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The Black Box of Risk Oversight

A study of the current state of board risk oversight practices

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Abstract

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Key Words	Board risk oversight, Risk management, Enterprise Risk Management, Board of Directors, Mixed research approach
Purpose	The purpose of this study is to explore how the board of directors perform risk oversight, providing a greater insight into what the board of directors actually do in the risk oversight process. The authors seek to map and investigate the practical part of the board's work in overseeing an entity's risks and how it relates to theory.
Methodology	The research applies a mixed method approach, using both qualitative and quantitative data. With a cross sectional research design the process was divided into two phases, one explorative and one inductive. Where the exploratory phase, consisting of multiple interviews with specialists as well as board members, provided the necessary basis for the inductive phase where a survey provided the main empirical material.
Theoretical perspectives	This thesis is based on relevant Risk Management literature, with further connections to Information asymmetry, Agency theory and Contingency theory.
Empirical foundation	Firstly, the empirical foundation consists of 5 interviews, consisting of two experts interviews and three board member interviews. Secondly, a survey with 50 responses from board members.
Conclusions	This research concludes risk oversight practically performed by the board, as being contingent with a high focus on relationships and trust, not utilizing some key oversight processes and board members not being critical of their work and sometimes lacking knowledge.

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1 Introduction

This chapter provides an introduction to the research topic as well as the reasoning around the problematization and purpose of the thesis. Moreover, the research question that will guide the work is presented.

1.1 Background

Businesses are today operating in a world filled with uncertainties, risks but also opportunities. The board of directors are responsible for overseeing the entity's risk profile, ensuring that strategic objectives align with shareholders' risk appetite (Alviniussen & Jankensgård, 2009; COSO, 2017; Fraser, 202; Gates, 2006; Jankensgård & Kapstad, 202; Lipton, 2014; Nocco & Stulz, 2006). This is a fundamental board responsibility, but there is a lack of knowledge of what the board of directors does in their oversight work. This has become a more debated topic over the years, especially in times like 2021 when the pandemic of Covid-19 is coloring the global environment.

The impact of Covid-19 is comprehensive, and yet we have no clue on what the final effects will be. Even though the pandemic has been devastating in many ways, it has offered fruitful discussions on risks and the strategic strengths in forecasting scenarios. Although society and businesses have taken massive damage, it is still an opportunity to leverage the discussions going on in the world regarding risks, influence decision-makers, and draw more attention to the importance of risk management (World Economic Forum, 2021).

Risk as a concept continuously keeps establishing itself in the corporate jungle and throughout the years, the view on risk has evolved (Beck, 1942). Businesses have always, on some level, been about taking risks and realizing opportunities to be able to create long-term value for shareholders (Jankensgård & Kapstad, 2021). It is fundamental for entities to manage risks to create both an opportunity platform and a safety net (Fombrun, Gardberg & Barnett, 2000), which can be seen as a win-win logic since proper risk management will then create a good business (Power, 2009).

It cannot be highlighted enough that the board of directors is the ultimate owner of the entity's risks. The board of directors is obligated to govern the company in the direction of the shareholders' wishes. The board of directors is trusted to watch out for red flags and in doing so avoid disasters (Fraser, 202; Jankensgård & Kapstad, 2021; Lipton, 2014). Due to the board's failure to foresee and address red flags in history, for example the credit crisis in 2008, shareholders increasingly push for more transparent disclosures on board performance (PWC, 2017). This has resulted in that the expectations for board accountability is at an all time high (COSO, 2010). Even though board risk oversight has become a more debated topic (Walker & Morris, 2021), the work performed by the board remains a ¨black box¨.

Academic research continuously highlights the board's responsibility towards shareholders in overseeing the entity's risk management to secure economic value (Caldwell, 2012; COSO, 2010; Fraser, 2021; Gates, 2006; Jankensgård, 2019; Jankensgård & Kapstad, 2021;Lam, 2003). Academia has provided us with frameworks on risk management systems and how they are practiced in companies (COSO, 2010; ISO, 2018). However, no studies have opened up the "black box" of the processes behind risk oversight and mapped out what the board of directors actually do.

It is easy for researchers to recommend practices for risk oversight, but in the end, it is the practices that are utilized by boards in the real world that are of social interest. On the other side of the same coin, is it effortless for boards to claim that proper oversight is being performed, but unless these claims are backed up with actual theory ensuring the quality of oversight, such claims are not worth much. In order to develop new expertise, it is essential to evaluate the current work and knowledge, providing a way to orientate oneself in the theoretical and practical world.

1.2 Problematization

Some empirical studies are conducted in the field of board risk oversight. One study by Beasley, Branson, and Hancock (2014) examined the topic with data collected in an online survey where the respondents served as senior executives members of the American Institute of Certified Public Accountants. Another study by Zhivitskaya & Powers (2016) investigated the operationalization of the risk oversight work of board risk committees in the UK by collecting empirical data through

twelve interviews with non-executives directors. Other research has shown a positive relationship between the quality of board risk oversight and the maturity of the risk management process and as a result, the firm's risk-taking (Ittner & Keusch, 2015). Further, it is shown that failure in risk oversight can result in underperformance, destruction of shareholder value, and worst-case financial distress and bankruptcy (Caldwell, 2012). However, none of the studies above collected data directly from the board of directors, nor were the authors able to find such research.

While there exist some suggested guidelines and tools to aid the board of directors (COSO, 2017; Fraser & Simkins, 2010; Jakensgård & Kapstad, 2021), very little literature explores the practises used to exercise this responsibility, based on empirical observations. This causes a gap in the literature and a discrepancy between theory and practice, where there is very little insight to the practical work that is actually performed in regards to risk oversight.

1.3 Purpose and Research Question

The purpose of this study is to explore how the board of directors perform risk oversight responsibility in practice. This research assists with bridging the gap between theory and practise, providing a greater insight into what the board of directors actually do in the risk oversight process. The authors seek to map and investigate the practical part of the board work in overseeing the entity's risks and how it relates to academia, leading to the the following research questions:

Q1: *How do the board perform risk oversight in practice?*

The practical work of the board reveals much of how risk oversight is viewed and managed. This research question will provide insight into the black box of risk oversight. Providing a new perspective on how and if the work is actually performed. The focus here lies in the practical processes employed and how they are performed in relation to theory.

1.4 Contribution to Research

The motivation of this study is to provide in-depth knowledge about the board of directors work in overseeing the entity's risk, connecting practical processes and theoretical perspectives. This study will contribute to the risk management literature exploring one of the crucial parts of the board practise.

Moreover, the risk oversight topic belongs to the part of risk management, currently rather uncharted in an academic context. Therefore, this thesis will provide a useful benchmarking for future research by assessing the phenomenon in its current state. This allows for research of a more longitudinal approach to orientate themselves and assist with the mapping of risk management practice allowing for a deeper contextual understanding of risk management as a concept in the corporate world. The glimpse into the board members work will also provide assistance to anyone interested in understanding the complexity of the board's responsibility to risk.

1.5 Research Scope

The study conducts research on board risk oversight exclusively in Swedish companies. This limitation has been chosen due to the fact that there are regulatory differences between countries. Risk oversight gets increasingly more attention for researchers but also regulators. The emerging nature of this topic has left regulatory differences between counties that would blur the result of the study. Moreover, since the research has a business perspective it focuses on limited companies leaving the board processes of associations etc. outside the scope of the thesis.

1.6 Outline of Thesis

The thesis is structured in six chapters. Following this first introduction chapter the methodology used will be explained, to enable the reader a better understanding of the unic method. The chapter explains the mixed research approach, cross sectional research design and the triangulation data collection methodology used as a research approach to enable the study's purpose.

The third chapter conducts the existing board risk oversight theories and frameworks and other relevant theories to get a wide perspective of the literature. The last part in the chapter conducts other previous research done in the field.

The fourth chapter will triangulate the results from the empirical findings, both the electronic survey and the interviews in relation to existing theory. Providing an in-depth analysis of the current state of risk oversight being practiced.

The fifth chapter conducts a discussion of the results of the analysis where main findings and contributions are highlighted and discussed on a more general basis.

The final chapter concludes with the final remarks that the thesis has generated in order to provide an answer to the purpose. Moreover, limitations and future research areas are also presented.

2 Methodology

This chapter aims to in detail account for the research methodology used and provide insight to how the research was performed as well as discuss advantages and disadvantages with said methodology.

2.1 Research Design and Method

This research aims to explain the work board members do in regards to risk oversight. To illuminate a previous uncharted area results in putting great emphasis on the research design and the researchers have to carefully assess their method. In doing so a triangulation method was chosen, in which both a qualitative and quantitative (mixed methods) research approach was deemed most appropriate (Sekaran & Bougie, 2016). This led to further triangulation of data, using both qualitative interviews and a quantitative survey. Moreover, the process was divided into two phases, one explorative and one inductive. Where the exploratory phase, consisting of multiple interviews with specialists as well as board members, provided a necessary basis for the inductive phase. The authors found this approach to be the most appropriate in order to explore such an uncharted topic.

2.1.1 Motivation for Selected Approach and Design

Applying a mixed research method allows the thesis to combine inductive and deductive thinking (Sekaran & Bougie, 2016). According to Bell, Bryman and Harley (2019) it could be argued that such a combination makes the study more valid than research using only one formal instrument of data collection. In this case the authors regard this to be true due to the uncharted and highly contingent nature of the research question, where the different methods provide the thesis with a more nuanced picture of a complex topic.

There are several points critics for using a qualitative as well as quantitative approach. Critics for qualitative research usually go in the lines of the research being too subjective, too difficult to replicate, lack transparency and having problems with generalization (Bell et al., 2019) whilst

critice for quantitative approaches is that it provides a much too statistical view of the matter, without regards to the individual's perspectives (Blumer, 1956). The hope of every researcher applying a mixed method is to offset these weaknesses of both methods while capitalizing on the strengths. However, a mixed research approach is not inherently superior to a single method approach (Bell et al., 2019). A problem with applying a mixed research approach is that it complicates the research design and therefore has to be very clearly presented to help the reader understand its different components (Sekaran & Bougie, 2016). The authors have acknowledged these critics, related to them throughout the process.

In the case of research design, a cross sectional method was considered the most appropriate. A longitudinal design would not fit since this research does not focus on the time perspective of the topic and a case study or comparative design would not encompass its contingency. However, a cross sectional study which focuses on a wider data collection in one point of time (Bell et al., 2019) will provide better ground for more generalizable analysis of the risk oversight work board members are currently practicing.

As mentioned before the research method includes two phases. More specifically the research applies an explanatory sequential design (Bell et al., 2019) where the qualitative approach serves as a preparation for the quantitative stage (Figure 3:1). The methods applied in each phase will be further explained hereafter.

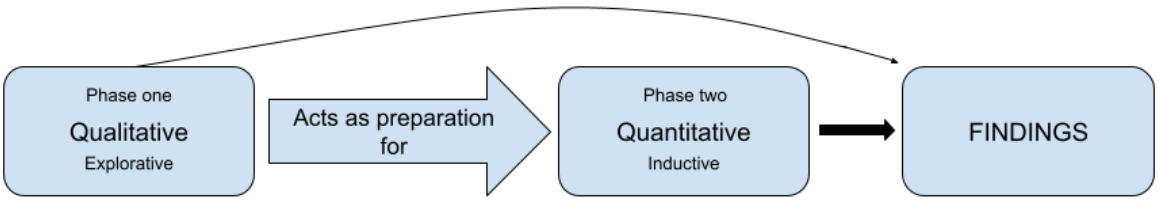


Figure 3:1, explanatory sequential design - adapted from (Bell et al., 2019)

2.2 Phase One

The exploratory phase aims to provide a basis for the inductive phase and help the researchers orientate themselves in a previously uncharted topic. The phase consists of an extensive literature review and then interviews, eventually leading up to a thematic categorisation of the topic.

2.2.1 Literature Review

To start with, an in-depth literature review was conducted (Bell et al., 2019). To get a broader understanding of the topic the authors read literature both regarding the board risk oversight but also literature from a wider perspective. Therefore a review of literature regarding Enterprise Risk Management (ERM), Risk Management and Board responsibility was also conducted.

When already existing research related to the subject was identified, but also key contributors to the research area were identified the authors had a broad base (Bell et al., 2019). To do this Google Scholar, Lund University's own academic search tool LUB Search and the Lund University library was used. Further, keywords were identified which helped the authors quickly identify the right literature.

When the main literature search was conducted further theories and concepts were identified that have been discussed in the literature (Bell et al., 2019). Such as, Agency Theory, Information Problem, Contingency Theory and Risk Aversion.

2.2.2 Interviews

To gain further knowledge in the practical field of board oversight work, but also to bring primary issues to the surface so the research could investigate some factors further in-depth (Sekaran & Bougie, 2016), three semi-structured interviews were conducted with board members and two unstructured interviews with experts in the field of risk management. The interviews with the board of directors were conducted to get further insight in the practical field of board oversight work and to be able to map out board of directors knowledge and experiences. The interviews with the experts provided an extended knowledge of both the academic field but also from the practical business field.

By having semi-structured interviews primary issues could be identified and brought up to the surface and as a result the authors could choose which questions should be investigated further in-depth (Sekaran & Bougie, 2016). Open questions were used since they do not lead the respondents in a certain direction and as a result the knowledge level and interpretation made by the respondent can be interpreted, though open questions are more demanding both from the respondent and the researcher. The researcher can end up with a lot of information and will spend a lot of time coding the text. However, the respondent will be able to use their own words, which was valued by the authors since the aim was to gain better knowledge (Bryman & Bell, 2017).

An interview guide was prepared and sent out to the respondents on what kind of question would be asked but also to give the respondent a possibility to read up on the subject. The interview guides were sent to the respondents 3 days ahead of the interview date (appendix A).

The interviews were conducted on Zoom since the regulations due the Corona pandemic. However, this also gave us the opportunity to interview respondents internationally and on the other side of Sweden, hence, a better flexibility was given and due to the ambitious schedules the respondents have this was a time saver. The interviews have been recorded and therefore the authors could go back and relisten to material to secure the right information was used.

The knowledge gained from the interviews will give the authors a more nuanced picture of the complex subject of board risk oversight and furthermore assist in the structuring and design of the survey in phase two. This will combat the error Bell et al. (2019) refer to as a data collection error, referring to poor question wording and administration flaws etc., thus adding to the credibility. The respondents are presented in table 3:1, the board members have chosen to be anonymous.

Interview 1 7 April 2021	ERM Specialist: Petter Kapstad	Petter Kapstad was responsible for building up Statoils ERM, which he headed for 14 years. He has long experience as advisor for a number of international companies within building up ERM, but also as advisor for different Boards and Board members. He headed Export finans Control Committee several years and has given a number of presentations about ERM and Risk Management over the last decade. Petter Kapstad is also one of four people behind IIAs "Guidelines for the risk management function" and "Questions a board should ask the administration about Risk Management". Petter is also a guest speaker for Lund University and BI in Norway. He has from 2019 also been a member of the risk committee in Danish Commodities. Lately Petter co-authored a new book together with Håkan Jankensgård, which was published in Wiley's London in January 2021, with the title: Empowered Enterprise Risk Management, Theory and Practice.
Interview 2 28 April 2021	ERM Specialist: John Fraser	John Fraser is the ex-Chief Risk Officer of Hydro One Networks Inc. and has over 30 years experience in the risk and control field. He was the Chair of the Advisory Committee of the Conference Board of Canada's Strategic Risk Council and a Practitioner Associate Editor of the Journal of Applied Finance. He was a member of the Faculty at the The Directors College for the Strategic Risk Oversight Program, and developed and taught a Masters degree course entitled Enterprise Risk Management in the Masters in Financial Accountability Program at York University where he was an adjunct professor. He is a recognized authority on enterprise risk management (ERM) and has co-authored several academic papers and two university textbooks on ERM.
Interview 3 21 April 2021	Board member 1: Anonymous	Anonymous board member with 20 years experience of mid sized private companies.
Interview 4 23 April 2021	Board member 2: Anonymous	Anonymous board member with over 25 years of experience of board work in large cap companies both listed and unlisted.
Interview 5 24 April 2021	Board member 3: Anonymous	Anonymous board member with 1 year experience of board work in a listed company.

Table 3:1, *Summary of interviews*

2.3 Phase Two

Phase two employs a quantitative research approach with a survey as the primary data source. This stage was performed due to the nature of the research question, where the aim is to map out practical work, where just conducting interviews would not give us the full picture, so by complementing it with a survey a bigger sample size was attained. This in combination with academic literature, business handbooks and theoretical frameworks will give the findings in the thesis a greater significance.

