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## Global Strategic Risk in the Transformation Age



Future  
Connected

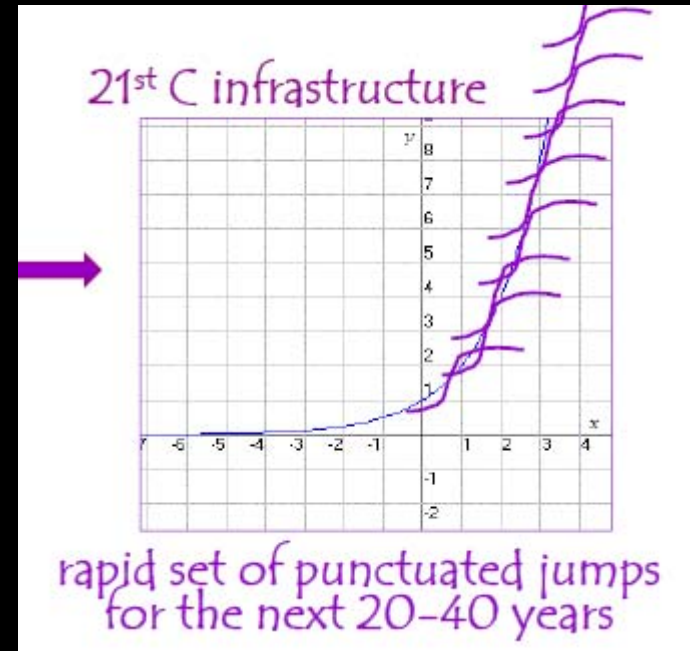
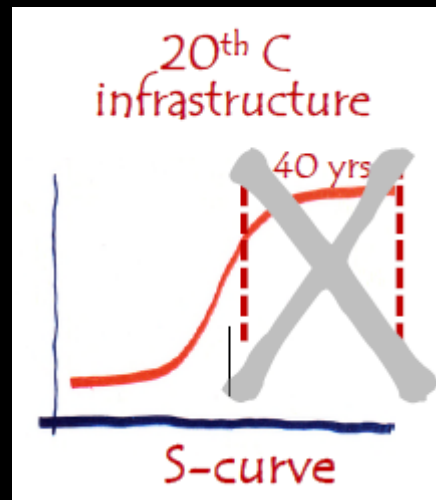
*Risk Powers Performance*

Dr. Janson Yap, PDST  
May 2017

## Talking Points

- **Why should board take a fresh look at strategic risk oversight and be on top of it?**
- **Different role between chairperson and the board in strategic risk oversight in the transformation age**
- **How can chairperson influence corporate culture and risk appetite?**
- **How to drive shareholder value with risk transformation?**
- **Top 5 global strategic risks the Chairperson should be concerned about and how to handle**

Why should board take a fresh look at strategic risk oversight and be on top of it?



# a new world – white water



= increasingly fast, hyper connected & radically contingent

# Times are changing

Companies are struggling to adapt

Formerly rare events are appearing with increasing regularity in the realms of politics, economics, terrorism, technology, and business. What was once unthinkable now demands consideration (E.g. Brexit, Ebola, ISIS etc.)



What we have heard from senior executives at various companies...

"The problem is **uncertainty**"

"**Speed is the key problem.** We're seven billion people connected. Public opinion is out there before the leaders have properly understood the problem."

"We need to keep an eye on disruptive technologies and **be capable of disrupting ourselves**"

"One of the areas where we all score very, very low is being able to **respond to a crisis.**"



The definition of risk must be both deepened and broadened. New ideas and approaches need to be examined.

Sources: Deloitte Inside Magazine – Thinking the Unthinkable

# Top 5 global strategic risks the Chairperson should be concerned about and how to handle



# Point of view on risk

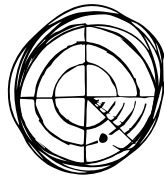
The world is becoming increasingly more volatile, uncertain, complex, and ambiguous. This demands that we address strategic risks in smarter ways.



