

10 questions to embrace risk and lead with confidence

How to leverage risk to power performance

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Risk powers performance

To succeed in today's world, leaders must welcome and even embrace uncertainty. The stakes have never been higher, yet uncertainty can take many forms. It can be a crisis around the corner, a major acquisition down the road, or an industry disruption.

We recognize there is a natural tendency to view uncertainty in terms of potential negative outcomes, but when viewed from the perspective that risk powers performance, business leaders will anticipate better, seize more opportunities, and emerge stronger.

This report details the questions you might consider as you make strategic decisions in a fast-moving marketplace. These questions help you consider risks created by your own biases. Whether you have the right

information to make high-stakes decisions, or if you're willing to invite in a contrarian viewpoint. Regardless of the scenario, there are many ways to prepare—even if you don't know exactly what's around the corner.

Leading organizations have learned how to protect their value through risk management—and that's still a vital role for risk—but those leaders who recognize the opportunity for risk to power performance will also create value. Deloitte's Risk Advisory professionals around the world can guide you on that journey and help you transform your organization into a place where risk powers performance.

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 fluid and cursive, with the first name "Sam" and last name "Balaji" clearly distinguishable.

Sam Balaji
Global Risk Advisory Business Leader



Looming threats. Big bets. Emerging trends.

Change—in its many incarnations—is never out-of-mind for Canadian business leaders. Recent months have put government and administrative change at the forefront, with Brexit in the UK and a new administration in the US heralding a new era of uncertainty.

Organizations are asking themselves: How do we conduct cross-border business effectively? What impact will the Canada – EU Comprehensive Economic and Trade Agreement (CETA) have on our business? How do we respond to impending regulatory changes? Where is immigration headed and how will that affect talent and the labour force? How can we leverage the new US administration's apparently pro-business stance before more protectionist measures are brought in?

This extent and pace of change will elevate levels of accompanying strategic risk significantly and will challenge businesses to pivot quickly to face it. While negative


repercussions are always a possibility, 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. Those who understand and embrace risk beyond compliance will be best prepared to take advantage of new opportunities and build a better, more agile organization.

The following pages present 10 questions you should be asking yourself to find out if you are prepared—not necessarily for specific changes that are impossible to predict but for the reality of substantive, ongoing change. From challenging prevailing opinion to business wargaming, there are many ways of getting ready, even if you don't know what's coming.

Because change is always around the corner.

Regards,



Jacqueline Bukaluk
Canadian Strategic Risk Leader

1

What risks are my biases creating?



“Success is a lousy teacher. It seduces smart people into thinking they can’t lose.”

Bill Gates

Microsoft founder

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 organization, 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 a “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 design. 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 a “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*. ➔

Am I acting decisively and adapting effectively 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, but while this discipline is certainly necessary, seeing is not sufficient.

The real dilemma many business leaders encounter when they see change on the horizon is whether to take the corresponding series of steps required to go from seeing to achieving. This means responding quickly and adapting effectively to change, then ultimately taking strategic action at the right time and with justified confidence.

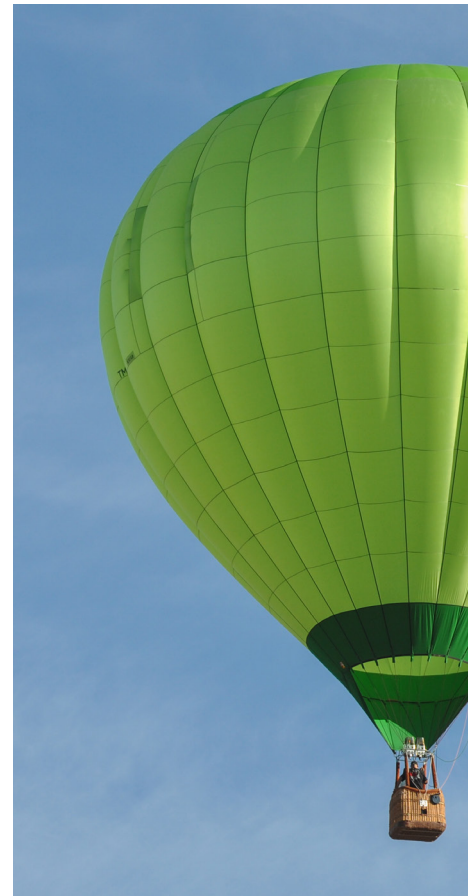
Getting that process right is based on constantly scanning for and gathering the right risk-sensing data—data that offers insights into where potential risks may lie. This can come from disparate sources, including social media, public information, blogs, and more. You're basically monitoring global media for risk signals that apply to your industry and business.

