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All Aboard: Embracing ERM in Your Nonprofit

By Melanie Lockwood Herman

If you've been hearing references to Enterprise Risk Management or ERM frameworks you're probably wondering whether this particular incarnation of risk management is relevant to your organization. You may also be wondering whether transforming a perfectly good risk management function into an ERM program is worth the time, effort, and expense.

ERM sometimes feels out of reach. The sentiment, "we can't afford ERM" is expressed by teams from small, nimble organizations as well as teams working in larger, better-resourced nonprofits. The NRMC team believes that ERM fundamentals should not be elusive or out of reach for any mission driven nonprofit. In this article we explain three ways to broaden your approach to risk management.

ERM is Broadly-Based, Holistic and Builds Resilience

When asked "What is ERM?" by nonprofit leaders, I often cite the explanation provided by Michael Power, in his book, *Organized Uncertainty*. Power writes that, ". . . ERM should be understood as referring to any broadly-based conception of risk management . . ." I'm also drawn to the definition of ERM found in Rick Nason and Leslie Fleming's book, *Essentials of Enterprise Risk Management*. Nason and Fleming write that, "Simply put, enterprise

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risk management (ERM) is an integrated and holistic approach to risk management within an organization." Nason and Fleming continue by explaining that, "The overarching goal of ERM should be on making an organization more effective and efficient."

My colleague Diana Del Bel Belluz explains that, "For me ERM is focused on the strategic objectives of the organization and therefore more closely linked to the value-creation chain. Traditional risk management tends to focus on value protection, usually in operational or functional silos."

Inspired by the work and writing of former NRMC board member H. Felix Kloman, we would add "resilience" as both a worthy goal and expected consequence of the commitment to broader, more holistic risk management. Mission fortifying risk management strategies should build resilience. Leaders of a nonprofit that embraces ERM should be confident in their ability to seize opportunities and counter calamities that would bring an unprepared nonprofit to its knees.

Your Nonprofit Mission Deserves ERM

Given the myriad ways that nonprofit missions are changing the world and the lack of a sure-fire way to accurately predict mission-disrupting events, every organization stands to benefit from evolving risk-taking and risk management capabilities. Whether you want to improve risk identification, build risk understanding across diverse and interdisciplinary teams, or inject greater creativity and buy-in into your risk management strategies, taking a broader, ERM approach can be helpful.

Choose and Customize: Three Approaches to Getting Underway with ERM

In the section below, we explore three contrasting approaches to getting an ERM program underway at a nonprofit. Does one approach feel like a good fit?

Can you "sell" ERM based on the scope described in one of these options? With all three approaches, keep in mind that although it may be easy to generate some initial curiosity and excitement, sustaining a commitment to ERM is a perennial challenge. To sustain your ERM efforts you'll need to secure the buy-in and support of the executive team and also demonstrate how new ERM capabilities and activities yield a worthwhile pay-off. Remember to link risks to the strategic priorities of the organization and your nonprofit's goals related to growth or improved results.

1. ERM Quick Start

I recently heard from a newly anointed risk leader who has been tasked to "implement ERM" in short order. A long lead-up or pensive planning period prior to getting underway won't work for this newly-minted risk champion. If you need to quickly test the waters and also demonstrate the potential of ERM, consider a three-step ERM Quick Start.

STEP 1: *Invite staff at your organization to attend a 90-minute ERM organizing and information session.* Although you may be inclined to hand select invitees, consider opening up the opportunity to anyone who's interested with an invitation similar to the one below.

> "Join me next Wednesday from 10-11:30 a.m. in the conference room to discuss Enterprise Risk Management, a holistic approach to risk management. We'll discuss how ERM could be helpful in advancing our mission. Bring your risk-taking and risk management ideas, as well as your worries and pet peeves related to risk. Come prepared to learn and share!"

STEP 2: *Convene the ERM organizing and information session.* Use a simple agenda to guide and facilitate discussion, such as:

- ◼ **20 minutes – Introductions:** go around the table for introductions: my name, my tenure, my role, one top-of-

mind concern about risk-taking or risk management in the organization, and one strength in our current approach to understanding and managing risk.

- **30 minutes – Why and How our Mission Would Benefit from ERM:** invite participants to discuss why and how a more holistic approach to risk management could build confidence (by various stakeholder groups), and increase resilience (in the wake of unavoidable events).

- **30 minutes – What Next:** work in groups of 3-4 people to brainstorm specific steps or activities that would improve any aspect of risk management in the organization. Ask each group to write their ideas on separate sticky notes. To prompt ideas, display a list of possible topics, such as: incident reporting, post-event/incident sharing and learning, engaging the board in conversations about risk, discussing our risk appetite, new training on specific risk topics, updating specific risk policies, creating greater psychological safety (reducing fear about speaking up), linking risk to strategic priorities, and so on. Invite the groups to display their sticky notes on a wall or whiteboard in the room. Give everyone a couple of minutes to view the notes posted by all of the subgroups.

- **10 minutes – My Commitment:** wrap up the meeting by going around the table and asking each participant to identify 1) what they are ready, willing and able to do to support a more holistic approach to risk management, and 2) a valuable take-away or "ah ha" moment from the meeting.

STEP 3: *Report Back and Launch.* Pull together your notes from the organizing meeting. Add a "next steps" section and include a list of the specific commitments made by attendees. A possible format for the report is:

"To sustain your ERM efforts you'll need to secure the buy-in and support of the executive team and also demonstrate how new ERM capabilities and activities yield a worthwhile pay-off."

