
Dynamic risk equilibrium — the next wave

Dr Gav Schneider and Kate Down RISK 2 SOLUTION

The term VUCA, made popular by the US military in the late 1990s and now adopted by business schools all over the world, shows us the criticality of dynamic thinking and action. VUCA stands for *volatility, uncertainty, complexity* and *ambiguity*. It highlights the key underlying factors that face us in every day decision-making in the modern age. This also makes sense from a sociocultural evolutionary perspective because VUCA encapsulates our human ancestral nature for adapting to novelty and to change itself.

Research in the field of brain science has shown the human brain is designed to solve problems relating to survival in an unstable environment and to do so in almost constant motion.

However, much to the detriment of workplace health, there is a gap between what science knows and what businesses do. This has become increasingly evident through the upward trend in stress and mental health and downward trend in productivity. Business leaders and strategy professionals who used to be fixated with the “critical” need for the “3- to 5-year and longer strategic plan” factoring all variables and striving to minimise uncertainty so that results can be guaranteed now face frustration due to a VUCA reality. Since Michael Porter’s groundbreaking work in the 1980s, we’ve become adept at developing strategy, but unfortunately, as most experienced leaders know, we’re not nearly as good at executing it. This has to do with the persistent myth that good execution means always sticking to a plan. It has been well-documented that organisations spend huge amounts of time and energy mapping out who should do what and with what resources. But they can’t anticipate every event. In volatile markets, managers and employees need to be agile and that’s not easy. Issues such as digital disruption, technological integration, globalisation and numerous other variables continuously prove that our long-term, unbending plans serve as a great starting point, but if they are not structured with built-in flexibility, they usually never work.

Based on this, it would seem simple enough to focus planning on shorter-term cycles and have built-in flexibility. However, as modern age humans we struggle for stability and continuity and resist change, so this is much easier said than done. It does, at this point, make sense to ask “why the resistance to change” from a human psychological point of view. However, organisations

rarely do. Leading risk professionals know that to succeed, we must view business and cultural change from a human psychology perspective. It takes organisational attributes such as agility and resilience to be able to adopt planning as required to achieve objective or even to be wise enough to know when objectives should change. This presents the next issue — we see every industry sector starting to add these catchy buzzwords: “Let’s be agile”, “Let’s be resilient” and “Because we said we are, it has now happened!” Or has it ...

Since organisations are comprised of groups of people, the facets of group interaction, combined with the individual attributes of the people who make up these groups, is where the disjoin seems to lie. People don’t just become agile and resilient because we change our mission statement and put up catchy posters around the office. In fact, if we look at the core connects behind these two attributes from a definitional perspective, we see the complexity in assuming that people just get it:

- **resilience** — the ability to bounce back and exhibit toughness; and
- **agility** — the ability to change course and direction quickly and effectively.

It needs to be acknowledged that we all have different natural abilities in these two aspects, but obviously these can be improved and developed over time with the right focus and intent. So how do we do it? We need to focus on several aspects:

- ***We need to teach people situational awareness***
If they can’t be present and orientated, how can they know how to bounce back or where to move to?
- ***We need to embrace the whole of person approach***
Flexible work structures and changing trends mean we can’t control people based on “when they are in our buildings” any more. We need to educate and empower them with the skills to apply ongoing personal development and decision-making skills.
- ***We need to develop mindfulness so that people are present when they need to be***
This has never been harder in a world of constant communications and distractions, we bet as you are reading this you want to check your emails or look on social media.

- ***We need to teach people to understand themselves*** so that they can mitigate the realities of cognitive and heuristic biases that we all have, and impact our decision-making and performance.
- ***We need to teach enhanced understanding of others and empathy*** so that we can try and understand each other better and play to each other's strengths to achieve workplace harmony and organisational objectives.

Only when we have achieved the above can we begin to start expecting our people to translate the relevant skills and attributes into the workplace and develop the ability to be organisationally agile and resilient. Of course we would be remiss to ignore the importance of systems and processes, but in the end it's "people" that have to use and apply these systems and processes. So if we don't have the people part right, the system and process is bound to fail. In order to drive this, we need a focused cultural and behavioural change approach which usually takes around 3–5 years to be successful in most organisations. This is where strategic planning and long-term vision becomes critical.

