



# Risk Management

Theft, fire, accidents and other risks can seriously harm your NPO, putting it out of business, costing it lots of money, or injuring clients, staff, or volunteers. Responsible NPOs use risk management techniques to identify potential risks for their NPO. They develop risk management strategies to keep these risks from happening or to reduce damage and expense if they do happen.

All NPOs—even those that are well-managed and successful—are at risk of these adverse events. NPOs should have a risk management plan that identifies potential risks and strategies for mitigating the most significant risks.

## Risk Management--Myths vs. Truths

Myths	Truths
We do not need to use our time and resources guarding against future risks that many never occur.	Risks need to be taken seriously. Some risks can cause severe harm to NPOs, destroying their physical assets, financial assets, or reputation. Some risks jeopardize the health and safety of clients or staff. There are common-sense measures that can be taken to reduce or eliminate these risks.
Our NPO cannot afford a risk management program.	Many effective techniques for reducing risk cost little or nothing to implement. In addition, the damage and costs that could result from these risks would far outweigh the minor costs of risk prevention.
Our NPO is well managed, so we do not need to worry about risks.	Many risks—such as natural disasters—can no matter how well-managed your NPO is. In addition, whenever you are dealing with people and money there is the potential for things to go wrong, even if your NPO is well managed.
Our employees are trustworthy, so we do not need to worry about risks from our employees	There are many instances where seemingly trustworthy employees have embezzled money from not-for-profit organizations, or have abused NPO clients. In addition, employees can make inadvertent mistakes that can harm your NPO or its clients.

The first step in developing a risk management plan is to comprehensively assess your NPO’s risks. The second step is to develop strategies for reducing the most significant risks. The risk management plan should be reviewed and updated on a regular basis.

This tool:

- Outlines step-by-step approaches for risk management
- Provides a set of questions for self-assessing your NPO’s risk management efforts
- Identifies references for further information
- Contains attachments to assist your NPO in its risk management activities

# PART I: MAJOR COMPONENTS OF NPO RISK MANAGEMENT

COMPONENT	WHAT IT INCLUDES	SUGGESTIONS FOR DEVELOPING YOUR RISK MANAGEMENT PROGRAM	WHY THIS IS IMPORTANT
<p>1. Make sure that NPO leadership understands what risk management is and why it is important.</p>	<p>Make sure that NPO leadership understands the importance of risk management, and of having a culture that supports effective risk management practices.</p>	<p>Risk management is the process of identifying potential risks and taking steps to prevent or mitigate that risk. It involves three steps:</p> <ol style="list-style-type: none"> <li>1. Identifying risks</li> <li>2. Evaluating risks in terms of their likelihood and the damage they could potentially cause. Determining which risks to address based on the threat that they pose.</li> <li>3. Developing and implementing strategies to address selected risks.</li> </ol> <p>NPOs with cultures supporting risk management are alert for potential risks associated with their operations. They encourage their staff and volunteers to report potential risks. They take well-planned actions to minimize the chance that risks will occur, and to reduce the potential for damage if a risk does occur.</p>	<p>All NPOs are at risk of events that could seriously harm their clients, employees or volunteers, and which could even put the NPO out of business.</p> <p>By developing and implementing a risk management plan, NPOs can help prevent certain risks, and can minimize the damage caused by risks that do occur.</p> <p>Effective risk management requires a commitment from senior NPO leadership to be vigilant about identifying and responding to potential risks.</p>

