RISK MANAGEMENT FOR PHILANTHROPY: A TOOLKIT

THE COMMONS

OPEN ROAD ALLIANCE

The ROCKEFELLER FOUNDATION

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Dear fellow philanthropists:

Our ability to achieve greater impact depends, in part, upon our willingness and our capacity to protect our grants and investments from unexpected disruption. In other words, in order to maximize impact, we must tackle risk. We can do this by integrating more explicit risk management practices into our philanthropic pursuits.

We have a significant gap in our sector, demonstrated by the frequency with which well-planned projects are derailed by a variety of risk factors. Data collected by Open Road Alliance show that donors do not commonly include the discussion, assessment, and management of risk in their budgets, application forms, or other grant practices. The result is that up to one-fifth of grant-funded projects are vulnerable to project delays and disruptions, reduced impact, and less than optimal results for the beneficiaries at the center of the work.[1]

To begin to address this gap, Open Road Alliance, Rockefeller Foundation, and Arabella Advisors convened the Commons, a task force consisting of leading practitioners from every facet of the philanthropy marketplace, to examine ways to meet the challenge of managing for risk. The result of many hours of discussion is an initial set of 10 adoptable and adaptable tools to help anyone engaging in strategic philanthropy plan for contingencies and mitigate risk.

With its diverse membership of representatives from foundations, nonprofits, impact service providers, nonprofit attorneys, wealth advisors, and philanthropic associations, the Commons is uniquely positioned to examine the topic of risk from many perspectives. We invite you to explore this toolkit in detail, apply these tools to your own philanthropic practice, and join us in this call to action to change the way philanthropy discusses, assesses, and manages risk. We also are ready to assist you, in any way that would be helpful, in developing your own practices for risk assessment and mitigation.

Sincerely,

Laurie Michaels

Laurie Michaels
Founder, Open Road Alliance

Judith Rodin

Judith Rodin
President, Rockefeller Foundation

[1] In 2005, Open Road conducted a 400-respondent survey, which shows that approximately one in five projects will need contingency funding: http://openroadalliance.org/resource/risk-philanthropy-funders-dont-ask-non-profits-dont-tell-2015-survey-report/.

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EXECUTIVE SUMMARY

There is a system failure in philanthropic practice that is diluting impact and costing funders potentially billions of dollars a year. This glitch is the absence of common risk management practices as an integral part of the grant-making process.

The data are clear. In a recent survey of 200 donors and 200 nonprofits, risk management is absent as a common practice, and the topic of risk itself is often missing from the conversation between funders and grantees. Consider this:

- In the survey, both funders and nonprofits report that one in five projects is negatively affected by unexpected events.
- However, only 17 percent of funders set aside funds for contingencies.
- Moreover, 76 percent of funders reported that they do not ask potential grantees about possible risks to the project during the application process. Grantees report that 87 percent of applications they complete do not ask for risk assessments.

In short, although funders and nonprofits agree that 20 percent of our social impact is at risk, most of us do nothing about it.

Risk is a fundamental component of philanthropists' success. Philanthropists invest money to achieve certain specified outcomes, and like any investment, that transaction is governed by the interplay between risk and return. While philanthropy has taken strides in recent years to build out the monitoring and evaluation systems necessary to measure and determine our return—described as impact—we routinely ignore the risk half of the equation.

When funders and grantees ignore risk, we jeopardize the impact we seek to achieve. Moreover, without the tools to assess and manage risk, we cannot knowledgeably take the risks necessary to achieve our goals. Yet, as shown above, we rarely have straightforward conversations about risk, and funders don't have effective tools that can help them implement basic risk management practices.

To address this gap, Open Road Alliance, Rockefeller Foundation, and Arabella Advisors convened the Commons—a diverse task force that represents all facets of philanthropy, including foundations, nonprofits, impact service providers, nonprofit attorneys, wealth advisors, and philanthropic associations. The Commons confirmed that the lack of open conversation about potential risk is a major problem for the field, and developed a first set of user-friendly tools to help funders implement better risk practices. These tools are broadly applicable across the philanthropic sector and can help all types of funders, from those first beginning to discuss risk internally to those who are evaluating the effectiveness of their risk management strategies after several years. With this toolkit, we seek to encourage funders to establish a deliberate risk profile and integrate risk management into their philanthropic practice.

The Commons defines risk as: the likelihood that an event will occur that will cause some type of undesirable effect. While risks objectively exist in all things, whether or not a funder or nonprofit chooses to take risk is a subjective evaluation. Although the existence of risk refers to a potentially negative event, choosing to take risk can be profoundly positive.

To underline this point, the Commons created a framework to draw the important distinction between risk culture and risk management. Risk culture speaks to a funder's appetite or tolerance for risk, which is a subjective choice. In contrast, risk management is solely concerned with the prevention of negative or harmful consequences in the face of existent risks. It addresses the fact that risk is inherent no matter our appetite for it.

The Commons developed relevant tools for funders to address both aspects of risk. The risk culture tools help funders define and describe their risk profile, define what choices they want to make, and integrate risk into their organizational culture. The risk management tools position funders to incorporate risk management policies and practices into their communications with grantees, budgeting processes, and internal governance. Risk management is designed to decrease the likelihood and/or effect of existing risks.

Considering Risk: Subjective vs. Objective

RISK CULTURE

Subjective Concept

A funder's appetite or tolerance for risk

- Define and describe your risk profile
- Determine what choices you want to make
- Integrate risk into your organizational culture

RISK PROFILE:

- High Risk Taking
- Moderate Risk Taking
- Low Risk Taking

RISK MANAGEMENT

Objective Concept

Steps to prevent negative or harmful consequences in the face of existent risks

Create and incorporate risk mitigation practices into:

- Internal governance
- Budgeting processes
- Grantee communications