Despite having the required knowledge, experience, and networks, many executives just look away, not knowing if the challenges are really going to affect them, because their organization doesn't have the will to transform itself a minute earlier than necessary. But that may be too late.

For example, the decision to acquire an existing business is an extremely difficult one. To facilitate the decision, good leaders put in place mechanisms to scan the environment, understand the ramifications of acquisition, transform the organization as necessary, and take advantage of opportunity before the competition does.

Making big wagers in an uncertain business environment with many variables is not for executives who are faint of heart, but great leaders act on what they see. They are not paralyzed by indecision. There is no gap between knowing and doing. They will mobilize entire organizations in the direction of an unproven—but risk-aligned—future.

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



“[...]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

3

Who challenges the assumptions in my strategy?

“Time spent arguing is, oddly enough, almost never wasted.”

Christopher Hitchens

Author, in [Letters to a young contrarian](#)

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 also probably basing those strategies on a set of common assumptions and beliefs that may not always be applicable.

It's critical to have the right knowledge and a range of informed perspectives at hand when a major strategic decision is looming. If you're expanding to another country, do you have someone who can critique your plan based on culture and consumer taste? If you're shutting down an unproductive research department, do you have someone empowered to say, “In today's competitive environment, does it really make sense to give up on innovation?”

Smart leaders will seek out contrarians for different purposes—people or teams who represent the concept of “effective challenge.” Functioning at either the board or management level, or serving as external business advisors, they have not only the strength and initiative to ask the tough questions and truly challenge strategic assumptions, but the authority and support of leadership to do so. This process can help reveal blind spots, offer alternative perspectives, challenge assumptions, counteract organizational myopia, and build resilience into the strategy.

A contrarian should give you confidence as a decision-maker that as many perspectives as possible have been considered, including those that might not be popular. Appointing a contrarian and embracing effective challenge 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? Many successful organizations do, in fact, end up developing a status quo vibe and find themselves spending 90 percent of their energy defending why they *shouldn't* do something. The thinking is, why challenge whatever has made you successful to date?

However, one of the biggest risks an organization can expose itself to is to do nothing; customers and investors simply will not tolerate you resting on your laurels. So, are you taking *enough* risk?

According to the World Economic Forum, the average life span of today's multinational Fortune 500-size corporation is 40-50 years. In order to continue to grow and thrive, organizations must take risks. But how can this be done strategically? 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 strategy, revenue, market positioning, brand, reputation, and competitive advantage if you don't change?

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.

When it comes to disruption, it can also help to conduct a disruptor analysis to avoid the that-could-never-happen mentality. Have an internal brainstorming session—with key financial and marketing people at the table—to identify current innovations that could affect your business model. A financial institution, for example, has to be looking at fintech, mobile pay apps, peer-to-peer lending platforms, and other potential industry disruptors to avoid being blindsided.

Airbnb, Uber, self-driving cars: these disruptors of established business models are just a few of the many lessons out there. Doing nothing is not a strategy. Don't let inertia destroy you. ➤

“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

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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 devastating.

Stop and think about all the industries that have been hurt by negative 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 a specific organizational function, which could be public relations (PR), legal, corporate communications, or investor relations. But regardless of which it is, their involvement is usually not enough.

Reputation goes to the heart of the business—from the promises made

to customers to the expectations of stakeholders such as shareholders. That's why a good brand and reputation program starts with senior leaders—the chief strategy officer, the chief risk officer, and the chief marketing officer—who must work together to enhance, protect, and preserve your reputation.

A brand and reputation 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. Many organizations will also hire or partner with an external brand and reputation management firm, leveraging specialized expertise to maintain the highest levels of brand value.

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

So what's your brand and reputation 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 we have seen organizations experience over the last few years: health and safety issues, data breaches, food safety problems, environmental disasters, terrorism, and fraud. 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 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 to you? Poor planning and a chaotic response will lead to a much longer and more costly recovery.

Preparation starts by having an enterprise crisis framework as well as plans for specific scenarios: market changes, regulatory

issues, lawsuits, activist shareholders, customer concerns, cyber threats, and natural disasters, to name a few. Then you need to rehearse using simulations and wargaming techniques. This step is critical: by practising real-time decision-making in a risk-free, yet rigorous, environment, executives build confidence and develop a certain muscle memory they can activate in any situation.

Once you're prepared to act in a variety of situations, you need a practical execution plan detailing the steps to take, and who will take them, when a crisis occurs. For example, who will be on point to deal with a crisis internally, and which external partners will you rely on for assistance? Depending on the event, you'll need resources such as crisis navigators, communications managers, cyber instant-response specialists, and environmental analysts. When the time comes, they will need to be coordinated and quick to react.

