

Designing Actionable, Memorable Risk Reports

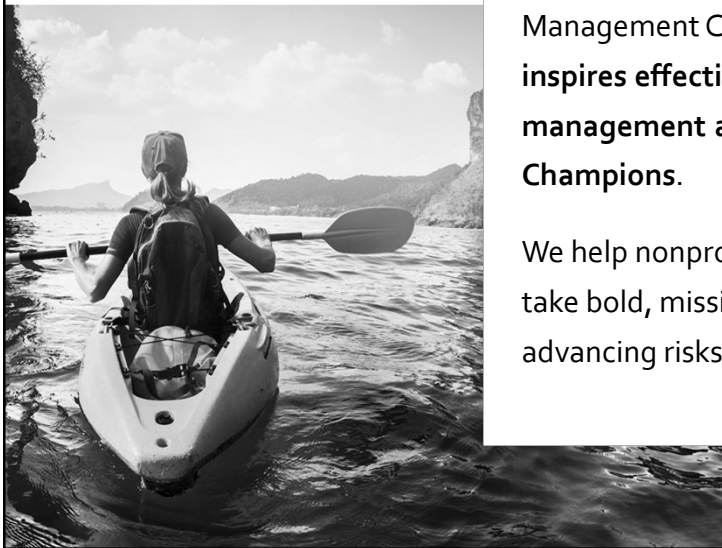
SCCE's 18th Annual Compliance & Ethics Institute

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The Nonprofit Risk Management Center **inspires effective risk management and Risk Champions.**

We help nonprofit teams take bold, mission-advancing risks.

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Workshop Overview



What is a Risk Report? What is Risk Oversight?



Three Musts for Memorable Risk Reports:

1. Know your audience!
2. Tell a story
3. Spark engagement



Tips and Takeaways

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What is a Risk Report?

It depends! Possibilities include:

- Information about risk trends or your risk landscape
- Data on losses and claims
- Lessons from evolving risk management capabilities
- A status report on progress
- A component of Risk Oversight

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What is Risk Oversight?

Responsibility for *overseeing* an organization's approach to identifying & responding to critical risks, against a backdrop of ever-present uncertainty.

World-Class Risk Management for Nonprofits,
Norman Marks and Melanie Lockwood Herman



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The State of Risk Oversight - 2019

Factors leading to increasing focus:

- #1 – Emerging best practice expectations (38%)
- #2 – Unanticipated risk events (32%)
- #3 – Board requests (32%)

State of ERM currently:

- Partial enterprise-wide process (40%)
- Formal enterprise-wide process (31%)



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The State of Risk Oversight - 2019

How many risks are included in your board report?

- Less than 5 risks – 33%
- Between 10 and 19 risks – 33%

Barriers to better risk oversight:

1. Competing priorities – 49%
2. Insufficient resources – 46%
3. Lack of perceived value – 35%
4. Perception that ERM adds bureaucracy – 29%
5. Lack of board or staff ERM leadership – 25%
6. Legal or regulatory barriers – 7%

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How are risks communicated?

To senior management:

Percentage of Respondents					
HOW ARE RISKS COMMUNICATED FROM BUSINESS UNIT LEADERS TO SENIOR EXECUTIVES?	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >\$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
<i>Ad hoc</i> discussions at management meetings	50%	32%	33%	40%	53%
Scheduled agenda discussion at management meetings	33%	36%	34%	40%	37%
Written reports prepared either monthly, quarterly, or annually	42%	70%	69%	66%	50%

Note: Respondents could select more than one choice. Thus, the sum of the percentages exceeds 100%.

SOURCE: The State of Risk Oversight - 2019

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Risk Reporting to the Board

Percentage of Respondents					
PERCENTAGE OF ORGANIZATIONS WHERE THE	FULL SAMPLE	LARGEST ORGANIZATIONS (REVENUES >\$1B)	PUBLIC COMPANIES	FINANCIAL SERVICES	NOT-FOR-PROFIT ORGANIZATIONS
Board of Directors reviews and discusses in a specific meeting the top risk exposures facing the organization	58%	75%	72%	67%	53%

SOURCE: The State of Risk Oversight - 2019

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2 Takeaways: The State of Risk Oversight

- External parties (59%) are putting pressure on senior executives for more extensive information about risks.
- 65% of boards are calling for “somewhat” to “extensively” increased management involvement in risk oversight. Strong risk management practices are becoming an expected best practice.

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1. Know your audience!

- WHO: Operational leaders, Executive team, Board Committee, Board
- WHAT: top-of-mind concerns
- HOW much: information appetite?

