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Written by

The Economist INTELLIGENCE UNIT

# View from the top 2019

## How boards' attitudes and approaches to risk management have evolved since 2014

In the past five years, cyber and environmental risk have risen on the boardroom agenda. But there are also signs of a shift in the ethos of corporate governance, placing greater emphasis on both personal accountability and social responsibility.

In August-September 2019 The Economist Intelligence Unit, on behalf of Clifford Chance, surveyed 200 board members from large businesses around the world and across industries to find out which risks feature at the top of the board agenda. Based on these survey findings, this infographic explores boards' understanding of these risks and whether their risk management strategies have been adapted accordingly.

Five years on from the last survey conducted on behalf of Clifford Chance in 2014, personal accountability is driving debate at board level. Corporate boards are increasingly aware of the social impact of their decisions; they are discussing technology risks and climate change; and they are preparing for political turmoil ahead. Although there are differences in outlook across Europe, Asia-Pacific (APAC) and the US, more executives are either taking action to address different types of risk or they are devising strategies to meet the challenges ahead. There are nevertheless areas in which greater discussion would be valuable, particularly gender and diversity issues and the risks posed by artificial intelligence.

Clifford Chance comment:

*"Strong boards manage risk to their competitive advantage. We are seeing a clear evolution in boardroom priorities in response to both emerging global risks and an intensifying expectation of societal responsibility. These challenges are fuelled not only by regulatory and geopolitical changes, but also by a growing sense of accountability, and companies are well advised to be in the vanguard in addressing them."*

**David DiBari,**
Co-Head of Global Risk Team, Clifford Chance, Washington D.C.

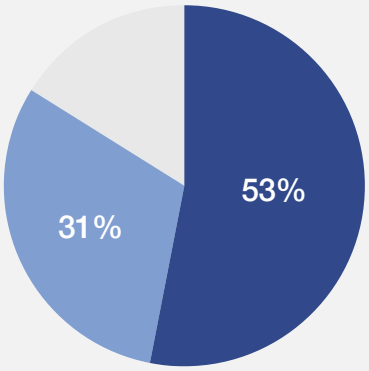
# 1 The growing role of personal accountability

Business risks are not just a shared concern for corporate boards. There is a growing sense that individual directors should be held personally accountable for key risks. As a result, a culture of individual accountability, as well as collective responsibility, seems to be emerging.

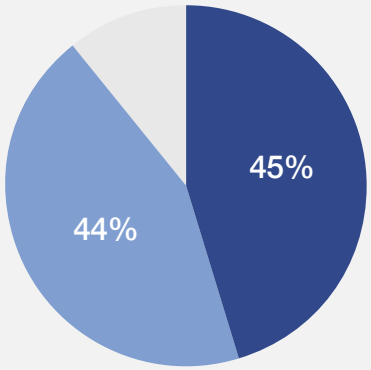
## Board members accept greater personal accountability

Board members should be held personally accountable...

if their company fails to meet diversity and inclusion targets




for illegal and unethical uses of technology by their companies




Strongly agree  Somewhat agree

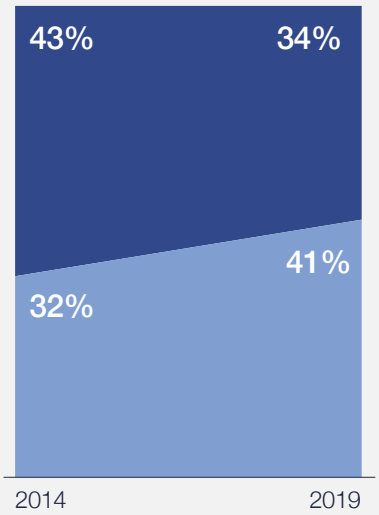
Source: Economist Intelligence Unit

The survey reveals that this has manifested in at least two areas: technology, and diversity and inclusion: 89% of respondents believe board members should be held personally accountable for illegal and unethical uses of technology by their companies, and 84% say the same of failure to meet diversity and inclusion targets. Recent press coverage of gender disparity and sexual harassment in the workplace may have prompted a realisation that being risk-resilient depends on the character of individuals as well as institutional governance. Indeed, 80% of respondents agree that outdated mindsets among senior management pose a significant risk.

