

## EXPERTS' CORNER

### RISK MANAGEMENT



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# What are the fiduciary responsibilities of boards to protect the club financially from natural disasters?

*“An ounce of prevention is worth a pound of cure.”*

—Benjamin Franklin

**BEN FRANKLIN** coined this phrase shortly after he was forced to jump out of a window of his home, having unintentionally set the house ablaze. Afterwards he cautioned fellow homeowners to be careful carrying around glowing coals from one room to another as ashes could fall and lodge themselves between floor planking; smoldering until they ignite into flame.

The recent flooding in the Midwest, devastating tornados in Arkansas and wildfires in California should forewarn us to be prepared for natural disasters that appear to be occurring with more frequency and greater severity. Natural disasters are, however, only one form of the many risk exposures that our clubs must consider. The growing attention being paid to cyber security may be a wakeup call to the broader business community that we must all manage our risks. While our greatest risks are often unintended or accidental, it is essential that we have a process to anticipate risk, take preventive measures, establish back up plans and develop financing schemes to deal with a wide range of potential losses.

Club boards should recognize that one of their most fundamental governance responsibilities is to protect the assets of the club and wellbeing of its stakeholders while on club property. Every club should have a risk management program. While

it should be implemented by management, the board, management and Risk Management Committee must work together to analyze acceptable levels of risk and agree to the appropriate means to mitigate potential losses. The Audit Committee also shares in these responsibilities as it pertains to the financial assets of the club; providing oversight and approval of the internal control (IC) programs as detailed in the IC manual.

A comprehensive risk management plan provides for the safeguarding of the club's assets, operations, reputation, and safety of employees, members, guests and their belongings. The broad categories for the primary types of losses are:

- Materials, data and property of the club and its members, guests, employees and outside stakeholders.
- Time, as in the loss of use of the facilities, disruption of business, loss of employment and wages of staff.
- Maintenance of positive momentum in growth of sales and membership levels, brand recognition in the community, etc.
- Risk of personal injury to members, guests, staff and vendors.

There are four basic steps to a risk management program. Those steps begin with identifying the wide range of risk and exposures you have within the general categories of losses listed above. Your list should be vast and include input from many points of view. Management should lead the process and involve as many staff members as practical. It is also advisable



to use the free services of your insurance carrier's loss control professionals, and/or engage paid consultants from one of the many businesses that provide this service.

The second step is to assess the risk—what is the likely frequency and how severe might it be. Keep in mind that not all of the four primary types of losses are monetary. For example, loss of the use of your golf course or restaurant for a short period of time may not be a big monetary loss but otherwise would be considered a catastrophe by the membership.

In the third step of our process, graph those assessments. Create a chart with “severity” as the vertical axis and “frequency” as the horizontal axis. Your chart will naturally segment itself into four quadrants. In counter clockwise order from the axis's intersection label these quadrants; “assume,” “control,” “eliminate” and “transfer.” These are the

risk control activities that you will want to employ in the fourth and final implementation stage. In a subsequent column, I will describe the types of events, risk management tools and the roles of the board, management and committees in this final stage.

Spring is here and I trust that you have successfully survived the fireplace season without burning down the club. In view of this article and knowing the risk of fire, which of the four strategies might you employ for next year. Just giving this consideration would make Ben proud! **CD**

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