



A STRATEGIC PERSPECTIVE ON RISK OVERSIGHT

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1

WHY IS RISK OVERSIGHT AT BOARD LEVEL IMPORTANT?

- Risk is intrinsic to doing business
- Environment of unprecedented risk & uncertainty
- Governing and overseeing risk (management) is one of the board's core tasks



2

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2

THREE LEVELS OF RISKS

■ Level 3 risks: "known risks"

- Routine operational and compliance risks
- Goal: prevention & mitigation
- How? Internal controls, standard operating procedures, training,...

■ Level 2 risks: "known unknowns"

- Strategy risks (i.e., risks voluntarily accepted by the organization in order to generate superior returns from its strategy)
- Goal: agility
- How? KRIs (scorecard, strategy map), heat maps,...



■ Level 1 risks: "unknown unknowns"

- "Black swans" (uncontrollable external events, sudden & unexpected shocks)
- Goal: preparedness
- How? Scenario planning, early warning signals, stress-testing

3

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3

FROM RISK TO RESILIENCE THINKING

ORGANIZATIONAL RESILIENCE: ABILITY TO WITHSTAND ADVERSITY AND BOUNCE BACK



■ Planned resilience:

- Preparedness, anticipation
- Proactive planning

■ Adaptive resilience

- Dynamic learning & experimentation
- Adapting to the new reality

4

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EFFECTIVE RISK OVERSIGHT AS BALANCING ACT

■ Tensions/tradeoffs for the board to manage:

- 1) Balance between “**hard**” and “**soft**” risk controls
- 2) Focus on both **operational risk** as well as **strategic risk**

BOARD MECHANISMS FOR OVERSEEING RISK



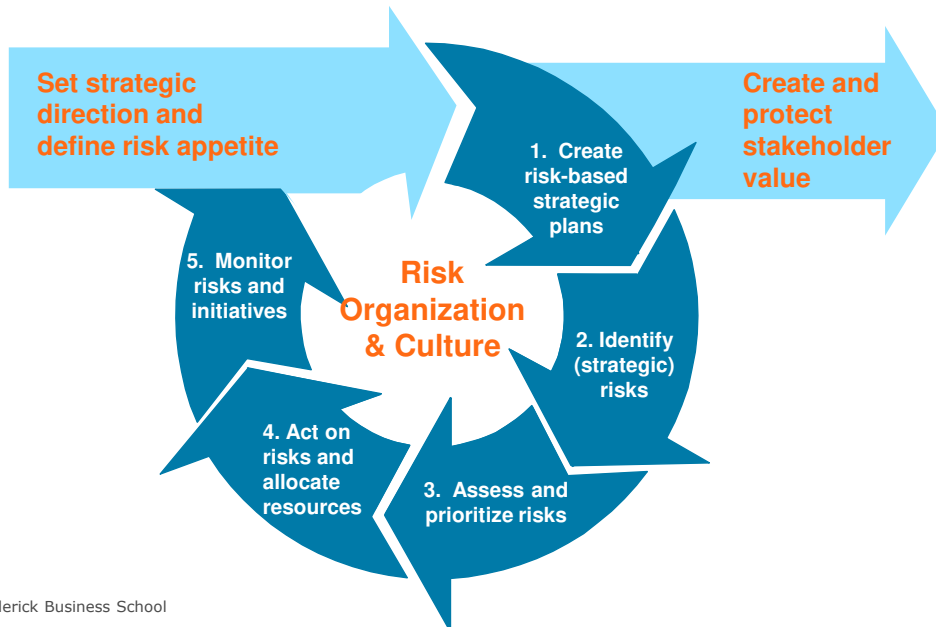
KEY QUESTIONS FOR THE BOARD

1. How do we define our **risk appetite** to ensure that we meet our business goals without taking undue risk in the process?
2. Are the risks the company is taking **aligned with the business strategy** pursued?

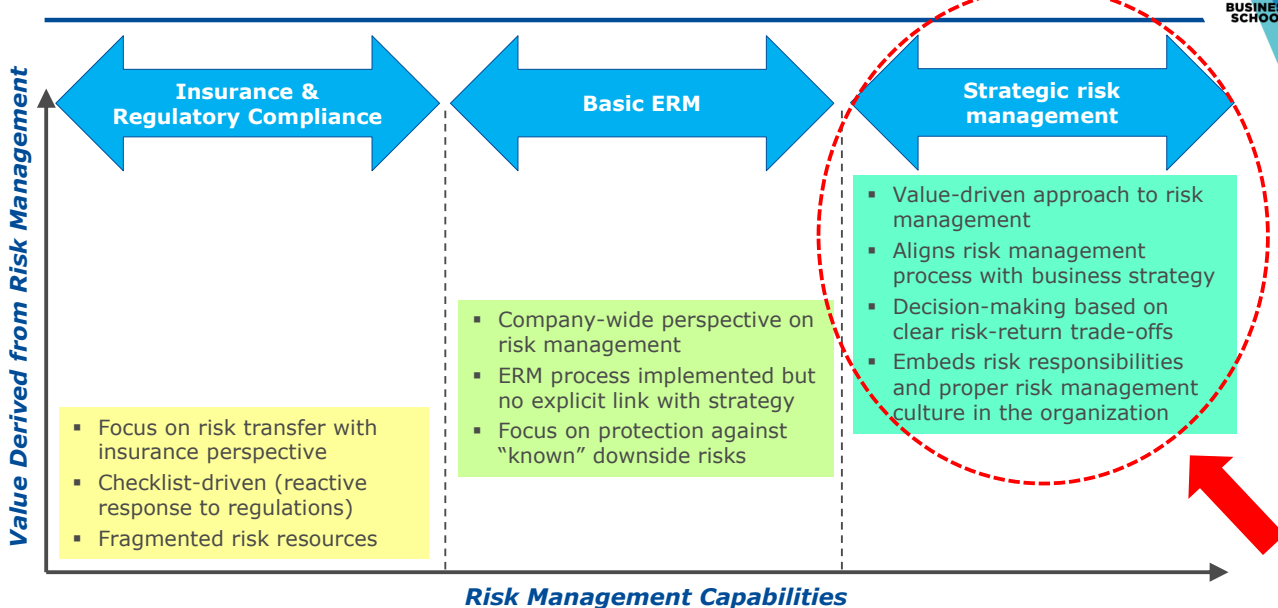
RISK APPETITE

- The **Board develops the overall risk appetite** for the organization and make certain there is a governance process in place to ensure the business does not take unacceptable risks to meet profitability targets
- Line management, together with the CRO, is responsible for developing and implementing a process that **aligns business activities and risk management with the Board's agreed risk appetite**

EMBEDDING RISK IN STRATEGIC DECISION MAKING



STRATEGIC RISK MANAGEMENT AS A VEHICLE FOR VALUE CREATION



KEY TAKE-AWAYS FOR BOARDS

- **Risk oversight matters** – now more than ever!
- Boards must find a good balance between monitoring the **formal risk governance organization & procedures** (for planned resilience) and nurturing the right **risk culture** across the organization (for adaptive resilience)
- Need to **integrate risk & strategy** at board level
 - Set the desired risk appetite
 - Embed risk in strategic decision-making processes
- No one size fits all



THANK YOU!

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