best practices for NGOs

■ Imagine if, as a non-governmental organisation (NGO), or, indeed, any other type of organisation, you had a special process that enabled you to achieve:

- ☐ a more confident and rigorous basis for decision-making and planning;
- ☐ better identification of opportunities and threats;
- ☐ gaining value from uncertainty and variability;
- ☐ pro-active rather than re-active management;
- ☐ more effective allocation and use of resources;
- ☐ improved incident management and reduction in loss and the cost of risk, including commercial insurance premiums;
- ☐ improved stakeholder confidence and trust;
- ☐ improved compliance with relevant legislation; and
- ☐ better corporate governance.

Would you use that process?

Well, the process exists and it's commonly referred to as 'risk management'. In recent years, many organisations the world over have been applying a process of risk management to achieve real benefits for them and their stakeholders. NGOs are no exception. For example, Wilson-Grau[1] argues that "Keeping pace with changes in the overall economic, political, and cultural environment in risk management practice and in leading thinkers' understanding of risk is vitally important to every NGO's success in carrying out its mission and accomplishing its long-term goals." He goes on to describe how strategic management of risk can make a difference to organisational operations in the fast-paced, demanding environment of NGOs and provides a case study of the experience of a major Dutch private donor NGO to exemplify applying strategic risk management to the grant-awarding process.

THE RISK MANAGEMENT PROCESS

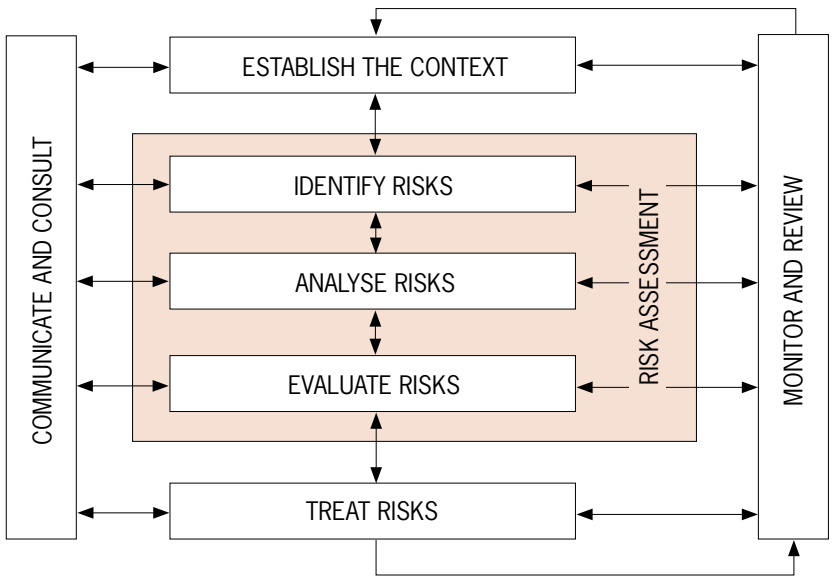
There is a commonly accepted, generic risk management process applicable to all types of organisations. The process is set out in the Australian/New Zealand Standard (AS/NZS) 4360: 2004 – risk management – and its associated handbook HB 436: 2004.

Figure 1 provides an overview of the risk management process, which contains the following key elements:

1. **Communicate and consult**, as appropriate, with internal and external stakeholders in respect of all elements of the process and in respect of the process as a whole.
2. **Establish the context** within which the risk management process will be applied. The context will be different for different organisations and situations. Indeed, within organisational types, such as NGOs, each will have a different context. It is essential to specify criteria, specific to each organisational context, against which risk will be evaluated.
3. **Identify the risks** that relate to the achievement of organisational objectives. A 'risk' is defined in AS/NZS 4360:2004 as "the chance of something happening that will have an impact on objectives" and typically relates to negative impacts.
4. **Analyse the risks** to determine the *consequence* and *likelihood* and hence the *level* of risk. This will involve identifying and evaluating existing control in place to mitigate the risk. The range of potential consequences should be considered as part of the analysis process.
5. **Evaluate the risks** by comparing estimated risk levels against the pre-established criteria. This enables decisions to be made about acceptability of risk, the extent and nature of risk treatment(s) required, and about priorities for treating risk.
6. **Treat risks** by developing appropriate strategies and action plans for mitigating risk. This will include either eliminating the risk altogether or reducing the risk to as low a level as is reasonably practicable.
7. **Monitor and review** the effectiveness of all elements of the risk management process in order to promote continuous improvement in the overall process. In addition, individual risks and their treatments may need to be monitored to ensure that priorities are not changed due to changing circumstances.

The combination of the elements of risk identification, analysis and evaluation are commonly referred to as *risk assessment*.

