

IT STARTS FROM THE TOP: IMPROVING GOVERNANCE, IMPROVING IMPACT



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'The voluntary sector, and especially trustees, must ensure they have proper governance procedures in place. It is trustees, nearly one million of them, who are ultimately responsible for running these organisations.'

William Shawcross, Chair of the Charity Commission, May 2016¹

2015 and 2016 have been a difficult time for charities. From Kids Company's collapse to fundraising scandals, problems in the voluntary sector have been highlighted, charities have been scrutinised, and serious failures of governance exposed—reminding us all that the quality of its board can make or break a charity.

This paper looks at the steps needed to improve charity governance, drawing on NPC's work with hundreds of charities and their trustee boards over more than a decade. In it, we offer some strong recommendations to several bodies—from charity boards themselves, through to the Charity Commission—that we think would help improve governance and, by extension, the impact of the sector.

Why governance matters

Approximately one million trustees serve charities in the UK. It is trustee boards that set the charity's mission, appoint its top team, and oversee its actions. Trustees are fundamental to charities' ability to survive and thrive.

Over the years, we have been frequently struck by the central role that boards play in supporting, facilitating, or even inhibiting executive teams to deliver impact for the causes and beneficiaries their charities exist to serve. We are also struck by how essential—and sometimes, how difficult—it is for boards to adhere to good practice. It is often the case that when things go wrong, trustees have committed no obvious sins of *commission*, yet multiple sins of omission.

A charity trustee is working under very different circumstances from someone taking on a governance role at a commercial company. The rise of shareholder activism—for example, through which some very small shareholders exercise their rights to attend meetings and make their voices heard—can keep corporate boards on their toes until they improve practices such as employment rights and environment.

Some charities have membership structures that allow for the election of board members, creating a similar democratic element to board oversight, but this is unusual. Most charities rely on board members to recruit, appoint and supervise each other. The onus for sound oversight and good practice lies entirely within the board itself.

¹ [Speech at the Commission's public meeting in Southampton](#), 29 February 2016

What good governance looks like

Always striving to do better

There is no one-size-fits-all solution for governance. [The charity sector is large and diverse](#)², with 163,000 charities responsible for a collective income of £44bn. Nearly half are tiny, 'micro' organisations with incomes of under £10,000, which collectively account for just 0.5% of the sector's income. At the other end of the scale are forty charities that account for 18% of the entire sector's income.

Expectations of boards should be proportionate to the size of the charity, and recognise those with greater resources at their disposal. Yet, in NPC's experience, the boards of some of the larger charities do not always recognise the need to improve governance. This is dangerous—excellent organisations are characterised by learning and striving for improvement at every level, the very largest included. We should also not underestimate the power of smaller charities to go over and above what might reasonably be expected of them. There are many examples of small, cause-specific charities achieving commendable social change through disruption and courage.

So even with the size of charities considered, we want boards to be much more engaged in creating impact and sustaining improvement within their organisations, as well as fulfilling the basic official functions. Boards need to focus on what makes them effective, and whether they have the will, ability and capacity to drive impact. The reward for better governance is a better charity—and ultimately a stronger, more sustainable organisation for the people and causes it serves.

Maximising the good, not just minimising the bad

While trustees are responsible for the thorough oversight of finances and risk, they should not become so risk averse that ambition is lost.

The scandals of the past year have focused on governance as a means of preventing bad practice and charity failure. This is certainly a crucial role of governance. But trustees are just as essential to maximising the good that charities can do—a message that is drowned out by the noise about poor fundraising practice, financial mismanagement and executive remuneration. Trustees steer the course for their charity; they can also set the cultural norms and expectations to which the charity will adhere. If the board only focuses on ensuring organisational survival then there is a real danger that they will miss out on the reason they are there in the first place—to make a positive difference to the causes and beneficiaries the charity exists to serve.

The role of [trustees in helping steer charities towards greater impact](#)³ has not been given sufficient air time. Maximising impact sometimes requires boards to make tough decisions. These can include uncomfortable choices: that of deciding between [merger](#)⁴ and independence; of closing down useful but less impactful programmes to focus resources elsewhere; of divesting assets or narrowing scope. This is not easy. We live in times of flux. Fiscal and political stability is hard to find, while the pace of change in areas such as digital advancement is breath-taking. At its best, charity governance should be every bit as agile as the changing world around it; but at the very least, it needs to keep pace. What a board must avoid is becoming a drag on a charity's progress, just because there is no meeting planned for the next few months. NPC too frequently sees boards lagging behind a top team wanting to move with the times. Boards that are curious, ask questions and explore new ways of working will be more resilient in the face of uncertainty than those that hide from reality.

