Governance Institute of Australia

# Governance Institute Risk Management Survey Report 2020

Partner

PKF

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# Letter from the CEO

As we navigate a year like no other, the issue of risk has been put under the spotlight.

The impact of COVID-19 has shown that many businesses were not prepared for a major crisis. While it is understandable that few would have anticipated a crisis on such an unprecedented scale, a major lack of risk scenario testing is one of the key issues that has been uncovered in our Risk Management Survey 2020.

The survey of almost 400 governance and risk professionals and senior executives found that close to 40 per cent of businesses are not regularly testing their risk and crisis plans –— and just 11 per cent are testing regularly. Given we have recently also witnessed an extreme summer bushfire season, it is essential that regular and effective risk and crisis testing now becomes a priority for every organisation.

The survey also revealed valuable insights about what organisations consider to be their most immediate –— and serious -— risks. Potential damage to brand and reputation is a key concern for 60 per cent of respondents, while 59 per cent are concerned by the impact of policy change and intervention. While other issues currently dominate the news cycle, climate change is firmly on the agenda with 37 per cent identifying this as among their top five risks over the next three years.

With new risk challenges being thrown into the mix almost constantly, it has been a difficult year for so many. However, we hope the insights into the risk landscape contained in this report will assist organisations as they traverse the post-pandemic path ahead.

**Megan Motto**
**Chief Executive Officer**
**Governance Institute of Australia**

**Governance Institute of Australia would like to thank all participants for their time and insights. A special thank you to our partner PKF for helping support this invaluable research.**

# Executive summary

Governance Institute of Australia's Risk Management Survey 2020 identifies the key pressure points for governance and risk professionals in the Australian market now, and into the future.

This report gives an overview of the survey's findings. It aims to delve a little deeper into the areas covered by the survey that was undertaken in March 2020, to give context for respondents' sentiments, consider the significance of the pressure points identified and discuss any action that boards might need to take to prepare themselves for the future.

## Key findings

### *COVID-19 is the 'current storm'*

At the time the survey was conducted the enormity of the coronavirus (COVID-19) pandemic was only just being realised. The pandemic has exposed gaps in the crisis management and business continuity capabilities of both businesses and governments. This is reflected in the survey's finding that 39 per cent of respondents don't run scenarios around risk events to test how the organisation and its people will respond, and only 11 per cent do this frequently. Respondents said economic shock was one of the risks their organisation does not manage well, which is a concern as Australia faces an economic downturn as a result of the measures taken to tackle COVID-19.

> **39% of respondents don't run scenarios around risk events to test how the organisation and its people will respond.**

An addendum to this survey, found on page 20 outlines the findings from a subset of questions sent out after the main survey, which aimed to gain a better understanding of the impact COVID-19 was having on Australian businesses and how well they felt they were coping.

> **Respondents cited talent, the threat of disruption or failure to innovate, the environment and economic shock as the risks their companies were the least well prepared for.**

### *Continued fallout from banking royal commission*

The majority of respondents felt that risk management has changed since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (banking royal commission), saying the risk management function is more visible and has a higher profile and that more time is spent on risk management. Respondents ranked legislative change as the risk they were the most prepared for, demonstrating that they have taken on board the likely impact of the reforms that are being introduced as a result of the banking royal commission.

### *Risk departments promote success*

There seems to be a correlation between having the right structures in place and getting other areas of risk management right. Those with a dedicated risk department were more likely to say that their organisation was strong in other areas of risk management, such as communicating risk to the board or proactively managing risks across a range of areas. This suggests that establishing a risk function pays off across the organisation, perhaps because it articulates the board's commitment to taking risk seriously and to taking the appropriate actions to manage it effectively.

> **37% of respondents said they do not include modern slavery obligations in their risk management framework.**

### *Companies remain unprepared for the same risks*

Respondents cited talent, the threat of disruption or failure to innovate, the environment and economic shock as the risks their companies were the least well prepared for. The same results were recorded in last year's survey. This suggests that, while respondents are aware that their organisations are lacking in these areas, they have not yet been able to make significant steps to address this over the last year. The lack of focus on environmental risk is perhaps of particular concern as shareholders and society as a whole continue to prioritise this issue. It would be unwise for companies to overlook this risk in future. It would be unwise for companies to overlook this risk in future.

### *Exposure to modern slavery reporting risk*

Thirty-seven per cent of respondents said they do not include modern slavery obligations in their risk management framework and only 22 per cent said they do include it. A mandatory reporting requirement on modern slavery risk has been introduced, which is applicable to a large grouping of Australian companies.

Under the new reporting obligations, a modern slavery statement must be submitted within nine months after the end of the entity's first full financial year that commences after 1 January 2019 (this was increased from six months due to COVID-19). The six-month deadline for reporting periods ending after 30 June 2020 remains unchanged. Australian companies need to address modern slavery risk as a matter of urgency to ensure compliance with these new obligations.

# Research process and participants

## Process

Governance Institute of Australia Risk Management Survey 2020 builds on the success of the 2019 survey. The survey was conducted online over March 2020 and there were 393 respondents. It identifies the key pressure points for governance and risk professionals in the Australian market now, and into the future.

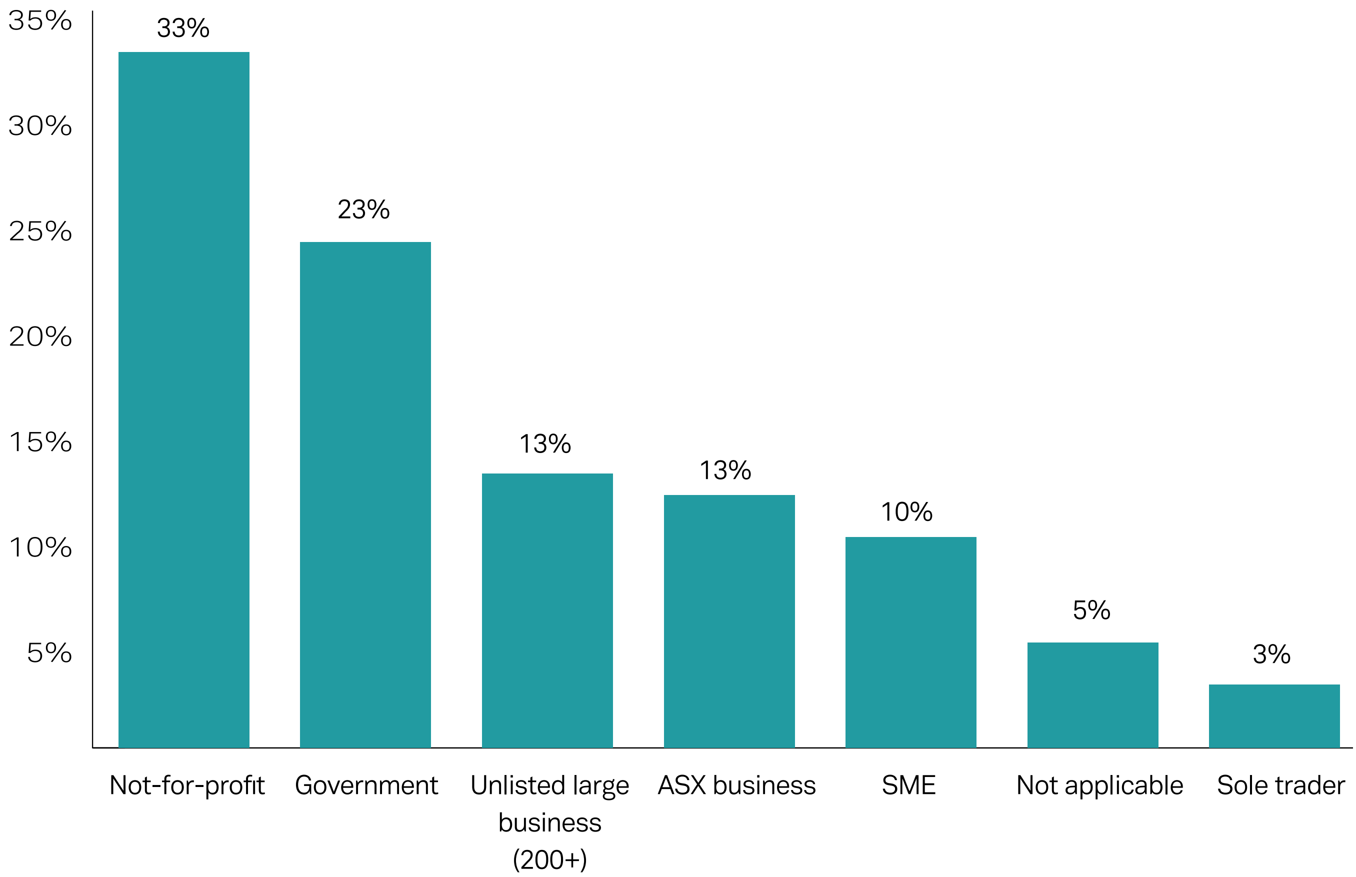
## Participants

Just under half of respondents' (47 per cent) primary role is both governance and risk related. A further 24 per cent's role focuses on governance and 14 per cent's focuses on risk. The profile of respondents is largely senior: 39 per cent are senior governance or risk management professionals and 17 per cent are chief executive officers (CEOs) or C-suite executives.