Figure 1 Risk management process – Overview



Source: AS/NZS 4360:2004

APPLYING THE RISK MANAGEMENT PROCESS

According to HB436:2004, page 10: Typically, the risk management process should be applied when planning and making decisions about significant issues. For example, when considering changes in policy, introducing new strategies and procedures, managing projects, expending large amounts of money, managing internal organisational differences or managing potentially sensitive issues....Risk management has a range of applications including:

(a) strategic, operational and business planning;
(b) asset management and resource planning;
(c) business interruption and continuity;
(d) change: organisational, technological and political;
(e) design and product liability;
(f) directors' and officers' liability;
(g) public policy development;
(h) environmental issues;
(i) ethics, fraud, security and probity issues;
(j) resource allocation;
(k) public risk and general liability;
(l) feasibility studies;
(m) compliance;
(n) health and safety;
(o) operations and maintenance systems;
(p) project management; and
(q) purchasing and contract management.

HB436-2004 stresses that "The range of applications for risk management is unlimited, and less formal processes may be appropriate for less important decisions."

CONDUCTING A RISK ASSESSMENT

Risks can be identified using a number of approaches. The simplest approach is to identify organisational objectives and then brainstorm all that could go wrong in relation to achieving objectives. This exercise should include things that could go wrong but are outside the organisation's control, eg political factors. Risk is expressed as the *likelihood* of adverse *consequences*. The likelihood of a risk materialising will depend on the existing controls in place to mitigate the risk. Controls include physical controls, policies, procedures, training and, for certain health and safety risks, personal protective equipment.

For each identified risk, its likelihood and consequences must be defined in relation to a common scale in order that the *risk level* can be determined. Figure 2 gives an example of an approach to determining risk level. Here, the likelihood and consequences are determined and one of three levels of risk – in this case, high, medium or low – is quantified. If the level of risk is considered unacceptable, one or a number of controls can be applied to reduce risk to an acceptable level. In many practical situations, organisations produce a paper-based or electronic (eg spreadsheet) *risk register*, which is a simple repository of information on each risk, existing controls and risk quantification. From the quantification, priorities for action can be established.

Figure 2 Specimen risk quantification matrix

Likelihood	Consequence: Negligible 1	Minor 2	Moderate 3	Major 4	Extreme 5
Almost certain - 5	5	10	15	20	25
Likely - 4	4	8	12	16	20
Possible - 3	3	6	9	12	15
Unlikely - 2	2	4	6	8	10
Remote - 1	1	2	3	4	5

RISK Low Medium High

TREATING RISKS

Having assessed the risks and established priorities for action, risk treatment options and plans can be identified. There may be a range of options for treating risk and the 'best' option must be selected. Sometimes, it may take more than one approach to treating risk to reduce the residual risk, ie the risk that remains after treatment plans have been implemented, to an acceptable level. For example, the mitigation of certain health and safety risks to staff may require a combination of physical controls, information, instruction and training.

CASE STUDY – A FICTITIOUS UK-BASED INTERNATIONAL HUMANITARIAN AID NGO

This NGO, with headquarters in London, and satellite offices internationally, responds to major disasters around the world, providing humanitarian aid to local communities. The NGO has implemented a risk management plan in accordance with AS/NZS 4360:2004, as follows:

- ☐ The context of the operation of the NGO internationally in relation to humanitarian aid is well understood and it is accepted that some of the work of the NGO necessarily involves acceptance and management of certain risks when undertaking activities in order to achieve NGO objectives.
- ☐ The significant risks that affect the NGO have been identified and ranked in terms of consequence and likelihood. The board of trustees have assessed these and are satisfied that systems are in place to treat, monitor and review the organisation's exposure to risk, and to communicate key risk information with relevant stakeholders. The significant risks that affect the NGO include:
  - Maintaining adequate fundraising income to meet operational requirements
  - Maintaining adequate financial reserves in accordance with reserves policy
  - Ensuring the safety, health and welfare of NGO staff and volunteers at all times
  - Ensuring the impeccable reputation of the NGO through operating with outstanding professionalism and propriety
- ☐ Risk identification and assessment processes have been embedded in routine operating procedures.
- ☐ Regular monitoring of key risks and action plans is carried out by the senior management team and internal audit advisory panel.

CONCLUDING COMMENTS

The application of sound risk management techniques can bring many benefits to NGOs, and all other organisations. The process of risk management is not 'rocket science' and is very clearly set out, with detailed guidance, in AS/NZS 4360:3004 and companion document HB436-2004. ■

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Reference

[1] Wilson-Grau, R (2004). *Strategic Risk Management for Development NGOs: The Case of a Grant-maker*.