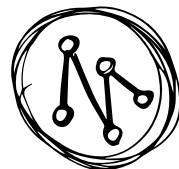
Strategic risks are both **external and internal**. Organizational blind spots and personal biases can prevent insight from becoming actionable.



Disruptions may come from **unexpected places**. Trends from outside your industry and non-traditional competitors are increasingly likely to cause disruption.



Data gathering and insight development must be **active and ongoing**. The nature and pace of change in today's world demands a continual learning and discovery mode.



**Connections** amplify the potency of trends and their ability to disrupt. The world is too interconnected and changing too fast to keep your eye on only one ball at a time.

# Top 5 Global Strategic Risks

Executives continue to prioritize reputation risk

87%

...of the executives we surveyed **rate reputation risk as more important** or much more important than other strategic risks their companies are facing

88%

...of the executives say their companies are **explicitly focusing on managing reputation risk**

Least prepared

Most prepared



Source: Deloitte Global Survey on Reputation Risk



# Growing expectations on risk programs

-  Economic Upheaval
-  Market Evolution
-  Regulatory Demands
-  Technological Change

...are disrupting ways of doing business and related risk profiles for organizations.

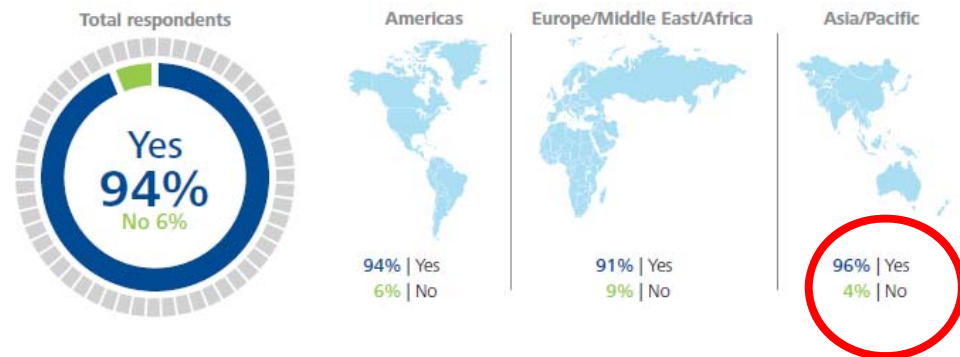
Executives want risk management to influence strategic direction and generate business value.

- **Surveys indicate executives believe that their CROs need to devote more time to the role of the “strategist”**
  - According to survey respondents, CROs currently divide their time relatively equally between the following roles\*\* : Strategist, Catalyst, Steward and Operator
  - But going forward, 58% say their CROs should spend significantly more time performing the strategist role
- **9 out of 10 companies believe value creation should be an important goal of risk management**
  - Fewer than one in five companies indicated that they are taking commensurate action to broaden the role of risk management

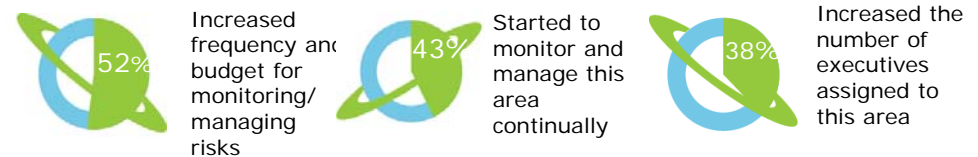
\*\* Definition of roles:  
**Strategist:** Participating in setting the strategic direction of the company and aligning risk management strategies accordingly  
**Catalyst:** Engaging leadership across the organization in defining and executing strategic objectives in line with risk appetite  
**Steward:** Protecting and challenging the organization through effective risk management; ensuring appropriate oversight and governance of risk-taking activities  
**Operator:** Balancing structure, capabilities, talent and technology within the risk management organization

Companies desire better strategic risk sensing

“Has your approach to managing strategic risks changed in the last 3 years?”



“How?”



Only 46% of chief strategy officers say their approach to risk management is either sophisticated or expert/highly sophisticated.