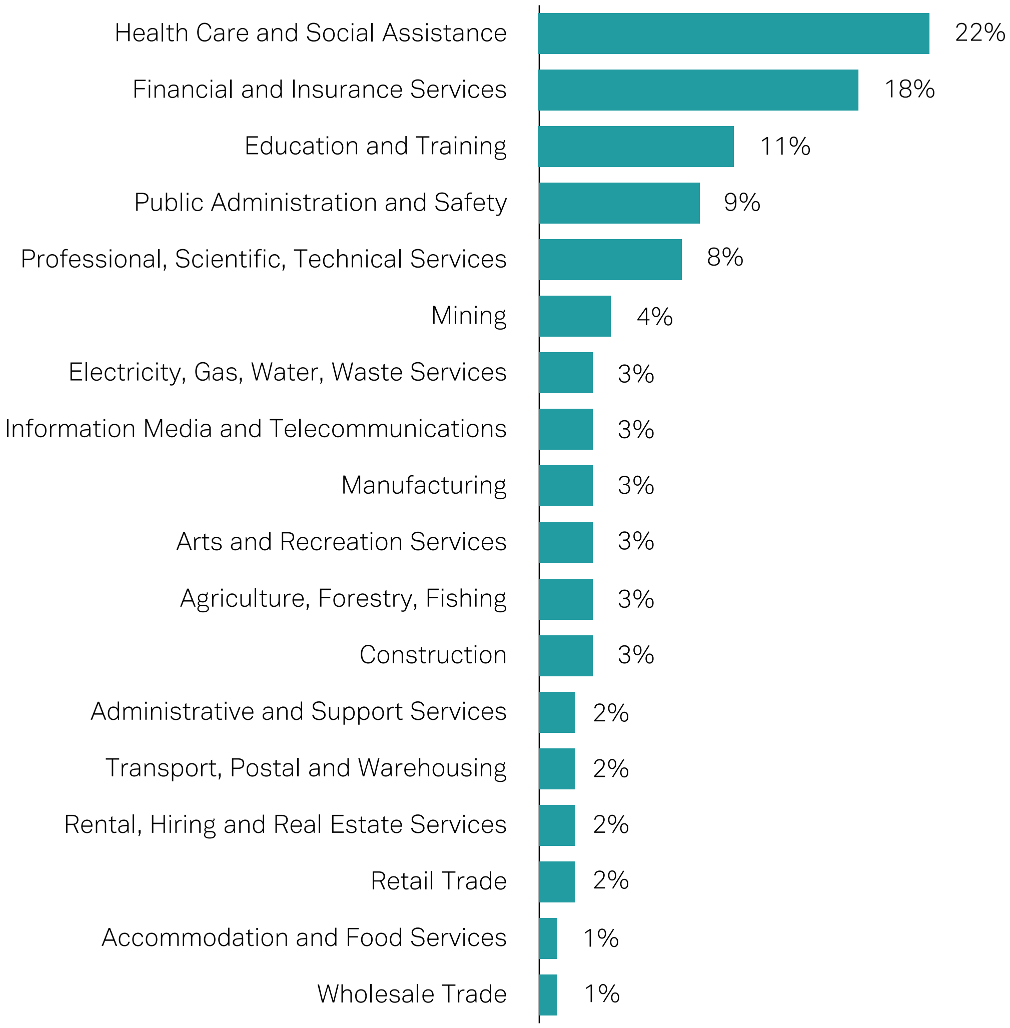
Forty-four per cent of respondents are Governance Institute of Australia members and 40 per cent have a formal risk management accreditation. Respondents who are also Governance Institute members tend to be more senior compared to those who are not members. Members are also more likely to have a formal risk management qualification than non-members.

Respondents work across a cross-section of organisations and industry sectors (see Figures 1 and 2), with the highest concentrations in not-for-profit (33 per cent) and government (23 per cent) and health care and social assistance (22 per cent) and financial and insurance services (18 per cent). Governance Institute members are more likely to work in business and non-members are more likely to work in government.

**Figure 1: What type of organisation do you work for?**



## Figure 2: What industry sector does your organisation operate in?

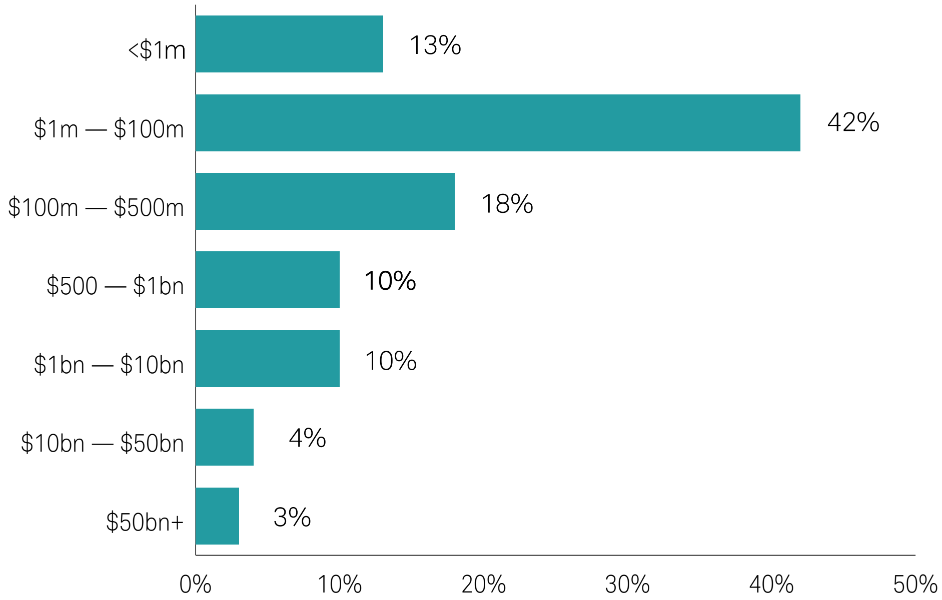



The size of the organisations represented in the survey ranges from small to extremely large: 13 per cent have an annual revenue of under $1 million and 17 per cent have an annual revenue of over $1 billion.

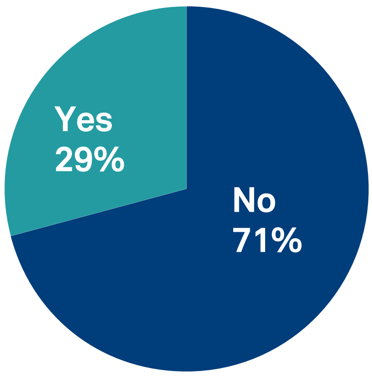
Just under a third (30 per cent) of respondents are based in New South Wales, ahead of Queensland (22 per cent) and Victoria (21 per cent). A further 12 per cent are in Western Australia and 5 per cent are based internationally. Of those who operate overseas, the highest concentrations were in South East Asia (65 per cent) and Europe, Middle East and Africa (56 per cent).

## Figure 3: Company profile

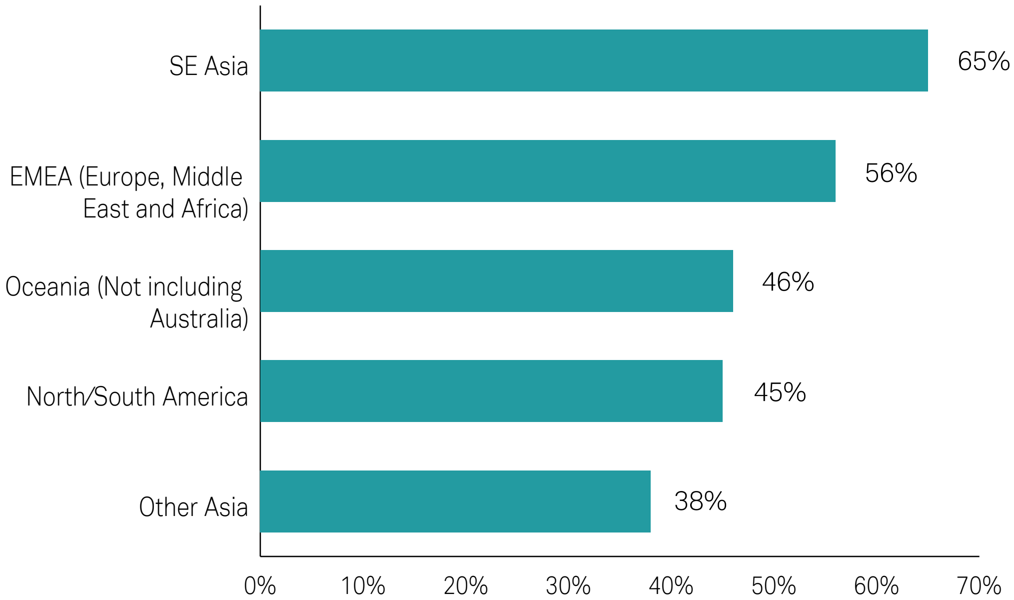
### 3a: Annual revenue




### 3b: Operates overseas




### 3c: Regions company also operates



# Section 1: Risk management: structure and culture

The way an organisation approaches risk is critical to how effectively it is managed. There are structures and procedures that can be put in place to enable an entity to equip itself to deal with risk. When they are combined, these mechanisms create a culture that helps leaders to articulate how important risk is to the running of the company, as well as giving them an understanding of how they can contribute to its management in a constructive manner. This in turn informs the overall culture of the organisation. When the board has defined and agreed its risk appetite, for example, it can communicate it throughout the company, setting the tone from the top. This should mean that everyone is 'on the same page' and rule out instances of individuals taking risks that are outside this remit, or conversely being too conservative.

