

## Risk and Leadership: 4 Lessons for the Post Pandemic World

*A crisis brings risk management to the top of the management agenda. Leaders face new challenges in providing external direction and building internal engagement.*

Leaders and risk managers have been tested over the last fifteen months. The challenges facing both have been characterized by uncertainty and complexity. Leadership is of course about deployment of resources and therefore about choices, which today often involve ambiguity. These decisions can have dynamic effects upon risk exposure and risk mitigation. Risk management is therefore part of the strategic leadership agenda.<sup>1</sup>

Leaders must provide outward direction and must also foster internal engagement. The second has become more difficult in lockdown conditions. Both are vital capabilities in adapting to the new conditions posed by the pandemic. Here are four elements of leadership that can enhance risk assessment and response.

### 1. Navigating complexity and managing change

Competence and expertise are givens for leaders, but things still go wrong. Part of the external direction role is to consider what could go wrong in the future in a world of known and unknown unknowns.<sup>2</sup> Good leaders assemble expertise around them and make extensive use of delegation.

We have learnt the value of multi-disciplinary approaches as the inter-connectedness of risks has become very apparent during the COVID disruption. In a crisis, resource must be deployed to address the situation at hand but at the same time other risks still have to be managed. Leaders can make use of planning tools to address an uncertain future and to identify new and emerging risks. These tools include horizon scanning, scenario analysis and root cause analysis.<sup>3</sup>

*Thoughts: Ask yourselves, have we grasped the new reality? Should the risk register be updated? Beware of bias and balance humility and decisiveness. Be prepared to admit mistakes.*

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1 Amato, Neil, *5 questions to ask to help improve risk management*, Financial Management Magazine, 4<sup>th</sup> May 2021, discusses a proactive approach to large risks and ERM.

2 For a wide ranging discussion of unexpected and emerging risks, identification and response see, Fritz Nauck, Ophelia Usher, and Leigh Weiss, *The disaster you could have stopped: Preparing for extraordinary risks*, December 15<sup>th</sup>, 2020 at [www.mckinsey.com](http://www.mckinsey.com).

3 For an introduction to some techniques see, *Scenario planning for future disruptions*, Allianz News and Insights, March 24<sup>th</sup>, 2021.

## **2. Creating psychological safety**

A key skill is communication, and the ability to turn complexity into a clear narrative. Leaders need to explain the why and listen to, and absorb, feedback.<sup>4</sup> A key part of the current risk management dialogue is the range of concerns summarized as “people risk”. Motivation and morale are under threat and employees feel the need to be heard. Failure to create internal safe engagement risks diminishing employee commitment, trust and self-value, thereby increasing levels of risk.

*Thoughts: Actively seek feedback and engage employees who may be feeling truly remote. You may otherwise be operating without all the evidence.*

## **3. Building purpose**

There is much evidence of why things go wrong in organizations, and failures of values or ethics are often involved. These then become reputation challenges, with potentially considerable costs. A clear purpose should reduce this risk.

This is a good time to re-examine old assumptions. Putting key decisions into context, measuring them against goals and objectives, will help to eliminate the poor decisions that result from a lack of balanced and expert input, attention to the evidence, and the numerous biases that can cloud thought.

*Thoughts: Purpose aids good decision making particularly in a crisis. Purpose must be consistent with behavior and actions. It cannot be a shallow PR type exercise that conveys no meaning. The building of trust internally and externally is the test of its legitimacy.*

## **4. Building autonomy and resilience for the future**

We face evolution and changes in the risk environment. New practices will result with accelerated digital transformation, and a different vision for office working. Traditional control and compliance mechanisms may require a re-think. Success will depend less on hierarchical control and more on individual judgement and decisions, emotional intelligence and collaboration.

These are not skills obtained via online training courses and require more personal autonomy with a genuine values-based approach.

*Thoughts: Define and communicate acceptable risk. Acknowledge that risk management roles and accountability are now more distributed throughout the organization. Systems and processes may need to be adapted to this reality. A CRO role may facilitate this and provide a point of coordination.*

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<sup>4</sup> This subject is explored in Boris Groysberg, Robin Abrahams, and Katherine Connolly Baden, *The Pandemic conversations that leaders need to have now*, April 2021, by, Harvard Business School, Working Knowledge.

## Skills for a post pandemic world

In conditions of ambiguity the skills often associated with successful negotiations can be used to enhance risk leadership outcomes.<sup>5</sup> Skilled negotiators in complex situations are likely to be individually resilient, perceptive, and values driven, with the ability to both influence and direct, think through issues, resolve conflicts, and build a culture of trust.

Notwithstanding the quality of leadership and the risk management frameworks in place, setbacks can be expected. Decisive action is required when the unexpected occurs and all the desirable information may not be at hand.

Prepare accordingly, for even if risk assessment has fallen short, response will be the key to navigating disruptions faced in the months ahead, and indeed in the next crisis.

If you'd like to discuss any of the issues raised in this article, please contact **Keith Tracey**.

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<sup>5</sup> Program on Negotiation, Harvard Law School, has several publications available for download discussing leadership, management and negotiation and mediation skills, including multiparty and cultural challenges.