REAL BOARD™ ADVISOR

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Risk...It's Not Just a Game!

IN THIS ISSUE:

"The Governance Coach™ virtual Introduction to Policy Governance Course® has been immensely helpful. As many institutions explore virtual options for delivering courses, The Governance Coach team have done an exemplary job in delivering this course. The complement of video tutorials, case studies and quizzes were fulsome and excellently put together. However the best part of this program is the opportunity to engage with the consultant, review the course materials, ask questions and engage in very meaningful and enlightening discussions. Thank you to The Governance Coach team for their hard work here!"

Jon Macpherson

Manager of Governance & Policy, Calgary West Central Primary Care Network

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Volume 28 No.1

RICHARD STRINGHAM
PARTNER

ROSE MERCIER
PARTNER

Happy New Year. We are pleased to introduce this edition as the new partner owners of The Governance Coach™.

This is not the first time the theme of the REALBoard™ Advisor is risk. In June 2016, the theme was Risk Governance-Risk Management, focusing on the board's role in governance and the board-CEO interface in risk management. Throughout the past 32 issues over twenty some years, there are also individual articles that address risk.

Why, you might ask do we write so frequently about risk? Protecting the organization from harm is broadly understood to be one of the board's fundamental jobs. We believe that an essential outcome of effective governance is the proactive management of risk. In January 2023, we focus on the importance of the board being proactive about understanding the risks the organization may face but also intentionally address how the board's own governing processes can create risk for the organization.

We hope you appreciate the continuing attention and fresh takes on this important topic. Speaking of continuity, we want to reassure readers and clients of our commitment to the legacy of excellence established by our founder, Jannice Moore, reflected in this publication and all other services and resources offered by The Governance Coach™.

Richard Stringham & Rose Mercier

Editor's Note

January is a time when we commit to advance, better, boost, correct, develop, enhance, help, increase, lift, progress, promote, raise, recover, reform, revamp, revise, rise, upgrade, ameliorate, and amend… Merriam-Webster's dictionary synonyms for improvement.

Why is improvement so important? Continuous improvement gives organizations a framework for reaching the next level of excellence. An organization that practices continuous improvement is never satisfied with their current accomplishments. There is always something to be changed and improved upon.

Let me introduce our newest improvement to you. Check out our 3rd edition of REALBoard™ Tool Kit 1: Meaningful Monitoring. We've given you some added-value to our tips and tools by giving you video access to our consultants just by scanning QR codes.

Check out our new and continuously improving website at www.governancecoach.com. There you'll find our improved resources may enhance your improvements in board governance.

Marian

Marian Hamilton
Editor

Governing Risk: The Role of Context Awareness

JANNICE MOORE - FOUNDER

Just what is the job of a board? The word governance comes from the Latin *gubernare*, "to steer or pilot" as in a ship, which in turn originates in the ancient Greek *kubernaein*. In ancient Greece, the *kubernetes* was the pilot of a ship. The pilot was accountable for setting the ship in a direction that ensured it would arrive at the desired destination, without running aground on rocks or encountering other dangers. In other words, he was accountable for ***direction*** and ***protection***. At the most basic level, this is still the job of a board: be accountable to those on whose behalf it governs to ensure direction for appropriate results, and protection from danger.

The focus of this article is the board's responsibility to ensure that protection – in different words, to ensure that risk is appropriately managed. It's not the board's job to manage the risk, but it is the board's job to **govern** the management of risk.

Consider in your mind's eye a three-legged stool: one leg is a principles-based system of governance; the second leg is a systematic set of empowering policies, and the third leg is the board's keen awareness of context. These three legs together might be considered as levers that enable the board to effectively fulfill its responsibilities. In keeping with the theme of this publication, this article will focus on the latter two legs which are necessary for the board's responsibility to protect the organization.

A comprehensive set of empowering policies is the mechanism a board can use to protect the organization. In the Policy Governance® system there are several categories of policies. The category usually called Executive Limitations includes a focus on operational risk – situations or conditions that would be imprudent, as well as unethical. In these policies, the board sets clear boundaries around the CEO's latitude to determine the most appropriate means of achieving the organization's purpose. As part of the overall principles-based system of governance, the board regularly and rigorously monitors compliance with these policies, expecting metrics that provide evidence of compliance.