Almost half (45 per cent) of those who responded to the survey are leaders or senior leaders within their risk management team and are therefore well placed to offer relevant insight. A further 36 per cent have a level of involvement in the team, be that as a mid-level member, junior member, or through having a part-time remit, oversight of the team or a reporting line to the team.

## Structuring risk management

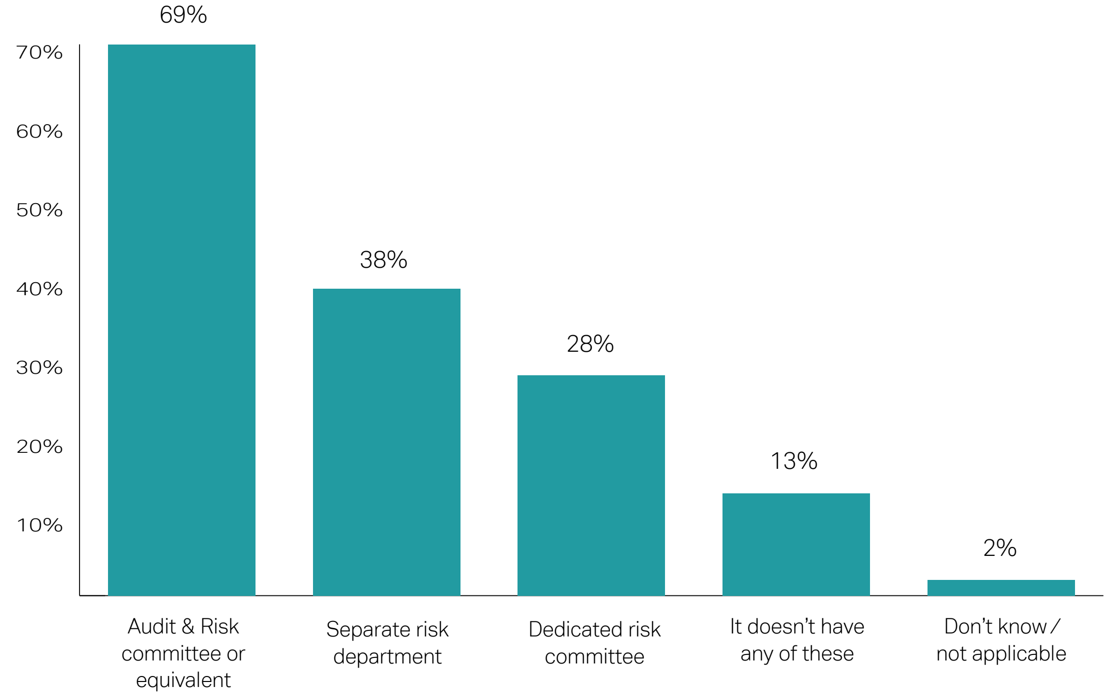
Having the right processes in place can vastly improve an organisation's approach to risk management. But what should that structure look like? The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, 4th edn (Principles and Recommendations) were published in February 2019 and came into force for financial years commencing on or after 1 January 2020. While they are intended for entities listed on the Australian Securities Exchange, 'they reflect a contemporary view of appropriate corporate governance standards' that 'other bodies may find… helpful in formulating their governance rules or practices.'

The seventh principle of Principles and Recommendations states that 'A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.' It recommends that the board has a committee to oversee risk consisting of at least three members, the majority of which, including the chair, should be independent directors. The board should disclose the committee's members, charter and how many times it has met at the end of a reporting period, as well as who was in attendance. If the board does not have a risk committee or satisfactory equivalent, it should disclose this and outline its alternative arrangements.

> **84% of survey respondents agree with the statement, 'risk management is highly valued across my organisation', up from 70% in 2019.**

Sixty-nine per cent of survey respondents said they have an audit and risk committee or equivalent, while 38 per cent have a separate risk department and 28 per cent have a dedicated risk committee. Only 13 per cent of respondents said that they did not have any of these (see Figure 4.) This suggests organisations are making a serious commitment to risk management and putting in place the right structures to manage it. Larger entities are more likely to have a separate risk department, although they are only ubiquitous in the very large companies of over $10 billion annual revenue, where 93 per cent said they have a separate risk department. Government entities and ASX-listed businesses are most likely to have a separate risk department.

## Figure 4: Risk functions ar the respondent's company




Non-executive directors are most likely to be members of the audit and risk committee (50 per cent) and dominate the risk departments of not-for-profits and commercial organisations. Twenty-three per cent of respondents said management are on the audit and risk committee. In government, committee membership usually comprises a combination of management and non-executive directors. The average risk department or team consists of four people, but there is significant variation: 23 per cent of respondents said their committee has between three and four members; a further 23 per cent said it has five or more members; 28 per cent of respondent's risk teams only have one or two members. The majority of respondents (60 per cent) said their risk committee meets quarterly and 18 per cent said that it meets monthly. On the whole, these responses reflect the recommendations for best practice set out in the Principles and Recommendations, suggesting that, broadly speaking, organisations have established a sound structure for managing risk.

# Culture

The majority (84 per cent) of survey respondents agree with the statement, 'risk management is highly valued across my organisation', up from 70 per cent in 2019. Only ten per cent disagree, either slightly or strongly. The majority (72 per cent) also agree that risk management is highly valued by other leaders in their organisation. These responses are encouraging and show that entities and their leaders are setting the right tone when it comes to risk management.

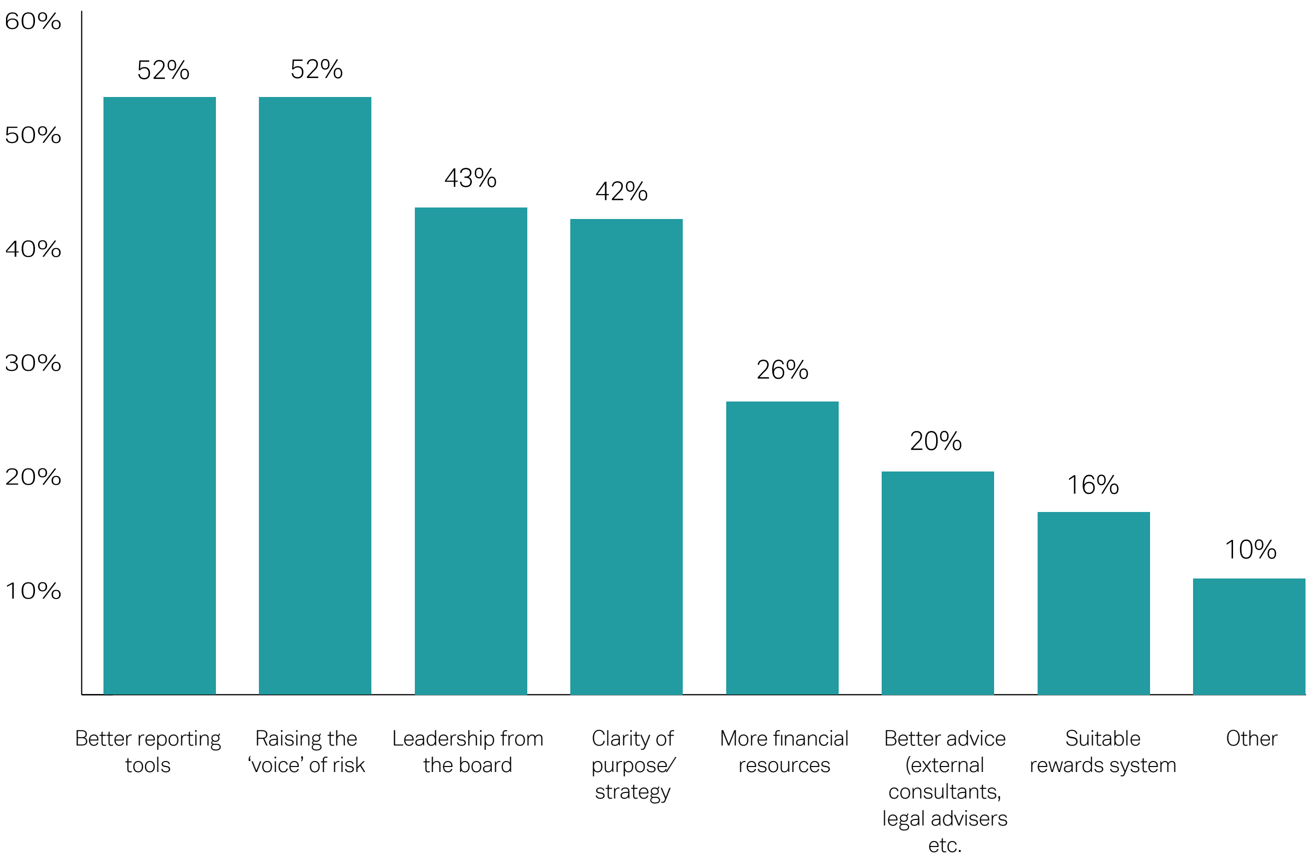
There's less certainty about how well risk management is understood: 43 per cent of respondents agree slightly that it is widely understood at their organisation, but 19 per cent disagree slightly and 7 per cent disagree strongly. Only 20 per cent agree strongly. The majority (54 per cent) agree that their organisation has a robust risk appetite statement in place, but a significant minority (13 per cent) disagree strongly with this statement and a further 13 per cent disagree slightly. This shows that while risk management is valued by organisations, there is some work to be done to educate stakeholders about what this means in practice, as well as to ensure there is a sound risk appetite statement in place, which is communicated effectively.

