

Risking It All to Save the World

An Analysis of Risk Management Practice
and Risk Leadership in the Nonprofit Sector



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Summary & Key Takeaways

The risk management discipline continues to evolve and gain traction across the nonprofit sector, with organizational leaders recognizing risk management as a mechanism for loss prevention, quality improvement, informed decision-making, and mission advancement. Using results of two recent surveys conducted by the Nonprofit Risk Management Center (NRMC), a 501(c)(3) nonprofit committed to enhancing risk management capabilities across the nonprofit sector, this publication offers insight into:

- How nonprofit teams conceptualize and implement risk management
- How individual nonprofit leaders champion risk management initiatives within their respective organizations
- Recommended baseline standards for risk management practice in any nonprofit organization
- Forecasts for the future of risk management in the nonprofit sector

Key takeaways from this publication:

- Although many nonprofit leaders recognize the value of risk management, nonprofits often function without a documented risk management plan or formalized risk management program or structure.
- A lack of confidence persists amongst many nonprofit teams regarding their organizational risk management capabilities, especially the ability to effectively manage *strategic* and *external* risks.
- Many nonprofit leaders find it difficult to devote adequate time to risk management initiatives.
- Nonprofit leaders who *do* find time to champion risk initiatives spend their days engaged in risk activities such as: raising awareness about risk amongst colleagues; creating sensible risk policies; and, gathering data and reading about risks pertinent to the nonprofit sector.
- Interest in risk management is real and growing; many nonprofit teams intend to enhance their risk management capabilities in the near future. Still, many risk leaders believe their risk management efforts and insights remain underutilized by senior leadership.

In 2019 and 2020, expect to observe the following shifts in risk management practice across the nonprofit sector:

- Renewed focus on the development of strategic risk management capabilities and on intentional succession/transition planning as a key risk management initiative
- Integration of emotional intelligence skills and employee engagement as foundations for effective risk practice
- Refinement of the board of directors' role in risk management
- Promotion of deeper dialogue around the concept of *risk* and the philosophies underlying risk management practice

Acknowledgements

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Methodology

The analysis presented below derives from the results of two online surveys conducted by NRMC from 2017 to 2019.

The first survey, “Risk Management in the Nonprofit Sector,” aimed to shed light on organizational risk management goals, capabilities, and oversight models present across the nonprofit sector as a whole. The survey was conducted from July 2017 to December 2018. The analysis presented below represents the responses of 287 nonprofit professionals who were eligible to complete the survey of 337 total survey respondents. The 50 ineligible respondents were deselected from the survey by self-identifying as “for-profit” or “other” professionals rather than “nonprofit” professionals.

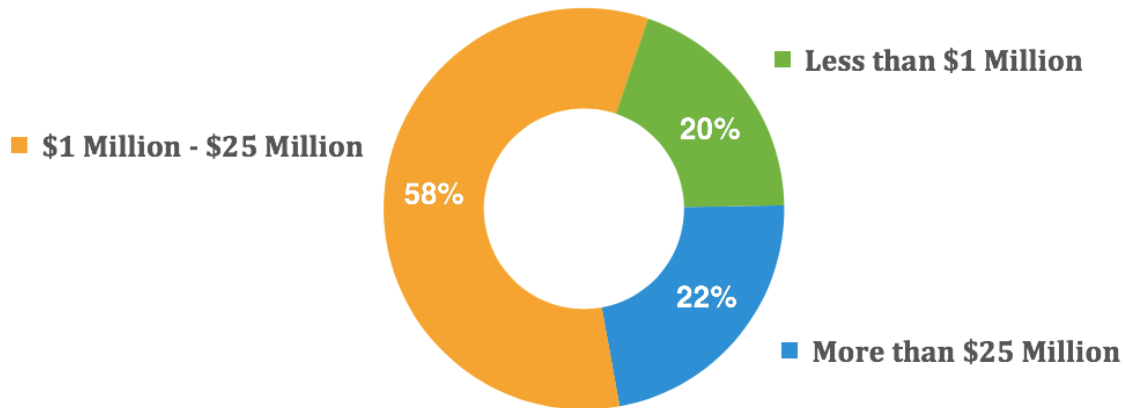
The second survey, “What kind of Risk Champion are you?” asked individual nonprofit professionals to indicate their risk leadership styles, their risk management goals, and details about how risk management insights are leveraged by their respective organizations. The survey was conducted in January 2019 and garnered responses from 128 individuals.

Nonprofit participants in both studies were obtained by distributing surveys to NRMC’s 2018 event attendees and online readership of roughly 6,000 voluntary subscribers. Though the surveys aimed to engage an audience representative of nonprofit organizations across the United States, results could be biased due to the use of convenience sampling and the apparent preexisting interest in risk management from NRMC’s subscriber audience. Still, the insights presented here represent a deeper dive into risk management practice in the nonprofit sector than is currently available elsewhere.

For the first survey, “Risk Management in the Nonprofit Sector,” the majority of respondents work in organizations with annual operating expenses between \$1 million to \$25 million (58% of respondents).

Annual Operating Expenses of Responding Organizations

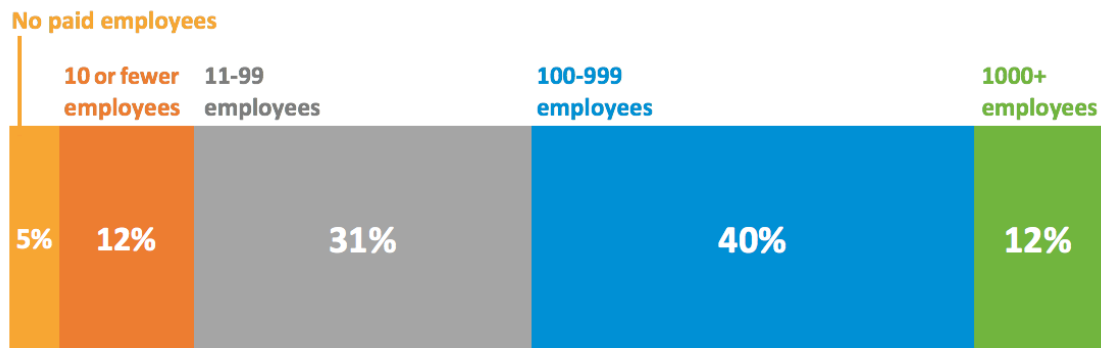
(Survey #1: Risk Management in the Nonprofit Sector)



With respect to the number of paid staff, 40% of respondent organizations employ between 100 and 999 individuals; 31% of respondent organizations employ between 11 and 99 individuals.

Paid Staff Size of Responding Organizations

(Survey #1: Risk Management in the Nonprofit Sector)



Regarding the type of nonprofit mission or programs, sometimes referred to as the nonprofit “subsector,” an overwhelming majority of respondents identified their organizations as “human or social services” agencies (54% of respondents) when asked to select from a list of 14 subsectors including “education and/or research” (13%), “international aid, relief, or services” (8%), “health services” (7%), and “sports or recreation” (4%), among other categories with fewer respondents.

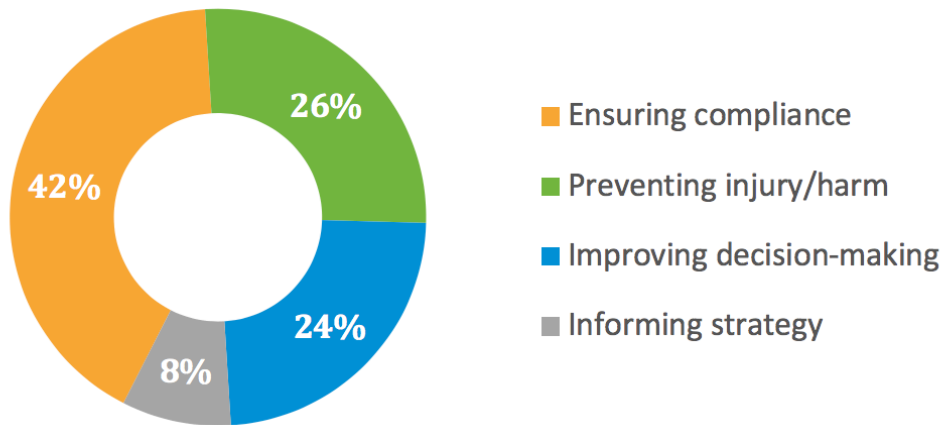
Demographic information was not collected from respondents who participated in the second survey, “What kind of Risk Champion are you?”

