Theme Paper

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Theme: The Board’s Risk Resilient Strategies

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Business leaders, capitalism, markets and societies face a combination of inter-related challenges such as environmental degradation and the loss of biodiversity and global warming and climate change. Corporate conduct and responses have eroded trust in business leaders. At successive events organised by India’s Institute of Directors they have led to a questioning of the role that capitalism and companies play and suggestions that many boards should review and redefine the purpose, vision, goals, priorities and strategic direction of the enterprises for which they are responsible. Should boards focus more upon the creation of shared longer-term and social value (Porter and Kramer, 2011)? Is more and collective action needed to address pressing problems while there is still time (Stern, 2015)? Are the policies, priorities and practices of some boards now perceived as part of a problem rather than as welcome elements of a solution? Are some directors failing to recognise and address changing stakeholder interests and concerns? Are they now seen as obstacles and barriers?

The theme of the 2020 Singapore Global Convention relates to certain key questions. Will enough boards exercise responsible leadership in the face of severe economic, technological, social and systemic challenges and related opportunities in an uncertain business environment? Are their priorities appropriate and sustainable? Do their approaches and strategies balance the mitigation of risk with assessing and seizing opportunities? Are they sufficiently ambitious and resilient or too risk averse? Do their attitudes towards risk, compliance and conformance inhibit creativity, innovation and entrepreneurship? Some companies seem as resilient as a retreating glacier or an iceberg drifting south. Steady decline may soon lead to rapid disappearance. Some boards cling to past and damaging practices. Will they move quickly and decisively enough to decarbonise before it is too late? Where the adoption of new and less environmentally and resource hungry business and operating models are required, will directors provide the necessary transformational leadership?

To be alive and attempting to achieve something significant is to incur risks (Coulson-Thomas, 2017). More ambitious corporate visions and goals are often accompanied by greater uncertainty of achievement and the prospect of a wide range of potential outcomes. Clever people sometimes use new possibilities for questionable purposes (Kaiser, 2019; Wylie, 2019). For some companies, are their directors now one of their biggest sources of risk? Responsible leaders are concerned with the responsibility of both ends and means. They act responsibly towards stakeholders and when using resources. They endeavour to ensure that their intentions and corporate behaviours are in accordance with relevant laws, regulations, rules and acceptable mores of conduct. They try to ensure their moral principles
are aligned with concerned stakeholder expectations and board decisions are appropriate, proportionate and justifiable in relation to actual and likely costs and benefits.

Responsible Board Leadership

Courageous board leadership and tone at the top are more important than ever in an era in which many people are cynical and distrustful of business, political and other leaders. Integrity should be a priority requirement when selecting directors (Coulson-Thomas, 1993b & 2007). Personal integrity can lead to business success (Solomon, 1999). Directors and boards should pay attention to the example provided by their own conduct, values and behaviours. They should ensure that the activities of people for whom they are responsible are devoted to an inspiring, shared and sustainable purpose and comply with relevant laws, applicable regulations, responsible corporate policies, appropriate ethical codes and current expectations, while being prepared to put the case for review, updating and change where these are considered desirable and/or justified. Some directors are inflexible and/or insensitive to feedback. Some people may have difficulty in balancing conflicting board priorities and/or in deciding whether or not a course of action is compliant, desirable or justifiable. Shared values, goals, purpose and priorities should be clearly articulated.

Relationships with stakeholders can be a central element of responsible leadership (Maak and Pless, 2006a & b). What a board sets out to achieve should be a cause that stakeholders and wider society support. Do some directors favour certain vested interests, while others are overlooked or ignored? Responsible leaders behave responsibly towards all stakeholders. They also ensure that support and guidance is in place to enable others to act responsibly. They welcome challenge and feedback, including on whether a company is doing enough to meet social and environmental obligations. They ensure arrangements are in place to support those who care enough to raise issues and ethical concerns. Do enough directors understand what motivates, inhibits and deters whistleblowers? How many companies have accessible, practical and trusted channels that encourage and protect whistleblowers and ensure the matters they raise are properly handled and any lessons are learned (Kenny et al, 2019)?

