BIG Thoughts™ Research Report

Governance Risk Assessments Vs. Board Evaluations

Move over Board Evaluations, a New Contender is in the Ring

February 2025

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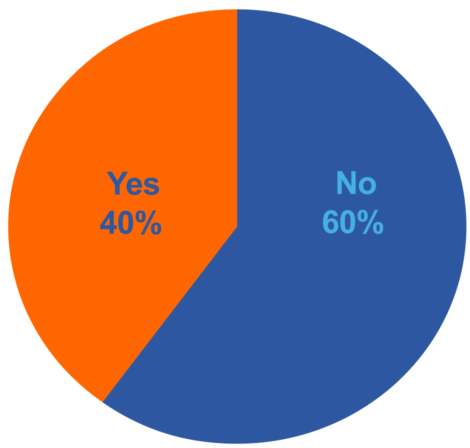
Introduction

Legacy governance structures and tools are falling short as the evolution of governance challenges outpace the capabilities of traditional frameworks. To remain resilient, organizations must move beyond conventional approaches to proactively identify their governance risks.

"If we were to design our governance framework from scratch today, would it look the same as it does now?"

According to the 2024 "Best in Governance Survey: *Shaping the Future of Sustainable Governance*," conducted amongst board and governance professionals Canada-wide, **60% responded "NO."**



Source: Best in Governance Inc., "Shaping the Future of Sustainable Governance Survey" 2024

As boards of directors navigate modern corporate governance and what used to be reasonable agendas and meeting materials, there is now an overwhelming onslaught of complexities. Shifts in regulatory compliance, stakeholder expectations, technological advancements, and the nexus of ESG (Environmental, Social and Governance), means that increasing **risk is inevitable**.

Even the most seasoned boards sometime fail to see the blind spots.

If an organization was established some time ago–such as the early days of the world wide web or even before the Covid pandemic reset, it may have inherited a legacy governance structure that may no longer be as effective as it once was.

If an organization faces the same persistent governance challenges year after year, it may be because their board evaluation fails to uncover some deep-rooted, systemic issues. These evaluations often focus on surface-level effectiveness rather than identifying underlying structural risks, misaligned governance practices, or cultural barriers that perpetuate recurring problems.

So, how does an organization identify their inherent & emerging governance risks beyond traditional methods?

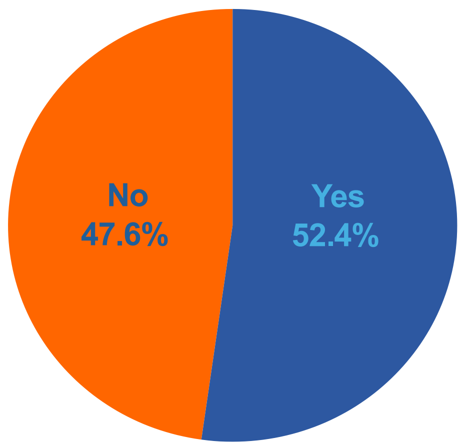
Enter the Governance Risk Assessment (GRA)

A powerful, strategic, data-driven, and proactive tool that is quickly becoming essential for high-performing boards to address legacy governance structures and modern challenges. It empowers organizations to identify enterprise-wide risks, enhance accountability, and align governance practices with long-term strategic objectives, transforming them for resilience against future challenges.

While some organizations undertake board evaluations to identify their risks and enhance their governance, the scope and outcomes differ from a GRA.

As boards assess the resilience of their governance coupled with evolving corporate priorities and stakeholder expectations, it's time for companies to establish a formal approach to identify both inherent and emerging governance risks and integrate them into their Enterprise Risk Management (ERM) Framework.

47% of Survey Participants Do Not Have a Mechanism to Identify Governance Risks



Source: Best in Governance Inc., "Shaping the Future of Sustainable Governance Survey" 2024

What is a GRA?

A governance risk assessment (GRA) is a holistic, comprehensive review of an organization's governance framework, designed to identify, prioritize, and mitigate inherent and emerging governance risks that have the potential to impact board oversight and company value.

The GRA serves to not only improve the board's decision-making but also enables modernization, effectiveness, and the long-term sustainability of a company's enterprise-wide governance. By conducting an in-depth assessment of the organization's existing governance structures against its external business landscape and stakeholder expectations, companies can better align their practices with corporate strategic priorities and address shifts in evolving requirements. This evidence-based, holistic approach helps align the organization's governance strategies with its unique needs and culture, enhancing the board's understanding of risks, trends, and sustainable practices.

