selling resilience

How to change mindsets to enshrine value

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About this Paper

I wrote this paper for those of you who understand the benefits of building resilience to enshrine organisational value and know that convincing the unenlightened is often hard to do. You see some people making decisions for short-term gain while riding their luck because it is the easier choice. Others you see being forced into decision-making based on short-term time horizons because of politics or the views of analysts or the short-sightedness of customers.

You know that an organisation's responsibility to its stakeholders is to enshrine hard earned organisational value, not to leave the organisation so exposed it may be irrevocably damaged. You know that enshrining value takes foresight, resources and the courage of commitment. You also know that it requires the commitment of many stakeholders, not just the risk department or the Board or the CEO. You know you need to bring a raft of internal and external stakeholders along with you, otherwise your plans for resilience fail or at best you achieve piecemeal success.

My aim with this paper is to provide you with a blueprint for engaging the unenlightened, to give you the tools to help them understand their options and to guide them to enshrine the hard earned value in your organisation.

"It is not necessary to change. Survival is not mandatory."

W. Edwards Deming

Resilience

Resilience is a state of mind as much for an organisation as it is for an individual. It is about making a choice to be prepared for the unexpected. Being "prepared" has many different attributes. It can be about protecting an asset from a hazard, it can be about planning for recovery from the unexpected and it can be about being agile to allow different means to be employed to achieve the same objective.

The choice to be sufficiently resilient to enshrine hard-earned positions of companies in markets, of Not-for-Profits in the minds of the public and of governments on difficult policy positions is often not easy or even obvious. We all suffer from the "it won't happen to me" syndrome and many of us do not take the time to stop and think about those rare, yet soul destroying events. We put our blinkers on.

How a risk professional helps organisations make the choice to be there for the long haul, necessarily varies by the characteristic of the organisation. Small business has to rely on agility, they do not have the financial strength to withstand massive shocks. Governments, at the other end of the spectrum, have financial capacity, however, there are political expediencies that will often not allow a government to sit back and pay for it later. Then there are privately held companies, Not-for-Profits and public companies that can have a myriad of motivations for protection of value positions. Value positions that are almost always, hard fought.

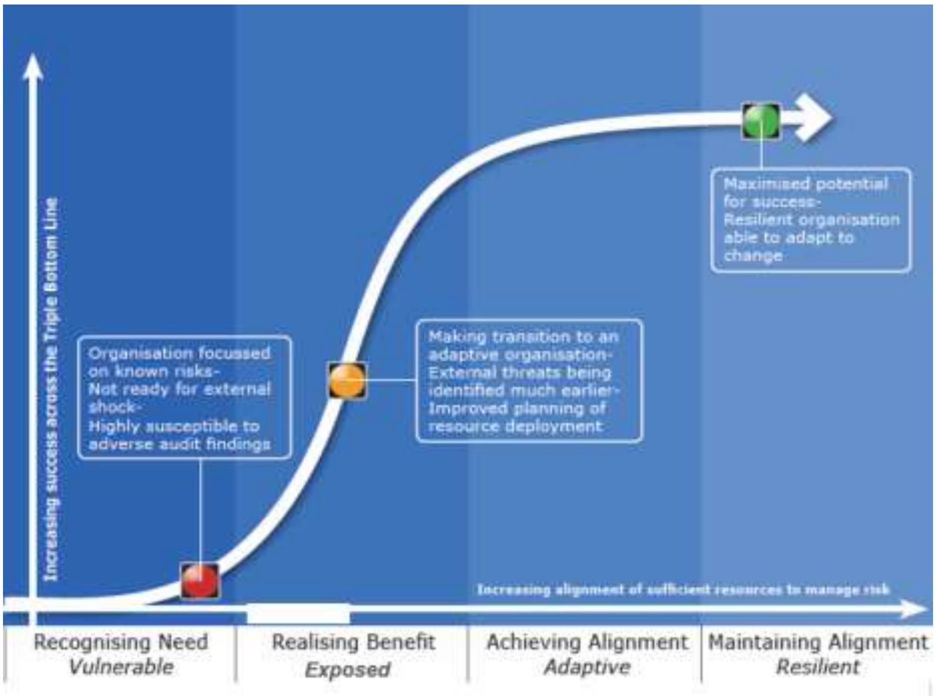
Your role as a risk professional is helping your organisation understand the options and to make an informed decision. Your job is to sell resilience in a form that best suits your organisation's objectives and its capabilities. As this paper will show, if you are successful, you will not only enshrine your organisation's value position, you will provide it with the opportunity to grow it.

