The Board Imperative: Is now the time to reframe risk as opportunity? (PART 3)

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Building a better working world

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)

This internal "misalignment" suggests that currently the prioritization of risk looks different depending on the time horizon and remit of your role.

"Risk needs to be embedded in strategy conversations at the board level and also in what every business function is doing," says Nick Allen, a Board Director at Lenovo Group. "You just can't isolate discussions about risk."

3. Focus is sharpened on emerging, atypical risks and external risks

Sixty-four percent of boards say their organizations can effectively manage traditional risks, which include changes in regulation, drops in demand and increased borrowing costs. But only 39% say their organizations can effectively manage atypical and emerging risks, which might include threats associated with new technology or the impact of the climate emergency. In parallel, 61% of board members say their organizations can manage internal risks effectively, but only 47% say the same of external risks.

There is a clear distinction between the ability of the risk management leaders and the risk management developers to manage non-traditional risks: 71% of leaders are effective at managing atypical and emerging risks, compared with just 12% of developers. In addition, 82% of risk management leaders are effective at managing external risks, compared with just 20% of developers.

"It's essential to devote enough time at board level to emerging risks," says Michael Lynch-Bell, non-executive director at a number of organizations including Barloworld. "Our board monitors traditional risks every quarter, but in addition dedicates a large proportion of a strategy day every year to discussing emerging risks."

Sector and regional focus: Risk priorities diverge

Board members' prioritization of risks and the extent to which they want to improve risk management within their organizations varies depending on their sector and location.

Sector differences

Take risks associated with climate change and natural resource constraints. Boards across all sectors rank this as the ninth most significant risk to their organization in the next 12 months. But boards in the energy and resources sector rank it a joint first, alongside changes in the regulatory environment.

Cyberattacks and data breaches rank as the fifth most important risk to boards across all sectors, but are ranked first by boards of financial services and technology, media and entertainment, and telecommunications (TMT) businesses.

Finally, geopolitical events are considered the sixth most important risk by boards across all sectors but are ranked as the top risk by those in the real estate, hospitality and construction sectors.

Regional variations

Fifty-two percent of boards of Asia-Pacific-headquartered organizations believe that business model disruption will more than moderately impact their business in the next 12 months, compared with just 32% of those located in EMEIA and 29% of those in the Americas.

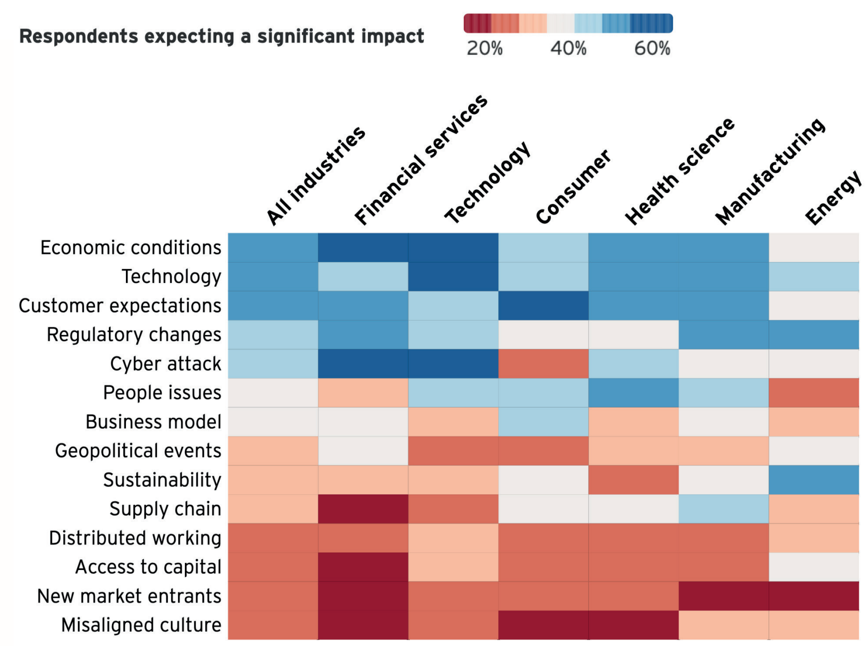
And 43% of boards of Asia-Pacific organizations expect climate change and natural resource constraints to more than moderately impact their businesses, compared with only 34% of those in EMEIA and 22% in the Americas.

Interestingly, compared with their counterparts in other regions, boards of Asia-Pacific-based organizations generally expect to feel a greater impact from a variety of risk categories. This could reflect the fact that their businesses are more vulnerable to risks or alternatively that they are simply more aware of the potential threats.

Yet fewer Asia-Pacific boards see the importance of enhancing risk management: 66% say improved risk management will be critical to their organizations in protecting and building value in the next five years, compared with 82% of those in EMEIA and 87% of those in the Americas. This could either stem from the fact that boards in the Asia-Pacific region believe they are already well prepared, or because they underestimate the extent of the changing risk landscape.

How significantly do you expect the following risks to impact your organization during the next 12 months?

Hover over a cell to see specific values



"Significant impact" includes respondents reporting a 4 or 5 on a scale where 1 is "No impact" and 5 is "Severe impact"

What can boards do to drive effective risk management?

We now know how boards would like to see risk management improve, but what can they do to drive these outcomes?

1. Rethink how the board operates
2. Work with management to create a corporate culture that is inspired by purpose and aligned with strategy
3. Ensure the organization adopts a data and technology-driven approach to risk management

We would like to leave you with this final thought: Board members need to be proactive participants in enhancing risk management. As the risk landscape around their organizations becomes more and more complex, board members need to ensure that their organizations are doing all they can to effectively identify, mitigate, manage and even predict new threats. That means getting proactive.

Summary

Whether due to growing regulatory pressure or the disruption caused by COVID-19, robust risk management has risen up the agenda for businesses in the past 18 months. This article explores what effective risk management looks like as well as the steps board directors can take to help their businesses get there. We find that the key attributes of high-performing risk management are a long-term perspective, alignment with business strategy and a focus on emerging, atypical and external risks. For boards to ensure that their business pivots in this direction, the board may need to rethink its composition and operations.■

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