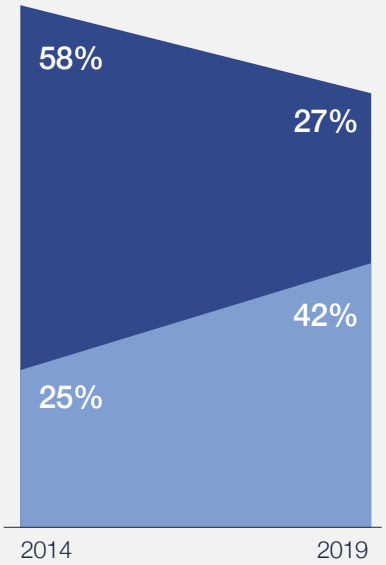
Perhaps surprisingly, this increased focus on personal accountability is not discouraging respondents from taking board positions: in 2019, 63% of respondents disagreed with the statement "I am reluctant to join boards as a non-executive director because of the increasing exposure to personal liability," up from 48% in 2014.

## Time spent on risk management is steady but investment slows

Time invested by the board in risk management




Organisation's financial investment in risk management




Significant increase (by 50% or more)

Slight increase

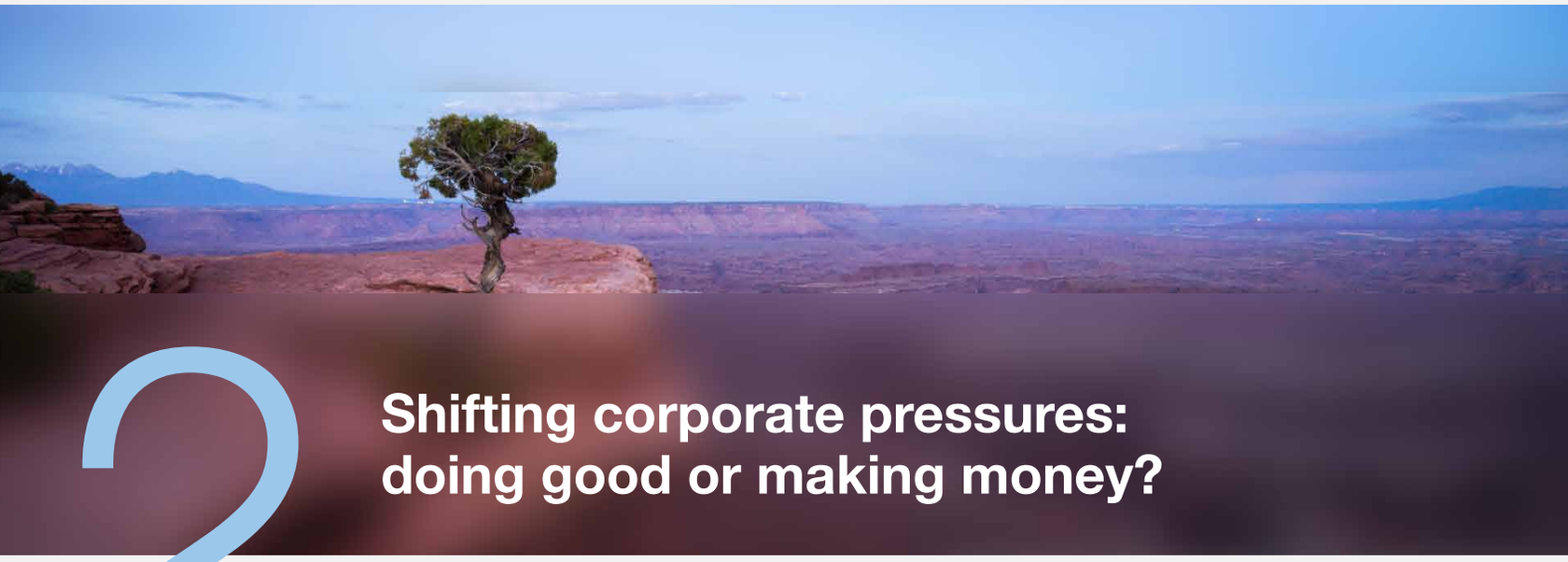
Corporate boards admit to spending more time overall on risk management, which is hardly surprising given that more businesses are experiencing major risk events. As a result, more boards, the survey suggests, plan to implement crisis procedures in order to mitigate against serious disruption to business over the next two years. There is also greater acknowledgement of the need to bolster risk management expertise, even though spending on risk management is not growing in the same way: only 27% of survey respondents say they have seen a significant increase in financial investment in risk management, compared with 58% in 2014.

