Welcome to Resilient Heritage: Business Modules.

This is section 5: How Can We Place Value on Our Organisation? Finance Management and Asset Planning. Module 5.3 Implementing Risk Management.

In this module, we will discuss how risk management can be applied alongside financial planning and resource value identification as part of your organisation’s routine processes. By engaging with proactive stewardship of identified risks, you will learn how embedding these practices into daily operations ensures the consistent and effective stewardship of your resources and assets, making your organisation better equipped to proactively identify and address potential challenges and safeguard your goals. By doing so, it will enhance and support your organisation’s goals and objectives by enabling informed decision-making through balancing potential risks with opportunities, which will foster a culture of continuous improvement and resilience.

Integration of Risk Management

Risk management is a cyclical process that entails identifying, analysing, controlling/mitigating and monitoring risks. While any cultural heritage organisation will face numerous potential risks, it should focus on those most likely to occur and those that would have the most severe consequences if they did.

Proactive Risk Management helps organisations achieve this by anticipating and addressing potential issues before they escalate, allowing for more effective planning and resilience building.

By carefully evaluating the risks involved with your organisation and processes, you will be more empowered to make informed decisions about which risks must be avoided, and which can be acceptable when in pursuit of your organisation’s goals. In this way, risk management is not just about preventing problems—it's also about positioning your organisation for future success.

Risk Identification

Risk identification should begin with a clear understanding of your organisation's key goals and the potential obstacles to achieving them. For example, if your cultural heritage organisation aims to "create a community archive to record and protect its cultural heritage" or "increase public engagement with your community greenspace by 50% over the next three years," the next step is to ask, "What risks could prevent us from meeting these goals?"

This process should be closely aligned with your annual Business Plan, to support the overall focus for your organisation alongside its current and planned activities.

**Case study: The Scottish Crannog Centre**

“There's an academic doing some research with us, and she's trying to catch how, how we manage uncertainty, so she's she spent time working with us on this site. She was working with us before the fire, and how we look at uncertainty. So we aren't certain about the collection. It's that far away, we can't really tell all the stories of it, can only hear the whispers of it, because we don't really know. As an organisation we were uncertain financially, so there's all kinds of uncertainties swinging around as well, so we, she's doing some work on uncertainty. So even though we had all these, my point being, even though we had all this skill expertise, there's still loads of gaps and loads of loads of thinking that we've had to do, both around the village, around the pods, around setting out the future, around thinking how we're going to work in the future, and then at the same time trying to understand how we fit in the world where, you know, the refugee crisis is the, the extra weight that's put on the third sector just now is incredible. The burnout within the third sector, so how do we play our part in supporting that? So, it wasn't like we just had to focus on building a village, we've had to be, still be aware of those strategic partners. So I think all, we're living in an uncertain world at the moment, and I think having, having been able to kind of stride forward with some confidence, with some fleet of foot, but sure footed at the same time, but able to, to dodge the bullets, so there's been all kinds of we haven't, we haven't been able to do this project straight, and I think having that collaborative way of working and that collective spirit has enabled this to be successful.”

Understanding the resources of value that your organisation holds, both financial and community focused, is crucial for prioritising risk management. For instance, recognising the significance of a community collection in the care of your organisation can guide decisions on security measures, conservation strategies, and insurance coverage.

Your Resource Management Plan will support this process, by outlining resource value and determination of organisational priorities to protect, support and enhance these.

For cultural heritage organisations, risk can vary widely depending on factors such as the nature of activities, organisational size, location, and internal culture. Understanding these categories helps organisations identify and manage risks more effectively, ensuring resilience and sustainability.

Involving a diverse group of stakeholders, Trustees, Paid and unpaid workforce and community members, in the risk identification process ensures a comprehensive understanding of potential risks -most of which can be grouped into several key categories:

**Governance and Management Risk:** This involves risks related to the leadership and strategic direction of the organisation. Poor governance or management can lead to ineffective decision-making, loss of reputation, and even legal challenges.

**Operational Risk:** These risks pertain to the day-to-day functioning of the organisation. They include disruptions to services, issues with staffing or volunteers, and challenges in maintaining facilities or equipment.

**Financial Risk:** Financial instability can threaten an organisation’s survival. Risks in this category include cash flow problems, reliance on a limited number of funding sources, or mismanagement of funds.

**Technological Risk:** As organisations increasingly rely on technology, risks such as cyber threats, data breaches, and system failures have become critical concerns.

**Compliance Risk:** This category involves risks related to legal obligations, such as failure to adhere to regulations, health and safety laws, or other statutory requirements.

**External Environmental Risk:** External factors like economic downturns, political changes, or natural disasters can impact an organisation’s ability to operate effectively.

Once you have identified and categorised your risks, you can set proactive strategies to mitigate and minimise future risks to your organisation through Proactive Stewardship processes.

