"We Don't Do Risk Management"

…say some Hong Kong NGOs. ***Margaret Coates*** *points out that actually they do, and shows how a formal, structured Risk Management programme can help NGOs achieve their mission effectively and efficiently, while improving transparency and accountability.*

We as individuals manage risk every day, such as when we take an umbrella with us to work or save money in case we lose our job. Non-governmental organisations (NGOs, including for our purposes here charities and foundations) also manage risk, such as when they plan for the loss of a major source of funding, or set up internal controls for signing cheques or using petty cash to avoid fraud, or find out where to get extra chairs if lots of people show up for an event.

Why should NGOs have a formal, structured Risk Management programme? Isn't it just more work, more bureaucracy, more paper?

In fact, there are many benefits to a formal Risk Management programme:

- It ensures everyone is aware of all the risks the NGO faces. By sharing their different perspectives, the Board, management and frontline staff can identify risks that some individuals have not considered, as well as new and emerging risks.
- It brings transparency to the risks faced by the NGO and creates accountability throughout the organisation.
- The written record created (the Risk Register) allows for knowledge sharing of risks, even if key individuals leave the NGO.
- Part of the role of an NGO's leadership is to establish the organisation's risk tolerance and create risk awareness. Ultimately the Board is responsible for managing risk; a formal process aids meaningful oversight.
- A Risk Register is a tool for reporting up the chain of command on what is being done by frontline staff to manage risk, as well as for training and monitoring down the chain.
- A systematic methodology brings peace of mind. Risk management "guru" H. Felix Kloman is credited with saying that the fundamental purpose of risk management is to inspire confidence. This means going beyond simply saying "everything's under control" or "it'll be alright on the night" to a high comfort level throughout the NGO and its stakeholders.

In my view, the best answer to the question "why" is because a formal Risk Management programme raises the likelihood of success in achieving the NGO's mission.

What is the difference between Risk Management and crisis management? Risk Management is about avoiding a crisis or at least mitigating its effects. Risk Management is problem-solving, strategizing, business-planning and, sometimes, team building.

What follows is the basic outline of a Risk Assessment exercise with a view to developing a formal Risk Management programme for an NGO.

What is "Risk"?

An NGO should ask itself: "What could affect the achievement of our objectives?"

"What" includes external factors (an economic recession that affects donors and perhaps also clients), internal factors (loss of a key staff member), changes in circumstances (loss of a major donor) and events (a fire or hacking of computer systems).

"Affect" usually means a negative impact (loss of reputation or financial loss) but it could be a positive opportunity (the chance to establish a new programme or gain a new source of funding). Although we often look at risk as something that can hurt us, don't forget the old saying: "Nothing ventured, nothing gained". Risk taking may be necessary to grow or improve.

The key message here is that the "what" must have an effect on the NGO's objectives. A risk only matters if it affects objectives. For example, changes in exchange rates are relevant if the NGO deals with foreign currency to an extent that exchange rates might impact its financial accounts and therefore its sustainability and ability to deliver programmes, but not if it doesn't have this exposure.

Objectives

Therefore the first step of a Risk Assessment is to define the objectives of the subject of the exercise. That subject may be big: the NGO as an organisation; or small: a project or programme. The NGO's objectives should be set out in its mission statement. A project's objectives may be specific (achieve stated fundraising targets) or broad (educating the public on child rights) but they're critical to defining the project and hence the risks that would affect it.

Risk Statement

Another preliminary step is to identify the NGO's "risk tolerance", that is, how much risk can it bear? NGOs, like individuals, can be very "risk adverse", preferring to be cautious and conservative, or they can be "risk takers", willing to take a chance in the right circumstances. It's important to understand that the NGO's risk tolerance may be different from that of some members of the Board, management or staff. For example, a Board member may be prepared to gamble on long-shots in her personal affairs, but this may not be appropriate for the NGO – or *vice versa*. Usually a key consideration is the NGO's financial capacity to handle risk: how deep are its pockets? Another is whether or not it is well established: how strong is its track record? Can it survive a crisis?

It's ultimately the Board's duty to agree on the NGO's risk tolerance – and then write it down as a Risk Statement or Policy so that it's transparent and can be shared with stakeholders.

Identifying Risks

The identification of risks specific to the NGO or project and linked to objectives can actually be a very creative exercise and lots of fun. There's no single "right" way of doing this, but I recommend a brainstorming workshop with a range of stakeholders. Board members, staff, partners, advisors and end-users all have expertise and experience: use it. Often this turns into a very successful team-building exercise, as people share their hopes and fears for the NGO.

