HOW TO INCORPORATE YOUR RISK PROFILE INTO YOUR ORGANIZATIONAL CULTURE

Setting a risk profile at the board level is a critical first step in establishing a funder's risk culture. But like all organizational values, foundation leaders need to take deliberate steps to implement and live those values throughout all levels of the organization. By taking steps to incorporate your risk profile into your organizational culture, funders can not only align standards, but also embrace risk as a pathway to learning. Establishing your organization's risk profile and adopting risk-related tools are critical first steps. However, to truly learn from risk and failures, you will need to make risk management part of your daily practice and grant making. This document provides some ways to do so.

1. **Make sure your organization has established a clear risk profile.** Refer to How to Talk About—and Determine—Your Appetite for Risk, which provides a list of discussion questions to help your board clarify its risk profile. Then use How to Create a Risk Profile Statement to draft a customized risk profile for your organization to circulate among staff members and use to train new employees.

2. **Hold regular conversations with board and staff members.** Emulating a common practice among doctors who gather every Monday morning to discuss the past week's failures and mistakes, funders should institute regular conversations about risk and failure to keep the topic front and center. Main topics may include: the foundation's core values, its risk appetite (overall or within distinct programs), the right balance between risk and reward, the benefits of taking certain risks, and opportunities to learn from failure.

3. **Communicate your risk culture to external stakeholders.** Consider posting your risk profile statement on your website and include it in RFPs to help potential funder partners and grantees gain a better sense of whether you are a good match. In addition, existing grantees may value this indirect guidance on when to communicate about challenges and what new investment opportunities may be appealing to you.

4. **Include risk in your RFP and M&E processes.** Asking a risk-related question of potential grantees in an RFP paves the way for a transparent conversation about risk, and the applicants' responses will help you assess whether a mutual fit exists. (See How to Incorporate Risk Management into RFPs and Grant Application Forms for more specific guidance and sample language.) Program officers should also share risk assessments with the board when writing a summary for the grant docket to make risk a regular conversation between staff and board members. This is also a good test of whether you as a funder are actually working in a way that is aligned with your intended risk profile and approach.

5. **Don't penalize program officers if a grant fails.** Offer incentives to your staff members for taking smart risks (in line with your profile) and embracing full or partial failure as actionable learning opportunities. Create space and opportunities for your program officers to discuss the good, bad, and ugly of their experiences in their monitoring reports and status updates. Structure your grant reports such that you do not overly focus on the past but instead seek to draw lessons that can be directly applied to future projects. See How to Incorporate Risk Management into Monitoring and Evaluation for more specific guidance and sample language.

6. **Discuss risk management in annual performance conversations with staff members.** Staff members should be rewarded for taking smart risks, applying your risk profile to investment recommendations and decisions, practicing good risk management with their grantees, exercising good use of contingency resources, and taking advantage of opportunities to learn from failure. Consider identifying specific key performance indicators for employees that are related to your risk profile and intentions.

TOOLS FOR RISK MANAGEMENT

While establishing a risk profile and incorporating it into your culture is a critical first step, without the appropriate structures in place to manage existing risk, the intentions of an organization's risk profile become moot. In other words, if one lacks the capacity to identify and manage risk, one can never actually take risk. Because risk is inherent in philanthropic work, mitigating risk is a best practice for all funders, requiring effective policies and tools. With these policies and tools in hand, funders will be able to position themselves to take, in the words of Dr. Judith Rodin, the president of the Rockefeller Foundation and co-convener of the Commons, "smarter risks rather than safer bets."

Risk management is the implementation of specific policies or procedures designed to either reduce the likelihood that a certain risk event will occur and/or to reduce the potentially harmful effects of that event should it occur. Like monitoring and evaluation, risk management is an ongoing process.

