

10
THINGS
EVERY
BOARD MEMBER
NEEDS
TO KNOW

Risk Management

Your Role
As A Board Member

By Kelli Spencer with Vincent Hyman

Mission

Our mission is to foster effective risk management practices and the overall development and advancement of nonprofits through unique, creative initiatives.

Ten Things Series for Nonprofit Boards

Welcome to this series of short briefing papers for nonprofit board members. Whether a seasoned leader or first-time trustee, there is a continual need to revisit the expectations and demands of the critical board member roles in steering, supporting and safeguarding nonprofit organizations. In this series, First Nonprofit Foundation has identified topics of particular interest to board members and will provide digests of time-tested wisdom, emerging thought, and the insights of highly experienced practitioners. We trust these papers will succeed in helping nonprofits to develop and advance. As always, we welcome your comments and suggestions.

*We saw the risk we took in doing good,
But dared not spare to do the best we could*

Robert Frost

Your organization would not be where it is today if it had not taken risks. The very act of starting a nonprofit is a risk. However, as organizations grow and succeed, they tend to grow more fearful of risks—there is simply more to lose. It makes sense to be cautious.

And yet, to paraphrase Frost, doing your best means taking risks. And this is where the board comes in—for your duty is to guide and reassure the organization that risk is a part of every exciting new challenge. You set the “risk threshold” for the organization—educating it about just how much risk is acceptable, your expectations for plans to mitigate risk, and the importance of taking risks in pursuit of better service for your organization’s mission. This is what we mean when we say risk is everyone’s business. You will see that through your actions, you can create a culture of risk management—a culture that is flexible, and that helps the organization match its level of risk to the aspirations of the mission. While the organization that overreaches may fail, the organization that fails to reach will certainly fail.

This booklet outlines ten things your board can do to help ensure that its staff are balancing risks against rewards in a way that best achieves the mission while managing the level of risk the organization encounters.

These ten things are:

- 1. Understand Risk Management**
- 2. Know the Board’s Role**
- 3. Expect a Risk Management Plan**
- 4. Conduct a Risk Assessment**
- 5. Reduce Risk in Hiring and Volunteer Policies**
- 6. Ensure Staff, Client, and Visitor Safety**
- 7. Assess Risk in Facilities and Insurance**
- 8. Plan for Records and Business Continuity**
- 9. Require Backup Staffing Plans**
- 10. Create a Culture of Risk Management**



1.

Understand Risk Management

Smart nonprofits take risks—many risks, every day. Such organizations are creative, inventive, and continue to succeed despite the changing environment. These organizations know that success demands risk-taking, and they create an organizational culture that regularly assesses risk, favors intelligent risks, and mitigates the impact of known risks.

These organizations share one other quality: they know that risk is everyone's business. From the occasional volunteer to the long-tenured board member, everyone knows what they are accountable for and has a sense of which risks are acceptable and what are beyond the organization's tolerance.

Let's look at what risk management means, and then explore how it appears at different levels of operation.

Risk management is a process by which the organization assesses its exposure to types of harm, evaluates their impact, develops management strategies, and implements actions that manage risk to the level desired by the board.

Risk management is a way of dealing with uncertainty—a framework by which organizations predict potential liability and plan for it strategically. At the heart of risk management are some very simple questions: What can go wrong? What do you worry about? What will you do to diminish the worry? How will you pay for that?

For the board, these questions can be thought of more systematically as what is the context in which we think about risk (what risks are inherent in the actions we take to fulfill our mission)? Given that context, by which process will our organization strategically identify risks, set priorities for what risks to address, create a plan to deal with them, and then implement and monitor the plan?

Risk Itself Can Be Organized Into Five Categories

- 1. Financial Risks.** These are risks such as fraud, theft, internal fiscal hygiene, cash handling, grants management, investments and diversification of financial sources.
- 2. Operations Risks.** These risks include business continuity (the ability to keep services running), disaster, property, technology, emergency succession, and similar operational issues.

3. Workforce Risks. These risks relate to obvious factors such as staff and volunteer safety, discrimination, harassment, and other legal issues, as well as less tangible factors such as retention and morale.

4. Client Risks. These risks vary with the kind of clients you serve, but include issues such as patient safety, medical errors, workforce malpractice, discrimination and harassment, and abuse of vulnerable clients.

