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What is risk management?

Risk management is any procedure or practice that nonprofit and charitable organizations use to reduce exposure to liability. It includes actions to protect the organization as a whole, its physical assets, its nonprofit or charitable status, its reputation, and its ability to raise funds. Risk management programs usually include financial management controls, volunteer management policies, board governance and financial management, and insurance.

During 2004, The Prince Albert & District Chamber of Commerce conducted research to find out what strategies nonprofit and charitable organizations use to minimize and deal with risk. A total of 81 nonprofit and charitable organizations from across Canada responded to our survey. Of those who responded to our survey:

- 68% were Chambers of Commerce
- 14% were Service Clubs or Organizations
- 12% were Nongovernmental Organizations
- 4% were Friendship Centres
- 3% were nonprofit Business or Development Corporations.¹

Almost half of the respondents (46%) said that they had a risk management plan in place, while 43% said that they did not have a formal plan. Only 11% were unsure whether the organization had a risk management plan.

¹ Numbers may not add to 100% due to rounding.

What are the benefits of risk management programs?

Organizations with risk management procedures in place listed the following positive results:

- clear policies and procedures
- improved relations with clients, volunteers, and the community
- better planning and preparation
- better monitoring of budgets
- stability
- greater credibility for the organization.

Volunteers and board members in organizations that have risk management procedures in place appear to be more likely to ask for information about risk management than those involved with organizations that do not have these procedures.

- 73% of organizations with risk management programs in place said that their directors, officers, and volunteers asked for information about risk management.
- 66% of organizations with no risk management procedures in place said that their directors, officers, and volunteers did not request information about risk management.

More than one third of respondents (37%) indicated that they recruit board members for their ability to assess and manage risk. They most often recruit board members who are lawyers, accountants, insurance brokers, financial planners or investment specialists, or human resource professionals.

What strategies do organizations use to manage risk?

Respondents to our survey identified many strategies to manage risk. We have organized these into four main categories.

Financial management

- 75% of respondents said they used financial reporting to manage risk.

Board governance and financial management

- 60% had clear written policies;
- 60% used strategic and long-range planning.

Volunteer management

- 69% had job descriptions for staff and/or volunteers;
- 68% offered orientation for board members and other volunteers;
- 60% monitored and measured staff and volunteer performance.

Insurance

- 73% had directors and officers liability insurance;
- 59% purchase insurance coverage for specific events.

Is risk management costly?

Almost a quarter (24%) of organizations with risk management procedures in place said that it had impacted their organization financially. However, most were able to set up risk management plans without compromising their work.

- 89% developed the plan without reducing programs, services, or staff;
- 87% were able to continue important services despite the cost of liability coverage.

Communicate your risk management strategies

It is also important to tell your directors, officers, staff, and volunteers about your risk management strategies. You can include this in orientation programs and during training sessions.

Conclusion

Canadian nonprofit and charitable organizations are becoming more aware of how important risk management is to the health and continued success of their organization.

Risk management tools vary, but based on our research, many organizations can find ways to use financial management controls, volunteer management policies, board governance and financial management, and insurance to minimize risk.

See *Planning for Risk Management: A Guide for Nonprofit and Charitable Organizations* (Bertrand, 2005) for more information about risk management.