Risk Management

Risk management is the process of managing your organisation's exposure to potential liabilities. It gives managers, staff, clients, the board and other stakeholders the confidence to pursue their mission without the fear of legal action or harm, and approaches risk in a structured and calculated manner, rather than being haphazard.

Risk management needs full organisational support, and should be developed by a team who can effectively communicate with relevant stakeholders, have working knowledge of the activities, dynamics and history of the organisation and an awareness of the law.

Risk consists of three elements, namely choice, likelihood and consequence. Some choice is needed in the situation, if there is no choice, a manager does not have a risky situation a rather a bounded one beyond the manager's control; Likelihood infers some level of uncertainty; and some unwanted consequence must exist in one or more of the choices available to the manager.

The usual steps in developing a risk management plan are (1) identify risks; (2) evaluate the risks; (3) decide appropriate strategies; (4) implement, monitor & review.

Identifying risks involves making a systematic and complete assessment of all the hazards that could arise from your organisation's activities. This will require knowledge of your organisation, its social and legal context, its mission, values and its activities. It is useful to categorise risks, for example a sub-division of (say) business risks, into strategic, service/product, reputation, and operational (inc. fraud).

Risk needs to be considered in terms of likelihood (of occurrence) and consequences. This can be scored qualitatively, say very unlikely to rare (likelihood) and trivial to severe (consequence); scoring can be quantitative, say 1-10 (likelihood) against 0-10 (consequence). The two measures of likelihood and consequences can now be brought together in a 'level of risk' matrix. High likelihood with High Impact requires high priority, monitoring & mitigation; low likelihood with low Impact is acceptable within limits

A risk register is normally used to record all the risks you have identified, their likelihood, their probable consequences and the risk priority. Remember to revise the risk register periodically - the likelihood and consequences of risks alter over time as circumstances change

Risk management strategies should be approved at board level and adopted across the organisation, the strategies commonly used are risk avoidance, risk control, risk financing and risk transfer. A combination of strategies is the normal way to manage risks.

Organisations can avoid the risk altogether by not entering into the ability or providing the service. Risk avoidance is the most overlooked and misused strategy; this may not be an option for activities that form the core of a not-for-profit organisation's existence.

Controls include effective training & development, clear and communicated policies, internal control and the quality of the board. Risk financing involves building up reserves to meet potential liabilities. Risk transfer typically includes insurance cover, indemnity or exemption from liability clauses, and sub-contracting the activity to an independent contractor. Where risks are transferred to another party, a new risk arises that the risk may not be effectively transferred, for example because of some legal technicality or restriction.

Once a risk management program has been approved the next stages are implementation, monitoring and review. The program should be reviewed at least once a year, but also whenever there are any changes in the law or the organisation's activities.

The challenge is to treat the risks in an appropriate and cost-effective manner so as to protect the organisation and its stakeholders. This must be done without dampening out the inspiration, goodwill and social spirit of staff, volunteers, board members etc with inflexible bureaucratic rules and procedures.