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# RiskNZ

## Risk Management from the Governance Perspective

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# Who has the ultimate responsibility for developing and implementing risk management procedures in your organisation?

## Directors Risk Survey Report 2015 (Marsh)

- Board 48.1%
- CEO 25.2%
- [D/N(?) 26.7%?]



The governing board has the ultimate accountability for everything that happens in an organisation

‘Corporate governance is the system by which companies [*and other types of organisation that are not companies*] are directed and controlled.’

(Cadbury Report 1992)

The board cannot delegate responsibility for the performance of the risk management system





# The governing board has the ultimate accountability for everything that happens in an organisation

CEOs are important but...

- They are (only) the board's agent (i.e. they work on behalf of and at the pleasure of the board)
- They have no job until they are directed as to what is to be achieved
- They have no authority to make decisions until it is delegated to them by the board
- Their job is sequential (i.e. it follows on from) to that of the board



# The governing board has the ultimate accountability for everything that happens in an organisation

- The board must provide direction – organisational purpose and the outcomes that must be achieved, for whom and at what cost
- The board must ensure there is effective control – that what occurs in the name of the organisation stays consistent with its purpose, its intended outcomes and its values
- ‘Control’ is only relevant as a process in support of the fulfilment of organisational purpose





# Definition of Risk

‘The effect of uncertainty on objectives’

(ISO standard 31000, 2009)

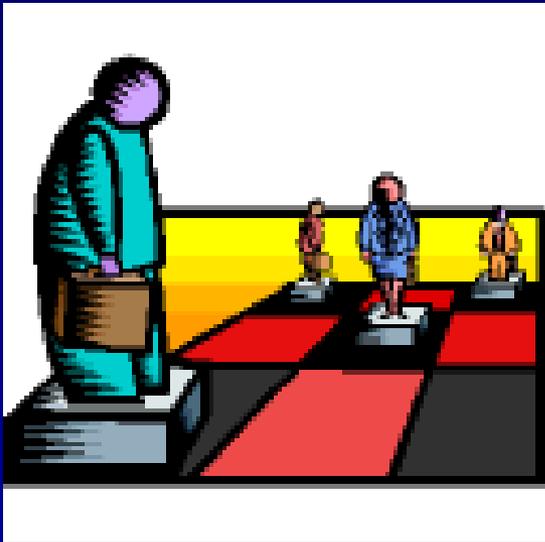
The future is uncertain therefore the board must deal with risk continuously



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## From a governance perspective risk management must BOTH:



- Counter all losses
- Seize opportunities for gain'



## Balancing conformance and performance



‘Commercially it is little comfort for shareholders of a poorly performing company to know that their directors, management and auditors are neither negligent nor fraudulent, just not very good at creating and conserving wealth.’

(Hilmer, Strictly Boardroom, 1993)



**“To act with foresight,  
an enterprise must act  
on signals, rather than  
on pain.”**

(Arie de Geuss)



