

Lessons from a Risk Appetite Exercise (Risk Leadership Certificate Program)



By Erin Gloeckner

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The inaugural 2017 [Risk Leadership Certificate Program \(RLCP\)](#) is complete and the NRMCC team plans to continue sharing updates and insights from this intensive risk leadership training program in the weeks ahead.

One topic that our cohort explored during our final weekend together was *risk appetite*. As a UK-based financial institution defined it in the RIMS Executive Report “Exploring Risk Appetite and Risk Tolerance” *risk appetite* is “...the amount and type of risk that [an organization] regards as appropriate for it to accept in order to execute its strategy.”

Setting an organization’s appetite for risk is a key goal of many nonprofit boards engaged in risk oversight. Defining risk appetite can provide guidance to nonprofit staff members who need to make decisions and judgment calls each day. If risk appetite is *not* well defined at an organization, then individual team members must infer it each time they make decisions. Joe in accounting might be averse to risk-taking, whereas Jen in programs might be very willing to risk financial assets in order to explore a new program or service that could potentially benefit the local community. With every staff member taking risks (or *not* taking risks) based on their own personal perception, you can see how the inconsistency could spell trouble for a nonprofit.

Risk appetite, typically set by a board of directors, conveys an appropriate approach for risk-taking, or an appropriate level of risk-taking—often based on thematic areas of risk (e.g., financial, reputational, safety, etc.). Risk appetite is really focused on how the organization *takes* risks; this means that a well-crafted risk appetite statement can empower staff to take informed risks that offer opportunities to advance the organization’s mission and goals.

While [the RLCP cohort](#) pondered the value of a defined appetite for risk-taking, we also considered the barriers that nonprofit leaders might face when determining their organization’s risk appetite. What makes risk appetite so challenging?

- Every board member has a unique perspective on the type of risks the nonprofit team should take or avoid. Boards need to engage in productive dialogue to discern the gaps between their own perspectives and the appropriate risk appetite for the organization.
- Risk appetite is defined a bit differently depending on the source you use, and similarly, organizations use varied approaches to determine their risk appetites. There’s no single approach that could be effectively applied at all nonprofits.

- Nonprofit leaders may worry that by defining risk appetite, they are actually giving permission for staff to take unfounded risks. At NRMCM, we believe that knowledge is power and any information about risk appetite could only help staff live out the risk-taking approach set by the board. Of course education is key to enabling staff to understand and implement the risk appetite statement—as is thoughtful reflection after decisions are made (e.g., “What made that an appropriate or inappropriate decision?” “Was that decision aligned with our risk appetite?”)

We tasked the RLCP team with determining the risk appetite for an impressive—if hypothetical—international nonprofit that provides material aid to communities affected by conflict and disasters. Prior to the exercise, the NRMCM team identified 12 distinct risks that the RLCP cohort would reflect on. We also gave each RLCP participant a fictional role to play in the organization, expecting that each individual’s vantage point would influence the appetite for taking specific risks.

We asked the RLCP participants to complete these steps:

- Consider the 12 risks the organization faces. Work quietly on your own to plot each risk on a risk appetite spectrum (below). Do you have a high appetite or low appetite for taking on each risk?



- Once you plotted your risks on the appetite spectrum, prepare to validate your choices during a dialogue with the whole team.
- As a team, come to agreement on the appropriate risk appetite for the organization, based on each of the 12 identified risks.