However, unless the content of those policies demonstrates wisdom, they won't achieve the desired protective effect. To develop wise policies and to exercise strategic foresight the board must have an **awareness of the context in which the organization operates**. In addition to knowing about current risks, the board needs to consider risks that might develop in the longer term. What are the risk implications of current and future technological changes and changing social mores, to name just two areas? Of course, the challenge for any board is that the future can't be accurately predicted – no one has a crystal ball. Many boards use some version of environmental scanning, that is, tracking trends in the environment in which the organization operates. This is commonly done administratively, and usually shared with the board.

However, regularly scanning to identify "weak signals" before they become trends can help a board exercise strategic foresight. Information from the CEO is certainly helpful in this area, but boards should also be gathering information from a variety of other sources, the wider the better. By the time an issue hits the regular media, it's no longer a weak signal; it's a trend. Scanning sources such as newsletters and social media can identify potential issues before they become trends. One of the things I've noticed is the tendency of many boards to focus environmental scanning only on what is happening in their own industry segment. Broadening that scope is one way to avoid being blind-sided by unexpected risks.

In summary, use the board's Executive Limitations policies, rigorously monitored, to ensure there is robust risk management at the operational level. Ensure the policies themselves are adequate by building mechanisms to maintain ongoing context awareness into regular board agendas as part of the background necessary for robust development and review of your policies.

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THE RISK OF BEING BLINDSIDED BY THE FUTURE

ROSE MERCIER - PARTNER

Your board worked diligently and thoughtfully over several months to develop strategic direction for the organization. Now that you have specified the outcomes to be achieved by the organization, surely, it's good enough at this point to delegate their achievement to the CEO and monitor progress. It might be good enough if the context in which your organization exists wasn't constantly changing.

Your board can't predict the future but if after crafting your Ends policies, you don't immediately start looking ahead, you risk being blindsided by future circumstances or risks you didn't anticipate.

In an HBR Leadership newsletter,[1] Eric McNulty identified a variety of causes for blind spots. One possible source is that the clarity of our expectations can lead us to interpret circumstances and data we encounter so that it reinforces the direction we have chosen. If you are confident that your current Ends policies and the impact they seek to produce are precisely what the organization should be delivering over the long term, your board may be tempted to massage reality to fit with its policies. The board may potentially be steering your organization to a point of no return. If you think that can't possibly happen to your organization, a list of organizations I recently heard in a podcast about the importance of rethinking[2] - Blackberry, Kodak, Blockbuster, Sears… might make you think twice.

What's the risk to a board that isn't continuously looking forward? The day may come when the organization is delivering benefits that are no longer relevant to the beneficiaries you seek to serve. Undetected risks may threaten its viability, and board leadership may not be fit for purpose. Or more simply, it may cease to exist.

If that possibility doesn't lead your board to realize that there is a very real risk in not developing its capacity for strategic foresight, it seems reasonable to assume that at some point in the future, your board will be blindsided by a future it didn't see as a possibility.

Preparing to Look Ahead

A capacity for strategic foresight requires developing futuring skills. It also requires building a board environment that engages in authentic work – a board that is willing to explore possible futures, stay curious and not focus on finding the "right" answer.

Building that environment may take time. Your board needs to recognize the value of going beyond what it already knows or data that is readily available. Board leadership needs a sufficient helping of humility to acknowledge it needs to learn about what it might not yet know. It is important for the board to not fall into a way of thinking that Nobel prize winner Daniel Kahneman calls "What You See is All There Is" (WYSIATI).[3]

You want your board to be enthusiastic about the possibilities for growth and evolution that a changing context brings. It needs to be comfortable that it is governing in a constantly changing world. It needs to embrace learning and develop new skills. It needs to explore multiple possible futures and be respectful and trusting enough to know there will be scenarios that are less promising than they might have seen.

First Steps

Develop an annual agenda that includes future-oriented learning on a regular basis. It might be developing skills in creating scenarios.

Learn from futurists by scheduling presentations, reading, and reflecting on articles or chapters, or viewing videos and exploring implications of the ideas presented.

Invite someone to facilitate the board in developing alternative scenarios using dimensions that merit further learning.

Record your discussions and insights

and keep them available to review when it comes time to review your strategic directions.

