

## Understand Your Business Risks

All boards continually evaluate how their CEO understands and manages their business risks. Are your risks prudent with a good balance of potential gain and loss? Have you planned wisely to avoid assuming too much uncontrollable risk? Do your plans minimize risks through viable contingency plans in place before the risk is assumed? Does your management learn from risks and the outcomes that result?

You and your management team will need to continually demonstrate that your decisions adequately assess and manage the financial and business performance risks that you assumed in your annual operating plan and longer-term strategy.

### Prioritize Your Risks

The first step is to define each risk, and prioritize all risks. Criteria for the prioritization include the relative impact on your business, the likelihood of occurrence and finally how much control do you have over each risk. For the prioritized list, risk mitigation plans should be developed for each risk with clear responsibilities and ownership, clear deliverables and due dates. These risks and mitigation plans should be reviewed at least annually with your board.

Effective risk management is essential for good business performance and value creation. Effectively managed, risk becomes a competitive advantage that competitors will not be able to readily react to. You need to establish a culture of prudent risk taking and effective risk management. There must be clear executive ownership and continuous support for the importance of the risk management process. Your board will be carefully observing and assessing your level of risk tolerance and judgment reflected in your annual operating plan, longer-term strategy and assessment and development of senior talent. Over time, your board will have ample data points to evaluate and assess this important area. From their own experience, your directors should be able to provide valuable counsel and perspective from lessons they've learned the hard way.

### CEO Leadership is Critical

One of the most important aspects of effective risk management is top down leadership. CEOs need to establish and nurture a culture that accepts and manages prudent risk. This is a difficult leadership challenge but it must permeate all levels of the organization. We are all familiar with risk-averse companies. These businesses have a culture of everyone keeping their head down so they can't get shot. In these companies, failure has clear consequences but success many times goes unrewarded. Increasingly, decisions are postponed or never made because more data or more clarity is needed before the risk can be assumed. In today's fast moving competitive world, this type of risk avoidance culture is ineffective and will not be acceptable to your board.

### Create The Environment

Effective risk management creates an environment that invigorates employees, challenges them to better performance and makes working fun. It can help you to attract and retain the best talent. Great people are the key differentiator between the best companies and mediocrity. Decisions are made faster, more effectively and with less effort. The risks are not assumed haphazardly but are imbedded in a robust yet fast analytical planning process that is a model for all processes in the company. In many ways, effective risk management is a leading indicator or future corporate performance.

Successful risk management integrates operational, strategic, financial and compliance components into a well-honed machine. It is palpable and immediately visible to all. Conversely, poor risk management is a weight that pulls down the entire organization. Decisions become overly complex, slow and cumbersome. This is a recipe for poor performance.

### Imbed In Culture

The process for effective risk management needs to be deeply imbedded in the fabric of the company. There needs to be a clear and integrated link between the strategy, operational plans and staffing, skills and people development.

Take a proactive role in framing the subject of risk management and reporting to your board. Your leadership on this issue can prioritize board discussions and provide your directors with a sense of confidence that you and your team understand the importance of this issue and are assuming prudent risks to create shareholder value. How well does your board understand the key risks facing your business and how you're managing those risks?

### Reap The Benefits

Effective risk management can reduce costs and improve business performance. Both of these positive results will create value for your shareholders and potentially sustainable competitive advantage. When risks are properly identified and effectively managed, you and your board members can focus far more time and energy on growth strategies and creating value for your shareholders.