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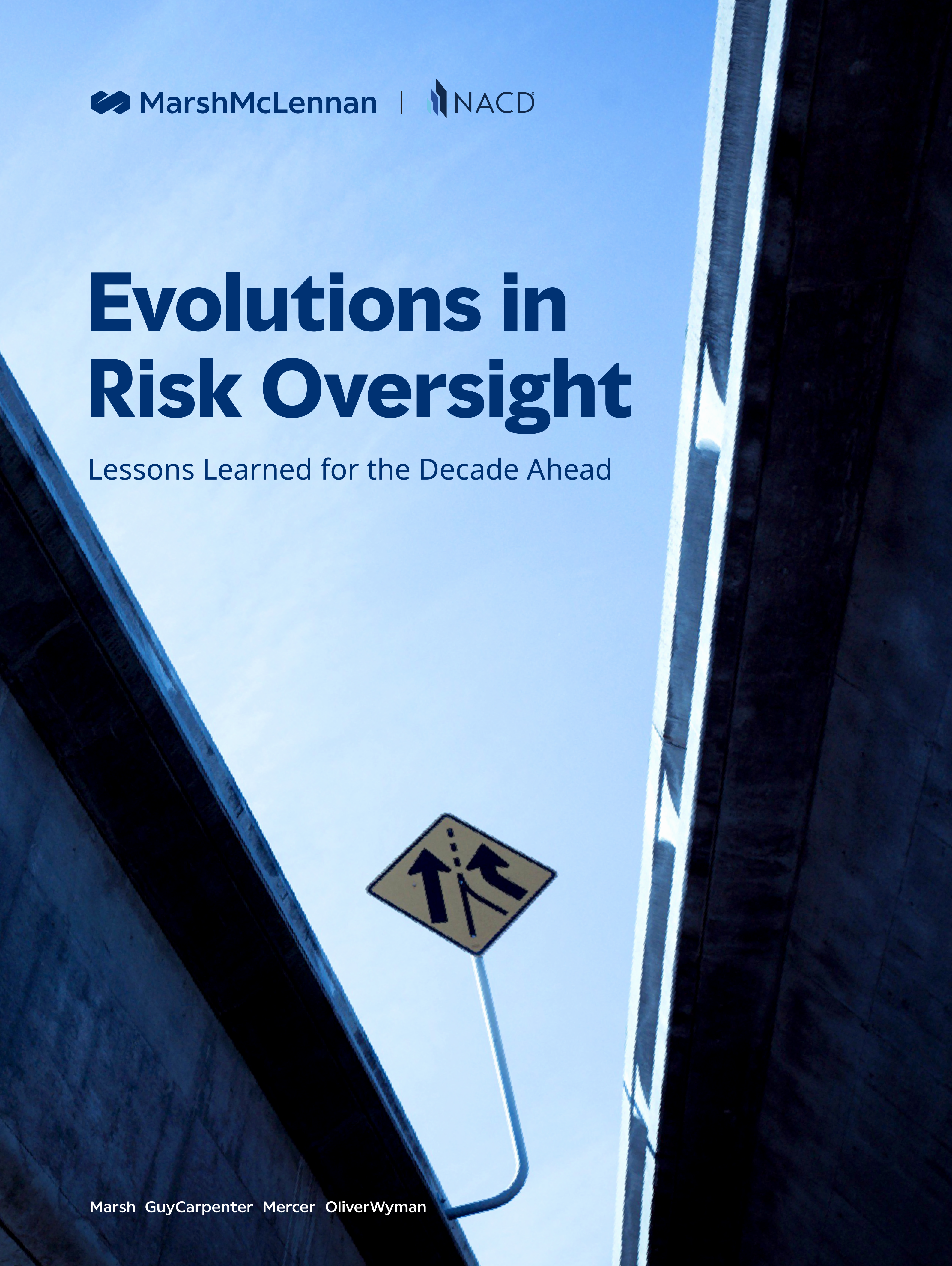
Evolutions in Risk Oversight

Lessons Learned for the Decade Ahead



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Contents

Foreword

The past 18 months have been marked by significant disruptive risks with the Covid-19 pandemic presenting an ongoing multi-dimensional crisis with health, economic, social, and cultural impacts. In addition, organizations have had to respond to a rising focus on environmental, social and governance issues, as well as a rapid acceleration of existing trends such as increased digitalization.

Against this backdrop, the National Association of Corporate Directors (NACD) and Marsh McLennan tapped into survey data and insights from experienced directors to explore the aggregated effects of events over the past 18 months on risk oversight. The articles in this compendium each explore a different aspect in the evolution of risk oversight structures, approach and processes.

The first article examines the impact of the expanding board risk agenda on the effectiveness of the board's structure and explored whether more boards will be establishing a risk committee. Our research suggests that risk oversight will mostly remain distributed across various board committees and the complex risk and strategy intersection will remain a "full board sport."

The ongoing and shifting impacts of the Covid-19 pandemic have spotlighted the importance of organizational resiliency. Resiliency can be understood as the capability to recover from a risk event and perform during times of crisis and prolonged hardships. In the face of an increasingly interconnected risk landscape, the second article sets out four areas for the board to focus on in considering organizational resilience as part of effective risk oversight.

