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"Second order" change in UK local government: the case of risk management

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Abstract

Purpose – This paper aims to put forward for consideration new insights into the creation of "second order" change in local government.

Design/methodology/approach – In-depth interviews were carried out in five local authorities to investigate risk management (RM) processes. Interviewees were guided by, but not limited to, outline questions to avoid imposing any preconceived theories about the structure and range of RM processes.

Findings – The extent to which RM was found to be embedded was unexpected, particularly in contrast with observed reactions to previous initiatives. A framework to describe the observed phenomenon is found in the concept of first-order and second-order change and a possible explicatory concept in Hood's analysis of administrative design. Part of the explanation may also lie in the alignment of the initiative aims with the interest of front-line staff.

Research limitations/implications – The reported phenomenon is based on a small sample, as is normal in in-depth case study research. Further empirical work is required.

Practical implications – If the changes are found to have taken place generally, it may be possible to apply some of the attributes of RM to future initiatives. It may also be possible for individual organisations to build on RM successes in order to develop a "learning culture" which could have a beneficial effect in other areas.

Originality/value – Changes in culture are notoriously difficult to achieve. The comparison of the effect of introducing corporate risk management with the effect of previous initiatives may provide some insight into ways of encouraging culture change.

Keywords Risk management, Local government, Change management, United Kingdom

Paper type Research paper

Introduction

The "modernisation" of local government increasingly incorporates a requirement for fundamental cultural change within all aspects of local authority operations. Changes in culture are notoriously difficult in any organisation, perhaps particularly so where change in local government is desired by central government. Nonetheless it is an aim of numerous initiatives imposed on the sector. It is easy for any organisation under pressure to achieve outcomes to concentrate effort on "deliverables" which indicate compliance rather than on making fundamental changes in culture, and it is not always easy to detect such behaviour.

In contrast, corporate risk management (RM) has been introduced as a part of formalising "good practice" in corporate governance. The "Framework" published on this subject in 2001 was issued as guidance. In it, CIPFA/SOLACE/LGA "urge each local authority to review its corporate governance arrangements". They then "should make a statement on how they have complied with their local code", i.e. the governance policies they have decided to adopt. In the course of interviewing local authority staff

about RM policies and implementation, we observed an interest in, and engagement with, the RM guidance that appeared at variance with the reported responses to previous initiatives. This interest may be indicative of "second order" change, a type which has been found to be lacking in previous initiatives.

This paper is structured as follows: first, "first order" and "second order" change as defined by reference to literature on CCT and best value (BV) are introduced. Second, the history of RM in local government is considered and illustrated with insights from the literature. The next section comprises the methodology and selected findings of the case study research. Finally, tentative conclusions are drawn, possible reasons for the observed phenomena are discussed, and suggestions for further work are made.

"Second-order" change

Some time ago, CCT was imposed as a means of forcing the discipline of the market onto local government. CCT represents the "sigma-type" core values of economy and parsimony in Christopher Hood's analysis of administrative design (Hood, 1991), and was seen as an "unwelcome imposition on the aims and objectives of local government" (Geddes and Martin, 2000). Nevertheless, its effect has been categorised by Ball *et al.* (2002) as merely a "first order" change, i.e. it could be achieved by a change in managerial arrangements, or "the proper adherence to prescribed processes".

CCT's replacement, the best value framework, was categorised by Ball *et al.* (2002) as capable of "second order" change if fully implemented. Second order change is defined as "fundamental cultural and behavioural change in the organisation, such that all future generations reflect the change" (Broadbent and Laughlin, 1998; Levy, 1986). Fundamental cultural change is explicitly required by the service review programme which is a key feature of BV, where all local authority activities are subject to the test of the "4 Cs", i.e. challenge, compare, consult, and competition. The first of these, "challenge", requires current policies and approaches to be reviewed, either to identify alternatives or to justify their retention. The cultural change thus envisaged is conversion to a form of organisation that can cope with continuous environmental and operational change. As Sanderson (2001) identified, "the success of Best Value will depend to a significant degree on the ability [...] to develop an appropriate culture of evaluation and learning".

A second key element of BV is the requirement to set targets for sustained improvement in services, taking into account the views of the local constituency and any national standards set by government, and provide information annually to the general public on levels of service provision and areas for improvement. It is unlikely that "sustained improvement" could be reported without a culture of evaluation and learning.

