Risk Aware Boards

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Webinar Description

By the end of this webinar you'll have the insight needed to empower your board to identify and manage the risks that arise from its work.
Webinar Agenda

- Grant Purdy’s decision-making framework
- What risks arise from the work of board?
- How does the responsibility of a nonprofit board differ from that of a for-profit board?
- What steps are recommended to engage the board without frightening members and encouraging risk-averse positions or policies?
- How can executives empower their boards to identify and manage the risks that arise from governance?

Grant Purdy’s Framework for Decision-Making in the Face of Uncertainty

1. PREPARE: Prepare for decision-making by considering relevant sources of uncertainty (what might occur and how might it occur?) and asking: who should we involve to get the fullest possible picture or the range of insights needed?
2. INVOLVE: Engage a diverse group of leaders in candid conversations about the potential effect of uncertainty on your mission and objectives
3. DISCOVER: Discover, understand and appreciate risks
4. RESPOND: Respond by taking actions suited to your circumstances
5. MONITOR: Continually and periodically check to make sure that decisions were the right ones (or continue to be “right”) and that you are on course to achieve what you set out to do; make course corrections as needed

SOURCE: Grant Purdy, Broadleaf Capital International
What resources do leaders have to make the best possible decisions?

- **HINDSIGHT** - Drawing on an appreciation of the causes of outcomes from earlier events – whether these are considered successes or failures.

- **INSIGHT** - Forming an assessment of present conditions and, in particular, the effectiveness of those things the organization relies on to enable it to achieve its objectives – its controls.

- **FORESIGHT** - Challenging proposed actions and anticipating what might happen in the future (multiple views, not a single preferred vision of the future), and what that might lead to in terms of the effect on the organization’s objectives.

*SOURCE: Grant Purdy, Broadleaf Capital International*

Risk aware boards look beyond the past and present... and into the future

“All I’m saying is now is the time to develop the technology to deflect an asteroid”
1. What risks arise from the work of board?

- Missteps due to lack of role clarity
- Fallout from ineffective board policies
- Losses or poor decisions due to lack of rigor in decision making, or failure to conduct due diligence
- Missed opportunities to prevent harm due to a culture of “too nice”
- Group think due to lack of diversity
- Missed opportunities to innovate due to
  - Lack of vision - Failure to explore trends and spot opportunities
  - Lack of agility - making decisions via committee takes time!
  - Lack of courage / fear of failure

2. How does the responsibility of a nonprofit board differ from that of a for-profit board?

SIMILARITIES
- Even though chosen to bring the perspective of a constituency, you must serve and act in the best interests of all shareholders (FP) or stakeholders (NP)
- Gradual shift from “old boy’s network” approach to board development to competency/skills/perspective based recruitment

DIFFERENCES
- Nonprofit boards arguably serve a wider and greater good – stakeholders are the society at large, taxpayers
- NP Board responsibility includes looking out for the interests of volunteers
- NP Board members may be specifically recruited for wealth, in addition to wisdom and influence
Expectations + Scrutiny

- Intense scrutiny on “how” boards govern has led to major improvements in governance
  - FOR PROFIT – scandals have led to regulatory changes
  - NONPROFITS – scandals have led to self-policing, standard-setting, growing emphasis on accreditation, limited regulatory changes

- CANADA versus U.S.
  - Nonprofits in Canada often cite regulations pertaining to for-profits as a standard (e.g., Canadian Coalition for Good Governance)

What can go wrong –

1. Missteps due to lack of role clarity
2. Fallout from ineffective board policies

Examples and case studies...
Lack of Role Clarity - EXAMPLES

- Board vs. Staff
- CEO vs. Board
- Board as a whole vs. the Executive Committee
- Board committees vs. Board as a whole

Lack of Clarity – CASE STUDY

People & Politics

Ben Ladner’s Years of Living Lavishly

American University president Ben Ladner and his wife, Nancy, were behaving like billionaires—until their years of living lavishly caught up with them.

By Harry Jaffe

In January 2004, American University president Benjamin Ladner and AU board chair George Collins took their wives to St. John in the Virgin Islands. In their roles as president and board chair, Ladner and Collins had become friends. They dined together after board meetings, sailed together, vacationed together.
Board vs. Board Chair

• “The board negotiated Ladner’s first contract in standard fashion.”

