

EVERSHEDS  
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## **In The Boardroom:** Risk Governance Review



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OXFORD  
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# Foreword

Welcome to Eversheds Sutherland's Risk Governance Review 2019. We hope it will provide you with useful insights which you can use on your own boards.

We have previously published reports on board effectiveness looking at governance across a number of different areas. In this report we focus on how boards address risk and where they currently see their greatest risks lie.

In addition to commissioning a global survey by Oxford Economics, partners in Eversheds Sutherland's worldwide offices personally interviewed 50 board members to gain a deeper understanding of their approach to risk and how their companies structure their operations and governance to mitigate risk.

From the interviews I personally conducted it is clear to me that the most effective boards, when looking at strategy, are indirectly thinking about risk. Nearly every director, whether executive or non-executive, with whom I spoke said that every decision taken by a board carries a risk element and so you cannot separate the two. Those who believe they have a visionary CEO were particularly comfortable with the lens through which the board addresses risk: for example, in cases where a company is reinventing its business model before the competition gets there first.

The approach to how risk is managed—whether through a committee or by having a risk officer—varies in companies and sectors as this report shows.

In the space of just a few years, disruptors have utterly changed markets in certain sectors. At the same time, cyber risk has climbed to the top of most companies' worst fears as our findings show. These risks reflect the changing world in which we live.

Boards are clearly taking active measures to identify and control those risks which they can—however, "unknown unknowns" remain universally difficult.

Some areas remain relatively low on board agendas and perhaps should be higher. Those we identified are climate change and artificial intelligence. As a society we are becoming acutely aware of the impact we are having on the world in which we live, however, preparing for the business risks that climate change can bring does not yet appear to be a priority for most. Likewise boards recognise the importance of technology, yet use of artificial intelligence is low.

Against a backdrop of an ever more uncertain global geopolitical climate, it is no surprise that boards have a greater awareness of these emerging dangers and are adapting their practises to consider risk in a far more strategic way. I believe the approach to risk in the boardroom has developed in recent years and that we shall continue to see yet more progress.

I would like to thank everyone who gave us their time and frank responses that have provided such valuable insight in this report, as well as those who have played a pivotal role in putting it together.



**Aileen Gulvanessian**  
*Head of Boards and Governance*





# Introduction

Corporate board directors are working harder than ever before. New regulations, changing business models, rising shareholder activism, and other emerging risks require rapid responses. At the same time, technological innovation offers many companies a chance at digital transformation, adding urgency to the board's strategic mandate. What risks are top of mind for directors? How do successful boards stay on top of these risks while remaining agile? And what can all boards do to adopt best-in-class governance practices?

To answer these and other questions, Eversheds Sutherland and Oxford Economics conducted an anonymous survey of 350 board directors worldwide, 91% of them serving at publicly traded companies. In addition, Eversheds Sutherland interviewed a number of executive and non-executive directors on a non-attributable basis, and Oxford Economics conducted telephone interviews with two board members who agreed to speak on the record. Quotes from these in-depth conversations are included throughout our report, and we are grateful to all our interviewees for their insights.

Our research shows that boards are overwhelmingly confident that they are doing all they can to anticipate and mitigate risks in their businesses. They unanimously agree that both long-term growth and risk management oversight are their top responsibilities. Rather than being paralyzed into inaction by these potentially contradictory remits, they view decisions they make through the lens of risk oversight. This approach helps directors think ahead. Our survey and interviews show that most boards are adopting sophisticated risk management practices, even as the risk environment becomes more complicated and the stakes grow higher. As one non-executive director put it, companies must "see risk management as more than a tick-the-box exercise."

Boards see a broad range of threats to their business today. When asked about the top risks to their organization, directors most frequently cited cyber risk; operational or supply chain risk; regulatory risk; financial risk and risks to their business model from digital transformation. Top risks varied slightly by geographic region, but overall were very similar (*Fig 1*). We also found that most boards are being proactive to protect their businesses from emerging risks. Only 15% of survey respondents report suffering a major internal risk incident over the past three years and several interviewees shared the risk management lessons their organizations learned from such events.

Board members know they cannot rest on their laurels. While our survey results show corporate governance is in fact evolving to meet new challenges, there is always room for improvement. The coming revolution in artificial intelligence and robotics has the potential to mitigate risks or multiply them, depending on how organizations deploy these technologies. Always on the horizon, too, are the “unknown unknowns” that boards must try to identify—even when these risks are unpredictable.



*...Risk means different things, depending on the sector you're in and how heavily you're regulated...*



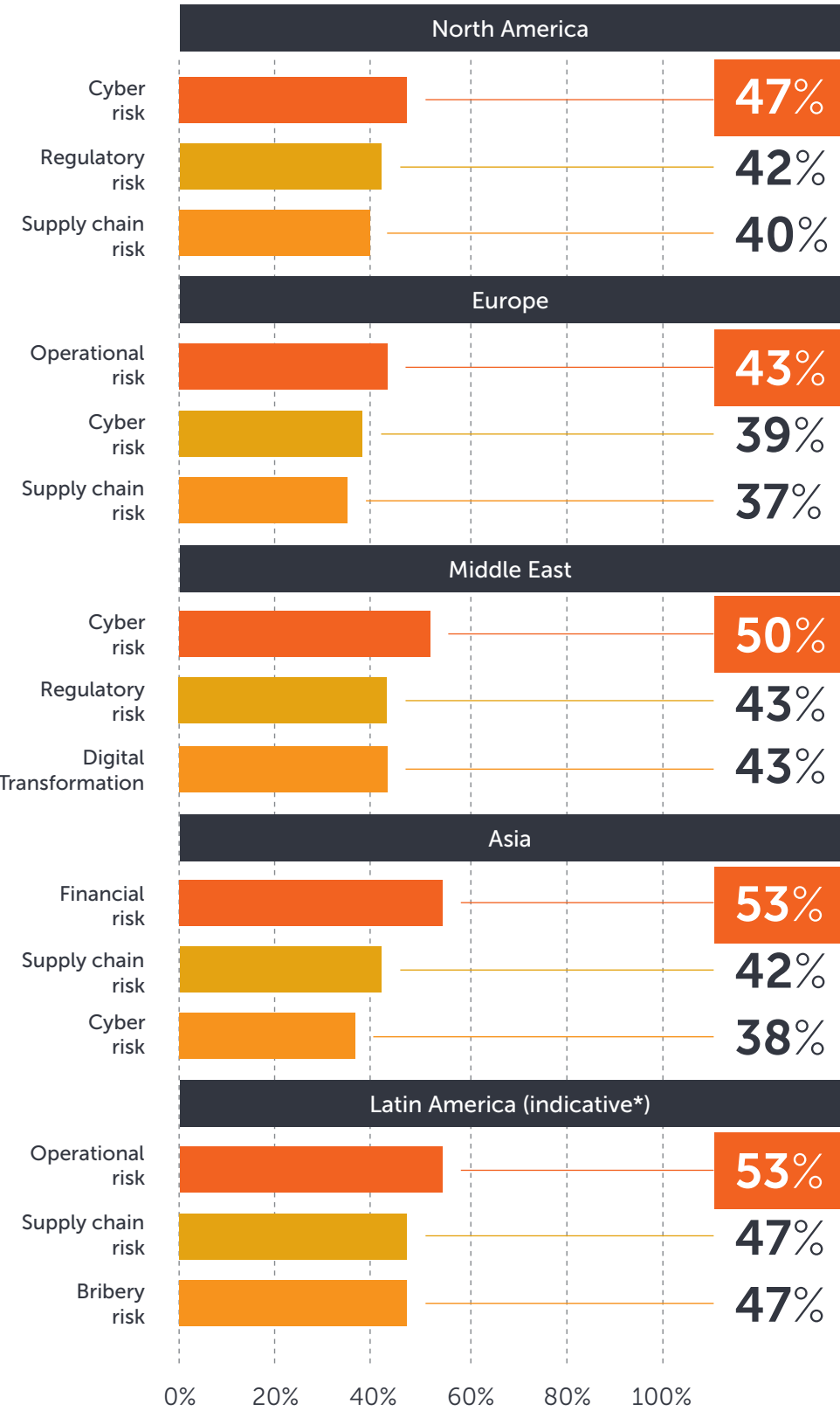
However, as we shall see, there is no single or infallible way to oversee risk. In heavily regulated industries like finance or pharmaceuticals, compliance forms such a significant part of risk management that board directors need to focus on operational risks. In industries undergoing upheaval because of business model transformation, like retail or media, the board may spend more time on strategic risk.