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<p>2. Identify potential risks faced by your NPO.</p>	<p>Identify the possible risks that your NPO could incur in carrying out its mission.</p> <p>Divide these risks into two main categories:</p> <ul style="list-style-type: none"> <li>Physical injury risks to people or property</li> <li>Business risks</li> </ul>	<p>Physical injury risks to people or property includes injuries caused by:</p> <ul style="list-style-type: none"> <li>Motor vehicle accidents</li> <li>Faulty supplies or equipment</li> <li>Misuse of supplies or equipment</li> <li>Slips and falls</li> <li>Physical or sexual abuse</li> <li>Fire</li> <li>Flood</li> <li>Electrical surges (damage to computer equipment)</li> <li>Other natural disasters</li> </ul> <p>Possible business risks include:</p> <ul style="list-style-type: none"> <li>Loss of funding due to improper reporting, misuse of funds, or other donor concerns.</li> <li>Allegations of client rights violations</li> <li>Loss of reputation due to problems with your NPO's performance that have been publicized</li> <li>Theft or embezzlement</li> <li>Failure of computer equipment</li> <li>Loss of business records</li> </ul> <p>Develop as comprehensive a list as you can, even if some of the risks seem minor or highly unlikely. At later stages in the process, you will prioritize these risks and determine which ones to address.</p> <p><b>See Attachment 1: Risk Management Worksheet Example—Childhood Literacy NPO</b>  <b>See Attachment 2: Risk Management Worksheet Template.</b></p>	<p>In order to prevent risks or reduce their impact, you must first know what they are.</p>

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3. Assess and prioritize risks		<p>Some risks are more significant than others, and some are more easily addressed than others. Prioritize risks based on the following factors:</p> <ul style="list-style-type: none"> <li>• How likely is the risk to occur?</li> <li>• How serious would the damage from this risk be?</li> </ul> <p>It is useful to group risks into the following four categories:</p> <table border="1" data-bbox="751 578 1520 837"> <tr> <td data-bbox="751 578 1150 708"> <b>Group A</b>            Low Risk incident will occur            Low Damage if incident does occur         </td> <td data-bbox="1157 578 1520 708"> <b>Group B</b>            High Risk incident will occur            Low Damage if incident does occur         </td> </tr> <tr> <td data-bbox="751 712 1150 837"> <b>Group C</b>            Low Risk incident will occur            High Damage if incident does occur         </td> <td data-bbox="1157 712 1520 837"> <b>Group D</b>            High Risk incident will occur            High Damage if incident does occur         </td> </tr> </table> <p>Generally, you will want to prioritize risks in and Group D for your risk mitigation efforts. These are risks that are likely to occur and that will cause great damage if they do. However, you should also consider the risks in the other categories. Group C includes risks such as fire or flood that are unlikely to occur—but which can also cause severe damage. Group B risks are likely to happen frequently, and even though they do not do much damage, the impact over time can be significant. Group A risks—which are unlikely to happen and which would not cause much harm, would generally be lower priority for addressing.</p> <p><b>See Attachment 1: Risk Management Worksheet Example—Childhood Literacy NPO</b>  <b>See Attachment 2: Risk Management Worksheet Template.</b></p>	<b>Group A</b> Low Risk incident will occur Low Damage if incident does occur	<b>Group B</b> High Risk incident will occur Low Damage if incident does occur	<b>Group C</b> Low Risk incident will occur High Damage if incident does occur	<b>Group D</b> High Risk incident will occur High Damage if incident does occur	<p>Identification and prioritization of potential risks enables you to take action to prevent the most serious risks from occurring.</p> <p>Some risks are very unlikely to occur and would do very little harm if they did occur. Other risks could destroy your NPO or injure or kill people if they happened.</p> <p>By focusing on the most serious risks for which there are practical preventive measures, you can significantly reduce your NPO's risk exposure.</p>
<b>Group A</b> Low Risk incident will occur Low Damage if incident does occur	<b>Group B</b> High Risk incident will occur Low Damage if incident does occur						
<b>Group C</b> Low Risk incident will occur High Damage if incident does occur	<b>Group D</b> High Risk incident will occur High Damage if incident does occur						

