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Corporate Governance Framework®

ARTICLE

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GOVERNANCE OF RISK: A CRITICAL ELEMENT FOR BOARD DELIBERATION

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As more pressure is exerted upon organisations to demonstrate good governance across their entire operation, increasingly boards of directors are expected to possess far greater knowledge and understanding of the organisation's business and its supply chain. For directors to naively believe that their collegial friendships at board level, or their business connections will 'make the grade' is simply not good enough, neither acceptable.

In today's times boards are under constant and intense scrutiny, especially since informed stakeholders and various activists have far greater access to an organisation's information and which could be used against them. In addition, disgruntled employees are now much better equipped to pervasively communicate the organisation's dirty secrets, and therefore directors really do need to be on 'top of their game' if they intend keeping their board positions, as well as keeping themselves out of trouble.

Indeed, the boardroom is no longer as cozy as it may have been in times gone by, and directors are required to constantly have their finger on the 'pulse of the business'. This requires the board -- namely the executive and the non-executive directors -- to fully understand all the existing and likely key risks that may affect the organisation in both its local and its international operations, as the case may be.

"Directors and officers, particularly of publicly held businesses, are more exposed to risk than they have been at any time in history."

National Association of Corporate Directors (NACD - USA)

In order to fulfil one's role as a director, it is important to note that a director's fiduciary duties owed toward the organisation is not limited merely to being honest and behaving without conflict. A director's role includes performing in the best interests of the organisation, not least also taking cognisance of the many additional duties contained in statute, as well as those contained in contracts and other key documents which have direct bearing upon the organisation and its directors.

The activities of the chairman and the board of directors, who are ultimately accountable for setting the strategic direction and the organisation's risk appetite and risk tolerance levels, can be rightly compared to a war general preparing for battle. With the ever-increasing globalisation and where traditional business boundaries have long disappeared, the competition for business success demands agile directors who are able to draw upon the best of their individual and joint experience. For this to happen, it is imperative for the board to unite as a team so that there is truly a more 'connected front' with functional thinking and professional behavior amongst all the members.

With a united and collaborative board, there is a far greater chance that the team members will begin to understand the organisation's group wide risks much better, instead of their past practices where their specialist knowledge was contained to only one area of the business. There are many examples which prove the notion that "two heads are better than one", suggesting that some tasks may be more easily accomplished where teaming occurs. Similarly, knowing the extent to which an organisation is exposed to voluminous risk -- not least of all legislative and regulatory risks -- it is essential that the board of directors share their information and knowledge amongst each other, as well as the executive, in order to improve the organisation's risk mitigation strategies. Indeed, whilst this unselfish behavior is expected of the board as its serves the organisation and its shareholders, it also goes a long way to ensure the organisation and its incumbents operate more effectively and efficiently.

Whilst teaming in the boardroom will go a long way to gain an understanding of the organisation's risk universe, it is just as important knowing how the organisation's risk strategy will be framed for execution between the board and the executive. Here many factors need careful consideration; and a *Corporate Governance Framework®* is undoubtedly the most logical starting point in determining who the actors are, and what is expected of them. Naturally there's the board and the executive, being the main actors of accountability and responsibility; but there is also government, civil society and the organisation's stakeholders who also feature when determining and mitigating the various risks to which an organisation is exposed. Understanding these issues requires an infinite understanding of the organisation and its business, as well as putting in the necessary time to factor the expectations and challenges of the organisation's supply chain and markets. Indeed, an idle director, or one who does not rise to the challenges of the organisation is simply creating an additional burden for the organisation and the board itself. These directors ought to be dealt with vigorously.

If the board is not on top of its risks, the organisation is most certainly in dangerous territory and poor risk decision-making will inevitably lead to disastrous outcomes where certain trade-offs will be required. Of course the trade-offs could be small, but in most instances they are usually of such a nature where the board would prefer it not being publicised. Matters of this nature were much easier to deal with prior to the introduction of the organisation's requirement to produce an annual Integrated Report. As most large organisations including government and state owned companies have now been compelled to produce their annual Integrated Reports, any attempts in not disclosing poor risk decisions in an Integrated Report -- and their associated outcomes -- is most certainly not desirable, neither prudent (for all the reasons we have come to understand through applied good governance).

"Governance and leadership are the yin and the yang of successful organizations. If you have leadership without governance you risk tyranny, fraud and personal fiefdoms.

If you have governance without leadership you risk atrophy, bureaucracy and indifference."

Mark Goyder (Director of Tomorrow's Company)

There is no doubt that each member of a board, as well as those who also serve on the board's sub-committees, will need to re-consider their roles and efforts to address the ever-increasing risks of the organisation. Expecting the executive alone to deal with this so-called 'operational issue' is most certainly short-sighted. A careful selection of the organisation's non-executive directors will greatly assist this intricate job, and the board will need to earnestly consider the manner in which it approaches the organisation's risk, not least also the role HR should play in selecting non-executive directors who are actually capable of adding value to this critical function. An overly cautious board, or a board that is generally uninformed of the organisation's risks could lead to limited organisational growth with minimised profit taking. Indeed, this position could be intended and in which case the associated impacts would be expected. But what would be the case if the shareholders were not aware of how the board may have been divided on its risk making decisions, or if members of the board were not up to the task of participating in these decisions and the outcomes were quite the opposite of what shareholders were expecting? Sure, there's no doubt that profits would have been negatively impacted in these circumstances; but in today's highly competitive world, there's also no doubt that various non-performing board members would also have been fired.

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CGF is a Proudly South African, Level 4 B-BBEE complaint company that specialises in conducting desktop research on Governance, Risk and Compliance (GRC) related topics, amongst other related company secretariat, regulatory and compliance services.

The company has developed numerous products that cover GRC reports designed to create a high-level awareness and understanding of issues impacting a CEO through to all employees of the organisation.

Through CGF's Lead Independent Consultants, our capabilities include the aggregation of local and international best of breed governance reporting services and extend to;

- strategic management consulting, business re-structuring, executive placements, executive coaching, board assessments and evaluation, out-sourced company secretarial functions, facilitation of Corporate Governance Awareness workshops, IT governance through to Enterprise Risk Management (ERM) consulting and Corporate Reputation services.

All CGF's services cater for large corporates, small and medium sized businesses and state owned organisations. To find out more about CGF, its Lead Independent Consultants and Patrons access www.cgf.co.za or www.corporate-governance.co.za

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