Survey Results: Risk Management in the Nonprofit Sector

When asked to select the primary goal of risk management in their respective organizations, 42% of respondents indicated that the primary goal is “ensuring compliance (i.e., with laws, financial controls, and internal policies).” “Preventing injury/harm to staff/clients” was the primary risk management goal for 26% of respondents, closely followed by “improving decision-making” (24%).

What is the primary goal of Risk Management at your nonprofit?

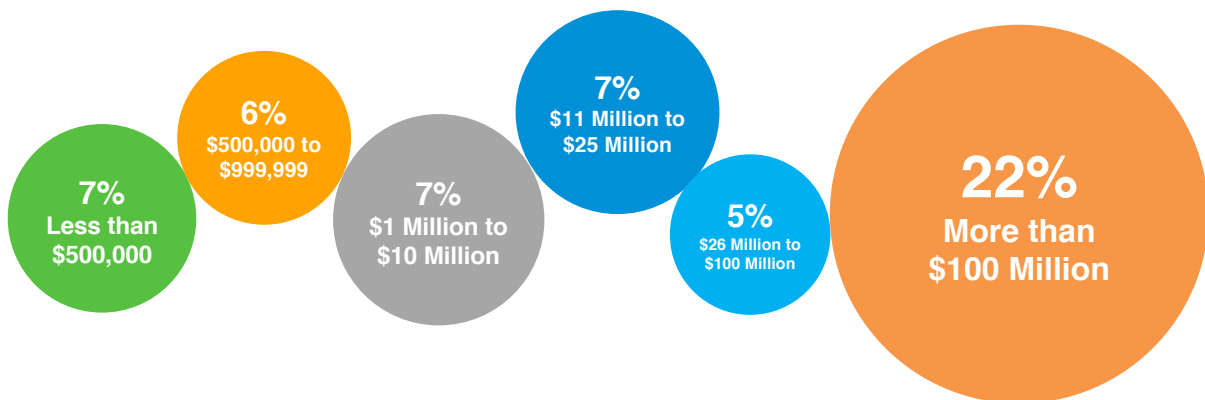
(Survey #1: Risk Management in the Nonprofit Sector)



Respondents with organizational budgets of more than \$100 million primarily focus risk management efforts on “improving decision-making” (39%) compared to “informing strategy” (22%), “ensuring compliance” (22%), and “preventing harm/injury” (17%). Respondents in the \$100 million+ group are three-times more likely to focus on “informing strategy” than the other lower-budget groups.

Percentage of respondents whose primary Risk Management goal is “Informing Strategy,” based on annual operating expenses

(Survey #1: Risk Management in the Nonprofit Sector)



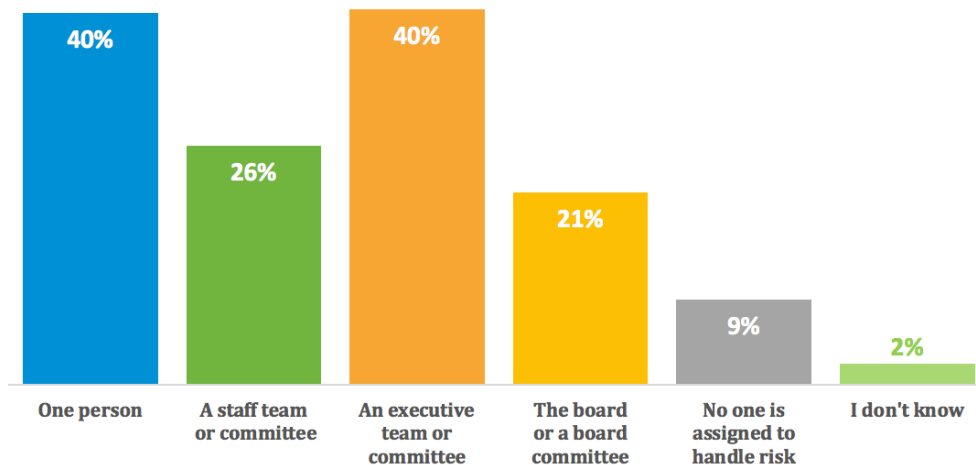
When asked to identify (from a list of responses, below) *all* the ways that understanding risks has supported mission-advancement or progress toward organizational goals, 69% of respondents indicated that understanding risks enables them to “make more informed decisions.” Respondents also indicated that understanding risks empowers their respective organizations to:

- Candidly discuss challenges and concerns in the workplace (57%)
- Prepare more effectively for emergencies (56%)
- Remain resilient after a crisis occurs (43%)
- Take more risks to advance the organization’s mission/programs (22%)

Respondents then identified (from a list of responses, below) *all* the parties responsible for risk management in their respective organizations:

- One person (e.g., Risk Manager, CFO, Director of Safety, etc.) (40%)
- A staff-level team or committee (26%)
- An executive-level team or committee (40%)
- The board of directors and/or a specific board-level committee (21%)
- No one is assigned to handle risk management (9%)

Who is responsible for Risk Management at your nonprofit? (select all that apply)
 (Survey #1: Risk Management in the Nonprofit Sector)



Not surprisingly, respondents with \$100 million+ budgets seem to be roughly four times more likely to assign risk management responsibility to a specific team member when compared to respondents from organizations with budgets of less than \$1 million. Of respondents from organizations with \$100 million+ budgets, 78% indicated that one specific team member is one of the parties responsible for risk management at their respective organizations, compared to only 18% of respondents from organizations with budgets of less than \$1 million who assign risk responsibility to a specific team member.

When asked whether or not their respective organizations have a written risk management plan describing organizational risk management goals, top risks, and risk management function structure (clarifying the assignment of risk management/oversight responsibility), results were almost even, with 45% of respondents indicating that “yes,” their organization has such a risk management plan, and 49% of respondents indicating that they do not have a written risk management plan. A small group of respondents were unaware whether a plan existed (6%). Organizations with annual budgets more than \$1 million were, on average, at least twice as likely to have a written risk management plan compared to organizations with budgets of less than \$1 million. Organizations with more than 10 paid employees were, on average, roughly three times more likely to have a written risk management plan compared to organizations with fewer than 10 paid employees.

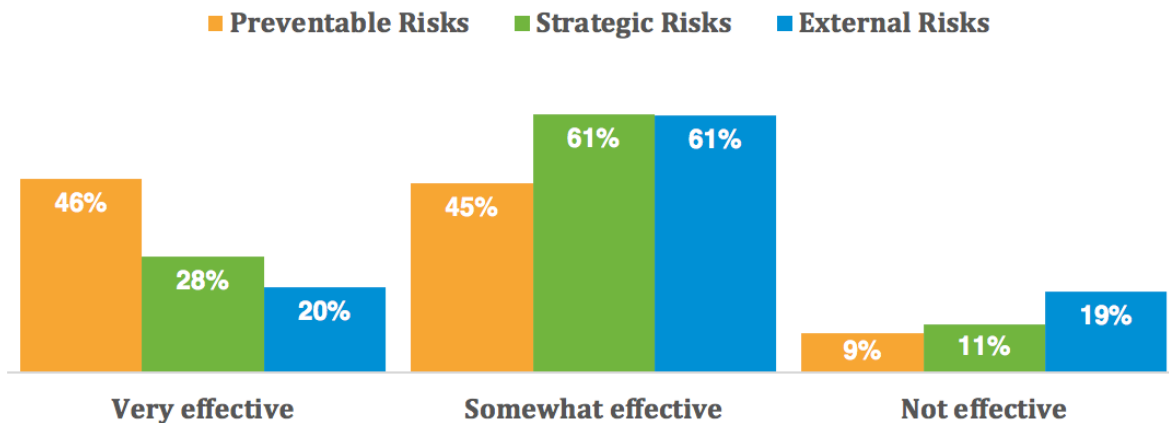
Respondents were then asked to review three types of risk—preventable, strategic, and external—and indicate their respective organization’s capacity to manage each type of risk as either *very effective*, *somewhat effective*, or *not effective*. The risk types were described as:

