



# The Changing Challenges of Business Leaders and Their Risk Implications

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Since soon after its formation, India's Institute Of Directors (IOD) has organised annual international conferences for its members and business and thought leaders. Recognised authorities, opinion formers and industrialists continue to contribute to these events. Increasing directors' understanding of significant issues, developments, challenges and opportunities and their impacts and implications, learning what others are doing about them and the discussion of options and possible responses has been a central element of the Institute's focus upon building better boards.

**Over time event agendas and the concerns of attending delegates, the preoccupations of business leaders, and how they view the contemporary situation and business context have changed.**

What are the implications of these changes for directors and boards and their practices and the strategic direction they provide? What are the consequences of the changes for how companies operate and are structured and governed? In particular, do we require new ways of assessing and managing certain complex and longer-term risks?

## **IOD Events and their Focus**

IOD organises five annual international events. The first to be established and now in its 28<sup>th</sup> year was a conference on Total Quality, which has broadened its focus to embrace business excellence, leadership and more recently innovation. It is held in Dubai. The second event to be established and held in India concerns environment management. It is now in its 20<sup>th</sup> year and additionally covers climate change. A conference on corporate governance is in its 18<sup>th</sup> year. Held in London, it now also covers sustainability. Another event held in India and in its 13<sup>th</sup> year concerns corporate social responsibility, while the final international event concerns corporate ethics and risk management and will be held again this year in Singapore.

The agendas, theme and contributed papers, speeches and conference reports from these IOD events and participant observation of discussions at 50 of them suggest that the concerns, preoccupations and priorities of business leaders are changing, if the attendees are representative of a wider population. Speakers contributing to IOD's annual events include Ministers, CEOs, CMDs, founders and the heads of relevant institutions and professional bodies. So what have the trends been over the last quarter century,

and particularly recent years? What issues have reoccurred, albeit sometimes in different forms, and which ones are pressing at the present time?

As already mentioned, the areas covered by certain conferences have evolved. All events concern areas that IOD has felt ought to be considered at board level. However, over time certain topics and similar concerns have featured in more than one event. The agendas of what used to be mainly discrete and self-contained events have become more integrated. Certain external factors and digital and other developments have implications for the areas of concern of multiple events. There are a growing number of overlaps. The outputs of IOD's annual conferences have also increasingly become inputs into one, two or more other IOD events later in the year and then revisited in future years. Action to address certain issues and dilemmas that have been on the radar for some time is becoming more urgent.

## **Trends in Recent Years**

In multiple events there is increasing awareness, recognition and articulation of a number of factors that ought to concern corporate boards. Business leaders portray a business and market environment of change, uncertainty and insecurity. They are being simultaneously confronted with multiple and inter-related challenges and, at the same time, new and unprecedented opportunities. Because these challenges and opportunities may have implications across a company, identifying which individual, group or department should be asked to address them is becoming more difficult.

Some issues remain at board level because there is no obvious area or group to whom they can be delegated. External and other parties may need to become involved, but identifying who to approach is difficult when few people and organisations appear to have authoritative and relevant expertise or offer compelling and actionable solutions. Some business leaders are finding that their company's current capabilities and structures and their colleagues' past experiences, approaches and practices are not necessarily appropriate for today's requirements. They face a relevance challenge.

**External threats are evolving and in some cases mutating.** They are increasingly having an impact upon many or most, if not all, companies, whether immediate such as the risk of hacking and cyber fraud or possibly imminent, such as an impact of climate change that occurs sooner than expected. Other examples include the challenges and opportunities offered by disruptive and digital technologies, new

business models and the sharing and circular economies. Certain areas of opportunity are open to many enterprises and like some threats may require a collective response.

### **Complicating Factors**

The scale and potential impact of some threats and opportunities is such that more business leaders at IOD events are acknowledging the need for responsibilities to a wider range of stakeholder interests. As issues become more interdependent and wide ranging in their likely or possible impacts, and as more boards recognise that a broader range of interests may need to be engaged and involved, many business leaders are finding they need to restore trust if they are to achieve the more intimate and mutually beneficial relationships they are seeking.

