Risk and Resilience in Scottish Charities

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By

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DECLARATION

In accordance with the Regulations for Higher Degrees by Research, I hereby declare that the whole thesis now submitted for the candidature of Doctor of Philosophy is a result of my own research and independent work except where reference is made to published literature. I also hereby certify that the work embodied in this thesis has not already been submitted in any substance for any degree and is not being concurrently submitted in candidature for any degree from any other institute of higher learning. I am responsible for any errors and omission present in the thesis.

Candidate: _____Diarmuid McDonnell_____

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Darlin' if you're weary

Lay your head upon my chest

We'll take what we can carry

And we'll leave the rest

ABSTRACT

Concerns have long been raised about the conduct and accountability of charitable organisations, particularly the adequacy of reporting and oversight mechanisms. Consequently, charities and the institutions that monitor the sector are under increasing pressure to demonstrate their legitimacy. This thesis focuses on the ways in which risk is operationalised by the Scottish Charity Regulator and experienced by charities. In particular, it examines the nature, extent, determinants and outcomes of four types of risk: complaints concerning charity conduct, regulatory action in response to a complaint, financial vulnerability, and triggering accountability concerns. The thesis begins with a detailed review of the overlapping literatures of risk, regulation and charity theory, and the development of a contextual framework for guiding the empirical work. The thesis draws on contemporary large-scale administrative social science data derived from the regulator, supported by modest use of primary social survey and qualitative data. Findings from the four empirical chapters provide evidence that the risks explored in this research are uncommon for individual charities but are a persistent feature of the sector as a whole, and vary in predictable ways across certain organisational characteristics. The results also reveal the concern of charities with financial risks, their willingness to demonstrate transparency regarding their actions (particularly in response to complaints), and the perceived lack of regulatory burden. The thesis makes an original contribution in the form of new empirical knowledge about the charity sector, in particular through the use of large-scale administrative social science data to 'peer under the hood' and shine a light on aspects of charity behaviour that are often overlooked. The thesis concludes with a reflection on the key findings and comments on potential areas for future research.

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Source: xkcd. (n.d.) *Increased Risk*.
Retrieved January 10, 2017, from http://xkcd.com /1252/

1.1. Introduction

Charities in Scotland are operating in dynamic organisational, political and social environments. The funding landscape has shifted in recent years, with more focus on temporary, project-specific support rather than strategic, core funding from government (Kiviniemi, 2008). This reflects changes in the compact between the state and the charity sector: charities are often seen as an extension of the public sector in terms of service delivery, rather than providers of supplementary services (Cornforth, 2011; Deakin, 2001; Panel on the Independence of the Voluntary Sector, 2014). These developments in the charity sector have occurred against the backdrop of increasing public scrutiny and accountability of institutions (Power, 2009; Rothstein, Huber & Gaskell, 2006). Consequently, charities and the institutions tasked with their oversight are under increasing pressure to demonstrate their legitimacy; the recent spate of parliamentary inquiries into charity legislation and regulation (2013), fundraising (2016) and sustainability (2017) instantiates this claim. Charities' capacity to be resilient in the face of these challenges is crucial to ensuring they continue to deliver public benefit, meet the needs of beneficiaries and remain accountable to relevant stakeholders.

Risk is an everyday part of charitable activity and is defined as follows: "[risk refers to] uncertainty about and severity of the consequences (or outcomes) of an activity with respect to something that humans value." (Aven & Renn, 2009, p. 2) Charity trustees are responsible for managing risk to

ensure that their charities achieve their objectives and protect the organisation's funds and assets. A number of recent and historical scandals serve to highlight the salience of this topic. The demise of a large London-based children's charity in 2015 – Kids Company – raised concerns nationally about the financial stability of the sector; this high-profile case of mismanagement was portrayed as emblematic of poor financial and governance practices by charities in general (BBC News, 2015; NAO, 2015). The creation of a fundraising regulator for England and Wales in 2016 was linked to the plight of Olive Cooke, a pensioner that took her own life in 2015; it soon came to light that she experienced persistent and often unwelcome solicitation for donations from numerous charities prior to her death (Fundraising Standards Board, 2016).

It was two cases of financial misconduct – at Moonbeams and Breast Cancer Research – that acted as the catalyst for the establishment of a dedicated Scottish charity regulator; both of these organisations were found to have misappropriated millions of pounds that should have been spent pursuing charitable purposes (Lambert, 2010). Prior to 2006, the Scottish charitable sector was very lightly regulated by the UK Inland Revenue, and there was significant support from the sector itself for clearer statutory regulation (Dunn, 2016).

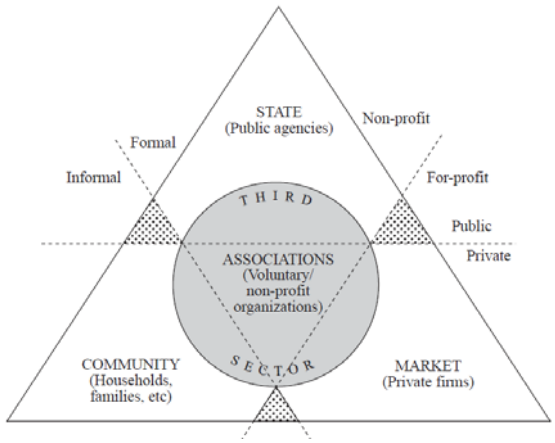
This thesis focuses on the ways in which risk is operationalised by the regulator and experienced by charities. In particular, it empirically examines the nature, extent, determinants and outcomes of four main types of risk: complaints concerning charity conduct, regulatory action in response to a complaint, financial vulnerability, and triggering accountability concerns. We assess the extent to which existing (or new) charity data could be used to measure risk and predict negative outcomes; we also explore the extent to which these measures are an accurate reflection of the qualitative experience of risk within charities. We begin by defining the charity sector in Scotland, followed by a delineation of the regulatory regime under which charitable organisations operate. The chapter concludes with an outline of the structure of the thesis.

1.2. Defining the Scottish Charity Sector

Despite their distinct identity in terms of legislation and public consciousness, charities embody characteristics from a wider domain of voluntary activity known – in the UK and most of Europe – as the third sector. Charities constitute a recognisable and significant proportion of the third sector in Scotland and the UK, and are also often referred to as the 'regulated voluntary sector'. Originally conceptualised as a 'third way' for delivering goods and services (as distinct from the public and private sectors), the term encapsulates a plurality of organisational types and values (Anheier & Salamon, 2006). The third sector has been described as 'a loose and baggy monster' and remains a contentious area of academic inquiry (Kendall & Knapp, 1995; Morgan, 2010). Various definitions and conceptualisations of the term have been proposed. Alcock (2010) argues that the third sector has been constructed from policy and practice discourses, and is a strategic unity of organisations rather

than operational. Others, such as Evers and Laville (2004) contend that the sector is essentially an aggregation of distinct fields and organisations (see Figure 1.1).

Figure 1.1. Locating the third sector in the organisational landscape



Note: Source: Evers & Laville (2004). *The Third Sector in Europe*.

In keeping with its heterogeneous nature and varying definitions, Evers & Laville's diagram positions the third sector as an amorphous entity, not distinct from other domains but overlapping them. Consequently, the sector contains a plurality of organisational types that are differentiated by their founding origins, funding resources and functions (Kiviniemi, 2008). "Generally, they do not like to consider themselves as 'third sector organizations'. They prefer to be identified more closely with their particular character: i.e. we are a charity or voluntary organization or we have service provision or advocacy functions." (Jenei & Kuti, 2008, p. 12) Despite the heterogeneous nature of the sector, some common organisational characteristics can be identified (Jenei & Kuti, 2008; Kiviniemi, 2008): voluntary participation; motivations for establishment; non-distribution of surplus; private organisations acting in the public interest; autonomous and formal.

In Scotland, the Office of the Scottish Charity Regulator (OSCR) has responsibility for implementing The Charities and Trustee Investment (Scotland) Act 2005 (The Act), and ensuring that charities and their trustees comply with the law. One of the challenges for the regulator is ensuring that their action is appropriate, and that they balance enforcement of The Act against placing an undue burden on charitable organisations. A charity is defined (under statute) as an organisation that is listed on the Charity Register maintained by OSCR; unlike in England and Wales, all charities are required to register with OSCR and thus the Charity Register is a complete accounting of these organisations in Scotland. At time of writing, there are 24,058 charities active in Scotland, working across numerous geographies, beneficiary groups and charitable purposes. To register, an organisation must

demonstrate that it passes the charity test: it must have only charitable purposes as defined by the Act; the organisation must or intend to provide some form of public benefit; it must not allow its assets to be used for non-charitable purposes; it cannot be governed or directed by government Ministers; and it cannot be a political party (Office of the Scottish Charity Regulator, n.d). Organisations derive significant benefits from holding charity status, mainly relating to fundraising and attracting volunteers (Meijer, 2009; Morgan, 2010; 2012). There are also considerable tax advantages associated with being a charity: they do not have to pay income or capital gains tax, are entitled to business rates relief of up-to 100 percent, are exempt from value added tax (VAT) on applicable goods and services, can claim Gift Aid on donations made by tax-paying individuals, and individuals and corporations can claim relief on their donations or bequests to charities (Morgan & Fletcher, 2013).

1.3. Charity Regulation in Scotland

Charities are subject to regulation by OSCR, which was established in 2003 as an Executive Agency and took up its full powers when the Charities and Trustee Investment (Scotland) Act 2005 came into force in April 2006. Its responsibilities include the following: keep a public register of charities in Scotland; determine whether an organisation can be a charity; encourage, assist and monitor compliance with the Act; identify and investigate apparent misconduct and protect charity assets; give advice or make proposals to Scottish Ministers about charity regulation. OSCR's vision is for charities that provide public benefit and the public can have confidence in, and defines its objectives as follows (Office of the Scottish Charity Regulator, 2014):

- Increase public confidence in charities through effective regulation.
- Increase transparency and public accountability of charities.
- Increase charity trustees' compliance with the Act.
- Establish and maintain OSCR as a trusted, effective and innovative regulator.
- Minimise the burden of regulation on charities wherever possible, with particular emphasis on reducing multiple reporting.
- Operate effectively and efficiently, demonstrating a commitment to the principles and practice of Best Value.

In the early part of this decade OSCR began its transition towards a risk-based approach to regulation, examining charities "as a whole rather than charitable status alone, checking on all the issues we know can threaten charitable assets or a charity's reputation and cause concern to the public." (Office of the Scottish Charity Regulator, 2012, p. 6) OSCR has named its approach *targeted regulation* in a clear recognition of their desire to target their regulatory activities in a proactive, proportionate and preventative manner. The risk framework underpinning OSCR's transition to a risk-based regulator is considered in the concluding chapter, as it was developed during the latter stages of the PhD and thus did not inform the conduct of the empirical work. Nevertheless, it provides an informative lens

through which to examine the implications of the findings contained in this thesis. The animus of OSCR's involvement in this research project was the need to evaluate the utility of its administrative data resources for targeting its regulatory actions and activities. Examples of OSCR's regulatory functions, powers and monitoring activities are analysed in chapters four, five and six; the reporting requirements of charities to OSCR, and the data generated through this process, are described in Chapter Three.

1.4. Thesis Outline

The purpose of this research is to provide detailed empirical analyses investigating original areas of inquiry in the fields of charity risk and accountability. In addition, the thesis also aims to demonstrate the value of administrative social science data resources in producing original research outputs. In order to achieve these aims, the following research questions are posed:

- Q1. What are the risk factors that lead to charities failing in some capacity; are there indicators that could be used as warning signs that OSCR could adopt or expand to identify risk?
- Q2. To what extent do these indicators capture underlying risk in Scottish charities; do charities identified as risky by the regulator see themselves similarly?

Given the multidimensional nature of risk a mixed methods approach is employed to understand this topic, incorporating proven data collection and analysis methods such as administrative data, statistical modelling (e.g. logistic regression), an online questionnaire and semi-structured interviews. The key findings and insights contained in the thesis reveal the pervasive but relatively minor nature (in terms of negative outcomes) of certain risks in the Scottish charity sector; however, this finding is tempered by concerns surrounding the validity of the measures we can construct using administrative data. Linking the key findings together, the thesis reveals much about the intersection of risk and regulation in the charity sector. Many of the risks examined in this thesis, especially the definitions and measures, are based upon the regulatory priorities of OSCR, and it is clear that there are gaps in what these data can tell us about the totality of risk in the sector. The central conclusion is the need for a comprehensive, multidimensional examination of risk in the charity sector that draws upon a variety of data resources.

The thesis addresses gaps in the charity behaviour and accountability literature in a comprehensive manner, producing new empirical evidence on the nature, extent, determinants and outcomes of organisational misconduct in particular, and is structured as follows:

Chapter Two situates the research in the overlapping literatures of risk, regulation and charity theory, and develops a contextual framework that guides the subsequent empirical work.

In Chapter Three, we describe the methodology underpinning the research. In particular, we outline and review the administrative data employed in the empirical analyses.

Chapters Four to Seven summarise the empirical work and are presented as distinct pieces of research, each with their own literature, research questions and conclusions. In Chapter Four, we present the results of an analysis of public complaints and regulatory interventions into charities. We use descriptive statistics to highlight the nature and incidences of these events, and examine their potential determinants through statistical modelling.

In Chapter Five, the focus is shifted to OSCR's proactive attempts to identify risk in the sector, in particular financial vulnerability. Drawing on contributions to the charity accountability literature, we show trends over time in the distribution of these vulnerabilities and assess their association with undesired organisational outcomes.

In Chapter Six, the focus is on the prevalence of financial vulnerability in the charity sector. Utilising common academic conceptualisations and measures, we explore the distribution and persistence of financial vulnerability, and once again consider whether it is linked with organisational demise and other outcomes.

In Chapter Seven, we shift the focus to charities' understanding and assessment of risk. We report the results of an online questionnaire and follow-up interviews that explored the values charities attach to risk management, their risk management behaviour and protocols, and the risks they identify as being significant to their operations.

Chapter Eight concludes with a reflection on the key findings and contribution of the thesis to the field, the policy and practitioner implications of the research, and an outline of a research agenda.

Chapter Two – Literature Review

2.1. Introduction

In this chapter we summarise and critique the overlapping literatures of risk, regulation and charity theory. The chapter begins by drawing on multidisciplinary literature on the concept of risk, with a particular focus on sociological definitions and applications. This is followed by a critical discussion of economic and sociological theories of charity formation and behaviour. Next, we define regulation and explore some explanatory factors for its existence and application in certain contexts. This is followed by a review of risk-based regulation, a relatively recent development in the field; this section is concluded with a review of the charity regulation literature. We then explore the nature of risk in charitable organisations and consider whether it is different to other organisational forms. Finally, we draw on the preceding literatures to construct a contextual framework for analysing the nature and understanding of risk in the charity sector, particularly from the perspective of charities themselves. Though the focus of the thesis is on charities as they were defined in the previous chapter, the term 'nonprofit' will be adopted when discussing certain elements of the literature in recognition of the original authors' usage of the term.

2.2. Risk Theory

The term risk is ubiquitous in modern society and is increasingly applied to the analysis and discussion of significant events such as climate change and financial crises (Alemanno, den Butter, Nijsen & Torriti, 2003). Though it is difficult to assign a concrete origin for either the word or concept, one of the first uses of the term was as a means to understand the uncertainty or danger of maritime explorations (Luhmann, 1996). Applications were soon found for the concept in the provision of insurance and other financial services. As probability theory became more sophisticated from the early eighteenth century onwards, the application of the concept spread rapidly, both within existing sectors and to new ones such as health care, environmental protection and crime (Taylor-Gooby & Zinn, 2006).

The concept of risk has received comprehensive treatment in multiple natural and social science disciplines, including economics, public health, environmental sciences and sociology to name a few (Riesch, 2012). Across these literatures, risk has traditionally been explored from one of three perspectives (Moller, 2012):

- The scientist approach – risk is an objective phenomenon and can be measured in a systematic manner. The scientific method, in particular statistical and probabilistic techniques, can and should be employed to study risk.
- The psychological approach – risk is a subjective concept that is perceived and interpreted by individuals. "The aim of the approach is to get a clear and distinct picture of how people

estimate risks and how they make choices in relation to them – in particular, what influences whether they deem a risk acceptable or not." (Moller, 2012, p. 57).

- The socio-cultural approach – taking a broader perspective than the psychological approach, the concept of risk is culturally mediated by, and in, certain social contexts. It is this perspective that has been utilised in much sociological research on risk.

A challenge for any research utilising the concept of risk is to select or synthesise these differing perspectives in an epistemologically coherent and meaningful way.

2.2.1. Definitions of risk

Multiple definitions and classifications of risk abound in academic literature and everyday usage. Risk has been defined as an unwanted event that may or may not occur, the cause of said event, and as simply the probability of an unwanted event occurring (Moller, 2012). Perhaps the most common definition, and certainly one that is adopted frequently in an organisational setting, is risk as the expectation value of a harmful event that may or may not occur (Campbell, 2005). An unwanted event is assigned a probability (e.g. fifty percent or 'highly likely') and a severity of impact should that event occur (e.g. a monetary or health cost). Each of these components can be defined in quantitative or qualitative terms. The expectation value (also known as the magnitude) is simply the product of the probability and the severity of the risk. This conceptualisation of risk has been incorporated into decision-theory research (Jensen, 2012).

In the sociology literature, risk is conceptualised in less technical terms. Rosa (1998, 2003) defines risk as a situation or event where something of human value (including humans themselves) is at stake and where the outcome is uncertain. In this definition, risk is a state of the world and is independent of perception and subjectivity. For example, a risk to human well-being is lung cancer; the cancer itself is the risk and there is uncertainty around its likelihood and consequences. Conceptualised in this manner, risk comprises of two dimensions: uncertainties about the occurrence of an event and its consequences, and the severity of the event occurring and its consequences. Probability and severity are used to understand the risk but are not part of the concept of risk itself. "The key point is, however, not that risk is identified by an event but that uncertainty replaces probabilistic quantities, and that specific consequences are replaced by a broader discussion of outcome stakes." (Aven & Renn, 2009, p. 4) Though commonly referenced in the theoretical discourse on risk, Rosa's definition suffers from its abstraction from modern applications of risk theory; that is, the operationalisation of risk as the probability of an event multiplied by its impact (Aven & Renn, 2009). Aven and Renn (2009) sought to amend Rosa's conceptualisation of risk by bridging the gap between its theoretical rigour and the application of risk analysis. Their definition is as follows: "Risk refers to uncertainty about and severity of the consequences (or outcomes) of an activity with respect to something that humans value." (Aven & Renn, 2009, p. 2)

Uncertainty and severity are retained as the core dimensions of the concept of risk, with probabilities often used to express uncertainties. While risk analysis using this definition is often applied to 'real' events, the concept of risk is no longer a state of the world as it is not independent of the assessor (Aven & Renn, 2009). Taylor-Gooby and Zinn (2006) argue that this definition reconciles realist and constructivist approaches to risk, as well as bridging the divide between theoretical contributions and organisational applications of the concept; for these reasons, the definition will be adopted for the purposes of this study.

It should be noted that the concepts of uncertainty and risk are not always so neatly synthesised. Contributions to the decision-theory literature in particular have often dealt with these concepts separately (see Jensen, 2012). Knight's (1921) well-known definition of risk grounds it in a decision-making framework, arguing that a risk is the fact that a decision is made under conditions of known probabilities. Hence, if the probabilities are unknown a decision maker is dealing with uncertainty and not risk. Stirling (2007) draws on Knight's work and defines risk as a category in the classification of uncertainty: risk is a situation where the probability of an outcome and the severity of its impact are unproblematic in their measurement (i.e. they are known). As this research has adopted a definition of risk that includes uncertainty as one of its core dimensions, it is important to attempt to classify what uncertainty refers to. Riesch (2012) presents five levels of uncertainty 'objects', which he argues are applicable to many of the disciplinary treatments of risk: uncertainty about the outcome; uncertainty about the parameters of a risk analysis model (i.e. the empirical data that feeds into the analysis); uncertainty about the model itself – there may be other models that measure the risk more appropriately; uncertainty about identified inadequacies of the model (e.g. methodological rigour and inherent limitations of the model; and uncertainty about unidentified inadequacies – aspects of the risk analysis object that are not knowable at the current time (in former United States Secretary of Defense Donald Rumsfeld's parlance, these are 'unknown unknowns').

2.2.2. Risk analysis

We now focus on the process of analysing risk in a variety of settings. Amendola (2002, p. 18) provides a succinct description of the operationalisation of risk analysis:

> Early deliberations on risk advocated a three-stage approach: establish the probability and magnitude of the hazards respecting the inherent scientific uncertainties (a technical process), evaluate the benefits and costs (a social process), and set priorities in such a way that the greatest social benefits are achieved at the lowest cost. In this perspective, the risk assessment phase was strictly separated from the management.

Risk analysis is often still conceptualised in this manner, utilising the broad categories of risk assessment and risk management to capture the varied processes and stakeholders involved. Risk assessment is traditionally the domain of scientific contributions, where the probabilities and impact

are estimated; the output of this stage is then incorporated into the decision-making process regarding the acceptance or rejection of the risk (Moller, 2012). The core conceptual and technical concerns at the assessment stage are the identification, measurement and evaluation of risk; the policy response to these risks is then developed and implemented in the management stage. The ideas, concepts and tools of risk analysis are no longer confined to traditional areas of application:

> …there now seems to be no limit to the range of adverse outcomes that are explicitly conceived as risks to be managed, be they operational risks, security risks, legal risks, reputational risks and ethical risks to name just a few. (Huber & Rothstein, 2013, p. 651)

Power (2004) terms this framing of problems or issues in terms of risk 'the risk management of everything'.

A robust and universally-applicable measure of risk is difficult to develop. Assigning a probability can often be a matter of judgement rather than mathematical certainty, and severity is also difficult to measure in a meaningful and comparable manner (Moller, 2012). As well as dealing with probability and severity, Taylor (2012) highlights a number of salient issues with the measurement of risk, including: not knowing what you do not know (unknown unknowns); misspecification and misapplication of the model used to analyse risk; determining appropriate thresholds for acceptable levels of risk; the inadequacy of single measures of risk; and inability to reduce risk analysis to a purely objective, technical exercise (i.e. it still requires an element of judgement to capture factors outside the model). Determining what constitutes an acceptable risk is a particularly important consideration. A technical risk assessment may reveal a quantitatively-derived level of risk that should be tolerated for a particular activity: for example in 2015 the European Food Safety Authority set a safe threshold (known as the Tolerable Daily Intake) for the amount of nickel present in food and drinking water. However, those tasked with managing the risk may be dissuaded from adopting this level due to pressure from stakeholders that are affected by the consequences of the risk (Hansson, 2004). This is especially relevant in light of the increasing prominence of risk in modern society and the fact that risks are often global, involuntary and inequitable in their distribution.

Sociological studies of risk have traditionally focused on the interrelationship between risk and technological development, and the inadequacy of various institutions in managing risk and uncertainty in society (Taylor-Gooby & Zinn, 2006). In Beck's (1992) influential contribution to the literature, the author argues that risk is no longer conceptualised as a matter of fate or an unavoidable consequence of material and technological progress; it is no longer constrained by temporal or spatial boundaries, and affects greater numbers of people. Hutter (2006, p. 208) echoes the argument of Beck and describes the characteristics of risk in modern western societies:

> First, they [risks] are manufactured as opposed to natural. Second, they transcend social and national barriers and may be global in their effects. And third, these modern risks are closely

but ambivalently associated with science which is seen as responsible for the creation and definition of modern risks but is also seen to have failed to control these risks, thus leading to the emergence of a risk society characterized by global risk situations.

Beck's contribution lacks empirical confirmation but it nonetheless highlights a crucial issue in risk research and analysis: the importance of understanding the perception of risk by those affected by it. People are concerned with the impact of scientific and technological developments on their lives, society and environment. This increased awareness of risk in modern society has implications for those tasked with risk analysis and management. As a result of the incongruity between expert and lay understandings of risk, its management is becoming increasingly contentious; this is especially true in the event of large-scale and dangerous incidents (Renn, 1998).

2.3. Charity Theory

One of the most parsimonious and utilised definitions of a nonprofit was proposed by Hansmann (1980; 1996); he defines a nonprofit organisation as one that is not free to distribute profit to its owners, board or managers. Termed the 'nondistribution constraint', it acts as a clear distinction from for-profit firms and affects many facets of nonprofit organisations' operations such as resource acquisition, governance, public perceptions and employee motivation (Steinberg, 2006). Salamon and Anheier (1997) take a narrower view of nonprofit distinctiveness and propose the Structural-Operational definition, where nonprofits are defined by the following properties: organised; private (i.e. not part of the public sector); autonomous; non-compulsory (e.g. voluntary participation of trustees in governance); non-profit distributing.

2.3.1. Charity formation

The economic theories explaining the formation of nonprofit organisations rest on a number of theoretical pillars. Demand-side theories focus on the motivations of individuals to interact and contract with nonprofit organisations (Wallis, 2006). One of the first of these explanations, Weisbrod's (1975) public goods theory, contends that nonprofits surface to fulfil unsatisfied needs for public goods.[1] Heterogeneous demand for public goods, in terms of quantity and quality, cannot fully be satisfied by the state resulting in space in which nonprofits can arise to satisfy niche or overlooked needs. Therefore, nonprofit organisations form when private demand for public goods is unmet by the state. An example of such public goods provision is the existence of faith schools alongside public education institutions. While an important early theoretical contribution to this field, Hansmann (1987) elucidates some significant limitations of Weisbrod's public goods theory: he contends that it does not explain why nonprofits rather than for-profits arise to satisfy unmet demand; and that nonprofits do not always seek to provide public goods (e.g. commercial nonprofits, charity shops for instance, often provide private or quasi-public goods). Weisbrod's theory also narrowly defines the

scope of nonprofit relevance, conceptualising its existence only in terms of a response to the failure of the state to provide public goods (Anheier & Salamon, 2006).

The second significant demand-side theory seeks to explain why there are non-market rather than market responses to public goods provision, in contrast to Weisbrod's theory which seeks to explain why there is private provision of public goods (Anheier, 2005). Hansmann's (1980) contract failure theory postulates that, owing to the nondistribution constraint, nonprofits address information asymmetries that exist between producers and consumers regarding the quantity, quality, and costs of goods and services. Where these asymmetries exist, for-profit firms have an incentive and opportunity to take advantage of consumers. In contrast, nonprofits are limited in the benefits they can grant to those that control the organisation (via the nondistribution constraint) and thus have less incentive to exploit information asymmetries (Hansmann, 1987). Steinberg (2006) elaborates on the means by which nonprofits address contract failure: the nondistribution constraint performs a sorting process, where entrepreneurs whose values are not aligned with the nonprofit sector do not enter it; many founders or managers of nonprofits are demand-side stakeholders (e.g. parents founding a nonprofit childcare facility); nonprofits are immune from 'hostile' takeovers, promoting stability; and spillover benefits to competitors (i.e. the presence of nonprofits incentivises for-profit organisations to become more trustworthy). In essence a nonprofit, through its organisational type, signals that it is trustworthy to consumers and donors. Contract failure theory is conceptualised as an agency problem, where the principal (e.g. donors) cannot easily assess or monitor agent performance.

Reflecting on his earlier work, Hansmann (2003) comments on the limitations of contract failure theory. He stresses the theory be understood as the most convincing *efficiency* rationale for the selection of a nonprofit firm by demand-side stakeholders; that is, the nonprofit firm is more efficient at reducing information asymmetries between producers and consumers. Hansmann (2003) criticises assertions that the nondistribution constraint eliminates unethical or self-serving behaviour by those tasked with managing the firm, arguing that if this were the case an efficient economy would consist only of nonprofits. Hansmann's theory is also limited in its applicability to the nonprofit sector as a whole, as it fails to fully account for the existence of commercial nonprofits i.e. organisations that derive a majority of their income from trading activities rather than donations. He also posits that regulators, not consumers, respond to these perceived information asymmetries (Hansmann, 2003).

The second strand of economic theories of nonprofit formation takes account of supply-side factors (Ben-Ner & Van Hoomissen, 1989). Supply-side theories are concerned with nonprofit entrepreneurship and giving. Anheier (2005) argues that the following supply-side conditions must be in place for the creation of nonprofit organisations: **e**ntrepreneurs that are not motivated by profit; adequate funding; philanthropy; support from stakeholders; and production efficiency. Rose-Ackerman (1996) posits that nonprofit organisations attract founders and leaders that are altruistically motivated, rather than purely driven by rent-seeking behaviour. This theory complements Hansmann's

focus on the role of trust in nonprofit organisations and addresses his assumption that the motivations and values of board members and managers are aligned with those of the organisation. As Young (1983) contends, this sorting of altruistic entrepreneurs and leaders into the nonprofit sector signals that their organisations are trustworthy. Other supply-side theories focus on the motivations and incentives of individuals to give time, money and other resources to nonprofit organisations (see Andreoni, 1990).

Economic theories by themselves do not possess sufficient explanatory power for the formation of nonprofits; while they provide explanations at the micro-level, they suffer from their failure to account for variation in cross-national nonprofit sectors (Salamon & Anheier, 1998). Sociological approaches have sought to address this gap by taking account of the social origins of nonprofit organisations. As Di Maggio and Anheier (1990, p. 153) attest, "the origins and behaviour of [nonprofit organisations] reflect not just incentive structures and utility functions, which economists emphasize, but also institutional structures and state policies." Taking account of this broader view of nonprofit existence, Salamon and Anheier (1998) developed their social origins theory, which states that the nonprofit sector is best understood in the context of its social origins in each country (i.e. its social, political and economic realities).

2.3.2. Charity behaviour

Primarily in response to the nondistribution constraint, nonprofits rarely adopt profit maximisation as their primary animus; therefore, theories of nonprofit behaviour often seek to understand other maximands such as quality or quantity of service, budget performance or some other socially-optimal objective (Hansmann, 1987). The purpose of a nonprofit organisation, as expressed in its mission statement, is crucial in understanding its behaviour. Missions can be vague and intangible, resulting in low-specificity goals and impacting on the delineation of tasks and organisational structure (Anheier, 2005). A nonprofit's mission can also both constrain and enable activities, and thus is a crucial driver of behaviour.

Nonprofits are theorised to have a comparative advantage over public and private institutions, mainly in terms of their ability to react to local needs, carry out demonstration projects that highlight gaps in service provision, provide fee-based services for 'thin' markets, and strengthen social cohesion in communities (Salamon, 1987). Sociological perspectives on behaviour have also claimed that nonprofits are sources of innovation and diversity in society, campaigning for and promoting social change in many cases, and developing innovative responses to the needs of marginalised groups in others (DiMaggio & Anheier, 1990; Kramer, 1981). Nonprofit behaviour has also been studied from the perspective of their perceived and actual failures. Contributions to voluntary failure theory critique the nature of nonprofits in relation to the following organisational weaknesses: resource inadequacy; particularism of service or cause; paternalism; and amateurism (Anheier, 2005).[2] Often these failures

are addressed by forming partnerships with state organisations, which can provide "a more stable stream of resources, set priorities through a democratic process, discourage paternalism by [for example] making access to care a right and not a privilege, and improve quality of care by setting benchmarks and quality standards." (Anheier, 2005, p. 131) This symbiotic relationship between nonprofit organisations and the state has significant implications for oversight and monitoring. Nonprofit organisations monitor government provision (and underprovision) of services and undertake advocacy roles to ensure service delivery. In this way the nonprofit sector overcomes its resource insufficiency and particularism failures. In turn, the state contracts with nonprofits to deliver goods and services, and adopts a monitoring role in the operations of these organisations (Wolpert, 2003).

The nondistribution constraint, central as it is to issues of trust and reputation, only acts as a crude protection against the exploitation of stakeholders that interact with nonprofits (Hansmann, 1996; see also Ben-Ner & Gui, 2003). Reflecting on this concern, Burger and Owens (2010) contend that there are obvious ways for the individuals that govern nonprofits to circumvent the nondistribution constraint, for example through inflated salaries, bonuses and benefits. Consequently, the manner in which a nonprofit is governed and held accountable becomes important from the perspective of trustworthiness and public confidence (Steinberg, 2006). Other contributions from the economics literature contend that nonprofits have an inherent productive inefficiency as a result of the nondistribution constraint; the lack of managerial claim to the residual means there is no incentive to pursue a strategy of cost minimisation. Nonprofits have also been found to respond more slowly to increasing demand (and other market changes) than for-profits; this is perhaps best explained by the difficulties these firms have raising sufficient capital through debt, donations and retained earnings (Hansmann, 1987).

Charity formation and behaviour theories do not claim to have universal explanatory power. Often they are better utilised as heuristic devices, guiding rather than leading scholarly investigations of these topics. In the context of the study of risk, the theories reviewed in the previous section possess important contributions and insights. Issues surrounding the role and salience of trust in understanding charity behaviour are important considerations for this research. Charity status, though it signals some degree of trustworthiness, is not sufficient by itself to guarantee behaviour that provides public benefit. It eliminates some incentives to exploit information asymmetries but only in a system where there is oversight of charity activity (Krashinsky, 2003). Hansmann (1987) corroborates Krashinksy's concern, highlighting issues with a system of oversight consisting only of donor or patron monitoring of a nonprofit (e.g. difficult to detect managerial malfeasance, often do not have voting rights in the organisation, no market for organisational control). Their thinking converges on the need for effective monitoring and oversight to ensure charities provide public benefit and act in a trustworthy manner. Consequently, regulatory regimes were formed in recognition of the importance of protecting public

confidence in the charity sector. The role of a regulator in recognising and reducing risks relating to trust and confidence in the charity sector will be considered in depth in a later section.

2.4. Regulation Theory

Regulation is a multi-dimensional concept. In the academic literature, regulation has been understood as a specific set of commands, as deliberative state influence, and as all forms of social or economic interest (Baldwin, Cave & Lodge, 2012). The first assumption underpinning the need to regulate is that an agency is acting in the interests of a defined party (e.g. citizens, consumers or the environment). Traditionally, this assumption applied to state bodies seeking to act in the public's interest; nowadays, regulation is also conducted by non-governmental agencies, and certain industries – including the charity sector in certain jurisdictions– employ self-regulation. Once a regulator has identified the party whose interests it seeks to protect, we can identify the ideological and technical reasons for regulating on their behalf. Technical reasons include responding to or anticipating market failure (e.g. prohibiting monopolies, dealing with externalities, and rationalisation and co-ordination of activities). Regulation also stems from human rights and social solidarity rationales, and these are not necessarily secondary to the market failure rationale. Despite its obvious negative connotations (e.g. as an activity that restricts and controls behaviour), regulation can also play a facilitative or enabling role in a sector (Baldwin et al., 2012).

2.4.1. Reasons for regulation

Regulation can arise, develop and decline in various ways (Baldwin et al., 2012). A multi-disciplinary approach to the study of regulation has resulted in the development of numerous theories that seek to explain regulation in some way. First, there are public interest theories. These utilise the assumption that regulation is based on some public, benevolent rationale (Hutter, 2006). Regulators focus on protecting the public interest, often to the detriment of sector, group or individual interests (see Ogus, 2004). Regulatory approaches based on this assumption require objective standards and expertise. Issues that have been identified with regulatory approaches based on the public interest rationale include how to define public interest (often no single definition); regulators acting in their own interests; and not achieving intended regulatory results. It is also difficult for the public to come together as one entity to influence regulation; it is this point in particular that has led to some of the other theories discussed below.

Another well-developed set of explanations is known as interest group theory. Regulatory developments are driven by the particular interests of certain groups (Baldwin et al., 2012). Stigler (1971) argues that regulation is inherently about degrees of capture (i.e. the extent to which a regulator is influenced by the interests of a certain group). One branch of interest group theory focuses on economic determinism of regulation, which contends that regulation will be shaped in the interests of those who value it most (e.g. the interests of producers versus consumers in certain industries).

Interest groups, when driven by economic objectives, can also seek deregulation. A contemporary example in the charity sector is the call for deregulation of lotteries run by charities and other societies (Third Sector, 2014a). The economic theory of regulation is limited by its deterministic focus and fails to take into account other drivers such as ideology, altruism and social objectives. Interest group theories in general are inherently about self-interest and politics. Wider interest group theories see regulatory behaviour as a struggle for power and as a product of the relationships between different groups (Wilson, 1980).

A third set of theories is concerned with the influence of ideas and paradigms (i.e. conceptions of how and why a regulator should act) on regulatory development. In essence, "the important contribution of the 'ideas matter' analysis is to suggest that the wider intellectual climate significantly shapes the type of regulatory instruments and institutions that are regarded as desirable." (Baldwin et al., 2012, p. 50) Another facet of these theories is that the regulator's worldview is of importance. For example, a regulator might consider stakeholders as trustworthy and regulate accordingly. Finally, a burgeoning literature deals with the role institutions play in the development of regulation. Those who propose institutional theories "do not necessarily agree on where preferences [for regulatory approaches] come from, but they do agree on the notion that institutional structure and arrangements, as well as social processes, significantly shape regulation." (Baldwin et al., 2012, p. 53)

2.4.2. Risk-based regulation

As the term suggests, risk-based regulation is an approach that lies at the intersection of the risk and regulation literatures. It is defined as a particular strategy or set of strategies that regulators use to target their resources at those sites and activities that present threats to their ability to achieve their objectives (Black & Baldwin, 2012). Regulation in general can be seen as inherently about the control of risks (Baldwin et al., 2012; Hood, Rothstein & Baldwin, 2001; Hutter, 2006; Sparrow, 2000). A regulatory approach can be defined by whether risk assessment and management are integrated or kept as distinct processes (Löfstedt & Vogel, 2001). Integration occurs when the three major stakeholders in the regulatory process - experts, policy makers and the public - all play a role in shaping regulation (Wendling, 2012). A regulatory approach that keeps these processes separate is more adversarial in nature: it is focused on setting standards using evidence provided during risk assessment and policy makers look after risk management through the development and implementation of legislation, policy and regulation. The fundamental premise of risk-based regulation is that regulatory decisions should stem from balancing the benefits and costs of a particular risk object (MacGillivray, Alcock & Busby, 2011). Risk is no longer just used as a concept for describing regulatory objects and institutional threats, it is now central to determining regulatory activities and responses; that is, it has become an organising principle with accompanying rules and activities (Rothstein et al., 2006; see also Lidskog & Sundqvist, 2012). Risk-based regulation has long been a feature of certain industries such as nuclear power, road safety and occupational hazards;

however, it is now being applied to an increasing number of policy domains as part of a 'modernising government' agenda (Rothstein et al., 2006). It is championed as an "apparently rational, objective, and transparent way of deploying limited regulatory resources" and offers insulation from claims of subjective or emotional responses to events by regulators, and the potential of a more equitable distribution of regulatory burden (Hutter, 2006, pp. 216-217). Concerns have been expressed regarding the normative ideal of risk-based regulation, positing that other competing regulatory logics or rationales – such as punitive, rehabilitative and restorative - are relevant (Baldwin & Black, 2007; MacGillivray et al., 2011).

Trust is a salient component in the formation, behaviour and impact of regulatory regimes. Johnson, Jenkinson, Kendall and Bradshaw (1998, p. 310) argue that "All regulatory systems are to some extent dependent on trust. Evaluation, monitoring and inspection are time-consuming and costly and complete policing is undesirable." In light of this, regulators seeking to effectively control risk in a system tend to exhibit one or more of the following principles (Majone, 2010). First, regulators can adopt a zero-tolerance policy to risk and simply prohibit actions, products or services that are deemed too risky. This blanket approach to risk-based regulation can stymie the development and dissemination of societally beneficial products and services. Second, regulators can accept that it is impossible or infeasible to completely eliminate risk, and so seek to reduce risk to its lowest possible level. Again, this approach can place too great a burden on those subject to regulation and reduce their capacity to produce or act. Third, regulators can abide by the significant risk doctrine, that is, the elimination of what are deemed significant risks. Identifying, measuring and managing significant risks places a greater analytical burden on the regulator as not all risks are to be treated in a uniform manner. What constitutes a significant risk or not can be a contentious issue and can leave the regulator susceptible to regulatory capture (i.e. the regulator advances the special interests of a select group of the sector it is charged with regulating). Finally, regulators can seek to balance costs and benefits before establishing regulatory standards. Standards should be chosen according to whether they provide greater benefits to the public than impose costs. The issue with this principle is that a cost-benefit analysis can often produce results that are contradictory to the regulator's mandate.

Many of the challenges that are inherent to a risk-based regulatory approach are drawn from those that plague risk analysis more generally. The first challenge for a regulator is defining or identifying a risk. Second, how should the regulator mediate the assessments of experts and the perceptions of the public (MacGillivray et al, 2011)? Third, should the regulator place an emphasis on anticipation or resilience (Baldwin et al, 2012)? Is it more productive to seek to reduce the probability of the event occurring or focus on mitigating the impact of the event? In practice both foci are valid but resource constraints, as well as concerns about uncertainty, can force a regulator to choose one or the other.

2.4.3. Uncertainty and regulation

It is important to discuss the role of uncertainty in regulating risk. In a previous section we established that uncertainty is an inherent feature of a risk and is often expressed in both quantitative and qualitative terms. Uncertainty is inherent to most regulatory endeavours. It can stem from the sector subject to regulation, imperfect or incomplete information and shifting public attitudes. Partly as a response to this uncertainty, regulators of many sectors are turning to risk-based regulation. Riesch (2012) classifies the sources of uncertainty in risk analysis. He distinguishes between uncertainty present in the system under investigation (aleatoric), and uncertainty arising from incomplete information or knowledge (epistemic). Aleatoric uncertainty is present when we are uncertain whether an event will happen and its associated impact, owing to the probabilistic nature of the events themselves (e.g. will it rain tomorrow?). Epistemic uncertainty arises when we are unsure whether or not an event has occurred, and it is only our knowledge regarding the event that is uncertain (e.g. did it rain yesterday?). Epistemic uncertainty can arise when the quantity and quality of information is not very robust (Sahlin, 2012). A regulator's tolerance for uncertainty can significantly alter the actions considered and taken during the risk management stage (Sahlin, 2012). A regulator that is uncertainty tolerant recognises the limitations of risk analysis and scientific evidence. In contrast, a regulator that is classed as uncertainty intolerant fails to give due consideration or importance to any uncertainty present in its activities and the activities of the sector it regulates (van Asselt &Vos, 2012). In response to uncertainty, many regulators (especially those operating at a European level) have invoked the precautionary principle: if unsure about the true nature, extent or impact of a risk, the activity, product or service should be prohibited, at least until further information regarding the potential harm is available (van Asselt & Vos, 2012). As stated previously, uncertainty is not equal or equivalent to risk, even though it is sometimes thought so by stakeholders interested in shaping regulation. For example, proponents of a particular activity can invoke uncertainty as evidence that there is nothing to worry about; detractors can use the same presence of uncertainty as a scaremongering tool, framing the activity as a 'Pandora's Box' of unforeseen consequences. The distinction between aleatoric and epistemic uncertainty, and its applicability to the regulation of risk in the charity sector, will be discussed further in the concluding chapter.

2.5. Risk, Regulation and Charities

Our attention now focuses on the areas of overlap between the risk, regulation and charity literatures, beginning with an exploration of risk in an organisational context before homing in on charities specifically. Much of the for-profit literature on risk emphasises the role risk analysis can play in optimising decision-making and operations (Rothstein et al., 2006). Rational decision-making involves the maximisation of expected utility (Sahlin, 2012). "As such, risk management methods are widely promulgated as efficient, rational and universally applicable means for challenging

organisational practices in ways that manage their inevitable downsides without stifling entrepreneurialism." (Huber & Rothstein, 2013, p. 652). Goble and Bier (2013) provide hypothetical examples of how risk analysis could be utilised by organisations as an information technology to support decision making: risk assessments act as repositories of information and a medium of communication, and can be used in an evaluative capacity to inform decisions; risk analysis creates the possibility of asynchronous sharing and discussion of information; and it can serve as a platform for the active discussion of risks and answer 'what if' questions on an ad hoc basis. They can also temper emotional and subjective responses to risk. Risk assessments are living documents and can help incrementally improve knowledge and decision making in an organisation; as a result, risk assessment can make the transition from strategic decision making to everyday operational procedures (Goble & Bier, 2013). Risk analysis can also be an effective tool for demonstrating accountability to relevant stakeholders (Rothstein et al., 2006).

A risk analysis framework that has gained significant traction in for-profit organisations is Enterprise Risk Management (ERM). Developed in 2004 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as a response to the high profile corporate scandals that occurred in the early 2000s, ERM is a "process…designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives." (COSO, 2004, p. 2) The framework is comprised of eight components derived from key theoretical dimensions of risk including identification, measurement, tolerance and communication. Structured risk analysis frameworks such as ERM have been embraced by for-profit organisations due to their congruence with easily defined financial metrics and goals, enabling of effective monitoring by principals and promotion of competition (Power, 2009).

A major criticism of ERM, and other highly formalised risk analysis frameworks, is its focus on rules-based compliance (Power, 2009). Huber and Rothstein (2013) echo similar concerns, positing that risk analysis can become an exercise in organisational legitimacy and fail to challenge engrained behaviours. Organisations can become myopic in their application of risk analysis, relying on compliance and internal controls rather than creatively conceptualising and identifying new risks (Power, 2009). This can have the perverse effect of making organisations risk-averse (Huber & Rothstein, 2013). "While many risk and compliance people at the operational level prefer this less ambiguous and more rule-based world, it is also a rather dangerous generalised and standardized orientation for organizations, regulatory bodies and societies." (Power, 2009, p. 852) As a consequence, much of the systemic risk in the sectors organisations operate in remains poorly understood or measured; there is a disconnect between risk management at the organisational level and the interconnectedness of the sector or society in which the organisations operate (Power, 2009). Finally, Goble and Bier (2013) consider the inherent limitations in the applicability of risk analysis for

organisations, arguing that the practice is extended to situations and domains when there is no need to do so, and efforts to challenge its supremacy as a decision-making tool are suppressed.

2.5.1. Charity risk

Charities exhibit some similar traits to for-profit organisations with respect to the nature and impact of risk, such as the effect of competition on organisational sustainability. Risk management frameworks are also broadly similar in principle to those adopted by for-profit enterprises. However, uncritically importing a for-profit perspective on risk fails to take account of the distinct nature of charities, especially with respect to the role of profit in the organisation, mission objectives, societal expectations, and accountability to a wide set of stakeholders (Chen & Bozeman, 2012). Despite these points of distinction, Young (2009) advocates for the adoption of risk management frameworks by charities, especially in relation to strategic decisions; a failure to do so could lead to a risk-averse culture that stymies the achievement of impact and public benefit by these organisations. The reverse may also occur, where charities expose themselves to unreasonable levels of risk for little benefit. Risk management is also important in the context of asset stewardship, demonstrating public accountability, attracting stakeholders such as trustees and volunteers, and aligning activities with organisational mission (Herman, Head, Fogarty & Jackson, 2004).

