

Inspiration, Not Perspiration: Risk Reporting and the Board



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Resource Type: Risk eNews

Topic: Governance

Today's public entity leadership cares deeply about the risks facing the organization. A Board wants to know that its leadership team has thoughtfully considered the risks that threaten the mission and objectives of the organization. Boards also want assurance that the leadership team has developed plans to keep the entity's home fires burning, even if the primary fuel supply runs out.

Pair the board's interest in risk with the commitment of diligent entity leaders who want to be valued and trusted partners in the eyes of their boards. Given the mutual interests, risk reporting mechanisms are essential but can sometimes strain the relationship between board members and managing director. Where's the line between providing a report that inspires board leadership and informed decision-making, and sharing information that leads the board to break out in a collective sweat? When leader sees board members wiping perspiration from their brows, it probably isn't a good time to ask for a raise or extra time off.

Let's take a look at a few risk reporting mishaps that cause board members to sweat and swelter:

- Hiding a critical risk event within an otherwise bland staff report and hoping the board doesn't notice.
- Attributing a significant increase in property and casualty premiums to "market conditions."
- Allowing the board to find out about a crisis event facing the entity by hearing a story on the local TV or radio station.
- Telling the board that the combination of tort cap statutes, insurance coverage and your great reputation are an effective, triple-layered defense against lawsuits.
- Telling the board to stop worrying about risk and trust you, because you've got everything under control.

Instead of making risk the 'bad guy,' practice thoughtful risk reporting to inform and stimulate your board. What are the keys to *inspiring* the board when you report on risk?

1. **Never present a risk analysis to the board unless you've stress-tested it by seeking the views of diverse stakeholders.** Anecdotal fears and tenuous risk concerns can be blown out of proportion when they're brought to the board table for discussion.
2. **Create a diagram that helps you tell the story of risk.** At the YMCA of Greater Toronto, VP of Risk Intelligence Monica Merrifield uses a "risk radar" diagram to differentiate between close-at-hand concerns, and risks perceived to be on the horizon. She uses the same diagram to distinguish between risks that are well understood, and those for which only partial data or intelligence is available.

3. **Avoid vague statements masquerading as assurance.** Choose clearly worded descriptions of changing policies and other mitigations. In his Risk Report to the Con Edison Board, Director of ERM Richard Muzikar presents a straightforward narrative that captures not only an assessment of the risk he's reporting on, but also shares:
 - the outcome of board dialogue on the risks presented
 - capital and operating expenditures related to the risks
 - risk mitigation work to date and scores that convey mitigation effectiveness
 - additional short-term and long-term mitigation strategies
4. **Make the connection; don't leave the Board hanging.** A great number of entities are trying hard to elevate their risk management programs to encompass the review and treatment of enterprise risks. Yet many organizations are ramping up risk management without getting close to the true purpose of enterprise risk management. At TSSA, ERM leader Michelle Williamson ensures that risk presentations are linked to the key strategies and objectives in the adopted strategic plan.

Entity leaders who frequently cause members of the board to break into a collective sweat can expect a similar feeling when it comes time for performance review. No leader wants to be caught off guard or feel helpless. Yet no public entity can avoid the occasional surprise—some of them wonderfully mission-advancing, and others potentially mission-destroying. By avoiding the missteps described above and paying close attention to the “must do” items, you'll be in the best position to deliver tough news to your board—accompanied by thoughtful strategies and solutions.

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