Not only is there no "right" way to do the exercise, there's no "right" answer or single template for the outcome. Furthermore, the risks will change over time. The important thing is to get started with your best efforts.

Having said that, here are examples of some common categories of risks that NGOs face:

Category of Risk	*Examples of specific risks affecting objectives*
Reputation & Brand	Scandal; criticism in news or social media
Fund Raising	Inadequate, inefficient or unsustainable FR campaigns; competition from other NGOs
Financial	Fraud; inadequate budget management; ineffective procurement controls
Operations	Inability to recruit or retain good staff; IT systems failure; inadequate office premises
Governance	Lack of clear terms of reference for Board and committees; lack of succession planning
Ethics	Corruption; conflict of interest; misleading fund raising messages
Strategic	Competition from similar NGOs; uncontrolled growth; change in needs of beneficiaries
Legal	Breach of employee, health or safety laws; public liability

Risk Rating

Having identified a "grocery list" of risks faced by the NGO, it's necessary to organise all possible risks to find the ones that are most relevant in practice and most important.

The common way to rank risk is "high", "medium" or "low", but there are many different ways to determine each rating. Considerations include:

- Likelihood of the risk occurring
- Impact if the risk occurs
- The risk before mitigation steps are taken ("inherent" risk)
- The risk after mitigation steps are taken ("residual" risk)

Obviously the NGO's focus should be on high risks, especially ones that are likely to occur and will have a high impact. Generally a risk that is unlikely to occur but will have a big impact if it does should be considered a higher risk than one that is likely to occur but will have a small impact.

I think it's worthwhile to note medium and low risks in case circumstances change and they become high risks – don't lose the work that has been done to identify them! Monitor medium risks and address low risks if resources allow.

Risk Management

Often the actions that need to be taken to manage a risk tumble out during the discussion on identifying risks. Considerations include:

- Don't forget the measures already in place to manage risk, as well as new measures to be undertaken. Existing measures are sometimes under-appreciated, which can have two effects: first, a risk can seem less important because people forget all the good work they're already doing to manage it; and second, people let the existing measures slide and suddenly a medium or low risk becomes a high one.
- While labels are not particularly important, generally "mitigation" refers to steps taken before a risk occurs and "response" refers to steps taken during or after the event. Both are relevant to Risk Management and responses may overlap with crisis management.
- Mitigation can include:
    - actions and internal procedures and controls (screening volunteers who will work with children for sex-related offences);
    - sharing of risk or laying it off to others (insurance, contractual provisions or outsourcing);
    - avoidance (cancelling a programme that is considered too risky).
- In assessing possible mitigation of a specific risk, the NGO must consider the effectiveness of the mitigation (will it reduce the risk), the cost versus the benefit, and the practicality of it (particularly in terms of staff resources).
- After considering mitigation measures, the NGO may decide to (or have to) accept a risk and prepare responses to deal with it if it happens (emergency evacuation plans if a fire occurs at an event; business continuity plans if computer systems are hacked; identifying spokespersons in advance to deal with a scandal).

Risk Owner

This is not the person to be fired if the risk occurs! It's the person who checks that a venue has been arranged for an event, that insurance is in place, or that a procedure is written and staff members are trained to use it. It's the person who is formally responsible for following up, acting, monitoring and reporting on the risk. This should be part of that person's job description.

The risk owner is essential to ensuring that the Risk Management programme is actually implemented within the NGO and does not become a paper exercise. This is where accountability starts.

Risk Register

A Risk Register is the record of the process of managing risk. Valuable information about the NGO's Risk Management programme is in one place.

A Sample Risk Register

Risk Category	Description of Risk	Ranking *	Mitigation	Ranking **	Response	Risk Owner
Fund Raising	Loss of major donor	H	Broaden donor base	M	Initiate FR drive	FR Mgr
Governance	Succession planning	H	Regular review by Board	M	Engage head hunter	ED
Financial	Fraud	M	Internal controls training	L	Report to authorities	Finance Mgr
Operations	Hacking into website	M	Firewalls; backup	L	Implement business continuity plan	IT Mgr

* Before Mitigation
** After Mitigation

Just as there's no "right" way to do the Risk Assessment exercise and no "right" answer in identifying or ranking risks faced by the NGO, there's no "right" format for the Risk Register. It can be comprehensive or simple. It's a management tool: a checklist, an agenda for discussion, an outline for reporting, and a training template. This is where transparency starts.

