

## Denial and Change Nigel Hall

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What follows is an address, 'Denial and Change', on upcoming business risks given to a City of London audience at Clifford Chance, Canary Wharf, on 7 March 2013.

**Are we heading for a tipping point? We have consistently ducked tackling the big and underlying issues. 'Process' and 'box-ticking' at business continuity and disaster recovery level breeds a false sense of security. The bigger problem resides at board level where 'uncomfortable thinking' about reputation and business-ending risks does not get enough thinking and discussion time. We default to denial and comfort zones, and fail to join up the dots. A real game changer may be inbound and might be what is required to create better, more fair and just societies. UK could be centre stage once again as exemplar and role model in chief.**

I'm not going to cover - in much depth at least - the headlines and subjects that grace the national security strategy, national risk assessment, and your own company risk registers.

I want to get right to the heart of the onion. We spend too much time focusing on the surface layers. Recall the mould-breaking and compellingly honest statement by the US Chairman of the Joint Chiefs in August 2010 when he stunned the world and the American establishment. He went completely 'off piste' and said that the US national debt was the "single biggest threat to our security".

In a similar vein, I suggest that governments and many commercial organisations spend too little attention to the big and most important issues. Business continuity and disaster recovery, by and large, get plenty of attention. Indeed 'process' and 'box-ticking' at this level can breed a false sense of security. I suggest the bigger problem resides at board level where 'uncomfortable' thinking about some of the reputation and business-ending risks simply do not get enough thinking and discussion time.

Consider the flagship organisations and businesses – eg countless governments, BP, RBS, BBC to name but a few – and various notable leaders and their reputations that have been destroyed over the past 5 years by a series of unimagined crises. In most cases they had failed to ask the questions that should have been asked when they had the chance to ask them before the crisis struck. As a result they made some catastrophically wrong choices when the situation suddenly became desperate.

For both governments and businesses here are my 7 top risks.

### Denial

The flagship organisations and businesses just mentioned, the successive eurozone crises, the ailing performances of most of the G8 governments - US, Japan, and key European governments, our own included - all point to a common default setting of 'denial'.

In the main, and no doubt in this room, there will be an optimism bias. Few of us are comfortable assuming the worst. It is inevitable, therefore, that organisations and businesses reflect this. So, economic/inflation forecast revisions overwhelmingly tend to a worse - not better - level. We know that we cannot trust the majority of government forecasts and planning assumptions. The famous Chilean biologist, Humberto Maturana, puts his finger on the problem when he says "we do not see the world as it is, but as we are".

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Jim Collins, business guru and author of *Good to Great* and *How the Mighty Fall*, puts it his way when he says that the distinguishing feature of really great organisations is that they are “brutally honest”.

Daniel Kahneman in *Fast and Slow: System 1 & 2 Thinking*, says most thinking is the former which is mainly fast, intuitive, automatic rather than the slow big effort thinking. Kahneman says we pay a price – system 1 thinking loves to simplify and jumps wildly to conclusions! Does this not account for some of the dottiest decisions that we have witnessed from the Coalition these last 3 years? I wonder how many of the companies that we here have worked with have achieved a very much better balance of level 1 & 2 thinking?

Pick your government or company crisis over the last 5 years – in most cases the top leadership were guilty of not having an accurate picture of the situation and context in which they were making critically important decisions. Most failed to establish beforehand the key questions and issues, or even to agree a batting order of key stakeholders. Einstein said that if he had one hour to save the world he would spend 55 minutes defining the problem and only 5 minutes finding the solution! In contrast, most organisations dive straight to solutions. Hence we see underlying problems fester. This describes the never-ending eurozone crisis to a ‘T’.

### Change

Most of us are in denial about the scale and pace of change that is going on across science, and the natural world, let alone across politics, the global economy, and societies. We are in an age of unprecedented convergence and complexity, and we are not coping with the pace and scale of change.

In the main, we resist change. We prefer to stay within our comfort zones and stick to ‘business as usual’. We work in silos and find it remarkably difficult to join up the dots. Governments and companies jump to familiar solutions to what on deeper analysis are unfamiliar problems. So, lets have more and yet more quantitative easing!

Extreme events appear faster and are getting bigger. We are instantly informed about them and every type of worry all the rest of the time. Therefore, we become easier to scare.

We pay huge attention to the big shocks and ‘in your face’ risks. Yet, and as the World Economic Forum said recently, the biggest risks are probably coming from slow failures and creeping risk. Certainly, we underestimate some key strategic drivers of change and their potential interaction with current risks.

I continue to be downbeat about the eurozone crisis. We may have moved back from catastrophic systemic collapse, but it could well prove to be a massive failure and harbinger of further political and social risks. Somewhere along the line - whether in Italy where the 2 clowns, Berlusconi and stand up comic Signor Grillo, have just gathered 55 % of the votes, or in Spain with youth unemployment approaching 60%, and 90% of pension funds raided buying its own debt, or in Greece where one third will soon be below the poverty line – a trigger point for a ‘game-changing event’ will likely occur. We are watching a slow train wreck – precisely the bigger slow failure and creeping type of risk alluded to by the WEF.

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Climate and environment change surely comes into this ‘slow’ – getting faster - category. The extraordinary mix of drought and flood days recorded by the UK Met Office in 2012 sends a very clear signal. So does the quite alarming weather events in Australia these last few years – devastating floods (size of Germany and France combined) and fires. Sydney experienced a 46-23 degree temperature range in one 24 hour period this January.

### **Governance**

Our governance structures are simply not 21st century proof or fit for purpose. In an article in the Financial Times just before the financial crisis, I said that “Fundamental reform of major international organisations is an urgent global priority...the whole international system is massively stressed... unprecedented effort will be required to prevent failure”. Since then we have been digging ourselves into a deeper hole. This problem is not just at global level. All the major countries have serious problems. Governments have no control and precious few levers today on global finance, information, and cultural changes. No wonder that collective action on international terrorism, organized and cyber crime, and climate, energy, and the environment is so difficult.

