



RIMS ERM Conference 2017

Risk Management and the Board, Innovation and Entrepreneurship[^]

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Good morning. As a University of Chicago alumnus I'm happy to be back in the USA. As a USC graduate and Trojan I'm also happy to be in Los Angeles. Since my last visit I've changed, the world has changed and I'm now going to set out why and how I think risk managers and risk management need to change. I believe there are huge opportunities for us if we can adapt.

What should boards and entrepreneurs make of contemporary risk management? Is it a positive enabler or another compliance cost? Who needs to be involved in it? How conducive of innovation and entrepreneurship are the risk management community and its people? What needs to change if risk management is to be viewed as less of a hinder and more of a help?

Directors and Boards face a number of dilemmas. They are expected to be entrepreneurial and proactive to ensure the future success of companies. At the same time, they are expected to be prudent and to ensure compliance and maintain control

Is there a conflict between being entrepreneurial and maintaining prudent control? Are we getting the balance between them right?

This year is the 25th anniversary of the publication of the Report of the UK's Committee on the Financial Aspects of Corporate Governance chaired by Sir Adrian Cadbury. Prior to the Cadbury Report, I undertook several surveys of directors and boards and encountered a diversity of arrangements. They varied according to aspirations, situations and circumstances.

The membership, operation, practices and contribution of boards would typically evolve to reflect a company's stage of development and to match changing ambitions, challenges and opportunities. When helping companies, I would encounter unified teams of directors and executives working together to create a better future for their enterprises and those dependent upon them.

I suspect many of us would agree with core governance principles such as avoiding an excessive concentration of power and the importance of ensuring challenge. However, it is a shame there has been not more challenge of the way in which corporate governance has evolved.

Since Cadbury, there have been subsequent reports and further elaborations. Here in the USA you have Sarbanes - Oxley. Around the world Companies Acts and regulations affecting companies and corporate conduct have become more onerous.

These days you have to be the right stuff to sign a set of accounts. Increasing demands and higher penalties have led to caution and risk aversion.

Governance related arrangements, codes and reporting requirements have become more extensive



and complex. They have also become more expensive as vested interests have advocated yet more detail. Arguably, they are too prescriptive. Today, one encounters less diversity as many companies adopt a standard model that is compliant with applicable governance codes.

Corporate governance is now often perceived as a compliance issue to be delegated to one of the company secretary's team, while a CEO and executive colleges get on with the serious matter of building a business. In doing so, they may hope that the non-executive directors who sometimes seem to be in a different place and operating to a different agenda do not get too much in the way.

Owners of an established and mature company whose strategy is primarily defensive and protective of an achieved position may welcome caution. They might regard risk-averse directors as responsible citizens rather than wet blankets.

But, what about those who are ambitious and entrepreneurial, and who want to move quickly, exploit opportunities and grow rapidly? What about the many situations in which we realise that more than incremental improvement is required to cope with challenges and seize opportunities? What if we need transformational change or a new business model?

What if we need to be much more flexible in the face of constantly mutating cyber security challenges? What if we need to be more creative and innovative to exploit disruptive technologies and go out in front and explore and pioneer?

What if the formative experiences of our directors were in a previous era? What if governance codes are yet to fully embrace new sources of funding, the sharing economy, new business and organisational models, and a wider range of stakeholders?

Have we reached a point when some directors and boards and some governance, compliance and risk management practices have become a "hinder" rather than a "help"? Are they now obstacles to creativity, innovation, entrepreneurship and progress?

Should we go on enduring ritualistic monthly board meetings and trying to "accommodate governance", "live with compliance" or "manage the board", or should we be saying "enough is enough" and call for a change of direction?

I mentioned earlier that some complacent companies adopt defensive strategies designed to protect existing positions and preserve the wealth of their owners. The attitudes of their directors can make them vulnerable to those who adopt new business models and exploit disruptive technologies.

Responsible risk taking is essential for innovation. Not innovating and passing up opportunities can prove fatal. We need to balance enterprise and control. Our challenge is to excel at both of them when faced with cyber security and other threats.

