

Risk Management Part 2



Hello. Welcome to this e-learning session on Risk Management, brought to you by Columbia Basin Trust, and presented by Vantage Point.

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Carol Neuman

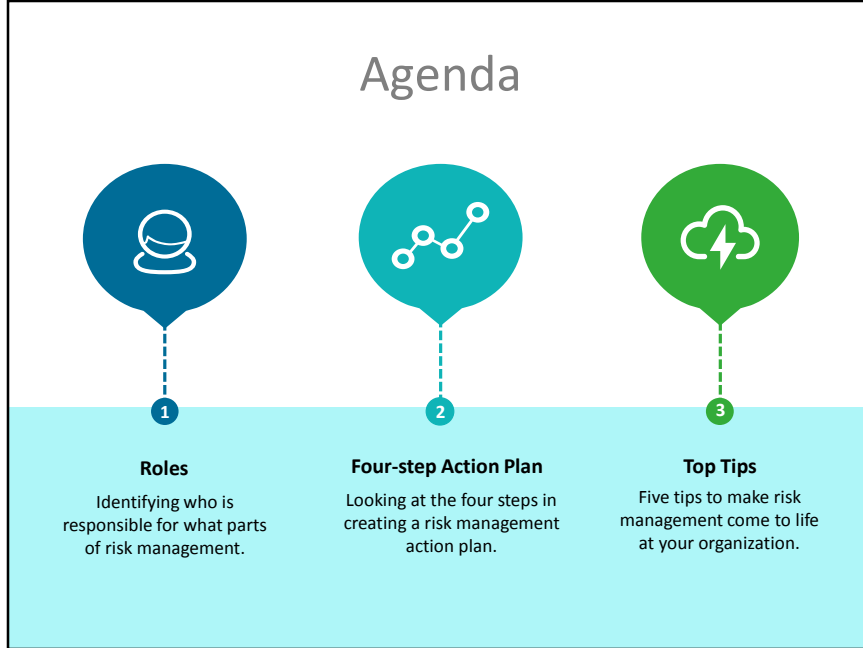
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My name is Carol Neuman and I'm the Director of Learning at Vantage Point.

Vantage Point is a not-for-profit organization that supports other not-for-profits by providing foundational, advanced, and online learning opportunities. We work with more than 500 organizations and nearly 3000 not-for-profit leaders across BC.

Today, I'll be your e-learning facilitator and I will be providing you with some tips and tools to support you in following risk management best practices.

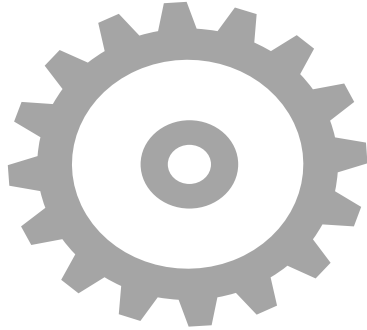


In this e-learning, we will continue to explore the fundamentals of risk management.

We will start by briefly reviewing the role of staff and board when it comes to managing risk. Then, we will look at the four key steps of creating a risk management plan. Finally, we will wrap up by providing a few tips to keep you on track with managing risk.

Let's get started!

Risk Management



Board Responsibilities

- Holds the legal liability for the organization's activities
- Creates risk management policies & procedures
- Approves plans and goals and monitors results
- Leads the whole organization to review and identify risks
- Determines the organization's appetite for risk

If you joined us for previous e-learning modules on board governance, you may remember our discussion of the differences between the role of the staff – leading operations and the role of the board – providing governance and oversight. The same division applies to risk management.

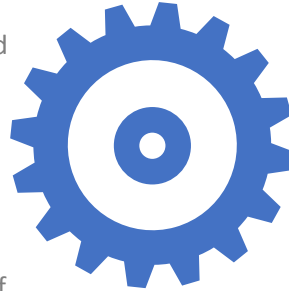
Ultimately, risk management is a board responsibility as it forms a core part of governance and oversight. What's more, the board carries much of the legal responsibility of the organization. Because of this, you should expect your board to:

- Create risk management policies and procedures, and ensure that risk management plans are put into action.
- Approve plans, budgets and goals for the organization, and throughout the year, monitor financial results.
- Lead conversations with staff and key volunteers to review and identify risks.
- Determine the organization's appetite for risk.