“Risk means different things, depending on the sector you’re in and how heavily you’re regulated,” says one UK-based director who sits on boards at both regulated and non-regulated companies.

These differences often determine risk management structures, including whether companies have a chief risk officer (or similar function) and whether they create one or more separate risk committees. Some companies rely heavily on their internal audit function, which may report to the board or to the audit committee. Industry differences can also affect internal board issues, like the audit committee’s role. Thus, while board directors bear ultimate responsibility for risk management oversight, they have considerable leeway in how they discharge that responsibility.

Our research suggests there is more than one effective approach.

**Fig. 1:**  
Please identify the top risks to your business today  
Top three risks per region



\* Indicative due to relatively low sample size



**Board confidence is  
high—and so is risk  
awareness**

We asked survey respondents to rank, in order of importance, the top risks to their business out of a long list of 20 options - ranging from cyber risk and Brexit to catastrophic climate events. Of those, seven floated to the top, with remarkably similar response rates. Board members chose cyber risk most often (42%); operational and supply chain risks are joint second (39%); and regulatory risks (36%) come in third, closely followed by financial risk (35%) (Fig. 2).

It is no accident that risk areas where the board has a measure of control—CEO succession, key person risk, shareholder activism—rank lowest on directors' list of concerns. For example, only 4% of survey respondents mention CEO succession and key person risk among their top three concerns and just 6% cite shareholder activism. On the other hand, areas where risk events cannot be predicted or controlled, like cyber, rank much higher.

"[Our company] does worry about cyber risk and puts a lot of effort into systems," says the CFO of a UK food services company who serves on its board. "However, we do get attacked on a regular basis. The challenges for the IT security plan are how to defend the perimeter and how to protect internal contamination."

**“** *...The board needs to understand the guts of the business...* **”**

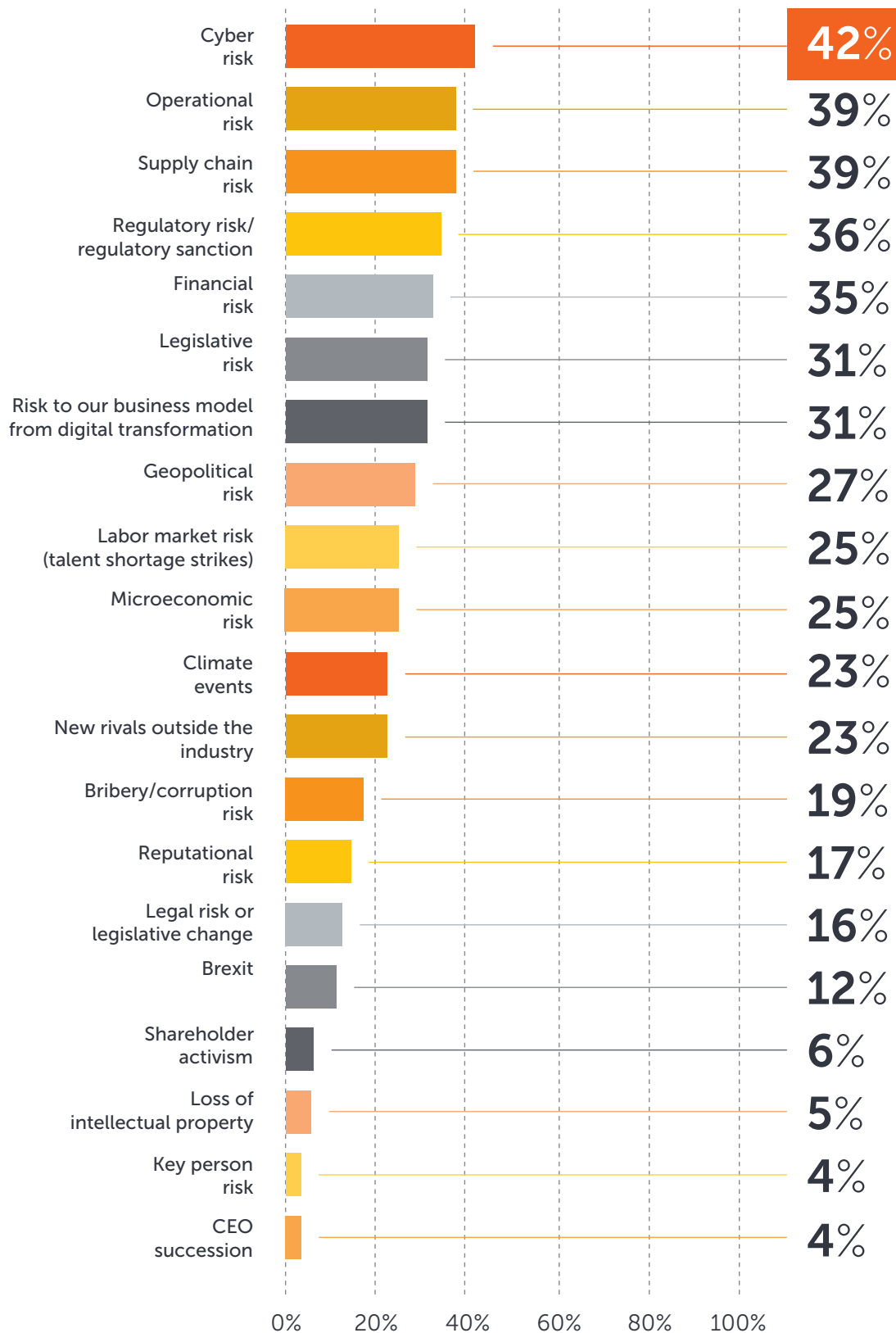
The chairman of a UK financial services company says that corporate directors can reduce operational risks by engaging with the business. "The real risk of a business doesn't derive from board process, requirements to report, or its composition," he says. "It derives from the board's lack of engagement with, and understanding of, how the underlying business actually operates. The board needs to understand the guts of the business."

Not surprisingly, top risks cited by board members reflect their industry and geographic market. Whereas only 12% of survey respondents overall cite Brexit as a top risk to the business today, 60% of UK-based directors do. Meanwhile, 80% of directors at financial services firms say cyber risk is a top concern and 75% at food or consumer products companies cite supply-chain risks. (For more geographic and sector insights, please see the Appendix on page 43.)

Yet it would be dangerous to tie a company's risk vulnerability too closely to its region or industry. For example, although few of our survey respondents in the chemical and energy sectors named cyber as a top risk, a cyber attack on a utility or chemical plant could have catastrophic results. Furthermore, risks can have spillover effects: Some board directors noted in interviews that their companies' supply-chain and operational risks were related to Brexit uncertainty. This may explain why relatively few respondents globally cite Brexit as a top risk—for some companies, it translates directly into other types of risk.

**Fig. 2:**

Cyber emerges as a top business risk, while issues under the board's control rank lower  
Please identify the top risks to the business today



Many boards are addressing these risks proactively. A majority of survey respondents, as well as many interviewees, say they have adopted new risk management practices in response to emerging cyber risk (65%) and regulatory risk (55%). Nearly all financial services respondents (93%) say they have updated cyber risk management practices. In addition, at companies that manage supply chains, procurement executives brief the board on a variety of topics—from corruption and bribery risks to supplier concentration and creditworthiness. About half of our survey respondents receive these briefings biannually and a fifth receive them quarterly. However, there is room for boards to be better informed. Half of respondents never receive briefings on geopolitical risks and 43% never receive briefings on IP theft.