# Current Risk Intelligence landscape

## Current challenges

### Archaic approaches to detection

Current techniques of using rulesets and manual threat detection are incapable of keeping up with the velocity at which new threat information becomes available:

- **Civil Defense:** Threat actors are accelerating their use of highly sophisticated techniques and methods, resulting in high civil defense exposure
- **Strategic:** Inability to link threats to changes in Singapore's geo-political posture, results in tactical responses



### Untimely and inefficient processes

- Organizations spend too much time conducting risk identification and assessment activities
- Threats are not detected in a timely manner
- Too many false positives to manually assess and adjudicate

### Fragmented risk approach

- Silo approaches prevent synergy realization across risk domains
- Risk indicators go unnoticed

Companies are slow, reactionary and recovery-centric in the face of crisis. This can lead to disastrous effects.

## Examples

Our clients from various industries including automotive, consumer business, financial and hospitality have faced significant monetary and reputational damage that could have been mitigated through proactive and continual risk sensing.

### Automotive Industry

A company recently suffered significant and potentially irreversible damage to its reputation through an emissions scandal, resulting in over 50% drop in its stock price since the news release.

Through retroactive testing, it was concluded that distinct signals were present in public data as early as 12 months prior to the news breaking of the falsified reports. Cognitive risk sensing could have allowed detection of the issue in advance, reducing the reputational damage.

### Hospitality Industry

A major hotel chain recently suffered significant financial damage through unethical and fraudulent practices conducted by some of their hotel properties. The properties submitted falsified reports to receive excess reimbursements for award stays by inflating their occupancy rates and average daily rates.

The fraudulent practice could have been identified earlier through cognitive risk sensing applied to the company's internal data and reports.

# Different role between chairperson and the board in strategic risk oversight in the transformation age



# Board is risky business

Companies are struggling to adapt

UK Corporate Governance Code

## Role of the Board

- Provides **entrepreneurial leadership**
- Sets **strategy**
- Ensures human and financial **resources** are available to achieve objectives
- Reviews **management performance**
- Sets the company's **values and standards**
- Ensures that **obligations to shareholders** and other shareholders are understood and met

## Role of the Chairman

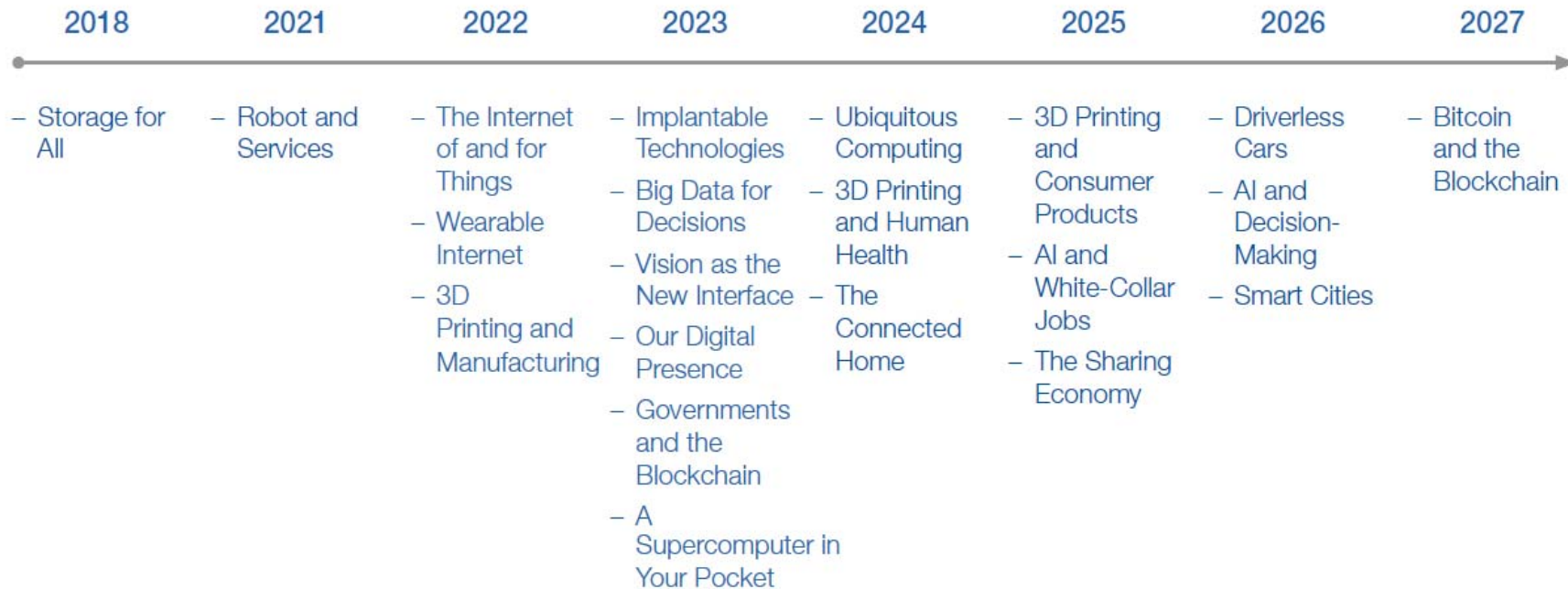
- **Leads** the Board
- **Sets** its agenda
- Ensures effective working group as **head of company**
- Promotes a **culture of openness** and debate
- **Responsible** for effective **communication** with shareholders
- Ensures all Board members receive **accurate, timely and clear information**