The Path to Resilience

Most risk professionals would agree that organisations are on a risk management journey, one that technically never ends as risk is never extinguished, rather embraced and managed. I have long described the risk management journey as a journey towards resilience. For organisations very early on their risk management journey it starts from a position of vulnerability. A position often felt by smaller organisations due to a lack of capital, profitable customers or both. It is a position held by larger organisations who have not yet realised more formalised risk management leads to better decision-making across the organisation and hence better outcomes.

As organisations grow and develop their understanding of risk management they transition towards first an adaptive and then a resilient organisation. Adaptive is a state where organisations are looking for changes to their environment and taking decisions earlier than in the past to keep the ship on course. A resilient organisation is not only adaptive, it is also able to survive and thrive through adversity. For a small business this is usually through planning and agility, while for very large organisations it is also through planning and some level of agility, however, more importantly, they have enshrined value through a combination of a strong balance sheet, an investment in infrastructure and of course an investment in people.

Where are you on your risk management journey?



To assess where you are on your risk management journey take RMP's 3-minute on-line Healthcheck at www.rmpartners.com.au

Although for many risk professionals resilience is simply the outcome of good risk management, others have further developed the concept of resilience as it relates to organisations and the field of "organisational resilience" has evolved. While I have been a critic of "specialisations" in risk on the basis that the risk management process applied well achieves the same result, I have changed my tune as time has gone on. I am now of the view that it is desirable to have areas of specialisation to ensure an appropriate focus and an appropriate level of understanding – think safety in heavy industries, operational risk in banking, project risk in infrastructure and strategic risk at executive level. I am now content that organisational resilience and its particular relevance to critical infrastructure is one such case. Above and beyond the expectations of customers of retailers, service providers and manufacturers, the public can't go for very long without food, water, light, warmth and of course our mobile phones and the internet. On the back of these community expectations, governments have realised a need to invest in improving understanding of organisational resilience across all sectors of the community.

One such investment by the Australian Government resulted in a 2011 publication by the Resilience Expert Advisory Group "Organisational Resilience - Position Paper for Critical Infrastructure and Australian Case Studies". The single most important point this paper makes is that resilience is a matter of choice and it provides four different resilience positions that organisations can choose from. They are:

Decline	An organisation accepts that adversity may cause it to cease operating
Survive	An organisation's resilience objective is to exist in a reduced form after adversity
Bounce Back	An organisation's resilience objective is to regain pre-adversity position quickly and effectively
Bounce Forward	An organisation's resilience objective is to improve aspects of the organisation's functioning e.g. reputation, asset condition, future risk management, staff morale, market share etc so that in adversity it not only survives but possibly gains from the situation

Source: "Organisational Resilience: Position Paper for Critical Infrastructure", Resilience Expert Advisory Group, Australian Government (2011)

With this strong emphasis on choice, your role as a risk professional is highlighted. You need to influence decision-makers to make the right choice for your organisation. Of course it is easy to say that organisations should choose my version of resilience or the Australian Government's Bounce Forward version, however, it is not as simple as it may seem. Much depends on the maturity of risk management within the organisation and its current state within its your environment.

I have found it useful when helping others to understand their path to resilience to compare the choices presented by the Resilience Expert Advisory Group and how I like to portray the stages of the risk management journey, from **Vulnerable** through **Transitioning**, **Adaptive** and finally to **Resilient**. It is quite clear in the accompanying chart how the positions are complimentary:

Enterprise Risk			
Vulnerable	Transitioning	Adaptive	Resilient
Decline	Survive	Bounce Back	Bounce Forward
Organisational Resilience			

This presents organisations that are committed to enterprise risk management, the opportunity to take the next step to more formally consider organisational resilience as a natural progression.

What is the right resilience position for your organisation?