The nature of risk in charities is broad and is derived from the panoply of operational areas and decisions inherent in running these organisations: “Financial, personnel, program and capital expenditure decisions all entail risk because they involve interactions with changing, complex, volatile or intrinsically stochastic economic, political and social environments.” (Young, 2009, p. 33) Contributions from the fields of economics and law have theorised that charities are poor bearers of risk, relative to owned enterprises (Hansmann, 1996). Property rights theory also reinforces the claim that risk will be more attractive in the market-driven private sector (Alchian & Demsetz, 1972). Charities do not possess the ability to diversify financial risks through raising equity for instance, and tend not to invest in risky projects relative to private sector firms (as the reward for bearing risk is often profit). It is also contended that senior management in charitable organisations wield unusual control and autonomy in the absence of a single, dominant principal and therefore can indulge their personal tolerance for risk (Hansmann, 1996). Though risk avoidance and minimisation is often propagated through nonprofit management texts as the ‘ideal’ level of risk tolerance, organisations that adopt this strategy “will miss out on opportunities to strengthen the organization’s assets, to offer more meaningful services to individuals or a wider community, and to attract a steadily growing constituency of donors, supporters, and volunteers.” (Herman et al., 2004, p. 3)

Young (2009) highlights three key concerns for charities in relation to the analysis of risk. First, developing accurate quantitative measures of the probability and impact of a risk is particularly challenging for mission-driven organisations. Second, determining an appropriate tolerance or

appetite for risk is made more difficult in the absence of a stock market or equivalent monitoring system. A charity's tolerance for risk can be decided at three levels: individual, organisational and societal. We have already raised the issue of senior management autonomy and how it affects the appetite for risk, but individuals from other strata of the organisation can also bring their personal risk attitudes to bear on their work. At an organisational level, funders and regulators influence risk tolerance, as do the charity's circumstances (e.g. its financial stability or capacity). At the societal level, public conceptions of what a charity is and should do can affect the risk-taking behaviour of these organisations; for example, charities must resolve tensions between the desire for social change that legitimises their existence and the conservative tendency to manage resources that are gifted. Finally, charities must provide a workable answer to the following question: who takes ownership for risk in the organisation? The impact of a risk is not only borne by those making the decision but also by other stakeholders. For example, a focus on reducing the impact of an organisational risk – by cutting expenditure to reduce financial vulnerability – could increase certain risks facing beneficiaries (e.g. removal of service provision). In such a scenario, the risk management strategy may conflict with a charity's mission or objectives.

The Charity Commission, which regulates charities in England and Wales, identified five core risk categories that charities may encounter (see Table 2.1). Many of the categories and specific types of risks are examined throughout the course of this thesis, in particular in Chapter Seven where the above table is be applied as a coding framework for analysing textual data on the most significant risks facing charities in Scotland. For now, we want to bring the reader's attention to the interdependent relationship between many of these risks and how this must be acknowledged in the application of risk management approaches. For example, poor public perception and reputation may act as a cause or an effect of changing government policy or inadequate financial management. Finally, the locus of where these risks reside and impact the sector must be understood and delineated: the individual level e.g. risks to volunteers working with vulnerable groups; the organisational level e.g. risks to reputation or sustainability; the industrial or field level e.g. risks to the social care or housing market; and the societal level e.g. risks to service users, beneficiaries or tax payers (Brown & Osborne, 2013).

Table 2.1. Types of risks faced by charities

Risk category	Examples
Governance risks	Inappropriate organisational structure
	Trustee body lacks relevant skills or commitment
	Conflicts of interest
Operational risks	Lack of beneficiary welfare or safety
	Poor contract pricing
	Poor staff recruitment and training
	Doubt about security of assets
Financial risks	Inaccurate and/or insufficient financial information
	Inadequate reserves and cash flow
	Dependency on limited income sources
	Inadequate investment management policies
	Insufficient insurance cover
External risks	Poor public perception and reputation
	Demographic changes such as an increase in the size of beneficiary group
	Turbulent economic or political environment
	Changing government policy
Compliance with law and regulation	Acting in breach of trust
	Poor knowledge of the legal responsibilities of an employer
	Poor knowledge of regulatory requirements of particular activities (e.g. fund-raising, running of care facilities, operating vehicles)

Note: Source: Charity Commission. (2013). *Charities and Risk Management: A Guide for Trustees.*

2.5.2. Charity regulation and accountability

The growth and importance of the charity sector globally in recent years, particularly in terms of public service provision, has placed a spotlight on the role and effectiveness of regulation (Johnson, Jenkinson, Kendall, Bradshaw & Blackmore 1998; Rutherford, 2015). Regulators have an important role to play in promoting transparency and accountability, which in turn may have tangible reputational benefits for the sector (Cordery & Morgan, 2013; Philips, 2013). There are convincing rationales for the regulation of charities: the need to address perceived or actual transparency issues by reducing information asymmetry in the sector; the privileged tax exempt status of charities; the importance of public confidence to the health of the sector; the desire for competition among charities through transparency and open data initiatives; and to ensure an appropriate distribution of scarce resources (Cordery, 2013). Not all of the above rationales are present in every regulatory regime but the importance of protecting and facilitating public confidence in the sector cannot be overstated (Cordery & Morgan, 2013). One of the primary mechanisms through which regulators oversee the sector, and thus achieve their primary aim of protecting public confidence, is through the requirement of good accounting and reporting practices by charities (Hyndman & McMahon, 2011; Reheul, Van Caneghem & Verbruggen, 2014).

The use of regulation to encourage and enhance accountability in the charity sector is not without consequences, intended or otherwise (Irvin, 2005). Corry (2010, p.11) argues that charities cannot be regulated without imposing some cost on organisations and the sector as a whole: "Unlike the state and the market economy, it is something that can scarcely be subjected to detailed planning or regulated without it losing some of its…qualities such as voluntary participation, value-based motivation, and independence from more institutionalized power structures." In his analysis of philanthropic foundations in the US, Frumkin (1998) argues that a regulatory development (Tax Reform Act of 1969) led to the emergence of highly staffed bureaucratic foundations, which in turn had two significant consequences for the sector: increased isomorphism and the dominance of a short-term, targeted form of funding. Neely (2011, p. 123) also examined the effectiveness of nonprofit regulation in the US and found that the Nonprofit Integrity Act (NIA) of 2004 had the "effect of increasing accounting fees, while providing limited improvement in financial reporting quality in the first year of implementing the Act." Hyndman and McDonnell (2009; see also Cordery, 2013) posit that charities may become more accountable to the regulator at the expense of their donors and beneficiaries. Onerous reporting requirements can force charities to divert time and resources away from achieving objectives (Szper & Prakash, 2011) and discourage innovation (Johnson et al., 1998). In order to address these undesirable implications there have been calls for a differentiated approach to regulation and the rejection of a narrow conceptualization of accountability that privileges external oversight (Cordery, Sim & van Zijl, 2015; Ebrahim, 2003).

2.6. Researching Risk in the Charity Sector

To conclude this chapter, we draw on the rich contribution of the reviewed literatures to produce a contextual framework for guiding this research. A scholarly inquiry of risk in the charity sector must consider concepts, theories, methodologies and findings from sociology, social policy, economics, law and management to name a few. There are several factors that could contribute to risk within charities, including governance, management, staffing, volunteers, funding, government policy and dependencies on other organisations. This is but a brief list of potential factors and highlights one of the salient challenges of conducting research in this area: without a suitable framework for contextualising and structuring these factors, it is difficult to produce a coherent and credible analysis of risk in the charity sector. Some of these factors are well understood in isolation. For instance, there is a large literature on the governance of charities, exploring factors that contribute to these organisations being well run (Hyndman & McDonnell, 2009). Financial risks have also been considered in some detail, including methodologies and measures for analysing financial vulnerability (see Dayson, 2013 for an overview). However, given the large-scale, broad topic under investigation in this thesis, an attempt must be made to unify the different aspects of risk in a single contextual framework, one that considers a multitude of factors, perspectives and concepts.

What should a framework for analysing risk in the charity sector contain? First, it is important to be aware of core epistemological, theoretical and methodological concerns highlighted in the various literatures on risk, regulation and charities. From a risk theory perspective, it is crucial that research should consider the role of risk as an organising idea for decision-making. Of particular concern is the way in which internal stakeholders define the relevance and utility of risk to the decision-making process; this is what Gieryn (1999) terms ‘boundary-work’. This concept captures situations where “for a variety of reasons, experts try to define what is and is not their remit, often with respect to competing or complementary fields of expertise.” (Mikes, 2011, p. 227) For example, some charities may define the boundaries of risk management as relating to only strategic concerns or those objects that can be accurately measured; other organisations may make the mistake of overreaching in their application of risk to situations for which reliable measures do not exist (Mikes, 2011). The influence of risk analysis in demonstrating organisational legitimacy is also a key concern for research in this field. This is particularly salient in the context of increasing demands for accountability by charitable organisations. Finally, the framework should be sensitive to the broader environment in which charities operate, such as regulatory, reporting and legislative requirements; of particular concern is the potential incongruity between regulatory, public and charity conceptualisations of risk.

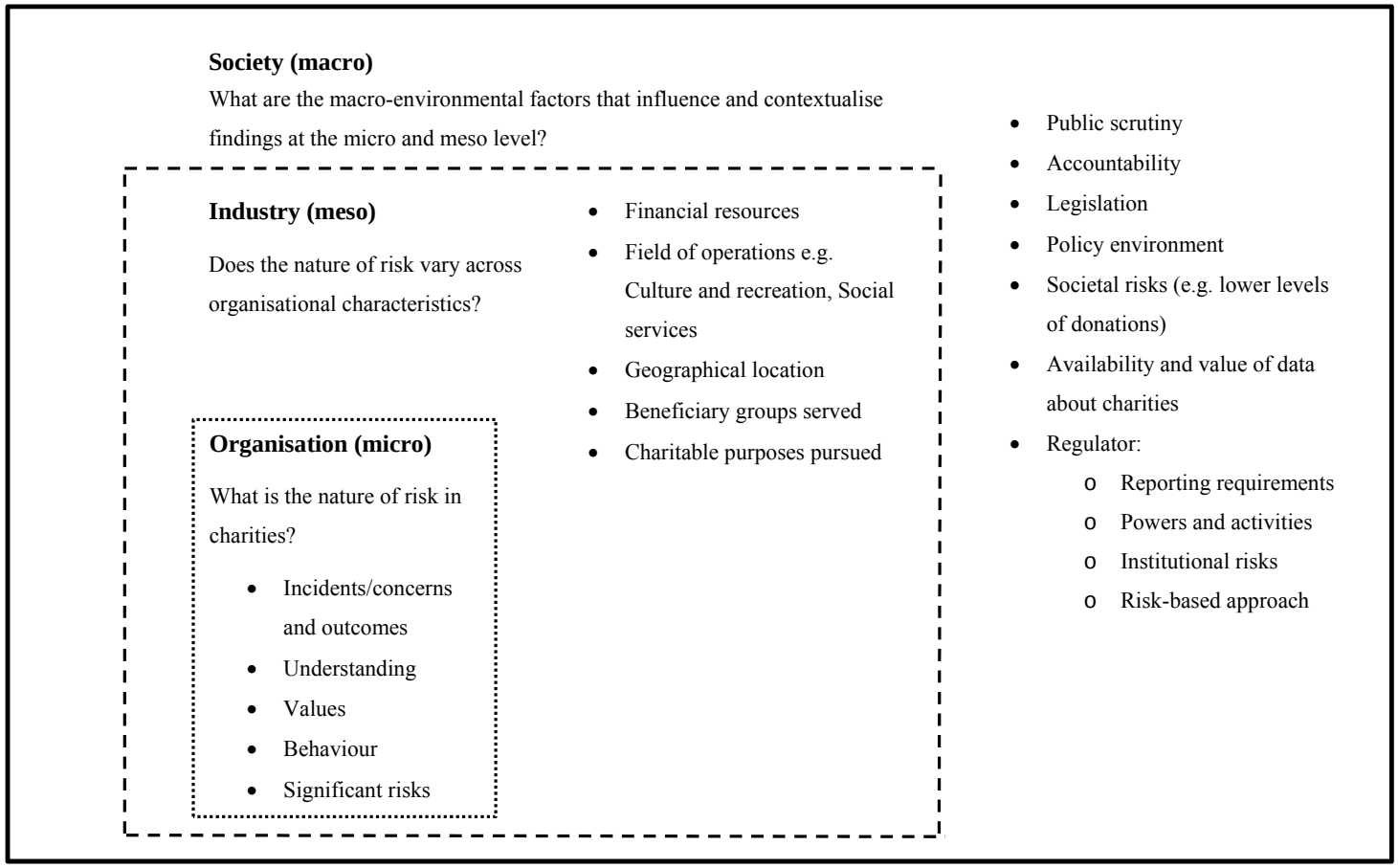
Anheier (2005) highlights the different levels of analysis researchers can focus on when studying charities: Organisational, which is primarily concerned with the internal control and direction of charities; Industrial, which recognises the different industries and markets that charities operate in, such as education, care and housing; and Societal/Economic, which includes the role of regulators and

other stakeholders in explaining the behaviour of charities, as well as societal expectations of these organisations. With respect to Anheier's framework described above, and the core concepts outlined previously in this section, the following is a contextual framework for the study of risk in the charity sector (see Figure 2.1). At the organisational level, research should consider charities' characteristics, preferences and behaviour with respect to risk. In particular, there are five elements that will be examined in this research. The first is the nature and extent of incidents experienced and perpetrated by charities, including allegations of misconduct. The second is the ways in which charities understand and perceive risk, with due consideration of the potential for varied and 'fuzzy' conceptualisations (Sjöberg, 2012). The third is the value and importance charities place on risk and its role in the organisation, in particular the boundary work that may be conducted by those tasked with managing risk. Attention should be paid to core risk components such as risk tolerance or appetite, ownership and measurement. The fourth element is the behaviour of charities in response to risk; is risk an organising concept for charities, both in terms of its strategic objectives and daily operations? In particular, research should seek to understand how decisions are made in relation to risk management strategies such as risk reduction and mitigation. The fifth element is the suite of risks that charities face in the course of their operations i.e. what are the most relevant and significant risks facing charities?

Taking account of meso-level factors –such as the industries or fields in which charities operate – can help explain some of the variation occurring at the organisational level. The heterogeneous nature of the sector necessitates the use of a classification system to properly understand and contextualise risk factors especially. Delineating the framework in this way also acknowledges the distinct circumstances charities find themselves in across different industries; for example, organisations operating in the social services industry in the UK may also be subject to regulatory oversight and monitoring from the appropriate care regulator.

Finally, attention should be paid to the wider environment in which charities operate. Particular focus should be placed on the content of the regulatory and legislative rules and standards that charities must adhere to. The influence of the public's conception and expectations of charities should also be captured. The ability of the regulator to communicate the benefits of engaging with risk can "also have a powerful and useful effect on reducing risks in and of themselves. In fact, risk communication can help to reduce risk even without a direct link to risk management" (Goble & Bier, 2013, p. 1948) The role of the regulator in terms of managing their own institutional risks should also be a consideration when examining risk in the sector.

Figure 2.1. Contextual framework for researching risk in the charity sector



Chapter Three – Methodology

3.1. Introduction

It is clear from the preceding chapter that there is a dearth of research into risk in the charity sector, in particular the kind of empirical work that feeds into the construction of an evidence base that can be leveraged by practitioners and policy makers alike. Research of this nature derives its salience from three wider developments. First, charities in the UK are subject to intense public, political and media scrutiny (Office of the Scottish Charity Regulator, 2016; Public Administration and Constitutional Affairs Committee, 2016). Operating in this climate presents a risk to charities in the form of declining levels of public trust and confidence, both of which are acknowledged as being crucial to the long-term success of the sector (Connolly & Hyndman, 2013a; Cordery & Morgan, 2013; Keating & Frumkin, 2003; Morgan, 2012). Concurrently, the sector suffers from a contamination problem, whereby the reputations of legitimate, ethical charities are tarnished by the misbehaviour – perceived or otherwise – of other charitable organisations (Burger & Owens, 2010; Ortmann & Schlesinger 1997). Tremblay-Boire, Prakash and Gugerty (2016) attribute the generation of these negative reputational externalities to the information asymmetries that exist between charities and their stakeholders. In response to this informational gap, the same authors argue that credible charities have an incentive to differentiate themselves from less credible ones in order to capitalise on the associated reputational gains. Second, as briefly described in the opening chapter, UK charity regulatory regimes are currently in a state of flux. OSCR and the Charity Commission for England and Wales (CCEW) are transitioning to a regulatory approach that is informed by risk assessment and analysis. Central to this aim is the availability of reliable and valid indicators of a suite of risks that threaten charitable assets and damage public confidence in the sector. Third, the availability of large-scale administrative data about the charity sector – facilitated by projects such as the Scottish Network for Third Sector Data, the Scottish Civil Society Data Partnership and various streams of work by the Third Sector Research Centre – offers the potential to examine risk, behaviour and accountability in novel, comprehensive ways. [3]

In this chapter we provide a thorough account of the underpinning logic of our academic inquiry: the research design. A properly designed study ensures that the evidence collected enables us to answer our research questions in a credible and unambiguous manner (de Vaus, 2001). First, the research questions are stated once again, followed by a discussion of the mixed methods approach employed in this study. We then outline and justify the data collection and analysis methods employed in our empirical work. The chapter concludes with a comprehensive description of the data utilised in this research, with particular emphasis on the data management activities undertaken to produce a statistically usable dataset.

3.2. Research Questions

Social research should be concerned with answering research questions that have well-defined objectives (Blaikie, 2009). In light of the contextual framework developed in the previous chapter, the following research questions are posed:

- Q1. What are the risk factors that lead to charities failing in some capacity; are there indicators that could be used as warning signs that OSCR could adopt or expand to identify risk?
- Q2. To what extent do these indicators capture underlying risk in Scottish charities; do charities identified as risky by the regulator see themselves similarly?

The first question aims to address the extent to which the Scottish Charity Register, annual returns and other administrative data held by OSCR can be used to identify factors associated with a suite of risks affecting charities (e.g. charity misconduct, financial vulnerability), particularly in the context of risk-based regulation of the sector.[4] Though the data utilised in answering this question has organisations as the units of analysis, the analytical approach is informed by the Society and Industry levels of the contextual framework. The objective of the second question is to examine the relevance of OSCR's approach to, and data on, risk with charities' own identification and conceptualisation of the topic. How do charities understand and perceive the risks they face? What are the most significant risks affecting their ability to deliver public benefit? To answer this question we draw mainly on the Organisation level of the framework.

3.3. Methodology

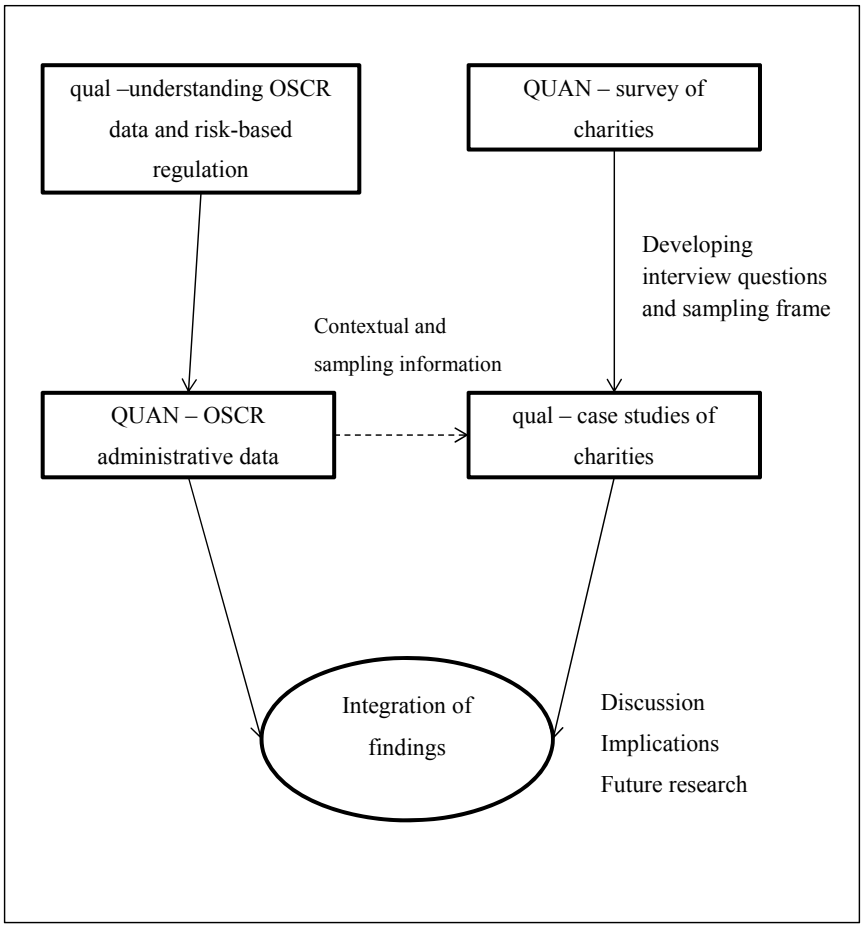
The methodology adopted for this research is a mixed methods design. The mixed methods approach is conceptualized as "research in which the investigator collects and analyses data, integrates the findings, and draws inferences using both qualitative and quantitative approaches or methods in a single study or a program of inquiry." (Tashakkori & Creswell, 2007, p. 4) The mixed methods approach is common in applied social research as it is pragmatic and problem-oriented, allowing the researcher to choose the methods most appropriate for answering the research questions.

There are some significant methodological challenges to be addressed throughout the course of mixed methods research. The priority and sequence of methods must be delineated, and consideration must also be given to the proficiency of the researcher with regards to multiple methods. Perhaps most importantly, the researcher must identify how findings from quantitative and qualitative methods are integrated in a meaningful way (Alexander, Thomas, Cronin, Fielding & Moran-Ellis, 2008; Creswell, 2009; Ivankova, Creswell & Stick, 2006). There are also epistemological concerns with combining quantitative and qualitative methods, as the former is usually associated with positivism and the latter

with interpretivism. However, methods themselves, though often associated with one epistemology or the other, are not inherently tied to epistemologies (Bryman, 2009).

Taking account of these concerns, a mixed methods approach is adopted as the methodological framework for this research. Analysing risk using different methods is congruent with core elements of risk theory outlined previously, in particular the issue of competing approaches to risk analysis (quantitative and qualitative) and different conceptualisations of the term (Bryman, 2009). Furthermore, utilising a multiplicity of methods can improve the validity and reliability of research, as the weaknesses of one method can be counterbalanced by the strengths of others (Denzin, 1978). Figure 3.1 outlines the major components of the mixed methods design of this research. There are two streams of inquiry: examining what administrative data derived from OSCR can tell us about risk in the charity sector; and the nature, understanding and perception of risk by charities. To examine the first stream, we conduct a minor qualitative phase of research to understand the data held by OSCR; we are particularly interested in the relevance and application of the data to OSCR's regulatory functions. Information was collected mainly through informal discussions with and field visits to OSCR, and from numerous documents produced by the organisation. This phase is followed by a rigorous and comprehensive analysis of the administrative data derived from OSCR. The second stream begins with a major quantitative phase of research: an online questionnaire of charities. This is followed by a minor qualitative phase of interviews with charities, which are combined with other sources of information to produce a small number of case studies. Findings from the other major quantitative phase are also used to inform the development of the case studies, mainly in the form of indicators used to identify risky charities for further study. The research streams are unified in our attempts to answer the research questions posed at the beginning of this chapter, with the findings from each phase critiqued separately and, more importantly, in combination. The specific sampling, data management and analysis techniques employed in each of these phases will be covered in depth later on in the chapter. For now, our attention turns to the panoply of methods applied under this methodology.

Figure 3.1. Overview of mixed methods study design



Note: qual: Qualitative approach. QUAN: Quantitative approach. The use of upper or lower case signifies the priority or importance of the approach to the overall study.

3.4. Methods

In keeping with the mixed methods research design, we employ a range of methods in the empirical analyses. We begin by describing our approach to statistical modelling, which is primarily based on logistic regression. This is followed by a discussion of the survey and case study approaches utilised in Chapter Seven.

3.4.1. Statistical modelling

Statistical modelling is a powerful analytical tool for exploring causal and correlational relationships amongst two or more variables. There are a number of steps in the model building process. First, a key outcome is identified; for clarity, this outcome is labelled as the dependent variable in subsequent analyses in this thesis. There may be patterns of variation in the values of this outcome that are interesting. The next step is to identify a number of factors that may be related to the outcome; these are known as the independent or explanatory variables. The task of identifying and including explanatory factors is known as the model fitting strategy, and it is vitally important for sociological research. Lambert and Gayle (2009) advocate a model fitting strategy that is theory driven and implemented incrementally; adopting this approach acts as a restraint against incorporating extraneous variables in your model. We then wish to explore whether the patterns of variation for the outcome are related to the patterns of variation in the values of our explanatory factors. This relationship between dependent and independent variables is often modelled using a linear regression equation of the form:

$$Yi = \beta Xi + \varepsilon i \qquad (3.1)$$

where Yi represents the outcome of interest for the *i*th case, β captures the effect of the independent variables Xi on Yi, and εi is a measure of model fit for the *i*th case (i.e. the difference between the actual and predicted values for Yi).

The goal of regression is to select the best fitting and most parsimonious yet reasonable model to describe the relationship between a dependent variable and one or more independent variables (Hosmer & Lemeshow, 2000). As Long and Freese (2001, p. 99) caution:

> The challenge of interpretation is to find a summary of the way in which changes in the independent variables are associated with changes in the outcome that best reflect the key substantive processes without overwhelming yourself or your readers with distracting detail.

Regression techniques have become a common and integral part of many analyses of dependent and independent variables, regardless of discipline (Hosmer & Lemeshow, 2000). In essence, regression techniques are most useful for exploring the average, joint relative effects of several correlated explanatory factors on an outcome (Angrist & Pischke, 2009).

Logistic Regression

Logistic regression is used when the functional form of the dependent variable is categorical; in the case of the statistical modelling conducted in this research, the outcomes of interest are dichotomous (e.g. investigated or not). In contrast to linear regression where the result is interpreted as the predicted value of the outcome, logistic regression calculates the predicted probability of a particular category occurring (Cramer, 2003; Long & Freese, 2001). Applying linear regression to model a non-

metric outcome can lead to systematically biased coefficient estimates: the probability of the outcome can only take values between zero and one but the linear predictor βX can take any real value, meaning the predicted value of Y might not be in the correct range (see Harrell, 2015 for arguments in favour of linear regression for dichotomous outcomes). This issue is corrected by employing a link function that transforms the probability to log odds, which can be modelled linearly. Thus, logistic regression is a technique that is used to determine, from a set of independent variables, the log odds that an individual will be in a particular category of a variable (Treiman, 2009):

$$logit(Yi) = \log\frac{\beta Xi}{1-\beta Xi} + \varepsilon i \quad (3.2)$$

$$Yi = \frac{\exp(\beta Xi)}{1+\exp(\beta Xi)} + \varepsilon i \quad (3.3)$$

where Yi represents latent underlying probability of the *i*th case experiencing the outcome, β captures the effect of the independent variables Xi on Yi, and εi is a measure of model fit for the *i*th case (i.e. the difference between the actual and predicted values for Yi).

The coefficients of the independent variables should be interpreted as the effect that a change in the independent variables has on the log odds of the dependent variable taking the value 1 (Lambert & Gayle, 2009). For metric variables, the coefficient refers to the effect a one unit change has on the log odds; for categorical variables, the coefficient captures the effect of a move from the reference category to a particular category of the independent variable (Allison, 1999; Connolly, Playford, Gayle & Dibben, 2016; Lambert & Gayle, 2009).

It is possible to fit a 'saturated' model, one that satisfies the conditional expectation function (CEF) perfectly. For example, a regression model with two independent variables would be saturated if it contained the main effects of each variable, an interaction term capturing the product of these variables, and an intercept (constant). However, this strategy can lead to unimportant, irrelevant or unrealistic interpretations of interaction terms in particular (Angrist & Pischke, 2009).

In Chapter Five and Six, the data underpinning the analyses are longitudinal (panel) in nature and are subjected to alternative descriptive and inferential approaches. Panel data contain observations on multiple phenomena over multiple time periods, thus they possess both a cross-sectional and time series component (Andreβ, Golsch & Schmidt, 2013). Panel data contain *n* cases (e.g., individuals) over *t* time periods and are often structured in long format (each observation is represented by a unique combination of *n* x *t*). Panel data allow analysts to control for unobserved heterogeneity; that is, those "state-and time-invariant variables… a time-series study or a cross-section study cannot." (Baltagi, 2008, p. 6). It is this property of panel data that is valuable to researchers as it allows them to answer questions pertaining to the nature of change: who changed and when? How many were there? Why did they change?

This research utilises a short panel, where the same cases have observations for at least one time period and the number of cases is large compared to the number of time periods (Park, 2011). Due to the nature of panel data regular regression techniques are often inappropriate as some of the assumptions of linear regression are violated, leading to omitted variable bias in particular. Fixed effects (FE) models assume that there is unobserved heterogeneity and this effect does not vary over time (i.e. it is 'fixed') (Angrist & Pischke, 2009). Consequently, the unobserved effect is assumed to be correlated with the explanatory variables in the model. A random effects (RE) model diverges from a FE one in that it assumes the unobserved effect is not correlated with the explanatory variables and instead is drawn from a distribution; thus it is included in the error term in the model. An RE model is applied in Chapter Six, the justification for which is outlined there also.

Sequence analysis (SQA) is applied across Chapter Five and Six as a descriptive method for panel data. SQA is at the intersection of qualitative and quantitative approaches; exploratory in nature, it offers thick description of a case's transition between values (or states) of a categorical variable over time (Abbott, 1990; Aisenbrey & Fasang, 2010). For example, do charities transition between different states of financial vulnerability; if so, how often do they transition? It is an approach that originated in biology and was incorporated into sociological studies of 'the life course' (Aisenbrey & Fasang, 2010; Shanahan & Macmillan, 2007). One of SQA's core visualisation tools, the sequence index plot, is employed in this research. Sequence index plots represent the individual sequences of cases in your analysis and allow you to detect patterns, unknown structures and characteristics in your data. They contain a large degree of information content and thus are prone to issues surrounding the identification of 'important' sequences, deceptive comparisons of unequal groups and selecting a meaningful order for the Y axis (Brzinsky□Fay, 2014; Offerhaus, 2015).

Regression assumptions and potential issues

The size of the sample is of considerable importance to the estimation of regression coefficients. The sample must be large enough in order to detect important effects: small samples suffer from low power and often result in poor approximations of significance statistics (e.g. coefficients that are not statistically significantly different from zero). On the other hand, large sample sizes can reveal trivial (i.e. small or uninteresting) effects that are statistically significant (Allison, 1999). Therefore having a good model fitting strategy and theoretical framework can support sensible and productive interpretations of regression coefficients.

Regression is based on the assumption that the independent variables are correlated to some degree; if they are not then regression is unnecessary, and systematic exploration of the bivariate relationships is appropriate (though inefficient). That said, high levels of correlation – known as multicollinearity – can lead to identification issues in the model; that is, it is difficult to interpret which variables are substantively associated with the outcome and which are spurious. A consequence of multicollinearity

is a lack of statistical significance (due to large standard errors) and erroneously concluding that neither variable has an effect when one of them probably does (Allison, 1999; Tarling, 2008).

A logistic regression model should also meet the following assumptions in order to be considered unbiased and valid: the true conditional probabilities are a logistic function of the independent variables; the outcome has a binomial distribution; only and all relevant independent variables are included; the independent variables are measured without error; the residual or error term associated with each observation is not correlated with that of any other observation; the variance of the residual or error term should be constant (homoscedastic); and the residual or error term should be normally distributed (Allison, 1999; UCLA, n.d.).

3.4.2. Survey

The survey is a common data collection instrument in social and nonprofit research (Bielefeld, 2006). Presser (1984, p. 95) defines a survey as "any data collection operation that gathers information from human respondents by means of a standardized questionnaire in which the interest is in aggregates rather than particular individuals." It is a productive way of quantitatively capturing the characteristics, attitudes, behaviour and beliefs of individuals (Buckingham & Saunders, 2004; May, 2011; Simmons, 2008). The survey method has four types of data collection procedures: structured interview; structured observation; self-completion questionnaires; and structured record review (Creswell, 2009). One of its core advantages in a mixed methods research design is it allows for the gathering of data about an extensive group; this can then be used to design a narrower, more intensive phase of qualitative data collection (Aldridge & Levine, 2001). A key stage in the design of a survey is the operationalisation of concepts into questions. The researcher must make a number of decisions regarding the subject and subsequent dimensions underpinning the questionnaire, the formulation of the questions, the response categories and any additional text such as the introduction or explanations (Saris & Gallhofer, 2007).

Many of the advantages of using administrative data for social science research transform into challenges when collecting data through social surveys. One of the most important areas to address is nonresponse bias: this occurs when there are systematic reasons for the lack of participation in the survey by members of the sample. As a result, the sample of respondents is not representative of the wider sample with respect to one or more of the measures contained in the survey (de Vaus, 2002). Saris and Gallhofer (2007) identify a number of other salient concerns with the survey approach: questions may refer to time periods of which the respondents have questionable memory; 'social desirability' bias, where respondents may feel that they should give a socially acceptable answer to a question; the questions contain implicit assumptions about the knowledge of the respondents – this can arise when the question contains technical terms or abbreviations; and 'double-barrelled' requests for answers (i.e. covering two or more concepts or topics in a single question). Researchers should

also be aware of constructing questions that lead respondents to select a particular answer (e.g. do you think that risk management is important for charities?). A further issue with the survey approach is its atomistic nature; that is, it focuses on summing the responses of individuals and making claims about wider populations or groups (Aldridge & Levine, 2001). Specific to this research, how can we measure the risk behaviour or understanding of an entire sector using just the responses of individuals who are involved in some capacity in the running of charities? Finally, some have argued against the use of the method from an epistemological perspective, criticising it as being nothing more than fact-grabbing and an exercise in abstracted empiricism (Mills, 1970).

3.4.3. Case study

The case study approach allows the researcher to carry out in-depth studies of the unit of analysis, providing a richness often lacking in other methods; it also acts as a means of triangulating the findings generated by complementary methods (Denzin, 1978; Yin, 2003). It is an idiographic approach, with its primary aim being to generate a good understanding of the case rather than the factor (de Vaus, 2001). Case studies are useful for when you want to capture detailed contextual information about a phenomenon (Yin, 2003). The approach facilitates the use of multiple data collection methods and sources, two of which are employed in this research: documentary analysis and semi-structured interviews. Semi-structured interviews are chosen as the primary data collection method as they are suitable for complex and subtle explorations of opinions, insights, experiences and sensitive issues (Denscombe, 2007). The process involves the researcher posing a broad set of predetermined yet open-ended questions to the informant, who can provide factual or narrative information in response (Ayres, 2012). Semi-structured interviews are conducted flexibly, using a topic guide to explore areas of interest to the researcher. However, Spencer, Ritchie, and O'Connor (2003) stress that this method possesses limitations with regards to reliability and generalisability, as interviews take on a distinct, personal character as a result of their semi-structured nature. The case study approach provides a complementary perspective on the research topic and fits well with the findings generated through the quantitative methods; for example, the semi-structured interviews produce rich, contextual information on the set of well-identified concepts analysed in the survey.

3.5. Research Data

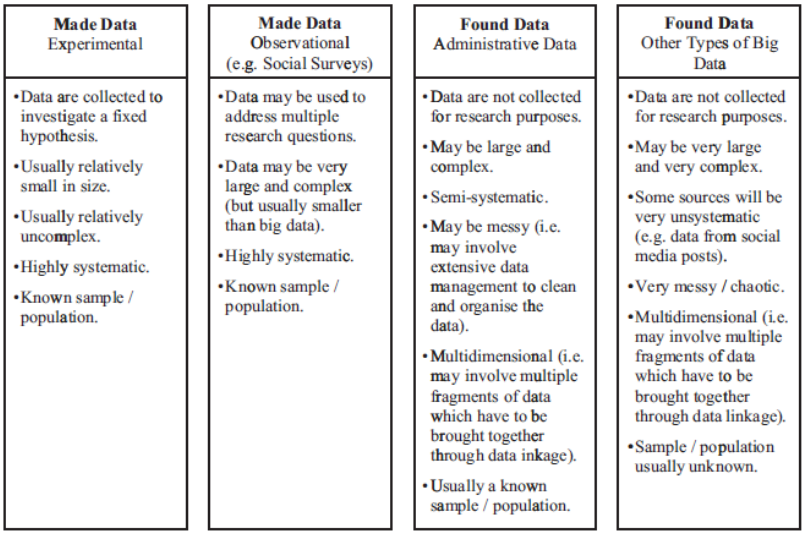
In this section we describe in detail the administrative data underpinning the empirical work in this thesis. There are two dimensions of the data management process that are given particular consideration: data provenance and data cleaning. The former is concerned with the origins of the administrative data (i.e. how it is collected and why, what it contains and subsequent implications for research purposes). A thorough understanding of the 'biography' of the data establishes the research potential of the dataset and allows the researcher to rule out unknown or unobserved systematic selection mechanisms that can lead to biases (Foster, Ghani, Jarmin, Kreuter, & Lane, 2016). The

latter refers to the process of repurposing charity administrative data for research purposes, where issues relating to duplicate records, confidential variables and missing values are addressed.

3.5.1. Administrative data

We now focus on the issues inherent in using administrative data for social science research. Administrative data are often referred to as by-product data and are generated or collected routinely by an organisation through discharging its functions; from a research perspective the data are 'found' rather than 'made' (Connolly et al., 2016). For example, this type of data is collected by government departments and other organisations for the purposes of registration, transaction and record keeping, usually during the delivery of a service (ADLS, n.d.). It is a taxon of big data and offers the opportunity to answer fundamental questions in the social sciences and contribute directly to the evidence base of the substantive topic in question (Connolly et al., 2016). Figure 3.2 summarises the essential characteristics of administrative data and distinguishes it from other common social science data resources. It is clear that the use of administrative data for social science research purposes is contingent on addressing its large, messy, unstructured and multidimensional nature. In particular, there is a considerable amount of effort required to repurpose the data for use in an academic inquiry.

Figure 3.2. Characteristics of quantitative social science data resources



Note: Source: Connolly et al. (2016). 'The Role of Administrative Data in the Big Data Revolution in Social Science Research'.

Benefits

The scope of administrative data is often considered the most powerful argument for its use in social science research: the sample size is usually large, and in many cases the dataset contains the entire population of interest (Fritschi, von Gunten & Hümbelin, 2014; Smith, Noble, Anttila, Gill, Zaidi, Wright, Dibben & Barnes, 2004; Wallgren & Wallgren, 2007). As a result, administrative datasets cover samples of individuals and time periods not normally achievable – financially or logistically – through survey methods (Connolly et al., 2016; Fritschi et al., 2014; ADLS, n.d.). An implication of complete coverage of a population is the ability to study subgroups and rare outcomes (Connolly et al., 2016). In comparison to surveys and censuses, the collection of administrative data does not place an additional burden on the respondent and can also provide information on individuals who would not normally respond to surveys (ADLS, n.d.). In a time where there are valid concerns surrounding nonresponse bias and 'survey fatigue' (de Vaus, 2002), the non-intrusive nature of administrative data should be considered a significant advantage for its use in social research (Smith et al., 2004). Administrative datasets are particularly amenable to longitudinal analysis, due to their substantial coverage of time periods and regular updating of records by the organisation collecting the data (Smith et al., 2004; Wallgren & Wallgren, 2007); in such circumstances it is possible to produce and examine cohorts in the population, tracking their characteristics and outcomes over time (Connolly et al., 2016). Administrative data are also amenable to policy evaluation and analysis, in part as they often capture information associated with the implementation, process and outcome of policies; for example, geographical variations in the implementation of a policy may be considered a natural experiment (Connolly et al., 2016). Finally, the potential for research cost savings and efficiencies should also not be overlooked, particularly in an era of restricted public spending.

There are wider sociological benefits stemming from the use of administrative data for research purposes. The statistical analysis of administrative datasets can give insights into the activities, behaviour, attributes, sentiments and resources of social actors (Fritschi et al., 2014). Savage and Burrows (2007, p. 886) contend that there is a coming empirical crisis in Sociology: the survey method is no longer the only (or best) "point of access to social relations, but in the early 21st century social data is now so routinely gathered and disseminated, and in such myriad ways, that the role of sociologists in generating data is now unclear." As such, alternative sources of data, in particular those from administrative sources, hold the promise of embracing descriptions and classifications of the social world that were previously unthinkable (Savage & Burrows, 2007). Finally, Webber (2009, p.176) notes that the use of administrative data can help avoid some of the problems inherent in traditional sociological methods "where self-reporting and smaller sample sizes make the salience of people's responses uncertain."

Challenges

Criticism of the use of administrative data for research purposes is traditionally founded on quality concerns. The data collection process rarely considers important ontological and epistemological

assumptions that are synonymous with conducting social science research; similarly, social survey quality concerns – accuracy, reliability and validity in particular – are often absent from administrative data collection methodologies (Connolly et al., 2016; Smith et al., 2004). Consequently, the researcher is dependent on the administrative system's population, sample and variable definitions, which are liable to change as the data collection process is altered to adapt to the administrator's new objectives (Smith et al, 2004; Wallgren & Wallgren, 2007). Connolly et al. (2016) stress the analytical challenges inherent in conducting social science research with administrative data. Some of these are indistinguishable from analyses using social surveys: administrative datasets with repeated measures on units over time will contain data that are not independent and identically distributed, thus compromising the calculation of statistical significance (Baltagi, 2008). The large sample size of these datasets can also lead to simplistic interpretation of statistical significance tests: small effect sizes will likely be statistically significant in large samples.

In common with other quantitative data resources, measurement issues are a feature of administrative datasets. Measurement is defined as the process by which a number is assigned to the magnitude of a quantity, the measure is the number assigned and the measuring instrument is the rule or formula that determines the number (Bartholomew, 1996). As highlighted previously, administrators often adjust the measuring instrument to reflect changes in their function; for example, how unemployment is measured by successive governments. This often occurs in tandem with definitional changes to variables, further impacting the ability to conduct longitudinal analyses. Finally, if snapshots of the data are not recorded at fixed time points it may be impossible to conduct longitudinal analysis.

Missing data remains a concern when working with administrative data (Fritschi et al., 2014). Perhaps most problematic is the ability to determine why the data are missing. Variables derived from administrative data may contain missing values due to non-response by the individual, data entry errors by the administrator, deletion of records, or issues surrounding the confidentiality of certain values. This has considerable implications for how the researcher should treat missing data with respect to data imputation and the interpretation of coefficients in a statistical model. A related issue is the code used by the administrator to indicate that an individual has missing values for a variable. This problem is exacerbated when combining two or more datasets from different administrative sources or departments, which may record missing values using different codes (or none at all). Researchers must also contend with errors in the data resulting from fraudulent reporting by entities (e.g. tax returns by self-employed individuals) and those tasked with data entry.

There are generic issues that should be borne in mind. The use of administrative data for research purposes can give rise to unforeseen ethical and legal concerns (Connolly et al., 2016). Administrative datasets often contain sensitive micro-data (e.g. demographic or financial); information that entities would be reluctant to disclose via other data collection methods. The question must be asked whether these individuals have given their informed consent for their data to be used for research purposes.

Much depends on the initial 'contract' between the data collector and the individual, and whether additional uses and disclosure of their information has been discussed or agreed. Researchers should bear in mind that accessing administrative datasets can be an onerous and time-consuming undertaking. Often there are significant legal and confidentiality agreements that need to be in place prior to the researcher being given access to data; for example the Data Protection Act 1998 places limitations on the use of personal data about individuals. While some social science researchers will be familiar with such requirements (e.g. in the fields of public health and social welfare), many will not and need to have thought through the relevant ethical concerns relating to their use of the data. Finally, the use of administrative data for research purposes places a significant demand on the researcher in the form of intermediate data management and analysis skills. Administrative data is often in spreadsheet format (e.g. .csv or .xls), in a proprietary database format (e.g. MS Access) or in some other machine-readable format (e.g. .xml). The manipulation of such data requires researchers to possess considerable skills in the use of appropriate information technology and systems. Researchers should consider the merits of various statistical software packages for the process of data management and not just work in the package they are most familiar with. This issue is compounded by the lack of meta-data accompanying administrative datasets, leaving the researcher to invest considerable effort in understanding the 'biography' of the data – how it is generated and for what purpose (Connolly et al., 2016).

3.5.2. Transforming administrative data for use in social science research

The crucial task in using administrative data for academic research purposes is to transform the data so it is amenable to statistical analysis. The data should be processed in such a way that the final dataset looks (structurally) and behaves (statistically) like social survey data. Common steps in processing administrative data include: data cleaning; coding of variables; handling of missing cases and values; matching or linking with other datasets; and creating derived variables. The salient difference relates to the nature of the data collection stage. Survey data collection is informed and driven by statistical and research concerns. Administrative data, as previously discussed, is collected for other purposes. This places greater emphasis on consulting the metadata and guidance held by the administrative data collector in order for the dataset to be transformed to meet the needs of the researcher.

Data provenance

There are four main sources of charity administrative data utilised in this research:

- Scottish Charity Register – is the public register, created and maintained by OSCR, of all organisations registered as Scottish charities. This includes charities registered by OSCR and those registered under different regimes such as UK Inland Revenue.

- Annual Returns – is a mandatory reporting requirement for all active Scottish charities (and some that are inactive but have charitable assets that require monitoring to ensure they are still used for charitable purposes). The annual return collects financial information about a charity and must be submitted, along with a set of accounts, within nine months of the end of an organisation's accounting year. Charities with annual gross income of less than £25,000 complete only the annual return, while charities with annual gross income of £25,000 or more also submit a supplementary monitoring form that captures more detailed financial information.
- Investigations data – these are records captured by the Monitoring & Compliance team at OSCR of complaints and subsequent regulatory action against charities; Chapter Four deals primarily with these data.
- Financial Exceptions data – these are records that capture instances of financial vulnerabilities and improprieties in charities' annual returns; Chapter Six deals primarily with these data.

