

# 2021 RISK FORECAST

*Priority Risk Themes for Nonprofits*



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presented by Nonprofit Risk Management Center

The year 2020 was a long lesson in change and adaptation for many Americans and our institutions. Existence in the era of COVID-19 further illuminates our societal fissures and impels increased scrutiny of American values and systems—including the impact of the charitable sector and its capacity to successfully serve communities disrupted by the pandemic. All nonprofit teams are being tested somehow, and ultimately, the struggle can result in either failure or fortification. For mission-driven organizations—many whose services are needed now more than ever—fortification is the only acceptable outcome.

In these uncertain times, the NRMC team views the following eight risk-related themes as priorities for all nonprofit leaders to address in 2021 and beyond. Risk management practices must also evolve to provide greater value and drive resilience as charitable organizations navigate extraordinary circumstances. In turn, sector leaders are called to fulfill a new standard of stewardship justly demanded by our society.

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**Answer the Clarion Call for Justice and Equity**

Diversity helps organizations [perform better](#), and potential new hires [want proof](#) of corporate promises to foster inclusion. Pronouncements about diversity, inclusion, and anti-racism swept the nonprofit sector last year, but what about real progress? Are pledges, diversity training, and equity initiatives making a difference?

Results from a 2002 University of Michigan study of diversity and inclusion (D&I) rhetoric adopted by American universities and colleges supported the researchers’ theory that while higher education institutions might claim to care about D&I, many fail to create meaningful opportunities for enrollment or advancement of minority students. This could well be true of most organizations focusing on diversity, equity, and inclusion (DEI) today. According to [Rowley et al. \(2002\)](#), “Institutional rhetoric (e.g., mission statements, policies, and related actions)... can function as myth or ceremony to the extent that this rhetoric provides institutions legitimacy” without “substantive impact on organizational work or outcomes.”



Nonprofit leaders must intentionally align DEI policy with practice to uplift marginalized employees and prove organizational integrity. Promoting diversity only to focus on bottom-line gains can be interpreted as commodifying employees for their race, gender identity, disability status, and so forth. Sadly, optics often win, as organizations today pay lip service to anti-racism, LGBTQ+ inclusion, and other social justice initiatives without actively advancing their marginalized team members' careers or well-being.

In their book, *Race, Work, and Leadership: New Perspectives on the Black Experience*, Roberts et al. (2019) explain how D&I efforts can distort the reality of organizational life. The authors share research highlighting discrepancies between actual employee experiences and corporate values and actions, asserting that “simply having diversity present in organizations” does not help to promote equity or eliminate racism in the workplace. Organizations that market themselves as inclusive might—in reality—fail to enforce their adopted anti-discrimination practices consistently. For example, employers might require cultural competence training for their existing managers but lack leadership development programs for Black, Indigenous, and people of color (BIPOC) staff.


Nonprofit teams preaching on social justice issues should carefully align their practices to ensure that their intended benefactors realize tangible benefits from these efforts—not deepened disillusionment. Take these steps to assess and advance the efficacy of your team's justice and equity initiatives:

- Increase diversity to break down bias: Harvard University sociology professor Frank Dobbin suggests exposure as a means to confront employee biases: “We all have positive and negative biases against all types of groups... but if you work next to somebody in that group as co-equals, you'll start to individuate members of the group instead of generalize them.” Dobbin's research identified [three strategies](#) that effectively increase workplace diversity while providing advancement opportunities to marginalized workers: targeted recruitment programs, formal mentoring programs, and diversity task forces.
- Tailor training to motivate behavioral change. Much like how the American workforce is learning about the epic failures of corporate anti-harassment training, some diversity training programs have [failed](#) to soften prejudices and reduce discriminatory behaviors. In response to the recent cascade of criticisms about DEI trainings, researchers from prominent universities investigated how small, meaningful changes to existing diversity programs could potentially foster behavioral changes that support inclusion in the workplace. Two specific skills-based exercises—[perspective-taking and goal-setting](#)—were adapted for use in diversity training within experimental settings to great success. The researchers noted, “both of these exercises produced effects on behavioral outcomes, such as displaying more support and engaging in less mistreatment toward marginalized minorities. These are arguably the most important outcomes, but are often neglected in diversity training research in favor of attitudinal outcomes (the prejudice and bias that one feels toward marginalized groups) and cognitive outcomes (how well-informed someone is regarding stereotypes and biases against marginalized groups).” These outcomes are huge improvements compared to results from [unconscious bias training](#), which help illuminate bias but fail to support behavioral change.

- Establish employee resource groups: Retaining staff members who value diversity requires focusing on driving equity and belonging throughout the employee life cycle. [Employee resource groups](#), “when executed well... can help grow the leaders of tomorrow, inform better business decisions, and improve employee retention and productivity.”
- Decisively discipline discriminators: Instill a culture that is intolerant of discrimination and welcomes [bystander interventions](#) when staff witness discriminatory speech or actions. Make employees aware of specific discriminatory behaviors and language prohibited at work, and formalize these prohibited actions in an anti-discrimination policy. Ensure that all incident investigations and disciplinary actions are conducted in accordance with the policy to ensure fairness to all staff. Recognize that the failure to discipline staff members who violate anti-discrimination policies *is discrimination in itself*.
- Conquer conflict and doubts about diversity: [Evan Apfelbaum](#), a Boston University professor of organizational behavior, makes a clear case for diverse teams: “diverse groups tend to engage in more rigorous decision-making, more consideration of different perspectives, which lead them to decisions that are more objective; they’re less likely to make certain mistakes.” Educating staff about diversity’s benefits to an organization will help encourage teams to embrace it. Apfelbaum also advises addressing the moments when dialogue amongst diverse peers is “not always the easiest social process.” When teams struggle to leverage diversity, leaders can reinforce the practical benefits and consider offering staff skills-based training to enhance emotional intelligence. Skills like emotional regulation, conflict resolution, and empathy will help teams deescalate divisive disagreements and recalibrate to compassionate and constructive conversation. If managed with care, those growing pains will indeed lead to growth.
- Make money matter: Darren Walker, president of the Ford Foundation, urges leaders to avoid relying on “the usual corporate playbook” of outsourcing social justice work through philanthropic giving. Instead, Walker says leaders should first focus on dismantling the racist systems and practices within their organizations. Nonprofit boards and executives can contribute by advancing Walker’s [nine meaningful strategies](#) to improve Black lives.
- Face your fears: Lauren Romansky, Managing VP of Gartner’s HR practice, [warns](#) executives that “inaction is the No. 1 mistake” organizations are making when faced with opportunities to improve DEI. Paralyzed by “components of DEI that are politicized and deeply polarizing,” some executives altogether avoid diversity issues or hope that a dedicated DEI function will magically solve them. Romansky explains, “We’ve heard time and time again that the worst conversation to have right now is the one you don’t have... a non-decision is absolutely a decision and something that leaders are going to have consequences for.”

