Charity governance
Challenges in balancing the board

Introduction

Grant Thornton recently held a virtual discussion for Chairs of Audit Committee (or equivalent), focussing on the charity sector and the importance of (and challenges in) achieving good and effective governance, as well as a consideration of what the future governance could (and possibly) should look like for charities. Held under Chatham House Rules, the discussion raised a number of themes and questions which are outlined in this document.

Background

The current state of governance

Sophie Hamlet, Audit Manager within the London Not for Profit team, opened the discussion with a brief introduction and background to the session. In recent times there has been an ever-increasing focus and scrutiny placed on charities, their activities and their impact on the world around them. In a world where the general public has become more mindful of issues relating to Environmental, Social and Governance (ESG) matters and are placing more emphasis on the importance of these, charities need to be able to demonstrate their commitment in these areas. With the focus having primarily been on the work being done to address the Environmental and Social impact, there has been little talk or discussion around how Governance fits into the picture. However, given the importance of getting governance right and the way it permeates through and underpins every aspect of a charity (including policies, commitments and activities relating to the environment and social impact) there should be more of a focus and open discussion around what is working, what is still needed and the challenges that organisations currently face in achieving their version of effective governance.

The meaning of "effective governance"

The discussion opened with the question of what governance was, and what effective governance looked like. It was quite clear from the start that governance held a multitude of meanings to each of the participants and that the definition of governance itself was wide-reaching. It is important to remember that governance is about more than just an organisation's board and its sub-committees, and that internal structures and processes within an organisation are equally critical to ensuring that there are sufficient information flows and to enable effective oversight. Organisations should be mindful of the risks of limiting their world view by placing too much focus on a few core areas and should instead ensure that they have a view of the full gamut of governance.

Having such a wide view is, of course, not without its challenges. There are a number of moving parts in any organisation – regardless of size or sector, and, as one participant highlighted, governance for charities is infinitely more complex than that of a standalone private company limited by shares. There are likely to be more stakeholder groups in a charity, including the community it looks to serve (its beneficiaries), its suppliers, its funders, its employees, regulators such as the Charity Commission and, particularly for higher profile charities, the general public. Given the additional level of scrutiny placed on a charity in receipt of the public's funds and potentially public money, it was widely agreed within the group that it was vital a charity fully understands each of these stakeholder groups and their needs as much as possible to ensure that it can focus its efforts (and therefore its funds) appropriately and wisely.

Where participants found this became particularly challenging was largely down to the capacity of and the skills present in a board to undertake this full assessment and analysis. It is no secret that charities are reliant on the goodwill and the generosity of those volunteering their time. Those that sit on boards and that act as trustees are doing so out of their own passion and interest in the organisation and there will likely be some trade off between those that have the time (i.e. capacity) to undertake this assessment, and those that have the knowledge and skills to perform such analysis thoroughly enough for it to be of use. One participant commented that, in truth, where such skills or capacity is lacking, these sort of assessments will not always be carried out and there is no "one size fits all" approach to such an exercise that can be taken due to the very nature of the charity sector – obviously an international charity with a focus on humanitarian aid will have a very different structure and focus to that of, say, a religious charity.

So what do charities need in order to be effective in their governance? In short, it all comes down to getting the right people with the right skills and experience on the board; and the question then becomes one of what range of skills and experience are needed.

Diversity of skill versus diversity of lived experience

In recognising the wide scope that governance could cover, and the importance of structure, the discussions then turned to the importance of diversity within that governance structure. But how does an organisation balance the need to maintain the right breadth of skill within its board with the importance of representing the community it is trying to serve and support? One of the bigger challenges with bringing those with lived experiences onto a board (be that as someone directly affected by the issue the organisation seeks to address, or indirectly affected as, say, a health professional) is that they may not always have the "core" skills one normally associates with having on a board.

Some individuals commented that having access to the insight that those with that lived experience can offer, however, is not just invaluable but it also provides additional means through which the board and therefore the organisation can be held to account for its mission and charitable objectives. It is apparent that not bringing this perspective to a board could lead to a disconnect between the mission and charitable objectives of an organisation and its perceived impact and achievements. As was pointed out by one individual, it is important for organisations to take into consideration what further support those with lived experience may need if brought onto a board. Anyone who has sat on a board is going to be fully aware of the responsibilities placed on them as individual trustees and it is vital that anyone being invited to join an organisation's board understands their remit, their legal responsibility and that they have the capacity to serve, as required. Not taking this into account can lead to increased risk being placed on the rest of the trustees and therefore the organisation, so the question then posed was as to how this risk can be mitigated whilst still getting the balance right.

There are alternatives to bringing this perspective into a board although this will very much depend on the nature of the organisation's charitable objectives and the activities that it undertakes to meet those objectives. Participants gave suggestions for how this might be achieved, for example an organisation that sought to support those suffering from a particular condition as well as undertaking or funding research for that condition could seek to bring onto the board those that care for those with the condition rather than those with the condition itself. Another recent example for one individual was having the opportunity to visit areas in which their charity operates, such as going out to Zambia to see the impact of the aid being supplied. Obviously, organisations will need to assess the practicality of such options.