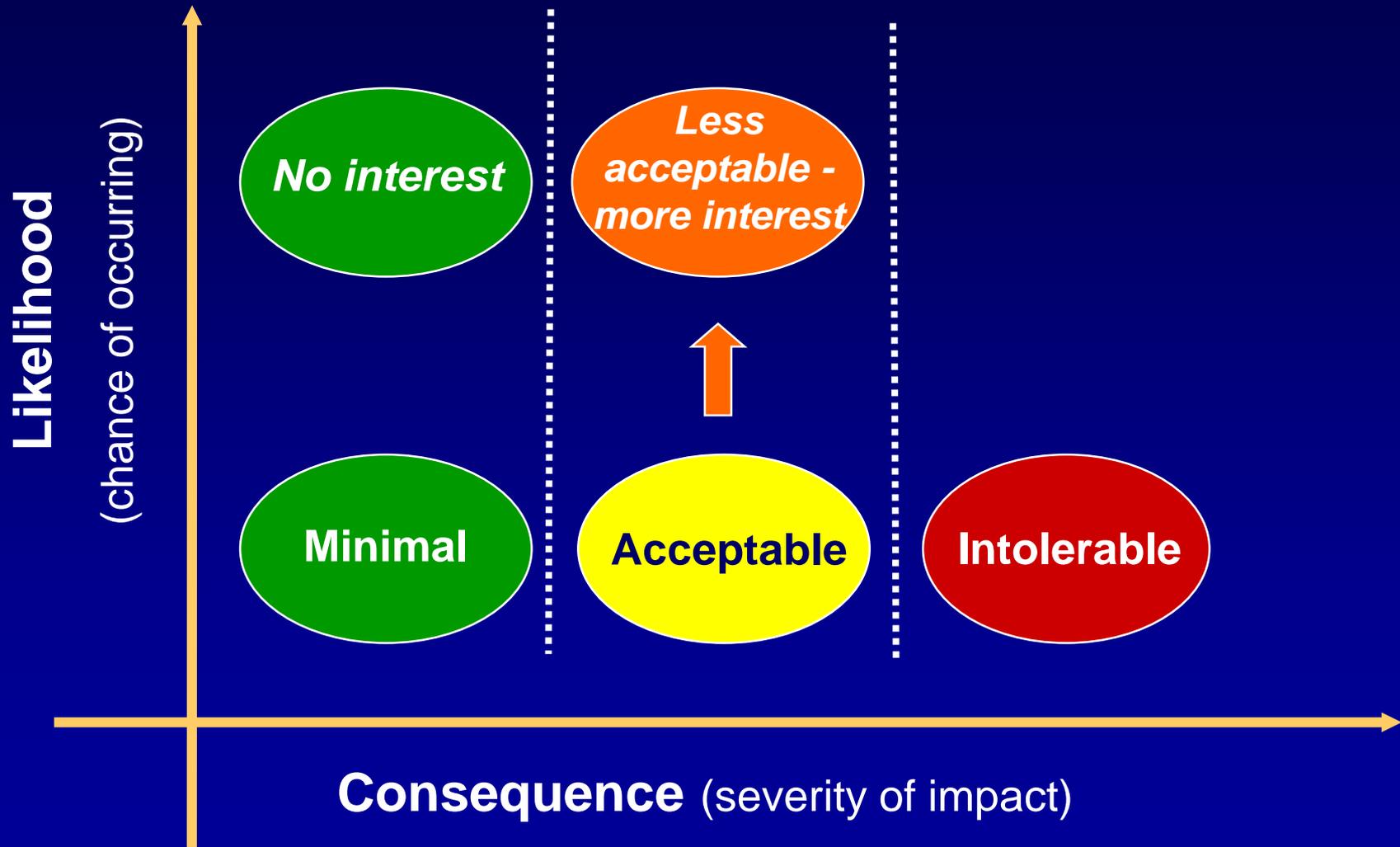


# Risk management at the board level



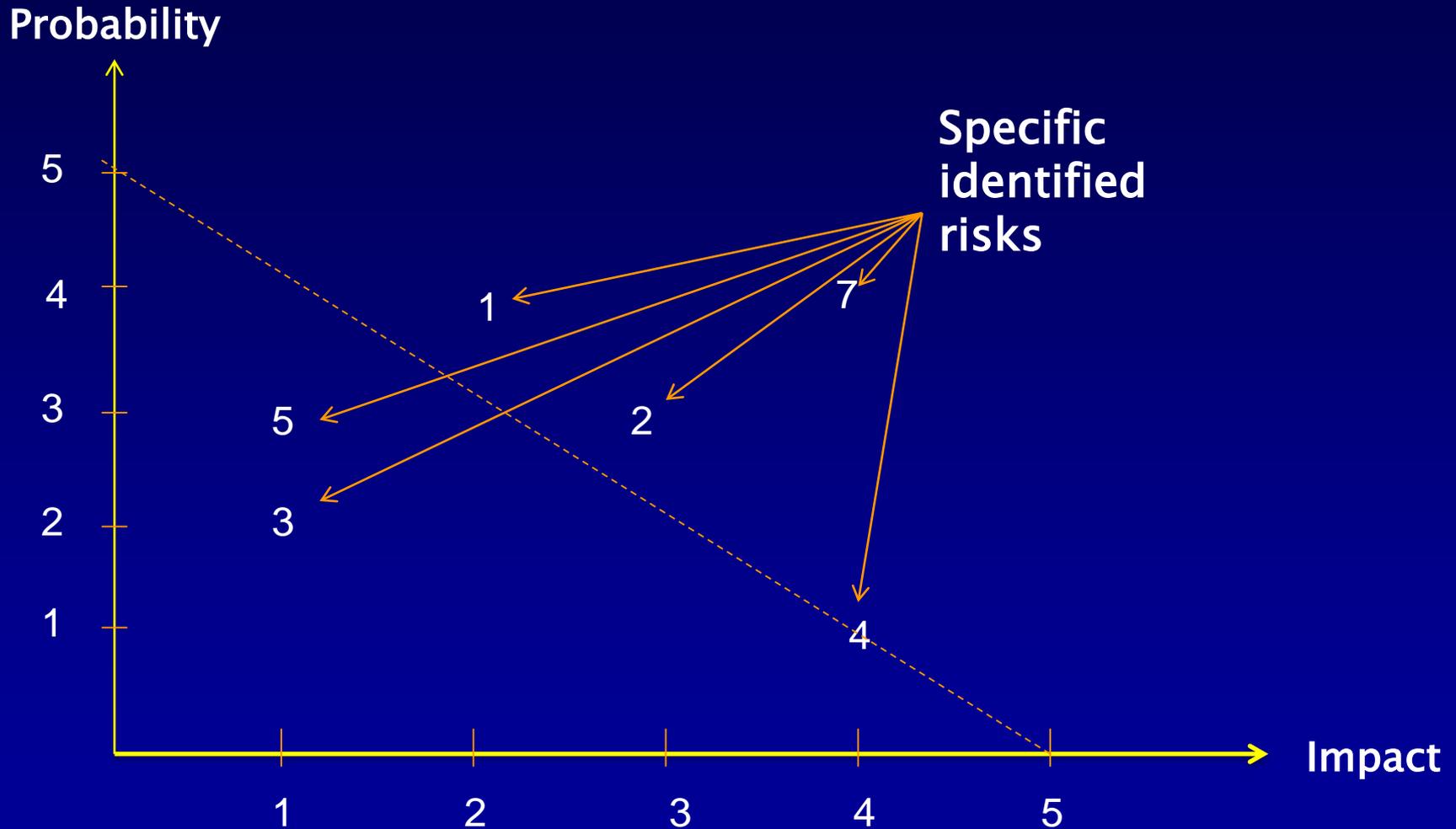
1. Determination of organisational risk appetite
2. Risk characterisation
  - ▶ Identification
  - ▶ Evaluation