On the whole, our survey respondents are extremely confident in their risk management practices. Overall, 99% of respondents say their board is doing all that it can to identify and anticipate risks within their business, a number that is remarkably consistent across geographic locations, industry sectors and company sizes.

For example, to get ahead of cyber risk, the finance director of one UK industrial manufacturing firm says: “We have external support looking at our IT security infrastructure. Our financial teams are also running risk seminars internally every six months to highlight cyber risk and security issues.”

Such approaches appear to be paying off. Only 15% of our survey respondents reported suffering a major internal risk incident in the past three years. It is clear from our survey that boards are adopting new practices to address certain risks. This indicates a shift is under way in how companies take on emerging risks and potential “unknown unknowns.”



*The majority of survey respondents and interviewees say they have changed their risk management practices in response to emerging risk, especially cyber*



# Emerging risks and unknown unknowns

While certain catastrophic risks lie beyond a board's control, our research shows that many directors are nevertheless discussing and preparing for potential disaster in areas that might not have appeared on most boardroom agendas just a decade ago. As we have seen, effective boards are already changing their oversight procedures around cyber risk. Furthermore, at the best-run companies, the board and management strive to turn emerging risks into opportunities. For instance, one UK-based industrial manufacturer is looking beyond plastics in response to climate change—a new direction inspired by the CEO.

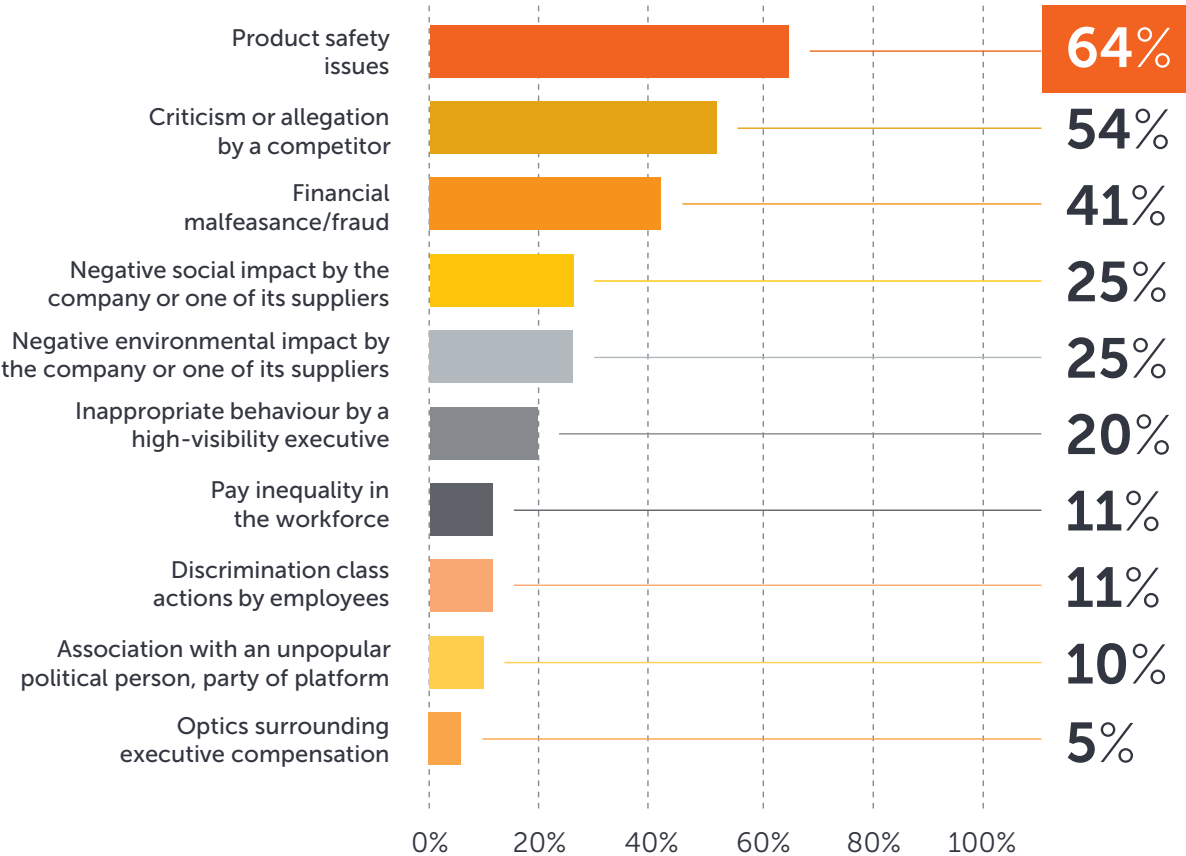
Reputational, operational, geopolitical and supply chain risks are also high priorities for board directors in some sectors, including manufacturing, food/consumer products and others. Respondents who cited reputational or supply chain risks see a broad range of danger areas (Fig. 3)—not surprising, given a global economy in which suppliers, partners and customers may be scattered around the world and a digital environment in which news, whether true or false, spreads nearly in real time.

Dan Cooperman, a board member at California-based Molina Healthcare and chair of the cyber-risk committee, says Molina's board devotes special attention to unknown unknowns—and he notes it is not easy. "There are these unknown developments that have an incredibly large impact on the operations of the company," says Cooperman "What do you do in a situation like that? It's contingency planning. You sit around and try to envision all the things that could happen and how best to respond. It's a very, very difficult thing to do."

An important factor in most emerging risks is that they are difficult, if not impossible, to predict. The CFO of a UK-based utility described an unexpected weather event that cost the company a good deal of money and derailed progress on some initiatives. However, he was sanguine about the fallout, saying, "[The unexpected risk event] led to new levels of understanding of our risk environment and ultimately greater resilience to them." Mitigating risks from sudden events beyond their control—like climate events, which are likely to become both more frequent and more severe—should now be a part of every board director's oversight mandate.

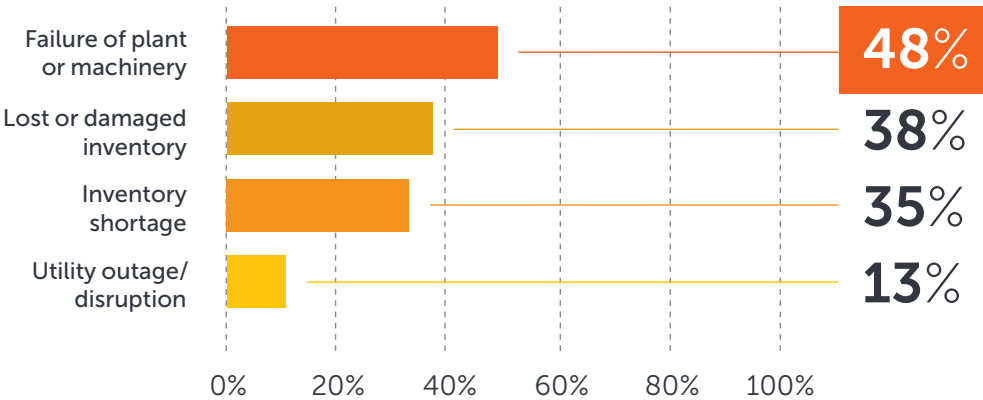
***Mitigating risks from sudden events beyond their control—like climate events...should now be a part of every board director's oversight mandate***

**Fig. 3:**  
**Product risk is the most common source of reputational risk**  
Which of the following could present a potential reputational risk to your business?\*



\* Of respondents who selected "reputational risk" or supply chain risk as one of their highest risks

**Fig. 3:**  
**Equipment failure tops the list of operational risks**  
Which of the following could present a potential operational risk to your business?\*



\* Of respondents who selected "reputational risk" or supply chain risk as one of their highest risks

When it comes to preparing for the unexpected, our survey revealed some startling differences by industry and turnover. Chemical industry respondents are the least likely to say they are confident that their board is doing all it can—though they are still almost in unanimous agreement (88%). Smaller companies in our survey (with annual revenues of less USD 250 million) are more likely to say they do not wait for scheduled meetings when they judge a risk to be imminent (83%, vs. 65% of companies with more than USD 20 billion in annual revenues). Meanwhile, 87% of telecom companies say they regularly discuss unknown unknowns, vs. just 44% of industrial manufacturing companies and 26% of engineering companies. This could reflect the breakneck pace of change in the industry due to technology advances.

