RESILIENCE IN THE ROUND

OPERATIONAL RESILIENCE
A GUIDE FOR NON-EXECUTIVE DIRECTORS
ACKNOWLEDGEMENTS

Resilience First, which commissioned this whitepaper, would like to thank Pool Re for sponsoring the work. Appreciation extends to the contributors who kindly gave their time and thoughts to writing the articles within. Without their support, this paper would not have been possible.

The authors do not necessarily have any affiliation with Pool Re. Pool Re is one of a number of contributors.

Thanks go also to the Financial Conduct Authority and Prudential Regulation Authority, and in particular Karen Gutierrez from the Bank of England, for comments and suggestions, as well as those from Luke Vile at PA Consulting.

Robert Hall
Executive Director, Resilience First

July 2021

Resilience First is a not-for-profit membership organisation which has the aim of advancing resilience in business communities and societies.

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CONTENTS

Foreword
Julian Enoizi, CEO, Pool Re
Simon Collins, Chairman, Resilience First
Page 4

Introduction – Aims, Objectives, Audience
Robert Hall, Executive Director, Resilience First, and Claire Matyus-Flynn, Head of Marketing and Events, Pool Re
Page 6

Part 1. The Key Challenges
Robert Hall, Executive Director, Resilience First, and Bob Rothenberg, former Senior Partner, Blick Rothenberg
Page 9

Part 2. Five Key Principles
Vision (Foresight)
Philip Songhurst-Thonet, Director, Control Risks
Page 13

Situational Awareness (Insight & Hindsight)
Christopher Allen, Change Management Director, MONTROC Consulting Ltd
Page 16

Stewardship
Sir Ian Andrews CBE TD, Vice-Chair of National Preparedness Commission and former Senior Independent Director of NHS Digital
Page 19

Agility
Caroline Field, Associate Director, Resilience, Security and Risk, Arup
Page 22

Culture
Hanif Barma, Co-founder, Risk Coalition and Partner, Board Academy
Page 25

Part 3. Skill Set
Jack Armstrong, Director, Operational Resilience, EY
Page 29

Notes and References
Page 32
FOREWORD

Decarbonisation and the role of technology

Section heading
Pool Re is fortunate and grateful to have an excellent board of Non-executive Directors (NEDs) who provide a broad range of specialist expertise which is essential for our governance and viability. We value the independence, impartiality, experience and personal qualities each NED brings to the table.

As the custodians of the governance process, our NEDs often find themselves faced with challenging situations and difficult decisions. Given their broad perspectives, they are often able to provide the executive team with a clear view of external factors, as well as objective and informed views. More importantly, our NEDs regularly provide challenge on plans and policies devised by our executive team, contribute to our strategic direction, ensure audit requirements are satisfied, and that we meet any and all obligations arising.

We are proud of the working relationship between our board and management team, especially when providing feedback on Operational Resilience. It is for this reason we were pleased to be able to partner with Resilience First and the Financial Conduct Authority to produce this guide.

This first edition aims to provide practice notes and advisory tips in concise and user-friendly language, with highlights on principles for NEDs at work as well as practical aspects of work scope, issues, skills and working relationship with other board members and management.

We hope this guide helps widen the conversation on Operational Resilience and provides opportunities for facilitating best practice across sectors and organisations.

By Julian Enoizi

It is important that NEDs can contribute fully to the resilience of their organisations and understand what specific measures are being undertaken to ensure preparedness, long-term resilience and sustainability. This is equally true for public-, private- and voluntary-sector organisations.

This guide provides a platform to help NEDs in two ways: first, to channel their own insights and experiences on resilience; and, secondly, to make appropriate, timely and constructive challenges in boardrooms.

It can be difficult for NEDs to know at what 'altitude' to operate – there’s a balance to be struck between leaving everything to executives on the one hand, and ‘grabbing the steering wheel’ on the other.

This guide provides a companion and resource for NEDs in search of good practice. I hope you find it useful, and please do let us have your feedback, comments and thoughts – it is a living guide for the NED community.

Thank you.

By Simon Collins
INTRODUCTION
On 29 March 2021 the Bank of England, the Prudential Regulation Authority (PRA), and the Financial Conduct Authority (FCA) published policy documents on operational resilience after a long-running consultation period. The policies become effective on 31 March 2022.

One document titled ‘Operational Resilience Statement of Policy’ clarifies how the PRA’s operational resilience policy affects its approach to four key areas of the regulatory framework: governance, operational risk management, business continuity planning, and the management of outsourced relationships.

The document states that ‘for firms to be operationally resilient, they should be able to prevent disruption occurring to the extent practicable; adapt systems and processes to continue to provide services and functions in the event of an incident; return to normal running promptly when a disruption is over; and learn and evolve from both incidents and near misses’. This is the working definition of operational resilience adopted in this document.

Resilience requires a compliance (regulatory) tool. It also requires one that includes long-term sustainability (sound investment), stakeholder engagement (strong social capital) and stewardship (good governance). Organisations using a combination of the above alongside strong, effective and well-resourced managerial functions will be better equipped to manage and mitigate the risks they face. Such strengths, if practised regularly like any exercise, can help build ‘muscle strength and tone’ for organisations.