- Top-of-Mind Risk Concerns
- Risk Management Strengths and Current Capabilities
- Steps to Strengthen and Evolve ERM
- Team Member Commitments

Consider sending a pre-read to everyone who signs up for the initial organizing session. Here are three suggested pre-read and pre-watch items:

- "Egalitarian Risk Leadership: Flatten or Fatten?" www.nonprofitrisk.org/resources/e-news/egalitarian-risk-leadership-flatten-fatten/

- "Risk Assessment Perspectives: Re-Lens with Three Approaches"

www.nonprofitrisk.org/resources/e-news/risk-assessment-perspectives/

- **If your organization is an Affiliate Member of NRMC,** consider using the following short webinar as a "pre-watch" for your kick off session. Enterprise Risk Management (ERM) 101 www.nonprofitrisk.org/resources/webinars/enterprise-risk-management-erm-101/

2. ERM Measured Start

A Measured Start is appropriate for a team that is intrigued by the potential benefits of ERM but doesn't want to over-commit or over-promise. This six-step approach

involves measured steps over a period of six months.

STEP 1: *Conduct a survey to identify possible goals and opportunities related to ERM.* Use an online survey tool to gather information and collect anonymous (or self-identified) feedback on topics related to ERM. Adapt and supplement the following list of exploratory questions for your survey.

- Enterprise Risk Management is a more holistic approach to risk management. From your perspective, what potential benefits might result from broadening our approach to risk management?

- What concerns or worries do you have about evolving our approach to risk management?

- What is your perspective on the risk appetite of this organization? Is it clear to team members throughout the organization what constitutes a "good bet" and what would be a "bad bet"?

- We're defining risk as a future event that has the potential to substantially affect our strategic priorities. What do you believe are the top 3 critical risks we face at this time?

- From your perspective, who should be involved—at a minimum—in a project to evolve our risk management capabilities?

STEP 2: *Distribute and share the survey results at an informational meeting.* Compile the results from the survey into a short report. Create a slide deck noting common aspirations for ERM, concerns, comments about the organization's risk appetite, and a top risks ranking. Invite attendees to volunteer to attend the next gathering; let invitees know that options for evolving risk management will be the focus of the meeting.

STEP 3: *Convene an organizing meeting to brainstorm ERM strategies.* Remind attendees about the key takeaways from the survey. Divide the group into smaller subgroups of 4 staff members. Ideally, each group of 4 will have team members from different departments, or colleagues who don't customarily work side-by-side. Possible prompts for the subgroup discussions include:

- In what ways is our current risk management program fragmented or incomplete versus holistic? What do we believe are some of the reasons for that fragmentation?

- What "low hanging fruit" strategies should we consider in order to transform our risk management program into a more holistic ERM function?

- What are some longer-term strategies that we should consider as we evolve our risk management capabilities?

- Who do we think should be involved in an effort to integrate risk management practices? Does our view align with survey responses on this topic?

Bring the small groups back together for sharing during the final 30 minutes of the meeting. Go around the room and ask each participant to indicate if they'd like

to continue supporting the process. Invite participants to identify a colleague they believe should be involved in the program.

STEP 4: *Compile the results from the organizing meeting.* Schedule a follow-up meeting to present and discuss the results. At the four-month mark of your Measured Start, you're ready to hone the ideas that were generated at the organizing meeting. As you review the results from the prior session, look for areas of overlap or consistency. List each strategy or activity on a separate page followed by prompts to spark conversation about the strategies. Divide into smaller groups and assign 1, 2 or 3 strategies to each subgroup.

Possible prompts for the small groups include:

- Does this strategy feel feasible?
- What's an appropriate timeframe to implement this strategy?
- What is the expected cost?
- What pushback to this strategy should we anticipate?
- What steps can we take to anticipate and manage pushback?
- How will we measure success related to this strategy?
- Who should be involved in further refining this strategy?

STEP 5: *Brief the board.* At month 5 in the ERM Measured Start you're ready to seek feedback and invite questions from the team with ultimate authority for the well-being of your organization: the board. If the management team or senior staff team hasn't been involved in the meetings held thus far, conduct a dress rehearsal preview for that team, before presenting to the board. Here's one possible structure for your presentation.

- What is ERM?
- How does ERM contrast with our current approach to risk management?
- Overview of our approach to evolving risk management capabilities

- Desired and expected benefits
- Gathering diverse perspectives through a survey and in-person meetings
- Key findings: what we've learned thus far (including staff perceptions of top risks)
- Preliminary strategies to evolve risk management capabilities
- The board's role in ERM: discussion
- Overview of next steps

STEP 6: *Create an implementation plan.* Now that you've collected insights and ideas from multiple groups of internal stakeholders, it's time to create a plan to sustain your ERM work in the months and years ahead. Consider developing a simple implementation plan that will serve as a roadmap for your efforts. Some of the key questions

you'll want to answer in your plan include:

- What process will we use to continually identify new risks, and update our understanding of previously-identified risks? How frequently will we use this process?
- How will we track and report on our work?
- How will we ensure that diverse perspectives are represented in our ERM work? How will we avoid groupthink?

3. Ease Into ERM

If you're determined to introduce ERM to your organization but believe that easing into it is a best bet, consider our Ease Into ERM approach, described below. This approach can be implemented over a 12-

month period; complete each step every three months.

STEP 1: *Assess risk management capabilities.* Conduct a survey to identify current risk management activity in your organization. Don't limit participation to the individuals you believe have the greatest awareness of risk management; invite the entire staff to participate in this process. Possible items for the survey include:

- Risk management is a broad discipline that includes any activity or policy that protects the assets and resources of our organization, from financial assets to the well-being of our staff, volunteers, and service recipients. Please describe some of our risk

management activities with which you're familiar.