2.3.1 The Survey

The main data collection method used was an electronic survey, providing the research with a broader dataset and allowing for a more holistic perspective (Sekaran & Bougie, 2016).
A self-administered questionnaire was constructed online in Google forms; the link was sent out by email accompanied by an information letter (appendix B) and an introductory text to the board of directors. The electronic survey was selected due to various factors. Firstly, it is quicker to administer and greater possibilities to reach more respondents and collect a larger more accurate data set (Bell et al, 2019; Sekaran & Bougie, 2016). Further, it is convenient for the respondents to be able to answer the survey whenever, wherever (Bell, et al., 2019), especially since board members tend to have a busy schedule. Moreover, it is easier to administer, less time consuming and allows for automatic processing of the answers (Sekaran & Bougie, 2016). One negative aspect of conducting electronic surveys is the inability to clarify questions (Bell et al. 2019). The authors kept this in mind and put great emphasis on making the survey well structured and easily understood.

According to Bell, et al (2019) a way to improve response rates a information letter was attached in emails (appendix B) where the research project was described, the aim of the survey, why the respondent got the email and to guarantee seriousness of the project Lund University and our supervisor was introduced. Further, all questions have been carefully selected and have a clear aim to answer our research question to avoid unnecessary questions and a survey that is too long. A too long survey risks that the respondents do not respond and the answers are not well thought through. Google forms was chosen since it is a well known platform and the respondents should not be afraid of clicking the link with concerns of getting a virus. Furthermore, this format does not require any sign in and it works well on a phone. According to Sekaran & Bougie (2016) people can find inventions via email offensive and as a result delete them before reading the content. The authors tried to minimize this by referring to Lund's University directly in the subject of the email.

The design of the survey is important since an attractive and clear layout is likely to improve the response rate. There are tactics to make a survey look shorter, make the survey easy on the eye and as a result it will be easier for the respondent to understand and give fair answers (Bell et al.,

2019). Therefore, the survey was divided into six parts and the respondent was only able to see one part at a time, making it look shorter but also to give a more clear presentation.

Moreover, the language used in the survey is important and it should approximate the level of understanding by the respondents (Sekaran & Bougie, 2016). The survey was carried out in english, since the authors wanted to match exact concepts and words with the theory. Since the literature review was conducted in english and some concepts have many different names the authors decided to have the survey in english to avoid misalignment. Though there can be a problem of the level of english by the respondents due to the variety of age in the research's population. Still, Sweden has a very high level of english proficiency-level, especially in the highly educated groups (EF, 2020).

The survey is attached in appendix D, to get an understanding of how the authors built the survey and to add to the replicability, the next chapter will through it part by part.

2.3.2 Survey Design

The first part of the survey starts with clear instructions about how the respondents should carry out the survey (appendix D). The introduction further states that the respondent should answer from the point of view where she or he has the most knowledge. This is done so if the respondent is part of more than one board they know which one they should proceed from. Questions and answers are kept on the same page (Bell. et al, 2019).

The second part contained questions regarding explanatory variables. The explanatory variables used are *industry classification, turnover, years of experience as a board member, size of board* and *education in board risk oversight.* The industry classification was done according to the Standard Industry Classification (SIC) ten main groups.

Part three until part six conducted the questions aiming to map out the practical work of board oversight. The questions asked have been closed and enabled comparability of answers seeking relationships and variation in the population. But also when asking closed questions it can provide

clarity of what was asked about and the respondent can answer relatively quickly which enables the authors to fit more questions into the questionnaire (Bell et al., 2019).
Moreover, the rules of thumbs according to Bell, et al. (2019) have been considered when formulating the questions. These stated that ambiguous terms, negative terms, general, double barrelled, long and leading questions should be avoided. Further, the authors have also avoided putting two questions in one and made sure that the respondents should have the knowledge that is asked for, if not that has been a part in testing the knowledge.

All questions have been designed in accordance with the literature, theories and input from the interviews. The authors constructed first the questions according to the thematic categorisation identified in the exploratory phase, to ensure that all questions are in line with the purpose of the thesis. But to make the questionnaire as simple and logical as possible for the respondents the order of the questions was changed from these areas.

The different answer options have been constructed differently due to the nature of the question. All answer options have been placed in a vertical format because it is more clear and will distinguish the questions from the answers. For the questions where a statement was provided the same *Likert scale* has been used. The Likert scale was formatted in five steps, *strongly disagree, disagree, undecided, agree and strongly disagree* (Bell, et al., 2019).

2.3.3 Sampling

The population of our research was identified as all board members in Swedish companies, since regulations differ between countries. To be able to answer the research question the sampling was conducted in a purposive sampling manner, according to litteratur this is done so the purpose of this research could be fulfilled(Bell et al., 2019).

The respondents for the interviews with the board of directors were selected so the sample could cover a range of different companies, size, listed, not listed and the experience the board member had. The interviews with the experts were sampled with a sequential approach, the researchers added to the sample as it benefits the research question.

The sampling for the survey was done with a snowball sampling technique since this allows the authors to make initial contacts with a smaller number of people and then uses these to establish more contacts. Snowball sampling is appropriate in this research since the participants have a certain relationship towards each other and by using that network we will find participants with the same experience (Bell, et al., 2019). The survey was sent out to personal connections and to board members that had public email addresses. A search on Linkedin and Facebook was also made to find groups where board members might be organized. Due to the fact that board of directors in Swedish companies are a very specific, exakt group of people and many board members in Sweden are part of the same network and some of them are members in several boards the snowball sampling effect could be expected.

The sample size is an important factor, when the absolute size of the sample increases so does the probability that the sample reflects the population. Due to the time frame of the project we pushed hard to get as many responses as possible but had to accept the size of the sample after 17 days. In order to reach out to a larger sample the survey was emailed to board members in swedish companies. Firstly - by visiting the companies websites, the names of the board members were obtained and thereafter used to generate an email of the following structure *"firstname.lastname@companydomain"*. With this method approximately 600 emails were sent. Moreover, email addresses for the board were generated by applying key words such as "board, chairman, styrelse and styrelsen" to the company domain e.g *"chairman@companydomain"*. Using this method an additional 3000 emails were sent out, the discrepancy between the first and the second method lies of course in the automatisation. Finding the names of each board member is a much more time consuming task than company name and key word. Unfortunately, a huge part of these emails weren't in use and bounced back. The exact numbers of how many emails actually researched an inbox is therefore unknown.

2.4 Data Analysis

This thesis employs thematic analysis, with a slight deviation in approaching it more iterativ, meaning the formulation of themes or categories was done simultaneously with the data collection. Since thematic analysis lacks well defined techniques or methods (Bell et al., 2019) the authors felt confident to apply it in the way best fitting to their work. To start with, the literature review

provided some insights to what parts of the topic might be important and in need for more investigation, thus starting the categorisation process. However, this was of course not enough to form a convincing categorisation and therefore further data collection was needed. By having unstructured interviews with experts in the field the authors grew more convinced of a good categorisation but since the aim was to investigate the practical work of board members, additional interviews were conducted with actual board members, providing useful insights to their world and views on the topic. Following this, a more thorough categorisation of risk oversight arose:

- The quality of information
- The relationship to management
- The knowledge of board members
- Risk Governance
- Delegation of risk

This categorisation highlighted the most relevant points in regards to risk oversight and was used as a foundation for the formulation of the survey, and eventually for the analysis. Additionally it was also used in the disposition of the thesis, structuring the literature review (chapter 3) as well as the analysis (chapter 4) on the same categories.

When developing the categorisation the authors related to Ryan and Bernard (2003) recommendations, which include *repetitions, indigenous typologies, metaphors, linguistic connectors, missing data, theory related material, similarities and differences*. These recommendations were used in order to evaluate the literature as well as the interviews and arrive at the previously mentioned categorisation.

One of the strengths of thematic analysis is that it is very flexible allowing it to be used to analyse many types of qualitative data (Bell et al., 2019). However, this also puts more responsibility on the researchers to organise the analysis method. The authors have confidence in the process of analysis but are attentive to the fact that a greater data set, especially more interviews, would improve the credibility of the categorization. However, unlike a grounded theory approach, the categorisation is not meant to be developed into a theory but rather serve as a means for analysing

the research question. Thus, a wider categorisation can make up for less accuracy due to sample size.

2.5 Trustworthiness

The concept of trustworthiness has throughout the writing process been of the highest priority for the authors, in order to provide conclusions with a high degree of integrity. Since this thesis applies a mixed research approach and the concept of validity and reliability is to a high degree connotated to quantitative research (Bell et al., 2019), the authors decided to rather evaluate trustworthiness through the alternative lense of *credibility, transferability, dependability and confirmability* (Guba & Lincoln, 1985; Guba & Lincoln, 1994). This choice was made due to a couple of reasons, one of which being that it inherently seemed most logically consistent with the research, something that Johnson, Buehring, Cassell and Symon (2006) deems the most important when evaluating quality criterias. Moreover, there is a risk for researchers that strictly apply the concept of validity and reliability to engage in the perception that social reality exists independently of those who are engaged with it. This perspective doesn't align with our research question which seeks to evaluate a social reality from the eyes of the people being studied, as defined as one of the main preoccupations of qualitative research (Bell et al., 2019).

Credibility relates to whether the researchers have understood and therefore relayed the perspectives of the members of the social world in a correct manner. This in many ways is related to the research methods chosen and its suitability to the research question. The risk this relays for this specific thesis is if the board members being studied aren't understood. To combat this, a great deal of consideration was put into the research design, applying a method of triangulation both collecting data through interviews and a survey. Moreover, since the research was performed by more than one researcher the data has been interpreted by more than one person providing less risk for misinterpretation due to personal biases.

Transferability is, as the name entails, the transferability of the result of the study. To what degree are the results, in qualitative research often based on small samples, relate to a larger social scale. This quality criteria is especially important in qualitative research where there often is a small sample or concentrated case research that attempts to explain a large contextual phenomenon (Bell

et al., 2019). Performing crossectinal research and having a survey as main data source indeed assist the thesis in increasing it's sample size, transferability and therefore trustworthiness. The authors have for this reason put great importance on increasing the sample size of the survey as much as possible, since each additional answer adds to the transferability. . Moreover, the scope of the research only includes swedish companies, this raises the question of transferability in regards to other geographical areas. The limitation was done due to regulatory differences that could affect the data, however the practise of board oversight is not believed to differ too much between countries, due to the rapid globalization of business. Therefore, the authors believe the results to be transferable to a larger context.

Dependability is the auditing function of qualitative research where, in order to increase trustworthiness, comple records and peers review the research process. In order to assure the quality of dependability the authors have made sure to record all interviews enabling eventual auditing. One thing that could have added to the dependability would be to transcribe the interview and attach in the appandencis. Unfortunately this was not done due to time constraints. To add to the dependability of this work the authors have had great faith in their supervisor to ethically guide them through the research process, evaluating its quality throughout the process.

Confirmability tries to ensure that the authors have not overtly or manifestly allowed theoretical inclinations or personal values to affect the research. According to Guba and Lincoln (1994) this is one of the objectives of the auditors. Moreover, the research was conducted by a team of two researchers, leading to investigator triangulation (Eisenhardt, 1989; Patton, 1990) meaning that the risk for individual inclinations or personal values to effect the work redically decreased since everything has to pass through multiple researchers' perspectives. Otherwise, the authors hope the transparency and detailed presentation of the research methods provide some assurance.

2.6 Ethics

The ethical considerations of this thesis have been integrated in the whole writing process in order to avoid regarding it as a compliance based box ticking element. The research follows the core principles of the Economic and Social Research Council (2021) to ensure ethical application. These six key principles relay:

- *Research should aim to maximise benefit for individuals and society and minimise risk and harm*
- *The rights and dignity of individuals and groups should be respected*
- *Wherever possible, participation should be voluntary and appropriately informed*
- *Research should be conducted with integrity and transparency*
- *Lines of responsibility and accountability should be clearly defined*
- *Independence of research should be maintained and where conflicts of interest cannot be avoided they should be made explicit.*

According to Diener and Crandall (1978, as cited in Bryman & Bell, 2016) ethical principles can be broken down to four types, *harm to participants, lack of informed consent, invasion of privacy* and *deception*. To ensure a thorough ethical evaluation of the research these four topics were considered. Some of which were, in this case, less important than others and the risk for *deception* was, for example, deemed small, since the research is not disguised or involves covered observations. The risk for *harm* involves harm to ego, employment ect. which was taken very seriously since the board member community is very closely knitted and reputation is key. Therefore, all participants were able to participate completely anonymously, thus avoiding risk of harm. Further, the risk of *invasion of privacy* was considered and in order to protect the participants full contact information to the researchers was provided in order for them to communicate any worries or wishes to revoke their answers. The authors also considered the distribution method of the survey in this regard, since sending 3600 emails feels inherently shady. However, upon closer investigation the first contact, whether it is in email, mail or face to face, is an invasion of privacy to some degree and receiving an unwanted email is not more so than being approached face to face. Since there were no coherson to answer the survey or email, the distribution method was deemed ethical and usable.

Lastly, the question of *informed consent* was considered and in order to provide the participants with as much information about the project as possible a information letter was attached in the email asking for voluntary participation in the survey. Moreover, the interviews were initiated with a description of the research and verbal consent was given for conducting as well as recording the interview.

According to Lunds University (2021) there was no need to apply for an ethical review to conduct this research as planned and with the measures described above the authors were confident the research could be conducted in an ethical way.

3 Literature Review and Theoretical Framework

In this chapter the theories and frameworks will be presented. The first part consists of the theory of what board risk oversight is. The second part will present how board risk oversight should be performed in relation to the thematic categorization identified. The third chapter will present the contingency theory and lastly in chapter four previous studies will be presented.

3.1 Board Risk Oversight

The board of directors are responsible for overseeing the entity's risk profile.

(Alviniussen & Jankensgård, 2009; COSO, 2017; Gates, 2006; Jakensgård & Kapstad, 2021; Lam, 2003; Nocco & Stulz, 2006).

3.1.1 What is Risk Oversight?

The board's primary function is to make sure that management uses its power to create shareholder value and that the executive team lives up to the fiduciary duties towards shareholders (Gates, 2006; Jankensgård & Kapstad, 2021). Since the board of directors represents the shareholders, they are ultimately responsible and owners of the firm's risk profile. The shareholders rely on the board to oversee the strategies and realize opportunities and mitigating risks (COSO, 2017; Jankensgård & Kapstad, 2021). As a result, the board needs to oversee the strategies and decisions made to ensure that the risks associated with these strategies and opportunities do not exceed the risk appetite of the entity's shareholders (Ittner & Keusch, 2015). All risks associated with decisions made by management and other personnel should be following the entity's risk appetite and risk philosophy (Beasly et al., 2021; COSO, 2017).

The risk oversight by the board is not a single activity; it is an ongoing process where the board constantly needs to ensure that effective risk management is practiced in all levels and departments across the entity at all times. One of the challenging parts of risk oversight is that risk management and enterprise risk management (ERM) are often poorly formulated or practiced in many entities

in an unhelpful way. When the board is asked to implement and oversee a process, they do not fully understand what to look for and that complications will arise (Fraser, 2021).

The topic of risk oversight is on the rise, and greater responsibility and accountability are put on the board of directors. In part, this is due to the critical events of the financial crisis of 2008, which have, in some countries, led to an increased regulatory engagement on the topic of trying to protect investors (COSO, 2009; Fraser, 2021; Zhivitskaya & Power, 2016). Further, there are indications that SEC-mandated regulatory disclosures on board risk oversight carries valuable information to the market, indicating a usability of such disclosures (Beasly et al., 2021). The incongruity of the regulations is that it promotes boards to view risk oversight as a compliance-based activity, leading to tunnel vision and box-ticking practice that is in direct opposition to modern risk management theory. Instead, proper risk oversight needs to be seen as an ongoing practise accounting for all risks, how they interrelate and adopt the notion of risk being "the effect of uncertainty on objectives" rather than "bad things happening" (Fraser, 2021).

3.1.2 The Value of Risk Oversight

According to academic literature, risk management is a target for two main problems, the agency problem and the information problem (Fama, 1980; Fama & Jensen, 1983; Ittner & Keusch, 2015; Jankensgård & Kapstad, 2021; Meckling & Jensen, 1983; Pirson & Turnbull, 2011). To provide a deeper understanding of the value of board risk oversight, these problems are discussed below.

Firstly, the agency problem refers to the conflict of interest between principals (shareholders) and agents (managers) that arise due to a misalignment of interests. The principals hire the agents to act in the best interest of the principals. However, suppose both principals and agents are persons that are acting in a utility-maximizing way. In that case, there is reason to believe that the managers will act in their own interests and not the shareholders' best interest (Jensen & Meckling, 1976). Since management controls the operational work and corporate policies, they may make decisions that benefit themselves at the expense of shareholders. The entity's corporate policy regarding risk-taking is likely to be a policy with a conflict of interest. Managers may be likely to be more risk-averse than shareholders, since shareholders can easily diversify their investment portfolios. In contrast, managers tend to have a larger portion of their personal wealth invested in the company's

future success. As a result, the entity's risk-taking might be lower than what is wanted from the shareholders' perspective due to managerial incentives (Alvinussen & Jankensgård, 2009; Jakensgård & Kapstad, 2021; Smith & Stulz, 1985). Without effective control procedures, the actions taken by the agents may differ from what the principals would have wanted. Therefore, separation from the control that management has over decisions is wanted to establish an effective monitoring function. Because then there will be no single agent that is able to exercise exclusive management and control rights over the same decision (Fama & Jensen, 1983). When this is established, the board of directors are functioning as a monitoring system. As mentioned before, it is essential that the board consists of shareholder representatives and that they are overseeing management's actions, so they act in shareholders' best interests (Jensen & Meckling, 1976).

