

THE BOARD'S ROLE IN RISK MANAGEMENT OVERSIGHT

September 2021

JEFF ALUDO -KEYNOTE SPEAKER

Worked for more than 20 years in Big 4 Consulting and Strategy firms before founding **The Aludo Group**, a growth and innovation consultancy.

He has extensive experience in strategy and innovation in the global space.

Jeff explores the implication of emerging trends and identifies opportunities and risk for your preferred state. He prepares firms for transformational change.

Some speeches and keynote addresses:

- Innovation and Opportunities for the Future of Insurance for IRA
- Silent risks and opportunities in Future Banking at Africa Rising Conference in London on 'Innovation, Strategies for Africa's Future development'
- Speaker at 10th World Trade Organisation Conference in Nairobi. Moderated the session 'Strengthening the Voice of Africa's Private Sector.'
- American Chamber of Commerce - Speaker on provocative session on the Future Role of Business in Sustainable Society



■ Strategist ■ Transformation advisor ■ Futurist

WELCOME TO THE “New normal”



Changing
World

Rapid Urbanisation
Climate Change / Resource
Scarcity
Political uncertainty
Shift in Global Economic Power

Regulatory pressures
Technology / Digital disruption

Savvy Customer expectations
Activist Investors / Funders

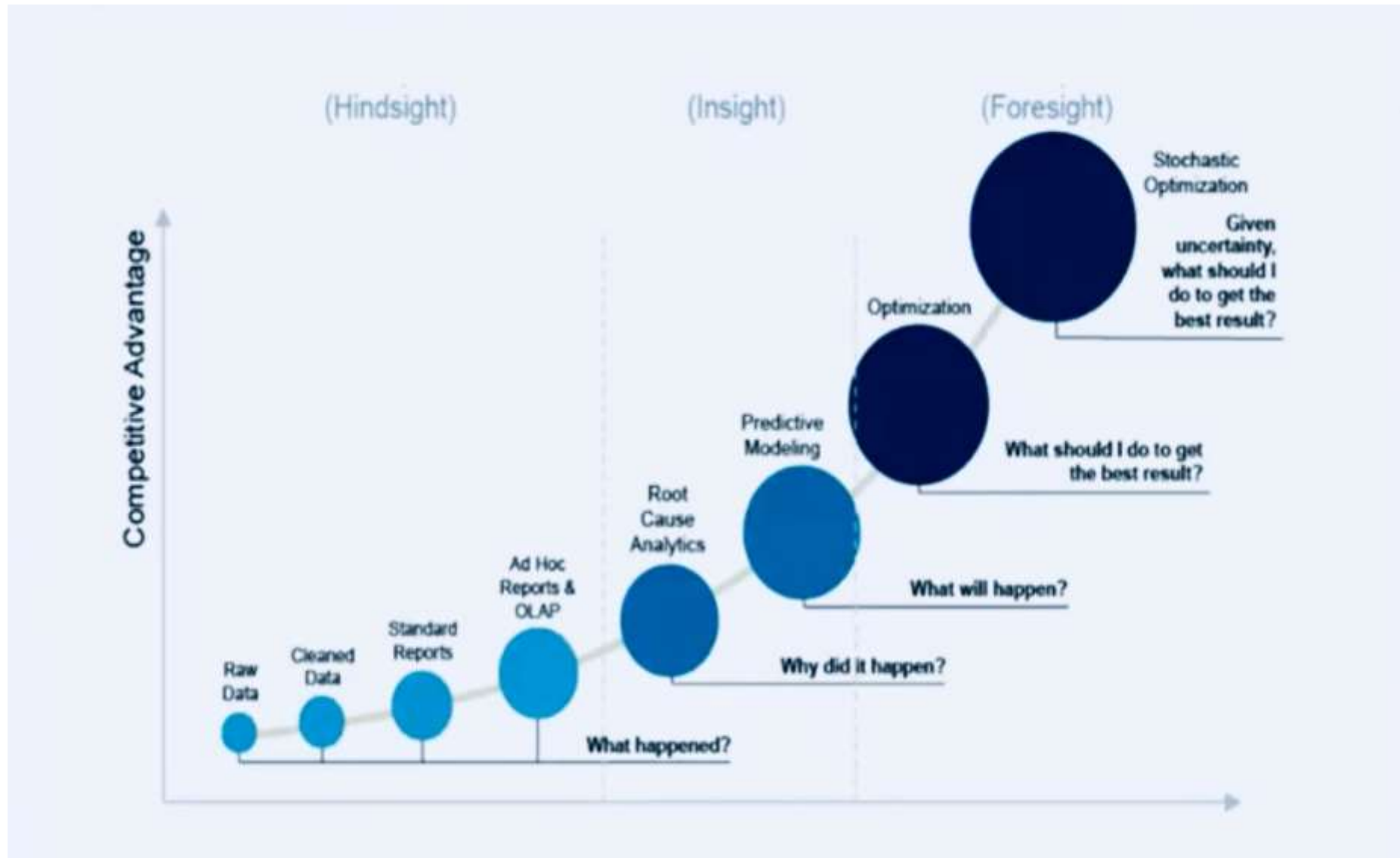
Democratic & Social Change³
Stagnating Globalization

