

# The risk approach to strategic management in development NGOs

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*Today's rapid changes within and outside Northern and Southern NGOs heighten uncertainty about how to meet new challenges and achieve results. In this volatile environment, risk management is a tool for maximising an NGO's opportunities and minimising the dangers to success. It enables NGO decision-makers to think strategically all the time.*

*Hoy día, los cambios veloces dentro y fuera de ONGs en el Norte y el Sur agudiza la incertidumbre sobre como enfrentar los nuevos retos y lograr resultados. En este entorno volátil, la gestión de riesgo es una herramienta para maximizar las oportunidades para una ONG y minimizar los peligros para el éxito. Les ayuda a quienes toman decisiones a pensar estratégicamente todo el tiempo.*

## Strategic thinking through risk management

In recent years, non-governmental organisations committed to social change have invested heavily in improving their professional competence. One innovation has been the use of strategic planning. Typically, once every three or five years, NGOs agree and implement a multi-annual process sharply focused on positioning the organisation to achieve their mission and long-term goals. Increasingly, however, development NGOs experience rapid, accelerating change. Not only do strategic decisions have to be made outside of a multi-year cycle, but by the time managers know if a decision has been implemented or not, they have taken new decisions. Thus, staff "ownership" or "empowerment" is vital; delegation of responsibility and authority for achieving an organisation's fundamental goals has never been more important.

Therefore, today and especially tomorrow, to be effective an NGO's strategic planning must be accompanied by on-going strategic thinking, at all organisational levels. An NGO must constantly generate new strategies to achieve results in line with its fundamental purpose. Success will depend on strategic management: continuously integrating strategic thinking and planning. Strategic risk management is a new approach of special value to NGOs whose mission is social change.

Risk is inherent to life. The future is always uncertain and the outcomes of events unpredictable. Furthermore, for development NGOs, risks cannot be avoided and indeed must be embraced. Innovation for human development requires risk-taking. Commonly, risk is thought of as something negative, as the danger of something undesirable occurring. That is too limited. Risk is also positive; there is an upside and a downside. A development organisation must dare to succeed and dare to fail.

NGO decision-makers take most daily risks in stride because they can reduce the probability of negative outcomes and increase the chances of positive outcomes for most events that only one

hundred years ago were terrifying. Said another way, today the uncertainty that matters most is strategic--we must focus on the change that affects the fundamentals of organisational success or failure. Strategic risk management enables NGOs to maximise the potential for success and minimise the danger of failure.

## The principles and advantages of strategic risk management

One of the beauties of the risk concept is its simplicity. There are four essential questions:

1. What do I, or we, want to achieve in order to fulfil our mission?
2. For each goal, what is the likelihood of success and of failure?
3. What are the positive and negative consequences if I (we) succeed or fail?
4. What will be the cost to enhance the probability and consequences of success and reduce the chances of failure?

Thus, strategic risk-taking permits an organisation to focus continually on the most important positive and negative challenges and be as rationale as possible in making decisions on how to meet them.

Of course, life cannot be so simple. There is an equally important and much more complex dimension to risk management. Individuals, organisations and societies are all unique. Thus, risk is rooted in specific historical contexts--from the political to the psychological, the economic to the environmental--that shape people's responses and perceptions of the probability and importance of an uncertain event. Strategic risk management can enhance but never replace a development decision-maker's knowledge, field experience, cross-cultural skills, and other personal abilities. Specifically, it will enable NGO leaders to enhance their capacity in four areas.

*Information.* In management, the information function is vital. In today's "knowledge societies" decision-makers are flooded with facts and figures and ideas. The technological possibilities are an incredible temptation to nurture a false sense of security by attempting to process all available information. Of course, managers must constantly observe, consult, read and listen to inform themselves. Strategic risk management, however, offers NGO decision-makers a methodology for rapidly sifting through and selecting the relevant information.

*Action.* Today, NGO managers must combine hard, in-depth analysis with fast decisions. Risk management enables a decision-maker to act even as she or he thinks. Past successes and failures are analysed not to know what happened, or to explain why things are as they are, but to take the best decision about new activities. Risk principles enable a decision-maker to identify what to change and innovate in order to maximise gains and minimise losses in the future. For strategic decisions, certainly the search for truth must be rigorous. Risk management incorporates the rational perspective of science but the purpose is to understand in order to decide, to set objectives and make plans, but not at the expense of acting on them.

*Delegation.* Never before has the need for subsidiarity been greater for development NGOs. Strategic risk management facilitates delegation because risk principles are applicable at all organisational levels. Strategic risk management enables decision-makers to assign authority and responsibility upwards, downwards and across. Everyone can be engaged in taking risks

responsibly to achieve their work units' "missions" or long-term goals. Nonetheless, the methodology requires trust between managers and staff and builds on individual competence. Thus, for instance, in an organisation where everyone uses a risk approach, senior programme managers with substantial field experience will be able to delegate with greater confidence to junior staff. And, quick-learning, self-critical programme staff will develop faster.

*Judgement.* At the end of the day, solid risk-taking is based on sound judgement. Even in situations where there is mathematical certainty about probabilities, people act on their beliefs about the chances of good and bad outcomes. Similarly, people take action based on their preferences for one outcome over another. What strategic risk management contributes is integrating reasoning with intuition, art with science. What will we do, and why? In cases where the risk-taker must decide alone, her or his judgements will be based on logically analysed, essential information and on personal but strongly reasoned beliefs and preferences. When the decision-maker is two or more people, strategic risk management strengthens, integrates, and fosters respect for divergent views about the probability and the importance of potential--desirable and undesirable--outcomes.

## Initiating a strategic risk management process

As with most essential concepts, risk principles can best be learned through practice. Thus the first step is for a decision-maker (board chair, executive director, department head, team leader) or a group of people with shared responsibility and authority (board of directors, management committee, team members) to apply the principles. The application is in five steps of reflection that feedback to each other.

1. Identify the principal positive risks (or "opportunities") and the major negative risks (or threats or dangers) to achieving the purpose of the organisation or one of its work units.
2. Understand the degree of probability for both positive and negative outcomes on the path to achieving those institutional objectives.
3. Weigh the potential results, both positive and negative, of success and failure.
4. Consider the costs.
5. Take action to enhance the possibility of success, control or mitigate the chance of failure, and identify new opportunities and risks.

In preparation, the decision-maker(s) simply reviews all the information she, he or they consider important:

- What ideas do we have about what we should aim to achieve, and why?
- What are our internal strengths and weaknesses to do what we do?
- What threats and dangers do we face out in the world?
- If these negative risks materialise and become a problem, what will we lose?

In each step of discussion, the individual(s) will decide what is relevant and if any additional information is required. Remember, it is all about judgement, which in turn is a matter of beliefs and preferences about opportunities, their risks and thus about information as well.

In sum, as a risk-taking guru has said, "no risk is the highest risk of all". At the end of the day, there is no way to take the edge off the uncertainty of social change and NGO management. There is much, however, that you can do to influence the probability of success and failure, and their consequences, in each opportunity to achieve your mission. Strategic risk management is a tool to help you succeed.

## The author

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