The pandemic has heightened the importance of these questions but company collapses pre-Covid (e.g. Carillion, BHS, Thomas Cook) illustrate persistent shortfalls. Corporate failures have highlighted the need for scepticism from NEDs but this has shifted from a defensive point of view to one that is more agile and proactive.

The UK Government has highlighted the importance of agility and preparedness on a national scale in a publication ‘Global Britain in a Competitive Age: The Integrated Review of Security, Defence, Development and Foreign Policy’. This document states that ‘National resilience is the product of multiple factors, including effective and trusted governance, government capabilities, social cohesion, and individual and business resilience. Achieving this goal therefore requires a national effort, supported by the Government’s wider domestic agenda.’ Hence, there is a wider remit for everyone to embrace.

To emphasise the government’s impetus, the Department for Business, Energy and Industrial Strategy produced a consultation paper in March 2021 on proposals for ‘Restoring trust in audit and corporate governance’. Section 3.1 of the document states that: ‘The Government agrees with the Brydon Review recommendation and proposes to introduce a statutory requirement on public interest entities to publish an annual Resilience Statement, consolidating and building on the existing going concern and viability statements. The Government proposes that the Resilience Statement should be required initially of premium listed companies, in view of their existing experience of producing viability statements, and should extend to other public interest entities two years later.’ While this statement might change in the consultation process, the drive is clearly for greater accountability in resilience.

This guide is part of a suite of tools designed to help NEDs channel their own insights and experiences on operational resilience and make the right challenges in boardrooms by being robust in their questioning. Boards and NEDs play a key role in setting the tone and creating a culture to enable operational resilience to be at the heart of their discussions and challenge. Operational resilience is the outcome being sought and to do that we must manage operational risk effectively.
All-round success rests on the willingness of boards (Chairs and CEOs) to place resilience at the centre of agendas. Progress should mirror developments in cyber defences and anti-corruption measures. Importantly, NEDs should also look forward and be ambitious in considering potential impacts by not being overly focused on any specific threat before them.

We hope you will find this guide provides a companion and resource for good practice. It is the first step to generating a more dynamic product that will provide a web-based portal for the exchange of information, as well as the basis for the introduction of other key challenges and principles.

If applied, the guide will allow NEDs to judge the value, veracity and validity of information received while also reviewing the accountability of their contributions.

**Aims**

This guide aims to assist individual NEDs by:

- helping you focus your contributions while providing meaningful and accountable advice to boards for long-term organisational sustainability and resilience; and

- providing you access to an interactive network and community of NEDs. The bespoke digital platform will bring together the latest information, expertise and advice, and will support conversations and discussions between NEDs.

**Objectives**

This guide will achieve its aims by providing you with:

a. Practical and informative guidance through a resilience lens.

b. Advice on approaches to address concerns and identifying solutions for a broad range of challenges.

c. Best-practice guidelines and an interrogation tool for new and existing NEDs.

d. A set of challenges that NEDs can use to challenge robustly but positively their boards. These should elicit a clear response, and require neither specific knowledge nor subject expertise to uncover the essentials.

e. A focus on relevant, timely and specific sectors and issues such as liquidity, compliance, reputation, communications, inspections, mental health and job satisfaction.

f. Continuing support of the five key principles identified.

g. Examples of best practice illustrated using a range of case studies.

**Audience**

All stakeholders – internal and external, official bodies, committees of public bodies, private companies and voluntary organisations – should use this guide.
Part 1. THE KEY CHALLENGES
In Part 1 we look at the key challenges for NEDs and in Part 2 at five key principles to help tackle those challenges. Each section begins with a set of practical steps, followed by the rationale for the topic and a case study which illustrates the challenges or principles described. Part 3 looks at the skill set required of NEDs to manage the role.

Twelve practical steps (across all Principles):

1. Ensure the board has a positive and agreed understanding of the resilience principles (as set out below), their strategic significance and benefits as they apply to the organisation.

2. Ensure that appreciation and awareness align across all levels of the organisation through a common framework of policies and procedures.

3. Ensure the framework includes KPIs which are reported as needed and regularly (at least annually) and recorded.

4. Ensure there are both top-down and bottom-up resilience measures that enable medium- and long-term sustainability.

5. Identify those resilience champions at all levels in the organisation who can promote best practices in all the principles and with a common vision.

6. Identify and promulgate best-practice examples when pertinent for the business.

7. Persuade the board, particularly if everything is going well, that they need to be thinking about how resilient the organisation is in the face of known and unknown risks.

8. Persuade the board to exercise frequently its business continuity and recovery plans in order to satisfy itself that they are robust in all circumstances, and to ensure that lessons previously identified are learned by incorporating them into future plans.

9. Persuade the executive to look up from current performance and address wider issues of Environmental, Social and Governance (ESG) issues on which future performance and long-term sustainability depend.

10. Identify the carbon footprint of the organisation, its supply chain and its customers, and the measures required to reduce them.

11. Ensure that the board is mindful of market, investor and other stakeholder expectations when setting senior executive remuneration.

12. Ensure that the board is aware of where the information critical to the effective performance of the organisation is held and that the appropriate safeguards are in place to satisfy the Information Commissioner’s Office (ICO) that adequate measures have been taken to protect personal data.
Rationale

Resilience in business is about surviving and thriving in the face of change. It is more than bouncing back; it is more about bouncing forward by adapting to the new set of circumstances. To reconstruct a plant in the same place after a severe natural flood, for instance, may be building back, but it is not building better.

