Risk management in Scottish charities: Hidden practices and improvement needs in public service partnerships

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Abstract

This study reviews the evolving role and state of risk management in Scottish charities between 2009 and 2018, with a specific focus placed on charities engaging in public service partnerships. It draws on data from questionnaires, interviews and charity documents. It identifies how risk management activities are organised in the Scottish charity sector in general. It also identifies how charities deal with risk in partnerships. Findings suggest that most risk management activities are implicit and sporadic, with some Scottish charities engaging in more formal practices, though none of the risk management activities extend to partnership working and reporting on risk management practices is also limited.

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Introduction

Management scientists and corporate experts have developed risk management doctrines and methods to guide managers how to address risk in comprehensive ways. Risk management refers to a planned and systematic approach to identifying, analysing and responding to a wide range of risks, and providing assurance that responses to these are effective, as well as monitoring this approach (Chartered Institute of Public Finance and Accountancy [CIPFA] & Office for Public Management Ltd [OPM], 2004; Herman et al., 2004). However, these business-focused risk management ideas may not be directly applicable in charities, which have a not-for-profit ethos, focus largely on services instead of the production of physical goods, and often rely on voluntary work. Matan and Hartnett (2011) highlighted the uniqueness of risk management in the charity sector, given that it is often the responsibility of a volunteer board to make decisions and set policies and processes, which is unlike private sector counterparts. Still, charity trustees have responsibility to manage relevant risks such as financial, reputational, technological, and legal risks, to protect the physical, financial and intellectual assets of their charities (Charity Commission, 2010; Domański, 2016; Lindsay, 2009).

In the last decade, charities have faced increasing financial pressures, especially those enjoying public grants and subsidies, and many have started engaging or deepened their

engagement in partnerships and contracts with public sector organisations (Scotland Funders Forum & ACOSVO, 2018). Partnership working is not new to charities, but it has become more prominent in Scottish public services, with a shift from voluntary to mandatory partnerships, exemplified for instance, by the statutory Community Planning Partnerships, which require public sector organisations to engage with the third sector (Cook, 2015; Egdell & Dutton, 2017; The Scottish Government, 2015). Typically, charities end up in partnerships with public authorities through outsourcing, commissioning, or joint venturing arrangements (Cordery, 2012). The terminology of contractual relations and partnerships are complex, therefore, there are rarely clear boundaries between types of collaborative relationship (Karlsson-Brown, 2017). In extant public management literature, partnership has been defined in a number of ways (see Hodge & Greve, 2018), but in this study the concept refers to medium or long-term joint efforts or coordinated and parallel activities between collaborative parties, which are independent organisations. It is worth bearing in mind that even in formal partnerships, such as the Scottish Alcohol and Drugs Partnerships and Community Planning Partnerships, contracts and service level agreements often exist between the lead public sector organisations and individual service providers. For example, a number of public sector and third sector organisations may engage in such partnerships both on a strategic level but also as service providers. Hence, it is very possible for this dual nature of 'partnership' and 'contract' to exist simultaneously. Often this also creates competition between service providers, at the same time as they are expected to be partners in service delivery (Karlsson-Brown, 2017).

Charities partnering with other public service providers increases and changes risk. Not only is there requirements from regulators that some charities take action in relation to risk management, but there is also expectation for this from out with the sector for those involved in public service delivery. Yet, little is known about risk management in the charity sector,

especially in Scotland.

This study reviews the evolving role and state of risk management in Scottish charities. The first aim is to identify how charities have operationalised risk management activities by reviewing the perceptions of charity members concerning these activities. After that, we focus specifically on partnerships between charities and public authorities. The second aim is to review how risks are dealt with in public service partnerships from the perspectives of charities. In doing so, the purpose is to explore the organisation of risk management in the Scottish charity sector in general and provide justifications as to why charities should develop risk management in partnerships in particular. We utilise mixed methods, consisting of interviews, surveys and documents from a ten-year period.

The paper starts by reviewing risk management literature focused on charities. Second, a case is put forward for why charities involved in partnerships should engage in risk management activities. Third, the methodology of our empirical work is outlined. Finally, analysis of the key empirical findings is presented, followed by a discussion and conclusion.