In terms of improving risk management culture, respondents said that better reporting tools and raising the 'voice' of risk would be the most helpful (52 per cent) for their organisation. These were closely followed by leadership from the board and clarity of purpose or strategy. This seems to tie in with the hesitant responses around how well risk management is understood and suggests that communication and leadership are central to success. Indeed, only 26 per cent of respondents felt more financial resources would improve their risk management culture and only 16 per cent thought suitable reward systems were required (see Figure 5.)

When asked about their organisation's risk reporting to the board, 49 per cent of respondents said it is only quite effective and 21 per cent think it is not very effective. Overall, one in four respondents said their organisation's risk reporting is not effective. Again, this points to a weakness in the communication of risk within the organisations represented by the survey respondents.

Risk reporting is more likely to be perceived as effective in companies that have a dedicated risk department or committee when compared to those that have a combined audit and risk committee. Where there is no risk committee or equivalent, 39 per cent of respondents said their risk reporting is not effective. This suggests there is a correlation between having the right structures in place and successfully communicating risk. Perhaps the link is that, in establishing a dedicated group to focus on risk, the company makes it clear that it takes risk management seriously. As a result, there is more dedication throughout the organisation to every component of that process, in turn leading to better outcomes.

## Figure 5: What could help the organisation improve its risk management culture?



# Section 2: Pressure points

Respondents felt slightly more positive than last year when asked how effective their organisation is at proactively identifying and managing its risks overall, giving it an averaged response score of 6.8, where 10 is excellent; up from 6.5 in 2019. Those with a dedicated risk department or committee gave higher scores for all the risks that they were managing when compared to those with an audit and risk committee or to those without any risk committee. This again points to a link between dedicated risk structures and effective risk management overall.

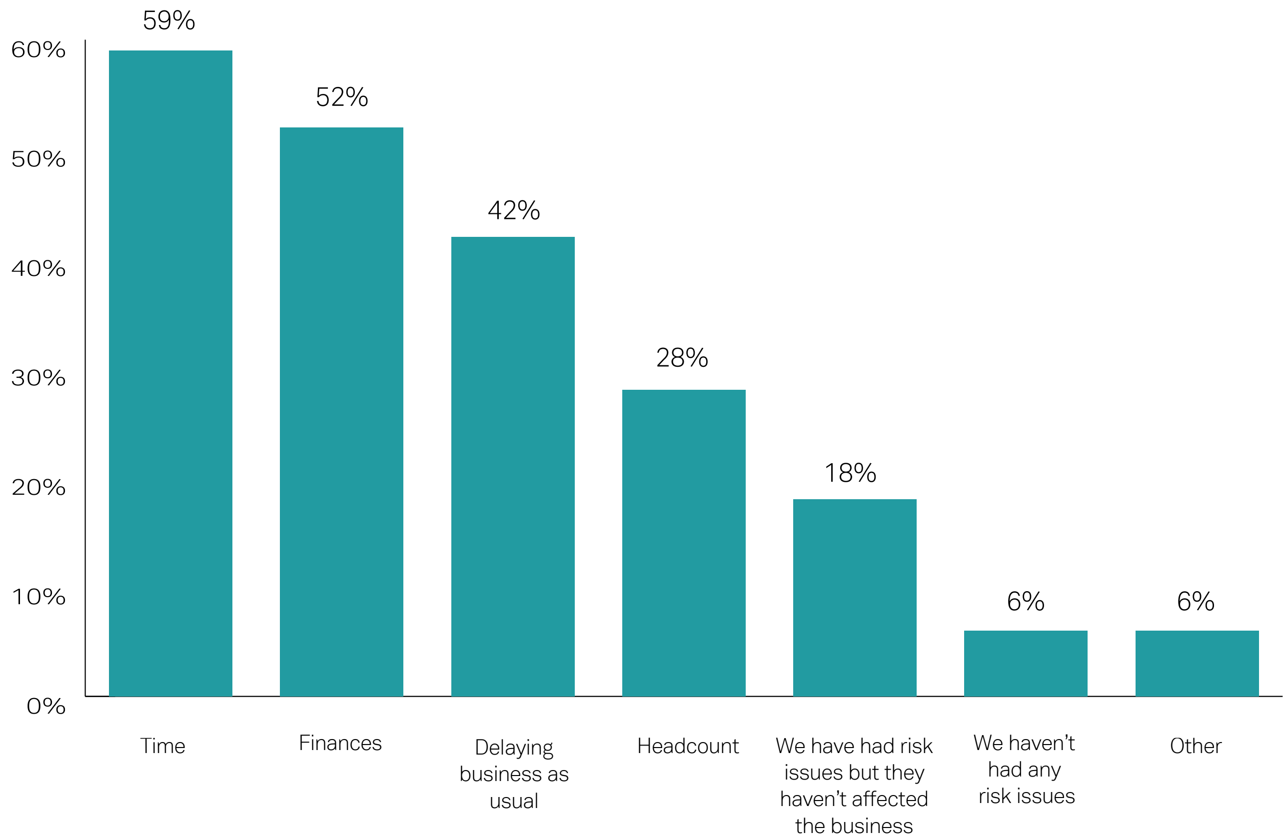
Respondents felt that risk issues most often cost time (59 per cent) and finances (52 per cent), as well as delaying business as usual (42 per cent). Only 18 per cent said that the risk issues they have experienced have not had any impact on the business.

## Figure 6: How well company proactively identifies and manages its risks

| | Separate risk department | Dedicated risk committee | Audit & risk committee or equivalent | It doesn't have any of these | Don't know/ not applicable |
|---|---|---|---|---|---|
| Proactively identify and manage its risks overall | 7.1 | 7.3 | 6.8 | 5.6 | 8.3 |
| Risks around brand and reputation | 7.4 | 7.4 | 7.0 | 5.9 | 8.7 |
| Economic shock, such as commodity price stocks, recession, exchange rates or interest rate change | 6.7 | 7.0 | 6.4 | 5.1 | 8.0 |
| Increased competition | 6.8 | 6.8 | 6.6 | 5.4 | 8.3 |
| Regulatory change, such as regulatory intervention in your market | 7.4 | 7.5 | 7.1 | 5.4 | 9.0 |
| Legislative change, such as government policy changes | 7.6 | 7.8 | 7.3 | 5.7 | 8.6 |
| Cyber-crime. This includes cyber attacks & hacking (IP theft, theft of customer data), malware, and data privacy (storage of data & legal disclosure requirements) | 7.5 | 7.8 | 7.1 | 5.4 | 9.3 |
| Disruption / failure to innovate, such as technological disruption by Amazon, Airbnb, Uber, Apple etc | 6.6 | 6.9 | 6.2 | 5.3 | 8.2 |
| Talent attraction and retention. This includes risks around visa rule changes for foreign workers. | 6.4 | 6.7 | 6.1 | 5.1 | 7.8 |
| Business continuity such as business interruption by natural disasters, acts of terror, major project failure, confidential leaks | 7.2 | 7.7 | 6.9 | 5.4 | 8.8 |
| Political risk, such as effects of government instability, both here and abroad (leadership coups, Brexit, trade wars) | 6.8 | 7.0 | 6.5 | 5.0 | 8.8 |
| Professional liability. This includes third party liability (modern slavery laws, ethical supply chain management, franchise management) | 7.0 | 7.4 | 6.9 | 5.8 | 8.8 |
| The environment and sustainability including the risks around climate change, green energy/finance, activist shareholders | 6.5 | 6.9 | 6.3 | 5.3 | 8.2 |
| Staff conduct including corruption/bribery, sexual harrassment, racial discrimination | 7.3 | 7.6 | 7.2 | 5.6 | 9.2 |

Significantly higher     Significantly lower

## Figure 7: Impact any risk issues have had on broader business




# Feeling prepared

In terms of the specific risks that respondents felt their organisations manage well, staff conduct, legislative change and regulatory change came out on top: over 50 per cent of respondents rated them as excellent or very good. Legislative change is the best-managed risk, with an averaged response score of 7.2 out of 10, where 10 is excellent, ahead of staff conduct, brand and reputation and regulatory change, which were all rated 7 out of 10. These are similar to last year's findings, which also saw legislative change with the best rating.

