Risk Management and Governance: Questions for Practitioners

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Many practitioners are concerned with risks relating to their activities and projects, and considering ways of mitigating them. Their focus is often on the potential impact of risks upon activity or project costs, timescales, outputs and resource requirements, and related trade-offs and change requests. But what about the external impacts of their actions and projects, and those of other corporate activities and our lifestyles on the environment? What about more strategic and/or wide-ranging risks in the external environments and contexts in which practitioners and organisations operate? How should these and existential risks that derive from collective human activities be handled? For example, climate change is a growing and multi-faceted challenge[1]. Its impacts, implications and responses to it and other existential threats could affect client and corporate requirements and priorities.

Understanding a wider range of risks and their consequences could enable a practitioner to identify potential vulnerabilities and further opportunities to contribute and make a difference. Much will depend upon factors such as sector, location and the stage of an activity or project. Might much-needed attention and resources be diverted to more pressing requirements? Will responses to existential threats like climate change involve collaboration with other parties, longer timescales, and a greater need for adaptation, evolution and flexibility? Should practitioners prepare for continuing involvement in a sequence and/or changing combination of inter-related activities, rather than discrete, selfcontained and time limited projects? In the Spring 2023 issue of Management Services we looked at risk-led innovation[2]. We now turn our attention to wider risk management and governance.

Contemporary Contextual and Existential Risks

The World Economic Forum (WEF) commissions an annual assessment of global risks. These are ranked in terms of severity of impact over both a two-year and a ten-year period[3]. The ten-year list is dominated by environmental risks, the top three of which are failure to mitigate climate change, failure of climate change adaptation, and natural disasters and extreme weather events. They are joined in the top five by biodiversity loss and eco-system collapse and large-scale involuntary migration associated with other leading risks. These are all areas in which recent scientific evidence suggests that much more needs to be done to avoid disaster[4]. Where in relation to these risks and transition to more responsible and sustainable operations, must productivity and performance be increased?

The global contextual risks identified by the WEF are inter-related and inter-dependent[3]. Individually and collectively, they represent existential threats for which many organisations, the communities and societies in which they operate, and the infrastructures on which they depend, remain woefully unprepared. Certain risks such as environmental challenges, geo-economic confrontation, large scale involuntary migration, erosion of social cohesion and societal polarisation, and widespread cyber-crime and cyber insecurity are expected to persist over both two-year and ten-year periods. Demand for practitioners with relevant expertise who can provide related advice, guidance and support should increase.

Many contextual risks remain topics for discussion when action plans are required. Leaders and other decision-makers should reflect on their own ability to assess and understand the implications of potentially high impact risks, how they and their organisations might better prepare for them, and whether new sources of independent, objective and informed advice are required. A review could include the composition of a board, council, committee, or programme team, and whether additional skill sets might be needed within and across an organisation, in addition to external support and collective action. The latter could include collaborations with likeminded public and private organisations. Relevant experience that spans different arenas could be especially helpful in building mutual understanding.

Root Causes of Contextual and Existential Risks

A first step is often to identify, understand and prioritise root causes. Risk related concerns may be widely shared by people and organisations across many communities and societies. They have common root causes and are often the consequences of collective human activities, lifestyles and aspirations that lead to growth ambitions which scientific evidence suggests are not sustainable. Their consequences are compounded by global population growth, negative externalities and inadequate responses to climate change[1]. Consumerism and corporate communications often appeal to human desires and greed. Weak and irresponsible leaders pander to unrealistic desires for ever more, rather than advocate transition to simpler, more sustainable and less environmentally damaging alternatives.

What is sometimes portrayed as progress could alternatively be viewed as regression and a loss of ancient wisdom that allowed communities to live more in balance and harmony with the natural world[5]. Engaged ESG practitioners should be alert to behavioural changes. The promotion of digital technologies and connectivity has led to greater detachment from natural eco-systems and a shift of attention and time to virtual worlds. In many arenas, private and perceived self, vested and national interests appear to take priority over collective interests and the public good. Reinforced and encouraged by growth objectives and compensation arrangements, are many value creation processes turning scarce natural capital that will be required by future generations into pollution and rubbish?

Enlightened leaders and more aware and responsible teams are identifying and addressing the negative externalities of corporate activities and operations. They recognise, rather than avoid or deny, realities and wider interests such as those of ecosystems, the excluded, the environment and future generations. Their

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priorities, investments and the innovations they champion are both responsible and risk led. They aim to bring people together and reconcile rather than balance contending interests by aligning aspirations around a shared goal of survival[6]. They change incentives, rewards and compensation to focus attention and effort on more sustainable and inclusive alternatives and opportunities to do things differently that often accompany adaptation and mitigation challenges.