Previous research findings

Only a few empirical studies have specifically focused on risk management issues in charities. Domański (2016) studied the risks charities face, with partnership, reputation and financial risk the more common ones. Risk associated with partnerships is an increasingly topical theme in voluntary sector studies. For instance, the loss of independence is concerning. Reputation risk also deserves attention, as bad publicity may result in diminished trust in charities (Domański, 2016; Egdell & Dutton, 2017).

Herman et al. (2004) noted that many charities manage risk implicitly, for instance when asking multiple providers for bids as a way of reducing costs. However, implementing a

formal risk management framework is needed, as a systematic approach allows for the most cost-effective consideration of risks. The authors proposed a risk management process (which aligns with the International Organization for Standardization's [ISO] 31000 standard, Institute of Risk Management [IRM], 2018a) that can be quickly implemented and used by all charities, involving five steps:

1. Establish the context for the organisation, considering issues that can be beneficial or challenging for risk management.
2. Appraise risk, taking a systematic approach to assessing risks in the entire organisation or a particular service or activity.
3. Decide what to do and communicate, developing strategies for addressing risks, e.g. implementing risk controls and communicating these changes to staff and volunteers.
4. Act on decisions, implementing risk management plans and strategies, which may involve new training or policies.
5. Follow up and adjust, taking account of the dynamic nature of charities and their operational environment.

Domański (2016) investigated risk management processes in Polish charities. He found that nearly two thirds of his participants believed there was a need for risk management, yet over half did not have any risk management measures in place and nearly all of these reported that they were not planning on implementing such measures. Contrary, when reviewing survey data from 2000, Bennett and Gage (2012) found that risk management practices had improved in UK charities, with trustees becoming more involved. However, they also noted the need for further improvement in some charities, especially in terms of effectiveness of practices, emphasising that risk management should be continuous, rather than a one-off exercise.

Bennett and Gage (2012) demonstrated that risk management practices of many charities were rather reactive and therefore not embedded in organisational processes. Similarly, Young (2009) argued that the approach to risk management in some US charities is not sufficiently robust, with the focus being on minimising risk, rather than considering risk strategically. This is broadly in line with Domański's (2016) findings, with the contextualisation stage (step 1 in Herman et al., 2004) the least operationalised, meaning that charities fail to identify their profile and risk management objectives. Instead of implementing the risk management process in full, charities focus on the operational elements (i.e. risk assessment, mitigation, and monitoring).

These findings may be explained by the lack of skills in risk management, which Bennett and Gage (2012) suggested needed improvement across the organisational levels. A lack of deep understanding about risk management may stem from an inadequate understanding of the terminology and purpose of risk management, and an insufficient knowledge of the techniques available for risk management and their perceived complexity (Drennan et al., 2015).

The most relevant research for this study is one focused on risk in Scottish charities by McDonnell (2017). He found that reputational and regulatory risks were not of high concern for charities. After the Oxfam scandal (consisting of sexual misconduct during the Haiti earthquake disaster relief effort) that came to light in 2018 (Cooney, 2019), it could be expected that reputation risk should be a higher concern. Though this may not necessarily be the case, as McDonnell (2017) indicated that scandals in the UK charity sector have not influenced charities' perception about reputation risk. On the other hand, the mismanagement of one charity may have sector-wide consequences, or at least the fear of it as the Oxfam scandal showed (Cooney, 2019).

McDonnell (2017) found that people involved in charities feel role-responsibility for dealing with risk, with board members and senior managers having most responsibility for risk within the charities studied. Although the perception about trustees being responsible for risk was found across different organisational levels, it was most prevalent among trustees themselves. While it may not be necessary or desirable to have a 'risk manager', with Herman et al. (2004) having found that only about 200 official risk managers existed in 1.3 million US charities, a designated person or committee should champion and coordinate risk management activities. However, a commitment towards risk management needs to be instilled across the entire organisation, with risks needing to be "*owned and reviewed at all levels*" (IRM, 2018b, p. 7).