Proactive Stewardship

Proactive stewardship involves the strategic management of resources to ensure their optimal use and long-term sustainability. By implementing risk analysis and resource prioritisation, alongside the identification of your resource value, proactive risk management anticipates challenges, allowing cultural heritage organisations to prevent or mitigate risks early and use resources efficiently. This helps to preserve your organisation’s assets and supports broader goals, fostering overall resilience and stakeholder confidence through responsible management and transparency.

Risk Analysis

Risk analysis is a vital part of proactive stewardship that involves the careful evaluation of the potential consequences if identified risks were to materialise. This process not only considers the possible impacts on your organisation’s mission and resources but also prioritises which risks require immediate attention based on their seriousness. To conduct a thorough risk analysis, Risk Tables can help to examine three key aspects of each risk:

**Potential Impact:** Consider how the risk of your organisation’s proposed activities within your Business Plan could affect your organisation’s heritage assets, such as historical sites or greenspaces, collections, or educational programmes. This includes evaluating both immediate damage and long-term consequences for preservation and public engagement.

**Severity of Impact:** Assess the level of harm or disruption that the risk could cause. For cultural heritage organisations, this might involve the potential loss of irreplaceable collections, significant financial setbacks, or damage to reputation.

**Likelihood of Impact:** Determine the probability of the risk occurring. Understanding how likely a risk is to happen is crucial for prioritising it among other potential threats.

If we were to take our

**Example:** If we were to take our example that an organisation wants to create a community archive to record and protect its cultural heritage. Using a Risk Table can help your organisation to assess overall severity and likelihood of risk to your identified assets from your organisational activities.

Resource Prioritisation

The next step is to use a Risk Matrix, to determine how to prioritise risks, based on their likelihood and potential impact. Templates for your organisations own risk table and risk matrix are provided in the associated links for this module.

**Priority Category 1 – Immediate Action**

Risks that are highly likely to occur and would have a severe impact on the organisation’s mission or assets should be treated as the highest priority. For example, if there is a high likelihood of structural damage to a historic building due to environmental factors, immediate measures should be taken to protect the site. Category 1 risks demand the immediate attention of your Board of Trustees, as well as prompt and decisive action to mitigate or prevent their occurrence.

**Priority Category 2 – Contingency Planning**

Risks that are less likely to occur but would have a severe impact if they did materialise are the second priority. For instance, a flood risk to a site where your organisation’s collections are held should prompt the creation of an emergency response plan, even if the current likelihood is low. While Category 2 risks may not require immediate action, it is crucial to develop contingency plans to address them if they become more likely.

**Priority Category 3 – Consider Action**

Risks that are highly likely to occur but would have a less severe impact should be considered the third priority. For example, the regular wear and tear on a public space within your site might be highly probable, but manageable through routine maintenance without requiring significant additional resources. In this instance, those assessing risk should evaluate whether proactive measures are necessary or if the potential consequences are minor enough to be tolerable.

**Priority Category 4 – Under Review**

Risks that are both unlikely to occur and would have a less severe impact fall into the fourth priority category. An example might include the rare chance of minor vandalism in a remote area of a greenspace, which could be monitored rather than addressed with extensive preventive measures.

While Category 4 risks may not require immediate action, they should be regularly reviewed to ensure they do not escalate in likelihood or severity over time.

It is important to recognise that risk management, while systematic, is also inherently subjective. Different organisations may have varying levels of risk tolerance based on their unique circumstances, resources, and strategic priorities. Some may choose to absorb higher levels of risk due to resource limitations, while others may adopt a more conservative approach to safeguarding their cultural heritage or greenspaces. The key is to adopt a methodical yet flexible approach that aligns you’re your organisation’s goals and values.

Informed Decision Making

Risk control involves using information collected from resource identification and prioritisation, alongside the likelihood and severity of impact from your organisational activities. Through informed decision making, this information can produce mitigation and monitoring safeguards through the establishment of a Risk Management Plan. A template for your organisation to use in setting out its own Risk Management Plan is included in the associated links with this module.

It is also important to understand that risk control mitigation may already be in place, even if they aren’t formally recognised as part of your risk management strategy. Instead, many of these may be addressed within your organisation’s Resource Management Plan - for instance, mitigation of protecting a community collection would involve ensuring appropriate training for your workforce on cataloguing and handling of the collection -a process already established to optimally manage your resources, while financial risks would be minimised through outlining incoming and outgoing funding streams through annual reports and external scrutiny reports within your organisation that are required by OSCR to ensure your charitable status.

In these instances, it’s simply a matter of reviewing and ensuring existing systems are still effective and up to date. Additionally, it’s crucial to weigh the costs of implementing any new controls against the benefits they provide, ensuring that the resources invested are justified by the protection they offer.