As I outlined earlier, the ultimate resilience position for any organisation is the Bounce Forward position as it is the equivalent to reaching the end of the risk management journey - Resilient. However, as many organisations are still part way along their journey to resilience the first question you should ask is "what is my organisation's current resilience position?", closely followed by "what resilience position should we attain in the next one, two or three or more years?"

Before answering the second question you need to consider your organisation's appetite for risk, which in turn is related to your current capability to respond to a major disruption.

Capability to respond to a major disruption has many guises when considering organisational resilience. On top of issues such as management capability, processes and systems redundancy and flexibility are issues such as geographic spread. For example, if your organisation has a diverse geographic spread, you may be able to recover more easily from a disruption by supplying from unaffected areas. Whereas if your organisation has only one major location, you will need to invest more heavily in either protecting the major location or planning to replace its function in quick-time following an incident to attain the same level of resilience.

While the extent of concentration of key assets versus geographic spread is a very important aspect of an organisation's capability to manage a disruption, the most important aspect of capability, which is directly linked to risk appetite, is your financial position.

If you have a strong balance sheet you are able to sustain higher losses than if you are in a weak position. The interesting twist in this equation is that when you are in a poor financial state you are more likely to have a low appetite for risk and would feel much more comfortable if you had invested in resilience in the past. However, because of your poor financial state you feel the need to take a risk that a major disruption will not happen as you need to invest in the business to improve your financial state.

The lesson is that no matter the right resilience position for your organisation today, sometime in the future it is likely that you will wish you had invested more heavily in resilience when you had the good times. The answer is to invest in resilience throughout the economic cycles of your industry. Invest more in the good times and ease back in the bad.

Your Challenge

Your challenge is to establish where you are on the risk management journey to resilience and to establish and implement a plan to lead your organisation towards resilience. You will face many barriers from perceptions of risk management as being a handbrake applied to business, through the fierce competition for the time of key influencers and decision-makers and the sometimes complex nature of the resilience equation. All of it is an exercise in cultural change, a change of mindsets. The better prepared you are the more successful you will be in establishing lasting change.

How to Sell Resilience

When we refer to selling resilience we are really talking about selling a concept. At the end of the day, that means influencing people towards the decision you feel is in the best interests of the organisation. In my experience, the most common unconquered challenge of risk professionals is to convince senior decision-makers of the benefits of risk management to the extent action, such as investing in resilience, is taken.

I have long provided two options to risk professionals to change their circumstances to get their message across. The first is decidedly simple: be charismatic, charming, intelligent and "larger than life". I am sure they would listen to you if you were Richard Branson, right? In reality, becoming larger than life is not the easiest option for the vast majority of us. Therefore option two is to get smart about it, get a bit more analytical and arm yourself with a few extra tools.

Get Smart

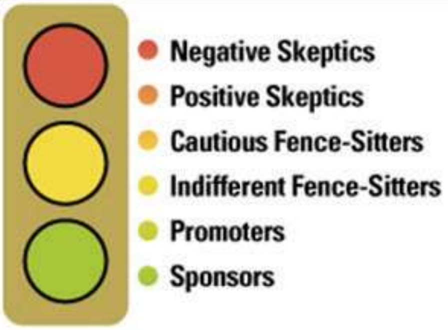
Often the influencing of key decision-makers is seen as more art than science, however, once you think about the process of influencing and the possible tools you can work with to get your point across, you will come to the conclusion that you can do it better. Below is a four step process to get you started:

Target	• Understand your target audience and what motivates them
Language	• Learn the right language to use to appeal to them
Imagery	• Develop a 'sales model' that provides a clear and inspiring image of your concept
Credibility	• Build credibility through the demonstration of your knowledge of the subject

Target Audience

I am sure you would agree understanding your target audience is a good idea. However, you might not realise how diverse your target audience is. You may only be focusing on the woman with the authority to approve the expenditure you want. In reality your ultimate target is influenced by her boss, her peers, her staff and her customers as well as a range of other people she may be in contact with about the decision, including suppliers and industry associations to name but two. Hence your target audience is diverse.

