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MEASURING RECOVERY AT THE VELOCITY OF RISK:

How a balanced risk management and perpetual business continuity scorecard can help you beyond Covid

About the paper

This paper outlines a framework for adopting a broader perspective on risk management and business resilience that integrates a hybrid qualitative and quantitative methodology into an organization's ongoing COVID-19 pandemic handling and workplace reopening strategy. This guide should serve as a resource for management and risk professionals to determine the initiatives that should shape their current and future risk posture beyond traditional industry metrics.



Introduction

Risk managers have been pressured since the start of 2020 to respond to the dual global threats of the COVID-19 pandemic and a changing economic landscape. What we've learned thus far from our colleagues in the field is they are identifying layers of technology and initiatives at their companies that are no longer core or relevant. We've also had to learn how to prioritize new key issues around business continuity, supply chain risk, cybersecurity, compliance and the integrity of process and procedure.

This whitepaper serves as the foundation for management teams to forge a path forward in a dynamically changing business environment by identifying the perspectives necessary to implement changes that will ensure organizational resiliency. To survive this period of upheaval, leadership teams can benefit from outlining a Risk Arc that is customized to their organization's strengths and needs with distinct operational, technical and governance steps that are clearly and widely communicated throughout their organization and customer base.

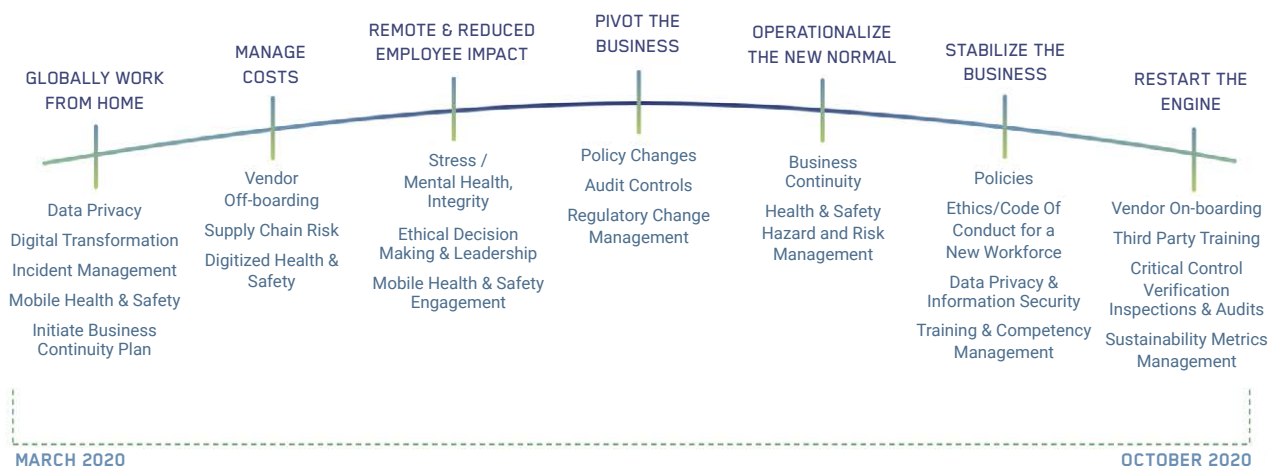
What we've seen so far in 2020's business environment is that companies have had to swim against the current in two areas: Keeping their employees safe amid a global health crisis, while managing costs

and maintaining customer relationships in a way that ensures the business survives. It requires parsing and prioritizing the best of our technologies and initiatives during a time when every issue seems urgent and important.

Management teams should review this period to assess what have they've learned are their core business imperatives and to learn from the experience as a guide for what they would or should do differently when another crisis of this magnitude presents itself. The true test of a business comes when it's under duress. This is not about whether you're an ethical business in the best of times – but whether you can continue to demonstrate those same best behaviors in the worst of times. The way companies treat their employees, customers, partners and other key stakeholders right now and the way they handle the business of doing business may echo for a generation.

So how do you move forward? If SAI Global's Risk Arc gives you a blueprint of the steps to take towards resilience, a Risk Recovery Scorecard can provide you with key data points to measure efficacy and focus along that pathway. By committing to an honest assessment

SAI GLOBAL COVID-19 RISK ARC



methodology and creating a strategic risk-informed plan for moving forward, you will be better able to adapt in a rapidly changing environment and ultimately recalibrate and restart your growth engine.