Case Study: The Unicorn Preservation Society

“So, we have risk registers for everything. We have operational risk registers, which are managed by the team here, and the Board of Trustees has a set of risk registers for all sorts of eventualities, business continuity, risk to the fabric of the ship, all that kind of thing and it really is forewarned is forearmed, because a lot of these things we actually can't do anything about, and what having them on the risk register does is motivate you to progress the works that means that one day, you will be in a position to redress them. Now, some of them, you know, you just can't prepare for in some ways, like if there was another pandemic, you know, I think everybody would have other priorities at that time, but we managed to stay open through that. But it's, it's really key to have risk management, but forward planning, which incorporates addressing those risks, so with us we have in our risk registers, you know, what if admissions revenue isn't enough? Well, admissions revenue is never enough, but because it's in the risk register, it's kept at the forefront of everybody's minds, and the trustees are keen to support the staff to improve it, and it also gives the justification for doing these ambitious plans. The unicorn Preservation Society, the charity, has spent over the last five or six years about 600,000 pounds on surveys, investigations, business plans, architectural feasibility studies to progress this major project, and if the to sort this out, then where would the impetus be in the charity to spend that money? It wouldn't be there, they'd all just sit on their hands going, well, we're fine this year and so on year after year after year, suddenly we don't have a ship anymore. So, it's really, really key to manage your risk, even when you know you can't do anything about it now. You have to be aware of it, because it informs your forward plans, and it justifies those plans. If someone says, well, why are you doing it this way? This is going to be very expensive, and it's a huge investment of resource for no immediate return and well that's the point, it's not an immediate return, it's baby steps towards, you know, reducing that risk.”

Deciding on risk mitigation can feel overwhelming, especially if the list of risks is long. However, it's important to remember that determining the following established approaches for risks within your risk management plan can address multiple risks at once.

**Avoidance** involves choosing not to pursue an activity when significant risks are identified. For instance, a cultural heritage organisation might halt plans to host a large public event in a historic building if the risk of damage to the site outweighs the potential benefits. This approach ensures that the organisation prioritises the preservation of its resources and mission over risky ventures.

**Prevention** involves implementing protective measures to reduce the likelihood of risks materialising by taking proactive actions. For cultural heritage organisations, this could include safeguarding digital archives by installing and regularly updating antivirus software, as well as developing comprehensive internal policies. Ensuring robust procedures are in place for areas such as sites/collections and workforce management, digital security, and health and safety is crucial to preventing potential risks.

**Minimise**

Minimising risk involves taking steps to reduce the severity of potential issues if they occur. In cultural heritage organisations, this might include partnering with local conservation groups to share the responsibility of maintaining trails and habitats, or work with a variety of community groups to record archaeological features on a beach likely to be soon washed away by soil erosion. By spreading the risk, such as collaborating with other organisations for joint funding or resource management, the overall impact on your organisation can be mitigated.

**Acceptance** occurs when an organisation decides to tolerate certain risks. For instance, if a site could face the risk of occasional vandalism but the cost of extensive security measures is prohibitive, compared to the low likelihood and minor impact of such incidents, your organisation might choose to accept this risk rather than invest in costly prevention methods.

Transfer

Transferring risk liability often involves obtaining insurance coverage, which helps minimise potential legal and financial impacts. However, insurance typically addresses only residual risks, so organisations must implement proper safeguards and controls to reduce overall exposure. Regularly reviewing insurance policies and consulting with independent brokers ensures adequate and appropriate coverage is maintained.

Monitoring and Review

It is crucial that risk controls are implemented and continuously monitored within your organisation as part of a standard management practice. Risk management should be regarded not as a one-off task, but as an ongoing process that requires regular review and updates. This involves reassessing previously identified risks, evaluating new risks as they emerge, and ensuring that existing controls remain effective.

However, while risk assessments are essential part of business and financial management, ongoing comprehensive processes may create resource challenges for smaller organisations. After developing an initial Risk Management Plan, your board’s annual review process, supported by updates on new activities and reports on significant events, can be used for effective risk monitoring, to ensure that new risks are promptly identified and assessed within a standardised review process. This should include information collated on all identified risks, impact analysis and evidence-based mitigations. In addition, it should also include a Crisis Communication Strategy to mitigate the impact of any unforeseen events, acknowledging that even with robust risk management, crises can occur. This should sit alongside, and support your other strategic documents, such as your Business Plan, Financial Plan and Resource Management Plan to help support your organisation’s goals and objectives. This will enable better decision-making by carefully considering risks alongside opportunities and help to build a culture of ongoing improvement and resilience, whilst reassuring stakeholders confidence in the organisation's management and its ability to navigate challenges effectively.

Conclusion

By systematically identifying, analysing, controlling, and monitoring risks, organisations can anticipate challenges, minimise potential threats, and enhance their resilience. This cyclical approach not only protects valuable assets but also supports informed decision-making and strategic resource allocation, aligning risk management with the organisation's mission and long-term objectives.

A well-structured risk management plan that includes comprehensive strategies for risk mitigation, monitoring, and crisis communication, and integrated with other strategic documents like the business plan and resource management plan, ensures that risks are managed proactively and effectively. This plan should help organisations to navigate uncertainties with confidence and foster a culture of continuous improvement, resilience, and stakeholder trust, positioning your organisation for sustained success in preserving cultural heritage.

This is the end of module 5.3 and the end of section 5: How Can We Place Value on Our Organisation? Finance, Management and Asset Planning. Further information can be found in the subsequent sections of Resilient Heritage: Business Modules.