The third article explores the concept of courage in increasing risk visibility. A key risk oversight role, especially with evolving risks, is to help management "see around corners" by asking the challenging questions to probe what-if scenarios, query assumptions, interpretations and options. As part of this, boards must actively foster courage within senior leadership teams and risk functions. This will enable teams to adopt new forms of risk analysis, bring forward issues despite incomplete data, and facilitate exploratory dialogue on issues for which there may not yet be a consensus.

Covid-19-related mobility restrictions forced boards to become "digital-by-default" and more agile. The fourth article outlines how boards became more agile in their oversight roles during the pandemic. The article sets out three ways boards can retain and enchance essential aspects of forced agility to reinvigorate risk oversight processes and decision making.

The final article outlines the concept of "healthy societies" as a framework for people risk oversight. The concept can help create a sustainable culture that benefits people, the organization and the communities in which the organization operates.

We hope that you find these articles informative.

Marsh McLennan and NACD thank the following NACD members for sharing their insights in the development of this series: Anthony Anderson, Samuel DiPiazza, Roy Dunbar, Cynthia Jamison, Shelley Leibowitz, Sara Mathew, Jan Tighe, and Suzanne Vautrinot.

Effective Risk Oversight Demands Board Structure Evolution

By Mark Pellerin and Til Schuermann

The tumultuous events of 2020 and 2021 — including the COVID-19 pandemic, a growing focus on environmental, social, and governance (ESG) issues, supply chain disruptions, record levels of deal-making, and evolving cyberattacks — present unique challenges and risks for organizations. Unsurprisingly, in the Global Network of Director Institutes (GNDI) 2020-2021 Survey Report[1], directors reported that risk management oversight is a top-four governance area impacted by the events of 2020. In many ways, the past year and a half have been a stress test for risk oversight structures and processes.

While the core principles of effective risk oversight remain (see, for example, the 2009 Report of the NACD Blue Ribbon Commission on Risk Governance: Balancing Risk and Reward[2], or the US Federal Reserve's SR 21-3/CA 21-1: Supervisory Guidance on Board of Directors' Effectiveness[3]), over the past few years, there have been reassessments of how boards implement these principles and whether the current structure and processes of the board and its committees are "fit for purpose" to respond to an expanding risk agenda. Indeed, 34 percent of respondents to the GNDI survey noted that their boards are planning to alter their operating models, including through changes to the committee structure.

Additional research and interviews with directors identified five ways that board structure is adapting to more effectively oversee risk. While these realities began to take shape over the past few years, recent events have expedited the shifts and increased their importance.

1. The full board must address the intersection of strategy and risk. The COVID-19 crisis and other events of the past 18 months emphasized that discussions and decisions around the intersection of strategy, risk, and opportunity are a full-board sport. These discussions cannot be delegated to a committee alone and need all directors' wide-ranging insights and experience. This is especially true for emerging and transformative risks that may be challenging organizations, and arguably even more important when an organization is looking to create value in the current business environment marked by high merger and acquisition activity and megadeals.

The pandemic and its impacts have highlighted the benefits and limitations of current board risk-oversight structures. In general, boards do distribute risk oversight across committees. While this distributed structure enables adequate oversight of risk categories or verticals, it does not support integrated discussions that take a horizontal view across the organization, which is necessary to address strategic risks.

Discussions around strategy, options, and attendant risks must consider the interconnections of external and internal risk drivers and their potential impacts in various scenarios. These require the entire board's input, especially as organizations face expanding risk agendas that include climate change and the corporation's role in society.

2. Board-level risk committees have appeared but remain concentrated in highly regulated industries. Board risk oversight grew significantly following the 2008 financial crisis and the passage of the 2010 Dodd-Frank Act that required some non-bank financial companies and certain publicly traded bank holding companies to establish a board-level risk committee. This led some organizations outside of financial services to consider a board risk committee, as well. About 9 percent of organizations in the Russell 3000 now have a board risk committee[4].

But despite the expanding scale, pace, and scope of the risk environment, it is unlikely that there will be a significant increase in board-level risk committees as a mechanism to manage the growing board oversight role. Risk committees will remain concentrated in highly regulated industries such as financial services and health care, or capital-intensive industries such as the energy sector. In these sectors, the risk committee enables effective oversight of closely intertwined governance, risk, and compliance frameworks.

For boards with risk committees, directors interviewed by Marsh McLennan noted that the committee was essential to supporting the board in providing deep dives on specific issues, such as organizational liquidity, during the COVID-19 crisis. However, boards with a risk committee can face two challenges. In some instances, the risk committee portfolio can become full and unmanageable, with a wide array of topics construed as risk. In such cases, it can be hard to discern the most important risks to focus on. In others, the committee tends to focus on silos of specific risk, such as financial risk, and may not be able to integrate risk issues across critical strategic decisions.

