

Sorting Risk and Uncertainty

by the editors

Risk and caution are important, to be sure, but go too far in that direction and you may find yourself bereft of advancement and short on social leadership. In the face of uncertain times, the trick is to always remain values driven, experiment wisely, and nurture your networks—all of which should be deeply embedded in your practice.

As [Frank] Knight saw it, an ever-changing world brings new opportunities for businesses to make profits, but also means we have imperfect knowledge of future events. Therefore, according to Knight, risk applies to situations where we do not know the outcome of a given situation, but can accurately measure the odds. Uncertainty, on the other hand, applies to situations where we cannot know all the information we need in order to set accurate odds in the first place.

—Peter Dizikes¹

THE DISTINCTION VIS-À-VIS FOR-PROFITS, described by *MIT News* staff writer Peter Dizikes, above, can also be applied to the nonprofit sector—except that in the nonprofit sector, risk is not measured so much against reward as against organizational harm prevention. And therein lies a profound attitude problem.

The *Nonprofit Quarterly* has always engaged in the risk management conversation a little half-heartedly—there was something about the way this exciting topic has tended to be addressed that struck us as far less than inspired or inspiring. And then we decided to do an edition on risk and uncertainty, and we were forced to delve in.

That is when we realized that what we didn't like was the caution-based framework that predominates. It limited not only our conversations but also our organizations—which are, of course, the product of our conversations.

We cannot argue that caution is unimportant in a sector that is, in large part, based on notions of responsible stewardship—but is it the be-all and end-all of how we should be approaching risk? Without an enthusiastic embracing of risk, there is no advancement or societal leadership, so

maybe the questions lie in how we approach and interact with risk—which, due to factors beyond our control, can never be completely managed.

This takes the discussion to an acknowledgment that there is a big difference between risk that is relatively predictable and risk that is far less so. Relatively predictable risk often lies in our financial structures. Unpredictable risk lies in such things as weather patterns—as nonprofits on the Gulf Coast and in New Jersey can tell you—and in other cataclysmic events like 9/11. And then there are many situations in the middle—such as presidential and local politics—that may threaten your community. (You cannot really manage these last two categories, although you can certainly participate in trying to mitigate harm when it looms on the horizon.)

Unpredictable risks and those that lie in the middle of the continuum often pose choices between types of risks that can be taken rather than choices that offer a path to no risk. So, if we spend a good deal of time and energy just trying to avoid risk rather than learning what protects us from it—and projects us forward, even—then we are missing all the fun and potential on the horizon.



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Predictable Risks

When nonprofits talk about risk management, they are usually discussing it in terms of financial and liability risks—and as complex as these can seem, they may actually be the tamest of the risk categories. Problems in these areas are often self-inflicted, in that one has usually chosen to ignore something that is commonly recognizable. That does not mean that these problems are easy to solve but rather that they can, in fact, be managed.

A now classic and oft-cited example of this category is the case of FECS, a mammoth social services agency in New York that went belly-up after its growth in government contracts far outpaced its other supplemental monies. Why was this a problem? Government contracts rarely pay full costs of service delivery. So, if you do not keep the two in balance, this threatens sustainability. Beyond that, FECS lost a contract, and the attendant costs of that loss had not been anticipated. In addition, the organization had been running a social enterprise that was not only failing to produce a profit but was also costing the organization money.

The nail in the coffin, so to speak, was due to the social enterprise's having been a back-office support operation producing the agency's financials.

Was the demise of the agency preventable? Absolutely. Had the organization had the right sort of dashboard, the board might have caught all of the signals and made efforts to mitigate the agency's multiple vulnerabilities.

The lack of a thorough understanding of one's nonprofit's business model and its drivers is a very common welcome mat for unnecessary (because it is so predictable) risk. Dashboards done right require that the staff and board agree to attend to the right formulas for the organization's health and sustainability, and that makes it hard to neglect having the right conversations.

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Unpredictable Risks

Hurricane Katrina is a good example of an unpredictable risk, and the Coastal Family Health Center's (CFHC) experience during the onslaught and aftermath of that storm is illustrative of how organizations can survive and even thrive in the face of this category of risk. CFHC could not possibly have thoroughly planned for what occurred, but some of its preexisting characteristics ended up working in its favor. Some of these characteristics lay in the networks in which the organization was embedded, some lay in the purposefulness of its members, and some lay in the ability to respond quickly to create pockets of order amid chaos.

