Thriving in disruptive times

TRUST IN Resilience

BY SOO HOO KHOON YEAN

"In this world, nothing can be said to be certain, except death and taxes." Benjamin Franklin's quote, coined all those years ago, has never been more relevant than in describing the world of business today.

During the 2008 global economic crisis, strategists at a number of banks made the point that economic cycles were getting shorter and more unpredictable. We see that today in Europe's prolonged recession and the volatility of world currencies and oil prices.

Megatrends — which include demographic change, rapid urbanisation, shifts in economic power, climate change and technological breakthroughs — are disruptive forces. They present many risks. But they also bring opportunities.

For example, think of one of the largest cyber security incidents in recent times, which had international security and diplomacy ramifications. The governments and corporates involved were caught with their pants down, unprepared for a leak of that scale.

When it comes to capturing opportunity though, there's the digital transport start-up, which has capitalised on technology to challenge the entire global taxi industry's business model. Barely four years old, Uber reportedly has a valuation of US$50 billion. Yet, it is also grappling with its own set of public relations crises — ranging from off-colour comments by senior executives to accusations of harassment by drivers — as it expands around the globe.

Against this backdrop of disruption, there are some emerging themes. They show us how corporations must respond to the evolving concept of risk to ensure their resilience and their continuing role in the market and society at large.

Learn from the past ...

It is true that history can teach us a lot. Therefore, it's important to learn from past corporate failures so as to manage future risks more effectively. For example, the financial failures of the last global crisis did not stem from a lack of controls — instead, it was a problem of culture and values.

Which is why governance today must take on a different emphasis. The focus should no longer be on the hard measures — frameworks and controls; instead, it should be to inculcate a risk-aware culture: making risk management a priority for people, your first line of defence, at all levels of the organisation.

Having said that, there is a real danger of over-relying on history. The insurance industry paid a hefty price during the Bangkok floods — its statistical models did not anticipate a calamity that massive.

Social media has also changed the façade of disaster recovery planning and crisis management. So, lessons learnt 10 years ago may not be applicable when we handle issues that can go viral overnight.

Today's thinking on crisis simulation requires different approaches and new tactics — a fine balance between learning from history and evolving mindsets and processes to deal with the changing landscape.

Balancing the short- and long-term perspectives

Consumers and investors today no longer focus on quality of products or financial performances alone. Technology breakthroughs and educational advancement mean greater knowledge, which have made the two groups of stakeholders more sophisticated than ever.

Consumers are now attracted by what the brand stands for and the interrelationship between its products or services with the environment. Likewise, modern shareholders are looking at the right balance between short-term profits and medium-to-long-term financial strength.

So, where does the business that is looking to address sustainability and resilience place its focus?

Forward-looking organisations are now paying a lot of attention to values such as integrity and governance. They believe such values provide a framework for organisations to focus on medium-term wellbeing — instead of short-term performance measures — which eventually leads to a sustainable future.

One such example of this is in the use of integrated reporting or IR. As the International Integrated Reporting Council explains it, IR is about how organisations can communicate a clear, concise and integrated story that explains how all of their resources are creating value. Some companies are starting to use IR principles to drive integrated thinking and strategic decision-making.

And they are finding that this can lead to:

- Stronger cross-functional communications,
- More productive dialogue among employees at all levels and across business activities, and
- More meaningful dialogue with external stakeholders.

In the US, certain companies have shown an interest in reporting more non-financial information voluntarily. Recent research shows that nearly all of the S&P 500 companies made at least one sustainability-related disclosure in their financial reports and many have attributed their exploration of IR to increased questions from investors on corporate governance.

Managing the diversity of new markets

As organisations get more globalised and reach beyond their home countries, the litmus test for successfully managing risk is to deploy a consistent governance framework. Yet, we have seen time and time again organisations failing miserably as they navigate through the idiosyncrasies of their investments in new territories.

Companies must accept and recognise the diversity in cultures, markets and regulations as a first step towards managing risk for regional or international businesses. A globalised approach towards policies and procedures is now balanced with recruitment strategies that enable diversity within the organisation.

Best-in-class bodies that are charged with governance such as boards, and audit and risk committees now consist of people not only with the right experience but who also provide a healthy mix of gender and background. Different ideas and viewpoints are infused to mitigate business risk in a more effective manner.

Trust and integrity — new, yet old

Everything is less personal today. Booming populations and technological breakthroughs in the way we communicate have changed the relationship between business and society forever. Where we once had the door-to-door sales representative, we now have social media platforms manned by faceless, anonymous bodies.

This "distance" creates an expectation gap. We have seen adverse news spread within hours and because consumers no longer know or trust their brands, this can have devastating effects on corporate reputations.

New tools, centred on the old-fashioned values of trust and integrity, are now being used to address this expectation gap.

For example, many large corporates now not only have business continuity management strategies, but they also insist their suppliers too have such plans before they engage in business together.

In fact, with offshoring, outsourcing and cost cutting, more and more businesses are relying on a larger network of partners or suppliers to deliver on the promises they make to their stakeholders. Trust becomes even more a premium in this scenario. The thing to remember is that promises are made between people, not organisations or contracts.

Therefore, to keep the trust, make sure there is a clear line of sight between the promises you make and the people who are accountable for delivering them.

So, is it possible to survive in a marketplace without boundaries? Yes, I think so.

In fact, there are limitless opportunities to be resilient and to thrive amidst the disruption that the new digitally-led economy brings — that is, as long as we can manage the risk, and not the other way round. E

Soo Hoo Khoon Yean is a partner and risk assurance services leader at PwC Malaysia. This is the first of a four-part series entitled Trust in Resilience. The other parts will discuss specific examples of how businesses can proactively manage risk to build resilience and stakeholder trust.