Do we require a shift of emphasis, or do we need new and different approaches to corporate governance, compliance and risk management that stimulate creativity, enable innovation and support entrepreneurship?



The corporate governance establishment has recently embraced “culture change”. Behaviours can be quickly changed by performance support tools and/or by modifying reward and remuneration practices. Is the currently fashionable flirtation with changing corporate cultures a distraction?

Contemporary corporations and their stakeholders are often culturally diverse and such diversity can be conducive of creativity and innovation. Culture change can be time consuming, expensive and problematic. If establishing a common corporate culture were possible, the dull uniformity of a community of cultural clones could smother initiative and dampen creative spirits.

Too many organisations pursue destructive paths. Endless restructuring can be disruptive of relationships. Traditional approaches to compliance and risk management can increase overhead costs, cause delays and result in key work groups focusing upon compliance and risk avoidance rather than customers.

There are quicker, more affordable and less disruptive routes to high performance organisations. They can simultaneously achieve multiple objectives. They can work with whatever people and corporate cultures and structures we have. They can be unaffected by legacy systems. They can range from applications of artificial intelligence to paper checklists.

I have set out in three evidence based research reports how applications of performance support in different organisations and sectors can rapidly improve outcomes, ensure compliance, reduce and contain risk, and deliver a variety of other improvements (Coulson-Thomas, 2012a & b, 2013). They can benefit people, organisations and the environment.

Incorporating checks and blockers into support tools can enable responsible risk taking, bespoke responses and the creation of new solutions. They can prevent outputs that would represent commercial, quality, legal or regulatory risks.

Personalised and relevant support can be made available 24/7, wherever and whenever needed, including when people are on the move.

Support tools can make it much easier for people to behave in preferred ways. They can make it very difficult or impossible for them to behave in ways that are not desirable. For example, they can prevent unauthorised miss-selling. The support provided can be interactive and it can incorporate and facilitate social networking.

I have led over twenty investigations leading to research reports that set out critical success factors for activities that are crucial for continuing corporate success, such as winning business, building customer relationships, purchasing, pricing, corporate learning and managing intellectual property. Over 2,000 companies and over 500 professional firms have participated in the studies.

My book *Winning Companies; Winning People* summarises what top performers do differently in these and other areas (Coulson-Thomas, 2007). Even top quartile performers are only very effective at less than half of the identified critical success factors for an activity such as competitive bidding.



The evidence assembled suggests the performance of most companies could be quickly improved.

Support tools can capture and share what top performers do differently. They can enable average performers to adopt the winning ways of these higher performing super-stars. Support tools can learn and be continually updated, for example as offerings and regulations change. They can evolve to match the changing requirements and competences of each user.

Performance support tools can quickly deliver large multiple returns on the cost of developing them. They can also address a traditional trade-off between risk and return by both reducing risk and increasing return. At the same time, because checks and balances can be built into them, support tools can set people free to be creative, innovative and entrepreneurial.

Openness, diversity and flexibility are conducive of creativity, innovation and entrepreneurship. They can enable the quick responses needed to seize a brief window of opportunity. More flexible tools, more adaptable practices and more affordable, quicker and less disruptive approaches could give the compliance and risk management communities a renewed rationale and purpose.

Governance, compliance and risk management professionals need to be less of an inhibitor and expense. We should become more of a partner in innovation and more of a positive contributor of value. For example, I have alluded to how we can simultaneously boost performance, increase returns and reduce risk. Our focus, priorities and practices need to change.

In an era of uncertainty, disruptive technologies and new business models, traditional activities such as planning are problematic. Periodic interventions need to give way to ongoing engagement as strategic planning is replaced by intelligent steering.

Increasingly, we require continual monitoring and adaptation rather than annual reviews and monthly meetings. We need more integrated and holistic approaches.

In rapidly changing situations, we must ensure that vision, mission, values, risk appetite, goals, objectives and strategies are still current and relevant. They should be enablers rather than constraints.

