RISK MANAGEMENT'S ROLE IN CORPORATE GOVERNANCE*

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Building resilient companies, establishing risk appetites for diverse activities, and ensuring that significant risks are identified, monitored and managed, can be a formidable challenge at a time of uncertainty, disruptive technologies and new business models. For example, cyber security breaches could have multiple impacts from the theft of intellectual property and personal information to the control of robots, drones, self-driving cars, fridges and support systems by hackers as ever more devices are connected to the internet.

Companies face a range of new - and in some cases - continually mutating challenges and threats. Care needs to be taken to ensure that risk aversion and contemporary approaches to compliance and risk management do not stifle creativity, innovation and entrepreneurship (Coulson-Thomas, 2017b & c). When discharging their corporate governance responsibilities, what contribution and support can directors and boards expect from risk management professionals and the wider risk management community? What should their role be in corporate governance?

QUESTIONS FOR DIRECTORS AND BOARDS

One of the dilemmas faced by directors is the need to be entrepreneurial in ensuring the future succcess of a company while at the same time retaining prudent control. Being entrepreneurial invarianbly involves a degree of risk. In achieving a balance between the imperatives of enterprise and control, a board needs to ensure that governance and risk management arrangements are appropriate in the situation and circumstances. What needs to be done in relation to an area of risk such as cyber security will depend upon them (Leech and Hanlon, 2017).

What should boards, entrepreneurs and their stakeholders make of contemporary approaches to corporate governance, compliance and risk management? Are they positive enablers or inhibitors of creativity, progress and business development? Are too many boards risk averse and overly protective of past investments and current activities? Are their attitudes and approaches frustrating the search for new and better alternatives and more sustainable business models.

In particular, is risk management largely a compliance cost that contributes to overheads? What value do its periodic reports and practices add in an era of uncertainty and continually mutating cyber threats? Who needs to be involved in it? How conducive of innovation and entrepreneurship are the risk management community and risk management professionals? What needs to change if risk management is to be viewed as less of a hinder and more of a help in ensuring responsible risk taking across a corporate organisation?

REVIEWING THE ROLE OF RISK MANAGEMENT

A conversation is required among some directors and boards to review what is meant by risk and risk management, their governance responsibilities in relation to risk, and the extent to which the risk management community is perceived as a help or hinder to addressing contemporary challenges facing boards and their companies, and whether contemporary risk management attitudes and practices inhibit or support risk taking, enterprise and entrepreneurship. What should the changing role of risk management be (Coulson-Thomas, 2017a)?

The review should embrace the questions of from whose perspective risks should be assessed, and whether the range of stakeholders for whom directors and risk managers should feel responsible should be increased. Should they be considering risks to customers, suppliers, investors and the general public? The roots of contemporary corporate governance in the UK and some other jurisdictions lie in a review of its financial aspects (Cadbury, 1992). Some boards could usefully consider whether there should be more focus upon non-financial risks such as risks to the environment and local communities, and whether more attention should be paid to the interests of particular stakeholders, for example employees or customers.

Risk, ethics, regulation and other factors are inter-related and inter-dependent. Connectivity increases exposure to cyber risks (Clinton, 2014). Manufacturers of mobile and internet-of-things devices need to take responsibility for reducing the risk of their connected products being misused. Many users of the appliances, devices and other products they produce just opt for standard manufacturer passwords which are known to hackers. Responsible manufactures should ensure their customers are made aware of the risks involved.

The UK Government's Department for Business, Energy and Industrial Strategy (2017) is considering ways in which boards might better engage with customers and employees. Should some risk managers also do more to engage with the risk concerns of a wider range of stakeholders, and in particular to observe and experience the lives of customers? An exposure to their needs and how different corporate responses would benefit them could help risk practitioners to develop a wider perspective and greater understanding of the rationale for incurring risk.

ACCOUNTABILITY AND PROFESSIONALISM

Should boards expect more from risk managers? Should risk management professionals be held accountable for the advice they give and their scanning, scrutiny and assessment of the risk environment? To be regarded collectively as a profession and individually as professionals, risk managers should behave responsibly, fairly and with integrity (Carr-Saunders et al, 1933). They should act to protect the interests of their employers, clients and the general public.

