

GOVERNANCE IN ACTION

A Step-by-Step Guide to Governing Risk Management

“Risks are necessary evil in any organizations’ operation,” said Dr C K Lo, trainer at the second dialogue session on NGO board governance themed “Governing Risk Management” held in May 2017.

Emphasizing the inherent nature of risks to operation, Dr Lo expounded on a board’s role in managing risks, and put forward a step-by-step guide that could help NGO governors formulate risk policies, from risk identification and prioritization, to implementation, monitoring and review of risk policies.

Risks are inevitable and complex

The risks an NGO faces are multifold, and require different ways to be dealt with. Further, while some can be more proactively hedged, some “realize” into harm or even crisis that is of little control by the organization. This, again, speaks to risks’ inevitability. For example, a board attendee of the aforesaid workshop shared that their organization suffered from tarnished reputation due to some wrongdoing of a sister organization. Another noted how public perception of the sector at large, sometimes swayed by unverified or even unfounded accusation against a particular NGO reported in the media or online, detriment their organizations’ public trust.

It is indeed no exaggeration to claim that risks can be found in all aspects, and are extremely complex. Hence, the essential first steps to governing risk management are to better understand and properly identify risks.

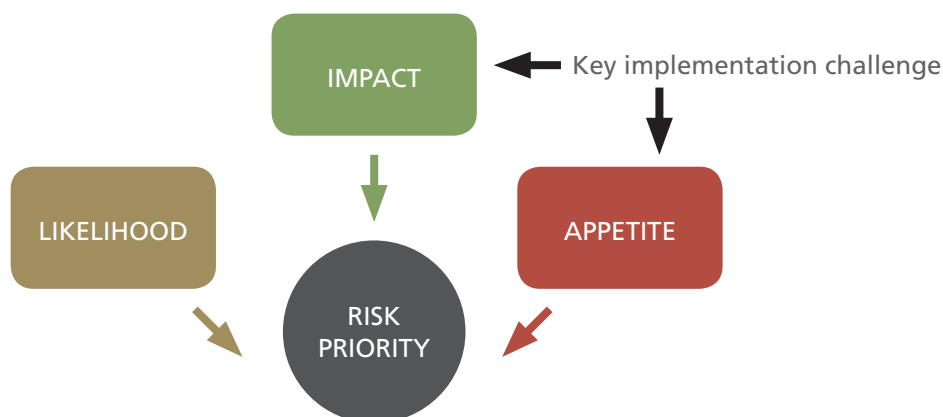
First steps to governing risk management: understand, identify and prioritize risks

One way to do so is to comprehend risks in categories, such as governance risks, legal and regulatory compliance risks, operational risks, financial risks, and lastly, external risks.¹ As one can easily appreciate, the two risks raised above are external risks, which are in general extremely difficult for any individual NGO to avoid.

Having identified the myriad of risks an organization faces, given the resource limitation, it is essential to prioritize the risks. One way to undertake this exercise of prioritization is to rate risks by three meters:

1. likelihood - what the odds are for the risk to realize;
2. impact - in the event of risk realization, how and to what extent it would affect the organization; and
3. appetite - how worthy it is for the organization to bear the risk i.e. if the action that entails the risk contributes to achieving organization goals.

Needless to say, with regard to their varying goals and missions, as well as their diversified backgrounds, histories, cultures, stages of development and so on, individual NGOs have different appetites pertaining to their unique circumstances; hence, NGOs could have widely different assessment of the same type of risk, in terms of relevance and potential severity.



¹ National Council for Voluntary Organisations, “Stress testing your charity - risk management for trustees”, <https://www.slideshare.net/NCVO/stress-testing-your-charity-risk-management-for-trustees>, (November 5, 2015). Slide 13-17.

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Ongoing monitoring and regular review are key

Apart from the understanding and identification of risks, the contextual perspective is also imperative for the monitoring of the implementation of the risk policies – and, precisely because circumstances evolve over time, risks and how they are being managed should be constantly registered and reported to the board. It is the board's responsibility to stay abreast of how the organization performs in terms of risk management.

Internal audit is one of the effective means through which the board and the organization as a whole learn how well or how badly it is managing its risks. Nonetheless, it is not uncommon for organizations to encounter resistance from staff when internal audit is first introduced, who perceives it as an action of distrust (which, paradoxically, is a type of risk in itself i.e. staff resentment, and calls for systematic dealing with). Therefore, as important as having internal audit or any other risk management systems in place is how they are carried out – they should be positioned as a health check that supports the organization including its staff, frontline and management with their work and hence the organization's overall operation; they neither aim to find faults nor assume wrongdoings or inefficiency of staff, but objectively gauge the health of the organization in different aspects and across levels of operation.

Risk management takes the concerted effort of everyone in the organization

"The greatest risk of all," asserted Dr Lo, "is ignoring risk management." He could not emphasize enough the importance of risk awareness, instead of risk aversion, the latter of which may be conservatism in disguise since risk is inherent in any activity. He suggests NGO governors to regularize risk management in board agendas, and lay deliberate effort to grow the risk management culture throughout the organization. After all, effective risk management is only possible with the complementation of a lot of relevant policies: conflict of interests, whistle-blowing, complaint handling, staff remuneration, reserves, privacy, IT security, equal opportunities, and many more, all of which constitute an effective risk management system.



Participants shared their agencies' experience in risk management.



Dr C K Lo led the discussion on governing risk management, which was very well received by workshop participants.

Special thanks to Dr C K Lo, who has provided the rich contents for this article by presenting and leading the aforementioned dialogue workshop co-organized by this Project and GAME (Governance And Management for Excellence) for Public Benefit.

One of the Founders of GAME for Public Benefit, Dr C K Lo is a renowned and respected public affairs and communications expert. He has long been active in public and community service, and was a member of the Council of Oxfam Hong Kong, the Board of Supervisors of Oxfam International, and the Executive Committee of The Hong Kong Council of Social Service. He also currently sits on the Board of Hong Kong Policy Research Institute.