

Chapter 4

Enterprise Risk Management in Non-Profit Organization

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ABSTRACT

Prior studies indicate that enterprise risk management has a vital role on firm performance. Enterprise risk management system helps organizations to reach their goals by reducing uncertainty of their operating environment. In this context, this study aims to discuss and analyze the concept of enterprise risk management in non-profit organizations. The term “risk” for non-profit organizations is defined and different types of risk are examined. The significance and need of managing risk in non-profit organizations are revealed.

INTRODUCTION

The number of non-profit organizations is increasing on a yearly basis. This increase in numbers has also been accompanied by increased scrutiny and increased demand to operate with greater board engagement and transparency (Bennett et al., 2006). It is also worth noting that the expectations of non-profit organizations and non-profit boards keep evolving, a fact that has seen more focus being directed towards enterprise risk management. A structured approach helps align strategy, processes, people, technology and knowledge in order to assess and manage the uncertainties facing an organization, aimed at creating value. Structure of efficient Enterprise Risk Management (ERM) provides accurate information for decision of sound decisions in business risk management. ERM is the tool for Comprehensive Management Risks of Organizations providing a holistic view that allows the sound decision making, proper prioritization and allocation of more efficient capital, increasing effectiveness of corporate management and becoming a fundamental to the creation of value for an organization component. Non-profit organizations have realized the important role that enterprise risk management plays in effective governance of an organization (Brown & Iverson, 2004). Leadership in non-profit organizations is now determined

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to identify high risk areas within and without the organization and come up with appropriate strategies to mitigate these risks. This has led to increased interest in enterprise risk management from these organizations. Enterprise Risk Management needs proper communication throughout the nonprofit organizations. Executive management is responsible for implementation and education (Herman, 2011). They must assemble the proper staff, develop a comprehensive program, and educate the staff on how to implement and use the ERM. Reckless risk-taking will occur if staff is not properly trained, and the ERM becomes standard operating procedure. Through the effective ERM, management can mitigate future risk by training and management levels are responsible for communicating the ERM and ensuring their direct reports are adhering to same. Management is ultimately responsible when infractions occur. The current global economic climate has exerted a lot of pressure on organization boards, management as well as audit committee, requiring them to have an understanding and be in a position to address organizational risks that are more prevalent in the present climate.

Organizations are facing increased risks, meaning that organizations have to protect their important assets including their reputation and good name. Effective and proper management of risks is crucial for proper functioning of an organization. The environment in which non-profit organizations operate in is uncertain and unpredictable, meaning that these organizations are exposed to a wide array of risks. Segal (2011) defines enterprise risk management as a process by which an organization identifies measure, manage and disclose all key risks to increase value to the stakeholders. Non-profit organizations encounter risks in many ways including financial risks, program, and capital expenditure as well as personal risks (Brown & Iverson, 2004). Determinations of these risks is difficult to be determined as it involves the interaction of different organizational factors within the complex, changing and volatile economic, social and political environments (Bennett et al., 2006). This study discusses and analyzes the concept of enterprise risk management in non-profit organizations.

Over time, changes in the environment within which organizations operate together with accompanying factors have led to the creation of an environment that is flooded with risks. These risks include economic risks, technological risks, geopolitical risks, societal risks as well as environmental risks. Both for profit and non-profit organizations are more determined than ever to protect their assets as well as reputation (Brown & Iverson, 2004). Increased scrutiny from watchdog agencies as well as donors has also necessitated the need for non-profit organizations to safeguard their reputation. These have resulted to increased focus by non-profit organizations toward enterprise risk management. However, careful assessing and management of current and potential risks remains a key challenge for most non-profit organizations. Failure to effectively manage these risks could expose organizations weaknesses, which can lead to the eventual destruction of the said organization. It is thus important for the concept of enterprise risk management in a non-profit organization context to be analyzed in order to identify the risks involved and how these risks can be effectively managed (Fremont-Smith, 2004).

The main objective of this study is to identify and discuss enterprise risk management practices and its framework in non-profits organizations. Additionally, the paper aims at:

- Define the term “risk” as applicable to non-profit organizations,
- Identify the important areas of risks that are unique to non-profit organizations,
- Highlight and discuss the different types of risk that non-profit organizations face,
- Discuss the need and importance of managing risks in non-profit organizations.

The study will be guided by the following research questions:

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