About his return after the storm to the Biloxi, Mississippi location, on August 30, 2005, CFHC's then-CEO Joe Dawsey said:

"The door itself was open. . . . A desk was jammed against it so I had to break through. When I did get inside, the mud was probably six or eight inches deep on the floor, and the furniture was just scattered everywhere. Everything had been ruined. All that was left were the top two shelves of the pharmacy in that building. A couple of other staff people were there just standing outside. I don't know how to describe it except that they were in shock. Not just because of this, but because their own homes had been flooded. One of those people and I drove over to the Biloxi clinic and it was even worse. Water and mud and stuff was up over the top of it, and everything in that building was ruined. Then we went over to the Gulfport clinic, and the roof had been blown off. So we kept going to visit Vancleave, where there was some damage, but not as bad."²

And not only was the physical infrastructure of CFHC gone—the patient files and billing information had been destroyed also, in both the original and backup locations. The organization quickly established pop-up clinics, staffed by the employees they could locate and anyone else who could be pressed into service. This included a seventy-three-year-old board member whose own house had been destroyed, leaving her, her son, her daughter and son-in-law, her husband, and

their dog clinging to the branches of a nearby tree. Within days, they were back at the center, helping with the recovery of people and the organization. This first step took enormous outreach and effort. Then, they began reaching out to their larger networks to establish contacts with funding agencies and relief efforts, and it was there that problems started to emerge—and the group began to need to use one part of their support network to mobilize another. Luckily, the organization's base was solid, even if the individuals within it were decimated and suffering themselves. The seventy-three-year-old board member commented that it never occurred to the group to give up, because the need for the nonprofit was so clear even before the storm (and even before the organization got started).

Upon reading this story, Rikki Abzug, who also studied nonprofits in the aftermath of 9/11, wrote:

Any organization exists within concentric circles of stakeholders/environmental forces that act upon it, and upon which the organization acts. For any nonprofit organization, a shaky ring—whether it is a global crisis, a national economic downturn, governmental retrenchment, unstable local politics or climate, or even wayward board members or staff—can lead to service and security disruption. When a crisis impacts a series of these concentric rings, the impact on the core organization may well become amplified. This is part of the story of CFHC.

The first crisis Joe Dawsey faced was the innermost organizational facilities crisis—Hurricane Katrina happened most immediately to the infrastructure of the organization. The devastation continued in waves coming out from that center. Crisis came from the missing and displaced staff, and then from the missing and increasingly relocated board. The local community, devastated as well by the storm, could offer few resources, at the same time supplying more pressing issues of concern. The local government and the Feds, disbelieving, then stymied, could also offer no relief. Not only was help from that circle not forthcoming, further pain was inflicted when previous

contracts were violated. A crisis of any of these rings would have brought hardship upon the organization. Cascading crises in each one meant that response and recovery would have to start again at the core.

The good news for Coastal was that the CEO and the board remained committed to the organization's mission against a backdrop of widespread and often personal disruption and suffering. That "core" inner circle was able to keep the organization functioning with makeshift facilities and tremendous resolve to service both old and new demands for assistance. With a solid core, the organization is trying to rebuild relationships to the outer rings. As it does so, Coastal would be well served by strategizing how dependent it has to be on the circles furthest from its core.³

This idea of preexisting circles of support or functional networks turns out to be incredibly important in the face of unpredictable risk. Abzug also referenced affiliation extensively in her and coauthor Dennis Derryck's research on nonprofits in the aftermath of 9/11:

Contrary to popular press, some monies for recovery did become available relatively quickly. For nonprofits providing services, the September 11th Fund made both grants and loans available through three coordinating organizations with traditions of assessing organizational needs. The New York Community Trust, Seedco, and the Nonprofit Finance Fund were ready to cut checks for organizations with demonstrated need. But these resources were not highly publicized, so knowledge of such pools of funds became a critical factor in gaining access. One sure route to this knowledge was interorganizational connections to those groups in the know—often umbrella groups.

Umbrella and other intermediary organizations immediately sent out communiqués to their networks through phone, fax, and e-mail trees to assess damage and need. Umbrella organizations were able to match one organization's needs (for temporary

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space, for instance) with another organization's resources. Foundation grantees often had access to knowledge and additional funding from their foundation grantors. All of this left the unaffiliated small and medium-sized organizations still reeling from the immediate impact.

It could also be argued that organizational networking and affiliation might have provided respite from the very uneven change in client participation that we discovered in our study. Just under half of responding organizations (46 percent) reported a change in client attendance or participation rate. Almost 30 percent reported an increase in client participation, while three-fourths reported a decrease in client participation (the numbers do not add up to 100 percent because some respondents saw increases in some programs and decreases in others). Organizational resources did not necessarily match the new needs—the organizations seeing the most new clients were not necessarily those with enough staff to handle the volume. Affiliation and communication with other organizations could have further matched client demand to organizational supply. Indeed, there were some feelings of ill will when the Red Cross tried to recruit new caseworkers without first exploring options of partnering with neighborhood nonprofits that had caseworkers available.

The short-term costs of nonaffiliation clearly included delayed or no access to recovery resources—including funding and extra staffing. The long-term impact of nonaffiliation continues to plague these organizations in issues as diverse as contracting negotiations, supplier negotiations, knowledge sharing and leverage, and advocacy. A major implication of these observations is that nonprofit organizations need to consider the benefits of affiliation, federation, networking, and knowledge sharing so they do not have to face crises alone.⁴

On top of all that, Abzug and Derryck wrote, some organizations were plagued with budgets made up almost entirely of restricted

funds, allowing no financial or service flexibility when it was needed—and, in the case of performance-based contracts that were paid on a reimbursement basis, creating interruptions of services that cost agencies on a permanent basis.