Of course, another challenge in attempting to achieve the right level of representation at the board level is defining who your organisation is representing in its work. One individual spoke of the work undertaken by their organisation, being focused on support for and research into a medical condition. They highlighted that the community being represented could be so far-reaching due to the indiscriminate nature of that condition it would be impossible to achieve fair representation of the entire global population in the dozen or so people sitting on their board. How can organisations overcome this challenge? One suggestion was to think outside of the box in terms of the traditional structure of governance, to consider the efficacy of advisory teams that feed into the board to provide the perspective needed. Obviously, this does not replace the need for diverse representation to start at board level, but can provide the building blocks necessary to start bringing those insights to the attention of the board.

The obvious point to all of this is, of course, that it is fundamental to not just consider the importance of these ideas, but also put them into practice, to embed this into the culture of the organisation. It is proven that having diversity in a board brings its own benefits, not just from improved empathy and ability to learn by listening to the alternative perspectives and insights, but also in terms of enabling better critical thinking and therefore effective decision making. Therefore the group were in agreement that it is incredibly important that organisations looking to diversify their board and to give space to others beyond those with the usual "core" financial, legal and human resources acumen commit to this fully. Whilst trustees will sometimes be appointed to fill a gap, appointment of trustees should never be undertaken as a "tick box" exercise. As emphasised by one participant, in making such appointments, this must be done on merit, and not for metrics.

The “ideal board”

In considering all of these different factors in determining the importance and the balance of diversity and lived experience, the conversation moved onto how an ideal board might look and the practicalities of achieving this. One obvious point to make is that the first step in being able to appoint those with the right skills and experience to the board is knowing which skills you need, and then identifying which skills are lacking. As suggested in the group, making use of a skills matrix and performing a skills audit is a logical and important starting point.

It was also noted by participants that having an individual or a handful of individuals with the requisite skills on the board does not recuse other trustees from broadening their own skill sets and ensuring that they understand the fundamentals, with one citing a previous experience where a fellow trustee had announced they did not read the finance papers because they knew others did and instead relied on that fact. It is important that, whilst searching for the appropriate candidates and posting opportunities to join the board, organisations ensure that the responsibilities and expectations are made clear; an individual does not necessarily have to be a financial reporting expert, but it is expected that they grasp the basics well enough to understand what a set of management accounts is telling them. It should be made clear that all board members should be turning up to meetings having read the papers, understood them and to be ready to actively participate in discussions. There is very little point in encouraging the diversity of skill and insight if those individuals are unable to provide their thoughts and perspective.

Of course, being able to encourage these diverse and meaningful discussions is not just the responsibility of the individual trustee to prepare themselves and to actively speak up; they need to feel able to do so. The group agreed that the culture of an organisation is king in building and maintaining that ideal board. Trust needs to be at the root of an organisation’s culture, to flow through the entire organisation, and it needs to start at board level. Having diversity on a board is only going to be effective if the effort and the trust is there in bridging those gaps in experience, perspective and knowledge. One individual spoke about how it’s paramount to ensure that the people being brought onto a board feel that their contribution is valued and that their presence is not just to achieve a metric or part of a PR stunt. Embedding that culture of trust and respect into an organisation is vital for a successful board.

So the question remained for the group: how do you attract the right people into your board and what barriers could there be to achieving this? Firstly, not having the right representation to start with can present an issue. It was acknowledged by participants that if people do not see themselves as being represented already within an organisation, there is a risk that this can put them off wanting to engage in the first instance. One participant pointed out that it was important to be mindful of the inherent bias and therefore assumptions about an organisation and its board (for example it is not possible to tell simply by looking at someone if they have a disability, or if they are neurodivergent, or living with a particular condition) and to take active steps to reduce that bias where possible.

There are a number of ways to tackle this challenge, with the most obvious manner to be how an opportunity for a trustee position is presented. Some participants acknowledged that their postings for trustees could be too heavily focussed on the skill set required, calling for those that have experience in writing fundraising applications, or knowledge of employment law, or marketing. This is by no means a bad thing, but it was agreed that where these advertisements tended to fall short was to include a cursory sentence or two towards the end of the posting encouraging those from more diverse backgrounds to apply. In some ways this can almost be more harmful than simply staying silent as it can be perceived as an afterthought. If diversification of your board is your primary goal then that should be given more focus, so thinking carefully about how the posting is structured and worded can make all the difference in attracting the candidates your organisation needs.

Another suggestion was to consider accessibility beyond the recruitment process (i.e. how accessible the organisation appears). Take into account the accessibility of the website, is the information that is useful for potential trustees readily available and easy to find? How are existing trustees described and presented and is there more to be done in demonstrating a commitment to diversity, thereby making the organisation seem more attractive to potential applicants.