Overall, 61% of survey respondents (Fig 4) say their board or strategy committee regularly discusses unknown unknowns (this figure is highest in North America—69%—and lowest in Asia, at 49%). Many board members are keenly aware that preparing for unpredictable risks like equipment failure and weather events can be difficult. Even harder to mitigate are risks from competitor allegations or employee malfeasance. Interviewees who have had to deal with those risks, among others, take an optimistic view, saying their company has used the risk event as a learning opportunity.

Clearly, there is no universal approach to managing operational risks and unknown unknowns. But our interviews indicate that successful boards establish a culture of risk awareness. A non-executive director at a UK consumer products company said that on her board, “there is a full appetite for risk; no one regards it as ‘boring,’ so it becomes strategic. If anything goes wrong, there is always a desire to understand why it wasn’t foreseen. But there is no ‘blame’ culture if something was missed, just a desire to learn from it.”

One area where boards are working hard to prepare for the unknown is digital transformation, an area full of expectations, opportunities, and uncertainties.

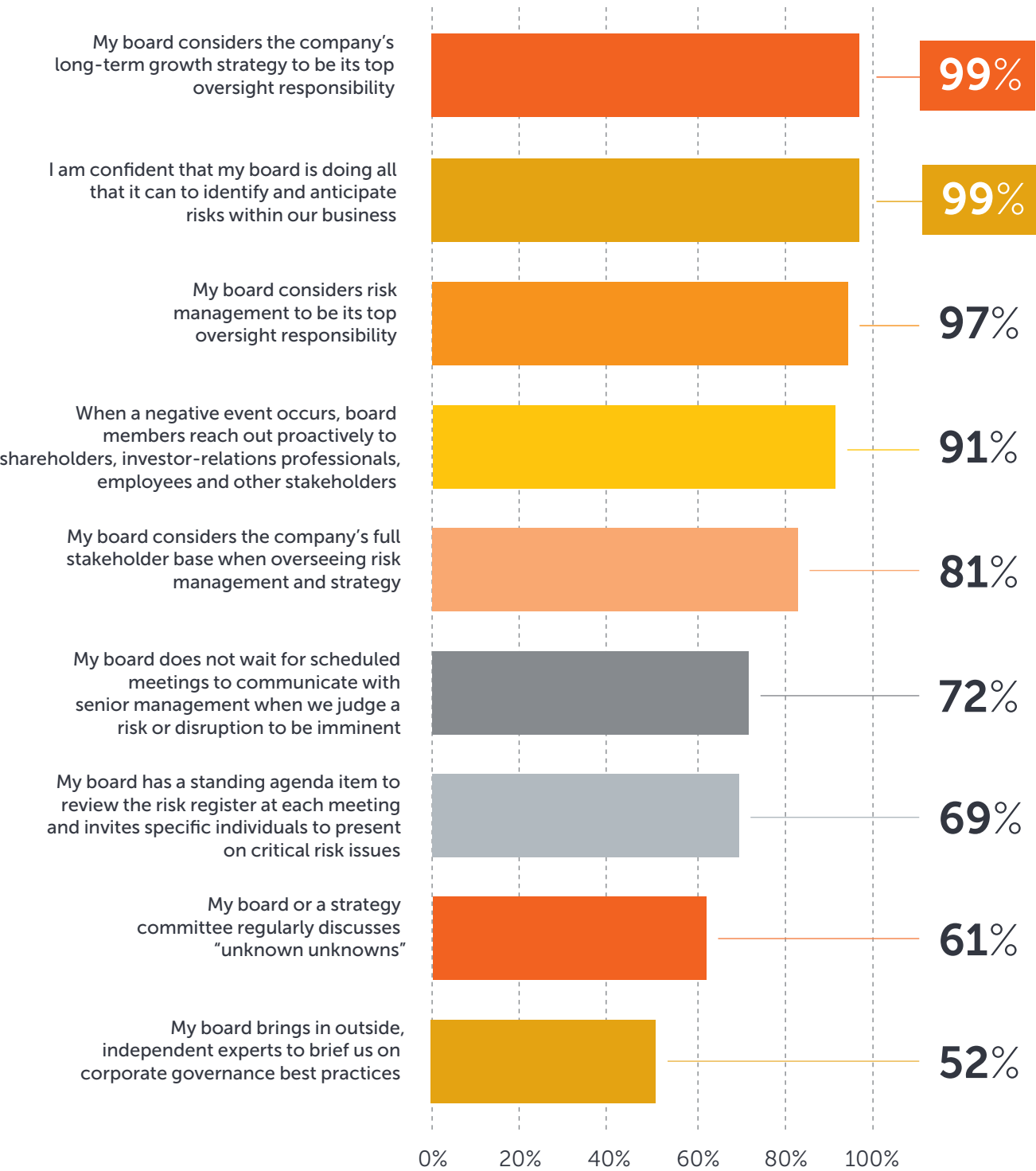
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*...If anything goes wrong, there is always a desire to understand why it wasn't foreseen...there is no 'blame' culture if something was missed, just a desire to learn from it...*

”

**Fig. 4:**  
**How boards approach corporate governance and risk oversight**  
Please rate your level of agreement with the following statements

*“Agree” and “strongly agree” responses*



# What Board members

## What is risk?

***“ Risk should sit within the strategy and that is where the Executive should talk about risk.”***

*“Every decision a director takes on a matter, especially the FD/CFO, is a judgment on risk. There is nothing you do in the running of a business which doesn't go to risk.”*

*“We put huge weight on culture, reputation and risk. It is at the heart of the business.”*

***“ Everything becomes a reputational risk, if it is serious enough.”***

***“ Ethics are a key part of (controlling) reputational risk. People have to do the right thing.”***

*“Sometimes a matter which is normally for executives should be elevated to the Board because it is a strategic risk.”*

*“Managing risk is a function of managing your whole business for all your stakeholders.”*

*“Reputational risk is not just contained to us but to those in the sector therefore it is important to talk to those within the sector...to minimise risk by contagion.”*



# ...ers have told us...

## Management of risk

*"Ensure that risk is embedded [top] down throughout the organisation."*

***" You need to understand the culture to avoid risk. "***

***" Building an organisation which is at its heart, agile and can move quickly and respond is your best defence to the unknown unknowns. "***

*"Internal audit and risk management is about making the business better, not about box-ticking."*

***" Unknown unknowns should be a part of your strategic planning process. If you do not understand the risk environment you are in, you cannot strategically plan. "***

*"[Risk] can be a dry exercise so you need to approach it differently.... not approach it as a tick box exercise."*

***"Risk appetite is what [board members] find really hard.... NEDs will be more risk averse than management."***



# The digital transformation opportunity

Across industries and geographies, the board members we interviewed see two distinct levels of digital transformation risk. One is the threat that “digital native” rivals from outside the industry will swoop in to disrupt the business. The other is the opportunity cost of neglecting how emerging technology fits into the company’s long-term growth strategy. As one director in the financial services sector put it: “Digital transformation is a risk if you miss the boat but it actually presents the biggest opportunity for this bank to leapfrog the competition. It’s only a risk if you fail to take advantage.”