## Empower Employee Wellbeing and Engagement

Retaining a robust, vibrant workforce lays the foundation for practices discussed later in this paper, such as reskilling. Yet more American adults than ever are struggling with mental health and general wellness. Kaiser Family Foundation [reveals](#), “during the pandemic, about 4 in 10 adults in the US have reported



symptoms of anxiety or depressive disorder... up from 1 in 10 adults who reported these symptoms from January to June 2019.” Sleep disturbance, difficulty eating, increased substance abuse, worsening chronic health conditions, and suicidal ideation are also rising side effects of the disrupted lifestyle many Americans had to adopt in response to COVID-19.


When wellness suffers, employee engagement potentially [declines](#) as well. Gallup polls have seen relatively stable employee engagement levels—fluctuating around 35%—since the 2000 inception of monitoring these engagement metrics. Other leaders like Marc Effron, president of The Talent Strategy Group, believe employee engagement is much higher, as corroborated by multiple [other surveys](#). Effron recommends that employers stop lamenting over global or national benchmarks and focus on addressing engagement patterns within their own organizations. According to a 2020 World Economic Forum report, [Measuring Stakeholder Capitalism](#), “Research shows that companies that prioritize their values, create social impact and build a more diverse and inclusive culture are better positioned to boost employee engagement and productivity, and have an advantage in attracting and retaining skilled talent.”

Whether or not employees are adequately engaged, plenty of statistics signal that American workers feel overwhelmed and underappreciated, and some lack a sense of meaning in their jobs. O.C. Tanner’s global 10-year [study](#) of employees found that “79% of employees who quit their jobs cite a lack of appreciation as a key reason for leaving.” DDI’s Frontline Leader Project [reports](#) that most employees describe “a sense of purpose” as their primary motivating factor to perform well at work, and their relationship with a supervisor as a motivating factor to leave work. Udemy’s 2018 employee engagement [research](#) shows that “productivity doesn’t equate to a positive experience” for workers, with about half of American workers suffering from burnout.

With so many charitable organizations professing that without the staff team the mission can’t be realized, how can nonprofit teams effectively uplift their people in challenging times?

- [Empower every staff member to answer their calling](#). One of the findings in a report from the [DDI Frontline Leader Project](#) is that many employees quit their bosses, not their jobs. But for organizations already heavily invested in leadership and EQ skills training for managers, there might be more nuanced reasons why managers contribute to employee departures. After they “spent years working to select and develop great managers,” HR leaders at Facebook [discerned](#) that most of their employees were happy with their managers. So why were employees still leaving? “The decision to exit was because of the work. They left when their job wasn’t enjoyable, their strengths weren’t being used, and they weren’t growing in their careers. At Facebook, people don’t quit a boss—they quit a job. And who’s responsible for what that job is like? Managers.”

It seems that even the most outstanding managers might still fail to craft—or recalibrate—jobs that retain employees long-term. Facebook’s HR leaders recommend combatting unwanted employee departures by enabling managers to develop job roles and responsibilities that speak to the personal passions of individual team members: “Many of us have [unanswered callings](#) at work—passions that we didn’t get to pursue in our careers. Whether we lacked the talent, the opportunity, or the means to make them our occupations, landing a different career doesn’t




make these passions disappear. They linger, like the professional version of the one who got away.” Because information about personal passions tends to emerge too late—often during exit interviews—Adam Grant, organizational psychologist and Wharton School professor, suggests conducting [entry interviews](#) with new hires to learn about the work they enjoy most. Roles can then be reshaped, driving up employee engagement and retention.

- **Normalize and honor employee emotions.** Establishing safety and trust in employment relationships could empower employees to express themselves more honestly, giving employers a greater chance to address burnout and other issues. For example, most disgruntled employees might not feel safe telling employers the truth that they’re unhappy before they give notice—and they probably won’t share the real reason for their departure. Surprising employee departures might [confuse and sadden managers](#). Still, they are an opportunity for employers to look in the mirror, according to Liz Ryan, founder of Human Workplace and former Fortune 500 HR SVP and Forbes contributor. Most if not all US employer-employee relationships establish a power dynamic in which individual workers might sometimes feel controlled, unsupported, or even fearful and resort to hiding their true feelings and workplace wellness experiences. This restrictive relationship can naturally breed resentment from employees over time, much like in a marriage.

[One psychologist](#) who specializes in marriage counseling describes resentment as “the culmination of negative feelings you have toward your partner from unresolved conflicts, offenses, and unmet needs. Left unattended, resentment usually gets worse with time... You can either learn how to work through resentments or you can just let them fester.” The same might be true of many workplace relationships, yet those resentments likely worsen because there is little safe space for employees to vocalize them. “When it comes to managing negative emotions, most executives respond by pressuring employees to conceal the emotions,” explains [Christine Pearson](#), Professor of Global Leadership at Thunderbird School of Global Management at Arizona State University. In these environments, simply encouraging employee candor isn’t a solution; but, normalizing the tide of employee emotions—and recognizing the innate influence of power hierarchies on employee wellness and engagement—might be.


