



Delivering Effective Governance

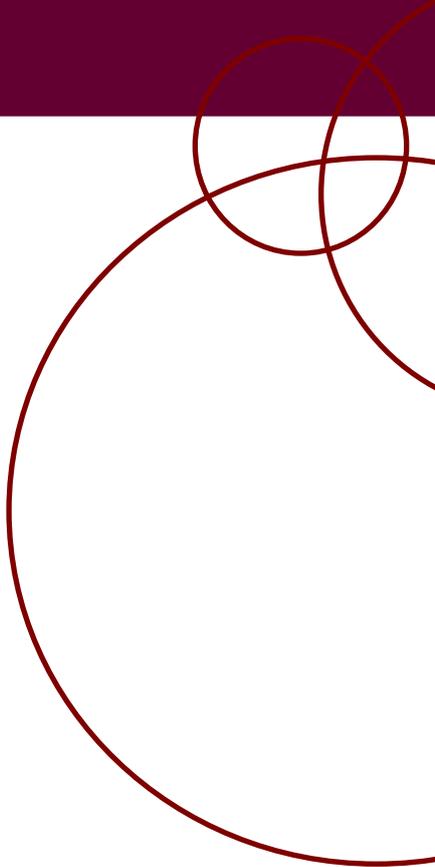
Insights from the boards of larger charities

Summary

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Summary

Context

Governance in the charity sector has been defined as the systems and processes concerned with ensuring the overall direction, effectiveness, supervision, and accountability of an organisation.¹

The attention given to the governance of charities has risen dramatically over recent years, driven by greater press and public scrutiny, better understanding of the distinctive roles of boards and a strong desire from board members themselves to deliver top quality governance.

Until now the evidence about how large charities are governed has been mainly anecdotal. There has been little research into the structures, processes and behaviours that are required to deliver effective governance or into how the UK's largest charities are governed in practice.

This research sets out to fill that gap. It aimed:

- to provide detailed insights into how large charities are governed at present
- to allow boards and managers to compare their governance structures, processes and behaviours with similar charities
- to identify the most important drivers of effective governance
- to pinpoint characteristics of governance that large charities perform well and those where improvement is needed.

The research focussed on the top 500 charities. Our 20 years of consultancy experience suggests that the governance of these large organisations has common and distinctive features that set them apart from the many thousands of smaller charities in the sector.

The special challenges for the UK's largest charities are that:

- their governance and management structures are likely to be more complex
- they need trustees with substantial experience of governance who can operate at the highest levels
- they face greater levels of public, media and parliamentary interest
- the consequences of mistakes and errors can be both wide ranging and long lasting.

The top 500 charities had an income of £27 billion in 2011². The 500th had an income of almost £15m. These charities account for 46% of the estimated income of £59 billion per year of charities in the UK³. They are an extraordinarily diverse group including organisations that are well understood to be the core of the charity sector such as social welfare providers, disability organisations and international aid agencies. They also include charitable organisations that are not widely perceived to be part of the sector such as colleges, research and examination bodies and, more controversially, independent schools.

¹ Development of a Governance Strategy for the Voluntary and Community Sector, Foundation for Good Governance, 2004

² Charities Direct website Oct 2011

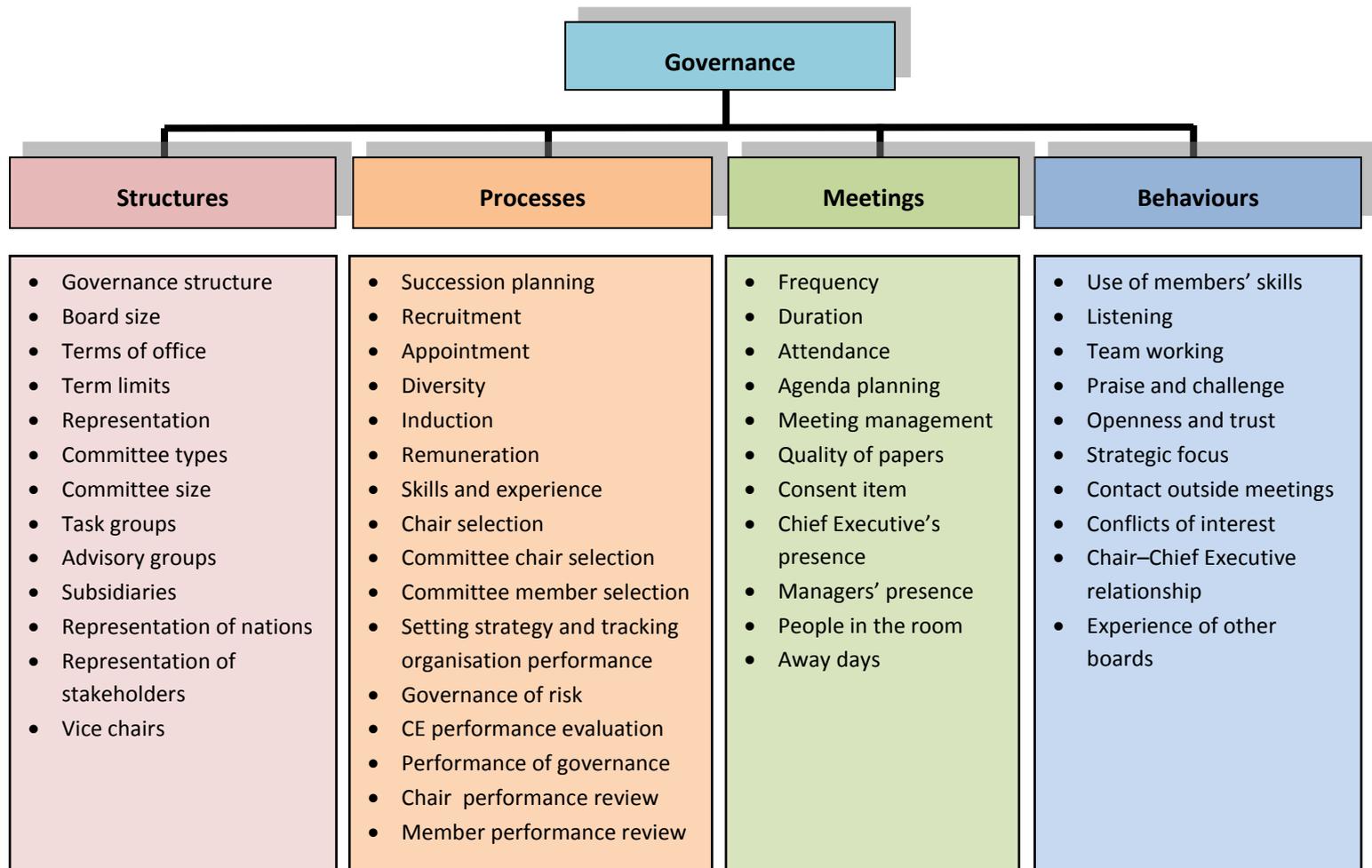
³ Total income of charities in England and Wales in 2010 was £52.5 billion (Charity Commission fact sheet), £5.5 for Scotland (OSCR) and approximately £600m in Northern Ireland

