Future-Proofing the Board through Building Resilience

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With multiple issues to focus on – geopolitical shifts, economic disruption, new pandemics, digital transformation, extreme weather and climate change – boards must prepare themselves to be future-ready to navigate these challenges. To do so, boards need to strengthen their organisations against future shocks and disruptions. In other words, they have to prepare for risk and build resilience.

Boards play a crucial role in preparing organisations to deal with extraordinary risks. Yet traditional approaches to risk management are often insufficient in today's complex and rapidly changing business environment.

High-consequence, low-likelihood events, such as pandemics, can cause long-term economic impact, significant reputational damage and leadership changes. Often, it is not so much about looking for "black swans" but identifying events that would have significant ramifications for the organisation and its value proposition.

Boards should prioritise understanding and monitoring of emerging risks and disruptions. When considering high-consequence/low-likelihood events, boards do not focus only on their organisation. Rather, the perspective could consider how the broader industry is thinking about the issue.

Preparing for risk

To achieve this, boards could actively engage in discussions on risk management. In addition to challenging management's assumptions, board members could ensure risk is considered in strategic decision-making.

While tempting to look at risks individually, boards could consider scenarios where multiple risks hit at the same time. Covid-19 represented a combination of risks: a health crisis, a financial crisis and a social crisis rolled into one.

When evaluating multiple risk scenarios, boards could review and assess both the organisation's appetite and tolerance for risk as well as financial and non-financial risks. Several approaches are discussed in the box, "Approaches to Risk Management".

By assessing the likelihood of different things happening, their complexities and interdependencies, and the implications for the company, a board can help prepare for risk. Tactically, it means looking not only at forecasts but scenarios, with stress testing, early-warning systems, and some clear management decision processes around what the company would do if X, Y or Z were to happen.

Approaches to Risk Management

Capture leading indicators.
When a trend is not favourable to the operating model or strategic plan, the board could consider how to track leading indicators so that it can act if the trend reaches a certain point.

Trigger-based actions.
Having a decision tree of factors that would lead the company along one path versus another allows the board to take immediate action during a crisis.

Integrated decision-making.
A board could ensure that risk management processes are integrated with strategic planning, capital allocation and performance management. Sometimes, directors ask three or four challenging questions, and then think they have done their jobs. But a discussion among directors and management could surface some of the big risks.

Do not assume the status quo will remain the status quo.
If a board identifies external trends and reflects on the core assumptions about a business, all of a sudden, a number of implications arise. If the board engages in approving strategy, it is prudent to ask, "What would cause this strategy to fail?" Against that, long-term core risks can be identified.

Bring in external experts.
Identifying long-term core risks requires the necessary expertise and information to effectively oversee risk management efforts. This could entail having experts present to the board to prompt their thinking and lend an external perspective. In fact, some of the most effective boards bring in outside speakers they know have positions antithetical to the company's business model decisions, so directors can gain a point of view contrary to what they hear from management.

Conduct a "premortem" to look for unknown unknowns.
Explore risks that group experts have identified. For example, take World Economic Forum reports and play them out in first order of consequences, the second and the third. A board is a group of people like any other – they have individual viewpoints about what is a necessary investment. So, having a debate around a certain set of facts and scenarios that could play out can go a long way to building that alignment.

Bringing the insights gained from risk discussions to fruition requires a culture of risk awareness and open communication throughout the organisation. Risks should be raised to management before they develop into full-blown crises.

Building resilience

Resilience is an organisation's ability to adapt, recover and grow in the face of disruptions – and the board plays a crucial role in ensuring organisational resilience.

Embedding an Organisational Risk Culture

Prioritise resilience as a tactical imperative

Most board members have experienced more economic cycles than the current management. So they can ask: How do we create a new playbook that builds on everything we have learned from the past? Boards can help ensure that the focus is not just on the short-term protection of the business. Once the main areas of uncertainty are defined, boards can ask management how they can prepare for different scenarios.

Develop a proactive approach

Many boards use scenario planning to understand the main drivers of uncertainty and the early-warning indicators of that scenario. As such, resilience-building should be seen as an ongoing process, not just a one-time response to a specific crisis. Many boards do not just have quarterly meetings, and are adding ad hoc phone and virtual meetings in between regularly scheduled ones.

Actively engage with management

Effective board-management dynamics is key, and can help nurture joint problem-solving. One perspective is to see the CEO and the management team as the player-coaches and the board as non-playing coaches. For the team to win, collaboration and faster two-way information exchange need to be in place. This collaborative approach fosters a more cohesive decision-making process.

Establish clear governance structures and responsibilities

Boards should periodically review and assess the effectiveness of the organisation's resilience plans. In looking ahead, the board can ask: What key insights are we relying on? What scenarios could require us to mobilise quickly? What would be the board's role? What is our balance between defensive and offensive moves?

Fundamentally, it is the ability to pivot when a disruption strikes, both by preparing the company for what is happening now and strengthening it for what is ahead. The box, "Embedding an Organisational Risk Culture" provides some guidance.

Power up

The bottom line is that boards could prioritise long-term resilience over short-term gains and consider sustainability in decision-making. Shareholders tend to see a board's annual enterprise risk assessments as tick-the-box exercises. But, if these assessments are done well, they can facilitate a discussion of the range of risks an organisation faces and how those risks play into the financials.

In future-proofing a board, the emphasis is on preparing for extraordinary risks and building resilience. Boards could actively engage in risk discussions, challenge management's assumptions,

A diversity of views generates different perspectives and ideas

More time should be on the agenda for the chief risk officer and outside experts in different risks. Boards are also using executive committees more, be they on supply chains and operations or technology. Increasingly, the board is becoming a catalyst, bringing independent, outside viewpoints to raise the ambition of the management.

Conduct regular scenario planning

Boards could anticipate and prepare for disruptions by including potential risks and key actions to take in their portfolio. On business models and innovation, resilience is about how quickly the organisation can pivot. Boards could balance risk-taking and risk management to foster resilience effectively.

Ensure effective communications and information sharing

Regular communication and collaboration between a board and management are cornerstones of building a resilient organisation. To actualise effective communication, board members should possess the necessary skills and expertise to address resilience-related challenges and engage stakeholders in a timely manner.

Nurture board and management dynamics

Effective boards work as teams, and it helps if members have been together for a while, with an understanding of the business, industry and management. The level of trust increases the synthesis of the full board performing effectively. A culture of openness, learning and continuous improvement facilitates better decision-making. Once boards and management are on the same page, decisions can be taken swiftly.

and ensure that risk and resilience are integrated into strategic decision-making and planning while fostering a culture of risk awareness and resilience throughout the organisation.

Boards should actively allocate resources, review capabilities, promote collaboration, and engage with external stakeholders to enhance resilience effectively – not once a year but periodically.

This work is not onerous but could give exhilarating power.

Resilience is a new muscle. How boards and management teams work together to build that muscle will be extremely important.

This article draws from previously published work by McKinsey & Company by Nora Aufreiter, Sean Brown, Martin Hirt, Celia Huber, Ida Kristensen, Frithjof Lund, Gordon Orr, Asutosh Padhi and Ophelia Usher.