Each of these datasets was acquired from OSCR at different times over the course of the research. The process was largely frictionless and always secure. A request for data would be lodged with the project partner at OSCR (sometimes during field visits, usually via email), who would then run the necessary query on the database or contact a colleague with responsibility for this information, resulting in the generation of a .csv file containing the cases and variables required by the researcher. The file would be password protected and transferred via cloud storage to the researcher, who then phoned the project partner to receive the password. Table 3.1 below provides further information on each of the four raw data resources (i.e. before any data processing has occurred), in particular their format, size and coverage (cases, variables and time periods). Thanks to OSCR's use of a consistent unique identifier for charities – Scottish Charity Number – each of the datasets have the potential to be linked deterministically to each other. Given the importance of this number (and the wider data that are collected) for OSCR's regulatory functions, data quality issues are uncommon but do impact the linkage process in a minor way. For example, Scottish Charity Number is recorded manually in the Investigations data, leading to 279 instances of the invalid value of SC000000, and thus no way of linking these observations with other datasets.[5] The first two data resources act as the base datasets for the analyses, with the others used as a source of further information. The data are generally of high quality and often the most reliable and valid measures of interesting constructs that we have; the fields contained in these datasets have remained consistent in definition and recording over the time period.

Table 3.1. Charity administrative data properties

Properties	Scottish Charity Register	Annual Returns	Investigations	Financial Exceptions
Observations	44,888	165,310	2,666	31,182
Charities	44,888	27,371	1,802	7,164
Variables	45	95	15	11
Size	204 MB	785 MB	1.2MB	5 MB
File type	.csv	.csv	.csv	.csv
Time period	2006-2014	2003-2014	2006-2014	2006-2015
Format	Cross section	Panel	Panel	Panel
Data linkage potential	Yes	Yes	Yes	Yes
Administrative use	Public register of all charities that are or have been active in Scotland	Monitor use of charitable resources	Investigate instances of charity misconduct and take necessary regulatory action	Monitor use of charitable resources and identify financial vulnerabilities and improprieties
Research use	All analyses	All analyses	Chapter Four Chapter Seven	Chapter Six

Data cleaning

The raw data described above needed considerable processing in order to be suitable for research purposes. The data management process entails the following sequential steps:

1. Converting raw data to Stata .dta files;
2. Identify and remove invalid observations;
3. Identify and remove invalid or unnecessary variables;
4. Identify and remove problematic duplicate observations (i.e. two or more observations with the same values for all variables or values for one variable that should differ across observations);
5. Identify and correct invalid values for variables (e.g. incorrect charity numbers, negative annual gross income);
6. Converting text variables to numeric and recoding variables (e.g. collapsing categories of a variable);
7. Creating derived variables;
8. Data linkage.

Certain data management tasks – such as the inclusion of observations in the statistical models, derived variables, data linkage and invalid values for independent and dependent variables – are best understood in the context of the topic under investigation and thus are described in the relevant analytical chapters. For now, we focus on the data management steps necessary to transform the administrative data into statistically usable datasets, regardless of the research topic. Table 3.2 below summarises the application of the data management process for each of our datasets.

Table 3.2. Data management process: charity administrative data

Step	Scottish Charity Register	Annual Returns	Investigations	Financial Exceptions
File conversion	.dta	.dta	.dta	.dta
Invalid observations	2 dummy records	n/a	n/a	n/a
Invalid or unnecessary variables	Yes	Yes	Yes	Yes
Remove duplicate observations	1,777 observations with invalid duplicate legal name	9,549 invalid duplicate observations	8 invalid duplicate observations	n/a
Check missing values	2 variables with 100 percent missing values	2 variables with 100 percent missing values	No variables with 100 percent missing values	No variables with 100 percent missing values
Invalid values	Discussed in Chapter Four	345 observations with invalid combinations of charity number and annual return year	Discussed in Chapter Four	740 observations
Recode variables	Yes	Yes	Yes	Yes
Create derived variables	Yes	Yes	Yes	Yes

The raw data contained in the Scottish Charity Register lists records for 44,888 organisations. For the purposes of analysis however, many of these charities must be removed. First, two Scottish Charity Numbers (SCN) correspond to dummy charities created by OSCR for the purposes of testing their

administrative systems (SC000036 and SC000107) and were dropped from the dataset. Second, a number of records had duplicate values for the legal name of the organisation (2,457); while many of these are valid duplicates (e.g. individual Church of Scotland charities), a large number of them had the value 'Deleted' (1,777). Charities with this legal name were dropped from the dataset as they correspond to organisations that were never recognised by UK Inland Revenue when they created the Charity Index – a precursor to the Scottish Charity Register – in 1992. Third, there were a large number of organisations that OSCR removed from the Index when they took over as the Registrar in April 2006. These charities never completed an annual return in the early years of OSCR's regime and thus were removed from the Register. These organisations were easily identifiable as they had missing values for key administrative fields (e.g. constitutional form); this resulted in a further 12,371 charities being removed from the dataset. The result of this data cleaning is a dataset containing 30,738 valid Scottish charities. In the Annual Returns data 9,549 observations had duplicate values for every variable and were dropped from the dataset. As the data are in panel format (long), each observation should be uniquely identified by a combination of charity number and annual return year; however, 690 observations contained duplicate values for these key variables and 345 records were dropped.[6] In the Investigations data 8 observations had duplicate values for every variable and were dropped from the dataset. The Financial Exceptions data contained issues with the presence of invalid duplicates. 740 records relating to charities with more than the valid maximum number of observations per year (32) were dropped from the dataset. A further 1,504 observations were dropped as they referred to obsolete financial exception codes (i.e. not recorded from 2012 and only applied to a small subset of the sector).

3.5.3. Survey and case studies

Data provenance

The type of survey instrument used in this study is the self-completion questionnaire – see the appendices for a link where the questions can be accessed (p. 155). As it was not possible to send the survey to the population of charities active over the study period, the sample was restricted to those individuals that receive OSCR's monthly newsletter (OSCR Reporter).[7] At the time the survey was first sent by email by OSCR's Communications team (09/06/2015), this included 6,355 individuals. However some of these recipients neither worked with or for Scottish charities (e.g. accountants and media workers), therefore the sample was further restricted to individuals listed as charity trustees (2,414), paid charity workers (1,074) and volunteers (612). This resulted in a final sample of 4,100 individual subscribers to the newsletter. The final number of responses stood at 420, a response rate of 10.2 percent of the newsletter subscribers; this accounts for roughly 1.8 percent of the population of Scottish charities at the time. As we lack data on their characteristics, we do not know if our sample is representative of the charities that subscribe to the newsletter.

The representativeness of our sample to the population of charities with regards to organisation size is described in Table 3.3 below.[8] The survey sample is overrepresented with respect to larger charities and vice versa, and thus nonresponse bias is highly likely to be present in our sample. It is plausible that smaller organisations are less likely to subscribe to the newsletter or engage with OSCR in general except for complying with mandatory reporting requirements.

Table 3.3. Representativeness of survey sample to population of Scottish charities

	%		
		Scottish Charity	
Annual gross income	Survey	Register	Representativeness
£0	0	3	Under
£1 - £24,999	31	54	Under
£25,000 - £99,999	20	20	Representative
£100,000 - £499,999	25	13	Over
£500,000 - £999,999	8	3	Over
£1,000,000 - £9,999,999	13	5	Over
£10,000,000 +	3	2	Over
Total	100	100	
	(N=420)	(N=22,313)	

Note: Percentages rounded to nearest whole number and thus columns may not sum to 100. Scottish Charity Register excludes charities for which there are no financial data (n=1,650).

The survey was divided into five main sections and a concluding page. Section 1 contained the introductory questions which captured basic demographic data about the individuals and the charity they represent (i.e. the role of the individual in the charity; the size, sector and legal form of the organisation). Section 2 requested data about a charity's understanding of risk, specifically what terms it associates with this concept. Section 3 focused on the value a charity ascribes to risk and in particular risk management, including whether it supports operations, strategic planning or demonstrating accountability. Section 4 explored the behaviour of a charity in response to risk, with a particular interest in risk management practices. Section 5 examined the types of risks faced by charities. The final section captured the organisation's Scottish charity number and any other thoughts the individual had with regards to the survey (see the appendices for this chapter to view the survey questions). The sections and content of the questionnaire map to the dimensions contained in the organisation level of the contextual framework outlined in Chapter Two (Figure 2.3). Where possible, questions were derived (and slightly amended in some cases) from existing surveys of risk in the charity sector (Karlsson, 2012; Zurich, 2015). Therefore, the degree of reliability and validity of the

questions is dependent on the source material, as well as the predictive or explanatory power of our measures of the different dimensions of risk in future studies.

An issue particular to our survey is the potential inability of the respondent to answer accurately about the organisation they are involved with – is it correct to say that a volunteer understands their charity's formal and informal risk management procedures and tools? Therefore, it should be borne in mind that this study assumes that the answers the respondents give are congruent with those of the organisation as a whole.

Data cleaning

The data management process outlined in the previous section was also implemented for the survey data. There was very little data cleaning in comparison to the administrative data. No cases were dropped from the sample, and there were no duplicates and or concerns regarding excessive missing data. The one variable that did require substantial, largely manual cleaning was the one that captured a respondent's Scottish Charity Number. As this was a free-text response, the following issues became apparent: respondent's provided invalid values (e.g. SC071524, SC0123456 are invalid as Scottish Charity Number is sequential and there are only some 45,000 charities on the Register at time of writing); did not provide any value; or simply made a statement about their unwillingness to share this information. Out of 420 responses, 407 provided what appeared to be valid Scottish Charity Numbers. In order to examine our respondent's investigation and regulatory intervention history, the survey responses were linked to Chapter Four's data using the Scottish Charity Number: 339 of the 407 responses with valid data for this variable were matched in this way.[9] Responses to the free-text question in the survey – What are the three most significant risks facing your charity? – were coded using the Charity Commission's risk categories (see Table 2.1 in Chapter Two). Where there was a case for a response to be categorised as more than one type of risk, a judgement was made and applied consistently to all other scenarios where this occurred. For example, one respondent listed the following as a significant risk:

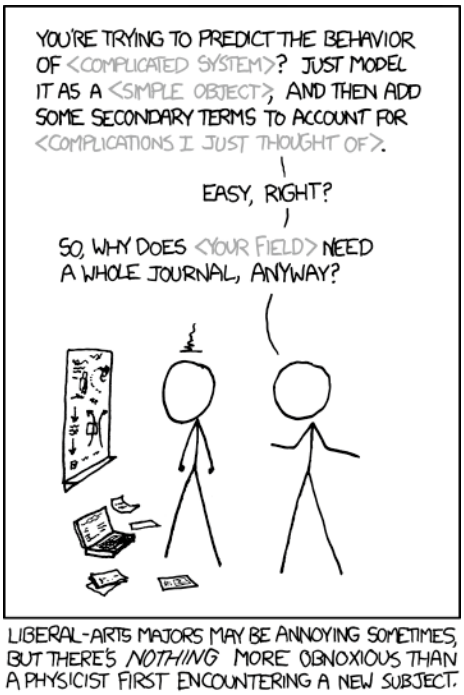
> Coming to the end of government strategy focussing on our area of work, meaning future funding is likely to be reduced.

This could be categorised as either an external risk (as there is a change in government policy) or a financial risk (as the charity is likely to suffer a reduction in funding from this stream of work). The decision was made to categorise as external as this represents the locus of the risk.

The case studies were selected from the group of matched charities and efforts were made to include organisations of different sizes and regulatory histories (i.e. whether concerns about a charity's conduct has been reported to OSCR in the past). 25 charities were contacted between 16 August 2016 and 10 October 2016 to elicit their participation in a face-to-face semi-structured interview and three agreed to the request: a third sector interface (TSI), cancer support charity and housing support

organisation. The purpose of this data collection phase was to delve deeper into the concepts analysed in the survey and to explore whether charities felt burdened or encumbered by OSCR's regulatory approach – see the appendices for this chapter for the topic guide used to structure the interviews. The PhD candidate conducted interviews with senior members of the organisation – two managing directors, a treasurer and long-standing volunteer – at the charities' premises and lasted between 45 and 63 minutes. Each interview transcript was listened to three times prior to uploading to NVivo for coding. The data were analysed using the framework approach advocated by Ritchie, Spencer and O'Connor (2003) and involved the following steps: drafting summary notes for each interview; developing a concept-driven, broad coding scheme derived from the topic guide; coding each transcript according to the scheme; collating codes under key themes; and interpretation and writing up of findings. Interview data were augmented with analysis of the organisations' Trustee Annual Reports (TAR), a compulsory document submitted alongside the annual return and accounts that contains narrative information on governance, impact and provision of public benefit by the charity. Specifically, the reports were examined to see if they contained information on the risk management practices and policies of the organisations in question. Finally, all three sources of data – interviews, TARs and survey responses – were compared and contrasted to produce rounded, comprehensive accounts of the nature, understanding and impact of risk in these charities.

The following four empirical chapters combine the methods and research data outlined here to produce answers to our research questions, beginning with an examination of the utility of administrative data to study misconduct in the Scottish charity sector. All four analyses draw on the contextual framework contained in Chapter Two (Figure 2.1) and are primarily focused on the Organisation level.



Source: xkcd. (n.d.). *Physicists*. Retrieved January 10, 2017, from https://xkcd.com/793/

4.1. Introduction

Drawing on Young's (2009) contribution to the literature, we can expect charities to be subject to and experience a wide variety of risks, some of which may be related to organisational misconduct. We also highlighted the potential for different types of risks to be related (e.g. reputational damage and financial loss). Leveraging some of the administrative data described in the previous chapter, this analysis investigates the nature, extent and risk factors associated with regulatory investigations into alleged and actual charity misconduct. Given that fraud (particularly payroll and procurement) is estimated to cost the UK charity sector around £1.9 billion annually (PKF Littlejohn, 2016), research in this area carries considerable salience. Examining this topic allows researchers to 'peer under the hood' of the sector, shining a light on aspects of charity behaviour that are often overlooked. Research in this area also has the potential to develop the evidence base on charity misconduct and accountability, improve regulatory practice through the targeting of resources at serious incidences of misbehaviour, and dispel misperceptions around the conduct of these organisations (by providing context for media reports for example). This chapter represents the first systematic, UK study of

charity misconduct. Using the administrative data described in the previous chapter, we describe the nature and extent of alleged and actual misconduct by Scottish charities, and ask what organisational and financial factors are associated with this outcome? In doing so we begin to address the fundamental concern of the thesis: namely, what type and degree of risk is present in the Scottish charity sector? The chapter is structured as follows. First, we describe the misconduct monitoring programme administered by OSCR. This is followed by a review of the literatures on charity failure and fraud from where we derive suitable explanatory variables. We outline the data and methods specific to this research, before presenting our empirical results. The chapter concludes with a discussion of the theoretical and practical implications of this inquiry.

4.2. Investigating Charity Misconduct

One of OSCR's main responsibilities is to identify and investigate apparent misconduct and protect charity assets. It operationalises this duty by opening an investigation (what they term an 'inquiry') into the actions of a charity suspected of misconduct and other misdemeanours. Concerns regarding a charity's behaviour can originate from a wide variety of sources, including but not limited to members of the public, trustees, volunteers, other regulators, media reports and auditors. For example, one of the founders of the charity The Kiltwalk reported the organisation to OSCR on the grounds that he had concerns over the amount of funds raised by the organisation that are spent on meeting the needs of beneficiaries; OSCR concluded that "the actions of the charity trustees to have been wholly consistent with their general duties in charity law. We have not identified any matters of a regulatory nature that warrant any further action by OSCR at this time and have therefore closed our inquiry." (Office of the Scottish Charity Regulator, 2015, p. 1).

The types of concerns OSCR investigates are as follows (Office of the Scottish Charity Regulator, 2014):

- Criminal activity such as money laundering, fraud, embezzlement and abuse of vulnerable beneficiaries.
- Governance issues such as not acting in accordance with the charity's constitution, lack of governing controls and trustee conflict of interest.
- Compliance issues such as breaches of accounting regulations, failure to provide requested information and acting without consent from OSCR.
- Misconduct issues such as misappropriation of funds, private benefit to trustees (e.g. inappropriate remuneration), and acting without reasonable care and diligence.
- Misrepresentation issues such as an organisation that is not registered as a charity but has presented itself as one to the public.

OSCR can only deal with concerns that relate to charity law – such as damage to charitable assets or beneficiaries, misconduct or misrepresentation – though it can refer cases to other bodies such as

when criminal activity is suspected. Upon receipt of a concern, the regulator will consider the following: whether it has a legal power to act; whether there is a risk to charitable assets (including beneficiaries), to the abuse of charitable status, and to the charity sector as a whole; whether the concern should be dealt with by another regulator or body; and the anticipated level of action required. Finally, the outcome (and date the case is closed) is recorded for each investigation. Outcomes are varied and often specific to each investigation but most can be related to three common categories: advice given; no action taken or necessary; and regulatory action taken.

4.3. Literature

The study of misconduct is part of the broader field of charity failure and success. Mellahi and Wilkinson (2004) identify two leading schools of thought in the study of organisational success and failure, which they label deterministic and voluntaristic. Population ecology theory is deterministic and focuses on organisational density, size and age as affecting the life chances of organisations, as well as a suite of environmental factors (such as regulation and the state of the economy). All of these variables are considered outside the control of the organisation. In contrast, the voluntaristic perspective sees "good strategic choices as the keys to organizational success. Particular emphasis is placed on organizational structure, the role and composition of the board, and how problems are perceived and solved." (Mellahi & Wilkinson, 2004, p. 268)

There are various conceptualisations of charity failure including resource reduction, market exit, and mortality (Helmig, Ingurfurth & Pinz, 2014). However, many of these constructs contain inconsistencies and contradictions. For example, organisational dissolution may indicate success rather than failure if a charity has achieved its mission (Helmig et al., 2014; see also Hager, Galaskiewicz, Bielefeld & Pins, 1996). There have been many factors posited as determinants or correlates of charity failure: organisation size and age (Freeman, Caroll & Hannan, 1983; Harrison & Laincz, 2008), governance issues (Callen, Klein & Tinkelman, 2010), regulation and a favourable policy environment (Hyndman & McDonnell, 2009), and financial performance (Greenlee & Trussel, 2000). Factors such as the number of volunteers (McHargue, 2003), staff motivation (Packard, 2010), and management team diversity (Perkins & Fields, 2010) have also been posited as contributing to charity success or failure.

The study of charity misconduct has tended to focus on instances of occupational fraud, of which there are two major types: fraud conducted against the organisation (e.g. misappropriation of cash by an employee) and fraud conducted by the organisation such as the deliberate misreporting of financial performance (Greenlee, Fischer, Gordon & Keating, 2007). Previous research examined the nature of fraud in the charity sector, the organisations afflicted by this outcome, and the perpetrators of said fraud (Archambeault, Webber & Greenlee, 2015). Bradley (2014) conjectures that occupational fraud damages the organisation (through significant financial loss, reduced income from donations and

potential fines), intended beneficiaries (through the diversion of funds away from services), and the reputation of charities in general. It is posited that the charity sector is particularly sensitive to the negative effects of fraud, especially asset misappropriation as these organisations often lack sufficient controls for detecting and dealing with this issue (Archambeault et al., 2015). Douglas and Mills (2000) proposed five reasons why this explanation might be the case: an atmosphere of trust surrounding the organisation; the difficulty in controlling certain revenue streams (e.g. cash donations); a lack of financial resources necessary to implement sufficient internal controls; a lack of business expertise in the organisation; and the reliance on volunteer boards. Marks and Ugo (2012) corroborate these assertions and also theorise that the type of charity is a relevant factor; for example, they argue that grant-making organisations might be more susceptible to financial fraud than commercial charities due to the higher risk of misappropriation. Empirical research by Greenlee et al. (2007) and Holtfreter (2008) tentatively supported the conjectures of Douglas and Mills, finding some evidence of financial misconduct in the US nonprofit sector. Krishnan, Yetman and Yetman (2006) examined the financial statements of US nonprofits and discovered that some of these organisations (38 of 101) reported an average of $7 million less in donations on their annual return than on their audited financial statements.

However there are some significant limitations to previous studies. Research on charity success and failure has mainly focused on the most economically important subsectors; in a review of the literature, Helmig et al. (2014) found that four International Classification of Nonprofit Organizations groups (Health, Culture and Recreation, Social Services, and Education and Research) were the subject of the majority of studies in this field (102 of 147 reviewed articles).[10] With respect to misconduct, the scope of the topic has been narrowly defined, with an understandable yet limited focus on occupational fraud and its relation to financial losses. Many of these previous studies have been hampered by small sample sizes, necessitating exploratory work over descriptive and explanatory analyses (Archambeault et al., 2015). Consequently, much of this exploratory work has focused on charity subsectors such as Human and Health Services, a category of US nonprofit activity (e.g. Gibelman & Gelman, 2001). Researchers have also struggled to acquire suitable data, with many studies relying on unrepresentative self-completion surveys conducted by third parties or analyses of print media reports of charity fraud (see Fremont-Smith & Kosaras, 2003; Gibelman & Gelman, 2001; Greenlee et al., 2007).[11] Finally, extant research is US centric, with little academic focus on other geographies or charity sectors (Clifford & Mohan, 2016).

4.4. Method

This study examines two dimensions of charity misconduct that deserve greater attention: regulatory investigation and subsequent action. An investigation captures the opening of an inquiry by OSCR based on a reported concern regarding a charity's conduct. Regulatory action is defined as any

intervention by OSCR as a result of an investigation, excluding giving advice to the organisation.[12] For example, reporting the charity to prosecutors or suspending trustees for financial mismanagement constitutes regulatory action by OSCR. This study overcomes many of the limitations outlined previously by linking three of our administrative data resources to provide a pooled cross-section of the Scottish charity sector containing 25,611 observations over the period 2006-2014: Scottish Charity Register, Investigations data, and Annual Returns data. Some additional data management work was conducted to ensure these linked data were suitable for analysing the topic at hand: for instance, there were 279 observations in the Investigations data with an invalid Scottish Charity Number (SC0000000) and thus could not be linked to the Scottish Charity Register. Table 4.1 summarises the steps in the sample selection process.

Table 4.1. Charity misconduct dataset: sample selection process

Sample selection	Observations
Initial sample (Scottish Charity Register data)	30,738
Removal of observations with recorded income 'zero' (£0)	1,952
Removal of observations with missing data for income	1,442
Removal of observations with missing or invalid data for organisation age	1,733
Final sample	25,611 charities

Note: the final sample size presented in this table is used for the descriptive analyses; the inferential analyses necessitate further reductions in the sample size due to the removal of observations which have missing values for any of the independent variables included in the statistical models.

Contributing to the literature on charity failure and misconduct we address three research questions:

1. What is the nature and extent of regulatory investigations in the Scottish charity sector?
2. What are the risk factors associated with being investigated?
3. Having been investigated, what factors account for variation in regulatory action being taken?

4.4.1. Dependent and independent variables

The outcome of being investigated by the regulator is measured using a dichotomous variable that has the value 1 if a charity has been investigated and 0 if not. The second dependent variable is also dichotomous and takes the value 1 if a charity has had regulatory action taken against it and 0 if not. Both dependent variables are modelled separately using binary logistic regression. Drawing on the reviewed literature, nine independent variables are operationalised in this study, of which three

function as controls. Size is a nominal categorical measure of a charity's most recent annual gross income;[13] Age is the natural log of the length of time an organisation has existed (i.e. year of most recent annual return minus year organisation was created); Grant is a binary indicator of whether a charity only disburses grants to other organisations rather than carrying out charitable activities itself or a combination of functions; and Parent is a binary indicator of whether a charity has a parent organisation (e.g. parish churches that are part of the Church of Scotland). Our three control variables are: Field is a nominal categorical measure of a charity's ICNPO category (see Mohan & Barnard, 2013 for how these categories were assigned); Geography is a nominal categorical measure of a charity's geographical scope of operations; and Form is a nominal categorical measure of an organisation's constitutional form (e.g. limited company). An additional two independent variables are included specifically for modelling regulatory action: actor making the complaint and type of complaint. The first variable, Public, is a dichotomous measure that takes the value 1 if a concern was raised by a member of the public and 0 if it was any other actor (see Table 4.2 for a list of these actors).[14] Misconduct is a dichotomous variable that takes the value 1 for investigations into misconduct and 0 if it is an investigation into any of the other four concerns (e.g. criminal or misrepresentation). The reasons for the use of dichotomous measures rather than multinomial are as follows. In the case of the actor registering a concern, members of the public account for almost half of the investigations, with most of the other categories containing relatively few observations; from a statistical modelling perspective, this suggests that categories of this variable can appropriately be collapsed into fewer groups. In light of the importance of public confidence to the sector, we also felt it would be instructive to explore whether members of the public were better, relative to other stakeholders as a homogenous group, at identifying actual misconduct. For the type of concern raised, OSCR can record more than one concern per investigation (maximum of two); thus it was easier to construct dichotomous measures rather than treat these data as multiple response variables.

4.5. Results

The sample contains demographic, financial and investigations data on 25,611 charities. Of these 20,053 are listed as Active on the Scottish Charity Register, with 4,246 having been removed and the remainder either not subject to further monitoring by OSCR or are non-submitting charities (i.e. they have failed to submit their annual return on time or at all). The vast majority of organisations are defined as Standard charities (96 percent) – the remainder are Cross Border charities or Registered Social Landlords. The mean and median charity has £856,803 and £12,251 in annual gross income respectively; the mean and median age in the sample is 24 years and 16 years. The majority of organisations (57 percent) operate across numerous geographies, with 43 percent confining their charitable activities to a local level. The three most common constitutional forms for Scottish charities are unincorporated associations (55 percent), companies (20 percent) and trusts (18 percent). Seventy nine percent of organisations were granted charitable status prior to the establishment of OSCR.

Eighteen percent of charities have a parent organisation while 33 percent disburse grants to individuals and organisations. Finally, there is a wide distribution of ICNPO classifications in the sector though there are more populous categories such as Social services (31 percent), Religion (16 percent), Culture and recreation (15 percent), and Development and housing (11 percent).

4.5.1. Describing investigations and regulatory action

There have been 2,109 regulatory investigations of 1,566 Scottish charities: this represents six percent of the total number of organisations active during this period. The number of investigations increased steadily during OSCR's early years and then plateaued at around 400 per year until 2013/14, when the figure has declined slightly. The majority of investigations (78 percent) concerned charities that were only investigated once in their history. The three most common types of investigations concern governance issues (16 percent), compliance (14 percent) and misconduct (8 percent). Only 13 percent of investigations resulted in regulatory action being taken against a charity, with the remaining 87 percent resulting in advice being dispensed or no action necessary. Examining only those cases where regulatory action was taken, it is clear that serious intervention (i.e. the use of legislation to enforce changes at or to an organisation) is rare: 90 percent of regulatory actions are classed by OSCR as *moderately serious*, seven percent as *least serious* and three percent as *most serious*.[15] This suggests that even in the minority of cases when OSCR takes regulatory action, very few of these actions are treated as very serious from its perspective. There is no statistical association between the number of times a charity has been investigated and whether regulatory action has been taken against it (Cramér's $V=.08$, $p<.001$); even in cases where an organisation has been investigated five, six or seven times, regulatory action is uncommon.

For the 1,400 observations for which there are data, it is a member of the public that is most likely to contact OSCR with a concern about a charity (Table 4.2). Internal stakeholders of the charity account for 31 percent of all investigation initiators, though this disregards the strong possibility that many of those recorded as anonymous are involved in the running of the charity they have a concern about.

Table 4.2. Actors that trigger regulatory investigations

Actor	N	%
Member of the public	672	48
Charity member	229	16
Anonymous	137	10
Charity employee	110	8
Trustee	98	7
Other (e.g. funder, other regulator, auditor)	154	11
Total	1,400	100

Note: Percentages rounded to the nearest whole number.

The concerns that prompt these actors to raise a complaint with OSCR are numerous and diverse, as seen in Table 4.3 below. The overriding concern is general governance, as well as associated issues such as the duties of trustees and adherence to the founding document. Financial misconduct also ranks highly, particularly the misappropriation of funds and suspicion of financial irregularity. There is a moderate association between the actor making the complaint and the underlying concerns (Cramer's $V=.227$, $p<.001$). Compared to average, trustees were less likely to report concerns about general governance, external disputes and the misappropriation of funds for example.

Table 4.3. Concerns that trigger a regulatory investigation

Concerns underpinning a complaint	N	%
General governance	518	29
Misappropriation of funds	124	7
Trustee duties	115	6
External dispute	106	6
Failure to follow founding document	102	6
Accounting irregularities	93	5
Service delivery	90	5
Section 23 non-compliance	88	5
Personal benefit to trustees	82	5
Internal dispute	68	4
Other (for example employment matters, fundraising issues)	416	23
Total	1,802	100.00

Note: Percentages rounded to the nearest whole number. Individuals can provide a maximum of two reasons underpinning their complaint.

Attention is now focused on two of the independent variables posited as associated with the outcome: organisation size and age. Table A4.1 and A4.2 and Figure A4.1 in the appendices provide a detailed summary of the distribution of different functional forms of charity size: annual gross income, the natural logarithm of annual gross income, and categorical bands derived from annual gross income. The distribution for the sample as a whole is substantially positively skewed due to the effect of outliers (i.e. those charities with very high incomes). Ninety five percent of charities in the sample earned almost three times less than the mean value of £856,810, a figure in stark contrast to the median income of £12,243. There are consistent differences in the distribution of annual gross income between investigated and non-investigated charities. Investigated organisations have considerably larger median and mean incomes compared to non-investigated charities and the sample as a whole; they also have greater values for each reported percentile. However, transforming gross income using the natural logarithm reveals that the distribution for the sector is approximately normal, with a small number of extreme values at each end of the income distribution.

With the exception of the natural logarithm transformation, there is clear income disparity in the Scottish charity sector. There is enormous variation and positive skewness for our original gross income measure, and a majority of organisations are in the lower income categories. However investigated charities tend to have larger values for each percentile of the metric forms of organisation size and for the categorical form, a greater percentage of charities are found in the higher income categories. This pattern can be more clearly seen in the distribution of investigated charities by categories of annual gross income (Table 4.4).

Table 4.4. Proportion of investigated charities by categories of annual gross income

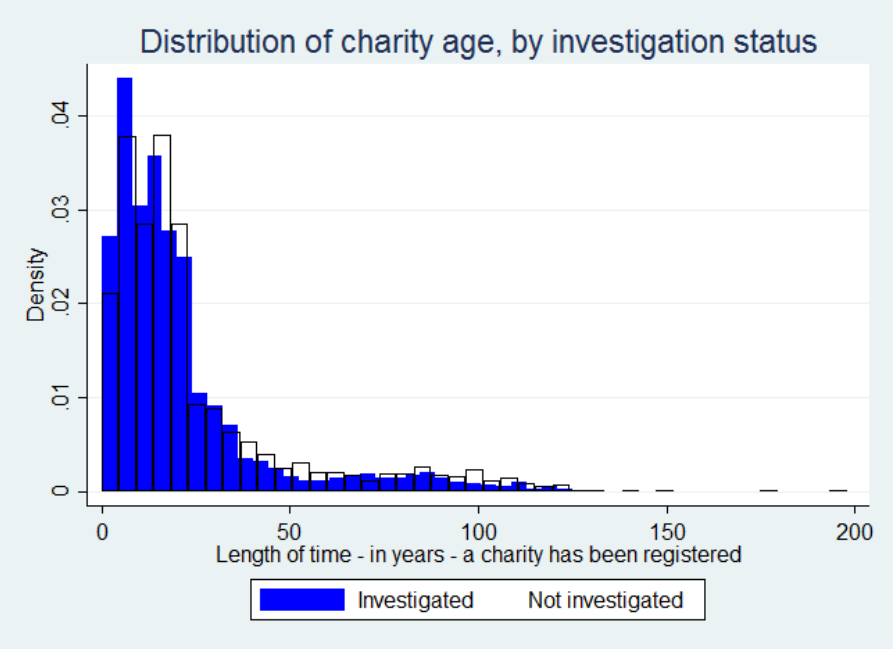
	Number of charities	Number of investigated charities	% of charities investigated
£1 - £24,999	15,684	483	3.08
£25,000 - £99,999	4,962	327	6.59
£100,000 - £499,999	3,039	356	11.71
£500,000 - £999,999	579	105	18.13
£1,000,000 - £9,999,999	993	183	18.43
£10m +	354	112	31.64
Total	25,611	1,566	6.11

The rate of investigation varies considerably by organisation size. Investigation rates for the smallest charities (£0 to £99,000 in income) were either at or slightly below average. The rate of investigations then increases as the size of the organisation becomes larger: medium-to-large charities (£100,000 to £10m +) exhibit an investigation rate of between 11 percent and 32 percent. This pattern suggests a strong association between organisation size and being investigated, which is confirmed by the appropriate association statistic (gamma=0.54, $p<.001$).[16]

Our attention now turns to the association between organisation age and being investigated. Figure A4.2 in the appendices presents the distributions of two functional forms of age: original units and a logarithmic transformation to explore whether there is a nonlinear association with the outcome. The distribution is positively skewed, with a small number of older charities (50+ years) pulling the mean towards the higher end of the age scale; the natural logarithm measure of age has an approximately normal distribution. Figure 4.1 below compares the distribution of charity age across categories of investigation status. The distribution suggests that there is no association between a charity's age and being subject to an investigation, though there is a slight difference in mean age – investigated

charities are four years younger. This is confirmed by the appropriate association statistic (Eta=.08, p<.01).

Figure 4.1. Distribution of organisation age, by investigation status



Previous studies of charity success and failure have suggested that age and size can be conflated (Baum, 1994, 1996; Hager & Galaskiewicz, 2000); thus it is necessary to ascertain whether these two variables are correlated and also if there is an interaction effect present. The low degree of correlation between age and our categorical measure of size in this study does not support the conflation argument (Eta=.16, p<.001) – a low degree of correlation is also found for other functional forms of size. Though age on its own does not seem to be associated with being investigated for the whole sample of charities, it is plausible that this may not be the case for different organisation sizes; that is, within a size category there may be differences in the ages of investigated and non-investigated charities. Tables 4.5 and 4.6 demonstrate there is an interaction between age and size: as charities get larger, the association between charity age and being investigated increases considerably (though the association is not statistically significant for all organisation sizes). Two-tailed independent-group t tests were conducted to test for statistically significant differences in the mean age of investigated and non-investigated charities. Two-sample Wilcoxon rank-sum (Mann-Whitney) tests were also conducted to compare differences in median scores. These tests gave the same significance results with the exception of £500,000 - £999,999 category, where there is no statistically significant

difference in median age. At all organisation sizes except the largest two, investigated charities are slightly younger than their counterparts; however, for the two largest organisation sizes investigated charities are substantially older than those not investigated (13 and 9 years older respectively). This interaction will be accounted for in the statistical modelling process.

Table 4.5. Distribution of charity age over categories of organisation size, by investigation status

	Not investigated			Investigated			
Organisation size	N	Mean	Median	N	Mean	Median	Mean difference
£1 - £24,999	15,201	22	15	483	16	12	-6***
£25,000 - £99,999	4,635	31	21	327	22	15	-9***
£100,000 - £499,999	2,683	30	19	356	21	15	-9***
£500,000 - £999,999	474	22	17	105	17	17	-5*
£1,000,000 - £9,999,999	810	19	11	183	32	23	13***
£10m +	242	17	8	112	26	15	9**
Whole sample	24,045	24	16	1,566	20	14	4***

Note: Figures rounded to the nearest whole number. *p < .05. **p < .01. ***p < .001.

Table 4.6. Correlation between charity age and investigation status, by organisation size

Organisation size	Correlation coefficient (Eta)
£1 - £24,999	.10
£25,000 - £99,999	.18
£100,000 - £499,999	.21
£500,000 - £999,999	.37
£1,000,000 - £9,999,999	.43***
£10m +	.55**
Whole sample	.08**

Note: Figures rounded to two decimal places. *p < .05. **p < .01. ***p < .001.

4.5.2. Modelling the risk of investigation and action

Before discussing the results of the multivariate analysis, Tables 4.7 and 4.8 below contain descriptive statistics for the independent variables included in the statistical models. The typical investigated charity appears to be slightly younger, less likely to discharge grants or have a parent organisation, bigger, more likely to be a company and considerably less likely to just operate at a local level. The typical charity subject to regulatory action appears to be slightly smaller, more likely to discharge grants, less likely to have been subject to a complaint by a member of the public, more likely to just operate at a local level and more likely to be investigated for misconduct concerns.[17]

Table 4.7. Descriptive statistics for the outcome of being investigated

	Not investigated (n=20,644)		Investigated (n=1,444)		Whole sample (n=22,088)	
Variable	Mean	SD	Mean	SD	Mean	SD
Age (log)	2.86	.91	2.72	.87	2.85	.91
Grant	.34	.47	.27	.45	.34	.47
Parent	.17	.38	.07	.26	.16	.37
£1 - £24,999 (%)	61	-	29	-	59	-
£10m + (%)	1	-	8	-	2	-
Company (%)	19	-	46	-	21	-
Unincorporated association (%)	55	-	32	-	54	-
Operate locally (%)	46	-	25	-	45	-
Operate overseas (%)	12	-	14	-	12	-
Social services (%)	31	-	26	-	31	-
Culture and recreation (%)	15	-	14	-	15	-

Note: Percentages rounded to the nearest whole number. The sample size is smaller compared to that reported in Table 4.1 as it only includes observations for which there are no missing values for any of the independent variables. Only selected categories from the nominal variables are included for the purpose of brevity.

Table 4.8. Descriptive statistics for the outcome of regulatory action

	No regulatory action (n=1,110)		Regulatory action (n=128)		Whole sample (n=1,238)	
Variable	Mean	SD	Mean	SD	Mean	SD
Age	2.73	.87	2.72	.73	2.73	.86
Grant	.26	.44	.30	.46	.27	.44
Parent	.07	.26	.05	.21	.07	.25
Public	.48	.50	.41	.49	.48	.50
Misconduct	.08	.28	.11	.31	.09	.28
£1 - £24,999 (%)	26	-	27	-	26	-
£10m + (%)	9	-	5	-	8	-
Company (%)	48	-	44	-	48	-
Unincorporated association (%)	30	-	37	-	31	-
Operate locally (%)	23	-	30	-	23	-
Operate overseas (%)	13	-	10	-	13	-
Social services (%)	26	-	27	-	26	-
Culture and recreation (%)	14	-	13	-	14	-

Note: Percentages rounded to the nearest whole number. The sample size is reduced as it only includes observations for which there are no missing values for any of the independent variables. Only selected categories from the nominal variables are included for the purpose of brevity.

We model the probability of investigation using binary logistic regression as a function of organisation size, age, institutional form, field of operations and geographical base. For the sub-sample of organisations that were investigated, we then model the probability of regulatory action being taken based on the same characteristics plus the source and nature of the complaint made.[18] We report the odds ratios (exponentiated coefficients) rather than the log odds as they approximate the relative risk of each outcome occurring. This is appropriate not only for ease of interpretation but because the absolute chance of either outcome occurring is low (i.e. it is better to know which charities are more likely to be investigated relative to their peers). The category with the most observations is chosen as the base category for each nominal independent variable.

We present a palimpsest of the modelling process in this section. The appendices for this chapter describe the development of multiple models for each dependent variable (e.g. testing for interaction effects, examining multiple functional forms of organisation size) and the reader is encouraged to consult this material where appropriate.

Table 4.9. Results of Logistic Regression on each outcome

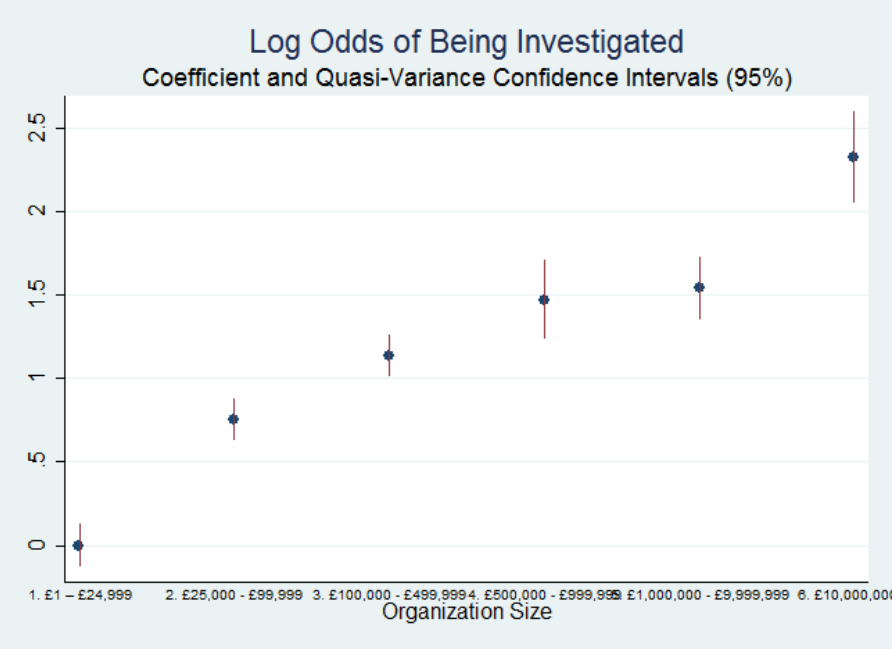
	Investigated		Regulatory Action	
	Odds ratio	SE	Odds ratio	SE
Size (base = £1 - £24,999)				
£25,000 - £99,999	2.12***	.18	1.50	.39
£100,000 - £499,999	3.12***	.28	.84	.25
£500,000 - £999,999	4.36***	.59	1.37	.54
£1,000,000 - £9,999,999	4.67***	.55	.38*	.18
£10m +	10.29***	1.60	.82	.42
Age	.95	.03	1.02	.13
Grant	.77***	.06	1.20	.28
Parent	.49***	.06	.51	.24
Public			.83	.17
Misconduct			1.36	.43
Controls		Yes		Yes
Observations		22,088		1,173
Log-likelihood		-4738.40		-384.10
LR test (X^2)		1192.03***		40.41

Note: Figures rounded to two decimal places. Constant is omitted. Additional independent variables included in the models but not reported above include Field, Form and Geography. *p < .05. **p < .01. ***p < .001.

We first examine the effects of organisation age and size on the outcomes. The coefficient for age varies across the two outcomes: a one-unit increase in the log of age results in five percent decrease in the odds of being investigated, while there is two percent increase in the odds of regulatory action occurring. There appears to be a clear income gradient present in the first model: as organisation size

increases so do the odds of being investigated compared to the reference category. A more nuanced examination of the effect of organisation size is possible by comparing categories of this variable to each other and not just the base category. Drawing on suggestions by Firth (2003), Firth and Menezes (2004), and Gayle and Lambert (2007), we employ quasi-variance statistics to ascertain whether categories of organisation size were significantly different from each other and not just from the base or reference category. Unsurprisingly, the largest charities have significantly higher odds than all other categories of size; however it appears that the middle categories (charities with income between £100,000 and £1m) are not significantly different from each other and neither are organisations with annual gross income between £500,000 and £10m.

Figure 4.2. Quasi-Variance log odds of being investigated



The effect of size on the likelihood of regulatory action occurring is more opaque by comparison. There is no clear gradient, with some categories of size entailing higher odds of the outcome occurring and some lower. So while larger organisations have much higher chances of being investigated, organisation size does not make a discernible difference to the chance of subsequently being subject to regulatory action.

Next we examine the effects of the remaining independent variables. There are statistically significantly lower odds of being investigated for charities that discharge grants or have a parent organisation, and significantly higher odds for charities registered as companies. With regards to

regulatory action, grant-making bodies and those suspected of misconduct have higher odds, charities with parent organisations and complaints raised by members of the public lower odds, and those operating on a wider geographical scale also have lower odds, although these coefficients are not statistically significant.

4.5.3. Sensitivity analyses

With regards to being investigated, we run separate regressions for charities registered in different eras (pre-and-post 2006 i.e. the establishment of OSCR) in order to control for the period at risk; that is, there may be an initial period in their existence where charities are not likely to be investigated as they have just been registered and thus not very identifiable or visible. Table 4.10 presents the results of this analysis. The direction of the effect of our two main independent variables – age and size – is similar to the main regression: for both cohorts, younger, larger charities have statistically significantly higher odds of being investigated.

Table 4.10. Results of Logistic Regression on the outcome being investigated, by registration era

	Pre 2006		2006-2013	
	Odds ratio	SE	Odds ratio	SE
Size (base = £1 - £24,999)				
£25,000 - £99,999	2.44***	.23	1.56**	.27
£100,000 - £499,999	3.74***	.39	2.05***	.39
£500,000 - £999,999	5.89***	.90	1.87	.61
£1,000,000 - £9,999,999	8.01***	1.11	1.61	.40
£10m +	18.98***	3.99	4.96***	1.31
Age	.79***	.04	.71*	.09
Grant	.77**	.07	.99	.13
Parent	.53***	.07	.49*	.15
Controls		Yes		Yes
Observations		17,487		4,586
Log-likelihood		-3594.79		-384.10
LR test (X^2)		1095.31***		204.07***

Note: Figures rounded to two decimal places. Constant is omitted. Additional independent variables included in the models but not reported above include Field, Form and Geography. *p < .05. **p < .01. ***p < .001.

We also explore the effect of different functional forms of organisation size, leaving the other variables unchanged. A one-unit increase in the log of annual gross income results in a significant increase in the odds of being investigated and a decrease in the odds of being subject to regulatory action. Finally, an interaction term between size and age was included in the model-building process. The correlation between age and being investigated is stronger for larger charities, though the interaction overall is not statistically significant and thus was not included in the final models.

4.5.4. Regression diagnostics and goodness of fit

Both of the models are subjected to a number of diagnostic and goodness-of-fit tests in order to examine their degree of fit with the data. The influence of outliers on the estimation of the regression coefficients is explored in Figure A4.3 and A4.4 in the appendices. The plots demonstrate that there are a number of observations where predicted and observed outcomes differ substantially: there are a number of charities that have very low predicted probabilities of experiencing an investigation or regulatory intervention even though they have been (residual > 2). However Figure A4.5 and A4.6 show that there are no cases having an undue influence on the estimation of model coefficients; that is, by including observations with high deviance or Pearson residuals, the estimation of the coefficients are not very different from a model that does not include these observations. Therefore we can conclude that outliers, though existing in the data, do not need to be removed from the statistical models.

