



Practical Pointers Series

Risk Balancing Methodology and Risk Matrix Template

The cornerstones of land trust risk management are advancing the land trust's mission which includes upholding conservation, treating its people well, and protecting its financial and reputational assets. The Land Trust Alliance has an array of risk balancing resources including a free [organizational risk planner](#) that is easy to use. Check the Resource Center for more.

Land trusts are at a critical juncture between individual broad land conservation goals and changes in land and easement management driven by external factors. These challenges include increasing severity and frequency of natural disasters; technological changes; social dynamics and creation of various credits, registries, markets and other financing of climate change mitigation. Land trusts are constantly balancing risk by assessing these profound changes and balancing the opportunities and risks they present. Using the following seven steps, your land trust can assess fully the impact on the organization of new (and old) challenges and opportunities. Be sure to engage all personnel in risk assessment so that you can be sure that you have identified the array of risks and issues.

SEVEN SIMPLE RISK ANALYSIS STEPS

Step 1: IDENTIFY THE RISKS. *Risk identification is the process of considering possible future results that differ from assumptions, expectations, and goals. What could go wrong?* Types of risk to consider include operational, regulatory and legal, governance, financial, stewardship and reputational risk. At this stage, do not dismiss risks because they seem unlikely or impossible. Probability is assessed later in this exercise. Focus on the idea of risk. Ask:

- a. Operational
 - How could our operations be disrupted, inconvenienced, or permanently altered?
 - What are the human capacity considerations?
- b. Regulatory and legal
 - What laws, rules, regulations, practices and government oversight might affect or apply to this risk now or in the future?
 - What is the impact on our public charity and tax-exempt status (e.g., private inurement, impermissible private benefit, unrelated business income)?
 - Does the activity comply with the state enabling law, state nonprofit law requirements and other state laws, attorney general guidance or other laws and local ordinances?
 - Have we complied with federal rules regarding classification of employees?
- c. Governance
 - Is the activity consistent with our mission, bylaws and existing policies and does this clearly serve the public interest?
 - Are there any conflicts of interest?
 - Do we have any control over the issue or over mitigation?

DISCLAIMER: The Land Trust Alliance designed this material to provide accurate, authoritative information about the subject matter covered with the understanding that the Alliance is not engaged in rendering legal, accounting or other professional counsel. If a land trust or individual requires legal advice or other expert assistance, they should seek the services of competent professionals. The Alliance is solely responsible for the content of this series.

- d. Financial
 - Do we risk liability and, if so, do we have adequate insurance for that liability?
 - What additional staff and training are needed?
- e. Stewardship
 - What is the impact on conservation purposes or other conservation values?
 - Will procedures need to be changed?
 - Will new technology need to be adopted?
 - Will new equipment be required?
 - Will new training be required?
 - Will new staff or contractors be required to do the job correctly?
 - Will this intrude into residences or other private property or cause other privacy concerns?
 - What is the requisite level of outside expert review?
 - Will this set precedent for other or future landowners?
 - What other impact will there be on stewardship administration, capacity, and funding?
 - Do funders, neighbors or others need to be consulted? Is any approval required?
 - What opportunity costs come with the activity?
 - Are there tradeoffs and if yes what impacts do they have?
- f. Reputation
 - What are likely media, stakeholder and public concerns and perceptions?
 - What are donor perceptions?
 - What are the likely regulator perceptions?
 - What are the likely social media risks?
 - What are the likely factors for staff and volunteer morale and commitment?
- g. All Risks
 - How might our view of the activity be skewed or biased? (Be cognizant of self-serving bias, optimism bias, and confirmation bias).
 - Are there long-term vs. short-term implications?
 - Does this risk comply with *Land Trust Standards and Practices* and the Accreditation Commission *Requirements Manual*?
 - What are your feelings about the risks and opportunities? How strongly do you feel? Are strong feelings unfairly coloring your analysis of the underlying issues? Are you willing to examine your assumptions and feelings in light of the following assessments?
 - What additional legal and technical outside expertise is needed?

Step 2: ANALYZE FACTS. *For the risks identified above, what are the (1) direction (positive or negative); (2) the probability or likelihood and (3) the potential magnitude or severity?* To really understand *risk*, a land trust must look at the **three dimensions of risk** (direction, probability or likelihood, and magnitude or severity) in the context of the land trust's mission and operations.

1. *Future events may be much worse or much better than you expect.* This aspect is the **directional** dimension of risk. That is whether the risk is thought to be negative or positive (an opportunity) or perhaps some of both.
2. *Future events may happen much more often, or much less often, than you expect.* This aspect is the **probability** or likelihood dimension of risk. Now considering the risks identified in step 1, how likely are those to actually occur?
3. *Future events may generate results that are much larger, or much smaller, than you expect.* This aspect is the **severity**, magnitude or size dimension of risk. This step can be particularly useful when evaluating new opportunities and also perpetual stewardship administration. Given the assessments in steps 1 and 2, what is the scope, scale, size or severity, such as major or moderate or minor, of the risk?