Risk Management

Staff responsibilities

- Receives risk management priorities from board
- Supports board in developing and executing risk management plan
- Operates within the scope of policies and bylaws
- Ensures insurance policies and relevant records are accurate, sufficient and up-to-date
- Ensures adequate training of staff and volunteers



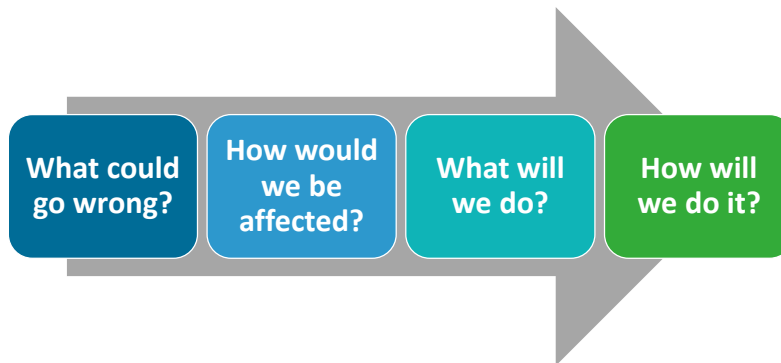
The operational side of risk management is carried out by staff, if you have them, or volunteers.

Your leadership staff person will:

- Receive risk management priorities from board
- Support board in developing and executing risk management plan
- Operate within the scope of policies and bylaws
- Ensure insurance policies and relevant records are accurate, sufficient and up-to-date
- Ensure adequate training of other staff and volunteers

While it is important to understand the different roles staff and board can play, I want to emphasize that risk management is an ongoing activity that will involve every level of your organization. There is a role to play for volunteers, as well as staff and board members.

Creating Your Risk Management Action Plan



Now, let's turn your attention to the risk management action plan.

An action plan is like a roadmap. Without a roadmap, staying on top of risk management can feel overwhelming or confusing. How will you know which steps to take or in which direction to go if you don't know where you are right now or where you want to end up? Your risk management action plan will help you get clear on that.

The great news is that creating a strong action plan is pretty straightforward. It begins with getting clear on four core questions:

1. Identifying risks: What could go wrong?
2. Assessing risks: How would we be affected?
3. Controlling risks: What will we do?
4. Identifying actions: How will we do it?

We will look at each of these one by one and focus on the types of conversations you'll want to have and actions you'll want to take at each step. We will work on a sample plan for a fictional organization to show you how each step works.

Step 1: Identify the risks

Key question: What could go wrong?

- Think about which staff, board, professionals or volunteers you will engage to identify possible risks
- Start with a set of questions or areas to scan

At Step 1, your goal is to look for all possible risks to your mission. Really think about the question: “What could go wrong?” Here, the goal is to create a long list – you’ll get a chance to prioritize risks later in this process.

To identify risks, it may be helpful to reference your operational or strategic plan, if you have one. Think about the kinds of risks that are preventing you from achieving your objectives – the risks that might be keeping you awake at night, or opportunities that you would like to explore but can never get to because you are too busy dealing with urgent matters. If your organization does not have a strategic plan, then a suggestion for organizing your efforts in identifying risks is to address the general categories we looked at in Part 1 of this e-learning, which are:

1. People-related risks around recruitment and training, skills and program delivery.
2. Property-related risks connected to equipment, assets and facilities;
3. Financial risks including loss of funding, decline in membership, decline in other revenues, mismanagement of funds, weak cash flow, failure to diversify revenue sources;
4. Risks to goodwill or your reputation in the community.