We now turn our attention to the various tests that can help us determine whether our models are a good fit for the data. Depending on the model fit summary statistic chosen, the proportion of variance explained by the model ranges from .04 to .14; this indicates that there is a substantial proportion of the variance unaccounted for by the model and unlikely to be the result of stochastic influences. The simplest test is to compare the difference in the mean predicted probability of charities that do and do not experience the outcomes: better fitting models will increase this difference (Cramer, 2003). There are similar mean predicted probabilities for investigated (thirteen percent) and non-investigated charities (six percent), and charities that were and were not subjected to regulatory intervention (fourteen percent and ten percent respectively). A more detailed examination of the distance between expected and observed outcome frequencies is possible using the Hosmer-Lemeshow goodness-of-fit test (Hosmer & Lemeshow, 2000). This significance test indicates the extent to which a model provides a better fit for the data than a model with no predictors; the null hypothesis of this test is that there is no difference between the number of observed outcomes and the number predicted by the model (e.g. number of investigated charities versus the number predicted by the statistical model). A failure to reject the null hypothesis implies that the model's estimates fit the data at an acceptable level (Tarling, 2008). The results of the test indicate that the null hypothesis can be rejected (p=.000) and that the models are not a good fit for the data. However, as Table 4.11 and 4.12 below demonstrate, small differences between observed and expected values can be statistically significant

in large samples. For instance, the numbers of actual and expected investigated charities are quite similar for each probability decile: for low probabilities the model overestimates the number of investigated organisations while at higher probabilities it tends to underestimate. The model is very good at estimating the number of charities that are not investigated; this is probably due to the small difference in the predicted probability of investigation for investigated and non-investigated charities. Readers should note that the use of deciles, though standard for this test, is arbitrary and model fit could vary depending on changes to the number of quantiles chosen.

Table 4.11. Hosmer-Lemeshow goodness-of-fit table for outcome of being investigated

		Investigated		Not investigated		
Decile	Probability	Actual	Expected	Actual	Expected	Total
1	.0228	45	42.1	2164	2166.9	2209
2	.0253	35	55.6	2266	2245.4	2301
3	.0267	19	54.2	2097	2061.8	2116
4	.0325	61	66.8	2150	2144.2	2211
5	.0382	85	77.0	2130	2138.0	2215
6	.0464	103	94.4	2097	2105.6	2200
7	.0640	147	118.0	2062	2091.0	2209
8	.0936	173	167.7	2035	2040.3	2208
9	.1541	327	265.1	1882	1943.9	2209
10	.5694	448	502.2	1760	1705.8	2208

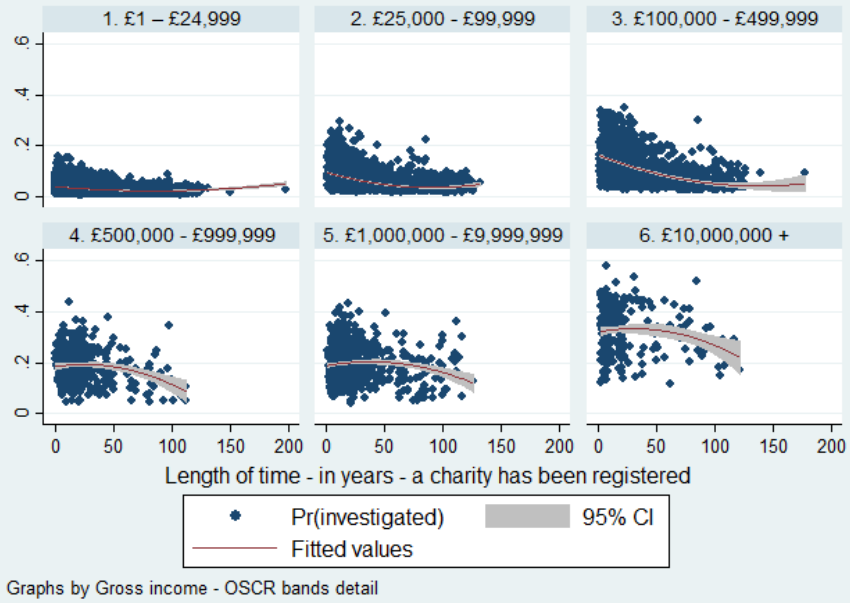
Table 4.12. Hosmer-Lemeshow goodness-of-fit table for outcome of regulatory action

		Action		No Action		
Group	Probability	Actual	Expected	Actual	Expected	Total
1	.0441	5	4.1	113	113.9	118
2	.0637	7	6.3	110	110.7	117
3	.0771	9	8.2	108	108.8	117
4	.0875	10	9.7	108	108.3	118
5	.0983	13	10.8	104	106.2	117
6	.1133	10	12.1	107	104.9	117
7	.1273	12	14.1	106	103.9	118
8	.1481	11	16.0	106	101.0	117
9	.1765	16	18.7	101	98.3	117
10	.5341	35	27.9	82	89.1	117

4.5.5. Predicted probabilities

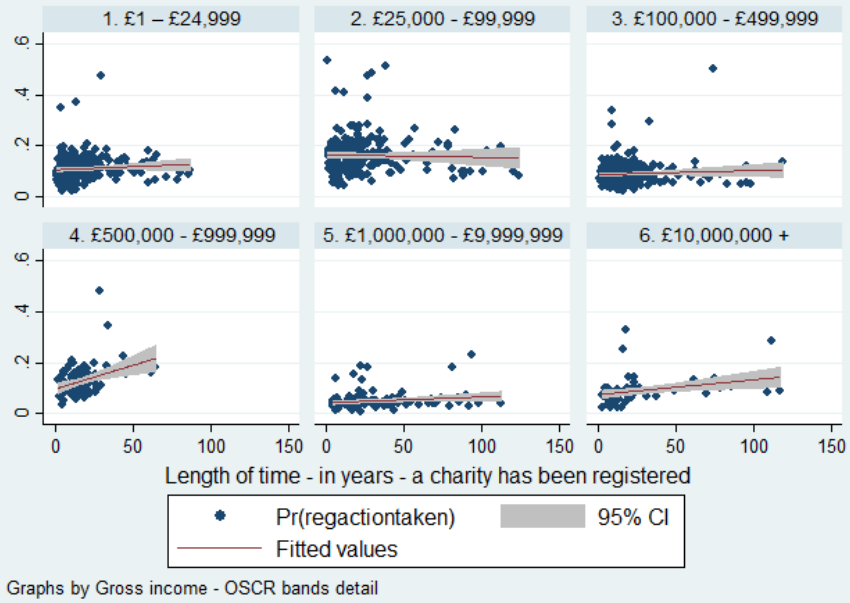
The mean predicted probability – expressed in percentage form – of being investigated is 6.5 percent and the median 3.8 percent, closely matching the true proportion of investigated charities; the minimum and maximum values are one percent and 58 percent respectively. Figure 4.3 below displays the distribution of predicted probabilities across two independent variables: charity size and age. There appears to be a slight nonlinear association between the predicted probabilities and charity age: the probability of being investigated appears to decline as charities move up the age distribution. However the patterns are not strong for any category of size and reflect the findings from previous descriptive and explanatory work in this chapter.

Figure 4.3. Distribution of predicted probabilities for being investigated, by charity size and age



The mean predicted probability of regulatory action occurring is eleven percent and the median ten percent (the true proportions in the population are thirteen percent and zero percent respectively); the minimum and maximum values are one percent and 56 percent respectively. Figure 4.4 below displays the distribution of predicted probabilities across two independent variables: charity size and age. There appears to be a slight linear association between the predicted probabilities and charity age: older organisations have higher probabilities than younger ones for the larger size categories. However the patterns are not strong and reflect the findings from previous descriptive and explanatory work in this chapter.

Figure 4.4. Distribution of predicted probabilities for regulatory action, by charity size and age



4.6. Discussion and Conclusion

This study has investigated the nature, extent, and potential determinants of organisational misconduct in the Scottish charity sector. There is a pervading and persistent concern in the UK about the conduct of charities, and their ability and intention to provide public benefit, as evidenced by two recent parliamentary inquiries. The Public Administration and Constitutional Affairs Committee concluded its inquiry into fundraising scandals in the charitable sector in 2015 and this was swiftly followed by the House of Lords Select Committee inquiry into strengthening the sector more broadly (the committee reported its findings in March 2017). Concurrently, there has been wider consternation about levels of public trust in the sector, with various reports and studies pointing to a substantial decline in recent years (Charity Commission, 2016; nfpSynergy, 2015). This is not universal however, with some studies pointing to fairly stable levels of trust in charities amongst the public in Scotland (Office of the Scottish Charity Regulator, 2016). We argue that in this context it is more important than ever to understand which charities trigger complaints about their conduct, the concerns and organisations that merit regulatory intervention, and what form this takes (e.g. advice given or more serious action).

This research contributes to the nascent charity misconduct literature, and the wider study of failure and accountability in the sector, in a number of important ways. First, by describing the nature and extent of perceived and actual misconduct, this study provides the first systematic, comprehensive description of this phenomenon, producing an evidence base of use to the field, policy makers and practitioners. Second, the results of the multivariate analysis point to the factors associated with charity investigation and misconduct, showing the mismatch between those predicting complaints and those predicting regulatory action. This has considerable implications for charity regulators seeking to deploy their limited resources effectively and in a way that ultimately protects and enhances public confidence. As Fremont-Smith (2004) notes in her comprehensive account of charity governance, charity regulators (particularly in the US) often lack the funds to carry out their enforcement activities properly, and thus would stand to benefit from analyses that help them target their resources more efficiently. Finally, the descriptive and explanatory work combined offer a complementary perspective on the extant literature by focusing on public and regulatory accounts of misconduct rather than self-reported instances or media stories (e.g. Archambeault et al., 2015; Gibelman & Gelman, 2001).

The findings suggest there is an element of predictability to the types of charities that are suspected of misconduct. The most prominent and consistent risk factor is the size of the organisation: as size increases the likelihood of being investigated increases sharply, even when controlling for other organisational characteristics. The largest charities, those with annual gross income of greater than £10m, are significantly likelier to be investigated compared to all other sizes. However it is not yet clear that organisation size is a causal or explanatory factor in being investigated; it more plausibly acts as a proxy for the 'true' explanatory factor. This is supported by the disparity in the effect of organisation size between the likelihood of being investigated and the likelihood of that investigation leading to regulatory action. Our analysis suggests that organisation size is strongly predictive of complaints, but that those complaints are no more likely to lead to regulatory action in large charities than small ones. The triggering of an investigation could be perhaps best understood as a function of two other concepts: *visibility* and *high stakes*. Larger charities are more likely on average to deliver services to a greater number of beneficiaries, operate across a greater number of geographies, interact with the public on a greater scale (e.g. through fundraising campaigns) and involve more staff and volunteers than smaller organisations (de Andrés-Alonso, Garcia-Rodriguez & Romero-Merino, 2015; Luoma & Goodstein, 1999). As a result they can be highly visible to many of the actors that initiate investigations (a negative consequence of having a recognisable brand perhaps). The degree to which actors perceive there is great deal at stake, in terms of the risk to charitable assets and beneficiaries, may also prompt complaints. Larger charities are often responsible for more valuable assets and services (in a monetary sense) compared to their smaller counterparts and this may spur an actor to report a complaint 'just to be safe', with little regard to the substance of the concern. It is more

difficult to theorise about the explanatory factors of actual misconduct occurring, mainly due to the absence of appropriate measures in the data. However two plausible dimensions to the phenomenon on the organisational side are *opportunity* and *controls*. The degree to which charities feel that there is an opportunity to conduct themselves in a way that is not compliant with public expectations and regulatory requirements may be a powerful predictor of organisational misconduct. Finally, the strength of appropriate governance and financial controls may reveal which charities are hosts for employee, and by extension, organisational misconduct. These dimensions have received some attention in the nonprofit occupational fraud literature (e.g. Rothschild, 2013).

There are a number of limitations to this research that must be acknowledged. Organisation size and age traditionally function as control variables in many studies and are good examples of the kinds of measures inherent in administrative data. These datasets tend to contain coarser or proxy measures of social science concepts compared to the richness of social surveys and as such there are organisational characteristics which may be important in measuring risk that are not captured in the administrative data (Wallgren & Wallgren, 2007). We are working under the assumption that OSCR's decision to take regulatory action is valid and thus we do not analyse their decision-making process; there are instances when they reverse their decision in light of new evidence or appeals from the charity (see Third Sector, 2014b). Finally, the investigations data utilised in this study should not be considered as a complete record of complaints and misconduct in the sector. Many actors may be unwilling for a number of reasons to raise their concerns with the regulator: for example, they may be unaware of to whom the complaint should be directed to or fearful of repercussions should they lodge their complaint (see Hogg, 2016). Rothschild's (2013) study of misconduct reporting in the US nonprofit sector posits that whistle-blowers observe misconduct several times before eventually deciding to report this behaviour; the same study also found that whistle-blowers were subject to retaliation by the organisation in a majority of cases. On the organisational side, some charities may be particularly adept at masking their misconduct from those able and willing to raise concerns. Therefore the findings of this study should be considered in the context of other data sources covering this topic such as media investigations and parliamentary inquiries.

Despite these limitations, the results of this analysis have considerable practical applications for stakeholders in the sector, particularly regulators and those with a monitoring function. OSCR aims to discharge its regulatory function in a progressive, proportionate and preventative manner, and the efficient and effective targeting of its resources is critical in achieving this. Utilising the predicted probabilities generated by the models to assign risk categories to charities and investigations could guide the allocation of scarce regulatory resources, and achieve Cordery, Sim and van Zijl's (2015) call for a differentiated approach to charity regulation in this regard. Implementing such an approach requires regulators to be cognizant of the disconnect between complaints and misconduct. Our analysis shows that regulators have significant challenges in separating the 'signal' (complaints about

charities engaged in serious misconduct) from the 'noise' (complaints outside the remit of the regulator, or not leading to regulatory action). Discontent at all levels can have an impact on trust in the sector, and so the answer is not simply to try to reduce complaints. Rather, better guidance for charities on handling complaints within their own governance structures could reduce the number of unresolved issues that make it to the regulator. Just as important is increasing the proportion of plausible or legitimate concerns that are reported to OSCR, and making sure that stakeholders with serious concerns about misconduct are able and willing to make complaints to the regulator.

As demonstrated throughout this chapter, administrative data can help us describe and understand fundamental risk issues in the Scottish charity sector. The types of concerns reported to OSCR are consistent with the claim that the type of risks faced by charities is broad, and the wide range of stakeholders that report reinforce the importance of public confidence to the perception of charities. This point is further substantiated by the clear disconnect between the number of concerns raised and the number that are acted on by OSCR. We have also explored the locus of risk in the sector, using a suite of organisational characteristics to pinpoint the type of charity that is most at risk of investigation and/or regulatory action. The relevance of this analysis to OSCR's risk framework is discussed in the final chapter. For now our attention turns to a dataset derived from OSCR's attempts to proactively identify risk in the sector, in particular how the regulator holds charities to account for their financial, governance and fundraising practices.

Chapter Five – Accountability Matters

5.1. Introduction

The previous chapter highlighted the value of analysing data on how OSCR responds and reacts to concerns raised by a variety of stakeholders. However, this empirical examination could only give a partial representation of risk in the sector; for example, we were not able to explore specific financial risks like liquidity or reserves issues, or inappropriate use of charitable assets. To address this gap we employ a different administrative dataset, one generated by OSCR's proactive attempts to hold charities to account for an alternative, complementary set of behaviours to those analysed in Chapter Four. This chapter builds on the analysis contained in the previous chapter by exploring the degree of association between OSCR's accountability measures and being subject to regulatory investigation and action. The following paragraphs outline the context of the empirical work presented in this chapter.

Concerns have long been raised about the accountability of charitable organisations, particularly the adequacy of reporting and oversight mechanisms (Acar, Guo & Yang, 2008; Keating & Frumkin, 2003; Saxton & Guo, 2011). As Brody (2002, p. 472) attests, the charity sector's claims "to exist for the public good are no longer being taken on faith, and more people believe they have a stake in the accountability of nonprofits." Researchers have ascribed the increasing interest in accountability to two prominent factors: the size and significance of the sector in many jurisdictions – particularly with respect to the level of public funding flowing to charities – and low barriers to entry (Connolly, Hyndman & McConville, 2013; Prakash & Gugerty, 2010). These developments have, they argue, resulted in greater potential for less trustworthy organisations to enter the sector.

In response to calls for greater accountability "there have been several recent initiatives, both regulatory and voluntary, to encourage and promote UK charity accountability (accountability being the requirement to be answerable for one's conduct and responsibilities) through information communication." (Connolly & Hyndman, 2013a, p. 946) In Scotland, OSCR now publishes links to charity accounts on their website and organisations are encouraged to contact OSCR regarding what are known as 'notifiable events' (e.g. instances of theft or fraud). OSCR also implements a programme of accountability aimed at unearthing potential vulnerabilities and financial conduct issues in the sector. Examining this programme can help address some theoretical and empirical gaps in our understanding of charity risk and accountability: how is accountability conceptualised and operationalised by those overseeing the sector? What factors account for the variation in which organisations trigger accountability concerns? The chapter is structured as follows. The charity accountability and regulation literatures are synthesised to provide a conceptual framework for the research topic. This is followed by a description of OSCR's efforts to monitor accountability concerns. A delineation of the data and methods is then provided, followed by the presentation of

empirical results. The chapter concludes with a discussion of the theoretical and practical implications of the study.

5.2. Literature

Bovens (2007, p. 452) defines accountability as "a relationship between an actor and a forum in which the actor is obliged to explain and justify his conduct; the forum can pose questions; pass judgment; and the actor may face consequences." Romzek and Dubnick (1987) claim that accountability is fundamentally about the management of expectations on the part of the account-giver and account-holder. Accountability is often posited as the solution to many of the problems in the public sector (Dubnick, 2011) and there are various normative reasons why accountability occurs: it addresses information asymmetry between a principal and an agent; it is way of containing agency losses; it can ensure that agents adhere to their mandate; and the agent feels it has a moral duty to discharge accountability (Busuioc & Lodge, 2016). It is a multidimensional concept and the literature as it relates to charities identifies two that are of particular importance: fiduciary accountability and performance accountability (Brody, 2002; Connolly & Hyndman, 2004; Goodin, 2003). Performance accountability itself has two dimensions which are worth delineating in the context of this study: process accountability (e.g. the administration of the charity, its decision-making framework) and substantive accountability (e.g. the outputs, outcomes, and impact of a charity with respect to its mission-driven goals and objectives) (Frumkin, 2006; Saxton & Guo, 2011). Andreaus and Costa (2014) bifurcate the substantive dimension further: mission-related performance and social-related performance (i.e. the impact of a charity's activities on each of its stakeholders in terms of the implied or explicit social contract between them). A key aspect of social performance in the UK sector is the provision of public benefit. There is a symbiotic relationship between these dimensions: economic viability and efficiency are not ends in themselves but it is arguable that charities will find it difficult to achieve their mission in the absence of either; successful achievement of mission-related goals may also lead to viability and efficiency. Similarly, wider social or public benefit cannot be assumed a priori and is indelibly linked to the achievement of a charity's mission-related goals and objectives; likewise the requirement to provide public benefit gives legitimacy to the organisation's mission.

Despite their public benefit requirement and production of beneficial externalities, "in recent years nonprofit organizations are required to prove that their public interest orientation still remains the case." (Valentinov, 2011, p. 32) It is often argued that the continued success of the charity sector depends not only on its economic and social activities but also on its ability to demonstrate accountability and transparency, which in turn can protect and enhance public confidence (Connolly & Hyndman, 2013b; Cordery & Morgan, 2013; Keating & Frumkin, 2003; Morgan, 2012). Valentinov (2011) contends that charity accountability is contingent on addressing two major questions: accountability to whom; and accountability for what. With respect to the second question,

Taylor and Rosair (2000), Behn (2001), Brody (2002), Goodin (2003), and Connolly and Hyndman (2004) have made substantial contributions, with their work converging on the need for charities to discharge two dimensions of accountability: fiduciary and performance. Traditionally, charities have discharged accountability through the disclosure of financial information and efficiency metrics in annual accounts and reports submitted to the relevant oversight body. However, there are increasing calls for these organisations to discharge accountability through the provision of alternative, non-financial narratives of performance (Britton, 2008; Connolly, Hyndman & McConville, 2013; Keating & Frumkin, 2003; Philips, 2013). Considerable research has also been conducted on to whom charities should be accountable. Prominent in the literature is work examining the manner and content of accountability to beneficiaries (Wellens & Jegers, 2016) and the public (Morgan & Fletcher, 2013), particularly in the context of voluntary disclosures of financial information (Saxton, Kuo & Ho, 2012).

Much of the empirical work in this field focuses on a specific aspect of charity accountability: transparency. This refers to the provision of information by a charity to one or more stakeholders, often without the expectation of facilitating dialogue and discussion about said information. Early contributions by Hyndman (1990, 1991) established a methodology and conceptual framework for research on charity transparency; the author examined the annual reports and reviews of the top 100 fundraising charities in the UK and produced a checklist of 14 information types that charities either did or should provide to donors in order to discharge accountability. This work was revisited by Connolly and Hyndman (2013) in their mixed methods study of information disclosure by the top 100 fundraising charities in the UK; they found that respondents felt donors and beneficiaries respectively are the stakeholders charities are most accountable to. The scholarly focus on charity accountability bifurcated in the early 2000s. One strand examined the discharge of financial information through compliance with the Statement of Recommended Practice (Connolly & Hyndman, 2000, 2001; Palmer et al., 2001); these studies found that accountability through financial disclosure had improved but was variable across different types of charities and jurisdictions (e.g. Ireland and Britain). The other strand analysed the nature and extent of financial and non-financial (narrative) information discharged by charities through their annual reports and reviews (Connolly & Dhanani, 2006, 2009; Connolly & Hyndman, 2003, 2004; Dhanani, 2009; Hyndman & McConville, 2015; Morgan & Fletcher, 2013; Yasmin, Haniffa & Hudaib, 2014). These studies consistently reveal that performance reporting has improved over time, larger charities are more likely than their smaller counterparts to discharge this type of information and there is a lack of transparency of judgement-based performance information (e.g. impact of the charity).

Recent studies have shifted emphasis to uncovering the factors associated with a charity's willingness to voluntarily disclose information through online media. Saxton and Guo (2011) posited that variation in the web-based accountability practices of charities was accounted for by a theoretical

model comprising four factors (eight variables): strategy (geographical scope of operations and unrestricted reserves), capacity (organisation size and age), governance (financial stewardship and board performance) and environment (regional poverty and organisational density). Eight hypotheses were derived from this model and tested on a sample of 117 community foundations in the U.S. Their findings suggest that governance and capacity are the most significant factors in accounting for variation in online accountability (i.e. disclosure of financial information via a website). Saxton, Kuo and Ho (2012) extended this model by employing alternative measures for some of the four factors and applying the framework to the population of not-for-profit hospitals in Taiwan (N=40). The authors found that "the larger the institution, the greater the financial leverage, the smaller the size of the board, and the higher the percentage of outside board members, the less likely it is that an institution will voluntarily disclose its financial information." (Saxton et al., 2012, p. 1066) Tremblay-Boire and Prakash (2015) also examine the determinants of online accountability by U.S. nonprofits but derive alternative explanatory factors from the literatures of organisational legitimacy and stakeholder theory; they posit that media exposure, sector, organisation size, and government funding are predictors of online information disclosure. Their results suggest that organisations subject to greater media exposure and who operate in the education, health or religious sectors are more likely to engage in online accountability, while larger nonprofits are less likely. In their study of Chinese foundations, Nie, Liu and Cheng (2016) employ variables derived from resource dependence and institutional theory perspectives to examine variation in voluntary disclosure. The authors find that – after controlling for organisation size, age, type and managerial capacity – "foundations with greater dependence on donations and restricted funds are more likely to disclose information to the public voluntarily as a means of satisfying resource providers." (Nie et al., 2016, p. 2397) What unites this broad, multidisciplinary literature is the salience of accountability in the continuing success of charities. As Frumkin (2006, p. 9) contends: "It is impossible to be legitimate without being substantively accountable. It is impossible to be substantively accountable without credible measures of effectiveness." The next section outlines the particular accountability mechanism through which OSCR identifies and monitors financial risks in the sector; though involuntary in nature, the mechanism draws upon much of the same information as the studies highlighted in this literature review.

5.3. Monitoring Accountability Concerns

In order to hold charities to account for certain aspects of their behaviour, OSCR implements what it calls a *financial exceptions* programme; this differs from its interventionist, enforcement activities (like those analysed in Chapter Four) in that the focus is on establishing standards and proactively identifying vulnerabilities (e.g. errors, transgressions and risks) in a charity's financial profile. The programme examines 32 aspects of a charity's financial status that may warrant further investigation and/or regulatory action; there is a particular focus on issues concerning fundraising, governance and

compliance with regulation. The financial exceptions are grouped under six headings: large charity or major fundraiser; sudden growth or contraction; possible failure to apply funds for charitable purposes (including fundraising issues); poor liquidity, low reserves, threats to viability; adequacy of governing board; and transactions with trustees – see Table A5.1 and A5.2 in the appendices for a detailed list of the exceptions in each group. Exceptions are triggered automatically during the submission of a charity's annual accounts; if this occurs the organisation is immediately informed and offered the opportunity to provide an explanation. OSCR then decides whether this explanation is valid and, in tandem with a fuller review of the charity's accounts and annual report, if the exception requires further investigation. The financial exceptions programme does not apply to charities with an annual gross income less than £25,000, Registered Social Landlords and Cross Border charities (these organisations are primarily subject to regulation by the Scottish Housing Regulator and the Charity Commission for England & Wales respectively).

Despite the proliferation of credible work in this area, our understanding of the nature, extent, factors and outcomes of charity accountability is limited (Prakash & Gugerty, 2010). Extant research is characterised by a focus on a dominant stakeholder to whom charities are accountable (donors); small, non-random samples drawn from subsections of the charity sector (e.g. community foundations, charities that derive the majority of their income from donations); a small number of accountability mechanisms (e.g. charity websites and reports); and homogeneity of research method (e.g. content analysis). In this context, we seek to advance the field by focusing on an instrumental form of upward accountability to the regulator in contrast to studies of accountability to donors, beneficiaries and the public (e.g. Morgan & Fletcher, 2013; Saxton, et al., 2012; Wellens & Jegers, 2016). Finally, our research makes a significant contribution to the evidence base on charities in the UK, particularly with respect to understanding the financial risks and concerns prevalent in the sector.

5.4. Method

This study overcomes many of the limitations outlined previously by linking three of our administrative data resources to provide a panel dataset of 21,322 observations on 5,124 charities over the period 2007-2013: Annual Returns data, Financial Exceptions data, and Investigations data. Some additional data management work was conducted to ensure these linked data were suitable for analysing the topic at hand. For instance, a limitation of the Annual Returns data is that detailed financial breakdowns are available for a subset of the sector; therefore, we include only charities that are required to complete the supplemental monitoring form and have an annual gross income of £250,000 (£100,000 prior to 2012). This results in the loss of some instances of financial exceptions being triggered, as charities with less than the specified income threshold are no longer included in the data (e.g. some instances of exceptions relating to fundraising and governance in smaller organisations are excluded). Table 5.1 summarises the steps in the sample selection process.

Table 5.1. Charity accountability dataset: sample selection process

Sample selection	Observations
Initial sample (Annual Returns data)	155,416 (28,093 charities)
Removal of observations that did not provide a detailed financial breakdown in the supplementary monitoring form in a particular year – those with annual gross income less than £250,000 (£100,000 prior to 2012)	129,708
Removal of observations not included in analysis period	808
Removal of observations listed as Cross Border or Registered Social Landlords	4,231
Final sample	21,322 (5,124 charities)

Note: the final sample size presented in this table is used for the descriptive analyses; the inferential analyses necessitate further reductions in the sample size due to the removal of observations which have missing values for any of the independent variables included in the statistical models.

Contributing to the literature on charity accountability we address three research questions:

1. What is the nature and extent of OSCR-defined accountability concerns in the Scottish charity sector?
2. What factors account for variation in the triggering of these concerns?
3. Is there a link between accountability concerns and negative organisational outcomes?

To answer these questions we employ factors derived from institutional theory that are common in studies of charity accountability to serve as the conceptual framework for the study. Organisation size, age, type, strategy and revenue concentration have all been found to be associated with variation in the accountability behaviour of charities (Saxton & Guo, 2011; Saxton et al., 2012; Tremblay-Boire & Prakash, 2015). The operationalisation of this framework is outlined in the following paragraphs.

5.4.1. Dependent and independent variables

For the descriptive analysis six binary indicator variables are examined – one for each of the exception groups: a value of 1 indicates that an observation experienced this exception and 0 if it did not. Tabulations and sequence analysis techniques are employed to analyse trends over time for the exception groups. For the multivariate analysis, two of the exception groups are employed as the dependent variables: (i) possible failure to apply funds for charitable purposes and (ii) poor liquidity, low reserves, threats to viability. This is for statistical reasons as well as substantive: they are the most

common exception groups and therefore possess a suitable number of observations for inclusion in statistical modelling; and these groups are of most concern to the regulator due to their inherent association with financial vulnerability and impropriety, and therefore also with public confidence. For the regression models the reference category of the indicator variables is altered: a value of 1 indicates that an observation experienced this exception and 0 represents an observation that never triggered an exception of any type. This alteration is necessary in order to create a homogenous reference group, as otherwise an observation with the value 0 could represent a charity that experienced a different exception or no exception at all. This data management step results in a reduction in the sample sizes of the models, but it enables us to compare charities that experience exceptions and those that do not. In order to leverage the longitudinal nature of the data, a random effects logistic regression model was specified.[19]

Drawing on the reviewed literature, we operationalise seven independent variables for the statistical models: six organisational and one financial (see Table 5.2). As many of the exceptions are derived by computing ratios of numerous financial attributes, it would be unwise to include more financial variables for multicollinearity and causal reasons. Though theoretical models of the determinants of accountability exist (see Saxton & Guo, 2011; Saxton et al., 2012), they seek to explain *voluntary* disclosure by nonprofits and thus are not considered appropriate for this analysis; it is also not possible to employ these models as intended due to the absence of appropriate measures in the dataset (e.g. board size).

Table 5.2. Accountability: conceptual framework

Factor	Variable	Operationalisation
Financial	Concentration	Revenue concentration of a charity. Herfindahl-Hirschman index (HHI) on a scale of 0-1; 0 is more concentrated, 1 is less.
Organisational	Size	Natural log of annual gross income.
	Age	Natural log of the number of years a charity has existed.
	Grant	1 = Disburses grants to other organisations 0 = Carries out charitable activities itself or a combination of functions
	Field	International Classification of Non-profit Organisations (e.g. Social Services). Nominal variable with 12 categories.
	Geography	Geographical scope of a charity's operations (e.g. Local). Nominal variable with 8 categories.
	Form	Constitutional form of a charity (e.g. Trust). Nominal variable with 9 categories.

5.5. Results

The median organisation in the sample does not receive any income from government funding or trading activities, spends £230,391 on conducting its charitable activities and £4,200 on governance costs, has £129,909 in unrestricted funds (reserves), and has been in existence for 21 years. In contrast the mean charity receives £1,039,762 and £135,133 in income from government funding and trading activities respectively, spends £2,044,046 on conducting its charitable activities and £17,306 on governance costs, has £2,056,464 in reserves, and has been in existence for 31 years. These figures point to a sector that is skewed by large, well-established charities that possess greater resources than their peers; the heterogeneous nature of the sector is a fact that readers should keep in mind during the presentation and discussion of the empirical analysis.

A little of over 60 percent of charities (42 percent of observations) in the sample triggered at least one financial exception over the period 2007-2013. For organisations that experienced an exception, it is likely that they will trigger more than one over the whole period: the mean number of exceptions is 9 (SD 10) and the median is 8. However, charities that do experience exceptions tend to only trigger a small number per annum: the mean number of exceptions is 2 (SD 1) and the median is 1.

5.5.1. Trends over time

Table 5.3 displays the distribution of exception groups over time. A possible failure to apply funds for charitable purposes is the most common exception group: the majority of the 22 percent of observations that experienced this exception triggered concerns relating to the cost of raising funds and expenditure on charitable activities (exception codes 5 and 8 respectively). There is some evidence of financial vulnerability in the sector, with at least 13 percent of charities in any particular year triggering exception codes relating to poor liquidity, low reserves, and threats to viability; there is a more even distribution of exception codes in this category, with concerns relating to debtors and creditors (codes 13 and 14 respectively) being slightly more common than other exceptions. There appears to be no association between each type of exception and the year in which it occurred (gamma<0.1, p<.001): the proportion of charities triggering each exception group does not vary substantially over time or from the average for the whole period. The increases for 2012 and 2013 across some of the exception groups are accounted for by a change in the denominator (i.e. a reduction in the number of organisations completing the detailed financial information section of the supplementary monitoring form).

Table 5.3. Distribution of financial exceptions 2007-2013

								% of charities
Type of exception	2007	2008	2009	2010	2011	2012	2013	Overall
Possible failure to apply funds for charitable purposes	25	22	20	21	21	22	23	22
Poor liquidity, low reserves, threats to viability	15	13	14	14	14	16	16	14
Transactions with trustees	10	10	10	10	9	12	10	10
Large charity or major fundraiser	6	6	6	6	6	13	12	7
Sudden growth or contraction	1	1	1	1	2	3	4	2
Adequacy of governing board	2	1	1	1	2	1	1	1
Total	100 (n=3,386)	100 (n=3,563)	100 (n=3,491)	100 (n=3,496)	100 (n=3,604)	100 (n=1,872)	100 (n=1,910)	100 (n=21,322)

Note: Percentages rounded to the nearest whole number and thus columns may not sum to 100.

Table 5.4 presents the distribution of the number of times a charity experienced each exception group, only for those organisations that triggered the respective exception at least once. The results suggest that there is some degree of repetition. For instance, twenty percent of charities that trigger concerns relating to a possible failure to apply funds for charitable purposes do so in four or more years; similar distributions are found for the other exception groups besides sudden growth or contraction. In fact, a majority of charities that trigger a particular exception are likely to do so more than once, with the exception of sudden growth or contraction and adequacy of the governing board.

Table 5.4. Distribution of the number of instances of exception groups

% of observations

Number of instances	Large charity or major fundraiser	Sudden growth or contraction	Possible failure to apply funds for charitable purposes	Poor liquidity, low reserves, threats to viability	Adequacy of governing board	Transactions with trustees
1	28	83	45	43	57	35
2	10	16	23	23	13	15
3	6	1	13	13	8	8
4	6	-	10	7	9	9
5	7	-	6	6	4	11
6	8	-	2	4	3	9
7	35	-	2	4	7	13
Total	100 (n=1,876)	100 (n=336)	100 (n=5,054)	100 (n=3,486)	100 (n=371)	100 (n=2,401)

Note: Percentages rounded to the nearest whole number and thus columns may not sum to 100.

For the sector as a whole it appears that exceptions persist over time. Adopting a repeated cross-sectional perspective is limited however, as it does not reveal whether it is the same charities triggering these exceptions across the study period. In order to examine persistence and transitions we construct a balanced panel of charities (n=1,398): that is, organisations that completed the annual return for every year in the analysis period.[20] Figures A5.1 to A5.6 in the appendices display the results of a sequence analysis for each exception group. To make the sequences clearer, charities that never trigger these exception groups are excluded. The X axis represents charities' exception sequences and the Y axis lists the number of charities that have triggered this exception. It is clear that

a small proportion of charities repeatedly trigger these accountability concerns and that exception sequences are somewhat turbulent (i.e. repeatedly varying between states over time); however, this proportion varies across the exception groups, with a substantial number of charities repeatedly or constantly triggering exceptions linked to transactions with trustees relative to other groups. The presence of a minor yet significant degree of persistence is particularly troubling for accountability concerns relating to complying with the Charities and Trustee Investment (Scotland) Act 2005; for example, transactions with trustees constituting excess private benefit and thus jeopardising the organisation's charity status. Examining the transition matrices for the exceptions groups also reveal an element of dependency in the triggering of an accountability concern (Table 5.6). The likeliest transition is dependent on a charity's current exception status: if it has not triggered an exception at time *t* then it most likely will not experience the exception at time *t+1* and vice versa. For example, there is a 61 percent chance that a charity, having triggered a concern relating to poor liquidity, low reserves and threats to viability at time *t*, will trigger the same exception at time *t+1*. This is true for all groups with the understandable exception of triggering concerns relating to sudden growth or contraction, where the likeliest transition is to not experiencing this exception. In conclusion, it appears that there is a degree of persistence among charities that trigger these accountability concerns. The posited determinants of triggering accountability concerns are modelled in the next section.

Table 5.6. Probability of transitioning to triggering an exception

	Probability of triggering exception at *t+1*					
Triggered exception at *t*	Large charity or major fundraiser	Sudden growth or contraction	Possible failure to apply funds for charitable purposes	Poor liquidity, low reserves, threats to viability	Adequacy of governing board	Transactions with trustees
No	.25	.15	.26	.25	.16	.23
Yes	.89	.18	.55	.61	.63	.80

5.5.2. Modelling the risk of triggering accountability concerns

Before turning to the multivariate results, Tables 5.7 and 5.8 below contain descriptive statistics for each of the dependent variables in the inferential analysis. For exceptions relating to the possible failure to apply funds for charitable purposes, the typical charity appears to be slightly bigger, younger, more likely to discharge grants, more likely to operate overseas and less likely to be a religious organisation. For exceptions relating to poor liquidity, low reserves and threats to viability, the typical charity appears to be slightly bigger, younger, and more likely to operate both overseas and locally. Tables A5.3 and A5.4 in the appendices examine zero-order correlations between the

independent and dependent variables: there is no obvious concern about multicollinearity, which is confirmed by the mean VIF being less than 1.5 for both dependent variables.[21]

Table 5.7. Descriptive statistics for the outcome of possible failure to apply funds for charitable purposes

	Triggered (n=1,807)		Not triggered (n=2,850)		Whole sample (n=4,657)	
Variables	Mean	SD	Mean	SD	Mean	SD
Size (log)	13.81	1.74	12.76	1.00	13.17	1.43
Age (log)	3.07	.88	3.19	.79	3.14	.83
Concentration	.29	.22	.31	.22	.30	.22
Grant	.40	.49	.27	.44	.32	.47
Company (%)	52	-	55	-	54	-
Trust (%)	19	-	12	-	15	-
Unincorporated association (%)	17	-	26	-	22	-
Operate widely (%)	16	-	26	-	22	-
Operate locally (%)	23	-	26	-	25	-
Operate overseas (%)	23	-	13	-	17	-
Social services (%)	13	-	24	-	20	-
Religion (%)	19	-	22	-	21	-
Culture & recreation (%)	18	-	14	-	15	-
Education & research (%)	17	-	7	-	11	-
Development & housing (%)	14	-	11	-	12	-
Health (%)	4	-	7	-	6	-

Note: Percentages rounded to the nearest whole number. The sample size is smaller compared to that reported in Table 5.1 as it only includes observations for which there are no missing values for any of the independent variables, and the use of our dependent variables rather than those used in the descriptive analyses. Only selected categories from the nominal variables are included for the purpose of brevity.

Table 5.8. Descriptive statistics for the outcome of poor liquidity, low reserves, threats to viability

	Triggered (n=1,408)		Not triggered (n=1,632)		Whole sample (n=3,040)	
Variables	M	SD	M	SD	M	SD
Size	13.54	1.51	12.89	1.05	13.19	1.32
Age	3.01	.83	3.09	.77	3.05	.80
Revenue concentration	.28	.22	.28	.23	.28	.22
Grant	.39	.49	.37	.48	.38	.48
Company (%)	58	-	62	-	60	-
Trust (%)	20	-	19	-	19	-
Unincorporated association (%)	14	-	13	-	14	-
Operate widely (%)	19	-	26	-	23	-
Operate locally (%)	21	-	17	-	19	-
Operate overseas (%)	21	-	13	-	16	-
Social services (%)	13	-	17	-	15	-
Religion (%)	15	-	14	-	14	-
Culture and recreation (%)	22	-	20	-	21	-
Education & research (%)	16	-	15	-	15	-
Development & housing (%)	16	-	10	-	13	-
Health (%)	3	-	4	-	4	-

Note: Percentages rounded to the nearest whole number. The sample size is smaller compared to that reported in Table 5.1 as it only includes observations for which there are no missing values for any of the independent variables, and the use of our dependent variables rather than those used in the descriptive analyses. Only selected categories from the nominal variables are included for the purpose of brevity.

The results of the random effects models are presented in Table 5.9. Note that the coefficients in a random effects regression have a more nuanced interpretation than a regular regression model: X_1 represents the average change in Y when X_1 changes across time and between cases (Torres, 2007). We report the odds ratios (exponentiated coefficients) rather than the log odds as they approximate the relative risk of triggering each exception. We examine the financial independent variable first. For

both dependent variables, the odds of triggering an exception decrease for organisations with greater revenue diversity, though the effect is only statistically significant in the first model. The effect of age is similar across both models: as charities get older their odds of triggering these exceptions reduce significantly. This may suggest some form of organisational learning whereby charities develop better practices over time across a range of domains (e.g. reporting and accounting). The effect of size is also consistent across both models: an increase in annual gross income is associated with a significant increase in the odds of triggering concerns. This stands in contrast to the interpretation of the effect of age: charities develop over time but they may become exposed to different pressures and situations that relate to exceptions as they grow. It also appears that the other independent variables matter, though their effect and significance varies across the models. For example, grant-making charities have higher odds of triggering exceptions relating to the use of charitable assets but lower odds for those relating to financial vulnerability. Finally, the rho statistic reveals that a large proportion of the variance of the error term in the models is accounted for by unobserved differences between charities. This suggests that the idiosyncrasies of these organisations contribute to their likelihood of triggering exceptions.

Table 5.9. Results of Logistic Random Effects Regression on each outcome

	Possible failure to apply funds for charitable purposes		Poor liquidity, low reserves, threats to viability	
	Odds ratio	SE	Odds ratio	SE
Financial				
Concentration	.30***	.09	.79	.28
Organisational				
Size	2.94***	.22	2.34***	.19
Age	.61***	.07	.62***	.08
Grant	1.87**	.36	.86	.18
Form (base = Company)				
Trust	2.14**	.53	1.93*	.52
Unincorporated	1.10	.27	2.63**	.87
Geography (base = Wide)				
Operate locally	1.91**	.45	2.75***	.76
Operate overseas	2.04*	.59	5.77***	1.88
ICNPO (base = Social)				
Religion	3.45***	1.03	1.60	.58
Culture & recreation	3.87***	1.07	1.38	.41
Education & research	3.27***	1.07	.92	.31
Development & housing	3.53***	1.04	3.43***	1.15
Health	.77	.29	.39	.20
Observations		4,522		2,949
Log-likelihood		-2301.03		-1672.65
LR test (X^2)		302.47***		161.14***
rho		.65		.59

Note: Figures rounded to two decimal places. The reference groups are the largest categories for each independent variable. Only selected categories from the nominal variables are included for the purpose of brevity. Constant is omitted. *p < .05. **p < .01. ***p < .001.

5.5.3. Outcomes of financial exceptions

The analysis concludes with an assessment of the association between the exception groups and a suite of negative outcomes in the sector: late submission of annual returns and accounts; complaint about the conduct of an organisation; regulatory intervention arising as a result of a complaint; and removal from the Charity Register. Table 5.10 below presents the higher-order correlations between each exception group and the four outcomes, controlling for the independent variables utilised in the regression models. The results show that the exception groups are very weakly associated with any of the outcomes (Pearson's r <= 0.1); the fact that the associations, weak as they are, achieve statistical significance is due to the size of the sample (n = 20,179) and not the size of the correlation. The lack of association is especially surprising for exceptions relating to sudden growth/contraction or threats to viability, as it is plausible that they should be associated with organisational demise, echoing the findings of the previous chapter. In sum, though accountability concerns may be important to monitor in their own right, in general they do not seem to lead to other, arguably more serious organisational outcomes. The implications of this finding are considered in more detail in the discussion and conclusion section of this chapter and also in Chapter Eight, where we compare and contrast with similar results from the financial vulnerability analyses.

Table 5.10. Correlation between accountability concerns and negative outcomes

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Exception group	Late submission	Complaint	Regulatory intervention	Removal from Scottish Charity Register
Large charity or major fundraiser	.03***	.05***	.03***	.06***
Sudden growth or contraction	.02**	-.01	.01	-.02***
Possible failure to apply funds for charitable purposes	.04***	-.01	.01	-.03***
Poor liquidity, low reserves, threats to viability	.05***	-.01	.00	.02**
Adequacy of governing board	.01*	-.00	.01	.01
Transactions with trustees	.04***	.00	.03***	.04***

Note: Pearson's r correlations are reported as they allow for the control of the independent variables from Table 5.9 when calculating correlation coefficients; similarly low coefficients are produced using alternative techniques such as Cramer's V and phi. Figures rounded to two decimal places. Based on 20,179 observations for each correlation. *p < .05. **p < .01. ***p < .001.

5.6. Discussion and Conclusion

OSCR's aim of encouraging good practice is laudable and clearly grounded in the belief that "accountability as a marker sets the stage for accountability as a modifier" (Acar et al., 2008, p. 13). However, the absence of any statistical association between the accountability concerns measured by OSCR and tangible outcomes such as dissolution and regulatory intervention raises questions about the effectiveness of this monitoring programme. In essence, the programme's normative aims appear to lead to symbolic or negligible impact on charity behaviour.

This study contributes to the burgeoning charity accountability literature in a number of important ways. First, by describing patterns in the occurrence and persistence of accountability concerns the study makes a contribution to the evidence base from the under-researched UK perspective (Clifford & Mohan, 2016). The proportion of charities triggering financial exceptions is consistent across the study period and there is evidence of repetition and state dependency also. However, there is still a degree of variability in the triggering of exceptions and it does not appear that the same charities triggering exceptions fully accounts for the consistent proportions over time. This suggests that the accountability concerns monitored by OSCR are somewhat an inherent feature of the sector, at least for the sample of large charities in this study. The multivariate work highlights the salience of core institutional factors in understanding the locus of accountability concerns in the charity sector. The finding that older charities are less likely to trigger accountability concerns while larger organisations are more likely, may be indicative of a tension in the development cycle of charities: age brings experience and learning but size engenders new and significant challenges with respect to financial reporting and performance. Finally, the descriptive and multivariate work combined offer an alternative perspective to the extant literature by focusing on involuntary, performance-related information disclosures rather than voluntary disclosure of (primarily) financial information (Connolly & Hyndman, 2013a; Connolly et al., 2013; Hyndman, 1990, 1991; Gandia, 2011; Gordon, Fischer, Malone & Tower, 2002; Saxton & Guo, 2011; Saxton et al., 2012).