At some point in the future, the immediate disruptive impact of the coronavirus pandemic will recede as organizations react and adapt to new business and operational conditions. However, company leaders will have to prove to their most important stakeholders that they have been able to navigate through the business continuity and environmental, social and governance challenges surfaced by the crisis that posed significant financial risk to their organizations. They will also have to reassure these same audiences that they can properly manage the next crisis, whatever the future holds.

COVID-19's Evolving Impact on Global Market

While scientists worldwide are collectively working on finding effective treatments and vaccines, virus containment measures continue to drive down economic activity, sparking fears of a global recession. It is in this fluctuating environment that businesses are looking to safely operate under continuing restrictions in many countries. COVID-19 has dramatically changed the landscape for many industries and its impact on businesses and the timing of a full recovery remains uncertain.

It's about Perpetual Business Continuity

Risk management should be considered at the highest level within a company, with the understanding that the execution of risk strategies as it relates to different functions and groups will take place at lower levels throughout an organization. A culture of resilience must be embedded in existing business processes for true risk management strategies, including business continuity management, to take hold.

To contrast, at the onset of the pandemic, we learned of many companies that were caught flat-footed and struggled to handle even relatively straightforward work-from-home measures.

With a living and continually updated Business Continuity Management (BCM) plan in place, organizations are better prepared to assess not simply if, but how, their employees can work remotely in the event of a major business disruption –whether faced with a pandemic, active shooter

or climate-related natural disaster. Does your organization have the agility to reconfigure your business processes? Do you have the flexibility to move people and process around, physically or digitally, to respond to disruption?

The biggest driver for BCM is true management oversight where the management team ultimately owns the risk and owns business continuity. It is the job of risk managers to identify potential risks and bring them to management. It's management's job to choose to mitigate or accept that risk. Mitigating risk at its core protects revenue and income and builds resiliency.

Shoring up business continuity management starts with setting up a steering committee tasked with ownership of BCM as the foundation. Populating that committee with people who have the authority to fund projects that are designed to mitigate risk is a priority.

The COVID-19 pandemic put the spotlight on business continuity professionals. Too many companies had to scramble to dust off continuity plans that had been focused on reacting to a discrete crisis event and/or that had even been shelved for years. The BCM function has suffered from a heavy focus on traditional security, facility operations or human resources reactions.

In the context of recovering from the multi-layered impact of the COVID-19 pandemic's impact on a business's function and operations, organizations are realizing that the BCM function needs to be able to support broader existential questions around a company's mission, values and purpose. This goes beyond simply designing a business continuity plan, which may be a short-term solution with static results, and focuses instead on the idea of an ongoing or perpetual BCM program.

Such a resilient organization may not have anticipated a global pandemic, and may

not anticipate the next social, economic or climate crisis – but it has the tools that can lead it through whatever comes along. That's where a perpetual business continuity strategy is at its strongest.

This may be the longest business continuity incident your company will ever manage. But we can't simply go back to business as usual and how organizations functioned prior to the onset of the coronavirus pandemic. The world has changed. While the goal of business continuity is to get businesses back to business, your company's model must adapt to reflect this next normal.

Horizontal Risk Management and Building Resiliency

The legacy approach to risk management weighed heavily on subjective risk scoring. Navigating today's new and evolving landscape and its unknown risks requires an approach that balances a matrix of qualitative and quantitative elements of risk.

Companies should identify and manage risks as a horizontal cross-functional approach, not one that is vertically siloed. Risks are interconnected and most stakeholders want a comprehensive view of those connections. They want to know how a crisis event is affecting your business in its entirety and the transparent and quantifiable steps you're taking to protect employees, manage vendors and suppliers, continue core operations, support customers and other stakeholders, and the recovery plans you have in place.

It's imperative that companies set expectations on the issues most likely to impact these operations in the newly developing COVID economy.

1. SUPPLY CHAIN



Fluctuating supply and demand across different geographies is forcing companies to assess their level of risk exposure based on downstream supplier capacity. Companies should focus on crafting short and long-term plans to mitigate shortages and avoid disruptions.

2. PRODUCT OR SERVICE DEMAND



Quarantine mandates are reshaping consumer consumption. Some industries, such as

tourism, travel, hospitality and retail, are impacted more than others. Online shopping and the rise of niche, local brands will continue to cause commercial and operational disruption.