Only 60% of a sample of 420 charities in McDonnell's (2017) study have implemented formal risk management. His findings suggested that larger charities (measured by income) were more likely to have a formal risk management framework. These charities use risk management to support strategic planning and daily activities. Whatever framework is implemented should be proportionate to the charity's size (IRM, 2018b), though this does not mean that smaller charities need to do nothing when it comes to risk. However, the immediate financial costs of implementing risk management has been a reason for resisting its introduction in charities (Tremper, 1994). Integrating the risk management process into the organisational culture should reduce long-term implementation costs, but it requires a knowledgeable board of trustees to implement and oversee risk policies (Herman et al., 2004; Lindsay, 2009). This can be difficult as trustees are often volunteers who may lack necessary skills and time to perform their roles (Crawford et al., 2009).

McDonnell (2017) found that larger charities are more likely than smaller charities to have implemented multiple risk controls (risk policies, risk registers, mitigation strategies and

business continuity plans). Arguably, these are not risk controls at all, but part of the broader risk management strategy, protocols and documentation, as per the ISO 31000 guidelines (see Hopkin, 2018; IRM, 2018a). Risk registers and business continuity plans are the most popular measures implemented in Scottish charities (52% and 59% respectively, of the sample). McDonnell (2017) indicated that there may be an unwillingness or inability to engage in more formal approaches, with 46% of his sample having a basic risk policy. Elsewhere, a lack of time, funds and expertise have been identified as key barriers for implementing risk measures, with only 8% of a sample of 330 small UK charities having a risk register (University of Suffolk & PolicyBee, 2018).

Therefore, literature on risk in charities, and specifically those based in Scotland, does not paint a clear picture of how risk management has developed, nor what the current state looks like. In February 2020 there was 24.844 registered charities in Scotland, hence, we are only providing a snapshot, by investigating a small sample. We chose to narrow our focus on charities involved in public service partnerships which aligns with recent calls for further research (Domański, 2016).

Partnership risk, risk management and good governance

When charities intensify collaboration with public sector bodies such as local authorities and the National Health Service by creating partnerships with them, this entails new types of risks as their value creation processes become more complex (Agostino & Lapsley 2013; Drennan et al., 2015). Table 1 presents generic risk categories that can be used as a starting point for understanding risk in partnerships.

TABLE 1

While only a generic framework is feasible as every partnership has its unique circumstances and risks, some risks are common (e.g. financial risk). Even then, the causes, consequences and solutions require non-generic attention (Karlsson-Brown, 2017).

Difficult and poorly managed relationships are common in contractual relationships due to administrative incompetence and formalistic and bureaucratic procurement and tendering processes (Crouch, 2011). Fundamentally, as charities relinquish some of their operational autonomy in exchange for resources, they face the risk of losing some element of their organisational purpose and established working practices (Pfeffer & Salancik, 1978). However, Egdell and Dutton (2017) have observed that independence of charities includes many nuances and contradictions and the challenges of contractual commitments with public authorities may also provide opportunities for charities to specify or clarify their characteristic features.

For regulatory context, there is a distinction in requirements placed on charities based on their size, determined by the audit threshold (at the start of this research, an annual income of more than £500,000 or total assets worth £2.8m or more classed a charity as large). The Accounting And Reporting By Charities: Statement Of Recommended Practice (SORP, 2005) requires large charities to include a statement in their annual report "*confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage those risks*" (p. 8). Small charities, i.e. those not subject to a statutory audit requirement (approximately 92% of Scottish charities), do not need to disclose this information, but are advised to include a risk management statement as a matter of good practice (Scott-Moncrieff, 2015; SORP, 2015). Additionally, The Scottish Charity Regulator (OSCR, 2015) has introduced risk-based regulation, consisting of a process of serious incident reporting. Yet, there is no empirical

evidence of how these requirements and recommendations translate into practice. Simply adding a risk management statement in annual reports does not mean that a risk management process is embedded, or that any risk management measures have been implemented at all. The CIPFA and OPM (2004) good governance standard goes beyond the requirements of charity regulation, as it recommends that organisations have an effective risk management system in operation, also in partnerships. Therefore, to really see a benefit from risk management, meeting the regulatory requirement for providing a risk management statement is relevant only after the ideas of good governance have been assimilated.

However, it has been claimed that standards and precise rules, although potentially able to provide guidance for best practice, increase the likelihood of risk management becoming a tick box exercise (Drennan et al., 2015). If rule-based compliance with regulatory requirements involves ticking boxes it enables organisations to provide evidence that some work has been done, effectively leaving an audit trail of risk management (Power, 2009). Indeed, risk management is sometimes done for symbolic reassurance or blame-avoidance purposes (Hood & Miller, 2009).

