

# Being influential in the boardroom

Risk managers need to develop situational intelligence to cope with the dynamic needs of their boards

..... BY ANNA BATESON AND LAURENCE LYONS

**D**riven by an increasingly informed and demanding society enabled by digital connectivity, governments have multiplied the regulatory and legislative requirements for boards in public, private and third sector organisations to provide better evidence of their robust strategic decision-making processes. Given the high level of scrutiny, individuals sitting in those boardrooms can be in little doubt of their collective and individual responsibility, accountability and liability.

## The board perspective

Boards are asked to be clear about their organisation's purpose, strategic intentions, value-delivering business model and approach to risk. They manage the conflicting priorities of delivering short-term organisational health and planning for a sustainable, long-term future. The stakeholders with an interest in their strategic decision-making also make conflicting demands.

The way each board fulfils its remit to establish the risk management framework – appetite, policies, processes and governance – will vary between organisations based on variables such as sector, competition, location, size and



**Effective boards establish robust and transparent decision-making, tracking and reporting**

Below: Anne Bateson





## Experienced risk professionals develop a reputation for being trusted board advisors



Above: Laurence Lyons

were failures years in the making. The board was either negligently ignorant of the rotten culture at Carillion or complicit in it.”

Conversely, effective boards develop strategic processes which recognise the purpose for which their organisation exists, are informed by a true understanding of their organisational capability and are aware of the changing environment in which opportunities will arise. Stakeholder insights are listened to, strategic assumptions are checked, alternatives are explored and strategic choice is informed by explicit and commonly agreed criteria.

### The risk professional’s perspective

Greater value is now placed upon the professionals who enable boards to function effectively and demonstrate that their strategic decision-making process is both robust and evidence based. Risk professionals contribute expertise, but how can they ensure that their insights inform discussions at an early stage and contribute to the effective governance of their organisations rather than simply proving compliance?

The challenge for risk professionals

complexity. Effective boards establish robust and transparent decision-making, tracking and reporting. They provide stakeholders with a fair, balanced and understandable presentation of performance and prospects and a focus on principal risks in the achievement of long-term strategic objectives. Their consideration of principal risks encompasses circumstances that might threaten the organisation’s value-delivering model, future performance and current financial and reputational health.

Board evaluation findings evidence tendencies to delegate responsibility for risk oversight and to focus on operational processes and detail rather than strategic and trend information. The principal risks associated with cultural and relationship failures are widely accepted, but active tracking of motivation, attitudes and

behaviour require more resources than are generally applied.

Investors, regulators, commentators and government are paying significant attention to the contribution of board strategic decision-making and behaviour to organisation failures.

One of the most high-profile recent examples of motivational risk is highlighted in the joint inquiry into Carillion conducted by the Work and Pensions and Business Energy and Industrial Strategy select committees. Published in May 2018, the report highlights failings in strategic risk management and a lack of attention to the principal risks which could threaten the organisation’s operational and strategic performance. The conclusion states that “The chronic lack of accountability and professionalism now evident in Carillion’s governance

is to establish real engagement in the strategic decision-making process so that strategy and risk are explored together.

Effective risk professionals have learnt the language of business. They position their inputs in strategic and commercial terms, synthesising multiple data sources and enabling their boards to think and decide in a considered way. Their influence at board level is based on providing accessible, timely board intelligence, building trusted relationships and developing agile thinking to anticipate and respond to internal and external changes in the strategic context.

Experienced risk professionals develop a reputation for being trusted board advisors. They position the value they provide in constructively challenging and actively supporting the board of directors in determining the nature and extent of the strategic risks which their organisation will need to embrace or mitigate in order to achieve strategic objectives. These individuals are not lucky; they are situationally intelligent.

It is commonly understood by the risk professional community that the last five years have seen a significant change in their role. The change has been experienced in a range of organisations, not only those which are regulated. The role of risk professionals is dynamic and their profile is increasing in importance.

