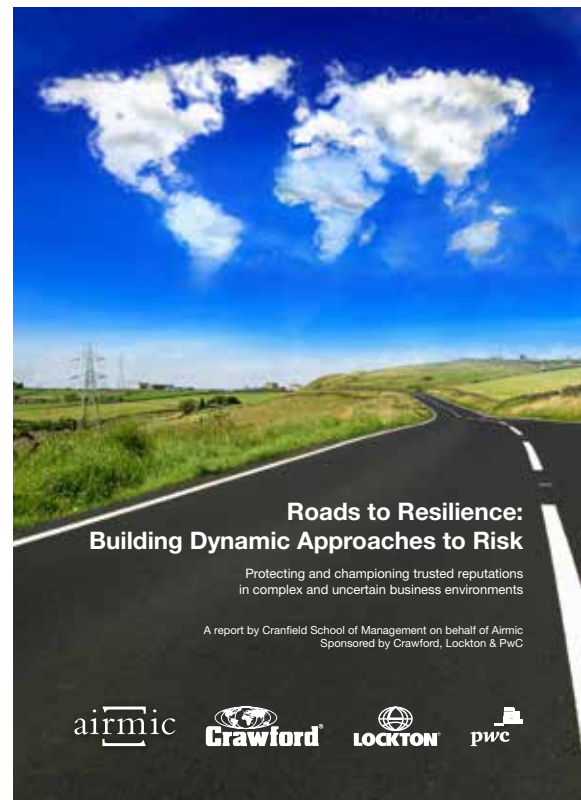
Its findings were based on information in the public domain on 18 high-profile corporate crises that left corporate “reputations in tatters”. It concluded that the “firms most badly affected had underlying weaknesses that made them especially prone both to crisis and to the escalation of that crisis into a disaster”.

A key finding was that organisations were prone to a ‘glass ceiling’, which prevented timely and appropriate risk information being passed to the board level. To understand how to eliminate the risk ‘glass ceiling’ new research was required.

About Roads to Resilience

To gain a pragmatic understanding of how organisations could develop, sustain and enhance their resilience to deal effectively with known, unknown and unknowable risks, Cranfield School of Management was asked by Airmic to study a sample of companies that have managed to protect their reputations and balance sheets in the face of significant challenges. In contrast to *Roads to Ruin*, this research could not be based solely on information available in the public domain. It required deeper insights gained through case study research.

In each of the eight case study organisations, semi-structured interviews were conducted across business operations, leadership functions, risk management and internal audit; that is, on either side of where the risk ‘glass ceiling’ resided in the *Roads to Ruin* organisations, as well as within the broader risk management function and the business, in order to compare and contrast perspectives.



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