You may decide on other categories also. The important thing is that you want to review risks affecting the entire scope of your operations, so try to be as comprehensive as you can and cover all the activities your organization is responsible for. List as many risks as you can think of.

Tots and Trails: Risk Management Plan				
	Possible risks	Top Ranked Risks	Our Strategy	Next Steps
People	Injuries or accidents; poor volunteer screening or training; parents suing the organization; staff grievances; board negligence			
Financial	Insufficient funding to deliver programs; weak financial policies or controls; lack of financial training for staff; uncertain funding sources			
Property	Equipment broken or not well maintained; vehicle accidents; natural disasters; theft of equipment; misuse of equipment			
Goodwill	Negative news story; false rumours; negative client or volunteer experience; disgruntled board member; funders unhappy			

Now let’s look at the risk management plan for Tots and Trails – a fictional organization that delivers outdoor education programs for youth.

In step one, leaders from Tots and Trails will work on filling out the first column titled Possible Risks. Again, the board and key staff will think about risks as they relate to the categories of people, finances, property and goodwill. Let’s assume that leaders from Tots and Trails have had a great conversation to identify all the possible risks their organization faces.

When it comes to people, leaders at Tots and Trails are concerned about a number of possible issues:

- Participants getting injured or having accidents while taking part in the program,
- Poor volunteer screening or training that leads to programs not operated correctly,
- Parents suing the organization for a major issue involving their child,
- Staff grievances about how the organization is run,
- Or, board members not fulfilling their roles of oversight and governance, leading to challenges fulfilling the organizational mission and vision.

For financial risks, leaders identified risks as:

- Insufficient funding to deliver programs,
- Weak financial policies or controls which open the door to poor record keeping, inaccurate reporting or even fraud,
- Lack of financial training for staff,
- And uncertain funding sources.

Property risks could include:

- Equipment that is broken or not well maintained,
- Vehicle accidents when traveling to outdoor program sites
- Natural disasters, like mudslides, which would prevent program delivery
- Theft or misuse of equipment.

And finally goodwill or reputation risks might be:

- A negative news story;
- Someone spreading false rumours in the community;
- A negative client or volunteer experience;
- A disgruntled board member;
- Or, funders that are unhappy with program results.

Step 2: Assess the risks

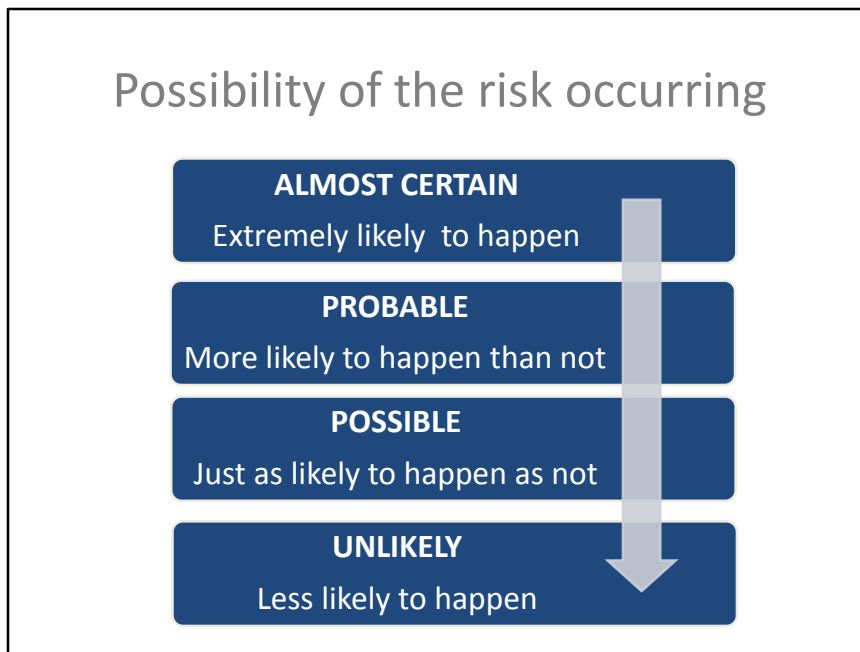
Key question: How would our organization be affected?

