

Using a Balanced Scorecard to Manage Risk

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Risk management continues to be one of the key fiduciary duties of boards of directors, and its importance has been reinforced as associations grapple with diminished membership levels and revenue from their products, services and programs because of the economic downturn. However, risk management should extend beyond the financial prism and consider a “balanced scorecard” of risks.

Introduced by Robert Kaplan and David Norton in the January/February 1992 issue of the *Harvard Business Review*, the balanced scorecard has since been embraced by organizations worldwide to manage and improve performance at the individual, departmental and organizational level. It includes four “perspectives” from which to analyze performance: financial, customer, internal business process, and learning and growth.

As helpful as balanced scorecard methodology can be in addressing performance issues, it also has applications for managing business risks of all kinds — risks that could jeopardize an association’s success if not addressed.

So how can an association identify, categorize and prioritize these risks and keep the board informed of progress?

Enterprise Risk Management is a process developed by David A. Westman (co-author of this article) while serving as executive director for the Emergency Nurses Association. Using balanced scorecard concepts, it helps ENA identify key risks and opportunities so that limited resources can have the greatest impact. ENA has used ERM since 2004, expanding its scope and applicability over time as more risks are uncovered.

ERM is useful for virtually any association. ENA managed to accomplish its

first- year tasks within a few months, without overly burdening staff with assignments. The first step involved the project leader facilitating individual meetings with all director-level staff. During those meetings, participants brainstormed all potential risks relative to ENA’s products, services and programs. They also looked at risks that could impact their location, their ability to attract and retain staff, potential competitors both within and outside of the association industry, and other key metrics.

Next, the ENA staff placed the initial laundry list of potential risks into categories. These were fine-tuned over the years to now include the following:

- **People:** members, board members, volunteers, employees, clients, donors and the general public
- **Income:** conference and course registrations, product sales, grants,

- contributions, investment income
- **Goodwill:** reputation, stature in the community, and the ability to raise funds and appeal to prospective volunteers
- **Property:** buildings, facilities, equipment, materials, copyrights and trademarks

Once categorized, the next step involved executive team members assessing each risk’s magnitude, such as the potential negative impacts to ENA and the likelihood of these impacts happening in the near future. These same individuals were then asked to identify action steps, if any, to respond now or in the future to each of the identified risks.

All of this information was captured in a risk management scorecard, which now includes nearly 50 business risks. (See charts on pages 37, 38 and 39 for a sample scorecard.)

RISK FACTOR	COMPETITORS	CURRENT STATUS/RISK ASSESSMENT	FUTURE RISK MANAGEMENT	RISK LEVEL
PEOPLE — Members, board members, volunteers, employees, clients, donors, and the general public				
Membership – Competition	Organization X	Organization X is an association that will always be monitored. At this time Organization X does not appear to be a significant threat to ___ membership revenue. Based on 20XX survey data, 4% of Organization X members (approx. 2,600) report their primary practice area to be ___ – down from 5% reported in 20XX. Current survey data continues to be sought.	Organization X activities are monitored for potential partnership opportunities and potential risks to ___ revenue streams.	2 Hurts Little Bit
Board Member Liability	N/A	Currently maintains Director and Officer liability coverage through _____ insurance company. Reimbursement levels vary depending upon the incident.	___’s insurance will be reviewed annually relative to coverage levels and competitive pricing.	0 No Hurt
Key Staff Executive Continuity	N/A	___ does not have in force a key executive succession plan (i.e., identification of internal candidates to succeed ___ staff officers and/or action steps that will be taken in the event of an unanticipated vacancy in any of these positions).	A plan pertaining to the top two executives was developed in 20XX and will be further refined in 20XX. The remainder of the Executive Team will be addressed in 20XX.	2 Hurts Little Bit