- **Preventable:** undesirable future events whose potential likelihood and impact can be managed through compliance efforts, such as changes in program design, policy, training, etc.
- **Strategic:** risks related to strategic priorities/goals, as well as the organization’s “big bets” (risks it willingly takes to achieve its mission)
- **External:** risks the organization is unable to prevent, such as natural disasters or criminal acts by third parties, for which risk management emphasis focuses on contingency planning and crisis management

Roughly half the respondents expressed a high level of confidence in organizational capacity to manage preventable risks very effectively (46%). Almost one-third of respondents expressed that their respective organizations manage strategic risks very effectively (28%). Management of external risks represents the greatest need for risk management capacity building, as only one-fifth of respondents very effectively manage external risks (20%), and another one-fifth of respondents indicating ineffective management of external risks (19%).

“For each type of risk, rate your organization’s risk management capabilities”

(Survey #1: Risk Management in the Nonprofit Sector)



Respondent confidence in organizational capacity to manage preventable versus strategic versus external risks did not change significantly based on who was assigned primary responsibility for managing risk within an organization. However, the respondents who indicated that “no one is assigned to handle risk management” at their respective organizations (9% of total respondents) were significantly more likely to express that the management of any type of risk (preventable, strategic, or external) was “not effective” when compared to respondents whose organizations had assigned at least one individual or team responsibility for risk management.

When asked to rate personal levels of satisfaction with organizational management of top risks, half the respondents indicated that they were *moderately* satisfied, believing that their respective organizations “devote adequate time to understanding some, but not all priority risks” (50%). One-quarter of respondents indicated that they were *highly* satisfied, agreeing that their respective organizations “devote adequate time to understanding our top risks and to designing/implementing strategies to manage those risks” (26%). The remaining one-quarter of respondents indicated they felt *low* satisfaction, because their respective organizations “do not devote enough time to understanding and managing top risks” (24%).

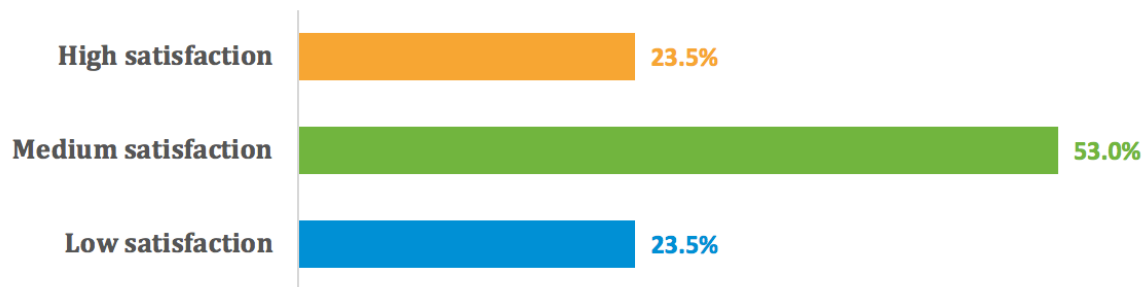
Of the respondents who indicated that “no one is assigned to handle risk management” at their respective organizations (9% of total respondents), **none** reported a high level of satisfaction with the organizational management of top risks. Only 33% of these respondents reported medium satisfaction and 67% reported low satisfaction with the organizational management of top risks.

Respondent satisfaction with organizational management of top risks
for organizations in which *no one* is assigned to handle risk management
(Survey #1: Risk Management in the Nonprofit Sector)



Of the organizations that had assigned risk management responsibility to *at least one individual or team*, respondents generally reported their satisfaction with organizational management of top risks on a bell curve, with the majority of respondents feeling a medium level of satisfaction—and fewer respondents feeling high or low satisfaction—no matter which parties were assigned risk responsibility at their respective organizations.

Respondent satisfaction with organizational management of top risks
for organizations in which at least *one person* (e.g., Risk Manager, Director of Safety, CFO, etc.) is assigned to handle risk management
(Survey #1: Risk Management in the Nonprofit Sector)



While there is no causal link between risk appetite and satisfaction with risk management, a correlation does exist. Of the respondents who expressed *low* satisfaction with organizational management of top risks, slightly more than half believe “there are major differences in the risk appetites” of board members, management staff, and front-line staff (53%). Conversely, only one-tenth of *highly* satisfied respondents believe that “there are major differences in the risk appetites” of board members, management staff, and front-line staff. The majority of *highly* satisfied respondents believe that “there may be nuances to how these stakeholder groups perceive risk, but no major differences” (63%).

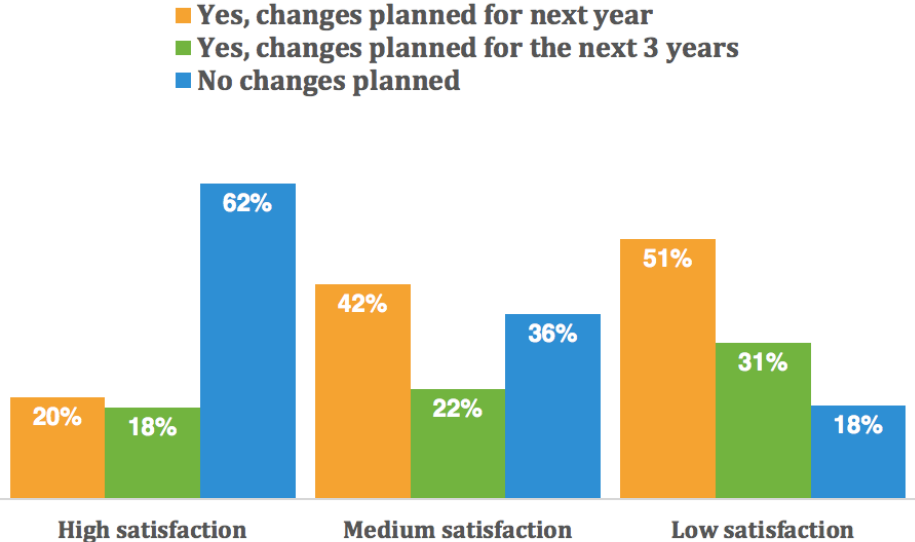
Almost half the respondents who expressed a *moderate* level of satisfaction with risk management efforts believe that “there may be nuances to how these stakeholder groups perceive risk, but no major differences” (46%), and one-third of moderately satisfied respondents believe “there are major differences in the risk appetites” (32%). Regardless of satisfaction levels—and not surprisingly—only 11% of respondents believe that their internal stakeholders *share the same risk appetites* or perceive risk similarly. Clashing risk appetites could potentially explain the variance in personal satisfaction with organizational management of top risks.

While some teams might interpret this correlation as illuminating a need to reconcile and unify the varied risk appetites held by organizational stakeholders, consider instead whether the *exploration and understanding*—not necessarily the homogeneity of—risk appetites can best inform a team’s risk management priorities and decisions made regarding uncertainty. By achieving shared understanding of *why* conflicting or dissimilar risk appetites exist, a team might reduce its blind spots while potentially increasing individual team members’ satisfaction with the organizational management of risks.

When asked whether or not their respective teams plan to reorganize or reprioritize their respective approaches to risk management during the coming year, 38% of respondents indicated “yes, definitely;” 24% of respondents indicated “yes, but during a longer timeframe (within the next three years);” and the remaining 38% of respondents had no plans to alter their approach to risk management in the near future.