5. Reputational Risks. These are risks to your organization's hard-earned reputation, and include negative media attention, negative community impact, and public awareness of organization errors, all of which impact the organization's ability to seek grants, retain donors and volunteers, attract top staff, and so forth.

Boards should keep in mind that the public generally holds nonprofit organizations to a higher standard. So, it is not enough for your organization to behave within the bounds of regulation; your nonprofit status creates a sense of public trust that must be upheld through high ethical standards. Problems of fraud or self-dealing thus can do much greater damage to a nonprofit than to other types of organizations.

Risk management does not have to be thought of as attempts to limit the bad things that can happen to an organization. In fact, we encourage organizations to think of risk management as part of quality assurance—the organization's attention to delivering high quality results. This approach encourages everyone to actively identify risks and prepare for them. Good risk management makes the organization more effective. Rather than being distracted by continual chaos, or cleaning up after the latest problem, the organization plans for risk. Risks that come out of the woodwork destabilize and demoralize the workplace, and people don't perform as well. In this way, risk management is

- Basic to good planning
- Good for bottom line
- Beneficial to program quality
- A sign of an accountable organization, which aids fundraising
- Helpful in reducing the likelihood of litigation
- Essential to ensuring that program managers take well-informed risks



2.

Know the Board's Role

The focus of this booklet is your role as a board member in helping the organization understand risks in a general way, ensure that policies are in place to manage them, and set the risk threshold for the organization—which may range from adventurous to timid. Management and staff, of course, do the assessing, planning, and implementation. Before we move further into your role, let's take a quick look at what you should expect of the organization.

Management's Role

(including the executive director) is to enact the board's direction about risk. To do this, management must evaluate the organization's exposure to the categories of risk described above and develop and implement plans to manage that exposure. Management must further set the tone so that everyone understands what risks they are accountable for, when they can take risks, and when they need to avoid them.

Staff's Role

typically revolves around identification of risks, mitigation tactics, and implementation. For example, if staff members are working with patients or participants and they've been trained in risks like patient safety, then if they see something that's a risk to a patient, they know how to identify it and to whom it should be reported.

Board's Role

is that of oversight. This includes setting policy that requires risk analysis and risk planning and noting that certain key aspects are tended to in the organization's plans. Regardless of the size of the organization, its board should set policy requiring risk analysis and planning. Here is a sample policy from a larger nonprofit:

It is the policy of XYZ Organization to assure high quality services that are responsive to the values and needs of our program participants in a safe, secure environment. We will do this by maintaining a system of corporate compliance and risk management to support ethical, legal, and solvent business practices and to detect, report, and investigate all wrongdoing whether intentional or unintentional.

To meet this policy, the executive shall see that a risk analysis of the organization is undertaken, and develop a plan to identify and mitigate risks. The goal of this policy is not to constrain staff but to ensure that they know the limits within which they may work. The plan should suggest the rare instances when issues should be brought to the board. It should suggest a "risk threshold" or risk priorities, which the board will discuss prior to approving the plan.

The executive is expected to report on the plan annually. Other updates and briefing should be provided as needed to keep the board informed.

Some boards create an ad hoc risk committee during the development of the plan. Other boards have a standing committee. Given the vast range of nonprofits (from those that face numerous accreditations, funder mandates, and financial or reputational risks to very small organizations with relatively small risks), it's wise to check with similar-sized organizations in your region to learn how they are approaching risk. Indeed, smaller organizations may not need the degree of policy oversight and formal monitoring suggested in the above policy; it may be unnecessary, too costly, or both. (You can often learn more about risk management policies from your state's nonprofit association.) Keep in mind that the broad-based approach to risk management advocated in this booklet is relatively new—so be ready to cast a big net when looking for policy examples.

In establishing a policy, the board sets expectations that influence the organization's culture. This means that the way you go about setting policy can have a dramatic impact and may send the wrong message. Take care! The goal of the plan is to manage risk, not avoid it. Risk is inevitable and in fact, wise risks infuse the organization with energy. Staff sometimes overreact to questions about risk by assuming that the board wants to avoid all risks. This freezes up the organization, especially in highly bureaucratic organizations. So, as you explore your organization's current approach to risk and consider how and whether to set a policy, ask open-ended questions, collect information uncritically, and avoid sending the types of messages that will make your employees afraid of the smallest error.