The reality of the American workplace is that workers are under near-constant pressure to contribute optimism, passion, productivity, and endless energy, amongst other “acceptable” traits and emotions. But when do workers get to be authentic, whole people? People naturally experience productivity lulls, doubts, discontent, and discomforting emotions. For employers to retain these real people and promote their wellness and engagement, they must compassionately address an employee’s whole experience—even the negatives.

- **Augment engagement with appreciation.** A manager’s gratitude can affirm an individual’s sense of contribution and purpose, potentially driving engagement and soothing built-up resentments. Angel investor and entrepreneur Amy Rees Anderson [believes](#) that “gratitude is the ultimate gift that keeps on giving” in employment relationships. Jim Harter, Chief Scientist of Workplace and Well-being at Gallup, [agrees that](#) appreciation of employee strengths contributes to engagement: “In a strengths-based workplace culture, employees often learn their roles more quickly, produce better work, and are more engaged... Gallup found that 67% of employees who



say that their manager focuses on their strengths are engaged, compared with only 31% of the employees who say that their manager focuses on their weaknesses.” Gallup [notes](#) that “companies have seen a 7% increase in employee engagement” just by having their employees complete Gallup’s strengths-based assessment. Nonprofit leaders can demonstrate genuine gratefulness to employees to keep their spirits high. Be sure not to confuse recognition with validation, recommends Kerry Goyette, behavioral analyst and founder of Aperio Consulting. Goyette [shares](#) specific examples of language managers can use to recognize what their direct reports have accomplished.

- [Spark joy and shape memories.](#) Gartner’s January 2021 article, “[From Fatigued to Inspired](#),” suggests reigniting the flame in fatigued employees by intentionally triggering “happy hormones” like dopamine and serotonin in the workplace. Giving praise to direct reports, rewarding or celebrating staff on the path to an end goal, and purposefully planning “rest and recharge activities” can all potentially reduce stress and increase engagement through happy hormone release. Gartner also advises supplementing employee incentives with “focusing on influencing and improving employees’ *feelings* about their overall experience.” Gartner’s global research on employee experience [indicates](#), “when organizations meet their workers’ experience expectations... they see boosts in effort, productivity, and retention. But the ROI from such initiatives is disappointing... ‘Companies taking that approach only drive up expectations,’ creating a vicious cycle in which employee desires and organizational spending fuel each other.” The answer: shaping employee [expectations and personalized experiences](#), and shaping employees’ [memories](#) of their most salient experiences at work. By identifying and shaping memories of “[moments that matter](#)” most to employees, employers can promote positive perceptions of workplace experience.
- [Study staff beyond surveys.](#) Employee engagement surveys can—understandably—breed negativity when leaders fail to address survey results. Annual engagement surveys also struggle by providing only a snapshot-in-time assessment of engagement and heightening employee fears about potential retribution due to lack of trust in survey confidentiality. [Laszlo Block](#), CEO of Humu and former SVP of People Operations at Google, advises teams to eliminate any survey questions that are not actionable. Some organizations are now conducting frequent [pulse surveys](#) as an alternative or supplement to annual surveys. Other teams are ditching surveys in favor of adapting a particular marketing research method used to understand customer behaviors and experiences: [employee personas](#). By developing personas, HR teams can better anticipate individual employees’ needs and personalize their workplace experiences in relevant ways to drive engagement. For example, persona research could potentially help HR teams [personalize learning](#) and development opportunities to individual employees.
- [Maintain mental wellness during COVID-19 and beyond.](#) Leaders of Mind Share Partners, a national nonprofit mental health advisory firm, recommend [eight ways](#) managers can support employee mental health during COVID-19. Employee engagement and wellness might look different for staff members from marginalized groups, so employers should take extra care to uplift marginalized staff whose wellness suffers most. For example, psychotherapist and mental health advocate Asha Tarry describes the [added complexities](#) Black employees might face when addressing mental health concerns at work. Tarry explains that employers might not “notice the



distinctions between a healthy Black employee and a vulnerable Black employee. These minor observations can lead to the difference between someone who contributes only their work to the job and someone who demonstrates social-emotional reciprocity with their co-workers and manager.” Among other strategies, Tarry suggests helping Black employees self-advocate for their mental health care by referring them “to other culturally informed resources—particularly for people of color—such as [Therapy for Black Girls](#) and [Black Men Heal](#).”

## Accelerate Vigilance Against Cyber Threats

Cybersecurity Ventures anticipates the global cost of cybercrime [doubling in 2021](#), partly due to the pandemic forcing fast-paced transitions to remote work. During COVID-19, when many workers are distributed remotely—and post-pandemic when workers might remain that way—teams are increasingly vulnerable to cybercrimes *and* can’t rely on in-office controls for protection.

Nonprofit staff members themselves continue to expose their employers to a significant portion of breaches. According to [Digital Guardian](#), Forrester Research expects insider-driven data breaches to comprise 33% of all corporate data breaches in 2021, compared to the 25% of corporate breaches caused by a company’s own staff in 2020.

Nonprofits also continue to be implicated frequently in [third-party data breaches](#). Cybersecurity leaders at PricewaterhouseCoopers (PwC) [pose pressing questions](#): whether institutions are now too complex to secure against cyber threats and how institutional leaders can assess and simplify their digital ecosystems to manage risk better. This simplification process would involve analyzing external partnerships, the cyber risks each partner brings to an organization, and the trade-offs in either continuing the partnerships or reducing reliance on partners to better secure data.