3. EMPLOYEE HEALTH AND WORKPLACE SAFETY



What does the next normal look like for your workforce? While some companies have had to shut down and

are now looking to reopen, there are others that have remained open during the crisis. In both cases, emerging health and safety risks have forced companies to look at new ways of working, fostering more engagement with remote and mobile workers to manage changes and focusing on health and wellbeing to ensure business remains productive. The crisis has taught us all that health and safety should be at the forefront of our operations for our businesses to be resilient and survive.

4. COMMUNICATION ABOUT THE OPERATIONAL ENVIRONMENT



Changing regulatory requirements, changing local, state and federal healthy and safe guidelines and the

status of outbreak locations amid the pandemic makes two-way communication crucial. Information not only needs to be analyzed and communicated in real-time but getting feedback is also critical to ensure changes are managed effectively among employees to reduce stress and anxiety levels.

5. DATA PRIVACY RISK MANAGEMENT



Companies have been forced to accelerate digital-first, cloud-based initiatives in response to social

distancing measures. As more business functions take place in less-controlled remote-work home and mobile environments, operational security review should lead to more scrutiny of data privacy and cybersecurity measures. The collection and analysis of health and safety data for employees will also drive the need for greater transparency and oversight of data privacy concerns.

6. SUSTAINABILITY MANAGEMENT



The social, public safety and environmental implications of the pandemic have highlighted core environmental, social

and governance (ESG) issues and the need for companies to lead with purpose and community in mind.

Balanced Scorecard Explained

Developed in early 1990s by Harvard professors Robert Kaplan and David Norton, the Balanced Scorecard (BSC) is a performance management system that enables businesses to drive strategies based on prioritization, measurement and follow-up.

The premise of the framework is to go beyond traditional financial metrics when it comes to evaluating the performance and health of a company by measuring intangibles such as customer satisfaction, internal processes and a company's ability to educate and innovate. Results achieved in these additional perspective areas help to keep the organization in balance, ensuring that it will meet its future financial and strategic goals.

The Balanced Scorecard's four perspectives are defined as:

- **CUSTOMER**-Measuring the satisfaction and performance requirements of customers, as they apply to a company's products and services
- **INTERNAL BUSINESS**
Measuring critical-to-customer process requirements
- **INNOVATION AND LEARNING**
Measuring human capital and a company's ability to grow and stay competitive
- **FINANCIAL**
Tracking financial requirements and performance

The perspectives, separately and together, link a company's long-term strategy with its short-term actions.

Consider the Balanced Scorecard as a visual strategic tool that turns strategy into something tangible and allows an organization to prioritize objectives and performance measures. While a Balanced Scorecard could give companies a broader internal perspective, it doesn't provide a true external picture as it doesn't account for a changing business environment or risk landscape. These external factors could have a larger impact on a company's operations regardless of whether their internal processes are optimized. It's backward-looking and not focused on the future.

With a BSC system, each of the perspectives are linked to corresponding metrics and measures that assess a current situation and produce a quantitative view on the key performance indicators. These assessments need to be repeated periodically and aligned with previously established goals and benchmarks.

Companies can find even greater value by combining a traditional Balanced Scorecard approach with a long-term Business Continuity Management program, in what we define as the Risk Recovery Scorecard. The BSC allows business leaders to benchmark and gauge the efficacy of what they're doing. Pairing the BSC with a BCM program makes it that more effective as you work towards recovery and in many cases, reinvention.

The Path Forward – The Risk Recovery Scorecard

Traditionally, BCM has resided in its own tactical silo, relied on by business partners reacting in times of incident management or responding to business disruptions; until the pandemic it wasn't viewed as a strategic resource. In the same vein, the pandemic has also elevated the need for Environmental, Health & Safety to be at center of safe operations and business resilience, making it an essential part of a new BCM strategy. The Risk Recovery Scorecard borrows from the credibility of the BSC management methodology's quantitative and qualitative measures and overlays a BCM lens through which to view each perspective, thereby ensuring that business continuity is centralized at an enterprise level. This provides a holistic view of risk, allowing companies to review and measure past actions while building a roadmap for recovery.