# Industry 4.0

23 Deep Shifts...



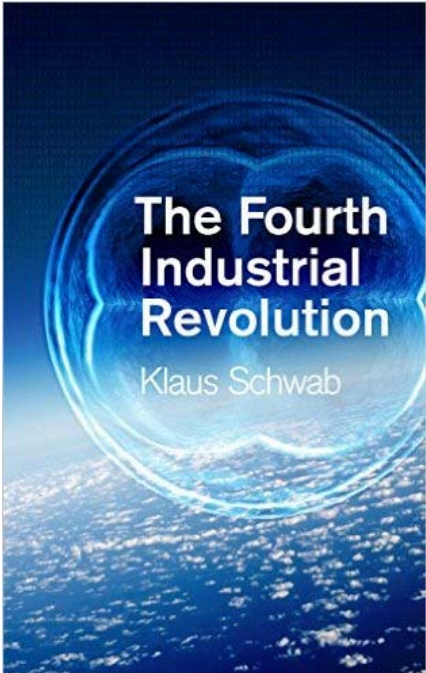
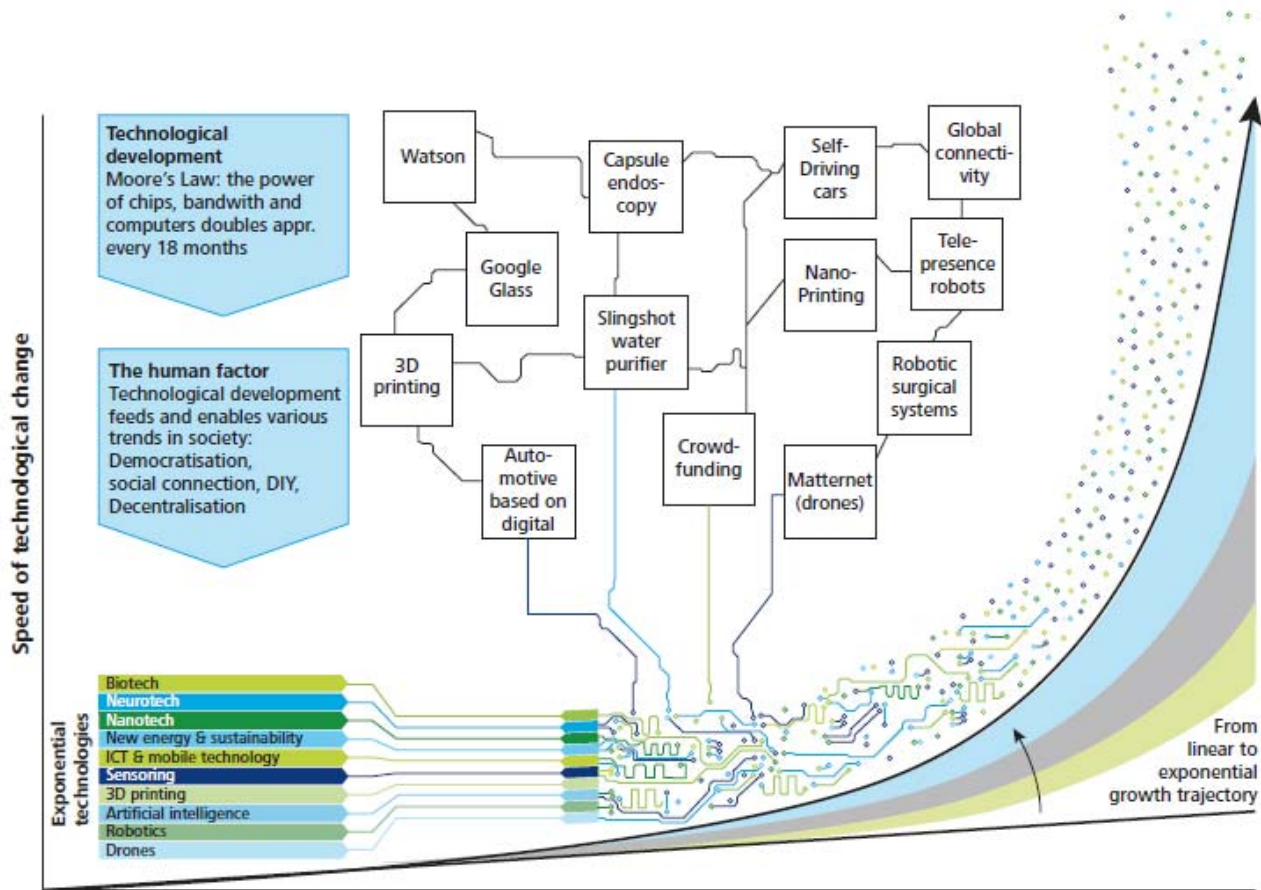
Times have and are changing – Are we ready ?



Reference: [www3.weforum.org/docs/WEF\\_GAC15\\_Technological\\_Tipping\\_Points\\_report\\_2015.pdf](