Respondent satisfaction with the organizational management of top risks correlates with respondents’ plans to either alter or maintain their approaches to risk management during the coming years. Of the respondents who reported *low* satisfaction with organizational management of top risks, 51% plan to reorganize their respective risk management approaches within the next year, and only 18% have no changes planned. Of the respondents who reported *high* satisfaction with organizational risk management, only 20% plan to revamp their approaches to risk management within the next year, and 62% have no changes planned.

Respondent plans to adapt organizational approaches to risk management compared to respondent *satisfaction* with organizational management of top risks
(Survey #1: Risk Management in the Nonprofit Sector)



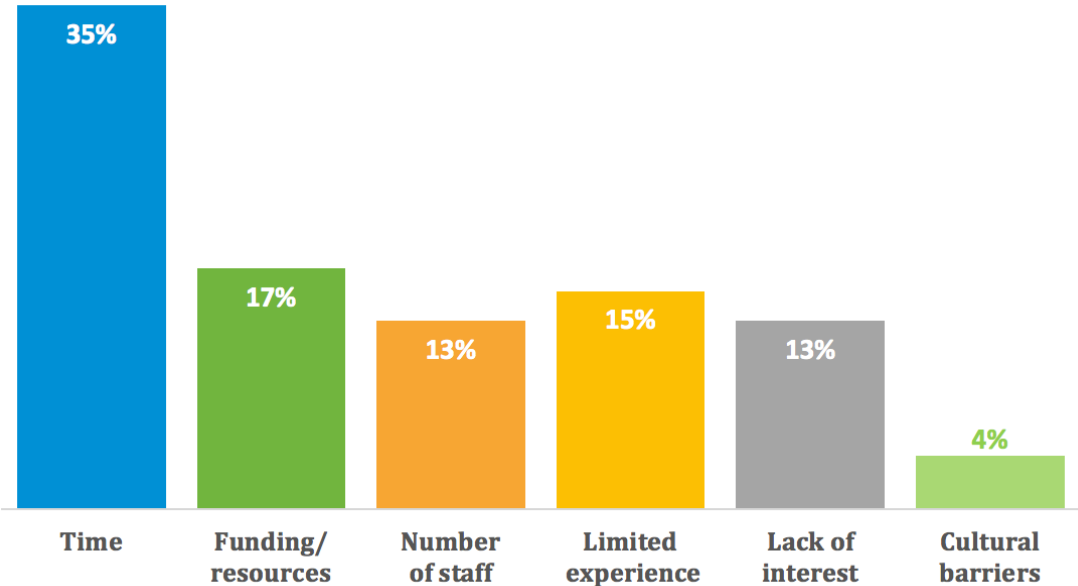
Of the respondents who planned to alter their approaches to risk management within the next three years, 26% shared individual written responses—none of which were similar enough to determine statistical significance. The remaining respondents planned to alter their risk management approaches in the coming year in the following ways:

- Almost half of the respondents want to “explore new ways to engage with board members/board committees” around risk management topics (45%)
- Almost one third of respondents are “forming or reestablishing a risk management committee” (29%)
- Almost one fifth of respondents plan to “hire one or more new staff members with risk responsibilities” (17%)

Whether or not they plan to augment their risk management capabilities, respondents all face barriers to effective risk management practice. When asked to identify the primary challenge their respective organizations face in practicing or strengthening risk management, roughly one-third of respondents indicated that finding the time was their greatest challenge (35%). Fewer respondents face barriers including funding/resource limitations (17%), limited number of staff (13%), limited risk management knowledge or experience (15%), or lack of interest in risk management amongst internal stakeholders (13%). Very few respondents indicated that cultural barriers—for example, a workplace culture that discourages candid conversations about risk—are of concern (4%).

“What is the #1 challenge that makes it hard for your organization to practice or strengthen risk management?”

(Survey #1: Risk Management in the Nonprofit Sector)



Survey Results: What kind of Risk Champion are you?

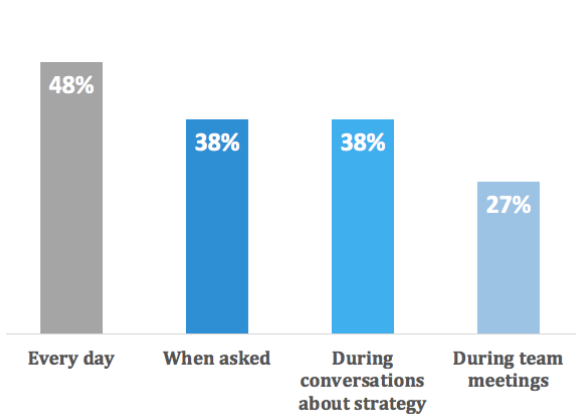
When asked how often they are heard discussing risk management in the workplace, 48% of respondents indicated that they discuss risk every day.

When preparing risk reports or presentations for “higher-ups,” for example, an executive team or a board of directors, the majority of respondents agreed that statistics (68%), text (62%), and charts (55%) are all crucial elements to incorporate into the design.

“How often do your coworkers hear you talk about risk management?”

(select all that apply)

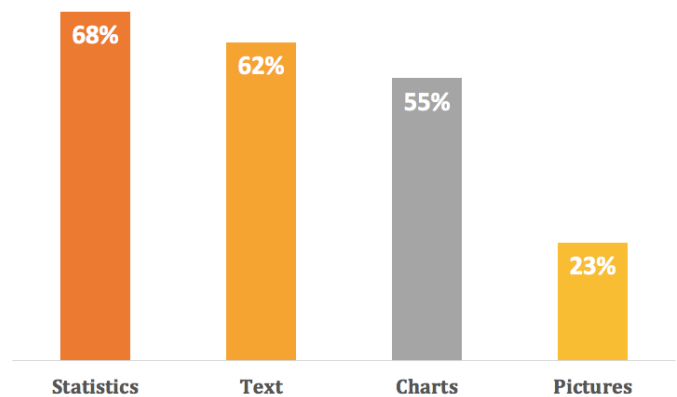
(Survey #2: What kind of Risk Champion are you?)



“When you’re designing a risk report for higher-ups, what elements are a must?”

(select all that apply)

(Survey #2: What kind of Risk Champion are you?)

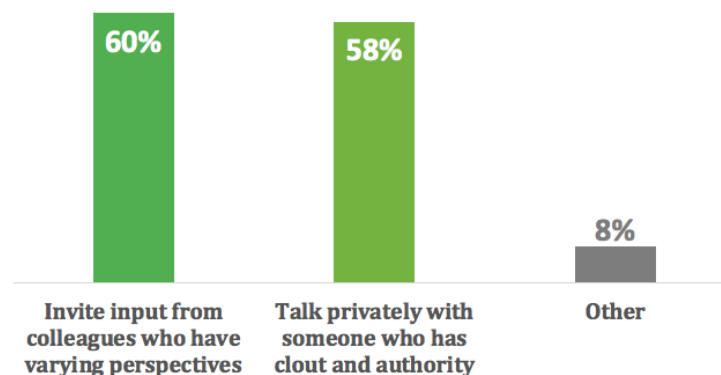


When asked how they respond when their respective organizations approach a decision without fully considering risk, the majority of respondents indicated that they would “invite input from colleagues who have varying perspectives” (60%) and/or “talk privately with someone who has clout or authority.”

“When you think your organization is making a decision without fully considering the risks, what do you do?”

(select all that apply)

(Survey #2: What kind of Risk Champion are you?)



