Applying Risk Governance for Sustainable Value Creation

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Sustainable Value & Governance from a RG perspective

- Sustainable Value: The definition of business success is no longer confined to financial profit but includes a sound balance between financial results, ecological sustainability, social sustainability, and governance – four pillars that must withstand critical assessment from outside the company

- Governance & Governance Bodies:
  - Governance bodies should be providing leadership to make their organizations more adaptive and risk resilient and to actively partner with executive management
  - Good governance requires the Board to balance its role as an oversight body with its role as a force supporting the organization. Governance is not just obligatory compliance but a creative and collaborative process

Definition of Risk and Risk Governance

To create sustainable value for an organization, stakeholders should consider and apply a much broader definition of risk:

1. Risk and opportunity are two sides of the same coin and, by deduction. risk is rather an omnipresent aspect of all organizational activity whether it is strategic planning, systems and data, or people and culture
2. A company that decides to strategically orientate itself for ESG performance should identify the opportunities and risks that derive from the external environment (environmental and social changes), how they impact a company's operations, and how they affect the financial results

The key catalyst for effective risk governance begins with acknowledging governance as the "fulcrum" of the risk governance "flywheel." <u>Governance becomes the channel through which the activity and function of risk governance is realized</u>

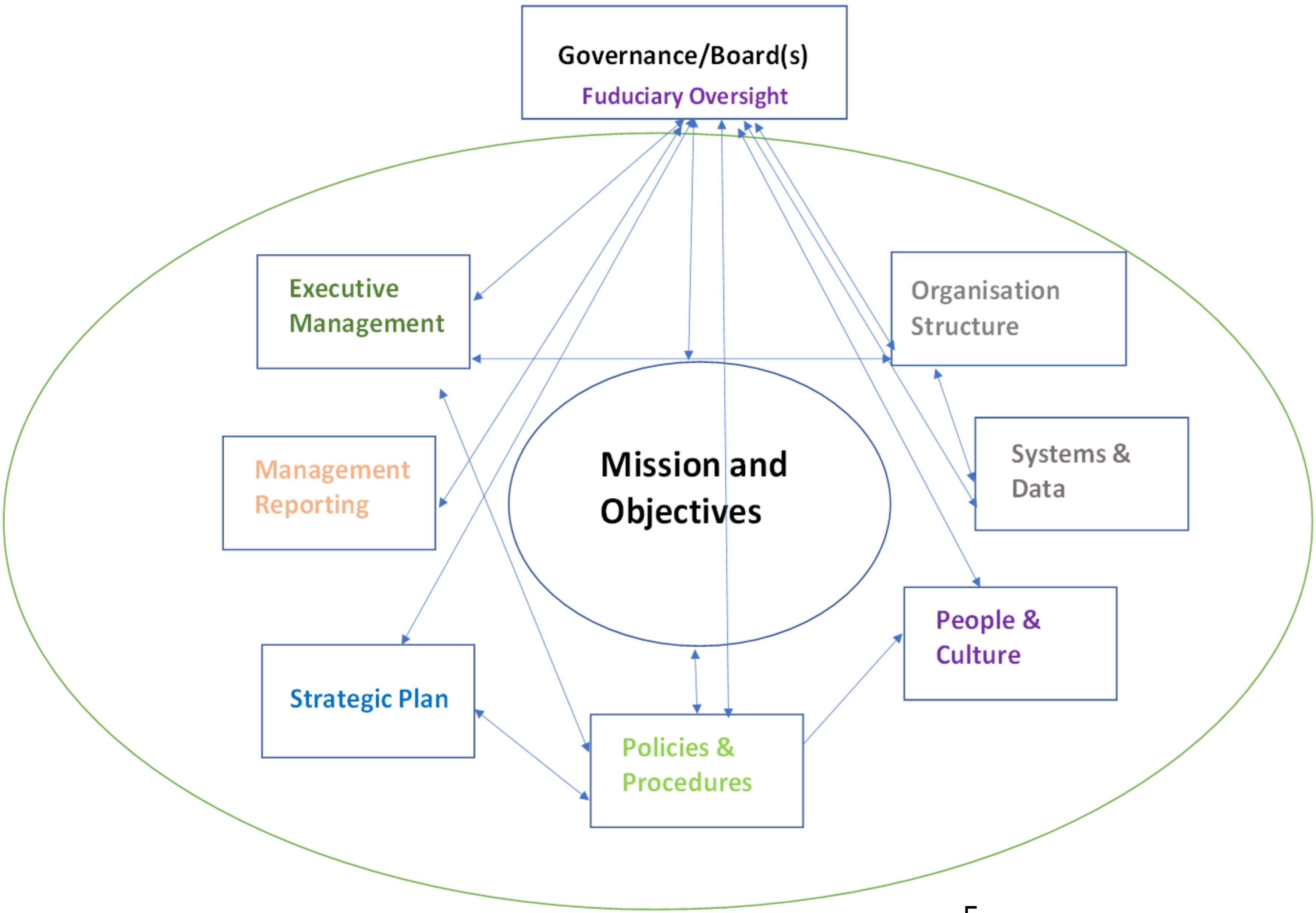
Risk governance can be described as a "turbocharged" governance approach that enhances organizational sustainability and value through active oversight of risks

The practice of RG

Risk governance processes and interactions should be determined individually for each organization considering its business model, i.e., its purpose, mission, strategic objectives, and stakeholders – it should be tailormade

Risk governance is not a one-time or periodic review activity but rather an ongoing process. It requires engagement with various actors at different levels within an organization.

Essentially, risk governance provides the organizational structure, specifies responsibilities, authority, and accountability, and establishes rules, procedures, and lines of communication


Governance/Board(s)
Fuduciary Oversight
Executive Management
Organisation Structure
Management Reporting
Mission and Objectives
Systems & Data
People & Culture
Strategic Plan
Policies & Procedures

Risk Governance in practice (1/2)

Early thinking on how to effectively evaluate risks and guide decisions towards sustainable value creation, from the perspective of risk governance includes the concept of a systematic risk governance ‘check-up’:

1) Strategic planning: Strategic plans must be revisited frequently, and leaders cannot allow a plan to dictate every move. Organizations must be ever vigilant and prepared to seize opportunities as they emerge

2) Structure: Organizational structures should be geared towards successfully delivering expected outcomes while being adequately adaptable to changing environments and circumstances. Boards should seek to achieve management resilience

Risk Governance in practice (2/2)

3) Processes, Systems, Data: Risk governance does not focus on technology, rather the impetus and drive towards ensuring that the organization’s system integrity, data, and operational capabilities are protected. Areas for attention would be improving systems resilience through a systematic application of policies and procedures and investment in digitalisation

4) People, Culture: Organizational culture needs to be nurtured, monitored, and developed to achieve a state in which all staff are cognizant and aligned in making risk trade-off decisions while acknowledging that a consultative process would enhance decision quality

5) Management reporting: Management reporting should be timely and comprehensive, and the Board should clearly define the reporting suite it expects from senior management. A fundamental principle for reporting risk is that reports should focus on the organization’s chosen risk and opportunity criteria

In conclusion …….

The application of risk governance in corporate practice is not an end in itself. Risk governance should actively steer and contribute to sustainable value creation.

The actors at both the governance and executive management level of organizations are those who can significantly influence the achievement of this goal. While the nexus of agency relationships among the boards involved is very complex, making a risk governance check-up a habit and matter of course will assist organizations in making better value judgements.