Risk Management Standards for Nonprofit Organizations: Challenges and Opportunities

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Standards-Setting in the Nonprofit Sector

- The **nonprofit sector** in the U.S. consists of more than 1.3 million organizations.
- **Stakeholder demands**: growing in number and complexity.
- **Regulatory oversight**: expanding rapidly, including government and organizational oversight.
Risk Management Standards

- **Challenges:**
  - The vast majority of U.S. nonprofits are unaware of existing and new RM standards (e.g., ISO 31000 or Australian/NZ Standard)
  - The motivation to adopt a risk management framework or standard often stems from the perception that it **is required** or that exposure to legal claims is too great without sound risk management.
  - U.S. nonprofits generally view risk management as a mid-level (versus overarching) discipline. Risk management awareness is too often absent from board deliberations.
Risk Management Standards

- Challenges:
  - Current momentum favors new governance, accountability and financial management standards and protocols.
  - Professional risk management positions are rare in nonprofit organizations. Risk “analysts” in nonprofits are often isolated.
  - Organizations may be able to demonstrate compliance with a “process” or standard while overall efforts fail.
  - There are few incentives to adhere to a risk management standard.
Addressing the Challenges

**Probability analysis:** using mathematical tools to aid risk analysis.

**Compliance emphasis:** RM focus in nonprofits is often on meeting minimum requirements, versus advancing mission.

**Isolation of Risk Analysis:** leaders are often responsible for one facet of a nonprofit’s risks.

*Link risk-taking to mission-fulfillment*

*Increase awareness of RM Standards*

*Focus on culture change as means to increase successful implementation of RM frameworks*
Risk Management Opportunities

Perception
- *Economist* survey results suggest that risk management is “a key contributor to market advantage.” We need to realize perception that risk management is key contributor to “mission fulfillment.”

Alternatives
- Commitment to preparing for alternative scenarios in order to protect the vital missions of nonprofit organizations.

Advancing Mission
- Increasing recognition of risk management as a discipline that enables mission-fulfillment.
Risk Management Standard for Nonprofit Organizations

- Context Assessment
- Risk Identification
- Risk Analysis – Probability Assessment
- Strategy and Process Development and Risk Communication
- Evaluation, Integration
Thank you!

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