

BATTLING THE RISKS

By Paul Boerboom, Pascal Hogenboom and Sir Richard Shirreff

Military commanders face ambiguous and fastmoving circumstances, which can change in rapid and unexpected ways. What can investors and pension funds learn from the military's approach to risk and crisis management?

RISK

The risk landscape is constantly changing and the experience of campaigning in Iraq and Afghanistan reflects the reality of 21st century conflict: congested, contested and confused with multiple stakeholders and subject to the demands and pressures of globalisation and 24-hour media coverage. So how do military commanders battle their risks?

In order to achieve the desired outcome, commanders have to take into account the views, needs and power of indigenous people, governments, international organisations, diplomats, government aid agencies, humanitarian organisations and

non-governmental organisations – all of which have interests that are often even conflicting.

Operations need to be subjected to the criterion: 'what impact will this have on the minds of the people, in the widest sense of the word?'

This means commanders have learned to apply a stakeholder-centric – campaign planning methodology and have developed a hard tested comprehensive risk management approach. But this complexity and the need for people-centric planning is not confined to the military world. Business too faces similar changes to the risk landscape and although investors and pension funds significantly improved their financial risk models since the 2008 financial crisis, the need for a more comprehensive and broader approach towards stakeholder management and risk is growing rapidly.

AGILE GOVERNANCE

The complexity of recent military campaigns has demonstrated that security cannot be achieved solely through the application of military force. Such an approach may be a key part of building security physically, but security must be perceived by the people among whom operations are conducted, so there is a moral aspect too. Thus security is as dependent on agile governance, as it is on adequately trained and relatively incorrupt indigenous security forces, and on reconstruction and economic development. So, success depends on the closest possible integration between the military and the non-military actors on

the stage if unity of purpose is to be achieved. The military has adapted to meet this challenge: avoiding any fortress or silo mentality, opening its doors and developing the relationships, structures, culture and language to make it work. The key principle which underpins everything is, whatever we do alone is not as important as what we can do together. For the military, how it engages with its friends is as much a concern as how it deals with its adversaries: the essence of what the military calls the comprehensive approach. These changes also reflect the challenges faced by business in the 21st century. The business world is now, in its own way, equally, if not more, complex.

Take an average pension fund. They too must take account of the multitude of stakeholders who have an interest in what they do and manage their risks in a comprehensive way. However, stakeholder interests are often managed fragmented and risk management is very much focussed on mitigating the risks of the last financial crisis and not so much the crises to come.

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Paul Boerboom

This suggests that the comprehensive approach adopted by the military to manage risk is now equally relevant in other sectors, particularly when operating in difficult, complex and volatile environments. A similar integrated, multidisciplinary approach to that found on the battlefield is also needed to ensure that boards properly understand the environment in which they are operating and are equipped with the mechanisms to ensure that risk, or whatever threatens a company's centre of gravity, is appropriately mitigated. How to meet this challenge?

COMPREHENSIVE APPROACH

First, is the need for a deep and comprehensive understanding of the environment. Without understanding the economic, social, technological, ethical, media, political, legal, environmental and regulatory forces at work, you cannot derive the right tools, structures and proficiencies required.

Second, the importance of strategic leadership is as applicable in the boardroom as on the battlefield, because simple rules or principles of leadership and templates of decision making do not necessarily serve one well in complex situations where there are no right answers, just limited choices between the least wrong ones. So, clarity of thought, vision and adaptability exemplify the strategic leader as much as resolution and determination. An ability to live with ambiguity and uncertainty, and, not least, a pragmatic capacity to take calculated risk for the longer term and greater benefit, distinguish the successful strategic leader from the tactical operator. Fundamentally, it is about being successful on two counts: strategy, or how to win a war, and tactics, or how to win a battle. And the words of the Chinese strategist Sun Tzu written around 550 BC are just as relevant to business as they are in the military: 'Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.'

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Finally, successful execution of strategy depends on what the military call mission command, which means that subordinates must be empowered, supported and resourced – but they must also be accountable. In the military world, success is dependent on trusting the people on the ground to use their initiative. They can see what is happening and they can understand the risks, the challenges and the opportunities infinitely better than anyone sitting back in a remote headquarters or head office. But they must use their initiative in line with the overall strategy. They must be crystal clear about the intent and what is to be achieved.

Translated into a pension fund or asset management environment this means that strategic leadership could mean bringing together the experts with risk management roles (financial, operational, business continuity, reputational, strategic, et cetera), empower them with the means to jointly operate and trust them to deliver a comprehensive risk approach that can help the organisation to battle current and future risks.

WAR GAMING AND CRISIS MANAGEMENT

'No plan survives the first enemy contact' is what military commanders know all too well. Although there is a lot of emphasis on planning and preparation of military missions, the need for scenario planning, war gaming and crisis management simulations is another hard learned lesson in the military world. People react more effectively to crises once they have

experienced a crisis (simulation) before. It makes them more resilient, because they build up intellectual 'muscle memory' that will help them recognize a potential crisis and act effectively when a crisis occurs.

One could say that this obviously also applies for the business world, but remarkably few investors and pension funds spend real time on testing their strategies before executing them through war gaming and scenario planning and prepare their organisations for future crises by facilitating crisis management simulations. Clearly, business leaders are not facing an enemy in the same way that a military leader might. However, they will face crises, friction when executing strategies and keeping stakeholders involved in times when reality catches up on the plan. «

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