² NCVO (2016) [UK Civil Society Almanac](#).

³ Thorne, M. (2015) [Focusing on impact: What do trustees need to know?](#) New Philanthropy Capital.

⁴ Bull, D. (2013) [Making mergers work: The role for charity trustees](#). New Philanthropy Capital.

Key principles and practices of good governance

Trustees are the ‘guardians of purpose’, and achieving the charity’s mission must be the board’s primary consideration. Purpose, impact and improvement trump all other concerns. Boards should therefore aim to monitor and assess impact, learning from this at every stage. Charities that do not understand their impact may not be achieving as much as they could—or could even be doing harm.

Agility is key to survival and achievement of mission. This requires trustees to have an understanding of the changing context in which charities operate. Boards must support the top team to adapt rather than hold it back. Good boards will be open to collaboration, working with others where this adds value and helps the charity to achieve its mission. They will support the executive team to do this, helping directly where required by opening doors and talking to their peers.

Trustees hold the responsibility of setting the culture and values of the organisation. Key to this is recruiting and overseeing the top team. Healthy relationships within the board, and between the board and executive⁵, which combine support with challenge, are necessary for progress.

Good processes and practices will help boards to perform. A focus on getting the right people on board—determining the right skills mix, recruitment, terms of office, and commitment—is a good start. Getting the most out of trustees through training, induction, support for development, and evaluation of board performance ensures boards stay on top of their game. Practical steps—such as prioritising important topics in board meetings, and engaging with staff, volunteers and the people affected to get to know the charity well—help trustees to fulfil their duties effectively.

How the sector has responded to governance issues

Many sector bodies have turned their attention to improving governance. The Charity Commission’s priorities often appear to lie with the biggest charities—William Shawcross having declared that charities with incomes over £5m may expect some kind of increase in regulation. Meanwhile NCVO and others often remind us⁶ that we should be equally concerned about smaller charities that provide the backbone of local social capital. Both are right.

NPC along with other governance bodies have long been promoting good governance. Board matters, our first good governance publication, came out in 2009 and has been followed by series of about 20 trusteeship seminars supported and hosted by The Clothworkers’ Company—one of the sector’s longstanding champions of good governance. The seminars have spawned numerous briefing papers and commentary.⁷ In 2015 the Clothworkers’ Company also formed a partnership with NPC, Reach and Prospectus to run The Charity Governance Awards⁸.

More recently the list of concerned parties has expanded to include many other bodies and initiatives, including several major accounting firms and the Institute of Directors.⁹ But it is clear more needs to be done.

⁵ Carpenter, E. (2015) Happy relations? Ensuring effective partnerships between trustees and senior management New Philanthropy Capital.

⁶ Streets, P. 1 September 2015 ‘The challenges facing small and large charities’, NCVO Blog

⁷ Historically NPC has not been alone in these endeavours, with organisations such as NCVO, ACEVO, Small Charities Coalition, Wales Council for Voluntary Action, Institute for Chartered Secretaries and Administrators, Reach, Getting on Board, Prospectus, Bates Wells Braithwaite, Sayer Vincent, Compass Partnership, Cass Centre for Charity Effectiveness, and many others all contributing to codes, guidance and debate.

⁸ The Charity Governance Awards website: <https://www.charitygovernanceawards.co.uk/>

⁹ Others include: the major accounting firms such as PWC and Grant Thornton are turning their attention to governance and impact, with Grant Thornton’s Annual Charity Review of Governance and PWC’s Building Public Trust awards for governance now extended to charities; Cass Business School, Cranfield Trust and the Worshipful Company of Management Consultants have come together to pursue a welcome trustee awareness campaign during 2016/2017; The Association of Chairs was formed in 2013, and recently published the results of its first survey in 2016; and the Institute of Directors has finally entered the fray and now runs open courses on trusteeship. These are not the only initiatives, but provide a flavour of the attention being given to governance at the time of writing.

