



Market Outlook 2010

For this annual feature, Financier Worldwide has again gathered the opinions of the corporate advisory and dealmaking community to explore their insights into current and emerging trends as we enter the new year.

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BOARDROOM INSIGHT

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► SUPPORTING EXECUTIVE STRATEGIES AND EVALUATING RISK

One of the biggest challenges for any board really has to be how they can be in a position to properly challenge and support the executive team in the implementation of the strategy. On the one hand they are required to bring 'independence', and yet on the other hand they need to know sufficient detail of the daily operations that they can provide robust challenge and active support. Enterprise risk is the product of many complex interactions both within the business and between the business and its environment. How many boards feel comfortable that they are sufficiently well-informed about the ongoing nature of those interactions to make a valid input, when even the executives feel challenged to make sense of everything that is going on?

The recent turmoil brings a reminder that business drivers can change rapidly and un-

expectedly so revisiting such things annually during planning sessions does not really work in modern business. When information is provided by executives or auditors to demonstrate the performance of the business, how does the board satisfy itself that the picture portrayed is correct and how can they best provide useful support to executives in identifying the missing pieces? Boards are used to challenging the accuracy of data through quality assurance processes, and bringing their business experience to bear in identifying possibly unexplored risk areas, but it can be challenging to create a workable structure for such dialogue and they still face the challenge of having a filtered view of what is going on.

These are challenging questions, but ones which boards are increasingly obliged to answer, as successive governance reviews make requirements more onerous. The board and executive team therefore need to create a risk framework which combines their collective insights to provide genuine understanding about the ongoing ability of the organisation to deliver on its strategy at any point in time.

Research supports the view that it is what a company doesn't know which will cause it most

harm. The vast reams of management information presented to executives and their board are generally quite static in nature – people take time to learn how to interpret the measures and they take time to create. However, the drivers of business performance can change rapidly and dramatically so that the information shown at one board meeting may be exactly the wrong information to consider at the next.

It is now possible, thanks to the use of complexity science, to determine whether the measures being presented are actually telling you anything useful about business performance. Boards will need to become comfortable with such techniques if they are to help executives through the complexities of modern business and ensure that their experience is leveraged early in the emergence of opportunities and threats to the business. Everybody has seen the old methods fail, so under the present spotlight boards need to be wary of continuing to rely on the same tools. ■

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Neil Cantle is a Principal of Milliman working in the London office. With nearly 20 years' industry experience he has worked both in business and consulting. Prior to joining Milliman, Neil

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