NRMC’s [2020 Risk Forecast](#) cautioned against other growing cyber threats, including that:

- *Poorly managed corporate responses to data breaches* often result in more harm than the actual breaches, yet leaders continue to delay investing in technology solutions and other preventive measures.
- *Internet vigilantism* cybercrimes are on the rise and comprise crimes when a person or group launches a targeted attack online against an individual or organization with whom they disagree philosophically or politically.

With cyber-risk arising from all angles, nonprofit teams must employ both protective *and* reactive strategies against these threats and act with urgency to:

- [Quantify risk and redirect resources](#). Costly cyber liability claims and breach recovery and remediation efforts require more sophisticated financial planning and redirection of resources to top threats. PwC anticipates cyber risk quantification will trend this year, with 60% of respondent organizations from its [Global Digital Trust Insights 2021 survey](#) already starting to





quantify cyber threats. A Digital Guardian [webinar](#) presented on February 3, 2021, illuminated how corporate leaders feel increased pressure to quantify cyber risk and plan for costs in 2021 and beyond. How are these pressures being met?

PwC's report "[Cyber Risk Quantified. Cyber Risk Managed.](#)" explains the state of cyber risk quantification today. The authors note that most organizations rely on qualitative risk assessment or risk matrices with unsophisticated—and likely arbitrary—scoring methods. Citing Harvard Business Review's *Analytic Services Survey 2020*, PwC reports that few organizations employ quantitative cyber risk assessments but do so using either open-source [FAIR methodology](#), actuarial models, or Bow-Tie analysis. While assessment methods become more robust and industry standards are developed, nonprofit leaders can ready themselves by understanding the challenges that [limit quantification](#) of systemic cyber risk and exploring existing guidance like the FAIR methodology and Oliver Wyman's [scenario-based approach](#).

- [Terminate toxicity.](#) Digital Guardian's [webinar](#) also highlighted toxic team cultures as devastating detractors from cyber risk management. Cultural facets both within a cybersecurity/IT team and across an organization can contribute to toxicity—ranging from the [hero culture and ego issues](#) surrounding cyber leaders to the [burnout, infighting, and lack of diversity](#) amongst cyber teams. [Sharing his take](#) on team toxicity, a health system chief information security officer (CISO) describes how executive hero culture inadvertently marginalizes IT teams and adds to CISO burnout. Awareness and empathy for these cultural challenges will help nonprofits address obstructive toxicity and refocus energy on mitigating cyber risk.
- [Manage third-party threats.](#) Ponemon Institute's most recent [Data Risk in the Third-Party Ecosystem](#) report found that 59% of survey respondents from US and UK organizations experienced data breaches caused by a vendor in 2018. According to the [2020 Cost of a Data Breach Report](#) produced by Ponemon Institute and IBM Security, "third-party software vulnerability was the initial threat vector in 16% of malicious attack breaches," with 52% of all breaches caused by malicious attacks in 2020. Third parties are also one of the most costly breach sources due to additional investigation and consulting fees and the [security ecosystem complexities](#) created through external partnerships. Learn more about third-party cyber risk management (TPCRM) by reading an article series written by Fred Kneip, CyberGRX CEO, and Forbes Technology Council member. Kneip explains the importance of [involving boards](#) and C-suite leaders in cyber risk oversight, TPCRM [risk analysis](#), making risk assessment processes [less cumbersome](#), and remaining vigilant to [vendor weak spots](#) during COVID-19.
- [Address why specific staff might cause breaches.](#) Many organizations have already invested in phishing training and cyber risk awareness training for staff. Although cyber leaders recognize rising insider risk, a [2021 Data Exposure Report](#) by Code42 and Ponemon Institute found that of participating organizations:
  - 54% did not have a response plan for insider data breach risk
  - 40% don't assess how effectively their systems mitigate insider threats

- More than half of IT/cyber leaders spend less than 20% of their budget on insider risk, and two-thirds of these leaders say their budget for managing insider risk is too small.

To better manage staff-driven data breaches, Code42 VP Mark Wojtasiak recommends identifying [individual personas](#) that might contribute to risky behavior and using these personas as risk indicators. Certain breach-causing behaviors might stem from staff attitudes and beliefs, like assuming that the employer does not monitor staff use of data or technology assets or the perception that an individual’s work product belongs to them, not their employer.

- Prepare for downtime and recovery. Mission-driven organizations might be increasingly targeted in ideological attacks meant to disrupt systems and service delivery. Enact recovery plans for both data protection *and* continuity of business during a disruption. TechSoup offers free [resources](#) for nonprofit disaster recovery planning and IT continuity. IBM and Ponemon Institute’s [Cost of a Data Breach Report](#) identified lost business costs as 40% of the average total cost of a data breach in 2020, with costs including “increased customer turnover, lost revenue due to system downtime and the increasing cost of acquiring new business due to diminished reputation. IBM recommends accelerating breach identification and response times to help reduce downtime and associated costs. Some organizations are using [SIEM and SOAR](#) security solutions to automate incident management in the hopes of addressing breaches faster.
- Demystify cyber liability insurance. Because some breaches are bound to happen, read NRM’s [recent article](#) to avoid common mistakes and correct misconceptions about cyber liability insurance.


## Inspire Risk Action with an Optimistic—Yet Realistic—Frame

*Optimism bias*, an innate phenomenon of the human brain, can potentially cause [poor decision-making](#) and harm, and conversely, personal happiness and increased motivation. How can that be? In her [2012 TED Talk](#), cognitive neuroscientist Tali Sharot explains how most people are hardwired to ignore warning signs—for example, information about risks facing an individual or an organization—due to optimism bias. A bias toward optimism fosters greater feelings of self-esteem and competence and beliefs that we are more [immune to adverse risks](#) than the people around us.

In risk management practice, teams must leverage the benefits of optimism bias while managing the downsides. The greatest gift might be the sense of hope that your team can always do more or do better to manage risk and steward your mission. The most significant downside is failing to anticipate or assess risks appropriately because you mistakenly believe they don’t apply to you.