- What is the likelihood of this occurring?
- What would the consequences be?

Now let's look at Step 2. This is when you assess the possible risks you identified for your organization. The key question to ask is: "How would our organization be affected?"

We'll break that down further by looking at your identified risks to figure out what is the likelihood of the risk happening, and what would the impact or consequences be for the organization if it did occur.

I'll highlight that thinking about these questions as a team – ideally with the board and senior staff working and talking together – can be a valuable part of this exercise.

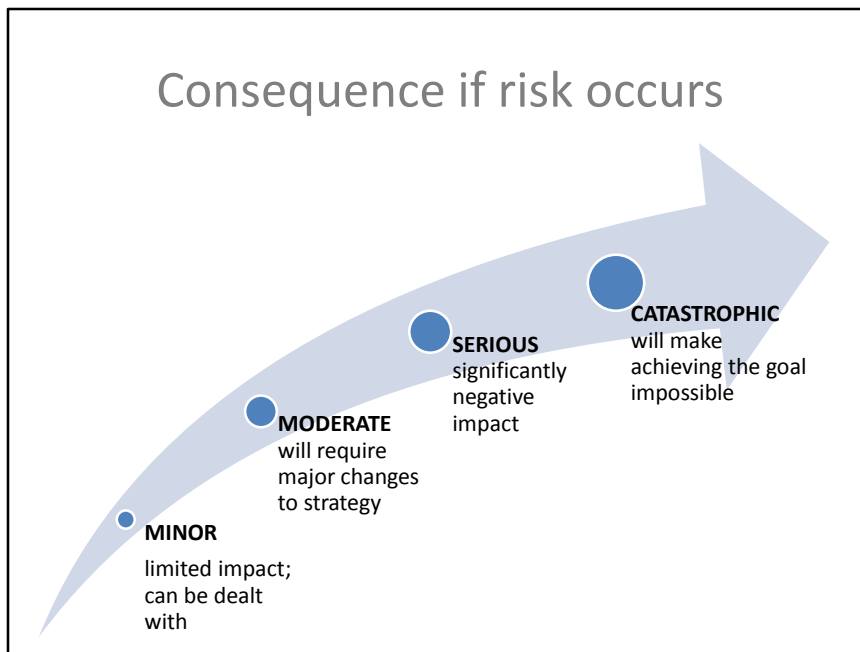


For each of your identified risks, think about how possible or likely it would be for it to happen. You can think about this as having four levels:

- Almost certain: extremely likely to happen
- Probable: more likely to happen than not
- Possible: just as likely to happen as not
- Unlikely: less likely to happen

Before your team assesses the possibility of each risk happening, try to make sure everyone has a common understanding of what is meant by each level. Talk about these levels first, and try to use some fictional examples to help people get comfortable in assessing risks.

You may want to have each person doing the assessment assign a numerical score to each risk based on how likely they think it is to occur. Risks that are almost certain to happen would get 4 points, probable would get 3 points, possible would get 2 points and risks that are unlikely would get 1 point. Then, you can tally up the results and see which risks were rated as most likely to happen, and which were deemed least likely to happen. Then, spend time discussing why everyone assigned their rankings.



And now, again thinking about each identified risk, assess what the consequence would be if the risk occurred. The spectrum of consequences goes from minor to catastrophic. Let's look at each level:

- Minor means that if the risk happens, it would have a limited impact on your program or project, and this can easily be dealt with through changes to your project or program.
- Moderate means that the risk will affect your program in a serious way and to deal with this, you will need to make some relatively major changes to your strategy or program delivery. But, you will be able to deal with it.
- Serious means the risk happening will very significantly impact your project or program. It may not be possible to meet all of your goals.
- Catastrophic is the most significant. When catastrophic risks happen, it means it is impossible to meet your goals and there may be a very serious negative impact to your organization overall.

