Institute for Voluntary Action Research

Thinking about… risk

Developing a framework

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The Blagrave Trust – Supporting young people

City Bridge Trust

The Community Foundation Northern Ireland

Community Fund

United St Saviour's Charity Southwark

Introduction

In **'Thinking about... risk'**, we set out our initial findings from a study carried out in partnership with a pilot group of five independent funders (referred to throughout as 'foundations') into perceptions of risk and how these are managed and mitigated. This work builds on *The possible not the perfect* and *Duty to Care?*,[1] where we observed that *'too much caution can narrow the range of people and organisations funded and what that funding can achieve',* and encouraged funders to consider if they *'are taking enough risk rather than too much'.* As part of the study we created a framework with our pilot group to help foundations think about their approaches to risk. We will be inviting others to test the framework and help us to improve it.

1. Starting Points

Balancing benefit and risk

Grant-making decisions can be understood as judgements about a balance between benefit and risk – the aim being to select applications that funders reasonably believe will make the biggest difference against their funding priorities, while being confident that the proposed work is achievable and that the funded organisation is capable of delivery. In addition, some funders overlay broader questions about benefits and risks, for example, in relation to their public reputation or formal accountability requirements. Due diligence processes have been developed to help funders make these judgements in an informed rather than random way, with the aim of bringing a degree of rigour and fairness to their decision-making process. But they can only underpin the judgements that funders make, not replace them.

Appetite for risk

IVAR research on funding practices and grant-making processes has brought to light issues of concern to many funders, relating both to risk management and appetite for taking risks.[2] In particular, our recent work suggests that there can be a lack of alignment within trusts and foundations in terms of understanding 'what risk means to us' and how it is best measured and mitigated. This can be especially marked in relation to the funding of smaller organisations who, in an operating environment characterised by turbulence and uncertainty,[3] continue to engage with society's hardest to reach groups,

[1] *The possible, not the perfect: Learning from funder responses to emergencies,* IVAR, 2018; *Duty to care? How to ensure grant-making helps and doesn't hinder,* IVAR, 2019
[2] *Thinking about... core funding,* IVAR, 2013; *Working in Place: Collaborative funding in practice,* IVAR 2017; *The possible, not the perfect: Learning from funder responses to emergencies,* IVAR, 2018; *Aligned Reporting,* IVAR, 2018
[3] *The Value of Small,* IVAR, 2018; *The Future for Communities,* IVAR, 2018

working holistically and in ways that are responsive to different contexts, with income trajectories that remain volatile.

Invisibility of risk

At the outset of this study, our central proposition was that the invisibility of risk can produce processes and behaviours that are problematic to applicants and grantees, and that impede the flexibility and agility that the moment may call for. Recognising the risk inherent in the work of voluntary and community organisations, we saw a need for more trusts and foundations to move from a deficit to strengths-based approach, placing greater emphasis on: where potential lies to deliver a positive outcome; and how to work with organisations to manage and live with risk. This will require foundations to think about their appetite for risk in the context of their strategic goals and aspirations and how best to ensure that their application, assessment and decision-making practices accurately reflect this appetite, both across their portfolio and in individual programmes.

Study partners

Within this broad framing, a pilot group of five foundations – of different scales, purposes and ways of working – volunteered to work with us to better understand the varied approaches grant makers take to risk.

- **Blagrave Trust** – awards around £2million a year to youth organisations in Berkshire, Hampshire, Sussex and Wiltshire and develops strategic national programmes aimed at giving young people a stake in society and supporting their own social change efforts.
- **City Bridge Trust** – funds across London, awarding around £20million a year with the aim of reducing inequality and fostering more inclusive communities, largely through responsive grant programmes.
- **Community Foundation for Northern Ireland** – awards around £1.4million each year from its own endowment in grants of £3–4,000 to some 450 groups across Northern Ireland. It also advises 60 local donors and runs a number of funded programmes for other grant makers.
- **National Lottery Community Fund** – awards around £500million in grants each year. The study focused on National Lottery Awards for All, (grants of up to £10,000 for grassroots and community activity across the UK), and Reaching Communities (larger grants to organisations in England to enable communities to thrive).
- **United Saint Saviour's Charity** – has deep roots in the London Borough of Southwark, awarding grants of around £1million a year to benefit communities facing the biggest disadvantages and helping to unite people and communities at times of rapid change locally.

Study process

The work began with a review of literature and current practice/thinking on risk management, appetite and culture and initial conversations with experts in risk from other fields.

IVAR then visited each foundation to interview a trustee, CEO or senior staff member and staff involved directly in the detailed structures and processes of grant-making to explore their perceptions of risk and how these are managed and mitigated. These conversations were supported by a draft Risk Framework, designed to highlight different elements of risk and enable foundations to consider their position in relation to each.

There followed a participatory 'share and build' workshop, bringing together representatives from the five foundations to explore and share their practice, to draw out learning and consider next steps. The Risk Framework was interrogated and improved during the workshop.

2. Our findings

Risk is not a static concept. A funder's risk tolerance will fluctuate over time and between different projects or programmes. Developing an understanding about how trusts and foundations manage their tolerance of risk is valuable both for operational staff and for potential applicants in presenting their case.

