



UNDERSTANDING YOUR CHARITY'S STRATEGIC RISKS

BOREDOM IN THE BOARDROOM

How to focus the Trustees' agenda



How to live your boardroom agenda

No matter how big or small your charity, no matter what stage in the life-cycle, those responsible for the charity should understand the strategic risks that are being faced.

In fact, whether you are driven by the desire to obtain more value from your risk management, or only by the fact the regulators are pushing you, then make sure you undertake a review of your strategic risks. At the least, it will confirm what you thought you knew and at best, it might just change your charity altogether and for the better.

So what do we mean by strategic risk?

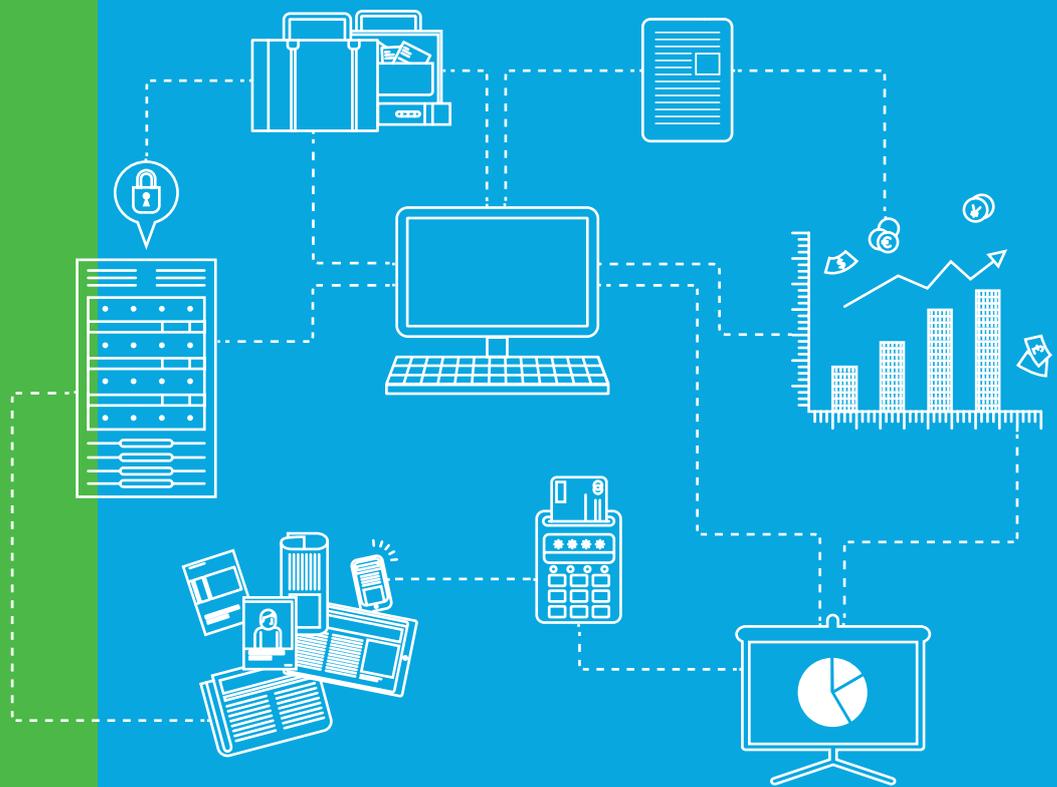
A definition that our risk advisory teams have been using for quite a while is below. It is fair to say that this has been subject to some reasonable check and challenge in the boardroom:

"Those business risks that, if realised, could fundamentally affect the way in which the charity exists or provides its services in the next one to five years. These risks will have a detrimental effect on the charity's achievement of its key business objectives. The risk realisation will lead to material failure, loss or lost opportunity."

Many charities that are considered to have mature risk management arrangements have not really focused on this dimension of risk management. Trustees are often good at preventing operational failures in their many guises, but are not using strategic risk to set the charity's future agenda and direction. In some cases, Trustees are not keen to even consider strategic risk because they are afraid of what they might find; either as a result of ignorance (do not want to know!) or dogmatic boardroom behaviours (I do not need to know!). Both characteristics you might find in less well-governed charities. There are also charities that think they know what their strategic risks are, but the risks, by their very nature, are not strategic (or do not meet the criteria in the definition above). Thus the charity does not get the real benefit.

To consider whether your charity really has an understanding of its strategic risks, undertaking a strategic risk identification exercise can bring the following benefits.

- The Trustees (collectively and individually) having "head room" and time to consider, debate and articulate the future strategic risks of the charity (this discussion alone can be refreshing in itself).
- Development of a common understanding of the strategic objectives, risks and organisational values.
- An opportunity for the Trustees to assess its own vulnerability – does it know as much as it should? Or are there any knowledge gaps?
- The chance to challenge plans, that will help mitigate the strategic risks, and ensure they are as robust as they should be.
- An opportunity to refocus the boardroom agenda, or at least check that it reflects what it should do.
- Demonstrate to others that the Trustees takes its risk management seriously.



Identifying strategic risks

To identify the strategic risks there has to be a starting point. In all cases this should be the charity's strategic objectives (or equivalent), after all, this is what the organisation is looking to achieve. However, this is often the first difficulty, as in many cases they are not commonly known, or they do not exist at all.

Strategic risk identification should involve all Trustees, but does not need to be limited to these individuals. That said, as you move outside of the boardroom, then the strategic focus can become diluted. However, it is often appropriate to make use of an independent external facilitator who can provide objective challenge to the thoughts in the boardroom.

Furthermore, be aware, it may take a few sessions to get to a point that the charity is happy that it has captured its set of strategic risks and suitably articulated these with appropriate cause and effects analysis.

With the set of strategic risks decided, Trustees are encouraged to determine the correlation between the risks and each strategic priority, enabling them

to understand which risk will have the most detrimental effect. This will start to form a strategic risk appetite. A further step, dependant on the size of the organisation, is to link operational risks to strategic risks. By their very nature the strategic risks will take some time to materialise, unlike the operational risks which can present themselves more quickly and be used as early warning indicators. What the Board will have eventually is a risk management methodology that is focused totally on the achievement of its strategic objectives.

Consider the following questions when identifying strategic risk. These are by no means every question, but they are a good starting point:

- what is occurring internally at the charity that could present strategic risk or challenge?
- what is occurring externally in the local or national landscape in which the organisation operates that could present strategic risk or challenge?
- what has happened in the past at the charity that led to the realisation of a strategic risk and could it happen again?

- what is happening elsewhere (other providers/sectors)?
- what are the regulators, partners, customers/ public, and other stakeholders telling you about the charity? and
- what does the charity want to look like in five years? How different is that from now? What issues will the charity face in getting there?

The word 'challenge' has been added as this can significantly help the Trustees with its thinking in the early stages. The word 'risk' can often lead to an assessment of likely weaknesses and in many cases leads some Trustees to focus on micro or operational aspects. Whereas 'challenge' promotes a more opportunistic approach as well as macro thinking, especially when used in the context of the charity's strategic objectives.

Conclusion

In conclusion, it does not matter how Trustees get an understanding of the strategic risks being faced, as long as they do. There are enormous benefits that can be obtained both in completing the exercise as well as getting to the final outcome. The future is still massively uncertain with constant changes in the landscape. It is always better to be prepared and ready, so that you can protect your organisation or take advantage of the opportunities presented. For more information or to discuss ways to liven your boardroom contact:

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