Beyond Resilience

Turning Volatility and Uncertainty into Business Opportunity
Organizations around the world have been compelled to operate in an environment of increasing volatility, uncertainty, complexity and ambiguity—hence the coining of the acronym, VUCA. Companies face the risk of sudden, severe events as evidenced by recent incidents in Egypt, concerns over the Eurozone and market wobbles stemming from a slowdown of the Chinese economy. Sudden and unexpected events in remote locations can — and have — affected company operations and supply chains.

This vulnerability extends to natural disasters. The eruption of the Eyjafjallajökull volcano in Iceland in 2010 affected air travel for weeks, sending some travellers on round-the-world routes simply to return home. “Superstorm Sandy”, which hit the North-eastern United States in October 2012, caused an estimated $30 to $50 billion in property damage and effectively shut down most of lower Manhattan.¹

New, previously unconsidered risks emerge all the time. For instance, cybercrime, which was essentially unheard of 20 years ago, now threatens large corporations and governments as well as individual citizens. The shift to contract manufacturing – often conducted in offshore locations – can expose companies to reputational as well as operational risks, as evidenced by the recent collapse, accompanied by horrendous loss of life, of a manufacturing facility in Bangladesh.

There is a growing understanding that, over time, even the most risk-aware organizations can experience low-probability, high-impact events. These occurrences – commonly called “Black Swan” events after Nassim Nicholas Taleb’s book of the same name – can fundamentally change businesses and even entire industries. Companies typically have measures in place to respond to such events under the banner of “resilience.” These include business continuity and crisis management, disaster recovery and emergency response.

Accenture believes that traditional resilience management is often inadequate to effectively deal with extreme events. Such efforts are too often overly tactical and not integrated with other core risk management activities. We think that even fewer organizations actively prepare themselves to benefit from the upside of extreme events by embracing volatility and uncertainty. We believe that companies should consider addressing these shortcomings.

There is evidence that some organizations are already starting to do so. In Accenture’s 2013 Global Risk Management Study – Risk management for an era of greater uncertainty, a survey and interviews with risk executives at 446 organizations around the world, we found that leading companies, which we call “Risk Masters,” comprising eight percent of surveyed companies, are more focused on strategic and emerging risks than their peers. As will be seen, these firms are more likely to integrate resilience programs into core risk management activities and to position themselves to take advantage of rare events.
Where Traditional Resilience Management Often Falls Short

While recognition of the changing nature of risk is growing, few organizations are truly resilient, let alone able to benefit from acute events. In our view, there are a common set of deficiencies with traditional approaches to resilience which are summarized below:

Development of resilience initiatives by non-core business functions

Most business continuity and crisis management programs are developed and managed separately from companies’ core business operations, and most plans are tactical, rather than strategic. As a result, they are often focused on important but lowest common denominator items such as availability of spare office space and laptops. Conversely, when crisis management and business continuity plans are developed by business stakeholders – for instance, those leading key producing assets or managing supply chains – critical risk exposures are often uncovered and resilience can be improved. For instance, a key supply chain choke point may be identified or an opportunity may become clear should certain types of risk events occur.

Disconnect from financial metrics

Few resilience programs link risk exposures to cash flows and financial metrics, even though these elements are heavily exposed to the impact of highly disruptive events. This can, therefore, lead to an underestimation of crisis impacts or an overestimation of what is important to the business. Stress-testing and financial simulations, much like those carried out in the banking sector, can help overcome this deficiency.

Lack of integration with other risk activities and functions

Business continuity and crisis management are not typically central to Enterprise Risk Management (ERM) programs or similar functions. In some cases, they are only loosely connected. This creates a “pre-event bias” as the role of risk management is skewed towards forecasting and implementing controls to mitigate events before they occur. Nonetheless, risks can manifest themselves in spite of the best planning, and this ignores other types of uncertainties, as seen in Figure 1.
Event categories

**RISK**
Known outcome and probability. Can be planned for.

**UNCERTAINTY**
Outcome is known but chance of occurrence is not. Can be planned for.

**RANDOM PROCESSES**
Probability is known but outcome is not. More common under microscopes than in business life.

**BLACK SWANS**
High-impact surprises. Cannot be planned for because the organization cannot know they needed to plan for them.

Example: Natural disasters
Example: 9/11 or Stock market crashes
Example: Mechanical outage of a high usage piece of equipment, Counterparty default
Example: Brownian motion

Source: Accenture Risk Management, October 2013
We believe that resilience management can be just as important as other aspects of risk management. When a business integrates the management of acute events and disruptions across the organization with an integrated view of risk categories and exposures, it may be better positioned to protect its ability to grow and achieve its objectives.

Figure 2. Resilience Maturity Framework

We call this “Advanced Resilience.” The most forward-looking practitioners of risk management, however—the companies we call “Risk Masters” – are seeking ways, not just to respond and recover from acute events, but to gain competitive advantage from them. They are looking to go “Beyond Resilience.”

The maturity model seen in Figure 2 illustrates our view of the various stages of maturity that resilience programs often take.
We have identified three components critical to this approach.

1. Leadership

In Advanced Resilience, senior management is fully engaged and plays an active role in setting the resilience agenda. This involves the elements of:

a. Preparation – Roles, responsibilities in a crisis or acute disruption events are clearly assigned, understood, and rehearsed by all parties

b. Communication – Clear communications to all audiences takes place before, during and after crisis events. These organizations have communication strategies for all stakeholder groups and use both traditional and social media to communicate

c. Action – Once a crisis event occurs, leadership has access to needed information and is empowered to take quick, decisive action

Part of the leadership role involves setting pre-defined parameters around what constitutes a crisis or significant event. “Risk Masters” establish clearly defined loss limits, and action plans may be triggered by certain situations, such as the loss of access to a specific market, an event that removes a critical process, or an acute supply chain disruption.