Risk and resilience are not the same but may be considered opposite sides of the same coin. The former is an interpretation of a vulnerability to, and the likelihood of, a specific danger that focuses on preservation and restoration – to avoid, retain, transfer or mitigate the risk follows. A risk register is the usual way to catalogue a range of risks.

The traditional approach to risk management has been shown wanting in the face of recent challenges: we have been caught short in preparing for the pandemic, for instance, and the same could be said of climate change. The linear approach to risk – mechanistic, quantitative, siloed and structured – no longer meets the demands of significant dangers which can be volatile, uncertain, complex and ambiguous.

Nature of resilience

Resilience, on the other hand, is more a behavioural and structural response to, or consequence of, a changed set of circumstances that assumes recovery of the status quo ante will not be possible – adaptation to the change follows. There are two levels of resilience:

▶ **Passive resilience** is the ability to absorb disturbance, recover quickly from a setback and return to a more resilient stability. It is about being robust and hardened.

▶ **Active resilience** means growing progressively tougher by learning from adversity and becoming better able to avoid and manage future stresses. Actively resilient people continually learn from their experience and develop stronger defences, making them better able to resist the next time. They are less likely to experience a crisis and cope better when they do.

Hence, while the board should maintain a risk register, it is more important to question the ability of the organisation to respond to interconnected and dynamic threats which do not fit the traditional risk model. As the horizon is increasingly blurred, it is better to examine consequences or potential impacts across the threat spectrum (an all-hazards approach), and build responses based on experiences from previous challenges, thereby improving both corporate muscle and memory.

Case Study A

The Begg Report on the disruption over the severe weather in 2010 found that Heathrow airport was ill prepared for snow and recommended that the airport ‘should adopt an improved resilience target that [it] never closes as a result of circumstances under its control, except for immediate safety or other emergency threats’. Heathrow’s crisis response planning appeared to be focused on a number of risk scenarios (not including snow) whereas the planning of Gatwick airport was based around the core functions needed to respond to a broad range of difficult circumstances; as a result, it managed to keep operating.
Leadership is key

Driving or leading organisations, whether they be large or small, in a post-Covid world is about making decisions when often less than 70% of the key facts are known. This is made all the more difficult when employees are dispersed and alarmed, when inequalities beyond one’s normal authority are reaching fever pitch, and the world boils in its excesses. Platitudes and policies are no longer sufficient – doing nothing or avoiding harm is no longer good enough.

Leaders, whether political, corporate or not for profit, need to show that they can rise to the multiple and concurrent challenges by providing a hopeful vision that unites. It means acting positively and being counted in the pursuit of principles and ethics. Above all, leaders need to display and promote resilience to the risks materialising. This should remove the all-too frequent disconnect between strategic risk and operational resilience.

Additional Reading:

Part 2.

FIVE KEY PRINCIPLES
Five practical steps:

1. Ensure a clear understanding of business strategy and goals in the context of the organisation’s operating environment.

2. Consider future mega-trends which may change the organisation’s context from a variety of sources such as professional bodies, industry leaders, competitors, customers and employees.

3. Ensure key emerging risk scenarios are considered using an analytical tool such as Political, Economic, Societal, Technological, Legal, and Environmental (PESTLE) to tackle a wide range of future risks.


5. Ensure collaborative, cross-business, internal and external networks are developed to share information and gain new insights.

Rationale

The primary role of NEDs is to provide objective and independent views of the strategic and operational direction of executive board decisions. For this reason, NEDs are uniquely positioned to use their external ‘vision’ and breadth of expertise to challenge constructively key decisions and ensure emerging threats, risks and opportunities are understood.

The speed of change within the global business environment continues to accelerate. Companies are dealing with an ecosystem which is more politically engaged on specific issues than ever before. The future is about not merely commercial management but also where a company is perceived to stand on a range of issues and sometimes being urged to take a clear position where they might rather not.

The pandemic and growing trends in disruptive climate events have highlighted sustainability as a key focus for businesses. ESG issues will be at the forefront of decision-making, made all the more urgent by pressure from regulators and the financial markets.

Rapid digitisation continues to expose businesses to a range of emerging risks as organisations grapple with changes to traditional business models and every decision is scrutinised publicly. Likewise, data privacy and ethical and compliant social-
media standards are fast becoming a major point of global contention.

Executive leadership and NEDs will continue to be potential high-profile targets for adverse public comment. The ability to scan the horizon to understand better the uncertainties and opportunities is more important than ever.

**Good practice**

Successful organisational resilience is founded on an ability to identify and rapidly assess trends within the operating environment. Horizon scanning is a common technique used to identify these trends to ensure that strategic planning is aligned with emerging risks and opportunities in the market.

It is good practice to separate horizon scanning from business-as-usual, enterprise risk management because of the uncertainty and time horizons normally involved in assessing emerging risks. Importantly, the process of horizon scanning focuses on understanding the velocity, impacts and likely timing of major trends. Examples often cited include climate change, accelerating digitisation, changing customer expectations, use of on-demand workforce and changing employee habits.

