Nonprofit Risk Management Center
Vol. 23, No. 2, Fall 2014

Risk Management ESSENTIALS

Tips, Knowledge and Tools for Nonprofit Organizations

My Risk Management Policies

My Risk Management Policies, Version 2.0 helps you create custom risk policies for your organization in a matter of minutes. Need well-written policies? This cloud app makes policy drafting easy. After completing the quick registration process, search by keywords, categories or peruse an alphabetized list of 150+ templates. Each template offers many options to consider. With My Risk Management Policies, Version 2.0, custom-fitting policy language to suit your nonprofit is easy and dare we say... fun!

What's New

- Multiple users, one account — The new version has two levels of users: Account Holder and Added User. This means that two or more staff from one organization can collaborate on the drafting of policies.
- Policy drafting tips — Policy drafting tips and hints appear at the top of many templates. It's like having a risk coach on your desktop.
- More policies than ever before — We have added nearly 50 new policy templates and updated many more, and we're not stopping there! As always, we welcome your suggestions for new policy types, new policy language, policy options and more. Send your requests to info@nonprofitrisk.org.

To begin developing customized Risk Management Policies for your nonprofit, go to www.myriskmanagementpolicies.org.

The one-time licensing fee for **My Risk Management Policies** is only $179 or just $29 if your nonprofit is an Affiliate Member of the Nonprofit Risk Management Center.

We Are the Champions, My Friends: Risk Champion Q&A

By Erin Gloeckner

This special issue of *Risk Management Essentials* is devoted to sharing the message that risk management is a team sport. A team approach encourages the embedding of risk management practices throughout your organization. Still, it helps to have an experienced risk management thought leader on board; this 'risk champion' can inspire buy-in from the whole team and ensure that your approach to risk management is understood and practiced consistently throughout your organization. If your team doesn't have a risk champion, or if you've recently assigned a newbie to a risk-centric role, take a moment to learn from these nonprofit leaders who graciously answered our Risk Champion Q&A.

If nonprofit risk management was a TV show, these folks would be the Top Chefs of risk.

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Risk Champion Roll Call

Gaetana De Angelo, Director of Risk at Girl Scouts of Greater Atlanta: Joined the ranks of risk champions after working at the Girl Scouts Council for a few years (her background was restaurant management). Gaetana then decided to go back to school and earn a degree in risk management.

John Enos, Director of Risk Management at Quest, Inc.: Entered the risk management profession after completing a degree program in occupational health and safety and working in the petrochemical industry as a field inspector and trainer. After a few years, John changed industries to work for a third party administrator as a loss control inspector for a self-insured workers compensation account. He worked very closely with an amazing underwriter who shared a wealth of risk management knowledge with him. For the past ten years, John has worked as a risk manager in both the construction and healthcare industries.

Carolyn Gulston, Director of Risk Management at National Multiple Sclerosis Society: Was tempted by a past client to try her hand at risk management. Carolyn worked as a property and casualty insurance broker until she was asked by one her clients to consider becoming their risk manager.

Robert Jones, Assistant Risk Management Director at The Salvation Army, Eastern Territorial HQ: Began his foray into risk management while planning his retirement from the United States Army. Robert was looking for a career field that offered diversity in day to day operations. Risk management seemed to fit the bill and he was 100% correct!

Dawn Fostmeier, Legal Manager/Risk Coordinator @ InterVarsity Christian Fellowship.

Q: What is the biggest challenge you face as a risk champion at your nonprofit?

After completing numerous risk assessments and other consulting projects for our diverse clients, we asked this question with some educated guesses in mind. It was no surprise when Robert Jones said his biggest challenge was, "the size of The Salvation Army along with all of the different types of programs and services offered to the public." John Enos agreed that, "the biggest challenge for me is that Quest, Inc. offers very diverse services: from a variety of residential and employment options, to behavioral therapy and even a recreational summer camp. It can be difficult assessing the risk associated with so many different operations."

Carolyn Gulston expressed a related sentiment, that her greatest challenges at National Multiple Sclerosis Society include "managing multiple chapters/subsidiaries as part of the risk management program and getting absolute buy-in from all." Organization-wide buy-in is an all too common barrier for today's risk champions. Gaetana De Angelo approaches this challenge by "balancing the use of risk management techniques to inspire confidence" amongst staff at Girl Scouts of Greater Atlanta. Dawn Fostmeier also inspires confidence at InterVarsity Christian Fellowship, explaining that "InterVarsity does business all over the U.S. and overseas, and the legal team reviews many contracts and regulatory issues. Hotels and other vendor contracts ask us to accept responsibility for everything, including their acts of negligence. Legal helps our staff negotiate these contract terms that could harm the ministry. The increase of unfavorable terms makes reviewing contracts even more important."

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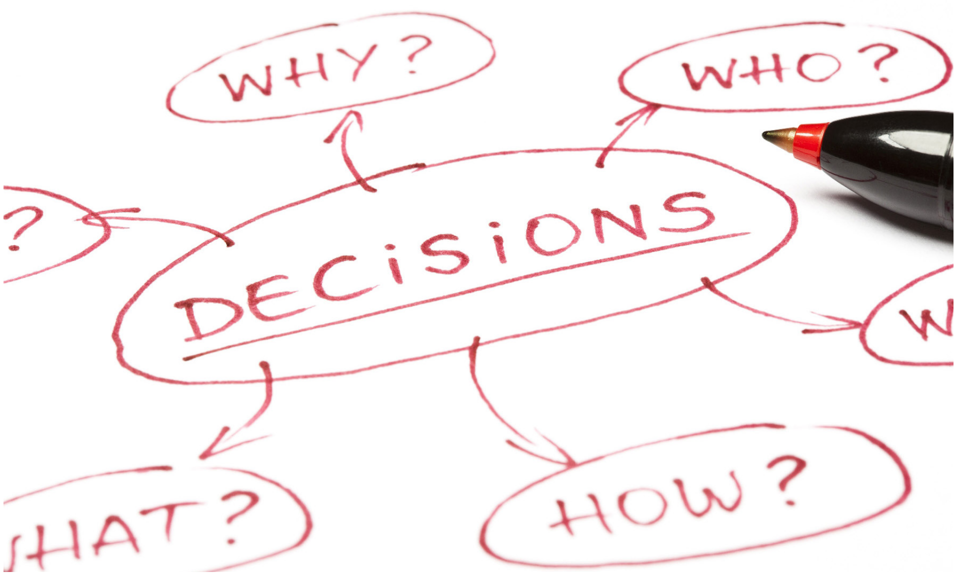

> Dawn makes an excellent point that practicing both action and reflection can prepare your team to manage unpredictable upside and downside risks.