BV has been found to be problematic. It suffers from ambiguity (does "continuous improvement" mean improved services or lower costs?) and confusion over how to implement it (Ball *et al.*, 2002). A large-scale evaluation of BV (Martin *et al.*, 2003) also found inherent contradictions. For example, its requirement for corporate and service strategies ran counter to its apparent desire for a shift to more flexible arrangements within and between services, and the requirement to produce corporate plans may increase centralisation while one of its aims is to increase customer focus, implying decentralisation. In the case authority examined by Ball *et al.* (2002), three "cornerstones" emerged as elements to be addressed, covering the "4 Cs" of the best

value legislation. These cornerstones represent the deliverables of BV: performance indicators, consultation and continuous improvement, as represented by the indicators. Management emphasis on these deliverables is seen as a first order response to BV.

Ball *et al.* (2002) found that, in the authority they investigated:

> [it] would appear to be going along with the main thrust of the BV project [...] it is also clear that attention has been paid to [...] the more immediate deliverables that are set to be the subject of scrutiny, rather than to developing a strategic or conceptual approach that takes fundamental issues of change as a starting point.

> The authority as a whole has put in place a corporate policy based on the use of surveys, yet this falls short of the depth and scope of approaches demanded by BV [...]. This, again, is indicative of first order change.

The report by Martin *et al.* (2003) also noted that:

> ... evidence from the case studies suggests however that the kinds of changes were often incremental and rarely involved wholly new approaches to procuring and delivering services.

In other words, the best value framework, which should ideally have created second-order change on local government, is falling short of expectations. Policies are being put in place that demonstrate observance with the concept: deliverables can be reported and audited without any real engagement by staff in the front line of delivering services. Lack of engagement by frontline service staff and service managers is reported by the Audit Commission (2000). Similarly, the 2001 report by the Accounts Commission noted that although progress was being made, full involvement of staff and officials required to be further developed.

An early definition of first order changes (Smith, 1982, quoted in Levy, 1986) is "those that enable things to look different while remaining basically as they always have been". This kind of reaction to imposed change can be a rational choice where members of an organisation have not engaged with the concept behind the change. It can be a "legitimating activity" (Meyer and Rowan, 1991, quoted in Bowerman, 2002) as "time spent in complying with quality initiatives is symbolic of good management". The spread of techniques to implement BV has been considered isomorphic (Bowerman, 2002), i.e. following a trend in a quest for legitimacy; following "the prevailing rationalised concepts of ways of working" rather than a belief in the fundamental concept.

On the other hand, there are indications elsewhere in local government that a learning culture involving staff at all levels is achievable. Observations by the authors in 2002 in a number of local authorities indicates a model by which this could perhaps be achieved: the risk management model.

Risk management (RM)

The management of risk as a developed approach of local authority management predates BV by five years or more but has been given a higher profile in recent years as an element of corporate governance (ICAEW, 1999; CIPFA/SOLACE/LGA, 2001). Indeed it is introduced in the Framework (CIPFA/SOLACE/LGA, 2001) as "central" to BV. RM models all specify an iterative process consisting of several linked steps along a process of risk identification, analysis, and treatment. Early detailed guidance on RM produced for local authorities suggested an initial risk identification process involving staff at operational level, before an analysis stage where probability and strategic

importance are considered. For example, *Shorten the Odds* (Accounts Commission for Scotland, 1999, p. 23) specified that "individuals involved in the brainstorming sessions should have detailed knowledge of the area of service being considered". Other published models all expand this basic notion but are essentially similar (e.g. Standards Australia/Standards New Zealand, 1999; SOLACE and Zurich Municipal, 2000, IRM/AIRMIC/ALARM, 2002). The first time a RM exercise is undertaken, a considerable amount of guesswork is inevitable at the analysis stage. This can be considered as Phase I of the process. RM models then specify a monitoring and reporting stage with the intention of providing a feedback loop to build up expertise about the organisation's risks. Phase II of the RM process involves using this data to modify the analysis and treatment of risks. Organisations reaching this stage can fairly be called "learning organisations". It is also recognised in RM models that the role of senior managers is to formulate a strategy for managing risk and to drive its implementation to the point where it is embedded at all levels of an organisation. For example, *A Risk Management Standard* (IRM/AIRMIC/ALARM, 2002) emphasizes:

> Risk management should be a continuous and developing process which runs throughout the organisation's strategy and the implementation of that strategy. It should address methodically all the risks surrounding the organisation's activities past, present and in particular, future. It must be integrated into the culture of the organisation with an effective policy and a programme led by the most senior management. It must translate the strategy into tactical and operational objectives, assigning responsibility throughout the organisation with each manager and employee responsible for the management of risk as part of their job description. It supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels (p. 2).