To assess the impact of a risk, consider all the possible consequences and impacts, some of which might not be obvious. Let's think about the example of delivering one of your programs to a different community. One of the risks may be that you're unable to communicate the impact of your work to funders in the new community. An obvious consequence of this could be a reduction in funding; a less obvious consequence may be that your staff become disheartened and lose focus because they can't see the difference they're making.

Similar to the way you assessed the possibility of risks, before your team assesses the impact of risks, try to make sure everyone has a common understanding of what is meant by each level of impact. Assigning a score to this might be helpful. You might ask people to give 1 point to the risks they see as minor, 2 to moderate risks, 3 to serious risks and 4 to risks that are catastrophic. The conversation about why and how people did their rankings can reveal a lot about their understanding of the risk.

Identifying Top Ranked Risks

6 points or more: Top risks

4 or 5 points: Medium risks

3 points or less: Low risks

Now, it's time to pull it all together. The graphic on screen shows you a way of bringing together the ranking and assessment done in the previous two steps.

For each possible risk, you should have 2 scores: one for how likely it is to occur, and another for the consequence of occurring. Add up the total points you assigned for each. The total possible score for each risk is 8 points, and the lowest would be 2 points.

It's useful to determine a cut-off point, above which you'll manage the risk and below which you won't. If you have a long list of possible risks, for example, you may decide to only manage the risks that scored 6 points or more – this means that you will only focus on risks that have high likelihood and a significant consequence. If you have a shorter list, you may choose a lower cut-off point, like 5 points or more. The cut-off point will depend on how much time you have to manage the risks. It's better to manage the most serious risks properly than to manage a full list poorly. Remember, you can't manage every risk, so use the risk rating score to prioritize what you should focus on.

While it is easy to generate a long list of possible risks, the point of ranking risks is to identify which are most important to monitor and manage. If you need to pare down a long list of top risks, try to refocus by again getting clear on the answer to this question: "How would our organization be affected?"

It's worth noting that often, but not always, there is an inverse relationship between possibility and impact: a risk with a low possibility (such as an earthquake) could have a catastrophic impact on your organization (such as major building damage, asset losses and possible loss of life), while a risk with a high possibility (scrapes and bruises in an outdoor education program) will have a low consequence (minor treatment with first aid). At the end of the day, the magnitude or seriousness of a risk is the combined measure of its likelihood and its impact.

Tots and Trails: Risk Management Plan				
	Possible risks	Top Ranked Risks	Our Strategy	Next Steps
People	Injuries or accidents; poor volunteer screening or training; parents suing the organization; staff grievances; board negligence	Injuries or accidents; poor volunteer screening or training		
Financial	Insufficient funding to deliver programs; weak financial policies or controls; lack of financial training for staff; uncertain funding sources	Insufficient funding; uncertain funding sources		
Property	Equipment broken or not well maintained; vehicle accidents; natural disasters; theft of equipment; misuse of equipment	Vehicle accidents; misuse of equipment		
Goodwill	Negative news story; bad rumours; negative client or volunteer experience; disgruntled board	Negative client experience		

Now let's look at how this applies to our fictional organization, Tots and Trails.

At step 2, leaders from the organization will work on filling out the second column titled Top Ranked Risks. They will review the long list of all possible risks created at step one, and then identify which risks have the highest likelihood of happening and highest consequence if the risk occurs. Let's assume that leaders from Tots and Trails had another great conversation and reached consensus on the top risk for their organization.

When it comes to people, leaders identified injuries or accidents and poor volunteer screening or training as the most important risks.

For financial risks, leaders agreed insufficient funding and uncertain sources of funding were the most important to manage.

For property risks, vehicle accidents and misuse of equipment were the top ranked risks.

And for goodwill or reputation, there was strong agreement that a negative client

experience was the risk that was the most likely and most consequential for Tots and Trails.

Step 3: Decide how to control the risks

Key question: What will we do?