Today's environment is redefining the board's role toward better balance of risks to strategy performance

- **We are living in the VUCA and Transformative Age:**
 - **Market factors becoming less predictable**
 - **Need for organizational model shifts**
 - **Blurring Industry boundaries and convergence**
 - **Technology Acceleration and Digital Transformation**



The historical standard in developing strategy has been focused on
“inside-out”
...but the real challenge is to get better at analyzing from the “outside in”



The Board's Diverse Vision Capability

Vision capabilities are:

Hindsight: The capability to reflect and learn from the past.

Insight: The capability to interpret and respond to the present.

Foresight: The capability to anticipate and prepare for the future.

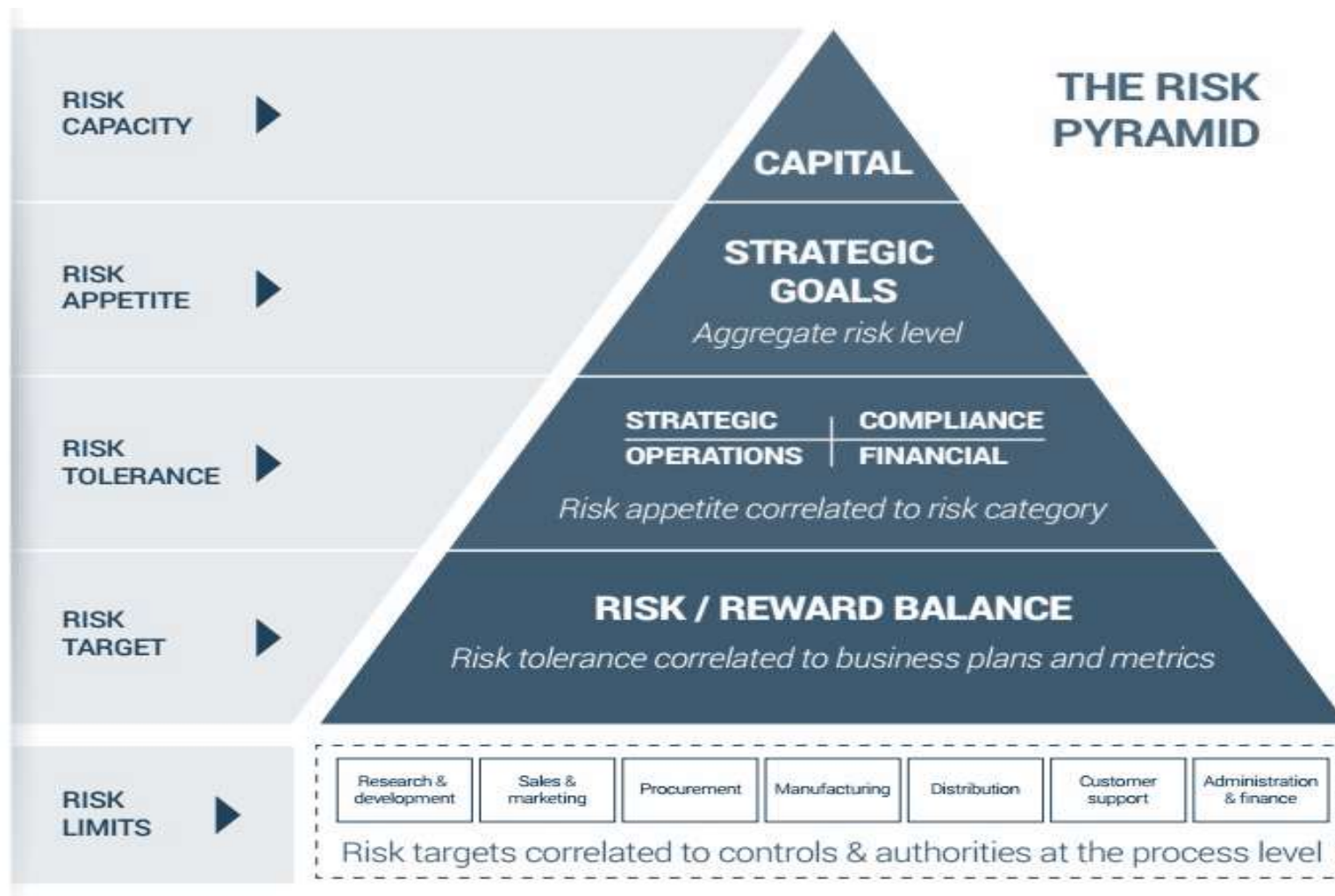
Diverse vision capability brings useful decision-making perspective to board governance, deliberation, and future focus.

