



Risk Management in the Boardroom:

Adding Value to the Most Critical Business Decisions

Part of our “Smarter
Business Decisions” series

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How can CROs add more value to the most significant decisions being made in their businesses?

Risk Management should be about helping organisations **make better business decisions**. As the most significant of these decisions tend to be made by the Board, one would expect the approach to decision making to be at its most effective in the Boardroom - with the Chief Risk Officer (or senior risk representative) taking a leading role in seeking to ensure decision making is optimal.

The increasing effectiveness of Risk and Compliance functions, combined with regulatory pressure, have led to a substantial increase in the focus on risk and regulatory matters.

As deep specialists in pragmatic risk management, Crowe would like to think this has added to the quality of Board decision making. However, we increasingly see threats to the effective operation of Boards and their ability to successfully manage risks, due to a toxic combination of:

- 1 Increasing volumes of regulatory compliance activity requiring detailed Board engagement, spanning a wide variety of subject matter - from capital, to conduct, to cyber
- 2 Increasing technical complexity in papers coming up to the Board
- 3 Increasing speed of decision making, meaning Board papers require accelerated consideration
- 4 Board papers which are often not well structured, well written or well sign-posted
- 5 Systems and processes for the production and distribution of Board papers which are not resilient enough to deal with these volume, complexity, speed and quality challenges.

A recent survey of UK-based Non Executive Directors revealed that the quality and volume of the Board pack and the amount of time spent on governance and administration are important factors affecting Board effectiveness¹.

The same survey highlighted few Board members wish to spend more valuable Boardroom time on governance, compliance, regulation and risk management.

Whatever the reason, we see the risk of ineffective or inefficient Board decisions as a significant threat to business decision making and effective risk management.

Progressive CROs are well placed to bring real value to the Board by helping it address these challenges practically and pragmatically.

However, in reality we often hear the Board question whether risk management is really helping to drive business value, or if it is merely adding more trees to a forest of areas requiring Board attention.

Through practical examples and insights from Board Directors, this article focusses on how CROs can help their Boards to:

- Focus on what is important
- Enhance the efficiency and effectiveness of decision making
- Help create and protect value.



Key Areas for CROs to Add Value

We believe there are three key areas where a change in CRO focus can help empower the Board to make better business decisions.

<p>Strategy</p> 	<p>Helping to provide context, to actively focus Board activity on areas of greatest strategic value</p> <ul style="list-style-type: none">• Acting as a filter and translator of information• Helping the business to prioritise and focus on what is important• Having the confidence to make a broad contribution
<p>Culture</p> 	<p>Stretching and enhancing business culture by helping to turn it into a practical commodity</p> <ul style="list-style-type: none">• Role modelling the right behaviours• Challenging existing organisational cultures and behaviours• Promoting the right behaviour between the Board and the business
<p>Performance</p> 	<p>Impacting business performance through a focus on operational efficiency and improvement</p> <ul style="list-style-type: none">• Shifting between an operational and strategic mindset• Helping Boards to define and enforce decision criteria and information needs• Improving the efficiency and effectiveness of decision making governance and processes

In the following sections, each of these key focus areas will be described in more detail, accompanied by **practical case studies** to illustrate their importance and show where and how Risk can have a positive impact.



An abundance of complex information will often have to be analysed when making strategic decisions. Risk can play a key part in helping to filter and prioritise this information to help the Board to consider it more easily and efficiently.

Strategy in Practice

It is common for Non Executive Directors to feel bombarded by the volume of information they are expected to consider. Further, many external sources of information are not always of a quality that reliance can be placed on them. By analysing trends in the external environment and driving a robust, far-sighted emerging risk process, we have assisted CROs to play a valuable role in helping to separate the wheat from the chaff.

Additionally, CROs can take a leading role in helping NEDs to engage with internal, often technically orientated, information. A lot of information coming through to the Board is not always easy to understand, and the CRO and Risk Team can play the part of the interpreter or translator.

For example, we are increasingly seeing Cyber Risk high on the Board agenda, however this is an area where critical messages can be “lost in translation” from technicians to the Board.

This is where we find a practical and collaborative mindset adds value. Working with all stakeholders to develop and implement the necessary tools and approaches helps the Board articulate the key questions that need to be asked, and ensures that information received answers these questions, meeting the needs of the Board.

