Seeking new **horizons**

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Navigating the constellation of markets, events, and opportunities to preserve value and sustain growth

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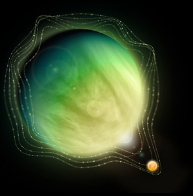
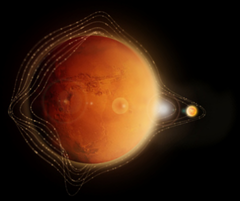
Our Integrated Risk Management series

Connecting the various parts of your business while keeping abreast of the impacts that social and political developments, weather or natural events and cyber attacks can bring isn't easy. This series of reports on integrated risk management, highlights how centralizing decisions and bringing disciplines together can make for improved decision-making and lead to a more effective approach.

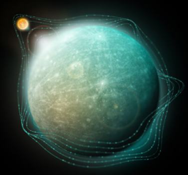
Over the course of eight reports, we look at different themes and approaches to managing and governing your risk.



01: One small step
Improving your approach to risk governance often entails reviewing, refreshing, and revising risk-related practices.

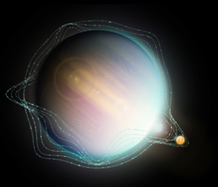


02: The connecting force
Building your integrated risk platform can help bridge silos, improve transparency and enable smarter decision-making.

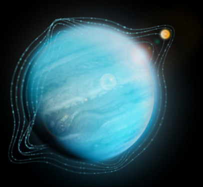


03: Seeking new horizons
Navigating the constellation of markets, events and opportunities to preserve value and sustain growth.

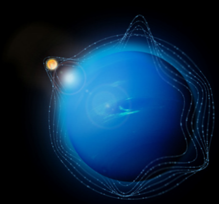
04: Preparing for a sustainable future
Harnessing the power of risk management to propel your ESG strategy and objectives.



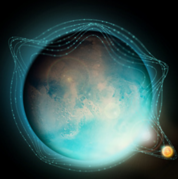
05: Mission unity
Building cohesive risk management to realize your purpose and achieve your planet, people and growth goals.



06: The biggest milestone
Transforming your capabilities and culture with confidence through unchartered space.

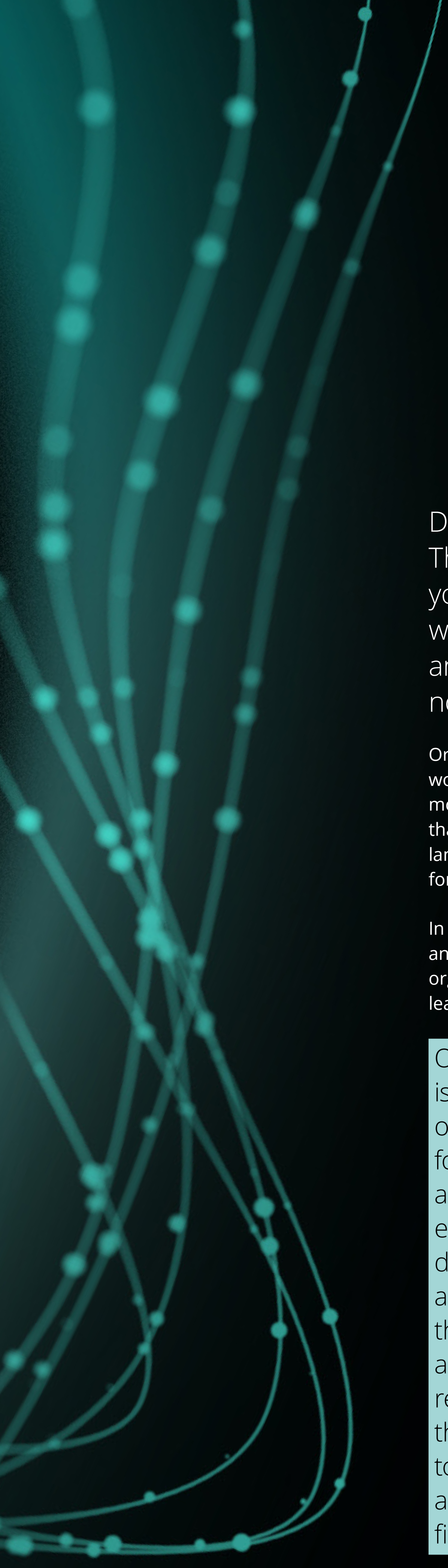


07: Greater intelligence
Developing an early warning radar to get ahead of emerging risks and opportunities.