The results of this analysis also have considerable practical implications for OSCR and other institutions operating under the rubric of risk-based regulation. In light of the evidence provided in this study OSCR may need to reflect on the utility of its accountability programme. It could be argued that the exceptions monitoring programme is retrospective, tangentially linked to public confidence, and focused on technical compliance with accounting requirements and not enough on core concerns such as fundraising, governance and sound financial practices. The issue of regulatory burden should also be a consideration for OSCR: the absence of a link between the financial exceptions and negative organisational outcomes calls into question whether the costs imposed on charities by the need to respond to the triggering of concerns are justified. We should not rush to discount the possibility that the absence of significant correlations is due to OSCR's effectiveness in dealing with triggered exceptions; however, anecdotal conversations with relevant individuals at the regulator suggest that

this explanation is not likely to apply to the majority of exceptions. In any case, a useful exercise for OSCR would be to re-evaluate its own interest, intensity and investment in this programme. Improvements to the monitoring programme could be made by adopting simpler, alternative measures of accountability: ones that are at least moderately linked with demise and misconduct (Breen, 2013), and whose effect on public confidence is more plausible (e.g. senior management pay, extent of direct marketing, number of trustee meetings). If the focus is entirely on accountability concerns that may impact public confidence, many of these measures could be derived from the multitude of surveys exploring public trust in, and issues with, charities (see National Council for Voluntary Organisations, 2015 for an overview). Finally, OSCR could collaborate with charities themselves to better understand and measure the operational concerns of these organisations.

The counter argument is that the effect of the mere existence of this programme – whatever its capacity to affect behaviour change and prevent negative outcomes – on public confidence in the sector should not be discounted; donors, beneficiaries, funders and the public may derive reassurance from the activities of OSCR to monitor vulnerabilities and dissuade undesirable behaviours. It is plausible that certain exception codes do relate to public confidence and thus are worth monitoring: for example, transactions with trustees could constitute excess private benefit which would contravene elements of the Charity Test. It would also be remiss to suggest that charities do not derive any utility from the triggering of exceptions. It is plausible that some organisations improve their accounting, reporting and financial practices in response to an exception being triggered. Finally, this research only examines one interorganisational relation – that of the regulator and charity – and does not capture the valid accountability concerns of other stakeholders. As Ebrahim (2005, p. 82) cautions:

> Policy discussions about improving accountability through increased oversight may be myopic if they rely on and privilege upward, rather than downward and internal, means and actors. This is not to say that upward accountability or oversight is unnecessary – certainly it plays a crucial and legitimate role, for example, in preventing fraudulent use of funds by organizations – but it is only one dimension of multiple accountability relationships.

Chapter Six – Financial Vulnerability

6.1. Introduction

The previous chapter revealed stable patterns in the occurrences of vulnerabilities in charities' financial, fundraising and governance behaviour. We continue this line of inquiry by moving away from OSCR's conceptualisation of financial vulnerability, and instead examining academic perspectives on this topic. This divergence is particularly welcome given the absence of association between OSCR's measures and negative organisational outcomes. The rest of the introduction outlines the context and structure of this chapter.

In the UK there has been dramatic growth in the charity sector in the past 20 years. The election to power of the Labour government in 1997 led to a more prominent role for charities and third sector organisations (TSOs) more generally in the provision of public services, as well commitments to building the capacity of the sector in general (Chew & Osborne, 2009; Rutherford, 2015). The operating environment of charities during the Labour government's time in power can be characterised as "an arguably enabling policy context that further promoted voluntary action and raised the profile of the voluntary sector in public policy development and service delivery." (Chew & Osborne, 2009, p. 91) On the other hand, charities face significant operating challenges, especially in relation to their economic, social and technological environments (Chew & Osborne, 2009). The advent of the global financial crisis in 2007, coupled with an arguably less favourable policy environment under subsequent governments and high-profile cases of financial mismanagement (e.g. *Kids Company*), have exacerbated these challenges and placed the spotlight firmly on the financial sustainability of the sector (Bingham & Walters, 2013; Shea & Hamilton, 2015).

Though a popular topic of research in nonprofit/charity/third sector studies, there is much we do not know about the extent, persistence, risk factors and outcomes of financial vulnerability. This chapter explores the aforementioned aspects of financial vulnerability in the context of the Scottish charity sector. The chapter is structured as follows. First, an exposition on the theoretical perspective informing this research is provided, followed by a description of the research questions, data and methods. The empirical findings are then presented and discussed with reference to the theoretical framework and the chapter concludes with a consideration of the limitations of the data and findings.

6.2. Literature

Research on the financial vulnerability of charities gathered pace in the 1990s and 2000s. The increasing economic heft of the sector globally (and in the US in particular), combined with the impact of global economic fluctuations on these organisations, spurred academics to develop the literature on this topic (de Andrés-Alonso, Garcia-Rodriguez & Romero-Merino, 2015). Consequently, much of the extant research is focused on the US nonprofit sector, though there have

been studies of other national charity sectors including the UK and New Zealand. Current conceptualisations of charity financial vulnerability have their roots in the for-profit literature, in particular studies that primarily dealt with explaining and predicting corporate bankruptcy (see Altman, 1968; Ohlson, 1980). Early research in the charity field adopted similar approaches to the for-profit studies, with minor alterations to the definition and operationalisation of financial vulnerability. In a seminal study Tuckman and Chang (1991) defined financial vulnerability as the likelihood of an organisation reducing services immediately in the event of a financial shock. They created four accounting measures that they posited are indicators of financial vulnerability: inadequate equity balances – equity divided by total revenue; revenue concentration – the number of revenue sources and the extent of their dispersion; low administrative costs – administrative costs divided by total costs; and low or negative operating margins – revenue less expenditure divided by expenditure. Tuckman and Chang then divided each ratio into quintiles and classified charities in the lowest quintile as *at risk*; an organisation was considered at *severe risk* if it scored in the lowest quintile of all four ratios. Though their work was a logical and important contribution to a nascent literature, there were some limitations. Perhaps most significantly financial vulnerability was treated as a relative concept, whereas others argue that it might be better to adopt a stable threshold indicating financially distressed organisations (Dayson, 2013). The predictive power of the measures was also not tested in their sample. When their approach is considered in more general terms however, it is reasonable to conclude that revenue concentration, low or negative operating margins, and the level of debt are issues worth considering when assessing the financial vulnerability of a charitable organisation (Dayson, 2013).

Greenlee and Trussel (2000) contributed the next significant piece of research in this field, applying Tuckman and Chang's accounting ratios to a modified conceptualisation of financial vulnerability. They defined a charity as being financially vulnerable if it reduced program expenditures (as a proportion of total revenues) in each of three consecutive years. The results of their study found statistically significant associations between financial vulnerability and lower operating margins, higher revenue concentration and higher debt. Over the next few years the same authors expanded on this piece of work, adjusting the financial vulnerability indicators and including additional controls in their model; of particular relevance was the inclusion of organisation sector and size (operationalised as the natural log of net assets), both of which made a statistically significant contribution to the model (Trussel & Greenlee, 2004; Trussel, 2002). The work of Hager (2001) was also important in testing and refining Tuckman and Chang's four ratios, relating financial vulnerability to the organisational demise of US nonprofits working in the arts sector. He found that the predictive ability of the Tuckman and Chang indicators varied within this sector, with some of the measures accurately predicting the closure of some of the arts organisations. However, there are methodological limitations in his approach, in particular the conceptualisation of vulnerability. Arts organisations

were considered financially vulnerable if they were deemed to have ceased operations, which was measured as not submitting a Form 990 (the equivalent of the annual return required by OSCR) over a number of consecutive years. Not only does this imply that financial vulnerability is synonymous with organisational demise (and the associated cause and effect ambiguity this entails), Hager was also unable to confirm whether these organisations had truly failed or were better classed as non-reporting charities and thus should be treated as missing observations.

Building on these previous studies Keating, Fischer, Gordon and Greenlee (2005) developed new measures of financial vulnerability that accounted for limitations in the time period covered by their data. They operationalised financial vulnerability as four dichotomous measures, which capture "dramatic adverse shifts in financial health, all of which relate to the ability of a nonprofit organization to carry out its mission." (Keating et al., 2005, p. 11) The measures are as follows:

- Insolvency risk – A nonprofit is at risk of insolvency when its total liabilities exceed total assets.
- Financial disruption – A financially-disrupted nonprofit is defined as having experienced a 25 percent or greater decline in net assets during a 12-month period.
- Funding disruption – A nonprofit is defined as having its funding disrupted if it experiences a 25 percent or greater decline in total revenues during a 12-month period.
- Programme disruption – A programmatically-disrupted nonprofit is one that reduces programme expenditure by 25 percent or more during a 12-month period.

Using discrete hazard logistic regression – a form of event history analysis – they tested the predictive power of a range of financial vulnerability indicators including those implemented by Tuckman and Chang, Ohlson and Altman models. The authors found that neither model was particularly effective at predicting any of the financial vulnerability outcomes, though the Ohlson model consistently outperformed the others. As a response to the inadequacy of these models, Keating et al. developed an expanded model that incorporated additional explanatory variables such as commercial revenues and endowment sufficiency; this model improved the relative explanatory power for each measure. Describing the contribution of Tuckman and Chang (1991), Trussel (2002) and Keating et al. (2005), Dayson (2013, p. 25) posits that the findings of these studies "suggest that financial vulnerability particularly affects small organisations, those reliant on few sources of income and those that struggle to generate financial surpluses sufficient to designate unspent funds as unrestricted reserves."

In perhaps the most complete study in this field Gordon, Fischer, Greenlee and Keating (2013) built on their 2005 research by testing a raft of new financial vulnerability indicators, including financial ratios that the Internal Revenue Service (IRS) considers important for evaluating nonprofit effectiveness and efficiency. The study revealed substantial levels of financial vulnerability in the US nonprofit sector (relative to the for-profit and public sectors), though again each of the models tested

was inadequate for predicting financial distress in the coming year. To compensate, a new, parsimonious model was created containing just three indicators: two or more sequential years when expenses exceed revenues; high leverage (i.e. low levels of net assets relative to total assets); and low turnover of net assets (i.e. few net assets relative to total revenues). While not the most powerful model in predictive terms, it outperformed all bar one of the more detailed models.

Cordery, Sim and Baskerville (2013) examined the financial vulnerability of amateur sports clubs in New Zealand. The authors make several interesting contributions to this area of study, most notably their alteration of existing definitions of financial vulnerability. They developed predictive models for three measures of financial vulnerability: reduction in program expenditure during a four-year period; reduction in net assets during a four-year period; and reduction in net earnings/income during a four-year period. The predictive power of their fifteen explanatory factors (which included common measures such as revenue concentration, margin, total debt and also variables specific to their study) varied across each of the three models, as well as between different types of sports clubs (i.e. golf clubs and football clubs). Reflecting on future research in this area, Cordery et al. stressed the need to relate financial vulnerability measures and indicators to the outcome of organisational failure, in particular dissolution. A methodological issue with their study is the use of stepwise regression, a technique that includes explanatory variables based on their statistical significance level (often set at the $p<.05$ threshold); this approach resulted in some of the models having all of the explanatory variables removed by the algorithm as none were statistically significant. The selection of four-year time periods in which to measure the presence of financial vulnerability is also questionable, as such a long period of time may obscure financial difficulties that occur at shorter intervals. In one of the most recent examinations of the topic, de Andrés-Alonso et al. (2015) adopted a critical outlook of traditional measures and indicators of financial vulnerability in their study of UK non-governmental organisations (NGOs). In particular they highlight some significant measurement issues that should be accounted for or considered when examining this topic. For instance, the classification of a charity's revenue sources can alter the estimation of regression coefficients derived from income data, having implications also for substantive interpretation of the findings. The authors also note that much substantive detail and nuance is lost when applying and interpreting broad indicators, and researchers should seek to bring as much information to bear on the modelling process as possible. For example, not all donations are of the same type, frequency or scale.

There are also a number of studies that, while not directly addressing financial vulnerability, provide insight into key financial topics in the charity and voluntary sectors in the UK. Backus and Clifford (2013) examined the claim that large UK charities were becoming more dominant in terms of attracting a greater share of the distribution of income in the sector; that is, these organisations were growing at a faster pace than their smaller counterparts and securing a greater share of income growth over the period in question (1997-2008). Utilising a panel of charity data derived from administrative

records held by the Charity Commission for England & Wales (CCEW), Backus and Clifford approached the topic from a cross-sectional and longitudinal perspective. The former analysis revealed that large charities did not increase their share of the income distribution of the sector over the period, with stable or slightly declining levels of concentration instead. However, the longitudinal perspective (i.e. tracking same organisations over time) found that median relative growth rates for larger charities were higher than for smaller ones. A 2015 review by the National Council for Voluntary Organisations (NCVO) examined the impact of the global economic crisis on the financial sustainability of voluntary sector organisations in England. Covering the period 2007-2013, the review combined data from the NCVO Civil Society Almanac 2015 and a survey of 106 voluntary organisations. The review found that the sector's income stagnated over much of this period, with smaller organisations particularly vulnerable to reductions in their income; government funding in the form of grants was at an all-time low; and donations had recovered to their pre-recession levels. The state of the sector's expenditure and assets was also analysed: demand for services increased year-on-year, prompting organisations to reduce spending on administrative functions and training for staff; there is little recovery in the value of net assets compared to pre-recession levels; and, perhaps most troubling, organisations face considerable difficulties in rebuilding their reserves, having leveraged this resource to cover operational expenditure during periods of financial volatility.

UK charity regulators are also increasingly interested in broader financial risks in the sector, outside traditional concerns such as fraud. CCEW recently concluded a proactive examination of charities at risk of financial distress (CCEW, 2016). Combining annual return data and information gleaned from site visits to charities, the regulator identified ten organisations which showed signs that they may be at risk of financial distress. These organisations displayed one or more of the following risk factors: a concern was raised by an auditor; insolvency; inadequate levels of financial reserves; recent staff redundancies; downsizing premises; and negative pension funds. Though limited in scope (i.e. those organisations with annual gross income of £1m or more), the Commission's review unearthed a number of factors that they believe contributed to the financial issues in questions: a lack of financial information being provided to the trustees by staff and a failure by the trustees to obtain this information; failure to maintain adequate accounting records; trustees not meeting on a regular basis to take decisions collectively; a lack of financial planning; and a failure to critically review income generation methods. In Scotland, OSCR considers a wider set of risk factors it believes are associated with financial vulnerability. The regulator implements a financial exceptions monitoring regime, where the focus is on establishing standards and identifying vulnerabilities (e.g. errors, transgressions and risks) in a charity's financial profile; this regime was analysed in Chapter Five.

This study seeks to address some of the gaps in the charity financial vulnerability literature and in doing so the chapter makes three key contributions. First, using novel data, we expand the statistical evidence base by providing rich, longitudinal description of the extent and persistence of financial

vulnerability. These aspects have been overlooked in the literature, either in an understandable rush to develop explanatory models or due to limitations in the data. Second, we develop one of the first large-scale analyses of this topic in the UK context, echoing Dayson's (2013) call to produce statistical models that are both context specific and build on previous research (see also Clifford & Mohan, 2016, for the need to address the paucity of evidence on the financial profile of the UK charity sector). Extant research is often characterised by a focus on subsectors, prompting calls for wider applications of financial vulnerability measures (Tevel, Katz, & Brock, 2015). As Hager (2001, p. 390) attests when reflecting on his work on the arts sector:

> Application of the measures to arts organizations uncovered variability in how well they predict organizational demise. Future research should expand the application to human service, health, educational, and other types of nonprofit organizations to determine the usefulness of the measures in other nonprofit industries.

Third, this study assesses the utility of financial vulnerability measures to predict negative outcomes in the charity sector such as organisational demise, public complaints and regulatory action. It is plausible that financially vulnerable charities are more likely to experience negative organisational outcomes, in particular dissolution, but there is a lack of empirical evidence underpinning this assumption. For instance, many of the studies in this field employ financial vulnerability or stability measures as dependent variables but neglect to assess more important outcomes as a function of financial indicators (Kim, 2016).

6.3. Method

This study overcomes many of the limitations outlined previously by linking two of our administrative data resources to provide a panel dataset of 21,642 observations on 5,714 charities over the period 2007-2013: Annual Returns data and Investigations data. Some additional data management work was conducted to ensure these linked data were suitable for analysing the topic at hand. For instance, a limitation of the Annual Returns data is that detailed financial breakdowns are only available for a subset of the sector: therefore, we only include charities that are required to complete the supplemental monitoring form and have an annual gross income of £250,000 (£100,000 prior to 2012). Table 6.1 summarises the sample selection process.

Table 6.1. Charity financial vulnerability dataset: sample selection process

Sample selection	Observations
Initial sample (Annual Returns data)	155,416 (28,093 charities)
Removal of observations that did not provide a detailed financial breakdown in the supplementary monitoring form in a particular year – those with annual gross income less than £250,000 (£100,000 prior to 2012)	129,708
Removal of observations not included in analysis period	4,066
Final sample	21,642 (5,714 charities)

Note: the final sample size presented in this table is used for the descriptive analyses; the inferential analyses necessitate further reductions in the sample size due to the removal of observations which have missing values for any of the independent variables included in the statistical models.

Contributing to the literature on charity financial vulnerability we address three research questions:

1. What is the nature and extent of financial vulnerability in the Scottish charity sector?
2. What factors are associated with being financially vulnerable?
3. Is financial vulnerability linked to other key outcomes in the sector such as organisational demise or regulatory investigation?

Table 6.2 provides descriptive statistics on detailed financial (i.e. information collected in the detailed financial breakdown section of the annual return) and demographic measures for our sample. These figures reveal that the sample is highly skewed: it appears that a small number of charities have a disproportionate influence on the calculation of the mean. The median organisation does not receive any income from government funding or trading activities, spends £242,352 on conducting its charitable activities and £4,314 on governance costs, has £137,913 in unrestricted funds (reserves), and has been in existence for 19 years. In contrast the mean charity receives £1,067,387 and £140,436 in income from government funding and trading activities respectively, spends £2,128,081 on conducting its charitable activities and £17,593 on governance costs, has £2,133,731 in unrestricted funds (reserves), and has been in existence for 28 years.

Table 6.2. Charity financial vulnerability dataset: sample characteristics

Variable	N	Mean	S.D.	Median	5th Percentile	95th Percentile
donations income	17,337	303,330	1,758,403	51,162	0	905,000
interest and investment income	17,337	84,913	1,017,957	1,521	0	219,067
government income	17,337	1,067,387	8,627,845	0	0	2,305,431
trading income	17,337	140,436	937,928	0	0	487,074
charitable activity income	17,337	892,386	7,447,578	14,815	0	2,605,605
other income	17,337	123,510	1,738,476	0	0	173,607
total income	17,335	2,609,402	17,970,109	335,360	111,004	9,397,239
total income(log)	17,335	13	1	13	12	16
voluntary funds costs	17,337	39,646	297,892	0	0	136,263
other funds costs	17,337	37,830	728,479	0	0	29,000
trading costs	17,337	124,864	1,313,264	0	0	354,199
charitable activity costs	17,337	2,128,081	16,612,051	242,352	0	6,824,000
grants and donations costs	17,337	117,496	1,197,853	0	0	273,918
governance costs	17,337	17,593	73,997	4,314	0	63,105
other costs	17,337	34,493	760,043	0	0	25,778
total costs	17,350	2,497,510	17,446,362	312,036	89,412	8,944,092
total costs(log)	17,350	13	1	13	11	16
net current assets	17,352	636,401	6,034,842	109,679	(39,838)	2,257,393
unrestricted funds	17,355	2,133,731	18,443,350	137,913	0	6,966,242
charity age	21,641	28	27	19	5	95

The sample generated for this research has some limitations. Observations only apply to charities that meet a specified income threshold and thus some occurrences of financial vulnerability are not included in the analysis: for example, it is highly likely that some smaller charities are experiencing one or more of our measures of financial vulnerability. However, we can only calculate one of these measures (i.e. funding disruption) for charities with annual gross income less than £250,000 due to limitations in the data. As is clear from Table 6.2, missing data are an issue with this dataset. There are circa 4000 observations with missing values for the majority of our financial variables and these are distributed evenly across the time period: there are about 700 charities per year with missing data, of which slightly over 50 percent are missing data for every year. It appears that this property of the

data is accounted for by the type of charity: organisations listed as Cross Border or Registered Social Landlords have missing values for the detailed financial measures presented in Table 6.2. This is due to efforts by OSCR to reduce the regulatory burden of these charities; for instance, Cross Border charities do not complete the supplementary monitoring return and instead submit an information return. Despite the lack of detailed financial information for these organisations, it is still possible to capture whether they are financially vulnerable using some of our measures (i.e. reduction in annual gross income) and thus they are included in the sample.

6.3.1. Dependent and independent variables

Financial vulnerability is operationalised in the same manner as Keating et al. (2005) and Gordon et al. (2013); this is theorised as being the most appropriate for the UK context (Dayson, 2013). Adopting these measures also provides the platform for replication studies to confirm the external validity of previous findings (Helmig, Spraul & Tremp, 2012). We derive an additional dependent variable in the form of a binary indicator that takes the value one when a charity experiences any of the four financial vulnerabilities and zero otherwise (see Table 6.3 below).

Table 6.3. Financial Vulnerability: dependent variables

Factor	Variable	Operationalisation
Financial vulnerability	Funding risk	A charity is defined as having its funding disrupted if it experiences a 25 percent or greater decline in total revenues during a 12-month period. 1 = Charity experienced reduction in funding 0 = Charity did not experience reduction in funding
	Financial risk	A financially-disrupted charity is defined as having experienced a 25 percent or greater decline in net assets during a 12-month period. 1 = Charity experienced reduction in net assets 0 = Charity did not experience reduction in net assets
	Programme risk	A programmatically-disrupted charity is one that reduces charitable activity expenditure by 25 percent or more during a 12-month period. 1 = Charity experienced reduction in charitable activity expenditure 0 = Charity did not experience reduction in charitable activity expenditure
	Insolvency risk	A charity is at risk of insolvency when its total liabilities exceed total assets. 1 = Charity has negative net assets 0 = Charity has net assets of zero or more
	Financial vulnerability	A charity is defined as financially vulnerable if experiences any of the other vulnerabilities. 1 = Charity experienced any of the four vulnerabilities 0 = Charity did not experience any of the four vulnerabilities

For the statistical modelling conducted in section *6.4.2. Modelling the risk of financial vulnerability* we utilise a subset of the sample, including only a cross section of observations for the most recent year in the time period (2013). Though it is possible to apply other modelling approaches that leverage the longitudinal nature of the dataset (e.g. random or fixed effects logistic models), focusing on predicting financial vulnerability for one year reduces the amount of missing data in the model and

allows for easier interpretation of some of the explanatory factors (e.g. lagged variables). We still include data from previous years in our analysis through the use of lagged financial variables (see Table 6.5). Table 6.4 outlines the sample selection process.

Table 6.4. Charity financial vulnerability modelling dataset: sample selection process

Sample selection	Observations
Initial sample	21,642 (5,714 charities)
Removal of observations not included in analysis period	18,989
Removal of observations with missing or invalid values for the independent variables (e.g. charities with a ratio of net assets to total assets greater than one)	1,371
Final sample	1,282 (1,282 charities)

In line with the work of Dayson (2013) and Cordery et al. (2013), some of the independent variables, particularly the organisational characteristics, will be specific to the Scottish charity sector; that is, those contained in the administrative data (e.g. the control variables utilised in the previous chapter). The selection of a small number of financial indicators of vulnerability is consistent with the empirical conclusions of the work of Keating et al. (2005) and Gordon et al. (2013). The latter suggest three simple indicators for predicting insolvency: two or more sequential years of making a loss; high leverage (i.e. low levels of net assets relative to total assets); and low turnover of net assets (i.e. few net assets relative to total income). Drawing on the reviewed literature, we operationalise eleven independent variables for the statistical models: five organisational and six financial (see Table 6.5).

Table 6.5. Financial vulnerability: conceptual framework

Factor	Variable	Operationalisation
Financial	Concentration	Revenue concentration of a charity. Herfindahl-Hirschman index (HHI) on a scale of 0 – 1; 0 is more concentrated, 1 is less. It is calculated by squaring the sum of the number of revenue sources of a charity.
	Leverage	Ratio of net assets to total assets.
	Turnover	Ratio of net assets to annual gross income.
	Loss	1 = Charity generated a loss in 2011 and 2012 0 = Charity did not generate a loss in 2011 and 2012
	Unrestricted funds	Natural log of the amount of unrestricted funds (i.e. reserves) held by a charity.
	Lagged financial vulnerability	1 = Charity experienced financial vulnerability in 2012 (i.e. the previous year) 0 = Charity did not experience financial vulnerability in 2012
Organisational	Size	Natural log of annual gross income.
	Age	Natural log of the number of years a charity has existed as an organisation.
	Field	International Classification of Non-profit Organisations (e.g. Social Services). Nominal variable with twelve categories
	Geography	Geographical scope of a charity's operations (e.g. Local). Nominal variable with eight categories.
	Form	Constitutional form of a charity (e.g. Trust). Nominal variable with nine categories.

6.4. Results

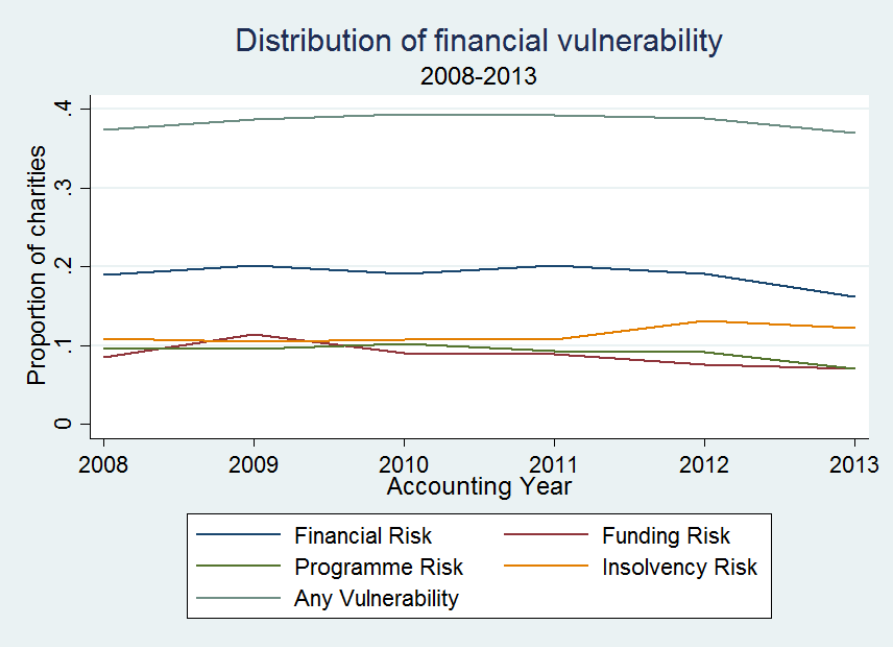
Over 76 percent of charities (39 percent of observations of charities) in the sample experienced at least one of the four financial vulnerability measures over the period 2008-2013; this tentatively

suggests that vulnerability is common in the sector though not a frequent occurrence for the majority of charities, hence the disparity in the percentages. For organisations that experience vulnerability, it is likely that they will trigger more than one over the whole period: the mean number is 4 (SD=2.31) and the median is 3. However, charities that do experience financial vulnerability tend to trigger only a small number per annum: the mean number of vulnerabilities is 1 (SD=.57) and the median is 1.

6.4.1. Trends over time

Figure 6.1 displays the distribution of the proportion of charities that experienced each type of financial vulnerability over the study period; observations with missing values for each of the variables are excluded and thus the true percentage of charities that are financially vulnerable is likely different to those reported here.[22] Vulnerabilities are fairly common for any year and the period as a whole, with almost forty percent of charities experiencing some sort of financial vulnerability in any particular year. In terms of the specific risks, a decrease in net assets is the most common, followed by instances of insolvency. The proportion of charities experiencing each type of vulnerability does not vary substantially over time or from the average for the whole period (gamma <= .10, p<.001). Exploring variation over time is somewhat hampered by the extent of missing data for each variable – see Table A6.1 in the appendices for the extent of missing observations for each of these variables over time.

Figure 6.1. Distribution of financial vulnerability 2008-2013



Note: Figures above exclude observations with missing values for each of the variables in question.

We now focus on investigating the recurrence and persistence of financial vulnerabilities over time. Table 6.6 presents the distribution of the number of times a charity experienced each financial vulnerability, only for those organisations that experienced the respective outcome at least once. The results suggest that there is some degree of repetition. Examining our overall measure of financial vulnerability we see that a majority of charities experience this outcome two or more times in the time period. This finding may be ascribed to a similar pattern in the prevalence of insolvency risk, where 25 percent of charities experience this outcome four or more times. Financial disruption to annual gross income and expenditure on charitable activities is likely to occur only once in the time period.

Table 6.6. Distribution of the number of instances of financial vulnerability

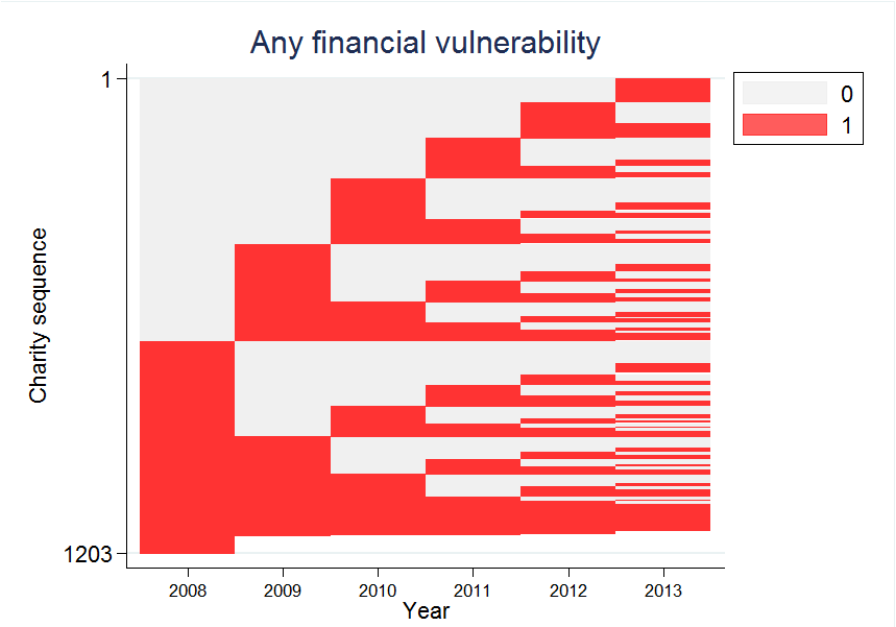
					% of charities
Number of instances	Funding risk	Financial risk	Programme risk	Insolvency risk	Any financial vulnerability
1	77	59	78	42	41
2	21	30	19	20	28
3	2	9	3	12	16

4	0	2	0	10	8
5	-	0	-	6	4
6	-	-	-	9	3
7	-	-	-	-	-
Total	100 (n=6,133)	100 (n= 9,383)	100 (n= 5,398)	100 (n=3,771)	100 (n= 13,851)

Note: Percentages rounded to the nearest integer and thus columns may not sum to 100. *N* varies across the variables due to differences in the number of observations experiencing each vulnerability.

The perspective offered by repeated cross-sectional analysis is limited however as it does not enable us to track changes in specific vulnerabilities or the number of vulnerabilities for individual charities over time. In order to examine persistence and transitions we examine only those charities that submitted an annual return for each year (n=1,598, 28 percent of all charities in the sample).[23] Figure 6.2 below displays the results of a sequence analysis for our overall measure of financial vulnerability (see Figures A6.1 – A6.4 in the appendices for similar plots for the specific types of financial vulnerability). To make the sequences clearer, we include only charities that have experienced this outcome at least once (roughly 38 percent of the sample). The figure shows that a very small proportion of charities repeatedly experience financial vulnerability (about one percent of the balanced sample) – as evidenced by a continuous red/dark line across every time period – and sequences are somewhat turbulent (i.e. varying between states over time).

Figure 6.1. Sequence index plot of financial vulnerability



Note: The Y axis represents the individual sequences of the 1,203 charities that experienced financial vulnerability at least once and is ordered by vulnerability status in 2008.

Examining the transition matrices for these exception groups also reveals a lack of dependency in experiencing most types of financial vulnerabilities. As Table 6.7 demonstrates, charities are most likely to transition to not experiencing funding, financial and programme disruption in the next financial year, regardless of whether they are currently experiencing these outcomes. However, insolvency risk and financial vulnerability overall are likely to persist into the next time period. In conclusion, it appears that a very small minority of charities repeatedly experience financial vulnerability and there is little evidence of path dependency, with the exception of insolvency risk. The posited determinants of triggering accountability concerns are modelled in the next section.

Table 6.7. Probability of transitioning to experiencing financial vulnerability

	Probability of experiencing vulnerability at *t+1* (%)				
Experienced vulnerability at *t*	Funding risk	Financial risk	Programme risk	Insolvency risk	Any financial vulnerability
No	.27	.29	.26	.26	.35
Yes	.10	.25	.11	.69	.51

Note: Probabilities rounded to two significant figures; rows and columns are not meant to sum to 1. Only charities that experienced each financial vulnerability at least once are included in the table.

6.4.2. Modelling the risk of financial vulnerability

Our attention now focuses on modelling the risk of being financially vulnerable in 2013 using all five of our measures. Table 6.8 below presents the incidences of financial vulnerability in our modelling dataset. Calculating Pearson's r correlations for the different types of financial vulnerability reveals that funding risk is associated with programme risk (Pearson's r=.2102, p<.001) and financial risk (Pearson's r=.1861, p<.001).

Table 6.8. Distribution of financial vulnerability in 2013 dataset

	% of charities
Vulnerability	2013
Funding	6
Financial	15
Programme	7
Insolvency	7
Any vulnerability	29
More than one vulnerability	6

Note: Percentages rounded to the nearest whole number. Based on 1,282 charities for the year 2013 for which we have no missing data for any of the independent variables utilised in the statistical models.

Before discussing the results of the multivariate analysis, Table 6.9 contains descriptive statistics for the independent variables included in our main model – experiencing any financial vulnerability (Tables A6.2 – A6.5 in the appendices contain descriptive statistics for the other four dependent variables). The typical vulnerable charity appears to be slightly younger and smaller, have lower levels of net assets relative to total assets, fewer reserves, more likely to have made a loss in the previous two financial years, and considerably more likely to have experienced financial vulnerability in the preceding year. The presence of multicollinearity among the independent variables was

examined for each model by calculating the variance inflation factors (VIF). For all five models, the VIF for each independent variable is less than 1.5 and the mean VIF is less than 1.2, below the thresholds at which Allison (1999) suggests multicollinearity is problematic.

Table 6.9. Descriptive statistics for the outcome of financial vulnerability

	Not vulnerable (n=908)		Vulnerable (n=374)		Whole sample (n=1,282)	
Variable	M	SD	M	SD	M	SD
Age (log)	3.24	.68	3.13	.66	3.21	.67
Size (log)	13.85	1.30	13.72	1.11	13.81	1.25
Concentration	.30	.22	.30	.22	.30	.22
Leverage	.59	.36	.51	.39	.57	.37
Turnover	.48	.61	.46	1.01	.47	.75
Unrestricted funds	13.10	1.94	12.75	2.10	13.00	2.00
Loss	.17	.38	.21	.41	.19	.39
Lagged financial vulnerability	.23	.42	.48	.50	.30	.46
Operate locally or overseas (%)	14	-	16	-	15	-
Social services (%)	31	-	22	-	28	-
Company (%)	70	-	68	-	69	-

Note: Percentages rounded to the nearest whole number. Leverage, Turnover and Unrestricted funds are ratios. Only selected categories from the control variables are included for the purpose of brevity.

We model the probability of financial vulnerability using binary logistic regression as a function of organisation size, age, revenue concentration, net asset leverage and turnover, level of reserves, whether the charity made a loss in each of the previous two years (2011 and 2012), previous financial vulnerability status, institutional form, field of operations and geographical base. We report log odds and robust standard errors for each of the models, plus confidence intervals and a range of model fit statistics for our main model in Table A6.6 as per the guidance of Connolly et al. (2016).[24] The category with the most observations is chosen as the base category for each control variable. Table 6.9 below presents the results of the statistical modelling.

We first examine the effects of organisation age and size on the outcomes. The coefficient for age is consistent across the five outcomes (with the exception of programme risk): a one-unit increase in the

log of age results in a decrease in the logs odds of being financially vulnerable. However the effect is only statistically significant for financial risk and insolvency risk. The effect of size varies in magnitude, sign and significance across the different outcomes. Large charities have higher, statistically significant log odds of experiencing insolvency while the opposite is the case for experiencing a decrease in annual gross income.

Next we examine the effects of the remaining independent variables. With the exception of funding disruption, it appears that charities with more diverse sources of revenue have lower odds of being financially vulnerable; however, none of the coefficients are statistically significant, even in the insolvency risk model where all of the other main effects are. For three of our models, the effect of leverage is consistent with the claim of Gordon et al. (2013): charities with low leverage (i.e. high levels of net assets relative to total assets) have decreased log odds of experiencing financial vulnerability. Perhaps curiously, the opposite is the case for insolvency risk, where charities with low leverage are more likely to experience this type of vulnerability. The effect of turnover is more predictable with respect to this outcome. Charities with low turnover (i.e. low levels of net assets relative to annual gross income) are posited as being more likely to experience insolvency. The coefficient is consistent with this claim, with higher levels of turnover associated with lower, statistically significant log odds of experiencing insolvency.

Higher levels of reserves are associated with decreased log odds of experiencing financial vulnerability, financial risk and insolvency risk; the opposite is the case for funding risk and programme risk. There is a similar degree of variability in the effect of loss across the models. Charities with two sequential years when expenditure exceeded income have lower odds of experiencing insolvency (statistically significant), decreases in funding or net assets; however, they have higher odds for vulnerability in general and reducing spending on charitable activities. Finally, with the exception of financial risk, the effect of experiencing vulnerability in the preceding year is consistent; these charities have higher odds of being financially vulnerable.[25]

Table 6.9. Results of Logistic Regression on Financial Vulnerability Outcomes

	Financial Vulnerability (main)	Funding Risk	Financial Risk	Programme Risk	Insolvency Risk
	Log odds (robust SE)	Log odds (robust SE)	Log odds (robust SE)	Log odds (robust SE)	Log odds (robust SE)
Age	-.20 (.11)	-.03 (.19)	-.33 (.14)*	.13 (.20)	-.62 (.30)*
Size	.01 (.08)	-.37 (.18)*	-.16 (.11)	-.30 (.16)	.54 (.16)**
Concentration	-.17 (.32)	1.14 (.63)	-.01 (.40)	-.98 (.58)	-.10 (.71)
Leverage	-1.12 (.24)***	-1.11 (.53)*	-2.06 (.31)***	.03 (.44)	3.23 (.56)***
Turnover	.10 (.09)	.91 (.30)**	-.29 (.48)	.08 (.12)	-9.55 (2.34)***
Unrestricted funds	-.16 (.06)**	.07 (.12)	-.14 (.08)	.17 (.11)	-.32 (.10)**
Loss	.03 (.17)	-.57 (.38)	-.06 (.21)	.40 (.26)	-.98 (.45)*
Lagged financial vulnerability	.97 (.14)***	.39 (.29)	-.00 (.19)	1.15 (.24)***	1.68 (.38)***
Controls	Yes	Yes	Yes	Yes	Yes
Observations	1,282	1,117	1,282	1,274	1,193
Cragg and Uhler's R^2	.14	.23	.14	.14	.55
Log-likelihood	-705.70	-234.08	-495.11	-299.84	-163.35
LR test (X^2)	136.47***	107.80***	106.37***	76.29***	301.45***

Note: Figures rounded to two decimal places. Constant is omitted. Additional independent variables included in the models but not reported above include Field, Form and Geography. Sample sizes are uneven across the models due to the effect of including controls for certain outcomes; there is perfect

prediction of the outcome for certain categories of these variables e.g. no Education Endowment charities experienced the funding risk outcome. *p < .05. **p < .01. ***p < .001.

6.4.3. Regression diagnostics and goodness of fit

The main model is subjected to a number of diagnostic and goodness-of-fit tests in order to examine their degree of fit with the data. We examine the influence of outliers on the estimation of the regression coefficients in Figures A6.5 and A6.6 in the appendices. The plots show there are very few instances where predicted and observed outcomes differ substantially, and that there are no cases having an undue influence on the estimation of model coefficients. Therefore we can conclude that outliers, although existing in the data, do not need to be removed from the statistical models.

We now turn our attention to the various tests that can help us determine whether our models are a good fit for the data. Depending on the model fit summary statistic chosen, the proportion of variance explained by the model ranges from .04 to .14; this indicates that there is a substantial proportion of the variance unaccounted for by the model and unlikely to be the result of stochastic influences. The simplest test of model fit is to compare the difference in the mean predicted probability of experiencing financial vulnerability or not. There is a moderate difference in the mean and median predicted probabilities for these outcomes: charities that experienced vulnerability had higher probabilities of 10 percentage points for each measure. Next, we conduct the Hosmer-Lemeshow goodness-of-fit test (see equivalent section in Chapter Four for a description of this test). The results of this test indicate that the null hypothesis cannot be rejected (Hosmer-Lemeshow X^2=15.22, p>.05) and that the model is a good fit for the data. The model tends to slightly overestimate the number of expected cases for all but the lowest and highest groups (see Table 6.10 below). Readers should note that the use of deciles – though standard for this test – is arbitrary and model fit could vary depending on changes to the number of quantiles chosen.

Table 6.10. Hosmer-Lemeshow goodness-of-fit table for being investigated

		Financially vulnerable		Not financially vulnerable		
Decile	Probability	Actual	Expected	Actual	Expected	Total
1	.1381	5	15.4	124	113.6	129
2	.1617	21	19.2	107	108.8	128
3	.1912	23	22.6	105	105.4	128
4	.2196	30	26.4	98	101.6	128
5	.2481	34	29.9	94	98.1	128
6	.2868	31	34.2	98	94.8	129
7	.3420	48	40.0	80	88.0	128
8	.4154	54	48.1	74	79.9	128
9	.5251	53	59.8	75	68.2	128
10	.8767	75	78.5	53	49.5	128

6.4.4. Predicted probabilities

The mean predicted probability – expressed in percentage form – of being financially vulnerable is 29 percent and the median 25 percent, closely matching the true proportion of vulnerable charities (31 percent); the minimum and maximum values are eight percent and 88 percent respectively. Figures 6.2 and 6.3 display the distribution of predicted probabilities across two independent variables: charity size and age. There appears to be a slight linear association between each of these variables and the predicted probability of being vulnerable: older, bigger charities are less likely to experience this outcome than their younger, smaller peers.

Figure 6.2. Distribution of predicted probabilities for being financially vulnerable, by charity size

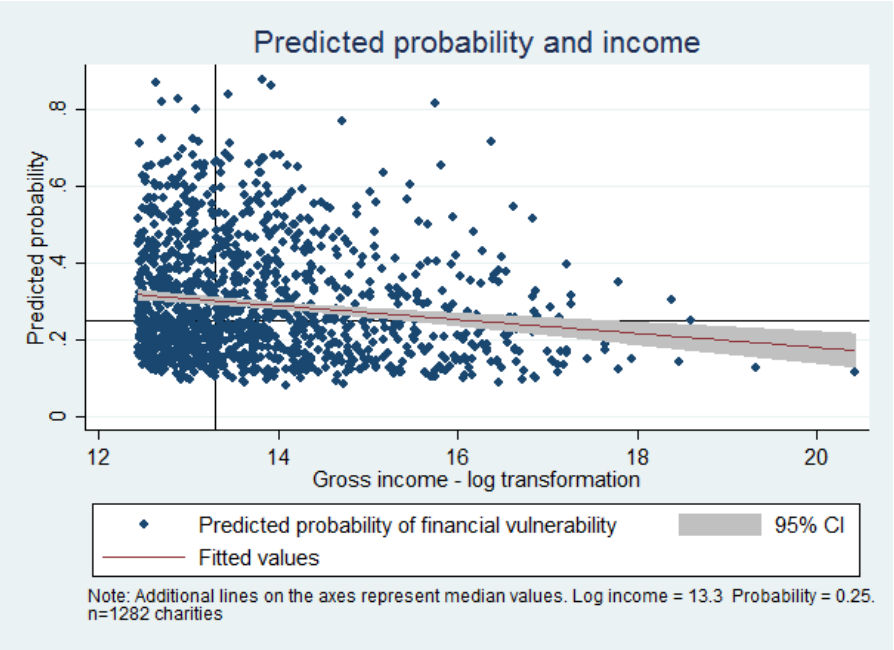
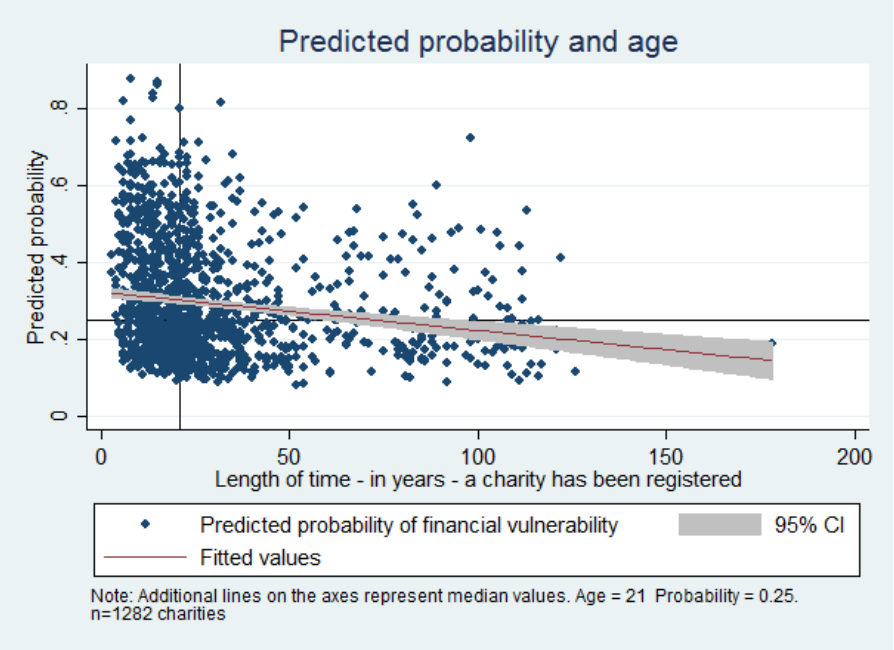


Figure 6.3. Distribution of predicted probabilities for being financially vulnerable, by charity age



6.4.5. Outcomes of financial vulnerability

The analysis concludes with an assessment of the association between financial vulnerability and a suite of negative outcomes in the sector: late submission of annual returns and accounts; complaint about the conduct of an organisation; regulatory action arising as a result of a complaint; and removal from the Charity Register.[26] Utilising the full sample (not the modelling dataset), Table 6.11 below presents the higher-order correlations between each measure of vulnerability and the four outcomes described above, controlling for the independent variables utilised in the regression models.[27] The results show that financial vulnerability is not associated with any of the outcomes, with the correlations below the threshold at which they are typically considered weak (Pearson's r <= 0.1). This is especially surprising for charities that experience insolvency, as it is plausible that this is associated with organisational demise. In sum, though financial vulnerability is an undesirable state, in general it does not seem to lead to other, arguably more serious organisational outcomes.

