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# Risk Management – Is Your Board Asking the Right Questions?

What is your board's perspective on the company's risk factors and the board's role in this discussion? How much agenda time is spent discussing risk? These are key questions for all boards. To get the conversation started, ask the following questions. Time spent on these matters helps directors demonstrate accountability and enables the board to be in a position to react quickly when challenges arise.

1. **Does your board follow the 80/20 rule?**

   Attention to board operations and compliance is important. However, it should represent about 20% of a board's agenda. Most of the meeting time should be devoted to strategic considerations, including a discussion of key risks and opportunities - matters that evolve value creation.

2. **Has the board implemented a structured process for monitoring emerging and key risks?**

   The board must understand the difference between risk management and risk oversight. Directors are not working in the business, so they cannot manage risk. However, it's important to talk with management about their risk assessment methodology, including formalizing an agreement on the risk-related matters that need board review, and the who, what, when, where and whys. The board should understand the likelihood and impact of key risks and challenge company leaders on their "manage," "mitigate," or "do nothing" positions - and, encourage a watch out for potential and emerging risks. Management should provide directors with insight that they don't already know.

3. **What are the key risks that should be front and center?**

   The answer is unique to every company. That said, directors must have an understanding of risks that could affect their company. In addition to operational items, remember to consider these 3 key risks: (1) reputation (e.g. service or product errors), (2) regulatory compliance, and (3) information (e.g. cyber-security).

4. **What developments in the business environment have resulted in changes in the critical assumptions underlying the company's business model and long-term strategy?**

   Stuff happens. The board should be satisfied with the processes for monitoring changes to the environment, perhaps by reviewing an environmental scan at each meeting. The board must constructively challenge the affects of environmental changes, and the underlying assumptions and inherent risks associated with carrying out the company's annual and longer term strategy.

5. **Does "risk-fear" inhibit the board?**

   Risk is not bad, it is necessary to increase company value; and the board must be balanced with risk-adverse and risk-seeking attitudes.

6. **Does the board take responsibility for starting and evolving risk discussions?**

   The responsibility for setting the company's risk appetite, taking the lead in cultivating a risk-aware culture, and setting the parameters for risk related reporting sits squarely on the board's shoulders. The board must also be alert for warning signs that "tone from the top" is waning; e.g. key employee turnover, tolerance of significant control issues, shortsighted focus on profit, evidence of an overly dominant CEO.

*BQs are published monthly. Discuss your answers in the executive session at your next board meeting. It could help your board become more effective.*

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