

Articulating Your Risk Appetite

Phil Kenkel

Bill Fitzwater Cooperative Chair

In last week's newsletter I discussed the concept of an organization's risk appetite. Defining a risk appetite is obviously a subjective process which considers many factors including the cooperative's capital structure and its ability to absorb risks. After a board and CEO have a discussion on the cooperative's risk appetite the next step is to articulate and communicate the risk appetite. That helps to ensure that the risk appetite is incorporated into the strategic objectives and into the risk management plan. One of the board's key fiduciary responsibilities is to safeguard the members' investment in the cooperative. Risk appetite statements describe how the board is approaching that key task.

Many organizations create an overall risk appetite statement and then describe more specific risk appetites for different categories of risk. Like other areas of strategic planning, the discussion and thought process behind the discussion are often as useful as the final product. Risk appetite statements are useful only to the extent that they can guide management in strategic decisions and in assessing whether the cooperative activities are aligned with risk appetite. For that reason, it is often the more specific risk appetite statements that are the most useful.

Specific risk appetite statements are often subdivided by risk category. For example a cooperative might articulate that it had a moderate risk appetite in pursuing strategic objectives for growth and profitability but were willing to take risks in developing their human capital. They might go on to specify that they had a low tolerance for exposure to market price risks and an extremely low tolerance for breaches of regulatory compliance.

Those types of statements are useful as the cooperative considers new strategic initiatives. For example, the cooperative might be considering offering crop scouting services using unmanned aerial aircraft. The cooperative described above might decide that they are relatively unconcerned with developing expertise in the new business area. They are willing to assign a key individual to the area and let them grow with the challenge. However, the cooperative would want to have a very good handle on possible liabilities. Formally discussing the cooperative's risk appetite might help focus the discussion of the potential strategy.

8-20-2015