Characteristics of governance

The report sets out in detail the characteristics of the governance of large charities, and the relationships between these characteristics and participants' views of the effectiveness of their organisation's governance.

As we analysed the findings it became increasingly clear that 50 characteristics drive the effectiveness of the governance of large charities. We organised them under four headings and called this the Compass Cass Governance Model.

The Compass Cass Governance Model



For each of these characteristics, the report sets out in detail the practices of large charities and how they vary across the charity sector.

Overall performance of governance

The overall performance of governance was assessed against 12 key roles that boards should deliver. The key roles that boards were reported to be **most effective** at were ensuring the economic viability of the organisation, discharging legal and regulatory duties and agreeing the mission, objectives and strategy.

Over a quarter felt that their board was not good at tracking organisation performance, managing the process of governance or managing risk.

The roles that boards performed **least effectively** were understanding stakeholders, resolving stakeholders' different interests and bringing novel or creative views to the organisation.

The research goes on to identify the **relationships** between the 50 characteristics of governance and the **resulting quality** or 'performance' of governance, as reported by respondents. This enabled us to identify which of these 'drivers' of governance performance are most important and should therefore receive greatest attention when organisations strive to improve their governance.

We concluded that the key drivers of effective governance are, in order of importance:

- Good team working
- High quality board meetings
- Having the right skills and experience
- Focussing on strategic rather than operational matters
- Having openness and trust
- Being a diverse group of people.

We looked at the proportion of organisations that **achieved the threshold** needed for 'good performance' on the **top twenty key drivers** of governance performance. The key drivers that were most frequently in place, starting with the most, were:

- A good relationship between the chair and chief executive
- The quality of information provided to the board
- The skills and experience needed to provide excellent governance
- Openness and mutual trust
- The effectiveness of committees
- Awaydays.

The key drivers that were least frequently in place, starting with the least, were:

- Individual board member performance reviews
- Formal reviews of the performance of governance
- Reviewing the performance of board members before re-election
- Focussing on strategic rather than operational matters
- Working as a team
- Praising management
- Boards being sufficiently diverse
- Chair and chief executive having frequent dialogue.

Finally, we looked at the proportion of organisations displaying **stronger governance**. It was higher among:

- Charities with higher income
 - Charities with medium sized boards of 11-15 members
 - Housing and social care providers, leisure and recreation organisations, arts and culture organisations, health providers, leisure and recreation, social welfare providers and funders.
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These findings can be compared with the **top innovations** introduced by charities in the last two years. The innovations were, in rank order:

- Changes to the committee structure
- Undertaking a formal governance review
- Changes to the board composition
- Carrying out board appraisal or board effectiveness review
- Reporting innovations (e.g. reporting framework, KPIs, clearer or more concise board papers)
- Doing a skills audit or enhancing skill sets
- Use of an external consultant or facilitator.

They can also be compared with the **top actions** that participants would like to take in future. They were, in rank order:

- Carrying out a board appraisal or board effectiveness review
- Greater strategic focus
- Broadening the skill sets of board members or conducting a skills audit
- Creating boards with greater diversity and more balanced membership.

Conclusions

Large charities have made huge improvements to their governance in recent years and plan to make further improvements in the future. Although there is no magic bullet, our research suggests that charities should focus on the strongest drivers of effective governance.

The changes which charities have made to date may have been necessary pre-requisites for improving their governance. Our evidence suggests that in future greater attention should be given to the behavioural characteristics such as conducting formal individual and board performance reviews, ensuring greater focus on strategic topics at board meetings and team working. These changes are likely to be more difficult to implement but may yield greater benefits than further changes to the structures and processes of governance.

Copies of the report can be obtained from the Directory of Social Change, price £24.95, by:

Tel: 0845 077 7707

Email: publications@dsc.org.uk

Web orders: www.dsc.org.uk/guc

Compass Partnership provides consultancy and research in the governance and management of independent civil society organisations.

Over the last 30 years we have worked with more than 800 organisations in health, social welfare, housing, education, international development, arts, religion and the environment.

We work with chairs and chief executives to strengthen governance, strategy and management and we strive to be at the cutting edge of best practices.

We have conducted governance reviews for over 50 charities, supported governance re-structuring and helped to strengthen governance skills and behaviour. We can benchmark board performance using the information from charities that have completed our well tested governance questionnaire.

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