08: Orbital forces
Integrating risk and assurance forces across the enterprise to build a cohesive system to manage risk well.

Navigating the constellation of markets, events, and opportunities to preserve value and sustain growth



Disruption is here to stay. This implies that whatever you think will happen and whatever your organization anticipates may very well not come to pass.

Organizations of all types around the world will continue to face both slow moving and rapidly changing events that continually alter the competitive landscape, sometimes for better, often for worse.

In this context, what do the concept and practice of resilience mean to an organization, and what should senior leaders be doing to enhance it?

Organizational resilience is the capability of an organization to be prepared for disruption and to adapt and thrive in a changing environment. It isn't purely defensive in orientation. It is also progressive, building the capacity for agility, adaptation, learning, and regeneration to ensure that organizations are able to deal with more complex and severe events and be fit for the future.[1]

We define resilience as the coordination of resources to foster the efficiency, flexibility, and adaptability needed to respond to adverse conditions and to opportunities, while creating competitive advantage and accelerating growth. This differs from the more traditional emphasis on resilience as positioning the organization to "bounce back" from risk events. In addition, our view of resilience emphasizes those capabilities needed to identify, anticipate, and respond to the opportunities for growth that disruption presents.

This publication, directed to senior leaders of risk, financial, operational, procurement, information technology, human resources, and other functions—and to the board—is the third in our series on integrated risk management[2,3]. Here, we present an integrated approach to resilience, given that enhancing resilience is among the key objectives of risk management.

1 Adapted from definitions included in BS 65000:2022 Organizational Resilience. Code of Practice, 31 August 2022 and Resilience Reimagined: A practical guide for organizations, 2021 Deloitte LLP and Cranfield University.

2 Improve your grip: Boost performance | Be responsible | Build trust, 2021 Deloitte Global Risk Advisory

3 Build your integrated risk management platform Bridge silos | Improve transparency | Support decision making, 2022 Deloitte Global Risk Advisory

Let's Focus

An integrated approach to resilience focuses on promulgating coordinated resilience across the entire enterprise rather than in siloed functions, and on organizational rather than point-specific responses to events.

Such an approach to resilience can sustain success during rolling risk events. Rolling risk events, such as climate change, pandemics, and economic and social trends (among others) unfold over time, while occasionally increasing in velocity and generating inflection points. Such events tend to impact organizations and stakeholders in uneven and unpredictable ways.

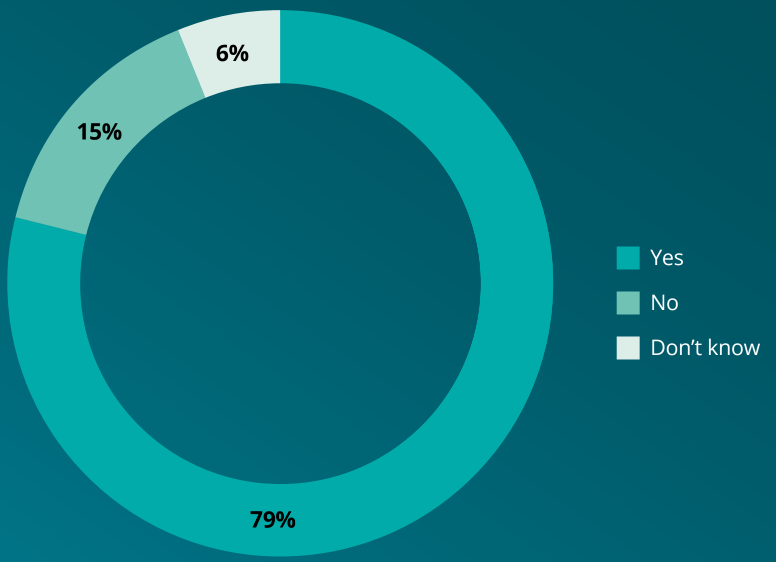
The current environment calls for balancing investments in a range of capabilities related to resilience, and for balancing longer-term and near-term investments. Ultimately, this enables the senior executive team and the board to fulfill their responsibility to increase, or at least maintain, growth regardless of prevailing conditions.