The majority of respondents indicated that the party or parties they identified as responsible for risk management in their respective organizations primarily focused on “identifying, assessing, and managing risks” (67%). Far fewer respondents indicated that the parties responsible for risk management in their organizations are primarily focused on:

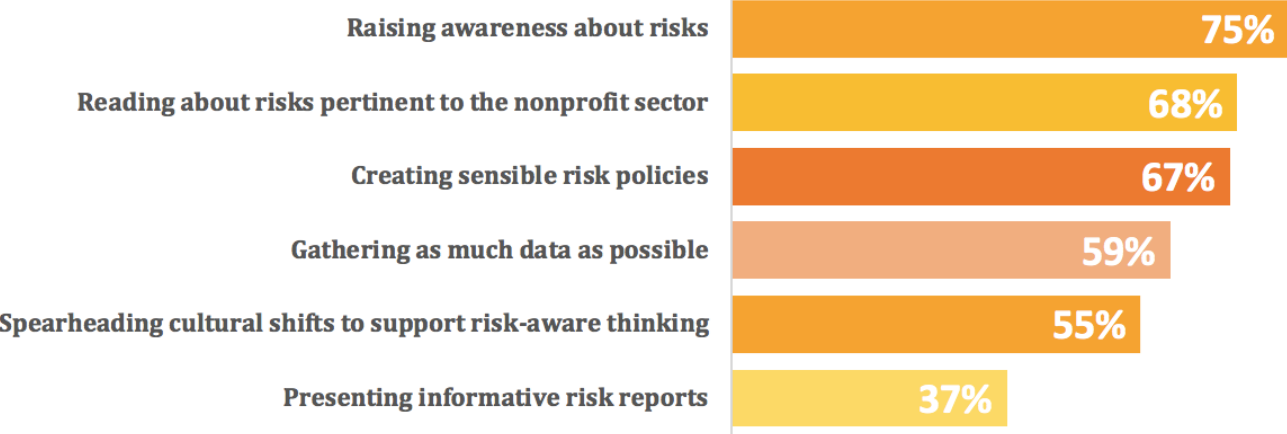
- Insurance program oversight (11%)
- Educating internal teams about the discipline of risk management (8%)
- Internal audit or other forms of audit (7%)
- Reporting to stakeholders (e.g., board of directors, executives, funders) about the organization’s risks and risk management efforts (7%)

More than 50% of respondents regularly engage in risk management activities including:

- Raising awareness about risks (75%)
- Reading about risks pertinent to the nonprofit sector (68%)
- Creating sensible risk policies (67%)
- Gathering as much data as possible (59%)
- Spearheading cultural shifts to support risk-aware thinking (55%)

Slightly more than one-third of respondents (37%) regularly present “informative risk reports” to internal teams. The most common regular risk management activity among respondents was “Raising awareness about risks” (75%).

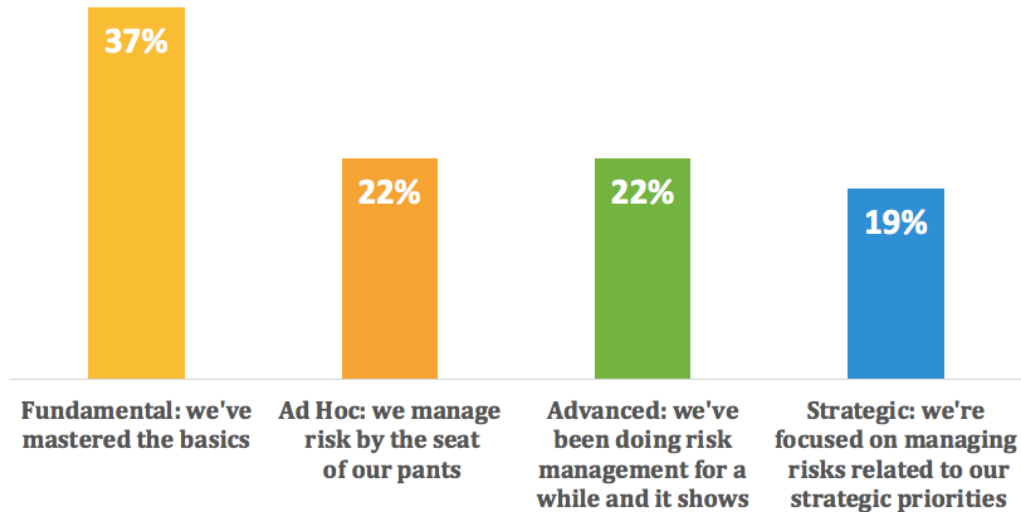
“Which of the following risk management activities do you engage in regularly?” (select all that apply)”
(Survey #2: What kind of Risk Champion are you?)



Regarding the maturity of risk management practice at their respective organizations, more than one-third of respondents (37%) classified their organizational risk capabilities as “fundamental: we’ve mastered the basics.” Groups of roughly one-fifth of respondents classified their risk capabilities as “ad hoc” (22%), “advanced” (22%), or “strategic” (19%).

“How would you rate the maturity of risk management at your organization?”

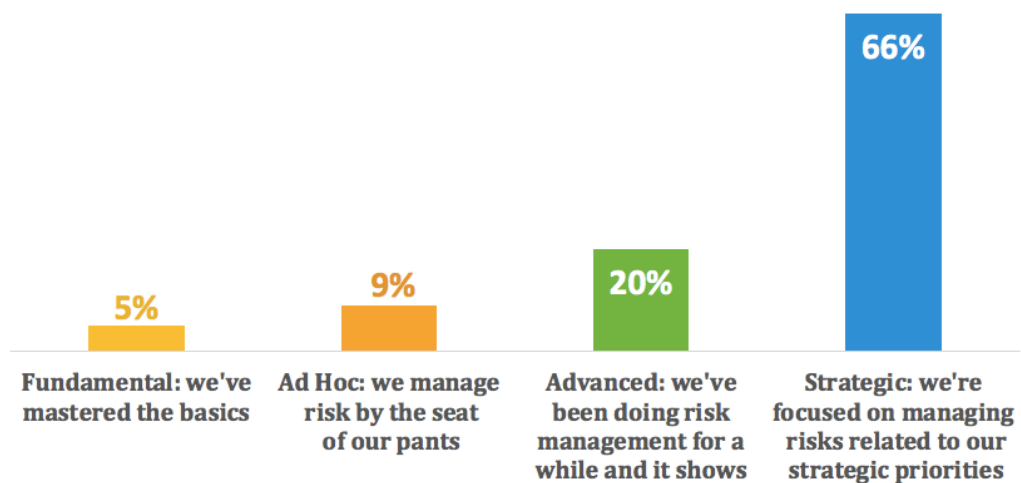
(Survey #2: What kind of Risk Champion are you?)



When asked about the capabilities they hope to develop in the future, most respondents (66%) agreed they want their teams to master strategic risk, becoming “increasingly focused on risks related to strategic priorities.”

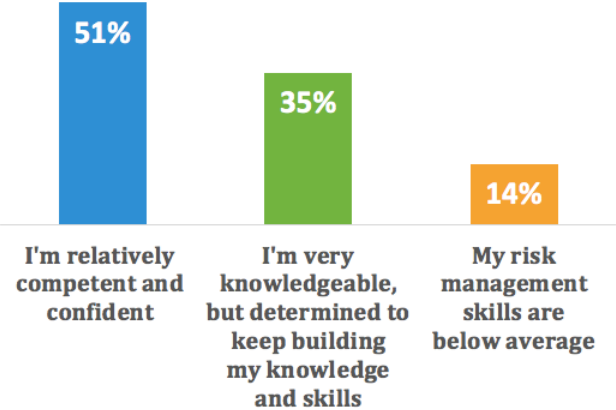
“When you think about your organization’s future risk management capabilities, where do you want to be?”

(Survey #2: What kind of Risk Champion are you?)



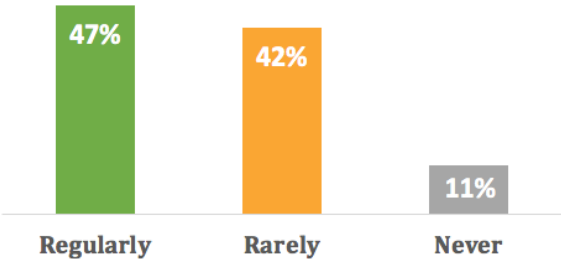
When asked how their risk management skills and knowledge stack up to other team members within their respective organizations, roughly half of respondents (51%) felt they were “relatively competent and confident.” Slightly more than one-third of respondents (35%) consider themselves “very knowledgeable,” but indicated that they want to continue developing their skills.