Q: In what ways is your nonprofit's risk management function unique?

The Center is a huge proponent of custom risk management policies and self-made risk management plans. We believe any organization's approach to risk management should align with its unique mission, structure, and culture. This led us to ask the champions how their organizations practice risk management in distinctive ways.

Carolyn Gulston points out that though many nonprofits cannot hire staff to focus solely on risk management, prioritizing risk management from the top down can help you find your path. "What allows me to be effective in my role as risk manager is the support from the national board and leadership. They really take managing risk very seriously." Carolyn's situation is unique because in some organizations, conveying the importance of risk management to the board and leadership team is a struggle.

John Enos found uniqueness in Quest's compelling approach to engaging staff in risk management."Our philosophy on safety is what makes our risk management function unique. Quest's safety motto is 'At Quest, safety is you.' Safety starts with you and ends with you, no matter what level you are within the organization. That philosophy enables our staff members to actively be involved in two key elements of risk management: hazard recognition and hazard control."

Gaetana De Angelo also uses a down-to-earth approach to clearly communicate risk management and

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safety expectations amongst the Girl Scouts' mega-squad of volunteers. "I feel that we have a very unique situation at the Girl Scouts. The large majority of our program delivery is through volunteers; in our council alone that is almost 17,000 adult volunteers! Various methods have to be employed to ensure that we communicate safety and risk information to our volunteers who are excited and energized about delivering the Girl Scout Leadership Experience. Parents who entrust their children to our volunteers have huge safety expectations. The challenge frequently arises that each adult volunteer comes to us with very different backgrounds and life experiences. I never use the phrase, 'well that is just common sense,' as I have come to learn that common sense is very different from one person to another!"

Whether you're juggling safety concerns, stakeholder relations, or an emerging crisis, Dawn Fostmeier believes that risk champions need to take action. "InterVarsity's staff and volunteer numbers are increasing and some risk decisions need to be made quickly. The other day I was dealing with a situation and I remember thinking "I wish I had a few hours or days to think through the issues." Situations happen, and we need to think through all the issues to the best of our ability and use these circumstances to be better prepared for the future." Dawn makes an excellent point that practicing both action and reflection can prepare your team to manage unpredictable upside and downside risks.

Q: What's the most important element for creating an effective risk management function?

Center clients usually want to know the secret ingredient to best-in-class risk management. There's no right answer for everyone, so we asked the risk champions what the secret ingredient is at their organizations. Robert Jones was a straight-shooter: "Communication is most important." Gaetana De Angelo agreed with Robert that communicating the true purpose of risk management is essential. "Many people look at risk management as all the things you can't do that would make life fun! But, I have always espoused the belief that good risk management makes anything possible. When I read this statement by Felix Kloman – 'the fundamental purpose of risk management is to inspire confidence,' I realized that those few words really do explain what risk management is and why it is necessary. The most important element for effective risk management is helping people understand that continual planning and evaluation are the best methods to ensure that we are inspiring confidence to try new things in a safe way."

Carolyn Gulston also reflected on the purpose of risk management at the National Multiple Sclerosis Society. Her key element is viewing risk management through a strategic lens, and "getting all staff and leaders to see how the risk management process enables us to meet our organizational goals and mission. It is a necessary process that requires everyone to fully understand and adopt this perspective."

Dawn Fostmeier recognizes that risk management at InterVarsity Christian Fellowship offers protection to the organization's mission while supporting a positive environment for staff. "Risk plans are only good if they track with the realities of what your group does on the ground. It's hard for risk staff to factor in those realities when our instinct is to focus on the tasks at hand and how they fit

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with industry best practice. We should find ways to protect our organizations without deterring the passion and enthusiasm of staff members."

John Enos embraces not one, but three essential elements of risk management: "To achieve an effective risk management function, the following three elements must be embraced by an organization. We must be committed, we must be involved, and we must all be held accountable. Regarding risk or safety culture, people don't buy what you do; they buy **why you do it**. People believe what you believe, which brings me back to our motto: 'At Quest, safety is you.'"

Q: Can you describe a lesson you learned or a challenge you overcame while striving to improve your nonprofit's risk management function?

Perhaps one of the best ways to improve your risk management function is to reflect on your greatest challenges and failures. The Center's own fearless executive director, Melanie Herman, preaches focusing on failures and challenges in order to identify potential areas for organizational growth. Our intrepid risk champions shared their own trials in hopes that our readers can learn from these experiences too. Robert Jones mentioned a common contextual challenge that faces The Salvation Army and probably resonates with most, if not all of our readers: "one of the challenges is trying to do more with less. We have to look at different ways to protect the organization's liabilities on limited budgets." Dawn Fostmeier agreed and offered us a suggestion for learning to thrive on limited assets: "As nonprofits, many of us have some level of lack of resources and staff. We can make contacts and check in with nonprofits similar to our own and find out what they are doing to deal with an issue."

Carolyn Gulston recalled a specific challenge she faced while safeguarding the National Multiple Sclerosis Society. "Up until four years ago, we had different emergency response plans and no focus on how we would resume operations in the event of a disaster. Management realized the need to establish consistent procedures on emergency response and business continuity, and identify key roles/responsibilities in the event of an emergency. A task force was established and was given the resources to develop a comprehensive organization-wide disaster recovery and business continuity plan. It is probably one of the most challenging projects I've had the opportunity to lead, but by far the most rewarding professionally, as it increased our level of preparedness."

John Enos' experience at Quest confirms that not only is preparation vital to an organization's survival, but so is the organization's capacity to react thoughtfully to a crisis or incident. "One challenge that we continue working to overcome is to react appropriately to incidents. Each incident regardless of size needs to be analyzed to find the root cause. The key is not to overreact based on the information gathered. Classic overreacting is 'we need to write a policy' or 'the staff needs retraining.' An example: Sending your entire staff to classroom-style retraining when the incident was a single staff member's failure to initial paperwork. The staff member had correctly initialed the paperwork 9,999 times before that one failure. The staff member does not need retraining on when to initial paperwork; training is only needed when there is a lack of knowledge and skills required to perform a task. Coaching should be used to help staff members gain greater competence and overcome barriers to improve their work output."

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> "Regarding risk or safety culture, people don't buy what you do; they buy **why you do it**."
> – John Enos

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> "My goal is to help them find safe ways to do what they want to do. – Gaetana De Angelo"

Gaetana De Angelo faced culturally-embedded challenges at Girl Scouts of Greater Atlanta, including staff pushback against risk management activities. "During my 25 years here, my biggest challenge has been helping staff members and volunteers understand that my goal is not to limit what they do. My goal is to help them find safe ways to do what they want to do. We are trying to surpass the attitude of 'do it and ask for forgiveness later,' and instead look at the activity or process from all sides, and feel really confident that we are delivering the best possible service. This entails recognizing that when someone has a good idea, it may still need more work to fully develop it into something first class."