Senior leaders grasp the importance of this responsibility, particularly given the widespread impact of recent risk events. For example, Deloitte research has found that leaders who have attended to resilience believe that their organizations outperform their peers in times of disruption[4]. This speaks to the ability of those management teams to continue or accelerate growth even as risk events unfold.

4 Building the Resilient Organization: 2021 Deloitte Global Resilience Report, 2021, Deloitte Development LLC

Resilience Boosts Performance
In Deloitte Global's 2022 resilience report almost 80 percents of respondents believe that their organization should create a chief resilience officer role. Belief in the potential value of a chief resilience officer held for a significant majority of organizations across all industry sectors.

In your opinion, should your organization create a chief resilience officer role in the next five years?



These answers underscore the fact that executives may realize that one way to elevate resilience as a strategic priority would be to place a senior executive in charge of it.

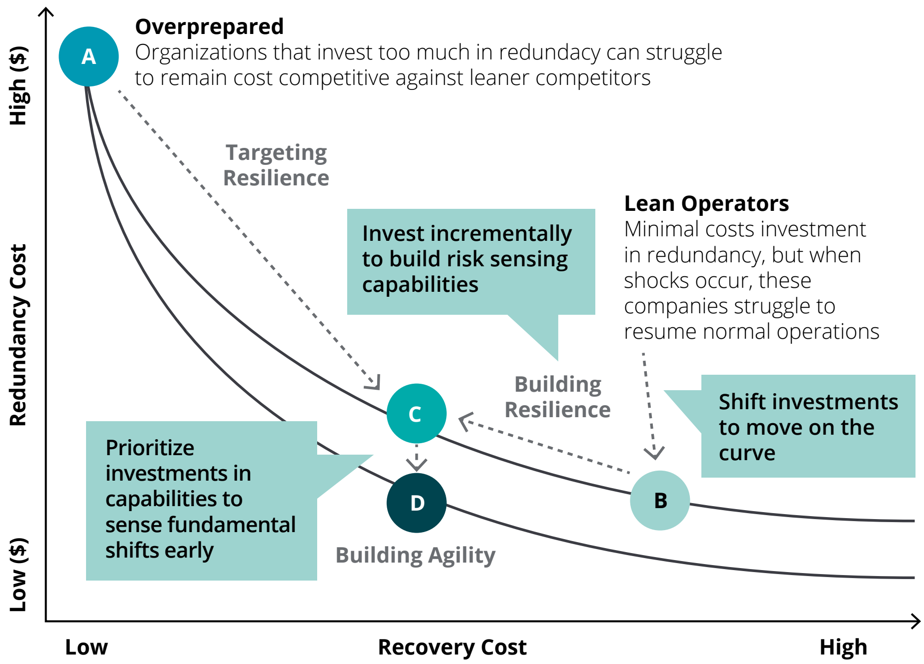
Invest Wisely

Organizations benefit from well-balanced investments in resilience. For example, the journey often begins with a minimalist approach (Exhibit 1, Point B). Such organizations ("Lean Operators") tend to underinvest in resilience.

Although they keep their investment in resilience low, during a risk event they struggle to adapt and recover and may incur unnecessary or outsized costs. In addition, they can rarely scale up quickly enough to seize the opportunities an event may present.

Those organizations can start their journey toward a more balanced approach to resilience (Point C) by more consciously weighing the tradeoffs between the cost of resilience and the costs to recover, perhaps by investing in capabilities, such as risk sensing and redundancy that enable faster, more agile responses to events.

Exhibit 1
An investment versus growth tradeoff



* Curve shape is dependent on organization's supply network and risk exposure

Organizations that overinvest in a specific area of resilience (the "Over-prepared") often struggle to remain cost competitive against leaner peers. They may also be underinvested in some key areas of resilience. Those organizations also benefit from a more conscious and coordinated approach to resilience—one that would enable them to recover rapidly with lower investment in resilience.