Final Thought

Boards who want to avoid being blindsided by the future would do well to pay attention to futurist, April Rinne's words:

"The objective is not to predict the future (which is a futile quest), but rather to be ready for many different possible futures that could unfold." [4]

[1]McNulty, Eric. "*To see the future more clearly, find your blind spots*" LEADERSHIP. Harvard Business School. January 7, 2021
[2]https://fs.blog/knowledge-project-podcast-transcripts/adam-grant-112/
[3]https://www.strategy-business.com/article/03409
[4]Rinne, Alice. "*A Futurist's Guide to Preparing Your Company for Change*" Harvard Business Review. Organizational Change. September 22, 2021

"If you think that can't possibly happen to your organization, Blackberry, Kodak, Blockbuster, Sears, might make you think twice."

Board Actions Causing Risk: Lessons Learned by School Boards Through the Pandemic

SUSAN MEEK - CONSULTANT

Why do individuals join boards? Typically, it is because they believe they have the passion, skills, knowledge, and drive to help the organization shape a meaningful future. They have a cause – they want to make a difference in the world.

Unfortunately, all too often actions – or inactions – taken by the board can cause risk to the organization, taking the organization in the wrong direction and risking the assets of the organization. The challenge of governing responsibly was greatly exposed and exacerbated during the multi-year global pandemic. Taking time to assess a board's governance successes and shortfalls during this time will help the board set a course for stronger performance in the future and during times of crises.

The Pandemic Crises — Health, Operational, Economic, and Inter-Agency Cooperation

Having worked with many school boards throughout the global pandemic, I witnessed firsthand the daily struggles impacting school districts. The health, operational, and economic crises that began in early 2020 created an uncertain and evolving environment challenging school boards, superintendents, and administrators. Communities were fearful for their families and livelihoods. School personnel became front-line essential workers. The priority of addressing mental health and social-emotional wellbeing of students and school personnel became a top priority.

In addition to the health crisis, school leaders were faced with many new operational challenges — how to operate schools remotely; how to offer on-line learning options in addition to in-person schooling; how to fulfill health department requirements for in-person learning; and how to accomplish these items with ever changing timelines and deadlines in a very high-stakes environment. The economic crisis underway compounded the challenges as school boards navigated economic insecurity as state-level budget cuts were taking place simultaneously.

Finally, coordination between school districts and their local departments of public health, state agencies for public health, state agencies for education, and governors' offices/task forces became essential for schools to safely open, stay open, and address the ongoing challenges of overseeing public schools at a time when incomplete, conflicting, and evolving information regarding the pandemic response challenged an already complex risk management role inherent to school boards.

Common Pitfalls Exposed During the Pandemic

Role Confusion

If role clarity between the board and its superintendent didn't exist pre-pandemic, governance teams struggled immensely in this area. The uncertain and constantly evolving environment strained governance teams. Clarity between the board's roles and responsibilities and the superintendent's is always a critical training need for new school board members. The pandemic amplified the critical nature of role clarity in a way school boards have not experienced in recent history.

Those districts using Policy Governance® were at an advantage as this framework provided an established process to ensure greater clarity on which responsibilities belonged to the board and which responsibilities belonged to management. For those responsibilities delegated to management, the Superintendent was able to efficiently make decisions in constantly changing circumstances. Yet, the board's delegation process ensured that Superintendent's decisions were both prudent and ethical. Instead of spending precious time discussing roles and responsibilities, they were able to invest that time into navigating the crises underway and there were a great many to navigate.

Firefighting

School boards found themselves spending countless hours during public meetings with presentations from public health officials who explained contact tracing, quarantine requirements, masking requirements, and other mitigation efforts to boards and the public. They wrestled with budgetary decisions regarding purchases of new buses, new outdoor tents and meeting areas to comply with social distancing requirements, sanitation stations, HVAC, air filtration, and personal protection equipment to support safety needs. Additional personnel, such as nurses and support staff were needed to help with contact tracing requirements and communications. Many districts set up website dashboards for transparency purposes and online schools. Teachers needed training to deliver education in unprecedented ways.

Fighting fires was a daily, if not hourly, reality for schools. But what exactly should the board's role be during the crisis?

