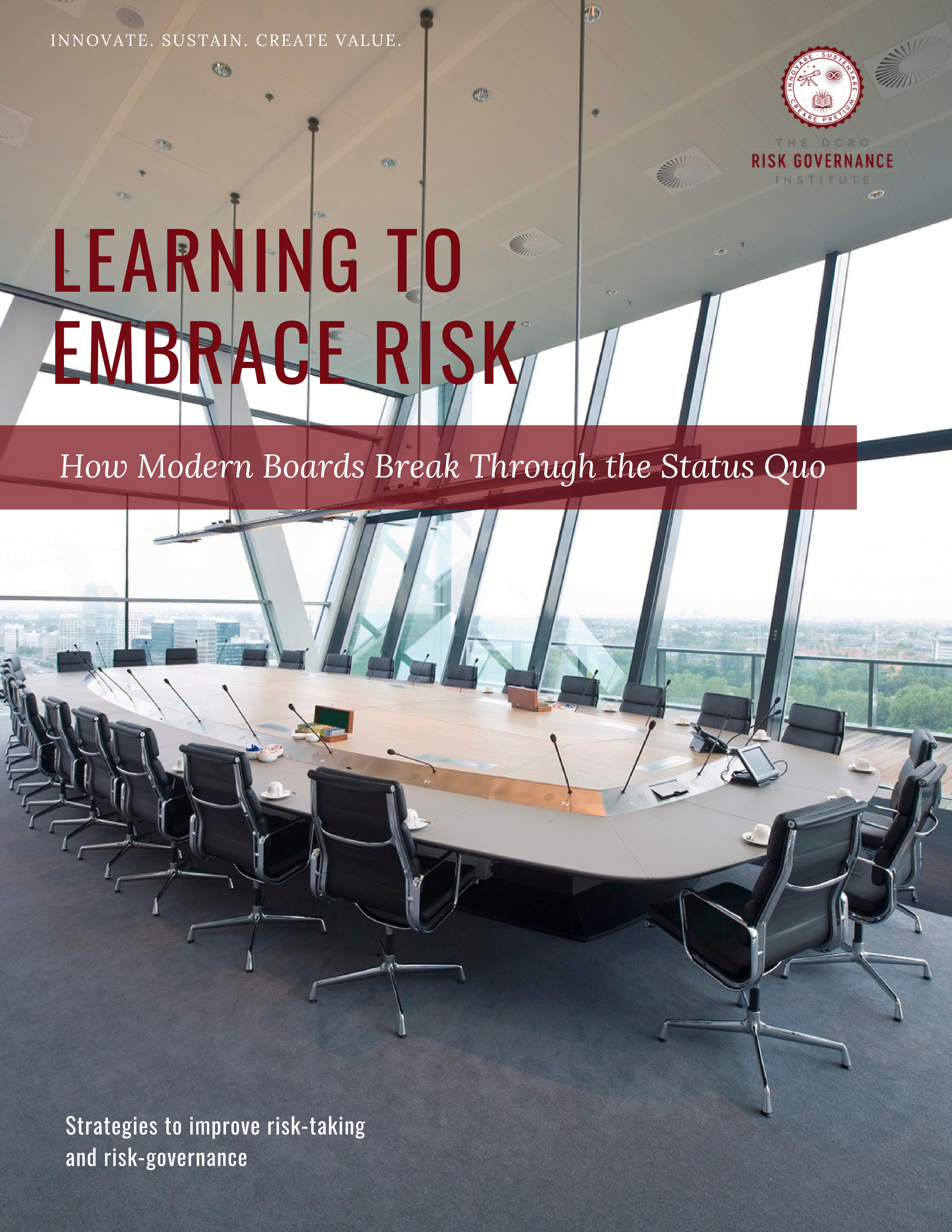
INNOVATE. SUSTAIN. CREATE VALUE.

