



**10 questions to
embrace risk and
lead with confidence**

Strategic & Reputation Risk



Risk powers performance.



Today's business climate is one of volatility and uncertainty, where business strategies are under the constant threat of disruption. Rapidly changing consumer behavior, evolving business ecosystems, and a perpetual stream of start-ups, are threatening the assumptions at the core of an organization's strategy.

But by understanding and preparing for these strategic risks, organizations can turn this uncertainty to their advantage. They can refine their investment in new products and services to align with anticipated disruptions, and focus their M&A activity on ensuring they have the right mix of capabilities to meet future demand.

But how do organizations know they're prepared to respond to these strategic risks? This report poses **10 questions** leaders should be asking themselves to find out if they are prepared for the next industry disruption, natural disaster, competitive attack, product recall, or activist investor.

Leading organizations have learned how to protect value through risk management. But we believe those leaders who recognize the opportunity for risk to power performance will also *create* untapped value. Deloitte's Risk Advisory professionals around the world can guide you on that journey.

To learn more, please visit us at www.deloitte.com/risk.

Regards,

A handwritten signature in black ink that reads "Sam Balaji". The signature is written in a cursive, slightly stylized font.

Sam Balaji
Business Leader
Global Risk Advisory

Looming threats. Big bets. Emerging trends.

To succeed in today's world, leaders have to welcome and embrace uncertainty.

High-stakes uncertainty can take many forms. It can be a crisis around the corner, a major acquisition down the road, or an actual industry disruption.

For prepared organizations, uncertainty can provide an opportunity to put distance between themselves and their competitors.

As for individual leaders—it can make or break their careers.

Whether it's a value-destroying crisis, a shift in industry dynamics,

or a brand threat, those leaders who view risk more broadly than just compliance will anticipate better, seize opportunities, and emerge stronger.

The following pages present 10 questions you should be asking yourself to find out if you are prepared for the next industry disruption, natural disaster, competitive attack, product recall, or activist investor.

From inviting in a contrarian viewpoint to wargaming, there are ways of getting ready, even if you don't know exactly what's around the corner.

Because something is. Trust us.



What risks are my biases creating?

Consider the bigger picture

You're on top of the world. You're highly successful. You're used to making big decisions. So why would you ever go against your instinct?

A level-headed executive in a well-run organization would seem like a good candidate to navigate through change. But instinctive responses are deeply ingrained and difficult to overcome, and then organizational dynamics exacerbate the propensity for irrational decision-making. Thus, during periods of great change, at the very moment rationality is needed most, the impulse to act without reason takes over.

For example, let's say you are the CEO of a successful multinational, confronted with an emerging trend that could have a detrimental impact on your business. You immediately dismiss the risk because your thinking is clouded by the "status quo" bias—and why wouldn't it be? You've been

around long enough to know that the odds of this risk materializing are low. But are they? Or, consider you are an executive who is confronted with a product failure. You immediately focus on lapses in engineering. This is fine, but you may have lost sight of the bigger picture, which is a loss of customer trust. In this case, we see the "narrow framing" bias at work.

In these two cases, there are no egregious errors, so what would you do any differently? First, understand that humans are a flawed species, hardwired with all kinds of cognitive biases. Once you've embraced that reality, seek outside views from unexpected sources. And, most importantly, find those people inside and outside the company who will challenge your thought processes.

As all executives know, being at the top is a lonely place. It's not easy to find people who will tell you the truth, especially if the truth is, *you're wrong*.

"Success is a lousy teacher. It seduces smart people into thinking they can't lose."

— BILL GATES
Microsoft Founder

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Am I acting decisively when I see change ahead?

To change or not to change...

That is the question.

There's a lot of talk these days about looking into the future and building the capability to see what lies ahead.

This discipline is certainly necessary, but it's not sufficient.

The real dilemma many CEOs encounter is whether to cannibalize an existing business that is wildly successful when they see change on the horizon.

Making big wagers in an uncertain business environment with many variables is not for executives with weak hearts.

You probably have a good idea of where the opportunities and challenges are coming from in your own industry. You have access to leading thinkers, you have years of real-life experience, and you have a peer network second to none.

The problem is not just seeing ahead, however. It's also deciding when to take action, and then taking it confidently.

Many executives just look away, not knowing if the challenges are really going to impact

“Whether 'tis nobler in the mind to suffer The slings and arrows of outrageous fortune, Or to take arms against a sea of troubles, And by opposing end them?...”

— SHAKESPEARE'S HAMLET

them, because their organization doesn't have the will to transform itself a minute earlier than necessary.

But that may be too late.

Good leaders put in place mechanisms to scan the environment and understand its ramifications.

Great leaders act on what they see. They are not Hamlet, paralyzed by indecision. There is no gap between knowing and doing. They mobilize entire organizations in the direction of an unproven future.

They make large wagers and capitalize on change before change overtakes them.



Who challenges the assumptions in my strategy?

Who's your contrarian?

You've likely got a bunch of smart people responsible for setting strategy. And they probably do it well.