Board directors have legal and fiduciary duties. The pandemic amplified the need to fulfill those duties as board members were entrusted with the organization's mission during the most complex and challenging time in recent history. Fulfilling board members' duties of care, oversight, and loyalty were essential to mitigate risks. With heightened public scrutiny, boards' actions and inactions were under a microscope. Boards less successful in fulfilling their duties found themselves with legal challenges related to conflicts of interest, violations of open meeting laws, and executive session legal requirements not being followed.

While all boards operated in environments where firefighting was a necessity, some school boards — with established policies that reflected the local communities' values and designed to protect the organization — had a road map. That map provided a comprehensive approach to address and minimize risk in all areas of its operations. Superintendents in those districts with executive limitation policies were already empowered to make operational decisions and had clarity on risk levels that would be acceptable. It was a stronger place to be when operating in uncharted territory. In addition, school board members had their own governance process policies providing clarity on how they should govern. Following those policies helped to mitigate additional risk.

Frayed Connections to Citizens

School board meetings catapulted to national news. The controversies over the pandemic-related health mitigation factors fueled debates and divided communities. School boards were truly on the front lines with navigating political and societal divisions. In addition to the pandemic-related issues, school boards were navigating a social justice movement that ignited and caught the attention of the country resulting in Justice, Equity, Diversity, and Inclusivity (JEDI) policies, procedures, and conversations on best practices for schools.

At a time when school boards should be leaning into their connections with their communities, many people were fearful for their health and were either unable to engage in in-person interactions or too busy fighting their own fires during the global pandemic. Citizens, who provide school boards with their legitimate authority to govern on their behalf, became less connected to their board members and more susceptible to believing national news stories as opposed to truly understanding the reality of their own school district. Boards unable to maintain this critical connection to their citizens struggled with a loss of trust. When citizens lose trust, the risk to the organization is significant and can result in loss of support in funding measures and future instability of the organization.

Districts that were able to maintain an authentic connection to their community were often those that already had an established and ongoing connection plan that regularly allowed for board/citizen engagement. Under Policy Governance, being accountable to those on whose behalf you govern is a key role of the board. Boards with this intentional effort to connect with their citizens were at a significant advantage during this tumultuous time.

Reflecting on Lessons Learned

Schools are at the heart of our local communities and play a pivotal role in building a meaningful future for our students and our country. School board members have the honor and privilege to lead at a critical moment in history. Now is the time to reflect on the past several years and take action to create stronger governance systems. The lessons learned throughout the pandemic will help school boards address risk more effectively as they emerge from this unprecedented time. Truly responsible boards want to produce the best possible results for their students and it's time to commit to the work necessary to make that happen.

CASE STUDY: CEO INTERPRETATIONS AND UNFORESEEN RISKS

RICHARD STRINGHAM - PARTNER

How can a CEO respond to a threat which was not on her/his or the board's radar? The following is an account of how one CEO learned to apply his authority and accountability when the unforeseen struck.

Ward (not his real name) was the new CEO for a non-profit retreat facility. The facility hosts groups holding educational and team building sessions for youth and for adults.

When the following conversations[1] took place, Ward's board had recently adopted Policy Governance®. It had developed its policies consistent with the Policy Governance principles only a few months earlier. Ward was not only new as the organization's CEO, he was new to the role of CEO. As if that wasn't enough stress, the COVID pandemic had recently arrived.

Ward: "COVID has me worried. We've already seen bookings cancelled and spring and summer are our biggest seasons with schools and youth groups using the facility. I think I need to contact the board Chair to call a board meeting."

RS: "What would be the purpose of the board meeting?"

Ward: "The board needs to decide whether or not we should cancel bookings for those groups that haven't yet canceled. Or should we continue with some restrictions such as limiting the numbers in each cabin?"

RS:: "Let's start with what your board has already said in its policies. Your board has a policy that states you will not 'Operate without appropriate protections against hazards or conditions that might threaten the health, safety or well-being of clients.'

"Another one states that you will 'not cause or allow working conditions for staff or volunteers that are unfair, disrespectful, abusive, unsafe, disorganized, or unclear.' I think that 'unsafe' would apply here."

Ward: "'Unsafe' isn't very specific. And what are 'appropriate protections?'"

RS: "This is where *any reasonable interpretation* comes in. In its Board-Management Delegation policies, the board has committed to accepting any reasonable interpretation of the Executive Limitations policies."

