



# Decision making in a challenging environment:

## Is your charity's management information fit for purpose?

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## About the author: Naziar Hashemi



Naziar joined Crowe in September 2008 from a Big Four Firm as a specialist Non Profits partner and is now Head of Non Profits.

In addition to providing assurance services she also provides advisory services to a range of charities. These include assignments from risk and finance function reviews, systems, benchmarking and performance measurements and governance reviews.

Naziar leads Crowe's work on Donor Audits and has knowledge of institutional funding requirements having produced reports for a variety of institutional and governmental donors. Naziar also carries out training for charities and lectures and writes on a range of topics relevant to Trustees and management.

**Three years ago I wrote an article on effective boards which discussed the four essential components of effective boards of charities. This was later followed by our article on effective annual reports.**

My article on effective boards started by stating that in my view, the UK charity sector is successful due to the passion of its supporters and those who work within it 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.

The article went on to state that 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 spotlight turns to how effective boards of voluntary organisations are.

It concluded by stating that 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.

## Decision making in a challenging environment

Three years on and post Kids Company and other high profile and front page stories about various charities, much has been written on the role of trustees. The Charity Commission has published various new guidance and updates of old guidance central to which is an increased emphasis on what the role of trustees is.

The Charity Commission guidance CC27: 'It's your decision: charity trustees and decision making' explains in detail how trustees should approach making decisions of significance affecting their charities. The guidance lays out the principles of trustee decision making focusing on the legal principles of trustees acting

- within their power and in good faith and only in the interests of their charity. It also explains the need for trustees to ensure that they are sufficiently informed' and have taken account of all relevant factors and 'make decisions that are within the range of decisions that a reasonable trustee body could make'. It also discusses managing conflicts of interest.

Some in the sector are worried that the outcome of this debate will be an erosion of the distinction between what the board should be doing and management's role whereby trustees are being increasingly pushed to involve themselves in operational decisions.

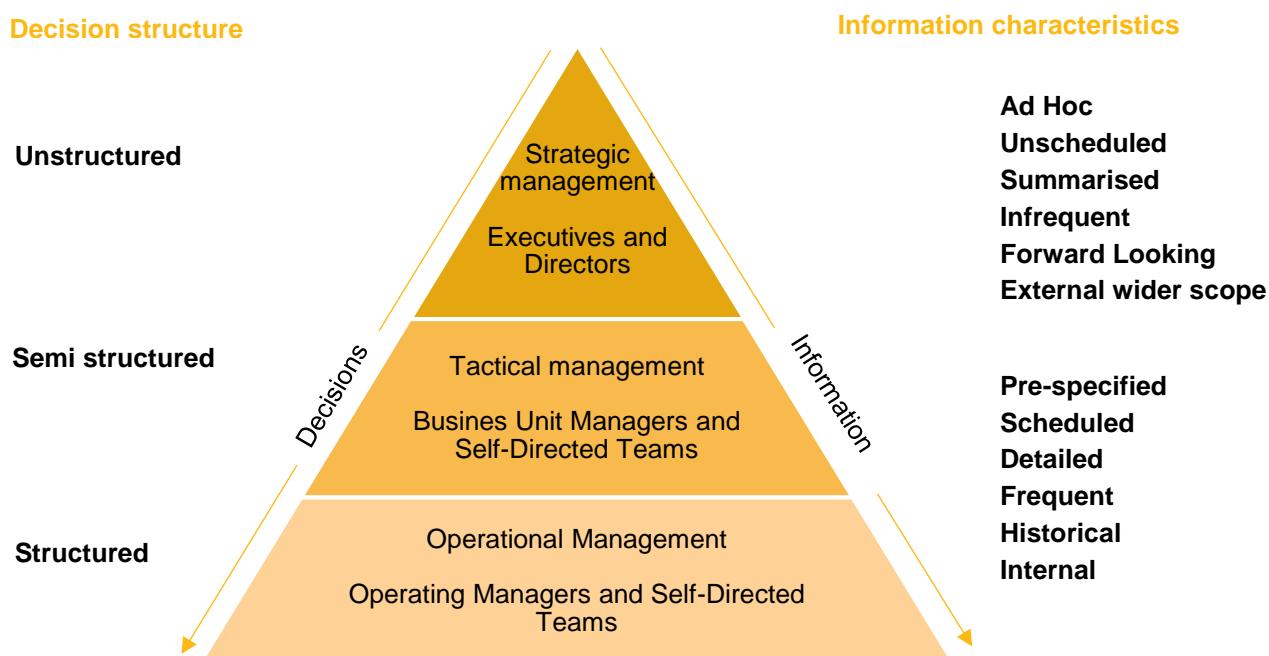
At its most basic the board's role in a charity is to lead, set direction and ensure overall accountability.

