



## A STRATEGIC PERSPECTIVE ON RISK OVERSIGHT

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## 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



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## 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

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## 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

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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

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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

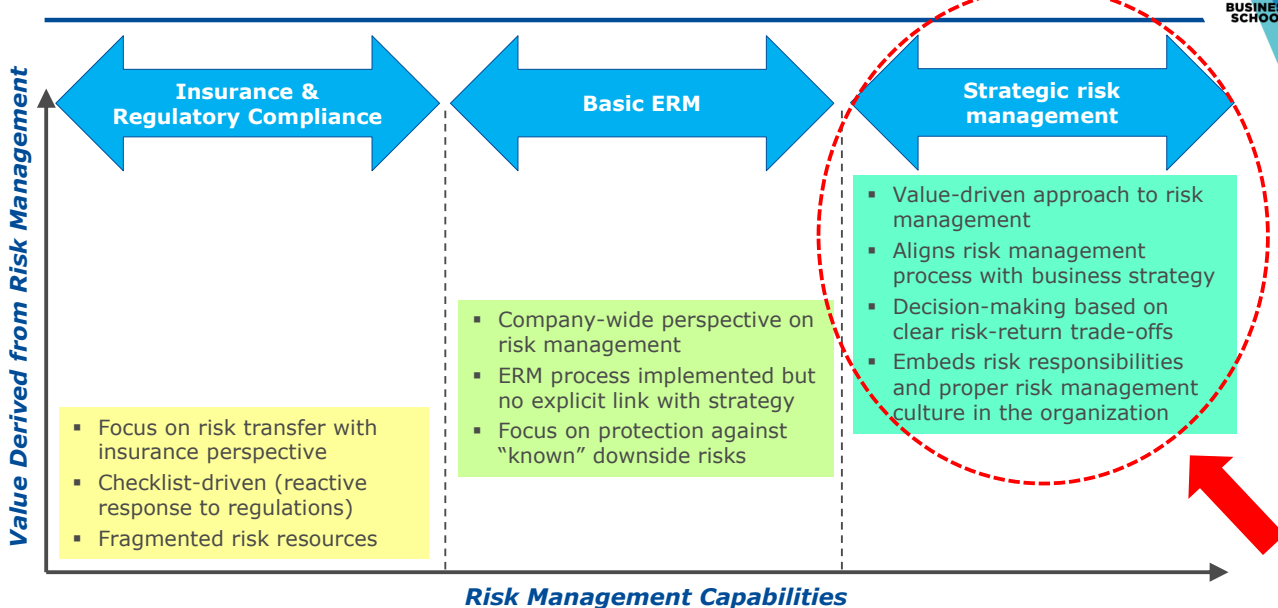
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- The **Board develops the overall risk appetite** for the organization and make certain there is a governance process in place to ensure the business does not take unacceptable risks to meet profitability targets
- Line management, together with the 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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