- Enterprise Risk Management is a more holistic, integrated approach to risk management. How might a more holistic approach be helpful here?

- Please rate your confidence level in the following risk management capabilities. 1 = not confident, 3 = somewhat confident, 5 = highly confident.

  - We proactively consider our risks and take timely action to reduce the likelihood and potential severity of downside risks.

  - We are prepared to respond to a crisis.

- Staff throughout the organization are comfortable raising risk concerns and risk management opportunities.

- We have the right people involved in conversations about risk.

- We actively engage and involve oversight teams (the board, board committees) in conversations about risks related to strategy.

STEP 2: *Identify opportunities to evolve risk management.* Use data and insights from your survey to plan a facilitated meeting to discuss compelling opportunities to strengthen and broaden risk management practice. Invite anyone

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who's interested in this work to attend the facilitated workshop. Some of the question prompts that could be useful in planning and conducting the workshop include:

- What were the most surprising findings from the survey?

- Do the survey results suggest that we focus or double-down in one or two areas?

- What information or insights do we need to uncover and understand in order to strengthen risk management? Are there key questions that remain unanswered?

- Are there "quick win" projects we could undertake to strengthen risk management?

- What possible longer-term projects should we consider?

- Who needs to be involved in discussions about our risk landscape and risk management activities?

- How should we measure the effectiveness and impact of new risk management activities?

STEP 3: *Draft an implementation plan and seek feedback.* Using the data from the survey and notes from the facilitated workshop, draft a plan to evolve risk management capabilities in your organization. Distribute the draft plan to everyone who participated in the facilitated workshop and invite feedback. Encourage reviewers to share their ideas that will increase the plan's thoroughness and ultimate success. If some of the feedback is inconsistent, meet with the individuals providing contrary feedback to discuss those ideas further. Some of the key questions you'll want to answer in your plan include:

- **Goals:** what are we hoping and expecting to achieve by broadening risk management capabilities?

- **Process:** what process will we use to identify new risks and update our

understanding of previously-identified risks? How frequently will we use this process? What process will we use to track and report on our top risks?

- **Culture:** what changes in culture or behavior must occur for our ERM work to be successful? How will we inspire and support those changes? How will we ensure that diverse perspectives are represented in our ERM work? How will we avoid groupthink?

STEP 4: *Implement the plan and track your progress.* ERM growth is a highly rewarding but gradual process. To meet your goals, it will be important to keep the program energized and productive for years to come. Break long-term goals into short-term milestones so that the board and staff leadership teams can see progress and maintain their enthusiasm for the next step. Invite feedback and periodically revisit progress and goals to keep the momentum going.

- **Float a maturity model.** Consider developing a "Maturity Model" to

provide a bird's-eye view of where you've come from, where you are, and where you hope to be next year. For an example of a maturity model visit the RISK eNews article "Risk Management Maturity: Where Do You Stand." Remember that no two organizations will have the same maturity goals and milestones. Be creative! A graphical representation of your progress through the maturity timeline can also make your ERM goals and milestones memorable to decision makers.

- **Celebrate milestones.** As your organization encounters success, it's important to celebrate risk management accomplishments and processes that provided value along the way. Recently a visitor to NRMC jokingly said, "everyone loves a parade . . . except the risk management professional." If this rings true for risk management at your nonprofit, think of ERM as a way to change perceptions that risk management is "the department of no." Celebrating

success and connecting milestones to the mission will solidify ERM as a positive force for good.

- **Modify and update.** One of the most important traits in any ERM team is humility. As your ERM program takes off, seize every opportunity to listen to feedback, and use lessons-learned to trim or revamp your approach so that your program stays nimble and effective. An ERM function is always a work in progress. As explained in the tips below, the most effective ERM program bends and adjusts to suit your changing, dynamic risk landscape. See "Oh! The Places We Will Go" in this issue of *Risk Management Essentials* or at www.nonprofitrisk.org/resources/articles for additional tips and insights on evaluating your progress.

ERM Tips from the Trenches

Over the last ten years the NRMC team has worked with a variety of diverse teams intent on implementing Enterprise Risk Management in their organizations. During those engagements we've counseled leaders who have faced brick walls and powerful pushback, and we've celebrated with leaders who've experienced powerful wins in their risk journeys. Our takeaways from these experiences are encapsulated in the following ERM reminders:

- **Tailor ERM to suit your nonprofit's mission, culture and risk ambitions.** Trying to copy or replicate another entity's ERM program is a false shortcut. Although you'll be able to produce something quickly, a borrowed framework will fade and fail in time.

- **Don't be afraid to dabble and doodle.** Resist the urge or inclination to show your ERM work as a *fait accompli* or

a finished product. Let readers and reviewers know that your framework, definitions, implementation plan, and accountability strategy are a work in progress.

- **Learn as you go.** Learning as you go with ERM is fundamental to success. There will be many eureka moments along the way, along with a few frustrating, but temporary roadblocks. For example, an NRMC client explained recently that when he proposed adding a risk-themed value to the organization's list of core values, the idea was "whacked down." Baking in risk management values into core values seemed like a no brainer idea. Strive to be empathetic with colleagues who are weary and worn down by new approaches and expectations.