# Risk characterisation by the board





# Risk characterisation graph





# Boards have full-time accountability but are only at work on a part-time basis

Consequently:

- Boards need to develop their ability to practice the ‘art of systematic neglect’ (Robert Greenleaf)
- Boards need the equivalent of a remote control device to ‘direct’ and ‘control’ when the board is not in session





# Risk management at the board level

- 1. Risk appetite determination
- 2. Risk characterisation
- 3. Risk management (aka **business assurance**)
  - ▶ **Policy making**
    - Prescription – what should/must happen
    - Proscription – what mustn't happen
  - ▶ **Delegation** – assignment of responsibility for using the board's authority
  - ▶ **Monitoring**
    - Are intended results being achieved?
    - Are undesirable situations and circumstances being avoided?



‘To win the  
race you still  
have to be  
driving at  
the end.’

(Peter Brock)





# What processes will help a board get on top of 'business assurance'?

- **Planning and focusing board attention**
  - ▶ Longer term planning of board time utilisation
  - ▶ Agenda management – focused, productive meetings
- **Environmental scanning – 'radar screen'**
- **Policy making**
  - ▶ Purpose, outcomes and results – the 'ends'
  - ▶ Setting boundaries – de-risking operational means
- **Measuring and monitoring**
- **Evaluation/continuous improvement**
  - ▶ Organisational performance
  - ▶ Chief Executive performance
  - ▶ Board and director performance





## What are the kinds of things that should occupy a board's thinking in relation to fast, safe and successful driving

- Board composition
- 'Tone at the top' / 'culture'
- Chief Executive selection and performance management
- Planning



## What are the kinds of things that should occupy a board's thinking in relation to fast, safe and successful driving

- Board–management relationship
- Rigorous testing of the board's thinking and management attitude and action in relation to managing risk
- Quality of decision making
- Board dynamics



## What are the kinds of things that should occupy a board's thinking in relation to fast, safe and successful driving

- Executive compensation
- Performance measurement
- Adequacy of support structures and resource allocation
- Compliance
- Stakeholder communication



## Where to now?

- The trend (attempt) to legislate for good governance has been with us for nearly 30 years
  - ▶ It is not going away – e.g. H&S legislation
  - ▶ Directors are now going to jail!
- Other legislation relating to governance generally, and the responsibilities of directors in particular, continues to increase
  - ▶ E.g. Review of the Incorporated Societies Act 1909
- New risks (e.g. cyber attacks) are emerging to challenge boards and management alike



## Some things never change...

‘The key role of the board should be to ensure that corporate management is continuously and effectively striving for above average performance *taking account of risk.*’

(Hilmer, Strictly Boardroom, 1993)