Even more importantly, the Risk Register is a "living document". It needs regular review and updating, as the NGO changes, its stakeholders change and the environment in which it operates changes.

Some Final Thoughts

To those NGOs who say "we don't do Risk Management", I say: yes, you do. Get credit for what you are already doing and manage risk more effectively. Create structure, transparency and accountability. Don't do it just because this is the Board's duty and recognised best practice (although this is true). Don't be concerned that all this talk about risk will be overwhelming or too negative, that it will kill initiative and risk taking (it won't, instead it will create risk awareness and confidence). Do get a wide range of input; brainstorming can be very effective. Facilitation by an outsider can be helpful.

Risk cannot be eliminated but it can be understood and tamed. There's no "right" answer or a "complete" list of risks. There will be opportunities to revisit, review, revise and improve as you go along. The important thing is to get started, focus on high risks, and write down your ideas so they're not lost or misunderstood by others.

Risk Management works and is worth doing, no matter what size the NGO. Make it more likely that your NGO will achieve its mission successfully.

Margaret Coates *is a consultant who advises NGOs on risk management, introducing them to formal risk management processes. She trains their management and staff, facilitates risk assessment workshops, prepares risk registers, and works with them to implement their new risk management programmes, embedding risk awareness deep in the organisation's culture.*

ExCEL 3 Symposium on Risk Management

Taming the Tiger

Risk Management in a Non-Profit Organisation
Presentation by Margaret Coates

Case Study #1: Scandal Involving a Celebrity Spokesperson

"*It's a Kid's World*" is a large, established children's charity, very conservative with low risk tolerance.

a) Objective of fund raising campaign: donors identify with and admire the celebrity who endorses the charity and therefore give money

b) Description of risk: celebrity is caught in a messy, public scandal; target donors disapprove and turn away from charity *eg, affair or car accident while drinking, caught lying about it, unflattering photos*

c) Inherent risk ranking: medium likelihood + high impact means this is an overall High risk for this charity *Q: would this risk have a different ranking by a charity whose target donors are young men?*

d) Mitigation (pre-crisis)
   i. Thoroughly vet celebrity before engagement
   ii. Explain concerns to celebrity and agree a Code of Conduct (CoC)
   iii. Provide in contract for immediate termination if breach of CoC
   iv. Engage more than 1 celebrity? *Weigh risk of splitting brand image against risk of scandal*
   v. Have a "back-up" celebrity available eg short list, preliminary contacts
   vi. Monitor social media for breaking rumours
   vii. Prep CM plan

e) Residual risk ranking: low likelihood + high/medium impact reduces this to a Medium risk

f) Risk Owner: PR Manager
   i. Ensure mitigation is carried out
   ii. Review risk periodically eg celebrity's personal problems raising likelihood????

***Key Point**: An NGO cannot completely control a celebrity spokesperson – everyone makes mistakes. The risk of scandal cannot be eliminated unless the NGO decides not to use celebrities as spokespersons, so the risk must be managed to an acceptable level based on the organisation's risk tolerance.*

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Case Study #2: Social Media

"*Take Back the Streets*" is a small charity promoting bicycle lanes on major streets, edgy and aggressive, with a high risk tolerance

a) Objective of charity: to be prepared to deal with a fast developing story on social media about the charity *eg, story, rumour, photo, usually concern is negative impact but also positive such as an endorsement or award*

b) Description of risk: if a story goes viral, the speed and lack of control means significant damage (*or potential benefit*) can happen very quickly

c) Inherent risk ranking: high likelihood + high impact means this is an overall High risk for this charity

d) Mitigation (pre-crisis):
   i. Establish real-time monitoring of key social media
   ii. Prepare responses / strategies for specific situations
      1. Offer to take the discussion to a less-public form to be addressed
      2. Immediately notify designated response team with authority to act
      3. Prepare Crisis Management (CM) plan

Key Points:

1) RM is essential preparation for effective CM. The importance of a speedy reaction requires advance preparation because there is no time to organise a response if the risk event occurs.

2) An NGO needs to do a cost-benefit analysis of possible mitigation actions based on its risk tolerance. "Take Back the Streets" may be very vulnerable to this risk but it has limited resources. It cannot have a staff member dedicated to monitoring social media, so there will be a high residual risk. However this charity has a high risk tolerance, so perhaps this is acceptable to it. On the other hand, "It's a Kid's World" has a low risk tolerance but deep pockets so it could put more resources into managing this risk. The risk still cannot be eliminated and it is probably always going to be a concern for the Board and management – but this is risk awareness, not fear.