BSC PERSPECTIVE	TRADITIONAL APPLICATION	RISK RECOVERY APPLICATION
Customer Perspective	How do customers see us?	What do customers need to see from us to maintain trust in our pandemic response & business continuity plans?
Internal Perspective	What must we excel at?	What process, policy & controls must we excel at to succeed & remain productive in a COVID-19 economy?
Innovation & Learning Perspective	Can we continue to improve & create value?	How does our business need to pivot & adapt in a next normal economy?
Financial Perspective	How do we look to shareholders?	How do we bolster our sustainability & ESG efforts to maintain a healthy stakeholder reputation?

The Risk Recovery Scorecard uses the four quadrants of the traditional BSC methodology and model to emphasize the key performance indicators that reflect metrics most applicable now as it relates to business continuity and recovery.

CUSTOMER PERSPECTIVE

“Most companies use the KPI of uptime to measure customer satisfaction during a business continuity incident. But this is, in fact, a bare minimum requirement. Just because your systems or processes are available to a customer doesn’t mean that they are operating in a manner that is sufficient to meet that customer’s needs. More importantly, it doesn’t capture how your customers’ needs change during an incident. As an analogy, if we operate a restaurant, and the restaurant is open, but we don’t have any food, are we serving our customers?” –James Green, Senior Risk Advisor, SAI Global

The customer quadrant can be measured by assessing customer satisfaction scores, service performance and the length of time it takes a company to respond to reported issues or complaints.

How should companies demonstrate a commitment to environmental, health and safety (EHS) metrics that indicate good business practices, which in turn support customer confidence in COVID-19 recovery? Traditional metrics here could include injury and illness rates such as LTIFR (Lost Time Injury Frequency Rates or DART in some jurisdictions, TRIFR (Total Injury Reportable Frequency Rates), fatalities, near misses, EHS incidents and GHG (Greenhouse Gas) emissions. Transparency in tracking these numbers should also be positioned as a KPI – and ethical companies will want to be as transparent as possible to show their customers as well as key stakeholders that these numbers trend downward.

INTERNAL PERSPECTIVE

“Availability of employees is another weak metric. Just providing an employee a company-issued laptop and access to your organization’s VPN does not mean the employee can be fully productive. Expectations about productivity need to be reset. Is your employee working in their family room amid children and a spouse? Do they have a quiet and ergonomically conducive workspace? Do they now have additional childcare or eldercare responsibilities? Do you still need to have those first-thing Monday morning staff meetings? Remote work productivity cannot just be based on availability and a traditional 9-5 workday schedule.” –James Green, Senior Risk Advisor, SAI Global

Core pandemic-related issues such as remote working, workplace safety, data privacy and supply chain and third-party vendor management all apply to an internal perspective. How are companies ensuring that their employees are making the right choices when no one is looking? Assessing the productivity and reliability of your process and policies could be measured by completed employee attestations and regulatory and accreditation audit results.

Health and wellbeing metrics are also important here. Measures could include identifying health hazards and applying risk and control effectiveness ratings, assessing costs associated with illnesses and worker’s compensation, and analyzing absenteeism/ days lost versus number of employees to determine a productivity percentage. Metrics such as participation and the results of health assessments could also be used here to demonstrate a commitment to the wellbeing of employees.

Note that navigating workplace health issues could prove particularly challenging for U.S.-based organizations, for example, since there are many legal restrictions around privacy issues based on the Equal Employment Opportunity Act, HIPAA (Health Insurance Portability and Accountability Act), and the American Disabilities Act, to name a few.

In most organizations, critical processes rely on third-party vendors/suppliers to perform. Ensuring resiliency and recovery requires you to identify critical vendors and assess their supply chains. Vendor scores could help companies determine benchmarks.

INNOVATION & LEARNING PERSPECTIVE

“There is going to be a rush of check-the-box activities to mitigate risks against the next contagious disease outbreak. Risk professionals often build plans and documents based on previously experienced crisis events. This is not the same as resilience. Resilience allows you to more easily manage through the next unknown crisis, whether it’s of natural or human origin – infectious disease, cyclone, hurricane, earthquake, tsunami, wildfire, oil spill, nuclear accident, social upheaval, terrorist attack or war. There will always be a next unknown crisis.” –James Green, Senior Risk Advisor, SAI Global

Ensuring business continuity and resiliency requires the right mix of patience, process and agility. Currently companies are in a defensive mode, shoring up business lines by cutting costs and reducing headcount. A successful path forward requires a proactive approach and the ability to adapt commercially. It’s about making your business highly relevant to your customer and industry. Companies need to figure out how to adapt to new opportunities and grow in rapidly changing business environments.