Moreover, for the board to function correctly, they must have the authority to hire and fire the chief executive officer (CEO) and other senior executives. The board must have the power to regulate in a top-down manner, where they can make top-level decisions and control management and, as a result, separate the control and decision making (Fama & Jensen, 1983). A prerequisite for the monitoring function to succeed, exercised by the board, is that a shareholder with a large enough holding of the company to intervene takes a seat on the board (Kapstad & Jankensgård, 2021). To conclude, board risk oversight is mitigating the agency problem of risk management. When the oversight is performed well by the board, the strategies and activities for risk management will lead to essential improvements. The entity will have a better-informed risk profile (Ittner & Keusch, 2015).

The other problem that risk oversight aims to combat is the information problem. For the board to make the right decisions about the entity's risk exposures, they need comprehensible and relevant information on time to make sound decisions (Kapstad & Jakensgård, 2021). When the board has insufficient information access and, as a result, lacks high-quality risk-relevant information, they will not be able to make the best value-maximizing decisions for the trade-off between risk and return (Jakensgård & Kapstad, 2021; Pirson & Turnbull, 2011).

The insufficient information supply occurs due to the firm's lack of knowledge to understand and quantify their risk exposures. Management and senior executives may not know where the

exposures are in the business and may not know how to quantify and describe them in a meaningful way. This leads to the board getting insufficient information and that the risk information aggregates at the top. The problem of aggregation of risk information is caused by the information overload the board is expected to process and the lack of time the board has. Sometimes, individual board members lack the knowledge to perform effective risk management oversight. Further, when the entity has no clear structure on how to process the information received, the risk aggregation gets high (Jankensgård & Kapstad, 2021; Pirson & Turnbull, 2011). Consequently, this is seen as one of the most significant risks an entity faces since the board cannot perform its oversight in a valuable way.

The information problem needs to be controlled and mitigated in order for the board to perform its task. The board is instituted to act as an internal agent and monitor the internal system. For this to work, the board must get the correct information, and for this to be possible, the information must be able to flow freely to the board level. Structural information loss due to hierarchy causes flaws in the information supply (Pirson & Turnbull, 2011). The board must validate the information received from top management by also seeking information from lower levels in the organization. When the board is performing suitable risk oversight, the information asymmetry should be reduced. The board should mitigate the risk of information aggregates at the top by implementing a structured process, risk governance mechanism, for handling and sorting information.

3.1.3 Board of Directors Responsibility in Risk Oversight

The board of directors' responsibility in risk oversight is somewhat vague and broadly defined. The regulations that are written regarding this matter for Swedish companies can be found in the Swedish Code for Corporate Governance (Svensk Kod för Bolagsstyrning) and in The Swedish Companies Act (Aktiebolagslagen). The following regulations apply to non-financial companies.

According to the Swedish Code for Corporate Governance, the board should manage the company in line with the shareholders' interests. Further, the board should determine the business goals and strategy and make sure that there is satisfactory control of the entity's compliance with laws and other rules that apply to the entity's operations. In addition, they should ensure that the required

ethical guidelines are established for the company's conduct (Svensk kod för bolagsstyrning, Chapter 3).

Further, The Swedish Companies Act states that the board shall state in written instructions the division of work between the board and the CEO and the other bodies established by the board. The board's liabilities and supervisory ownership cannot be transferred to anyone else. The board shall continuously assess the company and, if the company is the parent company in a group, the group's financial situation. The regulators have stated that the board carries the liability in risk oversight, but the specific responsibilities are broadly defined. Hence, the authors have turned to academic research and other acknowledged frameworks.

The first area of responsibility the board needs to cover is to align the entity's risk philosophy with the entity's risk appetite. The board represents the organization's stakeholders and therefore needs to actively discuss the entity's risk appetite to establish the level of risk the stakeholders are willing to take in pursuit of value. The goal is to form a common understanding of risk and the organization's philosophy on risk (COSO, 2009; Fraser, 2021; Jankensgård & Kapstad, 2021; Lam,2003).

Secondly, in overseeing the organization's risk management, the board of directors must challenge the management in the existing risk management processes and their effectiveness. Management is accountable to the board of directors, and therefore the board must set the tone and culture of effective risk management. This is done by a variety of governance tools such as strategies and approving resource allocations. Furthermore, the board should evaluate and review the strategy proposed by the CEO. All strategies that the CEO proposes come with risks, and the board must understand these because when they approve a strategy, they approve the risks that come with it (COSO, 2009; Fraser, 2021; Jankensgård & Kapstad, 2021).

Thirdly, the board has a responsibility to review the portfolio of risk, so it is in line with the organization's overall risk appetite. To do this, the board has to assess and correlate the organization's strategies and risk management (COSO, 2009; Fraser, 2021; Jankensgård & Kapstad, 2021; Lam, 2003).

Moreover, there needs to be a flow of information throughout the organization. In order to provide good oversight, the board needs to be updated on key risks and make sure that management is responding appropriately and according to the risk management strategy (COSO, 2009, Jankensgård & Kapstad, 2021; Lam, 2003).

Lastly, it is the board's responsibility to ensure that they are educated and possess the knowledge needed for overseeing the company's risk profile (Fraser, 2021; Lam, 2003).

3.2. How Should Risk Oversight be Performed?

This chapter will introduce the variety of methods a board can utilize to practice their risk oversight responsibilities. This will be presented in the thematic categorisation: *Risk Governance, Quality of information, Relationship to management, Knowledge of directors and Delegation of Risk*

3.2.1 Risk Governance

To get a deeper understanding of board risk oversight the authors believe that one needs an understanding in risk governance. During the last decades, risk management has evolved enormously; it has moved from a particular narrow function, a subfield, to structured guidance on how risk should be handled in an organization, i.e., a governance structure. This has put new demands on entities and their managers and board of directors. As a result, good corporate governance has become a fundamental piece for board risk oversight to work (Jankensgård & Kapstad, 2021; Lam, 2003). Corporate governance ensures management and the board a functional organizational process, a corporate structure, and an administration to manage and measure the risks across the entity. Further, it provides a top-down monitoring function that should assure shareholders that the appropriate risks are taken by management and other personnel. A corporate governance system is essential to enable the board of directors to measure and manage the risks across the entity, i.e., take responsibility for the firm's risk profile (Lam, 2003). There is a great variety of governance processes and tools that the board of directors can utilize today.

One of the most important methods in how an organization should organize its risk management practices is e*nterprise risk management* (ERM). This framework has evolved during the last decade, and more and more companies are recognizing the value of organizing their risk

management practices accordingly. (Alviniussen & Jankensgård, 2009; Fraser, 2016; Gates, 2006; Kapstad & Jankensgård, 2021; Nocco & Stulz, 2006).

ERM is a holistic process that aims to identify, evaluate and manage an entity's risks in an integrated framework across the enterprise. It is based on the theory of Portfolio Selection, which states that financial assets should be combined in a portfolio to utilize natural hedges and correlations. As a result, the return will increase when taking the same risk (Markowitz, 1952). In the same way, should an entity's risks be viewed from a portfolio perspective and as a result, natural hedges and correlations can be utilized. ERM suggests that risk management should be centralized, so that targeted risk returns are avoided since it leads to sub-optimizing risks (Jakensgård & Kapstad, 2021; Lam, 2003). Due to the holistic nature of ERM, the aim is to improve the way a company trades off risk and opportunity (Alviniussen & Jankensgård, 2009).

ERM can be seen as a combination of tools that should be used in a customized manner, so the best mix is chosen to perform effective risk management given the organization's circumstances (Kaplan & Mikes, 2015). To get a deeper understanding of the ¨ERM-mix¨, a smorgasbord of instruments and tools that the board of directors could choose between will be presented below.

3.2.1.1 Risk Methodology

A risk policy lays out the playing field for the entity's risk governance, overarching all other governance mechanisms and uniting the entity around a shared understanding of risk. It sets boundaries, provides controls, and ensures it has a certain standard (Fraser, 2016). The policy should consider the full spectrum of risks that the organization should care about. Therefore it is essential that it is reviewed and updated frequently since the landscape is constantly changing (Fraser & Simkins, 2010). Further, the risk methodology should consist of the terminology that the entity uses when talking about risks; this is a foundation for a common ground of understanding to communicate risks. It is the board of directors that approves the policy and, in the end, carries the responsibility for it (Fraser & Simkins, 2010; Lam, 2003). The risk methodology is set differently in every company since all entities have different prerequisites. Therefore the following sections will be a selection of tools, mechanisms, and concepts a risk policy can include.

3.2.1.2 Risk Appetite

A firm's risk appetite can be described as the firm's willingness and ability to take on risk to pursue upside potential. The risk appetite should guide how much risk the firm is willing to tolerate, and decision-makers in the firm should make decisions that are in line with the defined appetite (Fraser, Quail & Simkins, 2021; ISO, 2018; Jankensgård & Kapstad, 2021). Whenever pursuing an objective, risk exposure should be considered and balanced with the defined risk appetite (COSO, 2009). There is value for a firm in defining its risk appetite. Firstly, it creates fruitful discussions regarding the amount of risk the entity should take and the risks that the entity is facing if they are worth taking. Secondly, it brings the topic of risk and the entity's risk profile to the board's agenda, creating conversations regarding the firm's strategic plan, prioritizations, and risks. However, there is a danger that the risk appetite becomes a bureaucratic policy that hinders development and is just serving as rules. The risk appetite should instead work as an outcome of a process, where the aim is to evaluate the risks and the costs of the risks, in regards to the upside potentials to make the best business decisions and create the highest long-term value for the entity (Jankensgård & Kapstad, 2021).

Further, for the board of directors to perform risk oversight, it is necessary to understand shareholders' risk appetite and align it with the firm's risk philosophy, so there is a consensus. Nevertheless, the board also reviews the portfolio of risks the entity has and evaluates it against the risk appetite (COSO, 2009).

3.2.1.3 Risk Capital

Risk capital is divided into two subcategories, economic capital, the capital needed to protect solvency, and risk capacity, which is the amount of cash needed to support the level of risk-taking (Jankensgård & Kapstad, 2021). The risk capacity is the amount of liquidity the entity can mobilize to support the entity's cash commitments if the cash generated is insufficient to cover these commitments. Debt obligations and investment spending should be included when calculating the cash commitments. The risk capacity consists of the amount of liquid assets on the balance sheet, spare borrowing capacity, and any derivative that will provide cash payouts in events where the cash holdings are insufficient (Alviniussen & Jankensgård, 2009).

The economic capital refers to the capital needed to survive a worst-case scenario, it is not included in most ERM systems but it is common in financial firms. However it is argued that it should be included in the entity's financial planning process to secure that the entity's risk profile is taken into account. Hence, a successful financial planning will be able to provide information on how it will affect the entity's total risk profile. To conclude, the board needs to plan for the entity's risk capacity since it is the entity's ability to take a risk when executing a particular strategy (Alviniussen & Jankensgård, 2009).

3.2.1.4 Key Risk Indicators

Key Risk Indicators (KRI) are a measurement tool that indicate the potential presence, level, or trend of a risk. A KRI represents the current level of risk exposure and indicates the current state and signals changes in the exposure. As a result, KRIs can act as warning signals for changes in the entity's risk profile. Therefore, the use of KRIs can help monitor each risk, provide a tool for keeping track of thresholds and identify the need to take mitigation actions, so the threshold does not get triggered.

Further, when constructing the KRIs for the different objectives, meaningful work is done in discussing, evaluating, and forecasting the different performance goals and business plans. This is since KRIs need to be linked to the key drivers of risk that are linked to the firm's strategy and performance. Moreover, KRIs provide the company with a communication tool due to the quantitative nature of the measurement and, as a result, the reinforcement of expectations throughout the company (Fraser & Simkins, 2010). To conclude, the use of KRIs can improve the overall risk management, and the overall governance will be improved. The problem is that many organizations lack the skills and resources to implement KRIs, and the value of implementing them gets overseen by other business activities.

3.2.1.5 Risk Exposures

Further, to be able to construct a functioning ERM system, information regarding the entity's risk exposures must be put together. The risks' consequences must be evaluated, the impact on future cash flows, the probabilities and the effects these events may have on the company's future

performance and existence (Alviniussen & Kapstad, 2009). The risks exposures are used to evaluate the potential loss that can occur in an event, when calculating this the probability of the event occurring is multiplied by the impact/loss it will have for the business.

3.2.1.6 Risk Profile

Risk profiles are an assembly of the entity's risks, considering types, severity, and interdependencies, and helping the entity identify and prioritize them (COSO, 2018). Every organization, to some degree, has a risk profile, but it may not be documented or discussed; the question is just how well formulated and defined it is. The formulation of a risk profile can take many shapes; it can be presented as a list of risks or as a visualization by creating risk maps, a risk universe, or a risk matrix (Fraser, Quail & Simkins, 2021; Hopkin, 2018; Kapstad & Jankensgård, 2021).

A risk profile should stipulate what time period is being considered, the source of the risk, the strategic objectives potentially impacted, and the controls implemented to mitigate the risks (Fraser, Quail & Simkins, 2021). However, risk profiles have the drawback of being produced at one specific date, making it a representation of the situation of a specific moment. This is grounds for some criticism since the risk environment is ever-changing, and the representation is outdated since it lacks completeness, not long after it has been made. This, according to Fraser, Quail and Simkins, (2021), does not render them impractical but, just like financial statements, they are valuable tools for discussion.

Risk profiles are vital for organizations since the identification of risks is essential for prioritizing; according to Fraser, Quail and Simkins (2021), risk profiles are one of the two most essential parts of decision making. The second most important part of risk management is conversations. The reason for preparing risk profiles is to engender conversations, not the least between the board and management, about the most critical risks and how they are being managed. Moreover, mapping out risks and opportunities in a systematic way allows the entity to determine what risks to get rid of and what risks to keep (Alviniussen & Jankensgård, 2009). Since the risk profile then consists of all an entity's risks, it will directly address its earnings and earnings volatility, further empathizing its importance (Lam, 2003).

3.2.1.7 Risk Owner

For risk reporting to work through an entity, a risk owner must be assigned to each identified risk. This is because the board of directors does not run the daily business, and risks need to be managed and monitored daily. When owning a risk, one is carrying the responsibility and authority in assessing the risk and reporting it to whom it concerns but also to take action and decide on how to respond to it. Risk ownership creates accountability in the process of risk management and avoidance of unnecessary losses due to a lack of attention (Jankensgård & Kapstad, 2021). Risk owners can be designated differently in a decentralized, centralized, or coordinated manner. There are pros and cons to each design. However, the importance lies in that someone is taking responsibility and managing the risks daily and then reports to the board of directors so they can perform their task in overseeing the risks.

3.2.1.8 Black Swan

A Black Swan is an event that occurs with low probability, where nothing in the past can convincingly point to this possibility and has an extreme impact. Even though the Black Swan event is considered an outlier, we can find explanations and explain it after it has happened because humans are constantly searching for simplifications and ways to reduce dimensions of information. Because information is costly to store and process entities tend to leave themselves vulnerable for Black Swans. It is outside our comfort zone and the regular environment (Taleb, 2007). People tend to perceive reality as more safe and benign due to optimistic biases; this is referred to as the planning fallacy (Kahneman & Tversky, 1979). Consequently, when the risk assessment is done without taking Black Swan events into account, the entity creates a best-case scenario where an optimistic bias is created. As a result, corporate risk-taking will be biased (Jakensgård, 2019).

3.2.1.9 Risk Culture

One of the main concepts in ERM is the holistic perspective of risk that permeates the whole organization. In order to achieve this, a mutual understanding of risk is essential and to create a risk-conscious culture throughout the company (Jankensgård & Kapstad, 2021; Nocco & Stulz, 2006). To succeed it is essential to incorporate the company's risk management into the culture and values to set the tone of its importance (Lam, 2003).

¨ *Culture eats strategy for breakfast*¨ - Peter Drucker, 2006 (cited in Guley & Rezinik, 2019)

Further, culture is shown by many researchers to be the one of the strongest tools to control the way the organization acts, takes decisions and takes responsibility. In other words the company culture becomes guidance on how to live in the organization. A functioning risk culture promotes open lines of communication between employees, management and the board of directors. Further, it promotes that all personnel should be risk aware and havme a willingness to share risk-related information. The attitude towards the risk culture will determine how risks are identified, assessed and reported which in turn will determine what information will travel from the top to the bottom and from the bottom to the top. When a strong risk culture is present in an entity, risks will be caught on the corporate radar and taken seriously, the culture will serve as a first line of defense (Jankensgård & Kapstad, 2021).