The output of all of these is to strive to create what we refer to as a dynamic risk equilibrium (DRE). What does DRE mean? It means we have the ability to innovate and adapt, to take calculated and educated risks so that we can seize opportunities. It means we can adjust our risk baselines to match the environment and our people based on the opportunities and threats we have to manage. If we can't achieve DRE, we will constantly be losing opportunities, fail to innovate and live in a risk-averse world where we will steadily see ourselves and our organisations become obsolete. The challenge is to apply the embedded approach to risk leadership in everyday life at all levels of our organisations so that risk truly becomes opportunity and not just another compliance and governance activity that we "have to do".

The importance of cultivating DRE is reinforced when we focus our attention towards how today's workforce is faced with increasingly complex environments as well as psychological and physical demands that stem from a fast-paced and volatile economy. A paper from Harvard Business School on building a resilient workplace culture highlights the particularly harsh toll on our mental health with workplace stress and workforce disengagement.¹ In fact, a 2012 Towers Watson study² found that in most organisations, only 35% of employees said they were engaged. In other words, 65% of employees have mentally checked out, causing productivity, innovation, and creativity to plummet. The study also found that 38% of employees felt

stress and anxiety about the future, and that less than half of the employees surveyed agreed that senior leaders had a sincere interest in their wellbeing.

In most cases, when viewed through the lens of DRE, the structure of the modern organisation has not put the person at the heart of business activities. Dr John Medina, author of *Brain Rules: 12 Principles for Surviving and Thriving at Work, Home, and School*³ and a developmental molecular biologist, has clearly highlighted that stress impacts people's ability to perform in business. There is a growing recognition that good mental health at work is a must not a nice to have. This is not simply altruistic. Because of the upward trend, mental ill health is a main cause of absenteeism. In fact, the growing recognition that performance and engagement can be affected by a worker's state of mind is now becoming well understood. Neuroscience proposes the brain is organised to minimise threat and maximise reward. Meaning, each of our brains constantly scans the environment for perceived threats which leads us to acknowledge that high-performing workplaces are a by-product of two distinct forces that mutually influence one another. These forces are:

- ***positive organisations*** — or environment and culture; and
- ***positive individuals*** — based on mindset and behaviours.

It is accepted that it is the mindset of an individual that determines their high levels of productivity, profitability, engagement, innovation and quality of life. This is a double-edged sword. We can develop individual resilience through training the person to focus on their thoughts and feelings and examine their actions and responses, but resilience and agility can be either assisted or disturbed by the environment in which the individuals find themselves.

So what is it that makes some organisations able to not only survive but also thrive in the face of adversity? This is the challenge we seek to solve through research supporting DRE — that highly functional organisations are those who operate not as a transactional network but as an evolved social network. Failed organisations tend to ignore the people dimension, treating the human resource as simply cogs in the machine which inevitably results in the loss of those resources. The leaders of industry are those who view their human assets as exactly that — an asset to be maximised, a potential to be utilised and an investment for return. The higher-valued, higher-trained and higher-engaged your workforce is, the greater return on your investment. DRE is thus the output of a strategic and tactical balance between people and process that is constantly evolving.

Risk Management

Today



Dr Gav Schneider
CPP, FIS (SA), FAIM, AARPI, MAIPIO
CEO
Risk 2 Solution
gav.s@risk2solution.com.
www.risk2solution.com

About the author

Dr Gav Schneider is the CEO of the Risk 2 Solution Group and Head of the Australian Catholic University's (ACU) Postgraduate Program in The Psychology of Risk.



Kate Down
BBeSc, PGCertRisk, PGDipPsych, MAPS
Risk 2 Solution
www.risk2solution.com

About the author

Kate heads up Risk 2 Solution's People, Culture and Behavioural Change division. She is a lecturer on ACU's innovative Postgraduate Program in The Psychology of Risk.

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Footnotes

1. G Everly “Building a resilient organizational culture” (24 June 2011) available at <https://hbr.org/2011/06/building-a-resilient-organizat>.
2. Towers Watson *Engagement at Risk: Driving Strong Performance in a Volatile Global Environment* Global Workforce Study (2012) available at www.towerswatson.com/en/Insights/IC-Types/Survey-Research-Results/2012/07/2012-Towers-Watson-Global-Workforce-Study.
3. J Medina *Brain Rules: 12 Principles for Surviving and Thriving at Work, Home, and School* Pear Press, 2008.