Are risk professionals perceived by directors and boards as creators of value rather than as an overhead cost? Can their assessments be relied upon? Should they be more objective and sceptical when assessing, critiquing and reporting upon the risks of their company's core business strategies and business models? In this and other areas they should give honest advice and counsel.

Risk management professionals need to be realistic in relation to their profile and influence at board level and whether they have the breadth of experience and perspective to advise on the business and risk consequences of different corporate goals, objectives, policies, practices, priorities and strategies. They need to ensure that what they do is understood. They should operate in ways that add value and contribute to more effective board and other decision making. In relation to areas such as risk appetite and risk mitigation, what could they do to increase the competence of directors, board effectiveness and the relevance of corporate governance standards?

REMAINING CURRENT AS RISKS AND REQUIREMENTS CHANGE

Directors and boards should not have exaggerated expectations of risk management. Risk practitioners need to be realistic and, where appropriate and as requirements and circumstances change, accept the limitations of current risk management preoccupations and practices and the dangers of using out-of-date approaches and models. They should aim to anticipate challenges and recognise failures and be prepared to handle them and both recover and more forward.

Risk professionals should be alert to evolving threats and emerging board requirements for advice and support. As the nature and sources of risks change, processes, systems, business models, governance arrangements and risk management practices need to be flexible and adaptive as well as robust and resilient if they are to remain relevant, current and vital. Approaches, expertise, risk management knowledge and any relevant standards should be continually updated (Baer, 1986).

Rather than being preoccupied with mitigating the risks they know about, should directors and risk professionals devote more effort to developing the awareness, resilience and flexibility to quickly identify, analyse and address new and unexpected risks as and when they arise? Where possible, should risk professionals be embedded within business units and actively supporting them rather than standing on the

sidelines or cocooned in a distant head office and writing reports which may or may not be read and/or acted upon?

WIDENING INVOLVEMENT IN RISK MANAGEMENT

Directors and boards need to consider whether in many situations and contexts, risk is too important to just be left to a small group of professionals in a head office environment. Too often people in the front-line who are closest to emerging issues leave identifying, assessing and addressing them to risk and other specialists. More organisations should introduce arrangements that would encourage and allow any concerned employee to raise risk concerns and to do so in a way that respects confidentiality and allows them to circumvent perceived barriers to honest reporting.

No-one may have experience of a new and unexpected development. Risk should be seen as an aspect of a wider range of roles from the bottom to the top of an organisation. Communications relating to risk should be two-way, and all those involved should be vigilant and open-minded. How it is handled needs to be built into systems, processes and tools in ways that can be quickly updated. Opportunities should be explored for using personalised performance support to reduce risks, increase returns and make risk and other guidance available on a 24/7 basis whenever and wherever required, including when people are on the move (Coulson-Thomas, 2012a & b; 2013).

If more people are to be risk aware and risk active, risk and its management should be an integral element of primary, secondary and tertiary education. It should have an important place in the business and public administration curriculum. It should also be an integral element of the preparation of the members of most if not all professions. Particular attention should be given to the role of risk in decision making, including the support of boards in crisis situations when directors may be under severe time pressure (Allison, 1971; Allison & Zelikow, 1999).

LEARNING FROM OTHER PROFESSIONS

Risk management is not just for business and management practitioners and professionals. Assessing risk is important for engineers, medical practitioners and many other professionals. For many occupational groups the process of professionalisation involves protecting clients and the public from risks they face (Millerson, 1964). Their instincts and approaches may be more relevant to issues currently faced by some boards than those of risk management professionals who use approaches that were developed when different priorities and business models applied.

Directors and boards may need to learn to live with certain risks. Medical practitioners understand the risks of various treatments. They accept that for certain conditions there might not yet be a cure, but it may be possible to manage a long-term condition. If, like other living organisms, communities and networks of people and their organisations are to grow, evolve and adapt risk practitioners should learn from the medical and other professions.

In particular, the risk management community could learn from the roles of specialists within the medical world. General risk practitioners may only take us so far. In future, more of the routine, repetitive, standard and relatively predictable work undertaken by risk management knowledge workers and professionals may be undertaken by AI applications (Kaplan, 2015). Greater specialisation, with more post-qualification development options in areas such as cyber-security, could be advantageous.