Embedding risk management: insights from the literature

Historically, insurance had been the mainstay of the local authority response to risk. The collapse of the Municipal Mutual in 1992 led to a lack of availability of some insurance covers and the escalation of premium levels of others. This focused operational departments' attention on the cost of risk, the cost of transferring that risk, and other possible options for dealing with risk (Hood and Kelly, 1999). However, the changing profile of local authority risks that had contributed to the demise of Municipal Mutual remained to be dealt with, notably liability risks of social workers and care homes. There was also a growing realisation that the cost of risk extended beyond mere financial loss and that there were social, regulatory and reputational issues at stake. In this respect some operational departments had cause to be more focused than others. A good example is education, where the traditional (yet growing) problem of school fires was augmented by security issues arising out of the Dunblane shootings (Scottish Office, 1996), plus new risks such as stress on teachers and pupil issues such as bullying, coping with dyslexia and failure to educate.

Evidence in support of embedded risk management culture in front-line local authority services is provided in the Scottish report *A Safer Place: Property Risk Management in Schools* (Accounts Commission for Scotland, 1997). This study was undertaken to assist and encourage all new councils in Scotland (post-reorganisation) to develop effective risk management arrangements. Fieldwork for that study was undertaken in May 1996 and included interviews with council managers, a survey of head teachers and case studies of ten schools. The report provides a good picture of the

risk issues prominent in the education service at that time and with continuing relevance today. Schools are a target for malicious fire-raising and for vandalism, resulting in major costs to local authority police, fire and education budgets. School security is therefore high on the list of concerns, and more particularly so in the year of the study given the deaths of many schoolchildren in the Dunblane shootings of that same year. Frost protection and health and safety issues also feature prominently among head teachers' concerns. Associated non-financial costs are also emphasised. The visual image presented by a vandalised school can damage its reputation and popularity among parents. Vandalism can damage the morale and ethos of the school, disrupt class work and impair the learning environment.

In addition to the motivation stemming from these problems, there are school-based financial incentives to manage risks well. At the time of *A Safer Place*, Scottish local authorities operated devolved school management schemes with head teachers directly managing at least 80 per cent of the school budget. Responses to school property risks include closed circuit television (CCTV), security lighting, anti-crime initiatives involving pupils, parents and police, community use of schools, and attempts to design crime out of new school buildings. Head teachers come out well in the report and in the separate more detailed report on the case study schools (Hood, 1996). They are presented as having an appetite for risk management, well supported by informal networking but limited by a lack of knowledge of specific risk management methods. Local authority leaders, meanwhile, are criticized in the report for lack of policy and commitment to risk management, for limited awareness training, and for failure to develop effective risk management information systems. *A Safer Place* suggests that the motivation (and some actions) for good risk management was filtering up from school or "operational" level and not down from the top of the authority. Some years later, the follow up report *A Safer Place: Revisited* (Audit Scotland, 2001) reveals only slow progress in implementing risk management from the top. For example, "... nearly half (15) of councils had not yet established clear lines of responsibility for implementing corporate policy or monitoring progress of risk management".

Embedding risk management: insights from a 2002 study
Case studies carried out in 2002 (Crawford and Stein, 2004) reinforce the view that RM arrived not as a top-down construct but, instead, was driven from the operational level and in response to problems with a high visibility and immediacy. In other words, front-line staff were engaged in a process which had meaning for them. This finding was incidental to the main thrust of our study but we believe that it is nonetheless an illuminating one.