> ***We knew we needed to modernize our legacy governance structure, but we just weren't sure what our systemic risks were and how. We didn't want to signal that to the street.***
>
> – Anonymous BIG Client

By focusing on which risks, why they matter, and their connection to strategic goals, it creates a bridge for management and the board to focus on aligning recommendations with priorities. This enables the organization's ability for better oversight and decision- making and adherence to requirements and best practices, while simultaneously assessing efficiency and effectiveness – all delivered via a measurable developmental action plan.

The Scope of a GRA

The breadth and depth of a GRA is comprehensive, and that's precisely why it's so worthwhile.

The scope of what should be included in the assessment is largely dependent on the organization's needs but can run the full gambit of the governance pillar to include categories such as structure, risk and compliance management, sustainability, internal controls, financial reporting processes, board composition and performance, stakeholder needs and digital strategy.

This formulated assessment should incorporate qualitative and quantitative disciplines that include:

Review of Current State

- External analysis of the business landscape.
- Internal analysis of existing governance documentation, policy and process.

Identification and Prioritization of Risks

- Identification of governance risks (gaps and opportunities).
- Risk evaluation and prioritization aligned with internal risk evaluation practices.

Practical Recommendations

- Practical recommendations with control standards and mitigation strategies with measures for tracking year over year improvement.
- Prioritization of recommendations based on strategic priorities and feasibility.

How is a GRA Different from a Board Evaluation?

While the GRA is a means to evaluate the organization's broader governance framework, a board evaluation is narrower in scope and seeks to assess the effectiveness, performance and dynamics of a board of directors, itself.

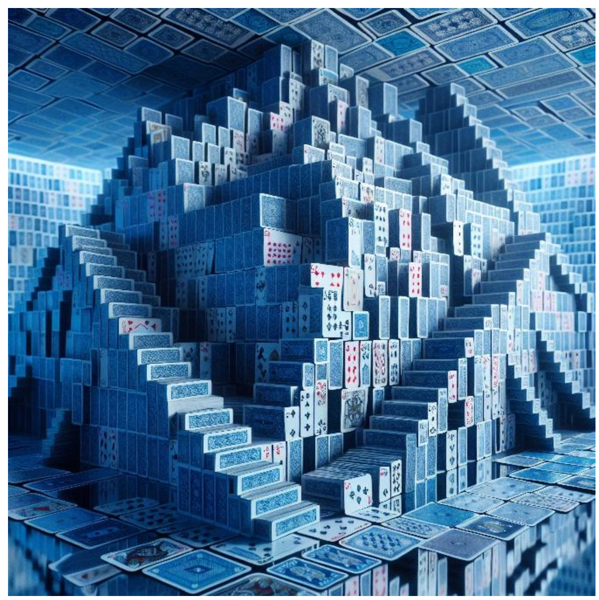
The board evaluation serves to enhance the functioning of a board by assessing both the board, as a whole, and individual directors. The evaluation should determine director performance (contributions and fulfillment of roles and responsibilities), highlight strengths and areas for improvement in the board's operations and composition, and provide benchmarks for year-over-year progress to optimize the board's efficiency and dynamics.

The evaluation is sometimes codified in an organization's governance documentation (e.g., Terms of Reference) or triggered by a material matter, such as changes in leadership, strategic direction, or stakeholder pressures. Although some organizations conduct the evaluation annually, either internally or through an external provider, there are increased stakeholder expectations that organizations undertake an independent external assessment at least once every three years to foster continuous advancement and benefit from the learnings from impartial, external governance experts.

BOARD EVALUATIONS	VS	GOVERNANCE RISK ASSESSMENTS
Assesses board operations, effectiveness, composition, and performance.		Identifies and assesses the governance-related risks across the organization.
Examines board of directors (and individual directors) - structure, decision-making and dynamics.		Examines vulnerabilities in governance structure, controls, compliance, misalignment with strategy.
Key areas: board structure, dynamics, leadership, oversight, decision-making, performance, competencies, culture, and effectiveness.		Key areas: governance structure, strategy, risk, controls, compliance, leadership, culture, financial reporting, digital data, disclosures, stakeholder matters, sustainability.
Methodology: surveys, peer reviews, interviews and self-assessment.		Methodology: internal & external review, benchmarking, risk mapping, mitigation.
Identifies strengths and opportunities to improve board governance.		Identifies strengths and opportunities to improve governance framework.
Conducted annually or every 2-3 years.		Triggered by material changes, legacy governance, regulatory shifts, risk concern, stakeholder matters.
Strengthens board leadership, oversight and decision-making.		Strengthens organizational governance resilience, strategic priorities, risk management and leadership.