Do enough boards ensure that corporate governance arrangements, codes of conduct, and corporate policies and practices embrace social, cultural, ethical, environmental, reputation and relationship risks, as well as financial, commercial, legal and technological ones? Some people have integrity and others do not. Should more companies make use of interactive and personalised performance support tools that make it easy for people to comply with applicable laws, rules, regulations, codes, guidelines and policies, and difficult for them to provide responses and produce outputs that conflict with them (Coulson-Thomas, 2012a & b, 2013c)? The use of such tools can help to ensure compliance and responsible behaviour, especially on the part of front-line staff, independently of an organisation’s culture and structure (Coulson-Thomas, 2012a & b, 2013c). Their use can also enable people to learn from each use. What other strategies should boards consider for improving risk governance and ensuring a culture is resilient and that people behave responsibly, fairly and sustainably?

Board Leadership Qualities and Approaches

Ethics or the moral principles that govern behaviour and conduct have been described as the heart of leadership (Ciulla, 1998 & 2006). Integrity, honesty, openness, fairness and transparency are all qualities of directors that can protect a company’s reputation if they behave responsibly (Coulson-Thomas, 2013a & b). How highly do they rank when selection
and promotion decisions are taken? Networked and supported communities can also enable more balanced responses and actions in unfamiliar situations and thus help to reduce reputational risk. Changing a corporate culture can be time consuming and expensive. Is it sometimes impractical when employees, business partners, customers and other stakeholders embrace a diversity of cultures, religions and political beliefs or unnecessary if various tools, incentives and inhibitors are available for changing behaviour according to circumstances and requirements (Coulson-Thomas, 2014; Thaler and Sunstein, 2008)?

Principles can be an important element in the responsible leadership that can help to build an ethical culture. When rapid transition from one state to another - for example in response to climate change - benefits some and harms others, difficult choices may have to be made. When decarbonisation or reducing emissions causes mass unemployment and disproportionately impacts upon certain communities, how a decision is implemented can determine whether or not it is regarded as ethical, fair and responsible and helps or harms a corporate reputation. The resilience of relationships can benefit when a board explains the rationale for difficult decisions and shows in words and deeds that it cares.

Corporate governance processes and ethical and risk policies and practices may need to be reviewed and changed to allow effective ethical and risk oversight during transformation and the adoption of new forms of organisation, new technologies and new models of business. Many inspiring leaders lead through values and ethical principles (Freeman et al, 2006). Are board members and senior executives comfortable in making ethical decisions? Are steps needed to nurture the emotional intelligence required for ethical decision making? What should the role of independent directors be in driving accountability in the boardroom for ethical conduct and ensuring that risk strategies encourage responsible risk taking and do not inhibit creativity, innovation and entrepreneurship?

The Board’s Role: Governance of Corporate Risk for a Resilient Enterprise

It has been said that if a company had a heart and a soul it would be found in the boardroom (Coulson-Thomas, 1993a). A board needs to ensure that corporate governance arrangements and appropriate ethical, risk and other strategies, policies, processes and capabilities are in place to: achieve the purpose, vision, values, goals, objectives and priorities it establishes for the entities for which it is responsible; and ensure resilience and continuing relevance during transformation journeys in response to potentially catastrophic global issues. In the contemporary business environment, transformation and resilience may achieved by an endless process of adaptation, adjustment and/or mutation as challenges and opportunities come, go and unfold and/or evolve, but in certain cases more urgent action may be required (Stern, 2015). This can have multiple implications for directors, boards and their practices.

Many boards need to: review their strategies, policies and practices for managing risk and preventing frauds; and review the role of risk management and risk managers in an uncertain and volatile world (Coulson-Thomas, 2017). Is the risk management community perceived as a positive enabler of better decision making, innovation and entrepreneurship, or as a negative influence, inhibiting factor and overhead cost? How many boards are equipped to identify the full range of risks such as those identified by the World Economic Forum (2018)? What are the top, strategic and systemic risks facing businesses today and in the social and market contexts in which they operate? How they are perceived and addressed?
Are enough directors taking individual and collective steps to monitor related trends, assess and mitigate their impacts, address their root causes and seize related opportunities? Do our past experiences and historic corporate purposes and priorities that are in need of review constrain our risk appetite, limit our risk tolerance and bias our judgements? Are they impacting on the nature and urgency of the action we need to take? What additional strategies should we adopt for managing risk and monitoring performance relating to crises and longer-term threats (Coulson-Thomas, 2019a)? What expertise and experience do many risk managers have of handling crises, decarbonisation, climate change and sustainability?