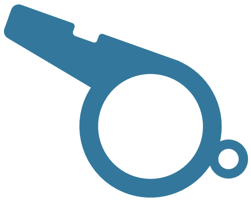
> **In terms of specific risks that respondents felt their organisations manage well, staff conduct, legislative change and regulatory change came out on top.**

### *Banking royal commission*

It is unsurprising to see legislative change so highly ranked both this year and last when we consider the responses in the context of the banking royal commission and the impact it has had on risk management and business more broadly. Following the shocking revelations that came out of the inquiry, the government began implementing new laws aimed at restoring trust in financial services. These laws respond to 54 recommendations calling for government action as set out in the banking royal commission's final report. This legislative program represents a clear prompt for companies to be prepared for change in this area.

The majority (58 per cent) of respondents said that risk management has changed since the banking royal commission: 38 per cent said the risk management function is more visible and has a higher profile and 30 per cent said that more time is spent on risk management. Given the diverse range of industries represented by the respondents, this shows that the effects of the banking royal commission have been felt beyond the financial services sector. However, 34 per cent said that risk management hasn't changed much, illustrating that this reach is not all-encompassing. Respondents working in organisations with a separate risk department or a dedicated risk committee were more likely to say that risk management has changed post-banking royal commission, which is perhaps indicative of risk having a higher profile overall in those companies.

### *Whistleblowing*



Respondents also felt that their organisations manage the risk of staff conduct well, giving it an averaged response score of 7 out of 10, where 10 is excellent. In relation to this, just over half of respondents (51 per cent) said their risk management framework incorporates whistleblower protection and a further 26 per cent include it elsewhere. Only 15 per cent do not include whistleblower protection. This shows that organisations are committed to facilitating whistleblowing, perhaps one of the best ways to manage the risk of staff misconduct. This may again relate to the risk of legislative change: from 1 July 2019 the whistleblower protections contained in the *Corporations Act 2001* were expanded. As a result, as of 1 January 2020, public companies, large proprietary companies and corporate trustees of APRA-regulated superannuation entities are required to have a whistleblower policy in place. Changes have also been made to the protected disclosure regime, meaning that a wider range of conduct can be reported and the whistleblower receive protection for doing so. The Australian Securities and Investments Commission (ASIC) states on its website, 'Whistleblowers play an important role in identifying and calling out misconduct and harm to consumers and the community,' highlighting that the legal rights and protections for them that are contained in the Corporations Act exist to 'encourage whistleblowers to come forward with their concerns and protect them when they do.'

> **Respondents felt their organisations do not do as well when it comes to identifying and managing the risks associated with talent.**

# Feeling exposed

Respondents felt their organisations do not do as well when it comes to identifying and managing the risks associated with talent, the threat of disruption or failure to innovate, the environment and economic shock. The risk of talent attraction and retention causes respondents the most concern: they gave their organisation's ability to manage it an averaged response score of 6.1, where 10 is excellent. Respondents to last year's survey felt the same, giving the same four risks the lowest scores. This suggests that, while respondents are aware that their organisations are lacking in these areas, they have not yet been able to make significant steps to address this fact over the last year.

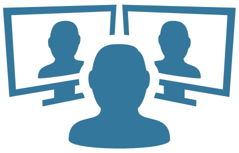
### *Disruption and talent*

In the article, 'What is Disruptive Innovation?' *Harvard Business Review* defines disruption as 'a process whereby a smaller company with fewer resources is able to successfully challenge established incumbent businesses.' Disruptive models often focus on the needs of a segment of the market that larger businesses have not specifically tailored their offering to, often because they are not the most profitable. They find a way to deliver for that group, usually at a lower price. The established business tends not to notice this process taking place, because it is so focussed on the more profitable section of its market. Here's the risk: the disrupter is then able to develop its offering to the point that it can now serve the larger company's core customers using the business model that originally appealed to its more niche audience. When the mainstream market begins to adopt the outlier's offering in volume; disruption has taken place.

> **Respondents did not rank environmental risk as a top concern over the coming three to five years, indeed it fell towards the bottom of the list.**

There may be some debate about what sorts of businesses can be classified as disruptive innovators in a pure sense, but the effect that companies such as Apple and Amazon, and more recently Uber and Airbnb, have had on the business community is well documented. The innovation that is central to their success involves a degree of risk taking that boards need to be comfortable with. As one survey respondent put it, 'understanding that risk is about both opportunity and threat, not just threat.' Agreeing and communicating a risk appetite that allows for a degree of failure will empower the workforce to innovate within the parameters the board is comfortable with and will go a long way towards managing this risk. Failure can be an important way to learn: one respondent highlighted a need for 'better follow up on incidents.' Boards could also ask management for an innovation strategy including key performance indicators. According to Dr Soren Kaplan, an expert in innovation, 'the most risky strategy is to do nothing'. Kaplan suggests that ten per cent of innovation and risk taking could be dedicated to disruptive innovation. He says boards should be asking, 'who and what could disrupt us from outside the industry?'

The risks of talent retention and disruption perhaps go hand in hand: innovative working practices may well attract talent to a different employer. This is perhaps particularly true of the gig economy, a term which refers to the alternative working practices that are central to their offering. Essentially gig workers operate more like contractors or freelancers than formal employees. To some extent this is what enables the disrupter to enter the market at a lower price point: they don't have the same obligations to their workforce. This is not without controversy. However, it doesn't follow that gig workers are always unhappy with this form of employment, with many valuing the freedom and flexibility that their work offers. Even prior to the onset of COVID-19, which prompted a fast-paced transition to working remotely, flexible and alternative working practices were becoming attractive to the workforce as a whole as employees looked to balance working life with commitments outside work. This is something that traditional business could be looking at as a way to manage talent retention.



### *Environment*

Recommendation 7.4A of the Principles and Recommendations states that a 'listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.' Despite this, respondents gave their organisation an averaged response score of 6.2, where 10 is excellent, when it comes to identifying and managing environment and sustainability risks, including risks around climate change, green energy or finance and activist shareholders. This score is down slightly from last year, when respondents rated their organisation 6.3 in this area. Respondents did not rank environmental risk as a top concern over the coming three to five years, indeed it fell towards the bottom of the list.

> **Respondents cited damage to brand and reputation as their top risk over the next three years.**

This is worrying when we consider the increased emphasis that shareholders are placing on sustainable finance and environment, social and governance (ESG) factors. The Australian Sustainable Finance Initiative, for example, has been established to bring together leaders from major banks, superannuation funds, insurance companies, financial sector peak bodies and academia to develop what it terms a 'Sustainable Finance Roadmap', which it plans to launch this year. The aim of the Roadmap will be to help the financial services sector push for change that is consistent with creating a more sustainable economy in line with goals such as the UN Sustainable Development Goals and the Paris Agreement on climate change, which Australia ratified in 2016.

> **Respondents did not rank environmental risk as a top concern over the coming three to five years.**

In a statement, the group's proponents highlight 'the adverse impacts of climate change and natural disasters on households, businesses, cities and governments' in Australia as a driving force for their action. This year's devastating bushfires are a sombre illustration of this point. Significantly, the group argues that a sustainable finance system can 'underpin improved risk management and financial performance through explicit consideration of environmental, social and governance risks.' This suggests that investors will be expecting ESG factors to be taken into account as part of a company's wider risk management program, which is something that respondents need to be mindful.

Respondents cited damage to brand and reputation as their top risk over the next three years. It is worth considering that one of the most likely reputational risk factors over the next years will be a failure to address environmental concerns. Indeed, 'rising civil society demand for the finance sector to play a more active and responsible role in promoting economic, social and environmental sustainability' is the other driver for action cited by the Australian Sustainable Finance Initiative's proponents. The desire for change to the ways we treat the environment has begun to gain momentum across society more broadly and it will be harder for companies to ignore as it becomes central to the concerns of their core markets. It is anticipated that entities will begin to recognise this fact and start to rank environmental risk higher on their priority list.