Source: Economist Intelligence Unit

Clifford Chance comment:

*"Board-level decision makers are now front-page news. Beyond traditional scrutiny focused on boards as a collective, we see increasing pressure to hold individual board members responsible where a company has found itself in front of angry shareholders, aggressive regulators and a finger-pointing public. Understanding risks and decision-making processes are critical tools in light of this emerging trend of personal accountability."*

**Michelle Williams,**
People Risk Lead, Clifford Chance, Washington, D.C.

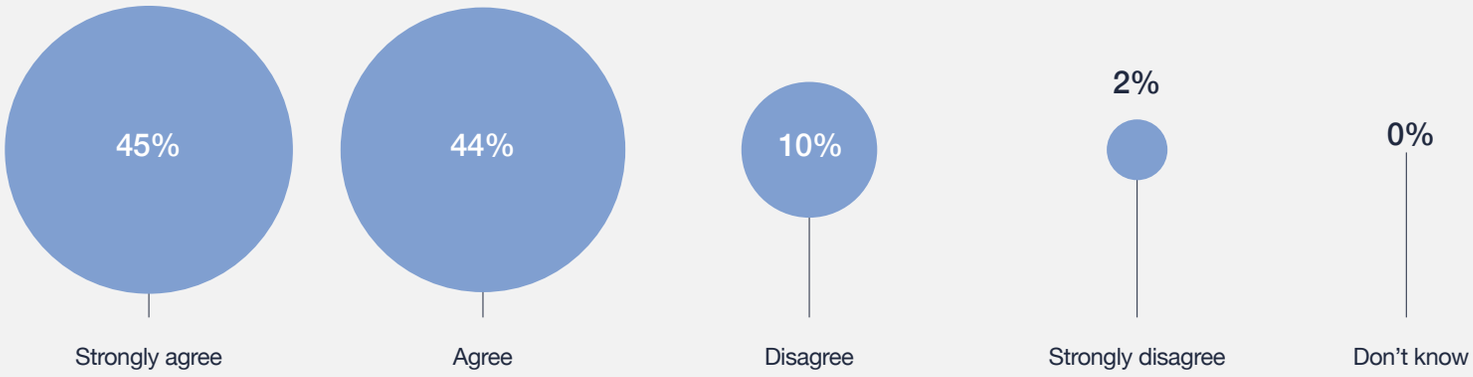


# 2 Shifting corporate pressures: doing good or making money?

The imperative for companies to not just minimise risk but be a positive force in society is a key business priority. Financial risk is still the most discussed form of risk by corporate board members, but less so than before. Instead, concerns about environmental, social and governance (ESG) issues, which have manifested across Europe, APAC and the US, have led to greater concern for human rights and progress around diversity. Twenty-nine percent of respondents expect human rights to increase in importance in the next two years, compared with just 10% who said so in 2014. There is also overwhelming agreement that boards have a responsibility to take a public stance on political events that have negative diversity and human rights implications.