One of the key conclusions in the COSO (2010) survey about risk oversight was that the board needs to understand the organization's risk philosophy in order to be able to provide sound risk oversight. Moreover, COSO (2010) highlights a lack of clarity surrounding the entity's risk philosophy or simply the inability to agree on such is one of the main obstacles for risk oversight.

Even though ERM has evolved tremendously in the last decades, both in academia and in practice, there is a long way to go. Since ERM is such a broad framework. It is argued that the framework should be seen as a mix of tools and practices that every company needs to customize to best fit the organization. Therefore, a contingency approach must be applied when implementing ERM. This contributes to a culture where the survival of the fittest principle must be embraced. Only organizations with the appropriate combination of the ERM-mix will thrive and survive, and as a result, ERM will evolve in a Darwinism manner (Kaplan & Mikes, 2015).

To summarize, risk governance is described above, a set of mechanisms that provide corporate control that makes sure that risk management decisions taken by management do not get colored by behavioral biases and personal incentives, with the result that long-term value creation does not get hindered. Hence, good corporate governance will reduce the agency problem and enable the board of directors to control management to act in the best interests of shareholders (Jankensgård,

2019). Further, if a sound corporate governance system is implemented, this will provide corporate control mechanisms for the board when overseeing the entity's risks (Beasly, et al., 2021).

3.2.1 Quality of Information

When practising risk oversight, it is essential to have a high quality of the information received, since high-quality information is key in all decision making. Jankensgård and Kapstad (2021), as mentioned, address this problem as the information problem and highlight the importance for the board to get timely access to relevant information on the major risks an entity faces.

Further, it is expected that an effective risk management system will provide adequate and relevant information regarding risks to senior management and when necessary the board and its committees. Hence, it is important that the board of directors review the quality, type and format of risk-related information that is provided. But also conveying to management that this is an essential for effective risk management (Lipton, 2014).

According to COSO (2010), one of the areas where risk oversight can be improved is the reporting to the board, stating that many organisations need to do more in apprising their boards of significant risks. Proper risk oversight needs to include a determination of what needs to be disclosed to the board as well as when and why. Therefore, it is key that organisations continually enhance these processes, thus improving the quality of information (COSO, 2010).

3.2.2 Relationship to Management

One of the primary responsibilities of an entity's board of directors is to oversee strategic decisions made by management to ensure that risks associated with those decisions and actions do not exceed the risk appetite for risk-taking desired by the key stakeholders (COSO, 2017). According to Jankensgård and Kapstad (2021), one of the most critical aspects of risk oversight is challenging the management, making them justify their operational processes and systems for risk management. This needs to be done to ensure that the management is employing the strategy that beforehand has been decided appropriate for the entity's risk profile. Performing such oversight, in turn, will raise the level of conduct from the management team and improve the entity's risk management. This responsibility is not always straightforward to pursue since directors, often

without any risk management training, rely heavily on management's representation of reality and are inherently at a disadvantage (Fraser, Quail & Simkins, 2021).

No matter the difficulty, it is the board's responsibility to find assurance of the robustness of the risk management. Fraser (2016) includes this as one of six key activities the board should perform, stressing the importance of probing questions regarding specific risks, as well as other auditing processes. The auditing of the processes put in place by management could be performed either by the internal audit function or by external experts, thus partly relieving the board of the weight of challenging management. Sometimes referred to as the eyes and ears of the board, an internal audit is essential for the board since it might be the only source of independent and objective views the board is provided with (Fraser, Quail & Simkins, 2021). According to COSO (2010), there is a need for improving monitoring of risk management, where two-thirds of the respondents in their survey indicated that no monitoring was performed at all.

3.2.3 Knowledge of Board Members

The knowledge of board members is a delicate subject but extremely important to address regarding risk oversight since board knowledge is one of the main challenges when it comes to ERM and risk oversight (Zhivitskaya & Power, 2016; Fraser, Quail & Simkins, 2021). When the responsibility and accountability of the board performing risk oversight increase, so does the demand for individual knowledge on the subject of risk. COSO (2010) lists a lack of understanding or acceptance for enterprise risk management by board members as one of the main obstacles to successful risk oversight. On that same list, is not seeing the value in pursuing an enterprise risk management process written as an obstacle. These obstacles are related to the knowledge of board members and could be overcome by heightened awareness and knowledge.

Unsurprisingly, the knowledge of the individual directors then plays a huge role in the quality of oversight. However, most board members are not trained in ERM, and the merits of board members are more often successful business executives. Some of the very attributes that made these individuals so successful as executives, such as following gut instincts and being very knowledgeable in a specific type of business, might not meet all the needs of a board setting. (Fraser, Quail & Simkins, 2021). There is a growing consensus that board of directors need to

understand the entity's risk profile fully and incorporate the right corporate governance structures and reporting requirements. Many Boards lack the time, skills, and information necessary for effective risk oversight (Ingley & Van der Walt, 2008)

The role of the Chief Risk Officer (CRO) is of great importance in an organization. Responsible for the organization's ERM, integrated risk management framework, development of policies, implementation of risk indicators, communicating the risk profile, and developing analytics to support the risk management system. The CRO keeps evolving to a position of significant influence (Lam, 2003). However, the existence of a CRO does not necessarily indicate an implemented ERM system (Fraser, Quail & Simkins, 2021) but an improvement of the visibility and organizational effectiveness of the risk function (Lam, 2003). One of the roles of the CRO is the one of education and communication (Gates, 2006). In some cases reporting directly to the board of directors, the CRO greatly influences the entity's risk management and risk oversight. By communicating with and educating the board of the entity's risk management processes, the CRO broadens the board's knowledge and provides them with better decision-making grounds. The CRO should make believers of non-believers and move the topic of risk onto the board's agenda (Lam, 2003).

3.2.5 Delegation of Risk Oversight

If no statutory requirements dictate otherwise, it is up to the individual entity to organize itself to fulfill its risk oversight responsibility. One way of doing so is by assigning specific committees, which in some sense is inherently commendable, not the least because it discloses the board's engagement in the topic. However, it is essential to know that the responsibility of risk oversight always remains with the board of directors (COSO, 2009). According to Fraser (2016), the most popular way is to delegate the work to either the audit committee or a risk committee if not engaging the whole board. This is to combat the problem of time management and make sure that the topic is satisfactorily covered.

Walker (2009), argues that one of the main differences between the two types of committees is that an audit committee is fundamentally backward-looking, which in turn would hinder it in the role of risk overseer where a forward-looking perspective is needed. Zhivitskaya and Power (2016)

highlight another difference between the two committees: audit committees have some expertise requirements regarding accounting while risk committees seem liberated from such constraints, and whomever the board sees most fit can join.

The establishing of a separate committee is circumstantial, and the main point is to structure risk oversight in a way that suits the organization's needs for the best process. By this logic, the delegation of risk oversight is not a given, and according to Beaumier, DeLoach, and Tonello (2012), several problems can arise with the formation of a separate risk committee. These problems include diluting the board's focus, lack of effectiveness if the input of information is not good enough, and not enough individual experience and knowledge of the people charged with the task. Fraser (2016) also backed up the problems with delegating risk oversight, stating the unlikeliness of a smaller group having the same depth of knowledge in as many risks as the whole board.

3.3 Contingency Theory

Something is only valid under certain conditions; this is a term that has been recognized as the term contingency (Otley, 2016). The core of the contingency theory paradigm states that an organization evolves under its contingencies and organizational effectiveness results from the organizational characteristics combined with the contingencies it is affected by. The better the organization structure suits its contingencies, the higher performance the organization will reach. As a result, the organization will seek to fit with its contingencies. There are three more critical contingencies when discussing organizational structure: the environment, organizational size, and strategy (Donaldson, 2001). The contingency theory states that there is no ¨*one best way*¨ to organize an entity since the highest level of performance will come from constructing an organizational structure that suits its contingencies (Donaldson, 2021; Otley, 2016). The contingency theory of management accounting was first developed in the 1970s but has ever since been on the academic research agenda, and it is constantly developing and trying to describe different organizational phenomenons (Otley, 2016).

The contingency theory has been applied to risk management, and as a result, multiple ERM approaches have been suggested. This has created an avoidance in recommending a universal approach in performing risk management. Therefore, it is unsure if risk management can evolve

to a common body of knowledge due to the contingency of organizations (Kaplan & Mikes, 2015). A study conducted by Gordon et al. (2009) further confirmed the proposition that the ERM-firm performance has a contingent relation to the following five factors: environmental uncertainty, industry competition, firm size, firm complexity, and monitoring by the board of directors. Therefore, the implementation of an ERM system must be done in light of the contextual variables surrounding the firm. Since the ERM system will vary among firms, so will the corporate governance system, and as a consequence, a contingency perspective should be considered when deciding on board risk oversight.

3.4 Previous Studies

According to Modigliani and Miller (1958), risk management should have no effect on firm-value in the absence of market imperfections. However research has shown that the market is imperfect due to taxes, asymmetric information, default risks and as a result risk management activities can be value enhancing for shareholders (Gates, 2006; Gordon et al., 2009; Nocco & Stulz, 2006).

While there exists a convincing body of literature addressing the importance of board oversight and its value (Caldwell, 2012; COSO, 2017; COSO, 2010; Fraser, 2016; Gates, 2006; Hoyt & Libenberg, 2011; Lam, 2003), very little empirical research exploring the practical reality of the oversight work of boards exist. However the authors have summarized relevant and important studies in the research field of the practical work of board risk oversight.

A study conducted in New Zealand examined the relationship between corporate governance processes and the risk management conducted by the board of directors. They found that board members acknowledge the importance of risk management however they believe it is more an operational activity rather than a board oversight responsibility and as a result the board is not actively involved in the risk management process. Rather that the process of risk management is primarily a magnerial responsibility. The authors highlight that there is a lack of adequate understanding of risk management among board members but also in the relation to management teams (Ingley & Van der Walt, 2008).

Moreover, Beasley, Branson and Hancock (2014), have done a study examining the current state of enterprise risk oversight in the U.S where the authors had sent out an online survey to members of the American Institute of Certified Public Accountants (AICPA) Business and Industry group who serve as CFO or equivalent senior executive positions and received a sample of 446 responses. They found that the three biggest reasons for increasing executive involvement in risk oversight were regulator demands, emerging corporate governance requirements, and a demand to better forecast unexpected risk events. They found that these expectations come from an increase in external pressures put on boards and as a consequence board of directors in turn put pressure on management demanding more information on the entity's risk exposures.

Further, a study published in the Harvard Law School Corporate Governance Forum in 2015 finds that board risk oversight tends to be greater if a formally assigned responsibility is determined to the board as a whole as well as its committees and as a result highlights the importance of the location of board risk oversight. Moreover, the research shows a positive relationship between the quality of board risk oversight and the maturity of the risk management process. The authors in this study means that board risk oversight has an important impact on the risk management development and the firm's risk taking. Hence, the board of directors plays an essential role in laying the foundation for an effective ERM system by setting the tone at the top performing the oversight needed to ensure a functioning ERM in the entity's ongoing activities. As a result, the study shows that risk oversight by the board is an important part of corporate governance (Ittner & Keusch, 2015).

Lastly, Zhivitskaya and Power (2016) investigate the operationalisation of the risk oversight of members of risk committees in the UK by interviewing non-executive directors (NEDs). Their work, qualitative in nature, highlights the complex nature of risk oversight and how the individuals entrusted with this responsibility navigate the complex relationship with both regulators and management. The study concluded two general shortcomings of risk oversight. Firstly, limited time is spent on the topic and secondly, a lack of general expertise. To summarize, the research of the practical work of board risk oversight is limited. The knowledge of what the board of directors actually do remains a ¨black box¨, that the authors of this thesis aims to open up.

4 Empirical findings and Analysis

This chapter will present the empirical findings done in board risk oversight, it will conclude both the interviews but mostly the electronic survey. Further, the result will be analyzed in relation to the theory presented in chapter two.

4.1 The Sample

The survey conducted background questions that aimed to map eventual explanatory variables but also to get a descriptive view. The survey got a total of 50 responses, however one was eliminated since the company was not registered in Sweden so it is beyond the limitation of this thesis. As seen in Figure 4:1, 4:2, 4:3 and 4:4 the sample has a relatively good dispersion in *industry classification, turnover, experience of board members* and *number of members in the board* which was wanted by the authors since the aim of the thesis is to get an holistic picture of board risk oversight.

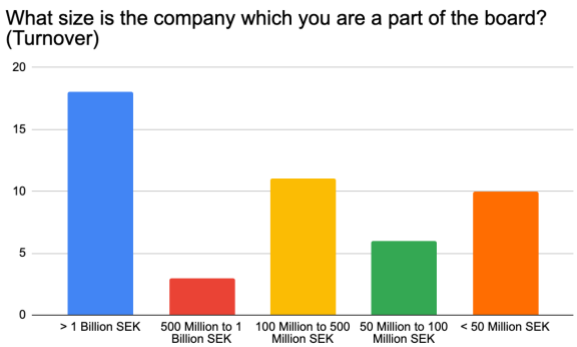


Figure 4:1, *Entity size according to turnover*

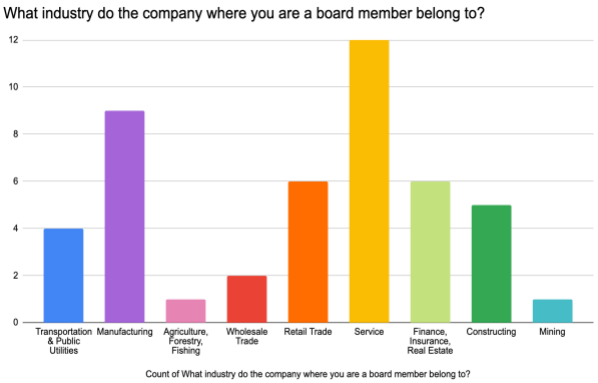


Figure 4:2, *Industry Classification*

Figure 4:3, *Experience of board member*

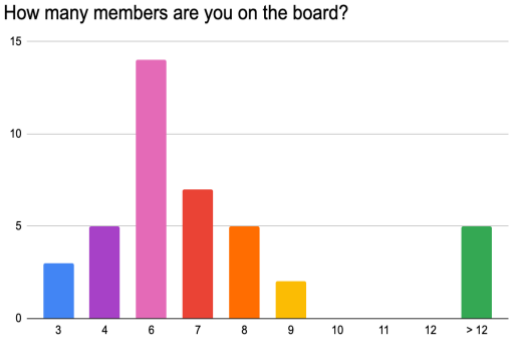


Figure 4:4, *Number of members in board*

4.2 Risk Governance

First, the empirical findings done in the arena of risk governance will be presented. According to Fraser (2016), having a risk methodology is essential to set the playing field of the entity's governance mechanism. The survey shows that 65% (32/49) of the respondents have answered that they have a defined risk methodology (Figure 4:5). According to Nocco and Stulz (2006), a risk methodology provides a mutual understanding of risks and how they should be handled. Understanding the entity's risks and how they should be managed is key to a successful risk management system. A risk methodology can then be seen to be fundamental to enable all personnel to understand risks and how to handle them. Moreover, having a clear and shared definition of risk is essential to mitigate the agency problem. According to Smith and Stulz (1985), Alvinussen and Jankensgård (2009), and Jakensgård and Kapstad (2021), the corporate policy regarding risk is likely to be exposed to a conflict of interest due to the differences between management and shareholders risk-taking level. Since the board is hired to act as agents for the shareholders, it is vital that the board, in their oversight role, make sure that the risk policy is by shareholders risk level.

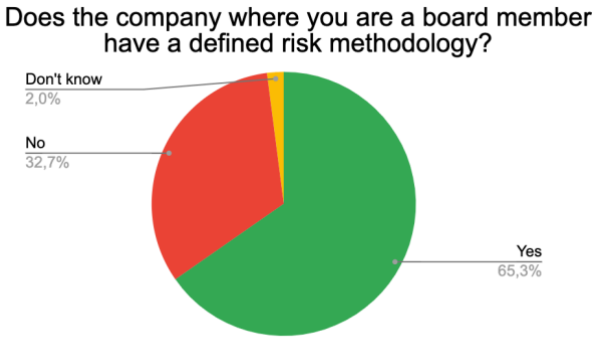


Figure 4:5, *Dispersion of answers regarding risk methodology*

Further, 33 % (16/49) of the respondents answered that the entity where they are a board member does not have a defined risk methodology (figure 4:5). This can be interpreted as no definition of what risk is and how to address them does not exist in these entities, and as a result, confusion will be created. Prison and Turnbull (2011) point out if management and other personnel do not quantify and describe risks in a meaningful and uniform way, the board will get insufficient information and information to aggregate at the top. This will result in that the board does not get informed of all the risks since they are not recognized, and as a result, an information problem arises. According to Pirson and Turnbull (2011), and Jakensgård and Kapstad (2021), this information problem will hinder the board in making the best value-maximizing decisions for the trade-off between risk and return because they lack the high-quality information needed. Peter Kapstad (interview, 7 April 2021) further points out the importance of a governance structure because the company will not come further than its administration.