http://www3.weforum.org/docs/WEF_GAC15_Technological_Tipping_Points_report_2015.pdf)

# Industry 4.0

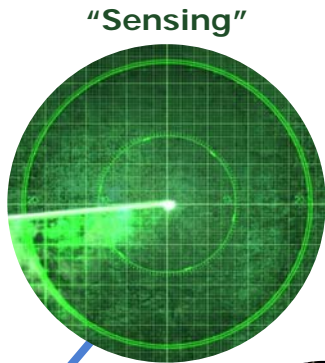
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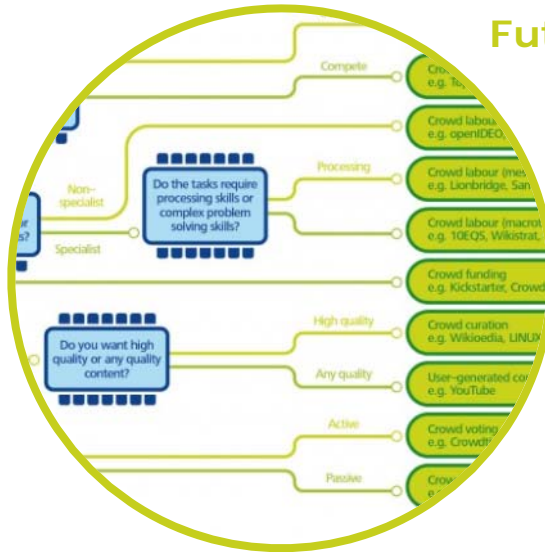
Innovation  
Technologies...



