

The Board Imperative: Is now the time to reframe risk as opportunity? (PART 2)



ISAAC SARPONG: Isaac is the Partner in charge of Tax Services. He has over 26 years' experience in the provision of multi-faceted advice to both local and international clients in taxation, accountancy, audit & assurance, and corporate law, among others. Isaac is a Chartered Accountant, a Chartered Tax Practitioner and a Lawyer.



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

(CONTINUED FROM PREVIOUS EDITION)

1. Risk is viewed through a long-term lens

Increasingly, it is critical to consider a longer time horizon when assessing strategy and risk – ideally more than five years.

Some 43% of the risk management leaders, for example, look more than five years into the future when scenario planning, compared with just 22% of the risk management developers. And 28% of the risk management leaders look more than five years into the future when setting their organization's business strategy, compared with just 8% of risk management developers.

A long-term perspective is essential because many risks transcend the next 5-10 years – despite having only a marginal impact today.

Take climate change. Those in the energy and commodities sector may already be significantly impacted by climate change, but many organizations outside of these sectors have felt no or only minimal effects to date. So, although the proportion of boards that expect climate change to more than moderately impact their businesses in the next 12 months has increased from 26% to 33% in the past two years, they still only rank it as their ninth most important risk.

But this will almost certainly change, as the effects of climate change start to cause supply chain disruption, displaced consumers and overwhelming pressure from stakeholders to take action to combat the issue.

Even if boards do not believe that climate change will immediately or directly impact their organization, it deserves their focus because the number of values-driven consumers, who increasingly want to purchase from businesses that have a track record of addressing major societal problems – such as the climate emergency – is growing. These sentiments have only increased during the pandemic. Indeed, boards say that changing customer expectations is their third most important risk category. Two years ago, it ranked sixth.

“Consumer-facing businesses in particular are having to contend with risks associated with not acting sustainably,” says Susanne Given, Chairman at Made.com and Non-Executive Director at a number of organizations, including Morrisons. “Millennials and younger generations now account for about half of the customer base, and they definitely expect businesses to have a handle on this topic.”

2. Risk management priorities are aligned with business strategy

While the threats today are significant, the strategic opportunities are even greater. After all, where there is risk, there can often be reward. Illustrating this, boards say that technology disruption and changing customer expectations are not only major risks but are also the top two strategic opportunities for their organizations.

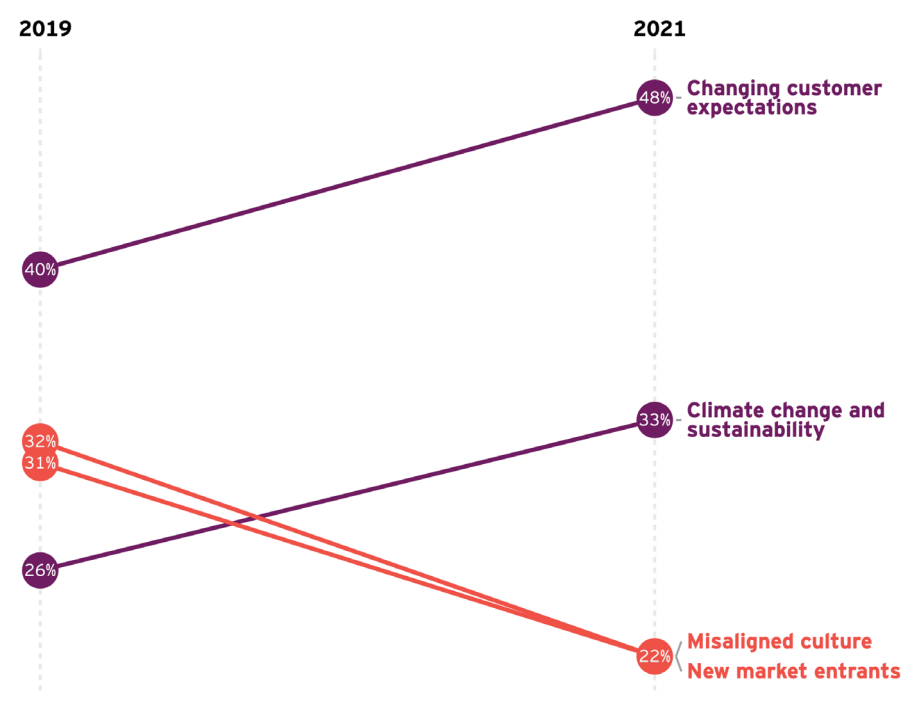
“The uncertainty of the future is very high compared with the recent past, which makes planning much harder,” says Alan Stewart, Audit Committee Chair at Diageo and former CFO of Tesco. “But, of course, inherent in that uncertainty is opportunity.”