Partnership working complicates risk management by introducing issues that one no longer has full control over (CIPFA, 2010). The actions of one organisation may adversely impact another. Understanding the risk management approach taken by partner organisations (from the public sector, or also other third sector organisations) would help charities understand the potential consequences of their collaborative working arrangements. From a public sector perspective, problems can occur if outsourcing to charities before they have sufficient capacity (McQuaid, 2009): not all charities have the skills and ability to identify risks and respond to them, needing significant support and investment into risk management so that it is up to the standard of their partners (Clark, 2013). Although, risk management is poorly

understood and addressed also by public sector organisations. Risk management in new contractual arrangements and cross-sector partnerships remain underdeveloped, with risk assessments rarely done (Asenova et al., 2013; Austin & Seitanidi, 2012; Bailey et al., 2011). Nevertheless, it is particularly important that risk is considered in collaborative relationships, as business decisions depend on the organisational risk appetite, which differ between organisations (Clark, 2013).

Furthermore, the governance requirements in a partnership depend on the degree of integration between the partners, which has implications for risk management requirements (Audit Commission, 2005). The more shared activities become integrated with a partnering organisation, the more complex the lines of accountability become. Thus, it would be prudent for charities in more integrated and formal partnerships, where the level of risk is likely higher, to be managing risk via a joint partnership risk management approach (Karlsson-Brown, 2017).

Partnership risk management indicates that aims and expectations are negotiated upfront (Huxham & Vangen, 2005). The idealistic model (consisting of three stages) for addressing risk in innovations (Bailey et al., 2011) can be applied to partnerships (Karlsson-Brown, 2017). The first stage involves evaluating risks before committing to the partnership. The second stage focuses on making decisions based on the evaluation. The third stage involves managing risk during the introduction and operation of the partnership. All stages can lead to failures if the risks are not properly addressed, therefore, risk management tasks need to be undertaken throughout a partnership lifecycle. Risk management expectations also need to be known by all partners, with clear allocation of roles and responsibilities and lines of accountability (CIPFA, 2010).

Data Collection and Analysis

This study is based on primary and secondary data collected from 47 Scottish charities between 2009 and 2018, and one bank which finances charities, in an attempt to show how risk management has developed. Figure 1 illustrates how the research progressed from a broader review to more specific analysis, whereas Table 2 provides detailed information about the extent, diversity, and origin of our empirical data. The phases show the order in which data was collected. Charities were placed into two categories, small and large, based on the audit threshold.

FIGURE 1

TABLE 2

In phase one, we collected views of charity volunteers and managers in relation to their risk management activities. Participants for the first questionnaire survey were recruited at The Gathering (an event for non-profit organisations in Scotland) in February 2012. This survey informed the subsequent semi-structured interviews, which we conducted in July 2012 with representatives from Scottish charities, and a representative from a bank which funds charities, who were identified from the survey. Charity representatives were selected on the basis of the charity having a formal risk management framework, and the representative from the funder was selected to cross reference findings from charities with the perspective of a financier. This phase was undertaken during the height of the UK government austerity measures impacting charities.

In phase two, we looked deeper into partnerships by selecting two formal partnerships with integrated activities (one Alcohol and Drugs Partnership and one Community Planning Partnership). Within these partnerships, we collected data through questionnaires and in-

depth interviews with managers from a sample of Scottish charities. We found these charities via their local authority partners. The interviews were conducted between December 2013 and June 2014 and focused on the experiences of how risk management was organised in partnerships. The second questionnaire survey was conducted in conjunction with the interviews, focusing on understanding the specific risk management practices in each charity.

In phase three, we collected documentary data in the form of annual reports. These were from all the years that were published online for each charity whose managers we interviewed during phase one and two (nine in total). This data was tabulated by year, to show if and how the reported risk management activities have developed in the charities in question. It is used for a confirmatory or contradictory purpose of survey and interview findings.

Surveys provided descriptive data and were supported by qualitative responses. Interview data was analysed using a theoretical thematic analysis approach (Braun & Clarke, 2006). The focus was placed on key themes (e.g. austerity, risk, innovation, partnership), which provides less rich analysis of the entire data, but a more detailed analysis of key aspects of the data. Findings from interviewees are reported by using their job title with organisation label in brackets. The documentary data was analysed by searching for the term 'risk', and where this existed the context was verified to be in relation to risk management activities. One would expect that a risk management statement would be found by this key term. If the term appeared independent of this context the data was deleted.