Interviewed directors also described the key attributes of risk committee members. "On a risk committee especially, you want practical, decisive good judgment." Cross-industry and hands-on experience of managing through a crisis is valuable, as well. Directors noted that specific industry experience is not necessary to being effective on the risk committee, apart from experience in the banking sector, where deep expertise is vital.

3. Committee specialization is essential to overseeing the expanding risk agenda. While full board input is vital to strategic risk oversight, board committees are critical to fulfilling fiduciary and expanding oversight duties and enable a necessary focus on strategy and risk. "It is increasingly vital that the committees are highly productive to allow more full board time for strategic discussions around opportunities and risks," one director noted.

Committee specialization means that the board can divide and conquer specific issues. The audit committee, for example, focuses on an organization's internal control and risk management approaches, whereas the compensation committee considers risks involved with executive compensation. Committee charters must be aligned to avoid redundant risk oversight activities.

An efficient committee structure allows boards to schedule more time on the full-board agenda for higher-level exploratory risk discussions.

Events of the past 18 months emphasized that discussions and decisions around the intersection of strategy, risk, and opportunity are a full-board sport.

4. New board committees are being developed to focus on evolving risks. Although few companies may adopt a board-level risk committee, a growing number of organizations are establishing committees focused on evolving or transformative issues that are closely linked to organizational strategy. Recent NACD data show that about 5.5 percent of boards have technology committees[5], about 2 percent have ESG committees, and 1.2 percent have cyber committees. One director observed that “a good board evaluates its committee structure every year and evaluates how it fits with the business model and whether there should be adjustments.”

New committees are established to ensure the issues receive regular and sufficient board input. In the future, we can expect to see risk oversight distributed across a broader range of board committees as boards structure themselves to reflect changing organizational needs. As one director noted, “There seems to be little consistency in committee structure and risk responsibilities across companies. My guiding principle would be ‘Do the least that buys you the most.’ This ensures the board is not hampered by processes that are not productive.”

5. The board must continuously revise committee charters to reflect evolving risks. Many organizations are also evolving the charters of existing and traditional board committees to reflect a necessary refocus of each committee’s mandate. In one case study, an organization transformed the audit committee into the audit and risk committee and codified a broader set of responsibilities, including conducting a forward-looking risk assessment, for the group. This incremental expansion of structure and responsibilities significantly impacted the board’s approach to risk oversight, shifting the discussion to be more future-focused.

Other organizations are expanding the charter of the nominating and governance committee to provide oversight of their ESG strategy and performance. Some companies are incorporating this responsibility into the compensation committee’s mandate or are refocusing existing corporate social responsibility committees as ESG committees. Meanwhile, certain compensation committees are refocusing their mandates to be compensation and human resource committees to focus on organization-wide people risks.

One director summed up their risk oversight role as this: “to create the environment that increases the intensity on risk, opportunity, and strategy.” Evolving committee structures, enhanced risk information, and board agility will be crucial for overseeing the expanding risk agenda and identifying opportunities for success.

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How to Build a Focus on Resilience into Board Risk Oversight

By Reid Sawyer

In the face of COVID-19, the ransomware epidemic, and climate threats, organizations have experienced increasing calls to become more resilient. But what does "being risk resilient" actually mean and what are the implications for boards in terms of risk oversight responsibilities? We drew on survey research involving risk functions at nearly 1,000 organizations and interviews with directors at leading organizations across all sectors to explore the issue.

Resilience includes the ability to adapt and respond to a proximate event. But resilient cultures also move beyond business continuity planning and the capacity to absorb a negative event — they build the capacity to dynamically manage risk. In this way, organizations gain a unique strategic competitive advantage when the seas are calm and can then foresee upcoming threats and capitalize on growth opportunities during times of operational and financial stress.

Now more than ever, organizations must adopt a forward-thinking risk management approach to keep pace with an increasingly complex and hyper-connected risk landscape. Indeed, as one director stated in an interview conducted with Marsh McLennan to inform this article, "The new era of risk oversight is to think in terms of risk resilience."

Below, we outline four key levers that boards should consider when diagnosing their organizations' risk resilience, drawn from our recent survey report[1] on the topic.

Cross-Organization Collaboration on Major Risk Issues

2020 highlighted the need for management teams to better examine how risks interact and cascade across value chains and organizational strategy. Organizations must identify, understand, and prepare for the impacts of systemic and emerging risks across the enterprise. Collaboration across diverse business functions, including risk management functions, is key to increased transparency on potential exposures and to enabling management teams to bring a holistic, integrated view of risk and the entity into the dialogue with the board.

Most organizations are challenged by a lack of cross-functional collaboration, however. Without such collaboration, organizations will likely struggle to work across silos to anticipate risk impacts, and this will impair their ability to develop effective organization-wide response plans. As another interviewed director

The new era of risk oversight is to think in terms of risk resilience.

said, “You need people with different sets of skills to actually rethink your basic business proposition and assumptions.”

It is also vital to consider whether the senior leaders responsible for organizational strategy are fully integrated into resiliency planning. This integration helps companies better identify risks and design and execute responses. Connecting risks to long-term strategy helps organizations move forward and mitigate their financial exposure, reputational damage, business interruption, and other losses.