- **Cast a wide net and remember to bang your ERM drum.** Remember to involve many different stakeholders in your organization as you construct, tweak and refine your ERM program. Ask "whose perspective is missing?" as you work to identify new recruits for your effort. And keep top-of-mind the importance of linking ERM work to the most important goals and objectives in your nonprofit, such as: stewarding donors, diversifying revenue sources, launching new programs, increasing professionalism, inspiring employee engagement, demonstrating impact, and so on.

- **Monitor the risk of actual or perceived organizational drag.** One of the weaknesses in many risk management efforts is the perception that it creates dreaded organizational drag. Authors of the CEB report,

Reducing Risk Management's Organizational Drag cite "isolation of the risk function" as one of three key causes of organizational drag related to risk management. Not only does an isolated function result in little buy-in across the organization—it also limits your capacity to develop a holistic understanding of your nonprofit's risk landscape. Risk management should be inclusive, inviting people with different vantage points to share their perspectives on risk. (For more on organizational drag, see the RISK eNews article Risk Management's Unintended Consequences.)

Reach Out for Help

Whether you are inclined to slowly broaden and strengthen risk management capabilities or you're ready to run, there are many different ways to inculcate risk-aware thinking and decision making in a nonprofit. And for some organizations, a narrow, operational-focused approach to risk management is just fine. Wherever you are on your risk management journey, remember that reaching out for help is a sign of strength. We hope you will consider the Nonprofit Risk Management Center to be a valuable resource in your journey, wherever it takes you! Call us at 703.777.3504 or contact me at Melanie@nonprofitrisk.org to share your ERM stories, nightmares, bold ambitions, or short-term wish list. We look forward to supporting your efforts!

Melanie Lockwood Herman is Executive Director of the Nonprofit Risk Management Center. Melanie welcomes your questions about Enterprise Risk Management programs and strategies at 703.777.3504 or Melanie@nonprofitrisk.org.

Who's on First? Getting the Players in Place for ERM

By Christy Grano

In a famous 1930s skit "Who's on First," comedian Lou Costello tries hopelessly to learn the names of players on a fictional baseball team as his straight man Bud Abbott explains that the basemen are named "Who," "What," and "I don't know." The two nearly come to blows in the mounting confusion and the audience cannot help but laugh as Lou asks repeatedly "Who's on first?" and Bud repeats "Yes, that's it!"

The "Who's on First" routine is not a far cry from confusion that sometimes accompanies discussions about who should play what role in an Enterprise Risk Management (ERM) program. Delegating new responsibilities is a natural step in any organization's growth toward a mature ERM program.

It's exciting to see a new holistic ERM plan unfold that encompasses value creation (advancing the nonprofit's mission) as well as loss prevention and asset protection (cornerstones of traditional risk management). However, as consultants we have seen great aspirations nearly die on the vine due to unclear risk roles. We've also seen leadership teams make great strides in ERM and later clash over whether to hire a full-time risk champion to lead the program.

Identifying ERM Roles that Make Mission Sense

In *World-Class Risk Management for Nonprofits*, authors Norman Marks and Melanie Lockwood Herman explain how nonprofits of any size can customize ERM to fortify a bold mission, equip staff and volunteer leaders, and build resilience that help the organization flex with a dynamic, complex risk landscape. Growing ERM capabilities takes time as team members in all areas of the organization increase risk awareness and develop a common language about risk. (For helpful resources on ERM see the Resources section of www.nonprofitrisk.org and two NRMC articles: "Enterprise Risk Management: The Final Frontier," and "Egalitarian Risk Leadership: Flatten or Fatten?")

New tasks, roles, and responsibilities that propel your mission will be identified and tackled as the ERM program matures. Keep in mind that ERM frameworks and accountability strategies should be customized to reflect the culture, structure, priorities, and resources of the organization. One nonprofit may choose to hire a dedicated ERM Manager early on, while a peer organization may elect to distribute risk roles to existing staff members and risk oversight responsibility to a standing committee of the board.

". . . as consultants we have seen great aspirations nearly die on the vine due to unclear risk roles. We've also seen leadership teams make great strides in ERM and later clash over whether to hire a full-time risk champion to lead the program."

In many cases an ERM process will expose tasks that may not fall to an obvious person or department. Here are a few examples of important responsibilities we've seen over the years that may not have an obvious face for the job:

- creating a risk appetite statement
- designing, administering and compiling the results of risk surveys
- monitoring the nonprofit's changing risk landscape
- creating risk dashboards
- briefing oversight teams
- evaluating the adequacy of an insurance portfolio

- creating educational materials on risk topics and organizational policies
- monitoring progress related to ERM maturity or goals
- facilitating workshops on risk assessment and risk appetite

These tasks and roles are just a few we've seen that can be important for ERM growth, but sometimes lack an obvious go-to person.

What are Your Top Risks Telling You?

No matter where you are in your journey toward robust ERM, we have a hunch you're already discussing and cataloging top risks. Sorting through risks can feel a bit

overwhelming at times, depending on your approach. A thoughtfully-curated group of risks can provide helpful clues about key risk roles. Do some or most of the top risks identified by your team point toward a certain department or existing team?

What is motivating you to build ERM capabilities and broaden your approach to risk management? For example, if strengthening diversity, equity and inclusion in your workplace and improving the vetting of prospective hires are top priorities, the HR director may be a good choice to lead or co-lead the ERM effort. If the loss of a key donor due to donor dissatisfaction is a prevailing worry, the chief development officer should be involved, possibly in a lead role. If risks related to leaky or inconsistent internal controls sit high on your top risks list, make sure the finance team is part of the ERM program. In recent years we have witnessed the expansion of general counsel and compliance officer roles to include responsibility for championing the evolution of risk management to encompass strategy-level and enterprise-wide risks.