Empirical research findings

Risk management

It was anticipated that concerns about the impact of the UK government austerity measures

(2010 onwards) on charities' future operations would affect their risk perceptions, and 78% of those who were concerned in the 2012 survey (84% of small charities and 45% of large charities) believed that this was the case.

A majority of the participants (80%) from the charities that had implemented a formal risk management framework (60% of the sample) reported that risks were well understood in their organisation. However, just over half (56%) of these indicated that a risk aware culture was embedded. This result could be related to different levels of staff participating in the survey, as positions varied from senior managers to volunteers with senior managers being more risk aware. Therefore, the survey indicates insufficiencies in risk awareness and risk culture spanning entire organisations. Some respondents appreciated that more work was needed in the area of risk management: one participant noted the lack of a holistic approach.

The Corporate Services Manager (Large1) highlighted that the increased level of risk related to changes in their business model had made her organisation more aware of risks. This was supported by the Director (Small1, a subsidiary to Large1): they conduct a more rigorous risk assessment process of new ideas for income generation due to a more robust risk management framework, which had recently been introduced in both organisations. The Corporate Services Manager (Large1) explained that risk management was previously a tick-box exercise, not fully integrated in all organisational activities. Their improved risk framework was now underpinned by an enhanced awareness of risk and strong senior management support.

The Chief Executive (Large2) stated that their risk policies and processes have become more formal following guidance from OSCR and the Charity Commission. As this charity has grown, they have brought in more expertise within the risk management field, including trustees with risk expertise and establishing a dedicated risk position. However, while there

has been considerable progress in managing risks, it would be too optimistic to say that their processes are fully embedded.

The Regional Director (Charity financier) argued that not all charities have implemented the regulators risk management recommendation, this being particularly the case in smaller charities. He noted that relying on volunteers can present an additional risk, due to being dependent on individuals who may not have long-term commitment to the organisation. According to the Director (Small1), a board of volunteers also tends to be more risk averse as they may have a close connection to the charity, inhibiting the appetite for risk taking. However, the Corporate Services Manager (Large1) highlighted that risk management should be a fundamental part of running a charity, so if implemented appropriately, it should not depend on one individual. According to the Chief Executive (Large2) this should enhance decision-making and capacity to respond to new challenges.

Since the austerity measures, there has been a heightened need for income generation, often involving alternative operational models. The Regional Director (Charity financier) highlighted management skills and ability of volunteers as limitations when trying to implement commercial management procedures, such as business planning and forecasting. First phase survey respondents noted that new trustees with business expertise had been appointed, and training opportunities have been created for managers for dealing with bids and contracts. In the second phase surveys, half of the charity respondents reported that they have a dedicated risk manager (Large5; Large6; Small2). However, further investigation showed that the responsibility for risk management was included within other managerial roles, or for instance in health and safety. The Regional Director (Charity financier) warned that charities can overstretch themselves if they are too complacent and underestimate risks. Therefore, when adapting their operations, charities should be clear on their risk tolerance

and potential risks. Recruitment of capable people is also essential.

Risk management in partnerships

When asked about the risks related to partnership working, only one representative from a large charity noted that the board is responsible for risk management. In the rest of the organisations, either nobody had this responsibility, or it was considered the responsibility of the 'dedicated risk manager'. Alternatively, it would be the person in charge of the partnership on behalf of the charity who should take responsibility for any risks related to it. None of these responsibilities have been explicitly allocated, e.g. via written role profiles, but are instead what respondents assume to be the case. Furthermore, participants noted that the leading officer of any partnership was responsible for the overall risk management in the partnership. This responsibility seems to be assumed by a single individual who appears to have highest authority. This is problematic as not all partnerships have a leading officer (Karlsson-Brown, 2017). Also, this risk management responsibility is only implicit and not reflected in any formal way.