However, when one vision capability either dominates or goes missing at critical times, a board loses balance and its deliberative process is derailed. Then, not much good is likely to happen.



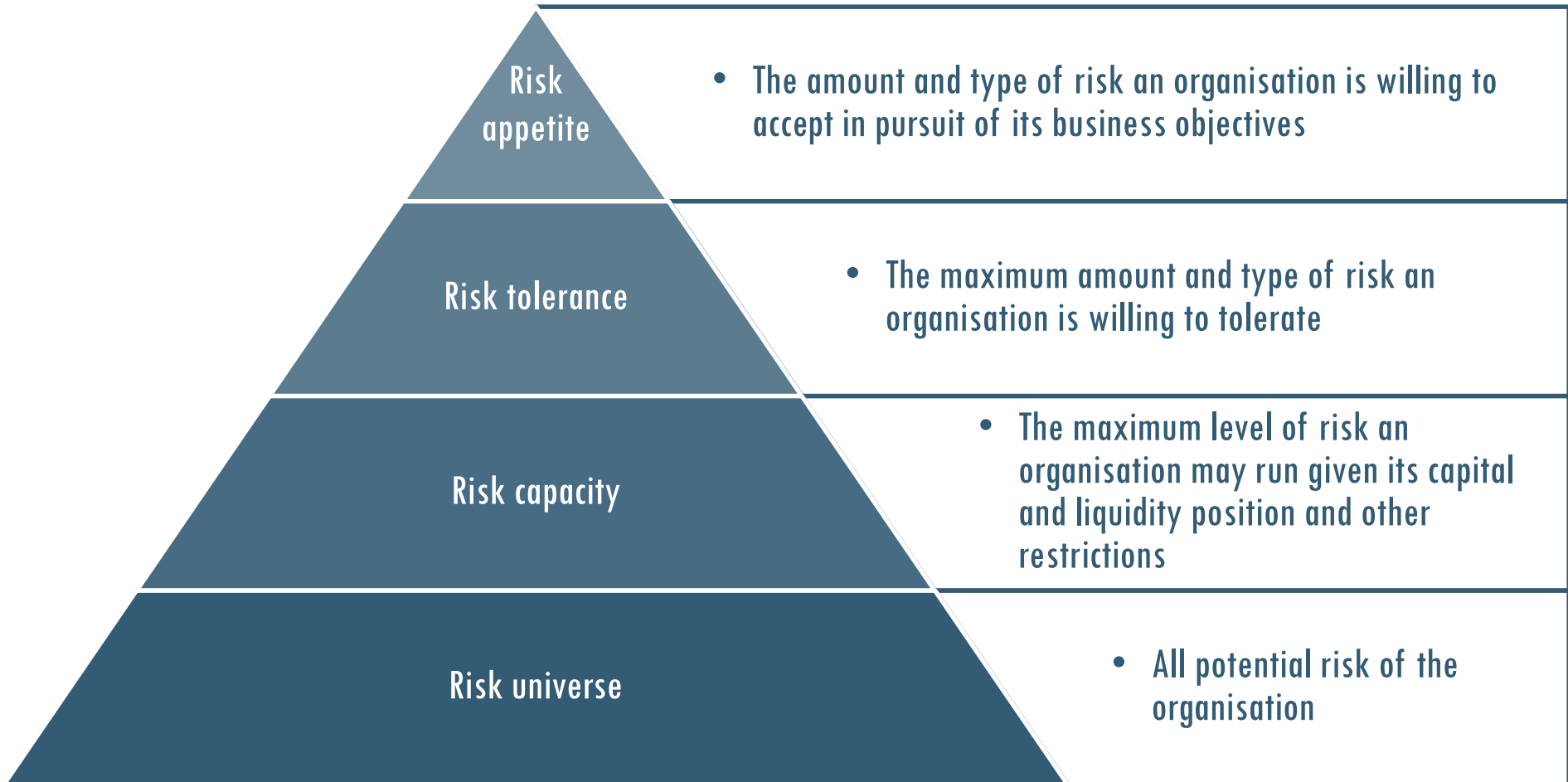
RISKS

THE RISK PYRAMID



Ernst & Young Risk Pyramid

RISK APPETITE

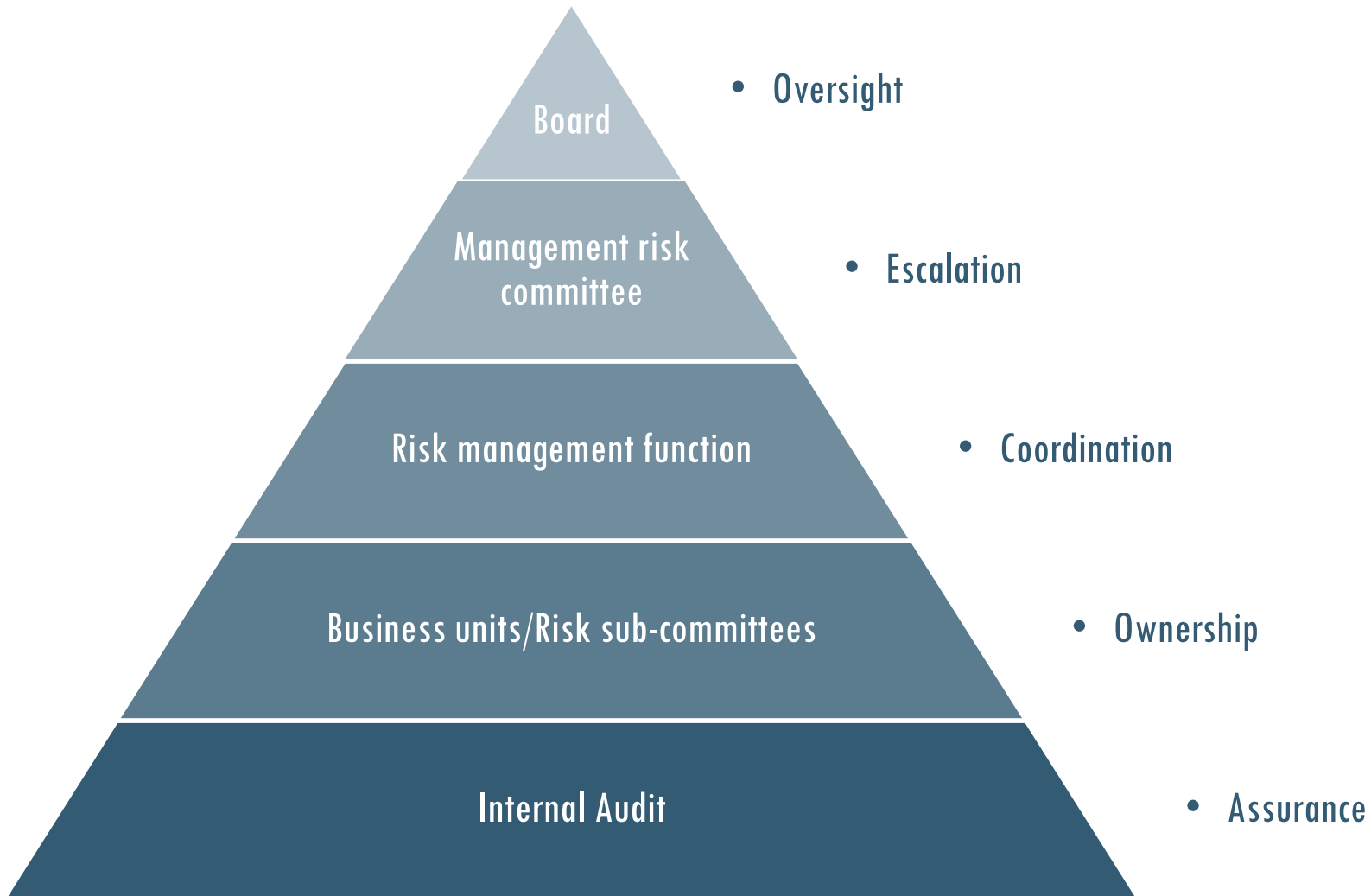


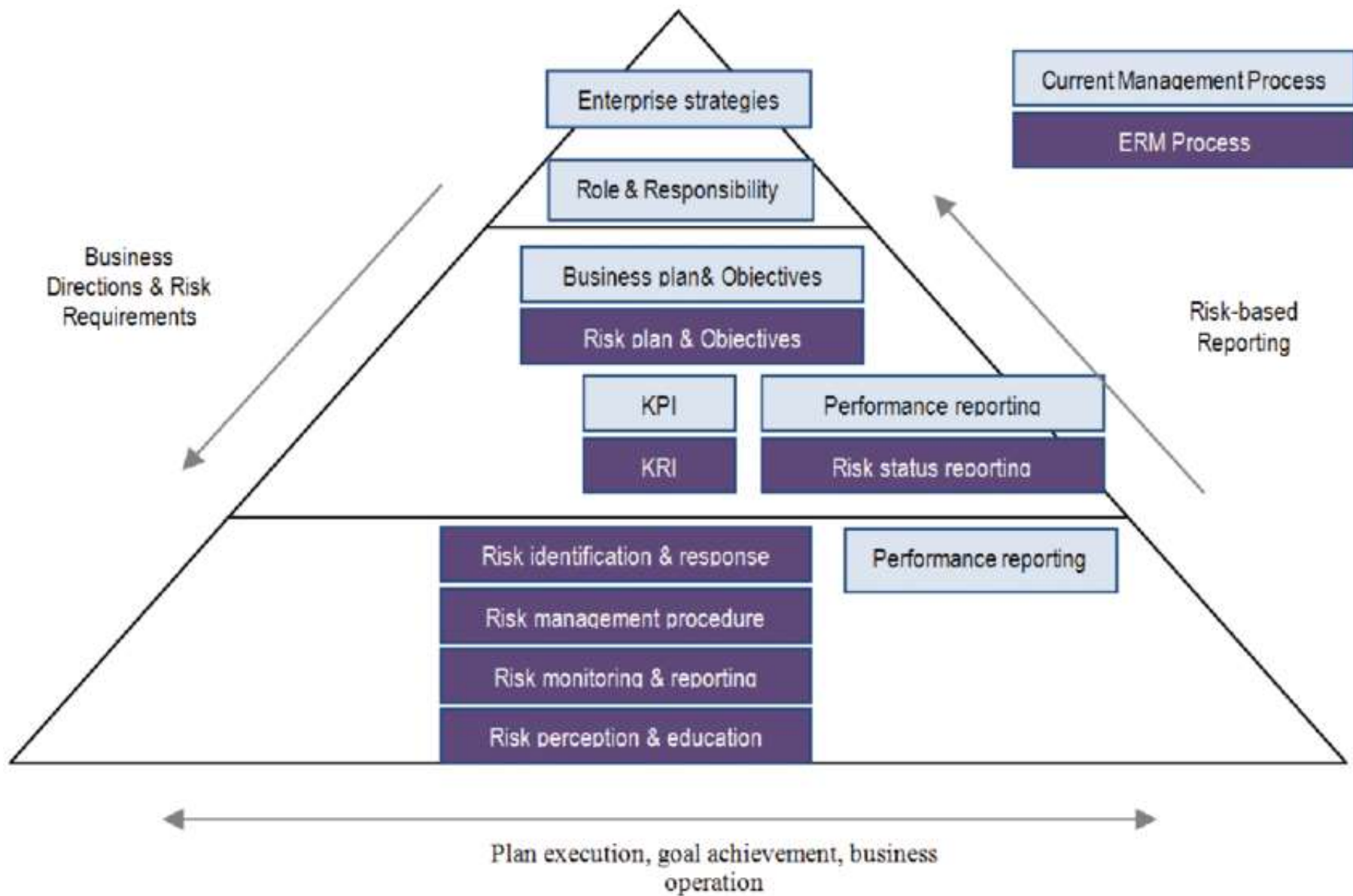
Ernst & Young Risk Pyramid



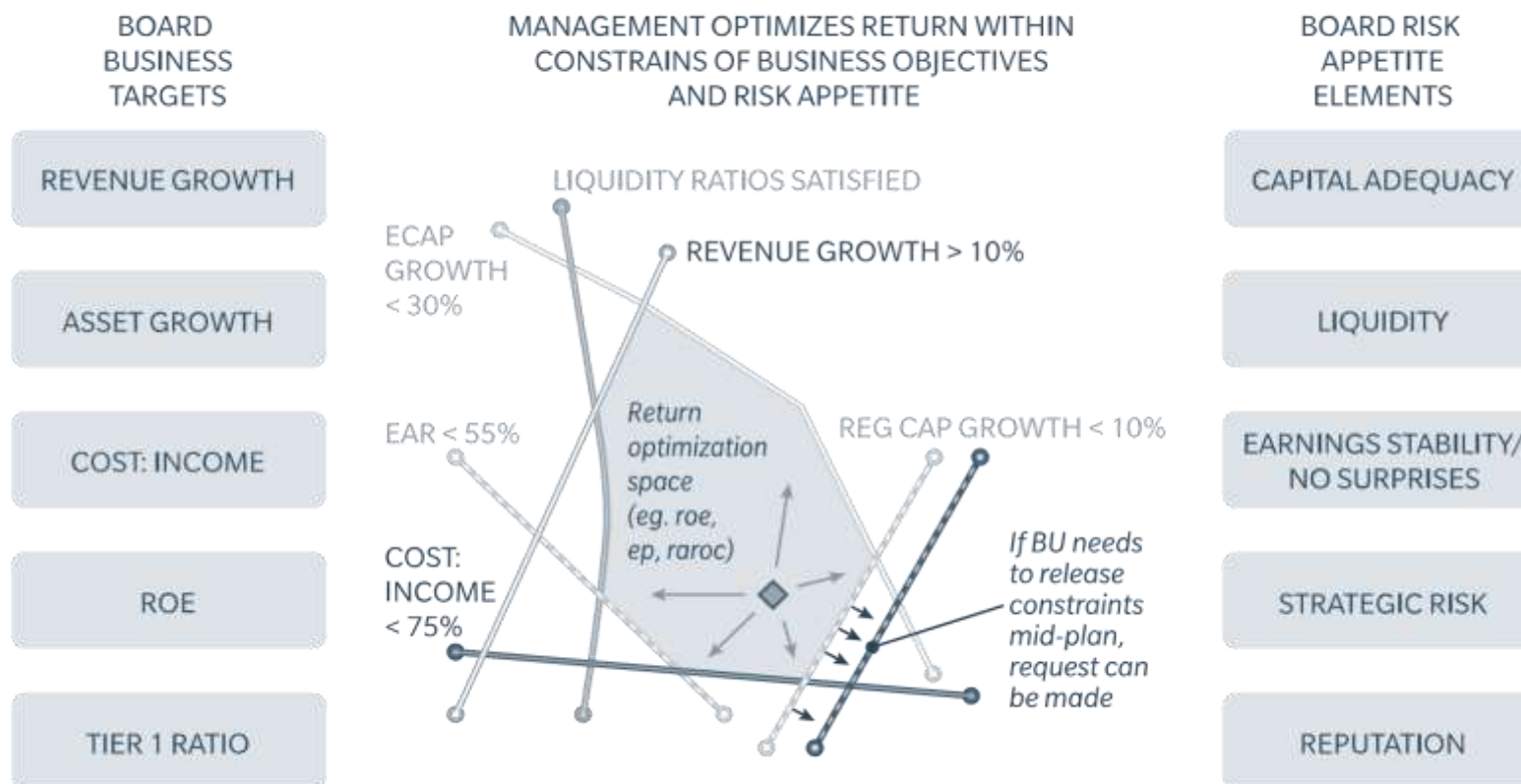
LET'S CLARIFY ROLES

CLARIFY ROLES AND RESPONSIBILITIES





BOARD RISK APPETITE DEFINES THE “FIELD OF PLAY” FOR MANAGEMENT



MAKE RISK APPETITE A PART OF ALL STRATEGIC DECISIONS

Risk appetite statements are effective only if they are used to guide decision-making in the institution.⁵