Table 6.11. Correlation between vulnerabilities and negative outcomes

Vulnerability	Late submission	Complaint	Regulatory action	Removal from Scottish Charity Register
Funding disruption	.03*	-.01	.01	.03*
Financial disruption	.05*	.01	.01	.05*
Programme disruption	.04***	-.01	.01	.04*
Insolvency	.06*	.02*	.00	.07*
Any financial vulnerability	.08*	.01	.02*	.06*

Note: Pearson's r correlations are reported as they allow for the control of other variables in calculating correlation coefficients; similarly low coefficients are produced using alternative techniques such as Cramer's V and phi. Figures rounded to two decimal places. *p < .05. **p < .01. ***p < .001.

6.5. Discussion and Conclusion

This chapter has investigated the nature, extent, risk factors and outcomes of financial vulnerability in the Scottish charity sector. The financial health of a charity is an issue that is foremost in the minds of the public when determining their confidence in the organisation and the sector as a whole. The ability to identify which charities "may become financially vulnerable is also important to government regulatory agencies when setting accountability and disclosure policies, external accountants when determining the risk inherent in an audit, foundations when distributing and monitoring grants, and management during the strategic planning process." (Keating et al., 2005, p. 2) However, the absence of any statistical association between our measures of financial vulnerability and tangible outcomes such as dissolution and regulatory action raises questions about the intense focus on this issue and whether we are measuring vulnerability correctly.

This research contributes to the burgeoning charity financial vulnerability literature, and the wider study of financial issues in the sector, in a number of important ways. First, by describing patterns in the occurrence and persistence of different types of vulnerability the study makes a contribution to the evidence base from the under-researched UK perspective. The proportion of charities experiencing financial vulnerability is consistent across the study period and a significant minority of organisations experience this outcome more than once. However, the longitudinal perspective reveals that only a very small proportion of charities consistently experience vulnerability and that, for most of our measures, organisations are most likely to transition to not experiencing financial vulnerability in the next financial year. This suggests that the financial vulnerability – at least as defined by our measures

– is an inherent feature of the sector, where it most likely occurs once but fails to persist over time for individual organisations (at least for the sample of large charities in this study). The multivariate statistical modelling highlights the salience of core institutional factors in understanding the locus of financial vulnerability in the charity sector. It appears that the likelihood of experiencing vulnerability decreases with organisation age and increases if a charity experiences any type of financial vulnerability in the previous year. However, the magnitude, direction and statistical significance of the effects are contingent on the measure of financial vulnerability that is being modelled. For example, size is not associated with experiencing our overall measure of financial vulnerability but larger organisations are significantly more likely to experience insolvency and less likely to experience a drop in funding. Examining our findings in the context of Dayson's (2013) analysis of the literature – that financial vulnerability particularly affects small organisations, those reliant on few sources of income and those that struggle to generate financial surpluses sufficient to designate unspent funds as unrestricted reserves – we see no statistically significant effect of the benefits of revenue diversification and unrestricted reserves (with the exception of insolvency risk), and some confirmation for the role of size, though this is dependent on the measure of vulnerability.

Perhaps more so than other analyses in this thesis, methodological and data limitations must be acknowledged. First, the choice of dependent variables, though grounded in the literature, raises questions about measurement validity. For instance, is it reasonable or correct to say that a 25 percent reduction in annual gross income constitutes being vulnerable? It is plausible that this outcome is of genuine concern to a charity in one year and not in another, raising the issue of uncontextualised and absolute measures that bear no relation to the material impact of said vulnerability. This a salient issue in light of the absence of an association between vulnerability and other outcomes. Perhaps the measures employed in this analysis are better served as independent variables in a statistical model predicting a more empirically valid measure of financial vulnerability (e.g. ratio of reserves to annual expenditure). Second, the administrative data utilised in this research contains structural issues that impact the generalisability of the findings, in particular the extent of and invalid missing values for some of our independent variables (e.g. observations with negative net assets or the lack of detailed financial information for certain types of charities). Third, data on the financial profile of charities is collected at fixed intervals, potentially masking the development and specific occurrences of vulnerability that occur throughout a financial year. Part of this issue is the fixed intervals at which charities report this information, masking fluctuations in the financial stability of the organisation. For example, a charity may be in a precarious financial position for most of its financial year, only securing funding at the eleventh hour; however, their record in the administrative data will not capture this uncertainty and instability. Finally, the statistical models examined our measures of financial vulnerability for one calendar year; that is, all charities with an accounting year-end date that fell in 2013. Other modelling approaches that leverage the longitudinal nature of the data have been

employed, most notably by Keating et al. (2005) and Gordon et al. (2013). In the context of the data issues discussed throughout this chapter, we felt it unwise to employ random effects, fixed effects or discrete hazard modelling approaches as these would compound said issues.

Financial vulnerability is a common, persistent feature of the Scottish charity sector and one deserving of academic, regulatory and public scrutiny. This research shows that predicting vulnerability using administrative data is a difficult task, with the relevance of indicators contingent on the type of financial vulnerability measure. Though it would be churlish to say that the occurrence of any type of financial vulnerability is not a cause for concern, especially without greater context or information on the organisation in question, it is clear that most charities are resilient in the face of this issue, as evidenced by an absence of association between experiencing vulnerability and negative organisational outcomes like dissolution.

Chapter Four elucidated the concerns and regulatory responses arising from OSCR's reactive programme of monitoring and intervention. Chapter Five switched focus to the regulator's proactive attempts to identify and manage financial exceptions. This chapter extended the examination of financial concerns by demonstrating the limited potential of adopting standard measures (as defined in the academic literature) to study financial vulnerability. Though comprehensive in its coverage, employing administrative data offers only a partial account of the nature and prevalence of risk in the charity sector. The next chapter outlines what can be learned about this topic from speaking to the charities themselves.

Chapter Seven – Understanding of Risk by Charities

7.1. Introduction

In relation to the contextual framework guiding this study (see Figure 2.1), we continue to focus on the Organisation level, but now examine charities' own conceptualisation and identification of risk. Among other topics, we explore the prevalence of the use of risk management frameworks by charities, in particular whether they add value at a strategic level and/or help demonstrate accountability to a variety of stakeholders (Herman et al., 2004; Young, 2009); the findings from this analysis will help us understand the 'boundary work' of charities with respect to risk (Gieryn, 1999). We also analyse specific significant risks, as defined by charities themselves, and whether they overlap with the types of issues uncovered in the previous empirical chapters. Finally, through the case studies we consider macro-level issues that are germane to studying risk in the sector, in particular accountability and regulation. The rest of the introduction establishes the context of the empirical work contained in this chapter.

The MHA report *10 Current Issues facing the Charity and Not for Profit Sector* contends that 2015 was a year of significant failures in terms of fundraising and governance, and argues that the sector needs to "work hard to regain public confidence and demonstrate that stand alone [sic] high profile cases are not the standard, and that overall the sector is significantly achieving its aims and objectives, despite the financial challenges most face." (MHA, 2016, p. 1) The report highlights risk management best practice as one of the ten issues facing UK charities. The Charities Statement of Recommended Practice (SORP) – the reporting requirements that guide and govern UK and Irish charities' preparation of annual accounts – recommends that larger charities should provide "a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks." (Charity Commission and Office of the Scottish Charity Regulator, n.d.).

Research on the conceptualisation and behaviour of charities with respect to risk is scarce and tends to be conducted by non-academic organisations such as insurers and infrastructure bodies; these studies are invariably focused on financial risk though coverage does extend to other types. A 2015 study by Zurich explored attitudes and approaches to risk in the UK voluntary (charity) sector. The survey sample consisted of 142 responses from senior decision-makers from mainly large organisations (annual gross income greater than £500,000) across a range of fields. The findings were broadly consistent across the different types of risks examined: with the exception of cyber fraud and reputational risks, a majority of charities felt confident in their ability to deal with risk and did not consider any of the risks to be significant to their organisation.[28] A slight majority of respondents indicated that they did not alter their risk management behaviour from the previous year; when asked to consider the challenges associated with risk management, over 60 percent highlighted time as a

significant barrier. A conceptual paper by Charity Finance Group (CFG) and Sayer Vincent LLP implores charities to view risk management as an integral component of management, and to realise that risk management "is not about avoiding risk – it is about taking risks, but in a managed way. It is the duty of charity trustees and staff to make sure that they do this effectively and in the best interests of their beneficiaries", a theme echoed by the Zurich research also (CFG & Sayer Vincent LLP, 2016, p. 59).

This chapter provides a contrast to the previous empirical work in this thesis by shifting the focus to charities' own understanding and identification of significant risks; in doing so we provide a much needed up-to-date and empirically robust account of this phenomenon. The chapter is structured as follows. We present the results of the survey analysis, followed by a deeper exploration of three survey respondents through analysis of semi-structured interviews and other sources of data. We conclude with a discussion of the implications of our findings, and how they relate both to other studies and the empirical analyses in this thesis.

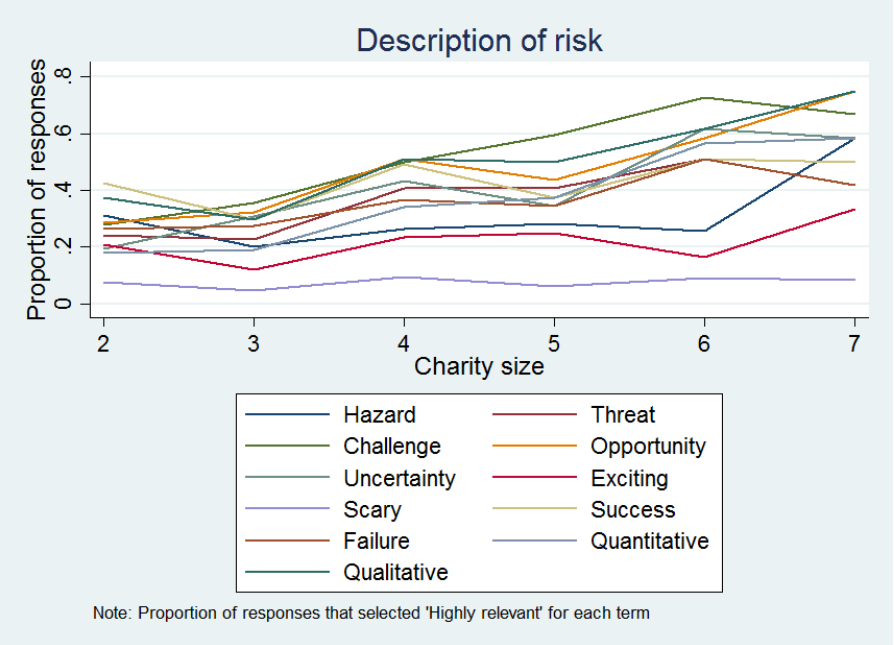
7.2. Survey Results

As outlined in Chapter Three, the survey sample consists of 420 responses from Scottish charities, a response rate of 10.2 percent of the sampling frame; this accounts for roughly 1.8 percent of the population of active Scottish charities at the time. Most respondents stated that their role in the charity was as a trustee (55 percent), with a further 32 percent identifying as members of senior management. Other roles identified by respondents include finance convenor, treasurer, chairman, freelancer, committee member, deacon, support freelancer and secretary. The distribution of income is positively skewed: 76 percent of organisations have annual gross income of less than £500,000, a pattern broadly in line with the population of Scottish charities.[29] The distribution of constitutional form is also as expected, with most charities constituted as companies (39 percent) or unincorporated associations (22 percent). There is greater variation in the industrial classification of respondent's charities, though this is also largely representative of the ICNPO categorisation of the population of Scottish charities. See the appendices for more details on the demographics of the survey respondents.

7.2.1. Understanding of risk

The first section of the survey sought to elicit a charity's understanding of the term 'risk' and the language it uses to describe the topic. Respondents were asked to rank the relevance of common risk terms on an ordinal scale: not relevant, slightly relevant, moderately relevant, highly relevant, don't know/no opinion. Notable results are shown in Figure 7.1 below (full results can be found in Table A7.5 in the appendices).

Figure 7.1. Proportion of responses that selected 'Highly relevant' for each of the terms in Table A7.5



Note: Percentages rounded to the nearest whole number. Charity size labels: 2 '£1 - 24,999' 3 '£25,000 - 99,999' 4 '£100,000 - 499,999' 5 '£500,000 - 999,999' 6 '£1 - 10million' 7 '£10million +'.

With the exception of 'scary', there is a slight association between charity size and the relevance of the descriptors; this could indicate greater awareness among larger organisations of the relevance of risk to their operations. For certain terms there is clear agreement on their relevance for describing risk. Respondents highlighted the relevance of the terms 'challenge' and 'opportunity' for describing risk in their organisation. The manner in which organisations assess risk is highlighted frequently in the literature and it is interesting to observe that responses for the terms 'quantitative' and 'qualitative' share a similar pattern, though a majority of respondents state that 'qualitative' is highly relevant. For most of these terms there is no association between the pattern of responses and the role of the respondent; where there is an association (gamma>.2, p<.001), there is no consistent pattern or substantive insight to be gleaned.

7.2.2. Value of risk management

This section of the survey was interested in a charity's perception of the value and utility of risk management. Respondents were asked to state whether their organisation has a formal risk management framework in place, and to indicate their level of agreement with five statements on the

following ordinal scale: strongly disagree, disagree, agree, strongly agree, don't know/no opinion. The results are shown in Table 7.1 and Figure 7.2 below.

Table 7.1. Has your charity got a formal risk management framework in place?

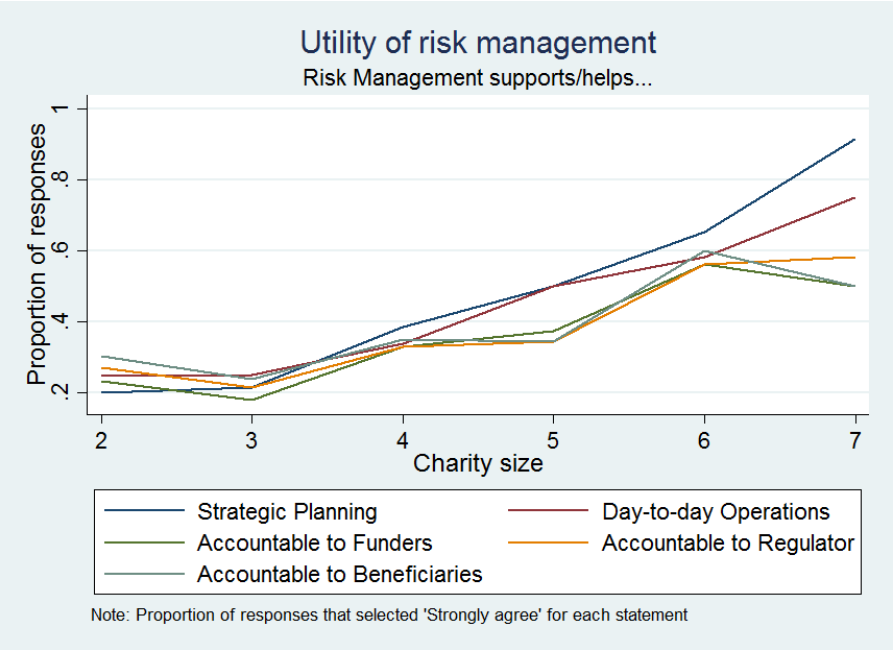
	% of respondents		
	Risk management framework		
Annual gross income	Yes	No	Total
£1 - £24,999	42	58	100 (n=125)
£25,000 - £99,999	42	58	100 (n=77)
£100,000 - £499,999	66	34	100 (n=98)
£500,000 - £999,999	84	16	100 (n=32)
£1,000,000 - £9,999,999	91	9	100 (n=54)
£10,000,000 +	100	0	100 (n=12)
Total	60 (n=237)	40 (n=161)	100 (n=398)

Note: Percentages rounded to the nearest whole number. Observations with missing data or responded 'don't know/no opinion' are excluded. Charities with annual gross income of £0 were excluded (n=2).

A majority of respondents indicated that their charity has a formal risk management framework in place (60 percent). There is a strong, statistically significant association between annual gross income and having a formal risk management framework (gamma=-.5567, p<.001). Higher income charities are more likely to formalise their engagement with risk through a risk management framework.

Figure 7.2 (see also Table A7.6 in the appendices) reveals a consensus on the relevance of risk management for each of the five statements. Once again charity size is an important factor in accounting for the variation in responses. There is a statistically significant association (gamma>.2, p<.05) between size and the responses to each of the five statements, with particularly notable associations for the role of risk management in supporting strategic planning (gamma=.4397, p<.001) and day-to-day activities (gamma=.3255, p<.01). It appears that higher income charities are more likely to recognise and incorporate risk management approaches to support their strategic, operational and accountability concerns. In light of the finding from Chapter Five that larger charities are more likely to trigger accountability concerns with OSCR, it would be interesting to know the specific ways and to what extent risk management "helps us be accountable to our funders"; especially given that Chapter Five further shows that the accountability concerns defined by OSCR are uncorrelated with negative organisational outcomes.

Figure 7.2. Proportion of responses that selected 'Strongly agree' for each of the statements in Table A7.6



Note: Charity size labels: 2 '£1 - 24,999' 3 '£25,000 - 99,999' 4 '£100,000 - 499,999' 5 '£500,000 - 999,999' 6 '£1 - 10million' 7 '£10million +'.

7.2.3. Risk behaviour

This section of the survey examined the actions a charity takes with respect to risk. Respondents were asked a number of questions relating to the frequency of risk assessment, strategies for dealing with risks, the degree of responsibility internal stakeholders have for managing risk, and the specific controls in place for dealing with risk. We start by examining the third concept: risk management responsibility. Respondents were asked the following question: Who has responsibility for managing risk in your charity? Responses were measured on an ordinal scale: no responsibility, some responsibility, a lot of responsibility, and don't know/no opinion. The results are shown in the Table 7.2.

Table 7.2. Who has responsibility for managing risk in your charity?

				%
Stakeholder	N	No responsibility	Some responsibility	A lot of responsibility
Trustees	408	1	23	76
Senior Management	289	9	11	80
Employees	283	17	57	27
Volunteers	331	27	56	16

Note: Percentages rounded to the nearest whole number and thus rows may not sum to 100. Observations with missing data or responded 'don't know/no opinion' are excluded.

The pattern in the table above is unsurprising: a majority of respondents expressed that all four internal stakeholders had at least some responsibility for managing risk in their organisation. They also felt that trustees and senior management had the most responsibility. A more nuanced picture is provided by linking the role of the respondent to their response to this question (Table 7.3). We see an association between a respondent's role in the organisation and the extent to which they feel that role has a lot of responsibility for managing risk. While a majority of respondents across all four roles felt that trustees had a lot of responsibility for managing risk, this was most pronounced for respondents who identified themselves as trustees (87 percent). This suggests that internal stakeholders feel a strong sense of personal responsibility for managing risk.

Table 7.3. Proportion of responses that selected 'A lot of responsibility' for each of the stakeholders in Table 7.2

					%
Stakeholder	Trustees	Senior Management	Employees	Volunteers	Total
Trustees	87	63	22	22	76
Senior Management	61	93	26	4	80
Employees	58	84	43	13	27
Volunteers	75	100	43	64	16

Note: Percentages rounded to the nearest whole number. Notable findings are shaded.

For the question pertaining to risk controls, participants were asked to select none, some or all controls that their charity had in place for dealing with risk. The results are shown in the Table 7.4 below.

Table 7.4. What risk controls does your charity have in place? Tick all that apply.

Risk control	Responses	% of responses	% of respondents
Risk policy	157	23	46
Risk register	179	26	52
Mitigation strategy	140	21	41
Business continuity plan	204	30	59
Total	680		
	(n=343)	100	

Note: Percentages rounded to the nearest whole number and thus columns may not sum to 100. Observations with missing data or responded 'don't know/no opinion' are excluded. As respondents could, and did, select more than one option, there are more responses to this question than respondents.

A majority of respondents at least have a risk register or business continuity plan. It is perhaps surprising that there are not a higher percentage of respondents with any or all of these standard risk controls, suggesting that some charities are unable or unwilling to engage in more formal approaches to risk management. Only 46 percent of respondents indicated that their charity had (arguably) the most basic and universal risk control in place: a risk policy i.e. a statement on the types of risk the charity is willing to take in pursuant of its objectives. The relatively low percentages across all four controls, despite being greater than those reported by the 2015 Zurich study, mirror the responses to the risk framework question i.e. charities that engage formally with risk are more likely to be higher income charities. We see this pattern again when exploring variation in the selection of risk controls across categories of charity size. Table 7.5 explores the extent to which the types and levels of risk controls might be related to charity size. The results demonstrate that the same risk controls are present in each income category. However, there are statistically significant differences in the extent to which these controls are present. Higher income charities are considerably more likely to have three of the four risk controls than lower income organisations, especially with regard to having a business continuity plan and a risk policy.

Table 7.5. Multiple response tabulation of risk controls by charity size

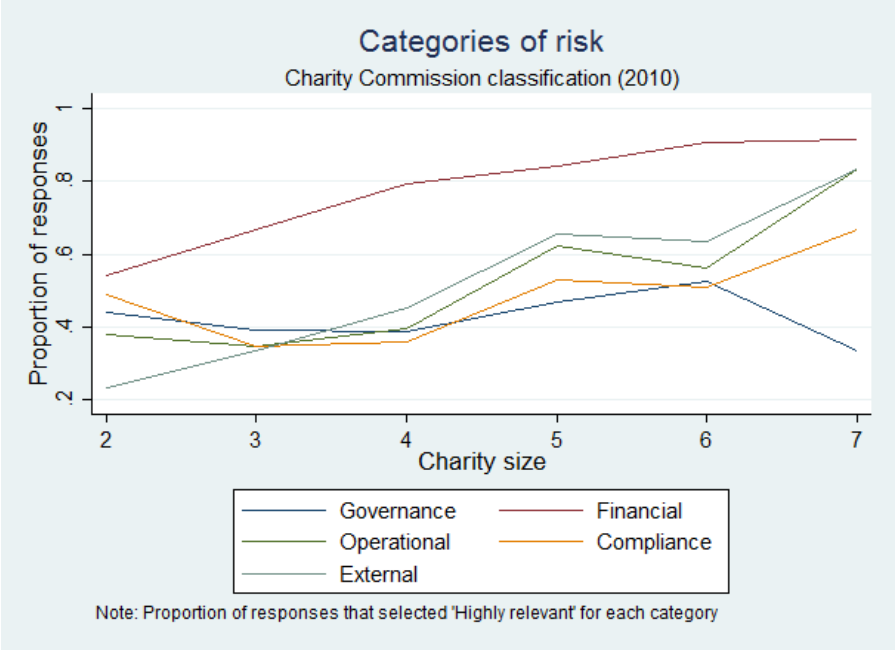
	% of respondents							
Risk control	£1-£24,999	£25,000-£99,999	£100,000-£499,999	£500,000-£999,999	£1,000,000-£9,999,999	£10,000,000+	Total	Significance test
Risk policy	28	32	53	55	59	100	46	37.329***
Risk register	43	42	48	61	72	92	52	23.780**
Mitigation strategy	31	37	39	48	52	75	41	13.134
Business continuity plan	42	42	63	74	85	100	59	45.822***

Note: Percentages rounded to the nearest whole number. Chi-squared tests were conducted and Bonferroni-adjusted p-values were utilised to determine whether there were statistically significant differences in the extent to which risk controls were present across categories of charity. * $p<0.05$; ** $p<0.01$; *** $p<0.001$.

7.2.4. Significant risks

This section of the survey sought to understand the type and range of risks that charities identify as being particularly relevant or concerning to their operations over the next 12 months. Respondents were asked a number of questions relating to the relevance of broad risk categories to their organisations, their charity's level of concern regarding common risks inherent to the charity sector, and to specify the three most significant risks facing their charity. The results for responses relating to the relevance of broad risk categories are shown in Figure 7.3 below and Table A7.7 in the appendices.

Figure 7.3. Proportion of responses that selected 'Highly relevant' for each of the categories in Table A7.7



Note: Charity size labels: 2 '£1 - 24,999' 3 '£25,000 - 99,999' 4 '£100,000 - 499,999' 5 '£500,000 - 999,999' 6 '£1 - 10million' 7 '£10million +'.

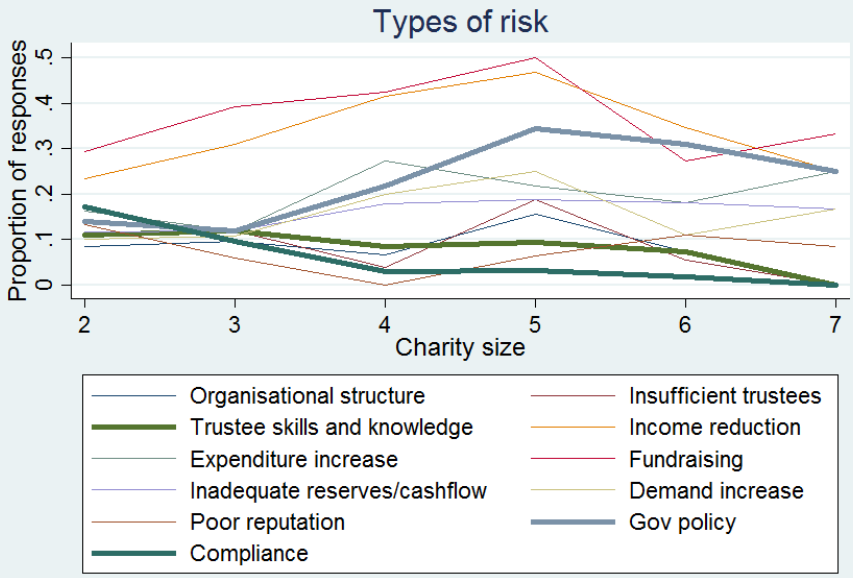
The risk categories are derived from the Charity Commission's guidance on risk management for trustees (outlined in Table 2.1 in Chapter Two) and serve as a useful heuristic device for delineating different types of risks. Charities consider each of these risk categories to be at least somewhat relevant to their operations, though there is an understandable emphasis on financial risks. There is a statistically significant association between charity size and perceived relevance of financial risks (gamma=.4778, p<.001), operational risks (gamma=.2410, p<.01), and external risks (gamma=.4351,

p<.001). It is interesting to note that there is no association with governance and compliance risks, as it could be argued that larger charities are subject to greater scrutiny and reporting requirements from OSCR and other regulators (and thus would need trustees with appropriate competencies). Though a majority of charities of all sizes reported financial risks as being highly relevant, large charities are more likely to respond in this way. It would be interesting to explore why this is the case: are larger charities' finances less stable than smaller organisations i.e. the probability/impact of the risk occurring is greater? Or are larger charities in financially stable positions but subject to greater scrutiny in how they manage their finances? The greater focus on external risks is probably a function of a number of competing factors: highly visible public profiles (plausibly one of the main factors associated with their greater likelihood of being investigated, as discussed in Chapter Four), greater engagement with local and national government, and large numbers of donors. We found no associations between the legal form or ICNPO category of the charity and perceived relevance of each of these risks (gamma<.2, p<.001), suggesting that charities operating across different industries (e.g. health or social services) share similar perceptions of the relevance of different risks.

The relevance of a risk does not tells us much about the degree of concern a charity has about it; a risk may be highly relevant but easily manageable and not significant in the short-term. To address this, respondents were asked to state the degree of concern they felt regarding common risks experienced by the sector. Notable results are shown in the Figure 7.4 below (full results available in Table A7.8 in the appendices). There are some unsurprising findings: over 50 percent of charities are at least moderately concerned by many of the financial risks, in particular a reduction in annual gross income. This is in contrast to the low percentage of charities that experienced this risk over the period 2008-2013 (see Figure 6.1 in Chapter Six). In light of some of the scandals that have been unearthed in the charity sector in 2015 (e.g. *Kids Company*, the death of Olive Cook, media reports of spending on chief executive pay and 'good' causes), it is surprising (and perhaps a bit troubling from a regulatory perspective) that so few charities are concerned with poor public perception and reputation; only 24 percent report being at least moderately concerned with this risk, with 50 percent reporting they are not concerned at all. From an individual charity's perspective this makes sense: the average charity is highly unlikely to infringe the Charities Act, be investigated for alleged misconduct by OSCR or be the subject of media scrutiny. However, all charities draw from the same well of public confidence and trust, and the actions of a minority can have a substantial impact on public (and political) perception of the sector, as evidenced by the renewed focus on fundraising practices, the establishment of a new fundraising regulator and the recently concluded parliamentary inquiry into the UK charity sector.

We now turn our attention to the role of charity characteristics in accounting for the variation in the degree of concern with each of these risks.

Figure 7.4. Proportion of responses that selected 'Very concerned' for each of the risks in Table A7.8



Note: Proportion of responses that selected 'Very concerned' for each risk

Note: Thicker lines highlight associations discussed in the main text. Charity size labels: 2 '£1 - 24,999' 3 '£25,000 - 99,999' 4 '£100,000 - 499,999' 5 '£500,000 - 999,999' 6 '£1 - 10million' 7 '£10million +'.

There is a statistically significant association between charity size and the degree of concern for certain risks. An above-average proportion of smaller charities report being very concerned with complying with charity regulation; as organisations get larger they are less likely to be very concerned about this risk (gamma=-.2527, p<.001). Larger organisations are more likely to be very concerned with changing government policy (gamma=.3003, p<.001). Finally, attracting sufficient numbers of trustees is moderately associated with income: smaller organisations are more likely to report being very concerned about this issue (gamma=-.2070, p<.01). Though for many of the risks there is a clear pattern of association (i.e. an increase in size is associated with an increase/decrease in degree of concern), it is interesting to note the above-average rates of concern for these risks in the £500,000-£999,999 income category. For many of these risks charities in this category have the highest proportion responding 'very concerned'. It is difficult to ascertain from the survey exactly why this would be the case and we do not speculate further at this point. There is no association between a charity's legal form and degree of concern with any of the risks outlined above, with the exception of concerns regarding the inability to cope with increased demand for services (gamma=.2069, p<.01):

companies and SCIOs are more likely to report above-average rates of being very concerned. However this pattern is probably explained by the high degree of association between legal form and charity size: charities registered as SCIOs or companies are highly likely to be high-income organisations (gamma=.455, p<.001). A charity's ICNPO category is not associated with the degree of concern for any of these risks (gamma<.2, p<.05).

Finally, respondents were asked to state, via a textbox, the three most significant risks currently facing their charities. 354 of 420 respondents provided information for this question; the vast majority provided three significant risks, with 17 percent listing one or two. In total, respondents described 966 risks that they felt were the most significant facing their charities at the time of completing the survey. Table 7.6 below shows the results of the risk categorisation process (see section 3.5.3 for details of the classification process).

Table 7.6. Distribution of most significant risks facing respondents

Risk category	Responses	% of responses	% of respondents
Compliance	34	5	10
External	112	15	32
Financial	264	36	75
Governance	130	18	37
Operational	201	27	57
Total	741		
	(n=354)	100	209

Note: Percentages rounded to nearest whole number and thus columns may not sum to 100. As respondents could, and did, select more than one option, there are more responses to this question than respondents.

A majority of respondents' most significant risks can be categorised as financial or operational. There is no association between the degree to which these risk categories are present and any of the organisational characteristics measured in the survey.

7.2.5. Linking survey and administrative data

Survey respondents were asked to provide their organisation's Scottish Charity Number; this enabled survey responses to be linked to data utilised elsewhere in this thesis, specifically the dataset in Chapter Four. Over 80 percent (339) of the 420 responses were linked in this manner, providing additional variables that may shed light on some of the patterns uncovered throughout this chapter. Of particular interest are whether a respondent's charity has been investigated (and if so, how many times), if OSCR has taken regulatory action against the organisation, and whether a charity has ever made a late submission of its annual return and accounts to OSCR. 47 of the charities that responded

to this survey have been the subject of an investigation by OSCR; of these, three have had regulatory action taken against them and the maximum number of investigations per charity is four. In terms of late submissions, 57 charities did so at least once since 2006.

7.3. Case Study Results

This section presents the findings from the qualitative research phase, in the form of three brief case studies (see section 3.5.3 for details of the case selection process). Each case is presented in turn using the headings in the topic guide to structure the findings; the common themes that emerge from all three cases, as well as topics on which the responses diverge, are considered in the summary of this section.

7.3.1. Case study one: cancer support charity

The focus of this case study is a small cancer support organisation based in one Scottish local authority area. The charity provides a wide-range of support to sufferers, and their family members and carers, of a particular cancer: assistance in claiming welfare, organising trips, monthly support group meetings, and signposting to information. It engages occasionally in advocacy initiatives, including one notable instance of campaigning successfully for changes to the screening and payment of benefits for sufferers of this particular condition. The organisation has fewer than ten trustees (at time of interview) but the majority of work is carried out by two volunteers (our two interviewees): a long-time volunteer of over fifteen years and the treasurer. The organisation was registered as a charity during OSCR's era of regulation and has experienced fluctuating financial performance over the past number of years, including a substantial decline in annual gross income for its most recent financial year. The two most recent Trustee Annual Reports (TARs) of this charity were procured in electronic format (PDF) – documents for previous years were submitted in hardcopy to OSCR and thus we are unable to access them – and examination of their contents reveal that the issue of risk was not discussed and there were no concerns raised by the independent examiner regarding the accounts.

Significant risks

The interviewees identified three interlinked risks that present significant threats to the viability of the charity. The most fundamental is the difficulty accessing and securing funds; at the time of the interview the organisation has operated for over a year without core funding – "We haven't got any funds. We're fundraising ourselves every month; we run raffles, we've got a raffle on the go. Neither of us gets paid for the work that we do." (CS1-Par-01) The volunteers felt that they have a multitude of ideas for better or new services but are unable to implement them due to the organisation's pervasive financial issues. They expressed frustration with the process of applying for funds. They felt that it is almost not worth applying for funding due to the effort required, the small amount of money available and the fact the funding would not cover administrative or staff expenses: "And even the

reports [required] for a small funder, the reporting mechanism they put in place; I took one look at it and phoned a friend and said 'help'." (CS1-Par-01) Her companion elaborated on this issue by highlighting further difficulties with the fundraising process: following an underspend of some funding they secured recently, CS1-Par-02 expressed relief that she'd "never been so glad to give money back; it was a nightmare [trying to spend it according to the funder's requirements]." Both interviewees expressed frustration with their efforts to meet the needs of the charity's beneficiaries, describing the group in the following terms: "They're quite selfish, that's the word I would use…They're very vocal if they don't like something." (CS1-Par-01) Perhaps reflecting the impact of financial pressures on the organisation, one of the participants revealed that a lack of appreciation of the effort of its core volunteers on the part of the beneficiaries has a detrimental effect on funding:

> If I'm being totally honest, I could probably pick up some funding from the council or NHS here and there; not that I'm looking for a gold medal or anything like that but it would be nice if somebody [members] just said 'appreciated you did that.' (CS1-Par-02)

Finally, the challenge of producing and executing a succession strategy weighed heavily on the minds of the interviewees. They made reference to their personal health and what would happen in the event of their inability to continue volunteering in the organisation. Both participants agreed that in this scenario, the organisation would cease to be a charity but probably continue as a self-help group on a smaller scale. However, CS1-Par-02 remained resolute in the face of these challenges: "It's a constant battle but we get there don't we?"

Despite a lack of resources, the charity does have a number of mitigation strategies in place for dealing with some of these risks. The organisation protects against fraud and financial impropriety by requiring all outgoing cheques to be signed by two individuals; furthermore, volunteers and staff cannot sign off on their own expenses – "It's got to be done right. [We] don't want anybody coming back on us and saying 'Oh she signed her own cheque'." (CS1-Par-02) These measures were taken in response to previous instances of suspected fraud by a former treasurer; there was also a separate occasion when the charity reported two individuals suspected of financial impropriety to OSCR. The charity has insurance, a health and safety policy, and Protecting Vulnerable Groups (PVG) disclosure for volunteers and staff. As well as having clear operational benefit, both participants stress that funders want to know that these types of controls are in place.

Accountability

Neither participant had much to say about the issue of accountability. They felt that the charity is most accountable to its beneficiaries and members (e.g. family members of beneficiaries that participate in sponsored walks). They discharge accountability to these stakeholders through monthly reports containing information on financial performance and the latest activities of the charity; CS1-Par-01 suspects that these individuals do not understand the information they are given. The production and dissemination of these reports is driven by the volunteers and not requested (in the main) by beneficiaries and members: "As I say, I'm volunteering, I don't have to be there; and I don't have to give them the accounts the way they are but I do." (CS1-Par-02)

In terms of wider accountability, both interviewees were adamant that OSCR was particularly easy to deal with on matters of reporting, and made reference to the simplified annual return form that was implemented in April 2016. They feel that the charity is too small to trouble OSCR. On occasion the charity has found reporting to OSCR burdensome but fully understands the need to do so. CS1-Par-02 compared OSCR's regime with the previous system of regulation lead by UK Inland Revenue that was characterised, in her opinion, by a lack of accountability and greater scope for misconduct by charities.

Regulation

Expanding on their discussion of the charity's accountability to the regulator, both interviewees reiterated that reporting was burdensome in the first couple of years of being a charity, partly due to the poor accounting practices of the previous treasurer, and the lack of clarity and guidance around online filing of accounts to OSCR. They expressed satisfaction with the simplified and reduced reporting requirements for small charities. They have no complaints in general about OSCR's work, but recognise that larger charities probably face a (justified) greater burden. In terms of their own organisation and its regulatory requirements, CS1-Par-02 feels that they should get more support from local infrastructure bodies, such as their TSI, noting that larger charities are able to access assistance. In terms of some negative aspects to OSCR's regulatory approach, CS1-Par-02 raised the issue that OSCR displays late submission information on its website; while she understands that there may be legitimate reasons for this, it should be accompanied by an explanation for why these accounts were submitted late. She also had some concerns regarding the availability of annual accounts information through OSCR's website but did not really articulate quite why this is an issue (just a general sense of unease even though anybody can request the same accounts from the charity for a small administrative fee).

When asked whether they were a risky charity from OSCR's perspective, the interviewees were in agreement: "No, I don't think so. Although we're a registered charity we are mainly a self-help group and if we run out of money then we run out of money…OSCR have nothing to worry about." (CS1-

Par-02) Overall, the interviewees felt that the organisation's charity status, and the accompanying monitoring regime by OSCR, can be used as a defence against claims of impropriety or misconduct.

7.3.2. Case study two: TSI

The focus of this case study is a Third Sector Interface (TSI) based in the central belt of Scotland. Itself a charity, the TSI nominally represents and supports all third sector organisations (TSOs) in its local authority area, and has four core functions: growing and developing social enterprises; providing organisational support for TSOs (e.g. information, training and assistance); acting as the centre of volunteering in the local authority; and representing its local third sector in national policy initiatives (e.g. at Community Planning Partnership). The TSI (previously known as a Council for Voluntary Service) has been a charity for over 30 years and has generated a small surplus in each financial year, though annual gross income has declined each period since 2013. The TARs for 2012-2016 make explicit, and at times specific, reference to risk. For instance, the 2013 report describes the implementation of a revenue diversification strategy to combat overreliance on a small number of funders, and internal control risks "are minimised by the design and implementation of robust procedures for authorisation of all transactions." Every TAR outlines the organisation's policy of holding reserves sufficient for three months' operating expenses and that a risk matrix is presented to trustees at each board meeting. There were no concerns raised by the independent examiner regarding the charity's accounts. TARs prior to 2012 were unobtainable as they are in hardcopy format.

Significant risks

Unsurprisingly the organisation reports being under considerable financial pressure: the TSI now has two additional functions since 2012 – developing social enterprises and representing the third sector in Community Planning Partnership initiatives – without an associated increase in funding. TSIs receive the same level of core funding from the Scottish Government as they did eleven years ago and this charity in particular is the only one to have been subject to a cut in its funding, according to the interviewee (Managing Director). CS2-Par-01 lamented:

> We're still doing what we do with the money and it's all about the staff, but at the end of the day we're not doing [anything new]…we're very reactive. I have no time to be proactive because I can't fill all the requested demands, let alone do anything that would be useful, to go out and drum up business.

The charity has an issue with staff leaving due to the cultural shift brought about by increasing demands for its services. For example, TSOs are encouraged to consult the guidance and support provided on the organisation's website rather than arrange a meeting with a member of staff to discuss the matter. The charity is increasingly moving away from case work, resulting in an exodus of staff members that prefer to work in a more 'hands on' manner with TSOs.

The TSI is also acutely aware of the risks facing the organisations it supports, particularly the significant decrease in local authority funding for TSO projects, and succession issues. These issues are linked in the opinion of CS2-Par-01: "We're increasingly getting involved in organisations that are in crisis…And increasingly it's a lot to do with age-related [issues] where the people that set it up with good intentions in their fifties and [are now too old to continue]."

Finally, the interviewee was concerned about the sustainability of the TSI itself. In tandem with the risks discussed above, the charity struggles to address the tension between the need for good governance and deploying its limited resources efficiently and effectively; specific mention was made to the difficulty of implementing the reserves policy. The organisation also faces an existential threat in the form of a potential reduction in the number of local authorities in Scotland (and thus a proportional decrease in TSIs). When asked if this was being discussed amongst the TSIs, CS2-Par-01 replied: "No, there's no discussion within the TSI network about that. There's nothing we can do about that, so we'll just deal with it when it comes. We've already been through one major change five years ago, what's another one?"

The interviewee has sought to mitigate some of the above risks by investing in the charity's human and technological resources. As we saw in the first case study, mitigation strategies can uncover or exacerbate existing risks; in this instance, the exodus of staff was directly linked to the increased use of technology to deliver services and provide information. Though not mentioned during our discussion of significant risks, the interviewee described her pride in ameliorating reputational issues present when she first arrived at the organisation. Some of the mitigating actions taken included publicising the work of the charity more effectively, and achieving a number of accolades in the area of staff development (e.g. securing an Investors in Young People award). The importance of adhering to the reserves policy was also strongly referenced during our interview: "Again, perhaps because my background is an accountant and I am risk-averse, but I would no sooner go under my three-month reserves than fly to the moon." (CS2-Par-01)

Accountability

The charity considers itself accountable to a wide range of stakeholders, the most prominent of which are its local third sector and the Community Planning Partnership network: "There isn't a formal accountability process. We are accountable to them [beneficiaries] and community planning [partnerships]. We can only exist as a TSI if we are recognised by the Community Planning Partnership and the local third sector." (CS2-Par-01) To meet this need to be accountable, the organisation is a firm proponent of being transparent with respect to its activities and outcomes:

> We are very open and transparent. Everything we do is online. Everything I publish: my accounts, my monthly work plan I do for the Scottish Government…Everyone can see, all the time, what we are doing. I hugely believe in complete transparency. (CS2-Par-01)

Accountability is also discharged through the implementation of an internal complaints policy (available on the organisation's website). Staff are instructed to record all complaints, whether they have been lodged formally or not. The policy was put in place two years ago and the charity has so far received 10 complaints: in each case the MD feels that the issues detailed in the complaints were outwith the remit of the organisation. Finally, the charity produces annual standardised reports for the Scottish Government and adopts the same template for its monthly reports to the board. Reflecting on the efforts of the charity to demonstrate accountability, the interviewee described what she sees as a significant barrier facing the sector:

> In terms of holding to account, don't think that people know how much charities do in their lives. I don't think that the public sector have [sic] any clue about how much charities do. They know about the charities that they touch, what they're doing, but they don't know how much it brings to [local authority] as an area. (CS2-Par-01)

Regulation

The interviewee was effusive in her praise of OSCR's regulatory approach, although she does recognise that other charities may feel differently:

> I think that OSCR's website is great now [in terms of the availability of information about charities]; it's getting far more transparent, although I've started to hear complaints [from charities] that OSCR are putting things on the website and saying 'if you want more information you can go and ask the charity'. And people are coming to me and saying, 'OSCR shouldn't do that' and I'm saying, 'yes they should'. You've got public money, account for it…The sector is still hugely reluctant to discuss finances. (CS2-Par-01)

In contrast to the other cases – and presumably to the vast majority of charities in general – in this chapter, the organisation has a close working relationship with the regulator. For example, both parties worked together on a pilot project looking at third sector organisations that fail to submit annual returns and accounts to OSCR. The interviewee stressed that this project came about due to the comprehensive, tacit knowledge her organisation possesses regarding the reasons for non-submission by charities in its local authority. Perhaps influenced by this positive experience, the charity does not feel burdened by regulation, with the interviewee praising the light-touch yet clear approach adopted by OSCR (in contrast to the Charity Commission's regime in England and Wales). When asked to suggest an area of improvement for charity regulation in Scotland, the interviewee felt that there is scope for more OSCR-accredited training, having been impressed with previous offerings. Lamenting the poor attendance of her own charity's training, CS2-Par-01 stated that, "if I was running OSCR-badged training courses I know people would turn up because people respect OSCR; that brand has a value." Finally, when asked whether OSCR would consider her organisation as risky, CS2-Par-01 replied, "No, I would hope not."

7.3.3. Case study three: housing support charity

The focus of this case study is a medium-size (annual gross income greater than £100,000) housing support organisation that provides services across Scotland. The charity provides brokerage services to beneficiaries with housing needs that currently are not being met (e.g. individuals with disabilities). The organisation was registered as a charity during the 1990s and has experienced consistent financial performance over the past number of years: the charity made a slight loss every year though its annual gross income has doubled since 2012. The 2016, 2013 and 2012 TARs do not mention risk and there were no concerns raised by the independent examiner regarding the accounts; the organisation does have a policy of holding reserves sufficient for three months' operating expenses. In 2015 and 2014 the charity made explicit yet vague reference to risk: "The trustees have a duty to identify and review the risks to which the charity is exposed and to ensure appropriate controls are in place to provide reasonable assurance against fraud and error." TARs previous to 2012 were unobtainable as they are in hardcopy format.

Significant risks

Much like the first case study, financial issues pose a persistent risk to the organisation. The charity felt that it does not have much in the way of financial resources, given that is also does not possess any housing stock or other physical assets. As CS3-Par-01, the Managing Director, attested:

> Our biggest strength and our biggest weakness is that we don't have any money, we don't have any housing, we don't have a magic wand [therefore] everything we do in terms of a solution has to be based on what's achievable, what's possible.

