REAL BOARD™ BUZZ

How does your board think about risk?

by Rose Mercier

The response to organizational risk in some boards might best be characterized as fire-fighting. The organization is facing some possibly negative outcome – sudden resignation of their financial coordinator, significant increase in office space rental, change in legislation that reduces funding, impending litigation – and not having contemplated any of these possibilities, the board feels compelled to act…and quickly. The board feels it must be hands-on because *it* is the board and it is important to be in control. This is one way to think about risk – an ongoing series of fires that need to be put out.

If you are reading this article, it is unlikely this is your board's approach to risk. In our experience, this describes only a small number of boards. More typical are boards that rely on their CEO to 'manage' risk. They might spend time listing all the possible risks facing the organization and perhaps identifying corresponding strategies to manage the listed items. The CEO is responsible to carry out the various strategies and brings to the board the policies she is recommending or actions she has implemented from the board's list. Other boards might simply rely on the CEO to advise the board of risks as they arise and the plan that she recommends for board approval. Perhaps you recognize your board in this description.

However, boards that are proactive leaders look at risk differently. They understand that a fundamental element of governance is ensuring protection of organizational assets. These boards know they cannot be haphazard in their approach; they need a comprehensive view of organizational risk. They appreciate that risks exist in all areas of the organization's operations – finances, planning, technology, data, how clients and members are treated, investing, etc.

Boards that are proactive leaders know there are also organizational risks in the way the board governs its own process. Consider the risks if boards don't understand the impact of conflicts of interest, don't specify expectations of board behaviour, or don't ensure due diligence for major decisions.

Boards like this systematically examine risks and establish limitations for operational decisions, actions, and circumstances. They don't just copy what another board has said, but set limitations anchored in the values of prudence and ethics held by those on whose behalf they govern. These boards also rigorously monitor whether there is compliance with the limitations.

There is another level where the approach to risk is visionary. It is occupied by the small number of boards who understand that to protect the organization's assets in constantly changing and increasingly interconnected context, they must develop risk acumen. They become deliberative[i] in their thinking, using strategic foresight to identify potential future risks, and deepening their understanding of risks' potential impact. Risk acumen helps the board to shape a future of resilience and sustainability for their organization.

Does this sound like a board you want to be part of? If it does, book a discovery call today.

[i] Kahneman, Daniel. *Thinking Fast and Thinking Slow.* Farrar, Strauss and Giroux. 2011

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