

# Active Strategic Oversight: The Board's Role in Risk

Trustee Academy 2024



# What do Boards do?

- Corporate governance is the system by which organizations are directed and controlled. (Cadbury Committee Report UK 1992)
- A system independent from, and above, the operating system.
- System ought to be run by different people than operating system so:
  - Board runs governance,
  - Management runs operating.
- System that determines allocation of scarce resources to most effective uses (economics).

# Agency Theory

Principals

Agents



# Agency Theory – Principals and Agents

**Principals** are the people:

- Who created the organization
- Who have a purpose for the organization: needs that it can meet
- Who contribute (invest or give) resources/capital.

# Agency Theory – Principals and Agents

Agents are the people:

- Who undertake the organization's activities to meet the principals' needs.
- Who employ (use) resources/capital.
- The 'ideas' people.

# Agency Theory – Principals and Agents

Board (Governance) is the people:

- Who are the independent intermediary (broker/referee) between the principals and agents.
- Who are the voice of the principals to the agents (and back)
- Who have the ultimate authority – and responsibility – to act in the broadest interests of the corporation (the school division).

# Direction

- Direction means matching the unmet needs of the principals (the purposes of communities, students, public interest, government, employers, etc.) with the best ideas of the agents (the strategies of managers).
- Strategic plan is primary tool for direction.
- Risk direction, budget and delegation of authorities are also tools.

# Control

- Control is the board “gaining reasonable assurance” (confidence) that the organization is moving substantially in the direction it approved.
- Performance management is a tool on the control side of governance.



# School Boards are Expected to

- Administer and manage the educational affairs of the school division, to exercise general supervision and control over the schools – through bylaws and resolutions (*The Education Act*).
- Active strategic oversight:  
Plan – Measure – Report – Evaluate (*SSBA Performance Management Framework and Tools*)

# Active Strategic Oversight

- Active – engaged and adding value (vs. reactive)
- Strategic – forward looking in the best interests of the organization (vs. operational)
- Oversight – leading the organization with watchful care to accountable performance (vs. doing/deciding/executing)

# Active Strategic Oversight: The Board

Board is responsible for oversight of the organization through **leadership**

- Oversight of the strategic direction and plan
- Oversight and empowering of the CEO/management
- Oversight of the Board renewal and management succession process
- Oversight of the performance of the organization.

# Active Strategic Oversight: The Board

Board is responsible for oversight of the organization through **stewardship**

- Oversight of the organizations resources
- Oversight of financial, risk and capital management
- Oversight of the authority levels and policies delegated to the CEO/management.

# Active Strategic Oversight: The Board

Board is responsible for oversight of the organization through **monitoring**

- Oversight of performance – Evaluating performance measures and holding management accountable
- Oversight of audit and control systems
- Oversight of the CEO – Evaluation and Compensation
- Oversight of the board evaluation process

# Active Strategic Oversight: The Board

Board is responsible for oversight of the organization through **reporting**

- Oversight of school board communications
- Oversight of continuous and periodic disclosure, engagement and accountability to stakeholders
- Oversight of the degree/culture of openness and transparency in the organization

# Active Strategic Oversight: The Chair

Chair is responsible for the oversight of the Board

- Oversight of the board agenda and workplan (forming)
- Oversight of the strength of the principals' relationship
- Oversight of the approach to governance
- Oversight of the tone at the top – Setting the tone and ensuring an atmosphere of open airing of all views, opinions (storming)
- Conflict resolution
- Propose solutions, call for vote or tabling (norming)
- Promote unity of Board after decisions reached (performing)

# Active Strategic Oversight: Individual Board Member

Individual board members are responsible for oversight of themselves!

- Duty of care
- Fiduciary duty
- Behaviour
- Code of conduct
- Ethical behaviour
- Conflict of interest



# Enterprise Risk Management



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# What is Risk?

“Never forget decision-making is all about taking risks.

You cannot eliminate risks. It is futile. The bigger your job, the greater the risks you should be taking. The idea is not to try to eliminate risks, but to take the right risks.”

