

# Association Management **am**



Print Post Approved PPS5003/05201

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*Westcare's Peter Beaton  
and ACROD's Sue Collins  
at the recent ACROD  
Employment Forum*

# Role of the board in conscious risk management

Steve Bowman



**Most Boards (and staff) of not-for-profit organisations misidentify and misapply risk as something that needs to be protected against, something to be feared. This mindset towards risk effectively neutralizes and denies the possibility that risk can be a great strategic advantage, enabling the unlocking of creative and innovative opportunities that other organisations would not even**

**consider possible. Risk is not inherently right or wrong, good or bad; it is more about the things that happen outside our expectations that might have an impact on our ability to achieve the strategic initiatives of the organisation.**

One of the great gifts that Boards can give their organisation and constituents is that of embedding the analysis of risk in all decision making and discussions around strategy. The analysis of risk is simply the question “What are the risks inherent in this activity, and how can we turn these risks into a strategic advantage?” To be able to ask this question with awareness, however, Board members need to recognize some fundamentals of risk management as it relates to their governance responsibilities.

## Fundamental 1: There are three distinct types of risk:

- Hazard risk** which can be the threat of negative things happening. This is the most commonly understood aspect of risk, and often the only type discussed around the Board table. This is the risk of someone getting injured, physical risks such as things falling down, denial of access, earthquakes etc, and is most often the type of risk that is insured against.
- Opportunity risk** which can be the possibility of positive things not happening. Opportunity risk is where the decision is too long in the making, and the opportunity is lost or forestalled (often characterised by “let’s give it to a committee to look at”!!!). Or the opportunity is not recognized in the first instance because it does not fit the fixed point of view of that organisation (“that’s not the way we do it”). Opportunity risk is characterised by conservative and slow decision making.
- Uncertainty risk** which can be the potential that actual results do not equal anticipated results. Uncertainty risk can include the lack of take up of a new product, or changes to a regulatory environment that impacts on your business, or the reliance on one source of income that fails to deliver (for example reliance on a funding contract, or the annual conference).

Any discussion and identification of risk needs to take into account all these aspects.

## Fundamental 2: The Board’s role is to agree on and monitor the 3 or 4 critical risks facing the organisation

One of the five key functions of any Board is to agree on the 3 or 4 critical risks facing the organisation, ensure that management is monitoring those risks,

and that there are robust treatment strategies in place to manage those risks (for further discussion on these five roles, see [www.lifemastery.com.au/Resources\\_index\\_Governance\\_Articles.htm](http://www.lifemastery.com.au/Resources_index_Governance_Articles.htm)). The Board does not need to monitor all risks, only those that are critical to the organisation. The staff needs to identify and manage all risks.

Regular Board reports that analyse these critical risks, their monitoring and treatment provide the Board with strategic information regarding the key drivers of the business. The Board’s role in monitoring these risks is not to ensure they don’t occur, but to turn these risks into strategic advantages.

“The lack of embedded risk management practices within the governance structure of an organisation is regarded as one of the highest risks facing an organisation”

## Fundamental 3: The Board is responsible for approving and monitoring the risk management policy

This responsibility is among one of the Board’s most important, as it commits the Board and the organisation to best practice risk management (for sample policies, email [bowman@lifemastery.com.au](mailto:bowman@lifemastery.com.au)).

## Fundamental 4: Establish key performance indicators (KPIs) for the Chief Executive Officer

One of the most effective ways to ensure that staff, especially the CEO, treat risk as the strategic advantage it can be, is to establish one or two KPI’s for the CEO that reflect the risk monitoring and management responsibility of that position. This tends to focus attention.

## Fundamental 5: Embed risk into the strategic discussions and analysis of the Board

Risk awareness can best be embedded in the organisation if some simple guidelines are followed:

When conducting strategic planning, conduct a SWOR (not a SWOT) analysis ie Strengths, Weaknesses, Opportunities and Risks. These risks can then be added to your risk library, and provide further opportunities for identifying strategic advantage.

Only accept project plans or action plans if a risk element has been added to the project plan. For example, an action plan might have the headings of:

Scope, Start date, Finish date, Project Manager, Resources, Success, Measures, Ethical implications, Risk. (Once the risk has been identified, the management of that risk is quite easy.)

When deliberating on decisions at the Board meeting, ask the risk question: “What are the risks inherent in this proposal, and how can we turn these risks into a strategic advantage?”

## Summary

How risk is defined and acted upon is all a matter of choice of the Board and the CEO. These leaders can choose to view risk as bad, complex and to be avoided, or as a strategic advantage that is easy to manage once identified, and that can enable the organisation to undertake activities that others might not even consider.

(To provide a snapshot analysis of your risk management processes, go to [www.lifemastery.com.au/Tool\\_Risk\\_Checklist.htm](http://www.lifemastery.com.au/Tool_Risk_Checklist.htm)).

Contact Steve Bowman on (03) 9509 9529 or email [bowman@lifemastery.com.au](mailto:bowman@lifemastery.com.au).