• In 1997, Jacobs took over as board chair... “One of his first acts was to sign a new contract with Ladner.”
  • Full use of car and driver
  • Housekeeping services and residence staff
  • Tenured faculty member
  • Two year golden parachute

www.washingtonian.com/articles/people/ben-ladners-years-of-living-lavishly/

Ineffective board policies
— CASE STUDY

• Growing nonprofit reorganizes as parent nonprofit with subsidiaries

• Matching Bylaws adopted for new entities

• Frequency of meetings and small size of board pool makes it impossible to meet minimum requirements to govern
What else can go wrong?

- Not following your rules or not knowing the rules or not updating the rules so they reflect reality
- Factions on a board – failure to support the board’s decisions
- Lack of accountability / enforcement of the rules
- Nodding head syndrome – lack of rigor for matters before the board
- Culture of protecting pet projects / fear of being critical
- Duty of Dissent – “too much harmony can be lethal” – case study (between board members and between board and management)
- Unresolved conflict – leadership is about having questions rather than answers)
- DIALOGUE vs. DEBATE
- Decisions made in advance of the board meeting

What steps are recommended to engage the board without frightening members and encouraging risk-averse positions or policies?

- **Look at the board’s decisions and considerations for those decisions**
  - Policy positions
  - Selection of / termination of the CEO
  - Lack of consistency / ignoring rules

- **Look at HOW the board governs**
  - Who’s on the board?
  - Expanding the scope of an existing committee
  - Assigning risk topics to existing committees

Examples and case studies...
CASE STUDY - Who is on the Board?

• The Change Foundation

CASE STUDY – Ignoring Your Own Rules – “above suspicion”

• Board member hired to raise money
• Who knew?!
CASE STUDY – The feasibility trap

• What big risks should we take to advance our mission?

• If we weren’t concerned about failure or funding, what could we do to achieve our mission in a big way?

Due Diligence – the likely culprit

DECISION MAKING – poor decisions are often due to ineffective due diligence

• What are examples of good decisions we have made? What made it a good decision?

• What examples of poor decisions do we have? What made it a poor decision?

• What are the common elements or familiar threads of each type?
How can executives empower their boards to identify and manage the risks that arise from governance?

- Take care in how the board agenda is constructed
- Make time for strategy, both blue sky thinking and for exploring potential downside.
- Take time to identify what is changing in the business environment and explore the implications for the nonprofit’s stakeholders, strategy and sustainability
- Sequencing of agenda items. Creative thinking first while people are fresh. Reports last.
- Provide board education
- Create opportunities for the board to meet with high performing boards to ‘compare notes’ and learn from each other

Who manages risk?

- “The reality of risk is that we are all risk managers. At work we face almost continual uncertainty around questions like ‘What is really going on?’, ‘Should we change our plans or approaches?’, ‘What can we do now?’, and ‘Which is our best course of action?’ The future remains stubbornly unpredictable and hard to control. Sometimes we handle this uncertainty well, but not always.” - Matthew Leitch

What is the board’s role?

- “The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives.”
  - *UK Corporate Governance Code*

Key questions for risk aware boards

- What activities will we undertake, and what activities will we avoid?
- How effective are the nonprofit’s risk control and monitoring systems and strategies?
- Are we devoting adequate time to evaluating our strategic risks?
- Is the board actively involved in managing the risks that arise from governance?
- Are we helping shape the view and understanding of the environment in which we take and manage risks as an organization?
Next governance webinar

**Teamwork is Job One - November 3, 2014 –**

- A common mistake in nonprofit risk management is delegating responsibility to a single staff member or volunteer.
- Attend this webinar to learn why an interdisciplinary approach to risk identification is vital, and how a team comprised of players from every level in the organization is the most effective driver for sound risk management.
- By the end of this webinar you will have the tools you need for the risk management and risk oversight functions in your nonprofit.

Resources

**Creating a Healthy ERM Culture, by Diana Del Bel Belluz**
- [http://riskwise.ca/Feature/creating-a-healthy-erm-culture-part-3.html](http://riskwise.ca/Feature/creating-a-healthy-erm-culture-part-3.html)

Thank You!

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