To maintain a better balance between optimism and realism, test out these tips:

- Infuse cheer into your risk culture. Get the most out of optimism bias by cultivating confidence and positivity about the risk management capabilities currently present (or evolving) at your nonprofit. Although your team is never immune to risk itself, you can lead risk management




efforts with enthusiasm and hope, empowering your colleagues to feel more capable of championing risk initiatives. Read NRMCC CEO Melanie Lockwood Herman's take on [adopting an optimistic risk frame](#).

- Resist reckless righteousness. Many nonprofit teams fall victim to righteous optimism bias: feeling a false sense of security by wrongly believing that staff and other stakeholders are too ethical or too committed to charitable work to steal, harm, or deceive. Yet life experience teaches us that philanthropic institutions can be excellent incubators for indecency and crime, especially when nonprofit teams fail to face the reality that terrible events could occur within their walls. Admit that “bad” things can happen in “good” organizations and that seemingly “good” people can be capable of doing “bad” things. Train your team to squash its sense of righteousness and instead accept its vulnerability—and responsibility—for managing very real risks of harm to your program participants and staff, your assets, and your reputation.
- Ponder the possibilities. The most practical risk managers likely predict a wide range of alternative options whenever they assess risk. Risk can ultimately emerge quite differently than we expect it to, so refrain from relying too heavily on your intuition, which is probably heavily biased. Review real data when available, and open your mind to both positive and pessimistic perspectives on risk for a more accurate portrayal of possibilities.
- Intentionally integrate “bad news.” When you receive information about threats on the horizon, don't resist reality. Your brain is most likely trained to ignore or downplay such details, so make it a formal practice to impartially consider all risk information that flows through your organization—especially the bad news.
- Seek out cynical sounding boards. If most people are biased by optimism, then it's time to celebrate the cynics! Welcome team members with unique perspectives into conversations about risk, ensuring that your risk analysis isn't overly optimistic to the point of being unrealistic.
- Reassess risks that seem unlikely or infrequent. The risks we least expect are the same ones that our innate optimism blinds us to. If you anticipate being unaffected or believe you have all the skills and resources needed to prevent a “rare” risk, think again.

## Rethink Ruinous Risks

Across the nonprofit sector, COVID-19 has alerted leaders to potential low-likelihood, high-consequence risks: catastrophic risks that seem impossible to prepare for, predict, or even accept as reality. McKinsey & Company's December 2020 article, [“The disaster you could have stopped: Preparing for extraordinary risks,”](#) explains that “the relative improbability of such events well illustrates the decision makers' dilemma: which of them should their organizations plan for?” Overwhelmed by possibilities, some teams choose not to plan for *any* improbable scenarios they identify. However, simply hoping that it won't happen to you is not an effective strategy.




“More than 50 billion-dollar companies have filed for bankruptcy in 2020 in the US alone.” Many institutions were unprepared for the realization of a pandemic. Yet, the McKinsey article reminds readers that plenty of global actors knew this risk was a real possibility, and still, others predicted it. Why do we *ignore* warning signs of worst-case risks and then claim—after they materialize—that we should have seen the signs? How can we do better before the next ruinous risk hits us?

Some risk professionals argue that *risk* should be re-conceptualized as *uncertainty*, at least in certain circumstances. Statistician and risk analyst Nassim Nicholas Taleb coined the term “Black Swans” to describe truly unpredictable outlier events—the likes of which people simplify in hindsight to make sense and perhaps feel secure. Hint: [COVID-19 is not a Black Swan event](#); instead, it’s an event many predicted and is similar to various other pandemics that humankind survived. The metaphor of the Black Swan illustrates rare circumstances that go against historical data and the limits of human experience: if all the swans you’ve seen are white, you can argue that all future swans will be white. This argument fails to account for randomness and outliers, and it relies on assumptions that the future will mimic the past.

How does Black Swan philosophy influence risk management in practice? Some risk analysts [assert](#) that disciplines like biology and climate science can inform improved statistical modeling in the finance industry and other data-driven risk professions, which use modeling to predict future outcomes based on past data. Statisticians like Taleb and others believe these backward-looking models fail to capture the future’s uncertainty and thus lead teams to prepare only for what they have already experienced. Natural phenomena greatly influence human existence, and, ironically, human beings are not great at foreseeing.

To better anticipate and adapt to rare, unpredictable Black Swan events, nonprofits can shake up their risk management programs by:


- [Doing something, not nothing](#), to prepare for the unpredictable. [Taleb urges](#) “Policy- and decision-makers [to] act swiftly and avoid the fallacy that to have an appropriate respect for uncertainty in the face of possible irreversible catastrophe amounts to ‘paranoia,’ or the converse, a belief that nothing can be done.” Let COVID-19 incentivize your team to check its sense of infallibility and commit to experimentation and innovation in risk management.
- [Avoiding six mistakes](#) that Taleb and colleagues identify as problem areas in executive-level risk management: “Instead of trying to anticipate low-probability, high-impact events, we should reduce our vulnerability to them. Risk management, we believe, should be about lessening the impact of what we don’t understand—not a futile attempt to develop sophisticated techniques and stories that perpetuate our illusions of being able to understand and predict the social and economic environment.”
- [Facilitating scenario planning exercises](#) that challenge your team to conceive and acclimate to hypothetical disruptive shifts in the reality of human society and your business environment. Empower your team with adaptive decision-making and crisis problem-solving skills that will prove essential when the unexpected occurs.