“How do you rank your risk management skills and knowledge?”
(Survey #2: What kind of Risk Champion are you?)



When asked how often their risk insights are shared or discussed at senior management or board meetings, almost half of respondents (47%) indicated that their work is highlighted “regularly.” Conversely, the other half of respondents (42%) disagreed, believing that senior leaders “rarely” leverage these risk insights.

“How often are the fruits of your risk management labor featured or discussed at senior management or board meetings?”
(Survey #2: What kind of Risk Champion are you?)



Recommended Standards for Risk Management Practice

Based on the survey analysis presented in the report and the NRMC team's experience as a risk consulting partner to nonprofit organizations for more than 25 years, NRMC recommends the following four standards for risk management practice in a nonprofit organization. While the suggested standards should be tailored and implemented creatively to meet the needs of each unique organization, adopting these practices will cultivate effective and sustainable risk management capabilities and promote understanding and proactive management of risk exposures in any nonprofit organization.

1. Define one or more specific goals for risk management practice.

Why? The survey results suggest that nonprofit teams might struggle to prioritize risk activities or to find time to define and pursue explicit risk management goals. Fewer than half of the organizations surveyed document a risk management plan, and lack of time was a top barrier to risk management implementation. Defining goals explicitly can unify a team and encourage a focus on risk in day-to-day conversations. Explicit goals also help to:

- Inform how risk management processes and accountability should take shape across an organization
- Refocus organizational risk management efforts if they become unwieldy, ineffective, or unrealistic

How?

- *Determine your nonprofit's risk management priorities* based on your mission, programs, operations, and stakeholder network. How can risk management help advance your mission? Risk management priorities might include:
 - Preventing loss or harm (e.g., injury of staff/clients, disruption of programs, fraud, data breach, etc.)
 - Ensuring compliance (i.e., with laws, financial controls, workplace policies, etc.)
 - Improving decision-making (i.e., considering risk and uncertainty to inform decisions made by individual team members or the organization as a whole)
 - Developing organizational resilience (e.g., contingency planning, scenario planning, etc.)
 - Informing strategy (e.g., questioning the risks and assumptions underlying strategic priorities; considering long-term risks to organizational health and mission-advancement; managing certain risks very carefully in order to free time and resources for informed risk-taking in other areas, etc.)

- *Adapt accepted risk management processes and practices to best support progress toward your goals.* For example, an organization focused on developing organizational resilience might conceptualize and manage a risk differently than an organization focused on preventing harm outright. Tried-and-true approaches to risk management might be more effective when tailored to suit one organization.
- When designing or implementing risk management processes and practices based on your goals, *overhaul or discontinue anything that creates undue burden or organizational drag.* Iterate to streamline promising risk management processes/practices, but ultimately prioritize the achievement of desired risk management outcomes over the implementation of specific processes.
- *Reevaluate your overarching goals regularly* to determine their continued relevance to your organization.

2. Designate one or more forums for regular dialogue about risks and risk management efforts.

Why? Based on the top risk management challenges identified by survey respondents (time limitations, funding/resource limitations, lack of staff, lack of risk experience, and low interest) perhaps the formalization of the risk management function itself is a barrier to practicing effective risk management. A less formal, integrated approach to risk management could serve to break down barriers including time and resource restrictions, and lack of staff with risk management experience. The NRMC team recommends a dialogue-based approach to igniting risk-awareness and grassroots risk management activity across an organization, which will enable a nonprofit team to:

- Reduce reliance on over-engineered, burdensome risk management processes (such as risk scoring)
- Reframe the risk management process as an ongoing conversation, which is accessible to any team member regardless of risk management experience
- Invite nuanced risk information and risk management ideas from individual team members across your organization
- Encourage an action-oriented approach to risk management and to encourage reflection/follow-up on ongoing and completed risk management initiatives

How?

- *Begin exploring risk regularly by leveraging existing discussion forums.* Integrate a few risk-related discussion prompts or scenarios into routine team meetings, organizational processes (e.g., budgeting, program planning, stakeholder feedback surveys, etc.), and regular reports to staff or board

teams. Review sample risk assessment discussion prompts in NRMC’s article, [“Risk Assessment Perspectives: Re-Lens with Three Approaches.”](#)

- Aim to *facilitate both departmental and cross-departmental risk conversations*, as well as the sharing of risk information between staff and the board. By inviting different perspectives, your team will develop a richer understanding of each risk as well as a more realistic risk management plan. Keep risk conversations flowing by valuing diverse risk insights and by praising team members for their willingness to candidly discuss risk.
- As risk management priorities or capabilities change, *consider establishing dedicated forums for critical risk-related conversations*. For example, conduct an annual half-day workshop to identify and prioritize risks, develop initial ideas for risk management initiatives, and assign implementation responsibility to appropriate teams. Conduct a follow-up workshop six months later to evaluate ongoing and completed risk management initiatives. Document lessons learned and apply them during the next risk workshop.

Engaging the Board in Risk Dialogue

When asked, “How often does the Board of Directors at your nonprofit talk about risk or risk management?” 39% of respondents who completed the “Risk Management in the Nonprofit Sector” survey indicated that their boards discuss risk or risk management more than once per year, but not at every board meeting. 18% of respondents noted that their boards discuss risk once per year. 15% of respondents noted that their boards discuss risk at every board meeting.

TIP: Allocate time for strategic risk dialogue during one or more board meetings each year. Include a thought-provoking article or discussion prompts in the pre-meeting board book/packet to stimulate discussion during the meeting. For example, share the ten compelling questions about disruptive risks and five recommendations for risk oversight in James C. Lam’s article, “An Animal Kingdom of Disruptive Risks: How Boards can Oversee Black Swans, Gray Rhinos, and White Elephants,” published in NACD’s January/February 2019 edition of *Directorship* magazine.

3. Determine which team members should serve as risk leaders (Risk Champions), who else should be involved, and how.

Why? The survey results indicate that nonprofit teams typically assign risk management responsibility and leadership to several individuals or groups within an organization. While the distribution of risk leadership power promotes inclusion in risk management practice—and hopefully a more robust understanding of an

organization's risk landscape—highly inclusive risk decision-making sometimes results in unintended negative consequences such as peer-to-peer conflict and decision paralysis. Risk leadership hierarchies and inclusive risk conversations must be designed to *enhance* risk management productivity. An inflexible risk leadership hierarchy is unnecessary and inappropriate for many organizations, yet teams *should* consider ways to improve their risk decision-making processes. The intentional design of a risk management structure that balances inclusion and productivity will enable a nonprofit team to better:

- Develop experienced and trusted risk leaders who can help cultivate risk management capabilities amongst their peers
- Empower one or more decision-makers who can set risk management initiatives in motion and manage risk-related conflicts
- Identify personnel who can sustain the momentum of specific risk management initiatives
- Clarify which parties are accountable for managing specific risks, and which risk teams are accountable to other teams (i.e., oversight teams)
- Explore and—when necessary—reconcile conflicting risk appetites held by various internal teams

How?

- *Ask for volunteers.* Present the Risk Champion role as an opportunity for [professional development in risk leadership](#), and as an opportunity to deepen service to the organization.
- *Identify additional team members who might be sporadically or tangentially involved in risk management initiatives,* and who can be available to collaborate with the designated Risk Champion(s). For example, a Risk Champion might collaborate with internal subject-matter experts to design training materials or to formalize a new policy aimed to manage a specific risk.
- *Empower Risk Champions with the appropriate authority to approve/enact risk management initiatives and make other risk-related decisions,* for example, to manage risk-related conflicts (e.g., disputes when teams disagree about how specific risks should be managed, etc.). For Risk Champions with limited decision-making power, consider identifying an executive sponsor who can approve the Risk Champion's plans and resource requests.
- *Clarify the risk management roles of staff, executives, and board members* in order to promote synergy and prevent potential authority disputes. For example, if staff members seek information about board-level strategic risk management initiatives, provide relevant information and assurance of effective strategic risk management, but do not indicate that the board is accountable to a staff-level risk management team. Similarly, if staff present risk information to the board, design the presentation to elicit the desired

response from the board (e.g., receipt and approval of information, discussion, decision-making, etc.).