Q: What advice would you give to a new 'risk champion' or a nonprofit staff member who is new to risk management?

Here's the gold you've been waiting for – counsel from champions. We'll let them speak for themselves:

John Enos, Quest, Inc.: My advice to new risk managers is to avoid becoming the department of 'NO!' If your response to every question is 'no,' then your team members will stop asking for your advice. Try to work as a partner alongside your team so that together, the possible risks or exposures of a new opportunity can be explored and probably controlled.

Dawn Fostmeier, InterVarsity Christian Fellowship: During difficult situations, it can be helpful to think back to a particularly encouraging story from the people you serve. Those stories can keep us going.

Robert Jones, The Salvation Army: Try and gather as much information related to your organization's risk management program. Attend seminars and other functions such as the ***Risk Summit***. It's always beneficial to share information with other nonprofits on how they function and handle their programs.

Carolyn Gulston, National Multiple Sclerosis Society: Continue to make it clear that the risk management process itself is vital to any organized entity that is looking to achieve a goal. You must always convey to staff and leaders how important it is to identify things that could prohibit you from reaching your mark, and then come up with methods to keep it from happening as best you can. Our motto at National Multiple Sclerosis Society is, 'You hope for the best, but plan for the worst.'

Gaetana De Angelo, Girl Scouts of Greater Atlanta: Keep an open mind and start with the positives. As a new risk manager, I was always more concerned with 'what are the bad things that can happen?' That perspective sometimes overshadowed clear thoughts about potentially positive outcomes. I now try to look at all the good and all the confidence that can be inspired; then I look at what could go wrong—and I plan for that also.

Erin Gloeckner is Project Manager at the Nonprofit Risk Management Center. She welcomes your feedback and questions about the topic of risk champions at Erin@nonprofitrisk.org or 703.777.3504.

The Nitty Gritty of a Risk Committee

By Melanie Lockwood Herman

"Let's form a committee!" is the frequent battle cry of nonprofit leaders facing a complex problem for which there are no obvious, immediate or cheap solutions. When more than one brain is needed to ponder a perplexing problem, forming a committee seems to be a good first step. But are risk committees worth the time and nurturing they require? At the Nonprofit Risk Management Center we answer this question with a resounding, "Yes!" That's not to say that we haven't heard about some ineffective and nearly useless committees in our many years as an advisor to nonprofits. But the concept is sound and with a little finesse, every nonprofit can recruit and deploy a committee that will strengthen, support and help sustain a strong and effective risk management program.

Steer Clear of the Traps

To help your committee chart a meaningful and sustainable course, it might be helpful to understand the traps that some of those who have come before you have fallen into. Here are the most common traps:

- **Unrealistic Goals –** If you're forming a Risk Management Committee to eliminate risk in your nonprofit, you might as well "call the whole thing off." No organization can hope to achieve a charitable, community-serving mission without taking risk. If you're planning to close your doors, you need a winding down plan, not a risk management committee.
- **Lip Service –** If you're forming a Risk Management Committee so that you can "tic the box" on an insurance or accreditation application, or to tell your national organization that you have a committee, think again. You'd be better off identifying a few practical steps to take to improve

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> Sometimes a committee formed somewhat organically winds up being more diverse and effective than a hand-picked team.

risk awareness, enforce existing risk policies, and finally tackle that long overdue Risk Management Plan. (If you need help with the latter, try www.MyRiskManagementPlan.org.)

- **Lack of Vision –** I recently read that the focus of a school board should be on policies and activities that will provide the best possible educational experience for the students' children. That's right, the future (not current) students at the school. Although an effective risk management committee should consider how the nonprofit learns from mistakes and prior losses, the bulk of its energy should be spent thinking about risk taking and risk management on the future horizon.
- **Groupthink –** There's nothing like being a member of a group of people with similar backgrounds and worldviews. And that may be great when it's time to decide what TV show you'll be watching at home tonight, but it's a recipe for disaster in a risk management committee. Risk is lurking behind every good idea and every harebrained scheme at your nonprofit. A risk management committee that brings a shared worldview and similar backgrounds (e.g., finance, insurance-buying, workplace safety) is more likely to overlook some of the diverse risks that could ensnare your mission.

Risk Committee Success Formula

1. **Determine the process and approach for appointing or recruiting members –** One of the common misconceptions many leaders have about risk management committees is that very few people will be crazy enough to want to participate. Recently I had the opportunity to help an international nonprofit launch its brand new risk management committee.
   The leaders at the nonprofit were surprised (shocked?) at the response they received when they solicited volunteers to serve as inaugural committee members. Representatives from offices around the world contacted the risk manager to express their interest and gratitude for the opportunity! While it's always possible to round up the usual suspects for a risk committee—reps from most operational departments, someone from the executive team, etc.—in our experience it is far better to take a risk and invite volunteers. Sometimes a committee formed somewhat organically winds up being more diverse and effective than a hand-picked team. And remember that your risk committee needs and deserves an effective leader.
2. **Draft a committee charter –** A committee charter is a tool for helping those who appoint the committee and those who serve on it and support it develop a shared understanding of the purpose, scope, goals and authority of the committee. An effective charter has the following characteristics:
   - **Statement of overarching purpose –** The charter should begin with a clear statement of purpose. For example: The purpose of the Risk Management Committee is to provide oversight across the organization for all categories of risk in order to ensure that proper practices are in place to surface, understand, and manage priority risks.
     - OR -
     The Risk Management Committee exercises shared responsibility for surfacing and managing

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the operational risks facing the organization. Staff throughout the organization are invited to participate in the Committee.

- **Frequency of meetings –** The charter might indicate that the Committee will meet 4, 6 or more times per year for 90-120 minutes per meeting, depending on the agenda. Ideally, the committee will meet on a consistent date and time (e.g., second Thursday of the month at 10 am). Don't meet too often or unless there is something to do or discuss.
- **Specific goals and responsibilities –** Outline the committee's specific goals and responsibilities.
- **Committee composition –** Indicate who is eligible to participate, and how long members are expected or asked to serve.
- **Committee authority –** Note the committee's authority, such as: 'The Committee makes recommendations to the CEO or the Board of Directors,' or 'The Committee is authorized to adopt new internal policies related to risk management.'