Ward: "But the thought of a pandemic never even crossed their minds when they created those policies! Besides which, those policies are so broad. There can be a lot of different interpretations. Which one do I use?"

RS: "It's your choice. As long as it is a reasonable interpretation, you have the authority to choose."

"Getting back to your original thought, the Chair may very well decide to call a board meeting. Whether or not she does so, you still have to comply with reasonable interpretations of the existing board policies."

As we wrapped up the conversation, I offered additional support if and when needed.

A few days later, Ward took me up on the offer.

Ward: "I've been in touch with each of the board members. They are split on whether to proceed to keep the operation open or to shut down until this blows over. I don't know what to do."

(In hindsight, the notion of the pandemic blowing over may seem laughable. In the early days of the pandemic, it seemed feasible to many laypersons.)

RS: "Why were you checking with board members?"

Ward: "They have ultimate responsibility and this involves a high-level of risk. So, I thought I could base my policy interpretations on their responses."

RS: "I don't recall any of the board members being health professionals, let alone epidemiologists."

Ward: "They aren't; but neither am I!"

RS: "Being board members doesn't mean that they are all-knowing. While I agree that the board is ultimately accountable for how you interpret this policy and that this does involve substantial risk, that just gives more reason to ensure that you can justify your interpretations. To be reasonable, an interpretation must be justifiable."

Ward: "But how do I that?"

RS: "I'd suggest that you find out what the experts advise. You could check with the public health authority. Follow their advice and then cite their expertise as rationale for why your interpretation is reasonable."

Ward: "But it seems that their advice changes almost daily! How can I have an interpretation that was okay last week, but not this week?"

RS: "You're right. Their advice changes as they learn more about the virus, how it spreads, and how best to protect people. An interpretation that is reasonable today, might not be reasonable tomorrow."

"Which is why *any* reasonable interpretation not only allows you to change your interpretation at any time without asking the board's permission, it also requires you to change your interpretation if needed. You aren't stuck with an interpretation even if the board has decided that it is reasonable."

Not only did the advice from the public health authority change, but soon after, lock-downs and other restrictive measures were put in place by government. Ward's dilemma switched from whether to accommodate groups wanting to use the facility to how to avoid financial jeopardy after revenues had fallen off a cliff, which is a subject for another day.

Key Takeaways

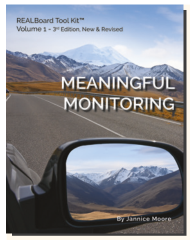
a) If a board has created its policies properly using the Policy Governance® principle of Policy Sizes, it will address unforeseen risks even if doing so is at a broad level.

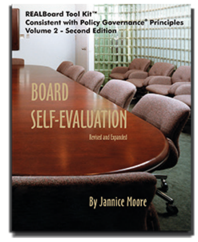
b) The application of a reasonable interpretation of the board's policies by the CEO requires that the interpretation is justifiable. It must stand up to scrutiny when it is monitored, as all policies will be monitored in time.

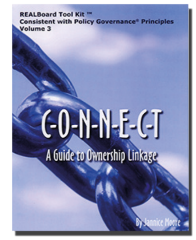
c) The CEO can change the interpretation at any time without having to ask the board's permission. In cases where a previously reasonable interpretation is no longer reasonable due to changing circumstances, the CEO must revise the interpretation to make it reasonable.

[1]This account is not a verbatim record of the conversation, but captures the key elements as I recall them.

REALBOARD TOOL KITS™







Meaningful Monitoring

Monitoring is critical to the board's ability to be accountable to those on whose behalf it governs. This Tool Kit addresses real-life questions about the process of monitoring the CEO. How does a board attend to this important task without spending undue time on it? What should a monitoring report look like? This NEW & REVISED EDITION draws on the most recent practical experience and understanding within the community of Policy Governance users of what good monitoring looks like. It provides practical tips, samples and a variety of tools to make monitoring easier and more meaningful. Now including QR codes to access short videos about aspects of monitoring.

Board Self-Evaluation

The second in our REALBoard Tool Kit Series is designed to address real-life questions about Board Self-Evaluation (sometimes called board monitoring) using practical tips, samples and a variety of tools! Make board self-evaluation a meaningful part of your governance process!