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- Embracing uncertainty instead of simply controlling losses. Assessing risk with heat maps, risk registers, and other classic risk management tools might help you manage known, recurring risks, but it won't help your organization develop resilience or robustness against a Black Swan. For rare, ruinous risks, move beyond conventional risk management practices and question your assumptions about what is routine or predictable in your operating environment. Avoid attempting to label or categorize ambiguous risks; trying to make sense of the unknowable will limit your field of vision. Instead, imagine how varied and astounding the possibilities of the future might be. Crunch historical data to identify patterns, but don't use history as the blueprint for today's decision-making. Instead of identifying risks and ideating controls inside a vacuum, develop a systems perspective and determine how your team could become more nimble.

Create flexible strategies and plans that can bend under the pressure of uncertainty while enabling progress towards corporate goals. Recognize that your team's commitment to any course of action might cause resistance to objective data; vow to recalibrate plans at milestones to ensure that new information—especially warning signs—is considered. Resist the human urge to define and control, as it is no match for the universe's skill of surprise; only adaptability can secure an organization's survival and success in an uncertain world.

Moving beyond Black Swans, teams can try these tactics to assess and manage better-known risks that summon catastrophic consequences:

- Determine when to act. The aforementioned [McKinsey article](#) recommends conducting a premortem exercise for “differentiating risks that could hurt the business from risks that could... destroy the company.” The premortem “involves a thought exercise in which the [company's] core value proposition is assumed to have been damaged or destroyed.” In analyzing these risks, the authors argue that only potential impact on the organization should be considered—not likelihood, as likelihood has already been determined as low, and focusing on that could fail to spur effective risk management action. Read the article for insights about developing indicators and triggers-to-action when potentially catastrophic risks begin to arise.
- Renounce false comforts. We know people are terrible at predicting the future, so why do we stubbornly continue to try? To make ourselves *feel* safer or more ready? For the risks that must remain unknown, don't waste energy assigning ambiguous ratings or labels; redirect that energy to preparation and decision-making. Stop asking if a risk will happen and start asking, “When it does happen, how will we adapt?”
- Advance adaptability. Push yourself and your team outside your comfort zones. Take on the traits of [adaptive leadership teams](#) and [rethink procedural training](#), which probably does little to promote creative problem-solving or agile decision-making. Explore the essence of [cognitive flexibility](#) and provide your team with opportunities to encourage elasticity in [professional](#) and [personal](#) environments.
- Make lemonade. The McKinsey paper identifies the most resilient organizations—those that thrive after enduring catastrophic risks—as teams that find opportunities to innovate and grow



during a crisis, rather than focusing on pure survival. When risk arises and threatens the very existence of your mission, it might be time to fight fire with fire and take a big risk or make a big bet on your team's future. "Opportunities to adopt disruptive innovation can bring companies to crucial moments of truth, when movers gain significant market advantage over hesitant peers."

- Bare your biases. The McKinsey authors also remind risk leaders to be wary of optimism bias, another 2021 risk theme identified by NRMCC in this paper ([read above](#)). "When identifying the risks of greatest consequence, decision makers need to avoid optimism bias—a view that tends to see more positive outcomes than the evidence warrants. Confirmation and anchoring bias also reduce predicted impact—through assumptions that future threats will recapitulate those of the past." Expose and ease these biases by promoting a personal sense of safety amongst your employees, thus enabling honest risk reporting, an appreciation for dissent, and the protection of whistleblowers.

## Compete or Combine Forces to Endure Crisis

Today's nonprofit leaders are considering creative solutions for enduring the pandemic and its aftermath while—in many cases—meeting surging demands for service. For some teams, this means exploring every option, from pruning inessential or poor-performing programs to merging with community partners. Who will emerge from the COVID-19 era as a powerhouse, who will limp into the future, and who will dissolve?

In "[The Next Normal Arrives: Trends that will Define 2021 and Beyond](#)," McKinsey & Company partners assert that "In previous downturns, the strong came out stronger, and the weak go weaker, went under, or were bought. The defining difference was resilience—the ability not only to absorb shocks but to use them to build competitive advantage. ... The implication is that there is a resiliency premium on recovery. Top performers won't sit on their strengths; instead, as in previous downturns, they will seek out ways to build them—for example, through M&A."

Candid published a group of [hypothetical scenarios](#) in July 2020 to anticipate the impact of COVID-19 on a broad swath of the national nonprofit sector—excluding foundations or charities with annual revenues under \$50,000. By exploring various projections and determining median impact scenarios, Candid's team projected how many nonprofits might dissolve during a one-, two-, or three-year period.

- Of the scenarios depicting the sector's state *had there not been* a pandemic (or other crisis), a median-impact scenario estimated that 12,042 (4%) of nonprofits would close.
- Of the scenarios that reflected the financial impact of COVID-19 (based on data from various nonprofit surveys conducted in early 2020), a median scenario estimated that roughly 22,000 (7%) *additional* nonprofits would close due to the pandemic, increasing total closures to 34,472 (11%) nonprofits.

- In the direst scenario reflecting COVID-19's impact, 119,517 (38%) of nonprofits would shutter their doors within one to three years.

The authors remind readers, “Nonprofits go out of business naturally. In some cases, that is to be celebrated: they’ve accomplished their mission or discovered what doesn’t work. Under each of our 20 scenarios, *most nonprofits survive this crisis*, again proving the resilience of [the field as a whole](#).”

Candid also published [state-level interpretations](#) of the scenarios to “offer a sense of the geographic distribution of economic fragility across the nonprofit economy.” Despite the methodological and predictive limitations of these exercises, they provide some insight into the potential impact of this global crisis on the charitable sector.

Whether perceived as chaos or commotion, how can a nonprofit team best navigate COVID-19 and its wake?