- *Allow Risk Champions to develop their capabilities and knowledge* through practical experiences managing risks facing the organization. Begin by addressing well-understood risks with low-pressure, short-term risk management initiatives. As Risk Champions and their peers gradually gain confidence and competency in risk management, provide additional space and authority for undertaking other risk initiatives.

4. Gauge organizational risk management capabilities and effectiveness over time.

Why? Evaluation is crucial to drive internal interest in and knowledge about adopted risk management practices, and to increase the number of stakeholders who feel highly satisfied with and confident in an organization's risk management efforts. By monitoring and evaluating risk management priorities, processes, ongoing initiatives, and outcomes, a nonprofit team can:

- Demonstrate the organization's evolving risk management capabilities and the effect of risk management practice on mission, programs, and operations
- Reflect on the relevance and efficacy of adopted risk management goals, processes, policies, etc., and adapt as needed to improve risk management performance and outcomes
- Promote stakeholder confidence in mission and asset stewardship

How?

- *Ask departmental leaders across the organization to design annual, limited-scope evaluations for their respective departments regarding risk management capacity.* Evaluations might be based on existing departmental risk management priorities or risk management initiatives completed during the past year. A simple, low-pressure evaluation might be conducted in the form of a survey completed by individual team members, during a team-wide discussion, or as a checklist-style assessment of "risk readiness" or the team's preparedness to manage specific priority risks. Alternatively, a department head might prepare a hypothetical risk scenario and ask the department team to complete a tabletop exercise, responding to the scenario to demonstrate risk-awareness and risk management capability.
- *Collaborate with peer organizations, external risk leaders, and risk management capacity-building organizations* like the Nonprofit Risk Management Center to learn and share insights for risk management practice.
- *Design and adopt a risk management maturity model* or time-bound action plan for developing risk management capabilities that promote progress

toward organizational risk management goals. Establish specific qualitative and/or quantitative metrics of risk management maturity that reasonably indicate real enhancement of organizational risk management capabilities. Monitor progress against the risk management maturity model and the specific metrics/indicators in order to gauge the organization's evolving risk management capabilities over a span of months or years. Review two sample risk management maturity models on the following pages.

The first sample maturity model (p. 23) was developed by the Nonprofit Risk Management Center. The model indicates the sophistication and effectiveness of a nonprofit's risk management capabilities, which increase as the organization moves through phases 1, 2, 3 and 4. Although it is unlikely that an organization's capabilities align exactly with any specific phase, the model can still be used to gauge an organization's existing risk management capabilities, like a snapshot in time.

The second sample maturity model (p. 24) was developed by Grant Purdy, risk thought leader and associate director at Broadleaf Capital International in Australia. Purdy defines risk management this way:

Managing risk is a way of understanding and dealing with the effect of uncertainty on the organization's objectives in the course of decision-making. The process for managing risk must enable risk to be detected and understood and then modified as necessary in the most efficient way possible. Logically, this means it must take into account the views and knowledge of interested people, consider options and be able to detect and respond to change because the real world is not static.

Sample Risk Management Maturity Model (Nonprofit Risk Management Center)

PHASE 1: Ad Hoc

- Risk is perceived as the possibility for harm or loss
- Risk practice is ad hoc and intuitive
- Risk management practices are inconsistent, and conducted at the discretion of staff
- Various staff throughout the organization address risks, but not in a coordinated way



PHASE 2: Fundamental

- Responsibility for risk management is assigned to specific team members
- Risks related to programs and services are managed and financed; risk financing (insurance) is a key component of the organization's risk management program
- Regulator/funder compliance requirements related to risk management are met



PHASE 3: Advanced

- A risk management framework has been adopted to distribute risk management and risk oversight responsibility across the organization
- Identifying and managing risk is part of the regular planning cycle, as well as the process for developing or winding down programs
- One or more Risk Champions have been identified to support risk initiatives and facilitate sharing and learning across departments and functions
- Periodic risk reports are made to a governing body, such as a board committee



PHASE 4: Strategic

- Risk assessment is broad, and includes preventable, external and strategic risks
- Reports to a governing body are two-way conversations, with engagement a priority
- Focus on risk appetite is evident
- Risk is perceived as the possibility of positive or negative impact to key objectives
- Risk management is increasingly integrated into processes, including strategic planning and budgeting
- The purpose of risk management is to improve decision-making across the organization, in relation to the organization's objectives
- The effectiveness of risk management is evaluated on an ongoing basis, such as by using Key Risk Indicators or metrics

Sample Risk Management Maturity Model (Grant Purdy)

STAGE 1: Risk Specific

- There are different types of processes for different types of risk
- Risk categorization is largely consequence based
- There may be attempts at some form of 'integrated' measurement
- Risk is seen as loss, harm and detriment
- Risk management is closely linked to insurance. The terms 'risks' and 'hazards' and 'threats' are used interchangeably



STAGE 2: Driven by Governance

- Risk management is motivated by reporting
- High level risk assessment is stimulated by reporting requirements, normally once or twice a year only
- Risk management measures vary according to types of risk
- Risks are seen as events—mostly with negative consequences
- There are inconsistent approaches for managing different types of risk



STAGE 3: Driven by Change

- Risk management is associated with the management of change
- Risk management processes are separate but are invoked by decision making processes
- Risk management is driven by performance-based standards
- Risk is seen as effect of uncertainty on objectives
- There is a uniform system for the analysis of most types of risk



STAGE 4: Integrated

- Risk management is implicit in all decision making
- Risk management processes are integrated in all key organizational processes
- Risk management is integral to the system of management
- Risk management is culturally driven—through performance standards
- Risk is defined as the effect of uncertainty on objectives
- Effective risk management leads to organizational resilience and agility

Forecast for Risk Management in the Nonprofit Sector

The risk management discipline will continue to evolve to meet the needs of nonprofit teams and the diverse communities they serve. The NRMC team anticipates risk management practice changing in the following five ways—explored further below—during 2019 and beyond:

1. Increasing board-level interest in risk management
2. Race to develop strategic risk management capabilities
3. Rising relevance of emotional intelligence and employee engagement
4. Renewed focus on CEO succession planning and the effective management of staff departures
5. Deepening dialogue around the philosophical nature of risk and the value of risk management

Increasing Board-level Interest in Risk Management

When asked, “Has your Board of Directors recently become more interested in risk management?”, 32% of respondents who completed the “Risk Management in the Nonprofit Sector” survey indicated that their boards have become *significantly* more interested in risk management. Recent observations by the NRMC team align with the survey data. Historically, a nonprofit board’s involvement in risk management efforts might be limited to the solicitation of assurance from staff leaders that individual operational risks were being managed as desired.

More recently, NRMC consultants observed a shift from assurance-based risk oversight where boards simply receive risk reports from staff, to participative risk oversight where board members themselves engage in dialogue and decision-making regarding strategic risks or “existential risks” deemed crucial to an organization’s survival. This shift compels risk management practitioners to redefine the board’s role in risk oversight, including redefining how staff and board teams can partner to manage a broader realm of risks in synergy.

NRMC consultants postulate that nonprofits pursuing robust risk oversight capabilities will devise feedback loops or risk reporting processes that are mutually informative to both staff and board teams. The near future also promises increased willingness of individual board members to personally champion strategic risk initiatives or chair board-level risk management committees.

Race to Develop Strategic Risk Management Capabilities

NRMC consultants have in recent years collaborated with a number of nonprofit teams that demonstrate competency and proactivity in managing tangible, preventable risks—risks that can often be managed through compliance efforts such as changes in program design, policy, or staff training. Developing this level of risk expertise has led many NRMC consulting clients to question what comes next, especially in regard to their management of more complex, less tangible risks, such as risks related to the achievement of strategic goals or priorities.