1 Acting as a filter and translator of information

- Helping the Board to concentrate on the most important information by validating information quality, analysing trends and driving valuable insight
- Helping Boards to engage with technically orientated information by acting as an interpreter

2 Helping the business to prioritise and focus on what is important

- Weighing up available information and prioritising focus using a risk-based mentality
- Helping to ask the right questions by considering upside and downside risk

3 Having the confidence to make a broad contribution

- Having the courage and confidence to articulate strategic viewpoints outside the technical specialism of Risk
- Building and demonstrating strategic acumen, capability and an outward mind-set

Taking these steps in advance of information being prepared and submitted to the Board can help to:

- **Prioritise the information** and the decisions that are the most important.
- **Avoid the risk** that specialists provide the information they want to provide, as opposed to what the Board really needs to know
- Present a **high level view that is appropriate for Board decisions**, in language better suited to strategy discussions.

- Frame discussions and decisions in the right way.

Taking this one step further, we have seen more effective consideration of Cyber Risk appetite help the Board to fully understand the trade off between **downside risk and upside opportunity in its strategy**, giving it the context to have a more informed assessment to make decisions on a FinTech opportunity.

Performed well, the CRO's role in strategy can be much broader than just managing the downside, but also about helping to optimise the upside, to meet growing Board expectations.



Culture is a key factor that can enhance risk management in any organisation. Risk Functions should be at the heart of demonstrating, promoting and enabling proactive and collaborative behaviour.

Flexing Enterprise Risk Management

Enterprise Risk Management methodologies and frameworks are often seen as being too academic when trying to cater for different areas of the business.

In order for Risk Teams to be as practical as possible, we believe they need to be able to take a more **collaborative** and **agile** approach to developing ERM frameworks and tools.

Examples of this can be seen with the consideration of new opportunities, especially with regards to emerging technologies and industries, and the change activities that are required. Existing frameworks may not be well suited to assessing these new opportunities, both in terms of rating them from a **risk / reward perspective** as well as having the pace and **flexibility** required for an area of risk and opportunity that is frequently evolving.

We have helped successful CROs and Risk Teams employ a more flexible and pragmatic approach to such developments by managing the risk **“from the inside out”** – for example:

- **Collaborating** more with subject matter experts in the business to **“co-create”** effective processes - being confident in testing approaches prior to implementation
- Utilising those parts of the framework that **add the most value**, without being overly dogmatic about methodological technicalities.

1 Risk role modelling the right behaviours with the business

- Stepping forward and taking more of an advisory role – not hiding behind the “Three Lines of Defence” model
- Demonstrating a “how we can” mindset when it comes to business initiatives – not “why we can’t”
- Understanding the behaviour of others and what this means for the business

2 Challenging existing organisational cultures and behaviours

- Being open to collaboration and co-creation with users at an early stage when developing frameworks and tools
- Putting in place an effective feedback loop with the business – including a positive collaborative mindset, making changes or explaining why not

3 Promoting the right behaviour between the Board and the business

- Promoting constructive Board engagement to improve business decisions, rather than seeing Boards as a hurdle to be overcome
- Ensuring early Board engagement and debate before requiring decisions
- Utilising the skills and capabilities of Boards to create better business decisions

This subtle change in approach helps ensure a **practical and effective risk management implementation**. We see this as a fundamental shift in mind-set that differentiates a new generation of pragmatic and diverse risk specialists from the conservative Risk Teams of old.

Once the business starts to see Risk creating trust through co-creation, it helps to break down barriers and makes it more likely that risk will be consulted much earlier, improving the likelihood of effective risk management.

By being flexible enough to address new kinds of risks and opportunities, Risk Functions can greatly enhance their value by empowering business management of risk.



Whether in new product development, mergers and acquisitions or key operational challenges, Risk can add increasingly significant value which will increase business performance, especially if engaged early in the decision making process.

Risk Helping to Enhance Performance

Mergers & Acquisitions and due diligence processes are a common area where Risk Teams can contribute effectively to future performance, if **actively engaged at the outset**.