The risk management process includes the following four steps, which are also illustrated in the graphic on the following page.[5]

- **Risk assessment:** Identifying, evaluating, and prioritizing among risks based on likelihood and potential consequence
- **Risk mitigation:** Determining and taking steps to manage identified risks
- **Contingency planning:** Developing alternative plans in the event that the unexpected or unpredictable happens
- **Risk monitoring:** Determining processes that can actively monitor known and new risks as they arise

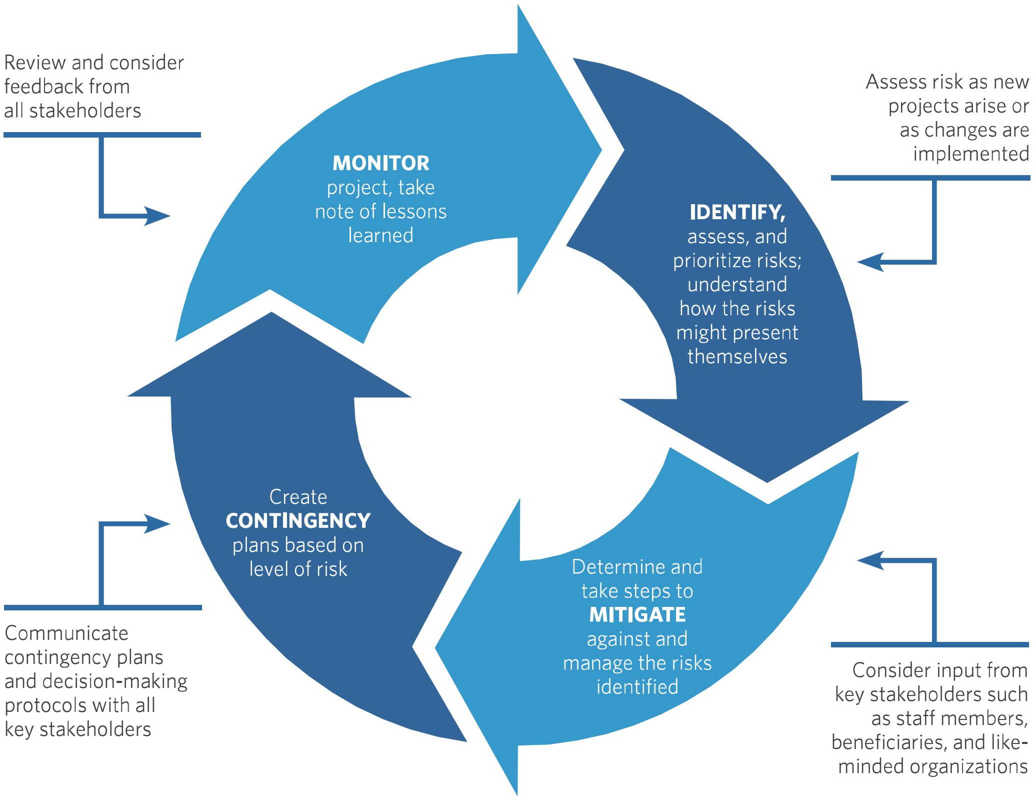
The Commons focused its thinking on managing for risks that affect impact rather than for legal or financial protection. As such, the tools that follow are specifically geared toward the grant-making process and funder-grantee relationship, rather than considerations that are internal to a foundation alone.

Risk Assessment at St. David's Foundation

St. David's Foundation developed a risk assessment matrix to track its grantees' operational and financial risks. The matrix scores grantees on factors such as: grant amount as a percentage of the grantee's annual budget; existence of other funding for the program; availability of recent audited financials and financial backup; board competence and stability; and staff expertise. After scoring grantees, St. David's Foundation categorizes them as being low risk, some risk, medium risk, or high risk. In addition to determining an overall level of risk, the matrix also identifies the specific risk factors for each grantee. By assessing risks this way, the foundation can minimize surprises and be proactive in helping grantees mitigate risks in advance when possible. A tool of this sort is ideal for donors who know their partners relatively well – for instance, St. David's Foundation typically attends at least one grantee board meeting per year.

[5] Variations on this cycle have been studied and documented widely. The graphic is adapted from the Charity Commission's "The Risk-Based Approach," 2011.

The Risk Assessment Cycle



ADAPTED FROM THE CHARITY COMMISSION

There are many available tools that help organizations identify and assess risks, such as the PESTLE framework or SWOT analysis. Given this, the Commons focused on developing tools to assist in the risk mitigation and contingency planning phases of the risk management cycle. These topics include funder/grantee communications, project budgets, RFPs, governance structures, monitoring and evaluation processes, etc. Funders can use the following tools at every stage in the grant-making cycle.