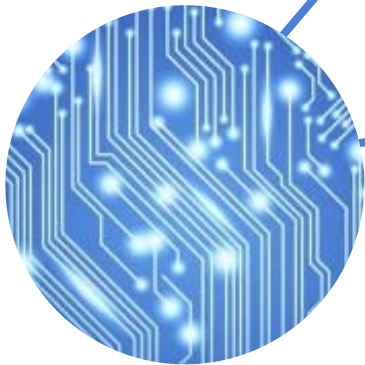
Future of Mobility



"Sensing"



Future of Work



Cognitive



"Decisions"

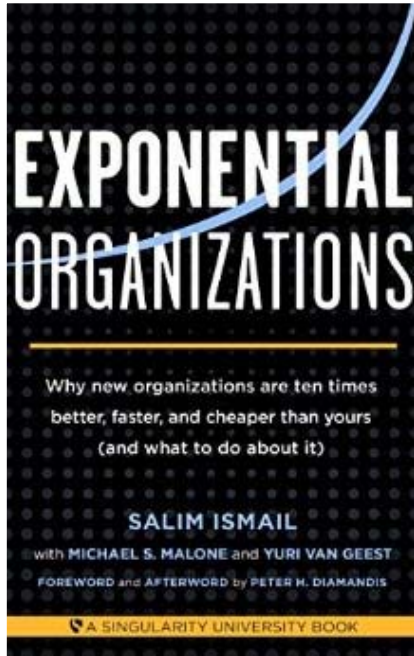


Blockchain & DL



RPA

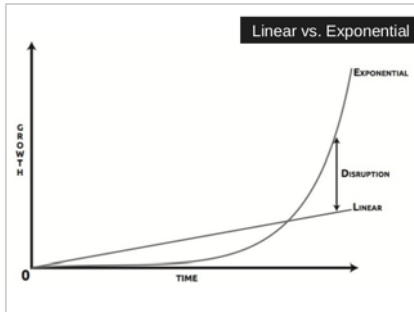
# Exponential & Innovation Strategy



*the internal elements that exponential organizations use*

*the external elements that exponential organizations use*

<p><b>Interfaces</b> configured for users</p>	<b>I</b>	<p><b>S</b></p> <p><b>Staff</b> on demand</p>
<p><b>Dashboards</b> to track and monitor performance in real time</p>	<b>D</b>	<p><b>C</b></p> <p><b>Community</b> building, brokerage, and stitching</p>
<p><b>Experimentation</b> and fast feedback loops</p>	<b>E</b>	<p><b>x</b></p> <p><b>A</b></p> <p><b>Algorithms</b> for learning, simulation, and automation</p>
<p><b>Autonomy</b> through flat hierarchies and distributed decision-making</p>	<b>A</b>	<p><b>L</b></p> <p><b>Leased</b> assets for agility</p>
<p><b>Social</b> communication and knowledge platforms</p>	<b>S</b>	<p><b>E</b></p> <p><b>Engagement,</b> gamification, and incentives for market traction</p>





# Boards and Strategic Risk Labs



**Deloitte** STRATEGIC



**Hindsight is 20/20.  
What if foresight could  
be that clear?**

Strategic risks threaten the very assumptions at the core of a company's strategy. They often result from changes to the business environment. They can be hard to spot or manage, and they have the potential to destroy the value creation and profit generation model of any company.

**And yet...**  
Strategic risks are not just something to mitigate. Spotted early and handled well, they can be the basis for game-changing moves that reorder the field. They can decimate what had looked like an indomitable leader, but they can also be an "index of opportunity," indicating where a business can grow.

Deloitte's Strategic Risk Lab is designed to help you do just that.

The Strategic Risk Lab is crafted to create breakthrough experiences that transform your understanding of your organization's disruptors. During the Lab, you will explore the disruptors and their potential impact on your strategy – and walk away with concrete actions that will set you on the path to making better business and strategic decisions.