Of course, the most important role of the board regarding risk management is to set high ethical standards for itself and for staff. This means that people are alert for and deal with ethical questions and conflicts of interest (or the appearance thereof), are diligent about ethical behavior both organizationally and personally, and report and resolve issues quickly and transparently. (This is the key to creating a culture of risk management, which we will discuss more of in section 10.)



3.

Expect a Risk Management Plan

A risk management plan should cover the five categories of risk: finance, operations, workforce, clients, and reputation. With regards to each of these, the plan should include attention to the following areas.

- **Risk Assessment.** This addresses questions such as which documents will be examined to assess risk (for example, incident reports, audits, accreditation reviews, funder audits). The board should ask its executive what sources will be used for each of the five categories, how often those sources will be reviewed, and whether the organization will be using any common risk assessment tools. (The resources section in this booklet lists some risk assessment tools.)
- **Management Expectations and Risk Management Training.** The board should understand how accountability for risk is placed in management. Ask who “owns” the risk plan and who is training staff to identify and report risks and incidents. Why were these people chosen? What is their expertise? Who is accountable for the system and how will they be accountable? In a larger organization, this may be a single person responsible for quality or risk management. In smaller organizations, accountability may be shared and coordinated among the senior staff most closely accountable for each of the five risk categories. Regardless of size, the goal is that the system runs throughout the organization.
- **Hiring and Volunteer Policy.** The employment practice risk is one of the greatest risks the organization faces. The board needs to understand the make-up of staff and volunteers, as well as the use of independent contractors.
- **Staff, Client, and Visitor Safety.** Of course, plans around these areas will look different for each non-profit, depending on its mission. However, the plan needs to identify risks to each of these and show how the risks will be managed. A nonprofit that operates a warehouse will face certain physical risks; a nonprofit that serves at-risk youth with experiential education will have other types of risks.
- **Insurance, Property, and Facilities.** The plan should explain what insurances are held, in what amount, and why. In addition to the plan, the board should request a review by the organization’s



insurance broker (or the person responsible for insurance), so that it understands what is being insured and why. The plan should also describe the property and facilities the organization is operating, note whether they are owned or rented, and give an overview of how these assets will be managed. The focus is not on the specifics but on the process in managing those.

- ***Records Management and Disaster Recovery Systems*** (also called ***Business Continuity***). The plan should note what documents are retained, for how long, and how they are to be disposed. It should note relevant Sarbanes-Oxley rules and how the organization will comply. It should describe how the organization will continue business in the face of a disaster, how the technology systems will be backed up, and how interruptions of service will be handled. For example, if you have a fire in a residential service, how will the organization continue providing services? Is there a communications plan for such an event? (Note that organizations tend to procrastinate on disaster recovery planning since it is rarely used; however, it is a major risk and therefore should take high priority.)
- ***Staffing, Including Succession***. The plan must note that there is a succession plan in place for key staff in the event of an emergency, and where that plan is kept. (More on this under “staffing plans.”)

The board’s duty of oversight can be carried out by being sure that its expectations and policy about risk management are incorporated into management training and into regular communications within the organization. The board should ask the executive director or other staff to explain what kind of training will be provided in the organization about the risk management policy, and also ask for reports or results on the training. Furthermore, the board should expect that policies are accessible to staff for review at any time.

The board should know that managers are thinking about risk as a part of their regular planning. It should ask the executive to explain how the risk management system is built into management expectations, and who is responsible for it.



4.

Conduct a Risk Assessment

Risk assessments can be done formally or informally. Large organizations with many sites will require a systematic approach to risk assessment—one that allows top management to quantify risk in some way and compare approaches across multiple departments and types of programs. However, the majority of nonprofits are relatively small and will not require complex systems. Still, a routine of risk management helps improve program quality. Thus, all boards should ask what types of management practices are in place that help managers balance risks and consequences. (Remember, though, that the board should tread lightly when inquiring about risk assessment; you may create a culture that is too risk averse—and that is a major risk for any nonprofit. At the same time, you want to be sure the organization is prudent in identifying and preparing for the normal risks for doing business.)

So, board members must adjust their expectations to the size and scope of the organization, and ensure wide latitude for the executive to carry out the policy. The board's major concern is that some form of risk assessment is integrated into regular management practice—either as risk management, as a part of good program management, or however the executive sees fit to implement the policy.