3. **Develop realistic goals and a practical plan –** Nothing kills good intentions faster than unrealistic plans. One way to give a boost and a protective vaccine against failure to a risk committee—or any committee—is to develop a set of clear goals or projects for the group's first year. Brainstorming those reasonable goals and an accompanying timetable can be a key outcome for the kick-off meeting. Throughout the life of the committee it's vital to show where you are headed, what you've accomplished, and what remains to be done. There's nothing better than seeing on paper at the mid-year point that half of the projects or tasks have been accomplished and there is a reasonable workload remaining. Keep the momentum going with a plan that goes beyond the start-up or "honeymoon" phase.

4. **Plan a dynamic kick-off meeting and stick to your schedule –** Never start any committee meeting by apologizing for having to meet or blaming someone for the existence of the committee. The discipline of risk management has a bad rap as it is; don't contribute to that by making excuses, blaming your insurers or accrediting bodies, or worse, insinuating that anticipating future events is unrelated to the mission of your nonprofit. If risk management isn't mission related in your nonprofit, maybe it's time to use the endowment fund balance on a gaming table in Las Vegas! The sidebars offers two sample agendas for a kick-off or orientation meeting of the risk committee. Note that neither sample includes a dreary, hours-long review of an insurance policy.

5. **Resolve to involve –** *In Start With Why*, author Simon Sinek writes that "The single greatest challenge any organization will face is… success." Sinek is referring to the fact that as organizations grow, decision-making necessarily becomes dispersed. CEOs of large organizations can't personally screen every applicant or approve every purchase. The same holds true in risk management. As a nonprofit grows and succeeds, many different people need to make risk-informed decisions, sometimes every day. The risk takers in a growing, vibrant nonprofit fill auditoriums, not a small conference room. Which means an effective risk management program can't be "owned" by a small group of staff who meet monthly.

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Sample #1 Risk Management Committee Agenda

15 minutes
Welcome and Introductions
We will begin by going around the table and introducing ourselves. Tell us what you're looking forward to learning and contributing during your service on the Risk Management Committee.

15 minutes
Draft Committee Charter Review
What makes sense? What doesn't? What changes do we want to propose?

30 minutes
Our Goals for This Year
We will continue by brainstorming mission-advancing goals for our Committee, for the year ahead. What projects and activities might we undertake to advance our shared vision of fortifying the risk management function? After blue-sky brainstorming, we'll jointly agree on five or six specific goals or projects.

15 minutes
Committee Calendar
We'll review our proposed calendar for the year, including meeting dates, times and locations. Do we need to make any adjustments? Next, we will review our goals and decide which topics and priorities will take center-stage at each of the meetings on our annual calendar.

15 minutes
Committee Norms
We will close by discussing meeting norms and preferences. Cell phones turned off? Meetings open to staff or volunteers who want to sit in and join our conversation? Rotating responsibility for follow-up, action-oriented notes and reminders?

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Critical questions the committee should visit on a regular basis include:

- Who else should be involved in our risk assessment and risk management work?
- Who needs training in this area but hasn't received it?
- What points of view are missing on the committee, but are critical to being as risk aware and risk savvy as we aspire to be?
- How can we effectively communicate the "WHY" as well as the "WHAT" and "HOW" in our risk management program to every staff member and volunteer who needs to know?
- Are we hitting the mark with our meeting agendas and background material? Are pre- and post-meeting materials being shared on a timely basis?

Risk committees should be celebrated examples of mission-focused collaboration rather than punchlines in office jokes about endless meetings and depressing topics. A high energy, well-run, and goal-orientated committee can set the tone and pace for other collaborative efforts in a nonprofit. The keys to success aren't that hard to understand: avoid the traps that suffocate the best intentions, and embrace a reasonable plan and approach to emphasizing the great mission-advancing work to be done.

Melanie Herman is Executive Director at the Nonprofit Risk Management Center. She welcomes your feedback and questions about the topic of risk management committees at Melanie@nonprofitrisk.org or 703.777.3504.

Sample #2 – Risk Management Committee Agenda

15 minutes
Meeting Overview
Overview of meeting agenda and work product goals for our inaugural meeting, including reports to Board of Directors at its next meeting.

30 minutes
Risk Management Lessons and Insights
During this segment we will briefly review our recent risk management journey. We will then ask each member to share something about their hopes for the Committee, such as:

- What I hope to learn while serving on the Committee
- What I hope I'll be able to contribute while serving on the Committee
- How I'll know we have been successful or made a difference

30 minutes
Critical Risks Discussion
Our role and responsibilities will evolve as we work together, but it's important to acknowledge that we are NOT responsible for unearthing and documenting every possible action or event that could impair our mission, strategies and objectives. There is an expectation, however, that we will be talking about and learning as much as we can about critical risks. With that in mind, during this segment we will discuss top risks identified in last year's risk assessment.

- What have we learned from trying to better understand and manage these risks?
- What has changed?
- Have any of these risks been addressed effectively, such that they are no longer priorities?

30 minutes
Risk Accountability
How should we report and share our discussions, proposed actions and recommendations? What can we do to more effectively communicate with people throughout the nonprofit?

15 minutes
Action Steps and Assignments
During this wrap-up segment we will review what we discussed, decided and identified as action steps for the Committee. We will invite each member to identify how they propose to move one or more components of our agenda forward in the weeks ahead.

Operational Risk Management: A Word from the Wise Guys

By Melanie Lockwood Herman

Although a growing number of nonprofit leaders profess to be ready for Enterprise Risk Management, a far greater number admit that their operational risk management programs are far from adequate. What is operational risk management? The term refers to risk identification, risk assessment and risk management activity focused on day-to-day activities and functions. There are various ways to organize and reflect on ORM work. Two common approaches within nonprofits are:

1. **by department or unit within a nonprofit, such as:** finance, development, volunteer relations, etc.
2. **by critical risks or risk management activity, such as:** aquatics, youth protection, internal controls

To help understand the key challenges and "musts" in operational risk management, I've reached out to two experienced, wise consultants: Diana Del Be Belluz from Risk Wise Inc., and Michael Gurtler from Safe-Wise Consulting. Both consultants boast long track records of coaching and advising nonprofit organizations. We are fortunate at the Center to be able to lean on and turn to Diana and Mike for practical advice and timely wisdom on a wide range of risk topics.

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Q. What are the key activities or components of effective operational risk management?

Diana. The first component is establishing clarity around objectives, roles, and responsibilities. To achieve the goals of any important activity—including risk management—every team member needs to know exactly how he or she is expected to contribute. The second component is to deliver excellent performance. This includes identifying the right resources (including people, processes and systems) and managing those resources according to an agreed upon strategy. The third component is to develop capabilities to handle unexpected or uncontrollable factors.