Here are some subject areas where we've seen risk management roles "cluster" early in the game.

- **Financial Risk Management:** "After a series of discussions about top risks and our risk appetite, we've decided that our business model and financial health represent our biggest threats *and* our biggest opportunities. We've decided to apply our resources to bolstering our finance team and we're asking our CFO to serve as our principal risk champion."

- **Insurance Management:** "Our ERM work revealed that we aren't as fluent with our current insurance coverage as we need to be. We're also uncertain about the wisdom of purchasing new

coverages, such as cyber liability, or how our organization is perceived by carriers. We've had our confidence shaken in our broker after she took the carrier's side when a recent claim was denied. Several members of the board have asked whether we have the talent we need to oversee the relationship with the broker."

■ **Communications Risk Management:** "We were somewhat surprised to learn that social media risks are a top concern for almost every member of management as well as multiple members of the board. In a unanimous decision we chose to allocate additional resources to our communications department; we want to ensure that we're doing everything we can to handle rogue online comments quickly and gracefully."

■ **Human Resources Risk Management:** "Recent feedback from a staff engagement survey revealed that our internal culture is one of the biggest risks facing our mission. Some employees stated that our outward facing mission is out of sync with how we treat staff. To create the workplace culture our mission and employees deserve, we're doubling down on training and support to effect change. This work is being championed by our HR Director."

■ **Compliance Risk Management:** "Changing legal requirements and regulations, as well as strict requirements imposed by international institutional funders, have led us to identify compliance risks and gaps as top concerns. Until recently, compliance tasks were parceled out to various team members and we only occasionally reached out to legal counsel. Our board supports the staff proposal to create a full-time Ethics

> ## "ERM frameworks and accountability strategies should be customized to reflect the culture, structure, priorities and resources of the organization."

and Compliance Manager position who will champion compliance activities across the organization."

Draft Time: When to Hire a Power Hitter

Notice that none of the examples above included "hiring an ERM specialist" as the first order of business. Hiring a full-time risk professional is a wonderful move for some organizations, but for the majority of nonprofits, it's not the logical first step. And in some cases, hiring a risk leader may not make sense in the long term; some leadership teams opt to integrate risk roles into existing job descriptions.

For those who are creating new position descriptions or tweaking existing ones, consider the following questions:

■ **Are risk roles clearly defined?** Simply sneaking "ERM" or "risk management" into a job title or job description doesn't guarantee that you've got things covered. What are the key risk responsibilities? What deliverables are expected? How should the risk leader collaborate with internal and external subject matter experts and resources? While clarity is a key characteristic of any job description, it is especially vital in a risk role. Why? Because risk positions are less familiar than other roles in a nonprofit, such as accountant, development associate or membership manager. Even the most tenacious employees can and will become distracted or sidetracked with other priorities if risk management

expectations are not clearly defined with goals, milestones, and effective feedback loops.

■ **Are you looking for the right qualities?** The perfect risk management teammate may not be who you expect. As noted by two experienced risk leaders, creativity, curiosity, and the ability to create value may be especially important:

- "Risk managers must have a natural curiosity. I also look for people who have really good time-management and prioritization skills and who are good listeners." —Pamela Rogers, Weight Watchers International

- "Too many RMs are still viewed as brakes; they must transform themselves into value creators. We must also get more comfortable entering the boardroom since our expertise will be increasingly needed there." —Erwann Michel-Kerjan, Managing Director, Wharton Risk Management and Decision Processes Center

■ **Are you considering your existing staff?** In our experience, nonprofit leaders are frequently surprised to learn how many of their own staff members are interested in taking on risk management roles and responsibilities. Sometimes those closer to the front lines are the most aware of how risk management can bring positive effects, and are

therefore the most eager to wrangle risks. At NRMC we have learned to encourage a quick poll of staff to gauge enthusiasm, even when leadership feels certain that no one is interested.

If you're looking outside your organization because you feel that you simply don't have the relevant expertise in house, consider *training* your existing staff. Remember that there are lots of great resources available to support ERM learners. For example, NRMC offers the Risk Leadership Certificate Program (RLCP), an intensive learning opportunity for risk leaders. RLCP is held annually over three weekends; graduates of the first two cohorts of RLCP report significant positive changes in the confidence they bring to their risk roles.

■ **Have you considered a board committee?** Risk management committees are becoming familiar elements in the governance landscape of the nonprofit sector. A growing number of nonprofits have broadened the oversight role of the Audit Committee to include risk oversight, while others have created new ERM Committees.

On Deck: Everyone has a Risk Management Role

As you examine potential roles, don't fall into the trap of believing that ERM maturity should be measured by staff headcount. The top indicator of a mature ERM system is when risk management has become "baked in" at *every level* of the organization. Every member of your staff and governing teams should play a role in supporting ERM. Anyone who feels they are exempt from noticing, reporting, and acting on hazards of any kind is a costly claim or lawsuit in the making. Team members who hold back instead of sharing their ideas for growing the organization are robbing the nonprofit of ideas that could make a difference to the mission.

According to NRMC Executive Director, Melanie Lockwood Herman, "When you walk into an organization you can tell very little about the ERM program from the number of staff members that have risk management in their title; the true sign of ERM maturity is when every person you meet from the receptionist to the Board Chair feels comfortable sharing their concerns about risk." Staff teams that embrace risk roles and recognize the importance of working together on ERM are poised to make a real difference in the readiness of the organization, and to respond to unexpected events.