- 1) Avoid the risk
- 2) Transfer the risk
- 3) Reduce the risk
- 4) Accept the risk and prepare for consequences

Let's move on to Step 3. This is when you move from knowledge into action and where you will decide how to control the risks. The question to ask is for each of the top ranked risks you assessed is "What will we do?"

There are four ways you can manage your risk:

1. Avoid the risk – this means simply deciding not to do something because the risks are too high. This will depend on your organization's tolerance for risk. Some organizations are very tolerant of risk, and others are less tolerant. Keep in mind that in some cases, depending on your goals, the risk may be worth taking if you spend time exploring options to minimize or manage it effectively.
2. Transfer the risk – this provides your organization with the ability to share the risk with others. An insurance policy is a common way to transfer risk associated with fire, liability, theft or damages. Another way to transfer risks is through waivers (in which case the risk is transferred back to the participant: note, however, this is not acceptable where the participants are minors) as well as business contracts and other written agreements. You might also try to find another group to offer the program or service if you decide it is too risky for your organization.

3. Reduce the risk – There are a number of strategies your organization might put in place that might help to minimize the risk of something occurring. To do this, you can change what you are doing, or develop new procedures that will decrease the chances of harm and the effects of any damage. Measures to reduce risks usually relate to changing human actions or behaviours. Some ways to reduce risks include volunteer screening plans, volunteer and employee training and orientation programs, strong financial procedures and reporting, reputation management planning, following workplace health and safety standards and having a back up plan in case of technology failure.
4. Accept the risk – Finally, there are many instances when organizations will accept the risk as being inherent in the program or project itself, or as representing the unavoidable cost of doing business. However, we recommend that it still may be worthwhile for you to walk through this process even for those risks you presume to be acceptable. That way, you are as prepared as possible to understand and accept the risk and prepare for the consequences.

You will not be able to eliminate all risks, but you should be able to find ways to control each one.

Not-for-Profit Insurance Coverage

Typical Insurance Policies

Directors & Officers Liability insurance

Commercial General Liability insurance

Commercial Property insurance

Specialized Insurance Policies

Special events liability insurance

Non-owned vehicle liability insurance

Professional Liability insurance

A very common way not-for-profit organizations manage risk is by purchasing insurance policies. It's worth mentioning that insurance is not a replacement for other risk management activities.

So what does insurance do? According to Imagine Canada's Sector Source: "Insurance is generally intended to help organizations cope with the financial consequences of unpredictable events that are sudden and accidental."

Insurance policies you may need generally fit into two categories – those that cover losses and those that cover liability:

- Loss coverage. These policies provide coverage to property and assets. In other words, this type of insurance covers items or places that your not-for-profit owns (e.g. buildings, vehicles, desks, computers, important papers) in the event they are lost, stolen, or damaged. Loss policies are generally geared toward protecting property and assets
- Liability coverage. Liability insurance covers the expenses that result when things you do (or fail to do) cost someone money. Usually, this means lawsuits – whether you go to trial or settle the dispute out of court.

On screen, you will find a few typical not-for-profit insurance policies. Let's look at each of these, and get a sense of what each type will cover:

- Directors & Officers liability insurance. Board members are legally liable for the decisions they make on behalf of the organization. Directors & Officers liability insurance provides some protection for board members. This does not let your board members off the hook from their important role of exercising oversight and good governance. But imagine this situation: You just received a lawsuit that alleges that eight years ago a previous director mismanaged funds. While this is not true, the lawsuit still needs to be defended. Directors & Officer liability will cover costs related to this.
- Commercial general liability. This is quite a broad type of insurance that covers typically covers a range of liability related to the operations of your organization.
- Commercial property insurance. Property Insurance protects the stuff your business owns by paying to repair or replace damaged items after a loss.

Specialized insurance policies include – but are not limited to:

- Special Events liability. Imagine a donor slips and falls at a large fundraising event and you are found legally responsible. A special events liability policy will cover you in this scenario.
- Professional liability insurance. Let's say your organization runs a teen hotline program. You have a professional psychologist volunteering her help but a teen she speaks to commits a crime. This type of insurance would cover you if the family of the teen sues the psychologist and your not-for-profit.
- Non-owned vehicle liability insurance. This type of insurance will cover volunteers or staff people doing business on your behalf in their vehicle should an accident occur.

