

Board Perspectives: Risk Oversight

Helping Organizations Face Future Uncertainty Confidently

Many companies and industries are facing uncertainty when looking to the future. But how confident are organizations in executing their strategies successfully? More specifically, how can the board help the companies they oversee to face future uncertainty confidently?

Confidence is neither a cliché nor an assertion of mere optimism. Rather, it is a quality of the human spirit that drives leaders and their companies forward. Confidence in human endeavors is important, especially in today's rapidly changing environment. Below, we explore the attributes of confidence that executives and directors can use to assess and advance their organization's ability to apply a set of behaviors that enable sustainable competitive advantage.

Key Considerations

According to the Oxford Dictionary, confidence is "the state of feeling certain about the truth of something" and "a feeling of self-assurance arising from one's appreciation of one's own abilities or qualities." This definition focuses on management's and the board's appreciation of the collective capabilities of the enterprise, with the "something" representing the organization's vision.

From an organizational perspective, true confidence in facing the future suggests mature capabilities in which competent people with high accountability for results are pursuing a common purpose. The above definition raises three fundamental questions:

1. **Directionally, do we as an organization know where we're going and why?** Are our people committed to achieving a common vision? Is the vision clearly articulated, meaningful and aspirational?
2. **Are we prepared for the journey?** Do we have the capabilities to execute our strategy? Do we have a great team, a strong road map and the required processes, systems and alliances, and sufficient resources to sustain our journey?
3. **Do we possess the ability, will and discipline to cope with change along the way to reach our destination, no matter what happens?** Do we have the mental toughness to stay on course?

Is our management team agile and adaptive enough to recognize market opportunities and emerging risks and capitalize on, endure or overcome them by making timely adjustments to strategy and capabilities?

We believe that definitive, positive responses to these questions – answers that the board also knows to be true – enable confidence across the organization in facing the future.

Why is confidence, as discussed above, so important in business? Due to the breathless pace of change, companies need to be proactive, poised and ready to navigate constant and even disruptive change. Looking back on our collective experience working with successful companies, we can postulate seven attributes that organizations must have when facing an uncertain future – a future in which directors and their companies face even greater competition and the inevitability of disruptive change.

THE FOUNDATION FOR CONFIDENCE

Confident organizations share commitment to a vision – Commitment to a vision provides a shared “future pull” that is both inspiring and motivating. This perspective fuels enterprisewide focus and energy to learn, encouraging participation and spawning an altruistic camaraderie. In such entities, people at all levels recognize that the enterprise’s success and their personal success are inextricably linked.

Confident organizations have a heightened awareness of the environment – The more thorough the understanding of the business environment and the more reliable the information for decision-making, the more informed management is at the outset of and throughout the journey.

A confident organization constantly “reality tests” its market understanding. For example, it implements processes that: facilitate effective listening to customers, suppliers, employees and other stakeholders; generate sources of new learning; and encourage systemic thinking in distilling and acting on the environment feedback received, with the objective of driving continuous

improvement. It fosters an open, sharing culture that encourages people to say what they think and express disagreement without fear of repercussions.

Finally, it supports formal and informal continuous feedback loops to flatten the organization, get closer to the customer and foster a preparedness mindset.

Confident Organizations

Visualize where they’re going and why:

1. Share commitment to a vision

Prepare for the journey:

2. Seek heightened awareness of the environment
3. Align required capabilities

Have the ability, will and discipline to cope with change:

4. Are risk-savvy
5. Learn aggressively
6. Place a premium on creativity
7. Demonstrate unwavering resilience

Confident organizations align their required capabilities – It is a never-ending priority for confident organizations to ensure that the right talent and capabilities needed are in place to achieve differentiation in the marketplace and execute strategies successfully. Capabilities include an enterprise’s superior know-how, innovative processes, proprietary systems, distinctive brands, collaborative cultures, and a unique set of supplier and customer relationships.

Given the company’s strategy, the appropriate policies, processes and governance must be in place. The necessary reporting, systems and data are developed and built for scale. Additionally, performance metrics at the organizational, process and people levels are aligned to optimize effectiveness and efficiency. Alignment breeds confidence because leaders know it is a huge enabler to their company’s strategic execution; alignment allows for greater focus on the customer, key performance goals and realizing the vision.