Fielding Your Team

Few nonprofit sector leaders will enjoy the luxury of a flush budget that supports a multi-member ERM team led by an experienced risk management professional. In most cases, interest in ERM arises in the wake of a crisis or potentially catastrophic near miss. In other cases, the prodding of a board member leads to the exploration of ERM as a potential mission-fortifying asset. Creating, sustaining, and growing ERM capabilities takes time, patience, commitment, and people. Look for expertise and insights wherever they exist in your nonprofit, invite staff members across the organization to be part of the journey, and remember that your perspective on what the function or capabilities should look like will change over time. Today's top priority may be a succinct crisis management plan, or it could be improving the structure of your insurance program. Will this year be a winning season? Only time will tell. Hang on to the lessons learned, keep an open mind, and recognize risk as something mission minded organizations must bravely face to succeed.

Christy Grano is Project Manager at the Nonprofit Risk Management Center. Christy welcomes your questions about risk roles at 703.777.3504 or Christy@nonprofitrisk.org.

Resources

- "Egalitarian Risk Leadership: Flatten or Fatten?" www.nonprofitrisk.org/resources/e-news/egalitarian-risk-leadership-flatten-fatten/
- "Enterprise Risk Management: The Final Frontier" www.nonprofitrisk.org/resources/articles/enterprise-risk-management-the-final-frontier/
- Webinar: "Risk Champions: What's in a Name?" Available exclusively to NRMC Affiliate Members: www.nonprofitrisk.org/resources/webinars/risk-champions-whats-in-a-name/

Oh! The Places We Will Go with ERM

By Katharine Nesslage

Nonprofit teams that resolve to strengthen risk capabilities by embracing Enterprise Risk Management should integrate an evaluation component from the start. Why? Early supporters of your ERM program will want to see and understand how the program is changing the organization for the better. And as a risk champion, you'll want to assess what's working and also identify aspects of the program that may require tweaking or a different approach altogether.

Start by gathering information about what you've learned related to your process and approach. For example, did everyone you invited to participate in ERM workshops and meetings actually attend? If key people were missing or disengaged, why was this the case? Have you received positive, negative or mixed feedback about the goals or activities of the program? Has the board and management team's interest in ERM grown or declined since the program began? If interest has waxed or waned, why might that be the case? This rich information should inspire ideas about possible adjustments to your program's design.

Learn as You Go

Like any empirically based practice, effective risk management is a learn as you go function. Ask yourself from time to time: What's going well? What needs to be improved? Do the stakeholders who matter to the success of this program understand its purpose and key elements? What are some of the lessons learned from the program design and implementation phases?

Demonstrate Value

Evaluating your ERM program is an opportunity to further demonstrate its benefits and positive impacts on your organization. Resources are scarce in any nonprofit. There are always programs or initiatives that the organization would like to undertake but are costly or unaffordable. Leaders of functions, activities, and departments need to be cognizant that others are looking at them, and may be wondering: Is this worthwhile? Is the investment in the program advantageous?

Tune In to Unsolicited Feedback

Several years ago, the NRMC team worked with an international organization to develop custom risk policies which were subsequently published on the organization's website. The organization received pushback after the policies were made public; some international participants were offended by new, rigorous screening requirements. Rather than ignore the complaints or engage in a battle with key stakeholders, the organization agreed to revisit the wording of the policies and emphasize the 'why' behind the 'what' and 'how.' The revised policies were published within weeks of the initial feedback and no further concerns were expressed.

As a leader you must be mindful of the scrutiny you may receive about whether an investment will benefit the mission.

This brings to mind the responsibility of stewardship. In his book *Finance Fundamentals for Nonprofits*, thought leader Woods Bowman writes that, "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." Risk leaders have a heavy responsibility to ruminate on risks and respond with care, compassion and thoughtfulness. The ultimate goal is to develop viable risk management strategies that enable client and community serving programs to thrive. Your ERM program should be sustainable, durable, practical, and address the key risks of your organization.

Traditional operational risk management programs are often evaluated based on outcomes: claim frequency (number of claims going up or down), whether the claim type is changing, the

total cost of risk (including insurance premiums), and the availability of coverage your nonprofit wants to purchase. ERM is a different animal: it encompasses risks that can't be easily measured (think reputation vulnerabilities, or security breaches) and outcomes that are challenging to quantify (like confidence in stakeholder loyalty).

Another important way that ERM programs add value is by increasing decision-making capabilities; nonprofits considering ERM often lift up improved decision-making as an important goal. For example, are best *and* worst possible outcomes discussed in the lead up to a decision? Are team members proposing a risky move asked about contingency plans?

Use More than One Lens for the Best View

There is no one way to evaluate your progress or rate the success of your Enterprise Risk Management program. The NRMC team recommends that you consider using multiple lenses, just as you would

adjust the focus on your binoculars to see many features of a landscape. NRMC has identified five possible focal points for evaluating your ERM program.

- A **Trajectory View** is where you look at what has happened to the risk management program over time**.** Risk information should become richer over time. This means you'll get a deeper look and comparable understanding of risk information your nonprofit is sourcing, whether it's through risk assessments involving staff and volunteer participation, incident claims, policies, or other sources. Questions to ask yourself include: Do our risk assessments yield new information or simply validate past results? Is there greater clarity and a shared understanding of what risk management means across the entire organization?

  Are you achieving your goals regarding risk culture? It is vital to have a risk aware culture and to remember that the success of risk management depends on people. Does your current workplace culture support effective risk management or does it create barriers? To what degree are staff across the organization risk aware? Do staff feel they are an important part of the risk management goals of the nonprofit?

