Article

How business leaders can improve their resilience

Wayne Imrie • February 28, 2022

Why it's essential for business leaders to improve their boardroom resilience

Our latest Risk & Resilience Report found that the key boardroom risks for 2022 include supply chain risk, and the reputational risks that arise from social inflation and employment.

1. Supply chain and business interruption threats

Businesses and boardrooms faced multiple 'once in a generation' experiences during the pandemic. As waves of infection spread across the globe, factories and offices shut down at different times, making already delicate supply chains even more volatile. This situation remains challenging with the latest evidence from clients suggests that supply chains will remain unpredictable through 2022.

Steps can be taken to mitigate these risks. Large companies should be leveraging their size to engage multiple sources of supply wherever possible, and all businesses should be planning stock resourcing so that they soften the impact of any disruption.

We have a client that had **diversified their supply chains** to reduce reliance on China, for geopolitical reasons, before the pandemic. This meant that, during the pandemic, they could shift supply to wherever there was capacity, using their multiple relationships to their advantage. The ability to deliver when competitors could not also had a reputational impact, increasing demand from their own buyers, who knew that they could supply the product when other competitors could not; in this case the company ended up winning the front end because the back end issues were optimized to survive supply disruption.

There is also a reputational issue at play here. Companies do need to consider how they communicate supply chain issues to shareholders. If supply chain issues are affecting profits, it's vital to be able to explain clearly what's happening and what is being done about it. Boards that fail to do this adequately face risks to their share price, damage to their reputation, and ultimately the danger of shareholder litigation.

2. Employment and social inflation

The boardroom's exposure to employment risk is large and is growing as a result of social inflation. Recent social movements have built a new reality, one where employees are increasingly prepared to speak out if they feel they have been wronged, and to litigate for compensation. This in turn is increasing litigation costs, especially in the US, where legal costs are rising sharply on the back of increased demand from corporates.

The social inflation point also feeds directly into reputation; companies cannot be seen to have had toxic cultures. This and **the costs of litigation mean that employment risk needs to be a significant poin**t of focus within the boardroom. Directors and officers need to lead from the front to drive a culture of equality. Chief People Officers are increasingly common, and it can be very valuable to have someone at C-suite driving the correct cultures.

3. 'No vax no job' decisions are causing problems

COVID, inevitably, has also made things more complicated. Working from home is a new environment, the consequences of which businesses are still grappling with.

But most pressingly, vaccine mandates are causing a headache for boards. In the US, they have to balance competing desires for autonomy and safety, while also fighting through a patchwork of conflicting federal and state rules about whether it is possible to enforce 'no vax no job' policies. Companies are struggling to navigate this – especially if they have sites in multiple states. Many also have to consider consumer-facing environments at the same time; that is safest for customers, in terms of fully vaccinated teams, may not work in harmony with a need to respect the rights and views of employees.

The issue is becoming increasingly divisive. Religious exemptions, medical exemptions and geographical differences mean that it is easy to slip up, but also incredibly costly. The most important point is for directors and officers to make sure that they are treating the issue with sufficient seriousness. Given the huge impact that mandates have on employees, flexibility will also be key to navigating this successfully.

How can insurance brokers help prepare their clients for boardroom risks?

In conclusion, boardroom risk is high around both physical supply chains and employee rights. Insurance buyers need to be clear on what their own patterns of risk are in order to take appropriate steps to address both issues. For example, clients may require more granular study of their insurance policies, so that they can be sure they have mitigated rising boardroom risks. This is something that brokers need to be prepared for, so that they can work with clients on ensuring that they are adequately covered.

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Learn more about the major business risk concerns in our Spotlight on business risks report.