Differing Relationships with Reality

Confronted with avoidance, denial, fake news, groupthink, hostility, spin and vested interests, practitioners may face an uphill battle to get colleagues to recognise realities and accept responsibility for the negative consequences of corporate activities. After recent record global temperatures immediate and dramatic action is now required[7]. In certain jurisdictions, some fossil fuel extracting companies spent years and devoted significant resources to questioning, opposing and resisting suggestions that their core corporate operations and products contributed to global warming and caused harmful end results. Conceding when scientific evidence of harm becomes overwhelming may be too late to avoid communities and societies having to bear the burden of delayed corrective action. Too often corporate reporting fails to fully identify, value and account for negative externalities. Boards may fear claims for compensation, loss and/or damages if they admit responsibility.

Leaders at all levels face challenges in getting people to focus on the realities of existential threats and related risks, such as what is happening to the environment, eco-systems, biodiversity, global temperatures and the climate, and their likely future consequences. Fiction, fake news and propaganda present alternative realities. Some ESG initiatives are described as 'greenwashing' or 'PR'. Images are modified or 'improved'. 'Safe spaces', filters and other interfaces and screens 'protect' those thought to be vulnerable from harsh realities. Holograms and augmented versions of reality can be free of blemishes and unpleasant features. While practitioners such as project managers may try to identify, understand and confront realities in their efforts to deliver sought outcomes, do others seek solace, refuge, or escape into virtual or alternative worlds such as the Metaverse?

As well as changing the relationships many people have with the natural world, or representations of it, significant investments in the creation of alternative and sanitised realities, and the development, production, distribution and sales of devices that allow access to them and activities within them, also have environmental and social consequences. They can increase the severity of impact of certain risks. Minerals are needed for new devices before they can be recycled from those at the end of their useful lives and further sources of supply can come on stream. Social consequences, such as more use of social media and mobile devices add to energy and mineral demand. Do responsible practitioners have the motivation, determination and communication skills to influence, persuade and encourage colleagues to confront the realities of external, contextual and existential risks?

Implications for Risk Management and Governance

The changing risk environment, growing severity of certain risk impacts and the increasing urgency of adaptation, mitigation and other individual, organisational and collective responses have implications for risk practitioners, management, and governance. Is a shift of focus required from individual, project and organisational risk to environmental and shared risk; and from individual entities to value chains, networks of relationships and public-private and other collaborations and partnerships? This may require reduced preoccupation with virtual worlds and reconnecting with nature and natural eco-systems and the threats which they and we face in the 'real world'. A pause, reflection and a review of priorities may be necessary to ensure a sustainable future. Is this something that practitioners are willing to suggest or request, undertake and support?

Given the existential threats that confront them, the sustainability and resilience of corporate operations, human activities, communities, societies, and supporting services and infrastructures, cannot be assumed. Some entities and groups may need to put more emphasis upon longer-term and higher impact risks, risk-led innovation, identifying and addressing points of weakness and vulnerability, collective responses and inter-relationships and inter-dependences between risks. Responsibilities and resources may need to be allocated to joining up, alignment and coordination, and the initiation and support of transitions and transformation journeys. In fluid and evolving situations and contexts, more informal liaison and collaboration involving the members of formal boards, councils and/or committees and those who advise and support them between meetings may also be required. What might the liaison and other implications of this be for practitioners and individual projects?

Risk managers and other central units and specialist professionals represent a cost. They should be encouraged to think about their contribution to achieving the purpose, goals and objectives of a company, including survival in the face of challenges, risks and threats, and the value which they add.

Contribution could include protecting and enhancing this value, relationships, reputation and trust, and the perception of an entity as a prepared, responsible, resilient and collaborative partner. Those with management or advisory responsibility for areas of special vulnerability could be asked to present their risks and suggested mitigations to decision makers. Do they know where and from whom to seek opinions? Being able to engage and question those closer to the front line than people in senior head office roles can give practitioners more of a feel for the nature of risks and what might be done about them.

Leaders and other decision makers should reflect on their own ability to assess and understand the implications of potentially high impact risks, [and] how they and their organisations might better prepare for them.

Handling Contextual and Existential Risks

Many practitioners operate in uncertain and volatile contexts, Climate and other risks are increasingly crystalising as crises such as floods, wild-fires, and other extreme weather events. When incidents with damaging consequences occur, later investigations often find that people within the areas concerned knew of risks being run before they materialised or 'blew up'. Are practitioners reporting risks, thinking about their wider impacts, and 'speaking up'? Whistleblowing arrangements should allow for the reporting of sensitive and other risks that people may be reluctant to raise with local and/or line management, or within a particular unit or group. Risks also need to be owned by people in business units and other groups. They cannot just be left to risk managers to address. Who needs to become more involved?