Most participants reported that they have comprehensive organisational risk registers with one noting that partnership risk is included. According to the Service Manager (Large5), they complete risk assessments for their service users. The organisation also has a risk log (equivalent of a risk register) for each service, focusing on strategic issues (e.g. risk of not achieving project funding). However, no risk registers have been completed specifically for partnerships, either jointly by partner organisations or by individual organisations. The Chief Executive Officer (Small3) believed that the partnership agreement, which was completed jointly, can reflect some risk distribution between the partners, even though risk was barely mentioned in it.

Such assumptions about the role of the partnership agreement, partnership leaders and lead organisations appear to be based on assumptions about individual organisations' risk management capabilities. For instance, the risk logs are not completed with the local authority the charity provides services for, but the Service Manager (Large5) still assumes that the local authority has its own risk register and would be able to step in if the charity failed to deliver. However, cuts to public sector funding means that this may not always be the case. Furthermore, the Operations Manager (Large6) believed that there was a risk register for the partnership they are involved in, and that it was initiated and maintained by the leading officer from the public sector organisation. He stated: "*I think there probably would be something about risk, but I would need to look it up. It is not something I bear in mind*". Perhaps, similar assumptions are made about risk management in charities by their public sector partners.

The Project Manager (Large3) indicated that they have no internal guidance on how to deal with risk. Where guidance or policy documents exist, they consist of Child Protection guidelines. Policy documents relating to board governance were also considered relevant to dealing with risk. Therefore, it can be considered that processes and guidelines are followed in dealing with risk, even if these do not explicitly articulate risk. Many of these refer to partnership working, for instance in terms of how to deal with information sharing, yet, there is no explicit organisational guidance on risk in partnerships and risk is not clearly articulated. The Service Manager (Large5) also noted that no guidance exists for completing their service risk log, nor for partnership working.

The Manager (Large4) would welcome guidance that would help her deal with day-to-day risks in partnerships, even if it was very basic: "*I think if you had something that would encourage you to actually think through some potential risks before you get into a situation*

would be good". The External Manager (Large4) said that it could be useful to have a framework with themes or areas of key risks to consider in partnerships. Risk management training would improve the understanding of risk, which could have additional benefits: "*Then obviously it should be almost like part of a system you go through if you're setting up a new partnership, that* [risk] *would come to your mind so that you embed it in with what you're doing*" (Manager, Large4).

Most of the second phase charities were involved in networks with other service providers, sharing information and good practice. Consequently, management of risk may have improved implicitly, due to improved lines of communication. However, according to the Service Manager (Large5) risk is not an explicit theme in their meetings: "*And that is pretty bad, because when you think about it, we are all potentially managing risk every day*". She suggested that it has simply not been thought of or seen as a part of the agenda. Yet, as argued by the External Manager (Large4): "*I think it is part of our ethos, our culture, people are always assessing risk, even if that's not what they call it*".

Overall, the charities from the second phase seem to have an awareness of potential risks in partnership working, but mainly in relation to short-term funding and competition between partners. Risks, such as shortfalls in relationships (in Table 1), are dealt with on an ad hoc basis, with no formally defined risk management processes in place.

Risk reporting

The third phase of the study focused on evaluating how risk management activities are reported in the charities' annual reports. Of the nine charities investigated in this part of the study, three (Small2; Large4; Large6) never mention risk management. Small1 briefly mentions risks assessed by the charity in 2014/2015 (the charity later dissolved).

Some charities included risk management, mostly from 2013 onwards. Small3 has a sentence or paragraph about risk management between 2013-2016, stating that major risks have been reviewed and systems are in place to manage these. This is almost word for word from the SORP (2005). Small3 also identifies managing, forming and building relationships with funders as key controls in 2015/2016. Large2 provides no risk management statements, but from 2016-2018 reports that Business Continuity procedures have been implemented, noting that they are committed to identifying and mitigating their risks.

In terms of including risk management consistently, only Large3 and Large5 achieved this. Even so, these risk management statements are largely replications each year, with some superficial differences. However, in 2015/2016, Large3 makes a significant extension to its risk management statement and one can observe a clear shift occurring to previous years reporting also in Large5. External changes affecting Large5 are highlighted, specifically increased scrutiny e.g. from the regulators and media. In 2016/2017, Large5 highlights actively managing risks and having a comprehensive risk register, noting the enhancement of relationships with local authorities as a measure to deal with financial sustainability. While similar comments are made in 2017/2018, the risk register is now identified as a *corporate* risk register. Large5 also refers to continued public sector austerity affecting the third sector in general, highlighting the mitigating efforts Large5 has made in response. Changes in the regulatory environment was noted, including the 'Notifiable Events' procedure by OSCR.