THE DCRO RISK GOVERNANCE INSTITUTE

LEARNING TO EMBRACE RISK

How Modern Boards Break Through the Status Quo



Strategies to improve risk-taking and risk-governance

RETHINKING RISK

To thrive in the long run, boards and executives must learn to embrace risk – to think and talk about risk in strategic ways, approach it with a fresh perspective, and take risk more confidently. Whether we are considering the launch of start-ups, product initiatives, new hires, expansion into foreign markets, decisions about investment, or new suppliers, businesses must take risks to create value and advance beyond the status quo.

The challenge: many board directors overly associate risk with the potential for loss. In the current environment of geopolitical, technological, environmental, health, and economic turmoil, the draw to this focus is natural. However, this perception of risk as loss brings unhelpful biases into the decision-making process, causing boards to miss out on the benefits that a positive governance of risk-taking can yield.

The good news: there are several things you can do today as a fiduciary to embrace risk throughout your organization and discover untapped competitive advantage.

INNOVATE. SUSTAIN. CREATE VALUE.

STRATEGIES TO IMPROVE RISK-TAKING AND RISK-GOVERNANCE

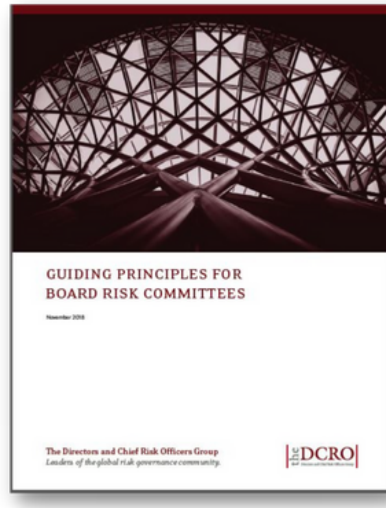
Understanding the drivers of your success in a risk-informed context is a crucial step in making better decisions. There are four critical ways boards can improve their approach to risk-taking and risk-governance.

DEVELOP AND VALIDATE A WORKING FRAMEWORK AT THE BOARD LEVEL

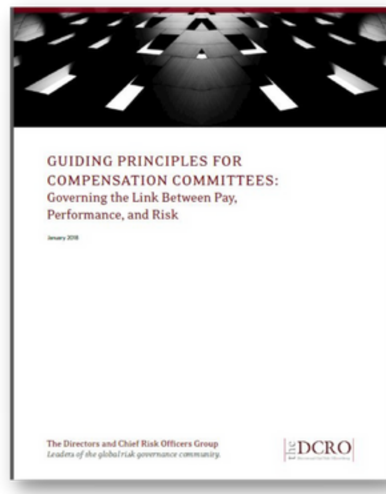
The board is where we establish the culture of the organization, identify strategic goals, and set the boundaries within which management can pursue those goals. Boards need to understand the risk-taking preferences of their members to know whether those align well with corporate risk-taking preferences. Further, boards must develop and validate that the framework within which management and other employees pursue the organization's strategic objectives uses a risk lens with a positive focus, in alignment with these preferences.

The Directors and Chief Risk Officers ("the DCRO"), a group of board members and other C-level executives from more than 120 countries, crafted guiding principles to help boards get better at risk-taking. The recommendations offer a roadmap to help organizations establish or advance the work of several board committees whose work touches on the governance of risk-taking:

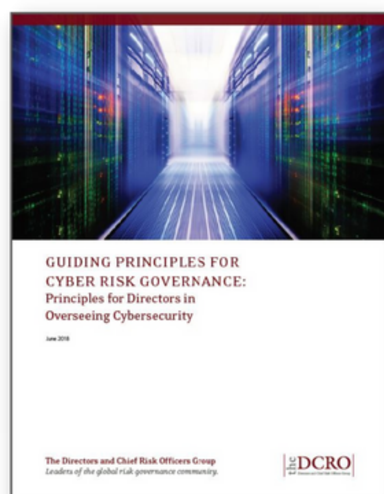
- The Guiding Principles for Board Risk Committees provides a guide to the best process for conducting the business of a board risk committee.