A key output of a successful horizon-scanning process is a shortlist of risk scenarios captured in an emerging risk register which is used to stress test the business planning cycle and development of future strategy. Whilst NEDs may not necessarily get involved in the details of the process, they have an opportunity to use their wealth of experience to challenge the outcomes.

Constructive challenge can be further supported using a red-teaming approach which establishes a consistent framework for independent challenge. Red teaming is widely used in commercial and governmental organisations in the UK as a major aid to decision-making in planning. It enables decision-makers to avoid decision bias through a formal process of challenge based on logic, evidence, consequence analysis, alternative perspectives and the competitive environment. Benefits include a better understanding of the operating environment, reduced group think, identification of risks and vulnerabilities, and the impact of external influences.

NEDs should actively seek to get involved in the methods outlined here, and to raise questions during board meetings or at board away-days. Increased focus will lead to better vision and foresight being communicated across the board leading to better decision-making.

‘NEDs are uniquely positioned to use their external ‘vision’ and breadth of expertise to challenge constructively key decisions and ensure emerging threats, risks and opportunities are understood.’
Principle 2: Situational Awareness

Five practical steps:

1. In order to develop insight and hindsight, first identify the problem. Be present and skilled in asking open questions and be a good active listener.

2. Be fluent in fast and slow critical analysis, critical thinking and adept at identifying gaps in the board’s own techniques.

3. Apply judgement to any insight to provide understanding in context.

4. Improve the quality of information sources available to the board and apply analysis to them to help make foresight more certain.

5. Offer guidance and advice on how and where to gain or revise the required skills.

Rationale

Situational awareness is the perception of a particular area of interest, problem or situation bounded by time and space in the context of a mission or task. It also includes the ability to identify trends and linkages over time and to relate these to what is happening and what is not happening. This concerns hindsight, insight and foresight.

Interpretation of information and knowledge provides situational awareness. This begins the process of understanding. Whatever the context, understanding involves the acquisition and development of knowledge, including that of hindsight, to such a level that it enables insight – knowing why something has happened or is happening. Analysis of this situational awareness provides comprehension. Applying judgement to this comprehension allows us to gain insight and develop the foresight to provide options for taking action.

In simple terms, hindsight and insight allow foresight – being able to identify and anticipate what may happen.

The inputs to situational awareness may include location, the nature of the situation, the timeframe (which may be unpredictable) and information sources.

Situational awareness plus analysis = comprehension (insight).
Good practice

The NED should possess the ability or be able to act to assess a situation so as to gain understanding and discover why something is happening the way it is. The NED should therefore possess the tools and techniques to gain insight in both fast and slow time. Whilst it is important for the NED to remain calm and collected with the board, s/he must also possess the experience and rigor to apply timeliness to questions and expected answers. The NED’s role is not to apply unnecessary pressure to the board unless such pressure is a part of the required drive to provide options for taking action.

The NED should possess hindsight. This can be gained through interaction with the current company and other companies and the challenges they have faced and through a proactive approach to develop situational awareness. Thus, the NED must be well-read, be conversant with the vision, values, practices and procedures of this and other companies, and be willing to engage regularly in open dialogue with as many stakeholders as possible. This networking is a key element in the acquisition and development of knowledge.

The NED should be able to gain insight and help the board to gain insight to aid effective decision-making. Together with context and foresight, insight provides understanding. The NED will have a suite of analysis tools that are second nature in order to structure relevant and appropriate questions to the board.

NEDs should encourage boards to maintain a focus on the effects that disruptive events will have on customers. The new PRA policy requires financial services firms to prioritise customers and end markets rather than focusing exclusively on how the firm itself might be impacted or how regulators might react.

These analysis tools, gained during non-related roles and experiences, are not necessarily overtly used or require demonstration but provide the NED with a process of critical analysis, facilitating his/her critical thinking in support of the board and the issues at hand. These tools will not only create credibility in the NED but also add value in the creation of relevant and pertinent questions.

The NED should be able to simplify complexity, cutting through management speak and enabling the board to ‘get it to give

Case Study B

In 2019 a global technology company completed an M&A without change management. Like many M&As, the effects were felt by those made redundant but also by the survivors. In a classic assessment of the newly formed company’s real-estate portfolio, the EMEA Board sought external advice on three offices that were within 10 miles of each other and collectively housed 1,000 staff. The options provided after detailed research and analysis recommended one of the offices be retained and staff relocated to it.

Owing to the personal attachment of the newly appointed EMEA CEO to one of the less-favourable offices, the recommendation was thrown out and two offices were retained with a subsequent culture-change programme and real-estate costs of over £1m. Six months later on the retirement of the CEO, a new decision was made to combine the offices as per the original recommendation at a cost of a further £1m.

The Board had not been challenged or held to account by any NEDs and resulted in unnecessary cultural upheaval and cost.
it; ‘I need to understand it so I can explain it to others.’ Board members may, at times, lack the psychological safety to ask simple or difficult questions. The NED can assist here. The phrase, ‘Intelligence is knowing a tomato is a fruit; understanding is not putting it in a fruit salad,’ is apt for the NED. When the executive directors are bogged down in crisis management or dealing with ‘wicked problems’, the NED can take the time to garner hindsight and insight, take a ‘Hamlet moment’ and point out the obvious, ask the ‘daft’ question, or pin-point the question to ask to cut through the wicked problem.