  A final prompt to think about when utilizing a trajectory view is, are incidents, near misses and claims reported in a timely fashion? How is the reporting process changing as you increase awareness of your ERM program in the organization? Intuitively, you may think an increase in claims means a situation is worsening. However, it may be the opposite, where people are feeling more comfortable speaking up rather than ignoring something that could

> "Like any empirically based practice, effective risk management is a learn as you go function. Ask yourself from time to time: What's going well? What needs to be improved?"

be hazardous or interfere with the objectives of the nonprofit.

- A second angle to consider is a **Program Maturity Lens.** This is focused on the evolution of Enterprise Risk Management within your nonprofit. Ask: Is our capacity to anticipate and manage risks evolving? Are we improving or getting better at ERM? Have we increased the number of people that are trained in this area? Have we increased the number of people that can serve as back-ups to key roles within our organization in the

risk function? Have we demonstrated skills that we did not have before we got underway?

When viewing ERM through a **Program Maturity Lens**, also ask: Are capabilities and skills keeping pace with our changing risk landscape and our organization's evolution? Are we reflecting on what is happening around us and the changes our nonprofit faces? Is our ERM program helping us optimize opportunities and cope with potential calamities?

Restructuring is a relatively common occurrence in the nonprofit sector. For example, an ERM committee may be eliminated when board committees are consolidated, and risk oversight responsibilities are transferred from one committee to another. What happens to risk reporting relationships and accountability? The risk in these circumstances is that a fundamental commitment to ERM may be lost when another committee with a different set of objectives subsumes risk responsibilities.

A risk maturity lens gives you an opportunity to tell the story of where an ERM program started, where the program is today, and where you expect it to be in the future. To learn more about risk maturity models, see the NRMC book, *World-Class Risk Management for Nonprofits*.

■ An **Employee Awareness and Engagement Lens** looks at the degree to which staff understand and embrace their role in the risk management

> ## "Ensuring feedback loops is another way to achieve integration of ERM… Communications and sharing are key to achieving a transparent and healthy ERM program."

program. Engagement surveys have become a popular tool for gauging levels of engagement and identifying opportunities to improve. Consider the following prompts to measure staff engagement with the goals of your ERM program.

- To what degree are staff aware and engaged when it comes to Enterprise Risk Management?
- Do employees understand the purpose and potential benefits of ERM?
- Do staff understand the accountability structure and framework for the ERM program?

- Do members of the staff team have confidence about the types of risks being taken by the nonprofit and the team's readiness to address risks as they materialize?
- Do staff feel equipped to respond to crisis events? Do employees have a sense of belonging and being a part of the ERM program, or do they see it as "not my responsibility"?

■ Another lens to consider focuses on **ERM's Reach.** Are we reaching team members across the full spectrum of operations and activities in the organization? There are many different

Words of Wisdom from an ERM Thought Leader

The NRMC team interviewed consultant Diana Del Bel Belluz, President of Risk Wise Inc., to learn her insights on evaluating ERM. Diana has been a trusted risk advisor to corporate, public sector and nonprofit risk teams for 25+ years.

NRMC: In your experience, what is the biggest misconception leaders have about implementing ERM?

Diana: The biggest misconception is that the main effort will be to find/develop the right framework and tools and that once they have the mythical 'perfect' framework, implementation will just be a case of "rolling it out." The assumption is that their people will buy in because the framework makes sense. In reality, developing the framework is the easy part. (Note: Melanie Herman's article in this issue of RME presents 3 great ways to go about it.) The hard part is getting people to actually adopt the tools and use them in a consistent and sustained way. It takes time and sustained collaboration and experimentation to figure out how best to integrate ERM into an organization's existing business practices and successfully integrate an effective risk lens into decision making, particularly for decisions around the development and implementation of strategy.

NRMC: You've worked with many organizations to assess their progress with ERM. In your experience, what changes can an organization expect to realize after 5 years of an ERM program?

Diana: According to a Risk Benchmarking survey completed by Risk Wise in 2017, within one year of commencing the ERM journey, organizations scored nearly 5% higher on risk intelligence compared to organizations that hadn't begun to implement ERM. For organizations with five or more years on the journey, this differential increased to 20%. Several factors went into the scoring of risk intelligence, including: awareness of risk, alignment of risk exposures with risk appetite, fine-tuning and/or course correction of strategies based on risk information, use of foresight methodologies to anticipate and continually adapt to changing risk exposures in the organization's business landscape, evolution of the organization's ERM capabilities, etc.

NRMC: How will leaders know that investments in ERM have been worth it?

Diana: In the short-term, they will have more awareness of risk and more confidence that they are managing risks effectively and are ready to handle whatever comes their way. Over the longer term, they will have stronger and more reliable performance and be able to sustain their ability to create value.

NRMC: Are there developments or events that tend to hasten or slow the development of ERM?

Diana: A change of leadership can hasten OR slow the development of ERM. If the Chief Executive is supportive, ERM will be successful, otherwise it will struggle. A major change initiative, e.g., reorganization, acquisition or merger, even a downsizing, etc. can take up a lot bandwidth; if ERM isn't well established it will be parked on the backburner or dropped altogether.

ways to visually show this in a risk dashboard. For example, you may want to compare how the top risks of your organization have changed over time. Another approach is to compare the perspectives of the board versus the perspectives of staff regarding the top risks of the organization, or contrast the top risks identified by headquarters staff against the top risks identified by field teams.