RISK FACTOR	COMPETITORS	CURRENT STATUS/RISK ASSESSMENT	FUTURE RISK MANAGEMENT	RISK LEVEL
INCOME — Conference and course registration, product sales, grants, contributions, investments income, etc.				
Course 123	Course D, offered by Organization Y	<p>___ staff once viewed this to be more complimentary as opposed to competitive to Course 123. Course D used to focus exclusively on ___ whereas Course 123 is more comprehensive. However, the most recent version of Course D includes additional modules that serve to make it more competitive with Course 123.</p>	<p>Staff executed a marketing plan that highlighted Course 123's competitive advantage over Course D.</p> <p>The revision of Course 123 is underway. With the revised content projected to require more than 2 days of a student's time, select modules are being put online. Market research was conducted in 20XX to ensure content delivery meets the needs of students, providers, instructors, and directors.</p>	4 Hurts Little More
___ Annual Conference	Organization F Conference	<p>Offerings presented at the Organization F conference are of interest to ___ members, particularly _____. Continuing Education credit can be earned by attending Organization F's conference.</p>	No action at this time.	2 Hurts Little Bit
Internal Financial Controls	N/A	<p>Comprehensive internal controls are in place to help mitigate financial management risk. The controls are reviewed annually by ___'s external auditor.</p> <p>___ has a financial management system and software (i.e., _____s) which also serves to mitigate risk.</p> <p>The audit firm undertakes comprehensive financial audits annually, with results presented in-person to the Board by the engagement partner.</p> <p>The auditor is available as needed to the Treasurer and other board members to address questions or concerns regarding financial management.</p>	<p>The auditor will continue to review internal controls and undertake annual audits.</p> <p>The auditor will continue to be available to respond to board member questions or concerns regarding financial management</p>	0 No Hurt
Advertising – Product Revenue	Various	<p>___ accepts advertising in ___ and elsewhere for products that directly compete with our own. Such advertising will continue to be allowed given the assumption that ___ products are superior, or at least perceived by our members to be superior.</p>	The Executive Director will benchmark practices with other ___ associations relative to this issue.	2 Hurts Little Bit

RISK FACTOR	COMPETITORS	CURRENT STATUS/RISK ASSESSMENT	FUTURE RISK MANAGEMENT	RISK LEVEL
PROPERTY — Buildings, facilities, equipment, materials, copyrights and trademarks				
Facilities and Equipment	N/A	<p>The ___ Business Continuity Plan is documented.</p> <p>An insurance policy is in force with ___ that covers ___ in the event of property loss. Reimbursement levels vary depending upon the incident and the item that is damaged/destroyed.</p> <p>In June 20XX ___ staff participated in a desk top mock disaster exercise facilitated by an external consultant.</p>	<p>The Business Continuity Plan is a living document and is continually updated.</p> <p>___'s insurance will be reviewed annually relative to coverage levels and competitive pricing.</p> <p>We will continue to run desk top mock disaster exercises as the budget permits.</p>	0 No Hurt
Facilities and Equipment	N/A	<p>___ offers secure online ordering of products, memberships, and registrations. The ___ logo is prominently displayed on all Web pages that have an online ordering component.</p>	<p>IT staff conduct ongoing monitoring of any threats to the security of online ordering.</p>	2 Hurts Little Bit

The scorecard is incorporated in board orientation materials and is updated and discussed annually at the board level. ENA staff collaborate to keep tabs on the environment and, if appropriate, update the scorecard for new risks and/or actions contemplated in response to current risks. In addition, the association's accounting firm and legal counsel have been used to identify general risks.

The ERM process must not be viewed as a means to assign blame for the fact that risks exist, or the individuals best able to identify and respond to risks may choose to remain silent. A key to ENA successfully implementing ERM was the board's and staff's willingness to identify vulnerabilities, risks and areas of concern, and also maintain a candid environment.

By embracing ERM, ENA's board and staff have been able to focus their resources on key areas. Their scorecard also keeps ENA's staff from being complacent in its products, services and program offerings, and encourages continuous progress in risk abatement.

"We have a vigorous marketing and member research program. By being attuned to our business risks, especially as they relate to our educational pro-

grams, we can better frame and focus our research agenda," says Beth Bernardi, ENA's marketing and membership officer. "This includes constructing survey and focus group questions to better understand the risks we face from competitors and how we can improve what we offer."

From the board perspective, ERM gives ENA's directors an efficient yet effective way to monitor risks and ensure that staff is partnering with them to protect the association's ongoing health. ENA Board Member Mitch Jewett, who has five years of experience with the ERM approach, says, "Each year when I review and analyze the scorecard, I have peace of mind that staff is on top of the risks that ENA faces as an organization. It helps me focus my attention on risks of greatest concern and makes me feel more comfortable that I am fulfilling my fiduciary duties." ■

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