A formulated board evaluation is typically undertaken as a series of self, peer, and facilitated assessments, leveraging data collection tools such as digital questionnaires and candid one-on-one discussions. The scope for assessment typically includes board composition (diversity, independence, competencies, skills, experience, etc.), performance contributions, board dynamics, culture and relationships, governance practices (meetings, reporting, contributions, adherence to regulation, etc.), strategic oversight and decision-making, and individual director performance reviews.

While some board evaluations may dig deeper to identify the organization's systemic governance risks, others may have antiquated assessment methods, limited to addressing the composition of the people at the table with biased with heavily weighted self-evaluations. Some board evaluations are also used as more of a job performance review for directors or relationship-dynamic exercise, and the result is the de facto means of trying to assess governance risk that may not address a systemic risk.



If an organization continues to struggle with the same governance challenges year after year, it may be because its board evaluation does not reveal deeply embedded, systemic issues. These assessments often emphasize surface-level performance rather than uncovering fundamental structural risks, misaligned governance frameworks, or cultural factors that sustain ongoing problems.

While improving board composition and dynamics is essential to support sustainable governance, it may not be sufficient as a standalone tool.

A Governance Risk Assessment (GRA) tackles deep-rooted legacy governance issues and emerging risks that can weaken governance over time. Without a GRA, your governance framework may be built on a house of cards—vulnerable to structural weaknesses that go unnoticed. By addressing these foundational challenges, **a GRA strengthens governance resilience, ensuring it can withstand both expected and unforeseen disruptions, no matter how the boardroom evolves.**

Who Conducts a GRA?

To conduct an effective GRA, companies should enlist the help of an external, trusted governance advisor. These firms can go beyond the traditional "tick-the-box" audit compliance exercises. They act as an impartial third party that can objectively evaluate the organization's governance, offering insights based on broader industry practices, and understand your current state of business against internal governance practices and stakeholder priorities to ultimately identify risks, and recommend fit-for-purpose solutions.

The GRA can also be undertaken internally by the organization's board, governance or risk committee, and supported by management (e.g., internal audit, risk or the corporate secretary).

The right governance professional can be a powerful force for change, bringing modern ideas and practices to ensure sustainable governance and long-term value creation.

By empowering a champion to lead a disciplined GRA process, it ensures that there are opportunities for fulsome discussion, integration of the existing risk management framework and alignment with the strategic plan.

For our research, we consulted the expertise of Mike Levy, CEO of Cherry Hill Advisory and former Chair of the Institute of Internal Auditors Association, a globally recognized authority in risk and audit. His insights were pivotal in examining the critical role of Governance Risk Assessments (GRAs) and how boards should strategically integrate them into their governance frameworks.

> ***While board evaluations focus on assessing the people and dynamics within the boardroom, internal audit can play a crucial role in supporting GRAs by spotlighting structural vulnerabilities and aligning governance practices with strategic priorities. The ability to assess systemic risks and recommend practical improvements complements the comprehensive scope of a GRA, ensuring long-term organizational resilience.***
>
> – Mike Levy, CEO of Cherry Hill Advisory

When Should an Organization Conduct a GRA?

To start the conversation, **modern boards can begin by defining their future state of governance** in alignment with their corporate strategic priorities and risk appetite, keeping in mind a holistic view of their governance structure to redefine and clarify the underlying needs of the board and their ability for decision-making and oversight. These mindful and deliberate conversations consider the inherent as well as emerging risks on the horizon and examine how they might impact the transition from traditional governance to sustainable governance.

> ***As both organizations I represent [as a Director] have existed more than 25 years, it is normal to know that the journey requires change.***
>
> *– 2024 Survey Respondent*

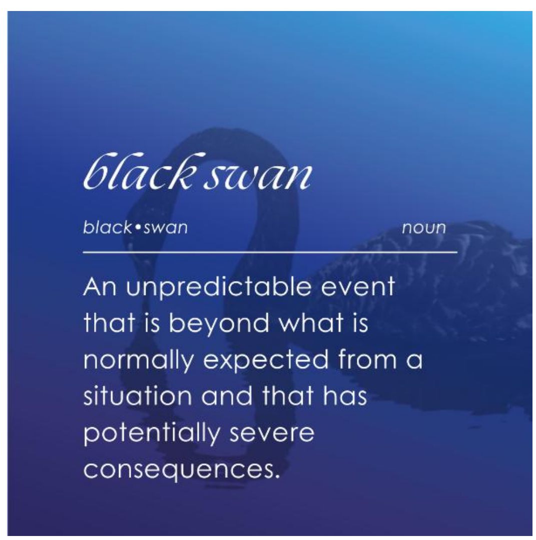
GRAs are becoming a best practice that organizations are undertaking periodically, such as baking them into their board mandate or setting a specified period – once every five years.