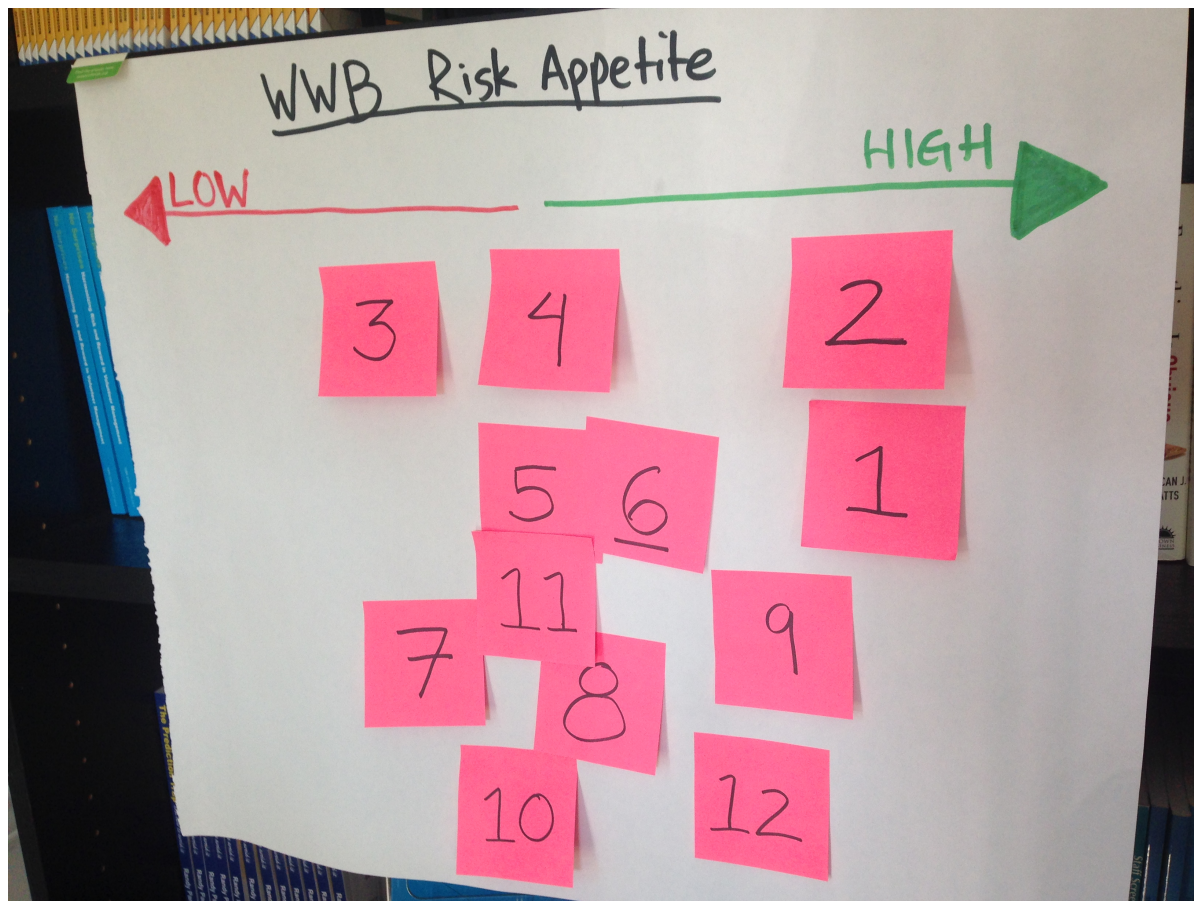


RLCP team members during the risk appetite exercise: (from left to right) Mitch Mouchabeck of YMCA Metro Atlanta, Martin Kraus of Unbound, Barrett Leahy of Great American Insurance Group



RLCP team members during the risk appetite exercise: (from left to right) Miranda Hora of Helen Keller International, Ramona Chapman of Virginia Department of Housing and Community Development, Aaron Acharya of American Jewish World Service, Joseph Budzynski of Volunteers of America

The RLCP team (slash fake executive team of this impressive hypothetical NGO) then compared their individual appetite rankings and engaged in a healthy dialogue to define an appetite for the organization. Only a couple risks were plotted quickly—most risks remained topics of disagreement across the team. In fact, a handful of the 12 risks were plotted near the center of the appetite spectrum—the key reason being that the team could not come to agreement, and the midpoint of the spectrum could satisfy team members who favored either extreme (high or low). If undertaken in reality, this risk appetite exercise would warrant considerable discussion and reflection in order to achieve an appetite that truly reflected the organization’s needs and goals—not just the desire to achieve consensus.



Risks 1-12 plotted on the risk appetite spectrum by the RLCP team. Note the risks in the center of the spectrum: most were plotted there to achieve consensus since it was challenging to reconcile the perspectives of individual team members who ranked their appetites at either extreme (high or low).

To join the RLCP community and network with an intimate peer group of nonprofit Risk Champions, contact the NRMCM team at 703.777.3504 or info@nonprofitrisk.org.

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