PERCEPTIONS OF RISK

Directors, boards and risk professionals should have a balanced as opposed to a negative view of risk. They should impart this to others, As risk and return can often be related, the management of risk should include establishing or clarifying risk appetite and determining what level of risk is appropriate in a particular situation given aspirations, ambitions and the relevant risk appetite.

In educational and professional development, associating risk with issues, obstacles and problems can give it negative connotations. Risk should be viewed positively and portrayed as an aspect of life, as an integral element of entrepreneurship and, in many situations, as an enabler and an arena of opportunity. Risk perceptions and risk management policies and practices should encourage and support curiosity, creativity,

innovation and entrepreneurship and the openness and diversity that can contribute to them (Coulson-Thomas, 2017d).

Risk professionals should be alert to various factors that hinder creativity, innovation and entrepreneurship and be able to advise on how they might be overcome. They look beyond risks to aspirations and devote more attention to overcoming obstacles and barriers to their achievement. Enterprising practitioners should look for ways in which helping people to cope with certain risks and/or their materialization could represent business opportunities.

RISK AND RESPONSIBLE BUSINESS

People face a variety of risks in their personal lives and in their homes, as well as when at work. Individuals like organisations can be hacked and they can become victims of cyber-fraud. Like medicine, risk management can be viewed and could be portrayed as a caring profession – concerned with protecting people as individuals and in their families, communities and organisations. It should have positive connotations and could be regarded as evidence of a company addressing its social responsibilities (Bowen, 1953).

Risk management can be so much more than avoiding downsides, costs and losses and damage limitation. It can also be about helping to create more value and a better future. As already mentioned, risk professionals need to look at what they can do to help customers and others to cope with risks they face and so turn their challenges into business and other opportunities. In some contexts, rather than just mitigating and avoiding certain categories of risks, risk professionals should also be alert to options for capitalising upon any new opportunities they might create.

The diversity, variability, unpredictability and unreliability of human beings is a major source of risk. The risk management community needs also to learn from the understanding of human behaviour of groups such as psychologists and human resources practitioners, and from those who aggregate big data, for example when assessing the probability of different outcomes.

RECOGNISING REALITIES

The risk management community needs to recognise the reality of the threats that people, organisations and communities face in areas such as terrorism, cyber-security and the spread of a contagious virus. Contingency planning may be required that is flexible, resilient and able to be quickly scaled up. Collaboration can be more effective than operating alone. For example, most cases of hacking and cyber-fraud are not reported. Victims may feel embarrassed, yet sharing an experience with ones peers and law enforcement agencies can increase understanding of the threat environment and improve the planning and implementation of counter measures.

In areas such as cyber-security, risks are mutating and many people and organisations face uncertainty and the possibility of unexpected and disruptive developments. Directors and risk managers need to be aware of the guidance issued to boards by bodies such as NACD (Clinton, 2014). In the face of unfolding events, professional qualifications - and even the shared experience of professionals when and where relevant - can quickly become out of date. Continuing professional development is required, along with real time updating in certain areas.

Within any profession there may be a small number of super-stars and a larger number of average practitioners (Coulson-Thomas, 2007, 2012a & b, 2013). The more routine, repetitive, structured and rule based activities of average or typical knowledge workers and professionals will increasingly be replaced by automated and digital solutions and expert systems (Kaplan, 2015). These are likely to be refined and updated by a relatively small number of superstars. Other super-stars might work as consultants, making their skills available to more than a single employer.

EMBRACING SUPPLY CHAINS AND NETWORK ORGANISATIONS

Directors and boards should ensure the focus of risk management extends beyond organisational boundaries to embrace supply chains and customer aspirations. Risk management professionals need to be forward looking and concerned with the support of decision making and creating a safer and more secure

and sustainable future. Corporate systems and processes should be sufficiently resilient to withstand the simultaneous materialisation of multiple risks, including when supply chain realtionships are re-engineered (Bartram, 1996).

Risk management approaches, practices and techniques all need to reflect the inter-connected nature of contemporary corporations which are networks of relationships with customers, suppliers and business partners (Coulson-Thomas, 1992 & 2002). Risk management, cyber-security and anti-fraud measures should embrace corporate data held externally, corporate systems operated by third parties, mobile devices and working from connected homes.