For example, a child care center needs some regular way of monitoring its exposure to risk from children's behavior. In such a center, accidents, conflicts between children, and so forth, are probably reported as "incidents." Management may routinely (quarterly or annually) examine the reports and look for trends and consequences. For instance, among small children, biting may occur. The management would want to see how many biting incidents were reported, their severity, the impact on the quality of care, and other issues, and then come up with a plan to mitigate that risk—perhaps reducing the occurrence. The board, of course, should not get involved in this level of detail—but it should know about the ongoing effort and ask for evidence that these (or other risks) are planned for.

Some Organizations Use a Risk Matrix to Assess Levels of Risk:

Likelihood of Risk	Consequence of Risk				
	Minimum	Minor	Moderate	Major	Catastrophic
Almost Certain	Light	Light	Light	Dark	Dark
Likely		Light	Light	Light	Dark
Possible		Light	Light	Dark	Light
Unlikely			Light	Light	Dark

In the matrix above, the likelihood of any particular risk is rated on a range from almost certain to unlikely. The consequence of particular risk is rated from minimum to catastrophic. As you can see in the matrix above, a risk that is almost certain to occur but has few serious consequences needs little attention. This frees the organization to identify and mitigate risks that may be less certain but have greater consequences.

A childcare center for toddlers may expect that the likelihood of one child biting another is almost certain. The consequences of such an incident may be several—risks to clients, to finances, and to reputation. Yet in normal circumstances none of these are catastrophic risks, especially if the organization carries standard insurance. A good management program would balance the level of risk against its mission and the level of consequence it feels comfortable.

The matrix is valuable as a management tool as well. In the same example, the organization may look to ways to manage the risk by decreasing the likelihood from almost certain to likely or possible, which could be done by training staff to observe and manage conflicts sooner. Working from the consequence side of the matrix, the child care facility could manage reputational risks by educating parents about how to retrain biting behavior (in the process creating a reputation as an organization that doesn't just "baby-sit" but helps parents as well). Or it may change its insurance policies. Or it may set a policy that removes biters. Or it may simply decide that the consequences are at an acceptable level.



In this way, the risk matrix is very valuable. It helps management focus its attention on those issues that have higher consequences. It also helps management see that risk management has strategic benefits—it improves quality, may enhance reputation, and may even lead to the development of new services. To continue the example above, what if the organization’s new “biting reduction” program is so successful that it can export it to other day cares? What if it develops training programs for “parents of biters” that attract new funder interest? What if its success with biters draws a feature in the metro paper’s family section, generating lots of calls and a large enough waiting list to hire more staff?

As you can see, risk assessment offers the organization numerous and surprising opportunities to improve quality.

A big organization will need a formal, systematic, and possibly quantitative system, while a small organization may handle this through regular meetings. Very small organizations with hands-on “working” boards (who double as volunteer staff) may even see that the board does much of this work.

Boards don’t have to expect a risk matrix or see how it is applied. But they should expect that the organization routinely examines risk, whether formal or informal. The board should seek a risk management system that matches the complexity of the organization.



5.

Reduce Risk in Hiring and Volunteer Policies

Employment and volunteer policies are an area of great risk for most organizations, especially when those organizations deal with children and other vulnerable clients. For the board, this area relates directly to their fiduciary responsibility: Legal issues related to wrongful termination, discrimination, and so forth can suck up a lot of financial resources and damage the organization's reputation.

The board, of course, hires and fires the executive director, and so its own hiring practices must be beyond reproach. With regards to the executive director, the board should follow the same consistent, fair practices that it expects of the organization's staff. It should perform an annual performance review of the executive director and document the evaluation, and further should be frank throughout the year on any issues of concern regarding the executive director's performance. (For more information, see the Ten Things booklet, *Evaluating the Executive Director—Your Role as a Board Member*.)

Beyond the executive director, the board should ask for a legal review of the organization's employment policies, if this has not been reviewed in the past. Such policies need to be applied consistently across the organization. Furthermore, they should reflect the best interests of the clients and service you provide, especially when there are vulnerable clients involved, such as children, seniors, or developmentally delayed individuals. And they should meet any regulations or mandates from relevant funders and accrediting bodies.

Beyond consistency and legality, the board should consider some other questions: Are the policies clear and concise? Do they apply to all the different employment classifications throughout the organization so there is no discrimination? How are the policies communicated, and how does the organization promote consistency? How are managers trained to apply the policies? How is hiring done, and is it managed the same across the organization? Are there screening or other background checking procedures, and what are background check policies? Are the policies consistent with mandates and regulations that affect the organization (accreditation standards, for example)? What are termination procedures? Are they uniformly applied, to decrease the risk of getting sued for some sort of neglectful practice?