SUSTAINING CONFIDENCE

The base level of confidence achieved by the above attributes is necessary but not enough without concerted efforts to sustain confidence. Astute directors and executives know that the ability, will and discipline to cope with change are also needed to sustain their journey. The ability to cope with change must come from within and requires creative and resilient people who are steadfast in their commitment to the vision, confident in their ability to understand the environment, and well aware of their capabilities.

Confident organizations are risk-savvy – The confident organization routinely identifies the risks arising from, and the risks to, executing the strategy and achieving its goals. The most critical exposures are routinely covered in the C-suite and boardroom. No idea or person is above challenge and contrarian views are welcomed.

The confident organization is risk-savvy because it is secure in the knowledge that: it has considered all plausible scenarios; its breakpoint in the event of extreme scenarios is understood; it has effective response plans in place, including plans to exit the strategy if circumstances warrant; and, most important, it has an effective early-warning capability in place to alert decision-makers of relevant trends and changes in the marketplace that affect the validity of critical strategic assumptions. In summary, the confident organization recognizes the danger of embracing the status quo.

Confident organizations learn aggressively – Aggressive learning stimulates the collective knowledge and genius of the entire enterprise to excel, which form the very foundation of truly confident organizations. A positive learning culture embraces and encourages open-mindedness, critical thinking and fresh ideas. It is critically important from a performance achievement perspective because learning can lead to the pursuit of new market opportunities and drive strategic imperatives.

Confident organizations improve their learning ability by: creating centers of excellence; embracing cutting-edge technology to drive the vision forward; fostering an open, transparent environment of ongoing knowledge sharing, networking, collaboration and team learning; viewing admission of errors as a strength

and learning from them as a necessity; and converting lessons learned into process improvements. Because in today's rapidly changing environment where individuals alone can't possibly know everything, a collaborative learning environment is vital to building a confident organization.

Confident organizations place a premium on creativity – Innovation is an entrepreneurial activity that is an integral part of the confident company's DNA. It is evidenced by setting accountability for results, with innovation-related metrics at the organizational, process and individual levels to encourage and reward creativity.

Companies committed to innovation are confident in facing the future because they know they have the capacity to generate creative ways to take advantage of market opportunities and respond to emerging risks. Often rewarded with increased market share and improved brand reputation that help them realize their vision, these companies put a premium on creativity. Because innovation is a strategic imperative, they empower and reward their employees to take the appropriate risks to make new ideas a reality, without encumbering them with the fear of repercussions if they do not succeed.

Confident organizations are unwaveringly resilient – Confident organizations seek to attain and practice "organizational resiliency." This means they have the ability and discipline to stay the course when the going gets tough or act decisively to revise strategic plans in response to changing market realities and not allow competitors to gain advantage. They have adaptive processes supported by a strong decision-making discipline, and a commitment to adapt to continuous and disruptive change as an early mover. They build large capital reserves, have great relationships with their lenders and trusting relationships with their customers, vendors and shareholders.

The strategy at resilient organizations includes triggers for contingency plans that directors and management have decided to implement if certain predetermined events occur or conditions arise. These entities encourage conversion of information regarding altered strategic assumptions into actionable revisions to established strategy and business plans.

In summary, the speed of change continues to escalate, creating more uncertainty about future developments and outcomes. If there was ever a time for a board to assess an organization's confidence, we believe it is now. It's one thing to have a confident CEO, but if the people within the entity lack confidence, the organization itself may not have the creativity and resiliency needed to sustain a winning strategy.

Questions for Boards

Following are suggested questions that boards of directors may consider in view of the nature of the organization's operations:

- How does the organization rate against the seven attributes introduced herein?
- Using these themes and the behaviors they represent, are there changes management needs to make to prepare its "readiness" for the journey that lies ahead?

How Protiviti Can Help

Protiviti assists boards and executive management with assessing opportunities and risks inherent in the enterprise's strategy and business plans – across the entity or at various operating units – and the capabilities for managing them. We help organizations identify and prioritize the risks that can impair their reputation and brand image and lead to failure to execute the corporate strategy successfully. By focusing on ensuring that the opportunities and risks that matter are being considered and addressed appropriately, management and the board are better positioned to execute the company's strategy and realize its vision.

Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders face the future with confidence. Through our network of more than 70 offices in over 20 countries, Protiviti and our independently owned Member Firms provide our clients with consulting solutions in finance, technology, operations, data analytics, governance, risk and internal audit. We have served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies.

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