Companies need to strike the right balance between bringing in the cash, and preserving value in the business. Is a new focus on corporate defence in order?

BY SEAN LYONS

Success in business in the twenty-first century is increasingly associated with the delivery of stakeholder value in the short, medium and long term. Few would argue that, in theory at least, corporate strategy should therefore address the subtle balance between short-term value creation (offence) and long-term value preservation (defence) in order to deliver sustainable value. In this context value creation is regarded as the focus on bringing the dollar in through the front door, while value preservation is regarded as the focus on preventing the dollar from leaving through the back door.

Twenty-first century stakeholders typically expect that their organisation will consistently deliver sustainable stakeholder value. But in the face of continuous corporate scandals involving such household names such as Volkswagen, FIFA, and Wells Fargo, many stakeholder groups are now showing signs of serious concern. Stakeholders are beginning to question the adequacy of the measures currently being undertaken by their organisations in order to safeguard their interests and to protect their value.

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Value preservation imperative

In light of this scrutiny, in far too many organisations an imbalance exists, what is referred to as a value preservation deficit. This deficit can begin with the disconnect between value creation and value preservation efforts at a strategic level in many organisations, and, as a result, this disconnect tends to cascade down to tactical, and operational levels. Unfortunately, in such circumstances the issue of value preservation is more likely to be implied or addressed as an afterthought, rather than being considered as an essential element of an organisation’s corporate strategy. In this regard, many organisations fail to understand or appreciate what is referred to as the value preservation imperative. Put simply, an organisation’s obligation to its stakeholders to take adequate steps to help preserve value and help defend against value erosion, reduction, or destruction.

Corporate defence is synonymous with value preservation. The umbrella term corporate defence programme represents an organisation’s collective programme for self-defence, and it reflects how it is organised to safeguard and protect stakeholder interests. Effective corporate defence, however, is not easy as it requires the alchemy of both science and art in order to effectively defend the organisation and its stakeholders against potential hazards which could have a detrimental impact on stakeholder value. In practice, every organisation will have some form of corporate defence programme in place whether by accident or design. This can range from a formal structured programme, to an informal unstructured programme, depending on the organisation in question.

Corporate defence theatre

Although the concept of corporate defence appears to be intuitively understood, its precise requirements do not appear to be fully appreciated in many organisations resulting in corporate defence theatre, which is merely the illusion of corporate defence. Everyday in the media, stakeholders are informed of corporate scandals whereby previously respected organisations have found themselves in difficulties of their own making. These scandals are often the result of events which in retrospect the
organisation could have and should have better anticipated, prevented, detected or reacted to.

Not surprisingly, post-mortem investigations into the causes of these scandals consistently expose deficiencies and weaknesses in their corporate defence programmes which have led to unnecessary large scale losses, significant reputation damage, and negatively impacted on stakeholder value. These deficiencies and weaknesses can begin with the non-existence of a formal corporate defence programme. However, individual corporate defence issues can also have an impact. Typically examples of these issues can include failures in corporate governance, poor risk management, compliance failures, unreliable intelligence, inadequate security, insufficient resilience, ineffective controls, and failures by assurance providers. The existence of more than one of these issues in any given organisation tends to exacerbate the initial problem and can eventually result in exponential collateral damage to stakeholder value.

Logically if deficiencies and weaknesses in corporate defence programmes tend to result in corporate losses and failures, then improved corporate defence programmes can help better safeguard against the occurrence of such scenarios. What is needed is more robust and more effective corporate defence. Effective corporate defence requires the design and implementation of a comprehensive corporate defence programme which provides a multidisciplinary roadmap so that all corporate defence related activities are strategically aligned, tactically integrated and operating in unison towards the achievement of common objectives.

**Comprehensive defence**

A comprehensive corporate defence programme needs to address corporate defence requirements throughout the organisation, at strategic, tactical, and operational levels. It needs to be able to provide the complete picture of how corporate defence activities operate across the organisation's various lines of defence, all the way from the boardroom to the front-lines, and vice versa. It should help provide a holistic view of corporate defence and incorporate the management of eight critical corporate defence components (See Critical defence components). An effective programme involves aligning, integrating, and coordinating these interrelated disciplines and involves the collective management of these components throughout the enterprise in order to help maximise their potential value.

Each of these critical components address corporate defence from different and unique perspectives, and these form part of the necessary system of checks and balances required to help ensure that the organisation is taking appropriate measures to help preserve stakeholder value. Management of these components requires an
appreciation of the continuous interaction, interconnections, and critical interdependencies which exist between these specialist disciplines and the potential cascade of consequences which can result. It requires an understanding that these complimentary components continuously impact on one another in this increasingly complex corporate ecosystem. In fact the symbiotic nature of their relationships means that each contributes to, and receives from, each of the other components. Their collective management is required as recent developments in each of these disciplines has meant that the boundaries between these activities have become somewhat blurred, therefore it is now increasingly difficult to determine where one component ends and another begins. A comprehensive corporate defence programme can help provide the organisation with both defence-in-depth and defence-in-breath, thereby helping to create a more robust and resilient organisation.

The challenge

Enterprise risk management (ERM) is an essential element of any organisation’s corporate defence programme and typically risk management practitioners are seen to be the driving force behind how their organisation routinely identifies, measures, and manages the risks it is exposed to. Very often, however, risk professionals tend to view the organisation’s activities through a risk-centric lens (i.e. viewing issues in the context of risk elements). However, it is important to appreciate that viewing any issue through a risk-centric lens will provide a very different perspective than when viewing it through a compliance-centric lens or a resilience-centric lens. The challenge now facing risk professionals is to have the courage to stretch outside their risk-centric comfort zones towards a more holistic view of the organisation’s corporate defence requirements.

This will involve ensuring that their organisation not only evaluates issues through a risk-centric lens but that it also views these issues through the lens of the other critical components, such as governance-centric, compliance-centric, intelligence-centric, security-centric, resilience-centric, controls-centric, and assurance-centric.

A risk-centric view impacts on all the critical defence components and vice versa. For example, governance risk refers to the risk elements associated with governance activities, while risk governance refers to the governance elements associated with risk activities, and so on and so forth. A clear understanding of the inter-disciplinary dynamics at play between each of these critical components is essential. Risk management practitioners have an opportunity to play an important role throughout this important learning process to help the organisation evolve to a higher level of maturity in its corporate defence efforts.

Incentives to improve

In the current economic environment, there is an increasing onus on each organisation to be able to successfully demonstrate that they are taking all reasonable steps to prevent unnecessary losses, to safeguard stakeholder interests, and to adequately protect stakeholder value. In November 2016, Professor Arnold Schilder, chairman of the International Auditing and Assurance Standards Board (IAASB) delivered a keynote speech at a conference in Brussels entitled, The future of audit. In this speech, he stated that “Understanding the business of the auditee, its corporate defence, and value preservation is a cornerstone of a robust audit”.

For certain organisations, the prospect of external auditors, rating agencies, and various regulators adopting such a focus when assessing their organisation will provide an adequate incentive to revisit their existing approach to corporate defence. For some organisations the prospect of better protecting stakeholder value by implementing a more robust corporate defence programme will provide them with sufficient incentive. While for others the prospect of actually optimising stakeholder value through improved performance and increased productivity will prove to be the primary motivating factor. Ultimately, an effective corporate defence programme can help to ensure that the organisation is fulfilling its fiduciary duties, legal obligations, and moral responsibilities, while at the same time helping to create durable value and sustainable economic performance.

Sean Lyons is the author of Corporate defence and the value preservation imperative published by CRC Press, 2016. For a 20% discount visit www.enterpriseriskmag.com

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