THE BOARD MINDSET™

The vital attribute of exceptional boards

UPPING YOUR GAME IN RISK MANAGEMENT

Oversight of risk has long been an important role of directors. Boards and executives alike are identifying greater complexity, citing political instability, legal and regulatory constraints, local product safety and environmental laws, tax regulations, local labour laws, trade policies, and currency regulations.

The following provides an overview of the risk environment and the actions being taken, or not by North American businesses.

Most executives perceive that uncertainties in the business environment are leading to more complex risks.

- Most respondents (59%) believe the volume and complexity of risks are increasing extensively over time. They are particularly concerned about risks related to talent, innovation, the economy, and their reputation and brand.
- Sixty-eight percent of organizations indicate they have recently experienced an operational surprise due to a risk they did not adequately anticipate.

Despite concerns about a number of potential risk issues on the horizon, few executives describe their organization's approach to risk management as mature.

- Twenty-three percent of respondents describe their risk management as "mature" or "robust" with the perceived level of maturity declining over the past two years.
- Thirty-one percent of organizations (54% of the largest organizations) report that they have complete ERM processes in place.

External stakeholders expect greater senior executive involvement in risk management.

- External parties (59%) are putting pressure on senior executives for more extensive information about risks.
- Sixty-five percent of boards are calling for "somewhat" to "extensively" increased management involvement in risk oversight. Strong risk management practices are becoming an expected best practice. These pressures are increasing for large organizations and public companies, particularly.

Boards are focused on risk oversight, but they tend to delegate responsibilities to a committee rather than retain that for the full board.

- Just under two-thirds (61%) of boards of the full sample (83% of public companies) have delegated risk oversight to a board committee.

- Most delegate to an audit committee unless they are a financial services organization with a board-level risk committee.

More organizations are appointing an executive to oversee their risk management processes, with most organizations creating a management-level risk committee.

- About half of the full sample have designated an individual to serve as chief risk officer (or equivalent), with 58% of large organizations and 56% of public companies doing so.
- Over 80% of large organizations, public companies, and financial services entities have management-level risk committees.

Few organizations perceive their approaches to risk management as providing important strategic value.

- Less than 20% of organizations view their risk management process as providing important strategic advantage.
- Only 26% of the organizations report that their board substantively review top risk exposures in a formal manner when they discuss the organization's strategic plan.

About half of the organizations engage in formal risk identification and risk assessment processes.

- About one-half (46%) of the organizations have a risk management policy statement, with 49% maintaining risk inventories at an enterprise level.
- Just over 40% have guidelines for assessing risk probabilities and impact. Most (77%) update risk inventories at least annually.

While boards receive written reports about top risk exposures, there is some question as to whether the process used to generate the reports is systematic or robust.

- Most boards of large organizations (84%) or public companies (87%) discuss formal reports about top risks at least annually; however, less than 60% of those describe the underlying risk management process as systematic or repeatable.
- Forty-one percent of the respondents admit they are "not at all" or only "minimally" satisfied with the nature and extent of internal reporting of key risk indicators.

Organizations are not building in explicit accountabilities for risk management with few organizations embedding risk oversight responsibilities as components of compensation plans.

- The lack of risk management maturity may be tied to the challenges of providing sufficient incentives for them to engage in risk management activities.
- Most (64%) have not included explicit components of risk management activities in compensation plans.

Global and sophisticated companies (often Fortune 100) have dedicated risk professionals. These individuals may report to the board on an annual basis and are integral contributors to strategic planning and decision making. I am recommending the addition of dedicated risk specialists to more and more of my clients. In smaller organizations, this position often reports to the CFO. It is important for the board to have oversight into the risk evaluations that are underway. This is as important for not-for-profit companies as it is for publicly traded entities.

In larger organizations, political risk specialists (often called Country Risk analysts) analyze and explore the political, social, and economic factors at play across particular geographies, regions, and industry sectors on behalf of companies and/or governments. They analyze both threats and opportunities for businesses and companies, undertake strategic investment analysis for corporates with investments in multiple jurisdictions, and gauge shifting attitudes and factors of risk that may affect the commercial operations of companies in certain regions.

Political risk analysts are often subject matter experts in a particular geography, and it's common to find country-specific specialists who have an in-depth knowledge of the political landscape in just one area. There are numerous Political Risk consultancies that support companies with ongoing or ad-hoc in-depth information about the political environment, think tanks such as Chatham House which specialize in International Affairs, and a range of corporates in industries like Banking, Extractives, Technology and Insurance who have developed their own in-house political risk and intelligence teams.

Political risk specialists can support companies in a number of ways including political risk monitoring (regular reporting on certain metrics and conditions) and ad-hoc political risk consultancy which is often far more strategic and project based. When a company is considering making significant investment (such as opening a new mining site in Africa), they'll use a political risk specialist to assess the market-entry viability of their project. In this particular example, the political risk expert could recommend or urge against investment, suggest alternative locations and will give an accurate analysis of political, social and economic influences that the company should consider. Political risk specialists help to ease uncertainty about investment decisions and facilitate resilient business operations.

Factors and metrics that may be monitored by country risk specialists include political instability, terrorism, corruption, security threats, commodity risk, human rights, investment risk, economic indicators, regulatory developments, social trends, supply chain risks, labour laws, currency convertibility etc. It is not uncommon for political risk specialists to leverage a network of contacts for on-the-ground appraisals of the political landscape.

For smaller entities, the scope of your risks will be less but the nature of risks are the same. Focused attention and centralized accountability is important for monitoring and reporting on risks associated with public funding, changes to regulation, politics, activism and more.

Source for some of the information: [2019 The State of Risk Oversight.](#)