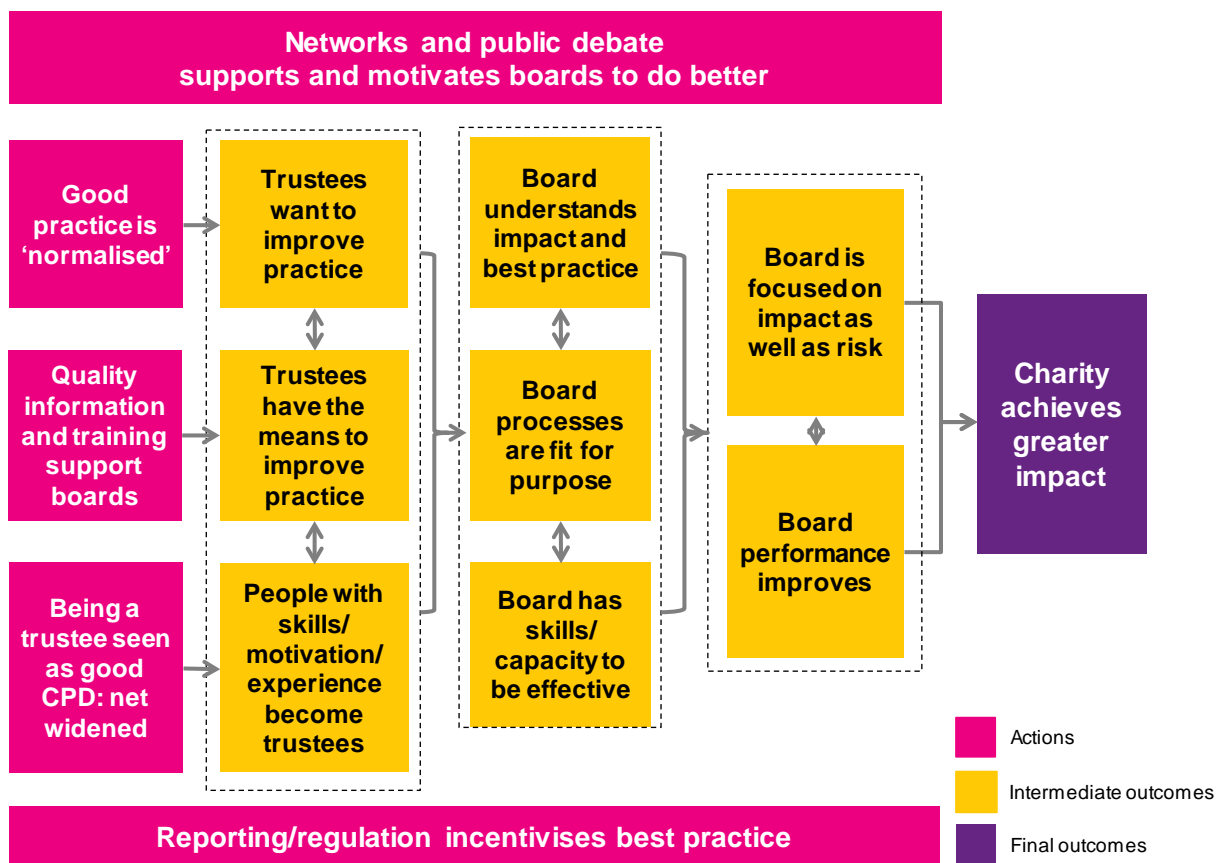
What would improve governance

One million trustees, almost all volunteers, is a lot of people to guide towards better practice. There are plenty of ideas as to how best to make this happen, some of which can be achieved through ‘nudging’ people in the right direction, and some of which will need charities, their regulators and other agencies to be much more proactive about ringing the changes.

The diagram below is a theory of change describing how better governance can be achieved, and how this will, in turn, lead to greater impact. In the following pages, we focus on what we feel needs to be done to achieve the first set of outcomes: attracting people with experience, skills and motivation to become trustees, motivating trustees to improve their practice, and providing trustees with the means to improve their practice. We also focus on the regulation that could encourage best practice in governance.

Changing behaviour will need a mix of approaches. Here, we have focused on the best options, such as ‘soft power’ influences like peer pressure and networking, alongside judicious mandatory action—particularly reporting on board action and processes. This could be an attractive, achievable combination. NPC is open for discussion on ideas.

Figure 1: How various activities and initiatives feed into improving governance across the sector.



Attracting trustees with skills, experience and motivation

Improving recruitment

In the first instance we need better, more joined-up mechanisms to guide willing volunteers towards trustee opportunities. The networks and websites that already exist, where new roles are posted for potential trustees, could be much better known. A portal for the various networks and websites—perhaps hosted or directed by the Charity Commission or a similar body—would help to round up candidates hunting for opportunities.