## When companies must take a stand

Boards have a responsibility to take a public stance on political events that have negative diversity and human rights implications"




Source: Economist Intelligence Unit

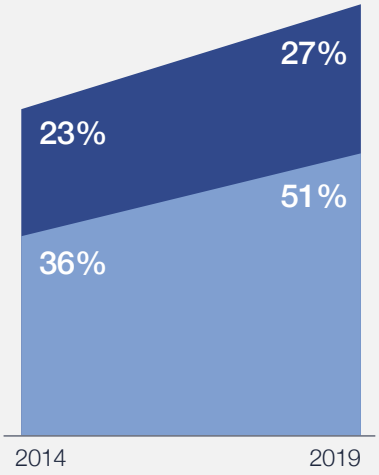
## Social and shareholder pressure on the rise

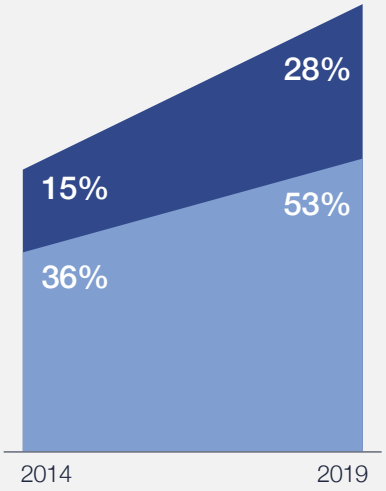
Will the following types of risk be more or less important from the board's perspective over the next two years?

Societal activism

Shareholder activism

More important




Just as important

Growing pressure from the public seems to be one driver for this: 78% of respondents say social and consumer activism will be equally or more important, from the board's perspective, in the next two years, up from 59% in 2014. It may also stem from shareholders: 81% of respondents say shareholder activism will be as important or more so in two years' time, up from 51% in 2014. Although shareholder activism has traditionally been financially motivated, activist investors are increasingly concerned with ESG issues too.

Source: Economist Intelligence Unit

Clifford Chance comment:

*"Planet, people, purpose – and profit? Organisations that place sustainability at the core of business strategy maximise their potential for positive action while minimising any negative impacts of global operations. The scrutiny on big business is intense. Leadership involves confronting shifting corporate pressures with innovation, commitment and agility, bringing business resilience while protecting both brand and the bottom line."*

**Rae Lindsay,**
Business and Human Rights Risk Lead, Clifford Chance, London

# 3 Managing political risk exposure

Despite the recent rise in geopolitical tensions, only 23% of respondents listed political risk among their top three focus areas. However, it looks set to rise on the corporate agenda in the near future, with more than half of respondents expecting political risk to become more important in two years' time.

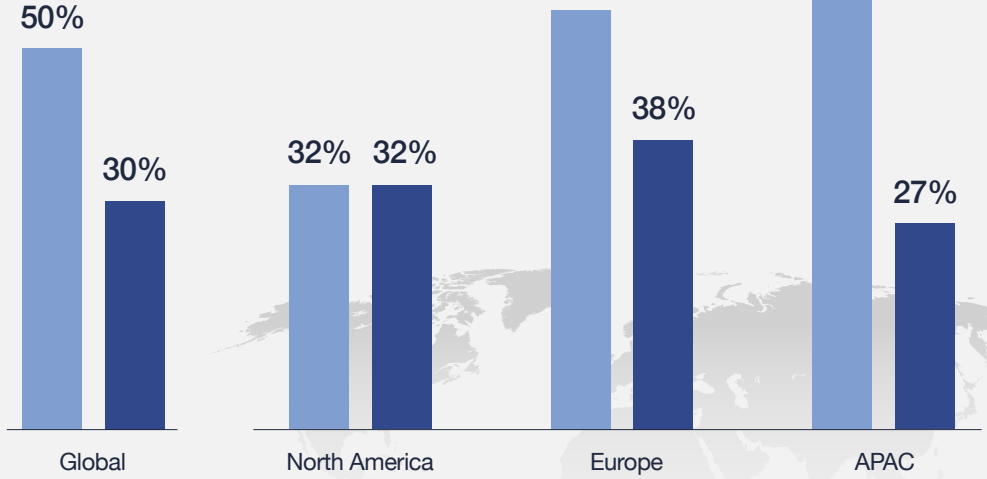
## Meeting turmoil with governance

Which of the following steps do you expect your company to take over the next two years to address political risks?