2. Positioning

Advanced practitioners closely integrate risk management and business continuity planning into Enterprise Risk Management programs. The reverse is true, as well; ERM criteria and risk profiles can help support crisis management and business continuity plans. This can take the form of defining crisis management objectives that are driven by target risk migration levels that may come from a company’s ERM framework.

Comprehensive resilience programs are closely aligned with overall company strategy and financial performance. For example, there is a clear understanding of what assets are to be protected in the event of a crisis event or acute disruption. This strategy drives resilience planning, and the impact on cash flow and other financial metrics also features heavily in plan development.

This also involves quantification of critical aspects of the business, using financial metrics such as cash flow, earnings and gross margin-at-risk. Finally, advanced performers are able to aggregate business unit plans up to the enterprise level, just as they would do with other core risk management processes.

In practical terms, this means that, while the risk function may facilitate the development of crisis management and business continuity plans, these plans are developed for and by the business. Just as the business owns risks, business units may be seen to lead planning and testing of resilience measures.

3. Execution

Advanced companies innovate when it comes to plan execution.

They use technology to monitor events, identify issues and engage in scenario-neutral planning to simulate various events and outcomes. These companies also use real-time stress-tests to help identify discrepancies between plan assumptions and how things would play out in case of an actual disruptive event. Finally, advanced performers ensure that plans exist in multiple formats, including tablet and mobile devices. Gone are the days when crisis management and business continuity plans existed only in thick, hard-copy binders and folders.
High Performance – Going Beyond Resilience

We believe there are significant opportunities for companies to prepare themselves not only for the downside, but for the upside of extreme events – akin to becoming “antifragile”, to use another term coined by Nassim Nicholas Taleb. Achieving this level of readiness can entail moving from “Advanced Resilience” to a much higher state of integration and readiness.

Beyond Resilience – Components

No matter where the organization is on the spectrum of preparedness for unforeseen occurrences, there are a number of initiatives that can help companies take advantage of opportunities presented while protecting themselves from potentially damaging events. These include:

“Unthinkable upside” playbooks

Companies can prepare plans and options to not only restore operations and recover lost business, but to also potentially take advantage of major events.

These might include mergers, acquisitions, or accelerated entry into new markets in the event of a supply chain disruption, natural disasters or political upheaval. For example, a global manufacturer may wish to have strategic acquisition plans in place in the event that a sovereign default would dramatically lower asset prices in a particular country for strategically-relevant acquisition targets.

Reposition of supply chain

An assessment of key suppliers may reveal overconcentration in some areas within the industry. This may mean that the company and/or its peers are over-reliant on one supplier, or that too many suppliers are clustered together geographically. For example, companies buying semiconductors and hard drive components in Thailand suffered severe disruptions in 2011 when flooding knocked out many major suppliers. Those with such insights can then reposition their supply chain so that they might gain market share from competitors in the face of unexpected events.

Business model reconfiguration

A more comprehensive understanding of the potential impact of extreme events may lead some organizations to optimize their portfolio of businesses. Some lines of business may be deemed too sensitive to the potential impacts of a rare event, or have properties that do not expose them to sufficient upside in the midst of volatility or the manifestation of such events. Armed with a better feel for these exposures, the organization may then be able to reconfigure its business to make it at least more robust to uncertainty and volatility.
Going Beyond Resilience – An Example

A major U.S. retailer asked Accenture to undertake an assessment of their resilience needs, and design and implement a solution. We developed a framework keyed to the firm’s corporate mission and enterprise risk strategy, and provided support in establishing program governance, facilitating risk assessments and rolling out a resilience strategy across the business. This included processes and operational guidance for a “24x7” Emergency Operations Center that supports retail stores across North America.

When Hurricane Sandy hit at the end of October 2012, the retailer was positioned to go “Beyond Resilience” by being both aware of existing risk and equipped to understand uncertain events occurring in and around their retail outlets. The firm was able to directly and proactively leverage information gleaned from a posture of situational awareness into the most effective “Notify-Assess-Respond-Recover” actions. This revealed an opportunity to serve their customer base more effectively. Emergency Management and Crisis Management teams deployed resources—both personnel and equipment such as power generators—with speed and precision. As a result, most of the retail locations knocked out in a swath of 10 eastern states had reopened their doors in less than 48 hours.

A subsequent financial analysis revealed that revenue for the affected stores rebounded so markedly that the resulting associated revenue was greater than what would have been anticipated under normal conditions by several million dollars (see Figure 3 below). The analysis showed an unexpected revenue spike immediately prior to the storm’s landfall, as customers flocked to the stores to purchase water, batteries, and other essentials. By reopening stores following the storm’s landfall more quickly than its competitors, not only was the retailer able to continue to earn revenues, but very likely enhanced customer loyalty and trust by being there for their customer base in a time of great need.

Figure 3. Sandy 2012: Actual revenue vs. base forecast (no Beyond Resilience planning)

![Image of graph showing actual revenue versus base forecast with Sandy Landfall highlighted]

Source: Accenture Risk Management, October 2013
Conclusion

We believe that organizations could benefit from exploring a new approach to volatility, uncertainty, complexity and ambiguity. Rather than simply plan to protect themselves from the impacts of such events, companies might consider embracing these features to create opportunities. Before being able to do so however, many organizations may need to first enhance existing resilience processes by treating them as a key component of core risk management. Organizations that are able to do so can better prepare themselves for success, not only in spite of, but because of what the future throws at them.
Notes


References


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About Accenture Risk Management

Accenture Risk Management consulting services work with clients to create and implement integrated risk management capabilities designed to gain higher economic returns, improve shareholder value and increase stakeholder confidence.

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