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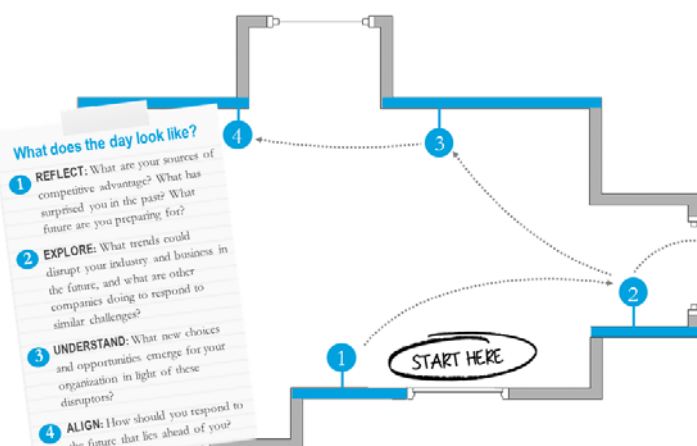
**Deloitte**

**Strategic Risk Lab**  
*What trends will disrupt your business?*



**Deloitte Greenhouse™**

*The Strategic Risk Lab allows you to explore and understand the impact of the business decisions you have made...and plan to make.*

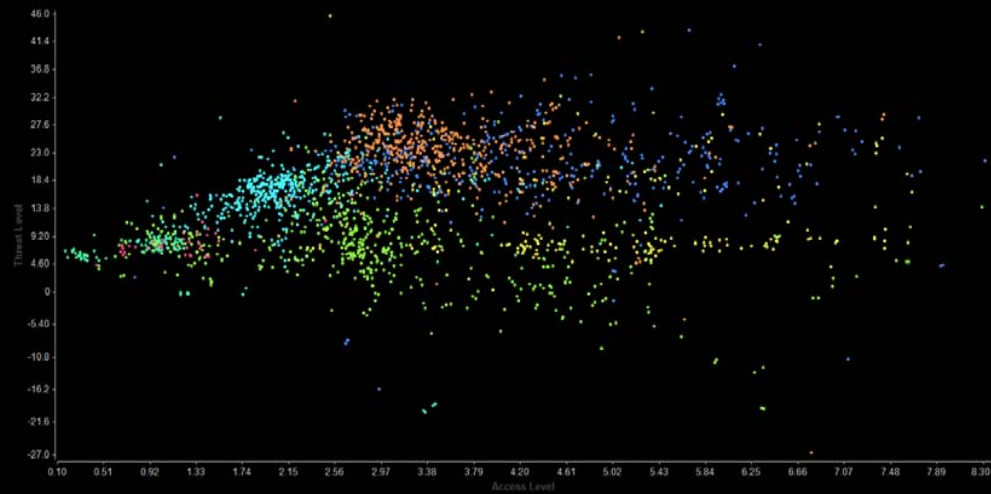


**What does the day look like?**

- 1 REFLECT:** What are your sources of competitive advantage? What has surprised you in the past? What future are you preparing for?
- 2 EXPLORE:** What trends could disrupt your industry and business in the future, and what are other companies doing to respond to similar challenges?
- 3 UNDERSTAND:** What new choices and opportunities emerge for your organization in light of these disruptors?
- 4 ALIGN:** How should you respond to the future that lies ahead of you?

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# How can chairperson influence corporate culture and risk appetite?