Peter F. Drucker



# Enterprise Risk Management

## 8 Internal Challenges (Fraser & Simkins, 2016)

- Corporate culture
- Board of directors' knowledge
- Not applying a KISS mindset
- Training without having workshops
- Identifying too many risks
- No timeframes
- Not making ERM enjoyable or meaningful
- Not recognizing ERM as change management

# Board Roles and Responsibilities

- Board has ultimate responsibility for risk in the school division and its role is to provide governance oversight of the division's ERM program
- Board should review at least the following items:
  - ❖ The division's ERM framework (annually)
  - ❖ Risk appetite/tolerance levels (annually).
  - ❖ Risk register and risk assessment results for the division's top enterprise-wide risks (annually).
- The Board must determine how involved it is going to be in the various ERM activities. It may be very involved in some or all of the activities.

# Culture of Risk Management



# Risk Identification

- Annual process, often associated with strategic planning,
- on ad-hoc basis as required for significant changes
- identification of key risks

Risks are considered within the following categories: Financial; Facilities; Governance; Human Resources; Information Technology & Support Areas; Operations; Reputation; and Strategy & Vision.

The Identification process should consider:

- Current and future expected risks.
- Risks associated with recent internal changes in the business.
- Risks associated with external change in the business or political environment.
- The root causes for the risks

# Risk Assessment Likelihood

Rare	Unlikely	Moderate	Likely	Almost Certain
Extremely rare in industry Once in >10 years at school division	Has happened occasionally in industry Once in 5-10 years at school division	Periodic occurrence in industry possible occurrence Once in 3 years at school division	Has occurred previously and could reasonably occur again Once in 1-2 years at school division	Extremely likely to occur Multiple times per year at school division

# Risk Assessment Impact

Impact Categories	Impact Factors				
	Insignificant	Minor	Moderate	Major	Catastrophic
Financial	Financial impact of event is less than \$100,000	Financial impact of event exceeds \$100K, but is less than \$500K	Financial impact of event exceeds \$500K, but is less than \$2.5M	Financial impact of event exceeds \$2.5M, but is less than \$15M	Financial impact of event exceeds \$25M
Reputational	One negative article in one publication	Negative articles in more than one publication	Short term negative media focus and concerns raised by stakeholders	Long term negative media focus and sustained concerns raised by stakeholders	Stakeholders lose faith in management or Trustees
Managerial Effort / Capacity	Impact can be absorbed through normal activity	Some management effort is required to manage the impact	Can be managed under normal circumstances with moderate effort	With significant management effort can be endured	Potential to lead to the collapse of the organization
Government Relations	Routine ministerial inquiries	In-depth ministerial inquiries	Concerns raised by Ministry of Education	School division's ability to deliver on mandate is questioned	Ministry loses faith in the organization
Legal	Legal action threatened	Civil action commenced/ small fine assessed	Criminal action threatened/ moderate fine assessed	Criminal lawsuit commenced/ significant fine assessed	Jail term of any length for a Trustee/ Director multiple significant fines assessed
Student Outcomes	Immaterial impact on student achievement	Student achievement metrics begin to show a decline	Parent's complain about student achievement	Overall student competency levels are below standards	Inability to satisfactorily deliver curriculum or key programs



# Heat Map

Risk Evaluation Matrix					
5 Almost Certain	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Moderate	3	6	9	12	15
2 Unlikely	2	2	6	8	10
1 Rare	1	2	3	4	5
<b>Likelihood</b>	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic
<b>Imp act</b>					

# Risk Mitigation / Response

## Risk Response

In the user guide: “Guidance on Response to Residual Risk Rating” chart

- Accept: monitor but take no action
- Mitigate: accepts some risk through process
- Transfer: to 3<sup>rd</sup> party – buy insurance
- Avoid: risk is unacceptable, avoid it

# Risk Monitoring

Monitoring processes facilitate a no-surprises approach to ensuring risks are effectively assessed and appropriate risk responses and controls are in place.