According to Jankensgård and Kapstad (2021), there are two paths an ERM system can take. The first is that entities treat an ERM as an isolated function where the board ticks boxes to say that they implemented a high-quality framework. The second one is that the board of directors embrace the power of risk management and fully integrate it in all discussions and decision-making and become a way of life. As pointed out in a board member interview (interview, 21 April 2021), all board members must find the topic of risk as a significant point on the agenda, so it is taken seriously and not just a box to tick off.

The survey shows that only 14 % (7/49) of the respondents have a *fully implemented* ERM system (figure, 4:6); even though the respondents claim that they have fully implemented it, it does not mean that they have embraced the second path and unlocked the full potential. To be able to determine that, the holistic picture must be evaluated. Though having an implemented ERM system can imply a certain standard, there is a system for enterprise risk management.

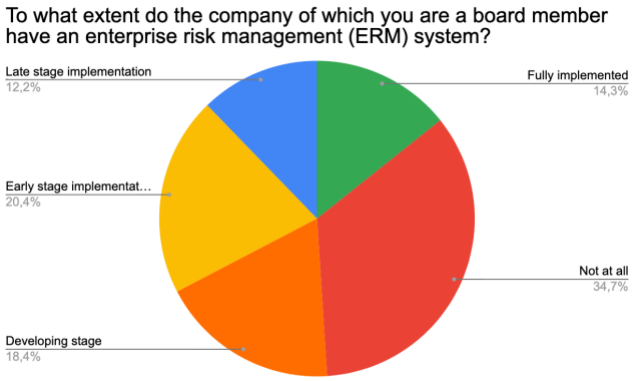


Figure 4:6, *Distribution of implementation of an ERM system*

The respondents who have answered that the entity has *not* implemented an ERM system counted up to 35% (17/49). This indicates that risk management is not treated in a holistic manner rather in silos or in an ad hoc manner. Moreover, 12% (6/49) of the respondents claimed that the entity is in *late-stage implementation*, 20% (10/49) of the respondents answered that the entity is in *an early stage implementation*, and 18% (9/49) of the respondents said that the entity is in a *developing stage.* This indicates that 51% (25/49) of the respondents are a board member of an entity with a willingness to implement an ERM system suggesting that the entities are moving towards being risk-conscious. On the other hand, Fraser, Quail, and Simkins (2021) point out, if the board does not fully understand the ERM system, it will create complications, so to fully unlock the value, each individual board member must take responsibility for his or her learning.

The importance of analyzing future risks and how the risk landscape is changing is an essential part of risk management to stay updated and on top of one's game. The survey shows that 31% (15/48) of the respondents are board members in an entity where no structured process for identifying emerging strategic risk exposures exists (figure 4:7). As a result, it can be questioned

whether the oversight by the board is complete. According to the definition of board risk oversight, the board should oversee and take responsibility for the entity's risk profile, i.e., all risk exposures. When the entity does not have a system for identifying emerging risks, it can be questioned if the board is completing its job. When ignoring these risks, the entity is exposed to unidentified risks that have no strategy to handle these risks. As a consequence, the board cannot identify red flags connected to these risks, which might end up in disaster. Further, the shareholders can hold more risk than wanted since not all risks are counted.

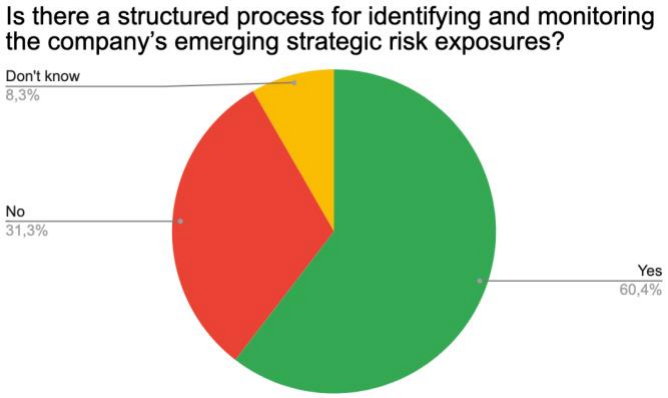
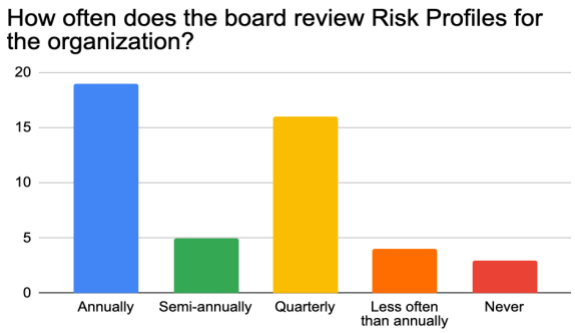


Figure 4:7, *Emerging strategic risk exposure process implementation*

The survey shows that 8% (4/48) of the respondents answered that they *do not know* if the company has a structured process for identifying emerging risk strategic risk exposures. This signals an ignorance by the board member; if he or she does not know if the entity has a structured process for monitoring and identifying emerging risks, how can the board member oversee it.

Lastly, 60% (29/48) of the respondents answered that the entity where they are a board member has a structured process to identify emerging strategic risks (figure 4:7). According to Lipton (2014), the board can ask the relevant risk owner to get an overview of the business landscape, get an anticipated view of future emerging risks, and demand a strategy for mitigating these risks. Further, the board will stay alert to red flags related to these risks to mitigate disasters. When the board reviews this information, they are performing their role in risk oversight.

Our result shows that almost all respondents review their risk profile at least annually, but 34% (16/47) of the respondents review their risk profile on a quarterly basis (Figure 4:8). The risk profile should be reviewed and updated by the board when making decisions; according to Fraser, Quail, and Simkins (2021), risk profiles are one of the two most essential parts when making decisions. A small portion of the respondents, 6% (3/47), never uses the risk profile when making decisions implying that a fundamental part in the decision process is missing. According to COSO (2009), Fraser, Quail, and Simkins (2021), Jankensgård and Kapstad (2021), and Lam (2003), risk profiles are a great basis for discussions regarding the entity's most pressing risks and what actions are taken to mitigate these. Moreover, the preparation of risk profiles also provides great discussion and can serve as a tool for ensuring that risk management is an integrated part of the business strategy. Hence, the risk profile is a basis for ensuring that the shareholders' risk appetite is respected.



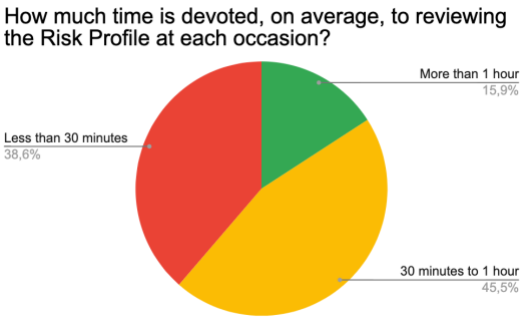


Figure 4:8, *Frequency of review of Risk Profile* Figure 4:9, *Time spent on Risk Profile*

According to Fraser, Quail, and Simkins (2021), a risk profile can be used as a tool to start discussions regarding risks. The time spent on a risk profile varies among the respondents; only 16% (7/44) of the survey's respondents spend more than one hour reviewing the risk profile (Figure 4:9). Further, 39% (17/44) of the respondents spend less than 30 minutes on the firm's risk profile; this suggests that the review might not be as thoroughly done as might be necessary to contribute to fruitful discussions.

The survey shows that *requiring risk assessments to support business plans* is the most common tool to ensure that risk management is integrated into the business strategies (Figure 4:11). In

second place comes *having a risk policy.* A risk policy is a way for the board to be preventive and create a foundation for how the entity should handle different risks since the board cannot be a part of day-to-day risk management practices. Writing risk policies aligned with the entity's risk appetite presenting procedures and protocols that serve as guidance in risk-related decisions is a task the board performs when overseeing the firm's risks (Lipton, 2014).

In third place, with 48% (24/49) of the respondents, comes the *use of a SWOT analysis when setting a business strategy*. When the board is advocating the use of SWOT in business planning, they force decision-makers to incorporate risk discussions and evaluations in the strategic planning process, which is a sign of the board overseeing the company risks.

Further, the study finds that 37% (18/49) of the *board members require risk assessments for capital expenditures requests*. This is a way for the board to ensure that management has in a thorough way evaluated risks both before and during the projects. Furthermore, as a result, the board is overseeing the entity's projects and their risks making sure that management evaluates risks throughout the entire duration of the projects.

Moreover, This study shows that 34 % (17/49) of the respondents use risk criteria to prioritize risks. According to Fraser, Quail, and Simkins (2021), defined risk criteria implies that a common language on how the entity is talking about risks is established.

According to the survey, 25 % (12/49) respondents said they *use periodic risk profiles* to ensure that risk management is an integrated part of the business strategy. According to Fraser, Quail, and Simkins (2021), preparing risk profiles tends to start meaningful conversations, which leads to a better understanding and identification of the risks.

Figure 4:11, I*ntegration of risk management in business strategy*

To conclude, all the techniques mentioned above are essential to ensure that risk is taken into account in all business decisions. However, these governance tools are a way for the board to make sure that business units think about risks, but then it is up to the board to ensure that the entire portfolio of risks does not exceed the shareholders' risk appetite. According to Jankensgård and Kapstad (2021), all businesses want to outmaneuver their competitors, make the money and deliver high returns. Management sets strategies to create competitive advantages; the survey shows that 98 % (48/49) integrate risk in the strategic objectives; this is very important according to Fraser, Quail, and Simkins (2021) since risk management is not a stand-alone activity that should be treated separately.

The survey revealed that 66% (31/47) of the respondents do not have a risk management process for a Black Swan event, and 13 % (6/47) do *not know* if there is a risk management process for these events (Figure 4:12). According to Taleb (2007), entities tend to leave themselves vulnerable to Black Swan events because the information is costly to store and process. It further implies that the majority of the entities where the respondents are board members have created scenarios with an optimistic bias because Black Swan events are not incorporated. As a result, the risk-taking of the firm is biased (Jakensgård, 2019).

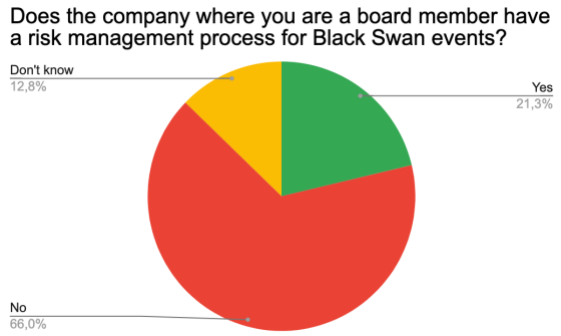


Figure 4:12, *Black Swan process*

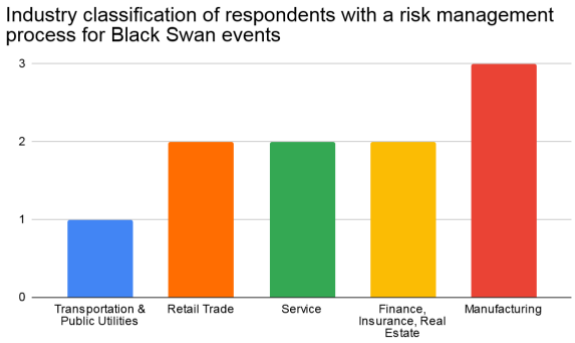


Figure 4:13, *Industry classification, Black Swan process*

Only 21% (10/47) of the respondents answered that they have a risk management process for such an event. According to Figure 4:13, there is no significant relationship between the board members that answered that they have a risk management process for a Black Swan event and industry classification.

According to the survey, 48 % (23/48) of the respondents agreed or strongly agreed to the statement that the board communicates significant risks and how they are being managed to the rest of the company (figure 4:14). This indicates an open line of communication from the top and a willingness from the board to share risk-related information creating an attitude and a culture towards risks. According to Jankensgård and Kapstad (2021), this is following a functioning risk culture, and the board's behavior to share this information will affect what information the personnel is sharing. Further, this creates a mutual understanding of risk, and it is vital to incorporate the values in risk management into the corporate values and norms (Lam, 2003; Nocco & Stulz, 2006).

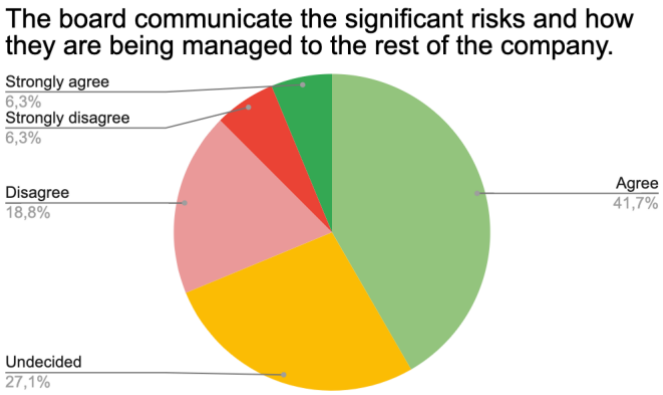


Figure 4:14, *Communication of significant risk by the board*

Moreover, 25% (12/48) of the respondents *disagree* or *strongly disagree* with the same statement, which narrates that risks are not being communicated from the board. According to Jankensgård and Kapstad (2021), this will hinder a functioning risk-conscious culture. Further, as Peter Drucker points out, having a strong culture will win over a strategy. The board needs to set the right attitude and philosophy from the top to ensure that the values align with the shareholders' wishes. To conclude, if the board is not communicating the firm's risks and how they are managed, it can then be questioned if they actively work with creating a risk culture. According to Jankensgård and Kapstad (2021), this will serve as the first line of defense in an effective risk management system.

A functioning risk-aware culture is symbolized with open lines of communication, which means that information must be able to flow from the bottom up as well. The result from the survey shows that 51 % (25/49) of the respondents are a board member of an entity with a risk reporting system that enables all personnel to report risks (table 4:15). According to Jankensgård and Kapstad (2021), if a strong risk culture is present in a company, it will serve as a corporate radar, and all personnel is encouraged to report risks and exposures. In the absence of a risk reporting system, the board might create a negative attitude towards reporting risks resulting in a generalized optimism. As a result, information gets hindered from flowing from the bottom to the top, which harms the board risk oversight.

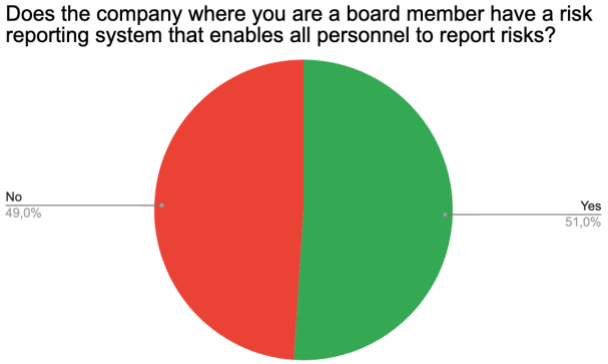


Figure 4:15, *Reporting system in entity*

Seven respondents that answered this question had in the first question stated that they had no risk reporting system. As a result, 65% (32/49) of the respondents stated they have a risk reporting system (Table 4:16). The most common system is a *whistleblowing system*, where 75% (24/32) of the respondents said that the entity had one in place. The survey showed that 44% (14/32) of the

respondents say that risks can be reported through the board. However, the downside of reporting directly to the board is that the board will suffer from risk aggregation (interview, 23 April 2021). Further, a board member pointed out in the interview that there are risks where the board is not the optimal organ to handle it. The whistleblower reporting system can be a problem for many companies since so much information needs to be sorted (interview, 21 April 2021).

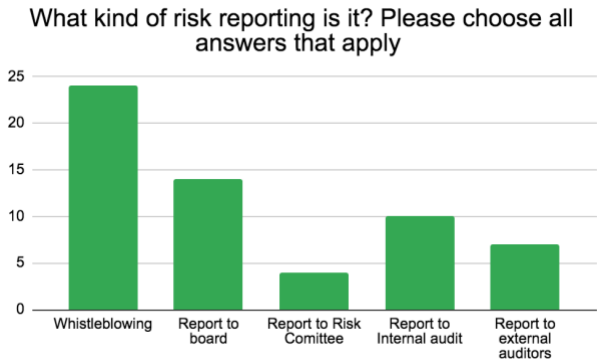


Figure 4:16, *Risk reporting system*

4.3 Quality of information

The quality of information is one of the significant factors in risk oversight. Organizations need to appraise their boards of risks and boards to scrutinize the information received (COSO, 2010; Lipton, 2014). The challenge of information quality then lies in addressing the information problem, making sure that relevant information is presented in a timely and comprehensible way to make sound decisions (Jankensgård & Kapstad, 2021).

