

Risk Management's Unintended Consequences



By Erin Gloeckner

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Have you ever done a good deed just to realize later that it resulted in some unintended, negative consequence? Perhaps this realization came after implementing new risk management practices at your nonprofit. After reading a CEB report titled '[Reducing Risk Management's Organizational Drag](#),' I agreed with the authors' perspective that risk management can sometimes result in unintended consequences. For example, sometimes risk management can hamper decision-making and cause an organization to be less nimble in responding to risk events or in leveraging opportunities. This undesirable 'drag' impedes the achievement of organizational objectives. Of course the actual goal of risk management is just the opposite—to make nonprofit missions more resilient and sustainable in the face of uncertainty, and to position nonprofit leaders to take bold, mission-advancing risks at the right time. So why does risk management sometimes achieve the opposite effect? Why does it create drag when it should be propelling our missions forward?

The CEB report points to three key causes of organizational drag related to risk management:

- **Focus on risk aversion:** when risk management inspires fear rather than thoughtful boldness, nonprofit leaders and staff may be overly cautious, and will hesitate and miss opportunities that are approaching. A risk-averse risk management program can cause individuals to fear failure and fear taking risks, thereby causing them to remain stagnant—simply hoping to 'stay safe' by maintaining their programs or operations, rather than seeking progress by taking risks to improve them.
- **Isolation of the risk function:** when risk is a silo, nonprofit teams struggle to buy in to the function because "it's not my job—it's the Risk Manager's job," or because "the risk department always says 'NO' to my ideas because they're too risky!" 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 must be inclusive, inviting people with different vantage points to share their perspectives on risk. For example, the senior leadership team may not see risk factors on the ground, just like frontline staff may not recognize a strategy-level risk on the horizon. By sharing responsibilities for risk assessment and risk management, you will drive participation in and ownership of the risk function, while nurturing a better understanding of the risks you face.
- **Focus on process rather than people:** when risk management practices are overly focused on process and policy, nonprofit teams may feel burdened by cumbersome hoops they must jump through in order to get anything done. Oftentimes, this leads people to skirt around important policies or procedures—which exist for the good of the organization—but are impractical and slow everyone down. You must strike a balanced approach to implementing risk management process and policy, while providing your staff and leadership teams with risk assessment training. If people throughout your organization are capable of making risk-aware decisions in the moment, then these positive personal judgment calls will

improve your risk portfolio more than any policy or procedure. Don't believe me? Just reflect on the risk events that could materialize from a single decision made by one team or one person.

Risk Tips to Reduce 'Drag'

Consider these tips to avoid organizational drag and ensure that your risk management function is propelling you forward, and keeping you hungry for risk-taking.

- **Cook up your risk appetite.** It's human nature to have your own sense of comfort with risk-taking; some people are naturally risk-averse, whereas others are Evel Knievel clones. Your nonprofit Board and leadership team can lead a risk appetite exercise, during which you set the organizational tone for risk-taking. Maybe you will decide to encourage risk-taking related to developing innovative programs and services, while balancing that risk-taking with a more conservative approach towards investment risk. Whatever you decide, sharing your vision for the organization's risk appetite will enable all staff members to make risk-aware decisions that are aligned with your vision. [Contact the Center](#) to inquire about risk appetite exercises we can facilitate with your team.
- **Don't go it alone**—form a Committee! Instead of isolating your risk function to one department or a single Risk Champion, cultivate multiple Risk Champions across your nonprofit. Consider forming a [Risk Management Committee](#) or task force to lead your risk-related initiatives, and to facilitate risk assessments and risk education throughout the organization. If you need a coach to guide your committee's formation, [contact the Center](#) to inquire about our services and our experience forming and training risk committees.
- **Train your brain for risk assessment.** Focus on your individual team members and help strengthen their capacity to make risk-aware decisions in their own roles. Provide risk assessment and risk management training—even basic training that will enable your staff to recognize risks that emerge from the work they do each day. If you need a hand, [engage a Center consultant](#) to facilitate a Risk Bow Tie workshop with one or more of your staff teams. Using the simple Risk Bow Tie technique, your staff members can learn to identify risks and think through the nuances of specific risks, including brainstorming preventive and reactive controls to reduce the likelihood and severity of risks. Our [Risk Bow Tie workshops](#) have helped nonprofit teams take ownership for risks specific to their own departments; they have also helped nonprofit teams identify shared risks that warrant a collaborative risk management approach.

Keep your good intentions close to heart, and learn from these risk management lessons. Embrace risk management but don't weigh down your risk-taking capabilities with excessive process or risk-aversion. Risk management should be the best friend of your nonprofit—the one who holds you back before you do something stupid, and who also pushes you to live boldly and achieve your dreams.

Want to learn more about good risk management intentions going awry? Engage the Center team as your [risk consulting](#) partner, and we will share lessons learned throughout our 25 years serving as a trusted risk advisor and partner to diverse nonprofits across the sector.

Erin Gloeckner is the former Director of Consulting Services at the Nonprofit Risk Management Center. The NRMC welcomes your questions about NRMC consulting services, and about avoiding organizational drag and evolving risk management programs to inspire organizational agility. Contact our team at 703.777.3504 or info@nonprofitrisk.org.