What does the next normal look like as we work towards a world of COVID-19 containment? Will we have less vacation and business travel, more government restrictions and extended social distancing policies? How will we adjust our workspaces to accommodate a more hygiene-vigilant world?

Adopting a flexible or adaptable approach means being attuned to signals from the external environment and responding quickly to shift direction as needed. What does that mean in practice? In addition to promoting health and safety measures such as participation in employee wellness programs, companies should be developing training modules on issues that are priority right now such as ESG, data privacy, mental as well as physical wellbeing and organizational culture. How does your code of conduct remain relevant in a pandemic?

When it comes to innovation, companies should be looking at skill-building processes to match and scale training to new demand models. And, as the pandemic is forcing companies to accelerate digital transformations and innovate new digital products, data privacy protocols should also be top of mind.

Innovation and learning should be an engaging and inviting process. Measure how improvement ideas are reviewed and implemented, and the effectiveness of new policies and procedures.

FINANCIAL PERSPECTIVE

“A truly resilient organization doesn’t view ESG as a risk, but as an opportunity. Creating a sustainable organization and understanding that your organization is an integral part of the communities you operate in is not only the right thing to do, but it creates intrinsic value with your stakeholders. The more value you create with your stakeholders, the more leeway you will have when you stumble with the next unknown crisis.” – James Green, Senior Risk Advisor, SAI Global

How is your organization handling ESG risk? Good governance is a central element of organizational resilience; the link between a company’s role in society and its brand reputation is only tightening. We’ve already seen evidence of this during the pandemic with apparel manufacturers helping to produce non-medical masks, grocery chains pledging millions in **funds to hunger-relief groups**, distilleries switched to producing hand sanitizer products, car manufacturers produced ventilators, and government, hospital, university and commercial laboratories have struck unique public-private partnerships in the search for a COVID-19 vaccine and interim therapies.

In a recovery world, the **expectations on companies** isn’t likely to lessen. Organizations can thrive by recognizing the value of engaging a broader stakeholder base beyond shareholders. Embracing employees, business partners, host governments and local communities is critical for long-term business success and sustainability.

When it comes to investor trust, sustainability and ESG, a BSC/BCM Covid-19 Risk Recovery Scorecard could include measures that track sanctions and screening results to ensure you’re working with reputable and compliant third parties. It could also include regulatory and audit results and vendor scoring. And while Covid has shifted focus from climate change, the pandemic should be a reminder that companies that stay focused on tackling environmental issues may be better equipped to sustain another crisis. Sustainability metrics could also include carbon emissions and energy footprint, waste generation and disposal, as well as community complaints and engagement. Health and safety metrics are equally as important here.

Are we on a road to recovery or reinvention?

While the pandemic's impact on the first half of 2020 has been grim, there is potential upside. The way forward will be transformative for companies and employees as they become more adaptive, agile and resilient. Even before the pandemic, in 2019, the **World Economic Forum** estimated that at least 54% of employees in major economies will require new skills or additional skills by 2022 to keep pace with technology revolution. Thus, the need to expedite digital innovation has become that much more urgent – and yet risks abound.

Reigniting the growth engine for many companies is going to require new ways of thinking about your organization's people, processes and products. It's going to require strong leadership, innovative ideas, and a commitment to continuous learning – up and down organizational structures, from line employees to management – to stay relevant. Thus, a combined qualitative and quantitative methodology that measures progress, along the Risk Arc and through the Risk Recovery Scorecard, serves as an imperative map for the journey towards resilience and reinvention.

The world may not have been adequately prepared for the global pandemic but the lessons we've learned and the processes we put in place throughout our recovery period will make us better prepared for the next crisis. Adaptability, agility and clearly defined risk-informed assessment metrics will lead the way.

Sources

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ABOUT SAI GLOBAL

SAI Global helps risk and compliance professionals proactively manage risk to create trust and achieve business excellence, growth and sustainability for their organizations.

SAI360, our world-leading Risk platform, is the most complete integrated approach to risk management on the market including compliance management, enterprise & operational risk management, EHS & operational excellence, ethics & compliance learning and digital risk & business continuity use cases. Combining market-leading software capabilities, learning content and controls, SAI360 provides a line of sight to navigate risk and compliance management by addressing it from every perspective.

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