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One Board's Risk Reporting Wants

1. Top 3 risks, those that could affect the survival of the organization ("existential risks")
2. A quarterly report showing priority risk areas, mitigation strategies, risk owners, plus a narrative describing emerging risks ("stewardship report")
3. Commentary on the gaps between exposures and capabilities (indicators of where we need to focus)

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One Board's Risk Reporting Wants

4. Risk information in several formats: gaps, top three risks, anecdotal commentary, and a long list of categorized risks ("everything you've got!")
5. Commentary on how we expect our risks and risk landscape to change over time ("future-looking risk projection")
6. Information that will help us focus on specific risk issues or themes at each board meeting ("food for thought/generative discussion")

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2. Tell a Story



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Example: evolving ERM function

 2015-2016

Focus:

- Independent ERM Assessment, including context analysis
- Risk Identification with three lenses: enterprise-level risks (existential & strategic), enterprise-wide risks, and operational risks
- Departmental risk assessment training and exercises
- Formation and launch of risk champion group

 2017-18

Focus:

- Periodic risk champion group meetings facilitated by NRM
- Cross-departmental and -functional collaboration
- Coaching from NRM to refine risk assessment and risk reporting
- Identification of top 10 risks within each function or department
- Special projects focused on mitigating top risks

 2019-2020

Current and Future Focus:

- Evolution of risk reporting and risk oversight strategies, including Audit Committee and Board engagement
- Creation of risk dashboard that syncs with strategic priorities
- Risk Assessment Refresh with emphasis on strategic risks
- Continuing evolution of operational risk management ('Risk Champion Group 3.0')

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Hypothetical Risk Dashboard

Rank and Risk Category	RISK	Key Risk Indicators (what we're monitoring to understand this risk)	Risk Strategies (specific steps and strategies to mitigate the risk)
#1 Existential (Enterprise Level) Risk	Significant cuts in funding (or lack of growth needed to address the ABC shortage)	<ul style="list-style-type: none"> • Growing ABC shortage • Increase in federal funding • Emergence of new institutional funders • Success of incentives and programs 	<ul style="list-style-type: none"> • Collaboration with PDQ to advocate policy changes to address the ABC shortage

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3. Spark Engagement



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Hypothetical Risk Dashboard

Strategic Objective	Risk Event	Risk Indicators	Current Risk Rating	Ongoing Strategies
Expand operations to additional countries	Foreign agent registration denied	<ul style="list-style-type: none"> Process requires more than time allotted Similar NGO was denied registration 	STABLE – projected time to implement expansion plan is 6 months	<ul style="list-style-type: none"> Cultivate additional, country-based advocates Explore back-up plan and alternatives to registration
	Inability to hire experienced country directors for new offices	<ul style="list-style-type: none"> Less than 10 qualified people apply for country-director roles 	HIGH – Initial applicant pool is much smaller than our goal	<ul style="list-style-type: none"> Identify interim leaders of new in-country offices who can be deployed for up to 3 months
	Funder for expansion withdraws due to political or other pressure	<ul style="list-style-type: none"> Funder backs away from 10-year commitment, preferring shorter time-frame Funder imposes impractical "strings" 	LOW – Funder indicates preference for 10-year commitment to region	<ul style="list-style-type: none"> Develop additional communication strategies to keep funder aware & excited about progress Identify other possible funders

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Hypothetical Risk Dashboard

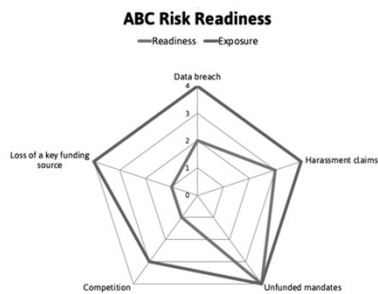
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- What other risks—related to this strategic objective—are concerning?
- What other trends or developments should we be monitoring? (indicators)
- Do the current strategies inspire confidence?

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Hypothetical Risk Dashboard

Rank	2016 Risks	2019 Top Risks
1	Significant reduction in funding	Data breach
2	Costly regulation and unfunded mandates	Harassment and workplace conduct claims
3	Competition	Costly regulation and unfunded mandates
4	Significant technology shifts	Competition
5	Supply chain challenges	Loss of a key funding source



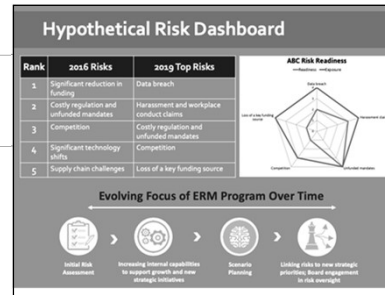
Evolving Focus of ERM Program Over Time



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Discussion

- Are any of the changes in our Top 5 Risks list surprising?
- Does the proposed Budget ensure adequate funding for the risks where we have the greatest gaps between EXPOSURE and READINESS?
- Is the evolving focus of ERM over time consistent with the Board's mandate to invest in risk management?



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Tips and Takeaways

1. Spend time on goals and expectations before diving in
2. Involve a diverse team in risk reporting
3. Keep in mind that LESS is MORE
4. Don't save conversations about strategy and risk until the end of a long meeting
5. Strive for baked in vs. bolted on

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Tips and Takeaways

- Place the most important item at the top of the dashboard, in the upper left corner
- Structure the dashboard from *top to bottom* and left to right
- Avoid using multiple color schemes (no more than 2 color palettes); if the meaning behind the choice of color isn't obvious (green, yellow, red), include a legend!
- Use one legend if possible; if not, place legends as close as possible to corresponding visuals

Key questions:

- What questions am I trying to answer?
- Am I using the right type of chart type for my analysis?

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Thank you!

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Resources! www.nonprofitrisk.org



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