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Risk, dissent and decision-making (part II)


A recent Governance webinar presented by members of The Board Effectiveness Guild – entitled 'Risk, Dissent and Decision-making' – considered the need for board diversity to be backed up with real challenge in order to make good decisions and manage corporate risk. In this, the second article based on the webinar, **Alex Cameron** explores what enables a board to address risk effectively and what behaviours can inhibit meaningful risk discussions. **Ian White** then discusses how boards can increase the level of constructive challenge in these sorts of conversation.

What makes effective risk management

Most businesses will state that they take risk management very seriously. They will point to clear processes and procedures to encourage the identification, categorisation and escalation of risk across the organisation. Accountabilities will be clear and well documented, often supported by individuals with professional risk management competencies. Risk registers are the visible outputs of the risk management system, often measured by their comprehensiveness. Risks are documented, categorised, organised and normally scrutinised by the executive team and the Audit & Risk Committee.

Together a risk management system populated by documented processes, procedures and accountabilities can provide the evidence to the board that risk management is in control. These elements are important but insufficient. In practice in too many businesses, risk management is increasingly an industry unto itself. The motivation to populate the risk register are positive but often the reality is a bureaucratic box-ticking process. The impression of being in control of risk if often illusory, with little scrutiny at the main board and a feeling among board members that 'we should be doing more'.

Discomfort at the board

Why are so many boards dissatisfied with their attention to strategic, principal risks? Is there something about how the board operates that might indicate the reasons for this discomfort? From our experience reviewing many corporate boards, there are key things to look out for that may indicate an insufficient attention to risk – or a board that is actively avoiding this area of responsibility.

- *Too much focus on the tangible operation at the expense of intangible worries and fears.* The future is indeed the 'undiscovered country', and emerging and unquantified risks can feel unsettling to debate – especially to a board which is most confident talking about measurable operational performance. If the board is unwilling to discuss, or dismisses discussion about risks that can threaten the future of the business (eg cyber, AI, shortage of critical talent, impact of climate change), then this is a red flag.
- *Little or no time given in main board meetings to debate strategic risk.* If the agenda at board meetings marginalises or omits sufficient time for risk-based discussion, be concerned. Deep dives of strategic risks must be open, informed debates with board members able to confront and challenge custom and practice. A deep dive cannot be completed in 15 minutes!
- *Little understanding of risk appetite.* A board cannot effectively scrutinise risk if the risk appetite of the business is unclear or poorly understood. Does the risk appetite help the board in its scrutiny role, do board members have the skills and experience to carry out this role? If not, it is time to educate the board.

These can be difficult and controversial conversations around the boardroom table. This means that the attitude and approach of the Chair is critical to legitimise and encourage deep meaningful risk discussions and these can only take place if the board's way of working and its ability to constructively challenge is mature and effective. So what can a board do?

The board's responsibility

All boards hold the responsibility to ensure a sustainable future for their business. It follows that productive board-level risk scrutiny, integrated into the regular agenda is an essential element of any truly effective board. This means that:

- The board needs to be fully aware of the strategic risks that face the business – these risks need to be up-to-date and fully understood along with an associated risk appetite agreed by all board members.
- The board's agenda needs to be driven by the risks that the board cares about. There should be sufficient time to have exploratory discussions, and also to occasionally ask the question of board members: 'what keeps you awake at night regarding the future of the business?'
- The board needs to be informed and challenged. Use external, experts to run sessions to inform and encourage board members to address new developing areas of risk, eg those driven by digital developments. Avoid depending only on existing experience and use the strategic risks to inform succession plans for board members to evolve the experience-base.

Depending on the risk register is simply not enough. Board members must have the courage to challenge, raise difficult issues and permission to debate the difficult, risk-based agenda that faces most businesses. But this is not easy to achieve. In the second half of this article Ian White explores practical steps that a board can take to increase the level of constructive challenge.

The quest for (constructive) challenge

One of the most frequent recommendations coming out of Board Effectiveness Reviews is to increase the level and quality of challenge principally by the non-execs to the executives but also amongst the wider board itself. Indeed, it is often the executives who say they would welcome more challenge from the non-execs especially over material issues (rather than the micro detail!).