And, there are even more specialized types of insurance you may require. Some insurers have combinations of these policies or may have new coverages. Vantage Point strongly recommends speaking to an insurance professional to assess what types of insurance may be best given your particular not-for-profit's risk profile, assets and program activities. And, by talking to experts, you can better understand what it is covered and what is excluded from your policies.

Tots and Trails: Risk Management Plan			
	Top Ranked Risks	Our Strategy	Next Steps
People	Injuries or accidents; poor volunteer screening or training	- First aid & safety training for staff and volunteers - Dedicated volunteer manager on staff	
Financial	Insufficient funding; uncertain funding sources	- Cultivate more leads for diverse sources of funding - Recruit connected board members to help with fundraising	
Property	Vehicle accidents; misuse of equipment	- Get proper insurance - Train people on use of equipment	
Goodwill	Negative client experience	- Client feedback policy - One person handles client complaints	

Now let's look to Tots and Trails again.

At step 3, it is important to drop the first column of all possible risks and instead focus on what the top ranked risks are. At this step, leaders will identify how they will manage or minimize these top risks.

When it comes to people, a top risk the organization will actively manage has to do with injuries or accidents. Leaders identify a strategy of getting first aid & safety training for staff and volunteers as the best way to manage this risk. The other risk is poor volunteer screening or training. Leaders decide to add a dedicated volunteer manager on staff to address this.

When it comes to finances, insufficient funding and uncertain funding sources are top risks. These will be addressed by cultivating more leads for diverse sources of funding and recruiting connected board members to help with fundraising.

The two property risks the organization will actively manage are vehicle accidents and misuse of equipment. To manage the first risk, leaders decide they will ensure they have proper insurance policies. And to manage the second risk, misuse of equipment,

they will train people on how to properly use the equipment.

Step 4: Develop a plan or strategy

Key question: How would we do it?

- Write your strategies into a one-page plan
- Create required policies
- Train your key personnel – staff, board or volunteers
- Regularly review your key risks

Now let's move on to Step 4, where you will develop a plan or strategy.

By this point in the risk management process, your team will have identified and assessed risks in order to rank them in terms of priority for treatment. For each of your top ranked risks, you will have identified the many different steps that can be taken to avoid, transfer, reduce or accept these risks. Now, the primary question you will ask is: "How will we do it?" This is where the risk management process gets interesting and surprisingly affirming. Instead a glass half-empty exercise (after all, risk management is about preventing bad things!), the process becomes about a glass half-full (look at all the good things we are or will be doing).

Once you've identified your key risks and decided how to deal with them, record it into a plan. Ideally, your risk management plan will be brief and clear. A one-page plan that summarizes your top ranked risks, the actions you will take to manage each risk, and when to re-visit this risk should be enough. Keep this information in an easily accessible place so that you can come back to it later.

For some risks, it will be necessary to create policies for the board, staff or volunteers to follow. Provide any necessary training for your key team members on these new

policies or procedures. Here's an example. Let's say you identify fraud as a top risk you want to take action on. Your board might create a policy to change how cheques are prepared in your organization. You'll want to make sure that all employees involved in preparing cheques are trained on the new procedures.

You will also need to decide how you'll regularly monitor and review your risks and plans, taking account of changing circumstances. Risks may come and go, or their likelihood or potential impact could change, so you may need to change the way you deal with them. It's a good idea to tie this monitoring and review process into your strategic and operational planning. Review your risk plan at least once a year and whenever there are incidents that suggest the controls you have in place aren't working well. It can be useful to pick a risk at each board meeting and do an in-depth review of it. This gives the board a detailed understanding of the risks and controls, and helps assure them that risk is being managed effectively.

