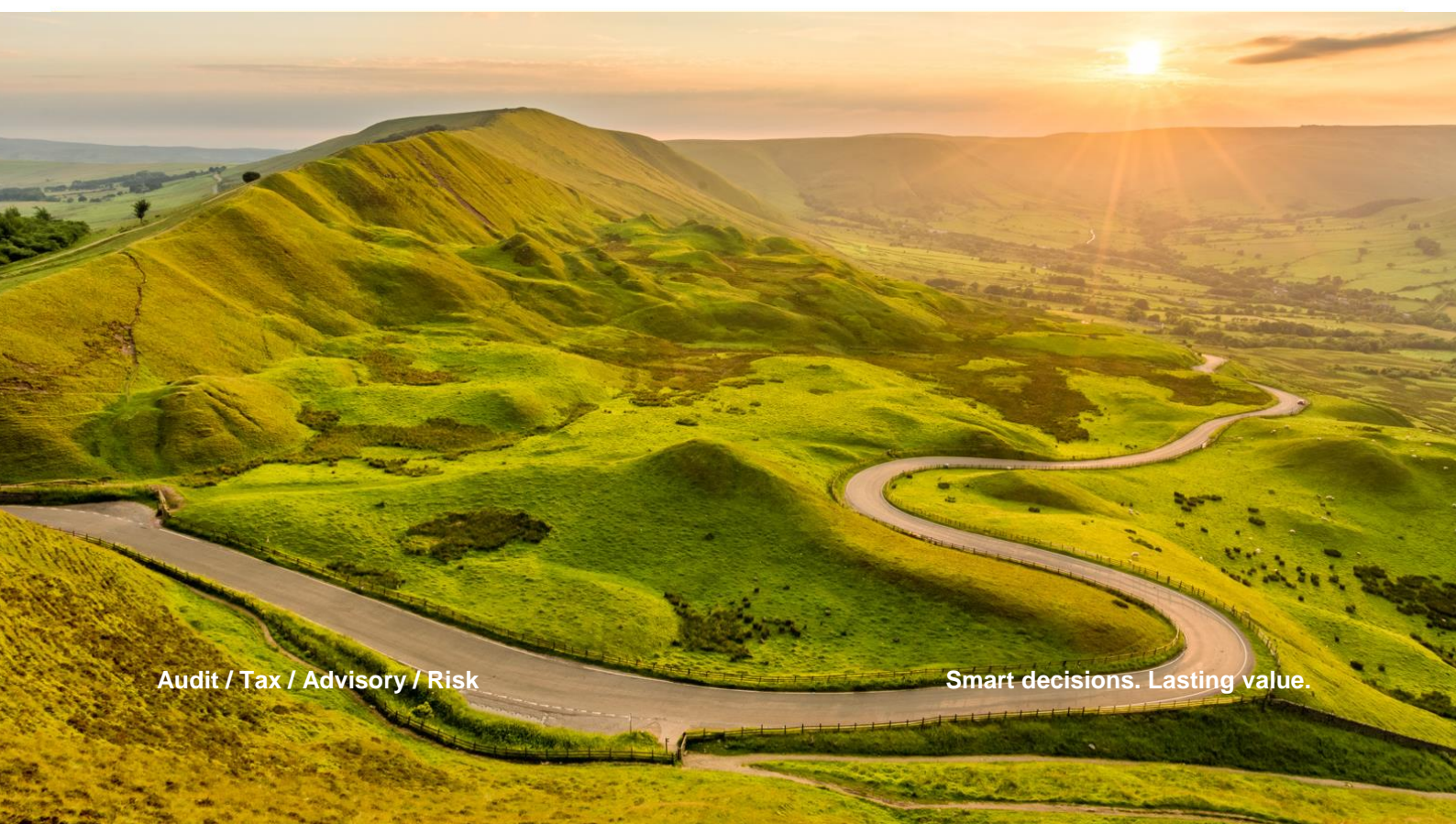




Charities: effective boards

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The 2012 research study conducted by Ipsos MORI on behalf of the Charity Commission on trust and confidence in charities shows that, since 2005, levels of trust and confidence have held up and even increased slightly and that charities are amongst the most trusted groups in society, with only doctors and the police being seen as more trusted.

The charity sector is successful in the UK due to the passion of its supporters and those who work within the sector but also as a result of its governance structure which means that there is a separation between the management who are responsible for the day to day operations of the charity and the trustees who have the ultimate responsibility in law for running the charity.

In this set-up, the non-executives (the Trustees) can act as the stewards of the charity to ensure that the charity is run for the benefit of its beneficiaries and its charitable objects. I remember a trustee of a large international charity who would periodically ask an already committed and strong management team, 'how will this [proposal/plan] help save more children's lives?'

As the sector continues to grow and take on more public service contracts and given the focus in the corporate sector on effective boards then it will not be long before the spot light turns to how effective boards of voluntary organisations are.

There are four key components of an effective board and these are discussed below.

Size, Composition, skills and experience

The Charity Commission's, Hallmarks of an effective charity, explains "*An effective charity is run by a clearly identifiable board or trustee body that has the right balance of skills and experience, acts in the best interests of the charity and its beneficiaries, understands its responsibilities and has systems in place to exercise them properly.*" The guidance goes on to state that charities need to demonstrate this by identifying the mix of skills and the knowledge and experience which is necessary for a well-run, efficient, effective charity.