Funding concerns impact the organisation's ability to plan for the long term; they have only one major funder – the Scottish Government provides 95 percent of core funding – and receive this money on an annual basis. CS3-Par-02 – a member of staff – acknowledged that three-to-five year funding cycles are increasingly uncommon and that they know their area of work is not a 'sob story'; the organisation realises it is not able "to win the fundraising battle" (CS3-PAR-02) with animal welfare or children's charities. Continuing with this thread, CS3-Par-03 – trustee, current chairperson and former beneficiary – highlighted the difficulties of meeting funders' application and reporting requirements, regardless of the amount of funding available:

> And the same with other, smaller funders. You tend to find the level of detail they are looking for is often more than [that required by] OSCR. Even [laughter] for tiny bits of money, you're doing screeds and screeds of things and you're just 'uhh is it worth it?' [group laughter]

In contrast to the first case, the charity is acutely aware of reputational risks, particularly surrounding negative connotations of the word 'charity'. The focus group ascribed this phenomenon to wider developments in the charity sector, such as concerns regarding executive pay and the use of third-

party fundraisers. Finally, everyone in the group agreed that the work of the organisation posed risks, especially its engagement with vulnerable individuals.

To counter the financial risks, CS3-Par-01 described how she drew on her previous corporate experience and implemented an operational strategy based on lean or agile principles, examples of which were the jettisoning of the charity's fixed abode and delivering mobile services, and reducing staff salaries. CS3-Par-03 concurred with the necessity of this approach, stating that:

> You [Managing Director] use consultants very effectively as well… rather than employ people. You bring in specific people for their expertise and you use them to do the financial reports; again, that's a really good use of the funding that doesn't leave people hanging about and not doing a great deal.

Unfortunately, the success of this mitigation strategy has uncovered a further risk to the viability of the organisation: in the event of further financial constraints, there is no more 'fat' to trim. With regards to working with vulnerable individuals, staff and volunteers are offered counselling services to mitigate the effect of the more stressful, draining elements of the charity's work.

Accountability

Every participant agreed that the organisation is most accountable to its beneficiaries. This attitude appears to be driven by the experiences of some of the staff and volunteers working for other housing support organisations (mainly in the public and private sectors); they felt they were pressured to misrepresent clients' chance of finding suitable housing for example, and discouraged from apologising to clients in the event of a delay, issue etc. In contrast, the charity is very honest with clients regarding the solutions the organisation can and cannot provide. CS3-Par-01 feels personally accountable to the funders of the charity: "If the funder says jump then [we say] how high." This assessment is corroborated by CS3-Par-03 who states that they are close to the housing team and activities of the Scottish Government, and have a productive relationship with them (e.g. they engage in knowledge exchange with each other). There is also another benefit to the organisation's relationship with the Scottish Government: the perceived reputational gains. As trustee CS3-Par-04 opined, "Being [Scottish Government] funded, I think it also gives us integrity; we have been vetted."

The organisation discharges accountability in a number of ways to its beneficiaries, funders and the wider public. The group felt that the charity's social media presence is an important medium for evidencing its activities in a transparent manner. The group appeared particularly proud of the organisation's complaints handling procedure. All complaints are sent directly to the Managing Director, with the exception of issues that refer to their conduct, in which case they are transferred to the board of trustees. Most complaints are in relation to service quality and unsatisfactory client outcomes (e.g. an individual not securing their preferred housing option); interestingly, the organisation encourages clients and other stakeholders to report concerns, confident in the knowledge

that it has enough information at hand to properly assess the validity of the complaint. The charity engages proactively with clients regarding their satisfaction with its services: all clients are sent emails soliciting their feedback regarding their experience with the charity and occasionally conduct in-depth interviews with a sample of these individuals.

Regulation

Though no mention was made during the discussion of accountability, the group did identify a number of benefits of being subject to regulation by OSCR. There was strong agreement that reporting to OSCR kept the organisation on its toes with regards to financial and governance issues. The charity values the role of OSCR in protecting public confidence in the sector, particularly with respect to charitable donations and the assurance donors need that are giving to legitimate organisations. The group agreed that the current level of reporting requirements was sufficient, pointing to the fact the charity is already highly transparent and publishes lots of information via its website (e.g. case studies and statistics). If they have one suggestion for improving regulation, it is for OSCR to consider whether the term 'charity' continues to be helpful for describing the sector as a whole. As CS3-Par-01 cautioned:

> When I started with the organisation in 2008 it didn't refer to itself as a charity at all and that was because, in those days, the word 'charity' was fairly pejorative [in our area of work]…It was a strategic decision to start calling ourselves a charity to promote our activities, and make people realise we're not an arm of government and as a charity you are welcome to give money to us.

7.4. Discussion and Conclusion

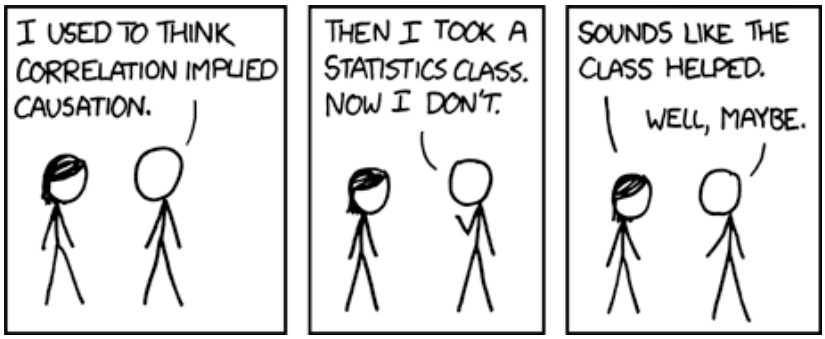
There are a number of comparable and contrasting issues that emerge from the case studies. All three are understandably concerned with their financial position, though there is variation between their financial performances in recent years. A prominent theme is the frustration and burden associated with the reporting requirements imposed by funders; respondents seemed demoralised by the impact this had on their organisations, as it deters applications in the first place, and usurps scarce time and effort that could be spent on other activities. Each charity reported numerous transparency initiatives and activities, often exceeding the reporting requirements of their stakeholders. For example, case study two publishes its management reports online for anyone to view and case study three does likewise. Finally, all three charities seemed in agreement regarding the manner in which the sector is regulated by OSCR. There were few complaints about regulatory burden and praise for the positive impact of OSCR's regime on the individual organisations (e.g. case study one considers their regulated status as a signal of good governance and trustworthiness). In terms of contrasting perspectives, it is interesting to note the different associations the organisations have with charity status and the word 'charity' more generally. The first case is sanguine about its charity status,

indicating that it has very little impact on the sustainability of the organisation and they are prepared to voluntarily discard this status if needs be. The third case is travelling in the opposite direction, having strategically decided on adopting charity status in an effort to attract more funding; though the organisation is concerned with the public's conception of what the word 'charity' means.

Examining the full set of results presented in this chapter, we can identify a number of important points that will be critiqued further in the concluding section of the thesis. Given the heavily scrutinised environment that charities currently operate in, it is surprising that charities are largely unconcerned with poor public perception and associated reputational risks. This finding emerges strongly in the survey, yet the case studies suggest that these organisations are very much aware of their operating environment, in particular the connotations surrounding charity status and the word 'charity' itself. Perhaps charities are more concerned with their reputation and relationship with their funders, and are less concerned with the public's perception of them (with the possible exception of case study three). Both the survey and the case studies suggest that charities are actively discharging accountability to a wide range of stakeholders, though it is clear that some are given more consideration than others (e.g. beneficiaries and funders). Drawing on Gieryn's (1999) concept of 'boundary-work', it appears that charities consider risk management to be broadly useful for a number of functions (e.g. helping demonstrate accountability to funders); charities should exercise caution however when making such judgements given the difficulties in measuring the effect of risk management practices (Mikes, 2011). In apportioning responsibility for managing risk in their organisations, stakeholders are likely to place the majority of the burden on themselves, though they recognise the importance of their colleagues in this regard also. This is interesting as risk could easily be considered somebody else's problem in the organisation. Finally, around 50 percent of charities indicate that they have one or more of the following risk controls in place: risk policy; business continuity plan. However, the presence of these controls is strongly associated with organisation size, which has implications for the sustainability and resilience of smaller charities in the sector (i.e. the majority). Where controls are mentioned in the interviews and TARs, they tend to refer to financial risks and accompanying mitigating actions.

This chapter concludes the reporting of our empirical findings. The final chapter summarises the key insights from these analyses and places them explicitly in the context of the contextual framework and wider literature. We also consider to what extent and in which ways the empirical evidence produces satisfactory answers to the project's research questions.

Chapter Eight – Conclusion



Source: xkcd. (n.d.). *Correlation*. Retrieved January 10, 2017, from https://xkcd.com/552/

8.1. Introduction

The overall orientation of this thesis has been the empirical analysis of contemporary large-scale administrative social science datasets using established statistical methods, supported by modest use of primary social survey and qualitative data. From the outset, the goal was to develop an evidence base from which researchers, practitioners and policy makers could make informed judgements and decisions about the nature of risk in the charity sector. The thesis has therefore not engaged directly with 'grand' or 'middle range' sociological or organisational theories, seeking instead to produce new empirical knowledge grounded in an appropriate literature. A secondary aim of the research was to evaluate the suitability of administrative data for scholarship in this field.

The chapter proceeds as follows. First, the key findings from the empirical chapters are integrated in an effort to address the research questions stated in Chapter Three. This is followed by the proposal of a research agenda that builds new knowledge in each of the analytical topics explored in this study. The nature of the research process, specifically the collaborative structure of the project, is then reflected on. Finally, the ways and to what extent this thesis makes an original empirical contribution to scholarship in this area is clearly stated, accompanied by some concluding remarks.

8.2. Key Findings

The first research question is concerned with uncovering the risk factors that are associated with charities failing; a secondary issue is whether there are indicators that could be used by OSCR to identify risky charities. The detailed multivariate analysis in Chapter Four reveals clear patterns in the types of charities that are most at risk of investigation by the regulator, but the crucial insight is the disconnect between these and the factors that predict regulatory action. In essence, there is a large degree of 'noise' (complaints) obscuring the 'signal' (misconduct). The absence of clear indicators of misconduct reinforces the role of tacit knowledge and in-depth investigation on the part of OSCR in

dealing with this issue, as well as evidence of the limitations of these datasets for guiding regulatory actions. By revealing the disconnect between the level of complaints and concerns that require regulatory action, we argue there is much work to do for practitioners in the sector with regards to charity reputation and stakeholder communication. Charity boards are ultimately responsible for the governance of their organisation, and must ensure that adequate policies and procedures are in place. This includes reducing the risk of misconduct occurring, taking corrective action in response to guidance from the regulator, and developing the management and reporting functions required to deal with the consequences. Regulators and charity sector infrastructure bodies should consider developing guidance for charities of all sizes on how to cultivate and manage their reputations and communications with stakeholders. Recognition should also be given to the role that stakeholders such as funders, auditors and independent examiners must play in self-regulation of the sector, given their proximity to charities through their day-to-day activities. Overall, the results represent an original contribution to the charity failure literature through a comprehensive analysis of an important outcome using novel data.

The combined findings of Chapter Five and Six provide tentative evidence that public concerns regarding the financial vulnerability of charities are valid, though only for a minority of organisations. Longitudinal analysis unveils stable patterns of occurrences of vulnerability and accountability concerns in the Scottish charity sector, while also demonstrating that these outcomes do not persist for individual charities throughout the study period. The salient finding from these analyses is that our suite of measures for vulnerability are uncorrelated with significant, negative events in the sector (e.g. being investigated or removed from the Scottish Charity Register). While this finding tempers concerns regarding the financial sustainability or conduct of charities, it should also be acknowledged that the absence of association may be due to measurement issues. Combining the findings of these three empirical chapters, we see the importance of having reactive and proactive regulatory mechanisms for identifying risk in the sector, to counter the partial account a single approach provides.

The second research question is interested in charities own perception and identification of risk, and their attitudes and behaviours with respect to associated topics such as accountability and regulatory burden. The survey and case study results show that charities are not very concerned with regulatory or reputational risks, despite the oft-stated importance of public trust to the sector's health. Key charity stakeholders – trustees, senior management, employees and volunteers – feel a strong sense of role-based responsibility for dealing with risk in their organisation. Finally, there is a persistent and strong association between the size of the charity and the degree of relevance and concern with significant risks facing these organisations. There is some degree of overlap between the measures of risk in the OSCR data and the significant risks reported by charities through the survey and case studies. Even accounting for the lack of association with negative outcomes, some of the

accountability indicators in Chapter Five capture financial risks experienced by charities (particularly sharp changes in annual gross income or expenditure), while the investigations data also record instances of fraud and financial misappropriation. In other areas, there is a clear divergence in the concerns of the regulator and charities when it comes to risk. For instance, governance and fundraising risks are difficult to measure using the administrative data (though OSCR did launch a consultation on the construction of a trustee database, but in light of feedback did not proceed with this initiative).

Linking the key findings together, the thesis reveals much about the intersection of risk and regulation in the charity sector. First, many of the risks examined in this thesis, especially the definitions and measures, are based upon the regulatory priorities of OSCR, and it is clear that there are gaps in what these data can tell us about the totality of risk in the sector. OSCR should assess its risk measurement practices in the context of the core issues highlighted in section 2.2.2, especially the inadequacy of using a single measure of risk (e.g. financial vulnerability), and the importance of subjective judgement in analysing risk (e.g. identifying which charities are most likely at risk of regulatory action as a result of a complaint; see Taylor, 2012). Employing Gieryn's (1999) 'boundary-work' concept again, we see that both the regulator and charities (especially large) define the domain of risk management in their organisation widely. While it is difficult to argue against greater awareness of risk and the principles and practices of its management, Mikes' (2011) argument that organisations should resist overreaching in their application of risk management is a salient one, particularly to situations where risk is difficult to measure. Finally, while not able to address every element of the contextual framework in Figure 2.1, the empirical work demonstrates the value of linking the three levels in order to produce an original contribution to the charity risk and accountability literatures. For example, Chapter Five uncovers a range of vulnerabilities in the sector through the analysis of OSCR's accountability monitoring scheme, where the administrative data necessary to examine this phenomenon is generated by mandatory reporting requirements. We advocate for greater use of such techniques in researching risk in the charity sector.

To sum, the central thesis is the need for a comprehensive, multidimensional examination of risk in the charity sector that draws upon a variety of data resources. Charity regulators can be reactive and/or proactive in the identification, measurement and management of risk. The analysis of data relating to reactive regulatory initiatives – like the investigation of misconduct described in Chapter Four – uncovers a broad suite of concerns, and the types of charities that are most at risk of investigation; however, the data are limited in what they can reveal about actual misconduct. To address this deficiency, OSCR implemented a proactive monitoring scheme aimed at uncovering (mainly) financial vulnerabilities through the use of charities' accounts information. These data uncover a largely different set of risks in the sector, although none are linked with negative organisational outcomes such as investigation, regulatory action or dissolution. This lack of predictive

power persists even when we adopt standard academic measures of vulnerability, which poses two challenge for the regulator: identifying a different set of relevant risks, such as those referenced by charities themselves; and developing better or alternative indicators of existing risks such as misconduct or financial vulnerability. As this research developed, OSCR made progress in addressing these challenges. It is in the process of rationalising the 32 financial exceptions analysed in Chapter Five, with the aim of producing a shortened list of exceptions that are checked pre and post-submission of a charity's accounts. Another way in which the regulator is addressing gaps in its identification of risks in the sector is the implementation of a new accountability mechanism for charities: the Notifiable Events scheme. From 01 April 2016, OSCR requests that charities report certain types of serious events to the regulator; these are incidents, ongoing and historical, that threaten to have a significant impact on the charity or its assets.

More significantly, OSCR has developed an evolving set of risks that it focuses on as part of its risk-based approach to regulation. The ten most concerning risks, according to a 2016 press release document, are as follows: (i) Persons acting as charity trustees while disqualified; (ii) A charity trustee acting improperly which adversely impacts on the charity's assets and/or beneficiaries; (iii) A charity being used for or being the victim of criminal activity; (iv) A charity operating in a fragile territory; (v) Charities that repeatedly fail to meet their reporting requirements to the Regulator; (vi) Charities that take actions without seeking prior consent from the Regulator; (vii) Charities that do not provide public benefit; (viii) Individuals or organisations who are inappropriately benefiting from charitable status; (ix) Charities who are at the margins of the charity test or who have complex and/or novel structures; (x) Bodies or individuals who misrepresent themselves as charities (Office of the Scottish Charity Regulator, 2016b). Given the relative lack of overlap between the data analysed in this thesis and the nature of the ten risks in the framework, it is imperative that OSCR prioritises the collection of robust, accurate information about risk, and continues to increase the transparency of charity finances, activities and outcomes. In conclusion, data (especially administrative) give new insights but they do no tell the whole story.

8.3. Research Agenda

8.3.1. Charity misconduct

Regulatory data relating to investigations is generated on a continuous basis, providing the foundation for longitudinal analysis of complaints and misconduct; this type of data would be amenable to studying the duration to the first investigation and between subsequent occurrences for example. Further work could be done to understand the antecedents and outcomes resulting from investigations, particularly from the perspective of the charities and the actors that raise concerns. For example, Rothschild's (2013) findings suggest that the frequency of observed misconduct, the democratic tendencies of management, and the alignment of values between the organisation and whistle-blower

should all be considered when seeking to understand the drivers of complaints about charity conduct. Though not incorporated into this study, it could be possible to access detailed, qualitative data on the content of the advice provided by OSCR and any response to this contact by the charity. With regards to the posited explanatory factors (visibility and high stakes), additional data could be sought in order to test their effect; for example, annual UK charity brand surveys are available for purchase and OSCR possesses detailed financial information for a subset of larger charities in Scotland. Finally, the dependent variables in this study could be utilised as explanatory factors in a wider study of charity accountability internationally. By combining investigations data with concerns raised by charities themselves (collected by OSCR since April 2016) and matters of material significance reported by independent examiners and auditors, there is the potential to conduct a multidimensional examination of misconduct and accountability in the sector.

8.3.2. Financial vulnerability

Arguably, the most important focus is to explore alternative, potentially more valid definitions and measures of financial vulnerability (e.g. the use of different thresholds for determining whether a charity is vulnerable or not). This could be done by linking vulnerability directly to instances of organisational demise due to a wind up for example (Cordery et al., 2013). In the context of cross-national studies and replication concerns, there is an argument for employing our measures to explore whether there are systematic differences in the nature and extent of vulnerability for charities in different jurisdictions and economies; this could be done by comparing countries with similar regulatory regimes or administrative data resources. Finally, there has been little attention paid to the behaviour of charities with respect to financial vulnerability; for example, how does the organisation react to a drop in funding? Are charities cognisant of financial vulnerability risks and if so what plans do they have in place to mitigate the impact of these risks?

8.3.3. Accountability

There is a dearth of evidence on charities' understanding of and response to accountability concerns (Acar, Guo & Yang, 2012), which could be addressed by a programme of longitudinal, qualitative research. Research could also focus on regulatory regimes – charity or otherwise – that are successful in dissuading undesirable behaviours and preventing negative outcomes. Specific to OSCR's accountability monitoring programme, it would be interesting to investigate prior knowledge of the exceptions, whether tactics are employed to avoid triggering these concerns, and the organisational learning or behavioural changes resulting from engagement with the monitoring programme. In the UK, the existence of three broadly similar regulatory regimes (Scotland, England and Wales, and Northern Ireland) offers the potential for detailed comparative work (e.g. natural experiments) to be conducted on the impact of different reporting thresholds and accountability demands. Finally,

alternative data sources – such as the Trustee Annual Report (TAR) – could be mined for a wider, more specific suite of independent variables and performance-related information.

8.3.4. Understanding of risk

Given the volume and detail of their application and reporting requirements (at least as described by the case study organisations), getting access to data held by funders would reveal much about charity effectiveness and risk management. An oversight in this survey, it would be instructive to know the strategies and mitigating actions charities take in response to the significant risks facing them. For both the survey and case studies, a longitudinal research design would capture the evolving nature of risk in terms of organisational concern, tolerance and impact.

8.4. Reflection on the Collaborative Research Studentship

This thesis derives from the work of a close collaboration between the doctoral student, supervisors and OSCR. Not only did this arrangement have administrative and contractual implications for the project, it also influenced (and in some cases determined) the focus of the academic inquiry. The greatest benefit of the collaboration was the access to rich administrative data about the charity sector. While some of this data has become publicly available since the project began in 2013, our relationship with OSCR ensured we had access to the regulator's operational and management information i.e. investigations and financial exceptions records. The process of transforming the data for research purposes was improved by the contribution of a number of individuals at OSCR, whose guidance helped us understand technical, abstract definitions and measures in the data. Going one step further, these same individuals were a tremendous source of tacit knowledge about the sector, assisting us in the construction of appropriate independent and dependent variables (e.g. what does regulatory action mean?), and in the development and distribution of the survey. From the perspective of a budding early-career researcher, the collaboration offered many opportunities for developing crucial skills in relation to knowledge exchange (e.g. numerous field visits, presentations to staff and board members), building strategic networks (especially with a non-academic partner), and co-producing research ideas.

In terms of the impact of the research on OSCR, we leave it to the regulator itself to describe:

> At a time when OSCR has embarked on a new proactive and preventative approach, this detailed analysis has added considerable value to the administrative data generated by its processes. The insight from an academic perspective has helped the regulator reflect on the contribution that its interventions make to detecting and dealing with risk. Such research can inform policy making in a practical regulatory environment and in this case, it will contribute to the development of an evolving risk-based process. (OSCR employee, date)

8.4.1. The use of administrative charity data for research.

We hope the analyses presented in the thesis communicate the rich potential of administrative charity data for use in social research. The value of the data for studying particular topics (e.g. misconduct) is documented throughout this thesis; for now, we focus on the general advantages associated with using Scottish charity data. The OSCR data are generally of a good standard, particularly when compared with information collected by the Charity Commission for England and Wales. First, the definitions and measurements employed by OSCR have remained consistent over the study period (2006-2014), with the noted exception of the audit threshold, which was altered from £100,000 to £250,000 for annual returns from 2012 onwards. The most important implication of this fact is we can easily identify which organisations are Scottish charities, in contrast to England and Wales where charities below a certain income threshold do not need to be registered with the regulator. Second, changes to the status of a charity are recorded on existing observations, meaning there is no issue trying to link observations on the same organisation over time. For example, changes to a charity's constitutional form are recorded in a separate field rather than creating a new charity number. Finally, the use of a persistent unique identifier, the Scottish Charity Number, across all of OSCR's datasets (both publicly available and internal) makes the construction of linked, rich datasets a simple task. In the spirit and practice of transparency and reproducibility, the data underpinning this research are made available through an open access repository; see the appendices for links to the datasets.

8.5. Concluding Remarks

In summary, the purpose of this research was to produce detailed empirical analyses investigating original areas of inquiry in the fields of charity failure and accountability. In addition, the thesis also aimed to demonstrate the value of administrative social science data resources in producing original research outputs. The contextual framework in the second chapter highlighted the multitude of factors that should be taken into account when researching risk in the charity sector. The results of this thesis have demonstrated the pervasive but relatively minor nature (in terms of negative outcomes) of certain risks in the Scottish charity sector; however, this finding is tempered by concerns surrounding the validity of the measures we can construct using administrative data. The thesis has addressed gaps in the charity behaviour and accountability literature in a comprehensive manner, producing new empirical evidence on the nature, extent, risk factors and outcomes of organisational misconduct in particular. However, there is more work to do in fully addressing these gaps, especially in the context of OSCR's evolving risk framework, a novel accountability mechanism (Notifiable Events), and the increasing availability, and associated linkage potential, of relevant social science datasets (e.g. government/funder open data initiatives like 360giving – http://www.threesixtygiving.org/).

In terms of practical recommendations for better regulation of the sector, OSCR should publish more detailed, accessible information and guidance for reporting misconduct and other concerns to the

regulator; this will enable it to collect better, more accurate reports that support targeted interventions, thus addressing the disconnect issue uncovered in Chapter Four. OSCR could engage with charities on a systematic, regular basis to address issues surrounding misconduct, accountability and public trust. For example, it could develop guidance or case studies based on analysis of previous investigations that could be used by charities to be proactive and deal with complaints themselves; this applies to data relating to accountability concerns also. This would allow charities to adapt their governance and reporting practices in response to specific and sector-wide concerns, particularly important given that Chapter Seven highlighted the relative lack of concern charities have with risks relating to public perception or reputation. Finally, OSCR should continue down the path of greater transparency, particularly in relation to making greater amounts of data available to researchers and the wider public.

This thesis makes an original contribution in the form of new empirical knowledge about the charity sector, in particular through the use of large-scale administrative social science data to 'peer under the hood' and shine a light on aspects of charity behaviour that are often overlooked or unobservable through other data collection methods.

Appendices

Chapter Three

Ethics proposal submitted to University of Stirling – September 2014.

The research will be conducted in compliance with the Economic and Social Research Council's (ESRC) Framework for Research Ethics 2012. The framework provides researchers with a set of guiding principles for the conduct of ethical research in the social sciences. The following ethical issues, based on the ESRC's principles, have been identified for this research project:

Informed consent – all research participants will be fully informed about the purpose, methods and intended uses of the research. Consent for qualitative methods will be accepted through a written declaration prior to the conduct of any interviews and a disclaimer will accompany the online questionnaire, informing respondents of their right to give informed consent.

Confidentiality and anonymity – risk could feasibly been seen as a sensitive topic by charities; the collaboration with OSCR during this research might also be seen as problematic when requesting information from charities regarding behaviour (issues that are relevant for getting consent as well). The survey and case study participants will be assured that their contributions will remain confidential and their identities anonymous throughout and beyond the duration of the research.

Harm to the researcher – simple protocols will be put in place for any fieldwork to be conducted (such as semi-structured interviews). For instance, the researcher's schedule will be reported to a third party prior to undertaking field work, a mobile phone will be carried at all times while in the field, and interview locations will be selected with safety concerns in mind.

Harm to participants – the content and language of written materials will be sensitive to participant's context. Participants will have the right to stop the interviews at any time. The data collection instruments will be unambiguous, the researcher will be honest about the requirements of the research, and a pilot phase will be part of the testing of any instruments.

Harm to discipline – the research will prevent damaging the rigour and reputation of its discipline by ensuring that quality considerations are embedded in every stage of the research.

Data storage, archiving and destruction – the research project's data collection, analysis and dissemination processes will comply with the UK Data Protection Act 1998. Specific to this research: the research findings will only be used for their intended purpose; an anonymised dataset of the survey responses will be kept for up to a maximum of ten years from the conclusion of the data collection phase; and any electronic devices used to store research data, in particular confidential administrative data from OSCR, will be encrypted and password protected.

Motives –while it is difficult for researchers to remain completely objective in social research, care will be taken to ensure the researcher's own motives and beliefs do not shape the conduct and findings of the study.

Survey questionnaire

Thank you very much for considering participating in this survey. By taking part, you will help us understand more about the nature of, and perceptions about, risk in the charity sector.

This survey explores:

- your charity's understanding of risk;
- the risk management practices of your charity;
- the risks your charity faces.

The survey should take about 5-10 minutes to complete. If you contribute to the survey, we will ensure your anonymity and confidentiality is maintained throughout all phases of the research process. Thank you for your time.

If you are unclear about the nature and purpose of this survey and would like further clarification, please contact Diarmuid McDonnell, School of Applied Social Science, University of Stirling (diarmuid.mcdonnell@stir.ac.uk) who is leading this research.

Many thanks,

Diarmuid McDonnell

Doctoral Researcher, University of Stirling

The survey questions can be viewed here: http://bit.ly/2psyArY

Interview topic guide

The list of questions below is a guide to be used flexibly by the interviewer. In particular it will depend on the interviewee's answers to the earlier, contextual questions as their responses will shape the order and nature of the questions which follow. Nevertheless, if time permits, an attempt will be made to cover all of these topics to some extent in each interview. The interviews are a way of bringing complexity to the findings of the survey.

Use prompts and probes.

Don't mention investigations – some won't know that they have been subject to one.

Be as concrete (specific) as possible in my posing of the questions. The answer to a question should be an observable implication of the topic I'm interested, not necessarily the correct answer. Interviewees should not do the work for me.

1. Context

Tell me about your charity.

What is your role in the organisation?

How long have you been involved with this charity?

2. Significant risks

Tell me about some of your charity's recent achievements.

Could you tell me about some of the biggest challenges or risks facing your charity?

What strategies do you employ to deal with the risks facing your charity? *I need to get at the idea of risk as an organising principle.*

Do you feel that your charity has sufficient resources to tackle these risks?

Charities have been subject to intense public, media and parliamentary scrutiny recently. Do you feel that instances of misconduct, perceived or otherwise, impacts your charity in any way?

If someone had an issue with the conduct of your charity, do you have a procedure in place for dealing with complaints? Have you had to deal with any complaints about the charity's conduct recently? [*Potentially sensitive*]

3. Accountability

Could you tell me about the ways in which your charity demonstrates accountability to its various stakeholders? *If participants require elaboration then give examples of publishing accounts/reports online.*

What about the demands for your charity to be accountable? Do you think managing the risks facing your charity helps you to be accountable?

Do you think that your charity, and charities in general, are properly held accountable?

4. Regulation

Thinking about charity regulation, do you feel it has a positive impact on the governance of the charity? Do you feel that the level of regulation your charity is subjected to is overly burdensome?

Thinking in terms of the risks facing your charity and the sector more broadly, is there anything OSCR does or could do to help manage these risks?

Are there opportunities for OSCR to learn from charities in order to be a more effective regulator? What about opportunities for charities to learn from OSCR? *If participants require elaboration then mention the data they have on public complaints and whether sharing this information would be useful to charities.*

Do you feel that you are a risky charity in the regulator's eyes? *If participants require a definition of risky: conducting itself in a way that could damage public confidence.*

5. Close

Finally, is there anything else you'd like to say about what we've covered today? Or something that we haven't covered?

Chapter Four

Table A4.1. Distribution of annual gross income

	Not investigated		Investigated		Whole sample	
Statistic	income	income (log)	income	income (log)	income	income (log)
N	24,045	24,045	1,566	1,566	25,611	25,611
p5	80	4.3	908	6.8	90	4.5
p25	1,933	7.6	17,394	9.8	2,086	7.6
p50	10,799	9.3	89,394	11.4	12,243	9.4
p75	55,542	10.9	521,771	13.2	64,939	11.1
p95	793,103	13.6	18,268,000	16.7	303,861	13.9
mean	566,153	9.2	5,319,561	11.4	856,810	9.3
sd	8,726,481	2.8	33,942,019	3.0	11,967,041	2.8
skewness	54	-0.3	14	-0.1	40	-0.2
kurtosis	3,803	4.1	252	3.7	2,032	4.0
total	13,613,147,077	221,150.5	8,330,431,935	17,928.2	21,941,203,120	239,078.7

Note: All figures in £; figures for income (log) rounded to one decimal place.

Figure A4.1. Histogram of annual gross income (log), by investigation status

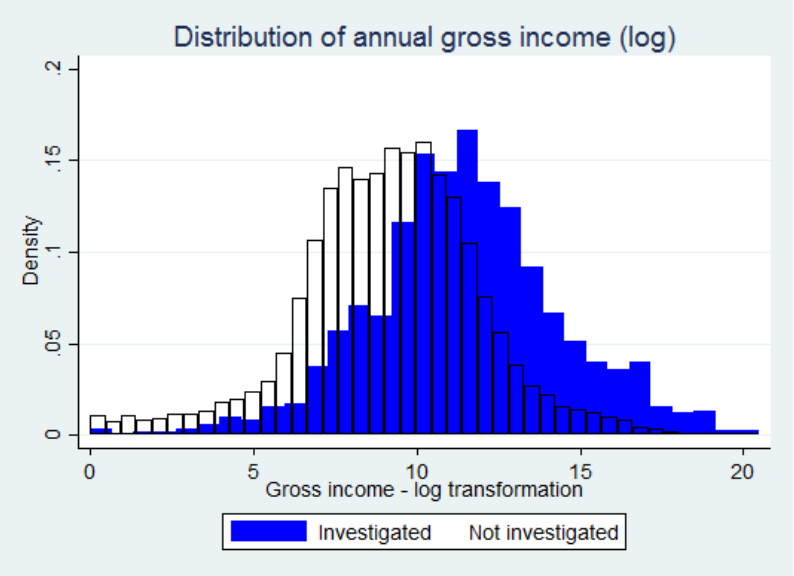
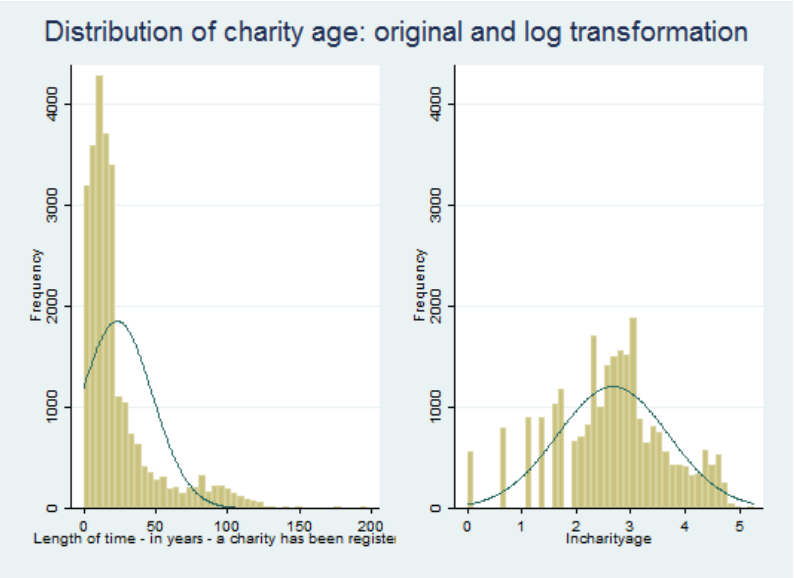


Table A4.2. Distribution of categorical function form of annual gross income

	Not investigated		Investigated		Whole sample	
Organisation size	N	%	N	%	N	%
£1 - £24,999	15,201	63	483	31	15,684	61
£25,000 - £99,999	4,635	19	327	21	4,961	19
£100,000 - £499,999	2,683	11	356	23	3,039	12
£500,000 - £999,999	474	2	105	7	578	2
£1,000,000 - £9,999,999	810	3	183	12	992	4
£10m +	242	1	112	7	354	1
Total	24,045	100	1,566	100	25,611	100

Note: Percentages rounded to the nearest whole number and thus columns may not sum to 100.

Figure A4.2. Distribution of charity age



Statistical modelling process

Investigated

Model 1 contains only the constant (i.e. the proportion of all charities that have been investigated). Model 2 includes only the independent variables relevant to the hypotheses being tested (the log metric functional form of organisation size). Model 3 is similar to Model 2 but replaces the metric form of Size with the categorical. Model 4 builds on Model 3 by including the remaining independent variables: Field, Form, Geography, Grant, and Parent. Finally, Model 5 replicates Model 4 but includes an interaction term for Size and Age.

Models 2, 3 and 4 demonstrate that there is a statistically significant effect of organisation size on the likelihood of being investigated. Model 2 explores the main effect of the natural log of annual gross income. For a one unit increase in log income there is a 35 percent increase in the odds of being investigated. In terms of the original units, a 20 percent increase in annual gross income corresponds with an increase in the odds ratio of .25 (that is, a 25 percent increase in the odds of being investigated compared to an organisation with 20 percent less income). For the categorical measure of size there appears to be a clear income gradient, where the odds of being investigated are higher for all charity sizes compared to the reference category of £1-£24,999. Once other factors are controlled for (model 4), the largest charities (£10m +) have odds of being investigated that are between seven and thirteen times greater than the smallest organisations; while a seemingly large figure, this is an accurate approximation of the relative risk of being investigated. The proportion of charities investigated in each organisation size category corroborates the findings of the regression analysis: the relative risk ratio for the largest charities compared the smallest is approximately 10:1 (32 percent of larger charities investigated compared to three percent of the smallest).

Table A4.3. Results of Logistic Regression on outcome of being investigated – multiple models

	Model 1	Model 2	Model 3	Model 4	Model 5
Size (base = £1 - £24,999)					
£25,000 - £99,999			2.27 (.18)***	2.12 (.18)***	1.51 (.38)
£100,000 - £499,999			4.33 (.33)***	3.12 (.28)***	2.23 (.60)**
£500,000 - £999,999			7.05 (.86)***	4.36 (.59)***	2.89 (1.26)*
£1,000,000 - £9,999,999			7.27 (.70)***	4.67 (.55)***	.37 (.13)**
£10m +			14.03 (1.78)***	10.29 (1.60)***	1.23 (.51)
Size (log)		1.35 (.01)***			
Age		.83 (.03)***	.82 (.03)***	.95 (.03)	.76 (.04)***
Grant				.77 (.06)***	.81 (.06)**
Parent				.49 (.06)***	.52 (.06)***
Size*Age (base = £1 - £24,999)					
£25,000 - £99,999					1.15 (.10)
£100,000 - £499,999					1.15 (.11)
£500,000 - £999,999					1.18 (.18)
£1,000,000 - £9,999,999					2.51 (.29)***
£10m +					2.28 (.33)***
Constant	.07 (.00)***	.01 (00)***	.06 (.01)***	.03 (.00)***	.06 (.01)***
Observations	22,088	22,088	22,088	22,088	22,088
Log-likelihood	-5334.42	-4879.61	-4883.02	-4738.40	-4695.11
BIC	n/a	-211152.40	-211105.56	-211124.72	-211161.30

Likelihood Ratio (previous model)	n/a	909.62***	902.79	1192.03***	1278.62***

Note: Standard errors in parentheses. Figures rounded to two decimal places. Legend: * p<0.05; ** p<0.01; *** p<0.001.

Regulatory action

Model 1 contains only the constant (that is, the proportion of all charities that have had regulatory action taken against them). Model 2 includes only the independent variables relevant to the hypotheses being tested (the log metric functional form of organisation size). Model 3 is similar to Model 2 but replaces the metric form of Size with the categorical. Model 4 builds on Model 3 by including the remaining independent variables: Field, Form, Geography, Grant, Parent, Public and Misconduct. As regulatory action is dependent on whether an investigation has occurred, the sample is restricted to those charities that have been investigated and have no missing data for all of the independent variables. The sample size is not constant across the four models however, as some categories of the independent variables perfectly predict the outcome.

The regression results suggest that predicting regulatory action is opaque compared to being investigated. In Model 3 and 4, there is no evidence of an income gradient although it does appear that the largest charities have lower odds of having regulatory action taken against them. The metric form of organisation size in Model 2 confirms that there is a small reduction in the odds of the outcome occurring as the size of a charity increases; statistical significance is present only in the absence of controls and disappears once these are included. There is no effect of age on the outcome once other factors are accounted for (Model 4). Perhaps of most interest are the additional independent variables in the final model. If the investigation is triggered by a complaint from a member of the public, the odds of regulatory action being taken against a charity are lower by sixteen percent. This suggests that, while most likely to complain about the conduct of an organisation, members of the public are worse at spotting actions by a charity that merit regulatory intervention compared to other parties. In terms of the reasons driving investigations, complaints based on concerns about organisational misconduct have higher odds of triggering regulatory action than other concerns (e.g. criminal, governance).

Table A4.4. Results of Logistic Regression on outcome of regulatory action – multiple models

	Model 1	Model 2	Model 3	Model 4
Size (base = £1 - £24,999)				
£25,000 - £99,999			1.54 (.39)	1.50 (.39)
£100,000 - £499,999			.78 (.21)	.84 (.25)
£500,000 - £999,999			1.21 (.43)	1.37 (.54)
£1,000,000 - £9,999,999			.36 (.15)*	.38 (.18)*
£10m +			.50 (.23)	.82 (.42)
Size (log)		.91 (.03)**		
Age		1.06 (.12)	1.05 (.12)	1.02 (.13)
Grant				1.20 (.28)
Parent				.51 (.24)
Public				.83 (.17)
Misconduct				1.36 (.43)
Constant	.12 (.01)***	.31 (.14)**	.11 (.04)***	.15 (.07)***
Observations	1,238	1,238	1,238	1,173
Log-likelihood	-411.60	-407.39	-401.49	-384.10
BIC	n/a	-7979.97	-7963.28	-7288.54
Likelihood Ratio (previous model)	n/a	8.429*	20.22*	40.41

Note: Standard errors in parentheses. Figures rounded to two decimal places. Model 4 has fewer observations as certain categories of Form were omitted from the estimation of the model as they perfectly predicted the outcome. Legend: * p<0.05; ** p<0.01; *** p<0.001.

Figure A4.3. Logistic Regression on the outcome of being investigated – model residuals and deviance

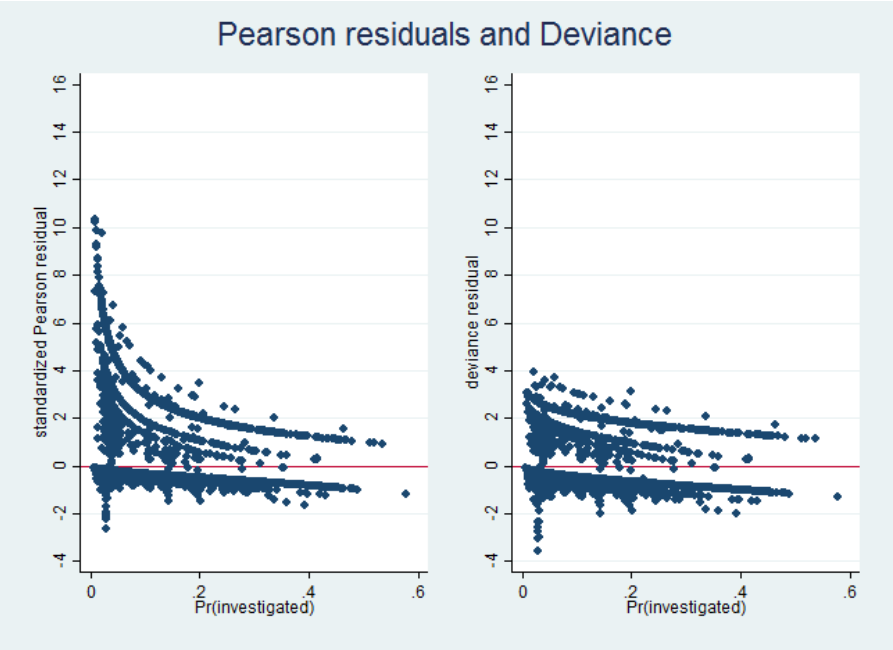


Figure A4.4. Logistic Regression on the outcome of regulatory action – model residuals and deviance

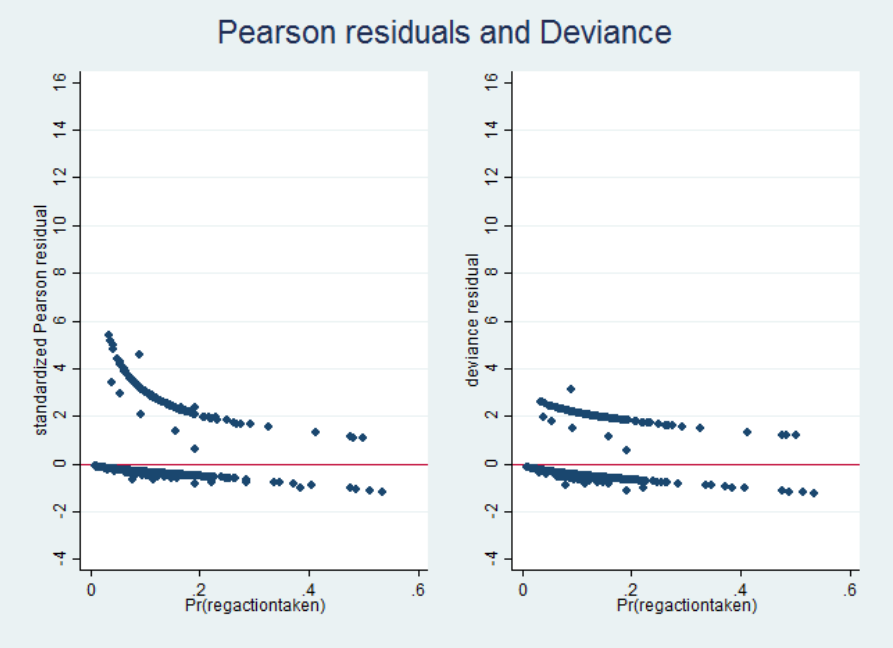


Figure A4.5. Logistic Regression on the outcome of being investigated – influence of observations on model estimation

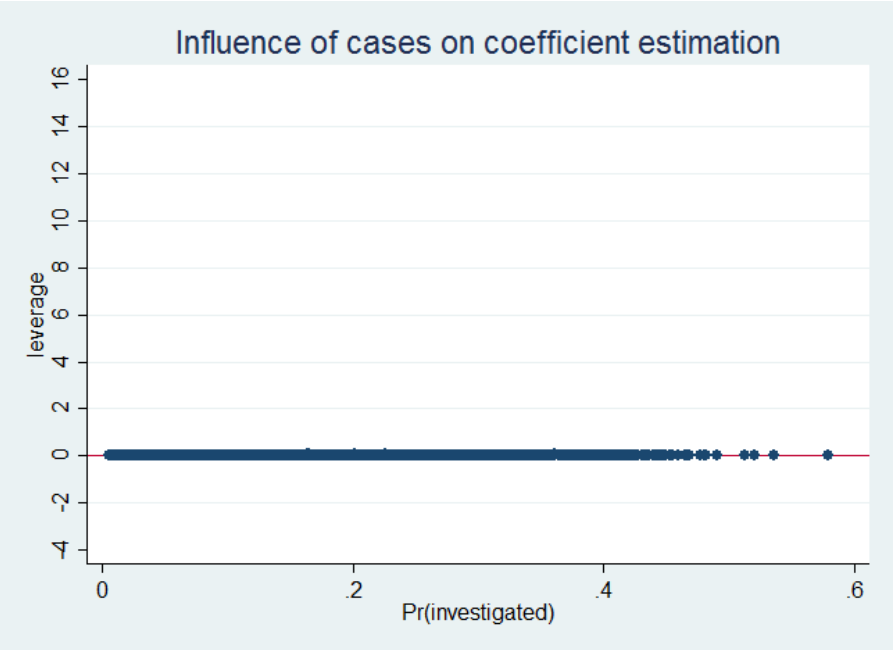
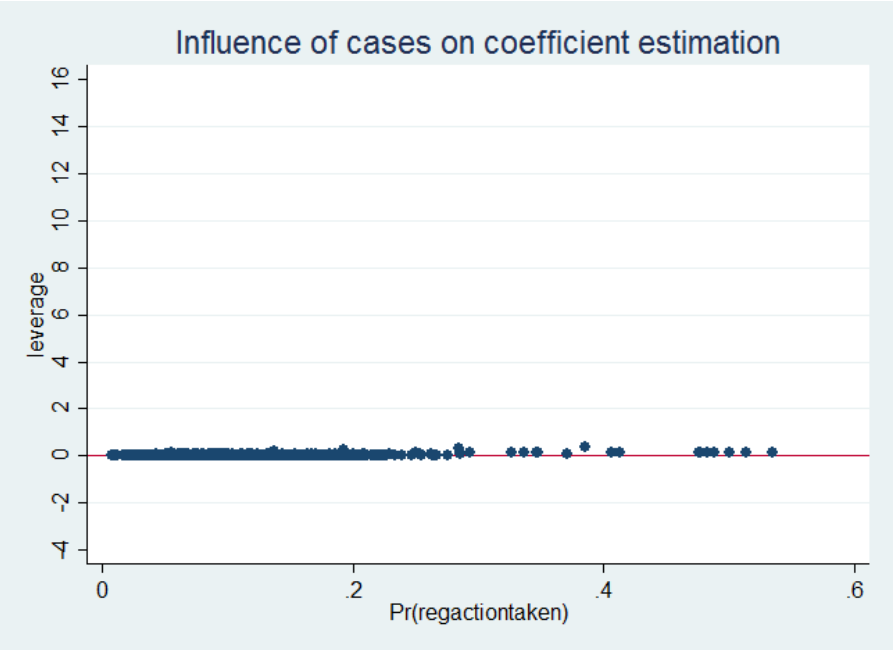


Figure A4.6. Logistic Regression on the outcome of regulatory action – influence of observations on model estimation



Chapter Five

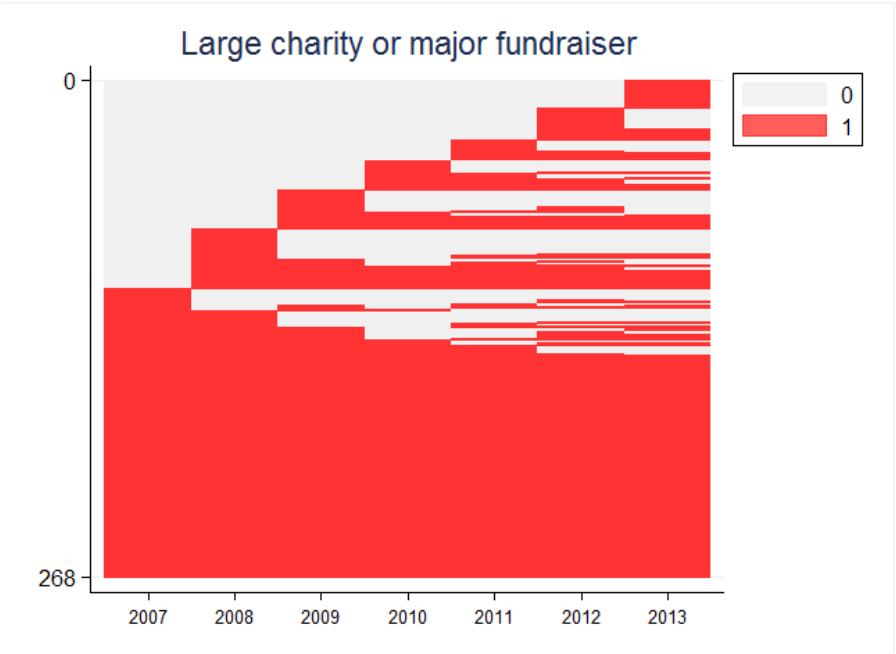
Table A5.1. Financial Exception codes

Exception code	Description
Large charity or major fundraiser	
1	Total incoming resources are over £10M.
2	Total donations gifts and legacies received over £1M.
Sudden growth or contraction	
3	Total incoming resources are over £250,000 and over five times the previous year's.
4	Total incoming resources previous year were over £250,000 and this year's are under one fifth.
Possible failure to apply funds for charitable purposes	
5	Cost of generating voluntary funds is over 50% of donations plus legacies.
6	Cost of trading in order to raise funds exceeds income from trading in order to raise funds.
8	Total resources expended are under 67% of total incoming resources.
9	Governance costs are over 25% of total resources expended.
10	"Other" is more than 50% of resources expended.
Poor liquidity, low reserves, threats to viability	
11	Total resources expended are over 150% of total incoming resources.
12	Negative total net assets.
13	Debtors more than 30% of total incoming resources.
14	Creditors payable within one year more than 50% of total resources expended.
15	Negative net current assets (ie net current liabilities) more than 20% of total incoming resources.
16	Unrestricted fund negative and more than 1% of total incoming resources.
Fundraising issues (also 5 and 6)	
17	Unauthorised fundraising answered yes.
Adequacy of governing board	
18	Two or fewer trustees and either total incoming resources over £1M or total net assets over £1M.
19	No trustees normally residing in Scotland.
Transactions with trustees	
20	Payments to trustees settling outlays greater than £50,000.
21	Payments to Trustees for professional services to the charity greater than £50,000.
22	Payments to Trustees for professional services greater than 30% of total resources expended.
23	Payments to Trustees for any other work done for the charity is greater than £50,000.
24	Payments to Trustees for any other work done for the charity is over 30% of total resources expended.
25	Payment to Trustees for any other reason over £50,000.
26	Payments to Trustees for any other reason over 30% of total resources expended.
27	Payments to trustees for professional services, work done or "other", and no specific authority in constitution.
28	Money owed by Trustee at any time greater than £5,000.
29	Sales of properties to Trustees greater than £50,000.
30	Property gifted to trustee(s) value over £500.
31	Purchase of properties from Trustees greater than £50,000.
32	Charity occupied property belonging to a trustee and paid more than £20,000.
33	Services made available to one or more trustees.