Consider the accessibility of the position itself, as some pointed out. How often are meetings due to be held, how much of a time commitment are you expecting from your trustees, will meetings be held in person, virtually or will there be a mixture of the two? If the organisation is nationally or internationally based and you need representation from those various geographical locations then it is important to take this into consideration when assessing the accessibility of the position. Where possible, being clear about the level of commitment required is vital for potential candidates to assess whether or not they feel they can apply for the position – and going further to make it clear how trustees can be supported in their role can go a long way in attracting the right people. One participant spoke of a previous trustee experience in which the Chair committed to making childcare costs an allowable expense to enable them to continue performing their role. It was noted that this spoke volumes about valuing the individual's time and contribution.

It is important to acknowledge that, where changes need to be made in order to achieve that representation and diversity and improve the effectiveness of the board, things will be uncomfortable as you go through those changes. It's imperative that this is embraced as part of the process and should not be a reason for avoiding the necessary changes.

The future of governance in the charity sector

It's clear that there are a number of important factors that go into getting governance right and building the ideal board to achieve that, but is the concept of governance in its current format fully fit for purpose? What does the future hold for governance in the charity sector and what can and should change? This was the final point for discussion put to the group.

Taking on the role of a trustee means taking on a lot of responsibility and there is a huge amount of emphasis placed on this fact (and rightly so). It was clear from the comments made by participants that they understood and accepted the necessity of this level of responsibility and the need to make sure that this is made clear to anyone that would look to take on a trustee position, but there is perhaps too little focus on the benefits that taking on a role can bring. It may feel obvious to those who are already performing the role, but there are many reasons why others can and should consider taking on a position. Reasons highlighted in the group could be as simple as the feeling of giving something back to a community or a cause that is close to your heart and could extend to being able to tangibly see and celebrate the impact that you are personally having as much as the impact of the organisation to whom you have donated your time and expertise.

It was generally agreed that celebrating the good parts of being a trustee could perhaps encourage more to give the role more thought and widen the pool of those that could bring immense value and impact to charities. This, combined with some changes to the manner in which governance is run could improve the level of diversity within boards and make the role increasingly accessible.

There are many staples to good governance; the areas that you cannot (and should not) shy away from will include those core elements of running any organisation such as finance, risk assessment, legal and regulatory matters. But, as one participant pointed out, just because there are these key building blocks, it does not mean that every governance structure has to be the same, nor does it mean that every organisation needs the same committees. It is important to maintain a level of flexibility and agility in the approach that is taken and to play with the form. Boards and their sub-committees need to be relevant to the needs of the organisation at that point in time, which may mean a charity will bring in temporary focus groups and sub-committees on a short term basis in order to meet a particular need or focus, only to disband it or subsume it into one of the larger committees when its purpose has been served.

It was highlighted that having this level of flexibility and agility in how boards operate will enable those charged with governance to focus on the matters at hand and to give attention to those more pressing or relevant areas of the organisation's strategy. Not only this, but it will also give the organisation itself the room and the means with which to grow, change and evolve as needed. It can bring a sense of dynamism, preventing the board from simply going through the motions and only ever considering or focussing on the standard papers that are issued for every meeting.

This is not to say that having some form of standardisation would be detrimental, of course. As one individual commented, a base level of skill and knowledge in being able to provide good quality and good standard papers for trustees is obviously paramount in giving a board the best chance of making meaningful and effective decisions. They questioned as to whether or not there is enough information available for those that might be taking on the administrative role associated with governance (be that preparation of board papers, writing up of minutes, issuing and maintaining action logs and so on) to be able to perform this role effectively. All were in alignment that good documentation practices are vital and their importance for effective decision making should not be underestimated – nor should the subsequent documentation and capturing of those discussions and decisions.

This then begged the question of what a good board paper looks like – a question that is highly subjective given every individual has their own preferences and will digest information in their own way. That being said, there was a general consensus that providing a board with a paper covering hundreds of pages is not going to be an effective use of their time, with comments that not all trustees would be used to assimilating large volumes of data – particularly if they are new to the role. Those preparing papers for board consideration need to keep in mind what it is that a board needs to know in order to make their decision; rather than telling the board everything that they do know. It was agreed that keeping these papers as succinct as possible will not only enable the board to properly focus on the issues at hand (rather than missing a potentially key factor that is hidden away on page 197 of 230) but will also increase the likelihood that all board members will have read the documents in advance and will be able to actively participate in the discussions to follow.

Summary

Arguably one of the most important aspects of the charity sector, governance is a wide-reaching and complex beast that requires constant thought, evaluation and agility. Given the diversity in the charity sector itself, it was agreed that there is no "one size fits all" solution to what constitutes effective governance as the needs of each organisation will vary depending on size, location, charitable objectives and strategic aims. What was clear to the group is that, whilst there are a number of common elements that enable effective governance, there is and should be room for this to grow and change with an organisation.

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