Your challenge is to plot a pathway to and through your audience until ultimately all of the stars align to allow you to fulfil your goal. In a paper published in MIT Sloan Management Review earlier this year, Ellen Auster and Trish Ruebottom introduced the concept of a "Passion Meter" as a good way of measuring your audience's receptiveness to change[1]. By mapping your audience on their scale from negative sceptics to sponsors you will be able to plot a path of least resistance. The negative sceptics will only be convinced once swamped by sponsors and promoters.



The Passion Meter

Source: Auster and Ruebottom

1. Ellen R. Auster and Trish Ruebottom, Navigating the Politics and Emotions of Change, MIT Sloan Management Review Magazine, Summer 2013.

A key element of your plan to work your way from sponsors to sceptics should be identifying what may motivate your target audience about resilience. In follow-on work by the Australian Government from their position paper on organisational resilience, research into CEO perceptions of resilience suggested the following model to depict the value proposition of resilience[2]:

Business as Usual

"For organisations operating within an effective BAU (Business as Usual) concept of resilience, the value proposition for resilience will link to improvements in efficiency and productivity."

2. CEO Perspectives on Organisational Resilience, Research Paper 1.

Change and Adapt

"…organisations where the CEO is focused on a change and adapt concept of resilience are more likely to aspire to a value proposition that links to cultural development and risk management... therefore the value proposition is that the organisation will be best able to survive and bounce back from unexpected shocks through the development of an adaptive culture."

Shape the Environment

For those CEOs focused on shaping the environment, "They aimed to be the disruptor rather than the disrupted. To a far greater degree than the other organisations, value propositions that link to the future strategy of the organisation and support the organisation's ability to innovate are relevant to this group. Value propositions that appeal to the opportunity for the organisation, as opposed to the risks, are more likely to be considered within this concept of resilience."

I am sure it did not take you very long to work out which of the three resilience positions your organisation is in and if you follow the research paper's suggestions, you will be well on your way to identifying the motivations of senior management when it comes to resilience. Outside of senior management, what may be the motivating factors you can use to engage with others you need to convince of the merits of investing in resilience?

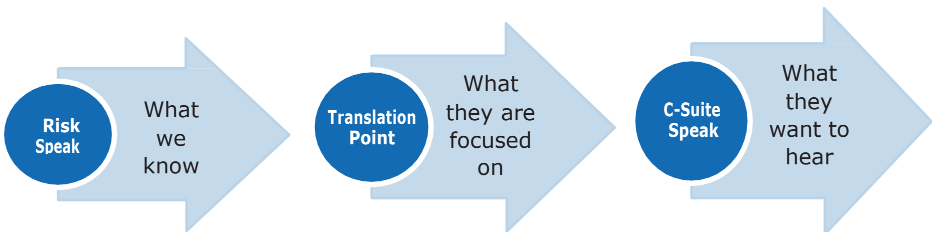
In my experience if someone is going to be motivated about resilience it will be because they have a focus on either assets, customers or the long-term survival of the organisation. You may find it useful to place each person in your target audience in one of the categories listed below and then you can start working on developing your tools to engage with them accordingly.

Asset focus	Those people that really care about an asset. *They may have invested much of their time and personal reputation in ensuring the asset was created in the first place.*
Customer focus	Those people that really care for your customers. *They want them to be treated well and kept happy all of the time.*
Survival focus	Those people that look to the company for their long-term wellbeing. *They will not want to take a risk that could lead to the demise of the organisation.*

The Power of Language

Quite opposite to the power of language, we in the risk profession are often guilty of using "Risk Speak" and completely losing our audience. Irrespective of how charismatic you are, if your audience can't understand what you are talking about or can't relate it to their role and work challenges, they will politely thank you and move on to their other tasks for the day.