## *Modern slavery*

Only 22 per cent of respondents said that they incorporate modern slavery obligations in their risk management framework, and 19 per cent said that it is included elsewhere. 37 per cent of respondents said that it is not part of the framework. This is worrying given that the averaged response score respondents gave for how well their company manages professional liability, including third party liability such as modern slavery, was 6.8, where 10 is excellent. There appears to be a disconnect between understanding the importance of professional liability overall and understanding the importance of modern slavery obligations specifically.

A new [statutory modern slavery reporting requirement] was introduced in Australia on 1 January 2019 when the *Modern Slavery Act 2018* commenced. Australian entities or those which carry out business in Australia with a minimum annual consolidated revenue of $100 million are required to report on the risk of modern slavery in their operations and supply chain, including their owned and controlled entities, and outline the steps they have taken to manage those risks. These requirements are mandatory, meaning that it is very important for organisations to have a thorough understanding of their exposure to modern slavery risk.

With these requirements in mind, it makes sense that respondents from larger organisations with a separate risk department or committee, ASX-listed companies and those that operate internationally are more likely to have incorporated modern slavery obligations. However, even among these entities, a significant proportion do not include modern slavery obligations. Under the new reporting obligations, a modern slavery statement must be submitted within nine months after the end of the entity's first full financial year that commences after 1 January 2019. Under the new reporting obligations, a modern slavery statement must be submitted within nine months after the end of the entity's first full financial year that commences after 1 January 2019 (this was increased from six months due to COVID-19). The six-month deadline for reporting periods ending after 30 June 2020 remains unchanged..

The fact that 37 per cent of respondents do not include modern slavery obligations in their risk management framework suggests there is a high level of exposure to modern slavery risk in Australian companies, which needs to be addressed with some urgency.

### Figure 8: Whether risk management framework incorporates modern slavery obligations

| | <$1M | $1m–$100m | $100m–$500m | $500m–$1bn | $1bn–$10bn | $10bn+ |
|---|---|---|---|---|---|---|
| Yes | 12% | 15% | 29% | 28% | 30% | 52% |
| No, it is included elsewhere | 20% | 12% | 21% | 26% | 35% | 15% |
| No, it is not part of our framework | 42% | 48% | 32% | 33% | 15% | 15% |
| Don't know / not applicable | 26% | 25% | 18% | 13% | 20% | 18% |

| | Whether operate internationally | |
|---|---|---|
| | Yes | No |
| Yes | 36% | 17% |
| No, it is included elsewhere | 20% | 18% |
| No, it is not part of our framework | 29% | 41% |
| Don't know / not applicable | 15% | 24% |

Significantly higher than last year    Significantly lower than last year

# Managing the unknown: COVID-19

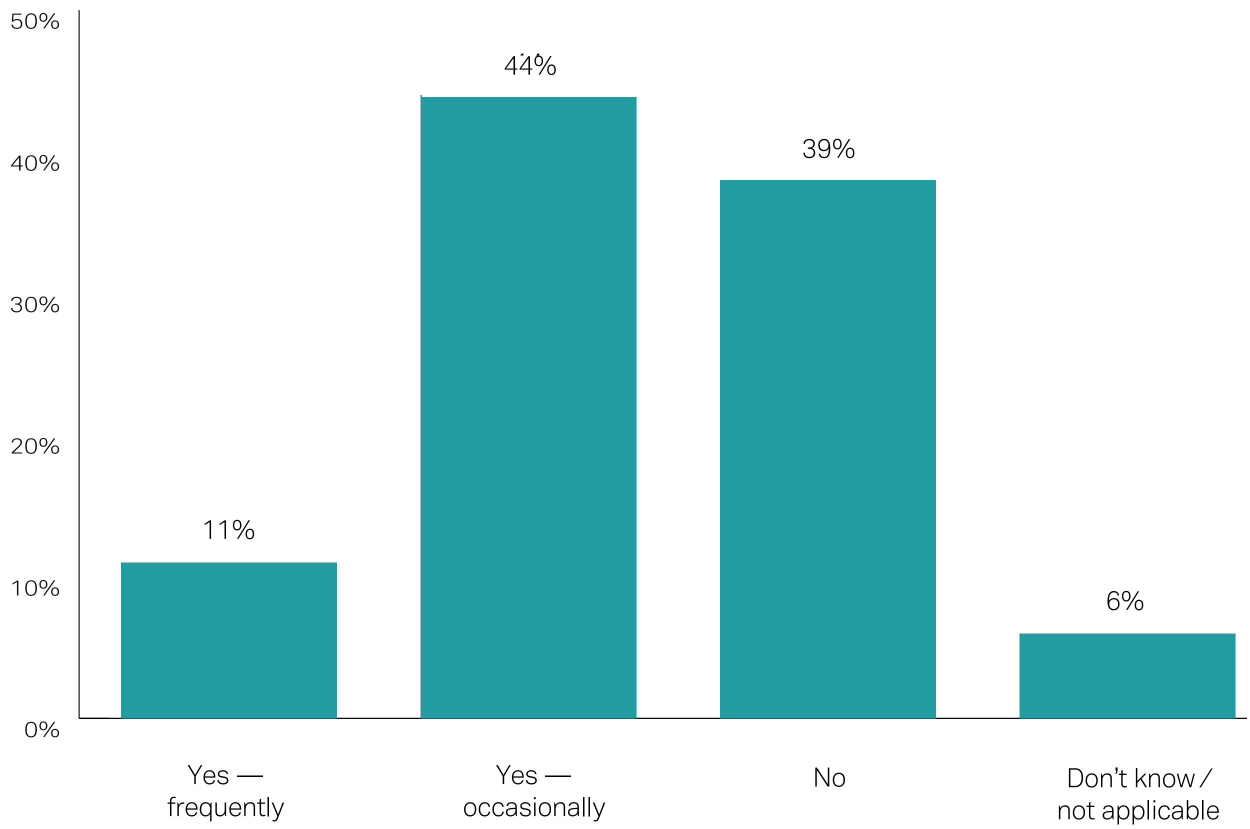
## *Crisis management*

At the time this survey was undertaken the world was bracing for the full impact of COVID-19, which one respondent referred to as ‘the current storm.’ Two respondents said they were managing the specific risk of the virus, another cited pandemic as a risk and a further respondent referred to ‘increased demand for our health services’ as a risk their organisation was managing. In response to the explosion of the virus across the globe, risk management, and more specifically crisis management, has been put into play by governments and businesses alike. The virus has highlighted the danger of unknown risks to business and society more broadly and leaves us wondering what we could or should have done to be better prepared.

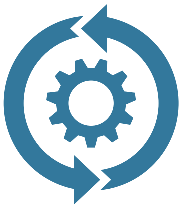
Crisis management is one tool that organisations employ to put them in a better position to deal with an unknown should they be faced with it. As everyone will be affected in some way by COVID-19, this is an area that will no doubt come under review by all organisations once the worst of the pandemic has subsided and we begin to review our response.

Only 11 per cent of respondents said they frequently run scenarios around risk events to test how the organisation and its people will respond, with 44 per cent doing so only occasionally. A significant 39 per cent of respondents said they don’t take this kind of action. It will be interesting to see how significantly these responses change in a year’s time when, hopefully, we will be in a position to reflect on our response to the COVID-19 outbreak. Organisations with a separate risk department were more likely to run these sorts of crisis scenarios, though still only occasionally rather than frequently. Those with a dedicated risk committee were also more likely to do this than those with a combined audit and risk committee.

### Figure 9: Company runs risk scenarios to test how the organisation and employees will respond



### *Business continuity*



Business continuity plans have been tested by COVID-19. The outbreak may well have identified gaps for many organisations that will need to be addressed. While companies may not have been able to prepare for COVID-19 specifically, viral outbreaks are not unprecedented. It would be feasible for a continuity plan to include some provision for action to be taken in such an event. In particular, organisations have been forced to deal with the possibility of a complete shutdown of the workplace. This has tested their capacity for the entire staff to work from home. From this one issue flow many more, such as whether the company servers have sufficient bandwidth to facilitate all employees working from home.

In highly regulated sectors like financial services, can working from home be legally complaint where perhaps there is a requirement for phone calls to be recorded, or other areas of activity to be monitored? There is also the issue of paid sick leave where employees are forced to isolate themselves for a specific period of time, often at short notice, or where schools and other childcare providers may be closed leaving employees with caring responsibilities to manage on top of their workload. There is a growing sense that the outbreak will challenge a lot of assumptions about how business can function and which working practices are, or are not, feasible, with the result that post-COVID-19 business continuity plans may look very different. At the time the survey was undertaken, respondents gave their organisation's ability to identify and manage business continuity risks an averaged response score of 6.8, where 10 is excellent. Again, it will be interesting to see how this rating changes in a year's time.

