



A Primer on Risk Management

What is a Risk?

Simply speaking, a risk is any uncertainty about a future event that threatens your organization's ability to accomplish its mission. Although your "fund balance" may not be as high as you'd like and equipment may be second generation, your nonprofit has vital assets at risk. Generally, nonprofit assets fall into the following categories.

- People: Board members, volunteers, employees, clients, donors, and the general public.
- Property: Buildings, facilities, equipment, materials, copyrights, and trademarks.
- Income: Sales, grants, and contributions.
- Goodwill: Reputation, stature in the community, and the ability to raise funds and appeal to prospective volunteers.

What is Risk Management?

Risk management is a discipline for dealing with the possibility that some future event will cause harm. It provides strategies, techniques, and an approach to recognizing and confronting any threat faced by an organization in fulfilling its mission. Risk management may be as uncomplicated as asking and answering three basic questions:

- What can go wrong?
- What will we do to prevent harm from occurring and what will we do in the aftermath of an "incident"?
- If something happens, how will we pay for it?

Large organizations involved in high-risk activities may have a risk management department responsible for answering the three basic questions. The department may also manage litigation, coordinate safety programs, and undertake the complex analyses required to set monetary reserves for future claims. In small, community-based nonprofits, the risk management function is more likely to focus on issues such as:

- Screening volunteers to protect children from harm;
- Checking motor vehicle records for all staff and volunteers who are driving on the nonprofit's behalf;
- Developing board orientation and training materials;
- Coordinating the development and consistent use of employment practices; and
- Negotiating the availability of bank credit and purchasing property and liability insurance.

Developing a Risk Management Program

- **Establish the purpose of the risk management program.** The first step is to determine why you're creating a risk management program. The purpose may be to reduce the cost of insurance or to reduce the number of program-related injuries to staff members. By determining its intention before initiating risk management planning, your nonprofit can evaluate the results to determine their effectiveness. Typically, the executive director/CEO of a nonprofit (in conjunction with financial/administrative staff) with the board of directors initiates a risk management program.

- **Assign responsibility for the risk management plan.** The second step is to designate an individual or team responsible for developing and implementing your organization's risk management program. While the team is principally responsible for the creation of the risk management plan, a successful program requires the integration of risk management within all levels of your organization. Operations staff and board members should assist the risk management committee in identifying risks and developing suitable loss control and intervention strategies.

Insurance and Risk Management

For most nonprofits, insurance is a valuable risk financing tool. Few nonprofits have the reserves or funds necessary for complete self insurance of their exposures. Purchasing insurance, however, is not synonymous with risk management. In the nonprofit sector, practicing risk management is living the commitment to *prevent* harm. In addition, risk management addresses many risks that are not insurable -- the potential loss of tax exempt status, public goodwill, and continuing donor support.

Resources

- Board and Staff Helpline, a confidential service for organizations that are Members of the N.C. Center for Nonprofits. Members can also access hundreds of Frequently Asked Questions (including Risk Management FAQs) on the website. Visit www.ncnonprofits.org/infocenter.asp or www.ncnonprofits.org/askthecenter.asp.
- *Business Continuity Planning Course* (free online tutorial), Nonprofit Risk Management Center, www.nonprofitrisk.org/tutorials/bcp_tutorial/intro/1.htm.
- *Coverage, Claims & Consequences: An Insurance Handbook for Nonprofits* by Melanie Herman, 2002; *D&O: What You Need to Know* by Melanie Herman and Leslie White, 1998; *Enlightened Risk Taking: A Guide to Strategic Risk Management for Nonprofits* by George Head and Melanie Herman, 2002; *My Risk Management Plan* (online software) by Melanie Herman; *Nonprofit CARES™ - Computer Assisted Risk Evaluation System* (CD-ROM), 2000; *Taking the High Road: A Guide to Effective and Legal Employment Practices for Nonprofits* by Jennifer Chandler Hauge and Melanie Herman, 1999; *Vital Signs: Anticipating, Preventing and Surviving a Crisis in a Nonprofit* by Melanie Herman and Barbara Oliver, 2001. Nonprofit Risk Management Center. Available from the N.C. Center for Nonprofits (www.ncnonprofits/publications.pdf).
- *Mission Accomplished: A Practical Guide to Risk Management for Nonprofits*, Nonprofit Risk Management Center, www.nonprofitrisk.org.
- N.C. Center for Nonprofits, www.ncnonprofits.org. To join, visit www.ncnonprofits.org, or call 919/790-1555, ext. 100.
- Nonprofit Risk Management Center (www.nonprofitrisk.org), a national organization which provides tools, advice, and training to nonprofits to help control their risks. The N.C. Center for Nonprofits is a satellite office of NRMC.
- *Risk Management Tutorial for Nonprofit Managers* (free online), Nonprofit Risk Management Center, http://nonprofitrisk.org/tutorials/rm_tutorial/2.htm.

NonProfit Connections and the N.C. Center for Nonprofits have created a close partnership to provide a seamless continuum of support services to Winston-Salem/Forsyth County nonprofits. These partners work closely together to ensure that services to local nonprofits tap all existing statewide and local resources and avoid duplication and the waste of resources. Visit NonProfit Connections at www.nonprofit-connections.org (or call 336/703-3029) and the N.C. Center for Nonprofits at www.ncnonprofits.org (or call 919/790-1555, ext. 100) to learn more.