Seek to manage through enhanced corporate governance

Cease doing business in one or more countries



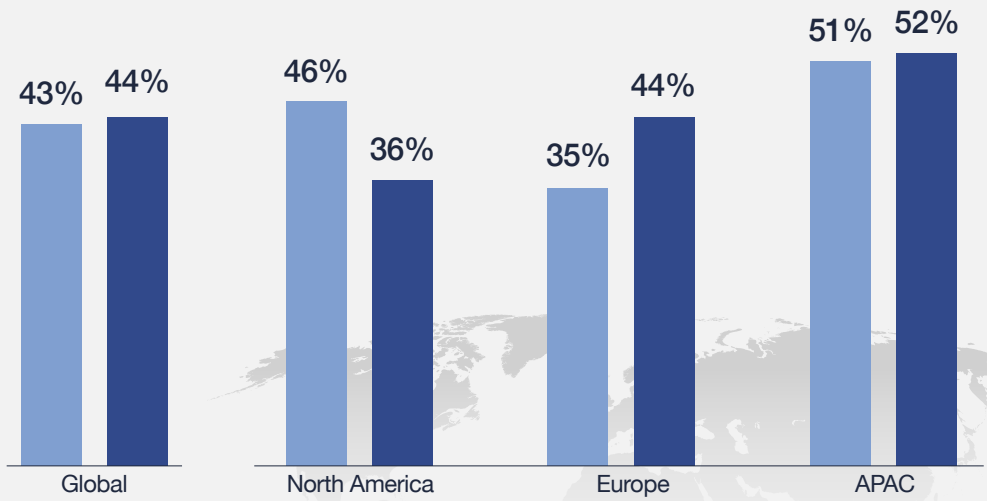

Source: Economist Intelligence Unit

As a result, corporate boards are taking action to develop strategies to mitigate this risk: 50% will seek to manage political risk through enhanced corporate governance, while 41% of respondents may seek to limit new or additional investment in one or more countries that are deemed difficult. An almost equal proportion (38%) will mitigate political risk through engagement with local governments. However, there are important differences in terms of the degree to which political risk exposure will be managed by corporate boards in Europe, APAC and the US.

## The global impact of US economic policy

What impact do you expect each of the following political risks to have on your organisation in the next two years?

(% of respondents who says "major impact")




Source: Economist Intelligence Unit

- US economic sanctions
- US trade wars

US foreign policy is a top source of political risk. However, the risk associated with US economic sanctions and US trade wars is felt more commonly in APAC and Europe than in the US itself. Companies in APAC are understandably bracing themselves for the full impact of the US's increasingly aggressive trade policies. As a result, 63% of firms in APAC have taken action to address the risk of disruption to business from trade policies, compared with 54% of respondents in Europe.

Clifford Chance comment:

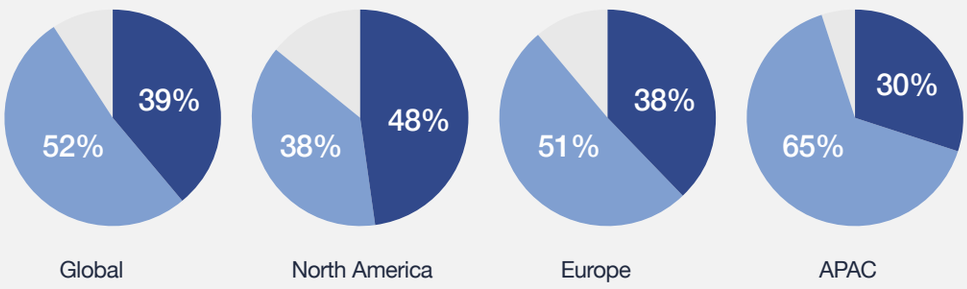
*"In a climate where geopolitical uncertainty and volatility are the new norm, boards must manage and mitigate political risk to remain competitive. There are effective options available to businesses, but they require concrete, immediate and sustained action. When it comes to political risk, enhanced levels of due diligence, diversification, and dexterity are key to preventing significant financial risk or reputational damage."*