The Board’s Role: Sustainability and Assurance

Sustainable development and social responsibility have both been considered elements of responsible leadership (Atunes and Franco, 2017). How many boards recognise that the corporate and collective activities of companies sometimes represent a major risk for themselves, external parties, stakeholders and life on our planet (Dauvergne, 2018)? What could and should they do, individually and collaboratively, to mitigate such risks? Might helping others to understand and cope with such risks represent a business opportunity?

Directors, responsible investors and others with governance responsibilities can play a vital role in addressing certain high priority risks for the future of mankind, as well as the resilience and sustainability of their organisations. For example, adoption of the right governance framework could enable key public decision makers around the world to put in place the policies, processes and tools from strategic vision to reporting that might effectively combat antimicrobial resistance (Anderson et al, 2019). Having an effective board of competent directors who are aware of strategic risks and existential threats has never been more important. How might active investors best ensure that this is the case?

Are oversight and assurance mechanisms and those who operate them sufficiently flexible to adapt to meet changing requirements? Do the remits of ethical, risk and audit committees need to be reviewed? Are internal and external audit checks and reviews risk-based? If so, are risk assessments and risk registers regularly discussed as new categories of risk emerge and the nature of existing ones evolve? Are steps taken to mitigate risks regularly reviewed? Do those responsible for various individual actions relating to particular risks periodically check that the totality of a corporate response is still sufficient? How can boards ensure that their strategies for managing risk and monitoring performance do not constrain the improvement or transformation of performance? How can boards support the transition from traditional enterprise risk management (ERM) to risk enabled performance management (REPM)? Are they fully aware of the consequences and implications of the approaches, policies and frameworks they advocate, and the extent to which these can positively or negatively impact upon behaviours? Do some approaches to risk limit initiative and enterprise?

Securing the Future: Board’s Strategy for Mitigating Risk and Ethical Concerns

Exposure to a global marketplace and international expansion and operation can expose a board, employees and supply chain partners to a variety of new ethical challenges, risks and uncontrollable developments ranging from currency movements to political events. Ethical standards and acceptable practices can vary across countries, as can local environments for doing business. Those responsible for overseas operations and international supply chains may need to address the variation in how risks are perceived and handled in different countries within a particular region (Virglerova, 2018). The operations of multinational
corporations have spread best practices, created opportunities and boosted the development of many countries. At the same time, some of their impacts have posed challenges for regulators and Governments. Transfer pricing practices that ensure profits arise in low tax regimes are frustrating for those who strive to ensure that corporate contributions reflect the scale of their operations and the volume of business in each territory. New business models, emerging technologies and on-line operation have enabled some entities to grow rapidly and serve a global marketplace from central points with little physical presence in local markets.

How should the boards of traditional multinational companies and new global players respond to the consequences and risks of their international operations, the ethical dilemmas and criticisms they face, and the efforts of Governments and regulators to obtain more control over their activities? What represents responsible leadership in relation to social and environmental impacts and balancing globalisation and localisation and the interests of different stakeholders? What mechanisms should be used for dialogues with national authorities and local and international interests? Can local and international risk strategies be integrated in such a way as to drive rather than constrain growth and ensure that it is more inclusive and sustainable? Should boards pay more attention to United Nations (2015) sustainable development goals? How might corporate governance reforms help? What steps should be taken to safeguard financial and other institutions that trade electronically and globally, and protect those who depend upon them, from contagion and other systemic risks and shocks? What should the priorities be for international collaborative action?

Given the extent to which behaviours and compensation, bonus and lending practices caused the 2007-8 international financial crisis, and despite awareness of growing and latent problems, is enough being done to manage and mitigate conduct risk (Shiller, 2005; Gramlich, 2007)? Should reputational risk be an area of higher priority? Some regulators have put more of a focus upon culture (FRC, 2016). Is an emphasis upon integrity and ethical behaviour sufficient? What elements are missing from strategies to build more resilient risk cultures, processes and practices? Do we also need a greater focus upon the performance support that can ensure more responsible conduct? Greater connectivity and electronic trading and data transfers open up opportunities for hackers, cyber criminals and state sponsored stealers of intellectual property to operate internationally. What changes are needed in international monitoring, international law relating to digitisation and cyber security, and international cooperation among law enforcement agencies to counter emerging vulnerabilities? What can be done to ensure greater resilience and vigilance? Are there, and should there be, distinct ASEAN perspectives on Regional Financial Cooperation?

