

Introduction

Mastering the Complexities of a New Age

On a cold and silent January morning I jolted awake. Startled, I sat up and peered through my bedroom window. The darkness engulfed everything, save the light dusting of snow blanketing the treetops and frigid ground below. It was still, and the solitude of the early morning hour seemed deafening—so deafening, those moments reverberate ever so loudly to this very day.

What time was it? As I glanced at my phone lying on the nightstand next to the bed, I saw that it was only 3:00 A.M. Though exhausted from a long week, I was wide awake. I'm not certain what woke me up so suddenly, but my mind was racing at a feverish pitch as a clear image came into full view.

Reflecting on what I saw, I stumbled out of bed, sprang to my feet, and rushed to the dining room table. As a deluge of thoughts poured through my head, I began to furiously map a framework of an idea. Unbeknownst to me, what I saw on that fateful January morning would eventually become the very foundation of *Mastering Strategic Risk*.

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In contemplating my epiphany, I wonder: Where did it come from? How did these concepts come to me, and why did they come with such clarity? I never, prior to that day, consciously thought of the concepts, let alone aspired to write a book. Only after several months of prodding from a good friend did I take the agonizing step of putting pen to paper. I've been writing ever since.

What I do realize is that I was in a state of flux. I was one year removed from a rewarding career at a top financial institution, and carefully parsing through career alternatives. I also deeply desired to understand the enormous

change occurring not only in my world but in the world around me. During this time the markets were in turmoil as organizations everywhere contended to survive amidst withering circumstances.

It was January 2009, and since the summer of 2007 the entire planet had been experiencing tremendous change. There was the collapse of the real estate markets, a debilitating credit crisis, government bailouts of the auto and banking industries, and a crippling global recession. Accompanying these conditions were a litany of corporate failures, from Washington Mutual to Lehman Brothers, Blockbuster, AIG's near collapse, and WorldCom, to name a few.

I also observed firsthand how Wachovia, a company I had grown to deeply admire, ascended quickly to the top of the banking industry, only to experience an equally rapid decline. The state of the economy, when coupled with our geopolitical tensions and environmental and social conditions, also signaled that we were living in unprecedented times.

In observing this sea of change, a common theme emerged. As a civilization we are challenged in managing our most critical systems, and even more so organizational systems. Whether it is on Wall Street or Chicago, in New Delhi or Shanghai, we contend mightily to manage a corporate agenda held captive to an increasingly complex and dynamic world.

As a result, I wanted to know how we could manage organizations more effectively. And if we couldn't, what would it mean for the future of the markets and our wonderful planet? Now five years removed from that fateful January morning, we still live amidst significant uncertainty and face formidable challenges as we combat a lingering global recession.

Over the past 20 years we've also witnessed the failure of numerous organizations as they careened out of control due to the breakdown of fundamental management practices. Examples include the story of Enron and how the failure of critical governance mechanisms led to its eventual demise. Or consider how BP's catastrophic *Deep Horizon* spill emanated from its fractious risk management system.

Think of how over the past 12 years banks have failed to learn from the lessons of others, as evidenced by the enormous trading losses they still experience. In 1999 a rogue trader single-handedly took down the United Kingdom's most storied investment bank, amassing close to \$1.4 billion in trading losses. Then, over a decade later, UBS experienced \$2 billion in trading losses due to a rogue trader's activities.

Despite these painful lessons, only two years ago industry darling JPMorgan Chase racked up over \$5 billion and counting in trading losses. It was later discovered that these substantial losses were all due to the bank's failure to activate critical trading controls. To date, the company is still challenged in managing the risks that span its sales and trading activities.

The many examples from our most recent past point to similar yet fundamental challenges facing organizations across industry types. And while we spiral hastily toward the future, we are greatly in need of change.

On the following pages, I will provide you with new information to give you a fresh perspective into the challenges organizations face in this new century. This insight will arm you with the knowledge required to effectively manage the most critical forces that dictate performance in organizations.

For close to 20 years, I have been a leader in large, complex organizations. During this time I've either led or been a part of key management teams charged with addressing some of the most critical challenges facing these organizations. Whether it is in the area of the global sourcing of resources (offshoring), large-scale operational efficiency efforts, key disaster recovery and business resumption activities, or helping to shape the strategic vision of a company's culture, these unique experiences have provided me with the opportunity to understand the critical drivers that underpin corporate performance.

The fundamental components on which this book is based are concepts that are well understood when considered individually in the context of companies and the key drivers of performance. What makes the approach in *Mastering Strategic Risk* unique is that it extracts patterns and realities in natural systems and applies them to organizational systems. These realities dictate performance in both nature and organizations. They illuminate how the elements and forces in nature are no different than those found in organizations or for that matter the world we've created for ourselves.

The intent of this new approach is to provide readers with a compelling guide. It is a new model that outlines how key activities and functions should come together to provide a holistic governance framework. In addition to introducing a new framework, *Mastering Strategic Risk* underscores how integrated and connected we are, not only in our commercial and social lives, but in the activities and realities that transcend our traditional view of our world.

It is also my hope that you will be inspired by these new learnings, applying them in navigating your organization through the risks and uncertainties of an unforgiving marketplace. Throughout these pages I've also distilled what I've learned and observed through the years to unveil a new framework in which to govern companies. And while there are many lessons to glean from the mistakes of the past, at such a critical time, there is none more important than for us to move forward with a renewed intent, to consciously shape our world into the type of planet we've deeply desired it to be.

Ultimately, I guess I am a teacher at heart; after all, I do come from a family with a rich teaching tradition. It is in this spirit that I share with you *Mastering Strategic Risk*. Whether you are a leader in a large or small organization, manage shared services or customer facing function, or simply desire to understand the key elements and forces that drive performance in organizations, this is the book for you. It is my hope that armed with this new insight you will thrive in these uncertain times.