Connect! A Guide to Ownership Linkage

The third volume in our REALBoard Tool Kit Series is designed to answer the real-life questions about the process of connecting or linking with owners. How does the board attend to this critical task, enabling it to gather the wisdom necessary to effectively provide leadership? *Connect! A Guide To Ownership Linkage* provides practical tips, samples and a variety of tools to make your efforts to "Connect!" easier and more effective.

Future Focused Agendas

Many boards fail to realize the full value of Policy Governance by simply creating policies, but then not making optimal use of their meeting time. This fourth volume in our REALBoard Tool Kit Series is a practical guide to focusing a board on the future direction of the organization, thus maximizing the potential of the Policy Governance model.

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Governing Financial Risks

MICHEL PAULIN - CONSULTANT

Ensuring robust risk management is a fundamental element of the governance of any organization, regardless of its size, complexity, or social character. Companies, whether they are operating in the private, public, or non-profit sector, need to understand and manage the risks that could potentially affect their organizational objectives. Risk management aims to minimize the impact of the risks associated with all aspects of the organization, including strategic, operational, financial, and reputational considerations.

It is essential for boards of directors to focus on preserving the financial viability of the organization by monitoring financial risks with the implementation of a risk governance policy framework.

Business risks are defined here as future events that create uncertainty about results, whether the risks are internal or external, strategic, operational, or financial, or whether they are related to health, safety, or to the organization's reputation.

Understanding Financial Risks

Financial risks particularly affect the financial management of the business and, as a result, its ability to meet budgets, to fulfill its financial obligations and to protect its assets.

Key areas of business financial risk include liquidity risk, financial obligation risk, economic risk, investment risk, and marketing risk. The sources of risk associated with a company's financial obligations stem, for example, from growth in revenues or in sources of funds, from political and structural changes in the economy linked to their business sector, and from future cost growth.

The structures and processes put in place by the CEO to ensure sound management of financial resources and compliance with financial management policies and standards are also a source of financial risk to be monitored, for example: budget management (resources allocated to achieve organizational Ends), procurement of goods and services, cost control and fraud prevention, and financial reporting.

Board's Role and Governance Structure

A primary job of a board of directors is to assure ability to fulfill the mission of the organization by ensuring its long-term sustainability. The board performs fiduciary and strategic functions to fulfill its mandate and is accountable to the owners (legal or moral) of the organization.

Financial risk governance requires the existence of adequate mechanisms to monitor financial controls. Where necessary, the board may establish an audit committee to support it in its oversight of financial risk management.

It is critical for board members to be aware of the nature and extent of significant risks to understand their impact on the organization and to ensure they are well managed by the CEO. To this end, the board adopts policies and practices leading to the assessment and monitoring of financial risks, and requires regular reporting on the measures taken to manage those risks.

Policy Governance® System Support

The Policy Governance system provides an effective tool to define a comprehensive and robust risk management framework required by a board. To be effective, the Policy Governance system incorporates the following key financial risk management objectives:

Alignment between Strategy and Organizational Culture: The board promotes a positive and risk-sensitive financial culture by defining its expectations in the *Executive Limitations (EL)* policies to distinguish risk taking from risk avoidance. These EL policies, which specify situations or conditions that would be unacceptable, comprise the board's financial risk appetite which sets a balance between management's innovation and risk activities.

Monitoring: Significant financial risks are identified in the *Executive Limitations (EL)* policies, for example, EL-Financial Planning, EL-Financial Conditions and Activities, EL-Asset Protection, EL-Investments and EL-Compensation and Benefits. These risks are managed and monitored across the organization in accordance with the board's EL policies. To this end, the board receives monitoring reports demonstrating compliance with the EL policies, at whatever frequency the board determines appropriate.

Ownership and Accountability: Risk management is entrusted to individuals who are responsible for identifying, assessing, mitigating, and reporting on financial risks. The Policy Governance system clearly distinguishes between the role of the board of directors in the governance of financial risks and the role of the CEO in the management of those risks.

With a view to improving its overall governance of financial risks, a board includes in its annual work plan, risk assessment as a context for the review of its financial Executive Limitations policies, including the likelihood of these risks occurring and the potential impact of specific risks on the organization.