Mike. I think Diana hits the nail on the head with her response. I'd add two things to compliment her suggestions. I see many organizations struggle with risk management because it is not part of their culture. They think of it as this BIG thing and cannot get everyone to be part of it. So, I strongly suggest that after we establish clarity around objectives, roles and responsibilities as Diana points out, we must train our staff and volunteers early and often. Risk management should be part of the onboarding and orientation process. Make sure people know what they need to do and why they need to do it. It's not just good practice but there is a reason to do things; that way they'll get a better understanding of managing risks. Our culture at nonprofits is driven by our staff and volunteers; they must be our risk management champions. For example, we don't just put yellow 'caution wet floor' signs out when it rains or when we mop; we do it for a reason – to help prevent slips and falls, a leading cause of injuries at nonprofits. Secondly, I'd add that we must be constantly reevaluating our risks, processes and strategies. Nonprofits are moving in many different directions and continuously evolving. Our risks frequently change too. How we manage them and what we learn from monitoring our successes is critical information we can use to grow with these changes.

> "Effective nonprofits must be ready and resilient, because there will always be surprises and events will unfold that are different from what they expect. – Diana Del Bel Belluz"

Q. What advice would you offer the leaders of a nonprofit to cope with circumstances outside their control?

Diana. Effective nonprofits must be ready and resilient, because there will always be surprises and events will unfold that are different from what they expect. The three strategies for dealing with the unexpected include:

1. **Cultivating awareness of factors and trends in the external environment.** This is the best way to anticipate new or evolving risks.
2. **Building relationships with external stakeholders, including key players in the community your nonprofit serves, your donors and**

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other funders, and any third party that assists your organization to deliver on its mission. Positive relationships are invaluable to a nonprofit and play a key role in helping the organization survive negative scrutiny or a crisis.

3. **Developing response capabilities.** This includes the development of crisis management, disaster recovery and business continuity plans and skills to enable you to quickly realign resources in the wake of a crisis.

Mike. Two parts of risk management are prevention and control. Obviously prevention is keeping bad stuff from happening. Most organizations understand that part better and can generally figure out how to prevent common risks from causing harm. The control part seems a bit more fluid for some organizations and can be more difficult to understand. Control involves how we react to incidents to reduce negative outcomes. I also think it involves getting back to "normal" as quickly as possible. Certainly accidents do happen and many times we cannot do much to prevent them. Take the example of a severe weather event. We cannot keep the weather from damaging our building but we can plan ahead and be ready to cope with the damage to lessen its impact on our mission. We can "batten down the hatches" so to speak, we can keep abreast of oncoming events (cultivating awareness as Diana suggests), and we can be ready to react when bad things happen by establishing protocols for response, repair and resumption of operations. Most of all I think we must remember that many incidents that we cannot control are not the end of the world. We need to stay calm, follow our plan with cautious optimism and move through the tough times.

> "We need to stay calm, follow our plan with cautious optimism and move through the tough times. – Mike Gurtler"

Q. What are some key strategies or considerations for evaluating operational risks, particularly in a nonprofit organization where everything seems to be changing all of the time?

Diana. Most operational environments in the nonprofit sector are characterized by change. Of course some changes are within an organization's control (such as a restructuring), while others fall outside the entity's control (such as new regulatory requirements, changing demographics, etc.). Scenario planning can be an effective tool for anticipating how this will turn out. Nonprofit leaders should adopt the good practice of considering a range of potential outcomes rather than focusing on a single scenario or potential outcome. A simple way to do this is to imagine both the extreme, worst case scenario as well as a typical or expected case, and then a third outcome somewhere in between. Based on these three possibilities the risk team can identify what steps it will take today to prepare for all three possibilities, and what changes or action

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"Go to the **Risk Summit** every year to learn from others and fill your risk management tank with fuel."

will be required if one of the three outcomes becomes reality.

Mike. As much as we like to think we are extremely unique, I usually find that many nonprofit organizations have more in common then they recognize. I think it is key to using our resources around us when we're trying to identify and manage risks. As a consultant I do not know all the answers (yeah, really) but I usually know where to find them. Each organization has a network for professional contacts and peers that have probably been down the road before. Good risk managers keep their ears open, read a lot and seek out other's experiences to complement their own. A strategy in identifying and evaluating risks is seeking out information. This information is readily available from peers, other organizations, insurance agents, insurance companies, consultants and professional publications. Oh, and go to the **Risk Summit** every year to learn from others and fill your risk management tank with fuel.

Q. What are some of the most common challenges in operational risk management?

Diana. One challenge is finding the level of responsible risk-taking that avoids the extreme positions of reckless gambling and risk aversion. Taking responsible risks, after all, is a necessary part of nonprofit life. A second challenge is the fact that risk cannot be measured directly. Risk must therefore be estimated, and involves judgment. A risk that is perceived as potentially significant to a nonprofit warrants a greater commitment to information-gathering and analysis and perhaps even the construction of a risk model. For smaller risks, leaders are more likely to rely on past experience and judgment.

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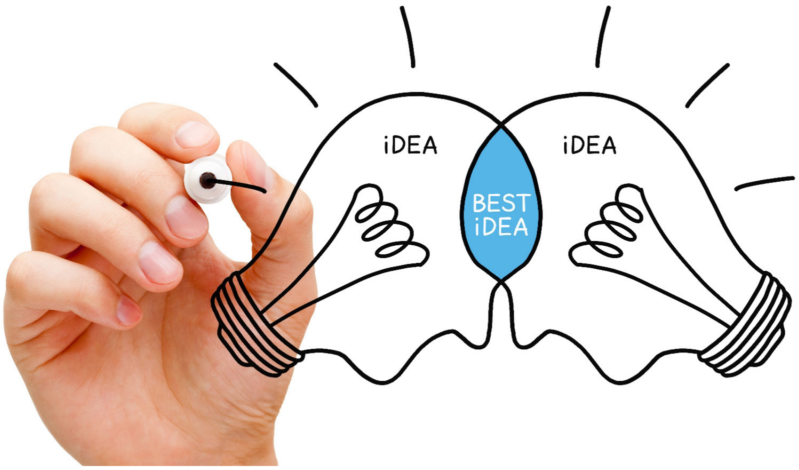

> The most common weakness in risk management is that risk practice is often ad hoc, rather than thoughtful and systematic.

Mike. A common challenge in dealing with the day-to-day is turnover in leadership. Many organizations experience turnover in the "boots on the ground" sector of their operation on a fairly regular basis. Keeping people up-to-date and current on the risk management plan is difficult when they are still learning their jobs. I also think that sometimes we can get complacent about things when we go through a period of what I call "incident prosperity." In other words, during a long stretch when downside risks haven't materialized, we back off on practices and procedures that were once considered minimum standards. The "it doesn't happen here" or "hasn't happened here in ages" attitude starts to take over. Besides, it's always easy to say that our mission and budget are far more important. Why spend all that time on stuff that "never" happens!?! Those thoughts, no matter how common, are a recipe for disaster... so says Mr. Murphy.