**Romesh Weeramantry,**
Political Change Risk Lead, Clifford Chance, Singapore

# 4 Taking action on climate change

## Boards understand their environmental impact

(% of respondents who agree)



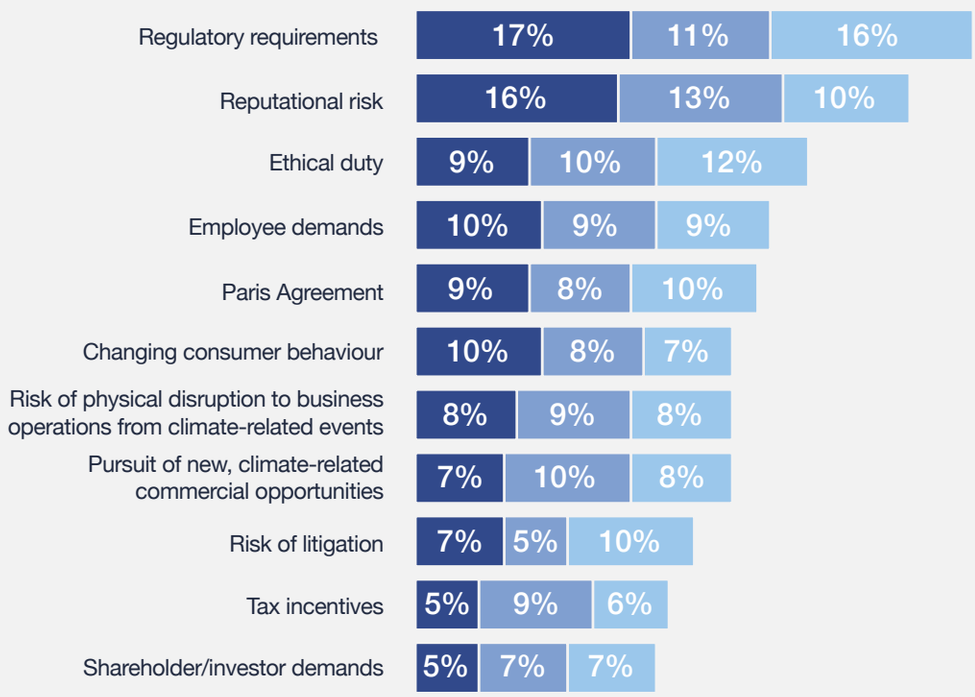

Strongly agree · Somewhat agree

An increase in concern about environmental risk has gone hand in hand with greater awareness of climate change globally. There is broad agreement that companies should be held responsible for their contribution to climate change, and over 90% say they fully understand their company's contribution to climate change. APAC respondents are the most confident in this regard.

Source: Economist Intelligence Unit

## The drivers to climate action

Which of the following are the most important considerations that influence your company's activities related to climate change?




Rank 1 · Rank 2 · Rank 3

Environmental risk has risen on the corporate agenda since 2014. Forty-nine percent of respondents express "significant concern" about environmental risks, compared with only 16% in 2014, the sharpest increase in concern after cyber risk. Environmental concern is translating to action: more than half of respondents (53%) have taken action in response to investor- or employee-inspired activism in relation to climate change, while 54% of respondents have taken action to address risks of physical interruption to business operations by climate-related risks. Regulatory requirements emerge as the primary driver for action on climate change, with 42% ranking them among their top three drivers.