Additional thoughts

Situational awareness is a constant.Whilst it may relate to an emerging or urgent problem, the fact that it is formed from hindsight and insight suggests that there is a constant trickle of input, bolstered by targeted analysis, to aid comprehension and understanding. When there is a requirement or imperative to take action, situational awareness can be overlooked or it is at risk of poor-quality options and potentially failed actions. The NED has the opportunity to ensure situational awareness is achieved at the earliest stage in any process.

‘The NED must be well-read, be conversant with the vision, values, practices and procedures of this and other companies, and be willing to engage regularly in open dialogue with as many stakeholders as possible.’
Principle 3: Stewardship

Five practical steps:

1. Take into account the interests of all stakeholders, both internal and external, and including the wider economy and society.

2. Act as transient caretakers, responsible and accountable for the wellbeing of the organisation that needs to be passed on in better shape than when received.

3. Ensure that effective governance embraces business ethics, performance, control and legitimacy.

4. Address risks before they become issues so that the organisation is better prepared to respond to the genuinely ‘Black Swan’ events which cannot be foreseen.

5. Do not plan for the last war but be better prepared for the next, whatever form it might take.

Rationale

Traditionally, the focus of board governance has been on safeguarding the interests of shareholders. It has often been perceived to be a necessary evil to ensure compliance with regulatory obligations and the appropriate transparency of business activity. But what is known as ‘stewardship’ is becoming increasingly prominent in the minds of financial markets and institutional investors and, therefore, boards. Compliance and regulation too often focus on the narrow interests of the shareholder in wealth creation. Effective stewardship involves taking account of the interests of all stakeholders, both internal and external, and including the wider economy and society which too often unknowingly subsidise that wealth creation. All are vital to the medium- and long-term sustainability of the enterprise; this is equally true in the private, public or not-for-profit sectors.

Fund managers have been clearly signalling that they will view future investment opportunities through a sustainability lens with particular but not exclusive emphasis on what action organisations and their supply chains are taking in response to the certainty of climate change. Stewardship involves boards thinking of themselves as transient caretakers, responsible and accountable for the wellbeing of an organisation which does not belong to them and which they need to pass on in better...
shape than they received it rather than simply, and narrowly, as an owner of the shares. It involves thinking in terms of outcomes rather than simply inputs and outputs.

This attitude has resulted in a shift in the focus of governance away from just Corporate Social Responsibility (CSR) which too often involved little more than a tick-box bandwagon onto which many enterprises leapt when it was fashionable to be seen to be doing the right thing – being corporately socially responsible. There is ever-increasing emphasis on evidence of a genuine commitment to the discipline of delivering benefits in terms of ESG. This has significant implications for NEDs who must challenge the executive to take into account the interests of all stakeholders and not just their shareholders. It involves the anticipation, prevention and/or amelioration of the negative consequences of the organisation’s activities and outputs on the economy, society and the environment and the capital that it consumes. Effective governance, in this context, embraces business ethics, performance, control and legitimacy.

**Good practice**

In addition to overseeing financial probity and effective performance, and safeguarding the integrity and reputation of the organisation, the role of the NED is to contribute as a member of the board by providing guidance, support and challenge to the executive, including to focus attention on what s/he might not find it convenient to address - to be prepared to ask the right challenging questions and, if appropriate, to warn if they are at risk of cruising into danger.

There can only be two possible answers to any question. One, which addresses the question to the complete satisfaction of the person who asked it; or one that does not, whether it exposes the fact either that the executive does not know the answer or is unable or unwilling to provide it - in which case, it has exposed a risk which needs to be addressed.

**Case Study C**

In 2014 an IT executive with an American bank in Canary Wharf took his own life by jumping from the roof of the corporate building. He had worked for the bank for a decade. The incident, in public view, traumatised staff and led to reputational damage to the bank. Records showed that the executive had explored suicide options on his software accounts and had tried to access floors from which he was barred in the weeks prior to the incident.

While the bank was not blamed by the coroner, the general issue of doing all one can to prevent such incidents should be part of a company’s stewardship and emotional resilience strategy overseen by the board and interrogated by NEDs.

Knowing what questions to ask does not necessarily mean having subject matter expertise. Indeed, that might encourage complacency and actually discourage others from expressing concerns, while running the real risk of the individual, however well qualified or intentioned, falling victim to ‘group think’. But it does mean not being satisfied with bland assurances but expecting to see evidence of the process in operation. This can take courage and can be very lonely to appear to be the one rocking the boat, particularly if it challenges the prevailing consensus – but better than to sink with the rest of the ship when it runs on the rocks. Getting the balance right without getting drawn into inappropriate operational detail, which is quite properly the preserve of the executive, requires real skill and a level of training for NEDs that is often not provided for.

Risk registers are not just there to be admired – and even celebrated when a particular risk that has been identified
materialises – but as a basis for posing the question about, and testing, what is being done to mitigate it, absorb its impact and ensure the ability to recover afterwards. Too often, boards feel good about how they have exercised business continuity plans when all the right people are sitting around the table but without taking account of the fact that, almost inevitably, ‘sod’ determines that crises inevitably occur late on a Friday when none of the key individuals is around or accessible! The value of addressing those risks, before they become issues, is that organisations will be better prepared to respond to the genuinely ‘Black Swan’ events which cannot be foreseen.