Testing and Building Organizational Resilience

Resilient organizations regularly assess the risk terrain and test whether they have the necessary resources to navigate it. Companies need an accurate view of organizational preparedness, as they often overestimate how quickly and effectively they will be able to respond to (and sustainably recover from) a given risk or they focus on actions around a short-term crisis.

Building risk resiliency and agility goes beyond having a crisis management plan in place. Scenario-based financial stress-testing and planning are vital to understanding potential events and incorporate data and analytics into management thinking. Is the organization doing enough to stress-test, measure, and model the financial, operational, and other impacts of critical risks? How do these risks connect with the growth strategy?

Testing the risk terrain can also include management and board “deep dives” into a risk or event to fully assess organizational vulnerabilities across the complete value chain. The results can be used to examine the organization’s capacity to respond and its resilience to impacts as an event plays out over various time frames.

The ability to assess and forecast different shock events and to understand how a risk or an event cascades across the entity is critical, and this analysis provides meaningful, actionable insights into potential exposures. However, it is worth noting that these efforts aren’t meant to predict the future but rather to clarify uncertainties in the operating environment. This includes helping the management team and board develop a common perspective on critical response actions, which involves identifying actions the organization can adopt to build resiliency (such as reducing redundancy in supply chains) and pinpointing the depth and strength of the organization’s resiliency.

Forecasting and Anticipating Emerging Risks

Anticipating risks means expecting the unexpected — that is, looking further and deeper. Organizations must build the capacity to forecast and anticipate future impacts of various risks — including pandemics, cyberattacks, regulatory changes, geopolitical threats, and the effects of climate change — on their tangible and intangible value.

Simply put, organizations must apply tools and methodologies that enhance their ability to “see around corners.” Much like finance functions produce forecasts for quarter-close or year-end, companies should forecast risk to provide visibility into how risks might impact the organization over a multiyear period.

As the pandemic has shown, even organizations with robust business continuity plans have struggled because they failed to fully anticipate the extent of COVID-19’s impacts. In our risk resilience survey[2], only 25 percent of the responding risk function leaders responding to the survey said that they use scenario-based modeling across their enterprise or comprehensively to evaluate the potential impact of emerging risks. Only 45 percent of respondents use scenario-based modeling somewhat, on selected exposures, or in a limited way.

Boards must ensure their organizations have an energetic, exploratory approach[3] to scenario planning. This will help stretch the organizational mind-set in developing and analyzing possible future outcomes.

Characterizing the dynamics of disruptive forces and delineating touchpoints help determine where impacts might be felt, and well-crafted scenariosact as a tangible frame for detailed analyses[4] and stress-testing.

Organizations must investigate evolving issues or fundamental trends that may shock or gradually undermine their growth, profitability, and business models. Doing this effectively requires an array of perspectives and asking "what-if" questions to keep the focus on possible consequences rather than likelihood.

"You need people with a breadth of experience that have been successful in looking around the corner," a director interviewee noted. "People that have that skill set are incredibly important to a risk structure because they're not rooted within the singular business of one company or industry."

Risk Resilience Metrics

Our survey results indicate that consistently applying risk metrics is a stumbling block for many. Too often, known risks are tracked far more than unknown or potentially highly disruptive risks[5]. In other instances, organizations track a huge number of metrics — simply because the data is available — that do not provide the board with a clear view of the organization or of the factors impacting its performance in the broader ecosystem.

Boards and management teams' thinking is evolving on how to gain visibility and intelligence on the impacts of current and future risks. This requires moving beyond many commonly used tools. As one director observed, "I need more quantitative measures for risk oversight and not a dot on a heat map."

Several directors said they have worked with management teams on what information to present to the board and how to present that information. The goal is to move beyond sheer siloed volumes — that is, to information that identifies risk drivers and impacts across risk categories and that uses metrics that support board-level decisions around the dynamics of systemic and emerging risks across the complete value chain.

Boards and C-suite executives should ensure their organizations are deploying an effective range of metrics to measure exposures in their journeys to resilience, understand risk implications for their businesses, and enable board and management decisions. These metrics include:

- Measurements of risk aggregation and interdependencies across the value chain
- Resilience metrics — those that will help determine how much stress the organization can withstand and at what points in the value chain
- Early-warning crisis event metrics, which can provide guidance for navigating a crisis during its initial days
- Metrics on essential supply chain partners to help evaluate counterparty risk

Developing more insightful risk metrics and information for the organization and the board will require a courageous process of trial and error.

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Improve Your Board's Risk Visibility with One Critical Factor: Courage

By Michelle Daisley and Lucy Nottingham

Improving risk oversight has been a top-three area of focus[1] for most boards over the past decade, alongside improving risk information that management provides to the board. Effective risk oversight is only possible when the board has comprehensive, clear visibility on risks the organization is facing and taking, as well as its steps to mitigate and manage them.

Organizations have made efforts to improve their boards' risk information, with 60 percent of directors in a 2020 survey[2] agreeing that the quality of risk information had improved over the years. Yet, perennial challenges and frustrations remain. Directors are looking for risk-reporting improvements in terms of ease of interpretation and drawing conclusions; highlighting vulnerabilities, common risk drivers, and cumulative impacts on the organization; and capturing a forward-looking view.

