



HOW TO TALK ABOUT —AND DETERMINE— YOUR APPETITE FOR RISK

Risk is a core component of innovation, learning, and continuous improvement. By fostering reflective conversations about risk internally, foundations will be better positioned to mitigate and minimize undesirable risks. They will also be better able to take risks that could result in outsized impact, to ascertain lessons from less successful grants, and to contribute to improving philanthropy's discourse about risk by sharing their experiences.

As a first step to assessing risk appetite, funders should have internal conversations to better understand how they define and perceive risk from cultural and operational perspectives. These conversations are best positioned to begin at the board of directors or executive level. While this conversation can often be facilitated internally, an organization may consider bringing in a neutral facilitator if the conversation is expected to surface conflicting perspectives on what the foundation is and should be doing in terms of taking risk.

Below is a list of considerations and set of guiding questions designed to support such a discussion. Ideally, board members should discuss these questions and highlight where consensus and disagreement exist. As an outcome of this discussion, funders should be able to determine where they align on a risk appetite spectrum by matching their answers to the risk-profile descriptions below. Additionally, in examining their past practices, funders can identify their own areas for improvement when it comes to taking or mitigating risks in the service of impact.

Considerations Affecting Risk Appetite

<p>GENERAL ATTITUDES TOWARD RISK</p>	<ul style="list-style-type: none"> • How does our organization define risk? • When should we take risks, and when shouldn't we? • Are we more concerned about losing money, losing face, or losing opportunities for greater impact? • How willing are we to partner with organizations that lack clear strategic plans, have trustees with minimal experience, lack a clear organizational structure, or pose another governance risk? • How willing are we to associate our name with a grant, project, partnership, or approach that might be seen as controversial or reflect poorly on us?
<p>ATTITUDES TOWARD INNOVATION & FAILURE</p>	<ul style="list-style-type: none"> • Do we prefer to invest in innovative or tried-and-true methods? • Do we prefer to invest in new organizations or those with longer track records? • How comfortable are we investing in geographies that are new to our grantee? • What is an acceptable failure rate? What does failure mean to us? • How do we respond as a funder when one of our grants fails?
<p>RISK PROFILE OF EXISTING PORTFOLIO</p>	<p>Looking at grants over the past three grant cycles or years:</p> <ul style="list-style-type: none"> • What percentage were high-, medium-, or low-risk grants? • What percentage went to start-up organizations or pilot projects, and what percentage went to established organizations or ongoing projects? • What percentage of grants failed? (Hint: If the answer is zero, you may not be getting the full picture of your grants.) • Does our grant portfolio over the past three years match what we believe is our ideal risk profile? If not, why not?
<p>BUDGET FLEXIBILITY</p>	<ul style="list-style-type: none"> • How often have we exceeded our annual grant-making budget due to unexpected events? By how much? • Under what circumstances are we willing to provide additional off-cycle funding to projects in our portfolio due to unexpected events? Does this appetite level change for what we perceive as high- or low-risk grants? • Do we (or do we plan to) set aside contingency resources at the project or portfolio level?
<p>INTERNAL & EXTERNAL COMMUNICATIONS</p>	<ul style="list-style-type: none"> • How often do our board and staff discuss risk management, failure, and the trade-offs between risk and reward? • Do we communicate our risk profile openly among staff or external audiences such as potential grantees? • Do we ask about potential risks in RFPs and grant applications? • How willing are we to facilitate open conversations about risk with applicants before and/or during a grant? • How willing are we to work with applicants and grantees to mitigate risk before and/or during a grant?

DETERMINATION OF RISK APPETITE

Risk Appetite Spectrum

To help funders and the community at large determine their risk appetite, we have developed a basic spectrum, outlined below.

HIGH RISK TAKING	<p>If your answers demonstrated a higher willingness to take risks and learn from failures, then you are likely a high-risk-taking organization. Innovation is critically important to you, even if it means occasional failure, financial loss, or loss of face. You are willing to exceed your annual grant budget due to unexpected events to ensure that your projects yield high social impact returns, which in turn allows you to take greater risks. Your organization likely believes that taking risks is essential to achieving social change, so you make sure your portfolio includes high-risk grants with commensurately higher returns. A relatively high percentage of your grants supports new ideas or start-up projects, and you are well-suited to invest in new and innovative nonprofits that may have a longer time horizon for impact.</p>
MODERATE RISK TAKING	<p>If your answers tended to waver between high-risk and low-risk approaches, you are likely moderate when it comes to risk taking. You probably believe that taking occasional risks can yield greater impact, but only when balanced by other long-term, established projects. You are sometimes willing to exceed your annual grant budget when the likelihood of impact is greater than the potential for risk. Your portfolio likely includes a balance between first-time and repeat grants, and you might be willing to fund a small percentage of higher-risk projects, with most of your grants focusing on proven organizations or established projects with shorter timelines. You recognize that in focusing on tried-and-true, shorter-term projects, you may be forfeiting potentially greater impact from longer-term or riskier endeavors.</p>
LOW RISK TAKING	<p>If your answers demonstrated a desire to make conservative decisions in pursuit of your goals, you are likely a low-risk-taking organization. Stability and proven methods/organizations are very important to you as you seek to achieve impact. You likely prefer not to associate your name and reputation with an unproven idea or controversial program. Fiscal conservation is important to you and thus you tend to remain within your annual grant budget, and you are less likely to fund first-time projects or younger organizations whose methods are not yet proven. You may be most comfortable funding short-term projects that you can easily oversee. Your portfolio may consist mostly of repeat grantees whose level of impact is proven and where the likelihood of disruption is minimal, even if that means forfeiting opportunities for greater impact with alternate, less proven endeavors. Leaders of your organization may be less comfortable fostering conversations about risk.</p>