Appetite for risk relates strongly to organisational or programme purpose. However, our work suggests that, in practice, processes are not always aligned with ambition. Without explicit agreement about the approach to risk at a strategic level, and a clear vision of the potential rewards from risk, staff lack clear structures and authority to develop tailored processes. They may fall back on unnecessarily onerous requirements, designed to anticipate all possibilities.

Preoccupations with risk can loosely be categorised under at least four (often overlapping) headings:

- Risk of project failure
- Risk of fraud
- Risk to reputation
- Risk to mission (for example, from unnecessarily constraining a funder's ability to achieve its own aims and purposes through grant-making)

Risk needs to be looked at from a number of different angles. It is too often 'put into a box as a technical activity' and not considered in the light of, for example:

- The consequences that risk avoidance mechanisms may have for strategy and purpose
- What can realistically be achieved within foundation staff levels and application/grant volumes
- The level of risk that foundations can responsibly transfer to charitable organisations

Failure to fully explore how strategic decisions about risk should play out in day-to-day practice leaves staff feeling exposed and reluctant to innovate. For example, a strategic decision to *'take more risk'* does not in itself provide assurance to front-line staff about how their performance will be judged: *'Do trustees really know that we aren't going to ask as many questions? And what's going to happen when something goes wrong?'.*

Critical analysis of how risk management or mitigation plays out in foundation processes provides a more meaningful basis for engaging with applicants and grantees to test their value and relevance. When foundations are clear about the purpose of a piece of due diligence or a grant management procedure in terms of risk mitigation, applicants and grantees are better able to comment critically on whether these actions are effective or whether they in fact make risk more likely to crystallise or feel inconsistent with the stated purposes of a grants programme.

3. A framework

As part of the study we created a framework to help foundations think about their approaches to risk. The framework was developed with our pilot group. The purpose of this framework is to help trusts and foundations to achieve greater clarity about the different aspects of opportunity and risk inherent in their strategies and aspirations. And to ensure that their application, assessment and decision-making practices accurately reflect this appetite, both across their portfolio and in individual programmes.

- The framework suggests seven attitudes and aspirations that all tend to influence appetites for risk, while at the same time being critical to delivery of strategy. They also have a direct impact on how foundations frame application processes, make grant decisions, manage grants, and make judgements about effectiveness. The framework is designed as a bridge, creating greater alignment between strategy and practice by providing a structure for interrogating the balance to be achieved between 'the things we care about' (positive risk) and 'the things that we worry about' (risk mitigation). This enables challenges and inconsistencies to be ironed out before going on to the practical question about how risk is to be identified and managed day-to-day.

- Each attitude or aspiration is plotted on a spectrum, enabling foundations to consider their position between two extremes. The spectrums do not automatically map onto a high/low risk continuum. Rather, the aim is to build a clear understanding of where the foundation, or a particular programme, sits on each spectrum. This provides a shared reference point in working out the detail of how best to manage risk in day-to-day practices – and what questions and processes can safely be set aside.

In making good use of the Risk Framework, the pilot group identified three important presumptions and pre-conditions:

Clarity of starting point: The framework assumes that the foundation has a clear strategy and values in place. It can then act as a conversation starter, reframing discussion about risk so that it looks at the range of judgements and considerations (both positive and negative) that underpin decisions about risk in relation to strategy and values.

Neutrality: The framework makes no assumptions about right or wrong in terms of where a foundation positions itself in relation to different types of risk. Rather, the question is: *'if this is our strategy, are we taking the right approach to risk?'.* The challenge is to create real coherence between a foundation's values and strategy, its risk appetite and the way it works, and then to express this clearly to applicants and grantees.

A mixed approach: Foundations rarely have a single risk profile across all their different types of grant-making. In making the connection between strategic intent and day-to-day practice, the framework needs to be applied to each distinctive area of a foundation's work, so that the processes used to assess and manage grants are tailored to how risk is seen in these different areas, and not just applied in the same, or very similar, way across everything it does.

The Risk Framework

Attitude to innovation

We prefer to support tried and tested ways of doing things	We are keen to experiment and push the boundaries

Expertise

We rely largely on applicant/grantee expertise and knowledge about local need and/or their subject specialism	We are well-informed and well-connected in our field of interest and/or geographical area – we have clear views on what is needed and how this might be delivered

Certainty and clarity of outcome

We will fund where results are uncertain or are not specified in advance and expect/are comfortable with some 'failures'	We need a very high degree of confidence that applicants will achieve demonstrable results

Data

We need to manage our grantee relationships and data so that we can clearly articulate the difference our funding has made when considered collectively – not just grant-by-grant

We judge our contribution on the basis of our effectiveness in getting money out to organisations which meet our criteria and work in our areas of interest

Capacity and Capability

We will only make grants to the most robust organisations in terms of governance and operational management

We're open to organisations/ people with promise or potential but no track record

Financial risk

We are comfortable with being a 'first funder' or supporting organisations with an unproven or insecure funding base

We require grantees to be financially stable and to provide the highest level of assurance around their financial prospects for the duration of our grant and beyond

Public opinion

Adverse publicity would be highly damaging to us and we need to avoid it at all costs

Provided we are confident that we have acted in good faith, adverse publicity is not a significant concern to us

To read more about the research, please visit **www.ivar.org.uk/our-research/funders-and-funding/thinking-about-risk**

The Old School
Exton Street
London SE1 8UE

020 7921 2940
enquiries@ivar.org.uk
ivar.org.uk

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