

How pandemic has affected risk appetite and decision making 1/33/21



Director, Risk Management and Audit, PwC

Latvia

Kaspars Mitrikis

The Covid-19 pandemic has also affected risk assessment and decision-making processes in organisations. As the pandemic and restrictions ease off, organisations should revise these processes and make any necessary changes.

Decision-making in organisations is full of challenges under normal and pandemic conditions alike. What risks need to be considered? What are the best sources of information? What is the main driver in decision-making? What impact will it have?

As soon as we leave the pandemic behind, CEOs will need to understand how the pandemic has changed their risk awareness and decision-making and how permanent those changes will be in the long term. People tend to cling to their opinions even if circumstances show that those views are wrong. People often pay more attention to what they have recently heard whether or not that information is accurate and relevant. People have different perceptions based on each individual's previous experience. Introverts prefer order and predictability – in difficult situations they might not feel comfortable making decisions because they do not feel fully informed of the possible outcomes of those decisions. In times of stress, decision-making in an organisation can change for the better or for the worse. Teams holding prolonged discussions may not fully appreciate all the risks and opportunities. Teams can start shying away from risk and responsibility, and end up avoiding decisions while constantly searching for new information to support their decision, even though that information is not available.

At organisational level it is easy to dismiss or underestimate potential threats. For example, none of the CEOs interviewed by [PwC's Global Crisis Survey](#) in 2019 predicted they would someday face a global health pandemic.

The pandemic has presented decision-making and risk-assessment challenges in many organisations, yet companies have also revised these processes and set up new controls. This year's [Baltic CEO Survey](#) shows that CEOs are focusing on risk management in their company and reassessing their tolerance of various risks and threats. Some of the measures a company might take will serve as short-term improvements to help it overcome the consequences of the pandemic more efficiently, while other measures will have an essential and even fundamental significance for the company's future development.

Preconditions for efficient decision-making

There are a number of factors that help organisations take an efficient approach to decision-making and proactively respond to urgent threats. It is important to stay alert and regularly revise those processes.

Physical and emotional health of employees

Crises may cause stress and lead to various health issues. Many CEOs have observed this during the pandemic either personally or among their staff, so organisations need to offer support to their workers in

order to successfully overcome the difficulties and prevent health issues. This is not only crucial for the organisation's development but also demonstrates its willingness and preparedness to meet new challenges and make brave and proactive decisions.

Data processing and risk management

During the pandemic people have been facing an information overload and the need to be selective about information sources. As new restrictions and new facts emerge, CEOs are forced to regularly adjust their approach and evaluate how this will affect their company, with some companies facing challenging conditions. This complicates the decision-making process, so CEOs in certain organisations prioritise a single data-based approach to risk assessment in order to avoid making rash decisions.

A transparent structure and clear limits

As uncertainty about future developments continues, companies should help restore a sense of security among their staff by settling various concerns. It is advisable to revise team sizes to ensure they work efficiently. The most efficient in-person teams have 7-12 decision-makers, as opposed to virtual teams, which perform best with 4-5 decision-makers supported by their colleagues – subject-matter experts.

Focus on corporate values

Studies show that companies that have been working honestly and according to their values during the crisis will find themselves in a better place than their rivals as the situation normalises. The pandemic has forced many organisations to revise their system of values. PwC's Global CEO Survey shows that 63% of over 600 CEOs in Central and Eastern Europe plan to revise their corporate values to better reflect their role in society.

Strategic management

Organisations should learn the lessons of the pandemic and make the time to evaluate what has worked and what has failed. It is important for any organisation's corporate culture to embrace positive aspects in creating a system that helps the organisation be better prepared for future challenges. By understanding how the pandemic has affected decision-making, CEOs can ensure their organisation becomes stronger and successfully manages risks, allowing them to make brave and informed decisions.