In even the most rigorous organization, employment issues arise. The board should find out how often these issues come up and what the particular challenges are regarding employment. For example, has the organization faced Equal Employment Opportunity Act claims? If so, how were they resolved and what will be done to reduce or avoid them in the future?

Though not employees, the volunteers that an organization relies on (including the board) are another source of risk. The board must expect that its staff will develop management policies for volunteer practices, just as it would for employee practices. States vary in their regulations regarding the liabilities organizations face for their volunteers and the protections the organization must provide. In general, the board should expect volunteer policies to be “light” versions of employment policies. Like employees, volunteers need to be selected, screened, oriented, and trained to their tasks. They need performance evaluations, and the opportunity to provide feedback to the organization. Sometimes, volunteers even need to be “let go” when their performance does not meet the needs of the organization. Policies should also determine what offenses will disqualify a potential volunteer from service and state how the rights of the applicant will be preserved. Furthermore, processes should be in place to verify the information applicants provide, including licenses they report having.

A few specific questions will help board members understand what policies relate to volunteers and how carefully they’ve been thought through. In general, how are volunteers used in the organization? How many have direct contact with clients, and to what degree? What happens if a volunteer is injured at the workplace? What rights does a volunteer have if she feels she has been treated unfairly? Can volunteers drive the organization’s vehicles?

6.

Ensure Staff, Client, and Visitor Safety

Safety is clearly within the realm of risk management. As with other risks, the board needs a general sense of the types of risks faced by staff, visitors, clients, and the community the organization serves. These risks vary widely from one organization to another, but include:

- Workplace violence
- Risks in the community (if the community the organization operates in is unsafe)
- Emergency preparedness
- Occupational risks of slips, falls, and other accidents
- Chemical risks
- Infection control and other medical risks

The annual risk management report should list the typical risks faced by the organization in these areas. The board should ask for a few specific examples as well as more general information. How frequently do safety incidents arise? How does the management team deal with them? Which managers are responsible for oversight of any mitigation efforts? What costs are associated with the actual events as well as with efforts to mitigate them?

There are also certain safety regulations that are legal requirements or mandates from funders and other stakeholders. These include safety regulations from OSHA, as a part of government or other funder contracts, and from unions.

Among nonprofits that serve vulnerable clients, safety protocols deserve special consideration. The board should expect its organization to have written protocols that are available for all staff. Any actual or potential abuse requires a uniform, consistently applied protocol for reporting that is consistent with federal and state laws.

A specific safety issue is related to the recent Sarbanes-Oxley act. This act helps protect “whistleblowers”—people who report suspected illegal actions by their organizations. It imposes criminal penalties for retaliation against whistleblowers. Your organization needs procedures for handling employee and volunteer complaints without real or apparent retaliation, even when the claims are unfounded. The board should check to be sure that there is a whistleblower policy in which staff can come forth and bring concerns without fear of retaliation. The message that staff may safely report suspected problems needs to come from the very top, and that message should include an explanation of the safeguards that are in place to support such reporting.

7.

Assess Risk in Facilities, Property, and Insurance

As a board member, you need to know about the nonprofit's facilities, whether they are owned or rented, and whether the organization is leasing property to others. Furthermore, you should expect the organization to have an inventory of its other property assets—not just the expected physical assets, such as computer equipment and vehicles, but intellectual assets, such as trademarks, copyrighted publications, and so forth.

Questions you might ask: What are our physical and intellectual properties? What are the related risks of damages to property, financial loss, injury to staff, visitor, or clients? What are our long-term operations, capital, and maintenance costs and how do these plant costs put the nonprofit at risk? What are the legal requirements related to the operations of the various facilities—for example, if food is prepared and offered? Do the facilities require on or off-site security, and if so, how is that provided? Who in the organization oversees these issues related to facilities? Over the past year, what sort of financial, maintenance, legal, safety, and other issues have arisen related to the facilities? How were these handled, and are any risk trends emerging that would suggest the need for new management policies and processes? The board should get an annual report on risk assessment—what's happened and how it was handled.