Bearing in mind these three dimensions, you can better examine new programs, opportunities and activities generated from Step One. One way to prioritize threats, address vulnerabilities, and strengthen risk management is to perform a risk heat map analysis. It helps triangulate the likelihood of an event occurring with the likely impact of the event to yield a score representing the overall risk. It does not account for mitigation and other steps listed below. You can do this for a project, a business department, or an entire organization. Lower numbers represent less significant impact to a project or business, as well as a lower probability of occurrence; the higher numbers represent a more critical or more certain risk. Based on your data from the above Step One, you calculate a score for each risk you identified from the heat map. You then get a visual overview allowing you to prioritize major threats and develop effective mitigation plans. You can also use the heat map as you work through the risk matrix to help you better understand how to rank risks.

| | Consequences, Severity, Impact and Business Consequences | | | | |
|---|---|---|--|--|--|
| | <i>1</i> <i>No Action</i> Insignificant or Negligible Almost no impact or has a positive desirable effect. | <i>2</i> <i>Acceptable</i> <i>Monitor</i> Minor or Low Some impact but small enough to manage. | <i>3</i> <i>Undesirable</i> Moderate It will damage and take time and resources to address | <i>4</i> <i>Unacceptable</i> Major or Significant The consequences have long term and mission damaging effects. | <i>5</i> <i>Stop</i> Catastrophic The consequences are potentially permanently disabling or cause business failure. |
| 1 Improbable Hard to imagine Rare | 1 | 2 | 3 | 4 | 5 |
| 2 Remote Unlikely | 2 | 4 | 6 | 8 | 10 |
| 3 Occasional Moderate | 3 | 6 | 9 | 12 | 15 |
| 4 Probable Likely to occur | 4 | 8 | 12 | 16 | 20 |
| 5 Frequent Highly Likely | 5 | 10 | 15 | 20 | 25 |
| 6 Certain Will occur | 6 | 12 | 18 | 24 | 30 |

Step 3: ASSESS MITIGATION. *What did we or can we do to make a negative risk less likely to occur, or cushion the impact if it does? Given the uncertainty of risk—events may or may not happen and they may look very different from what you’re imagining—flexible approaches assist planning. Ask:*

- a. What contingency options have we identified?
- b. What makes us believe that each contingency is viable? What are the consequences if not?
- c. What trainings or system changes can we implement that might reduce our risk? What is the cost of such mitigation—money, time and capacity?
- d. Is there any additional insurance or other risk financing available to manage or mitigate the risk?

Step 4: ASSESS OPPORTUNITIES. *What likely positive results from the new activity that are central to the mission exist despite the risks? Ask:*

- a. Is the proposed activity consistent with our mission? Does this further our mission and conservation goals? Is it consistent with our strategic organizational plan? With our strategic conservation plan?
- b. Do sustained financial or conservation benefits justify the risk?
- c. Is this a high priority for our stakeholders but not necessarily a high mission priority?
- d. Is this one last critical piece of a mission-central objective?

Step 5: RISK APPRAISAL. *What is the basis to conclude that the risk is acceptable or not? What level of tolerance does the organization have for the potential result and any collateral damage? Ask:*

- a. What assumptions have we made? Are those assumptions justified by data?
- b. What are the advantages of what we’re considering?
- c. What are the disadvantages?
- d. What factors might influence the risk and in what ways?
- e. What unspoken hopes are we embedding in our positive risks (opportunity) assessment?
- f. What outside expert opinions might be required or prudent? And if obtained, how do they affect our analysis?
- g. Have we considered potential changes in science, technology, culture, and social norms?
- h. Have we fully assessed potential stakeholder reactions, both positive and negative?
- i. What new equipment, personnel, software, insurance or other additional costs are required?
- j. Is waiting to allow more time to gather information appropriate here?
- k. What are we missing? Where are our blind spots? What is our current feeling about the risk?

Step 6: RISK TOLERANCE. *What negative results can the organization tolerate while retaining public confidence, complying with applicable laws, remaining fiscally sound, treating its people well, and accomplishing its mission?*

Step 7: RISK REVIEW. Do it again for the same issues the following year and make this a regular part of budgeting and planning. Look back at the topic to see, for example, if assumptions, issues, costs and risks played out as predicted, what other new mitigation measures evolved, and if the pros and cons remain the same. Create a process that is dynamic and evolving rather than stagnant.

RISK MATRIX TEMPLATE

The following Risk Matrix Template allows you to rank risks from low to highest for decision points relating to risk assessment. Not every risk is equal; for example, impermissible private benefit or private inurement will be of much greater magnitude than a low risk finding on all other points that do not jeopardize the tax exempt status of the land trust. Attempt to capture relative pros and cons of the facts and factors by using either a quantitatively (numerical scale 1 to 5) or qualitatively (low, medium, high) capturing the level of risk for each of the elements. The numeric values you obtained from the heat map can be entered in the “Dimensions” column of the Matrix. Some risks can be mitigated or avoided by a land trust that is aware

the risk exists, while other risks have unavoidable consequences. Mitigation factors can reduce the numeric score from the heat map.

CONCLUSION

Every high performing land trust engages in risk management all the time, whether it recognizes it or not. Not every challenge or opportunity will require use of all the tools in this Pointer or their full use ranking every item or answering every question posed. The analysis may be streamlined and a conclusion expedited, particularly when undertaken by experienced land trust staff. But whether the analysis is more qualitative than quantitative or more holistic than granular, good risk management requires knowing about and considering the challenges any potentially risky project may present.

Contact us:

- Leslie Ratley-Beach (802) 262-6051 | lrbeach@lta.org
- Ailla Wasstrom-Evans (202) 800-2249 | awasstrom-evans@lta.org

Date last revised: 8/10/2023

| RISK MATRIX TEMPLATE | | | | | | | |
|--|----------------|---------------|------------|-----------|-----------|-------------|-----------|
| [INSERT ISSUE HERE] | | | | | | | |
| Action | Identification | Analyze Facts | Mitigation | Positives | Appraisal | Risk Review | Tolerance |
| Mission & Priorities | | | | | | | |
| Legal | | | | | | | |
| Stewardship | | | | | | | |
| Governance | | | | | | | |
| Financial & Fundraising | | | | | | | |
| Contracts & Drafting | | | | | | | |
| Stakeholders, Reputation & Public Perception | | | | | | | |
| Consistency with policies & procedures | | | | | | | |
| Consistency with operations | | | | | | | |
| <i>Other Considerations</i> | | | | | | | |