Anticipation and preparation can increase resilience and ability to cope[8]. On occasion, past crises have had more traumatic impacts than might have been the case had risks initially reported not been watered down by layers of management, and not rung alarm bells when finally presented to boards. It can be helpful to hear from those directly responsible and affected how they view a risk and what help and support they feel would be helpful. CEOs and other leaders should ensure that concerns reach them and are not 'edited out'. They and their advisers need to know if there are issues that keep people awake at night. Are they considering the portability as well as the resilience of corporate activities, operations and capabilities during transition journeys, or in the event of a requirement for re-location?

Alert practitioners should constantly look out for alternatives, substitutes and 'plan Bs'. Do they think about their activities and those of others that might be affected by developments and events they encounter, observe or are aware of? Do they contact those concerned or those who are responsible? Potential impacts and possibilities for reinvention, redesign, and a corporate role and contributions, in different situations and contexts could be explored. While there is still an opportunity to do so, contingency arrangements and early-stage preparations could be put in place. Boards should consider what, where and how to disclose their own positions and plans in relation to climate risks. Some may face multiple pressures for greater disclosure and tougher legal, regulatory and reporting frameworks with greater penalties for non-observance. The introduction of new and varying measures in different jurisdictions may increase policy, legal and regulatory risks and associated operating costs, particularly for international companies. Calls for harmonisation and standards may increase.

Corporate Risk Responsibilities

Senior practitioners may advise at board level. Directors have collective responsibility for ensuring that effective and regularly reviewed responsibilities, capabilities and actions are in place for identifying, assessing, addressing and mitigating risks to a company's assets, activities, operations and relationships, its people and the achievement of corporate purpose, vision, values, goals, objectives and priorities[9]. Events and developments in recent years have caused more questioning of the adequacy of assumptions, policies and practices in these areas. Involvement in them may need to be everyone's responsibility. People should be alert, vigilant and speak up when they have concerns. Is sufficient attention being devoted to external and contextual risks, and existential threats?

How self-aware of their limitations and the impacts of their activities are directors and other key players? Some risks may result from a board's own decisions, deficiencies in the implementation of its direction and policies, or failures of corporate systems and controls. Others may be a consequence of an organisation's remit and purpose, the business a company is in, or the nature of its operations. They may feature in risk registers. In some cases, enough might be known to take out insurance and/or put arrangements in place to address them. These may be less able to deal with unexpected and exogenous developments over which an entity may have little control. A single company's response may also have limited impact upon their root causes. Risk reviews may need to be accompanied by steps to increase resilience and readiness to address challenges.

Risk governance, like corporate strategy, often begins with a review of what is happening in the business, economic, environmental, market, political, social and technological context within which a company is operating; how external trends and developments are likely to impact upon a company's activities, operations and stakeholders; and what could and should be done in response, either to address challenges or capitalise upon opportunities. The latter could include helping stakeholders and others to handle them. An understanding of opportunities and possibilities associated with risks, and the impacts of a longer-term trend such as global warming, might enable a board and management team to imagine and scope a new purpose and role based upon a company's position, capabilities and connections.

Risk Governance Arrangements

While standard models and pre-existing frameworks may help to set agendas in terms of what might need to be covered, risk governance arrangements should be organisation, situation and context specific. Do they reflect an organisation's purpose, strategic direction and goals, capabilities, obligations and relationships, and the challenges and opportunities confronting it? Existing arrangements may give insufficient attention to emerging and slow-burn or longer-term risks that were not uppermost in people's minds when they were put in place. Such risks could be considered in more detail during certain events in a cycle, and/or during ad-hoc meetings to which additional and relevant people could also be invited. When were risk governance arrangements last reviewed? Do they encompass contextual risks?

In many entities, risk and audit are brought together under a single board committee and the programmes and priorities of both internal and external audit should be risk-led. Care needs to be taken to ensure that proper attention is devoted to non-financial risks, arrangements and controls, particularly at certain times of the year in the audit cycle. In a sector such as financial services in which risk and return are related, credit and market risks and economic factors such as inflation can influence interest rates. A dedicated risk committee might be desirable. In some jurisdictions it could be a regulatory and licence requirement. How responsive are current arrangements to external, evolving and inter-related global risks?

Identified and prioritised risks can inform leadership and executive talent and skill, and capability and relationship development programmes and strategies. They may also influence corporate purpose, priorities and strategies. Changing risk assessments can additionally affect judgements on the continuing desirability and cost-effectiveness of certain courses of action and particular decisions and their justification. Rather than just plough ahead, or periodically review after a standard interval, is a watch being kept of areas where a tipping or decision point might be reached, beyond which changing direction could become problematic and crawl-out costs prohibitive? Ambitious practitioners progress from project to corporate risks and widen their perspectives from risk management to risk governance. Where might their experience, approaches, tools and techniques have the greatest impact?

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