Directors often face huge volumes of material — 500 pages or more — to review, with metrics on organizational performance but limited clear information to guide decision-making and provide insights into the organization's future. In addition, board agendas often do not allow enough time for dialogue or for exploring the implications of evolving risks and potential impacts.

Faced with these challenges, and drawing on lessons learned from pandemic-related events, many boards are looking to improve risk information, as highlighted in the Global Network of Director Institutes 2020-2021 Survey Report[3]. These efforts are a step in the right direction and align with recommendations set out in recent NACD Blue Ribbon Commission reports, including Fit for the Future: An Urgent Imperative for Board Leadership[4] and Adaptive Governance: Board Oversight of Disruptive Risk[5].

But for these initiatives to result in improved risk oversight, organizations must add one other critical factor: courage.

Boards must actively foster courage within senior leadership teams and their supporting risk functions. This will enable them to adopt new forms of risk analysis, bring forward issues in spite of incomplete data, and facilitate exploratory dialogue on issues for which there may not yet be a consensus. Courage is particularly necessary in the face of emerging, complex, and transformative risks that are seldom effectively captured on a risk dashboard, an annual risk register, or operational risk taxonomies. For such risks, teams may need to develop effective new risk indicators and metrics — for example, evolving metrics around an organization's current and future environmental, social, and governance performance.

Courage must also extend to the boardroom. Directors must be willing to ask questions, challenge assumptions, and share dissenting views, even at the risk of disrupting a collegial atmosphere or displaying their lack of knowledge on a complex technical risk topic. In addition, boards must continue to expand the company's range of sources for risk insights, including among management teams and different levels in the organization. Reflecting on evolutions in risk information, one director interviewed in the development of this article observed, "What has changed, more so than just the information, is how much more engaged you are with various people in the organization."

Courage is particularly necessary in the face of emerging, complex, and transformative risks.

Ultimately, the degree of courage in decision-making and discussions will reflect the organization's culture, including the culture in the boardroom and among the management team. "The quality of the risk conversation at the board level will reflect the quality of the supporting risk processes," noted one director.

There are four types of courage directors can actively support.

Courage to Choose Progress over Perfection

The quest for perfection frequently hinders agility and slows the development of decision-making information. Significant time and resources are often dedicated to perfecting analyses and forecasts. However, in many instances, estimates based on the partial data at hand (with assumptions to fill in the gaps) would be more helpful for decision-making.

This approach may require a major cultural shift for many management teams, especially when materials presented to the board and technical risk management teams focus on high-quality quantitative analysis. However, in a complex and ambiguous environment, perfect data or analysis is unlikely.

Boards can support the "right" level of analysis by asking for the best estimate and the level of confidence in the estimate. Often, analysis that is "good enough" enables decisions to be made sooner rather than waiting for perfect numbers. Further, discussing the assumptions behind an estimate can yield insights into risk drivers and a deeper understanding of the potential risk impacts across the organization.

Courage to Go Against the Group

As the old saying goes: "Great minds think alike, though fools seldom differ." Leaders must assess how the management team and those reporting to it approach problems and support each other through constructive challenge and debate. One director MMC spoke to for this article stressed, "Boards need to understand optionality and decision points and better understand how management came to their conclusions and which options were not selected." However, when operating under pressure in complex, challenging times, people won't always speak up and contradict their peers, never mind their leaders.

For this reason, it is critical to create an environment of psychological safety to avoid "groupthink" and give permission for disagreement and constructive dissent as part of a healthy risk culture. Boards should encourage mechanisms to challenge critical assumptions, underlying forecasts, or emerging risk assessments. These can include using war game exercises to test the strength of a new policy or decision or using red and blue teams to create and test alternative propositions.

Another mechanism is encouraging management teams and board members to appoint someone to play devil's advocate and intentionally confront or question the assumptions of other group members (regardless of their own opinion). Boards can then explore with management where and why there were areas of disagreement and spark more productive dialogue on critical matters.

Courage to Think Bigger

Stress, environmental complexity, and heavy workloads all drain management's ability to innovate or think of the big picture. But paradoxically, when stakes are high and time is limited, it is vital to pause to broaden perspectives[6] by reflecting and thinking. As one director advised, "Risk processes are important, but don't suspend peripheral vision, intuitive thinking, and a deeper inquiry from a different angle."

Boards and management teams need to consider the board agenda and leave time for reflective thinking and brainstorming. They must formally schedule time to probe and consider, for example: What has been missed? What might go wrong? What new risks might arise? What have we not thought of?

As one director said, "You want a degree of inefficiency with risk discussions to allow time for worst-case evaluations."

Courage to Make Mistakes

Mistakes follow (and sometimes generate!) new processes and innovation. Sometimes, the fear of making mistakes can lead to overly conservative behaviors or a reluctance to innovate or experiment. This is particularly evident in heavily regulated industries (such as financial services or health care) with strict risk and compliance standards and reporting requirements. Instilling and supporting a culture of learning and the courage to constantly improve is vital to robust risk dialogues.