Trust is an issue in part because many companies are perceived as compounding problems rather than developing solutions. It is increasingly recognised that tackling a challenge such as climate change or sustainability requires more than the incremental improvement of current operations and practices. Providing innovation and transformational leadership is the challenge for many boards and business leaders. There is more recognition of the value of collaboration and collective action, than understanding of with whom and how this might best be achieved.

Over time fewer academics have contributed to IOD's annual events. Feedback suggests that delegates prefer to learn from the peers. While inputs from some academics have been welcomed, there is a concern that others are too narrow and specialised, primarily interested in their own research agendas, and focused on particular aspects of problems rather than integrated solutions. Constructive challenge is welcome, but some academics are perceived as hostile to business and capitalism, and more interested in re-writing history than creating a better tomorrow. Across their organisations, academia and the professions, some business leaders struggle to find the breadth of perspective and dispassionate objectivity required of a competent director.

### **Enduring Issues**

Although they may change as improvements and developments occur, certain issues remain. It is a paradox that in a land where temples and other religious buildings abound, corruption, favouritism and nepotism persist. Tackling the continuing challenge of inclusion is hampered by the fragmentation of governmental responsibilities and the barriers of bureaucracy and vested interests. Sustainability is too often viewed in terms of enabling existing practices and business models to continue, rather than initiating the changes needed for environmental sustainability in the face of finite limits of natural capital.

There is often a gulf between rhetoric and reality, intention and outcome and aspiration and achievement. Despite their advantages, many people, boards and organisations are slow to adopt better alternatives. This can lead to impatience and frustration and may contribute to distrust of business and capitalism, including by some politicians, and calls for more intervention and regulation. Business leaders have to achieve a balance between the contending self-interests of different stakeholders and the future of their companies and wider society.

Continuing issues are the relevance of "western" and/or external and standard approaches in areas such as corporate governance in

the diversity of the Indian context. Particular issues facing many family companies persist and in some cases are becoming more acute. A continuing question is whether the large number of young people joining the potential workforce each year represents an asset or a potential future social welfare burden if entrepreneurship does not create new opportunities to replace jobs replaced by further automation, robots, AI and various new technologies.

### **Pressing Issues and Dilemmas**

A pressing issue is whether complacency, compliance, departmentalism and risk aversion will prevent the creativity, innovation and entrepreneurship that is required. Will protectionism and vested interests in the status-quo prevent transformational leadership and paradigm change? Clinging to standard models and approaches developed in a previous era might also frustrate the exploration and diversity required to develop more adaptable, flexible and bespoke solutions that are appropriate in particular situations at a certain stage of development and in a changing context.

A greater diversity of approaches and the multiplication of opportunities and options may lead to more guidelines and fewer

standards. In some areas, consensus may have to give way to the tolerance of diversity. Care may need to be taken to ensure that the "groupthink", "safe spaces" and "political correctness" found on some university campuses does not spread to commercial enterprises where innovation and paradigm shifts might depend upon challenge, experimentation and vigorous debate.

More business leaders may face the dilemma of how to encourage questioning, challenge, creativity, innovation, enterprise and entrepreneurship while complying with laws and other requirements dating from

when previous and different concerns and priorities applied. Might some regulations and controls designed to protect people and communities from unwelcome developments actually limit the freedom to act in certain areas and prevent innovations that might benefit them? In some situations could conformance to out-of-date rules prevent the evolution of a more responsible capitalism that addresses a wider range of needs.