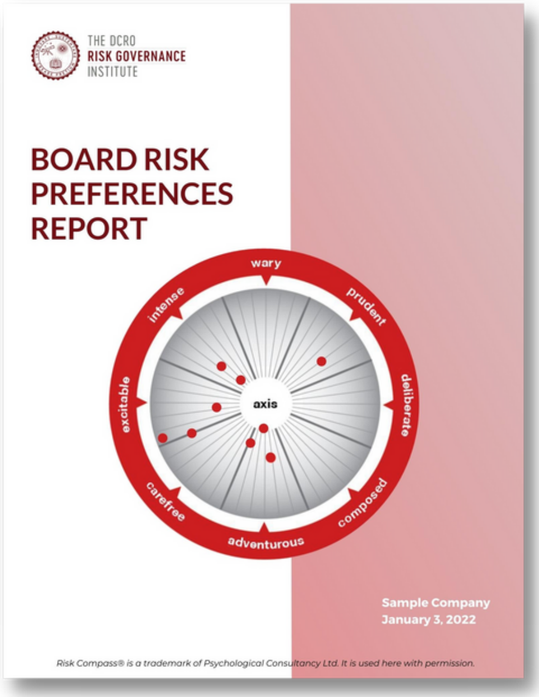
- The Guiding Principles for Compensation Committees details practical guidance for governing the incentives and compensation that drive behaviors to be consistent with board-established "morals" and how to integrate that committee’s work with the work of the board risk committee.



- The Guiding Principles for Cyber Risk Governance details the work of various board committees on an overall cyber risk governance approach to protecting the organization's digital "Crown Jewels."



Boards can use these guiding principles documents as specific checkpoints, in annual review cycles, or as benchmarks for informational awareness and information gathering. They help them to assess current processes and then to move to better ones.



The DCRO Institute offers its Board Risk Preferences analysis to help boards better understand the alignment of board members with the stated corporate risk appetite. Hidden attitudes towards risk among board members can be a primary driver of success or an impediment. Because the future is more difficult to predict than ever, boards need to ensure that their members' attitudes towards risk foster a dynamic and adaptive boardroom.

SOUND RISK INFRASTRUCTURE AND A SUPPORTIVE CULTURE

Second, risk-takers in management and on the frontline need sound risk infrastructure and a supportive culture established by the board. An enterprise risk management program will help create this environment by turning risk into something we consider alongside market share, capital investments, and other more traditional inputs to making more intelligent business decisions.

For example, it’s easy to measure the cost of raising capital from the public markets. An enterprise risk function can provide the same market internally, allowing business units to compete for scarce risk-taking capacity based upon its cost. This transitions risk from an abstract concept driven by loss avoidance into a manageable line-item cost that varies by demand. It's no small undertaking to build an enterprise risk system, but that cost is quickly recovered through the firm's more efficient use of the capital for which it pays.

AGILITY ACROSS THE ORGANIZATION

A MAJOR STEP FORWARD

Third, organizations need to quickly respond and adapt to unexpected events, situations, or competitive opportunities. Our organizations can develop ongoing agility through empowerment and a well-designed risk governance model. We can create corporate-wide rapid response teams with the authority to make quick and impactful decisions that interrupt emerging problems before they reach their full negative potential. This approach enables the board to resist negative biases – like fear of large losses – that often get in the way of making smart, strategic choices. Plus, the distribution of authority brings greater knowledge-sharing, ownership, and intelligence to all risk-takers.

This level of preparation pays off. In 2019, E&Y surveyed board members around the world about their resiliency plans. At that time, before the world encountered the COVID-19 pandemic, only 21% said they had faith that their programs would be effective. Yet, in May 2020, a survey by the DCRO of firms that demonstrated commitment to sound risk governance structures showed that more than 70% were satisfied with how their resiliency plans had worked in response to the pandemic.