The US constitution – as we are seeing - is simply unfit to deliver joined-up government today. How bad must things get before it can return to any form of bipartisanship? UK and Europe are hardly better. Everywhere there is an unprecedented collective collapse in trust in the political class and structures. There are huge legitimacy gaps. There is dearth of good government almost everywhere. Experts regard the Scandinavian countries and Canada as role models. It is significant that there are no major country role models. And none of the BRICS – certainly not China, India or Russia – demonstrate any exemplar potential either.

Poor governance is both a cause and effect of our much more brittle world.

This resonates across business. Consider again those flagship companies and icon business leaders that crashed and burned recently. How many went down due in part to lousy governance and accountability frameworks and cultures?

How much of the horror stories that have been the UK MOD or the NHS or our energy department these past few years are largely down to poor governance and accountability?

### **Capitalism/Democracy**

Both capitalism and democracy are in deep trouble. It is not safe to assume that things will just muddle on more or less the same.

We have moved quite some way from the pre financial crisis model of ultra liberal, aggressive, rampant, ‘me-first’ capitalism – ask anyone in the financial sector. Incentives, pay, bonuses have been adjusted radically in most cases and uber regulation is the order of the day. Look at the coordinated moves against offshore financial centres, corporate and other tax avoidance, and new intrusive tax transparency international agreements (FATCA etc). Wider community and corporate social responsibility policies are spawning everywhere.

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The big question when you look at Greece, Italy, Spain, - dare I say it here in UK too – is: are we on course to a more fair and just capitalist model? I for one do not see how more of the ‘same old’ will deliver the jobs and hope for the future.

This all links straight to ‘whither democracy?’ and Churchill’s famous line describing democracy as the worst form of government except for all the other forms of government. In UK, Nigel Farage has a point when he says UKIP at least offers an alternative to the 3 - very similar - social democratic parties.

When I join the dots of all the risks and challenges I continue to feel that in order to get ahead of these risks, and to be better positioned to react to increasing shocks from beyond our shores, that we need a grand coalition government and a mobilised society pulling together. Only then, I believe, can we survive and thrive as we face what David Cameron described last Sunday as “some of the most dangerous challenges in our history”. Just muddling on will not work. We should go into calm emergency mode now rather than wait until catastrophe forces us to go into ‘emergency-emergency’ mode.

In Europe, anger and hunger are growing. 2 m Spaniards depending on red cross food parcels, 1/3 Greeks soon below the poverty line. The youth unemployment figures and trends, the lack of hope, and the pent up frustration and democratic deficit in relation to the EU are all very worrying. Connect warnings of major unrest, the potential for flash unrest to spread across borders, and social media speeding mass civil disobedience, for example.

Add in geopolitical shocks, Arab Spring developments, climate and environment impacts and essential tough mitigation measures to the mix. How confident are you that democracy is safe across the major countries of Europe, or that it will advance in Europe’s near abroad? If not, what will be the impact for us? Incidentally, for all our woes, I see UK as a – maybe ‘the’ - pivotal 21st century role model. It is another and good reason why we must get our own house in order now.

### Values

Post financial and other crises, there is an explosion of activity re-writing values statements– witness the efforts put in by Elisabeth Murdoch of News Corp, Stephen Hester of RBS and Antony Jenkins of Barclays, the BBC and countless others. Bolting the door afterwards the cynic might say.

Let me make 3 points. First, Enron, Lehman Brothers, BP, RBS, G4S – ‘whoever’ – did not lack value statements. It is creating, nurturing, and enforcing the right culture that really counts – with every employee understanding and buying into their organisation’s core values. Second, correct values are at the very heart of ‘healthy’ companies and organisations. What does company X stand for? Is it healthy on the inside – out of sight? Third, it is unsurprising that UK is in such a mess, as we have no modern day culture of shared values.

What are the values of this Coalition? Who knows? We lack core national values that are taught in school – Frank Field is absolutely right when he says we need a national hymn sheet of values that is taught starting at primary school.

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## People

Of course, people are the most important and most overlooked part of it all. Our society is fracturing. Some of the statistics I learned researching my Chatham House 'UK Riots - One Year On' article continue to haunt me. Compassion does not come from a state provided bank giro credit. The Health Secretary refers to a culture of cruelty in the NHS. What is more important – welfare state or welfare state of mind with an accepted culture of most people doing something to help the wider community?

People have a breaking point. In Romania for Ceaucescu, it came when an old lady in the crowd shouted "liar". In Tunisia it came when a barrow trader set fire to himself. There will be other breaking points and probably closer to home soon enough. We may not reach a breaking point ourselves, but we will be impacted by others' breaking points, for certain.

## Leadership

At political and international level it is easy to complain and put it all down to a want of good leadership. But most of us would do no better. Too few of us engage and contribute.

We need 2 major adjustments. First, we need new leadership models. For example, the job description of the PM needs to be brought into the 21st century. The demands upon the UK PM are crazy and guaranteed to impede strategic leadership and good decision-making. Second, we citizens must engage, pull our weight in our communities, and support leaders doing their level best in very difficult circumstances – incidentally, we have written about this under the heading of 21st century smart mobilization.

## And Finally

The question was what risks should we expect and how should we prepare for them? My 7 risks will not be your 7. However we share the same outcomes and events – they are in the national and your company risk registers.

It would be prudent to be ready for a nasty convergence. A real game-changer is quite plausible. Indeed, who knows, it could be what is required to create better, more fair and just societies. And it could put UK centre stage once again as exemplar and role model in chief!

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