But they are probably basing those strategies on a set of common assumptions and beliefs. And guess what? Their assumptions may be wrong.

In the late 1500s, the Roman Catholic Church instituted a new position, an attorney whose job it was to argue against sainthood for any candidate. This lawyer was asked to take a skeptical view, looking for misdeeds, frauds, lapses in character or immorality—and he was called the *advocatus diaboli* (devil's advocate). He would argue his case against another attorney, *advocatus Dei* (God's advocate), who would support the saintliness of the candidate. In our day, atheist Christopher Hitchens was asked to play devil's advocate against the beatification of Mother Teresa.

Smart leaders should take a cue from this practice and seek out contrarians for different purposes. That person or team can surface blind spots, offer alternative perspectives, challenge assumptions, counteract organizational myopia, and build resilience into the strategy.

A contrarian should give you as a decision-maker confidence that as many perspectives as possible have been considered, including those which might not be popular. Appointing a contrarian in your organization can go a long way toward giving you confidence that the decisions you make are the right strategic choices.



Are we always looking for reasons to say no?

The risk of missed opportunity

Be brutally honest for a minute. Are you so financially successful and dominant in your industry that when an opportunity for change arises, your first instinct is to swat it down?

If you're in an organization that's financially successful, you're the category leader, and the vibe is status quo, chances are that 90 percent of the energy is spent defending why you shouldn't do something.

Not making a change today because you're comfortable is very easy. So why would you challenge everything that has made you successful to date?

One of the biggest risks an organization can expose itself to is to do nothing; customers and investors simply will not tolerate resting on your laurels. In this world, doing nothing is not a strategy.

So, are you taking *enough* risk?

What if you start evaluating big strategic decisions not only in terms of the risk of doing something, but also in terms of the *risk of not doing anything*? What is the impact on revenue, market positioning, brand, and competitive advantage if you *don't* change?

“The biggest risk is not taking any risk. In a world that’s changing really quickly, the only strategy that is guaranteed to fail is not taking risks.”

— MARK ZUCKERBERG
Facebook Founder

For example, what if the largest social network had found all the reasons not to acquire a photo sharing app? Conversely, what has been the cost to the taxi industry of trying to keep things the way they always were?

You can apply this filter to all big decisions, like evaluating a proposal for a new product or service, making an acquisition, or responding to a disruption.

Because the biggest risk you may face is all the risks you are not taking. Don't let inertia destroy you.

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What's our reputation worth, and who owns it?

All you have is your reputation

Reputation is everything. Just ask leaders who routinely cite it as the greatest risk to their business. It's worth far more than dollars, and it's measured in alternative currencies like trust, attention, and admiration. But in the age of Twitter, the speed with which it can be damaged and the aftermath can be more devastating.

Stop and think about all the industries that have been hurt by negative brand attention over the last several years: automotive, hospitality, oil and gas, retail, and financial services, to name a few.

So, who in your organization owns your reputation? And do you know what drives your reputation with the stakeholders that matter most?

Your first response might be that brand and reputation are the purview of public relations (PR).

And while PR involvement is essential, it's not enough.

Reputation goes to the heart of the business—from the promises made to customers to the expectations of shareholders.

That's why a good brand and reputation program must start with senior leaders—the chief strategy officer, the chief risk officer, and the chief marketing officer—who work together to enhance, protect, and preserve your reputation.

That program should engage employees as corporate ambassadors, constantly look for gaps in what is promised versus what is delivered, and invest in systems to monitor and track external feedback across stakeholders.

Simply put, threats to your reputation are some of the most important risks your organization will ever face.

So what's your brand worth? Don't take the chance of finding out.

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.”

— WARREN BUFFETT
World's Most Successful Investor



Am I prepared for a crisis? *Really?*

A gram of prevention is worth a kilogram of cure

Think about all the crises that have happened over the last few years: safety issues, data breaches, terrorism, and embezzlement.

What's interesting is that even though these incidents dominate the headlines, most senior executives are still not prepared for a crisis.

There are two or three "game changers" in one's career. It's how you respond in those situations that changes everything—your life, your personal brand, your legacy.

Of course, none of us wants to spend time preparing for the unknown. It's inconvenient, you've got more pressing needs, and you certainly don't need yet another meeting.

But when that inevitable crisis hits, how are you going to react? Are the organization's crisis protocols second nature? Poor planning and a chaotic response will lead to a much longer and more costly recovery.

Preparation starts by having an enterprise crisis plan as well as plans for specific scenarios: market changes, regulatory issues, lawsuits, activist shareholders, customer concerns, cyberthreats, and natural disasters, to name a few.

Then the preparation continues in rehearsal, using simulations and wargaming techniques. This step is critical: By practicing real-time decision-making in a risk-free, yet rigorous environment, executives build confidence and develop a certain muscle memory they can automatically rely upon in any novel situation.

Sure, practicing is optional. You can rely on intuition and reflexes alone. Or, you can be confident that you're well-rehearsed and ready for any crisis, even ones you may never have imagined.