# Success starts with me and the team!



## 6 Signature traits of inclusive leadership

Figure 1. The six signature traits of an inclusive leader



# Integration of Analytics and Innovation



- Cognizance – balance
- Curiosity – different ideas and experiences
- Cultural intelligence – context
- Collaboration – diverse thinking
- Commitment – passion & “must do”
- Courage – personal risk taking

# Insights and Accountability



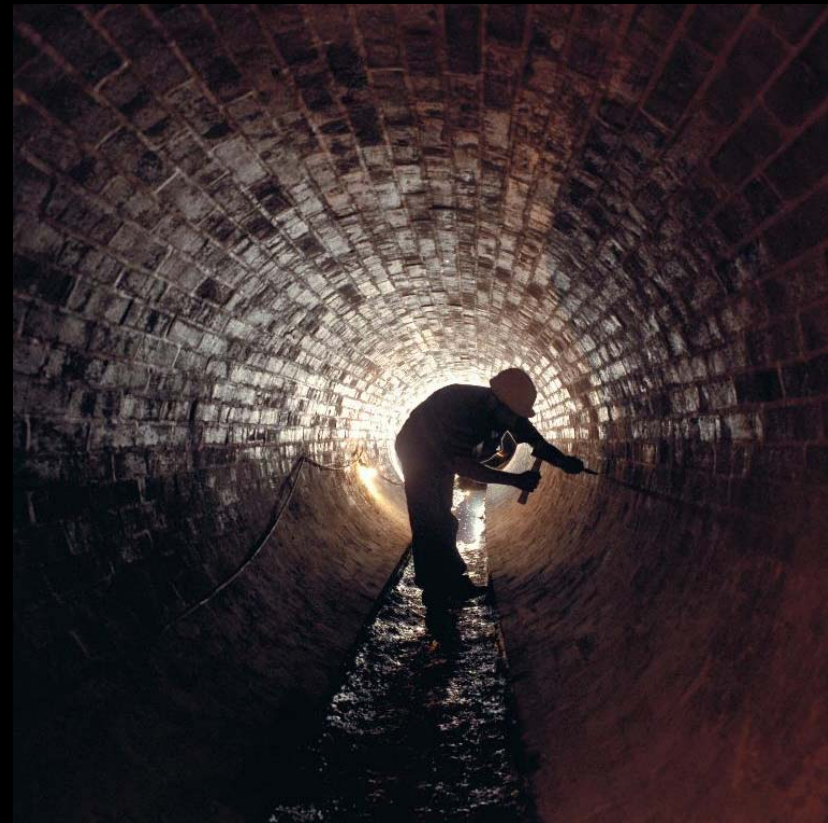
Accountability

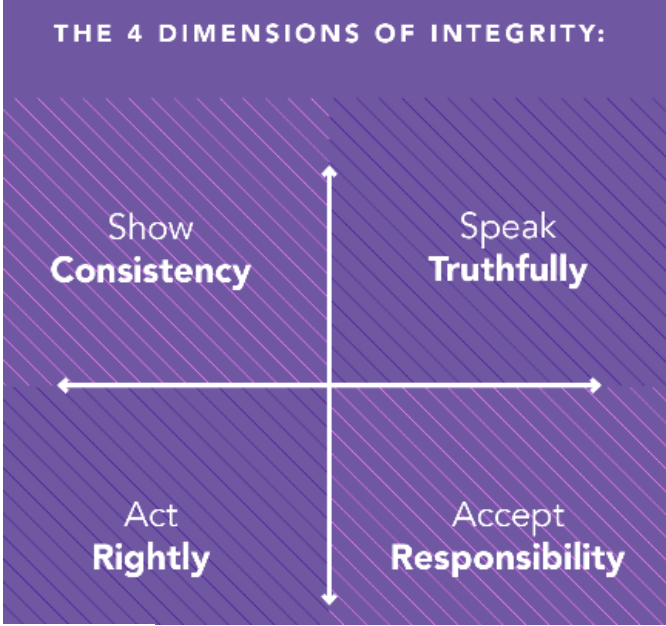
**“Was former finance committee member X, an innocent pawn in the multi-million dollar plan to funnel millions to fund a pop-singer’s music dreams?” - Judge**

“We are saying X was being used to facilitate the plan without knowing the full picture”  
- Counsel

Source: Straits Times, Sept 15, 2016

# How to drive shareholder value with risk transformation?





The statue became an icon of freedom and of the United States, and was a welcoming sight to immigrants arriving from abroad.



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