

Risk versus innovation – getting the balance right

How to balance risk and innovation in charities was the topic of debate at a meeting of The Honorary Treasurers Forum at Cass Business School on 10th February 2015.

Denise Fellows, CEO, Honorary Treasurers Forum chaired the debate. Her opening comments mentioned the frustrations raised by CEOs who feel they are held back by unduly risk averse boards compared with Trustees concerns over what they perceive as wild cat schemes raised by the executive team.

Denise introduced a panel of guest speakers to share their insights on balancing risk and innovation.

The speakers were Alex Skailles, Chair of Community Action Suffolk, Kate Sayer, Partner at charity auditing and accounting firm, Sayer Vincent and Martyn Turner, Care and Charity Underwriting Manager for specialist insurer Ecclesiastical.

How can boards drive innovation in challenging times?

Tackling the subject of how to balance risk and drive innovation during challenging times, Alex Skailles discussed the journey undertaken to create Community Action Suffolk.

Community Action Suffolk (CAM) was formed on 1st April 2013 when ten Suffolk voluntary and community sector support organisations agreed to merge, creating a single charity and company. Alex is now Chair of CAM and was involved in planning the merger at every step.

Alex explained that the drivers behind the merger were money saving, the need to channel more funds into frontline services and providing a better and more consistent level of service for people in Suffolk.

However, the merger was considered a big risk and the process wasn't all plain sailing.

Careful analysis and deliberation were needed throughout the project to determine if a single infrastructure body would have more power, influence and ability to serve the community than many charities.

Alex explained three options were considered - doing nothing, closing or transforming. It was felt that doing nothing was a bigger risk than transforming and, with an injection of lottery funding serving as the catalyst, the merger was agreed.

Balancing risk and innovation

All the risks were weighed up - from the project timescales, costs, through to the impact of the merger on jobs, the reputational and legal risks and crucially, whether beneficiaries would be better off with one organisation serving them or many.

Alex said that one of the biggest risks was the sheer number of stakeholders involved in the project which could have stifled innovation.

To mitigate risks, a 'transition board' was set up to manage the project, with a representative from each of the organisations on the board. and this helped ensure success. The board also developed clear working principles for everyone and made sure the needs of the beneficiaries were at the forefront of every decision made. Other success factors included establishing a robust communications plan and bringing in specialist advisors for key aspects of the projects.

Alex admitted that staff engagement was challenging at times but in the end, the risks paid off and the merger was a success. Today, Community Action Suffolk is a thriving, infrastructure organisation delivering high quality services to the people of Suffolk.

Why our brains might be making us risk averse

The fact charity boards are risk averse could be simply down to the way people's brains are programmed to think about risk, explained Kate Sayer a Partner at charity accounting and auditing firm, Sayer Vincent.

Kate explained that we all base our decisions on the familiar, often at the expense of researching other options which might actually be better. This is known as a 'familiarity heuristic' or rule of thumb. We get lulled into a sense of security about the familiar name that is not always justified by the evidence.

Sticking to the familiar can cause problems, particularly if someone is making decisions about charity investments. Relying on a familiar name without suitable evidence is unlikely to lead to the best investments.

People also place too much emphasis on past experiences when making decisions about the future because our brains like to make sense of patterns.

Confirmation bias, when people look for evidence that their viewpoint is right, rather than anything that contradicts it, is another common pitfall.

Too much agreement of thinking on boards is a further barrier to risk taking. Kate said all boards need disagreement and they should be structuring meetings to ensure lively debate and disagreements.

Also, we shouldn't be scared of taking risks – particularly if the risks are measured and those taking them are basing their decisions on knowledge.

It was pointed out that charities are known for innovation, they often come up with solutions to problems where the market has failed, and risk taking is an essential for innovation.

Not every risk will pay off, but it is important to take them. Kate stressed this point with a quote from the Royal Opera House's Chief Operating Officer, Sally O'Neill who said, "If you play safe, you end up with a bland product no one will want to see. You have to allow a few of those new productions to fail. It's only by taking the greatest risks you produce something amazing, such as War Horse or Matilda."

Mitigating risk through insurance

Finally, Martyn Turner from Ecclesiastical looked at how charities can mitigate risk with insurance.

Martyn explained that Ecclesiastical dates back to 1887 when it was set up by Church of England clergyman to insure churches. The first building it insured was St Paul's Cathedral and today, the company insures over 40,000 UK charities and community organisations. Ecclesiastical is owned by Allchurches Trust and is still highly philanthropic. It will have donated 50m of its profit to charities by 2016.

Using case studies to illustrate his points, Martyn discussed the different types of insurance available for charities, some of the risks that can arise from managing events and involving third parties, how to manage risk and the checks charities needed to be making to protect themselves, as well as role of the underwriter and the insurance company.

Martyn stressed whilst that no charities can eradicate risk, however, by ensuring a culture of safeguarding exists, with robust risk management processes and insurance in place, a charity can reduce risk and protect itself.