A report published by the Institute for Philanthropy in 2011 on The state of UK Charity Boards, based on a survey of 100 chief executives and chairs of the boards of UK charities, found that 49% of respondents believe that their boards have 50% of the desired skills and experience and 39% feel that their boards have 75% of the desired skills and experience.

Clearly then there is more work to be done by the sector in ensuring that boards are diverse and achieve the desired skills and experience. One way of achieving this is to carry out a skills audit of the board and use that as a tool for considering how vacancies should be filled and the training to be provided to current board members. The key areas of a skills audit are to allow consideration of:

- Personal attributes – this will cover gender, age, faith (where applicable) as well as ensuring representation of the communities served by the charity.
- Knowledge and expertise – all too often the focus is on an individual's occupation rather than their knowledge and expertise. So whilst an accountant would be valuable to assist the board with financial reporting or understanding controls, they would not necessarily be good at chairing the audit committee meetings, if they do not have any experience in that role.
- Key competencies – the charity should identify the key competencies that it needs from its board members and assess the board against those. For example, strategic planning, fundraising, research, etc.

The skills audit should be scored using a range rather than a simple yes/no response and board members should be asked to identify areas where they believe they have expertise and where they would like more training.

Much has been written about the size of a charity's board. The guidance from the Charity Commission is that a charity has to demonstrate that it *"has a trustee body that is the right size for the charity - large enough to include the skills and experience needed to run the charity effectively, but small enough to allow effective discussion and decision making."*

The survey carried out by the Institute of Philanthropy found that the most common board size amongst the charities surveyed averaged between 8 and 10 members. The Deakin report 'Meeting the challenge of change: voluntary action into the 21st century', which was published in 1996, observed that: *"Once numbers rise much above 12 - 15, discussion and debate becomes difficult. What generally happens is that an inner caucus emerges that takes the key decisions and presents them to the board for ratification. This leaves the board with responsibility but not power and is generally ineffectual."*

In September 2011, The Council for Health Regulatory Excellence ('CHRE') now called the Professional Standards Authority published its report on board size and effectiveness regarding health professional regulators. It concluded: *"There is no single "right- answer, but our experience suggests that a council of around 8 to 12 members is likely to be most conducive to effectiveness."*

Training and development

Given the model of UK charity boards being that of volunteer bodies, the induction, training and development of boards is critical in ensuring that once selected, board members are properly inducted and given the training necessary to carry out their duties. Moreover this should not be seen as a single exercise but one where the continued development of board members is considered alongside that of the employees of the charity. Increasingly, charities are holding annual trustee days or board away days which are a mix of training, development and strategy.

Board members should be trained to move away from 'representational thinking' into understanding their role as a collective body. This is particularly important in boards elected from the membership.

Effective meetings

The Cadbury report published some 20 years ago noted that: "Tests of board effectiveness include the way in which the members of the board as a whole work together under the chairman, whose role in corporate governance is fundamental, and their collective ability to provide both the leadership and the checks and balances which effective governance demands."

It has long been recognised that a critical factor in boards operating effectively is how effective their meetings are and critical to that is the role of the chairman.

A board meeting can only be effective if information essential for good governance is available, used and robustly discussed. Board papers should therefore be:

- Relevant – in other words reflect the charity's objectives and overall strategy.

- Timely – papers should be received by the board in good time, even if imperfect.
- Reliable – the board should have confidence in the quality of the information being received.
- Clear – papers should be clear and focused and it should be obvious whether they are incidental papers for trustee information or whether they are for monitoring purposes or whether a decision is required. Importantly, the papers should be comprehensive but succinct so that enough information is provided without overloading the trustees.

Board evaluations

A Report on Board Effectiveness published in December 2012 by the Association of British Insurers found that, for those companies listed in both 2010/11 and 2011/12, 44.4% of FTSE 100 and 29.9% of FTSE 250 companies conducted an external evaluation. In contrast, the Institute of Philanthropy survey of 100 chief executives and chairs of the boards of UK charities found that only 13% had annual external evaluation of their board's performance and that 56% have never had an external review of the board's performance. This is perhaps not surprising given that charities especially smaller ones may feel that they cannot justify the costs of having an external evaluation. More encouragingly though is the response to an internal review of the board's assessment where 59% responded that this was carried out annually and 12% responded that they do this on a 6-monthly basis. However still disappointingly, 20% have never had an internal board evaluation.

Indeed one of the Institute's key recommendations is that "Each board should conduct an annual review of its own performance. The report goes on to say that "Boards that conduct annual reviews, meet regularly and attend retreats are developing their competencies in an ongoing fashion that can benefit the charity as a whole."

Most internal evaluation processes are questionnaire based and sometimes include a conversation with the chairman. Common areas considered are:

- The Board's strategy and remit including consideration of the charity's vision, objectives and risk management processes.
- The Board's (and committees) effectiveness including consideration of its selection process, size, skills and experience. This area will include an assessment of the board's effectiveness at reaching decisions and examines the quality of the information and papers received for decision-making including those received from the sub-committees of the board.
- Conflicts of interest and communication with the stake holders.
- Clarity of the Board's responsibilities and conduct of board meeting including the relationship with management and the Chief Executive and whether there is sufficient challenge both within the board and also between the board and the management.
- Induction and training for board and committee members.
- Succession plan for the Chief Executive and the Board and its committees.

It is often said that the 'tone at the top' of any organisation determines the culture and ethics of an organisation and that solid corporate governance requires a good tone at the top. In order for charities to continue to hold the public's trust they will require good corporate governance which means effective boards.



Start the conversation

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