In shifting and uncertain situations we should be alert to where we might benefit from confidence accounting and real time reporting. The risk management community should neither fear nor avoid uncertainty. Thinking in terms of probabilities should be second nature to us. Uncertainty creates new opportunities for risk professionals to have a strategic impact.

25 years ago my book *Transforming the Company* put the case for flexible, adaptable and networked organisations (Coulson-Thomas, 1992). Many companies are portfolios of projects and ventures. They are organically evolving networks of relationships that might involve a wide range of collaborators and stakeholders.

Risks rarely recognise organisational boundaries. The perspectives of some risk managers need to broaden to embrace networks and supply and value chains. Boards should make it clear that they



are seeking enterprise and network wide thinking, approaches and responses.

Boards also need to consider and decide which risks to avoid, accept or mitigate, and which risks to transfer by means of insurance cover. Any advice we give should be affordable, balanced and realistic.

We must ensure enterprise and network wide vigilance and responses. We should make sure that all relevant parties are involved. For example, in relation to cyber security, we should look beyond the IT team at the people aspects.

People are not just an asset. They can become our greatest source of risk and vulnerability.

Legal and reputational risks relating to security breaches have to be understood and addressed as well as technical and financial issues. In areas like cyber security and fraud it is important to have access to the specialist expertise required. Boards need to allocate sufficient time to discuss risk management issues and strategies and come to informed judgements.

The relationship between a board and a CEO and other chief officers should be two-way and built upon mutual respect. Senior risk officers need to be realistic when assessing the adequacy of a board's attention, understanding and decision making. They must also be aware of their own profile and contribution at board level, and of their standing among their peers. They should manage upwards and sideways.

Risk professionals who are insecure, or who display possessive characteristics or monopolistic tendencies can be dangerous. Risk management is too important and all pervasive to be just left to a head office specialist or team. Risks are all around us, including in the air we breathe. Recognising, understanding and handling risk needs to become an element of core education and a dimension of many if not most roles.

In various books, reports and articles I have suggested that we need a new approach to leadership and that our focus and priorities need to shift. Some colleagues seem to concentrate almost exclusively on threats, defences, prevention, protection and continuity. There should be greater focus upon resilience, recovery, flexibility, reinvention and rapid responses to opportunities.

In many contexts, we need less stress upon compliance, homogeneity, standards and norms. We require more emphasis upon challenge, diversity, bespoke responses and co-creation. Curiosity and courage sometimes seem to be in short supply.

There should be less priority upon top-down direction, command and control, motivation and monitoring. Greater importance should be attached to what I refer to as 'new leadership', namely delegation, listening, sharing, enabling and supporting.

Some directors and boards are a major area of risk. They are a significant threat to the futures of their companies: They cling to past practices. They are prisoners of outdated ideas and victims of groupthink. They are protective of past investments and reluctant to write them off. They are unduly



influenced by powerful vested interests.

Some directors and boards are also risk averse and wary of the unknown. They favour excessive order, structure and compliance with existing policies, rather than search for better ones. They view questioning as disloyalty and challenge as a threat. They need to change or be replaced.

Risk management also needs to change. We need to look beyond corporate risks. One can also view risk from a value chain, project, venture, community, stakeholder, societal or environmental perspective. We should look beyond the reporting of risks, and contribute more to dealing with them and identifying and exploiting related opportunities.

Rather than be seen as an overhead cost, risk management should become a front-line creator of value by turning risk challenges into commercial opportunities. It must move on from a preoccupation with order, stability and standards to exploration, innovation and bespoke responses.

We need to be proactive. Instead of largely reacting to developments, risk managers should more actively search for change related business opportunities. How can we help our customers and other stakeholders to handle the challenges they face?

Governance, compliance and risk management frameworks need to become continually adapting and learning systems. Consider looking elsewhere, including to the creative arts, for new insights and ways of coping with new realities. Embrace the use of the learning and performance support tools I mentioned earlier.

The preferences and expectations of some risk managers need to change from standardisation and uniformity to greater tolerance of diversity, uncertainty, variety and contending ideas. Questioning and challenge can create new insights.

Many risk managers need to become less defensive. They should devote more effort to stimulating creativity, enabling innovation and supporting entrepreneurship.