Additional thoughts

As they face up to the implications of a return to whatever a new, post-Covid normal is going to be, boards must be able to demonstrate that they are thinking about how to respond to the next ‘Black Swan’. That may, or may not, be another pandemic. It may take the form of a different potentially catastrophic disruption, whether caused by extreme weather events (climate change), massive data loss, electro-magnetic pulse, or whatever. There is a real risk of ‘planning for the last war’ rather than being better prepared for the next – whatever form it might take.

Additional Reading:

Resilience First’s Guide on Emotional Resilience.ii
Principle 4: Agility

Five practical steps:

1. **Ensure there is a clear vision and set of values that are embedded across the organisation and its supply chain.**

2. **Ensure all employees are empowered to inform and enhance organisational resilience with a clearly defined governance structure.**

3. **Help the organisation thrive on knowledge shared throughout the business and ensure it has robust mechanisms in place to capture and store organisational knowledge for the benefit of all employees and the strategic goals.**

4. **Ensure the organisation is constantly capturing and analysing data, using these insights to inform decisions and remain ready to respond.**

5. **Ensure the organisation thrives on a partnership model working closely with and learning from its external stakeholders.**

Rationale

Agility is key to resilience and competitive advantage. This includes: the ability to provide effective leadership; having the necessary awareness and information to make informed decisions; the ability to act effectively on those decisions; and the ability to learn, improve, innovate and transform constantly. Agility gives an organisation the ability to manoeuvre away from risks and to capitalise on opportunities. Balanced with the other principles, this can lead to business longevity and competitive advantage.

(The following is an extract from a paper produced by McKinsey and Co Ltd with Resilience First in 2020.)

One practice to achieve agility is a clear, simple common purpose that is applicable to the whole company. This helps engage and motivate employees, and prioritise competing demands. For organisations that have found a new focus during the Covid-19 crisis, the next key step should be to consider if they can enhance and develop their common purpose to hold true in more normal times, giving employees the same clarity of decision-making and ability to act as during the Covid-19 crisis. Agile organisations often speak of a shared purpose and vision — the ‘North Star’ — which helps people feel personally and emotionally invested in the organisation. This North Star allows employees to watch individually and proactively for changes in customer preferences.
and the external environment, and then act upon them.

A second practice is for organisations that created new forums and structures, or repurposed existing ones, to act as rapid decision-making bodies. These structures often began life as crisis-management forums composed of the most senior people who met regularly to make decisions and reallocate resources quickly. These new structures can allow organisations to cut the usual red tape and management layers that can lead to slow and laborious decision-making. Decisions that previously required hard-won consensus or an onerous burden of proof could be accelerated if they can be overtly aligned to the organisation’s common purpose.

A third practice involves creating networks of teams and ensuring clear role accountability. Local business units have become the focus for many organisations, with clear accountability for what they were responsible for versus the central team. The Covid-19 pandemic has led to several organisations reducing hierarchical barriers, bringing senior leadership in to much more direct contact with operational leads.

Agile organisations typically maintain a stable, top-level structure but replace much of the traditional management hierarchy with a flexible, scalable network of teams. They go beyond just creating local teams to creating dense networks of teams. They implement clear, flat structures and ensure there is clarity of role accountability.

Here, the team is at the heart of the structure and team-based working – a central tenet of agile thinking. It has advantages over a hierarchical structure in terms of speed, precision, decision-making, and the satisfaction of employees. Organisations would do well to keep this lesson in mind and continue the team ethic and to extend the team-of-teams practice that has proved so effective in uncertain times.

A fourth practice is empowering frontline employees and creating a flexible culture that helps unleash entrepreneurial drive. Some organisations already have a culture of empowering staff and have used the Covid-19 crisis as an opportunity to expand and reinforce this. Organisations should consider how they can continue to empower their people. Frontline employees are closer to the customer and, therefore, usually have more relevant first-hand information and better ideas about customer needs.

Organisations should ensure this sort of culture continues by investing in leadership that empowers and develops their people. In agile organisations, leaders act more as visionaries, architects and coaches, and less as directors and controllers. They can put in place processes that reinforce this and give their people clear accountability combined with the freedom to pursue opportunities. Many can proactively help employees build new capabilities through role-mobility programmes.

A final practice concerns the use of technology. To enable

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**Case Study D**

A major UK grocer encouraged employees to capture the opportunities presented by the Covid-19 pandemic: new sales from customers no longer eating out in restaurants and fewer but larger shopping trips. Supply-chain staff likewise worked hard to keep up with the increased demand, negotiating with suppliers to buy more stock. This allowed the grocer to meet the unprecedented increase of more than 10% in year-on-year sales. Actions such as this taken in the light of the pandemic may be valuable in dealing with other major disruptions so should be seen as a way of future proofing the organisation.
many employees to work from home during the Covid-19 crisis, several organisations quickly secured access to remote-working technology such as laptops and webcams. By necessity, many organisations have moved to a model where technology is key to every interaction, and a number of familiar tools have quickly become part of ordinary working life.

Organisations should consider which new technologies they want to embed in their ongoing ways of working. Agile organisations think of technology not as a supporting capability but as being seamlessly integrated with and core to every aspect of the organisation. Organisations undergoing a fully agile transformation would cut any technology that was outdated – including legacy architecture – to adopt new, more suitable platforms. All organisations now need to consider to what extent they want to do the same, bearing in mind their organisation’s willingness to take on cost and security risk, which may enable or limit how far they go down this path.

