Risk Management Basics

This brief from the Nonprofit Risk Management Center provides basic risk management information for nonprofits.

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 be minimal, and equipment may be second generation, your agency 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 (both to prevent the harm from occurring and in the aftermath of an"incident")?
* If something happens, how will we pay for it?

Large organizations may have a risk management department responsible for answering the three basic questions. In addition, the department may 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 your organization's purpose for creating a risk management program. The program's 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 agency can evaluate the results to determine its effectiveness. Typically, the executive director of a nonprofit, with the board of directors, sets the tone for the 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 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 agencies 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 - such as, the potential loss of tax exempt status, public goodwill, and continuing donor support.

For more information about developing a risk management program in a nonprofit organization, see **Mission Accomplished: A Practical Guide to Risk Management for Nonprofits**, published by the Nonprofit Risk Management Center.