Boards and senior leadership teams need to emphasize learning over finger-pointing. When people inevitably make honest mistakes, boards should encourage risk teams to review, explore, and learn from the mistakes to identify opportunities for improvement. How can the team better challenge underlying assumptions on the trajectory of risk drivers? How can the organization better detect risk warning signs?

A Courageous Future

If the events of 220 and 2021 are a sign of the decade ahead, the risk environment will remain complex and challenging, and effective boardroom risk dialogue will be more vital than ever.

Directors must work with management teams to continue improving risk data and dashboards. More importantly, boards must actively build a corporate culture of courage that supports robust analysis and risk information.

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Increasing Board Agility Is Critical to Risk Oversight

By Margarita Economides and David Gillespie

"You're on mute."

This must have been one of the most spoken phrases over the past 18 months as many organizations moved to online meetings and video conferences. The mobility restrictions associated with the COVID-19 pandemic created opportunities to innovate and, in many instances, offered a crash course in being agile — a critical requirement of boards.

As a result of the pandemic and other events of 2020, the scope and scale of issues on the board risk agenda have fundamentally changed, as have many aspects of governance processes. Going forward, boards must build their agility to enable organizations to navigate the new cadence of the business and risk environment.

As a previous article noted[1], an agile board can "identify and respond effectively to rapid and unexpected changes in the internal and external environment. It is characterized by a forward-looking and exploratory approach that challenges and nurtures both current and future business, enables quicker decision-making, and supports the organization to be more adaptable and innovative when confronted by change."

To gain insight into the practices adopted and lessons learned from 2020, including on board agility, NACD and Marsh McLennan worked with the Global Network of Director Institutes (GNDI) to conduct a wide-ranging survey[2] of nearly 2,000 directors. The research team also conducted eight accompanying interviews with seasoned directors to provide rich context for our findings in this article.

Overall, 89 percent of the surveyed directors feel their boards have been able to effectively govern during the pandemic — indicating an ability to adjust to the demands of virtual governance, such as increased or even weekly full-board meetings during the height of the crisis. Further, 34 percent are planning to alter their board operating model (including with changes to meeting agendas) based on experiences and learning from the pandemic and responding to other challenges during 2020 and 2021.

Delving further into the findings, we can see three key elements of an agile board have emerged:

First, the agile board is hybrid. Directors have upskilled themselves and gained comfort with virtual meetings over the course of the pandemic, and 89 percent of GNDI survey respondents agree that digital board engagement would be a helpful tool for board operations moving forward. Additionally, 78 percent expect that least one in five committee meetings and some full-board meetings will be virtual post-pandemic. As one director that we interviewed for this article noted, being "virtual-first is a great way to rethink the rhythm of board meetings and allows the board to quickly connect on issues as opposed to waiting for board meetings."

Virtual meetings have many benefits since directors can quickly meet to address fast-moving issues and free up director time that can be applied to essential board and committee work. In addition, the virtual format requires a more structured and efficient committee agenda to fulfill fiduciary obligations. In one director's pandemic experience, "The board quickly adapted to a communication structure that was not scheduled and was able to function much more intensely in a virtual world."

An engaged, responsive, and agile board is a vital sounding board for the CEO and their management team.

While many directors agree that virtual board meetings are as effective as in-person meetings, there are serious challenges. In the future, boards need to explicitly implement approaches to ensure fully engaged directors in a virtual world. More than two-thirds of GNDI survey respondents (68 percent) noted the negative impact of reduced nonverbal communication among directors during virtual meetings. Board chairs may also need to take additional steps to ensure that minority views are represented, which may be more challenging virtually. Finally, boards may need to reconsider how to apply decision-making techniques such as "red teams" or "tenth man" (where at least one person is appointed to serve as the loyal dissenter) in a virtual world.

As hybrid and virtual board meetings become the norm, boards will need to adopt better tools to support digital board governance[3], including those used to share secure governance documents, vote, or communicate confidential information.

Second, the agile board uses a range of insights to support decision-making. An engaged, responsive, and agile board is a vital sounding board for the CEO and their management team. Providing fresh perspectives on difficult issues is critical.

Agile boards are implementing new processes to provide informed input and challenge decisions around strategic issues, as well as to improve risk oversight. For example, 70 percent of survey respondents said they will make greater use of outside experts in scenario planning, strategy, and risk decision-making processes. Sixty-six percent expect to incorporate a broader set of risks into the board information dashboard. Boards may need to adjust their agenda to allow more time for such exercises and exploratory discussions, putting an even greater emphasis on the need for efficient and effective committee processes.

The surveyed directors also report that 63% plan to increase the use of data analytics in the board decision-making process. This may include incorporating digital and analytical tools that assess the risk environment and organizational performance — tools that scan publicly available information to create dashboard summaries of employee sentiment or tools that conduct an outside-in scan of cybersecurity, for example.

Information tools provide board members with efficient access to a much greater range of insights, key metrics, and benchmarks, generating deeper understanding — all of which can support a necessary focus on emerging trends and strategic issues.