Our survey results show that organizations are taking proactive steps to prepare for digital transformation (Fig. 5). However, these results differ by industry group and company age. Only 27% of energy and mining respondents have hired a director with technology expertise, the fewest of any industry group surveyed. While 42% of companies between 10 and 20 years old have hired a director younger than 40, just a quarter of companies 5 to 10 years old have done so.

Responsibility for overseeing digital transformation risk does not rest exclusively with younger or technology-savvy hires. Says Mr. Cooperman of Molina Healthcare: “We’ve got people who have lengthy tenures. Those folks have a sense of perspective that is very useful to the decisions we make.”

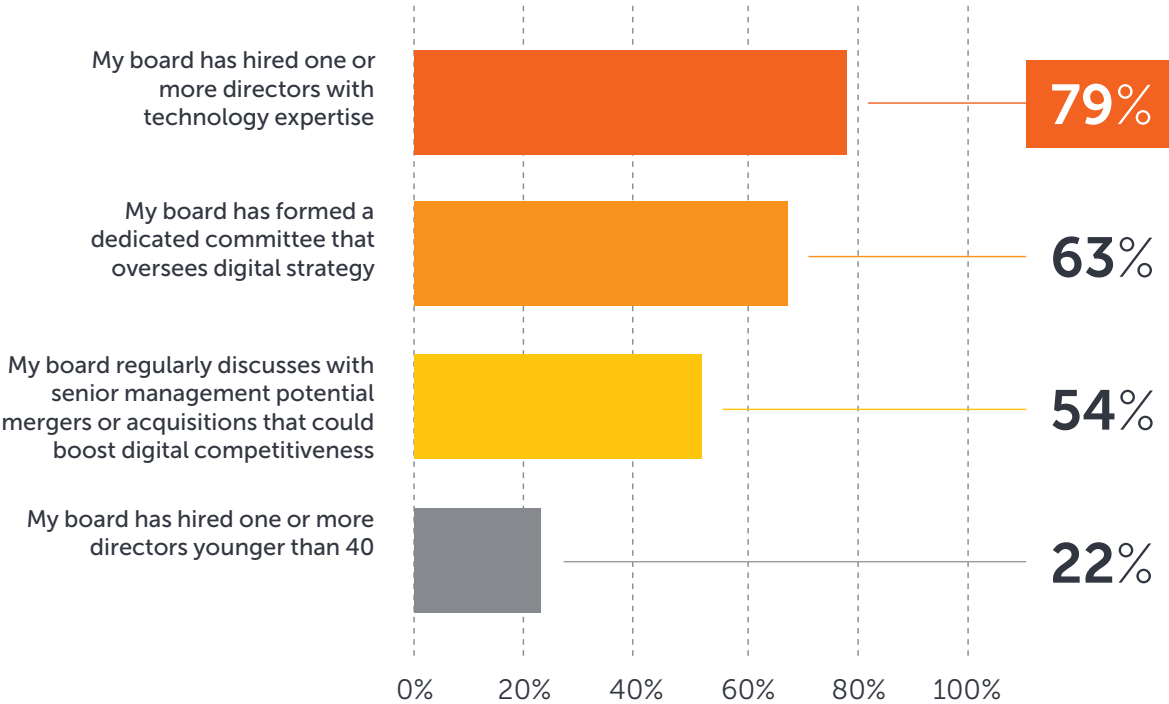
More than three-quarters of survey respondents say their board has brought on a director with technology expertise to navigate the digital transformation waters. Many others rely on senior management or outside consultants for advice on the technology revolution. However, somewhat fewer than half (43%) say they have changed risk management practices to address threats from digital transformation.

That figure may be relatively low simply because some boards do not know where to begin—a potential blind spot, where so-called digital natives from outside their own industry could sneak up on established companies and steal market share. Board directors, having seen this happen to former corporate Goliaths in retail, banking and entertainment, know it could happen to their company too.

“*...Digital transformation... presents the biggest opportunity... to leapfrog the competition. It’s only a risk if you fail to take advantage...*”

**Fig. 5:**  
**Boards take digital transformation risk seriously**  
Please rate your level of agreement with the following statements about digital transformation and threats to the company’s business from digital disruption.

*“Agree” and “strongly agree” responses*



The next wave of momentum for digital transformation is likely to come from emerging technologies like artificial intelligence (“AI”) and robotics. However, while 61% of survey respondents believe these technologies will improve their company’s efficiency and performance and 63% say their board has discussed the challenges and opportunities of using AI and robotics (Fig. 6), the reality is murkier. Many companies are taking a wait-and-see approach, carefully assessing the pros and cons of AI before implementing it fully in their business.

Boards are understandably focused on the risks of these technologies, with 42% of survey respondents saying AI and robotics will create new business risks. Our interviews suggest a broad spectrum of adoption and attitudes to AI. While many companies don’t expect AI to be used broadly for several years to come, others are forging ahead. The president of one Swiss insurer reports that its board is monitoring advances in robotics, and believe that this technology could actually reduce some risks, as robots make fewer mistakes than humans do.

So how do boards prepare for risks from digital transformation? The chairman of a Qatar-based bank reports that his organization has invested heavily in IT infrastructure, allowing management to automate many functions and increasing its data analytics capabilities. Such changes can perhaps provide a roadmap for other organizations facing digital transformation risks. Rather than simply recommending that their company buy the latest technology, boards should encourage management to leverage existing capabilities, expertise, and data, upgrading internal systems and processes to gain an advantage on the competition.

The aforesaid chairman says that the IT infrastructure moves have helped shift his bank’s business model to an open banking system and in many regions of the world, this is the industry’s next wave. “It is an opportunity to change mindsets, re-educate the entire team, and create a new entrepreneurial culture in the business,” he says.