### **Recurring Issues and Risk**

In many companies there is a tendency to take recurring issues for granted. Like the poor they always seem to be with us and in terms of relative poverty this is always likely to be the case if the freedom associated with markets is maintained. Directors sometimes adopt a fatalistic attitude towards continuing risks, viewing them as a given and as a cost of doing business. Hopefully they can be covered by insurance, do not require action as they can only be addressed by someone else, or because they will impact upon all companies they will not put a particular company at a competitive disadvantage. Because corporate operations have continued in spite of them in the past, it is assumed this will be the case in the future.

This complacency overlooks opportunities to secure a march on competitors by doing something different that has a beneficial impact and might become a differentiator. It also assumes that past conditions will continue to apply. What if the situation suddenly

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changes because a tipping point is reached? Balloons do not keep expanding for ever without bursting. At some point a dam may burst or overflow, or an activity may cease to be viable. Maybe at some point different factors might combine or interact to create a new situation, such as when rising water reaches a live power cable.

### The Timing and Crystallisation of Risks

The timing of tipping points when risks crystallise and discontinuity when situations, probabilities and their consequences suddenly change are difficult to predict. Directors and boards sometimes fail to spot when an activity is likely to fall over a cliff. Ravines and canyons can be difficult to spot until one is really close to the edge, when it may be too late to slow down and reverse direction. When people are busy and under pressure they may be tempted to avoid putting in place the response and recovery mechanisms needed to deal with something that may not happen during their tenure of office, or which is categorised as a “once in a hundred years event”.

As global warming continues and weather patterns change, certain events such as flooding are becoming more common in some parts of the world. If the consumption of scarce natural capital such as rare minerals continues at the current pace, in the absence of new discoveries, the emergence of alternatives and/or relevant innovation, at some future point we may run out of supplies at an affordable price. Infrastructure, whether public or private, that is overworked in relation to expectations at the time of its construction and which has been poorly maintained as a consequence of budget constraints might also fail. Various risks may crystalize at a time when people are least ready and able to deal with them.

### Governance Arrangements

Many boards used to find that their annual calendar of meetings and board practices allowed them to deal with most discrete issues as and when they arose. Many directors felt that being available to address self-contained issues that cropped up between annual meetings of shareholders was a justification for their existence and role. The departmental structure of organisations meant that issues could be categorised and routed to appropriate specialists who could handle them with or without intervention from the board, while others carried on the general work of meeting customer, client or public requirements.

As issues become more complex, inter-related and significant in their possible implications, their categorisation can be more problematic. Addressing them may require multi-disciplinary action and, when a company's own capabilities are insufficient to deal with them, a collective approach. Such issues may be increasingly regarded as

strategic or existential rather than simply as operational matters. Some directors may wonder whether they have the mandate to tackle them without reference to shareholders, or other stakeholders such as creditors or affected communities, where their involvement would be desirable.

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A question that many directors need to consider is whether traditional board and governance practices are capable of handling a collective response to a complex and longer-term challenge such as climate change. Who now needs to be involved, and what new mechanisms are required, to build understanding and develop, approve and implement the responses required?

### Determining Required Responses

In many companies urgent action is required to develop or acquire multi-disciplinary and complex and inter-related problem solving competences. More issues may need to be handled by multi-disciplinary, multi-location and multi-organisational working parties and project and programme groups and teams. Their effective management and governance might also benefit from the effective use of digital technologies.

More systems thinking is required in corporate boardrooms and in support of boards to better understand and map interdependencies, identify points of greatest potential impact, agree warning signs or “traffic lights”, and establish control limits. It may be possible to identify areas for action that might interrupt or moderate certain interdependencies and their impacts. It may be possible to model some systems that at first sight seem excessively complex and/or use scenario planning.

Many companies would also benefit from a fundamental and subsequent periodic review of board committee structures and responsibilities, business and operating models, and corporate policies and guidelines. Boards should question whether they and senior management are providing the required transformational leadership and doing enough to stimulate, support and enable creativity, innovation and entrepreneurship, and build a corporate culture that encourages questioning, challenge, and the analysis and understanding of complex and interdependent issues.

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