The object of our study was in fact to answer the following question: how do UK local authorities achieve the objective assessment of risk management and internal control mechanisms and their effectiveness in practice, which is required by the Corporate Governance Framework (2001)? During the first six months of 2002, semi-structured interviews were arranged with a senior risk manager and senior internal auditor from each of five Councils, with the aim of identifying the range of activities carried out by each and the processes embedded in the organisation for reporting risks and their management. The Councils were selected at random from different areas of the UK to avoid any undue influence on the results if neighbouring authorities collaborated. Two of them were in Scotland and three were in England. Two were in rural areas and three

were urban. In terms of size, one was large, two were medium, and two were small (see Table I). (Note that the interviews were arranged on a confidential basis. By using approximate rather than exact figures, we have sought to preserve the anonymity of the Councils yet give the reader sufficient feel for the mix of councils.)

Our research question (as stated above) was expanded and restated as a set of seven key interview questions to form the core of semi-structured interviews. The questions (shown below) were provided in advance to the interviewees:

- How is your Council's risk management effort structured?
- Who is responsible for implementing risk management at operational unit level?
- Has a risk identification exercise been carried out?
- Has the risk identification process been independently reviewed?
- How are risks reported upwards?
- Is there an independent review of the risk reporting process?
- Do you have an independent review of your process of internal control of risks?

Our analysis of the interview transcripts identified three distinct themes:

(1) internal auditor independence;
(2) effectiveness of guidelines; and
(3) organisational change required to embed risk management.

A paper on the "independence" aspect (Stein and Crawford, 2004) argued that internal auditors possess the skills necessary to facilitate risk management, but raised questions about internal auditors' ability to then offer an objective review of risk management, and the breadth of their view of risk. A paper with a focus on the "effectiveness of guidelines" (Crawford and Stein, 2004) noted several areas of weakness in both the guidance offered and the policies adopted by local authorities. Our third finding was, we argue, the presence of an example of "second order" organisational change, and is the subject of this current paper.

Summary of responses to interview questions
Selected quotations from interview responses are included below in order to convey some sense of the frankness of our interviewees and to give examples of responses that point to "bottom up" development of risk management and front-line engagement. The responses were gleaned from our first broad question to the interviewees – how is your Council's risk management effort structured? The interviewees' responses tended quite naturally to look back over time to the point when a formal RM structure was first mooted and to reflect upon the RM drivers and activity that existed at that time.

		Population	Hectares	Persons per hectare
A	First rural council	110,000	220,000	0.5
B	Second rural council	500,000	200,000	2.5
C	First urban council	450,000	25,000	18
D	Second urban council	150,000	9,000	17
E	Third urban council	350,000	9,000	39

Table I.
Comparative sizes of
sample of Councils

Council A

Up until the last five years we have tended to focus on financial risks. We identified how all the money was spent and that formed the basis of the stuff we sent out to department heads saying, "can you please rank the risk based upon materiality, control, sensitivity and managerial concerns". It was at that point that about two or three of them came back and said, "well you know this is all very well but what about the real risks?"

For example, Social Work had put in a new vetting system for staff. There was a neighbouring council where before kids get on the buses we hire to take them to school, a part of the contract is that the owner of the bus company has got to vet all his drivers with the police. What happened in the neighbouring authority was that they had vetted them and then they changed the bus drivers. It was then that the parents found out that there was a convicted sex offender driving the bus. Our Social Work department actually put the system in place as a knee-jerk reaction to the court case. Our speciality [in Internal Audit] is control systems. They asked us to look at it to make sure it was actually working as they thought it was.

Council B

It was around 1993/1994 that we were moving into risk management. It was born out of the insurance function and the fact that much was becoming uninsurable because of our then losses – particularly on education and highways.

Traditionally, I do not know why, but historically, the balance of risk, which is the sort of schools contents policy, had been handled by education direct with insurers. We did all the other insurance arrangements centrally and we had worked with education [...] in putting in a fencing programme and later on a CCTV programme, and door entry controls etc which had a particular impetus after Dunblane. Schools chose, if you like, from a package of available measures. They went into the risk management with a great deal of enthusiasm. I mean, they could see the benefits beyond just the financial benefits.

Dunblane had a major impact on the Education Departments and head teachers because whilst they were putting door entry systems in some schools prior to that, they still did not lock the other fourteen doors into the school! People could still wander in from the playground or the playing field. There were fourteen doors around the periphery but they locked the one where the secretary sat.

We were looking at a risk management group corporately [...] driving it if you like from the insurance point of view. The Education Department were in the early stages of producing a similar guide. Education was already there in terms of their early thinking. So the two coincidentally came together. It was just a coming together of minds at that stage.