- [Muse on mergers](#). Nonprofit mergers are rare, with [1% or fewer](#) charitable organizations merging in any given year, according to La Piana Consulting, a firm with significant nonprofit M&A advisory experience. La Piana conducted a small survey of nonprofits in March and April 2020 as COVID-19 began to take shape: “It is remarkable that 23% of the organizations responding to our survey are now considering such partnerships. One of them said they had been thinking about a merger with another group for years, and ‘COVID-19 has finally pushed us to begin those discussions.’” Mergers are one way competing charities can cooperatively endure the pandemic while building capacity—whether merging for increased visibility and fundraising clout, to diversify programs and expand service delivery, or to enhance impact efficiency by leveraging each partner’s core strengths.

In 2009, The Bridgespan Group responded to the Great Recession by assessing [market characteristics](#) that enable successful M&A activity amongst nonprofits. The authors note that while mergers are not realistic for all nonprofits, environmental and mission factors, including competitive pressure, barriers to organic growth, and subsector/field of work, can be favorable for M&A success. A June 2020 report by SeaChange Capital Partners urges nonprofit sector supporters and leaders to emulate the private sector’s restructuring ecosystem—starting with [four actions stakeholders can take](#)—to support “both recovery and recycling of large and medium-sized businesses.” Any nonprofit team considering a COVID-19 era merger for “strategic intention and failure avoidance” should [conduct due diligence](#) carefully.

- [Form strategic alliances](#). An alternative to mergers is exploring strategic partnerships with like-minded—or like-missioned—organizations. For example, some alliances share administrative or programming services between two or more partner organizations without formally altering any participating party’s structure. Before betting the farm, [weigh the risks](#) of collaboration and see how other nonprofits have [partnered productively](#).
- [Fortify financial health](#). Refer to NRM’s [2020 Risk Refresh](#) for insights about the sector’s fiscal health and emergency funding for organizations impacted by COVID-19.

- Go gracefully. Nonprofit teams can maintain dignity when determining that disbanding is the right choice. National Council of Nonprofits shares general [dissolution directions](#) and recommends seeking guidance from professional advisors with experience navigating the legal process of dissolution. A [Nonprofit Quarterly article](#) explains how nonprofit leaders can make the decision to disband and how “a successful dissolution preserves an organization’s legacy and contributes to a positive collective memory of the organization.”

## Reskill and Repeat, Top-Down


A few years ago, the World Economic Forum (WEF) [estimated](#) that more than half of employees would need significant reskilling or upskilling by 2022. NRM’s [2020 Risk Forecast](#) also highlighted this issue. WEF’s new [Global Risks Report 2021](#) identifies an even greater need for reskilling now that COVID-19 is accelerating digitalization, which employers and workers lack the capacity to match pace with. “In developed and emerging economies alike, the rapid shift to remote working is expected to yield long-term productivity gains, but it risks creating new gaps between knowledge workers and those in hands-on sectors who cannot work remotely and may lack the digital skills and tools to find other employment...”

With digital skill requirements proliferating, WEF recommends deep investment in reskilling and upskilling yet recognizes that employers will have limited bandwidth to support employee development post-pandemic. Similarly, financially vulnerable workers “will likely need to prioritize keeping their existing job or quickly finding new employment over dedicating time and money to training.”

How can nonprofit employers invest in digital and other reskilling initiatives in today’s constraining and demanding environment?

- Account for the value of people skills. To set relevant strategies for reskilling your workforce, teams must first understand how their workers’ capabilities gain or lose value as an organizational asset. To better assess the worth of your workforce, read the WEF and Willis Towers Watson report, [Human Capital as an Asset: An Accounting Framework for the New World of Work](#).
- Identify skills needed for the present and future. Perhaps leading today’s list of desired skills or qualities are resilience and adaptive capacity, which we explored in the first theme of this paper, “Rethink Ruinous Risks.” WEF’s [Future of Jobs 2020](#) report explains, “the top skills and skill groups which employers see as rising in prominence in the lead up to 2025 include groups such as critical thinking and analysis as well as problem-solving, and skills in self-management such as active learning, resilience, stress tolerance and flexibility.” In the same vein, a May 2020 [McKinsey & Company article](#) explores emotional intelligence skills as “critical for business leaders to care for people in crisis and set the stage for business recovery.”
- Streamline scholarship. In crisis mode, people often focus on completing critical work rather than pursuing training and development. Whenever possible, streamline reskilling processes, so





learning remains accessible to your team. Even when employers encourage or require training, some employees struggle with guilt over managing the competing priorities of *doing work* and *learning to do work differently or better*.


- Inspire lifelong learning. Practice Gartner’s [seven approaches](#) for re/upskilling for digital competence during COVID-19. These approaches can also contribute to cultivating a workplace culture of lifelong learning.
- Grow your fish from the head. An ancient expression sometimes credited to the poet Rumi, “a fish begins to stink at the head, not the tail,” applies to the power of an executive team to either set the tone for success or to sow the seeds of ruin within an organization. If executives expect their workers to reskill but fail to personally participate in learning initiatives or a learning culture, then they will stink the whole thing up.

## Digitalize or Disappear

Another non-decision or lack of action that bites back is the failure of teams to aggressively adapt to digitalization. Technology adoption benefited the nonprofit sector long before COVID-19 made remote work and other digital adaptations an urgent necessity. Yet many charitable organizations were still [“leaving significant impact on the table”](#) while struggling to structure their digital teams, engage digital leaders in senior management, and fully exploit technology to promote engagement with stakeholders.


Now more than ever, nonprofit teams must keep pace with digital trends to remain competitive and deliver on their missions. In [“The Next Normal Arrives: Trends that will Define 2021 and Beyond,”](#) McKinsey & Company partners explain that, “During the COVID-19 crisis, one area that has seen tremendous growth is digitization, meaning everything from online customer service to remote working to supply-chain reinvention to the use of artificial intelligence (AI) and machine learning to improve operations.” The authors assert that COVID-19 provoked such swift digital transformations across corporations that it enabled short-term workforce productivity gains during Q2 and Q3 2020 *not seen since 1965*. Nonprofit teams can continue to leverage technology to boost productivity and stakeholder engagement, remain relevant and agile amongst competitors, and meet rising demands for service.