Q. Are there additional tips and suggestions you want to offer nonprofit leaders who are trying to strengthen their operational risk management programs?

Diana. All nonprofits manage operational risk to some degree, or they would not survive! However, the most common weakness in risk management is that risk practice is often ad hoc, rather than thoughtful and systematic. It's important to remember that strong operational risk management programs place equal emphasis on: identifying risks related to the delivery of services and key functions in the organization, and evaluating whether steps taken to date are adequate to help the nonprofit respond and rebound. Making an inventory of top risk concerns and current risk management steps, strategies and policies is a good way to start the process.

Also, it's incredibly important to learn from risk events. Any crisis, loss or failure offers potentially invaluable lessons. But to learn from these experiences it's vital to ask:

- What gaps in our policies, practices or management system led to this negative outcome?
- What organizational blind spots prevented us from seeing this coming?
- How can we avoid a similar loss in the future?

Finally, the importance of a culture that supports risk management is key.

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Nonprofit leaders can encourage a culture of risk management by taking three steps.

1. **Model good risk management behavior.** Codes of conduct and statements of core values are meaningless in an instant when leaders act in a way that contradicts espoused values.
2. **Articulate expectations for risk management behavior.** Leaders must communicate what constitutes good risk management behavior versus poor behavior. And rather than pushing risk management expectations on direct reports, leaders should "pull" desired behavior from them. How? By asking staff how they are meeting risk-related expectations such as:
   - ❑ How are you integrating risk thinking into the key decisions you make?
   - ❑ What are the significant risks in your area of responsibility?
   - ❑ What risk indicators are you monitoring to ensure that you're prepared to respond if these risks materialize?
3. **Be clear about the consequences and follow through.** Human beings are motivated to act because they want to realize positive consequences and avoid negative ones. Make certain you're absolutely clear about consequences, both good and bad. And keep in mind that when poor risk management is ignored, the nonprofit pays twice: first by exposing the organization to unnecessary risk, and second, by demotivating individuals who are making a genuine effort to meet risk management expectations.

Mike. Get help when you're in over your head or maybe even when you feel like your risk management "water wings" are beginning to deflate. There are lots of sources you can turn to for help. One resource can be a risk management committee that has a clear directive, is led by an effective volunteer and actively meets goals; this is a great asset to any organization. They can help provide the view from 30,000 feet that operational risk management sometimes misses.

Updating and fortifying your operational risk management program starts with acknowledging that your nonprofit is already doing a lot to understand and manage the risks that arise from operations. And by taking the sage advice offered by Diana and Mike, you can avoid the mistakes and false starts that others have experienced. Finally, don't hesitate to reach out to our team at the Nonprofit Risk Management Center for advice and support on your journey.

Melanie Herman is Executive Director at the Nonprofit Risk Management Center. She welcomes your feedback and questions about any risk management topic at Melanie@nonprofitrisk.org or 703.777.3504.

Diana Del Bel Belluz and Michael Gurtler welcome your questions as well.

Diana Del Bel Belluz from Risk Wise, Inc. can be reached at Diana.Belluz@riskwise.ca

Michael Gurtler from Safe-Wise Consulting can be reached at mgurtler@safe-wise.com

Enterprise Risk Management: The Final Frontier

By Melanie Lockwood Herman

It's hard not to notice the growing use of the term "Enterprise Risk Management" among risk professionals. Yet there seems to be little agreement about what that combination of three words really means, and perhaps more importantly, whether the addition of "enterprise" to the more familiar term "risk management" makes a bit of difference.

According to author Michael Power (*Organized Uncertainty: Designing a World of Risk Management*, Oxford University Press, 2007), ERM "… signifies any aspiration for a form of risk management practice which is all encompassing in scope, business-focused, and is suggestive of a bird's eye view of organizational life."

In the introduction to their book, "Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives," chapter authors and book editors John Fraser and Betty J. Simkins write that "Enterprise risk management (ERM) can be viewed as a natural evolution of the process of risk management."

A study of how ERM has evolved describes the two predominant views of enterprise risk and the corresponding style of ERM program:

- Organizations that adopt an *enterprise-wide* view of risk (i.e., want to understand each risk across all departments or functions) tend to develop ERM programs that "take a more operational / financial view, and manage risks through quantitative control."
- Organizations that adopt an *enterprise-level* view of risk (i.e., want to understand risks to the achievement of strategic goals and objectives and the long-term sustainability of the organization) tend to develop ERM programs that "take a mainly strategic view of risk, and manage it in a qualitative way."

The concept of ERM is more than a new term or a new label for an old practice; it represents the potential to look at risk practice differently. This is especially relevant and important

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Author's Note:
I owe a debt of gratitude to Diana Del Bel Belluz of Risk Wise Inc., for her thoughtful review and helpful additions to the draft of this article. Sign up for Diana's terrific newsletter, the Risk Management Made Simply Advisory at www.riskwise.ca/advisory-a-tips.html.

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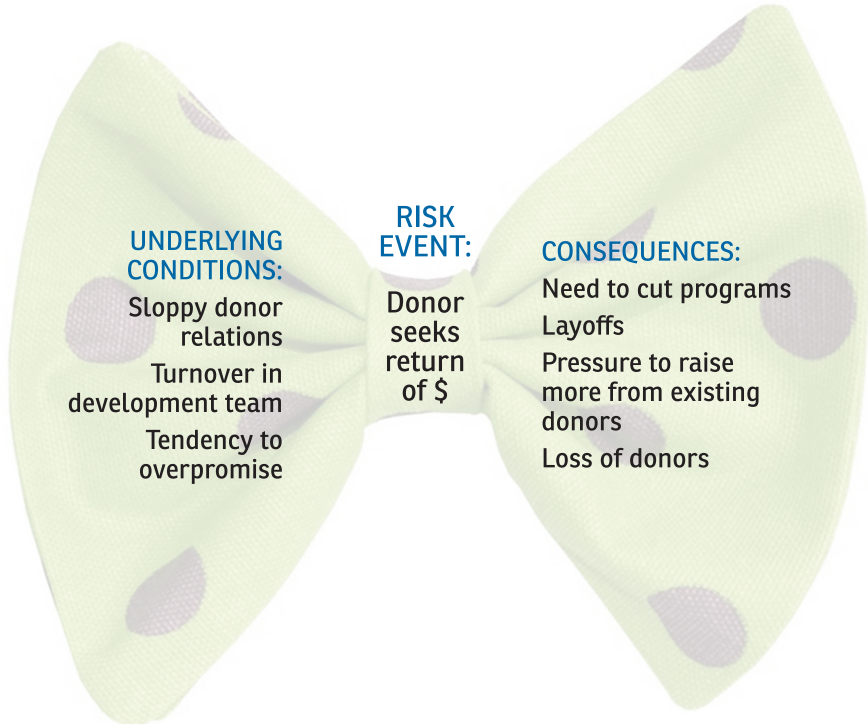
in nonprofit organizations, where risk management programs are often in dire need of modernization.