Table A5.2. Financial Exception groups

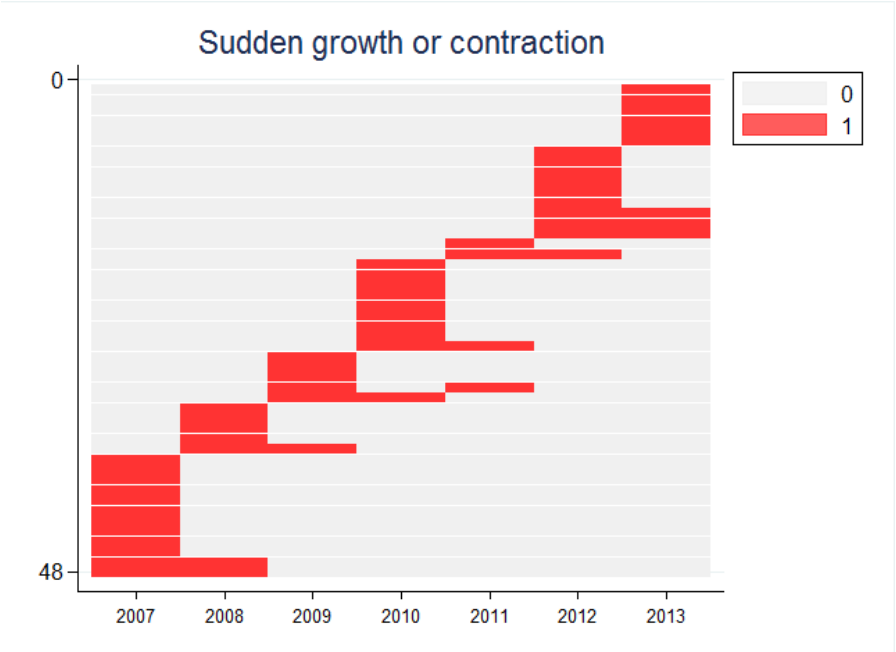
Exception group	Description
1	Large charity or major fundraiser
2	Sudden growth or contraction
3	Possible failure to apply funds for charitable purposes
4	Poor liquidity, low reserves, threats to viability
5	Adequacy of governing board
6	Transactions with trustees

Figure A5.1. Sequence index plot of large charity or major fundraiser



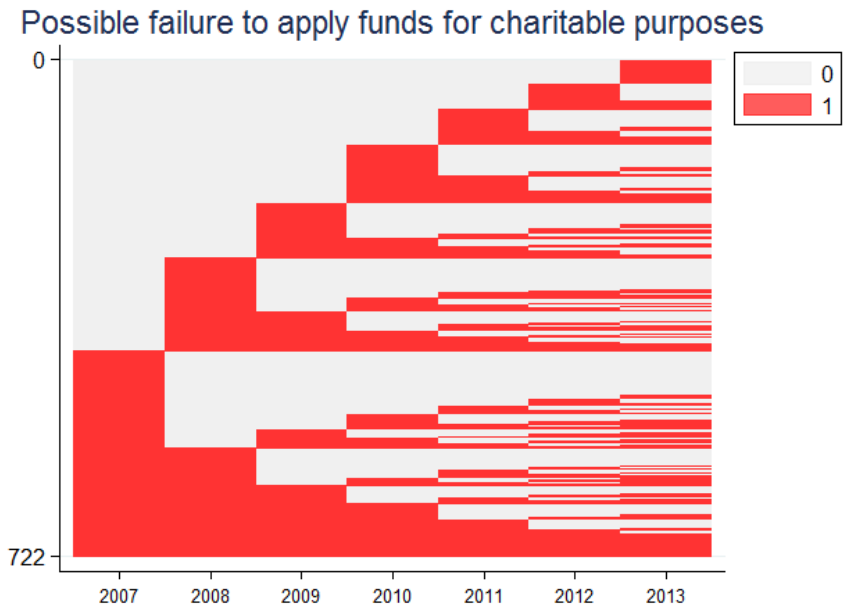
Note: The Y axis represents the individual sequences of the 268 charities that triggered this exception at least once and is ordered by exception status in 2007.

Figure A5.2. Sequence index plot of sudden growth or contraction



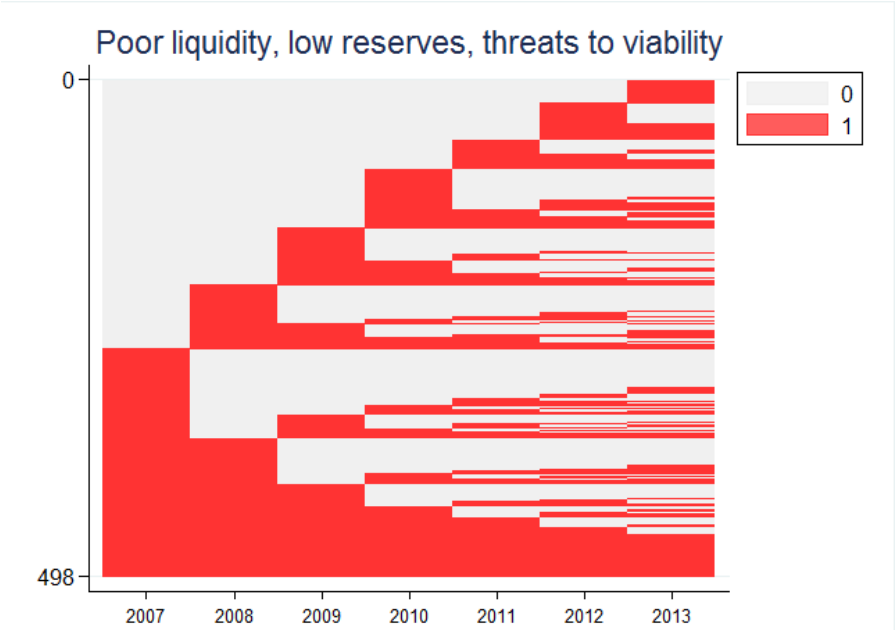
Note: The Y axis represents the individual sequences of the 48 charities that triggered this exception at least once and is ordered by exception status in 2007.

Figure A5.3. Sequence index plot of the possible failure to apply funds for charitable purposes



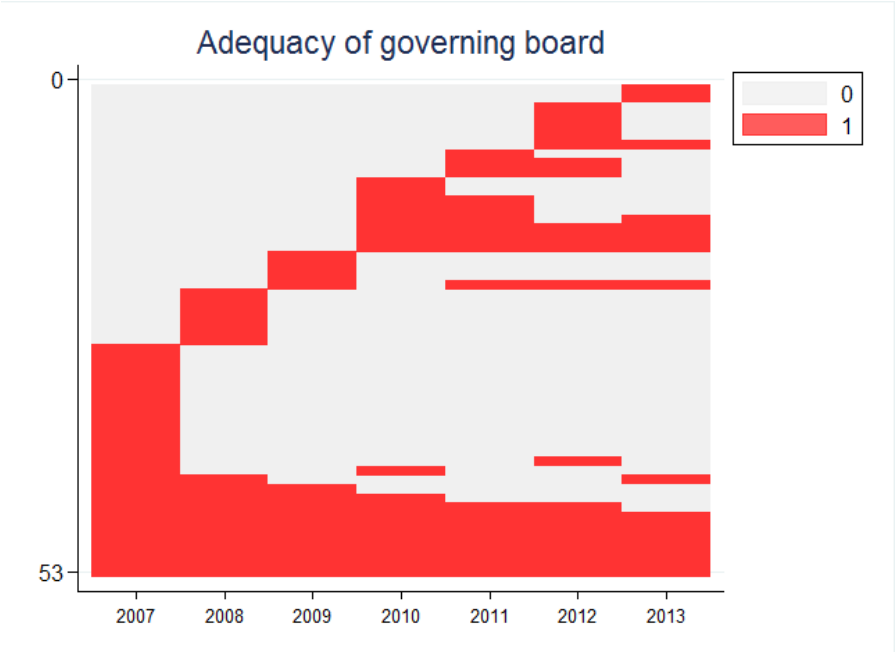
Note: The Y axis represents the individual sequences of the 722 charities that triggered this exception at least once and is ordered by exception status in 2007.

Figure A5.4. Sequence index plot of poor liquidity, low reserves, threats to viability



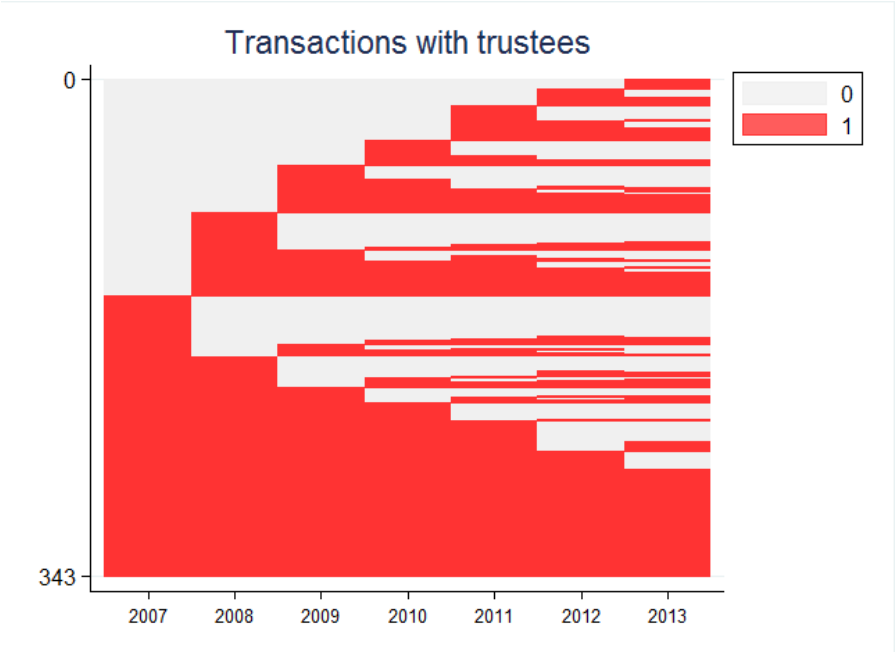
Note: The Y axis represents the individual sequences of the 498 charities that triggered this exception at least once and is ordered by exception status in 2007.

Figure A5.5. Sequence index plot of adequacy of governing board



Note: The Y axis represents the individual sequences of the 53 charities that triggered this exception at least once and is ordered by exception status in 2007.

Figure A5.6. Sequence index plot of transactions with trustees



Note: The Y axis represents the individual sequences of the 343 charities that triggered this exception at least once and is ordered by exception status in 2007.

Table A5.3. Collinearity of independent variables for possible failure to apply funds for charitable purposes

	Size	Age	Concentration	Grant	Form	Geography	Field
Size	1						
Age	.03	1					
Concentration	.13*	.10*	1				
Grant	.06*	-.02	-.16*	1			
Form	.41***	.39***	.19***	.39***	1		
Geography	.32***	.15***	.12***	.35***	.17***	1	
Field	.37***	.38***	.21***	.31***	.29***	.28***	1

Note: Pearson correlation statistic is reported for associations between metric variables; Eta statistic for associations between metric and categorical; and Cramer's V statistics for associations between categorical variables. *p < .05. **p < .01. ***p < .001, two-tailed.

Table A5.4. Collinearity of independent variables for poor liquidity, low reserves, threats to viability

	Size	Age	Concentration	Grant	Form	Geography	Field
Size	1						
Age	.00	1					
Concentration	.03	.09*	1				
Grant	.04*	.08*	-.16*	1			
Form	.27***	.43***	.10***	.45***	1		
Geography	.21***	.19***	.15***	.34***	.14***	1	
Field	.27***	.38***	.25***	.34***	.29***	.26***	1

Note: Pearson correlation statistic is reported for associations between metric variables; Eta statistic for associations between metric and categorical; and Cramer's V statistic for associations between categorical variables. *p < .05. **p < .01. ***p < .001, two-tailed.

Chapter Six

Table A6.1. Missing data for each of the dependent variables 2008-2013

							% of charities
Vulnerability	2008	2009	2010	2011	2012	2013	Overall
Funding	17	22	13	13	5	12	14
Financial	22	28	28	30	32	39	29
Programme	22	28	28	30	32	39	29
Insolvency	9	18	20	20	28	28	20
Any financial vulnerability	20	26	26	27	30	35	27

Note: Percentages rounded to the nearest integer and thus may not sum to 100. With the exception of funding risk, data for each of the vulnerabilities is more likely to be missing for the most recent years in the panel: this is probably accounted for by the fact that very few Cross Border or Registered Social Landlords were dropped from the dataset in 2012 or 2013 when the annual gross income threshold was altered.

Table A6.2. Descriptive statistics for the outcome of funding risk

	Not vulnerable (n=1,202)		Vulnerable (n=80)		Whole sample (n=1,282)	
Variable	M	SD	M	SD	M	SD
Age (log)	3.21	.67	3.21	.70	3.21	.67
Size (log)	13.83	1.26	13.52	.99	13.81	1.25
Concentration	.30	.22	.34	.24	.30	.22
Leverage	.58	.37	.45	.39	.57	.37
Turnover	.42	.56	1.09	1.96	.47	.75
Unrestricted funds	12.97	1.99	13.46	1.97	13.00	2.00
Loss	.19	.39	.14	.35	.19	.39
Lagged financial vulnerability	.29	.46	.44	.50	.30	.46
Operate locally and overseas (%)	14	-	23	-	15	-
Social services (%)	30	-	11	-	28	-
Company (%)	70	-	60	-	69	-

Note: Percentages rounded to the nearest whole number. Only selected categories from the control variables are included for the purpose of brevity.

Table A6.3. Descriptive statistics for the outcome of financial risk

	Not vulnerable (n=1,086)		Vulnerable (n=196)		Whole sample (n=1,282)	
Variable	M	SD	M	SD	M	SD
Age (log)	3.22	.68	3.16	.66	3.21	.67
Size (log)	13.84	1.27	13.65	1.14	13.81	1.25
Concentration	.30	.22	.31	.23	.30	.22
Leverage	.59	.36	.42	.38	.57	.37
Turnover	.49	.75	.35	.75	.47	.75
Unrestricted funds	13.04	1.95	12.77	2.21	13.00	2.00
Loss	.18	.39	.21	.41	.19	.39
Lagged financial vulnerability	.29	.46	.35	.48	.30	.46
Operate locally and overseas (%)	14	-	18	-	15	-
Social services (%)	29	-	27	-	28	-
Company (%)	70	-	64	-	69	-

Note: Percentages rounded to the nearest whole number. Only selected categories from the control variables are included for the purpose of brevity.

Table A6.4. Descriptive statistics for the outcome of programme risk

	Not vulnerable (n=1,187)		Vulnerable (n=95)		Whole sample (n=1,282)	
Variable	M	SD	M	SD	M	SD
Age (log)	3.21	.68	3.25	.66	3.21	.67
Size (log)	13.83	1.27	13.54	.91	13.81	1.25
Concentration	.30	.22	.27	.22	.30	.22
Leverage	.57	.37	.53	.38	.57	.37
Turnover	.46	.75	.58	.75	.47	.75
Unrestricted funds	13.00	2.00	12.99	1.96	13.00	2.00
Loss	.18	.38	.25	.44	.19	.39
Lagged financial vulnerability	.28	.45	.53	.50	.30	.46
Operate locally and overseas (%)	15	-	13	-	15	-
Social services (%)	30	-	12	-	28	-
Company (%)	70	-	60	-	69	-

Note: Percentages rounded to the nearest whole number. Only selected categories from the control variables are included for the purpose of brevity.

Table A6.5. Descriptive statistics for the outcome of insolvency risk

	Not vulnerable (n=1,194)		Vulnerable (n=88)		Whole sample (n=1,282)	
Variable	M	SD	M	SD	M	SD
Age (log)	3.24	.68	2.78	.46	3.21	.67
Size (log)	13.80	1.26	13.94	1.09	13.81	1.25
Concentration	.30	.22	.28	.21	.30	.22
Leverage	.55	.37	.80	.25	.57	.37
Turnover	.49	.77	.13	.13	.47	.75
Unrestricted funds	13.11	1.97	11.41	1.68	13.00	2.00
Loss	.19	.39	.18	.39	.19	.39
Lagged financial vulnerability	.27	.44	.77	.42	.30	.46
Operate locally and overseas (%)	15	-	14	-	15	-
Social services (%)	29	-	24	-	28	-
Company (%)	68	-	89	-	69	-

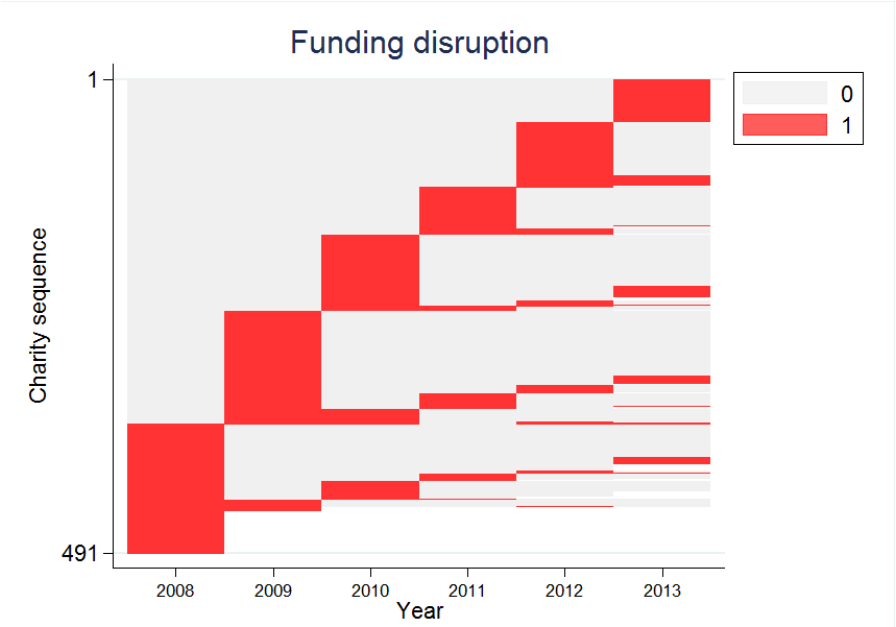
Note: Percentages rounded to the nearest whole number. Only selected categories from the control variables are included for the purpose of brevity.

Table A6.6. Results of Logistic Regression for Outcome of Financial Vulnerability

	Log odds	SE (robust)	95% CI	
			Lower	Upper
Age	-.20	.11	-.42	.01
Size	.01	.08	-.15	.17
Concentration	-.17	.32	-.80	.47
Leverage	-1.12***	.24	-1.60	-.65
Turnover	.10	.09	-.08	.28
Unrestricted funds	-.16**	.06	-.28	-.04
Loss	.03	.17	-.30	.35
Lagged financial vulnerability	.97***	.14	.70	1.25
Controls		Yes		
Observations		1,282		
McFadden's adjusted R^2		.04		
McKelvey and Zavoina's R^2		.14		
Cragg and Uhler's R^2		.14		
BIC full model		-7519.51		

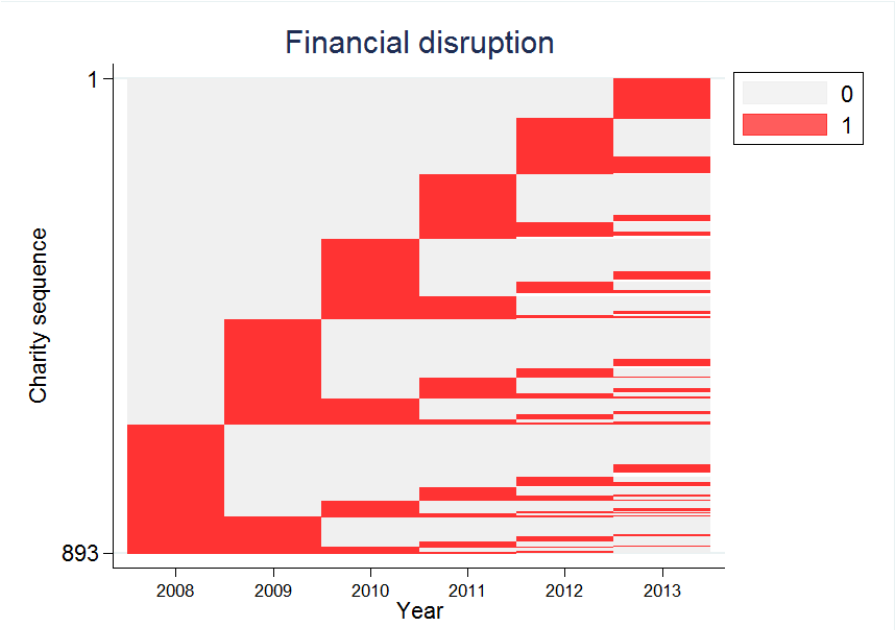
Note: Figures rounded to two decimal places. Constant is omitted. CI: confidence interval; BIC: Information Criterion. *p < .05. **p < .01. ***p < .001.

Figure A6.1. Sequence index plot of funding disruption



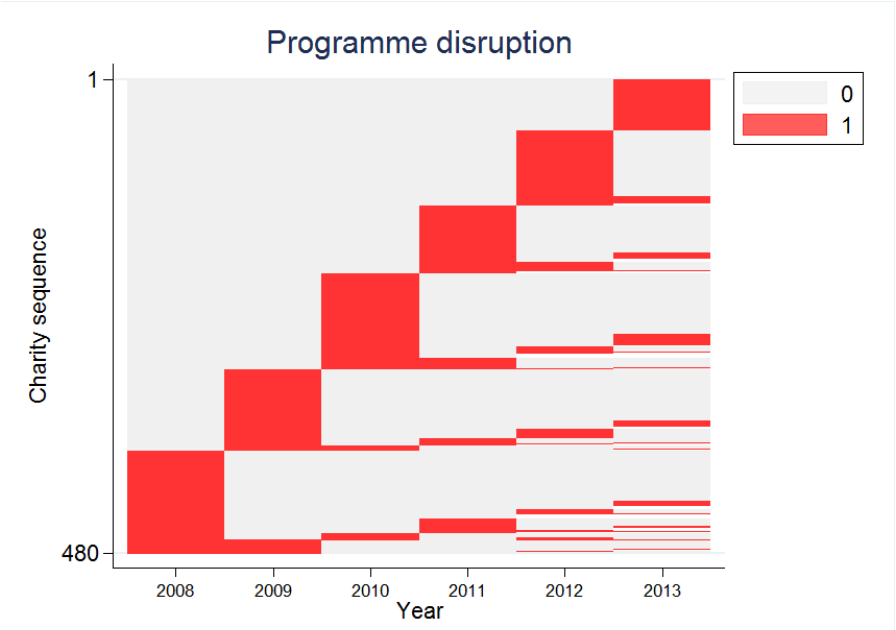
Note: The Y axis represents the individual sequences of the 491 charities that experienced this vulnerability at least once and is ordered by vulnerability status in 2008.

Figure A6.2. Sequence index plot of financial disruption



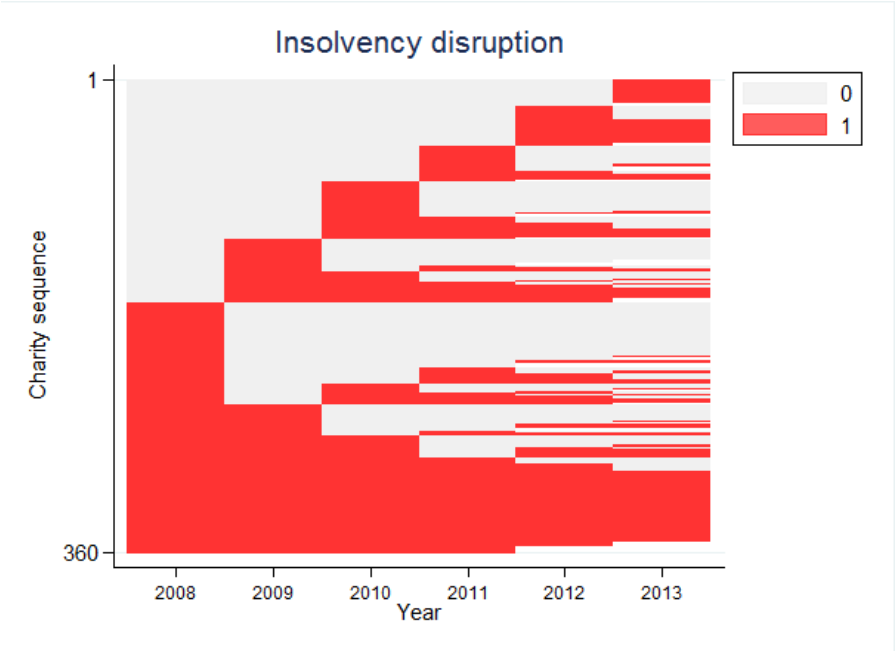
Note: The Y axis represents the individual sequences of the 893 charities that experienced this vulnerability at least once and is ordered by vulnerability status in 2008.

Figure A6.3. Sequence index plot of programme disruption



Note: The Y axis represents the individual sequences of the 480 charities that experienced this vulnerability at least once and is ordered by vulnerability status in 2008.

Figure A6.4. Sequence index plot of insolvency



Note: The Y axis represents the individual sequences of the 360 charities that experienced this vulnerability at least once and is ordered by vulnerability status in 2008.

Figure A6.5. Regression model residuals and deviance

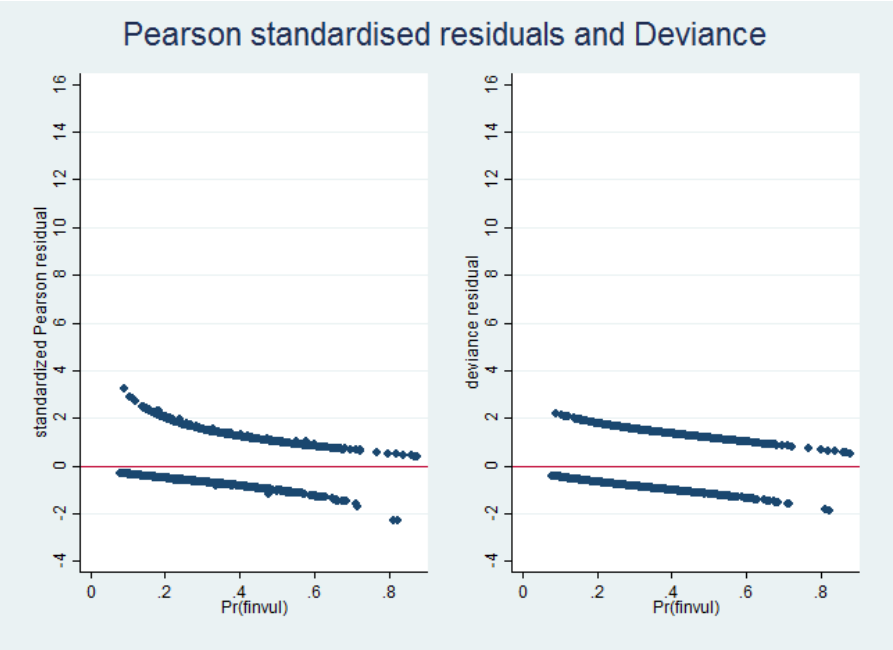
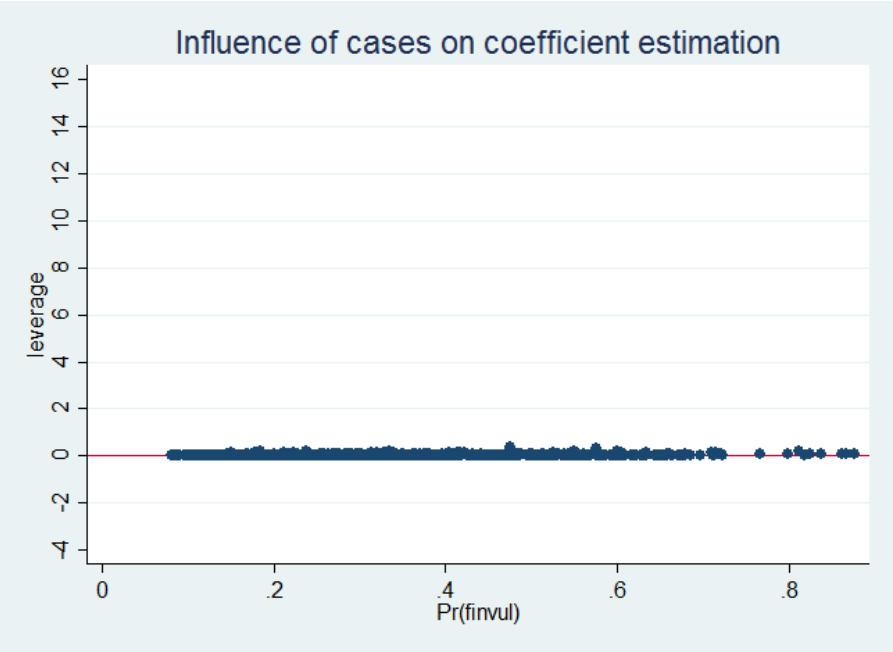


Figure A6.6. Influence of observations on model estimation



Chapter Seven

Table A7.1. Distribution of respondent roles in charity

Role	N	%	Cumulative %
Trustee	233	55.48	55.48
Senior Management	134	31.90	87.38
Employee	31	7.38	94.76
Volunteer	14	3.33	98.10
Other	8	1.90	100.00
Total	420	100.00	

Table A7.2. Distribution of charity size

Annual gross income	N	%	Cumulative %
£0	2	0.48	0.48
£1 - £24,999	129	30.71	31.19
£25,000 - £99,999	84	20.00	51.19
£100,000 - £499,999	106	25.24	76.43
£500,000 - £999,999	32	7.62	84.05
£1,000,000 - £9,999,999	55	13.10	97.14
£10,000,000 +	12	2.86	100.00
Total	420	100.00	

Table A7.3. Distribution of ICNPO

ICNPO group	N	%	Cumulative %
Culture and recreation	75	17.86	17.86
Not elsewhere classified	69	16.43	34.29
Social services	63	15.00	49.29
Religion	55	13.10	62.38
Health	49	11.67	74.05
Education and research	48	11.43	85.48
Environment	15	3.57	89.05
Development and housing	15	3.57	92.62
International	14	3.33	95.95
Philanthropic intermediaries and voluntarism promotion	12	2.86	98.81
Law, advocacy and politics	4	0.95	99.76
Business and professional associations, unions	1	0.24	100.00
Total	420	100.00	

Table A7.4. Distribution of charity constitutional form

Constitutional form	N	%	Cumulative %
Company	163	38.81	38.81
Unincorporated Association	93	22.14	60.95
Trust	55	13.10	74.05
SCIO	54	12.86	86.90
Other	45	10.71	97.62
Industrial and Provident Society	8	1.90	99.52
Education Endowment	1	0.24	99.76
Statutory Corporation	1	0.24	100.00
Total	420	100.00	

Table A7.5. When asked to describe risk, some charities mention the terms below. If your charity was asked to describe risk, how relevant are each of these terms?

					%
Risk descriptor	N	Not relevant	Slightly relevant	Moderately relevant	Highly relevant
Hazard	395	24	24	24	29
Threat	405	18	20	28	34
Challenge	409	5	14	34	46
Opportunity	398	10	14	32	44
Uncertainty	405	9	20	33	37
Exciting	381	30	22	25	22
Scary	383	46	25	21	8
Success	396	11	12	31	45
Failure	399	14	22	28	35
Quantitative	365	9	16	39	35
Qualitative	365	8	10	30	52

Note: Percentages rounded to the nearest whole number and thus rows may not sum to 100.
Observations with missing data or responded ‘don’t know’ are excluded.

Table A7.6. Please indicate your level of agreement with the following statements:

					%
Risk management utility	N	Strongly disagree	Disagree	Agree	Strongly agree
Risk management supports our strategic planning	390	4	9	49	38
Risk management supports our day-to-day activities	398	4	11	49	37
Risk management helps us be accountable to our funders	376	3	16	49	35
Risk management helps us be accountable to our regulator	378	2	9	52	37
Risk management helps us be accountable to our beneficiaries	381	3	11	48	39

Note: Percentages rounded to the nearest whole number and thus rows may not sum to 100.

Table A7.7. When asked to think broadly about the kind of problems facing charities today, some people mention the concerns below. For each one, please indicate how important you think each risk category is to your charity:

					%
Risk category	N	Not relevant	Slightly relevant	Moderately relevant	Highly relevant
Governance risks	417	4	17	36	43
Financial risks	419	1	8	19	72
Operational risks	415	4	18	34	44
Compliance risks	416	4	21	31	44
External risks	413	6	19	33	42

Note: Percentages rounded to the nearest whole number and thus rows may not sum to 100. Observations with missing data or responded 'don't know' are excluded.

Table A7.8. Thinking about these risk categories in more detail, please indicate how concerned your charity is with regards to these risks over the next 12 months

					%
Type of risk	N	Not concerned	Slightly concerned	Moderately concerned	Very concerned
Inappropriate organisational structure	410	50	24	17	9
Insufficient number of trustees	419	49	23	17	11
Lack of relevant trustee skills and knowledge	417	33	35	22	10
Reduction in annual income	417	14	27	26	33
Increase in annual expenditure	414	20	30	31	19
Challenging fundraising environment	404	15	19	29	38
Inadequate reserves and cashflow	414	38	28	18	15
Inability to cope with increase in demand for services	410	36	30	20	14
Poor public perception and reputation	409	50	26	16	8
Changing government policy	407	26	27	27	20
Complying with charity regulation	418	41	33	18	8

Note: Percentages are rounded to the nearest whole number and thus rows may not sum to 100. Observations with missing data or responded 'don't know' are excluded.

Publications

The following is a list of peer-reviewed publications that are based on empirical work in this thesis:

McDonnell, D. (2017). Improving Charity Accountability: Lessons From the Scottish Experience. *Nonprofit and Voluntary Sector Quarterly*, *46*(4), 725-746.

McDonnell, D., & Rutherford, A. C. (2017). The Determinants of Charity Misconduct. *Nonprofit and Voluntary Sector Quarterly*, Advance online publication. doi: 10.1177/0899764017728367.

Accessing Data

In accordance with the ESRC's mandate, the research data from this thesis has been made available through an open access repository:

https://datastorre.stir.ac.uk/handle/11667/101

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[1] Public goods are non-excludable and non-rivalry; that is, it is difficult to prevent consumers from benefiting from the good and individual consumption does not reduce the amount of the good available for other consumers respectively.

[2] Note that some of these failures are only so from an instrumental (i.e. economic) perspective. Particularism could be a success when viewed from an expressive or advocacy perspective for instance.

[3] http://www.thinkdata.org.uk/; http://tsrc-ncvo-csdp.com/.

[4] Readers will note that the analytical chapters do not examine an obvious risk in the sector: organisational demise. There are two reasons why we chose to focus on other outcomes. First, charity demise has been studied extensively in the literature on nonprofit success and failure (see Helmig, Ingurfurth & Pinz, 2014 for a comprehensive review of this work). Second, the administrative data utilised in this research does not offer the opportunity to study this outcome in a rigorous manner: though it is possible to identify organisations that are no longer charities, we are not able to distinguish between those that had to cease operations entirely, those that were removed by OSCR as a result of an investigation, and those that simply voluntarily renounced their charitable status and continued operating.

[5] A conversation with a member of the Compliance & Investigation team at OSCR revealed that invalid charity numbers are the result of data entry errors. For these observations, we attempted to link with the Scottish Charity Register using the legal name field; this proved unsuccessful for all but a few of the 279 observations.

[6] It is not known whether duplicates are valid (i.e. as the result of a change in a charity's accounting year end date) or data entry errors; the duplicates were dropped using the *duplicates drop* command in Stata.

[7] OSCR does possess email addresses for the principal contact of a charity but was unable to share due to data confidentiality issues. It was decided that the manual collection of email addresses for each charity was too onerous a task and thus an alternative sample-construction strategy was sought.

[8] A copy of the Scottish Charity Register was downloaded from OSCR's website on 17 September 2015 and used to compare to our sample. Though not perfectly overlapping, it is highly unlikely that the charities in our sample are not present on the Register a maximum of three months after completing the survey.

[9] It is unknown why 68 of these responses did not match but it is probable that the data management process applied to Chapter Four's data was a significant factor.

[10] The ICNPO was developed as part of the Johns Hopkins Comparative Nonprofit Sector Project in the 1990s. It provides a means of categorising nonprofits according to their 'economic activity' (i.e. the types of goods and services they provide).

[11] It should be acknowledged that surveys, particularly those that are anonymous, could capture illicit activity that will not appear in other sources such as regulator data.

[12] Though providing advice may act as a deterrent or remedy against future misconduct, we feel that it is more closely aligned, conceptually, with alleged misconduct rather than actual.

[13] For investigated charities, annual gross income refers to the year the investigation was opened; however this only applies to 1,172 observations due to issues with the recording of the date of the investigation. For the remaining investigated charities, annual gross income refers to the organization's size as recorded in its most recent annual return. Alternative measures of size, such as the natural log of net assets, have been utilised in other research streams (most notably in financial vulnerability research) but annual gross income is chosen here as this information is available for all charities in the sample. This is due to there being detailed financial information for only a subset of charities (i.e. those with annual gross income greater than or equal to £25,000). This fact also accounts for the inclusion of only one financial independent variable in the models.

[14] We do not have access to individual-level information on who makes a complaint, only their broad role as recorded by OSCR.

[15] These classifications are derived from unofficial interviews and conversations with members of the Compliance & Investigations team at OSCR.

[16] A similar association is found between the metric forms of annual gross income and investigation status. Two-tailed independent-group t tests and two-sample Wilcoxon rank-sum (Mann-Whitney)

tests were conducted to compare differences in mean and median incomes between charities that have been investigated and those that have not. For both measures there are statistically significant differences in mean and median income: investigated charities have larger values for both measures of central tendency.

[17] The presence of multicollinearity among the independent variables was examined for each model by calculating the variance inflation factors (VIF). For both models, the VIF for each independent variable is less than 1.5 and the mean VIF is less than 1.2, below the thresholds at which Allison (1999) suggests multicollinearity is problematic.

[18] A bivariate probit approach that utilised the whole sample was tested to see whether the dependent variables should be predicted using a single model; the correlation coefficient of the error terms of the two outcomes was statistically insignificant, indicating that they should be modelled independently.

[19] Other possible model specifications include fixed effects and pooled logistic regression. A random effects model is chosen over pooled logit as the Hausman test is statistically significant (X^2=69.59, p<.001) and due to the size of the rho coefficient; ignoring this level of unobserved heterogeneity would lead to incorrect interpretation of model coefficients. A fixed effects model is rejected as it excludes time-invariant independent variables that are of substantive interest; these variables are absorbed by the model's intercept or constant. For example, ICNPO category does not vary over time and thus would be omitted in the estimation of a fixed effects model, despite our interest in exploring whether this variable affects the outcome.

[20] It should be noted that there could be self-selection issues with the balanced panel: that is, charities may not submit an annual return in a particular year due to triggering an exception. As the balanced panel is only subject to descriptive analysis techniques then this issue is not considered as problematic as conducting explanatory analyses that could produce biased effect estimations (magnitude and direction). Nevertheless it should be borne in mind.

[21] Cross-sectional dependence is not a concern in this analysis due to the data being a micro panel i.e. few years and many cases. Heteroscedasticity is accounted for by the estimation of robust standard errors in the model.

[22] We do not wish to speculate whether those with missing values are more or less likely to be financially vulnerable. As previously stated the vast majority of observations with missing values are listed as Cross Border or Registered Social Landlords and it is left to the reader to make their own judgement as to these organisation's propensity to be financially vulnerable.

[23] It should be noted that there could be self-selection issues with the balanced panel: that is, charities may not submit an annual return in a particular year due to experiencing financial vulnerability. As the balanced panel is only subject to descriptive techniques then this issue is not considered as

problematic as when conducting explanatory analyses i.e. risk of biased coefficient estimates (magnitude and direction). Nevertheless it should be borne in mind.

[24] We could have reported the odds ratios (exponentiated coefficients) rather than the log odds: as the outcome is rare, one could argue that it would be more informative to know which charities are more likely to report incidents relative to their peers rather than the absolute effect of a change in log odds. We prefer to report the sign and significance of the log odds as there is a danger that the odds ratios would be inflated for a rare outcome and thus misrepresent the underlying probability of the outcome – see Cramer (2003) and Gayle and Lambert (2009) for further discussion and examples of this issue.

[25] Accounting for the effect of previously being financially vulnerable is important, as Figure 6.1 and Table 6.6 highlight an element of state dependency in this regard.

[26] 55 percent of charities have submitted their annual accounts late at least once; fourteen percent have been subject to a complaint; two percent have been subject to regulatory action arising from a complaint; and seven percent have been removed from the Scottish Charity Register.

[27] Two of the independent variables are not controlled for: lagged financial vulnerability and sequential loss, as these variables are specific to the period 2011-2012.

[28] The broad types of risks examined in the study: Finance, Fraud, Technology, Regulation, People & Governance, and Assets.

[29] At time of writing it was not possible to check whether a charity accurately reported its annual gross income in the survey. While we do link survey data to administrative data using Scottish Charity Number as a unique identifier, there is a lag in the submission of annual returns e.g. charities will not submit their financial information for the period covered by the survey until mid-to-late 2016 at the earliest.