Working hard to motivate more people to become trustees will help to widen the pool of candidates and increase the diversity of boards. Too often boards are populated by a shallow demographic of people—those with the time and independent wealth to become a trustee—and risk being unrepresentative of the communities they serve. This problem is compounded by too many charities not recruiting openly, preferring to rely on a ‘tap on the shoulder’ approach of mining the contacts of existing trustees. Diversity matters because it brings different perspectives and different experiences to a board, and can challenge established ways of doing things which may not deliver the greatest impact. Rectifying this means fishing in some non-traditional pools, so that the diversity of boards increases.

Improving incentives

Initiatives that encourage employers to allow employee volunteering and encourage participation in board level volunteering schemes are welcome. Employers would find the skills and motivation of employees increasing. If this extends to legislation requiring employers to allow employees 2–3 days off for volunteering, then so much the better. As well as enabling people to become trustees—by giving them the time required—such initiatives may **encourage more people do consider becoming a trustee by highlighting it as good for continued professional development (CPD).**

Another possible incentive is one that is quite controversial, and leads us back to a long fought over question: Should trustees be paid? NPC would argue that it should be up to individual charities to make this decision. But it is crucial that this is done not as a way to hire expensive people who are already very wealthy. It must be used as a way to help charities attract and compensate a wider range of people with more diverse skills who may not be able to afford to the hidden costs—including precious time—of being a trustee. The purpose of charities is to convert philanthropic resources into social outcomes, and if paying some board members can help achieve this then it should be up for consideration.

Statements from the Charity Commission actively discourage boards from even considering paying trustees. For example, the web based guidance on paying trustees states:

‘When you become a trustee, you volunteer your services and usually won’t receive payment for your work ... Generally, charities can’t pay their trustees for simply being a trustee. Some charities do pay their trustees—they can only do so because it’s allowed by their governing document, by the Charity Commission or by the courts.’¹⁰

We believe it would be better to state that charities that wish to pay their trustees will need to make the case to the Charity Commission when gaining consent, or ensure their governing documents allow them to do so.

The question of pay relates to a second contentious question: should paid members of the senior leadership team, such as the chief executive and finance director, should be permitted to join the board? The advantage in permitting this is that, as with commercial companies, it ties key people into the governance of the organisation, meaning they become party to major decisions and share responsibility for success with the board. In practice, however, many trustees might prefer the distance between board and executive, which may make it easier for boards to dislodge poor performing chief executives. Here, too, we believe the decision should be left up to individual charities, and should be made according to the improved impact either choice may bring.

¹⁰ The Charity Commission website: <https://www.gov.uk/guidance/payments-to-charity-trustees-what-the-rules-are>

NPC recommendations:

- A well-known and accessible portal should be developed, hosted by an easily-discoverable body, that directs people to trusteeship recruitment initiatives.
- Board level volunteering should be encouraged and facilitated by employers.
- It should be up to charities to choose whether or not to pay trustees, and to determine whether or not senior staff can sit on boards. The Charity Commission should amend guidance to avoid disincentivising charities from exploring this where they have a reasonable case.

Motivating trustees to improve

Once appointed, good boards would, in an ideal world, seek to continually improve their own practice. A programme of induction, training and assessment would lead to excellent performance.

Yet NPC has seen several common barriers that prevent this. For example, boards can be risk-averse. As previously stated, many trustees see their role mainly as keeping the charity out of trouble (something which is undoubtedly important), rather than maximising impact. Few boards see themselves as needing improvement: the desire to increase income generally trumps the desire for self-reflection and improvement. Time and money is scarce, which further increases reluctance to invest in self-improvement.

Again, there are some ways to nudge trustees towards thinking more about how they work. Charity umbrella bodies could lead a more public discussion about what 'good' looks like for trustees to **ensure good practice is normalised**. It would help if self-improvement became a norm among trustees, and peer pressure, networks and exchanges could all help overcome reticence on this.

Awards and recognition for good practice can help. Something like The Clothworkers' Company Charity Governance Awards sends signals that good governance matters. Professional recognition for individuals may be motivating, especially if employers set store by it.

