



HOW TO CREATE A RISK PROFILE STATEMENT

A risk profile describes the amount of risk, on an organizational or programmatic level, that a funder is willing to accept in pursuit of its goals. Funders should draft risk profile statements and circulate them internally so that staff members may align themselves to the risk culture of the organization. Funders may also consider publishing their risk profile on their website and including it in RFPs and grant application forms, so that external stakeholders can understand how well their work aligns with the funder's stance on taking risk.

What follows is a template outline that funders may consider as a starting point for statement. In general, a profile statement should begin with an overall statement of risk appetite, followed by relevant considerations on specific types of risk. Funders can use this tool to develop an organization-wide risk profile statement, or program-specific risk profile statements, should they have programs with different risk appetite levels.

The Commons has also developed a complementary tool, [How to Talk About—and Determine—Your Appetite for Risk](#), which funders may wish to refer to when determining their risk profile.

Risk Profile Outline

Statement of Overall Risk Appetite

This brief paragraph should provide a general overview of the funder's or program's risk appetite. Based on discussions that ensue from the conversation guide, executive directors and boards should have a sense of how risk-taking or risk-averse their organization or program is, and through which types of investments they are most comfortable pursuing their objectives. In this section of your risk profile, consider including the following information:

- Where you, as a funder or program, fall on the risk appetite spectrum
- The goals of your organization or program and during what period of time
- Which categories of risk you are most concerned about
- The percentage breakdown of your grant-making portfolio in terms of high-, medium-, and low-risk grants
- Circumstances in which you are comfortable with failure

Sample Language from Funders

Through its own research, the Commons saw funders use the following language:

- We are very comfortable with risk. Foundations have “creative capital” and can test solutions that others may be afraid to try.
- We are comfortable with risk in the sense of new programs, start-up organizations, and funding something where results may be hard to see (leadership skills in youth, for example), but we want some evidence based on facts that what we are doing has a good chance of success.
- We think we should mitigate risk. There are enough good organizations and needy endeavors that have fairly certain outcomes.
- We want to avoid risk altogether. This is not our money and we have the obligation to ensure every dollar achieves its goals.

Statements that Address Specific Types of Risk

Financial Risk

In describing your organization's or program's approach to financial risk, consider including the following information:

- Describe your budget and other policies regarding contingency funding for unforeseen roadblocks that occur during project implementation
- Define the percentage or amount by which you are willing to exceed your annual budget to provide contingency funding⁴
- Describe your level of willingness to invest in new organizations or projects
- Describe your level of willingness to invest unilaterally or as a first funder
- Describe where financial risk ranks in importance among other types of risk

Reputational Risk

Consider including a few sentences about your organization's or program's approach to reputational risk:

- Describe how you think about your reputation in relation to your grantees, the community within which you operate, and/or via other filters
- Describe when your reputation may affect your actions, and if so, how
- Describe the risks that you believe would damage your reputation, and what the consequences would be
- Describe where you are willing to risk possible impact to your reputation
- Describe where reputational risk ranks in importance among other types of risk. Consider the statement: "I'd rather lose face than..."

Governance Risk

Consider including a few sentences about your organization's or program's approach to governance risk:

- Describe what considerations of a grantee's governance are most important to you for achieving impact (e.g., organizational structure, conflicts of interest, ability to provide reporting, strength of the board)
- Describe where governance risk ranks in importance among other types of risk
- Describe under what circumstances you are willing to invest in a grantee that has poor governance structures and the extent to which you are prepared to help the grantee improve its governance structure through financial or non-financial means

⁴ Some funders may not want to share a specific percentage of contingency externally, but the Commons encourages funders to establish this percentage internally.



Impact Risk

Whereas the above risks focus primarily on risks to the foundation, impact risk refers explicitly to risks that could affect intended impact. Impact risk can occur both at the project and portfolio level. Consider these guiding questions to draft a few sentences about your organization's or program's approach to impact risk:

- Describe where impact risk ranks in importance among other types of risk
- Describe under what circumstances you are willing to invest in a higher-risk project for the chance to achieve greater impact
- Describe how far you are willing to go to ensure impact
- Describe your approach to innovation and learning