Finally, the agile board embraces continuous learning. "Board members do not need to be expert at everything but need to be able to constructively challenge and question management," one director said. "That requires a certain kind of board member — someone who is in continuous learning mode."

Agile boards embrace continuous learning in two key areas: organizational strategy and business model, and the expanding spectrum of events and trends driving changes in an organization's business environment.

Directors are more engaged and involved in robust dialogue across various levels of management than ever before — without impinging on management's operational role. This enables the board to actively debate and challenge management on their risk assessment, decision-making processes, and conclusions. Many directors noted that this process is vital to helping management "see around the corners."

Boards are also turning to directors from a range of professional backgrounds to increase cognitive diversity in the boardroom and to tap expertise on evolving issues such as cybersecurity, digitalization, and environmental, social, and governance (ESG) topics. Increased boardroom diversity across all vectors has many benefits. Still, onboarding a cybersecurity or an ESG expert does not relieve other board members from developing a robust understanding of the interaction between evolving risks and trends. Most boards have about 10 members, and as organizations face a widening array of issues, no board can have an expert on each topic. Since they cannot be "know-it-alls," boards must become "learn-it-alls."

Each director must commit to a boardroom culture of continuous learning and inclusivity of diverse experiences, expertise, and insights on evolving topics to support an active and effective boardroom. With this mandate, board and director agility is vital to supporting management and ensuring that organizations move nimbly through a challenging risk landscape.

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David Gillespie is an Organizational Effectiveness Partner with Oliver Wyman and leads the UK & Ireland businesses.

Endnotes

1 Michelle Daisley, Margarita Economides, David Gillespie and Lisa Quest. Here's How to Bring Agility Into the Boardroom. World Economic Forum, (November 28, 2018). https://www.oliverwyman.com/our-expertise/insights/2018/nov/here-s-how-to-bring-agility-into-the-boardroom.html

2 2020-2021 Global Director Survey Report. (2021). National Association of Corporate Directors with support of Marsh McLennan. https://www.mmc.com/insights/publications/2021/january/2020-2021-global-director-survey-report

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Creating Healthy Societies and Transforming People Risk in the Post-pandemic Workplace

By Martine Ferland

As COVID-19 and its variants continue to disrupt society, business, and commerce, boards have expanded the scope of their risk oversight to include a broader, "people risks" agenda. Directors responded swiftly to the pandemic, supporting management teams as they faced new challenges to the health and well-being of their workforces. At the same time, there is a rising awareness on the role organizations play in addressing societal concerns at the board level. The intersection of these two issues is where the notion of creating "healthy societies" emerges.

The creation of a healthy society incorporates equitable access to affordable, quality health care, providing healthy environments to live and work, creating financial security and a more equitable workforce across race, ethnicity and gender. These aspects all play a role in our collective and individual health outcomes.

Boards that take on managing these "people risks" with the right balance of empathy and economics will be better positioned to secure the organizations' future during this accelerated period of sustained change.

The Expanded Role of Employers in Supporting Wellness

Before the pandemic, organizations and their boards framed the relationship with their employees through the lens of the workplace environment. Policies were created to help guide the organization and its employees in conducting the work relationship. Organizations often developed benefits, compensation, hiring, and workplace procedures from this perspective.

In just a few months in 2020, the pandemic shifted this paradigm. As many organizations went to remote work arrangements, the line between what happens inside the workplace and outside the workplace dissolved. This shift created a new level of oversight for boards as organizations needed to quickly develop strategic approaches to ensure the health and safety of their employees inside and outside of the workplace.

Boards Take on New Challenges

As boards continue to tackle the ongoing issues related to COVID-19 and its variants, health becomes a new driver in charting the future of an organization. The concept of "healthy societies" offers a means to creating a sustainable organizational culture that benefits people, the organization and the communities in which the organization operates.

The healthy societies concept advocates for the health and well-being of everyone through sustainable means that protect people and the planet. This means providing a safe, professional, and personal work environment that enhances an employee's well-being, both physical and emotional.

Emotionally and physically healthy employees are better positioned to manage their work and home-life balance, leading to increased productivity. Long-term value can be achieved when organizations and boards take a healthy society approach to developing processes and procedures that impact employees with this shared vision for the future in mind.

Long-term value can be achieved when organizations and boards take a healthy society approach.

Creating a Safe Work Environment for Today and Tomorrow

Providing employees with a safe working environment remains a top concern for most organizations. Changes to the physical design of workspaces, plus the use of masks, sanitizers, physical distancing, temperature checks, testing, and other safety measures, are now almost normalized in the physical workplace. These changes give employees who need to be physically present to perform their jobs the confidence that they are protected. A consistent and sustained safety policy will help make the transition from the home office less stressful for those returning to the workplace.

But a larger question remains for boards and management to now consider: when we emerge from the pandemic, will organizations try to revert to pre-pandemic “business as usual,” or will they create new operating models to ensure flexibility and agility in response to future outbreaks or other disruptions? Boards that advocate for contingency planning that factors the health and safety of those in the workplace will enable companies to swiftly pivot and maintain productivity in the face of unforeseen circumstances.