Board’s Risk Oversight: Appetite and Tolerance of Strategic and Financial Risks

In an uncertain international business environment the risk landscape is changing as existing risks evolve and new ones emerge. What insights can we gain from global governance experience and practice? How might we close the gap between aspirations and achievement? Directors require a sense of proportion when determining whether or not a risk is strategic. They should avoid devoting too much attention and angst to modest and immaterial risks (Rabin, 2019). In the pursuit of a vision and in relation to the purpose of a company and the aspiration, attitudes and requirements of its stakeholders, a board needs to agree its risk appetite and also decide its level of tolerance of strategic risks. To do this it should be aware of them and the nature and scale of their possible impacts. Geopolitical uncertainties abound in the international business environment. Incidents can rapidly escalate and develop in unexpected directions. Simmering situations can quickly flare up. Boards need to ensure that
a company has acute antennae and its people and processes are flexible and resilient. Could it cope with the unexpected? Are crises and emergencies effectively handled? What about incidents relating to its responsibilities to others, for example those relating to customer data?

To what extent should directors rely upon intuition or deliberate analysis when assessing risks in an uncertain business environment, in which there may be a wide range of possible outcomes (Moeini, 2019)? Are directors aware of the risk landscape in which a company operates? Are emerging threats tracked and their likely or potential impacts assessed? Does regular issue monitoring and management embrace evolving risk concerns in regions in which a company operates? Has the board access to current and relevant expertise and counsel relating to them? How might a board’s mix of skills and experience, ethical agenda and practices help it to ensure that a company has a resilient risk framework and culture? How effective is it at engaging with those who have shared concerns and external and public bodies that may be able to assist if a situation suddenly deteriorates? What contingencies are in place, for example to minimise crawl out costs or protect the interests of stakeholders?

Have responses to particular situations been rehearsed? Is a board excessively focused on risks relating to an organisation’s own activities? Is it also aware of risks relating to the smooth operation of its communications, supply and value chains, and relationships with key customers and other important stakeholders? Are recovery arrangements regularly reviewed? How should they be tested? What technological solutions are available for risk reduction and/or mitigation? Does a company use tools and techniques appropriate for the sectors it operates in (Ogunlana and Dey, 2019)? How might a common approach, technology or shared Universal Technology Platform address the concerns of the banking and other sectors? Could insurance play a wider role in the mitigation of certain corporate risks? Are there other ways of handling, reducing or sharing areas of risk that cannot be covered by conventional insurance at an affordable price? Are insurance cover and its cost regularly reviewed?

Boardroom Strategy for Leveraging Emerging Technologies

Embracing uncertainty has been described as the essence of leadership (Clampitt and DeKoch, 2015). The development, selling, distribution and adoption of emerging technologies can give rise to new risks. In some cases they can be employed to mitigate other risks. In themselves, technologies, like many management approaches and methodologies, are often neutral. Where and how they are used and for what purpose can determine whether they help or harm us. Responsible boards think through the implications of innovation and new technologies, models and practices and ensure that they and existing activities are beneficial and sustainable. They also ensure that strategies, policies and frameworks are in place to prevent or minimise harmful impacts on the environment and limit the use of scarce natural capital. Many corporate strategies still aim to increase activities that create externalities such as polluting or destroying the environment and contributing to climate change. Should a board measure or assess and report on the social value that a company has created or its contribution to the achievement of United Nations (2015) sustainable development goals?

A variety of cyber security risks are associated with digital technologies. Almost anyone could become a victim of cybercrime (Fazzini, 2019). Connected devices that form part of ‘the internet of things’ can open the door to hacking for a variety of purposes, especially when purchasers use default passwords provided by vendors. In relation to cyber exposure and cyber fraud, what needs to change (Leech and Hanlon, 2017)? What should be the priorities of a board intent on protecting an enterprise from cyber threats? Are some boards
naïve or unprepared in regard to technology challenges, and/or unaware of related opportunities and how best to ensure resilience and/or recovery should a hack, theft or data breach occur? How willing are they to collaborate with other organisations and participate in national and international action? How might existing and/or new laws and regulations help?