An organization should aim to identify its "sweet spot" regarding investments in overall resilience and in specific capabilities. This involves gauging the range of events that could occur, their potential impacts on the organization and its stakeholders, and the velocity at which impacts could occur. Regardless of the specific event, scenario planning should include estimates of the impact of a risk event—how bad or good it could get—and its velocity, that is, how quickly it could get that bad or good.

Elements of this Approach

An integrated approach to resilience recognizes that risks are interrelated and that their impact can create unexpected exposures.

This was seen when the Covid-19 pandemic, a single risk event, affected workforces, customer behaviors, supply chains, and government policies at all levels. So, it's essential to broaden the view of resilience while focusing on specific capabilities.

For example, considering five capitals of resilience; people resilience, reputational resilience, operational resilience, financial resilience, and environmental resilience (Exhibit 2) helps leaders focus on key areas of resilience and their various subcategories that collectively bolster organizational resiliency.

That focus should foster a discussion of how elements of resilience relate to one another. It can also help in identifying areas where the organization may have overinvested or underinvested in resilience—and where, as a result, it may have particularly strong or relatively rudimentary capabilities.

Exhibit 2

Five capitals of resiliency[5]

People resilience	Reputational resilience	Operational resilience	Financial resilience	Environmental resilience
Organizational adaptability Diversity and inclusion Leadership Health and wellbeing Workforce Culture	Vision and leadership Trust Quality of services Financial performance Brand Ethics Social responsibility Stakeholder perception	Cybersecurity Information security Technology and digitization Asset management (optimization/ decommissioning, investment) Supply chain Physical security	Financial stress testing Recovery and resolution planning Governance and controls Balance sheet flexibility Supplier and cost management Market risk management Management information	Sustainable development/ growth Environmental impact of business activities (e.g., pollution) Sustainable operations Environmental risk to business activities (e.g., extreme weather) Climate change

A deficiency in any single one of the five capitals can put the organization in jeopardy and even bring it down. Organizational resilience therefore consists of robust capabilities in each of these five domains. While the emphasis on a given capital will differ across industries and organizations, superior capabilities in one domain will not make up for deficiencies in another. Therefore, each organization needs an individualized way of addressing and balancing investments in each domain.

Virtually no organization has realized equally high levels of resilience across all areas, nor should it aim to. Rather, management should aim to achieve high levels of resilience in the areas that most impact its strategy and business model (as discussed on the next page), and its key stakeholders. That effort demands a clear picture of current capabilities.

5 Toward True Organizational Resilience: Deloitte's Global Resilience Report, 2022

Five Pillars of Resilience

The five pillars of resilience (Exhibit 3) developed by the World Economic Forum (WEF) provide further clarity as you examine capabilities.

Each of these pillars—robustness, responsiveness, redundancy, resourcefulness, and recovery—contributes to overall resilience. As with the categories of resilience, the pillars enable leaders to consider where they may need to allocate more or fewer resources, given their strategy and business model.

Management needs to weigh the tradeoffs between establishing redundancy by owning facilities, equipment, and systems versus renting them, relying on vendors, or partnering with managed services providers (or forgoing redundancy).

Exhibit 3
Five pillars of resilience

Robustness	"Robustness refers to the ability to absorb and withstand disturbances and crises"
Responsiveness	"Responsiveness means the ability to mobilize quickly in the face of crises"
Redundancy	"Redundancy involves having excess capacity and back-up systems, which enable the maintenance of core functionality in the event of disturbances"
Resourcefulness	"Resourcefulness means the ability to adapt to crises, respond flexibly and – when possible – transform a negative impact into a positive"
Recovery	"Recovery means the ability to return to a degree of normality after an emerging risk manifests"

Source: World Economic Forum Global Risks Report 2013

While no organization can or should maximize resilience in every category or pillar, management should identify two things: first, the areas of resilience that are most important to the organization given its strategy and business model and the risks to the strategy and business model; second, the areas of resilience in which the organization is strong or vulnerable and overinvested or underinvested.