As mentioned above, a board may call upon an audit committee to support its oversight of risk management. The mandate delegated to the Audit Committee for risk management could include:

- Review of significant risks with senior management and external auditors (also with internal auditors, if applicable), to bring to the board's attention any areas where amendments to policy and/or frequency of monitoring may be beneficial.
- Review governance policies related to risk assessment and risk management, again, to bring to the board for decision any potential necessary amendments.
- Direct inspection for evidence of policy compliance for specific risks assigned by the board.

Conclusion

Risk governance is increasingly the focus of boards. Board members should have a clear understanding of the financial risks to enable the organization to achieve its mission with an acceptable level of risk.

The Policy Governance framework provides a valuable tool for a board to communicate its expectations around financial risk management to the CEO and to define a robust process for monitoring financial risk management. As a result, the board can deal with the financial risks it faces in a more informed manner.

Ultimately, sound financial risk governance allows the board of directors to fulfill its fiduciary and strategic obligations to its owners by ensuring the organization remains sustainable to achieve its mission of creating and preserving value for its beneficiaries.

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LA GOUVERNANCE DES RISQUES FINANCIERS

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Assurer une gestion solide des risques est un élément fondamental de la gouvernance de toute organisation, n'importe leur taille, leur complexité ou leur caractère social. Les entreprises, qu'elles opèrent soit dans le secteur privé, public ou associatif, doivent bien comprendre et gérer les risques qui porteraient potentiellement atteinte à leurs objectifs organisationnels. La gestion des risques vise à réduire au minimum l'incidence du risque associé à tous les aspects de l'organisme, notamment les considérations stratégiques, opérationnelles, financières et de réputation.

Il est indispensable que les conseils d'administration s'attardent à préserver la viabilité financière de l'organisation en surveillant les risques financiers avec la mise en place d'un cadre de politique de gouvernance des risques.

Les risques d'entreprises s'entendent ici d'évènements à venir qui sont source d'incertitude à l'égard des résultats, que les risques soient d'origine interne ou externe, stratégique, opérationnelle ou financière, ou liés à la santé, à la sécurité ou à la réputation de l'organisation.

Comprendre les risques financiers

Plus particulièrement, les risques financiers influent sur la gestion financière de l'entreprise et, par là même, sur sa capacité à respecter les budgets, à satisfaire aux engagements et à protéger les éléments d'actif.

Parmi les grands domaines de risques financiers pour une entreprise est le risque de liquidité, le risque lié aux obligations financières, le risque économique, le risque lié aux placements et le risque de commercialisation. Les sources de risques liés aux obligations financières d'une entreprise découlent, par exemple, de la croissance du revenu réel ou des sources de fonds, des changements politiques ou structurels de l'économie liés à leur secteur d'activité et de la croissance future des coûts.

Les structures et processus mis en place par la direction générale pour garantir la bonne gestion des ressources financières et la conformité aux politiques et normes de gestion financière sont également une source de risques financiers à surveiller, par exemple, la gestion budgétaire (ressources affectées de manière à réaliser les Fins organisationnelles), l'approvisionnement des biens et services, les mesures de contrôle des coûts, la prévention de fraude et les rapports financiers.

Rôle du conseil d'administration et la structure de gouvernance

Un conseil d'administration a pour mandat principal d'assurer la capacité de remplir la mission de l'organisation en assurant sa pérennité. Le conseil d'administration assume des fonctions fiduciaires et stratégiques pour réaliser son mandat et de rendre compte de celles-ci aux propriétaires (légaux ou moraux) de l'organisation.

La gouvernance des risques financiers suppose l'existence de mécanismes adéquats de surveillance des contrôles financiers. Lorsque nécessaire, le conseil d'administration établit un comité d'audit pour l'appuyer dans son rôle de surveillance de la gestion des risques financiers.

Il est critique que les membres du conseil d'administration soient saisis de la nature et l'ampleur des risques importants afin de comprendre leur impact sur l'organisation et d'assurer que ceux-ci sont bien gérer par la direction générale. À cette fin, le conseil d'administration adopte des politiques et pratiques menant à l'évaluation et le monitorage des risques financiers et exige des rapports réguliers sur les mesures prises pour gérer ces risques.