Do I know who's ready to lead during a crisis, and am I honest enough to say I may not be?

Making the team

In a crisis, even the most capable leaders can freeze.

By failing to act on vital information, uttering the wrong words to the media, or making an ill-timed decision, a well-meaning executive can make a bad situation even worse.

To bring this to life, let's use a sports metaphor:

How many forwards thrive in football matches during the regular season, shooting goals and winning games? But when the pressure is on in a world championship, with seconds left on the clock, with millions of people around the world watching, there are a precious few who rise to the occasion.

Leading your team during a crisis is no different.

While making preparations and rehearsing are critical, you need to identify who from your executive team is capable of leading under extreme duress.

Don't forget to leverage the wisdom of your board. They have likely seen a crisis or two in their lifetime and are uniquely qualified to provide input on the skills needed and the executives who are ready to navigate a crisis.

Look for someone who has confidence, can deal with ambiguity, and makes quick decisions with limited information.

Only leaders who have gone through crisis training and have demonstrated they can make decisions under "simulated" stress should lead in a crisis.

If they haven't gone through the training, they can't play in the championship match.

"Faced with crisis, the man of character falls back on himself. He imposes his own stamp of action, takes responsibility for it, makes it his own."

— CHARLES DE GAULLE
Former French President



Will I use a crisis as a force for change?

Don't waste a good crisis

We've all heard the admonishment not to let a good crisis go to waste. But do you know where that saying comes from? Its roots are actually found in the medical profession.

Medical crises can be used as a call to action. Take someone who has just experienced a heart attack. His initial response is survival, but after he recovers, there is an opportunity to use the health scare as the impetus for making real lifestyle changes.

These changes can make him more resilient in the long term.

Most organizations miss the chance to use crises as transformative events. Like foolish

humans, they put in a stent and continue eating and drinking the same way. When the next crisis appears, they just go and get a second stent.

But because a crisis exposes the plain truth, it's a cathartic event and an opportunity for change. You were finally scared, saw clearly, and perhaps realized you need to make a complete turnaround in your organizational beliefs, culture, mindset, values, and processes—all things you could not do before.

So use a crisis as an opportunity to fix the things that are not working, to go from defense to offense, and to emerge stronger than before.



Is my risk management team giving me the confidence I need to make high-stakes decisions?

How does risk management reinvent itself?

Part of every executive's job is to uncover issues that might stand in the way of success and put in place strategies to overcome them.

The job of risk management is to make these executives more confident to take strategic risks; to demand objectivity in decision-making; and to focus on value added, not just value preserved.

However, this is not the case in many organizations. Some risk managers are seen as an obstacle or an impediment. They may use language and terms that don't connect to the business and processes that the business doesn't view as adding value.

Risk management is often separated from the rest of the business and condensed into a compliance-oriented rather than a consultative role.

And because it is an afterthought or a box to check, executives tend to feel that risk management is being foisted upon them by risk management personnel.

So, how does the risk management function reinvent itself to be perceived as an enabler of the business and to earn the attention of senior leadership? How can a better understanding of risk make the executive better at what she does?

The risk management function should be embedded within the business rather than sitting on the sidelines as a policing function.

It must be more than a team focused on compliance matters; it should be a group of leaders walking in the shoes of the business, providing expertise and consultation.

With everything risk management knows about the downside possibilities of the company, it can easily be a contributor to its upside.



Am I engaging our board's expertise to navigate uncertainty?

Bring the board onboard

Let's assume you have a great board of directors. You've got people who are titans of industry and have different perspectives and experiences. They've managed through countless crises and know how to spot emerging trends and industry threats.

And yet, if you're like many companies, you may not be using them as wisely as you should. Sure, your team spends a huge amount of time preparing presentations for them. But the information is often so voluminous and unfocused that the bulk of the meeting is spent presenting materials rather than engaging in useful conversation.

This approach is outdated and wrong. "Board of directors" isn't just a fanciful name. They ought to be able to help you. And to do that, they need to know—honestly—what you're facing.

Besides, in this era of shareholder activism, keeping information from the board might just cost you your job.

If you don't have a board with the skills to advise you on emerging and strategic risks, work with the chair to bring on more contemporary skill sets—such as knowledge of cyber risks, an understanding of disruptive technologies, or trends that may impact your business.

And then, don't just inundate them with content. Have a conversation with them. Let them coach you. Let them challenge your thinking, add insight, and interject the voice of the shareholder into your strategic deliberations.

How often do your discussions go beyond financial and operational risks to include emerging trends and potential crises?

Don't be afraid to use the board as a sounding board for your decisions. Be confident enough to know that you've got blind spots, so engaging some former CEOs in a real conversation might bring you some much-needed new insights.

"The only true wisdom is knowing you know nothing."

— SOCRATES
Greek Philosopher

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Deloitte has been widely recognized as a market leader, including this recent independent analyst report:

- **Deloitte named a leader in Reputational Risk & Crisis Management Consulting by ALM Intelligence**

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