Sure, practice and planning are 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. ➤



"It's not the will to win that matters—everyone has that. It's the will to prepare to win that matters."

Paul "Bear" Bryant
US college football coach

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Do I know who's ready to lead during a crisis, and am I honest enough to say it isn't me?

"Some people want it to happen, some wish it would happen, others make it happen."

Michael Jordan

Basketball legend

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.

Consider the world of sports:

How many basketball teams thrive during the regular season, throwing dozens of baskets and consistently racking up the wins, only to hit the wall during the playoffs? When the pressure is on in a national championship—with seconds left on the clock and millions of people watching—how many clutch players are out there to almost always rise to the occasion? Precious few.

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. And don't forget to take advantage of the wisdom of your board; these directors have likely seen a crisis or two in their lifetime and are uniquely qualified to provide input on required skills and help identify which executives are ready to "take the ball."

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 you haven't gone through the training, you can't play in the championship game. ➡



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 in the medical profession.

Medical crises can be used as a call to action. Take someone who has just experienced a heart attack. The initial response is survival, but after recovery, there is an opportunity to use the health scare as the impetus for making real lifestyle changes and ultimately becoming more resilient.

Most organizations miss the chance to use crises as transformative events. When the next crisis appears, they just go and do the same thing again.

A personal crisis exposes the plain truth. It's a traumatic event that creates an opportunity for change. You're scared, you see things differently, and you realize the need for change. Business is similar: following a corporate crisis, many organizations realize they need to do a complete turnaround with respect to organizational beliefs, culture, mindset, values, and processes—all things you were not doing effectively before.

By laying the groundwork for an effective response, organizations may also be able to turn crises to their advantage—identifying opportunities to expand market share, improve their competitive positioning, or attract new customers at a time when their industry peers are simply struggling to react.

“Close scrutiny will show that most ‘crisis situations’ are opportunities to either advance, or stay where you are.”

Maxwell Maltz

American scientist, author

So view a crisis as an opportunity to fix the things that are not working, to go from defence to offence, and to emerge stronger than before. ➤

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

Risk management is everyone's responsibility

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 a strategic partner, enabling the business, and earn the attention of senior leadership? How can a better understanding of risk make the executive better at what she does?

Risk management should be embedded within the business in addition to being a separate function. Risk leaders must act as a strategic part of the business and not a policing function.

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

With everything risk management knows about the downside results of an organization, it can also contribute to its upside. ➤

“Teamwork is the ability to work together toward a common vision. The ability to direct individual accomplishments toward organizational objectives. It is the fuel that allows common people to attain uncommon results.”

Andrew Carnegie

Philanthropist, industrialist



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

10



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 organizations, you may not be using them as wisely as you could. Sure, your team spends a huge amount of time preparing presentations for them. But the information is often so voluminous that the bulk of the meeting is spent presenting materials rather than engaging in useful conversation.

Boards of directors ought to be able to help you, and more importantly, they want to help you! And to do that, they need to know—honestly—what you're facing.

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 people with more contemporary skill sets—such as knowledge of cyber risks, an understanding of disruptive technologies, or insight into other trends that may affect your business.

And then, don't just inundate directors 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 a former CEO, board member, or an advisor in a real conversation might bring you some much-needed new insights.

“Information is not knowledge.”

Albert Einstein

Physicist





Contacts

Jacqueline Bukaluk

Canadian Strategic Risk Leader
Partner, Risk Advisory
jbukaluk@deloitte.ca

Nathan Spitse

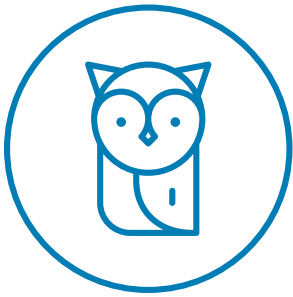
Canadian Crisis Management Leader
Partner, Risk Advisory
nspitse@deloitte.ca

Pierre Gignac

Senior Manager, Risk Advisory
pgignac@deloitte.ca

Prashant Masand

Senior Manager, Risk Advisory
prmasand@deloitte.ca



Recognition

Deloitte has been widely recognized as a market leader, including in these recent independent analyst reports:

1. Deloitte named a leader in Reputational Risk & Crisis Management Consulting by ALM Intelligence.

Source: ALM Intelligence; Reputation Risk & Crisis Management Consulting 2016, ALM Intelligence Consulting Research & Advisory estimates © 2016 ALM Media Properties, LLC.

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2. Deloitte named the leader in Global Risk Management Consulting Services, based on completeness of vision and ability to execute, by Gartner.

Source: Gartner, Magic Quadrant for Risk Management Consulting Services, Worldwide, Jacqueline Heng, John A. Wheeler, 5 November, 2015.



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