Facilities, of course, require insurance, but insurance as a risk management process is much greater than insuring your grounds. Here are the basic types of insurance that a nonprofit should consider¹:

Liability Insurance

protects the organization from claims alleging negligent conduct by the nonprofit, or its employees, volunteers or agents. Liability insurance types include:

- **Commercial General Liability**, which covers general liability such as bodily injury, property damage, personal injury, and advertising injury.
- **Business Auto**, either a business auto policy for any vehicles the agency owns, or *hired and non-owned auto liability* coverage to protect the organization when the person acting on its behalf has an accident.

¹ Adapted from Nonprofit Risk Management Center eNews, June 6, 2007, "What Basic Insurance Coverage Should a Nonprofit Consider?"

- **Professional Liability** protects your organization when professional duties of employees, volunteers or contractors are breached and damages result.
- **Sexual Abuse & Molestation** coverage for any organization with direct contact with clients.
- **Directors' and Officers' Liability**, which protects the organization, its directors, officers, employees, and volunteers for “wrongful acts” in governing and managing the organization.
- **Publishers' Liability and Personal Injury** should the organization publish newsletters, books or booklets, or marketing material that may put the organization at risk of libel, defamation, or trademark infringement.
- **Worker's Compensation**, most likely required by your state.
- **Umbrella or Excess Liability Policy**, which provide additional coverage above other policies.

Property Insurance

which covers the property (furniture, fixtures, office equipment and so forth) that the nonprofit owns; it might also include coverage of computers and electronic processing equipment. Types include:

- **Crime or Employee Dishonesty**, which covers theft by employees, and perhaps volunteers.
- **Business Owners Package Policy**, which combines general liability, property, and crime coverage in one policy.
- **Network Security and Liability Policy**, which covers a failure on the organization's part to prevent a third party from unauthorized access to the client data or other forms of electronic tampering.

Of course, depending on your nonprofit's field of work and the assets it holds, other types of insurance may be considered. The best approach is to find an agent or broker who is familiar with nonprofit risk and can help you analyze the best options for your organization.

The consideration of insurance is one part of an overall risk management plan—though it is a part where organizations can attach

measurable costs to the risks they face. The decisions on which insurances to buy flow from the risk assessment process, as insurance is a risk management and mitigation tool and this is an area where an insurance broker can help. Typically, someone in the organization—for example, its business manager—will have regular meetings with the insurance broker, and the two will work together to develop strategies to both reduce risks and the costs of insuring against those risks. If your nonprofit does not have a business manager, you should strive to establish a point person for regular communications with your broker. In small organizations, this may be a member of the board’s finance committee; in other organizations, it may be the executive, the human resources manager, or a similar person with an oversight role. Minimally, you should expect an annual review of insurance policies, to include a review of strategic growth plans, so the insurance broker can adjust policies. Ultimately this can reduce insurance premiums as your broker understands your mitigation efforts. Most brokers familiar with nonprofits also understand their cash flow issues related to grants, and can help you plan how to balance the cost of premiums over time.

8.

Plan for Records and Business Continuity

The Sarbanes-Oxley Act has intensified organizations' needs to have good, uniform, legal document retention and destruction policies that are followed consistently. If your organization lacks document retention and destruction standards, they can be found on websites, from lawyers, or other public sources. It's critical that the organization follow appropriate destruction policies so there is no privacy violation, and so that, should documents ever be required as part of a legal discovery process, you can either quickly produce them or show that they were destroyed consistently according to standard operating procedures. In addition to client, staff, and volunteer records, be sure that board minutes and bylaws are covered under such a policy. As with other matters that are largely up to staff to implement, the board should focus on how the policy is created and maintained, who is responsible for it, and how staff are trained to implement it.

Electronic records matter, so ensure that the policy addresses formal records and informal e-mails, provides for electronic storage, and appropriates adequate funds for such storage. Since electronic records are vulnerable to outside "hacking," the policy should cover this risk as well.

All records—physical and electronic—need to be managed so that the organization can access them efficiently and quickly when needed. In addition, the organization needs to have a disaster plan for backing up and protecting electronic and print records. The board can ask, if we have a fire, how will we recover the records? Do we have fireproof cabinets? Medical records rooms? What information is or should be saved off-site? What basic information do we need to keep safe all the time so that we can continue to operate even in emergency catastrophic situations? Have these procedures been tested via drills? Have there been past problems or violations? If so, what has been done to correct this? Which line item in the annual budget covers the financing for backup? Separate programs of the organization may need separate plans, since they may have different requirements and needs, so don't expect a uniform policy for all. For example, the HR department may need to save records by a different protocol than those saved by the development office or by program areas.