When asked to rate their organizational management of *preventable risks* and *strategic risks* as either *very effective*, *somewhat effective*, or *not effective*, only 28% of respondents who completed the “Risk Management in the Nonprofit Sector” survey indicated that their strategic risk management capabilities are very effective, compared to 46% of respondents who indicated that their management of preventable risks is very effective. These survey results might simply indicate a knowledge gap between staff and board teams, as nonprofit boards are typically accountable for the oversight of strategic risks, and only 5% of survey respondents self-identified as board members. Still, 21% of survey respondents self-identified as CEOs or Executive Directors, who are likely knowledgeable about strategic risks and who might be expected to collaborate with a board of directors in assuring oversight of strategic risks. Whether indicative of a knowledge gap or a true need for strategic risk management capacity-building, the NRMC team calls upon nonprofit leaders to invest in strategic risk management, not only to satiate board-level desires to provide thoughtful risk oversight, but to develop organizational foresight and resilience.

In the Global Association of Risk Professionals (GARP) January 2019 Chief Risk Officer (CRO) Outlook column, [“Strategic Risk Will be Front and Center in 2019,”](#) University of Maryland professor and Chesapeake Risk Advisors, LLC principal Clifford Rossi describes macro risks that will require boards of directors to “inject a heavy dose of critical thinking and challenge into the discussion.” Rossi warned that boards must fight the natural urge to forsake long-term strategic risk planning in favor of prioritizing near-term outcomes. The NRMC team anticipates a growing focus on strategic risk that will push nonprofit boards to ask deep, challenging questions about the validity of their strategic priorities and about the adaptive capacity of their organizations.

Rising Relevance of Emotional Intelligence and Employee Engagement

Organizations have been advised to prioritize the hiring or development of [emotionally intelligent](#) team members. Some organizations also employ emotional intelligence (EI) competencies to [increase employee engagement](#). Cultivating both an emotionally intelligent and an engaged workforce could potentially drastically enhance an organization’s risk management capabilities, as risk-related dialogue often requires highly

developed social skills (i.e., conflict management skills), a sense of care or connection to the team or organization (i.e., personal motivation to report and manage risks), and empathy for others (i.e., the ability to assess risk through a vulnerable client’s perspective or the ability to consider risk appetite through a colleague’s unique lens). While EI and employee engagement are not often described as foundations for risk management practice, in almost every NRMC consulting engagement, the NRMC team observes humanity and compassion as driving forces behind effective risk management. Conversely, deficits in human connection are often the cultural contaminants of risk management, whether these disconnects exist amongst staff teams, staff and leadership, or between nonprofit personnel and the community they serve.

NRMC consultants believe that in the near future nonprofit teams committed to managing risk will also reaffirm their commitments to developing empathy, self-awareness, people skills, and engagement amongst their team members. Individual Risk Champions will be tested time and again as they use their emotional intelligence to relate to peers and tease out risk themes, encourage proactive and candid risk reporting organization-wide, and develop risk messaging and risk management initiatives that involve and inform diverse stakeholder groups. To learn more about the need for EI and engagement in risk management practice, read “Heads and Hearts: The Human Side of Global Risks,” in [The Global Risks Report 2019](#) (14th Edition), published by the World Economic Forum in partnership with Marsh & McLennan Companies and Zurich Insurance Group.

Renewed Focus on CEO Succession Planning and the Effective Management of Staff Departures

“Succession challenges and the ability to attract and retain top talent” ranked second in a list of top 10 risks in [Executive Perspectives on Top Risks 2019](#), a 2018 research paper published by Protiviti and North Carolina State University’s Enterprise Risk Management Initiative. After an initial wave of retirements of Baby Boomers, an onslaught of recent articles warns that the sector is unprepared to fill the leadership void. Concern about staff transitions also resonate as a risk theme across NRMC’s consulting client community. The NRMC team agrees that poorly managed staff transitions are a critical potential risk for any nonprofit organization in 2019 and beyond.

The coming years will force many nonprofit teams to reassess and revamp their processes for identifying, developing, and securing executive talent. Similarly, growing concerns about an increase in employment churn—mainly for [young workers in their first 10 years of employment](#)—requires nonprofit teams to proactively plan for and thoughtfully manage staff turnover. Aside from formal CEO succession planning by a nonprofit’s board, NRMC consultants anticipate shifts toward: team-based or collaborative hiring of staff; increased documentation and cross-training for individual staff roles; greater attention to managing planned departures, especially by capturing institutional knowledge during off-boarding

for departing employees; and, efforts by nonprofit employers to retain talented personnel using lateral promotions or by establishing freelance/contractor relationships in the growing gig economy.

Deepening Dialogue around the Philosophical Nature of Risk and the Value of Risk Management

The pressure that nonprofit teams face to demonstrate programmatic impact and mission advancement also bleeds into risk management practice. If every operational function or program comprising a nonprofit should prove its value to the organization and its stakeholders, risk management leaders are surely expected to do the same. To better discern and demonstrate the impact of risk management efforts on both internal and external stakeholders, NRMC consultants observe a growing number of nonprofit professionals asking philosophical questions about how their teams should conceptualize and approach risk. Nonprofit leaders are asking questions like:

- How can a team effectively balance the need to prevent loss/harm with the desire to take informed risks?
- How can risk leaders instill a risk management mindset rooted in mission advancement and opportunity management, when most team members perceive risk as inherently negative?
- How can our team make more informed decisions in the face of uncertainty when our individual team members express drastically different appetites for risk-taking?
- And—the classic dispute amongst risk practitioners—what *is* risk? Is risk any potential event that could result in loss/harm, or is it the effect of uncertainty on organizational objectives? Or, is it something else entirely?

Nuanced notions of risk and risk management capability determine how distinct nonprofit teams and individual risk leaders carry out their risk management efforts—and how meaningful those efforts prove to be. During 2019 and beyond, NRMC consultants predict that risk-aware nonprofit teams will commit to answering these questions through the lenses of their respective missions. Whether using qualitative risk maturity models or quantitative evidence (e.g., incident reports, claims data, employee survey results, etc.), nonprofit Risk Champions will demonstrate their impact by reimagining the boundaries and applications of the risk management discipline.

“...the risks of a nonprofit are borne by the people it serves (its clients), who have neither a voice in selecting the organization’s leadership nor the ability to manage the risks.”

Woods Bowman
Author, *Finance Fundamentals for Nonprofits*

Resources

To learn more about the state of risk management in the nonprofit sector, contact the Nonprofit Risk Management Center (NRMC) team at 703-777-3504 or info@nonprofitrisk.org. For self-guided learning, NRMC offers free educational resources at nonprofitrisk.org as well as low-cost resources including [*World-Class Risk Management for Nonprofits*](#), a compelling guide for developing and sustaining customized, world-class risk management capabilities. NRMC also offers [membership](#) and [consulting services](#) for nonprofit teams interested in assessing or enhancing their risk management capabilities with the help of an experienced and dedicated partner.

The following resources and reference materials offer additional insight to the implementation and impact of the risk management discipline across the nonprofit sector.

- James C. Lam, “An Animal Kingdom of Disruptive Risks: How Boards can Oversee Black Swans, Gray Rhinos, and White Elephants,” National Association of Corporate Directors (NACD), *Directorship*, January/February 2019
- “Heads and Hearts: The Human Side of Global Risks,” [*The Global Risks Report 2019*](#), World Economic Forum, January 2019
- [*Executive Perspectives on Top Risks 2019*](#), Protiviti and North Carolina State University’s ERM Initiative, 2018
- Clifford Rossi, “[Strategic Risk Will be Front and Center in 2019](#),” Global Association of Risk Professionals (GARP), January 2019
- [*Executive Guidance: Reducing Risk Management’s Organizational Drag*](#), CEB (now Gartner), 2014

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Help NRMC benchmark trends in nonprofit risk management by participating in our new survey, **2020: Risk Leadership in the Nonprofit Sector**.

<https://www.surveymonkey.com/r/RiskLeadership2020>