Tots and Trails: Risk Management Plan			
	Top Ranked Risks	Our Strategy	Next Steps
People	Injuries or accidents; poor volunteer screening or training	<ul style="list-style-type: none"> - First aid & safety training for staff and volunteers - Dedicated volunteer manager on staff 	<ul style="list-style-type: none"> - Contact a first aid trainer - Create role description, hire & train a volunteer manager (staff or knowledge philanthropist)
Financial	Insufficient funding; uncertain funding sources	<ul style="list-style-type: none"> - Cultivate more leads for diverse sources of funding - Recruit connected board members to help with fundraising 	<ul style="list-style-type: none"> - Cultivate more leads to diversify funding - Recruit board members with fundraising experience - Put this on the board's agenda
Property	Vehicle accidents; misuse of equipment	<ul style="list-style-type: none"> - Get proper insurance - Train people on use of equipment 	<ul style="list-style-type: none"> - Contact insurance broker - Create project to train people on use of equipment
Goodwill	Negative client experience	<ul style="list-style-type: none"> - Client feedback policy - One person handles client complaints 	<ul style="list-style-type: none"> - Find feedback policy templates - Identify who will be contact person for clients

For Tots and Trails, thinking about next steps should be quite straightforward. They have identified their top risks, the ways that they will deal with each risk and used a one-page template to organize these key details. All that is left is to identify next steps.

I won't go through each of the risks again in detail. Instead, I want to draw your attention to the next steps and highlight how tactical they are. Many of these actions are so straightforward they can be started in under one hour. That's critically important – breaking down your risk management plan to be simple and achievable will set you up for success.

Another piece I will mention is that for financial risks, there is a next step of putting a conversation on the board's agenda for an upcoming meeting. This is important because risk management is not a one-time activity – is a series of ongoing conversations, actions and reflections that engages all the expertise and knowledge of your team.

I'll also mention that you can find a version of this template in the materials that accompany this e-learning.

FIVE TIPS for Managing Risk

1. Remember that protecting the mission is the key priority.
2. Treat it as an ongoing conversation (not a one-time exercise).
3. Get professional advice.
4. Don't overlook the expertise and knowledge on your team.
5. Keep it simple (one page is often enough) and put it in your own writing.

To close, I want to leave you with five tips to support you in managing risk.

Tip 1: Protecting your mission is the key priority. Regularly communicate to your volunteers and staff the following: "Our first priority as an organization is to ensure the safety of our participants." If risk management is just about protecting your assets from a lawsuit, you will never get the buy-in that you need.

Tip 2: Again, risk management is not a one-time exercise, but an ongoing set of conversations with your board, staff and key volunteers. Decide how often you'll want to formally review your risks – that might be every quarter, or it might be a few times a year.

Tip 3: Get professional advice. Take the guesswork out of risk management by talking to a lawyer, insurance broker or someone with other professional knowledge that can help you identify and manage your risks. Given the legal liability, complexity and financial consequences of many risks, it is a wise investment of time and dollars to prevent risks by getting a professional opinion.

Tip 4: Don't overlook the expertise and knowledge on your team. Often, the real

experts are all around us. When it comes to risk management, engage the first-hand experience of your front-line people (volunteers and staff), especially those who know the risks and, most likely, the best ways to manage them.

Tip 5: Put it in writing – your own writing. Written procedures are important to ensure consistency, uncover current blind spots, create a legal paper trail in the event of a lawsuit, and ensure proper monitoring for results. Use your people’s own words whenever possible. Related to this, try to keep your risk management plan simple. One page is often enough. Risk management has its tricky moments and the occasional need for expert wisdom, but the products of your work need to be clear, so they are easy to read and concise, so they will be read. Aim for one page for communications and forms whenever possible.



Your risk management action plan brings together the insights of your team to identify, rank, manage and take action on risks. Ongoing conversations with your board, staff and key volunteers can support your organization to effectively reduce risks and protect your mission.



Thank you for joining us for this e-learning session.

We hope you join us again next time.