With that understanding, senior leaders can better consider the tradeoffs needed to maintain resilience. For example, establishing redundancy in IT systems or the supply chain creates costs. Management needs to weigh the tradeoffs between establishing redundancy by owning facilities, equipment, and systems versus renting them, relying on vendors, or partnering with managed services providers (or forgoing redundancy).

The organization may need to accept certain costs as the price of optionality—that is, of being able to access alternatives when needed. The costs of achieving optionality should be weighed against those of having limited options (or perhaps no options) in the face of risk events.

From a growth standpoint, an organization does not need an endless array of options. Nor does it need to reach some utopian state of perfect resilience. Rather, the relevant capabilities should be aligned with the realistic expectations of the organization's stakeholders and superior to those of key competitors.

Toward Greater Maturity

A maturity assessment of resilience characteristics (Exhibit 4) can assist management and the board in gauging the organization's current and target levels of resilience. This tool can also help organizations to focus on specific areas that may require more or fewer resources.

Exhibit 4

Maturity assessment of resilience characteristics

Rating definitions

0	1	2	3	4
Non-existent	**Initial / Ad-hoc**	**Repeatable / Intuitive**	**Managed / Measurable**	**Optimized**
• Lack of program ownership and guidance • Lack of defined processes or documented strategies • (Not Considered – Process doesn't exist)	• Limited program awareness amongst stakeholders • Evidence that the enterprise recognizes that issues exist and need to be addressed • Limited documented or standardized processes • Ad-hoc approaches that tend to be applied on an individual or case-by-case basis • Overall approach and management is inconsistent • Considered but Ad Hoc, No/Limited Strategy	• Similar procedures are followed across different teams/ BC delegates when conducting analysis and planning • Recovery processes are clearly documented with sufficient detail for implementation • Moderate but perhaps inconsistent awareness of BC procedures amongst business teams • Foundational testing or exercising may be in place • Considered, Partial Strategy, Documented Procedures, Limited Training or Testing	• Regular business continuity (BC) Program monitoring and oversight helps to ensure compliance with procedures • Processes are under regular improvement through the BC Program • Testing is regular but primarily 'siloed' and does not include internal / external dependencies • Full Strategy, Documented Procedures, Formal Training and Testing, Policies Developed, Maintenance	• Processes are mature and continual improvement is driven by the business • Cross-functional coordination is well-established • Integrated testing is implemented where feasible • Program management is automated or tech-enabled where possible • Full Tested Strategy, Documented Procedures, Widespread Training, Policies Developed, Integrated Testing, Maintenance and Quality Monitoring

This assessment can be applied to the organization as a whole or to specific types of resilience, such as financial, operational, reputational, supply chain, cyber, and so on. Organizations typically find that they are stronger in some areas than others, which is understandable as some areas will have had more invested in them than others.

This is as it should be. The maturity assessment enables closer examination of resilience and the ways in which the organization goes about maintaining it.

Steps to Building an Enterprise-view of Resilience

The business case for enhancing and maintaining resilience will differ for every organization, depending on industry and scope of operations, strategy and business model, risks and opportunities, potential impacts, and their likely velocity, and current capabilities.

Steps to further your organization's journey toward greater resilience might include the following:

- **Assess current capabilities:** Evaluate the organization's performance during recent risk events and their impact on your stakeholders. Identify areas of strength and weakness and where performance might have been improved through stronger capabilities or more options.

- **Understand your current approach:** To the extent that your organization's approach to resilience has been siloed and decentralized, understand how decisions have been made, which data have been used to support decisions, and how those decisions have played out.

- **Quantify resources invested:** While "Resilience" will not be a budget line-item for most functions, it is useful to identify and quantify investments in people, processes, and technology that support resilience, either directly or indirectly. With that information you will have a clearer picture of investments in specific capabilities and in areas defined by the WEF's pillars, such as robustness, responsiveness, and redundancy.

- **Identify your options:** Understand the options your organization has in key areas of operations. Locate actual ways in which functions have adapted or could adapt to disruption and take advantage of opportunities. Look to alternative supply sources, talent models, funding sources, technology solutions, and other elements that support continued operations and scalability.