Excellent practitioners navigate complex relationships using situational intelligence. They develop the ability to effectively inform and influence strategic decision-making by finding opportunities to engage in dialogue, identifying motivational risk and tailoring their insights to engage with each individual.

## A tool kit

Based on consolidating insights from a 30-year collaboration, Anna Bateson and Laurence Lyons provide a practical framework and language for developing situational intelligence. If you understand the strategic context in which you operate, can establish the objective you want to achieve in the situation, identify the stakeholders you need to engage with, and recognise your own strengths and reputation, then you can engage with each stakeholder

in a way that recognises their motivation. You build a community of individuals who are motivated to help you achieve your objective.

Your first challenge is to access the boardroom. Only by spending time with strategic decision-makers is it possible to observe their thinking and behaviour in specifying and consuming the board intelligence you have been asked to provide. Identifying the forum where strategic risk conversations take place and ensuring that you are there will increase the level of influence you have with the board.

Once you have a place at the table, the next challenge is to understand the motivations of the other stakeholders. An individual's motivation is not static; it varies depending on the situation. Building an understanding of the motivations of key strategic decision-makers in each situation enables you to present board intelligence in a way which engages the board and contributes to constructive challenge and evidence-based decision-making. Building that understanding may take place outside formal activities, with each conversation providing an opportunity to develop better insights.

## Understanding the Motivational Risk Model

**Scenario:** In each situation there are MEANS (available capability and resources) and ENDS to be achieved (objectives and desired outcomes).

**Motivation:** Each individual is motivated by LOGIC (I need facts, evidence), INTEREST (What's in it for me/us?) VALUES (How does this fit with my view of what is good and right?) EMOTIONS (How will this build our relationship and make me/us resilient?).

**Dialogue:** enables us to create conversations which recognise and respond to an individual's motivation and develop INSIGHT into the appropriate application of our effort.

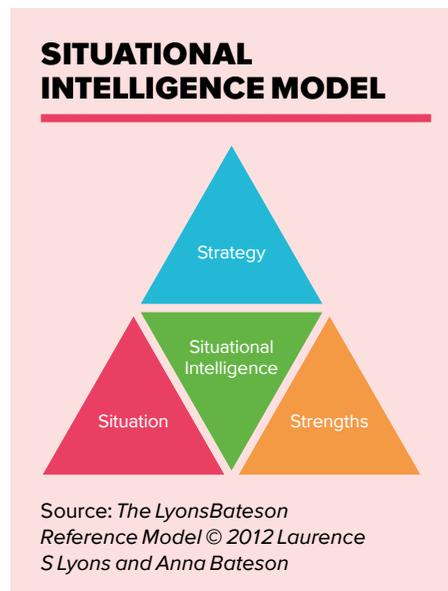
## Applying the Motivational Risk Model to a scenario

For example: A hypothetical engineering and project management consultancy provides services to clients globally. Premium listed on the London Stock Exchange, with a turnover of £2 billion and a headcount of 11,000 people, the group operates in 70 countries. By developing this footprint, the organisation has mitigated some of the strategic risks associated with the marketplace for their services.

