# Managing Risk in Turbulent Times




## By Melanie Lockwood Herman

Executive Director


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## Mix equal measures of optimism and resolve and bake until golden

I've been told that I am an incurable optimist. No matter where I stand or sit, I can't help thinking that tomorrow is a fount of wonderful possibilities. I'll admit that there have been a few moments in the last decade when my resolve to think positively was sorely tested. But these moments are quickly subdued by what seems to be an innate belief that every year ahead will be more bountiful than the last. Perhaps it is this view of the world that leads me to believe that the same principles apply in the future of our organizations, irrespective of their circumstances. I try to inspire the same optimistic view in the nonprofit leaders whose organizations I counsel through the Nonprofit Risk Management Center's consulting practice.

For the past two years, I've offered readers of *Risk Management Essentials* risk management resolutions in the January issue of our publication. But circumstances this year might seem to warrant a totally different kind of January message. No doubt that we are facing difficulties unprecedented in the modern era of nonprofit organizations. As I reviewed the wit and wisdom in prior issues, however, I was pleased that the advice has stood the test of time. There were no recommendations that I would delete from another New Year's list. For example, viewing your insurance professional as a key partner in mission fulfillment is the *first step* to making certain your nonprofit has appropriate insurance coverage for its insurable risks. And getting the board "on board" with risk management is key to ensuring the effective governance of your nonprofit and protection of its valuable tangible and intangible assets. Therefore, many of the core strategies nonprofit leaders will employ to understand and manage risk will remain unchanged in 2009. But the landscape—the environment in which your organization survives and even thrives—has changed dramatically. This change warrants a fresh look. Not an updated list of resolutions, but a new way of looking at risk and risk management in our organizations.

Each day my email box contains at least one newsletter describing how nonprofit leaders are making tough decisions necessitated by funders' retrenchment, investment losses, government deficits, and the inability of individual donors to give at last year's level. These stories are a potent reminder that a charitable mission and dedicated leaders are not enough to insulate an organization from the risks that exist in the world around us. So, even as it is necessary that we "play the hand we are dealt" in these difficult times, we do not need simply to focus on our woes. While each organization must focus on the specific conditions it is experiencing, it should

not lose sight of the core strategies for success, including managing risk. We must maintain a degree of optimism and continue to keep our eyes open to the *entire* context.

A strategic approach to risk management requires thinking about a wide range of future possibilities. I was reminded of this fact during a recent evening walk. Each evening I venture outside my home to take my dog for a short stroll. Since I live in a rural area blessed with a very dark night sky, I often take a flashlight. Using a flashlight is helpful to avoid stumbling over a branch that has fallen or a clump of grass displaced by a determined mole. But as I've discovered on several evenings, the flashlight is ineffective in spotting a deer grazing several yards to the left or right of the beam. On several occasions, I've been startled when a large animal saw me before I saw it. The sound of an animal rushing past in the darkness is enough to set even an experienced risk manager's nerves on edge! My most recent wildlife encounter led me to reflect on the way that many nonprofit leaders approach risk in their organizations. There is a tendency to use a narrow band of consideration when thinking about risk—much like using a flashlight to illuminate the ground ahead on an evening walk.

While a beam of light—or a beam of thought or focus—may be helpful in identifying the risks that lay directly ahead, it is probably less effective in spotting events, circumstances and conditions in the environment that may have the potential to dramatically to affect the organization's ability to deliver services, meet clients needs and pursue its mission. As leaders of organizations with vital missions, we must train ourselves to look beyond the beam of light. We must learn how to examine, with appropriate care, all of the elements of the environment in which we operate—from funding opportunities, to the work of competitors and collaborators, to Mother Nature. The management team at your nonprofit should consider how the current environment—and changes in the environment—could disrupt or derail your mission. What could go wrong? What will you do now, knowing that an event or condition in your "environment" could spell disruption or disaster for your mission? What will you do if that event—from loss of funding to the extraordinary success of a competitor—materializes?

When we teach the Risk Management Process, we encourage leaders to begin with "appreciating the context." Our instructions for doing so include examining the nonprofit's history, circumstances, opportunities, cultural issues and organizational structure in relation to the risks the nonprofit faces. How do these key environmental issues affect risk-taking and risk management in the nonprofit? A nonprofit that has faced a slew of employment-related claims is likely to be tuned into the risks of employment litigation, but may be inattentive to risks associated with the loss of a major funding source. A nonprofit whose leaders are decidedly risk-averse may forego the opportunity to expand the reach and success of the organization by serving clients in neighboring jurisdictions or seeking other means of diversifying the ways in which the organization delivers its mission.

Examining the *context*—the environment in which the organization exists—is a key first step to integrating sound risk management thinking and strategies into the life of your nonprofit. Doing so effectively requires that you employ 360-degree, radar-like thinking as you examine the history, mission, culture and opportunities facing your organization. Instead of focusing your risk management beam only on the obvious dangers that lie in the path ahead, remember to look behind you, to the far left and right, and even up above, for changes, circumstances and information that will guide your risk-taking and risk management practices in the year ahead. We need to transport our passion for mission into the commitment to look broadly at the risks that stand in the way of mission fulfillment. And remember that an optimistic outlook and the resolve to make your nonprofit better each and every day will fortify your goal of spotting and addressing the risks that stand in the way of realizing the mission that means everything to those who serve, and receive services from, your organization.

Melanie Lockwood Herman is Executive Director of the Nonprofit Risk Management Center. She welcomes your questions, comments and feedback on this article. Melanie can be reached via email or at (703) 777-3504.