Try this "Risk Speak Translator" process the next time you are going to a meeting with a member of the C-Suite. Here is how it works:



It is in many ways a simple process. You know what you want and in general you know what others want, you just need to ensure your language is their language so they hear your message. First write down what you want to achieve (Risk Speak), think of how that aligns with one of your target audience's goals or desires (Translation Point – what they are focused on) and then write down what they want to hear (C-Suite Speak). Examples of what they are focused on include a desire for larger profits or a better work-life balance. What you are aiming to identify is a topic they find appealing that you can use to design a few words that identify with that topic but has the same ultimate meaning as for our Risk Speak. Try this simple example:

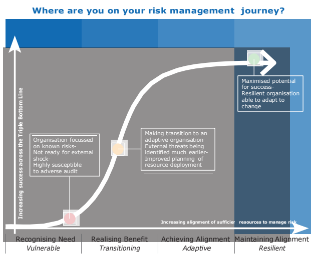
Example

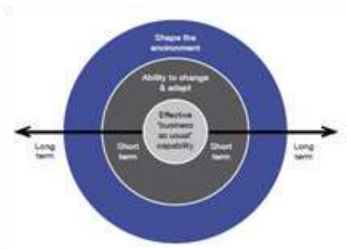
In the example below you have gained agreement to conduct a risk assessment of a project. You are now asking for more of management's time to conduct a stakeholder analysis before the workshop.

Risk Speak	Translation Point	C-Suite Speak
"To adequately establish the context for the risk assessment of this project we need to conduct a stakeholder analysis."	The boss is a great relationship manager.	"Not everyone is as good as you at understanding relationships. Let's show our staff how our key stakeholders map to our business goals for this project."

The Power of Imagery

It is well documented that some people are more actively engaged by words and others by imagery and that all of us are more engaged with both. So once you have your motivating factors identified and you know the right language to use, you will be in an even better position to get your point across if you develop a "sales model". The diagrams used throughout this paper are examples of sales models:





Start with a blank sheet of paper, jot down the key messages you want to get across, jot down some emotive descriptors of key stakeholders, desired outcomes, pros and cons. Now start playing around with circles, triangles and rectangles. You will be amazed at how quickly you can come up with "a picture that describes a thousand words".

The Need for Credibility

A good sales model with all the right language targeting the motivators you have identified for your target audience are all to no avail if you have little or no credibility with those you wish to influence. When it comes to resilience your most valuable asset when it comes to credibility is the level of knowledge you can demonstrate about the investment decision.

Most managers will believe they have a pretty good handle on the decision. They will understand if an asset is damaged or unavailable or for some other reason the organisation's objectives will be at risk, however, they will also have a view of the level of impact it is likely to have, how likely it is to occur and how they are protected by insurance. The good thing for you is that they will be WRONG.

"We don't have to worry about that, that's what we have insurance for."

Until you have been through a major loss, you will not appreciate how wrong that statement can be.

It is well documented that each one of us has deep-rooted psychological biases when it comes to assessing risk. If our house has burnt down, or the house of someone close to us, we will have a much higher estimate of the likelihood of a house burning down than if we have had no such exposure. Similarly with the risk of heart attack, shark attack or financial attack most usually referred to as a stock market crash!

As with a house burning down, most managers have not experienced a major, crippling fire, earthquake or flood. Therefore most managers will tend to underestimate the likelihood of a major event. It is also true to say that most managers will underestimate the impact of a major event. We live in an increasingly complex world and it is difficult to understand all the interconnectivities at play. Most of us struggle to join all of the dots when it comes to understanding who, what and where can be affected.

Consequently this presents an opportunity for risk professionals to build credibility through the assessment of the impact of major events on the business and by researching their likelihood.

Here is some information to get you working on your knowledge base to build your credibility with your organisation:

The Iceberg Principle

Consider the often heard statement "We don't have to worry about that, that's what we have insurance for". Until you have been through a major loss, you will not appreciate how wrong that statement can be. And that is not the fault of insurance, insurance can only go so far. Beyond insurance are the shorter-term hidden indirect and intangible costs of dealing with the loss – think The Iceberg Principle and the longer-term impact on strategy execution.

