

Bonnie Hancock

VIDEO LENGTH: 6:59

SPEAKERS

Don Pagach, Bonnie Hancock

Don Pagach 00:07

Hi, I'm Don Pagach. I'm the director of research for the Enterprise Risk Management Initiative here at NC State University, and today I'm lucky to be with Bonnie Hancock, who's a professor in the College of Management and an expert on enterprise risk management who sits on a number of corporate boards. So welcome Bonnie. Thanks for being here with us.

Bonnie Hancock 00:26

Great. Thanks, Don. It's great to be here.

Don Pagach 00:27

So we're gonna be able to take some expertise from Bonnie on corporate boards and their role in the enterprise risk management process. So the first question I really want to ask you, when, when you're working with a board, how do you see the role and responsibility of the board over enterprise risk management.

Bonnie Hancock 00:43

So I really see it as being in two parts. So one is process and one is more substantive. So from the process side, I want to make sure that the organization has in place the internal processes to manage risks at all levels, and that includes, you know, from compliance risk to strategic risk. Kind of soup to nuts, right? So I want to get comfortable that the processes are there, and then periodically check to make sure they're still working. But then probably just as important, or more important, is really having a good understanding of what are those top enterprise wide risks, what are the ones that could really kill the organization or significantly impair it, and does the company kind of have a handle on those? Are they forward looking as they think about those? And so I want to make sure that those are front and center and that those are part of the board discussion on a regular basis.

Don Pagach 01:35

Great. So when you join a board, what do you look for to see how well the board's oversight of risk is performing.

Bonnie Hancock 01:44

Yeah, so it's hard to get a good feel on it before you join a board, but kind of you can get some some markers by just having a sense of, you know, just the simple things like reading their 10-K but talking to people in the organization and hearing how they talk about their strategy and their progress towards

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strategy and how they manage risk, I think. So again, I want to make sure it's really forward looking. I also want to look at what their strategy is and see, do they really understand the risk to achieving that strategy and the risk that might come with that strategy. So a lot of organizations where they go off the rails is when they take on some new initiative that creates risks that they have no idea how to manage. And so I want to look for how are they kind of managing the risks as they execute their strategy. So for example, on one board that I recently joined, I looked at their presentations to investors, publicly traded company, so you can go and look at those, and they actually shared with investors their criteria for M and A where they said, these are the things we're looking for, or that, you know, the hurdles that we have to pass before a deal. Makes sense, right? And then they analyzed a recent deal kind of against those criteria, and kind of showed how they did that. And that showed, to me that they had a sense of, we know where the risks lie with M and A, it's part of our strategy, but we understand where the risks lie, and we've set some guardrails so that we're not going to go beyond those risks. And that, you know, knowing that the board and senior management's gone through that process to set those kind of rules of the road and to evaluate and that criteria really made me comfortable that they had a good handle on their risk.

Don Pagach 03:22

That's a great example. So when you're part of a board, how do you and the board think about long term risks, or risks are on the horizon?

Bonnie Hancock 03:32

Yeah, I think in general, you know, you always have to be forward looking with risk. And I think that's it's seems simple and understandable, but it's really a battle sometimes, particularly where companies report on things that happened in the past, right? And so how do you turn that focus more towards the future? And I think part of that is making sure that you're regularly looking at your long term plans and looking at, well, how have things changed? And how do we think things are going to change in the future, that you do some scenario planning around that and think, Well, if we go this way, then we'll do this. If we go that way, we'll do that. But it's a constant. I don't want to say battle per se, but it's something you always have to remind yourselves of, because it's so easy... you understand the things that already happened and you know, but going forward people are more uncomfortable kind of trying to look into the future. So I think you have to constantly kind of be saying, How could our assumptions change, and what would cause that, and what are we monitoring to make sure we see it coming before we're in the midst?

Don Pagach 04:33

Wow. So when you start thinking about integrating risk management into strategy, how do you ensure that risk management gets incorporated into the board's agenda and then into the strategic planning process.

Bonnie Hancock 04:46

Yeah, I think one key is to make sure that your chief risk officer, or whoever is in charge of kind of your enterprise risk management program, is part of the senior management discussions and is part of the board discussions, so that their point of view is put in there. In addition, I think updating and having a discussion about your top risks should be part of every annual planning process that an organization

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goes through, that you need to make sure you know that you do that, and also you know regularly scheduling board time to take deep dives into some of your top risks to make sure that everybody's kind of on the same page, and that I've seen that be very effective, where you plan out kind of a year in advance and allocate time to talk about certain top risks. But you know, you're not a slave to it, right? If something pops up like whatever happens in the world that particular day that suddenly changes things, whether it's a natural disaster or political event, that you you're flexible enough you bring that into the discussion.

Don Pagach 05:47

Okay, so with that discussion, how do you have any tips for you and the board and thinking about how risk information can be better communicated to the board?

Bonnie Hancock 05:58

Yeah, that's a hard one. I think the biggest mistake that management teams make is they just give you too much information, right? If everything's important, then nothing's important, right? And so really condensing it down, and I know there, you know, there's some people that are pro dashboards and some people that aren't, I'm kind of pro dashboard. Give me red, green, yellow to say where it is, give me arrows to show me trends, but also have some discussion about what you're seeing, a little bit of narrative. And definitely, you want to make sure that you're spending some time thinking about how are you going to respond to that risk, or how are you trying to prevent that risk from happening to your organization. So I think you do need regular reporting. And again, it needs to be forward looking. You need to have not only where the risk sits today, but where you see it going in the future.

Don Pagach 06:47

Well, thank you for those great insights on risk management.

Bonnie Hancock 06:50

Great it's been fun talking to you.