OPINION

WILL CEO'S CONQUER COMPLEXITY AT THEIR RISK?

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Shall businesses live in interesting times? As wild changes occur constantly, uncertainty will predictably dominate the scene. As organizations get used to the unexpected, instability will be the steady state. A growing array of specialized functions, within and outside the enterprise, will stand out as an underlying cause of endemic volatility. Instant connectivity between financial markets globally will exacerbate the frequency and impact of downturns, and may also give rise to a ripple of unintended consequences.

Several factors will continue to increase the complexity of the financial world. For example, the extensive use of hedging derivatives for risk mitigation will stoke the sophistication of investment instruments. By the same token, algorithmic and high-frequency trading will augment the number and multi-way flows of electronic transactions. Pervasive access to detailed financial information, online channels, and external sources of digital media will augment such electronic flood.

CEO's must overcome structural complexity. Otherwise, the incidence, intensity, interdependency and impact of distress events within individual companies, local markets, and the environment may undermine corporate performance and build up franchise risk. Despite regulatory advances in financial reform, the gap in risk management preparedness at most institutions is still worrisome.

A CEO study ***(*)*** for 2010 conducted by IBM reveals that banks and securities firms must capitalize on a rapid escalation of complexity. Among other findings, the study highlights the need to: 1) Embody creative leadership; 2) Reinvent customer relationships; and, 3) Build operating dexterity. The study also confirms that a vast majority of global financial services CEOs believe that volatility is becoming more intense, organizational complexity is growing, and uncertainty is becoming pervasive.

Credit markets and investor sentiment have been bottoming through mid year 2010. ***How should CEO's manage risk during a protracted economic slowdown?*** Institutions such as Bank of America, Citigroup, and J.P. Morgan Chase are bumping up earnings by lowering their provisions for credit losses. Rather than adopting an overly cautious and conservative approach to risk, banks should put credit to productive use. Financial services leaders must align their organizations, processes, and controls with the interests of their customers, and respond to renewed waves of tighter regulation. CEO's must also restore a sense of responsibility, rebuild customer trust, and heed the perils of systemic risk.

Boards of Directors and leadership teams must turn complexity into strategic opportunity. Financial services executives must let go of the artificial growth of the past "go-go" years. Institutions must take charge to reduce leverage and ***improve their risk management capabilities***. Stronger ethics and transparency, coupled with a deeper understanding of the needs and risks of their clients, will prompt a more collaborative alignment with the real sector. New revenue sources will stem from creative services and delivery, emerging markets innovation, streamlined processes, and rebalanced business value.

(*) Note: *IBM's CEO study may be found at www.ibm.com/services/us/ceo/ceostudy2010/index.html*

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