We have all heard it said that the bulk of an iceberg sits underneath the water out of sight. Well the same can be said for the costs of catastrophes. When a major event occurs much of the event will be insured and much of the loss will be recovered, however, a lot won't be. See example on the next page:

Total Economic Cost of Loss Example – Factory Fire

Category	Cost ($M)	Cost after Recoveries ($M)
Direct		
Property damage	$80	$1
Business Interruption	$20	$1
Environmental Clean-up	$5	$0
Indirect		
Loss of market share after Business Interruption Period	$30	$30
Redundancies	$5	$5
Contract re-negotiations	$10	$10
Intangible		
Delay in implementing strategy	$60	$60
Increased cost of capital	$5	$5
Reputation – additional cost of advertising	$12	$6
Total	$227	$118

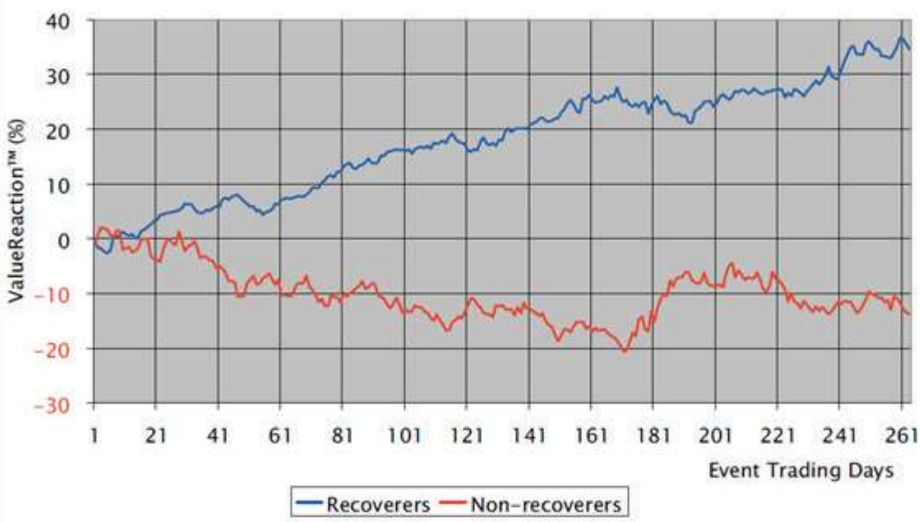
Source: FM Global – Business Risk Consulting Division, Australia (2013)

Long-term Costs of the Impact on Strategy Execution

Bounce Back is one of the resilience positions that organisations can choose to hold. If your organisation is sitting at Bounce Back or thinking of only moving to that position, then the graph on the next page will show how difficult that can be. The graph shows the stock market reaction to firms following a major fire or explosion and is based on research by strategic advisory firm Oxford Metrica[3]. The research shows that those who recover well do more than Bounce Back. On the other hand, for those who were not able to recover quickly, the average share price of the stocks considered had still not recovered after a full year of stock market trading.

3. Rory F Knight and Deborah J Pretty, "Protecting Value in the Face of Mass Fatality Events", Oxford Metrica (circa 2005)

Value Reaction to Fires and Explosions



Why is this so? The easiest answer is to say that the market was impressed with the way the organisation handled the event and sentiment worked in their favour. However, the market is made up of investors who see real value in a stock so the more likely answer is because management were able to get on with strategy execution rather than managing the major disruption. Think of it this way, if you have plans for 30% growth over the next couple of years and you spend the first year in meetings and inquiries as a result of the disruption, would there be no surprise if your plans were set back at least one year? In addition, during the year you were distracted by the disruption, quite likely the market has moved on and your plans would need adjustment which again takes focus and time.

In Closing

We all want to be resilient and to work for resilient organisations so we can reap the long-term benefits. Becoming resilient is a choice and often it is a difficult choice because of short-term performance pressures. The role of today's risk professionals is to paint a clear picture of the journey to resilience and to guide management through the decision-making process so that the value the organisation has created and will create is protected for the future benefit of all stakeholders. If you need help, please ask and/or go to my blog and read my many tips on getting your views on risk management across to your target audience.

About the Author

Bryan Whitefield is Director, Risk Management Partners (RMP) (www.rmpartners.com.au) and has worked in the risk management field since 1987. His practical risk experience stems from his role as a chemical engineer and he further developed his risk management skills and expertise in consulting roles prior to starting Risk Management Partners in 2001. His special interests include assisting risk professionals to enhance their personal skills and the challenge of demonstrating the benefit of risk management to senior decision makers.

Bryan is also President and Chairman of the Board of the Risk Management Institution of Australasia (RMIA).

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