‘Organisations should ensure this sort of culture continues by investing in leadership that empowers and develops their people. In agile organisations, leaders act more as visionaries, architects and coaches, and less as directors and controllers.’

Additional Reading:
Agile resilience in the UK: Lessons from Covid-19 for the next normal.64
Five practical steps:

1. The board should ensure its own culture gives focus to long-term sustainability by adopting a mindset that gives sufficient time, and appropriate challenge, to risk and resilience matters.

2. As part of the formulation of strategy, the board should define an appropriate culture for the organisation that promotes a resilient workforce.

3. Establishing a culture that encourages and emphasises organisational resilience should be a priority for the board, and it should promote and stress its importance.

4. As a primary stakeholder, the board should ensure there is a strong staff voice, being mindful that a resilient workforce is essential to underpin organisational resilience.

5. The board should ensure that it regularly reviews appropriate indicators that enable it to monitor the organisation’s culture as well as the resilience and health of its workforce, obtaining additional assurance where necessary.

Rationale

Before the Covid-19 pandemic, resilience was already becoming an important area of focus for business and regulators. Much of this focus, however, was on operational resilience given the increasing threats that organisations faced from fraud, cyber-attack as well as more general IT-related risks and failings – for example, as observed when customers have been unable to access their own funds due to their banks’ IT operational failings. The pandemic, however, has given important impetus to the need for businesses to ensure they have a resilient culture to underpin broader organisational resilience.

Culture has a number of essential dimensions or facets: ‘tone from the top’ (leadership messages), ‘accountability’ (how people are held accountable for managing their risks), ‘effective communication and challenge’ (both down the organisation and up), and ‘incentives’ (aligned with objectives and driving the right behaviours). Ultimately, however, the leadership and management skills of executive management and the role of the NEDs in championing these are key to ensuring a strong and healthy culture.

Accordingly, the focus on ensuring a resilient culture is essentially two-fold. Boards should be giving adequate attention to culture across their organisation but this focus should start with boardroom culture and ensuring the right tone is set at the top.
NEDs should also remain vigilant because organisations need resilience leaders with the same balance of technical and soft skills that other risk disciplines require.

Board culture

An often-made criticism of boards has been that they do not spend enough time on risk, and the pandemic has brought home the need for greater board-level focus to be given to organisational resilience as well. This is not a matter of boards simply adding risk and resilience related items to their agendas. Rather boards need a different mindset and ethos – or, if you like, culture – that means that discussions about risk and resilience are seen as value creating and not simply putting a tick in a compliance box or representing a non-strategic activity.

Boards should regularly be reflecting on their own boardroom culture. Is there sufficient willingness to question and challenge? Do executives avoid defensiveness in their response to challenge? Do the executives and NEDs, nonetheless, work in a collaborative and supporting way despite their different ‘roles’? Additionally, does the board create time and space to think more broadly, enabling resilience to be built and embedded.

A healthy board culture is underpinned by the leadership of its chair, and by a diverse and inclusive membership that enables regular constructive challenge about the resilience of the organisation not to be seen in a negative light. Accordingly, a board should regularly review its own effectiveness, periodically embracing an external perspective, to ensure it has a culture that supports risk-, resilience- and sustainability-oriented decision-making, ensuring this lies at the heart of its work.

Alignment

It has long since been recognised that strategy lies at the centre of the work of a board. More recently, much has been written about the board’s role in determining and overseeing an appropriate culture for the organisation, and about the need for organisations to have a clear purpose. These are not distinct aspects of a board’s role and responsibility. Rather, the board should ensure there is clear alignment between the organisation’s purpose, values, strategy and culture as these are all inextricably intertwined.
Not all board discussions are suited to the regular series of routine meetings with time-pressured and busy agendas. To give adequate focus to these key areas in a holistic way the board should ensure it creates the right environment to consider purpose, values, strategy, risk and culture. Offsites or away-days (even if they are held in-house or as virtual meetings) play a key role in enabling boards to consider these critical broader matters. The resilience and sustainability of the organisation’s business model and practices can now also usefully be added to these topics for consideration in a joined-up way.

A focus on resilience

The culture that the board seeks to establish will invariably comprise of a number of dimensions. One crucial element of this will be the need to ensure that the organisation’s culture promotes, prioritises and embeds organisational resilience. The board has a key role to play by stressing the importance of resilience.

From an organisational point of view, a chief executive and the executive team should take the lead and be visible in promoting the business’s resilience. The board can support the executives in several ways. For example, as part of the challenge in meetings and in informal conversations during site visits, the board can make clear the weight it attaches to resilience. Furthermore, when setting remuneration policy and reviewing outcomes, the board can ensure that behaviours that promote resilient working are appropriately rewarded.

Connecting with the workforce

Good governance recognises that the board should understand the views and expectations of the organisation’s key stakeholders. The workforce, understandably, is both a key stakeholder and central to the management of external stakeholders. There are a number of ways in which the board can connect with the workforce more broadly. These include options ranging from a director appointed from the workforce to the creation of a formal workforce advisory panel. Each board should consider what approach is most appropriate to its circumstances. Whatever the approach, this connection with the workforce will present the board with the opportunity to understand issues pertinent to the workforce’s resilience – and how the workforce supports organisational resilience more generally.