Many organizations are investing heavily in technology to make internal processes more efficient and create new experiences for customers. But inherent in these digital transformations is a complex web of risk factors: data breaches can stem from third-party technology providers; artificial intelligence may contain bias; and greater use of online purchasing can heighten instances of fraud. Effective risk management is, therefore, essential to the design and application of transformation initiatives, taking into account the wide range of potential disruptors.

“Our bank has a specialist unit focused on what I call ‘change risk,’ which are risks associated with how the bank transforms,” explains Adnan Q. Khan, CRO and Director of Integrated Risk at Bank Danamon. “Banks have many legacy systems with some manual hand-overs and data quality issues that may create a huge number of risks when you implement new technologies.”

Boards and CEOs see different trends impacting their business in 2021 compared to two years ago

Respondents that say a trend will more than moderately impact their business in the next year



Risk teams need to focus on understanding and mitigating them.”

Technology aside, however, boards members today believe that those responsible for risk management are too focused on downside mitigation: 80% say that risk and compliance teams need to find a better balance between mitigating downside risks and driving growth.

In addition, 55% of board members identified that risk management often struggles to keep pace with changes in business strategy. Further illustrating this, chief risk officers (CROs) rank technology disruption as the least important strategic opportunity for their organization – despite boards ranking it first. And CEOs who we surveyed for our CEO Imperative study said that technology and digital disruption is the trend that is having greatest impact on their company, followed by changing customer expectations. ■

LEADING THROUGH THE PANDEMIC

Our purpose is building a better working world. It starts with better questions. The better the question. The better the answer. The better the world works. Please send an email to isaac.sarpong@gh.ey.com and copy in kofi.akuoko@gh.ey.com

About EY

EY is a global leader in assurance, tax, strategy and transaction and consultancy services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, clients and for our communities.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

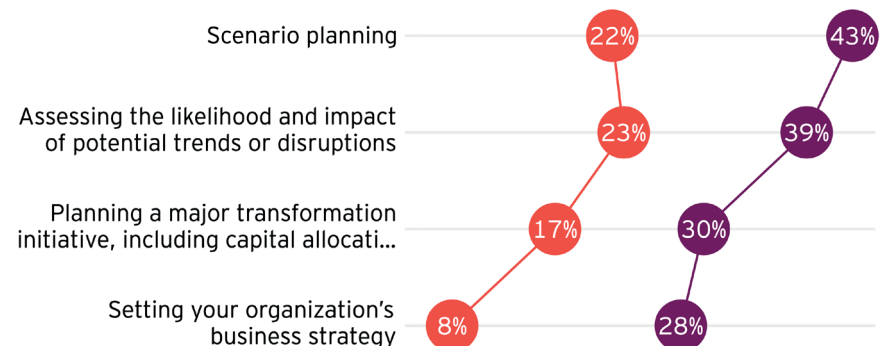
Find out more:

Address: 60 Rangoon Lane, Cantonments City, Accra. P. O. Box KA16009, Airport, Accra, Ghana.
Telephone: +233 302 772001/772091
Email: info@gh.ey.com,
Website: ey.com

(CONTINUED IN NEXT EDITION)

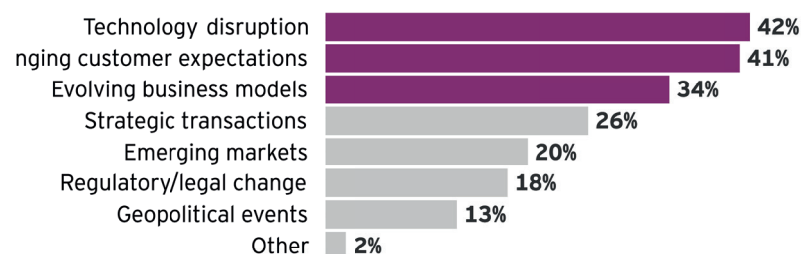
Boards who look five or more years into the future when doing each of the following

Company ● Developing ● Leading



Which of the following represent the greatest strategic opportunities and impacts for your organization?

Greatest Opportunities



Greatest opportunities: Respondents could select up to two areas
Greatest impact: Respondents reporting a 4 or 5 on a scale where 1 is "No impact" and 5 is "Severe impact"