The Board should ensure that risk appetite is part of important decision making process including M&A, planning and budgeting, target setting, performance management and new product approvals.

Risk appetite should also be considered in the compensation process



RISK PRINCIPLES

KEY PRINCIPLES OF EFFECTIVE RISK OVERSIGHT

- **UNDERSTAND THE COMPANY'S KEY DRIVERS OF SUCCESS AND STRATEGIES**
- **ASSESS THE RISKS IN THE COMPANY'S STRATEGY**
- **UNDERSTAND WHAT MAKES THE BUSINESS MODEL WORK AND THE RISKS INHERENT IN THE BUSINESS MODEL**
- **DEFINE THE ROLE OF THE BOARD AND THE STANDING COMMITTEE (S) WITH REGARD TO RISK OVERSIGHT**
- **CONSIDER WHICH RISK MANAGEMENT SYSTEM IS APPROPRIATE AND HAS SUFFICIENT RESOURCES**
- **ENCOURAGE CONSTRUCTIVE RISK DIALOGUES BETWEEN RISK TEAMS, MANAGEMENT AND THE BOARD**
- **ENSURE THERE IS A ROBUST RISK MONITORING SYSTEM**



THE ALIGNMENT BETWEEN YOUR BUSINESS AND RISK STRATEGIES IS KEY.

STRATEGIC INITIATIVE	CRITICAL INITIATIVES	LINK TO RISK STRATEGY
	<ul style="list-style-type: none"> • Revenue Performance 	
	<ul style="list-style-type: none"> • Market Segments 	6
	<ul style="list-style-type: none"> • Learning and Up-skilling 	

ROLE OF THE BOARD IN RISK MANAGEMENT

- **INCREASED SCRUTINY OVER RISK**
 - **FIDUCIARY DUTIES**
 - **LAWS AND REGULATIONS**
 - **CAPITAL MARKETS REQUIREMENTS**
 - **ESTABLISHED AND EVOLVING BEST PRACTICES**
- **FINDING THE BALANCE BETWEEN TAKING AND MANAGING RISKS**
- **DEVELOPMENT OF POLICIES AND PROCEDURES (MOST IMPORTANTLY COMMON AWARENESS)**

WHAT CORPORATE BOARDS CAN LEARN FROM THE CASE STUDY MISTAKES

