



# BOARD'S ETHICAL PERSPECTIVES AND RISK OVERSIGHT

Just as there is no such thing as the typical company, there is also no 'one size fits all' approach to the oversight of risk and opportunity.

Every organisation is unique and faces distinct challenges and uncertainties. What forward-looking practices like integrated reporting have encouraged is a greater sharing of different approaches to dealing with corporate unknowns. Through this, companies can compare and contrast, absorb and adapt, and find the path that works best for them in terms of long-term sustainability.

The fact that IOD is focusing on the arena of the board's responsibility for risk supervision is therefore to be warmly welcomed.

At ACCA, we've also been working to open up the 'black box' of risk and opportunity oversight in the 21<sup>st</sup> century organisation.

Earlier this year, we published a research project which helped uncover what boards are talking about and doing in the field of risk management, and the challenges that they face in ensuring the effectiveness of these activities.

This research highlighted the key challenges boards face when performing their roles and also shone a light on current good practices across both smaller and larger organisations.

And, while every board has its own take on the challenges, this research pointed to a spectrum, with what we can characterise as the 'principled' approach at one end and the 'prescriptive' approach at the other.

Under the 'principled' approach, discussions about risk are more likely to focus on the exploitation of upside opportunities and connect strategy and risk in an implicit and less structured way. A downside of this methodology is the potential for it to lead to inconsistency in risk management decisions.

**What is abundantly clear however is that organisations are facing high levels of complexity and uncertainty.**



Under the 'prescriptive' approach, risk management activities are more formalised and consistent and with a high degree of focus on internal control. The potential risk here is that strategic opportunities may be missed.

Neither approach – nor the myriad hybrids of the two – is right or wrong. It's a question of finding an appropriate ethos that best chimes with the mission, values and strategy of the entity in question.

What is abundantly clear however is that organisations are facing high levels of complexity and uncertainty. Whether it is from the effects of accelerating technological and digital change, climate change, and political change, the number of ways in which organisations can trip up only seems to multiply over time.

In the face of this increased complexity and uncertainty, the temptation for boards is to become more conservative and risk averse in an attempt to create certainty. But boards that choose to do this risk missing opportunities for their organisations and stakeholders. Worse still, they risk losing ground to entities with more innovative and entrepreneurial boards that are better able to steer their organisations towards the opportunities

on offer. Choosing the 'safe' option can be a risky strategy in itself, illustrated by companies such as IBM, which failed to capitalise on the personal computer and Kodak, which despite developing the digital camera, chose not to market it.

One key point emerging from the research is that diversity can be central to a board's ability to manage risk and opportunity. This supports other existing ACCA research – and findings from many other highly regarded sources, including the IMF and McKinsey – that shows diversity impacting positively on company performance, including on the financial bottom line.

Some other key learnings companies shared in our research were that:

- boards find it hard to understand and address softer factors, such as culture and risk appetite. Often, this is because of a lack of clear information and difficulties to linking these two concepts to organisational performance;
- factors such as lengthy risk reports and spending insufficient time on risk management at their meetings creates specific challenges for the board; and
- non-executive directors (NEDs) walk a delicate line between participation and oversight. NEDs need to understand the

organisations they are serving and participate in strategic decision-making, but their ability to step back from day-to-day pressures and their experience in other organisations allows them to perform a 'critical friend' role – helping restrain over-confident executives or encourage overly cautious one.

But we know that this is only the tip of the iceberg, in terms of the organisational challenges and opportunities with which a board grapples.

This month, we mark Global Ethics Day and so it's worth reminding ourselves that ethical behaviour is very much driven by tone of the top – and underlining that the board is both responsible for creating and overseeing codes of conduct and for living by them. In a world where there is a deficit of trust in institutions, this is a tremendous opportunity to show that business can, and does, operate for good.

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**IOD** Institute Of Directors **Building Tomorrow's Boards**

# PERFORMANCE EVALUATION

**BR&A** BOARD RESEARCH & ADVISORY  
INSTITUTE OF DIRECTORS

**FOSTERING STRONGER BOARDS FOR EFFECTIVE GOVERNANCE**

## Board Support Services

- Analysis of the governance structures, policies and processes through questionnaires, matrices, checklists and other compliance tools, which help to examine structural features based on risks areas of Corporate Governance.
- Masterclass Training on Board Evaluation, Best Governance Practices, Financial Literacy, Corporate laws, etc.
- Compliance and Governance tools and solutions, designed for real time reporting, advanced risk analytics and regulatory notifications, through a cloud based computing system.
- Advisory role in preparation of Corporate Governance Report.

## The IOD Edge:

- Independent & Impartial Evaluation:** A 360 degree approach in ensuring utmost objectivity in the evaluation process.
- Customizable Assessment Tools:** A standardized evaluation criteria that can be implemented immediately as is, or easily customized to best suit your specific needs.
- Complete Confidentiality:** We ensure full privacy of responses received, allowing members to express opinions freely.
- Seasoned Experts as Evaluators:** Top-Notch Board experts with years of experiential learning.
- Post Evaluation Support & Training:** A portfolio of customized professional development services readily available at IOD.

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