Source: Economist Intelligence Unit

Clifford Chance comment:

*"Climate change is one of the major concerns for society and business. Organisations that take limited steps in mitigation risk severe consequences: from reputational damage to litigation. Consequently, environmental impact is accelerating up the boardroom agenda with intensifying discussions and a willingness to accept accountability. Words are not enough – investment and action must follow."*

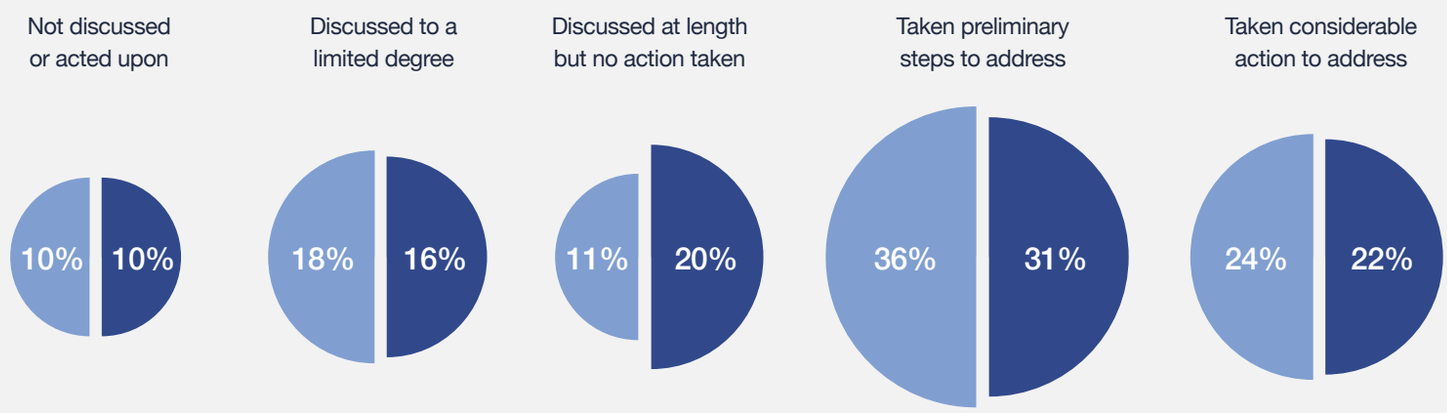
**Thomas Voland,**
Climate Change Risk Lead, Clifford Chance, Düsseldorf

# 5 Surprising confidence on technology-related risk

Since 2014, artificial intelligence (AI) has emerged as a technological reality and a cause for some societal concern. Respondents are remarkably confident in their ability to understand and address the risks posed by the use of AI. Eighty-eight percent agree (somewhat or strongly) that their board fully understands the legal, regulatory and ethical implications of their company's use of data and AI. However, given that the use of AI is nascent in most organisations, respondents' claims that they fully understand the risks associated with it and have even begun to address those risks could be overstated.

## Action on AI risks

To what extent has your board discussed and taken concrete steps to address the following risks over the last five years?




Source: Economist Intelligence Unit

- Risks posed by lack of oversight of business operations resulting from the use of AI/automation
- Reputational risk posed by legal but unethical use of AI/automation

