The Board Imperative: Is now the time to reframe risk as opportunity? (PART 1)

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A new survey of board members reveals that decisive action is required to optimize risk oversight and seize new strategic opportunities.

In brief

- When it comes to risk management and strategy, leading boards consider a longer time horizon, with some looking beyond five years into the future.
- In the current uncertain environment, risk management has become essential to strengthen resilience and create sustainable value.
- Boards have an opportunity to reframe their organization's approach to risk management, but first they need to reconsider how the board itself thinks and acts.

A new EY survey of more than 500 global board members reveals that risk management today typically lacks focus on emerging and atypical risks, is not always aligned with business strategy and is too entrenched in the here and now.

Whether it be in relation to reporting, skillsets or the sheer time spent discussing risk, board members acknowledge that their organizations – and boards themselves – need to evolve to keep pace with disruption and maintain their strategic advantage.

The most effective ways for you as a board director to bolster risk management are to:

1. Rethink how the board operates, its composition and its role in setting an organizational purpose that extends beyond maximizing returns for shareholders.

2. Work with management to define, implement and measure a corporate culture that is inspired by purpose and aligned with the organization's strategy.

3. Ensure that the organization adopts a data- and technology-driven approach to risk management and reports on the threats that matter most.

This article forms part of the EY Board Imperative Series. Its insights can help board members reframe the future of their organizations. It encourages boards to think beyond today's challenges to understand how they and their organizations can bolster risk management to drive growth and build resilience against future disruption.

The common traits of risk management leaders

Enhanced risk management has become a top priority for boards: 79% believe that improved risk management will be critical in enabling their organizations to protect and build value in the next five years. CEOs share this view. When asked which areas of the enterprise they expect will change most in the next three years, they ranked risk management first.

Why has effective risk management risen up the agenda?

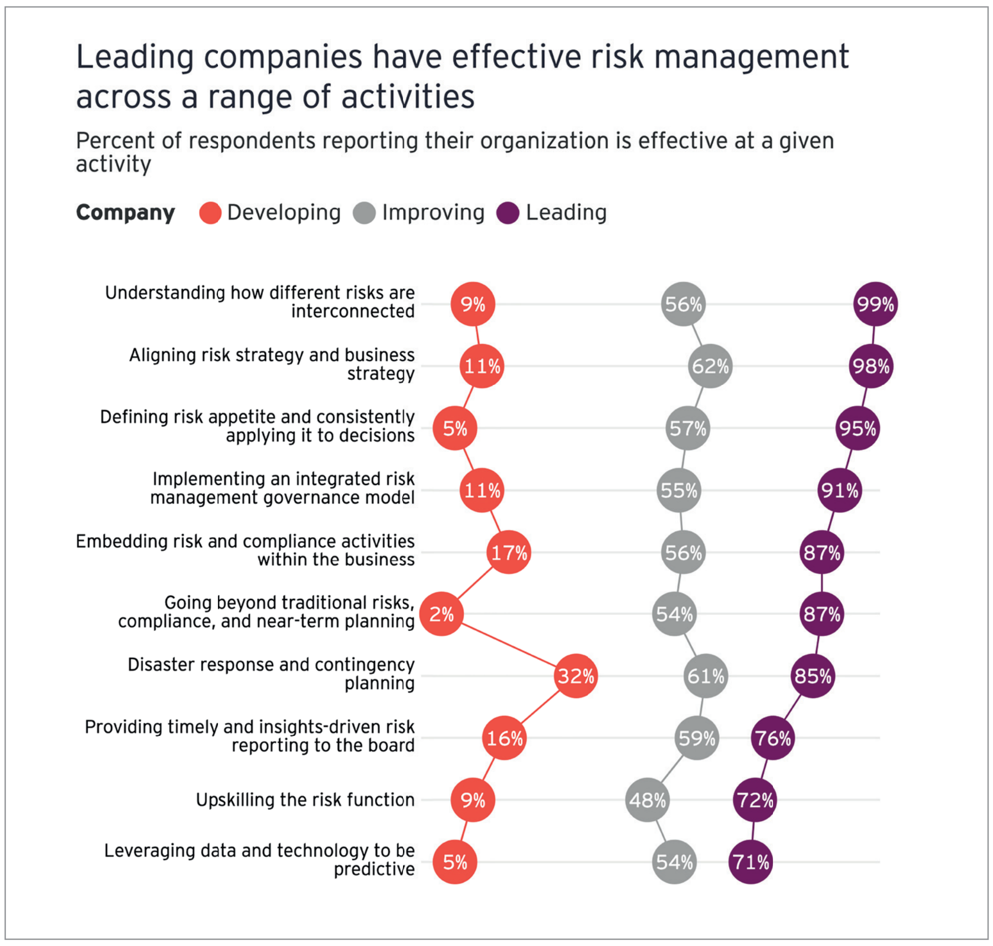
The pandemic has focused minds. COVID-19 is not only a major risk event in itself – it is also an accelerator of risks that were already omnipresent: cybersecurity attacks, supply chain disruption, geopolitical tension and other external threats.

Illustrating this, the EY Global Board Risk Survey 2021 shows that 83% of board members believe market disruptions have become increasingly impactful and 87% believe they have become increasingly frequent.

But despite the criticality of risk management, many board members lack confidence in their organization's capabilities. For example, just 18% believe that their organization's disaster response and contingency planning is highly effective, and only 13% believe that their organization is highly effective at embedding risk and compliance activities.

Three levels of risk management effectiveness

These statistics suggest that there is significant room for improvement. But what exactly does "highly effective" risk management look like? To answer this question, the survey results were analyzed to classify respondents into three groups based on their self-assessment of risk management effectiveness:



- Risk management leaders: Accounting for 16% of the sample, these organizations have highly effective risk management. They have a sound understanding of the interconnected nature of different risks, have defined their risk appetite, and consistently refer to that appetite when evaluating risks and opportunities.

- Risk management improvers: Accounting for 60% of the sample, these organizations have moderately effective risk management. Although they align risk strategy and business strategy, they are much less effective than the leaders at implementing an integrated risk governance model and defining their risk appetite.

- Risk management developers: Accounting for 24% of the sample, these organizations are the least effective risk managers. They are moderately effective at disaster response and contingency planning, but do not leverage data and technology for risk management activities or upskill the risk function as much as they should.

The hallmarks of effective risk management

Examining the common traits of those deemed "risk management leaders" revealed three behaviors that align with more effective risk management:

1. Risk, with few exceptions, is viewed through a long-term horizon
2. Risk management priorities are aligned with business strategy
3. Focus is sharpened on emerging risks, atypical risks and external risks

This article explores these hallmarks of effective risk management in more detail.■

(CONTINUED IN NEXT EDITION)

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