- **Weigh potential costs and benefits:** The costs of resilience are real, and so are the benefits. Quantifying the potential costs of enhancing resilience across specific domains under various scenarios, as well as the potential benefits of having those options in those scenarios, will provide a clearer view of the value of investments and where to invest. Gauging the likely velocity of events and the costs and benefits of rapid response can be particularly useful here.

- **Tap outside expertise:** Developing an enterprise-wide view of investments, capabilities, and performance at the senior executive and board levels may require external expertise and professional facilitation. A disciplined approach implemented by specialists who have "been there" can significantly accelerate your journey toward integrated resilience.

The information these steps generate will contribute to a more enterprise-wide view of resilience. That view, supported by data on operational, financial, and reputational performance, will position senior executives and the board to make more informed decisions on resilience going forward.

Questions to Consider

As you take steps toward greater resilience, answering the following questions in a collaborative manner can assist a leadership team and the board in fostering robust discussions regarding risks, opportunities, and capabilities:

- **How, at the organizational and business unit levels, do we define our strategy and business model?**
Starting with a well-defined and clearly communicated strategy and business model sets the stage for proper and consistent expectations, decisions, and behaviors in the organization—and for an integrated approach to resilience. This would also be the time to identify features of the strategy and business model that constitute vulnerabilities to address or strengths to leverage.

- **Which stakeholders have been and could be most impacted—positively or negatively—by events that affect our industry or organization?**
A review of recent and historical risk events and their impact on stakeholder groups can help management gauge the potential impact of future risk events. A review of past incident reports and legal actions, insurance claims, and financial and operational data can be useful here. For a more forward-looking view, expand scenario planning exercises to include extraordinary and widespread impacts.

- **Where have we invested in people, processes, and technologies that specifically support resilience? Where might we be overinvested or underinvested?**
Using the categories of resilience and the five pillars as a guide can focus the assessment of resilience. Typically, an organization may find that it has overinvested in areas where an incident has occurred, where regulations are strong, or where vulnerabilities can be more explicitly addressed, such as financial or cyber resilience. The challenge is to understand which investments will most contribute to resilience in the areas that will most enable the organization to compete and thrive during a risk event, particularly one characterized by rapid velocity.

- **Which of our capabilities are most critical to executing our strategies and sustaining our business model? In which subcategories are we most and least mature, relative to our need for resilience?**
The WEF's five pillars and our maturity assessment can assist an organization in examining the categories of resilience in light of its strategy, business model, and stakeholders. When visually portrayed, a ranked assessment of capabilities can clarify current and needed levels of resilience in various categories, enabling management to gauge where increased resilience would be desirable.

- **What tradeoffs do we face—and which ones should we make—when balancing the costs of optionality against those of having limited options?**
  This question would ideally prompt management to identify all current and potentially available options and to relate levels of optionality—for example, the resources and choices that would be available (and their costs)—to the need for options to support the strategy and business model.

- **What should we do next?**
  Achieving and maintaining resilience calls for collaboration and consensus. Difficult decisions and tradeoffs under uncertain conditions may also be required. That said, a realistic assessment of capabilities will generally lead to modifications in investments in areas such as risk monitoring and mitigation, supply chain and extended enterprise management, or culture and talent management, to name a few. Also, maintaining resilience is an ongoing process, which means it warrants a permanent place on the senior executive and board agendas.

Lets Talk

Professional facilitation and an outside-in point of view can assist a leadership team in enhancing resilience. As a leader in risk management and crisis and recovery services, Deloitte can provide that facilitation and point of view as well as a range of solutions targeted to both enterprise-wide and specific types of resilience.

With deep experience across industries and functions, proven process and technological solutions, and a global team of specialists, we have helped organizations in every sector to achieve and maintain resilience.

As a result, we have learned that resilience is the result of deliberate initiatives undertaken by senior leaders. It requires desire, effort, decisiveness, and investment. Most of all, it requires action. It is too late to prepare for an event or opportunity as it occurs, particularly when competitors have prepared themselves to thrive. Senior leaders need certain capabilities and options in place before a risk event occurs or an opportunity arises.

