Modified Enterprise Risk Management
Building resilience in a changing operating environment
The Covid-19 pandemic challenges leaders to stabilise amid crises and prepare for a newly uncertain future. The decisions businesses make in the near term will drive how the entity is sustained in the long term. Now is the time for leaders to take decisive action to soften the shocks yet to come, and at the same time prepare for what may change in the months ahead.

We believe that the Covid-19 pandemic, like any crisis, will play out over three stages: respond, recover and thrive. The stages breakdown as follows; in the respond stage a company deals with the present situation and manages continuity, the focus is on crisis management – dealing with the now; During recovery, organisations learn and emerge stronger, this is when organisations need to move the dial from crisis management to Enterprise Risk Management (ERM). Leaders that can modify their ERM capabilities to respond to newly emerged organisation-wide threats, and strengthen resilience, will move past recovery faster. Moving into the final phase, thrive, companies prepare for and shape the “next normal”, and meet their goals. With robust ERM organisations can successfully navigate the Covid-19 crisis and come through stronger.

As Governments commence the slow process of re-opening economies, organisations are experiencing the move from respond stage, and crisis management, to recover. This will create opportunities to prepare for a future that will include economic, human, geo-political and supply chain uncertainties. This document will examine how organisations should modify and enhance their existing ERM capabilities to build resilience in the face of this changing operating environment.

“The greatest danger in times of turbulence is not the turbulence itself, but to act with yesterday’s logic.”

Peter F Drucker (1980)
Respond – Responding to the challenges of Covid-19

Since the World Health Organisation announced Covid-19 as a global pandemic on 11 of March, organisations have been hit with multiple challenges that have affected every aspect of their operations. Responding to these challenges has been the focus of many organisations for the past number of weeks.

Organisations have faced much disruption, providing challenges and exposure to new risks. Leaders have adapted to a workforce that are now predominately working from home, heightening exposure to cyber-attacks and operating in an unknown marketplace, all while juggling staff wellbeing, connectivity, and cash-flow.

Many Covid-19 related risks have materialised abruptly, with very little time to prepare. This has launched organisations into full-on crisis management, responding with risks that may not have been envisaged, and which have tested ERM capabilities to the fullest extent. The success, or otherwise, of those capabilities offers management a real-time war game and opportunity to enhance their risk response capabilities.
Recover – Moving from crisis management to ERM

A change of approach.
Over the past few weeks businesses have managed their organisation through the initial impact of the Covid-19 crisis, lessons have been learned as businesses and economies operate in the “new normal”. It is time to move out of crisis management to ERM.

Has Covid-19 changed our approach to ERM?
The simple answer is ‘no’ as your ERM governance structures should remain intact. However, to successfully transition beyond respond into the recovery phase, ERM governance structures should attune to focus on the risks that really matter to your objectives, such as, people, cash-flow, supply chain and access to markets. In fact those responsible for ERM should not apologise for being single minded in their determination to prioritise their risk response.

Up to now organisational focus has been on crisis management, managing short-term impacts to the organisation’s risk profile, and identifying how emerging risks will change the risk profile. It is now more important than ever to determine what are the actions or strategies needed to mitigate these newly emerging risks and strengthen resilience. ERM is the tool to drive scenario planning, strengthen resilience, and respond to board and stakeholder concerns.

The time is now
Existing ERM approaches, whether at the top or bottom of the maturity scale, need to be timely now more than ever, and be unapologetic in their singular focus on risks that matter most. New risks are materialising at a more accelerated rate than before, and continually evolve. Driven by the speed of change that Covid-19 has brought upon us, management need to ensure that their risk mitigation approach is timely, appropriate, focussed and actionable.

In practice, this means more frequent reviews of core risk domains (people, cash-flow, supply chain, markets), adequacy of response mechanisms, and in-depth assessment and scenario planning should threats materialise.

Have a pan-organisation response
While remote working has brought challenges, ERM in response to the Covid-19 crisis needs to be organisation-wide, and requires management across the business to be involved. This is largely due to the inter-related impact of Covid-19-related risks, impacting many facets of business, and which need leadership from many disciplines to develop well-thought and cohesive response strategies. Leadership from top-tier management will be required to heighten ERM to the agenda of executive management teams.

Transform to digital ERM
Technology has been a key enabler as organisations have sought to keep teams safe and organisations resilient in a more virtual world. As we quickly Moved to working remotely, most organisations have successfully adopted on-line collaborative capabilities. This will be vital as the need to identify and assess emerging risks intensifies, and access to business leaders is needed to develop and agree rapid response strategies.

With an already fast-paced environment now gone into over-drive, management decisions are required at an accelerated rate. The Covid-19 crisis has demonstrated the value of data in responding to risks, not only for Governments and national decision making, but also to inform businesses of emerging risks and how they can impact objectives. Decisions made in these circumstances can be critical to future viability. Sound data should inform risk mitigation strategies, making reliable data a significant priority as we manage risk in response to Covid-19 and build resilience for the future. To meet these needs, the transformation to digital ERM, using cloud based technologies and data analytics, will lead to more effective collaboration and threat response.

Practice caution
At a time of such uncertainty, it is timely to monitor the pulse of your risk appetite and tolerances. Understandably, most organisations are now taking a very cautious approach as risk appetite lessens. This should be monitored more frequently, be used to inform decision-making at this crucial time, and may drive the need for actions that had not previously been considered.

To the right we outline some strategies to mobilise ERM to move to the recovery stage.
Recover – Emerging risks

Our new “normal”
As we begin to transition from respond to recover, and into new ways of living and working, many of the uncertainties and risks we feared have materialised, and crisis management plans have been enacted. The economic impact of Covid-19 is at the forefront of the global agenda, with many emerging risks now becoming permanent concerns. The unknown has become a more permanent state. Without a clear end-date, travel patterns, consumer and business confidence will stagnate. Businesses should now use ERM to focus on “how to work” and recover in the “new norm” we are living in.

- New “normal” is not known
- Process dependencies on people
- Stop - start economy for a prolonged period
- Security of supply
- Change in consumer behaviours and spend patterns
- Changed international travel patterns
- Downturn in consumer confidence
- Funding for digital investments
- Change in workforce expectations - the “future of work”
- Changed stakeholder expectations
- On-going workforce wellbeing
- Increased need for Board assurance on strategic direction post Covid-19
Thrive – Robust ERM

Facing the future
In time, the Covid-19 crisis will pass. How organisations respond today, using informed ERM mechanisms and scenario planning, can make a significant impact on continued viability, and can position you favourably for economic upturn.

Management should start to think about focusing on a return to market posture in preparation of moving to the thrive stage. This will require effective management of the transition back to a restored future. Using ERM, management will need to juggle many risks, such as: permanence of changed customer behaviours, operating for cash or profit, accelerated digital transformation, changes to the social contract with employees, and changes in social and institutional expectations.

Having a well-developed capability to respond to opportunities, and manage related risks effectively, will build organisational resilience for the future, allowing you to thrive.

ERM will be a key pillar in that capability and the time is now to use ERM, to its fullest extent, to build resilience.

“The historic challenge for leaders is to manage the crisis while building the future.”

Henry Kissinger

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