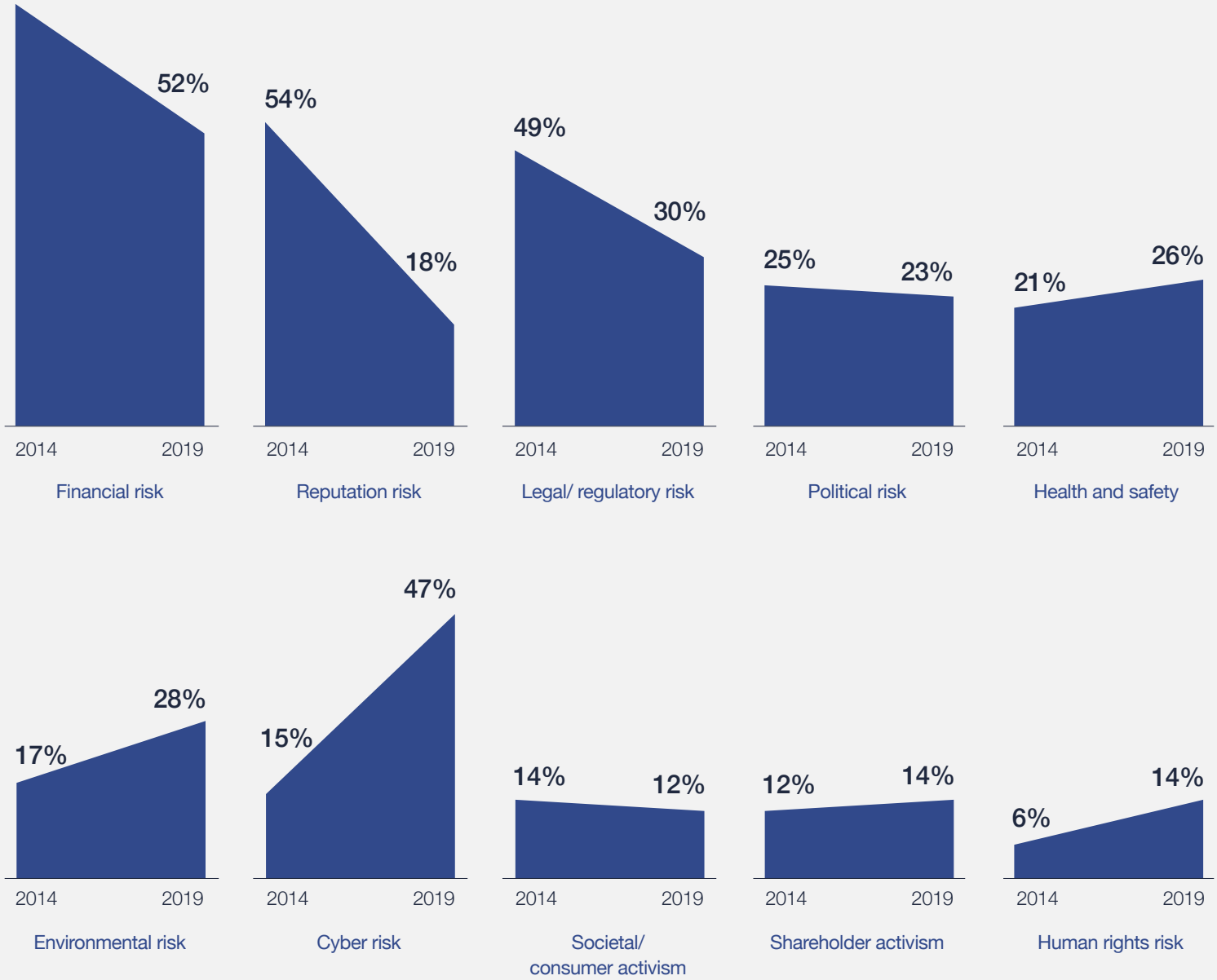
European respondents are the least likely to say they have taken preliminary steps to address the risk posed by the lack of AI oversight over business operations. Thirty-two percent say as much, compared with 42% and 36% in APAC and the US respectively. But the topic is at least on the agenda: only 16% of European respondents admit to not having discussed the risks posed by lack of oversight of business operations resulting from the use of AI/automation. Less than 6% have not discussed the reputational risk posed by unethical use of AI.

Cyber risk has risen significantly on the agenda, which reflects the number of high-profile cyberattacks and data breaches since 2014. Whereas 15% of boards listed cyber risk among their top three focus areas back then, that proportion has risen to 47% in 2019. There is also a growing concern about data privacy, which also reflects an increase in technological risks faced by corporate boards.

## How board priorities have changed since 2014

Which of the following risk categories is your board currently focusing on?

75%




Source: Economist Intelligence Unit

Clifford Chance comment:

*"Confidence at board level in the risks posed by AI is only valuable to protect companies if reflected in concrete actions. The opportunities that AI poses are clear, but too often the risks are over-simplified and underestimated. As companies embrace innovation and deploy technologies to stay competitive, the ethical considerations, in addition to the legal requirements, need urgent consideration."*

**Dessislava Savova,**
Data Risk Lead, Clifford Chance, Paris

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