- Define your desired digital transformation. Colleen Chapco-Wade, a digital marketing agency founder, [differentiates digitization, digitalization, and digital transformation](#). While digitization (e.g., work automation, paper-reduction) and digital process optimization can drive efficiency, *digital transformation* transcends process and involves cultural change management to empower teams to “...gain competitive advantage, respond to consumer and employee expectations and demands, and become agile businesses.” Nonprofit teams can determine their own paths for digital transcendence. In the hopes of helping more social good organizations power their missions through technology, Blackbaud asked the staff at National Park Foundation and Special Olympics New York [how going digital helped them](#) diversify revenue and deliver impact.

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- Digitally disrupt service delivery and workflows. Many mission-driven organizations were suddenly forced to deliver some, if not all, services remotely in response to the pandemic. Moving forward, nonprofit leaders must envision and implement remote work and distant service delivery with strategic intention. Parts of pandemic-era workflows might become the new normal, while others should fade away. Dr. J.D. Crouch, CEO of United Service Organizations (USO), [says that](#) working remotely has helped the USO to be more nimble. Using online collaboration software, departments have worked together in ways they typically hadn't in the past, and the organization has been able to slash bureaucracy because it has put a premium on moving quickly to try new things. Crouch doesn't want to work virtually forever, but there are elements of remote work that he wants to maintain."

For most organizations, post-pandemic determinations about digital-first service delivery should be made through the lens of mission impact. Teams can collect data now to discern which programs and services are most effective when delivered remotely and how digital delivery might address longstanding barriers such as easy, equitable access to community services.

- Diminish disparities through digital innovation. Urban Institute's June 2020 Equity Imperative shared [recommendations](#) for "what each sector can do right now to ensure technology helps reimagine communities, rather than exacerbate existing systemic racial and socioeconomic biases." From using city data to identify service delivery patterns and community use rates to partnering with private sector tech giants and [municipalities to promote tech equity](#), nonprofit leaders must ensure that digitally-driven growth helps—not harms—the most vulnerable populations served by the sector. Nonprofit teams can also employ [tech-enabled solutions](#) to address inequities amongst their employees. The Brookings Institution has [observed](#) bountiful benefits of digitalization in job roles considered highly digital—from digitally-driven job growth and pay increases to protections against worker displacement by automation. Still, digitalization comes with equity caveats. Brookings [reports](#) that workers who are women, Black, or Hispanic hold more medium- and low-digital occupations compared to white male workers, deepening the existing socioeconomic divisions amongst American workers.
- Flip fundraising. Abby Falik, CEO of Global Citizen Year, made surprising discoveries—and raised more money than she could imagine—after COVID-19 wrecked her 2020 fundraising plans. Falik saw the philanthropic [power dynamic shift](#) when "those with more money than they needed saw that I offered a scarce resource: the opportunity to make an investment in a better future." Falik's fundraising script also flipped when she saw that donors appreciated her pandemic-prompted authenticity and vulnerability—because donors felt the same way and were experiencing uncertainty in their own lives. Across the sector, philanthropy is changing but not slowing down. #GivingTuesday and other community giving days consistently [over-performed](#) during 2020 despite concerns that COVID-19 would devastate donations. Nonprofit teams are [modernizing their donation platforms to](#) allow donors to connect anytime, anywhere while leveraging big data to know their donors better and drive relationship-based fundraising.
- Revitalize work with remote-found humanity. The McKinsey Global Institute anticipates that more than 20% of the global workforce will continue to work remotely post-COVID-19 *and be*



*just as effective.* Each employer will need to [reimagine](#) how office life contributes to—or detracts from—mission success:

“There are two important challenges related to the transition to working away from the office. One is to decide the role of the office itself, which is the traditional center for creating culture and a sense of belonging. Companies will have to make decisions on everything from real estate (Do we need this building, office, or floor?) to workplace design (How much space between desks?) to training and professional development (Is there such a thing as remote mentorship?). Returning to the office shouldn’t be a matter of simply opening the door. Instead, it needs to be part of a systematic reconsideration of what exactly the office brings to the organization.”

Deloitte’s [Tech Trends 2021](#) report views remote work environments as ripe with opportunities to customize and personalize the employee experience (a trending engagement strategy described in this paper under the risk theme: “Empower Employee Wellbeing & Engagement”):

“In the same way that streaming music services offer individual users customized, data-driven experiences based on personal tastes, remote workforce data and predictive analytics can help organizations provide employees with high-quality, customized experiences—a mix of benefits, rewards, assignments, and learning based on personal experiences and tacit and explicit preferences. The digital coach of the future—enabled by organizational AI— could offer employees assignments predicted to be both interesting and skills-aligned. The coach ‘knows’ the skills and experiences that each employee needs to be optimally challenged and makes suggestions to improve behavior, collaboration, and specialized skills in real time.”

Leaders at PwC recommend [four actions](#) to transition to the office of the future, believing “the real prize in remote work is not reducing real estate costs—it’s fostering a stronger sense of resiliency.” Work-from-anywhere enables employers to nurture talent and deliver impact without conventional constraints of place. Employees and the environment can also benefit from shortened or canceled commutes, [reduced business travel](#), and cutting energy consumption in offices.

[Some argue](#) that the pandemic and remote working have also enabled increased [empathy](#) and intimacy amongst teams. Despite all its challenges and tragedies, COVID-19 has restored cornerstones of [human connection](#) that are sometimes absent in traditional workplaces: office workers are bonding in surprisingly personal ways across Zoom calls; desirable professional behavior now involves authenticity and being one’s whole self; and, some workers feel liberated by a growing focus on competence rather than presentation. Moving out of the pandemic and into the charitable sector’s new normal, nonprofit leaders can continue shaping remote-friendly work environments and imbue public service with heightened humanity.