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Top 10 Topics for Directors in 2016: Risk Management

Dec 31, 2015

Reading Time : **2 min**

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The consequences of reputation risk can quickly escalate to a prolonged crisis, involving losses in revenue, customers, brand value and market value, regulatory investigations and civil liabilities and fines. Because reputation is such a vital asset and is so intertwined with other risks that a company faces, it is important that the company's risk appetite appropriately takes reputation risk into account.

- *Crisis management*. A failure to manage risks effectively can easily lead to a crisis for a company. Large companies can expect to face a crisis, on average, every four to five years.[4] Rightfully so, directors are increasingly concerned with the impact that an unexpected crisis could have on their organization. In PwC's annual survey, 27 percent of directors described their board's performance in crisis management preparedness as needing improvement.[5] The board must prepare for the range of events that could impact the company, and ensure that the company has an adequate plan in place to respond to a crisis. A crisis can take many forms. Some may be gradual, such as emerging competitive threats or an economic downturn. Others are abrupt, such as a cyber attack, fraud allegations, technology failure or natural disaster. In a recent survey of in-house counsel, respondents, on average, said that it would take approximately 38 hours for their companies to activate a social media crisis response.[6] When a crisis hits, time is at a premium. Companies need to have an effective crisis response plan that identifies a team responsible for internal and external communications, and also identifies external legal and investor relations experts that can help the company respond quickly and effectively.

Given the wide spectrum of risks that most companies face, it is critical that boards evaluate the manner in which they oversee risk management. Most companies delegate primary oversight responsibility for risk management to the audit committee. Of course, audit committees are already burdened with a host of other responsibilities that have increased substantially over the years. According to Spencer Stuart, 12 percent of boards now have a stand-alone risk committee, up from 9 percent last year.[7] Even if primary oversight for monitoring risk management is delegated to one or more committees, the entire board needs to remain engaged in the risk management process and be informed of material risks that can affect the company's strategic plans. Also, if primary oversight responsibility for particular risks is assigned to different committees, collaboration among the committees is essential to ensure a complete and consistent approach to risk management oversight.

This post was excerpted from our annual Top 10 Topic for Directors in 2016 alert. To read the full alert, please click here.

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[1] Kimberley S. Crowe, "Law in the Boardroom 2015," *Corporate Board Member Magazine* (2nd Quarter 2015). *See also*, Protiviti, "Executive Perspectives on Top Risks for 2015."

[2] Henry Ristuccia and Michael Rossen, "Reputation Risk as a Board Concern," *The Corporate Board* (January/February 2015).

[3] The Conference Board, *Reputation Risk: A Corporate Governance Perspective* (2007), at p. 22.

[4] Cornelis A. de Kluyver, "The Board's Role in Crisis Management," *Corporate Governance* v. 1.0.

[5] PwC's 2015 Annual Corporate Directors Survey, at p. 30.

[6] Rebekah Mintzer, "1 in 5 Legal Departments Have Social Media Crises Plans," *Corporate Counsel* (November 19, 2015).

[7] 2015 Spencer Stuart Board Index, at p. 26.

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