The success of an organisation in achieving its purpose and objectives is dependent on its workforce, so the engagement and resilience of the workforce should be an important focus for the board. Supplementing more formal and established mechanisms (such as pulse surveys and exit interviews), direct engagement with staff provides the board with an opportunity to understand key people and culture issues such as: staff wellbeing and any concerns about returning to work, the effectiveness of contingency planning, workforce agility, empowerment and management style, staff morale, alignment between staff and ‘contractor’ practices, internal communication and staff engagement. Although NEDs should be mindful of their role (vis-à-vis that of the executives), they need to make understanding culture and workforce issues a key priority.

Monitoring and assurance

The UK Corporate Governance Code sets out that the board should assess and monitor the organisation’s culture. It goes on to say that where the board it is not satisfied that policy, practices or behaviour throughout the business are aligned with the company’s purpose, values and strategy, it should seek assurance that management has taken corrective action. So, understanding the organisation’s culture – and, by implication, its resilience – should clearly be a key focus for any board.

High levels of staff turnover, poor feedback from exit interviews and low levels of staff engagement are all potential warning signs and may be early indicators of emerging issues – whether staff-related, operational or reputational. So, boards should
determine what relevant key indicators underpin their people strategy and the resilience of the workforce, and they should receive, monitor and challenge these as part of management’s reporting to the board.

Increasingly important is the focus on supply-chain resilience. Organisations are increasingly seeing how events impacting their third-, fourth- and even fifth-line parties are leading to financial, reputational and operational risk events for themselves. When carrying out test exercises, many firms now require third-line parties to take an active role, recognising how important they are to maintaining operations. NEDs should encourage boards to drive a culture of operational resilience so that risks in the supply chain are actively managed throughout the sourcing lifecycle.

Boards routinely get independent assurance over a number of areas, whether financial reporting (from external audit), systems and processes (from internal audit) or cyber risks (from external specialists). From time to time, boards should consider the need for independent assurance or advice about the organisation’s culture recognising this is a much ‘softer’ area and, invariably, harder to measure or assure in the same way as other areas such as systems and processes.
Part 3.

SKILL SET
To enable effective challenge and oversight of resilience at board level, NEDs need a broad range of skills and experience. This does not mean that they are required to be practitioners in any of the multiple resilience capabilities or have deep technical backgrounds. As with all board compositions, having diversity of thought, experience and skill set is key – so that all challenges can be addressed from multiple angles.

There are some core skill sets that enhance a NED’s ability to challenge the executive on resilience and be able to interpret and interrogate adequately the responses. In no particular order, these skill sets are:

**Operational experience**

Resilience is trying to look at the ‘so what’ of disruptions occurring to the business and what outcome or harm that it is trying to avoid. Understanding the end-to-end services that are provided and how disruptions can manifest and interrupt a specific operation are vital in focusing attention and resilience activities in areas of greatest benefit.

**Risk-management experience**

Although the new UK policy statement is more focused on impact, it is still based on the assumption that resilience is often the outcome of good risk management. When completing any resilience programme there are decisions that need to be made on scenario testing, remediation and controls efficacy. All of these require a risk-based view and thus a background and core understanding of the concepts are useful for any NED.

**Technology experience**

Resilience is much more than just a technology issue, although in many organisations the importance of technology has driven the resilience agenda. Because of the resilience of most organisations when it comes to technology, as well as the proportion of resilience investment that will need to be made, having someone with a fundamental understanding of how technology works can help to understand and challenge investments.

**Third-party / Ecosystem experience**

Understanding how your ecosystem works and which firms you rely on, both intragroup and externally, are critical to understanding your resilience. Organisations are becoming more and more interconnected and so disruption in any part of your supply chain can have knock-on implications to your business. By having someone with experience in the appropriate oversight, challenge and understanding of your supply chain resilience, you can ensure that your organisation is dealing with it appropriately.
Cyber experience

Although cyber is technically a threat vector, it is such a large and critical one that having someone with experience in this area is important. A board with a basic collective understanding of cyber security is also important. Understanding how decisions that are being made across each other’s resilience area can affect your cyber resilience is key to your overall strategy. Your organisation will need its own cyber team and approach, as well as how it links in third parties. This is one of the new and emerging areas in which it can be harder to find skilled NEDs but having someone on a board who can challenge with knowledge and experience, and act as a champion for the cyber team, is important.

Future Tech experience

All organisations are moving into ever more advanced technological solutions, be they cloud, blockchain, automation or something else. While all these present fantastic opportunities for greater efficiency and new service offerings, they all come with a counter-point which can affect resilience. These may well be the right strategic directions for your organisation but the pros and cons of each decision need to be challenged, and having an understanding of the concepts is essential.
NOTES AND REFERENCES

4 https://www.dropbox.com/s/cjltfcac4frrnrit/Resilience%20First_TransitioningFromRiskToResilience_Whitepaper_2021.pdf?dl=0
5 Critical analysis is applying introspective judgement to interpret, analyse and evaluate a problem and explain the context upon which that judgement is based. Critical thinking is the examination of problems or situations from an original or unorthodox perspective.