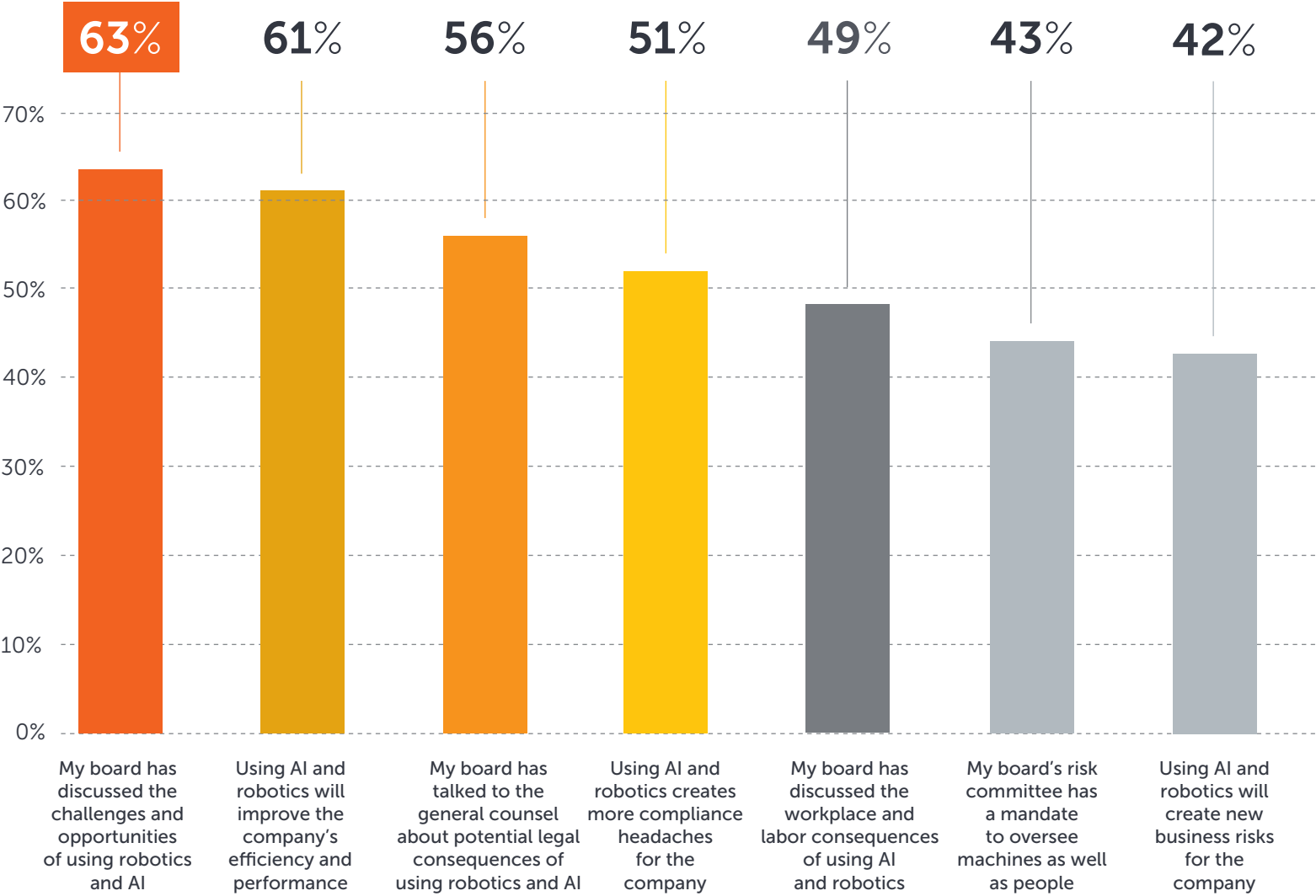
Some directors say their boards engage in regular horizon-scanning exercises. And some organizations have revamped their oversight and reporting structures to address issues related to digital disruption. The chairman of one Swiss insurer reports that a special digitalization committee deals with unknown unknowns and more than half regularly discuss potential mergers or acquisitions that could boost their company’s digital competitiveness, or form a special committee to oversee digital strategy. These are just some of the best practices boards are adopting to manage risks from digital transformation and emerging technologies.

***...boards should encourage management to leverage existing capabilities, expertise, and data, upgrading internal systems and processes to gain advantage on the competition...***

**Fig. 6:**  
**AI and robotics are top of mind**

Please rate your level of agreement with the following statements about automation and intelligence.

*"Agree" and "strongly agree" responses*







**Best-in-class risk  
oversight means  
continual improvement**

There is no one-size-fits-all approach to effective risk oversight. Our survey respondents and interviewees detailed many ways their companies manage risk. In fact, many boards, taking no chances, re-evaluate their approaches on a regular basis. The chairman of the board of a UK-based media and communications company says that because her industry is in constant flux, almost every conversation the board has is about risk. "Living, breathing risk is what we do, because of the activity of the company," she says. This is echoed by the chairman of a financial services company, who says, "In our business risk issues are completely interwoven in everything we do. Some people make carpets, we manage risk."

Risk management tools such as risk registers or risk appetite schedules, which are designed to ensure that nothing slips through the cracks in the continuous compliance and risk monitoring process, can help. Our interviewees suggest that these tools are most useful when customized. For example, some boards assign responsibility for covering the risk register to business units, which then report to a risk committee or the audit function who in turn report to the board. Others have the business units present directly to the board. Some boards assign responsibility to a chief risk officer or similar point person.

Directors stress that trying to tackle the entire register at each meeting is usually counterproductive. As one director put it: "My experience of risk registers is that they have often missed the biggest risk that comes up." Rather, boards add value by concentrating on top risks in real time. As the general counsel of a UK financial services company says: "We used to get risk owners to attend the risk committee [meeting] by rotation. That has changed to focus on top risks rather than random rotation."

One area where our survey revealed an evolution is the presence of a chief risk officer (CRO). Of course, in some industries, like financial services, the CRO position is mandated by regulation. However, we find that a majority (57%) of our respondent companies have a CRO (Fig. 7). By contrast, just 28% of companies reported having a CRO in 2014<sup>1</sup>. While the earlier survey had slightly different demographics and scope, it is clear that over the past five years, the once-rare CRO role has become far more commonplace.

<sup>1</sup> Aon Global Risk Management Survey 2015:  
<https://servizi-it.aongate.it/Documents/2015-Global-Risk-Management-Report-230415.pdf>

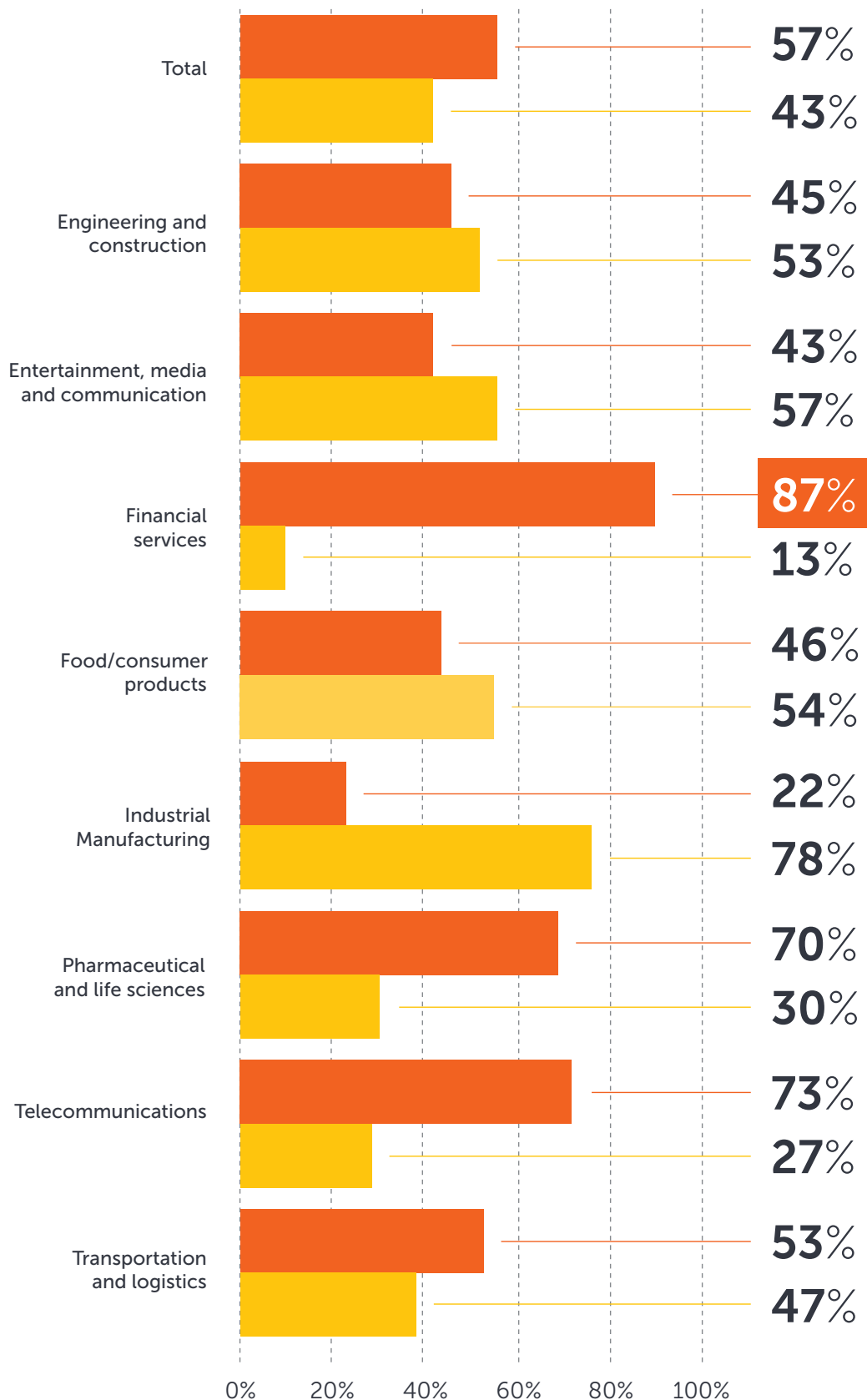
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*...My experience of risk registers is that they have often missed the biggest risk that comes up...*

”

**Fig. 7:****Most companies surveyed have a chief risk officer**

Does your company have a chief risk officer/risk director?

