



# **RISK MANAGEMENT: A PRIMER**

**Risk is the likelihood that an event will occur that will cause an undesirable effect. Risk management refers to steps taken to try to prevent that event from happening or from causing damage.**

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Perception of risk is relative and subjective. It lives in the eye of the beholder.

As a process that is used to protect what you care about, in the philanthropic sector, risk management traditionally focuses on protecting assets and reputation. One thing it has traditionally not been used for is a deliberate process to protect impact. Because ‘risk management’ doesn’t mean one thing, it is important to define what you mean and what you are talking about when using this term.

**This guide includes the four most common uses of the term ‘risk management’ in the philanthropic sector.**

-  **Legal Compliance**
-  **Safety & Security**
-  **Financial Best Practices**
-  **Ensuring Impact**

# **ASSESS RISK WITH TWO QUESTIONS**

Will it happen?

Will it hurt?

# RISK MANAGEMENT: LEGAL COMPLIANCE

The term 'Risk Management' is sometimes used as a synonym for legal or tax compliance.

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## HOW IT IS USED

“Oh yes, we have a robust risk management process. Every grant goes through a 20-point risk management checklist approved by our legal counsel before approval/disbursement.”

## WHAT IT REALLY MEANS

Are you following all the legal, accounting, and tax rules - including internal rules, policies, and procedures? Are you taking steps to avoid non-compliance?

## WHY IT MATTERS

Legal and tax rules for foundations (and nonprofits) are numerous and complicated. Failing to comply with rules can carry significant financial or legal penalties, so ensuring that all your ducks are in a row is important.

## WHO USES IT

Legal and accounting professionals; boards, foundation/nonprofit leadership, auditors

## WHAT IT COVERS

Legal, tax, and internal policy matters such as:

- Is their 501c3 status up to date?
- Will we meet our 5% distribution requirements set forth by the IRS?
- Does this conflict with federal restrictions on lobbying?
- Did they submit their mid-year report, prior to receiving a second disbursement?

## LEARN MORE

- Commonwealth Fund: [High-performing foundations: The role of risk management](#)
- Charity Commission: [Charities and risk management](#)
- Stanford University: [Integrating capacity and strategy: A handbook](#)

# RISK MANAGEMENT: FINANCIAL BEST PRACTICE

The term 'Risk Management' is sometimes used as a synonym for proper financial accounting and/or financial best practices, often connected to building financial resilience.

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## HOW IT IS USED

“To ensure sustainability and growth, it’s important that nonprofits engage in robust risk management practices.”

## WHAT IT REALLY MEANS

Are you following financial best practices? Are you taking steps to prevent financial distress and ensure financial resiliency?

## WHY IT MATTERS

If there’s no money in the bank, you can’t do what you want to do. It’s important to make sure that as a nonprofit or foundation you are taking steps to protect your financial position and ensure a healthy financial future for the organization.

## WHO USES IT

Accountants, CFOs, boards, foundation/nonprofit leadership, auditors, banks and other finance organizations

## WHAT IT COVERS

Financial practices that either help avoid financial distress and/or help ensure financial prosperity and resiliency, such as:

- Creating and managing cash reserves, including ‘cash on hand’
- Looking at financial ratios such as unrestricted to restricted assets; assets to liabilities; etc.
- Implementing controls to prevent fraud or other financial mismanagement
- Managing fluctuations in FX rates

## LEARN MORE

- Oliver Wyman; Marsh & McLennan; SeaChange Capital Partners: [Risk management for nonprofits](#)
- Institute of Risk Management: [Risk management for charities getting started](#)
- Nonprofit Finance Fund: [An exploration of nonprofit budgeting series](#)

# RISK MANAGEMENT: SAFETY & SECURITY

The term 'Risk Management' is sometimes used as a synonym for taking steps to ensure the physical security and safety of people working in hazardous environments.

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## HOW IT IS USED

“In the face of both known and unforeseen variables, international humanitarian organizations need to adopt new risk management strategies in order to manage these types of threats and carry out day-to-day operations when full access may not be possible.”

## WHAT IT REALLY MEANS

Are you taking appropriate steps to ensure the physical, mental, emotional, and digital safety and security of the people connected to your work?

## WHY IT MATTERS

For organizations working in places with a higher likelihood of violence, harsh environmental conditions, or other factors, ensuring the safety of their staff and their stakeholders is paramount.

## WHO USES IT

Nonprofits (particularly those working in more 'dangerous' settings), boards, insurance professionals, foundations

## WHAT IT COVERS

Best practices designed to ensure the safety of people and prevent physical harm, such as:

- Creating and maintaining a security fund exclusively for security-related emergencies
- Creating and enforcing policies related to ethical conduct in the field
- Ensuring appropriate staff training, insurance coverage, rapid-response capacities, etc.

## LEARN MORE

- Relief International: [Risk management in fragile settings: A toolkit](#)
- InterAction: [Managing risk in international and NGO partnerships](#)

# RISK MANAGEMENT: ENSURING IMPACT

**Open Road uses the term ‘Risk Management’ as a synonym for taking steps to maximize the likelihood of achieving impact. We encourage a practice of Risk Management that prioritizes protecting impact and looks at all the things that could derail a project between the moment funding is received and the moment that impact is achieved.**

## HOW IT IS USED

“Funders need risk management practices to help grantees overcome roadblocks that could negatively affect the intended impact of a project.”

## WHAT IT REALLY MEANS

Are you taking appropriate steps to minimize the loss of impact in the inevitable case when the unexpected occurs during the period of the project implementation? This could include all three types of risk described above, but also includes many other categories of risk that are not discussed above.

## WHY IT MATTERS

This is a critical area for philanthropy, as risks to impact are risks to our reason for existence. To maximize impact and protect our investment, we need to be able to plan for, mitigate, and manage obstacles that come up during program implementation.

## WHO USES IT

Foundations, Program Officers, M&E Professionals, nonprofits, Open Road Alliance

## WHAT IT COVERS

The full risk management cycle with a focus on ‘what could happen that derails impact?’

- Identifying and assessing risks to impact both during the application process and throughout the life of the project
- Implementing mitigation strategies throughout the life of the project
- Budgeting for contingencies
- Tracking risks (i.e. what goes wrong), in the same manner, we track impact (i.e. what goes right)

## LEARN MORE

- Open Road Alliance: [Risk in philanthropy: A framework for evaluation](#)
- Open Road Alliance: [Risk management for philanthropy: A toolkit](#)
- KnowHow Nonprofit: [How to complete a risk assessment](#)