Effective governance is about making informed choices to achieve the charity's strategic objectives for the public benefit. Effective decision making is about ensuring the charity is sustainable, achieves long term effectiveness and has maximum impact with the least input of resources.

## Effective decision making

To make informed effective decisions there must therefore be good information for decision-making at all levels. Furthermore the right level of information will enable a board to focus more on the strategic and accountability aspects of its role and therefore not become operational duplicating management's role. It is worth emphasising however that successful boards are those which are challenged, remain effective at individual tasks and strive to continually improve.

The figure below is the managerial pyramid showing the three levels of decision making for any organisation.



Source: Management Information Systems, James A. O'Brien and George M. Markus, 10<sup>th</sup> Edition McGraw Hill Irwin, 2011

The pyramid shows that operational management information is required to address individual transactions helping to direct resources in accordance with pre-set budgets. Tactical management decisions are to guide the short term and develop medium term plans for the organisation, allocating resources and monitoring the performance of different departments and business units. Strategic management information is required to help develop strategic objectives and monitor the organisation's strategic direction.

The decision structure shows that at different organisational levels different structure levels are required for decision making whereby unstructured decisions are required to determine long term strategy whilst

structured decisions are made when generally the decision has been made in advance and there are procedures to follow.

## Importance of the right management information

Applying this to the charitable context then, decisions are made by the board together with senior management to identify which strategic priorities to fund or which income generating activity to pursue.

Underpinning all of this is good management and executive information systems which support day to day decision making and help meet the information needs of the charity to make the right operational, tactical and strategic decisions.

Information management is key within any organisation to ensure that senior management and trustees have sufficient, appropriate and accurate information on which to base management decisions and evaluate performance. Failures within this process lead to the risk of inappropriate strategic decisions being made which reduce the impact for the charity's beneficiaries.

There is often an urge to collect data which takes time to collect, analyse and present when the value of this information may not have been fully determined. Equally, it is often difficult to make the call that certain information is no longer required by the charity and therefore to stop collecting it or change the focus of the analysis. Distinguish between information prepared for background knowledge and that which is required to monitor or make decisions. Sometimes trustees require information to help them understand the charity's processes or systems or to aid them with understanding other information presented to them. Whilst of benefit on a one-off or short term basis, it may not be appropriate to keep producing and presenting this information to the trustees.

Studies show that most organisations gather too much data on what they do not really need and do not have enough knowledge on what they do need to know. A well-defined set of key performance indicators (KPIs)

- can act as a compass for a charity in ensuring that it meets its strategic objectives. Furthermore it is important that the KPIs when defined are cascaded throughout the charity so that the strategy does not become fragmented and departments do not adopt their own version. Too often we see that there is one set of KPIs prepared for the board and another set for management. Apart from the obvious waste of resource this does mean that there is more than one version of the truth and the charity is being evaluated by different groups based on different criteria. The question that then arises is whether it is management or the trustees who are focusing on the wrong information and outcome measures.

There is also a tendency in organisations of focusing exclusively on financial or non-financial information. In any organisation, it is important to ensure that appropriate levels of both qualitative and quantitative data are used to direct the organisation. Both types have their place in assisting those in the leadership position making the right decisions. For example more charities are now recognising that they need to look at

complaints and comments by beneficiaries, stakeholders or members of the general public. Looking at the nature of the complaints or comments is as important as tracking how many have been received. Additionally focusing purely on data analysis (quantitative measures) is not as informative as benchmarking the results against other comparable data or other comparable charities.

## Checklist for making better decisions

1. Re-consider the charity's mission: is it too narrowly defined given the current economic and political context. For example if you are climate change charity is it time to move from pure advocacy or research to working on the ground in communities impacted by climate change?
2. Clearly define the charity's core strategic priorities. Consider other realistic alternatives; this will help define the most appropriate priority.
3. Correctly balance the short and the long term.
4. Base decisions in reality. At the outset write down the impact you expect during each of the strategic years. Check-in at the end of each year to review actual against expectation and consider the why of any deviation.
5. Align performance metrics to the charity's strategic mission.
6. Set the performance expectations –consider both the potential downsides and upsides.
7. To make a decision requires the decision maker to make a choice and every choice will have some degree of risk associated with it. Understand the risks associated with the decision and consider the organisational risk appetite.
8. Consider qualitative and quantitative measures, include benchmarking wherever possible and beneficial.
9. Continuously review what the charity does against what it should be doing to serve its beneficiaries. Ask "if we weren't already funding this activity would we fund it today?"
10. Consensus is good but challenge to guard against 'group think' and make good effective long last decisions which enable the charity to achieve its objectives.

## Notes



## Start the conversation

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