### *Economic shock*

It seems inevitable that an economic downturn will accompany the COVID-19 outbreak with countries in lockdown and sustained periods of inactivity. Economic shock was one of the risks that a significant proportion of respondents felt they do not manage well: 35 per cent rated their organisation poor or fair at identifying and managing this risk. This is worrying in a period of financial uncertainty and likely recession. At the time of writing the Australian stock exchange was experiencing a period of extreme instability. Monday, 16 March saw the biggest fall in decades of the benchmark ASX200 index with a loss of 9.7 per cent. Thirty per cent of share value had been wiped out in less than a month amidst panic selling induced by COVID-19, which affected stock markets across the globe. Despite this, Tuesday, 17 March saw the exchange up 5.8 per cent, in a massive turnaround. Such instability and uncertainty are certainly not conducive to economic prosperity. Speaking to Sky News on 17 March, Finance Minister Mathias Cormann said, 'It is clear that the economic impact of the coronavirus continues to worsen, in Australia and around the world… many businesses will close and many Australians will lose their jobs.'

> **35% rated their organisation poor or fair at identifying and managing Economic shock**

An addendum to this survey found on page 20 outlines the findings from a subset of questions sent out after the main survey, which aimed to gain a better understanding of the impact COVID-19 was having on Australian businesses and how well they felt they were coping.

# Interviews

**As a follow-up to the survey, we spoke to four risk leaders seeking their insights and perspectives on some of the critical outcomes following the coronavirus pandemic.**

**Do Australian organisations have mature views and structures for the risk management function?**

Tom McLeod, a senior risk leader with over 25 years of global experience across sectors, says simply 'No'. He is not surprised that most would agree that risk management is valued in their organisations. 'It is the equivalent of asking whether motherhood is important. No one is going to say I should not manage my risks. So to the question whether risk is valued, it is a very easy response. "Of course, I value the need to manage risk". However, that statement alone does not prove an understanding of risk management or a strong risk culture. The headline has to be backed up with facts.'

Everyone says that they have got strong risk culture, but very few people do, according to Mr McLeod. And a strong risk culture is the best sign of how well risk is understood. To have a strong risk culture, you have to have an organisation that looks at the full continuum of opportunities and threats — 100 per cent gain, 100 per cent loss. They also have resilience plans in place for both ends of that continuum because good risk cultures look at the management of the positives and the negatives. In Mr McLeod's view, 5–10 per cent of Australian companies have a strong risk culture.

> **To have a strong risk culture, you have to have an organisation that looks at the full continuum of opportunities and threats.**

Mark Salomon, Group Risk Manager for Vicinity Centres noted that while risk was valued by boards and executive in the organisations, largely due to the importance of the reporting function, the voice of risk was not being heard. 'The question that struck me when I read the survey results was, "Is risk still just a reporting function in some respects?". Mr Salomon contends that often the focus on risk or parts of risk is based on whatever is happening at a point of time. 'Now with COVID-19, business continuity crisis management is top of mind. But then what about the other types, functions and disciplines of risk that are a second-line risk function? Are they as well understood and valued? I think we pick and choose the risks depending on the situation, and that is understandable. But I don't think the all-round view has matured to where we think it is.'

> **Leadership from the top is the most critical factor in driving that journey and enabling the voice of risk**

Daniel Atkin, Group Risk and Compliance Manager for Integral Diagnostics, says that the difference between good or poor risk management is determined by whether an organisation states that it values risk management, includes it in their decision-making, and can then turn it into action. 'Many organisations particularly following the Royal Commission into Misconduct in the Banking and Financial Services Sector and now further amplified by COVID-19, are very keen to make statements that support risk management and what it needs to do. But when it comes to tangible action that has a real-world impact on the business, I think there is still a journey to go on.

And until you see that tangible impact, you are never going to get to that point where you truly understand what risk management does and how it adds value to the business. While lots of organisations have made progress in that space, I believe the majority of organisations are still early on in that journey.'

Andrew Webster FGIA, a Project Risk Partner with MLC Insurance and a member of Governance Institute's Risk and Technology team, says the understanding of the risk function within the organisation depends on how the risk functions have been established and embedded. 'We see a move to risk management

becoming a daily function or a daily consulted function as opposed to “I just need to get the papers ready for the executive”. And we see risk brought into the C-suite to help organisations set the strategy and then achieve the strategy. What I found interesting in the survey are the facts around risk reporting. Nearly one in four are saying that risk reporting is not very effective. And that goes back to how well the risk function is set up. It is essential to think about the function of risk in all its entirety. How it is set up, how it is staffed and the capability and the capacity that it has. We don’t want risk to end up being a black box where information goes in but never comes out.’

> **The role that risk professionals then play is to make sure that risk management is a value-adding and constructive part the business.**

When asked about how risk management culture could be improved, respondents cited better reporting tools, clarity of purpose and strategy and leadership from the board and executive. Leadership from the top is the most critical factor in driving that journey and enabling the voice of risk, says Daniel Atkin. ‘You could have the most talented and capable risk governance and compliance professionals in the world, but if they don’t have buy-in from the board, CEO and senior executives which gives them the ability and authority to do what they need to, they won’t be able to cut through culture.’

The role that risk professionals then play is to make sure that risk management is a value-adding and constructive part the business. ‘If we do not look at what risk and compliance mean for the organisation, how they impact the objectives, how to come up with constructive ways to improve what we are doing, then people across the organisation, up and down, will never really understand it other than as the function that says no all the time.’

‘We do a lot of reporting,’ says Mr Salomon. ‘The board gets it. The executive gets it. And that’s great and valuable. But the embedding — we still do not seem to be able to push it down. The theory doesn’t travel down the organisation. There is often an inherent disconnection between the culture of the organisation and the risk mandate.’

Andrew Webster raises the point that it is often difficult to see what an organisation’s risk culture looks like because different people within the hierarchy have different perceptions. And there is no clear industry-wide definition of what risk culture is and on the flip side what an unreliable risk culture is. ‘It is really about how we as risk professionals educate our clients — both internal and external — about what is risk culture.

‘We also need to communicate better the value that we bring’, Mr Webster says. ‘That we help manage and balance financial risk with an opportunity. We want to help seize the reward and the value of striving hard to achieve your corporate plan and strategy. We want to let you know where to accept risk through educated decision-making. Everything the survey has raised, such as tools to manage risk better, raising the voice, clarity of purpose and leadership comes under that umbrella of communicating better what we as a risk team do.’

Innovative organisations, especially in the post-COVID-19 world, are going to fundamentally stress test their systems — the 100 per cent swing one way or the other, says Mr McLeod. They will look at the likelihood, they will consider the impact or consequence and they will look at the acceleration and the interconnectivity. Whereas in the past, they have only looked at likelihood and consequence. Because when those latter two come in play — acceleration and interconnectivity — that will help organisations understand the stresses on the system. It will give guidance on reliance or over-reliance.

> **It is really about how we as risk professionals educate our clients — both internal and external — about what is risk culture.**

The ability to adapt and change is something most organisations will say they do well. But the reality Mr Atkin says it is probably not the case. 'I think if you ask people how prepared were you for the disruption brought on by COVID-19, most of them would have been absolutely underprepared. How well have we considered our internal and external environments for potential strategic shocks and changes? And what would we do? The answer is that you can't predict or model every scenario. But if organisations had been thinking more about organisational resilience — how do you scale up and scale down, adapt and respond to threats, bounce forward and back, how do you make sure you have flexibility in the operating model? — then they would have fared better. The organisations that have done that thinking and the organisations that will, are the ones who will be best-placed to manage risk.'

'This is a great time for the risk community to take the next step, add value.' Says Mark Salomon. 'So as risk professionals, what are we going to do with this crisis? How do we educate so that risk is not just a crisis management and business continuity function? How do we use this opportunity to provide all the other disciplines of risk? How do we get the executives and corporation to use the value that risk teams can provide? This moment provides a great opportunity to drive innovation and change so companies can be, not less risk averse but more opportunity taking.'

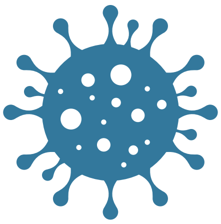
In February 2020, when the survey canvassed the top risks for the next three to five years, brand and reputation, legislative and regulatory change, and cybersecurity were in the top. Mr Atkin says those are all reactive risks.

**As risk professionals, what are we going to do with this crisis? How do we educate so that risk is not just a crisis management and business continuity function? How do we use this opportunity to provide all the other disciplines of risk?**

'When you are trying to work out what are your most important risks, you need to first look at what are you trying to achieve as an organisation, what are your goals and objectives. Do not look at what happened in the past but instead what could happen in the future. Your most important risks are those that could get in the way of those objectives or present an opportunity in the future. The most significant risk in the future is understanding and adapting to a post-COVID-19 world. So we need to change previous operating models that are no longer relevant or fit for purpose. On the flip side, we must be poised to take advantage of the opportunities that the changes in the economy and community and environment offer.