According to the survey (Table 4:1), 77% (38/49) of the respondents agree or strongly agree that they are provided with the information they need to perform their risk oversight responsibilities. While 16% (8/49) are undecided, that means that only 6% either disagree or strongly disagree with the statement. This quite confidently indicates that the board members believe they are getting the high-quality information they need. According to Jankensgård and Kapstad (2021), it is fundamental that the board of directors get high-quality information to fully understand the strategies and the risks that apply since the board is the ultimate owner of the firm's risk profile. Moreover, 83% (39/49) of the respondents agree or strongly agree with the statement that the board

evaluates the validity of the information received by management. Thus, once again, after having 15% (7/49) that are undecided, only 2% (1/49) do not agree. This indicates that the board members seem quite assured of both the information presented to them and the scrutinization of information performed by the board.

	Strongly disagree	Disagree	Undecided	Agree	Strongly agree
As a board member, I get the information I need to perform risk oversight.	2%	4%	16%	71%	6%
The board evaluates the validity of the information received from management.	2%	0%	15%	72%	11%

Table 4:1: *Perceived information quality*

Furthermore, when it comes to the mechanism that provides a more structured approach to ensuring higher quality information, the result paints a less unified picture. Only 51% (25/49) of the boards employ a risk reporting system that enables all personnel to report risk, and only 3% (1/32) of the respondents use anonymous voting equipment at risk workshops. Furthermore, only 21% (10/47) have a management process for Black Swan events, which according to John Fraser (interview 28 April 2021), leaves a massive gap in the holistic picture of risk. All these mechanisms are ways that the board, through ensuring the risk process, can establish a higher quality of information. Not having to rely so heavily on management to bring them high-quality information but rather ensure it through the way risk is managed. Peter Kapstad (interview 7 April 2021) further points out that the CEO sometimes hides information from the board since he or she believes they are useless in the question regarding risk. This further highlights the importance of a high-quality risk management system, ensuring that the board gets sufficient information needed to provide risk oversight.

Jankensgård and Kapstad (2021) point out that the board is the shareholders' eyes and ears in an entity, and they need to make sure that risks are adequately mitigated.

¨*It is a matter of having time, and you have to delegate*¨ - Board member (interview 21 April 2021)

One of the interviews pointed out that the board needs a support function to delegate tasks to, one of them being internal audit. Further, 48% (15/31) of the respondents answered that they have an internal audit function. According to Fraser, Quail, and Simkins (2021), internal audits can be described as the ¨eyes and ears" of the board, and one of their tasks is to assess the quality of the risk assessments done by management and then report it to the board.

The survey further investigated in what format the board received this information. One way of presenting the information to the board in an understandable way is to present a risk profile in a visual representation, i.e., risk map or risk universe (Fraser, 2021). According to the survey (Table X), 51% (25/49) of the respondents utilize risk profiles to integrate risk management into the business strategy. Making sure to be provided with such would improve the quality of the information the board receives and would be a better basis for sound decision-making. Moreover, when asked about the board's processes to integrate risk management in the strategy, 61% (30/49) require risk assessments to *support business plans,* and 37% (18/49) require them for *capital expenditure requests*. To require these assessments would ensure a higher quality of the information and provide the board with better grounds to make the right decisions.

The chief risk officer (CRO) is responsible for collecting and presenting much of the risk information to the board (Fraser, 2021). In doing so, the CRO carries a great responsibility in getting the correct information and presenting it understandably. In the absence of a CRO, this role and responsibility can be somewhat undefined or delegated to the CEO or CFO. Therefore, having a dedicated individual in charge of risk provides some assurance, having a process where risks are taken seriously. According to the survey, only 10% (5/49) of the respondents say that the company has a CRO (Figure 4:17). Another way of delegating this is to have a specific board member responsible. According to the survey, 16% (8/49) do this.

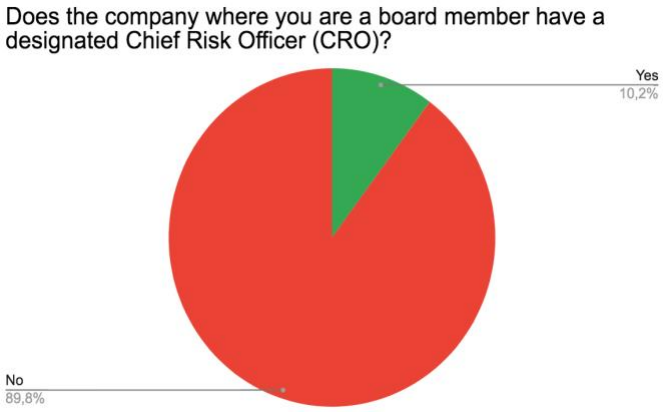


Figure 4:17, *The existents of CRO in entity*

Regardless of the mechanism, that to some degree per default improves the quality of the information. One of the main parts is the timeliness of the information, i.e., how often do the boards receive the information. Figure 4:19 represents how often the board receives information on different parts of the operation from management.

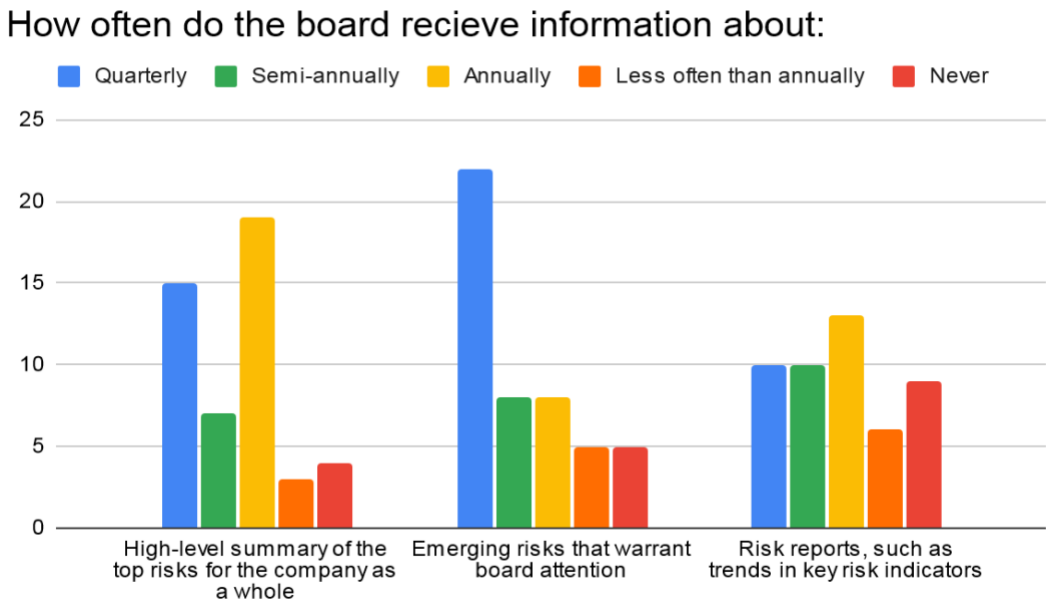


Figure 4:19, *Timeliness of information*

The figure shows quite some variety in how often the board receives information, further highlighting the contingencies in the risk management practices. Some respondents have answered

that they never receive such information, indicating that proper risk oversight would be difficult. According to Fraser (interview 28 April 2021), risk documents are much like financial reports in that they are a representation of a specific point in time and, therefore, almost instantly become obsolete. This does not mean that they do not have any use, rather just like financial statements, they are essential to orientate the entity. However, a higher frequency of information does combat this problem, providing the board with more up-to-date information.

4.4 Relationship to management

The relationship board members have with the management is of high importance to risk oversight, where the board has to challenge the management in their risk management (Fraser, 2021; Jankensgård & Kapstad, 2021). This area is highly contingent and complex, relating to each individual and situation the board faces, but is key in making sure actions do not exceed the risk appetite of the stakeholders (COSO, 2017).

In table 4:2, the answers from the survey are presented in regards to how the board members perceive the relationship to management. Once again, when left to evaluate their own work, the board members show confidence in the work they are doing, with 85% (41/48) of the respondents either agreeing or strongly agreeing with the statement that *the board challenges management in their risk assessments (Testing management's assessment, asking tough questions making sure that the best assessment is delivered)*. This, along with the reply that 83% (39/47) of the respondents either agree or strongly agree to the statement that *the board evaluates the validity of the information received from management*, indicates that the board believes that the board, to a high degree, believes that the board evaluates the validity of the information received from management they perform this responsibility adequately. However, when it comes to whether the board *takes charge of developing the company's risk management,* the answers are a little bit more modest. There is still a majority agreeing or strongly agreeing at 63% (31/49), but there is also a larger part of undecided respondents, 33% (16/49). This indicates that while most agree that the board takes charge, there are many respondents not being too convinced.

	Strongly disagree	Disagree	Undecided	Agree	Strongly agree
The board challenges management in their risk assessments (Testing management's assessment, asking tough questions making sure that the best assessment is delivered)	2%	0%	13%	75%	10%
The board evaluates the validity of the information received from management	2%	0%	15%	72%	11%
The board takes charge of the development of the company's risk management	2%	2%	33%	53%	10%

Table 4:2, *The boards perception of Relationship to management*

When it comes to the mechanisms for exercising the scrutinization of the management's risk processes, the survey shows that only 48%(15/31) of the respondents have an internal auditing system. Such a system, acting as the board's eyes and ears, is essential for the board to get an objective picture of the entity's risk management without running the risk of getting the information from management that might be affected by self-interest. According to Fraser, Quail, and Simkins (2021), board members, often lacking risk training, rely heavily on management's representation of reality, further stressing the importance of a tool that would improve the oversight process in aiding the board in their responsibility to challenge management.

In order to challenge the management, there needs to be communication. One way of doing so is presented by having risk workshops (Fraser, interview 28 April 2021; Kapstad, interview 7 April 2021). According to the survey, 27% (13/48) have such workshops for risk, while 73% (35/48) do not. Having such workshops is a great start, and with a healthy structure, this would be a great place to challenge each other's thinking. However, one way of relieving some of the stress of challenging the management is to allow anonymous voting. According to the survey, only 3%(1/30) of the companies with such workshops utilize such anonymous equipment.

In regards to challenging management, performing oversight requires scrutinization of the methodologies they use to assess, prioritize, and measure risks. The board needs to have the management justify its operational processes and systems for risk management (Fraser, 2021;

Jankensgård & Kapstad, 2021). Figure 4:20 shows how often the board receives information on different management's operational risk management. This information includes:

- *Effectiveness of responses for mitigating the most significant risks*
- *Management's methodologies used to assess, prioritize and measure risks*
- *Significant gaps in the capabilities for managing key risks and the status of initiatives to address these gaps.*

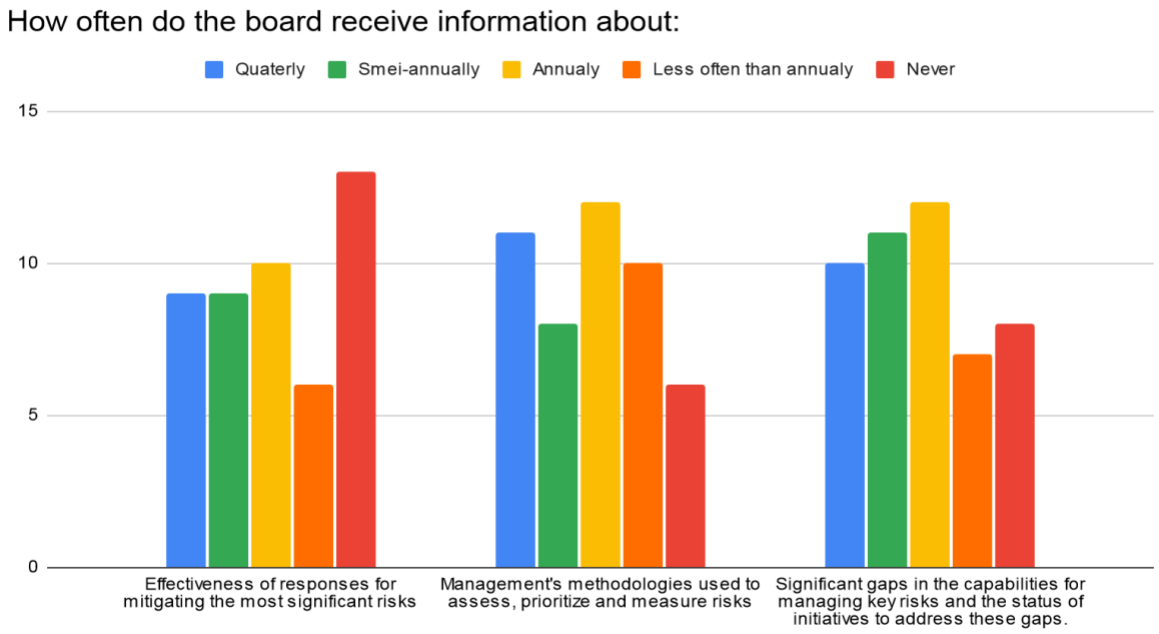


Figure 4:20*: Timeliness of information regarding the managements work*

The survey reveals variety, with some boards getting updates quarterly while others never received such information. Not receiving such information, of course, weakens the ability and quality of oversight in regards to challenging the management's processes. According to Ingley and Van der Walt (2008), many boards do not get sufficient information to perform effective risk oversight. A board member interview (21 April 2021) further highlighted that the way the board makes sure that they get the correct information is to hire the right people that you can trust. The board needs to trust the CEO in the information she is presenting. Otherwise, it is not the right person for the job. As U.S President Ronald Regan often stated, *"Trust, but verify"* (Forbes, 2019).

4.5 Knowledge of board members

One of the most inherent parts of risk oversight is board members' knowledge regarding risk management and oversight. However, this is according to the literature, one of the main challenges of risk oversight (Zhivitskaya & Power, 2016; Fraser, 2021) and a lack of understanding and acceptance for enterprise risk management is depicted as one of its main obstacles (COSO, 2010). Here, training and education will be essential to secure a certain level of knowledge. The survey shows that 37% (18/49) of the respondents answered that they had not received any risk oversight training and 63% (31/49) of the respondents said they had received risk oversight training. According to Fraser, Quail, and Simkins (2021), board members tend to be selected due to their successful performance as business executives. As a result, they can lack knowledge in risk management and, most important, risk management in a board setting. It is important to secure a certain level of knowledge to perform its duty in overseeing the risks. The board member interviews state two causes why the board has insufficient knowledge.

¨ *There is a lack of competent people* ¨ Board member 2, (interview 23 April 2021)

¨*Not all members take it seriously* ¨ Board member 1, (interview 21 April 2021)

As a result, the board risk oversight will not be performed in a valuable way. Hence, the shareholders might suffer from this. According to COSO (2010), the lack of understanding or acceptance for enterprise risk management by the board members is one of the biggest obstacles for successful risk oversight. On the other hand, Petter Kapstad (interview 7 April 2021) highlights the issue where only one board member has good knowledge of board risk oversight. Instead of being a protester, it is more likely that he will leave the company. This is a consequence of the fact that many boards in Scandinavia consist of the same people.

According to COSO (2010), a way to improve board risk oversight is to raise awareness and knowledge by the board members. The survey showed that the main obstacles to not spending more time and resources on this matter are *more pressing needs for the organization* 41% (20/49) and that *risk management is viewed as compliance-related activity,* 27% (13/49) of the respondents (figure 4:21). Moreover, 12% (6/49) of the respondents answered that they *do not see the value in pursuing an enterprise risk management process,* and 14% (7/49) of respondents said *there is a*

lack of understanding of enterprise risk management the board members. Only 4% (2/50) of the respondents answered that *the time allocated now is adequate*, meaning that the respondents assess that the current level of time spent on risk oversight is appropriate and that there are no obstacles that hinder them.