Notably, Large1 consistently progresses with its risk management reporting in a positive direction. The first available report (2014/2015) outlines the approach taken to risk management on one page, and the following year this is two pages long. Each report identifies key risk themes, including examples. One theme relates to commercial partners and the effective management of partnerships involving procurement and contract management.

Between 2016-2018 there is a clear decline in risk management reporting, though it is evident that this is due to a review of the risk related framework. In 2017/2018, external incidents (e.g. major fires reported in media) are discussed and how this applies to Large1, demonstrating a wider contemporary awareness.

Few links were made between risk and partnerships, with three charities (Small3; Large1; Large5) mentioning partnerships in the context of risk, although this did not always appear in the section containing the risk management statement. Apart from Large1, relationship development was exclusively considered as a risk mitigating measure, as opposed to discussing partnership working as a risk creating activity.

Discussion

The findings suggest that most risk management activities are implicit and sporadic in our small sample of Scottish charities. This is supported by previous research also elsewhere (Domański, 2016; Herman et al., 2004; McDonnell, 2017). Changes in charities' operational environment appear to have increased charities' risk perceptions, but this has not, with some exceptions, resulted in the introduction of systematic risk management or embedding of an organisational risk culture. A recent report (Ecclesiastical Insurance, 2019) recommends charities to have a risk register as a minimum, and to embed a strong risk management culture. However, such emphasis on risk registers undermines the importance of key risk management elements, including risk appetite statements and risk policies. It continues to encourage charities to focus on operational issues and does not help them make strategic decisions, nor embed a risk culture.

Having risk management responsibility and skills only at board level is insufficient for embedding a risk culture, though McDonnell (2017) found that charity workers feel role-

responsibility for risk. On the other hand, if this is not utilised as part of the broader risk management framework, then charities are not capitalising on already existing risk capabilities. Furthermore, a lack of experienced trustees leaves charities poorly equipped to deal with risk (Weymouth, 2018), yet it is often the board of trustees, and peers and colleagues, who are relied upon for expertise (University of Suffolk & PolicyBee, 2018).

While previous research (Domański, 2016; Young, 2009) has found a clear focus on operational elements, as opposed to considering risk management strategically, it still seems to be the board and perhaps senior management who deal with risk management. This is somewhat counterintuitive. The board and senior management ought to focus on strategic risk issues, whereas staff should assume responsibility for operational risk issues. As responses across many of the studied charities suggest, strategic risk awareness was low or questionable, although charities were taking more risks by engaging in contractual commitments.

Our findings suggest that partnership risk is not high on charities' agenda although it has been identified as an issue of importance (Domański, 2016). For instance, no risk registers have been completed specifically for partnerships in our sample of charities, reaffirming Austin and Seitanidi's (2012) findings of partnerships more broadly. Systematic risk management tasks are not undertaken during the partnership lifecycle, nor are risk issues explicitly discussed. Crucially, roles, responsibilities, expectations and requirements concerning risk in partnership should be clear (CIPFA, 2010), but these are often assumed, rather than agreed, as we found. Therefore, professional risk management advice is not adhered to.

Not all charities report on risk management activities (regardless of size and associated regulatory requirement): only some charities have more recently started doing this. Yet, the

effectiveness of reporting practices is debatable given the clear reproduction of statements or copying of the SORP wording. It is also questionable what value such reporting adds to stakeholders. Current practices raise a number of questions. What is the purpose of the risk management statement? Who is the intended reader? Are there contradictions in the minds of those writing the SORP and those writing the annual reports? Furthermore, what are the consequences for charities that do not meet the requirement and who deals with this? The few risk management statements found in the 56 annual reports cannot be considered evidence of good practice or risk management being embedded in the charities. Due to replication, this type of regulatory and good governance effort seems insufficient or even pointless if it has limited practical implications.