Solutions may not be complex or costly. In some cases, disaster backup may be as simple as laminated wallet cards given to each employee. It all depends on the type of work you do, the risks you face, and the vulnerabilities of the populations you serve.

9.

Require Backup Staffing Plans

Staffing, whether via employees or volunteers, is the heart of any nonprofit. Every nonprofit needs to have plans to backup up the executive, key staff, and key board positions. Furthermore, nonprofits need to be sure that cross-training is in place for these positions. (This is doubly important in financial positions, where cross-training and rotation of duties can help smaller organizations maintain good “fiscal hygiene” with regards to the organization’s assets.)

From the board’s perspective, risk management begins with asking the question, does management have a plan to back up staff who are suddenly unavailable? This naturally extends to the executive herself, for whom all organizations must have emergency backup. If your organization does not have such a plan in place for the executive, make it a first priority. (See First Nonprofit Foundation’s related booklet, *Ten Things Every Board Member Needs to Know—Sustaining Great Leadership: Succession Planning for Nonprofit Organizations*, which includes information on creating an emergency backup plan for the executive.)

But beyond the executive, organizations must examine every position to determine if backup is needed and if so, how it will be implemented. The board, of course, does not need to know the details of such a plan, but it should know that one exists and it should understand the work that went into it. Such plans will vary dramatically from one organization to the next, depending on the kinds of services provided, the type of regulations and accreditations it faces, and the mandates funders create.

Questions the board should ask: If the organization provides some service that requires minimum staff to client ratios, how does the plan cover those? If the organization is seeking large grants that require rapid hiring, does it have plans for how to handle and back up the new staff, as well as contingencies for layoffs when the grant ends? If the organization has few staff, are they cross-trained to handle emergency situations?

Other questions to explore: Has your auditor reviewed your organization’s internal financial controls to see that adequate segregation of duties is maintained? If the organization has few or no financial staff, are staff cross-trained so that appropriate checks and balances are in

place regarding the handling of money? If appropriate separation can't be maintained, are other options used, such as rotating staff financial responsibilities regularly to avoid fraud?

Does the plan include financial variations due to emergency backup? For example, if someone will be working more hours or in a situation that requires a different (and more expensive) risk coverage, does the plan account for that?

Finally, ask if the organization's insurance broker has reviewed the emergency plan to see if some policies might be in place to boost your protection. For example, some policies will provide for additional costs related to crisis management and public relations for a covered event.

10.

Create a Culture of Risk Management

The ultimate goal for any organization regarding risk is to create a culture wherein risk is routinely examined and managed simply as a part of doing good business.

But what does this mean in practice? Quality and risk management start at the board. This begins not by analyzing risk but by being sure that the board operates in an ethical manner. In fact, an ethical environment mitigates a lot of risks by promoting a sense of accountability.

It is worth revisiting here the three essential duties of a board (the duties of care, obedience, and loyalty) and one of the most important components of those duties—the avoidance of conflict of interest.

The Duty of Loyalty

means that the board member places the organization and its mission first, above his or her personal interest in being on the board. Board members must understand the mission and how the organization will carry it out. Board members may never use information about the organization for personal gain. They must always act in its best interest.

The Duty of Care

is the duty to be prudent when making decisions. This means that board members view themselves as stewards of the organization over the long haul, and make decisions with due consideration of their current and future impact on the organization. They attend meetings and collect enough information to make a good decision.

The Duty of Obedience

requires you to hold the organization's mission and its related goals first. Board members may not make decisions that are inconsistent with the mission. Boards have the public's trust that the organization will manage donated funds to achieve the mission.

Conflict of Interest

is related to these three; it occurs whenever a board member has a dual interest or the appearance of one. Typically, this is when a board member participates in a decision in which they have financial or other interests. An unaddressed conflict of interest violates the duty of care (prudent decision making); the duty of loyalty (placing the organization and mission above personal interest) and the duty of obedience (making

decisions consistent with the mission). Board members must disclose conflicts of interest and recuse themselves from decisions in which they have a conflict.

Some boards adopt ethical codes that go beyond these duties. Whatever your approach, be sure that board duties and ethics are understood, discussed, and brought up whenever the potential for transgression occurs. This is one of the ways the board sets the standard for ethical behavior and creates a culture of risk management. A further step is for the board to be transparent about its decisions and recommendations. Transparency does not mean that the board must disclose every discussion along the way to a decision. It means that the board gives a proper context for its decisions and recommendations. The board must expect this same level of transparency of its executive and managers.