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Case Study #3: Fraud by Insider

"*Take Back the Streets*" is a small charity promoting bicycle lanes on major streets, edgy and aggressive, with a high risk tolerance in general BUT nobody has any tolerance for fraud by insiders.

a) Objective of charity: to prevent fraud by insiders and to preserve the charity's reputation by ringfencing any incident that occurs
b) Description of risk: Fraud will hit the charity's resources and its reputation with stakeholders.
c) Inherent risk ranking: If this charity takes no mitigation action, the risk is High.
d) Mitigation (pre-crisis)
    i. Implement and regularly review internal controls
    ii. Regular training of staff
    iii. Audit processes
    iv. Whistleblower programme
e) Residual risk ranking: The risk of fraud by insiders occurring is reduced to medium, perhaps even low. The risk to the charity's reputation if an incident occurs is reduced to low.

Key Point: *By having standard internal controls in place, implementing them and documenting the implementation, an NGO can label an incident as a rogue case and ringfence it from the rest of the organisation. Therefore RM can contribute to more than risk awareness (identifying possible sources of fraud by insiders) and prevention; it is essential to preparing a strong defence to preserve the NGO's reputation.*

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Case Study #4: Succession Planning

"Mother Earth's Children" is a large international charity that promotes environmental causes, aggressive with a high risk tolerance regarding their advocacy programmes but traditional with a low risk tolerance regarding their internal administration.

a) Objective of project: to develop succession plans for management positions

b) Description of risk:

   i. the loss of key personnel will disrupt the management of the charity and make it more difficult to achieve its mission (threat)

   ii. the development of key personnel over the medium and long term will enhance the management of the charity and make it more likely to achieve its mission (opportunity)

c) Inherent risk ranking: If this charity takes no mitigation action, the threat is high and the opportunity is low.

d) Risk Owner: Board Chair (for Chief Executive); Chief Executive (for Senior managers); Senior managers (for their teams)

Key Point: *Risk can be both a positive opportunity and a negative threat*

Case Study #5: Loss of Major Donor

"Arts for All" is a small charity providing various arts programmes, established 2 years ago, operating on a shoe-string budget, with a medium risk tolerance

a) Objective of fund-raising project: to develop a wider donor base

b) Description of risk: charity is dependent on one major donor with only a handful of other smaller donors and loss of the major donor would probably cause the charity to shut down

c) Inherent risk ranking: the major donor is a good friend and the likelihood is low, but its loss would be catastrophic, so this is an overall Extreme risk for this charity and they want to reduce the impact *Q: would a charity with significant financial reserves or an established track record give this risk a different ranking?*

d) Mitigation (pre-crisis)

   i. Talk to the major donor about its philanthropic plans, financial strength, etc.
   ii. Talk to the other donors about their ability to step in if necessary
   iii. Consider other possible donors
   iv. Consider other possible fundraising campaigns
   v. Consider whether it is possible to build up some financial reserves

e) Risk Owner: Board Chair

Key Point: *A risk that is unlikely to occur may still be a High or even Extreme risk for an NGO if its impact would be serious. It is the duty of the Board to manage risk, in particular a risk that could threaten the operation of the NGO, or even its continued existence.*

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Case Study #6: Hacking into Computers

"Susie's Friends" is a well-established charity that provides services for people with disabilities. It has an extensive donor database, regularly reaching out to its donors by email and mail shots and receiving a lot of its donations on-line.

a) Objective of charity: to protect its donor database from hacking

b) Description of risk: theft of donor information would undermine donor trust, likely leading to loss of donations at least in the short term

c) Inherent risk ranking: as the charity's IT infrastructure is outdated, the likelihood is medium + medium impact means this is a Medium risk for this charity *Q: would a small charity with a small donor database (ie more dependent on street solicitations) give this risk a different rating?*

d) Mitigation (pre-crisis)

   i. Regularly review the charity's IT security and back-up policies

   ii. Regularly review its IT infrastructure requirements and performance against agreed KPIs

   iii. Conduct a risk-benefit analysis of the cost of investing in new infrastructure vs limited upgrades vs outsourcing

   iv. Consider bringing in an IT consultant (specialist) to review the existing infrastructure and advise

Key Point: *A formal RM programme is a useful management tool to develop risk awareness throughout the NGO as well as mitigation measures. In particular the Risk Register can be used by the Board to give direction to management and by management to report to the Board, improving transparency, accountability, knowledge sharing and meaningful oversight.*