■ Yes    ■ No


However, just because a company lacks a CRO does not mean there is no point person for risk. At non-financial firms, the role may be performed by someone holding a different title. In some cases, according to our interviews, risk responsibility falls under the internal audit function, which may even be outsourced.

Other companies use outside consultants to help fine-tune risk management practices or identify potential blind spots. Just over half (52%) of survey respondents say their board brings in independent experts for help with corporate governance best practices (Fig. 4).

The CFO of a quoted UK manufacturer brought in a consultant when his board was looking to improve its approach to risk. "The breakthrough was getting in an external facilitator to [help us] think differently," he says. Similarly, at the Qatar-based bank, an independent consultant's assessment helped the board address 69 out of 78 gaps in its practices in just three years. The chairman says the board has now moved from 'needs improvement' to 'exceeding international best practices.'

That performance is impressive but not rare. Nearly three-quarters (73%) of our survey respondents say their board recommends compliance with "highest-common-denominator" regulations. Such practices do not just safeguard against risks; they also frequently enhance a company's reputation and provide a competitive advantage. This is the case when consumer products companies adhere to best practices in their supply chain, or when wealth management companies adopt fiduciary standards even when not required to do so.

“

*...The breakthrough was getting in an external facilitator to [help us] think differently...*

”

The complexity of risk oversight explains some of our survey results and the fact there is no single solution. For example, only 21% of respondents say their board has a member responsible for risk. These companies may have developed their own governance structure to manage risks without assigning a board member or having a separate risk committee.

The CFO at a British consumer packaged goods maker, who serves on its board, describes his company's thorough yet individualized risk management structure: "There is a formal risk reporting cycle. It is facilitated by internal audit, headed by an independent director. They operate independently. They interview every executive board member to identify risks and review the identified risks and new ones, and mitigating actions. That flows up to the full board. Risk is discussed every six months by the full board."

Two-thirds of survey respondents say they have a dedicated risk committee (and two-thirds of those respondents say the risk committee reports to the CEO). But our interviews shed light on the wide range of reporting structures. Some risk committees report to the full board, others to the secretary/general counsel, or audit committee. An independent, non-executive director at a Chinese industrial firm reports that “risk management is tagged onto internal audit, who will directly report to the board and is not answerable to the CEO.”

Regardless of the exact structure of risk governance, one thing is clear: to succeed, organizations must have a proactive, company-wide culture of risk management. Here, too, many of our interviewees report progress in overhauling their companies’ practices.



*...It is part of a board director’s role, really, to challenge and encourage management and to bring experiences from other industries, from other organizations...*



The general counsel of a UK professional services company says risk reporting was “thought to be too flat rather than dynamic and didn’t take a holistic approach.” As a result, the company is overhauling its approach. Similarly, the company secretary of a UK transportation company says changes have come from the top down and are beginning to permeate the organization. “The CEO is starting to take ownership whereas he would not have done so previously,” he says.

Often, an external event requires directors to see past the immediate upheaval and help management plan for a different future. For example, Mr. Cooperman joined Molina Healthcare’s board just as the US adopted the Affordable Care Act, which “turned the industry upside down,” as he puts it. However, the tumult did not daunt him. “Actually, it was a fortuitous time to join the board,” he recalls. “Because it meant a lot of the opportunities that companies had were completely changed overnight, and they had to now consider both their current operations in light of these changes, as well as future opportunities. The whole strategy shifted.” To manage the new risks and set the company on a profitable path, the Molina board had to react nimbly. “It was a matter for us of really focusing the company on its strengths, and underscoring those strengths while addressing the opportunities that were presented by these really dramatic changes in the healthcare market.”

Stepping back to consider the big strategic picture while keeping risk in sight at all times is the juggling act of effective corporate governance. Tuija Soanjarvi, who chairs the audit committee of Swedish broadcast technology provider company Edgware and was formerly CFO at several large companies, describes it this way: “The board is not stuck with [managing] daily operations. When you are in an operations role, it sort of limits your bandwidth. It is part of a board of director’s role, really, to challenge and encourage management and to bring experiences from other industries, from other organizations.”



# Conclusion

Our study demonstrates that directors are confident about their approach to risk and that most companies consider risk an essential part of their strategy. However, many recognise they cannot be complacent: our interviews show that board members see risk as an area needing continuous review and evolution.

The approach to risk management depends on the sector, the degree to which a company is regulated, and the nature of its business. The presence or absence of a chief risk officer or a designated risk committee does not mean the company deals with risk any better—or any worse—than other companies do. What is key is that the right risks are prioritised and that the company creates a top-down culture to consider risk appropriately.

Good governance of risk means board members should continually revisit their company's approach to risk. As with all areas of governance, directors should constantly challenge the actions they are or are not taking.

To further improve risk management effectiveness, all companies should consider:

- **getting serious about digital strategy oversight**, to ensure the company is not blindsided by industry upheavals from digital newcomers
- **mitigating cyber threats and risks from digital transformation**, by hiring directors with tech expertise or consulting with outside experts
- **assigning responsibility for risk**, by creating a dedicated risk committee, appointing a CRO or equivalent, or appointing a board member to be responsible for risk management
- **putting “unknown unknowns” on the boardroom agenda**, to improve the company's agility in responding to emerging threats including geopolitical, market disruption, and climate risk and, where necessary, bringing in experts to identify emerging threats in their sector.



“

*...How we manage business everyday is all about managing risk... risk is at the forefront of decisions...*

CEO, UK listed company

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## Methodology

In late 2018, Oxford Economics surveyed 350 board directors at for-profit companies, of which 30 served on the boards of privately held firms. In total 46% of respondents came from Europe; 29% from the US; 13% from Asia; 9% from the Middle East; and 3% from Latin America. Industry groups represented include: telecommunications, financial services, pharmaceuticals, food/consumer products, retail, entertainment, transportation, industrial manufacturing, engineering and construction, chemicals, automotive, utilities, hospitality, energy and mining, professional services, aerospace, technology, healthcare, agribusiness, and industrial products. All companies had annual revenues above USD 250 million, with 58% having revenues above USD 1 billion.

Additionally, Eversheds Sutherland conducted 50 anonymous interviews with clients; quotes from those interviews are identified by the individual's position and industry sector or location.



# Appendix: Geographic and industry highlights

Our anonymous director survey reached respondents in North America, Europe, Middle East, Asia, and Latin America. We surveyed a wide range of industry groups as well, with statistically significant samples from the financial services and telecommunications sectors.