- The **Integration Lens** considers the degree to which ERM has become integrated and "baked in" to the organization's culture, processes, and planning. You will know that ERM is integrated when you start to hear references to the program in conversations involving various teams, or in discussions about key processes such as strategic planning, budgeting and hiring.

Ensuring effective feedback loops is another way to achieve integration of ERM. The Board wants to know that operational risks are being managed by the staff team, and the staff want assurance that strategy risks are being considered by the board. Communications and sharing are key to achieving a transparent and healthy ERM program.

Another issue to consider is whether there is clarity and accountability around shared expectations and responsibilities. Have you really integrated ERM practices and principles into decision-making? For example, are questions about risk-taking and risk management reflected in your performance management process?

You'll Be Doing Great Things with ERM

There are numerous challenges that arise when implementing a new ERM program

or broadening your operational risk management program to include risks related to key strategies, and risks at the intersection of functions or silos. Taking time to evaluate your progress can boost your wins and help you better anticipate future challenges.

Remember to *commit to evolving ERM capabilities without losing sight of your goals*. What are you trying to achieve? Sometimes we report on outputs and don't focus on whether we are accomplishing the goals we set out to reach. Do any of the original goals now seem unrealistic? Have events or circumstances facing your nonprofit led to the realization that new goals are needed?

Conceptualize where you want to be and create milestones and reflection points. Inevitably, you will want to make changes as you go through the process. Specific goals and aspirations may change based on new information you gather and insights along the way.

Lastly, acknowledge that the breadth and depth of your ERM program may change over time. Some nonprofit teams choose to experiment with ERM by adopting a narrow scope, such as focusing on risks related to a short list of strategic priorities. Other teams embark on ERM by identifying uncertainties in the nonprofit's stratosphere as well as the risks that lurk in the organization's nooks and crannies. Some leaders who champion ERM hope that the new program will enable the identification of ALL risks facing the organization and yield data that pinpoints the likelihood and severity of top risks. In some cases, events transpire (e.g., feedback from the board, a crisis occurs, something happens externally) which causes the leadership team to suggest a paring back of original goals.

All organizations are dynamic. This dynamism necessitates an evolving approach to risk management over time. The management of risk must be responsive to the evolving risk landscape— to changes happening in your environment over which you have little control. Taking time to evaluate your Enterprise Risk Management program should be well worth the investment. The result of your efforts will strengthen your risk program and support your overall mission.

Katharine Nesslage is Project Manager at the Nonprofit Risk Management Center. Katharine welcomes your questions about NRMC products and services at 703.777.3504 or Katharine@nonprofitrisk.org.

Resources on Evaluating ERM Progress

- "Risk Assessment Perspectives: Re-Lens with Three Approaches," RISK eNews: www.nonprofitrisk.org/resources/e-news/risk-assessment-perspectives/
- *World-Class Risk Management for Nonprofits*, by Norman Marks & Melanie Lockwood Herman, www.nonprofitrisk.org/products/world-class-risk-management-for-nonprofits/
- Affiliate Member Webinars: ERM Series - www.nonprofitrisk.org/resources/webinars/enterprise-risk-management-erm-101/

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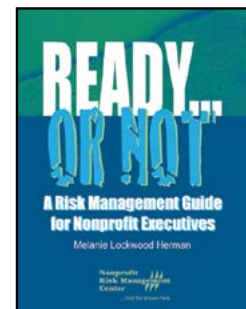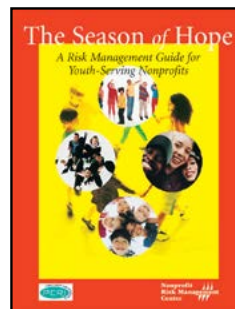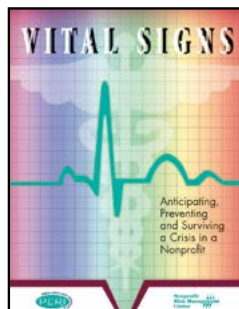**FOR MORE INFORMATION AND TO REGISTER, VISIT 2019RISKSUMMIT.ORG**
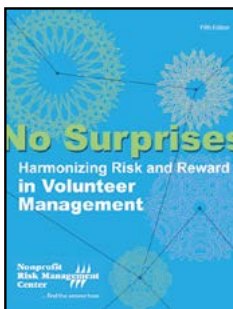
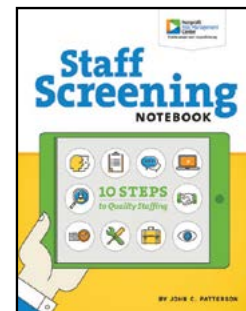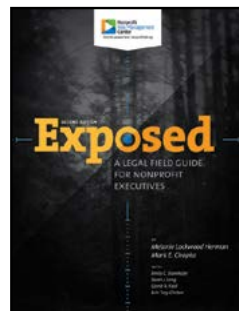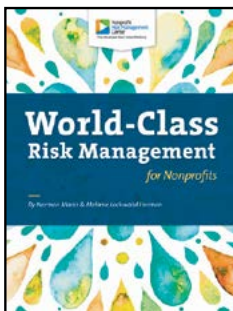**Nonprofit Risk Management Center**

The Nonprofit Risk Management Center (NRMC) produces the Risk Summit—the only conference for nonprofit risk management leaders and corporate supporters of risk management in the nonprofit sector. NRMC is a 501(c)(3) nonprofit with a mission to inspire effective risk management practices and Risk Champions.

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BY JOHN C. PATTERSON

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