Council C

In 1993, the Education Department drew up a checklist. This was launched by the Education Department at a seminar for head teachers, teaching staff and non-teaching staff. It was very much property based and did not pick up on some of the newer education claim areas such as dyslexia. We then used that checklist as the backbone to produce a council-wide version which we produced in hard copy at the time but it is now on the Council's intranet.

Council D

Certain departments have got their own interests in risk management, notably education, where they have a risk management team specifically involved in the protection of schools – arson, theft etc. Doing surveys on schools is a specific activity that they undertake. I would

not even say that they do it under our umbrella but they are aware of how it fits into the corporate philosophy.

Council E

> It is worth saying that I think there is quite a lot of risk management going on in the authority but it is not recognised as being risk management. Yesterday there was a risk management group meeting and the person from social services was saying that they have arrangements in place so that if you have an old people's home that burns down, the customers, the clients, can move to another home through buddying arrangements. Now that is risk management but I do not think that they recognise it. It is not labelled risk management.

Our argument is, therefore, that there are indications in the literature and from our own study that front-line staff become involved where a concept has meaning for them, even in the absence of policies implemented from the top of the organisation. In effect, while there may be some element of isomorphism in the widespread adoption of particular RM techniques, there is also clear evidence that their implementation is more than a quest for legitimacy.

Discussion

The concept of RM has been introduced to UK local authorities without the fanfare accorded to the best value concept. BV, on the evidence of the literature so far, may have been operated more as a quest for legitimacy than through belief in its principles, despite its statutory standing. Nevertheless RM, operationalised as suggested by the detailed guidance published for local authorities, appears to be a vehicle capable of developing a learning culture at an operational level within a reasonable timescale in a way that BV did not. The aims of RM are clear, and it can be seen to offer benefits to individual employees, service managers, the authority as a whole, and the general public. The first phase, identifying risks and controlling them where possible, will bring these benefits. The second phase, monitoring risk events and continually repeating the feedback loop, refining the control and mitigation strategy, and examining the environment for new risks, will require RM procedures and reporting to be embedded both in ongoing service delivery and, importantly, in advance of any new activities. Second order change of this nature at an operational level has the potential to bring lasting benefit to the management of a whole organisation by improving the culture of ongoing learning and therefore its capacity for further improvement.

Three possible reasons for RM becoming embedded in some organisations can be extrapolated from this comparison. First, while CCT represented "sigma-type" values in Christopher Hood's analysis of administrative design, BV sits most comfortably in the family of "theta-type" values, summarised as "true and fair". Christopher Hood records that the several goals of any administrative design falling within this family are "incompatible"; this is at least part of the reason why the implementation of BV is problematic. RM, on the other hand, is clearly part of the "lambda-type" family of values, which relates to security and resilience. This is a clearer concept on which to focus although it is of course subject to the usual budgetary restraints. Second, it can be theorised that "lambda-type" administrative designs are intuitively welcomed by staff responsible for providing services to the public. An initiative which engages the interest of employees in improving the services they provide clearly has a better chance of becoming embedded. Third, it is possible that the pre-existing RM models, requiring

the involvement of operational staff from an early stage, encouraged ownership of the problems and their solutions. This kind of engagement leads more easily to a culture of willingness to learn and is also essential in keeping up momentum in an iterative process towards long-term goals.

Conclusion

While the aims of RM are not the same as those of BV, there are resonances between them and comparison of their effect on organisations may provide lessons that can be applied to the introduction of future initiatives. Further empirical research is required to ascertain whether the operational changes observed in some authorities as a result of the implementation of RM and BV processes have become embedded over time, and indeed whether changes are observable generally throughout the sector.

If the operational changes described above are found to have taken place generally, it appears it may be possible to take into account the possible explicatory factors in the design of new initiatives:

- by attempting to avoid "theta-type" design in any new initiatives, i.e. by providing a clear focus for attainment of its goals;
- by building on the natural inclination of front-line staff to improve the services they provide;
- by making use of a model which encourages ownership of the solutions to problems by operational staff; and
- individual organisations may find it beneficial, in developing a culture of second-order change throughout their operations, to encourage ongoing learning in a risk management context: this could be achieved by building on the aims alignment which is evident in risk management practices and maintaining the impetus to move into Phase II in which a learning culture is developed.

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