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Room for risk management improvement with boards

Many boards struggle with defining and setting the risk appetite for their organisations in the key areas of strategy, finance and operations, according to a corporate governance expert.

A key role of boards is to set the risk appetite for their organisation, or how much risk is appropriate given the aspirations of shareholders and other key stakeholders.

Boards should be defining risk appetite against the AS/AZS ISO 31000 risk standard categories for likelihood and consequences, and decide which risks management may deal with as well as how and in what timeframe management must inform the board of such risks, according to James Beck, managing director of Effective Governance.

In general most organisations understand that for every strategy that is being implemented there is an element of risk, but he said that many struggle with reporting back to the board the progress against the KPIs of each strategy and reporting the status of the key risks associated with each strategy.

“Generally poor-performing strategies can be attributed to risks that have not been mitigated through additional funding, resourcing or taking a revised approach,” he said.

“If your board has not defined/set its risk appetite – work to achieve this urgently, by taking time to workshop this through the management team and the board – as this provides the initial step of framework in which the organisation is to embed risk governance throughout your organisation.”

Secondly, Beck advised to succinctly define your organisations’ crisis management plan.

“Within risk governance a crisis is the occurrence of a risk that was not foreseen/on the risk register or for which the mitigation process has failed,” he said.

At the board level, a crisis management plan is not a detailed document (some organisations have detailed plan of 30 plus pages that are more like disaster recovery plans) but needs to cover just three things:

· Who declares a crisis (such as CEO/senior management team, in consultation with CEO/Chair)

· Who communicates a crisis (such as the Chair or another board member)

· Who rectifies crisis (such as the CEO, but this should not be the same individual who communicates the crisis as they should be busy rectifying it)

“As such a crisis management plan can be documented in three paragraphs, easily remembered and address all crisis’ facing an organisation,” Beck said.

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