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THE
Board
Member's
Guide to
Risk

DAVID R. KOENIG

AWARD-WINNING AUTHOR OF
Governance Reimagined

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Risk

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This book is dedicated to all who have stepped forward in the COVID-19 pandemic to help, especially the very courageous medical professionals who have risked their lives to save others, and have shown us all how to be brave. My father was a family doctor who passed away last year. And so, I also dedicate this book to his memory. With his black bag in hand, he was the classic doctor who made house calls, delivered babies, performed surgeries, saw you and your whole family in his office, and always knew that being a doctor went well beyond practicing medicine. He cared for the entire person — body, mind, and spirit — even if he would never have used that expression. Thank you to those who continue to care for others in this way, no matter your profession.

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Businesses exist to take risk. Full stop.

In fact, all human organizations exist to take risk. Anytime we come together to try to serve some purpose or achieve some goal, we have assumed risk. If we didn't, we'd never advance beyond the status quo. In fact, not taking risk is probably the single surest way to be doomed to failure in the long-term, as innovation, competition, and customer lethargy slowly eat away at any advantage we may enjoy today.

You've likely heard the expression that risk and opportunity are two sides of the same coin. I find that to be erroneous. When we think of risk as loss and opportunity as gain, *risk* takes on a negative tenor. When risk is viewed simply as a negative, it frames our decision-making process about it. It puts it in a place of avoidance and all sorts of human biases kick in when something has a negative framing to it. We know that if risk is always seen negatively, we will be making sub-optimal decisions about taking it. That's human nature and one of the reasons for this book.

Good businesses take risk confidently. When we govern our organizations, we must welcome risk-taking in ways that are responsible and smart. Our governance models will help us gain that confidence and this book should start you on that path if you are not already there.

This book is not about risk management. That's for the people in your organization to do. Rather, this book is about how to make boards and individual board members better at the governance of an organization's risk-taking — the pursuit of the strategic goals you and your executives have identified. It's designed

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to be practical, helpful, succinct, and effective.

This is not the last thing you'll read about these subjects, but it's a great first overview that can serve to establish a common language around risk-taking discussions at your board. That's why each of your board members should read this book — maybe even at the same time.

This book is also like a travel guidebook. It won't tell you everything there is to see in a specific museum, but it will let you know which museums you don't want to miss on your journey. At the end of this book, you'll be guided to an online resource designed to help you find more information about everything discussed herein. On that site you'll also find conversations with other directors, executives, and thought leaders exploring what works best for them in their fiduciary roles. And if you find that you'd like a much deeper dive into the concepts developed herein, there are several books referenced on that site, including my first, *Governance Reimagined: Organizational Design, Risk, and Value Creation*, which fully builds-out the networked and distributive governance model I advocate.

Importantly, this book is also about recovery. As I finish my writing, the COVID-19 pandemic is still growing in the United States, where I live, but may be nearing an initial inflection point globally. We are responding, but many aspects of our economic life — and the total economic life of some organizations — are frozen. Debate presently rages about the proper balance to take between health and economic concerns going forward. How you think about and treat risk at the board level will impact how quickly your organization will recover from this health crisis, which has rapidly become a social and economic crisis too.

To begin our trip towards better risk taking, we must come to a common understanding about the meaning of the word *risk*. In other words, if risk is not just about loss, how do we discuss it when so many only see it as a negative? How *should* it be framed?

What kinds of risk should boards be thinking about? How do we do this in a way that emphasizes its role in the better

achievement of our goals?

What kind of corporate infrastructure should we have supporting the board and also deployed in our organization?

Finally, how does this view of risk and risk governance help us to always be getting better at serving those who look to us for things they need or want? If you serve on the board of a nonprofit charity that provides human services, this is especially important for you now as demand for the vital work you do is likely surging and the resources to fund those demands may be in decline.

Board members naturally think about the future value of the organizations they serve — something that others will actually determine. That value can go up, down, or possibly stay the same. Risk is a way of describing a distribution of possible changes in that value, resulting from whatever risk-taking your organization chooses to do. Not every board member, however, is naturally aware of how critical external perceptions are in determining that future value. So, that's something we're going to discuss throughout the book.

The outcomes of risk-taking activities at our organizations are not like coin tosses — something equally likely to be better than worse. Rather, our job as governors of our risk-taking organizations is to create an environment that skews the bias of those outcomes towards a much greater likelihood of gain in value over loss.

That's why this book has been written for you — to read it, share it, and use it as you govern. Our goal is to give your organization's likely future value a *positive skew*.¹ And that's a valuable pursuit, no matter what you do.

1 Skew is a statistical term that describes one way in which a distribution of observations or predictions is different from a random set of data that has a normal or bell-curve distribution — whether there is a positive or negative asymmetry to the “bell.” If that term is not familiar to you, there is a helpful illustration of it and its importance to your organization in the Appendix.

“This book is excellent. It’s exactly the right length, tone, and content. To cover a subject as broad as risk in such a succinct manner is testimony to the author’s deep understanding of both the subject of risk and the role of corporate governance. While reading the book, it triggered my thinking on how the boards on which I serve should be considering risk in a post-COVID virus environment.”

— Carol Gray, Board Member, IFM Investors; Board of Governors, Trent University; Board Member, Amex Bank of Canada



DAVID R. KOENIG is recognized as a global leader in the governance of risk. He was named one of the winners of the inaugural M-Prize for management innovation in the category of Reinventing Leadership, and was honored with the Higher Standard Award — the top award given by the Professional Risk Managers’ International Association.

Over his 35-plus-year career, Koenig has held executive and board positions, has published across multiple media, and has had responsibility for enterprise-wide risk management programs as well as complex risk-sensitive portfolios in excess of tens of billions of dollars in notional size. Leaders in risk management and corporate governance have used expressions like “brilliant,” “on the vanguard of innovation,” “intelligent,” “a true leader,” and “one of the best risk professionals out there” to describe Koenig and his novel ideas. His first book, *Governance Reimagined*, has been described as “required reading for senior management and boards,” “brilliantly simple to understand,” and a “masterful, excellent book” that “should be on everyone’s reading list.” Said one analyst in a published review to the CFA Society, “experienced directors and analysts ... could do no better than to read [it].” The former head of the Norwegian Sovereign Wealth Fund said, “In the context of thinking that ‘the organization’ is the most important innovation of mankind, writing a book titled *Governance Reimagined* is quite ambitious. But David Koenig has delivered!”

“I wrote *The Board Member’s Guide to Risk* to be a highly accessible guidebook. I want directors to talk more about, read more about, and have more confidence in taking risk. Everything we do in life requires taking risk, or we’re left with only a deterioration from the status quo. If we want to continue serving those who rely on us in better ways, we need our organizations to be the best they can be at taking risk. This book will get you started down that path, or further your journey if you’ve already begun.” — David R. Koenig



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