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As the Financial Reporting Council's Guidance on Board Effectiveness states: 'The boardroom should be a place for robust debate where challenge, support, diversity of thought and teamwork are essential features.'

Indeed, the guidance goes on to state that a lack of challenge may indicate a problem with board culture as well as giving rise to the risk of poor decision-making. This can best be illustrated by the fact that corporate scandals still occur despite a supposedly strengthened corporate governance regime. However, boards are all about people and behaviours not just processes and procedures. So how do boards increase the level of constructive challenge?

- First, *it is essential that 'constructive' and 'challenge' are read together.* Challenge needs to be constructive and supportive if it is to hit the right note. If it is aggressive or focused on immaterial matters it is not going help the executives nor the reputation of the non-exec making the challenge.
- Secondly, *challenge can be enhanced if the non-execs call executives before the meeting to express any concerns* or to outline any matters they raise in the meeting. This has the benefit of allowing an executive to reflect on what they are planning to present and perhaps change the stance they will take. It also allows them to have the soundings of an experienced colleague. However, it relies on board papers being sent out well in advance, something all the Codes advocate but equally something that many boards fail to adhere to. This in itself can dampen challenge, for if the non-execs are not fully prepared for board and committee meetings there is the danger of many questions being about clarification rather than true challenge and guidance.
- Thirdly, *boards and non-execs need to exhibit more courage.* Most non-execs exhibit integrity and judgement, but courage is a much more wanting characteristic. Is it that we want to be liked and not to offend our fellow board members and executive colleagues? Of course, there is no purpose in alienating others for the sake of it. However, the purpose of being a non-exec is not to be liked but to provide a valuable contribution. That may mean being in a minority of one – being a board member can be uncomfortable at times.
- Having *a diverse board may help but only if diversity is seen in the widest sense of that word*. That means including many components of diversity – gender and ethnicity, social, cognitive and other forms of diversity too. And it is important not to forget inclusion (something many Chairs do). A safe and inclusive environment is one where people are more likely to feel comfortable challenging others around the boardroom table. However, as Oliver Shah said in a *Sunday Times* article (November 2023): 'There is … the broader point that boardrooms can be intimidating places to outsiders. Standard etiquette steers participants away from challenge and dissent.'

Finally, there are useful perspectives from Sir Andrew Likierman's report *Independent Judgement for UK Boards* and some of the people he cites.

- Constructive challenge is one of the key ways in which independent judgement is applied by board members using their experience and knowledge, not only of the company and the industry but also of their time on other boards.
- Be passionate about the purpose of an organisation but dispassionate about the way it is run.
- Contribute outside your area of expertise – you might ask the obvious but essential question.
- Be free from undue influence by sectional interests or agendas.
- Be aware of your own biases, agendas and emotions which might preclude choice …
- 'Before a board meeting, think about the agenda and what each item could trigger in you emotionally. Process the issues with the presenters prior to the meeting, and reflect on building awareness of what could "hook" your own prejudices.' (Bradley Fried).

'The impression of being in control of risk if often illusory, with little scrutiny at the main board.'

Hopefully these points will resonate with you and help to raise the level of constructive challenge in your own boardroom, which in turn will help you and your fellow board members to make better decisions and manage strategic risk more effectively.

Ian White is a consultant specialising in Board Effectiveness Reviews with clients ranging from FTSE 100 companies to not-for-profits. Earlier on in his career he had 20 years' experience in executive roles (principally General Counsel/Company Secretary) and is the co-author of 'Your Role as General Counsel: How to Survive and Thrive in Your Role'.

Alex Cameron is a board evaluator and leadership consultant. He has over 30 years' experience working with senior executives and boards to enable their individual and collective performance. As a founding director of Socia Ltd in 2002, Alex has built a strong reputation enabling boards to collaborate effectively, build strong reputations with their stakeholders and meet the demands of an increasingly complex governance environment.

They are both founding members of the Board Effectiveness Guild https://theboardeffectivenessguild.co.uk/

The webinar can be viewed in its entirety here: https://youtu.be/32GfmK05A80

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