# Effective Oversight of Global Risk

By Erin Essenmacher

Listen to article

100

Now is a good time to revisit risk assumptions with management. A robust dialogue can ensure alignment between the board and management and better position the company to handle the next global crises.

## How do we think about risk as a company?

It may seem basic, but risk is a broad term that can be subjective. Make sure your board and the management team are clear, explicit and intentional about what it means for your company. James Lam suggests the following to facilitate the discussion: “Do we think about risk in specific risk types? Do we think about risk only in terms of potential losses or negative events and not about the upside opportunities or unexpected variances that could impact the organization? That’s limiting. What would it look like if we thought about risk more broadly and deeply, given the business environment and the global environment that we live in?”

## Have emerging risks changed how we think about risk appetite. If so, how and why?

“I don’t know if any of us came through the pandemic with the same risk appetite that we had before,” says Nora Denzel. “I would definitely probe how that has changed and ask if we feel good about that shift. Sometimes people just adjust but don’t thoughtfully consider how many clicks to the right or the left that adjustment should be.”

## What are the future scenarios that could impact our business, and how are we planning for them now?

Lam suggests gaming out scenarios together and then applying premortems or backcasting on the negative and positive scenarios, working backwards from there. What are the underlying conditions and potential implications to the company? What metrics should we put in place to monitor for these emerging risks? What are the early-warning indicators and strategies that we need to put in place? Ask management what they would do to minimize downside risks: What would you do to control unexpected variances? What would you do to invest in upside opportunities? What if more than one of these scenarios happened simultaneously? “This is a critical part of the board’s role,” says Lam. “It is not always second nature to management, which is focused on day-to-day operations. I think asking about these scenarios and gaming them out together is really important.”

## When did we last look into our control systems?

This, says Denzel, is a critical part of the “verify” piece of the board’s “trust but verify” mandate. Consider how often your company discusses risk and compliance at the full board level. Is it more than a check-the-box exercise? If it is currently happening annually, should you consider a more frequent cadence?

## Are we using the right benchmarks?

Managing through dynamic and unprecedented risk calls for new strategies. That includes how the company measures itself against peers. For example, Denzel says that, rather than simply using industry peers, her technology boards have looked to industries that are more highly regulated to gauge their own progress. “We didn’t have the risk sophistication of a financial services firm,” says Denzel.

“So, rather than go to the other technology companies, we look at financial services companies and others that are highly regulated on how they do the balance sheet. There’s a ton of things they do that we didn’t know. We may not adopt all of them, but we definitely went to the better wheel maker.”

## Does our company culture foster flexibility, resilience and agility?

Krishna Kumar suggests boards probe more on how the management team is preparing to become more resilient to shocks, while still staying flexible. Does the management team have a clear understanding of their supply chains — not just on their immediate inputs but also those a level or two below? Are they sourcing cost-effective inputs? Are they becoming too risk-averse and shunning global opportunities? Is the management team paying enough attention to potential geopolitical ramifications of their investments? Has the board considered the ramifications of various risks through the lens of different stakeholders, and is the company prepared to respond appropriately when crisis does impact one or all of them?

*Erin Essenmacher is a board director and strategic advisor. She spent nearly 10 years in executive leadership at the National Association of Corporate Directors, most recently as president and chief executive officer.*