

ROLE OF THE BOARD APPETITE OR TOLERANCE FOR RISK

The objectivity, experience and independence of a board of directors offers the owners or shareholders of a business the opportunity to take advantage of new or different perspectives in evaluating the company's appetite or tolerance for risk.

An important and valuable duty of a board of directors is to assess the principal risks of the company's businesses and to seek assurance from management that appropriate systems and policies are in place to manage risk taking.

Risks can be put in two general categories. First there are operational risks such as financial risks, business continuity, product safety, workplace safety, environmental risks, etc. These are risks from the way business is done. Next there are strategic risks that come from the business the company chooses to compete in or fails to compete in. Other strategic risks include the intangible company goodwill and reputation

The board's role is to contribute to defining the appetite or tolerance for risk in those areas critical to the operation and sustainability of the company. Once the risks are identified and defined it is the role of the board to monitor the effectiveness of the company's internal controls, policies and management information systems to safeguard the company assets, tangible and intangible.

Further the board of directors can play an important role in encouraging the implementation of the concept of an organization that is risk tolerant. That means to build into the organization shock absorbers capable of absorbing the down side when risk taking results in a failure.

Risk taking is a powerful tool when it is executed in a manner that the worst case scenario does not endanger the company's long term vision, mission and value. Carefully defining the scale and scope of risk can create an environment that allows risk taking to become a powerful means of outpacing the competition and serving the customer.

Building into the culture of the business a system of reward and recognition for risk taking when it works and creating a safety net and encouragement to move on when risk taking fails can position the company to be world class in its leadership and reputation.

Whether your company is risk adverse, risk neutral, or risk loving, operate in a consistent manner, communicate clearly, and build reward systems that are in line with the company's tolerance for risk. Then involve and encourage your board to constructively assess and monitor the use and impact of risk in your company.

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