That Vast Middle Continuum of Risk—Controlled and Informed Risk-Taking

Between the mostly predictable and mostly unpredictable is a vast continuum of risks that range from starting a new organization to using every spare cent to capitalize a fundraising event. Sometimes the uncertainty in a space like that is overwhelming and must be balanced by hope, informed by as much information about variables and models as can be mustered, and sometimes by a sense that there is nothing else to be done.

As one example, over the last decade news sites have been profoundly transformed, and a greatly expanded field of nonprofit news sites has emerged out of a sense that journalism as it was currently placed was doomed. Thus, there was risk in staying still, but there was also risk in beginning alternatives.

There were few reliable business models to point to for the nonprofit start-ups. Were large donors the answer? How about paywalls or syndication—what part did *they* play? Was the answer big events? Citizen journalism? Collaboration with news outlets? A tight field focus? Many nonprofits bumped along for a few years before they began to sort out those revenue streams that fit their own operations. Meanwhile, they were being exhorted by funding institutions to get their acts together—to demonstrate sustainability. It was, in general, simply a risky business, often held together by committed journalists.

Fortunately, one committed funder (the Knight Foundation) realized that it was necessary to provide some documentation of the various experiments being tried so that there was some overall sense of what was working, and for whom, even as readership expectations grew and technology continued to change. There were many false paths, and the trick was not to blow all of one's money gearing up for any one option before being certain that the direction was right.

Still, for some, trying to build the ship on rough

waters took a toll—and sometimes, even after a number of deficit years, boards were asked to reinvest their faith; and what could they depend upon to do that? They could depend upon (1) information from other sites and (2) their own organizations' attention to the disciplines of short and controlled cycles of experimentation.

The Risk of Being Values Driven in a Revenue-Dependent World

It is a sad fact that many nonprofits, being resource dependent, over time become cautious about voicing their beliefs in the public square. What a waste! The last half-year has put all of that to the test. What we have seen is that the organizations that do make their positions clear are repaid with even more support from those who appreciate their work. In some cases, speaking out honestly and from a place of values can feel very risky, but we rarely see that end in a loss—and *not* speaking out can lead us all directly into a kind of uninspiring, slowly downward-spiraling hell.

We have seen any number of small and large examples of this in the past few years. There is the story, for example, of the Girl Scout troop that was told by a large donor that funds would not be forthcoming unless they committed to not serving trans girls. The group not only refused to accept the deal but also widely broadcast the fact that they had turned the money down on principle—and donations rained upon them in far more abundance than would have had they knuckled under.

And, when the sector has recently needed speedy responses to political threats, supporters have stepped forward en masse—and that is protection in and of itself. This is in the category of taking on a more immediate risk to protect oneself against a slow, self-hating death.



As mentioned elsewhere in this edition, the nonprofit sector works specifically on wicked problems—and these, by nature, can have endlessly complex variables: bottom lines that are at war with one another and multiple stakeholder visions of what success looks like. Language about our

endeavors varies with political perspective and worldview. To one population, Planned Parenthood is a necessary component of women's health; to another, it is a device of evil. One administration may wish to fund refugee resettlement, and a subsequent one may not.

Each of these situations (and we usually have many evolving at any particular time) deserves a response that is well informed, confident, and as timely as possible. And here is what you need for that:

1. A strong values-based identity.
2. Strong networks or circles of support and information.
3. Excellent disciplines that include foresighted environmental scanning (often done through networks and through closeness to your base) and the ability to try tactics and track their results in tight experimental loops in real time.
4. A reasonably flexible budget.
5. Good risk leadership that has all of the above embedded in its practice.

Risk is a byproduct of our work, and, as such, we need to get good not only at managing it but also at using it to launch ourselves to the next level of effective and powerful practice.

NOTES

1. Peter Dizikes, "Explained: Knightian uncertainty," *MIT News*, Massachusetts Institute of Technology, June 2, 2010, news.mit.edu/2010/explained-knightian-0602.
2. Rikki Abzug, "Coastal Family Health: Built to Last," *Nonprofit Quarterly*, September 21, 2007, nonprofitquarterly.org/2007/09/21/coastal-family-health-built-to-last/.
3. Rikki Abzug, "Commentary: A Concentric Circle of Devastation and Displacement," in Abzug, "Coastal Family Health."
4. Rikki Abzug and Dennis Derryck, "Lessons from Crisis: New York City Nonprofits after September 11," *Nonprofit Quarterly* 9, no. 1 (Spring 2002), nonprofitquarterly.org/2002/03/21/lessons-from-crisis-new-york-city-nonprofits-post-september-11/.

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