Beyond ensuring that the board's house is in order, board members should ask the management team how it plans to build a culture in which risk is managed through transparent, ethical decision making. Managers can go far toward this goal when they:

- Build the concepts of risk management into program development and operations. With every program, there should be good control standards in place—ways of monitoring when problems occur and making continuous improvements to address those problems that threaten quality or expose the organization to risks beyond the organization's threshold.
- Hold regular conversations about risk management in the context of ethical practices and transparent decisions. What is management doing to be sure that ethics and topics of risk management are day-to-day practices?
- Set the tone for good practices among staff. For example, if the leader makes a mistake, is he or she transparent about it, the causes, and how the mistake will be remedied? Does management have an open door policy, so staff can come forth and say something without fear of retaliation? Does management welcome staff's challenges to decisions, when such challenges are brought in the best interest of the organization and its clients?

- Define and establish processes that clarify responsibilities and accountabilities at all levels of the organization. The board should see clear examples of such processes, and questions to management about them should result in concrete answers and examples, not vague explanations.
- Regularly monitor and report on indicators of risk and problems, including current and pending litigation, as well as indicators of success—improvements in prior problems, positive comparisons with similar organizations, and promising new practices.

From board to volunteer, risk management is everyone's business. In great organizations, everyone works together to provide better services by improving quality—which includes reducing risks. Transparent decision processes encourage this, as people feel comfortable noting and seeking help to improve problems. Such openness encourages people to see the problems that occur not as personal "faults" but as systemic issues in the organization which can be corrected by improving processes. And more often than not, such systems involve multiple departments.

A nonprofit that manages risk openly brings people together to solve problems and improve service. You'll know the culture is working well when all involved in the organization bring risks and challenges forward eagerly, appreciate efforts to monitor their work, and seek help in making improvements.

The creation of a culture of risk management and quality takes a lot of work and needs to be continually revisited—but it is well worth it.

Helpful Resources

- Nonprofit Risk Management Center (www.nonprofitrisk.org). Provides many publications and risk management tools.
- Public Entity Risk Institute (www.riskinstitute.org/peri/).
- National Council of Nonprofits (www.councilofnonprofits.org).
- Thompson Publishing (www.thompson.com/public/index.jsp). Focuses on a number of areas for federal grant compliance and internal controls.
- Alliance for Nonprofit Management (www.allianceonline.org). Includes a risk management link helpful to boards: (www.allianceonline.org/FAQ/risk_management/what_is_board_of_directors.faq).
- Primary Health Care Association: Clinical Risk Management Survey. Tool focuses on infection control, medication, credentialing, billing, and collections (one of the biggest sources of fraud), patient communication, medical, records, staffing, safety and security.
- HR risk management info and tools. (www.hrcouncil.ca/hr-toolkit/planning-risk-assessment.cfm)
- Health/Infection control tools and assessment (www.Osha.gov; <http://cdc.gov>).

About the Authors

KELLI SPENCER, author, is the Chief Corporate Compliance Officer for Heartland Alliance for Human Needs & Human Rights, a nonprofit organization based in Chicago. She has ten years of quality management and risk management experience with nonprofit organizations. Prior to working at Heartland Alliance she was a consultant for many local nonprofit community organizations.

HEARTLAND ALLIANCE for Human Needs & Human Rights helps people who are threatened by poverty or danger improve their lives and realize their human rights. For more than 100 years, it has been providing solutions - both through services and advocacy - creating paths from crisis to stability and on to success. Through its work in housing, health care, legal protections, and economic security, Heartland supports more than 200,000 people annually, helping them build a better future.

VINCENT HYMAN, coauthor and series editor, is an award-winning writer, editor, and publisher. After leading the development of the nonprofit publishing center at Amherst H. Wilder Foundation and the publishing program of Fieldstone Alliance, Inc., he founded Vincent Hyman Editorial Services, with expertise in nonprofit management, foundation effectiveness, policy, marketing, and related issues. He is editor of scores of books, coauthor of *Coping with Cutbacks: The Nonprofit Guide to Success When Times Are Tight*, author of numerous web and print articles, and has three decades of experience in writing, editing, and organizational communications.



111 North Canal Street, #801

Chicago, Illinois 60606

800.526.4352

Fax: 312.930.0375

www.firstnonprofit.org