Understanding the Emotional Well-Being of Employees

The health and safety of employees goes beyond the physical workplace. According to the American Psychological Association, a mental health crisis has emerged as instances of stress, anxiety, and depression are on the rise. This can lead to lower levels of employee well-being and productivity, as well as increased organizational costs. Now, as many companies are asking employees to return to the workplace, new mental health stressors have emerged, as many are reluctant to leave their home offices.

Boards that respond with empathy and take into consideration the mindset and needs of employees will be better positioned to support leadership in managing this situation. “This was a very human crisis, and that's a different dimension compared to most business or financial risks,” noted one director who commented on this topic for this article. “Boards had to become more people-focused than they have ever been before.”

Organizations are already responding to the pandemic-related mental health crisis among employees. In the 2020-2021 Global Talent Trends Study by Mercer[1], 45 percent of US human resources executives reported adding benefits to address mental and emotional health issues. A continued focus on employee well-being will take time and resources, and conversations at the board level about these critical issues will help keep the needs of employees front and center as new policies are proposed.

Reshaping the Paradigm for Talent Acquisition

Talent acquisition and retention continues to be a top challenge facing organizations, according to Mercer’s survey of human resources professionals and risk managers. That challenge is not only finding the right talent to fill the positions, but also creating a diverse organization that works together to contribute to the overall health of our society and contributes to an employee's sense of inclusion and belonging.

Society and employee populations, especially younger generations, are more culturally aware and awakened in an era of #MeToo, George Floyd and Greta Thunberg. While the immediate global health crisis took precedence over sexual harassment, systemic racism, and climate change concerns in many ways, they remain at the forefront for leadership and employees. In a tight labor market, employees want to have a strong connection to purposeful organizations that demonstrate strong environmental, social, and governance (ESG) values, and they are more likely to stay and be more productive for these kinds of employers.

In addition, new technologies, changing demographics, and the pandemic are creating other challenges for employees as they seek to find not only satisfying work but also to work in a manner that contributes to their well-being. This changing nature of work[2] also requires new considerations for talent management. For example, boards should be aware of the legal and operational issues associated with flexible working, gig workers, and technology adoption. As more of the workforce opts into flexible working arrangements, organizations will need to examine investing in digital technology and designing work experiences and benefits that demonstrate a deep understanding of the needs of their people. These topics belong at the board table, as they can support talent development that leads to healthy and sustained organizational growth.

Raising the Bar for ESG

ESG issues have taken on new meaning in the last ten years and efforts have accelerated globally over the past 18 months. Disparities made more visible during the pandemic triggered new levels of thinking and a sense of urgency to build more inclusive and sustainable economies. Younger generations have chosen to align themselves with brands that demonstrate socially and environmentally conscious values. Climate change, diversity of thought, inclusiveness, wealth disparities, and more are no longer issues that live outside of the boardroom. Understanding the impact of the organization on social and environmental issues and guiding leadership toward sustainable and conscious solutions will go a long way toward building truly healthy societies.

Looking Ahead

After threatening public health and ushering in unprecedented disruptions, the COVID-19 pandemic has uprooted daily life and fundamentally transformed values for companies, employees, and society. Boards that adopt a people-first and healthy society mind-set can help leadership in developing sound strategies for the future. And that future begins with recognizing and embracing the expanded role employers can play in the health and well-being of employees inside and outside the workplace.

Martine Ferland is President and CEO of Mercer and Vice Chair of Marsh McLennan. She was named to the NACD Directorship 100 in 2021.

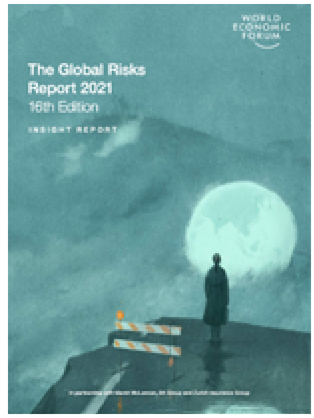
Endnotes

1 2021 Global Talent Trends Study. (2021). Mercer. https://www.mercer.com/our-thinking/career/global-talent-hr-trends.html

2 Resetting the Future of Work Agenda (2021). World Economic Forum.
https://www.mmc.com/insights/publications/2021/march/resetting-the-future-of-work-agenda.html

Further Reading

2020-2021 Global Director Survey Report

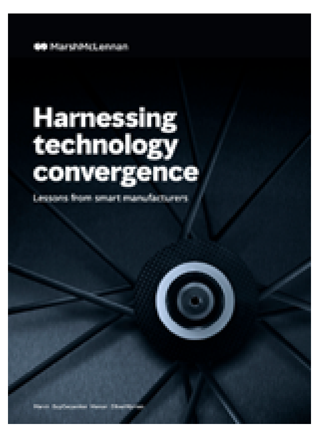


Global Risks Report, 2021

Risk Resilience Report

Sustainable at the Core

Resetting the Future Of Work Agenda



Harnessing Technology Convergence

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