ESTABLISH RELATIONSHIPS WITH ALL CAPITAL PROVIDERS (STAKEHOLDERS)

Finally, let's welcome those in our organization's social network into the governance processes. We can do this by first recognizing that the term stakeholders simply refers to all who provide us with the myriad forms of capital we require to pursue our goals. They are deeply critical to our success.

Some companies adopt formal stakeholder boards or, more informally, engage these capital providers through consistent communication. Aside from our competitors, no one in our corporate social network wants us to fail. These stakeholders include investors, the executive leadership team, regulators, the full board of directors, creditors, customers, employees and former employees, the communities we serve, and more. They benefit when we succeed, and we should acknowledge and welcome their valuable contributions as a matter of structure in our risk-taking and risk governance.

COMPANIES NEED INTELLIGENT RISK-TAKING TO SURVIVE

WHAT WE LACK

The confidence to embrace risk

Avoiding risk altogether is the single surest way to fail over time, as innovation, competition, and customer lethargy will slowly eat away at the advantages you currently enjoy. Because there is plenty of evidence that organizations don't take risk well – or at least well enough for long-run interests – we need to adopt practices that ensure our future.

The DCRO Institute, as a collaboration among practicing board members and C-suite executives, has developed an extensive program to help current and aspiring board members become comfortable with the positive governance of risk-taking. Registrants for its programs come from more than 110 countries, and graduates of its flagship Board Members' Course on Risk,® an intensive study program, are found serving in boardrooms and C-suites on seven continents.

The DCRO Institute uses this program to develop Qualified Risk Directors® to serve on boards, bringing the understanding of this positive governance of risk-taking mindset to essential strategic discussions at organizations of all sizes and across diverse industries and cultures.

Boards and senior executives who embrace risk in this framework foster an environment of innovation, allowing organizations to grow at rates that allow them to escape the well-documented corporate fade in performance.

THE FULL EMBRACE OF RISK-TAKING

When a board changes its view of how risk is governed and taken, the transition to embracing risk carries throughout the organization to every employee, especially those that face customers. Today when most talk about risk, they still think of the fear of loss or uncertainty, especially given our current health, social, economic, and political climate. Loss and uncertainty are partially correct conceptualizations of risk, but both fall short of the approach we need to take to be our best fiduciaries.

The staged transition from the board's embrace of risk-taking to the C-suite's implementation of that guidance to the frontline employees' management of essential risk-taking leads us to the most crucial conceptual change of risk-taking: its impact on the trust that all capital providers and external influencers have in us. Organizations have an expressed purpose, and stakeholders trust us to pursue that purpose in value-enhancing ways. That trust, in turn, makes all transactions more effortless and less expensive.

That trust can be transformative. It lowers the cost of all forms of capital from stakeholders; it makes external members of our network more willing to assume exposure to us as customers, employees, investors, lenders, regulators, and more; it enhances our bottom line through increased revenues and reduced costs. And perhaps most importantly, trust enhances our brand and intangible value, something that now accounts for more than 80% of publicly traded company value.

You'll find that putting these concepts into action will increase your confidence level. You will learn to embrace risk in an intelligent and value-creating way, giving you a competitive advantage and a remarkable ability to fulfill your corporate purpose, whatever that may be.

TAKE A STEP FORWARD

Learn to embrace risk

To learn more about taking a positive approach to risk at the individual level or board level, visit the DCRO Risk Governance Institute. For individuals, the DCRO can help you become a more strategic board director and contributor to corporate value with the globally recognized Certificate in Risk Governance.®

- Schedule a consultation
- Learn Effective Risk-Taking
- Find a Qualified Risk Director®
- Enroll in our programs

THE DCRO
RISK GOVERNANCE
INSTITUTE

www.DCROI.org | info@dcroi.org | +1-612-286-1776