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<p>4. Identify risk prevention measures for guarding against prioritized risks</p>	<p>Possible risk prevention approaches include:</p> <ul style="list-style-type: none"> <li>• Policies and procedures to promote safety and reduce risk</li> <li>• Close supervision of employees and volunteers</li> <li>• Training staff and volunteers on how to do their work safely.</li> <li>• Insurance</li> <li>• Changing or eliminating activities that are too risky</li> <li>• Safeguarding equipment such as computers and telecommunications equipment</li> <li>• Checking equipment and supplies to make sure that they are in good working order and that they are stored properly.</li> </ul>	<p>Focus on risk prevention measures that will reduce or eliminate the most serious risks or risks that are most likely to occur. Consider the cost and feasibility of risk prevention measures in determining which risks to address first.</p> <p>Many risk management approaches do not cost money.</p> <ul style="list-style-type: none"> <li>• For example, a policy requiring helmet use on motorbikes could reduce the risk of injury without additional cost.</li> <li>• Similarly, establishing good internal inventory controls and securely storing money and financial information is not necessarily expensive.</li> <li>• Certain programmatic changes (for example, restricting children from playing outdoors in certain weather conditions to guard against exposure) also involve little or no cost.</li> </ul> <p>Some risk management measures, such as insurance or remote backup of computer files, may have associated costs. However this cost is often justified if it guards against major risks to your NPO.</p> <p><b>See Attachment 1: Risk Management Worksheet Example—Childhood Literacy NPO</b>  <b>See Attachment 2: Risk Management Worksheet Template.</b></p>	<p>Appropriate risk management strategies can significantly reduce the chance that your NPO will encounter serious problems in the future.</p>

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5. Make sure that risk prevention measures are carried out.	Assign a responsible person for each risk prevention measure along with a due date for carrying it out.	<p>Most risk prevention measures require effort to implement. This may involve writing policies and procedures, researching and purchasing insurance, arranging for secure storage of paper and electronic files, or other measures. By designating staff to do this work and setting timelines, your NPO can make sure that these tasks actually happen.</p> <p><b>See Attachment 1: Risk Management Worksheet Example—Childhood Literacy NPO</b>  <b>See Attachment 2: Risk Management Worksheet Template.</b></p>	Risk prevention measures are only effective if they are implemented. By clarifying who is responsible for implementation and when implementation should take place, NPOs can help assure that important risk management measures are fully implemented.

## PART II: LIST OF ATTACHMENTS

ATTACHMENT
Attachment 1: Risk Management Worksheet Example—Childhood Literacy NPO
Attachment 2: Risk Management Worksheet Template.

## PART III: HELPFUL REFERENCES FOR RISK MANAGEMENT FOR NPOs

AUTHOR AND TITLE	WHERE IT CAN BE FOUND	WHAT THIS REFERENCE COVERS
Free Management Library— Risk Management, Disaster Planning and Protecting Against Crime	<a href="http://managementhelp.org/riskmanagement/index.htm">http://managementhelp.org/riskmanagement/index.htm</a>	Comprehensive information on risk management for not-for-profit organizations. This site can be translated into Vietnamese.
A Nonprofit’s Guide to Risk Management and Insurance. Developed by Public Counsel and the DC Bar Pro Bono Program.	<a href="http://www.publiccounsel.org/tools/publications/./risk_management.pdf">www.publiccounsel.org/tools/publications/./risk_management.pdf</a>	Useful introduction to risk management for NPOs.



## PART IV: NPO SELF-ASSESSMENT: RISK MANAGEMENT

RISK MANAGEMENT COMPONENT	ACHIEVED	PARTIALLY ACHIEVED	NOT PRESENT	COMMENTS
We have identified potential risks.				
We have prioritized risks that pose the greatest threat or are most likely to occur.				
We have identified risk management measures to protect against the highest priority risks.				
We have implemented risk management measures to protect against the highest priority risks.				
We encourage our employees and volunteers to report risks, and we follow-up when they do so.				
We have written policies that address risk (for example, policies on helmet use; policies on cash management, etc.)				
We provide training to employees and volunteers on risk prevention.				
We have purchased insurance, where appropriate, to protect against fire, flood or liability.				

# PART V: SUMMARY OF ASSESSMENT RESULTS AND NEXT STEPS

Choose at least 2 financial management components from the Self-Assessment Table in Part 3 and complete the following table.

PRIORITIZED RISK MANAGEMENT COMPONENT	WHAT WILL BE DONE?	WHO WILL BE RESPONSIBLE?	PROJECTED START AND COMPLETION DATES