Too many people view risk as negative and as a problem. They need to recognise its positive aspects and possible opportunities. Encountering risk is evidence that you are alive and trying to accomplish something.

Has risk management achieved the acknowledgement and respect it deserves? The route to becoming a more established profession involves professionalism, being accountable and scepticism - being prepared to challenge approaches and question business models. It also involves protecting the wider public from risks such as those associated with 'the internet of things'.

What role should risk managers play in entrepreneurship and business building? Should you do more to challenge introversion, rigidity, bureaucracy, vested interests and the status-quo? Are you champions of openness, diversity and freedom?

There may be some practitioners who favour the status-quo and feel immune from the need to



change. They may lose control and have change forced upon them. They may themselves already be major risk factors by not responding to challenges and opportunities created by disruptive technologies and new business models.

More risk managers should focus on the support of decision making. Governance, compliance and risk professionals must move on from giving advice on how to prevent downsides. They should also roll up their sleeves and help their colleagues to achieve upsides. They have opportunities to be seen as enablers rather than as costs.

One sometimes wonders where we would be if the effort devoted to governance and compliance had been used to develop more competent directors and build more effective boards. Where might we be if risk management had focused more on the support of innovation and entrepreneurship?

One cannot put the clock back, but as involved and/or interested parties we do not need to just go with the flow or accept a current situation.

We should instinctively oppose unnecessary bureaucracy, regulation and red tape and costs that we feel are excessive in relation to any benefits associated with them.

We should call for less prescription, more focus on core principles, and the flexibility to change and adapt our governance, compliance and risk management arrangements as our companies grow, develop and face new challenges and opportunities.

We should actively question any assumptions, norms, practices and requirements that we feel no longer serve a useful purpose.

We should challenge attitudes and behaviours which hinder the creativity, innovation and entrepreneurship that we need to cope with sustainability, climate change and other challenges, and benefit our companies, communities and wider society.

Millions of Americans and billions of people on our planet feel powerless in the face of risk and uncertainty. They need all the help and support they can get.

Risk management is an essential life skill and you are or could be its masters. As a profession, you have a very important role to play in all of our futures.

Today we have more opportunity to have an impact and make a difference than any generation at any point in history.

Go for it. Seize the moment. Break out. Grasp the opportunities. Aim high. Fulfil your destiny.

Further Information

Recent books by Prof. Colin Coulson-Thomas and research reports based upon investigations led by Prof. Colin Coulson-Thomas and setting out critical success factors for key corporate activities and



quicker, more affordable and less disruptive routes to high performance organisations are published by Policy Publications and can be obtained from: <http://www.policypublications.com/>

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^Note

Opening keynote speech by Prof. Colin Coulson-Thomas, delivered on the morning of Monday 6th November at the RIMS ERM Conference 2017 in the Bunker Hill Ballroom, Omni Los Angeles Hotel, California Plaza, Los Angeles, CA, USA

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Prof. (Dr) Colin Coulson-Thomas has helped directors and entrepreneurs in over 40 countries to improve director, board and corporate performance. In addition to directorships he leads the International Governance Initiative of the Order of St Lazarus, is Director-General, IOD India, UK and Europe, chair of United Learning's Risk and Audit Committee, Chancellor and a Professorial Fellow at the School for the Creative Arts, Honorary Professor at the Aston India Foundation for Applied Research, a Distinguished Professor at the Sri Sharada Institute of Indian Management-Research, Visiting Professor of Direction and Leadership at Lincoln International Business School and a member of the advisory boards of Bridges of Sports and the Arvind Foundation, and ACCA's Governance, Risk and Performance Global Forum. An experienced chairman of award winning companies and vision holder of successful transformation programmes, he is the author of over 60 books and reports. Colin has held public appointments at local, regional and national level and professorial appointments in Europe, North and South America, Africa, the Middle East, India and China. He was educated at the London School of Economics, London Business School, UNISA and the Universities of Aston, Chicago and Southern California. He is a fellow of seven chartered bodies and obtained first place prizes in the final exams of three professions.