Foodie Risk: How Eating Habits Mirror Risk Management Maturity

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During the launch of NRMC's Risk Leadership Certificate Program, I was struck by the amount of sharing and collaboration that happened during the group meals. Participants often took the opportunity to follow up on a topic from an earlier breakout session or to share information about their experiences with risk management in their organizations. Of course, great food helps to promote great conversation! It reminded me of an article by Megan McArdle titled "The Economics of Dining as a Couple." McArdle describes four food sharing strategies that you can employ with your significant other when dining out. Although she examines dining from a couple's perspective, my sense is that the strategies apply to group dining, and–if you're willing to permit a stretch–offer insights into risk management maturity at nonprofit organizations.

Continue reading to learn how to use these strategies to make the most of your risk management program, as well as your next dining experience!

The first strategy that McArdle describes is autarky, or a situation where all the diners are self-sufficient. No information is shared about what anyone is ordering and no food is shared once it arrives. In some cases, inquiries to share food are often forcefully rejected. McArdle points out this is the least effective strategy because not only are there no possible gains from sharing with your tablemates but there are also diminishing returns with enjoying your own meal. When it comes to risk management, this situation is often what motivates our clients to initially contact us about developing their risk management capabilities. Risk management is often focused on specific areas and addressed by individual units: HR focuses on HR; Finance focuses on internal controls, etc. The lack of coordination between units–e.g., sharing information, examining cross-function risks, etc.–limits the opportunities to learn and grow from the experiences of others' efforts. It's like sticking to your favorite dish at a restaurant–you know what you are going to get and you know that you are going to like it, but what are you missing out on by not expanding your palate?

The second strategy mentioned by McArdle is individual production with trade. Here the individual diners order whatever they want and everyone has the option to exchange a few bites of their dish for a few bites of someone else's. This generally is a positive situation and certainly has more utility than the previous strategy. However, although individuals generally select things to eat that they like, it is a better benefit to everyone if a dish is selected that appeals to other people as well. No one is going to want to trade bites with you if they aren't interested in your entrée! This is typically what we see in early risk management efforts with our clients. Nonprofit teams see that risk management is a broad effort that requires individual units to work together to address risk in addition to considering risks within their areas. For example, when the finance team develops a new contracting process, that process is likely to be more robust if the staff teams in other areas–who must comply with the contracting policy–have an opportunity to weigh in and identify efficiencies as well as potential barriers to implementation.

The third strategy–individual property rights, with option trading–McArdle acknowledges a higher level of communication and coordination than the previous strategy. Strong preferences can be accommodated with existing strategies but weak preferences can be modified according to other diners' taste. Greater effort is put into identifying food options with maximum benefit for all diners involved. As a result, McArdle points out “Coordination and cooperation have permitted you to agree on choices that jointly improve utility.” As applied to risk management, this is an approach that we heartily endorse when it comes to managing operational risks. Individual units start by identifying their own risks and resources required to address them. Then the units coordinate to identify and address risks that intersect and affect more than one unit in the organization. Areas can be identified where resources invested benefit multiple units simultaneously. Overall, the organization benefits from this broad-based approach.

The final and most complex strategy identified in The Economics of Dining as a Couple, is full food communism, “when the barriers wither away and all ordering is centrally planned, with the fruits distributed equally.” McArdle concedes that this strategy requires a high degree of familiarity with the other diners’ preferences and a high level of communication as well. It starts with a thorough consideration of the menu to identify items of interest and then a rigorous reconciliation of the dishes until the final order is determined. Although initially a time-consuming process, it becomes easier over time as you become more attuned to others’ preferences and desires. This strategy very closely resembles the collaborative approach to risk management recommended by NRMC. An increasingly popular service offered by NRMC is **coaching** to support the implementation of risk management goals and priorities. We work with client teams to foster collaboration between all organizational units to understand common risks and try to relate those risks to the nonprofit’s mission and strategic objectives.

A good server at a restaurant will try to help diners make wise menu selections. A great server has a conversation with diners as a group and makes recommendations for the benefits of the table, and not just each person. Here at the Center, our consulting approach is to help you make the most of your resources in order to sate your appetite for risk management. If you would like to be a ‘regular’ at our establishment, consider becoming an Affiliate Member of NRMC.

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