Some boards view certain new, emerging and/or digital technologies as disruptive rather than enabling. Effective boards ensure the risk implications of their adoption are identified, understood and mitigated. It is important that any ethical concerns can be expressed and are then addressed. Directors should ensure a company has a responsible purpose and is willing to innovate in order to behave responsibly in response to a challenge such as climate change (Basu, 1999, Coulson-Thomas, 2019b). Many ideas, innovations and new business proposals that lead to large and successful enterprises are initially met with scepticism and negative responses from those who are put off by uncertainty. Negative attitudes and a reluctance to take risks can represent a significant barrier to start up entrepreneurs (Randolp, 2019).

How adaptable are governance arrangements, frameworks and board and other practices when the unexpected happens or a crisis or emergency suddenly arises (Coulson-Thomas, 2019a)? How should a board ensure that it has oversight of disruptive risks and obtain assurance that robust and authoritative crisis governance mechanisms are in place? Who should be involved and when? Are recovery plans formulated and ready? When breaches and crises occur, what should be reported and shared and by whom to whom? Who could provide informed and objective advice on sensitive and complex matters relating to cyber-crime and new technologies? How might the members of a board obtain a balanced understanding of a development such as Blockchain that suddenly appears to burst on the public consciousness? Could it be used to reduce cyber and other risks for financial and other institutions and in other sectors? Is its wider use sustainable in terms of its technology and energy requirements?

Evolving Risk and Requirements Landscape

The risk landscape in which directors and the companies for which they are responsible are located is continually changing. Do some directors support compliance with policies, practices and requirements that may be out-of-date or inappropriate? Policies and guidelines that once seemed sensible but need review can prevent progress when directors treat them as tablets of stone and they open doors to new dangers. Are boards overlooking risks relating to their own activities and practices, such as the risks of inadequate thought, understanding and decision making? Are directors alert to: risks to key relationships; risks of outdated business models, structures and processes; risks of inappropriate purposes, priorities, values and performance measures; risks of missed opportunities; and the risks of different corporate objectives and initiatives conflicting with each other? There are also shared risks and opportunities in relation to technologies, the environment and climate change.

Existing risks are changing and new risks are emerging. Traditional risks to physical assets such as obsolescence, damage, deterioration or theft may have been joined by a risk of flooding and/or destruction as a result of extreme weather events associated with climate change. How effective are boards at collaborating and determining collective responses to shared risks? Do some boards fail to recognise risks associated with their own limitations, whether missing opportunities, a lack of foresight, or their failure to take key decisions? Have sufficient steps been taken to mitigate or reduce risks that may no longer be insurable at an affordable cost and to crawl out and/or recover should they arise or crystalize?
Stakeholder expectations are changing and rising. Do enough directors connect with younger generations and social, economic, environmental and other realities? Are they alert, aware, listening and involved with issues, concerns and debates in the communities and societies in which they live and companies operate? Moods, priorities and preoccupations outside of boardrooms and air-conditioned offices can change. Business leaders are expected to care as well as be competent. Boards are expected to be concerned with social and environmental as well as financial performance. Could more be done to reduce the risk of various forms of exclusion? Over one billion people on our planet have some form of disability. Where there is a risk of moral compasses pointing in the wrong direction and boards failing to respond to changing stakeholder and public concerns, there is also a risk that they may be seen as obstacles or barriers to progress and as a problem rather than as orchestrators of solutions.

Risk management should support responsible decision making. It should encourage rather than inhibit the flexibility, openness and innovation required for enterprise resilience and responsible conduct in the face of evolving challenges and opportunities. Many directors find that respect and trust cannot be assumed. Both must be earned. Before acting, responsible directors think through the implications of board decisions and the consequences of corporate activities. They are open to new possibilities and encourage creativity and the development of simpler, healthier and more sustainable lifestyles. They engage with stakeholders, society, communities and Government. They listen and empathise, but are not afraid to energise, excite and act as catalysts when action is required to move more quickly. Today’s businesses and their leaders have an historic opportunity to rethink their purposes and priorities, and to make a difference and a significant contribution towards addressing wider economic and social issues and certain challenges facing mankind and other forms of life on our planet.

Further Information

The Singapore Global Convention 2020 on Board Leadership and Risk Management is organised by India’s Institute of Directors (http://www.iodglobal.com/). Further information on the convention can be obtained from: https://www.iodglobal.com/singapore-global-convention-2020.html

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