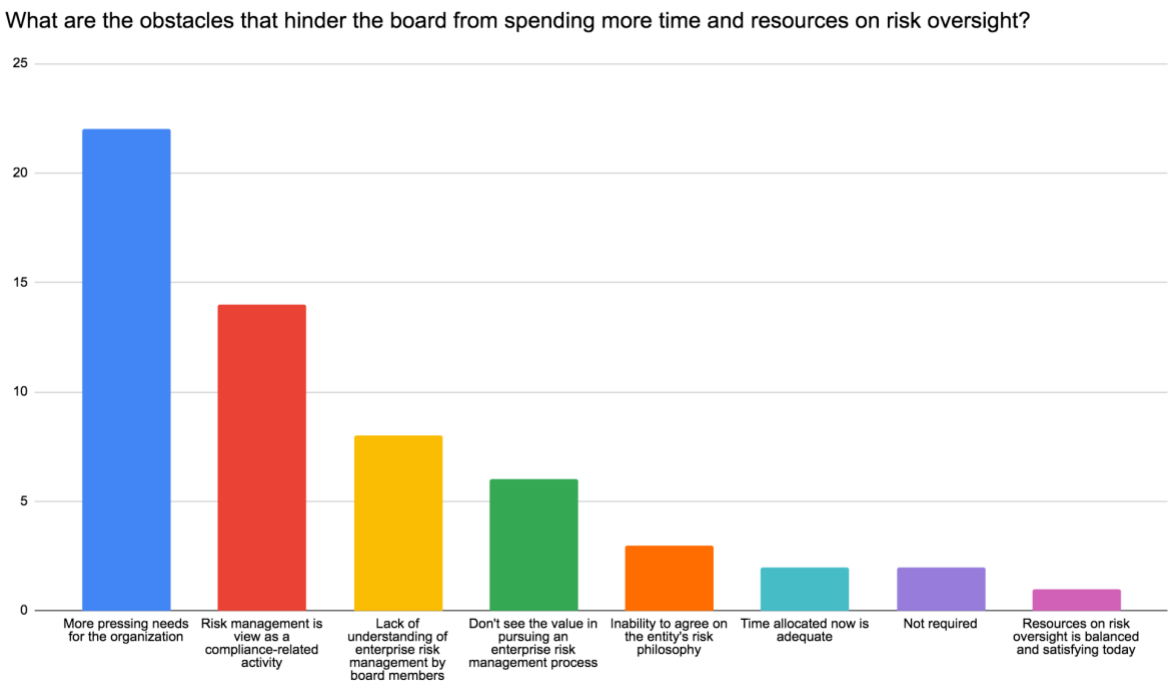


Figure 4:21, *Obstacle to spend more time and resources on risk oversight*

As mentioned earlier, 90% (44/49) of the respondents answered that they do not have a CRO whilst 10% (5/49) of the respondents had a designated CRO. According to Gates (2006), a CRO is responsible for the education and communication of risk management and, therefore, influences the board's risk oversight. The CRO is hired to broaden the knowledge of an entity's risk management to improve decision-making grounds. It is clear that an entity will benefit from a skilled CRO, and the survey shows that this role is not common in many companies. This can result from management and board's lack of knowledge, the belief that risk management is not as important as other needs, or that it is unnecessary. However, this needs to be investigated further since it can also be due to differences in organizational structure. According to Kaplan and Mikes (2015), there is no universal solution to risk management; it is a common body of knowledge. It is not the importance of having a designated CRO that is the most important rather than someone in

the organization is taking the responsibilities of the role. The survey shows that 82% (40/49) of the respondents do not have a designated board member responsible for risk oversight. 18% (9/49) of the respondents answered that they have a board member responsible for risk oversight. This can be a way to introduce the role of a CRO on the board.

The board's ignorance to evaluate their own performance will not benefit the company or shareholders. The survey shows that 10% (5/49) of the respondents do not evaluate their own performance inboard risk oversight, whilst 16% (8/49) only do it on an *ad hoc basis*, and 2 % (1/49) do it *less than once a year* (figure 4:22). The survey also shows that 76 % (37/49) either agree or strongly agree that they are satisfied with the board's work to oversee risks in the entity (figure 4:23). When not evaluating performance, it is somewhat biased to be satisfied with the performance. Though 8% (4/49) of the respondents are not satisfied with the work the board is doing in risk oversight, 16 % (8/49) of the respondents are undecided in this matter. It could be argued that all respondents should answer that they are satisfied; otherwise their job is not done, and the agency problem might be present. According to Fraser, Quail, and Simkins (2021), the board should ensure that effective risk management is practiced at all levels that satisfy the shareholders. Since all entities have different ownership structures resulting from satisfying, effective risk management systems will look different. Though, if the board members do not have the proper knowledge, it will be impossible for them to oversee the process. Ingley and Van der Walt (2008) point out that poor risk oversight results from a lack of skills and time.

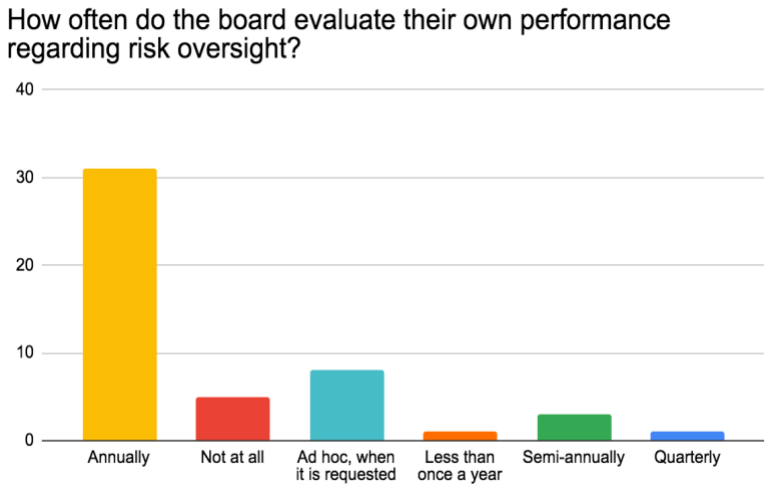


Figure 4:22, Evaluation of board risk oversight

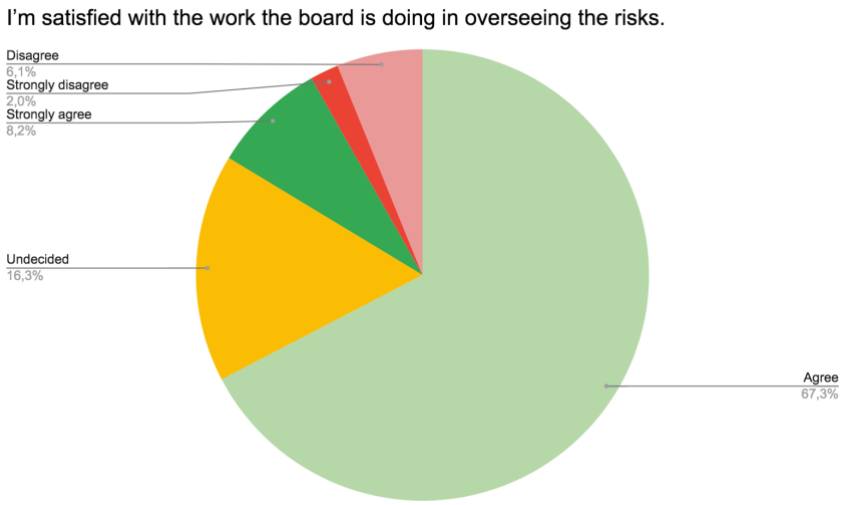


Figure 4:23 Oversight satisfaction

4.6 Delegation of risk oversight

According to Ingley and Van der Walt (2008), many boards lack the time for effective risk oversight. This lack of time was strongly emphasized by Fraser (interview 28 April 2021) as well as by COSO (2010), who listed "more pressing needs for the organization" as one of the obstacles to risk oversight. The question of risk oversight delegation then becomes to organize oneself to enable the best risk management possible. The most common way of doing so is by outsourcing the process to the audit committee or a separate risk committee (Fraser, Quail & Simkins, 2021). As relayed in theory, there are advantages and disadvantages to any structure.

Figure 4:24 shows the respondents' answers to whether the responsibility of risk oversight is delegated to either the audit or risk committee. The results show that 67% (32/49) of the respondent's boards do not delegate but rather have it done by the whole board, whilst 33% (16/49) delegate to the audit committee. From the answers, we received only 2% (1/49) delegates to a separate risk committee. According to the literature, the delegation of risk is circumstantial and needs to be structured according to the individual organization's specific needs (Beaumier et al., 2012). Moreover, board member 2 (interview 23 April 2021) highlights that larger companies with a turnover above 1 billion have the resources to address and organize risk management, whilst smaller companies rely more on individual competence. By this logic, it would be reasonable to think that larger companies have a more pressing need to delegate risk oversight, and taking a look

at the answers from the largest companies with a turnover above 1 billion SEK (Table 4:25), it is apparent that the majority of companies, 56% (10/18), actually delegate to the audit committee.

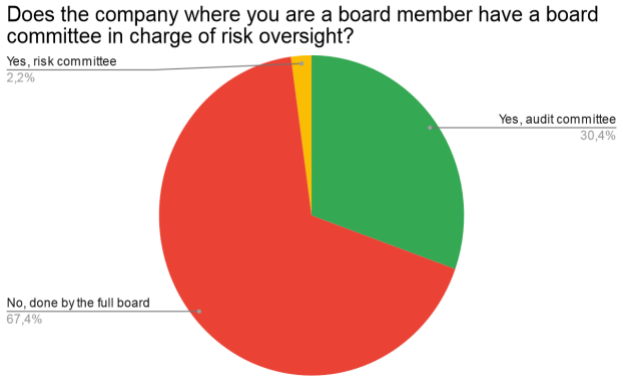


Figure 4:24*: Delegation of risk*

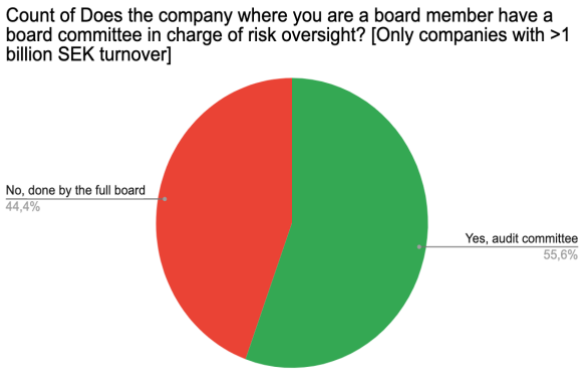


Figure 4:25*: Delegation of risk, in large companies*

This reveals that delegation of risk does occur and provides some insight into the fact that it is more utilized by large firms, which may have a more pressing need. An investigation of whether companies structure themself appropriately and if everyone who should delegate risk does so is unfortunately beyond the scope of this thesis. Even though we can see that many larger firms do delegate risk, they, in our case, exclusively do so by delegating to the audit committee (Figure 4:24). This is important because some argue that the audit committee might be less fit to oversee risks due to its backward-looking nature (Walker, 2009). Therefore, there is reason to believe that Swedish companies have something to learn about possibly utilizing a risk committee structure for their oversight process. According to Fraser, Quail, and Simkins (2021), the primary task of a specific committee in charge of risk is to ensure coverage of all risks. This does not necessarily mean that entities without such committees fail to do so, but they might run a higher risk of it.

5 Discussion

This chapter provides a discussion regarding the results of the analysis. Moreover, knowledge that the study adds in relation to the research problem and the purpose of the thesis will be examined.

Five major themes have been presented in board risk oversight, *quality of information, risk governance, the delegation of risk, knowledge of board members,* and *relationship to management.* According to theory and exploration of the practical field, these have been defined and provided expectations of what could and should be done in risk oversight. Empirical data has been gathered and presented in an in-depth analysis with theory. This part aims to evaluate the work the board is doing in overseeing the entity's risks and relate it to how they are living up to their oversight responsibility.

Firstly, the quality of information the board receives will be a determining factor if risk oversight is possible. The board works proactively in securing relevant information on time from management requesting risk assessments in business strategies, nevertheless, also through requesting reports regarding the company's top risks and emerging risks that warrant attention. Further, the research shows that the board believes that they get the information they need to perform risk oversight. The information received from management is claimed to be evaluated, resulting in a validation process. However, independent validation functions such as an internal audit and internal reporting system are not consistent, where 50% of the sample claimed that such functions exist. In half of the entities, the board relies on their assessment, and that management is reporting the truth, which can result in lower quality of information. Furthermore, the quality of information among the board is also vital; the survey shows that only a fraction uses anonymous voting equipment, which could improve quality through increased honesty in the oversight process. In summary, while the board members claim a high degree of information quality, the research indicates that the processes that would ensure such are not employed to a convincing degree.

The second theme, the delegation of risk oversight, has shown to be a less utilized function in board risk oversight. The survey showed that it is most common that the whole board is responsible

for risk oversight, and almost no entity has a CRO. The delegation of risk oversight should not be conducted as an absolute must but rather when the risk structure requires it. However, as pointed out in research, board members often lack time and sometimes knowledge, and delegating some responsibility can ensure coverage of all risks. The research further convincingly shows that whilst there is a risk delegation practice, it is almost exclusively done by delegating to the audit committee and not a risk committee. This, since delegating to a risk committee can in some ways be seen as preferable, indicates that when it comes to the delegation of risk oversight, many entities lag behind the current perspective of risk management. As a result, whilst delegation of risk oversight cannot be seen as a demand, it has clear utility, and boards could do a better job applying it in a good way.

The third theme has been identified as risk governance, where the survey has revealed some major gaps in the risk governance practices, such as not having; *a defined risk methodology, a process for identifying and monitoring emerging strategic risk exposures, a risk management process for Black Swan events or not communicating significant risk to the rest of the entity*. These gaps in the risk process are difficult to attribute to anything other than a shortcoming in risk management and, therefore, risk oversight. These cannot be accepted, and because the board has responsibility for the entity's risk exposure, not making sure there are processes for all of them makes it questionable how successful they are in fulfilling these obligations. By not having a process for these risks, the board misses red flags and leaves the entity exposed to unidentified risks. Further, these governance tools are a way for the board to increase transparency, the common understanding of risk, and enable quantification of risk objectives.

While the results provide concerning facts on risk methods and how many entities are applying them, there are still some encouraging results; tools to integrate risk as a part of business strategy are recognized among almost all entities. This implies that the board is proactive in its oversight work and has mobilized internal expectations towards management in what they should deliver to the board. When the board receives requested information, the essential task begins for them in their risk oversight role, asking tough questions, challenging management's assessments, and evaluating if the strategy aligns with shareholders' risk appetite.

This brings us to the fourth central theme, the relationship to management. The survey results indicate that the board challenges management in their risk assessments and evaluates the information received from management and its validity. This, however, is not reflected the same degree in the questions regarding what methodologies and tools they use. While saying that they validate the information, only 51% have a risk reporting system that enables all personnel to report risk. Moreover, half of the entities have an internal audit function, which is mainly viewed as a retroactive check-up function. The internal audit function, often being the only objective input the board gets, is key to validate the oversight work and not solely rely on the management's perspective.

Further, when investigating how often the board receives information about the management's processes and methodologies regarding risk management, many revise such information rarely or, in some cases, never. This implies that a fundamental part is missing in the administration and governance structure. To demand information is essential when the board aims to set a standard from the top-down, contributing to a risk-conscious culture. The research shows that many entities receive information regarding these processes too scarcely. This highlights a lack of functions that enable critical information from different perspectives to reach the board. As a result, the research indicates that boards often fail to have proper processes in place to handle the relationship to management. It highlights that a large part of the oversight work instead relies on individual relationships and trust.

The last central theme presented is the knowledge of board members. For the board to evaluate the risk assessments in a valuable way, a high level of understanding and knowledge is required from each board member, which the research sometimes indicates to be a problem. Since there is no best practice formulated, the demand on each individual board member's knowledge becomes significant. The individuals themselves need to make sure that they know to adequately address risk, have the guts to challenge management in their methodologies, and trust the effectiveness of management's responses to mitigate risk. This perspective puts great pressure on individual competence to fulfill the risk oversight responsibility. Having these responsibilities supported by oversight processes would most certainly be desirable.

Further, since the regulatory space is somewhat vague, the board carries a big responsibility in convincing the entity of the importance of risk management. However, to convince the entity, the board needs to believe that it is an important and valuable activity. The study shows this belief is partly absent, where board members state a lack of understanding of the value of enterprise risk management, and some view risk oversight as a compliance-based activity. This results in that the board believes other more pressing needs are needed for the organization and directs time and resources to those instead. Furthermore, this research points out the problem of dispersion of knowledge among board members and the lack of anonymous voting equipment at board meetings and risk workshops, resulting in a member with sufficient knowledge in risk management leaving the board instead of being seen as a protester.

This research highlights the importance of knowledge among board members and the fact that it can create problems if not actively working with securing the right expertise in the whole board. A focal point of the board's knowledge relates to their perspective of risk. The paradigm shift moving into a new view of risk management, often related to enterprise risk management, has created discrepancies between risk perspectives. With outdated perspectives, board members often fail to see the value in risk management and its processes, thus failing their risk oversight. The results of this thesis show that there is still a need for further education to increase the board's knowledge in order for them to adopt the oversight process fully.

Lastly, the board members seem to think highly of their own risk oversight. The analysis shows that 75% of the board members are satisfied with their risk oversight. However, as mentioned above, the research shows that there are gaps in the oversight processes. The board's high regard for their own work does not fully correspond with the methods they employ. This overconfidence or bias is not very surprising, yet it is crucial since it illustrates the deceiving nature of such a complex topic. It indicates how critical the perspective and knowledge of each board member is and how influenced the actual work is by this. Suppose the board is not constantly working with self-evaluation, challenging each other, and redesigning for the best possible outcome. In that case, risk oversight will not continue to evolve like the risk environment demands.