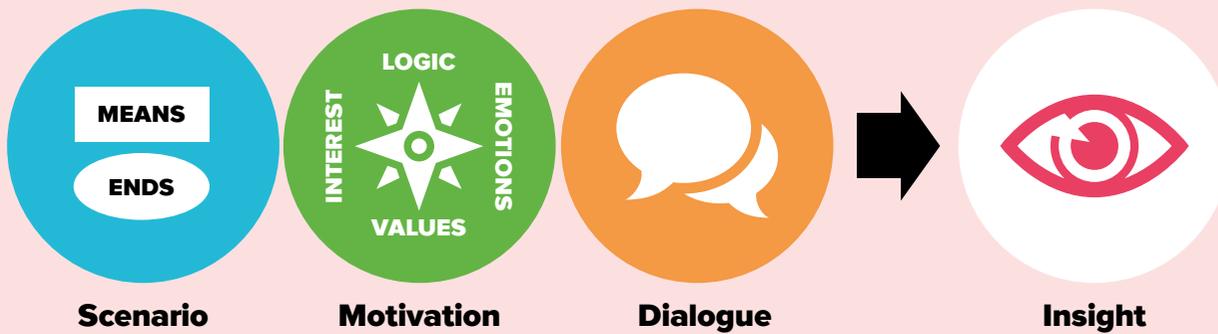
The board of eight directors consists of a non-executive chairman, four independent directors and the CEO, COO and CFO. The four board committees (audit and risk, nominations, remunerations, and health, safety and the environment) are chaired by the independent directors. The executive committee contributes through the three executive directors on the board. Input from the risk professionals is generally commissioned by the CEO or requested by the chairman of the audit and risk committee.

The audit and risk committee chairman is concerned that the board is not engaged in thinking about enterprise risks and their implications. Accountability appears to have been passed to her committee, and the board goes through the motions of strategic decision-making without informed discussion of the risks associated with strategic choices. She has a good relationship with the risk professionals in the company and would like to raise their profile so that the business intelligence they provide is listened to by all the board.

The last board evaluation indicated that the link between board decisions and evidence needs attention. Shareholders have advised



## MOTIVATIONAL RISK MODEL



Source: *The LyonsBateson Motivational Risk Model* © 2018 Laurence S Lyons and Anna Bateson

the investor relations team that they find the reporting insufficiently transparent. The board has scheduled a workshop to explore how the current strategic risk management process can be improved and become more robust and transparent, and you have been invited to attend.

The chairman introduces the workshop objective as a common desire to agree how to modify the approach to strategic risk management in order to engage stakeholders appropriately at each stage.

The CFO highlights the need to gather evidence to show how risk is assessed and reported across the portfolio.

You recognise that the CFO is motivated by LOGIC and listen as the conversation develops. The board wants to understand how risk analysis and strategic decision-making should fit together, how regularly risk appetite should be reviewed, how transparent the risk management process is and how risk oversight could be improved. You provide information and ask probing questions to evidence the

value you provide. You gain an insight into the level, format and frequency of board intelligence required and your future involvement in the strategic decision-making process.

Early in the workshop, the COO declares that the matter should be left to the audit and risk committee and is not a board issue. The chairman of the audit and risk committee is quick to point to research showing that organisations with greater board risk oversight involvement tend to have more mature risk management practices and achieve better operating performance. You confirm that research was carried out through INSEAD in 2016 across publicly quoted companies in 28 countries. The conversation continues and explores how best to deliver strategic objectives and govern effectively while using the board resources available. You listen and identify the misalignment between the board and the expectations of other stakeholders. Clearly they don't all share the same motivational INTEREST. Your critical insight is understanding who believes the proposals are not in their individual or collective interest.

The chairman of the remunerations committee is concerned to establish how the treatment of risk aligns with and reinforces the organisation's ethical policy. You identify that she is motivated by VALUES and listen as the conversation develops to embrace reputational risk, fraud and the need to create a clear "Tone from the

Top" to promote the desired culture throughout the organisation. The chairman asks probing questions to establish what the board is not prepared to do in pursuit of its strategic objectives, and you are able to clarify some of the boundaries to the risks the board is prepared to take. Your insights include the extent to which values and ethics inform strategic decision-making.

The chairman of the health, safety and environment committee occupies his usual chair next to his friend the CEO and is keen to support him. He asks why there is a need to commission external risk expertise when the organisation's internal audit and risk departments are so well run. You identify that he is motivated by EMOTION and you watch the body language of the directors as the conversation develops. The chairman asks for confirmation of the extent of external expert use and highlights the need for the right independent review to address scepticism in the way the organisation makes strategic decisions and assesses risk. You gain a valuable insight into where relational tensions exist. ☺

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