The Effective Board

INDEPENDENT AUDIT LIMITED

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Are we doing enough around risk?

Boards know that – at the strategic level – they need to be managing risk. Checking on internal control and risk management systems can be left to the Audit (& Risk) Committee. But what should the Board itself be doing? The governance guidance isn't that helpful with talk of "risk appetite" causing more consternation than providing solutions. And boards often find themselves asking "are we doing enough?" Here are a few thoughts on what we look for when considering a board's effectiveness in getting the risk-reward balance right.

Good practices to consider…		Things to avoid…
The main risk considerations – and how far they can be mitigated – are consistently factored in during strategy debates. Discussion of risk is simply a natural part of discussing strategy and determining the right risk-reward balance.	▶	Setting the risk strategy or discussing risk maps is seen as a separate "agenda item" or exercise.
Discussion of "risk appetite" is kept simple and used to think through the practical and cost implications of a shift in the risk taking and risk management approach. And from time to time it's used to ask whether the organisation is taking enough risk.	▶	Getting bogged down in definitions and trying to define an elusive "risk appetite". If people are using different language or have different perceptions of how much risk is currently being taken, not much will be achieved. The focus needs to be on the direction of the shift, not the "quantity".
Risk reports or "risk maps" being used to underpin strategic discussion and decision-making. The reports concentrate on changes in risk exposures and emerging risks.	▶	The "key risk report" becoming the end of a process with board discussion formulaic because of standard formats, inadequate narrative and a lack of focus on what's emerging or declining. The report is disconnected from strategy.
An honest and objective look at resilience and stress scenarios helps secure a good understanding of what would need to go wrong for real damage. And reputation risk is factored in too.	▶	Being overly sceptical and seeing scenario discussion as a waste of time. True, there's no use in looking at wholly implausible landscapes. But things do go wrong and more extreme thinking can prompt ideas.

Good practices to consider…	Things to avoid…
Effective discussion of the risks and mitigation in management proposals eg for capital investments or new products. Risk analysis avoids standard lists. And the mitigation approach sets out how the risk will be managed, the difficulties and the costs.	Inadequate or boilerplate-ish lists of risks that are incomplete, overly summarised or fail to assess realistically how far the risks can be mitigated – and how much risk might remain.
A constant focus on the outside. The competitor, market and economic environments are assessed regularly in relation to the organisation's risks.	Focusing on the internal risks and failing to spot in good time how external changes are impacting assumptions and risks.
Consistently considering how behaviour impacts our risk-taking and risk management.	Failing to consider the behavioural factors in risk mitigation – and simply assuming that the risk and control culture is what we think and hope it is.

Read a bit more…

Are you up for it? A look at the board's role in "accepting risk".

Getting it right A report on risk governance in non-financial services

Uncertainty, Human Nature and Board Effectiveness Reviews Thinking around how a board deals with risk and uncertainty.

Coming soon…

Our regular newsletter, The Effective Board, is issued monthly. The next editions will cover:

- Succession Planning (October)
- Boards Behaving Badly (November)