



Managing Risk within Nonprofit Organizations

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Managing Risk within Nonprofit Organizations

Throughout 2008, the American financial system experienced extraordinary stress and historical declines. And while the root cause of the economic meltdown will be examined and debated for decades to come, the reality of witnessing the collapse of some of our country's most venerable financial institutions has caused heightened questions not only about the stability of the American financial system, but also of the processes within organizational operations in general.

Like clockwork, when these types of events occur, many organizations re-evaluate their external partnerships to ensure protection from harm.

This can also be an ideal time for an organization to review processes they have in place internally to ensure their entity remains securely managed.

The information contained within this white paper should serve as a primer for nonprofit organizations that are looking to identify and prevent the possible risks associated with running their organization. It will also offer tips and recommendations on ensuring the group has the correct processes in place to manage risk successfully.

Managing Risk

Risk management refers to planning for the possibility that future events may cause harm

to an organization. In the nonprofit sector, risk management focuses on the protection of many aspects of the entity including volunteer screening, board training, financial management and employment practices.

For small to midsize nonprofits, creating a risk management plan doesn't need to be overly complicated. Instead, incorporating risk management into an operation can be done by simply anticipating and planning for events, developing a strategic response should a negative event occur, and

wherever possible, providing adequate financing if something does go wrong. There are a variety of activities which a nonprofit organization can perform to alleviate its likelihood of experiencing a serious or even catastrophic event that could impair the organization. The following steps should be taken when developing a risk management program:

1. Establish a committee to develop and manage the program.

In order to develop a comprehensive risk management program, it is

essential to assign responsibility to a committee or team composed of representatives of various departments within the organization. A point person also should be established within this team to ensure the overall management of the risk areas. The board of directors, as well as other members of the organization, may be involved in creation of the program.

2. Identify potential risks the organization may face.

Risks within an organization can vary and might range from incidents that may face any entity, to risks specific to one organization or another. Examples of some general risks might be a visitor becoming injured while at an event hosted by the nonprofit organization, an employee embezzling funds, violation of confidentiality clauses, or a former volunteer or employee claiming violation of

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his/her civil rights. Regardless of how unlikely an incident may seem, it is prudent to evaluate possible situations that could someday become a reality. Areas of priority may include disaster preparedness, financial protection, crisis communication and the safeguarding of technology.

3. Evaluate and prioritize each risk. Once a strong list of possible risks has been identified, the risk management committee should review each risk, evaluate it and determine its priority level. An example of a higher priority risk might be an event that can cause wide public attention and a large expense to the organization. Identifying which risks are most likely to take place and cause the most harm to an organization can make the development of strategies to manage each risk more seamless.

4. Develop policies aimed at preventing risk. The risk management committee should develop policies and procedures designed to mitigate the likelihood risk will occur. Many organizations seek advice from outside counsel who can provide thorough expertise related to specific areas of potential risk.

In addition to the aforementioned policies and procedures, the risk management plan should include strategies and tactics for responding to crisis situations. Although the risk management plan will be an invaluable asset in preventing negative situations, some incidents will be beyond control. Crisis management procedures should outline steps to take during a crisis situation, personnel who will be involved in communicating in the event of a crisis, the chain of command, and which internal and external parties, if any, should be notified.

5. Implement the risk management plan. Once the plan has been approved by the appropriate parties, it becomes time to act on it. It won't do any justice placing the plan on a shelf in the executive director's office. All involved parties need to

understand the plan and manage the organization's operations in accordance with the plan. In addition, certain employees and members of the organization may need specific training to carry out their responsibilities in relation to the plan.

6. Review and update the plan as needed.

Nonprofit organizations are dynamic entities that experience growth and change. The risk management plan should be evaluated at least once a year to account for changes such as new staff members, funding issues and modifications to service delivery, at that time, risks can be assessed, new risks can be added, and strategies and tactics can be revised if appropriate.

Protecting the Organization's Assets

In addition to protecting itself against potential risks, an organization should be aware of how to protect valuable assets that can fall into one of the following

The risk management committee should develop policies and procedures designed to mitigate the likelihood risk will occur.

categories: money, goods and services. Assets within a nonprofit organization can range from funds and investments, employee interaction with organizational funds, and physical property such as furniture and office equipment. Some nonprofits may have warehouse space that holds supplies relating to a food bank, recreational facility or building materials. In addition, gift or fundraising items such as clothing, donated prizes, or handmade goods that an organization sells in order to raise money might be subject to theft. Damage to, or loss of these types of assets can shift the effectiveness and operation of an organization toward a drastically negatively position.

The best method by which to protect an organization's assets is to devise a system and set of procedures for the careful management of the organization's valuables. This will help ensure

accountability of the organizations assets and allow for more seamless operations in managing asset inventory. There are a myriad of software tools available for any organization that wants to manage assets via online systems.

Like any solid management plan, the first step is to identify who will manage the system for controlling the organization's assets. In most cases, this will likely fall under the responsibility of the risk management committee.

The next step should focus on identifying assets within the organization and grouping them into specific categories. Some examples might be:

- Financial assets: appropriated funds, grants, contributions
- Property: buildings, office equipment, facilities, materials
- Personnel: employee and volunteer management
- Information technology: communication needs (email/website), software and hardware
- Services and reputation: services provided to client and the organization's position in the community it serves

Once a list of the organization's assets has been developed, the committee can implement a process or checklist for keeping track of activities that surround each focus. The process should include the contact information for who is responsible for each area of focus, as well as a step-by-step process on how assets within each group are managed on a day-to-day, monthly or quarterly basis.

A review of the asset management processes should be held annually by the risk management committee and board members of the organization. Doing so will ensure all aspects of the entity are accounted for, that incoming committee members are briefed on important processes and that all assets remain under solid protection for continued success of the organization.

Conclusion

At times when external events may question the safety and protection of business operations, rest assured that all organizations have the opportunity to instill solid management practices that will ensure all aspects of their entity are carefully looked after. Identifying potential risks within an organization and proactively devising a strategic plan to manage those risks will prove useful and alleviate any unnecessary strain when it is time to act. In addition, developing a system and processes to protect assets within a nonprofit organization can lead to further growth and strength to support the organization's cause. Making a solid plan and appointing the right people to lead and execute on that plan will keep the organization moving forward for years to come.

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Free Management Library

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Pacific Continental Bank maintains a strong connection to the communities where we operate. The bank empowers its employees to actively engage in fostering an environment where all community members can flourish. We endeavor to work with local nonprofit organizations and community-based businesses, ensuring more dollars stay close to home. The bank supports hundreds of nonprofit organizations in achieving their missions – both philanthropically and through direct participation.

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