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# Introduction

"Who is wise? He who foresees what is coming."
— Jewish Proverb

None of us knows exactly what tomorrow will bring. From experience, most of us — including most managers of nonprofit organizations — have good reasons to expect that tomorrow will be much like today. However, many events that we cannot now fully foresee may, occasionally and with little warning, make a nonprofit's tomorrow much different — much worse or much better — than it is today.

Thus, unpredictable events involving each of the four fundamental values within a nonprofit — its people, its property, its income and, perhaps most importantly, its reputation — may bring near disaster or great good fortune to a nonprofit depending on whether the threats or the opportunities outweigh the other.

- For example, the *people* who work as employees or volunteers can be unexpected sources of loss or gain. *Loss* if, for example, a nonprofit's charismatic and talented executive director gives two weeks notice when the nonprofit has no clear successor available. *Gain* if, say, one of its high school volunteers comes up with a marvelous advertising slogan that memorably etches the nonprofit's mission into the public's mind.

- With respect to *property*, a nonprofit may suffer a crippling unexpected *loss* if its headquarters burns to the ground one night; or may be surprised to *gain* funds beyond its supporters' dreams if a major oil or gold deposit is found beneath land recently bequeathed to it.

- Regarding *income*, a nonprofit that sponsors youth recreation programs may face a substantial *loss* if, following a natural disaster, long-time donors shift their financial support to disaster relief through another organization. A nonprofit may *gain* huge financial success if the T-shirt it has chosen to market as a fundraiser is endorsed by a teen idol as something "all my true fans are wearing." Another surprising *income gain* might arise if a long-time volunteer inherits millions and makes an unexpected substantial donation to this nonprofit's previously meager endowment fund.

- As for a nonprofit's *reputation*, great *loss* can come from any adverse news that makes regional or national headlines, such as reports of child abuse or misappropriation of assets by one of the nonprofit's employees. Great *gain* can come from positive behavior, such as an act of life-saving or patriotic heroism by one of the nonprofit's staff that draws network television or Internet attention.

> *This book explains how to strategically manage risk — how to take risks in enlightened ways that enable your nonprofit to fulfill its mission to the utmost in our less-than-fully-predictable world.*

All these events happen unexpectedly, and usually very suddenly. These events all arise from risk — that is, from a *measure of the possibility that the future may be surprisingly different from what we expect*. These surprises may bring good or bad results, generating threats of losses or presenting opportunities for gains. Each of these events holds within it threats of loss and opportunities for gain, which should be weighed before deciding whether or not to undertake the activity, program or event. For a nonprofit organization to fulfill its public service mission, its executives, other employees and volunteers must manage these risks effectively by countering or withstanding the *threats of loss* and recognizing and capitalizing on the *opportunities for gain* that are inherent in a less than fully predictable, and therefore risky, world.

## The Mission of This Book

This book explains how to strategically manage risk — how to take risks in enlightened ways that enable your nonprofit to fulfill its mission to the utmost in our less-than-fully-predictable world. This book is also about risk management — a process for planning, organizing, directing and controlling the assets and activities of any organization so that it can accomplish its mission by safeguarding against the losses, while seizing the opportunities for gain that risk generates.

This risk management process has five steps, previewed in Chapter 1. The steps are much the same for managing threats of loss from what we will call *downside risks* and opportunities for gain from *upside risks*. Most real-world situations actually present both upside and downside risks. So ideally, strategic risk management looks at the threat of things accidentally going wrong (the traditional use of risk management), as well as the potential for things to go right (the new twist or enlightened risk management proposed in this book).

Each chapter in this book aims to help you understand the risk management process and to apply this process to both the downside and the upside risks inherent in your nonprofit's activities, events and programs.

❑ Chapter 1 explores the nature of risk from both sides and explains some basic concepts that are key to managing risk effectively.

❑ Chapter 2 looks at what your nonprofit can lose from failing to manage risk well, and the types of opportunities for unanticipated gains that surprise events may bring to your nonprofit if you are alert to and ready to grasp them.

❑ Chapter 3 explains the five steps in the risk management process, illustrating how it works in both countering threats of loss and positioning your nonprofit to take advantage of opportunities for gain.

❑ Chapter 4 explores practical opportunities for nonprofits to use physical and managerial controls to reduce threats of accidental losses.

❑ Chapter 5 details the downside and upside risks arising from activities that are amplified in nonprofit organizations — such as working with volunteers, managing special events, and serving the needs of vulnerable populations.

As its title indicates, this is a book about *strategic risk management*. Strategic risk management, as we will be exploring it, differs significantly from both *general management* as one learns it in principles of management courses and from the *traditional risk management* that most safety, insurance and financial specialists practice.

The traditional safety and insurance perspective on risk management has been limited to only threats of loss — in fact, to just threats of *accidental* loss. In this traditional view, risk management does not deal with either opportunities for possible gain or with nonaccidental risks of loss, such as from poor business judgment or from errors in forecasting economic trends or weighing consumer preferences. In this traditional insurance-and-safety context, the most risk management could ever accomplish was *no losses from accidents*, so that an organization could, at best, *safely remain as it always has been*.

*That men have forever taken huge risks, chancing enormous losses against equally large rewards, is a truism. It is a part of our nature. A recent television special on PBS focused on commercial fishermen in Scotland, Maine and Alaska. The sea extorts cruel penalties in the loss of life, boats and equipment, but it also supplies the successful with riches. The program reported that a crabber captain could earn as much as $150,000, and his crew members as much as $50,000, in three months of relentless toil in the Gulf of Alaska, enticing crews back to the vicious storms and the inevitable disappearances of men and ships for the possibility of the big payday. The losses are fearsome. Two boats, for example, capsized at the start of the voyage when they met a storm while overloaded with crab cages. It is a continuing reminder that risk decisions are always based on a personal assessment of both potential rewards and penalties. Even so, as this program reported, it too often appears to be a roll of the dice.*

— H. Felix Kloman, *Risk Management Reports*, September 2002, reprinted with permission.

Our broader, *strategic risk management* view seeks to *1.) counter all losses*, both from accidents and from unfortunate business judgments and *2.) seize opportunities for gains* through organizational innovation and growth so that risk management, at its best, enables your nonprofit to *be all it can be*.

Stated in these be-all-it-can-be terms, strategic risk management may sound like it is identical to general management, but it is not. General management assumes that good planning will make plans come true, that good managerial controls will generate controlled outcomes. Thus, general management assumes that surprises, both good and bad ones, can largely be managed away.

As explored in this book, strategic risk management is based on quite a different premise. For a nonprofit or any other organization to achieve full potential for itself and those it seeks to serve, surprises must be anticipated, and preparations must be made, in order to turn aside or overcome the threats of bad surprises and embrace the opportunities the good surprises offer. This book's title, *Enlightened Risk Taking,* capsulizes this goal. The Center's purpose is not to avoid all risk, which is impossible. Instead, strategic risk management aims to take risk wisely: to eliminate or limit its negative effects so that you are better able to benefit from its positive effects. In doing so, strategic risk management seeks to maintain and enhance the confidence of an organization's "publics" (employees, supporters, service recipients, communities, donors and regulators) so that it can continue to fulfill its mission, now and in the future.

Chapter 1 turns, first, to the meaning of risk and of some closely related terms; second, to why we need to manage risk; and, third, to a preview of the general strategic risk management process for managing both threats from downside risks and opportunities from upside risks. Strategic risk management is the core concept of this book, the concept that the later chapters explain how to make a reality in your nonprofit organization.