Therefore, the time to assess and enhance organizational resilience is now, despite—or, actually, because of—the disruption we all continue to experience.

Connect with us

Discuss the report and learn more about our approach.

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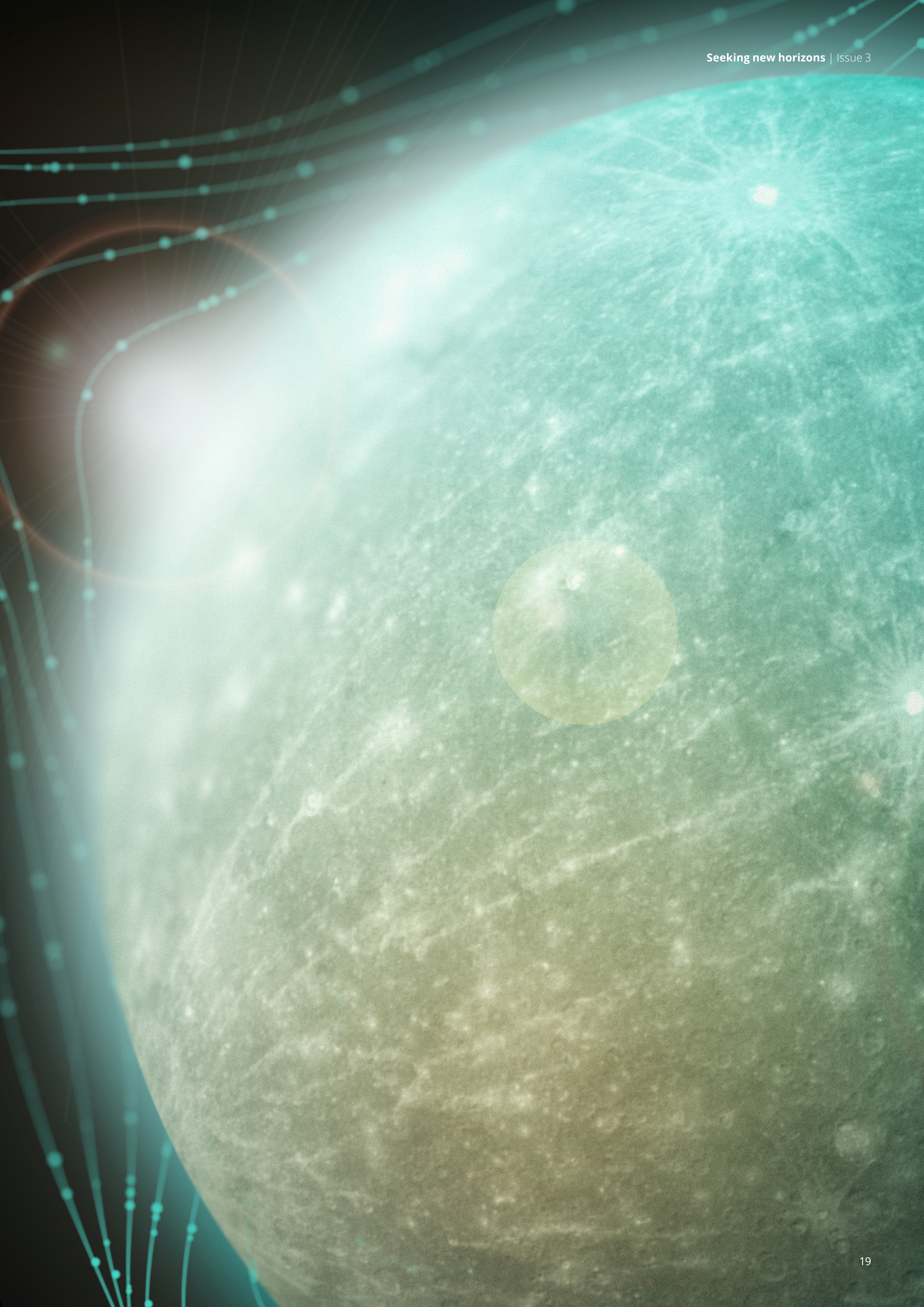

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