- **Hire board members for competence and objectivity.**
 - Board members have three main roles: to monitor, decide, and advise. Before adding new members, identify the skill sets that are core to achieving your company's mission in its industry. On issues where the board lacks expertise, bring experts in to help you.
- **Ensure the board structure aligns with industry needs**
 - <Case Study Example>) didn't establish a board committee to address safety like other top industry players
- **Prepare for the worst case.**
 - Boards need to mitigate for the normalcy bias. Create a process to periodically imagine the largest threats to the company and estimate all the potential costs they could create
- **Manage for truth and realism.**
 - HBR professor who studies psychological safety, recommends responding to input with appreciation — even if the news is bad or someone is pointing out a potential problem.
 - Another useful tactic to promote candor is holding board-only meetings without the CEO

WHAT CORPORATE BOARDS CAN LEARN FROM “CASE STUDY EXAMPLE’S” MISTAKES

- Practice accountability, and punish wrongdoing.

(<Case study example>) board failed in many ways but buried in its failures are lessons other boards can learn. You can set yourselves up for success by ensuring you have the right members, are structured correctly, and are able to have intentional, open, honest, and timely conversations where issues of accountability can be fully addressed.

CONTACT US



Jeff Aludo

The Aludo Group

0722606966

jaludo@aludogroup.com