Five Weaknesses in Nonprofit Risk Practice

During nearly 20 years of consulting work with both brand name and lesser known nonprofit organizations, I've observed five common weaknesses in the risk management function. These fault lines include:

1. **Failure to define "risk" before talking about what to do in a world of continuing uncertainty –** Many years ago my colleague Diana Del Bel Belluz introduced me to the concept of a bow tie as a shape to help illustrate how people in organizations see and understand the term 'risk' differently. At the center knot is the *possibility of an action or event that threatens to substantially impair or advance your mission or objectives*. The future "action" or "event" is a risk. For every risk, however, there are always underlying circumstances or conditions that give rise to or influence the timing, magnitude or other aspects of the risk event. These underlying conditions might be listed to the left side of the bow tie, along one of its broad edges. But there are also consequences—usually both negative and positive—when risks materialize. These could be listed to the right of the center knot, thereby giving shape to the bow tie. Unfortunately, when a group convenes to talk about risk, they often skip the first step: defining the term. As a result, a typical list of nonprofit risks includes risk events as well as underlying conditions and consequences.
2. **Misconception that risk management's focus is to eliminate or avoid as much risk as possible –** Countless nonprofit board and staff leaders have told me of their efforts to eliminate risk in order to pave a clear path to mission success. This thinking is flawed because risk and reward are inextricably linked. We take risks in nonprofits in order to create value for the communities we serve. In every decision or strategy for which the outcome is uncertain, there is risk. Zero risk exposure means no opportunity for creating value. Whichever goals or strategy a nonprofit embraces, there will be a set of opportunities and a set of risks associated with it. The goal of enterprise risk management is to help understand the particular risks that are associated with each strategic option in order to make informed and deliberate decisions about which objectives and strategies to pursue and the corresponding risks that must be accepted and managed. In my experience, high performing nonprofits spend more time evaluating risk-taking opportunities, than eliminating or avoiding risk altogether.
3. **Excessive focus on scoring risks and finding a "tool" to automate risk management –** Listing downside risks in a spreadsheet or table and assigning scores for risk likelihood/probability or impact/severity is a well-known practice within risk management. Yet the Center's experience is that this approach, sometimes referred to as a "risk register," does not inspire timely action in the face of uncertainty. Nonprofit leaders are motivated by many things, including the potential to serve a growing client base, meet donor expectations or demands, avoid legal liability and more. I've yet to meet a leader motivated by an opinion-based score in a risk register. An associated challenge with risk registers is the fact that once tabulated, scores seem somewhat scientific. But whether they are scribbled on a napkin or recorded in a risk register, they are

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generally arbitrary guesses about the likelihood and potential value (cost or benefit) of a future action or event. In my experience, risk management is really about hard conversations that enable leadership teams to make the best possible decisions in the face of uncertainty—not finding or using the right spreadsheet, software or system.

4. **Conclusion that risk is harmful, or potentially harmful to a nonprofit mission –** Over the years I've written and spoken about risk's "bad rap." When the word "risk" comes up in conversation, it's not unusual to see a bead of sweat or a frown, and hear a sigh of frustration. Lawsuits, the admission of liability, the imposition of liability and the arrival of lawyers are the four horsemen of the risk apocalypse. Yet no nonprofit takes risk in order to suffer a loss. Risks are taken to advance, not erode a charitable mission. Therefore it is inaccurate to paint risk with the broad brush of harm or despair, or to limit risk management to a discipline about what can go wrong. Furthermore, when a positive development occurs, there may be negative consequences that require attention, and when a downside risk materializes, there may be unexpected positive results as well. Risk is far more nuanced that we often recognize.

5. **Perspective that a key to managing risk is assigning risk "owners" –** Nonprofits that turn to a "risk register" or spreadsheet as a way to track critical risks, generally include a column where a risk's "owner" can be named. The rationale for this practice is pretty clear: without assigning accountability, the likelihood of change in policy or practice is slim. Yet I find the concept a bit befuddling, especially since many risks are defined in unrealistically broad terms, such as "reputation risk." Using this example, it wouldn't be surprising to see reputation risk assigned to the Director of Communications at a nonprofit. Yet it's hard to imagine an organization where such a leader is able to capably and thoroughly monitor the landscape for reputation traps, forecast the ethical lapses of current or future leaders, or do anything to keep a good reputation safe. Many risks don't fit neatly into a single person's area of responsibility and require multiple 'owners' to act in a coordinated fashion to understand the issue and take action.

A Bird's Eye View of Risk

Embracing Michael Power's reference to ERM as "aspiration for a form of risk management practice which is all encompassing in scope, business-focused, and is suggestive of a bird's eye view of organizational life," offers a wonderful starting point for nonprofit leaders who recognize the potential value of a stronger and more inclusive risk management function in their organizations.

Many Center clients seem to relate to the benefit of a bird's eye view of risk in their organizations. They admit that in some cases, the risk management function has become bogged down in departmental functions, with no connective strategy. For example, the IT team may be implementing safeguards to protect proprietary systems and confidential information and assume that as long as they are focused, their counterparts in other departments or offices have little need to understand the IT risk management strategy. A common precursor to a request for an ERM engagement is concern by a member of the executive team or board that risk may be falling between the cracks due to a siloed organizational structure and culture that inhibits communication, coordination, and collaboration across functional or departmental lines. This concern is particularly warranted for risks that straddle functions, departments or units and when teams feel pressure to keep their eyes trained to look for danger in the depths of their own silo.

Enlightened ERM

So what steps are recommended to embrace the benefits, while discarding the jargon of ERM? Here are a few thoughts to help you get started on a journey to strengthen risk management in your nonprofit. Whether you call it Enterprise Risk Management or RM 2.0, if you follow these steps you have a great chance to see an improvement in your program.