Thought needs to be given to the risk management community's own supply and potential value chain and to the areas in which it could most usefully extend its influence. For example, one can sometimes go beyond protection and being defensive. Thus cyber-security specialists may have options to track and respond to attacks, either alone or in collaboration with relevant law enforcement agencies. A board may wish to be informed or involved in such cases.

CHANGING APPROACHES

As preoccupations, possibilities and board priorities alter, a risk management community needs to offer affordable, timely and practical advice and solutions. When there are narrow and shortening windows of opportunity there may be little point suggesting a multi-year transformation or culture change programme. Requirements and a business model may change long before it is implemented. Living, adaptive and flexible approaches are required.

The risk management community should monitor trends, technological and other developments, and changing management and board priorities and practices, assess their impacts upon risk management practices and consider what they could do to help people and organisations to cope and adapt (Coulson-Thomas, 2002 & 2007). For example, risk managers could contribute their assessment of risk and probabilities to accounts prepared on a confidence accounting basis. They could also help customers and wider society to confront certain of the risks they face

More risk professionals should be prepared to go beyond reporting risks and helping colleagues to determine ways of mitigating them. Their experience, expertise and understanding of risk should enable them to also suggest alternatives and new courses of action. They should be proactive rather than defensive, and able and willing to suggest solutions rather than just report problems.

Complex and interdependent risks do not necessarily require complex and expensive solutions. They can sometimes be best addressed by quicker and simpler approaches. For example, if behaviour change is required, one could use levers that can be quickly operated, such as changing a pay plan or updating the performance support that makes it easy for people to do the right, approved or preferred thing and difficult for them to pursue a course of action or respond in a way that is wrong, discouraged or inappropriate (Coulson-Thomas, 2012a & b; 2013).

THE RISKS OF ORDER, RULES AND REGULATIONS

Directors, boards and the risk management community should understand how factors such as excessive order, rigidity and the lack of openness, diversity and challenge can stifle creativity. Regulations and rigid rules can impose significant costs upon business (Crews, 2017). Risk practitioners should go beyond helping their employers and clients to reduce the risk of desired levels of creativity, innovation and entrepreneurship not occurring. They should also be able to advise on ways of stimulating creativity, enabling innovation and supporting entrepreneurship (Coulson-Thomas, 2017c & d).

Risk management practitioners also need to be prepared to themselves innovate and explore. The risk management community must play its part in addressing future applications of disruptive technologies. For example, risk professionals should take steps now to anticipate the risks associated with various adoptions of block-chain technology and consider possible next steps.

Compliance with outdated requirements can leave the door open to new risks. To innovate, risk professionals need to be open to discussion, debate and new developments. Rather than unthinkingly apply a standard approach, the risk community should encourage greater diversity and be prepared to simultaneously explore

a number of different responses and solutions to priority risks. In relation to corporate governance and related areas such as compliance and risk management, one has to achieve a balance between rules and flexibility in order to achieve economic growth (McGhee and Low, 2017).

PROFESSIONAL ASPIRATIONS

Boards have an interest in securing informed, balanced, objective and relevant advice. If risk practitioners want risk management to be accepted as a recognised profession and obtain the influence this can bring, they must accept and discharge the responsibilities this would involve (Johnson, 1972), While recent experience of the 2007-8 financial crisis and the reluctance of professionals to show remorse or accept responsibility may have damaged their reputation and standing, traditionally they have been expected to protect employers, clients and the public, and not to be overly led and unduly influenced by their own self-interests.

As a profession, do risk management practitioners need to become more involved in public debates? For example, manufactures of mobile devices feel they have a duty to use encryption to protect the confidentiality of their customers' communications. This same encryption can prevent law enforcement and security agencies from tracking the communications of criminal and terrorist suspects. Governments, societies and boards sometimes face difficult choices when protecting people from some risks can leave them open to other risks.

In such areas, the counsel of leaders of the risk management community might make a difference. Because risk impacts upon so many aspects of people's lives, the risk management community could consider how best to contribute to public debates in areas in which it has interests and could make a contribution. It could also consider the extent to which it could develop and should discharge a representational role, not just in relation to the interests of risk professionals themselves, but in other areas of public concern such as sustainability and risks associated with climate change.

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