## North America

Risk

Percentage of respondents who cited risk

Cyber risk

47%

Regulatory risk

42%

Supply chain risk

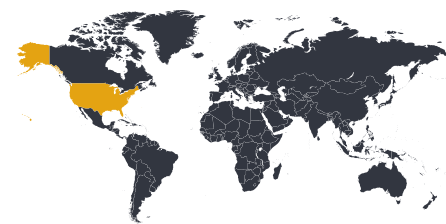
40%

Operational risk

36%

Digital transformation risk

34%



38%

- have adopted new risk management practices to manage risks from competition from new rivals outside their industry (vs. 29% total)

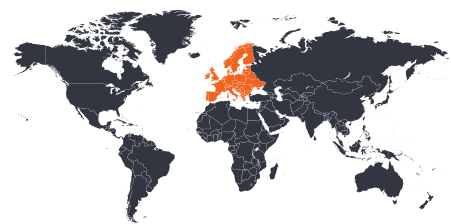
44%

- say AI and robotics will create more compliance headaches for their company (vs. 51% total)

67%

- recommend compliance with “highest-common-denominator” regulations (vs. 73% total)

Europe	
Risk	Percentage of respondents who cited risk
Operational risk	43%
Cyber risk	39%
Supply chain risk	37%
Regulatory risk	35%
Financial risk	33%



14%      94%

- have hired one or more board directors younger than 40 (vs. 22% total)
- say they have gender-diverse boards (vs. 88% total)

Middle East

Risk

Percentage of respondents who cited risk

Cyber risk

50%

Regulatory risk

43%

Digital transformation

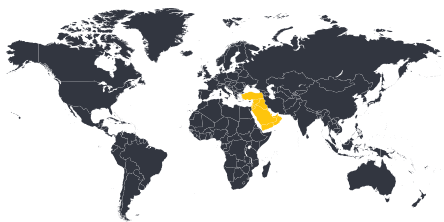
43%

Operational

40%

Supply chain/Geopolitical

33%



63%

40%

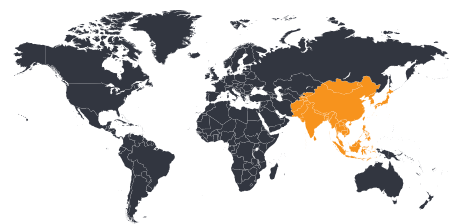
33%

– have hired one or more directors with technology expertise  
(vs. 79% total)

– say they have a board member responsible for risk  
(vs. 21% total)

– say their board’s risk committee has a mandate to oversee machines as well as people  
(vs. 43% total)

Asia	
Risk	Percentage of respondents who cited risk
Financial risk	53%
Legislative risk	38%
Supply chain risk	42%
Cyber risk	38%
Macroeconomic risk	33%



40%      44%      29%

- have hired one or more board directors younger than 40 (vs. 22% total)
- of boards have discussed the challenges and opportunities of using robotics and AI (vs. 63% total)
- bring in outside, independent experts to brief them on corporate governance best practices (vs. 52% total)

Latin America (indicative results)\*

Risk

Percentage of respondents who cited risk

Operational risk

53%

Supply chain risk

47%

Bribery/corruption risk

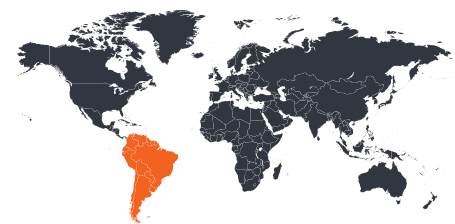
47%

Legislative risk

40%

Financial risk

33%



87%

- say their boards recommend compliance with “highest-common-denominator” regulations (vs. 73% total)

40%

- have formed a dedicated committee that oversees digital strategy (vs. 63% total)

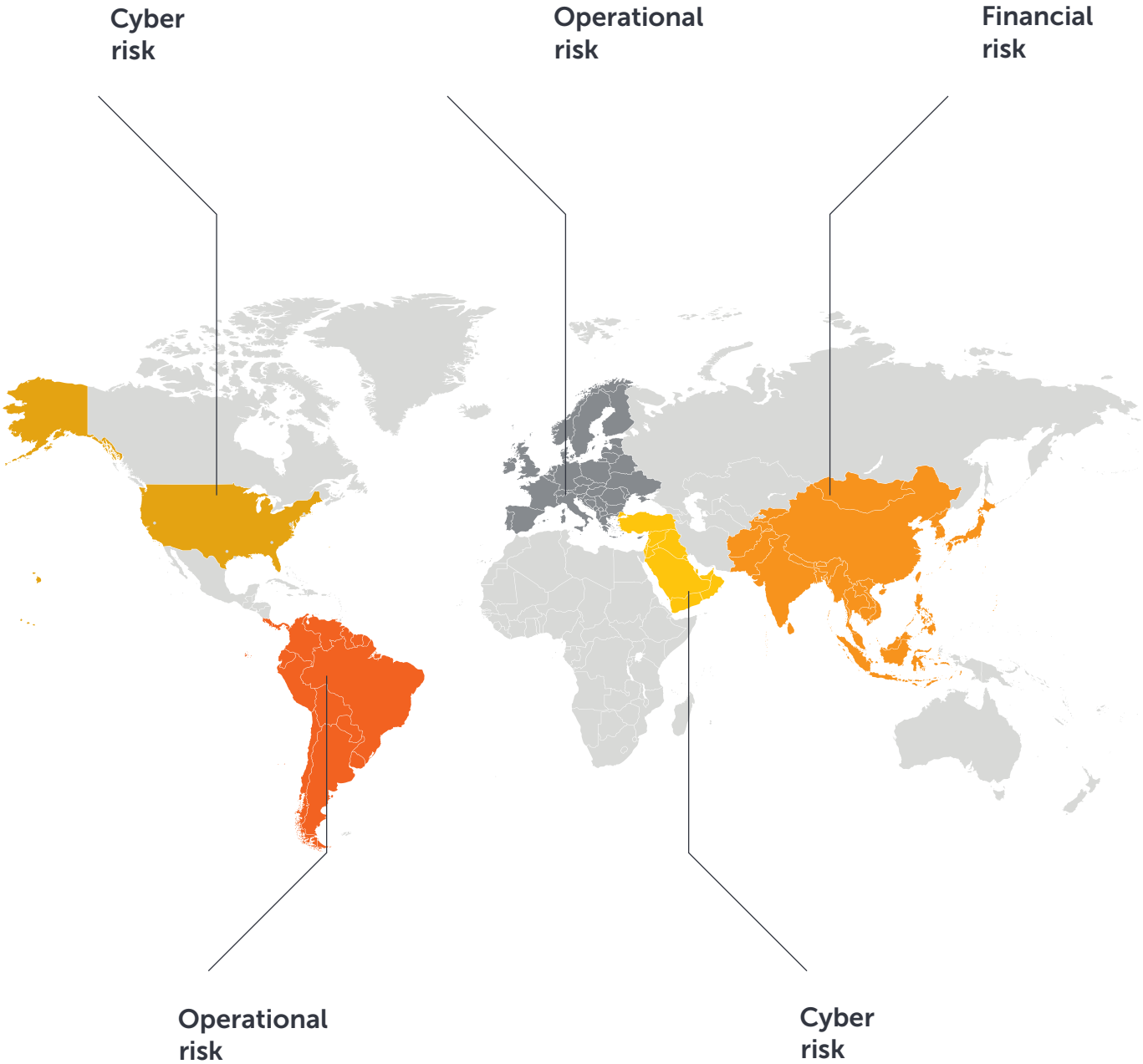
53%

- have hired one or more directors with technology expertise (vs. 79% total)

\* Indicative due to relatively low sample size



Top—cited risk by region



Financial services

Risk

Percentage of respondents who cited risk

Operational risk

37%

Cyber risk

80%

Regulatory risk

43%

Macroeconomic risk

47%

Financial risk

57%

73%

13%

27%

– of boards regularly discuss “unknown unknowns”  
(vs. 61% total)

– have hired one or more directors younger than 40  
(vs. 22% total)

– say their board’s risk committee has a mandate to oversee machines as well as people  
(vs. 43% total)

## Telecommunications

Risk

Percentage of respondents who cited risk

Legislative risk

40%

Cyber risk

97%

Digital transformation risk

37%

Macroeconomic risk

50%

Financial risk

40%

80%

97%

93%

- have adopted new risk management practices to deal with cyber risk (vs. 65% total)
- have formed a dedicated board committee that oversees digital strategy (vs. 63% total)
- have discussed the challenges and opportunities of using robotics and AI (vs. 63% total)