# COVID-19: Additional responses

The COVID-19 pandemic has had a dramatic impact on all businesses, testing risk management strategies to their limit. In light of this, Governance Institute Australia returned to its survey respondents to ask further questions about the crisis the virus has caused. The aim was to gain a greater understanding of how Australian companies have been affected and how they feel they are coping. Understandably, given the extremely difficult operating environment they were experiencing at the time the additional questions were sent out, the response rate was lower than that of the original survey, with 48 responses received in total. Therefore, the findings have been included in this addendum as they cannot be directly compared to the findings of the original survey. Despite this, the responses that were received offer valuable insight into the challenges faced by Australian businesses responding to the impact of COVID-19 on their operations. They also offer some indications of where the strengths and weaknesses of respondents' business continuity plans and crisis management capabilities lie when dealing with the pandemic.



The largest proportion of respondents (41 per cent) work in not-for-profit organisations, followed by small or medium-sized enterprises (24 per cent). 28 per cent of respondents work in the financial and insurance services sector, followed by health and social assistance (15 per cent) and education and training (11 per cent).

## Responses

***Were you prepared?***

Forty-four per cent of respondents felt that their business was somewhat prepared for the impact of COVID-19, while 28 per cent agreed that their business was well prepared and an equal number of respondents (28 per cent) said that their business was not well prepared.

When asked to give reasons for their answers, some common themes emerged. Those who said their business was not well prepared most often cited a lack of work from home (WFH) policies or capability as the reason for this. Conversely those who felt prepared often cited the ability of their workforce to work remotely as the main reason for this. Of the respondents who felt they were only somewhat prepared, some highlighted that while they had the capability to work remotely, they did not anticipate the scale of the requirement brought about by the pandemic. Some respondents referred to a resistance to remote working at their organisation, or an over-reliance in their business continuity plan on being able to carry out business face-to-face.

> **44% of respondents felt that their business was somewhat prepared for the impact of COVID-19**

Another reason cited for not being prepared for the impact of the virus was business that was dependant on functions that were curbed in response to the crisis, such as international travel or face-to-face delivery of a product or service. Equally, those who felt they were somewhat or well prepared to deal with the impact of the crisis cited working practices that were well-suited to remote working, such as not being client-facing.

Many felt that having business continuity plans in place helped them to feel prepared for the impact of the crisis. One respondent mentioned previous crisis management work carried out in the wake of the recent bushfires as putting them in a better position to react to the impact of the virus. Two respondents specifically mentioned pandemics being included in their business continuity plans.

Reserve funds were the other recurrent theme informing respondents' sense of how well prepared their business was for the impact of COVID-19. No reserve funds was cited as a reason for feeling unprepared, while a respondent who felt their business was well prepared cited highly liquid investments; another mentioned having reserves in place.

***Consider how your business continuity plan is currently operating. Which of the following areas are you spending the most effort in order to ensure the Plan works?***

The restrictions that have been put in place to manage the impact of COVID-19 have had a significant impact on how business is conducted. Many organisations have been forced to adopt operating practices they may not have been familiar with, or may have been resistant to, before the crisis. In many cases these new ways of working have been developed to address the gaps in companies' capability before the pandemic hit. For example, when asked what, if any, new and innovative risk management initiatives they had implemented over the last few weeks in order to manage the impact of COVID-19, respondents often cited the implementation of WFH policies and the technology required to facilitate these (such as Zoom, Skype or MS Teams), as well as training staff in how to use the relevant technology. This directly responds to the sense that there was a lack of capability in this area ahead of the crisis.

The theme of technology extends to developing the functionality to deliver a product or service remotely. One respondent referred to 'future proofing infrastructure for home delivery of our services' and another cited, 'remote/virtual servicing of customers' as examples of innovative risk management initiatives they had implemented in response to the impact of the virus. This kind of innovation will help companies cope during the crisis by offering them a way to generate revenue where face-to-face delivery is not possible. As one respondent alluded to, it will also future proof the organisation should it be prevented from offering its service in person again, therefore strengthening ongoing business continuity capability. In this sense the benefits of digital innovation of this kind are two-fold.

With digital innovation, however, comes the risk of cyberattack. Several respondents were already planning for this risk. There is concern from cyber-risk specialists that the accelerated adoption of digital platforms by businesses, which has been brought on by the current crisis, may result in increased exposure to cybercrime. Therefore, it is sensible for risk managers to plan accordingly. One respondent cited implementing 'added security for WFH initiatives' and another referred to, 'increased cybersecurity.'

Respondents also cited broader organisational and governance innovations implemented by their company in response to the pandemic. One respondent has applied digital innovation to the operation of the board, stating that they have, 'established a subset of the board to make decisions for the board via electronic meetings (Zoom), for any matters relating to COVID-19.' Another was conducting 'risk committee meetings through technology platforms.' One respondent had developed a 'COVID-19 risk matrix' and another was taking into account the possibility that team leaders might become ill and incorporating that possibility into their business continuity plan.

One respondent outlined 'preparing communications in advance of requirements to cover eventualities' and a second referred to 'early adoption of three-month forward strategy communication.' These both represent a sensible approach to managing risk in a rapidly changing environment.

**"With digital innovation, however, comes the risk of cyberattack. Several respondents were already planning for this risk."**

One respondent said that they would be putting in place supply chain risk management that didn't exist before, demonstrating how short-term reaction to a crisis can also benefit a business in the long term. Some respondents had acted early and before they were officially instructed to do so: one respondent outlined, 'mandated isolation — working from home wherever possible, well in advance of government directives' as their innovative response to the crisis.

There were some respondents who said that they had not implemented any new risk management initiatives in order to cope with the impact of the virus. For some this was for positive reasons: they felt their current risk management strategy was coping well with the crisis. One respondent cited their 'pandemic-specific plan' and another said, 'We had robust risk management in place.' For others, however, there was a sense that their business was too reactive to innovate in the wake of the current crisis, which is of more concern.

# Final thoughts

We are at the beginning of what will be a long process of managing and hopefully controlling the spread of COVID-19. At the time of writing businesses were still reacting and adapting to the significant changes that have been made to day-to-day working practices. Once we begin to emerge from the extreme restrictions currently in place, companies will need to consider what they have learnt from the crisis and how it will inform their operations and business continuity planning in future. There are some suggestions that this period could force a permanent shift in working practices, perhaps characterised by different attitudes to WFH and other innovative ways of working. Whether that will happen in practice remains to be seen. It would certainly be interesting to see how respondents feel about the impact of the virus on their organisation's way of working and risk management strategy in a year's time.

***Do you think your business was well prepared for the impact of COVID-19?***

No — 'We had never considered being unable to access our office or not being able to hold our meetings face-to-face.'

No — 'The ongoing impact was unexpected and we have had to modify a number of processes on the go'

Somewhat — 'Crisis management was in place, however the large numbers of WFH requirements, especially for the call centre, was a new requirement.'

Somewhat — 'Not for the COVID-19 in particular, but we do (did) have cash reserves for such an event.'

Somewhat — 'the scale and nature of this crisis have affected many of our programs, which are based on a face-to-face model of delivery.'

Yes — 'A pandemic was one of the scenarios we test as part of our BCP.'

Yes — 'BCM plan in place enabled rapid deployment of remote workforce.'

***What, if any, new and innovative risk management initiatives have you implemented over the last few weeks in order to manage the impact of COVID-19?***

'We have established a subset of the board to make decisions for the board via electronic meetings (Zoom), for any matters relating to COVID-19.'

'Risk committee meetings through technology platforms.'

'Preparing communications in advance of requirements to cover eventualities. Forming teams of people to address various work streams, with business continuity plans for if / when the team leader is sick.'

'Early adoption of three-month forward strategy communication.'

'Technology solutions to previously manual approval requirements.'

'Increased cyber security. COVID-19 risk matrix.'

'Rapid deployment of an entirely remote workforce.'

**'At the heart of risk management as a discipline is the ability and capacity to manage change, and from that uncertainty. For many Australian businesses the recent six months have seen many challenges coming from changed circumstances and high levels of uncertainty. Disruption from bushfires and, of course, now COVID-19 have seen many of our leaders open their communications with one word: Unprecedented. Is there still hope for the risk management profession? Absolutely. A helpful starting point in re-pivoting risk functions across the country whether they be large or small can come from studying the themes and the lessons from the Governance Institute's Risk Management Survey 2020.'**
**— PKF**

# Acknowledgments

PKF is proud to continue our long association with Governance Institute in serving as a partner for this important work. We share Governance Institute's goals in promoting the highest levels of good governance and within that, the ever important function that risk professionals play across all sectors of our economy.

At PKF our Purpose is to be is a fresh, vibrant and viable alternative to traditional professional services firms. Everything we do, we do to help our clients get closer to their goals and we do that by:

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# About Governance Institute of Australia

With a membership of over 7,500 company secretaries, governance leaders and risk managers from business, not-for-profit and public sectors, Governance Institute of Australia is the only fully independent professional association with a sole focus on governance excellence.

For 110 years, our education, research, advocacy, and support networks have provided cutting edge governance and risk management advice to Australian business leaders from all walks of life. We celebrate Australia's successes, and challenge it to be even better.