- Continuity Planning
- Running Simulations
- Ongoing

# Risk Reporting

Roles and Responsibilities found in ERM User Guide

Leadership: SASBO, LEADS

- Reporting to Director of Education
- Operationalization of ERM strategy

Director of Education:

- Reporting to the Board at least annually, and otherwise, regularly
- Operationalization of Board strategy

# Risk Reporting

## Board:

- Set risk appetite / philosophy
- Responsible for reviewing and approving the School Division ERM program
- Report to public / electorate

# Determining Risk Appetite

Key questions:

1. What risks will the Board not accept?
2. What risks will the Board take on new initiatives?
3. What risks will the Board accept for competing objectives?

# ERM Maturity Self-Assessment

## Key Function:

- To assess the extent to which your school division has identified various levels of risk and the degree to which key risks are discussed, managed and integrated within the organization.
- Intended for the Board to evaluate the level of deliberation with which it practices and supports ERM within its governance role.
- The Board should look to progress over time towards the "Executing" end of the continuum.
- Conduct annually as part of Board evaluation

RISK AREAS	EMERGING / DEVELOPING	QUESTIONING	ANALYZING	MANAGING / IMPLEMENTING	EXECUTING
<b>RISK CULTURE</b>					
RISK APPETITE					
GOVERNANCE					
ERM INTEGRATION IN STRATEGIC PLAN					
DECISION-MAKING					
INTEGRATION OF ERM IN ORGANIZATIONAL PROCESSES					
<b>RISK MANAGEMENT CYCLE</b>					
RISK IDENTIFICATION					
RISK ASSESSMENT					
RISK MONITORING					
COMMUNICATION AND REPORTING					



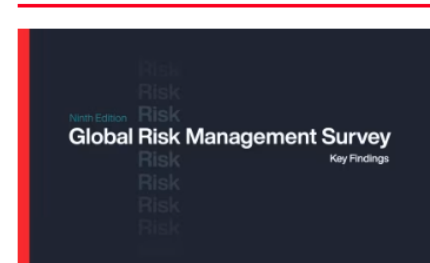
# Top 10 Global Risks - Example

## Perennial Risks, New Reality

Although many of the top 10 risks remain unchanged since 2021, the macroeconomic environment in which they must be managed is markedly different. The velocity of risk evolution, which was triggered by the pandemic in many areas, continues to intensify and forge greater interconnectivity between risks.

## Top 10 Current Risks

- 01 Cyber Attack or Data Breach
- 02 Business Interruption
- 03 Economic Slowdown or Slow Recovery
- 04 Failure to Attract or Retain Top Talent
- 05 Regulatory or Legislative Changes
- 06 Supply Chain or Distribution Failure
- 07 Commodity Price Risk or Scarcity of Materials
- 08 Damage to Reputation or Brand
- 09 Failure to Innovate or Meet Customer Needs
- 10 Increasing Competition



## Global Risk Management Survey Key Findings (PDF)

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# Cyber Risk commentary

Aon survey respondents report their highest-ever level of readiness for cyber attack or data breach at 89 percent, while their reported loss of income from cyber attack or data breach was unchanged from 2021 at 18 percent. Notably, this is the second lowest loss of income reported for the global top 10 risks. These figures align with Aon's [Cyber Resilience Report](#): despite a sharp rise in incident frequency and severity, ransom payments remained flat and average cyber maturity improved, going from “basic” to “managed” from 2021 to 2023.

All these data points indicate that organizations are prioritizing this risk and have plans in place to address its potential effects on their business.

# ERM Framework and User Guide – looking forward

- The original framework and user guide was developed by a joint committee composed of trustees, LEADS and SASBO members and approved in 2017.
- A WAG will be organized in 2024 to conduct refresh of the documents, including the roles and responsibilities of stakeholders.

# Conclusion

## Review the SSBA Governance Handbook

1. Risk Direction – setting the risk tolerance and appetite
2. Risk Oversight – how well are risks being managed?
3. Risk Control – how effective are controls?

<http://ssbagovernancehandbook.ca/section-2/risk-management-and-oversight/>

# Thank You



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