In these scenarios, there can often be significant risks around Board decision making, arising from:

- Board papers becoming more like sales collateral rather than presenting a balanced view on risk and reward
- Operational aspects, including adherence to decision criteria, tending to be “flexed”
- The focus shifting from getting the right outcome to “getting the deal done” as the deadline approaches.

This is an area where both the **strategic** and **operational** mind-set needs to be well balanced in order to achieve the optimum result. The shift between the two may depend on how the process is evolving, but will require a degree of **flexibility and situational awareness** from the CRO.

Where it is determined that an operational focus is needed, we have seen effective CROs add value in these contexts by helping Boards to be clear on the decision making criteria that they should be applying, then making sure the business provides the right information that is needed to answer the Board’s questions. This includes making sure Risk Teams (and indeed other functions) are **effectively represented**, and provide oversight and challenge to provide appropriate balance to the business’ perspective.

1 Shifting between an operational and strategic mindset

- The CRO needs to be able to shift mind-set when required, by considering the role that can add most value, based on the Board’s confidence in Executive business performance
- Higher confidence leads to a more strategic mind-set, while lower confidence might mean a more operational focus

2 Helping Boards to define and enforce decision criteria and information needs

- Ensuring that the decision criteria are set and enforced
- Ensure decision criteria balance risk and reward

3 Improving the efficiency and effectiveness of decision making governance and processes

- Ensuring the right information is provided by the business, in language that enhances decision making
- Helping ensure there is clarity on objectives and what questions are being asked of the Board, even when under tight time pressures
- Making sure the right stakeholders are engaged and involved at the right time

The CRO should feel empowered to be able to enforce the operational decision making criteria that were originally agreed, ensuring that they do not get compromised or relaxed unconsciously.

Fundamentally, it is about getting involved and supporting the key decisions, and spotting opportunities to add value.

By being able to focus on both strategic and operational aspects, Risk Teams can offer great value in helping the Board’s questioning and challenge.

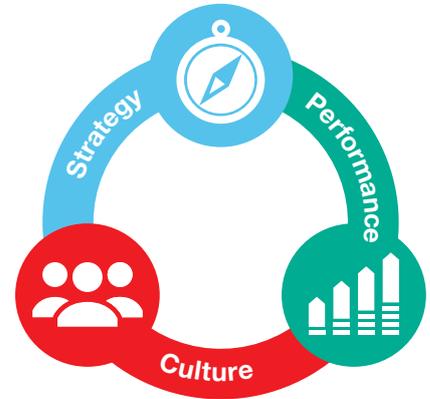
Summary

This article outlines several practical steps that can be taken within the areas of **strategy, culture and performance** to help Boards make better informed risk-based decisions in a time of increasing complexity and responsibility.

With expectations increasing for individual Board members to take responsibility for specialist areas such as Cyber and technology, the CRO and the Risk Team are well placed to add value to the Board in the context of analysing information and making successful decisions.

Through applying progressive and pragmatic approaches, the CRO and Risk Teams are able to contribute at an increasingly strategic level – enabling them to add value to the most critical business decisions.

The benefits of these approaches to the Board are twofold - not only better decision making, but also enhanced efficiency and effectiveness of these decisions.



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About Us

Our risk consulting practice in London, a part of Crowe LLP, has specialist experience and expertise across the breadth of risk management disciplines.

Crowe LLP is a member firm of Crowe Global, an international consulting, advisory and technology firm with over 33,000 employees worldwide. Connecting deep industry and specialised knowledge with innovative technology, our dedicated professionals create lasting value for our clients.

We characterise our approach to risk management as “from the inside out”. Our collaborative approach allows us to gain deep understanding of clients’ businesses, culture and systems. Working closely with clients enables us to help them to effectively embed risk consideration into decision making within their organisation, in a way that not only mitigates the downside of risk but also unlocks potential strategic upside.

Crowe has extensive experience in helping Chief Risk Officers and Risk Teams embed risk consideration within the most critical business decisions by, for example:

- Designing practical risk frameworks that help support the achievement of business objectives
- Working with clients to develop and embed influencing tools and techniques (including training, organisational change and behavioural economics techniques) to enhance culture and improve performance
- Enhancing systems of governance to better support decision making
- Implementing relevant technology and analytics, including Machine Learning and Artificial Intelligence, to increase insight and efficiency.

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