Leaders Advancing Leaders

MITIGATING RISK

Roger Ferguson has asked that CNEXT members please do not share this piece externally. He has an upcoming publication covering similar topics.

ROGER FERGUSON

Former CEO, TIAA

Roger Ferguson was CEO of TIAA from 2008 until 2021.

He is the former Vice Chairman of the Board of Governors of the U.S. Federal Reserve System and currently serves on the boards of Alphabet, Corning, Blend, and International Flavors & Fragrances.

Risk mitigation is the lessening of risk, not the elimination or avoidance of all risks. Companies will not grow without taking risks. The role of the leader in effective risk mitigation is to balance risk avoidance to achieve the optimal amount of risk-taking.

01 LEADING THROUGH RISK

Share the risk-taking responsibility

Regardless of your role, P&L, or function, you should always think about risk mitigation. All C-suite leaders are assessed on their ability to balance risk avoidance with risk-taking.

“The C-suite shares the Chief Risk Officer responsibility with the individual who actually has that title.”

- Roger Ferguson

Understand multiple risks

Senior leaders need to consider an unprecedented breadth of risks, including interest rate, health, talent, reputational, environmental, societal, and regulatory risks.

It may not be enough to focus on just one, or that to which your business is traditionally exposed. Be aware of the different types of risks you need to optimize and the relationships between each.

CASE STUDY

Decide with purpose

TIAA is the largest private provider of retirement services in the cultural, medical, educational, and health sectors. Roger Ferguson became CEO of TIAA in 2008 while it was dealing with an extremely challenging financial market.

TIAA focused its risk strategy around a clear sense that its job was to "protect the retirement savings of millions of Americans."

That meant they had to quickly reduce risk in their portfolio, such as removing subprime assets, while also finding opportunities to take reasonable risks to protect the portfolio's value.

Define your North Star

Your company has a statement of what you are in business to do. What is your singular and overriding objective that remains true regardless of how difficult the business conditions become?

Get your whole team aligned around that one thing you ultimately must achieve. If clearly defined and communicated, your North Star will help people figure out which risks they should take and which they should avoid.

"You may be tacking back and forth into headwinds, but always do so towards a fixed point."

- Roger Ferguson

Find balance

Risk mitigation is a constant decision between taking some reasonable risks, avoiding others, and doing both simultaneously.

For each decision, what are you balancing that will either take you further away or closer to the fixed point that you recognize as your North Star?

Effective risk mitigation is optimizing the balance across the full spectrum of decisions.

"My experience of getting through these risky times is not hunkering down smartly, but taking long-term risk where you think you will be rewarded for doing that."

- Roger Ferguson

02 RISK CULTURE

Aligning all decision-makers in the organization to optimize risk towards a common goal requires creating a company culture around healthy risk-taking.

Own risk

As the executive leader, you must own both the good and the bad. If you are encouraging risk, then you need to be there when things unfold unexpectedly. Your team will never take the risk again if they don't feel protected.

Allocate risk

Each person in the organization should be held responsible for risks appropriate to their level. Day-to-day risks belong to people who are working on the day-to-day. C-level executives are responsible for the organizational strategic risks.

Do not be afraid to hand decisions around risk back down the organization if they are not appropriate to your level.

Guide decisions

Help your team practice the process of making hard decisions by walking them through questions without giving them the answer. Ask questions such as, how do you think about this? Had you thought about that? How do you outline it? What are the various scenarios you looked at?

> *"Modeling prudent risk-taking from the top of the house is really helpful."*
>
> - Roger Ferguson

Show them how you think about a problem and how you get to the outcome. Give them examples of how you make decisions. Articulate where you choose to take risks or not, and why.

CASE STUDY

The path of risk

While leading TIAA through the emergence of the COVID pandemic, Roger decided to close their New York offices.

They first observed the pandemic risk in China and chose not to act. The risk progressed to Seattle, but the New York offices remained open.

TIAA'S cut-off point was when the virus finally arrived in New Rochelle – a commute from their offices.

Reward desired behavior

Reward the people who have managed risk and reinforced the cultural norms in a way that you are trying to establish.

There are likely to be some people that you need to discipline or exit if they have gone too far in one direction or the other.

People who are uncomfortable taking reasonable business risks or who go too far in taking risks can put the company's viability at stake.

03 MANAGING EMERGING RISK

Watch

Watch an emerging risk like a hurricane. Identify its trail and the signals that are likely to change it from emerging, to imminent, to materialized.

Place decision gates along the path and know exactly what actions will be taken at each gate and who is responsible for them.

Decide

Do not falter at the gate. Stick with the decision-making framework. Recognize that you will never have complete facts.

"Trust your gut instinct. There is a bad tendency to go back and ask for yet more analysis when everyone can see that the risk is actually right at the doorstep."

\- Roger Ferguson

TEAM EXERCISE

Set up a cadence of conversations and ensure they are frequent enough to track emerging risks.

Every time you have a conversation on an emerging risk, a stage-gate component emerges and you can tell where you are. Accelerate the cadence as the risk becomes more imminent.

Diagnose poor outcomes

When risks materialize and things don't turn out as you had hoped, use an after-action report to guide future decision-making. Look back over a crisis or set of crises and think through why you made the decisions that were made.

1. Did you apply the correct weights to the risk?

The first question to ask is if you had a failure to anticipate. Did you have enough scenarios built in? If you did, was each scenario weighted properly? Often, the risks that emerge are not surprising but have the wrong odds placed on their possible occurrence or severity.

2. Did you act at the right time?

The second element to analyze is whether there was a failure to react. How did you act when the risk increased in likelihood or materialized? Was the reaction appropriately calibrated to the event?

3. What did you learn and how do you change?

After the risk has emerged, what will you do differently knowing that maybe the odds were higher than expected or the reaction was not calibrated to the result?

Do not punish people when the odds unfold the wrong way as that is common and often hard to predict. Hold people to account for what potential outcomes were included and how they reacted as those outcomes unfolded.

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CNEXT creates Virtual Leaders Forums, consisting of high-potential senior executives supported by former successful public company CEOs.

Members participate in virtual meetings to gain insights, approaches, and tools to tackle their most pressing leadership and business challenges, while also developing valuable peer networks for the future - all to accelerate organizational performance and achieve their business objectives and professional aspirations.

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