Step 1. Commit to the ERM Journey

Most organizations take 3-5 years to fully establish their ERM programs. While accountability structures and processes for identifying and managing risk can be quickly put in place, it takes much, much longer to make risk management part of your organizational culture where risk is consistently and systematically considered in every decision and action. Implementing ERM is very much a journey of culture change. That means you need to have some skills in leading culture change and plenty of patience. Don't expect to get it all done in one easy step. Instead, start small and build incrementally. Take time to reflect and learn at each stage of development.

Step 2. Adopt a Shared Language

Begin your ERM journey by agreeing what the term means in your nonprofit. An all-encompassing approach to risk management that extends far beyond

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insurable risks? Risk management focused on risks related to strategy-setting? Risk practice focused on risk issues at the intersections of organizational life? It's your choice. A word of caution: don't adopt a definition that while authoritative and academic, has no real meaning in your nonprofit. Along with a definition of ERM, choose a definition of risk that works for your team.

Step 3. Be Ambitious, Opportunistic and Realistic

Don't make the mistake of resolving to eliminate downside risks, or make every employee an enthusiastic risk champion. To ensure your efforts achieve buy-in, focus on risk management capabilities that help one or more key leaders resolve a pressing concern or difficult decision. Choose measurable but realistic goals for your ramped-up risk function. Add to that a timetable that won't make everyone on the team feel like they are doing two jobs for a single paycheck.

Step 4. Celebrate Your Expertise, But Resolve to Learn

The ERM projects that are most likely to succeed are those led by people who are voracious learners—leaders who seek every opportunity to expand their knowledge and broaden their perspective on the discipline of risk management.

Step 5. Sidestep Groupthink with a Diverse Team

While the process takes longer when you bring together leaders with different world views and backgrounds, the ultimate result will be more meaningful and durable. Select members of the ERM team or task force for their differences, rather than similarities. Avoid the default approach to name every senior staff member to the ERM Committee.

Step 6. Start with the End in Mind

Although the long-term benefit of an ERM project is often hard to envision and even harder to calculate, it is possible to define how you will know that your labor has made a difference. For example:

- When making decisions, leaders will consistently consider the associated risks, thereby giving context to the decision-making process
- Leaders will feel confident that key decisions are made with the best possible awareness and recognition of risk
- The board will feel confident in the thoughtful consideration of risks related to strategy in strategy setting and tactical plans
- Upgrading your current risk management program to one labeled 'Enterprise Risk Management' is not simply about using a new acronym to dress up an old one. Embracing the idea of enterprise risk management and its associated concepts can be a wonderful first step to a stronger function, realization of important goals, and greater confidence about the risks you take to advance your mission. By recognizing and avoiding the missteps and embracing the six steps above, you will be in the best possible position to look back on your ERM upgrade as a worthwhile improvement.

Melanie Herman is Executive Director at the Nonprofit Risk Management Center. She welcomes your feedback and questions about the topic of Enterprise Risk Management at Melanie@nonprofitrisk.org or 703.777.3504.

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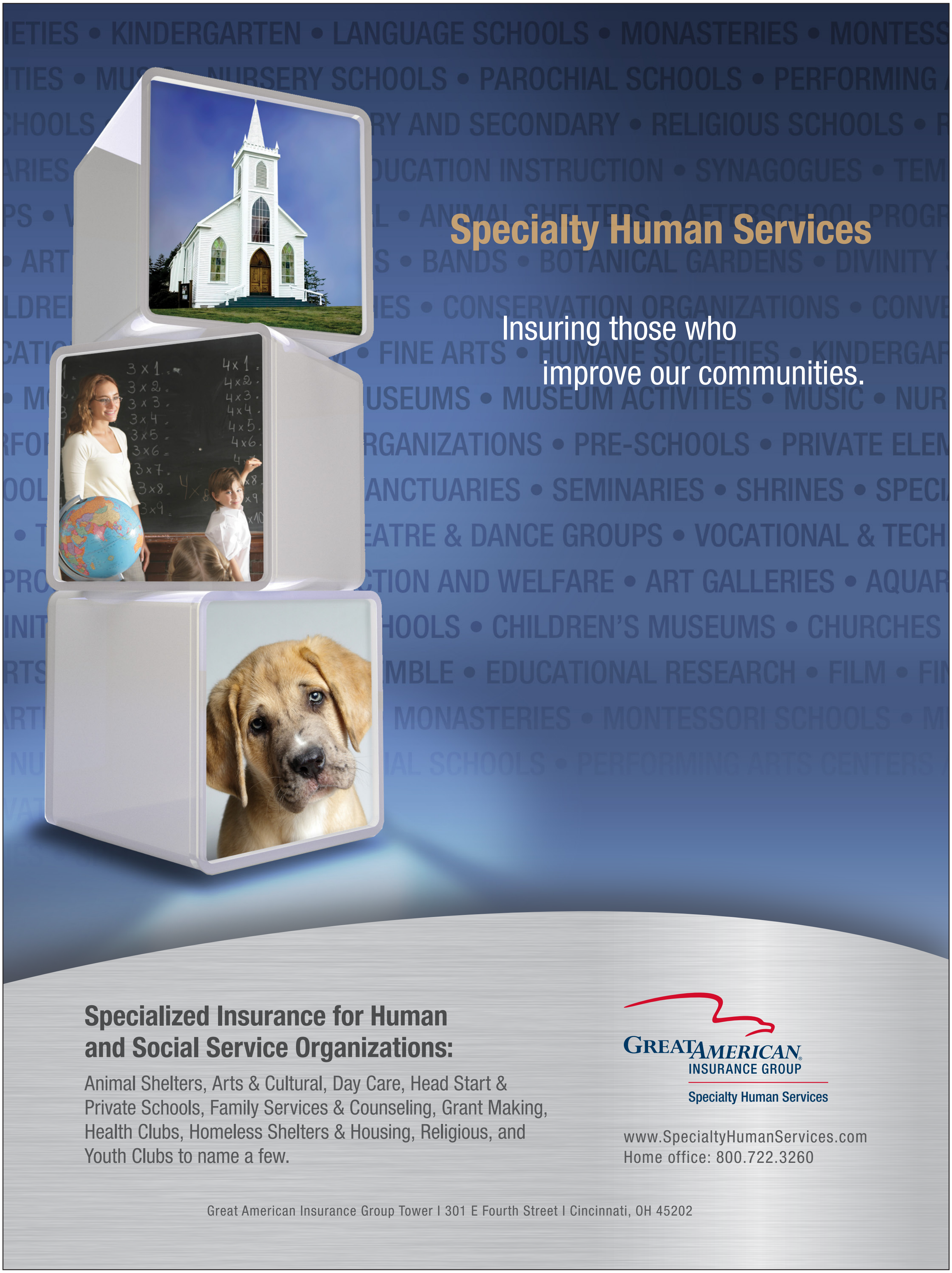

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