
# Risk Management in Organisational Change

By **JULIA LEONG and ERVIN JOCSON**

**The role of the board of directors in "de-risking" high-stake business and digital transformations for success starts with changing mindsets. It is not just about technology and systems change, but a shift in attitudes that is needed to ensure open communications and vigilance to oversee the risk management of major corporate transformations.**

For many decades now, companies have been creating new business models and transforming for competitive advantage. Managing the risks of transformation is more important now than ever for boards.

The key difference from the past is the greater rate of disruptions, brought on in no small part by the digital revolution. Product life cycles have shortened, and customer expectations have risen. Failure to transform – and to transform meaningfully – may spell a company's demise. Household names like Borders, Kodak, Tower Records are now remembered for the wrong reasons.

The pace of digital transformation continues to accelerate. In a survey of over 1,100 CEOs and industry leaders across the economies of the Asia Pacific Economic Cooperation (APEC) region in 2018, PwC found that automation emerged as the top priority among business leaders as they prepare for the digital future. Beyond using technology to drive productivity, organisations are also seeking to exploit their data assets and emerging technologies to pursue growth.

While opportunities for value creation through digital technologies abound, the risks and challenges are also very real. The repercussions of a US-China trade war on foreign investment, supply chains as well as digital business models across the region have to be factored in.

The scale and pace of transformational change can be so disruptive that it causes huge stresses and exposes organisations to transformation risks.

Failure in a transformation programme is therefore a strategic risk that should come within the oversight of any board as part of its oversight of the company's strategy.

## Understanding the risk drivers

Whilst transformations may present different risks in different companies, the human factor is often one of the weakest links. Companies often either over-estimate their capacity for change or under-estimate the effort needed to integrate their existing businesses with the technology landscape.

For digital transformations in particular, many companies fail to sustain the scale of change. Digitalisation and automation have begun to change the shape of organisations, displacing – and gravely unsettling – workers lower in the value chain. (See box, "Digital Transformation – Changing the Shape of Organisations").

For this reason, transformations cannot just be about technology. Indeed, there must be a concomitant focus placed on managing risks associated with people and capability development.

This is of such strategic importance that it warrants the closest attention of the board.

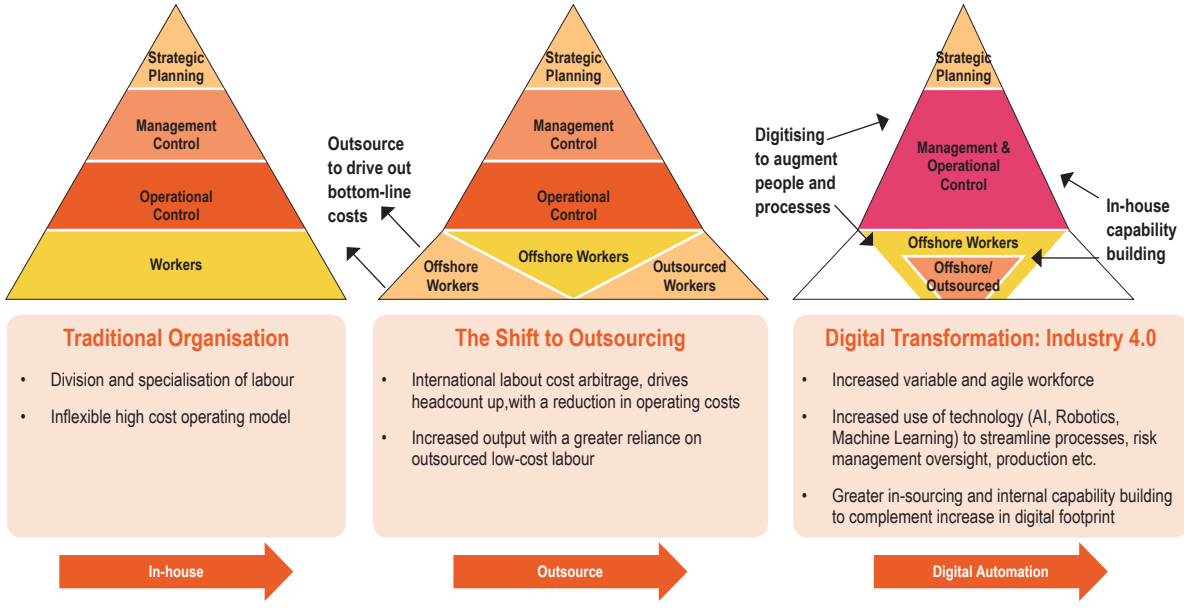
## Key digital transformation risks

Another key risk factor pertains to systems. The coming of age of cloud and blockchain technology has opened up new frontiers for many companies. But as with the proverbial double-edged sword, a watchful eye should be kept on the risks.

In a recent survey of over 3,000 business leaders globally, PwC sought to understand what it takes to develop the level of confidence in people, processes and technology to build a secure digital world. The inaugural *Digital Insights Survey* found that while nine in 10 survey respondents say they include proactive management of cyber and privacy risks by design in the project plan and budget, just over half say that proactive risk management measures had been incorporated into the project "fully from the start".

It is vital that boards are equipped to ask the right questions through the lens of data protection, privacy management, resiliency and cyber security.

### Digital Transformation – Changing the Shape of Organisations



Companies must ensure that these issues are managed right from the start of their digital transformation journeys.

Red flags are often not given the due attention until they become critical and much costlier to address. To enable early sight of issues, the board should consider if it has ticked the following boxes:

- Good visibility over the total change portfolio.
- Aggregate level of risks of both the "to-be" state and the "business-as-usual" activities.
- Clearly articulated criteria for the escalation of issues by the management for the board's attention.
- Clearly articulated principles in addressing tensions that may arise in the implementation of transformation programmes.
- Allocated sufficient time in board meetings to deliberate the trade-offs and strategic implications of these issues.

While it is true that "you can't manage what you don't know", it is important to have well-designed early-warning processes that can help boards reduce the risks of "unknown unknowns".

## Monitor transformation programme status

It is critical that boards also balance between the "must-knows" versus the "good-to-knows" in tracking the health of a transformation programme. Effective communication and engagement between management and the board of directors can help in the oversight of risk management.

On the one hand, it is easy to be lulled into a false sense of security by a dazzling dashboard full of positive performance indicators. On the other hand, if these indicators are not well thought-out, they can detract from the effective tracking of the transformation programme.

While most companies provide the board with strategies for cyber security and privacy, many of the same businesses may have doubts or concerns about their internal reporting on cyber security and privacy metrics. Only 27 per cent of survey respondents say they are very comfortable that the board is receiving adequate reporting on metrics for cyber and privacy risk management.

A common pitfall in programme status reporting is the focus on outputs rather than outcomes. This is an important and yet often neglected distinction because outputs are often easier to measure than outcomes. When it comes to identifying corporate key performance indicators, clarity of purpose at the board level are key to ensuring alignment throughout the rest of the organisation.

In practice, many things can go wrong in multi-year transformations. Catastrophic failure is often the result of small undiagnosed (and hence unaddressed) failure points accumulated over a long period of time, rather than one single major event. Whilst there is no single silver bullet, boards should be vigilant and keep track of the well-being of the transformation.

Some of the measures include having multi-feedback channels (informal and formal) for different perspectives, especially from change agents at the frontline. Companies should also dedicate time on the board agenda to discuss transformation risks. There should be regular independent health checks, readiness and toll-gate reviews over the life of the transformation. And boards must embrace every opportunity to solicit fresh perspectives from new board members.

This holistic approach will help build confidence in the readiness of people, processes and technologies to meet tomorrow's challenges. ■

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