A GRA may be triggered by a material matter, such as changes in leadership or strategic direction. It may also be triggered by the need to signal to rightsholders and stakeholders the organization's commitment to governance excellence by modernizing antiquated governance or address arising stakeholder priorities.

Board leaders we interviewed described the challenges in anticipating future events due to the rapidly changing risk landscape.

To help our boards navigate uncertainty, we explore challenges and emerging threats through what we call the **Risk Zoo**—a framework that categorizes a series of risk events that boards must anticipate, manage, and adapt to.

Although **black swan** events (unpredictable occurrences beyond what is normally expected) were once rare, they are now seeping into boardrooms more frequently. While these events can be devastating, they also have the potential to open up new ways of functioning, paving the way for dated practices to be replaced with innovative methods, rules, technologies, and social norms. An example is the Covid-19 pandemic, which triggered massive transformations.



White elephants—assets that are not performing, costly to upkeep or elephant-in-the-room issues—are also contributing to the pace of change. These are obvious unaddressed governance weaknesses or assets are expensive to maintain, unprofitable, and impossible to sell, which diminishes the realizable value beyond the cost of the investment.

Meanwhile, **grey rhinos**—big issues you know are coming but don't know when—are often neglected on the board agenda. These events are not random, but occur after a series of warnings and visible evidence. A notable example? Climate change impacts such as wildfires.

The **black jellyfish** is the newest animal event to be added to the risk zoo; characterized as an event that initially seems familiar or normal, but mutates / escalates rapidly or instantaneously. An example are the jellyfish blooms that have caused dramatic effects on their environment, such as shutdowns to coastal power plants. One jellyfish may seem harmless, but blooms cause chaos–demonstrating how small things can have widespread impact. We may think we understand the risks, but they can turn out to be much more complex and uncertain than initially planned for.

Amidst so much uncertainty, boards are challenged to keep up. As directors lean in on topics, they need to make sure that they have the mechanisms to identify their governance risks, beyond just the traditional methods, so they do not succumb to unwelcome transitory situations.

As organizations begin to mindfully consider how they can position themselves to be resilient amidst future risks and impacts, defining precisely what risks they can expect will be key.

Why Should Companies Conduct a GRA?

As governance landscapes become more complex and dynamic, organizations need to stay ahead of emerging risks and evolving standards. Conducting a GRA is an essential step to ensure your governance framework is not only resilient but also adaptable to future challenges.

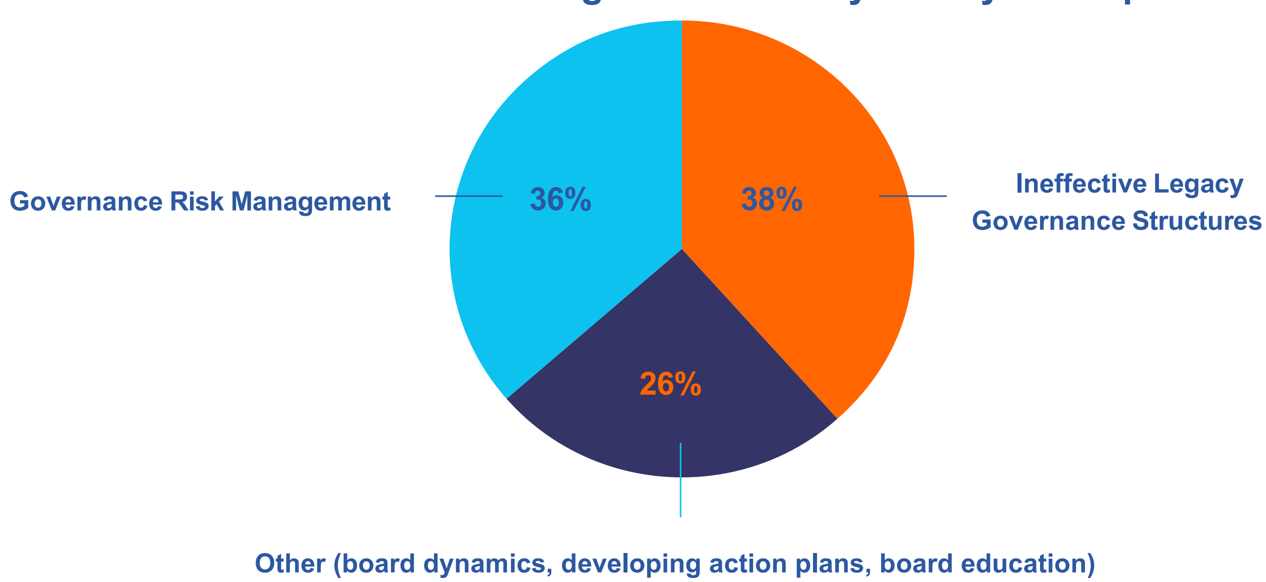
Our research revealed that the top two governance challenges identified by boards are:

1) **ineffective legacy governance structures**
2) **governance risk management.**

Our research also found that 44% of respondents seek external governance support to strengthen their board performance and strategic planning. While this indicates that organizations may be addressing governance risks indirectly, hidden systemic risks could still go unrecognized. Furthermore, these external resources may not always be the most effective tools for identifying such risks.

A GRA can play a vital role in providing a holistic, systematic approach to identifying, prioritizing, and addressing governance risks at all levels—helping organizations align their board performance and strategic planning with effective risk management. In an increasingly complex governance landscape, a GRA ensures that your governance framework is not only reactive but also proactive, resilient, and aligned with your organization's broader strategic goals.

Governance Challenges Identified by Survey Participants



Source: Best in Governance Inc., “Shaping the Future of Sustainable Governance Survey” 2024

Reasons a GRA is Critical for your Board

1

Navigate Complex Regulatory Landscapes

As global regulations grow increasingly complex and diverse, ensuring compliance is critical. Safeguard your organization against potential penalties and legal repercussions by evaluating your governance practices to ensure alignment.

2

Deepen Rights and Stakeholders Engagement

A GRA can signal to rightsholders and stakeholders the organization's commitment to responsible governance--fostering trust, confidence, enhancing reputation, and providing a clear roadmap for action. This strengthens engagement and builds deeper connections with employees, customers, and the communities you impact. Increasingly, investors and regulators are also looking for communication and accountability. Solidify investor confidence by demonstrating a commitment to ethical and transparent practices.

3

Align with Global Governance Standards

Ensure that your company is keeping pace with industry norms. GRAs can help confirm that your governance practices are in line with appropriate standards and best practices, so you don't fall behind and can drive positive change.

4

Drive Board Excellence: Empower, Optimize, Adapt

Effective boards thrive with a clear roadmap, enabling them to navigate and adapt to the complexities of everything that lands on the boardroom table. By scrutinizing structures and practices, boards are better equipped to lead, streamline and allocate resources effectively, adapt quickly, and foster innovation.

5

Facilitate Innovation & Transformation

A GRA is an ideal opportunity to modernize your processes such as integrating digital transformation (ethics, privacy, AI, cyber), human capital, or sustainability considerations into your framework.

6

Promote a Culture of Accountability

Make sure your company isn't overlooking hidden risks within its governance structures and processes. Take the opportunity to reinforce accountability in the organization's leadership to support leadership.

7

Builds a Roadmap for Long-term Value Creation

GRAs provide a roadmap that empowers organizations to navigate the future. By focusing on strategies that foster long-term value creation over short-term gains, the organization becomes better equipped.

Getting Started

Undertaking a Governance Risk Assessment or a Board Evaluation is not an either/or decision. By engaging in thoughtful discussions to identify the most suitable governance tool for your organization's current needs, you can better prepare for the future and establish long-term, sustainable governance practices.

At BIG, we've found that organizations led by leaders who consistently find ways to validate their insights and understand their governance risks, are better equipped to navigate evolving demands. To start the conversation, boards can:

Clarify Objectives – Define key governance-related focus areas to assess.
Engage Leadership & Key Rightsholders and Stakeholders – Ensure board, executive and key rightsholder and stakeholder buy-in for meaningful assessment and perspectives.
Assess – Identify gaps, inefficiencies, inherent and emerging governance risks and prioritize them to narrow focus.
Develop an Action Plan – Align actions with long-term strategic goals.
Commit to Continuous Improvement – Regularly reassess and adapt as needed.

By proactively addressing governance risks, organizations can build a stronger, more resilient governance framework that withstands both foreseeable challenges and unexpected disruptions.

How BIG Can Support

Navigating modern governance can be complex, but it doesn't have to be. Starting with a thoughtful conversation about your governance, our BIG experts can help you identify whether the Governance Risk Assessment or Modern Board Evaluation™ is the best custom solution for your current state.

Not yet ready for a GRA or board evaluation, but you still want to show your commitment to governance or enhance your board's knowledge? Our tailored education workshops and Governance Excellence Blueprints™ offer a value-driven way to begin taking action.

Learn more about BIG's sustainable governance solutions or contact a BIG Expert today.

Thanks for reading!

With gratitude,

The BIG Team