L'apport du système de Gouvernance par politiques

Le système de Gouvernance par politiques fournit l'outil complet pour définir un cadre de gestion des risques compréhensif et rigoureux requis par le conseil d'administration. Pour être efficace, le système de gouvernance par politique intègre les objectifs clés de gestion des risques financiers suivants:

Concordance entre la stratégie et la culture organisationnelle: le conseil d'administration promeut une culture positive et sensible aux risques financiers en précisant dans ses politiques de Limites de la direction générale (LDG) la distinction entre la prise et l'évitement du risque. Ces politiques, énonçant des situations ou des conditions qui seraient inacceptables, comportent l'appétence pour les risques financiers du conseil d'administration. Ses valeurs contribuent à instaurer pour la direction générale l'équilibre entre les activités axées sur l'innovation et les activités de maîtrise du risque.

Surveillance: les risques financiers importants sont recensés dans les politiques de Limites de la direction générale (LDG), par exemple, LDG-Planification financière, LDG-Situations et activités financières, LDG-Protection des actifs, LDG-Placements et LDG-Rémunération et avantages sociaux. Ces risques sont gérés et surveillés à l'échelle de l'organisation en conformité avec les politiques LDG du conseil d'administration. À cette fin, le conseil d'administration reçoit, à la fréquence qu'il juge approprié, des rapports de monitorage démontrant le respect de la conformité aux politiques LDG.

La prise en charge et responsabilité: la prise en charge du risque est confiée à des personnes à qui il incombe d'identifier, d'évaluer, d'atténuer et de rendre compte sur les risques financiers. Le système de Gouvernance par politique distingue clairement le rôle du conseil d'administration dans la gouvernance des risques financiers et le rôle de la direction générale dans la gestion de ces derniers.

Dans le but d'améliorer de manière générale leur gouvernance des risques financiers, le conseil d'administration prévoit dans la planification de son travail annuel, une évaluation du risque comme contexte pour l'examen de ses politiques de Limites de la direction générale financières, incluant la probabilité que ces risques se produisent et les répercussions potentielles des risques particuliers sur l'organisation.

Tel que mentionné ci-dessus, le conseil d'administration peut faire appel à un comité d'audit pour l'appuyer dans sa surveillance de la gestion du risque. Le mandat délégué au comité d'audit en matière de gestion du risque comprend notamment :

- d'enquérir des risques importants auprès de la direction générale et des auditeurs externes et internes (si applicable) afin de porter à l'attention du conseil les domaines où des modifications aux politiques ou à la fréquence de la surveillance pourraient être bénéfiques.
- d'examiner les politiques de gouvernance relatives à l'appréciation, à l'évaluation et à la gestion du risque, encore une fois, pour présenter au conseil des modifications potentiellement nécessaires.
- d'inspection directe de l'information pour vérifier la conformité aux politiques pour des risques assignés par le conseil d'administration.

Conclusion

La gouvernance des risques est de plus en plus au centre de l'attention des conseils d'administration. Le conseil d'administration doit être bien saisi des risques financiers afin de permettre à l'organisation de répondre à sa mission avec un niveau de risque acceptable.

Le cadre de Gouvernance par politique fournit un outil indispensable au conseil d'administration pour communiquer ses attentes en matière de gestion des risques financiers au chef de la direction et pour définir un processus de monitorage robuste de celles-ci. Le conseil d'administration peut donc faire face aux risques financiers auxquels ils sont confrontés en étant mieux informé.

À la fin, grâce à la saine gestion des risques financiers, le conseil d'administration s'acquitte de ses obligations fiduciaires et stratégiques envers ses propriétaires en veillant à ce que l'organisation demeure viable en vue de réaliser sa mission de créer et de préserver de la valeur pour ses bénéficiaires.

Michel Paulin, l'auteur du premier article que nous avons publié en français, est membre de notre équipe de consultation et peut offrir les services de consultation en français.

Michel Paulin, the author of the first article we have published in French, is a member of our consulting team and is available to offer consulting services in French.

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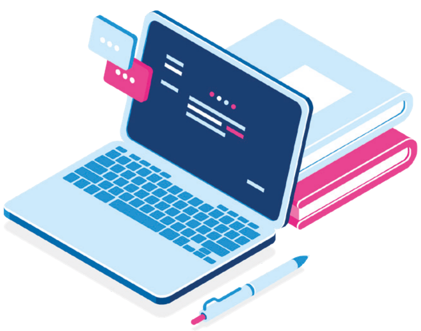

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