Risk Revolution

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As the Fourth of July approaches, I find myself reflecting on our country's history. I can't help but marvel at the extraordinary risks the founding fathers took when they broke ranks with the mighty British Empire. The revolutionary rebels of the 1770s faced charges of treason if they failed in their fight for independence—a risk with the ultimate downside consequences. Despite that great risk, the Revolutionary War was waged and a country was born. Talk about a leap of faith!

In our modern era, it's highly unlikely that we'll face charges of treason when we take risks to achieve a nonprofit mission. In the June 6th Risk eNews article, we referenced a *Wall Street Journal* article about the downturn in risk-taking and the corresponding allure of risk aversion. Let's face it, uncertainty prevails in our personal lives and too often in the nonprofits we serve. We continue to crave certainty. We want guaranteed investment returns, employees who always give 110% to our missions, and donors who return year after year.

In his book, *The Signal and The Noise: Why so many predictions fail—but some don't*, author Nate Silver defines risk as something that you can put a price on. According to Silver, risk is measurable. In the nonprofit sector, for example, a risk may be the decision of a $50,000 donor to stop giving. Silver contrasts risk with uncertainty, explaining that uncertainty is something that is hard, or impossible, to measure. Unless she has announced her intent to retire in five years, or the board has decided that a new leader is needed right away, the tenure of a nonprofit's CEO and the consequences of an unplanned departure is uncertain. The downside costs and upside opportunities associated with a leadership change are hard, if not impossible, to measure.

Consider the following tips to evolve your risk management program from an unrealistic effort focused on eliminating risk, to a program dedicated to helping your nonprofit prosper and grow in a world of risk and uncertainty:

- **Embrace risk-taking**: Invite your management team and board to explore: what risks should we take in 2014 to advance our mission?
- **Acknowledge that few, if any risks, can be eliminated**: Review your risk management plan and policies for any language promising to "eliminate" risk. Can you really guarantee that certain actions or events won't happen? Unless you've taken drastic steps (e.g., "we no longer serve youth, so the chance of a child being hurt at one of our programs is nil"), risk lurks in everything you do.
- **Define a shared vision for risk taking**: Is your nonprofit entrepreneurial? Does it undertake initiatives that might succeed, OR fail? What are the parameters for risking money, time, talent, reputation and other assets? Are you putting assets on the line or claiming to be innovative when you only pursue safe

bets?

- **Commit to understanding the risks you face**: Don't fool yourself into thinking that a cryptic spreadsheet or "risk register" is a risk management program. Taking time to list possible downside "events" in a spreadsheet and assign arbitrary scores for "frequency" and "severity" doesn't mean you're risk aware or prepared. Convene a cross functional team to hash out the top risks and decide what additional steps are required to prepare to act.
- **Draft a plan**: It is impossible to create a perfect plan that empowers you to dodge critical risks or ensure you're ready to respond to risk. Instead, create a practical plan that explains what you're prepared to do, when risks materialize. Brainstorm with your team about various risk scenarios or crisis scenarios; discuss your capacity to adapt when a "what if" becomes your reality.

The adoption of a risk management plan is essential in a nonprofit whose leaders are committed to preparation in the face of uncertainty. Here at the Center, we want to make the drafting of that plan fun and easy. Try My Risk Management Plan, our interactive cloud application, to develop a custom risk management plan for your nonprofit. We're pretty confident that with a risk management plan in place, your confidence about risk-taking will grow. And who knows; confidence about your ability to take risks and deal with the inevitable stuff that will happen in your journey, could be revolutionary.

For information about the Nonprofit Risk Management Center, visit www.https://nonprofitrisk.org/ or call 703.777.3504.