6 Conclusion

This chapter provides the concluding remarks the thesis has generated and provides the answers to the research question, How do the board perform risk oversight in practice? Lastly, limitations of the research as well as suggestions for future research will be considered.

6.1 Concluding Remarks

The thesis has bridged the gap between theory and practice, provided a vital link between academics' theory of risk oversight and the practical work performed by the board of directors out in the real world. This research divided risk oversight into five major themes, based on the exploratory phase in our triangulation methodology, to be able to identify and evaluate how risk oversight is practiced. Moving to the inductive phase, the thesis provided a better insight into the work of the board by evaluating the actual processes employed.

This research concludes how risk oversight is practically performed by the board, as being contingent on a high focus on relationships and trust, not utilizing key oversight processes and board members not being critical of their work and sometimes lacking knowledge.

Firstly, contingency cannot and should not be used as a veil for poorly performed risk oversight. If that were the case, the evolution of risk management would halt and only resort to box-ticking practices that yield no propper results. The thesis highlights that the performance will not be better than the administration. Therefore, it is key to acknowledge the importance and utility of some of the methods discussed in the thesis and to be critical of the boards' work. There cannot be one universal solution for performing board risk oversight; it needs to evolve in a Darwinism style and adjust itself to regulatory standards, industries, ownership structure, maturity of the entity, and best practices. However, the point is, if not being on the board's agenda, it will not develop, and the best possible outcome will not evolve.

When evaluating how the board performs risk oversight in practice, the findings suggest that they rely on relationships and trust. The board must be critical in the information they receive and challenge facts presented to ensure the best decision to secure shareholders' risk appetite. The study shows that the validation of information is often based on trust and relationships. The use of independent risk functions or formal processes is not used to a large extent. The most common way to perform risk oversight is that the whole board is responsible. Risk oversight is vital at all times, and sustaining trust and relationship-based processes at all times could be difficult. The oversight process needs to function no matter if key employees or board members change. Then it would be preferable for entities to utilize more independent formal processes. The research then shows an excellent opportunity for boards to learn and apply methods for ensuring the quality of oversight and not having to rely as much on trust and relationships.

Further, this research argues that these risk governance tools are a way for the board to increase transparency, the common understanding of risk, and the validation of information from management. While there are areas, such as requesting risk assessments in business strategies, where the boards are being highly proactive, the analysis shows that there are points of improvement in the risk oversight methodologies employed by the board. There are essential risk governance structures missing; governance tools ensure that risk assessments are top quality and cover the entire risk exposure, making sure that no red flags are missed. The research finds indications that this results from a lack of knowledge by the board, which results in risk management getting lost in prioritization when investing time and resources in the business. There is still an antiquated perspective of risk management, manifested through the dispersion of knowledge, where some board of directors does not see the value in enterprise risk management. Many boards address the topic of risk oversight with hauteur and pride, not having the procedures in place to validate the high regards they have for their own work. This needs to change. Entities' risk oversight must keep up with the complex environments they are operating in today to provide a much safer investment environment for shareholders. In today's high-risk and complex environment, entities must utilize more independent processes. The board also needs to be critical in their own work, constantly evaluating risk oversight practices and evolving like the risk environment demands.

6.2 Further Research & Limitations

There are many exciting possibilities for future research to explore in such an uncharted topic as risk oversight. This opens up tremendous possibilities for researchers to further explore a topic of high social relevance that is, at this point, opaque. Further charting allows for better risk oversight and a higher degree of board accountability, making for a safer investment environment for shareholders.

Firstly, future research lies in the exploration of the topic from another methodological approach. This thesis decided to use the data source which addresses board members directly. This provided a rather one-sided data set highly relying on the perspective of board members with only a few interviews with experts. Board members' perception of risk oversight is also greatly affected by their knowledge of risk. Therefore, future researchers could benefit from gathering data from other sources such as secretaries or other personnel close to the board, such as management. Moreover, this research was limited to an exclusively Swedish sample, due to regulatory differences between countries. Although the transferability of the results is deemed as high, further examination of the phenomenon in regard to geographical and regulatory differences would provide even more nuance to the topic. In this regard this research could serve as a useful benchmark for work exploring such topics or applying a longitudinal research design.

Future research could apply a different analysis approach to the topic. Looking at the topic from a grounded theory perspective could assist in the definition of a theory or framework for risk oversight. Such an academic framework is something that, to the authors' knowledge, does not exist today, but research instead relies heavily on the frameworks presented by institutions such as COSO.

The extent of the research has been limited due to the short period of time available to spend on the project. The online survey would have benefited from a more extended time period since the snowball effect could have become more prominent and generated more responses. Provided a longer time frame, there would have been an opportunity to gather a more credible data set. The authors mitigate this problem by employing a triangulation method but have taken these limitations into account.

As the topic gets more and more investigated, researchers also have great opportunities to address it more meticulously. This would include having a more in-depth look into specific elements of the oversight process that board members perform. This would go for any of the categorizations made in this thesis: *Risk Governance, Quality of information, Relationship to management, knowledge of board members, Delegation of risk*. Work that exclusively focuses on one of these could provide valuable information on risk oversight practices, and the processes boards can employ to ensure each category is accounted for.

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Appendices

A, Guide for semi-structured interviews

LUND UNIVERSITY

Interview guide

Introduction of research and ourselves

- What is your experience when it comes to board work?
- What are your thoughts on working with risk, in a board setting?
- What do you believe is most important when working with risk?
- What would you say is the most challenging part of managing risks as a board member?
- Have you, as your role as a board member, received any training in risk management?
- Please describe in detail the tasks you, as a board member, do to manage risks?
    - Do the board use any risk tools?
- Do/does the entity/entities usually have any formulated risk philosophy?
    - Tell me about your role, if any, in defining and the entity's risk philosophy
- Do/does the entity/entities usually have any defined risk appetite?
    - Explain how you use this to manage risk?
- How are the different risks that the entity is facing prioritized?
    - Is the process for managing these risks different?
- Tell us about the extent to which the board is engaged in the enterprise risk management performed by management?
- How does management report risks to the board?
- How often do you follow up with management on the different risks?
- Are there any independent risk functions (risk committees, consultants etc.)?
    - How do they work?
- How is the organisation's risk reported to you on the board?
- How do you assess the quality of information received from management?

B, Information letter

Dear board member,

we are writing to you in regards to your expertise and knowledge.

We (Lovisa & Patrik) are studying our final semester at the Accounting and Finance program at Lund University. We hope you would like to participate in a short anonymous survey in our degree project.

Our study aims to map the practical work the board of directors performs in their risk oversight responsibility.

As we know, business is about taking risks, and it is fundamental to be able to create long-term value for shareholders. The concept of risk management has evolved during the last decades due to the complexity of modern life and globalization's interconnectivity. Risk management has moved from silo-based controls to an enterprise-wide approach, Enterprise Risk Management (ERM). ERM is about mitigation of risk and the platform to exploit competitive advantages in increased risk-taking.

Previous studies have shown that an ERM system has a positive effect on firm performance. For a functioning ERM system, the board of directors needs to oversee the risk-taking in the entity, ensuring that management is acting according to the risk profile to secure the shareholders' interests.

Today there is a gap in academia between theory and practice; our purpose is to explore the operational practices the board of directors utilizes to manage their risk oversight responsibilities. Hopefully, this study will provide insights into the work that is done in the boardroom to oversee the company's risk profile.

With the expertise from our supervisor, Associate Professor, Håkan Jakensgård, that is in the frontier of risk management research and your participation, we will be able to provide excellent knowledge for future work in ERM.

If you have any questions at all, do not hesitate to contact us,

Kind Regards

Lovisa Malmborg & Patrik Lundin

C, Survey invitation

Hej,

Våra namn är Lovisa Malmborg och Patrik Lundin. Vi skriver just nu våran masteruppsats i Accounting & Finance på Lunds Universitet och utforskar de praktiska delarna som styrelsen utför i deras arbete att överse företagets risker. För att få en bättre insikt i det arbetet har vi satt ihop en enkät och det hade varit fantastiskt om ni skulle vilja ta er tid att svara på, allt är helt **anonymt** och tar inte mer än 10 minuter - varje svar räknas. Tack på förhand för er tid och bidrag. För mer information se det bifogade informationsbrevet, annars klicka på följande länk för att komma till enkäten: **https://forms.gle/JKh9J2MT9A4ZGjpZ6**

Om möjligt skulle vi verkligen uppskatta vidare spridning av enkäten och om ni skulle vilja vidarebefordra denna till andra styrelsemedlemmar hade vi blivit obeskrivligt glada. Vill ni sedan ha en kopia av den färdiga uppsatsen är vi glada att tillhandahålla den i juni.

Utöver det önskar vi en trevlig dag!
Lovisa & Patrik
eko15lm1@student.lu.se
073-8087759

LUNDS UNIVERSITET

D, Survey

Board Risk Oversight, Master's Thesis

We (Lovisa & Patrik) are studying our final semester at the Accounting and Finance program at Lund University and hope you would like to participate in a short anonymous survey for our degree thesis.

Our study aims to map the practical work the board of directors performs in their risk oversight responsibility. With your participation we will be able to contribute with knowledge for future work in board risk oversight.

Please refer to the board where you have the most knowledge when answering the questionnaire.

Background

Please refer to the board where you have the most knowledge when answering the questionnaire.

What size is the company which you are a part of the board? (Turnover)

- ◯ < 50 Million SEK
- ◯ 50 Million to 100 Million SEK
- ◯ 100 Million to 500 Million SEK
- ◯ 500 Million to 1 Billion SEK
- ◯ > 1 Billion SEK

What industry do the company where you are a board member belong to?

- ◯ Agriculture, Forestry, Fishing
- ◯ Mining
- ◯ Constructing
- ◯ Manufacturing
- ◯ Transportation & Public Utilities
- ◯ Wholesale Trade
- ◯ Retail Trade
- ◯ Finance, Insurance, Real Estate
- ◯ Service
- ◯ Public Administration

Is the company of which you are a board member registred in sweden?

- ◯ Yes
- ◯ No

How many members are you on the board?

- ◯ 3
- ◯ 4
- ◯ 5
- ◯ 6
- ◯ 7
- ◯ 8
- ◯ 9
- ◯ 10
- ◯ 11
- ◯ 12
- ◯ More than 12

How many years of experience do you have as a board member?

- ◯ > 1 Years
- ◯ > 5 Years
- ◯ > 10 Years
- ◯ > 15 Years
- ◯ > 20 Years

Have you, as your role as a board member, received any training in risk oversight?

- ◯ Yes, from the company
- ◯ Yes, from outside of the company
- ◯ No

Organization and Framework

Please refer to the board where you have the most knowledge when answering the questionnaire.

Does the company where you are a board member have a defined risk methodology? (a defined methodology how risk should be identified, the method that should be used, the people who should be involved and what documents are appropriate to use.)

- ◯ Yes
- ◯ No
- ◯ Don't know

To what extent do the company of which you are a board member have an enterprise risk management (ERM) system?

- ◯ Not at all
- ◯ Developing stage
- ◯ Early stage implementation
- ◯ Late stage implementation
- ◯ Fully implemented

Does the company where you are a board member have a board committee in charge of risk oversight?

- ◯ Yes, audit committee
- ◯ Yes, risk committee
- ◯ No, done by the full board
- ◯ Other: _____

Does the company where you are a board member have a designated Chief Risk Officer (CRO)?

- ◯ Yes
- ◯ No
- ◯ Other: _____

Does the company where you are a board member have an internal audit?

- ◯ Yes
- ◯ No
- ◯ Other: _____

Is there a designated board member with the main responsibility for the topic of risk oversight?

- ◯ Yes
- ◯ No
- ◯ Other: _____

Risk Assessments

Please refer to the board where you have the most knowledge when answering the questionnaire.

How does the board ensure that risk management is an integrated part of the business strategy? Please choose the all answers that apply

- [x] Having a Risk policy
- [x] Requiring risk assessments required for capital expenditure requests
- [ ] Participating in risk workshops with management
- [x] The use of SWOT analysis for business planning
- [x] Requiring risk assessments to support business plans
- [x] Use of agreed risk criteria to prioritize sources of risks
- [x] Preparing periodic Risk Profiles
- [ ] Other: _____

Does the board participate in facilitated risk workshops?

- ( ) Yes
- ( ) No

If so, is anonymous voting equipment used?

- ( ) Yes
- ( ) No

Is there a structured process for identifying and monitoring the company's emerging strategic risk exposures?

- ◯ Yes
- ◯ No
- ◯ Don't know
- ◯ Other: _____

Risk reporting and oversight

Please refer to the board where you have the most knowledge when answering the questionnaire.

How many hours would you estimate that the board spends on risk oversight a year?

Your answer _____

On average, how many risks are usually in the Risk Profile? (the company's portfolio of risks)

- ◯ 1 - 10
- ◯ 11 – 20
- ◯ More than 20

How often does the board review Risk Profiles for the organization?

- ◯ Never
- ◯ Quarterly
- ◯ Semi-annually
- ◯ Annually
- ◯ Less often than annually

How much time is devoted, on average, to reviewing the Risk Profile at each occasion?

- ◯ Less than 30 minutes
- ◯ 30 minutes to 1 hour
- ◯ More than 1 hour

Does the company where you are a board member have a risk management process for Black Swan events? (big impact, low probability)

- ◯ Yes
- ◯ No
- ◯ Don't know
- ◯ Other: _____

How often do the board receive information about:

	Quarterly	Semi-annually	Annually	Less often than annually	Never
Management's methodologies used to assess, prioritize and measure risks	○	○	○	○	○
High-level summary of the top risks for the company as a whole	○	○	○	○	○
Emerging risks that warrant board attention	○	○	○	○	○
Summary of significant gaps in capabilities for managing key risks and the status of initiatives to address these gaps	○	○	○	○	○
Risk reports, such as trends in key risk indicators	○	○	○	○	○

Report on effectiveness of responses for mitigating the most significant risks	○	○	○	○	○
Summary of significant changes in the assumptions and inherent risks underlying the strategy and their effect on business	○	○	○	○	○
Scenario analysis evaluating the impact of changes in key external variables impacting the organization	○	○	○	○	○
Scenario analysis evaluating the impact of changes in strategic plans that change the Risk Profile	○	○	○	○	○

The board communicate the significant risks and how they are being managed to the rest of the company.

- ◯ Strongly disagree
- ◯ Disagree
- ◯ Undecided
- ◯ Agree
- ◯ Strongly agree

The board evaluate the validity of the information received from the CRO.

- ◯ Strongly disagree
- ◯ Disagree
- ◯ Undecided
- ◯ Agree
- ◯ Strongly agree
- ◯ Don't have a CRO

The board evaluate the validity of the information received from management.

- ◯ Strongly disagree
- ◯ Disagree
- ◯ Undecided
- ◯ Agree
- ◯ Strongly agree

The board challenges management in their risk assessments. (Testing management's assessment, asking tough questions making sure that the best assessment is delivered.)

- ◯ Strongly disagree
- ◯ Disagree
- ◯ Undecided
- ◯ Agree
- ◯ Strongly agree

Other

Please refer to the board where you have the most knowledge when answering the questionnaire.

How often do the board evaluate their own performance regarding risk oversight? (The processes and activities that the board are doing to secure good risk oversight.)

- ◯ Quarterly
- ◯ Semi-annually
- ◯ Annually
- ◯ Less than once a year
- ◯ Ad hoc, when it is requested
- ◯ Not at all

Does the company where you are a board member have a risk reporting system that enables all personnel to report risks?

- ◯ Yes
- ◯ No

If yes, what kind of risk reporting is it? Please choose all answers that apply

- ☐ Whistleblowing system
- ☐ Report to Internal audit
- ☐ Report to Risk Committee
- ☐ Report to external auditors
- ☐ Report to board
- ☐ Other: _____

As a board member, I get the information I need to perform risk oversight.

- ◯ Strongly disagree
- ◯ Disagree
- ◯ Undecided
- ◯ Agree
- ◯ Strongly agree

Choose two of the following factors that best describe risk management:

- [x] Conversations
- [x] Prioritizing
- [x] Opportunity seeking
- [x] Astute allocation of resources
- [ ] Profitability
- [x] Avoidance of losses

The board takes charge of the development of the company's risk management

- ◯ Strongly disagree
- ◯ Disagree
- ◯ Neutral
- ◯ Agree
- ◯ Strongly agree

What are the obstacles that hinder the board from spending more time and resources on risk oversight?

- [ ] More pressing needs for the organization
- [ ] Don't see the value in pursuing an enterprise risk management process
- [ ] Lack of understanding of enterprise risk management by board members
- [ ] Risk management is view as a compliance-related activity
- [ ] Inability to agree on the entity's risk philosophy
- [ ] Other: _____

I'm satisfied with the work the board is doing in overseeing the risks.

- ( ) Strongly disagree
- ( ) Disagree
- ( ) Undecided
- ( ) Agree
- ( ) Strongly agree