As the risk-based regulation requires Scottish charities to report about risk, the regulator at least implicitly expects charities to manage risks. Perhaps this regulation can achieve the necessary change in charity risk management, potentially heightening risk management awareness, as OSCR emphasises 'risk'. Since charities are required to report on serious incidents, they must have some process in place to record these, which consequently could lead to improved risk management. This is especially pertinent in partnerships, where the actions of a partner may result in a serious incident. Currently, partnership risk might not be considered in risk management statements because charities consider them part of their normal operations. Perhaps it should be made clear by the regulators that these statements should cover joint risks as well as organisational.

It remains to be seen whether the risk-based regulation will positively impact risk management processes. Annual reports in the time leading up to risk-based regulation (when OSCR consulted charities), suggest some increased attention for risk management. Recently, as a response to the Oxfam scandal, OSCR (2018) asked charity trustees to add

‘safeguarding’ (keeping vulnerable beneficiaries, volunteers and staff safe) and ‘notifiable events’ as agenda items for their next meeting, further focusing charities’ attention on risk.

However, a key challenge for charities managing risk is not necessarily a lack of will, but a lack of skill. The past 15 years have seen some generic guidance appear on how formal approaches can be implemented (IRM, nd) and especially how this should be done in partnerships (CIPFA & OPM, 2004). In the past two years the IRM’s Charities Special Interest Group has issued also practical guides in recognition that smaller organisations especially do not have the necessary risk professionals (see IRM, nd). Yet, it is uncertain if charities are aware of these, or understand how to implement the recommendations. Recent research (University of Suffolk & PolicyBee, 2018) finds that many charities have not had any risk management and governance training, with lack of funds, time and “*not knowing where to go for training*” (p. 5) quoted as reasons for this.

With the increasingly blurred lines between organisations delivering public services, public sector organisations should have a heightened interest in their partners’ risk measures. Likewise, since public sector organisations are unable to fully avoid the ultimate responsibility for risks in public services, even if assigning blame for partnership risks might be possible, reputational damage of any risk event could still be significant. Therefore, it would be in their interest to ensure that partners have committed sufficient efforts to managing potential risks in joint services. Public sector standards (e.g. CIPFA & OPM, 2004) put pressure on charities that use public money to conform also to requirements coming from outside their sector. However, charities’ realistic possibilities to follow the standards vary. Given that they are not mandatory, organisations are not at risk of any wrongdoing. Likewise, there is no explicit regulatory requirement for charities to have a formal risk management framework. Certainly, from a good governance point of view, charities, especially when

involved in public service partnerships, should embed risk management practices, as they have a duty to wider stakeholders, since they use public finances.

Conclusion

In the past decade, there have been numerous incidents that could be expected to have had a serious impact on risk management practices in charities. First, the financial crash of 2008, followed by austerity measures. Next, numerous charity scandals, with Oxfam the most recent and prominent, and the resulting increased scrutiny and emphasis placed on safeguarding across the sector. Yet, by all accounts – shown by our research and that of others (McDonnell, 2017; University of Suffolk & PolicyBee, 2018) – it does not seem that risk management practices have improved, especially in small Scottish charities. UK-wide, it has even been suggested that "*small charities are 'sleepwalking' into a risk management crisis*" (Weymouth, 2018).

In order to make Scottish charities more resilient organisations, compelling contracting parties for public authorities, and confident partners in partnerships, a number of actions would be beneficial. Charities need tailored guidance on how to make continuous improvements in their risk management operations. Key questions to consider are how to increase awareness of existing guidance, and how to help charities operationalise them if they lack the skills. Charities need instruction in how to effectively communicate about risk management – current practices do not appear to contribute much anything beyond symbolic reassurance or blame-avoidance (Hood & Miller, 2009). Furthermore, they need direction in how to agree and allocate risk management duties in partnership agreements. Guidance should focus on practically oriented and topical issues in partnerships and provide illustrative examples from different service sectors. All of these measures should help charities make risk management more explicit.

As the generalisability of the findings is limited, future research should collect wider samples and compare countries and different charity types and sizes. Registered charities in Scotland range from grassroots organisations to large universities. Specifically, research into how charities implement and improve risk management is needed, in order to understand this process better. Furthermore, new comparative research would be welcomed to contrast risk management regulation and guidance between the third, public and private sectors. This paper has analysed risk management solely from the third sector perspective, not the public sector, nor that of the charity regulator. Arguably, these would be important additions in future research to get a clear picture. It would be of particular interest to see how the findings are reflected in public sector counterparts involved in partnerships.

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