

Can your Board confidently oversee today's operational risks?

Across many industries, the drivers of operational risk are evolving faster than the governance models designed to oversee them.

Operational risk profiles are shaped by multiple dynamic factors and decisions:

- **'Internal'**, such as organisational restructuring, M&A, major capital programmes, outsourcing of critical processes, workforce demographics, new technologies, asset integrity and supply chain dependencies.
- **'External'**, including regulatory changes, extreme weather events, energy transition, geopolitical conflicts, supply chain disruptions and cyber security.

The range of opportunities and risks and the **pace of change place the Board oversight role under pressure**. Likewise, the potential magnitude of associated business impacts calls for a more proactive approach to risk management.

Organisations, have plenty of systems, procedures, audits and reports.

However, we still see cases where **Boards are taken by surprise** when severe losses occur (e.g. significant business interruption, fatalities, etc.) – often characterised by a reactive **"this must never happen again"** type response.

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Do you see these warning signs?

Dig deeper to uncover your real risk exposure

Warning signs of increasing risk exposure are often buried in the data dispersed across the company.



TRIFR and LTIFR decreasing, but Serious Injuries and Fatalities (SIFs) persist



High levels of unplanned shutdowns or asset integrity deterioration



Higher levels of outsourcing of high-risk work or critical services



Intensifying losses due to extreme weather events such as flooding



Moves toward highly decentralised models, with high erosion of 2nd line capabilities



Increasing insurance claims or deductibles or more exclusions



Introduction of new technologies in your asset portfolio
(e.g. hydrogen, ammonia, Li-ion batteries, etc.)



Rapid top-down cost reductions programmes

This raises the following questions:

How can Boards and executive teams maintain proactive and effective oversight over operational risk in complex and dynamic operating environments? And why does this matter?

The dss+ former article "**Stop Living the Lie – A Safety Wake-Up Call for the Boardroom**" explored the challenge organisations face around a false sense of security around safety.

In this article we delve into whether C-Suite and BoD are actually equipped with the right insights that can enable better decisions, for example regarding directing capital, resources and initiatives on what matter most.

In fact, we have found two recurring and interrelated challenges that undermine "proactive and effective oversight" at BoD level:

1. **Insufficient risk awareness at Board level** – commonly based on an incomplete picture of the prevailing risks and their materiality in terms of operational, financial and reputational impacts
2. **Lack of informed insights** – there is a tendency for performance/risk reports to be data heavy and insights light. As such, there is a failure to fully understand the 'so what?'; 'what does this mean in practice' and 'what proactive/cost-effective risk management options are available to us'.

Stress-test your Board Operational Risk awareness and discussion with few sample questions:



Can you pinpoint with confidence the assets in your portfolio with the greatest exposure to catastrophic losses and business interruption? And why?



Do you know if allocated capital has indeed mitigated risk and enhanced resilience against the extreme weather events exposure in your value chain?



If you outsource significant high-risk work to contractors, are you confident that your safety efforts are focused on preventing the most significant SIF events?

WHAT'S AT RISK - EXAMPLES

■ MINING

Extreme weather events

Mining operations are increasingly vulnerable to extreme weather events. Severe rainfall, flooding and cyclones can damage infrastructure, disrupt operations and interrupt supply chains. Research by the University of Melbourne estimates that excessive rainfall has cost Australian copper mines approximately AU\$3 billion over the past decade, illustrating the significant operational and financial consequences of climate-related disruptions.¹

■ FOOD MANUFACTURING

Food contamination & recall

Food contamination remains one of the most significant risks in food manufacturing. Major contamination events can trigger large-scale product recalls, disrupt operations and result in significant financial and reputational losses. While the average direct cost of a recall is estimated at around US\$10 million, total losses can escalate rapidly once business interruption and indirect costs are considered.²

■ STEEL MANUFACTURING

Major blast furnace incidents

Blast Furnace is among the higher risk assets in steel manufacturing. Major explosions occurred in blast furnaces have resulted in severe people and financial losses, ranging up to \$1 billion or more for major accidents in medium/high capacity plants with several months of business interruption. The business interruption loss often far exceeds the asset damage.

1. University of Melbourne, Too hot to mine: How climate change is disrupting mineral extraction for cleaner energy, 25 February 2026.

2. Grocery Manufacturers Association (GMA) and Food Marketing Institute (FMI), Capturing Recall Costs: Measuring and Recovering the Losses, 2011.

Boards need to be better equipped to fully understand changing risk exposures across the portfolio and challenge the adequacy of capital, resources and programmes.

In the face of such challenges, good practice in terms of effective Board oversight draws on:

- **Deep-dive reviews of operational risk exposure** across the asset portfolio and supply chain and its broader impact on operational and business performance, taking into consideration the dynamic internal and external factors.
- **A proactive mindset** in which the Board maintains a 'chronic sense of unease' and provide ongoing challenge to the status quo, drawing on cross-sector good practice and operational risk experience.
- **AI-based data analytics** that enable the analysis and synthesis of a wide range of data and KPIs and provide concise insights that drive risk-informed decisions with an emphasis on foresight rather than hindsight.
- **Assurance processes** that help uncover material risk exposures beyond gaps in systems and processes.

This raises three questions:



As a 'C' suite/Board of Directors where are you currently in terms of proactive oversight and risk management?



Do you have sufficient assurance that the key operational risks are currently being recognised and effectively managed?



Can you confidently direct capital and resources to address your risk exposure and enhance resilience?

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Protect. Transform. Sustain.

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Are we prepared to prevent and minimise major supply chain disruptions?

A current example of operational risks that are the source of concern at Board level relates to major supply chain disruptions and the preparedness and resilience of companies in terms of business continuity. In addition to major geopolitical instability impacting international supply chains, examples of major disruptions in the recent past include:

- **Cyber-based ransomware attacks** e.g. the Colonial pipeline in US that carried ~ 45% of fuel used on East Coast. The pipeline was shut down causing fuel shortages in several states impacting airlines and transportation.
- **Global Semiconductor shortage** - major impact on automotive production (causing factory closures and delivery delays) and consumer electronics shortages.

In our experience, business continuity-related events and their effects propagating along interconnected supply chains are often not fully appreciated and combined with overconfidence in the organisation's ability to respond quickly, efficiently and effectively.

This impedes the ability to recover to 'business as usual' following a major disruption across multiple supply chains, particularly where international competitors are fighting to secure scarce raw materials.

If you would be interested in obtaining an independent perspective, please contact us.

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