On the tougher side, openness, transparency—and, by extension, potential embarrassment—can be a powerful motivator, particularly if a practice has become normalised. A charity's annual report and accounts is the most prominent public document—the one that the public reaches for first when wanting to find out about a charity's performance. The Statement of Recommended Practice (SORP) sets out what is required in the charity's annual report and accounts, and is regularly reviewed. NPC would welcome an expansion of the SORP requirements to disclose additional governance activities that may spur boards towards better practice. Having to admit in a public document that you have deferred a board evaluation for three years running, for example, starts to look shabby if everyone else has been evaluated.

NPC recommendations:

- The Charity Commission should extend the SORP to require disclosure of key governance activities, and should provide guidance on the detail expected. Reporting should answer open questions, rather than easy tick boxes. NPC's priority areas for reporting would include¹¹:
 - Terms of office: how long do trustees serve?
 - Appointment and induction: do trustees have role descriptions and what are the induction processes?
 - Training: as well policies and procedures (already required by SORP), what training has the board undertaken, what did it cover, was it collective or individual, and when did it take place?
 - Evaluation: what are the policies and procedures for board evaluation (including assessment of board composition and board performance)? What action has been taken in the past year? When was the board last evaluated and what steps have been taken to act upon the findings?
 - Trustee appraisal: what are the policies and procedures for trustee appraisals (most importantly for the chair)? Have appraisals been undertaken within past two years?

Providing trustees with the means to improve their practice

NPC applauds the wide range of initiatives and attempts to create solutions for trustees. **Accessible guidance, peer networks and training** all contribute, but these initiatives also need to be evaluated, so that we can improve our understanding as to what works and with whom.

Basic guidance exists, in the form of *The Essential Trustee*¹² and the *Code of Good Governance*¹³. But it is time for a more advanced code, one that is more ambitious and would take trustees more deeply into their role in generating impact. While remaining focused on excellent and impact, segmenting guidance for different sizes and types of charity would help.¹⁴

The Charity Commission should make much greater use of its digital database, and the very many trustee contacts it holds. This is an enormous asset—and is likely to grow if, as NPC would recommend, the Commission required charities to register trustees and their email addresses, and to keep the Commission updated of changes. This would allow the Charity Commission to send core documents and updates to their contacts. Having a portal offering access to the full range of papers, events and available support could be enormously beneficial. Trustees who are outside the digital world may be harder to engage, but that should not inhibit efforts to reach those who can be contacted digitally.

The provision of readily accessible information could complement a range of training options, geared towards making sure that trustees have the skills and motivation to improve governance. Although there are many trainers, consultants, short courses, seminars and conferences around, remoter regions outside London are even less well served, and quality varies. If boards are to be convinced to set aside the time and money to do this, then training must be high quality and affordable. Face-to-face, virtual and online options all have a place. The development of good online courses will help with time, cost and distance issues. We at NPC would like to see experienced bodies offering high quality products. Some kind of accreditation or quality assurance system may be helpful, although we

¹¹ A consultation about how these requirements apply to different sizes of charity would be useful. We would not want a cumbersome requirement that is not relevant to small organisations. These expectations are aimed at charities of the size and heft to aim for best practice

¹² The Charity Commission (2012)

¹³ Good Governance website: <http://www.governancecode.org/>

¹⁴ NPC's new guide to assessing and analysing charities—an update of our 2010 publication *The little blue book*—is to be published in September 2016 and aims to cover this.

would not want to discourage experienced but affordable 'one-man-bands' offering support all over the country. The market may need developing to ensure quality: the social investment market has benefited from investment in contract readiness as well as impact readiness, and this has trickled down to capacity-building providers supporting this market. It may be time now to turn attention to funding schemes for up-skilling in governance.

NPC also sees potential for a bigger role for the Institute of Directors (IoD) in this market—a provider that is starting to work with trustees, and that carries a gravitas to which many trustees would respond.

NPC recommendations:

- The Charity Commission should develop its database of trustee contacts to disseminate core guidance and updates.
- Government and Big Lottery has provided funds for investment readiness and now impact readiness—both bodies should think about funding approaches that incentivise and support good governance.

Introducing regulation that encourages best practice

Under current regulations, charity trustees are required to report in each SORP on the financial health and sustainability of their organisations. This is essential information, but it is not adequate on its own.

We have already outlined our recommendation that the SORP should be adapted so that charities must report on key governance activities (such as length of service, training and appraisals). We also think the Charity Commission should use the reporting rules in the SORP to require that charities give information on their *impact*.¹⁵ At the very least this would ensure that the board discusses these topics every year. For large organisations we would expect greater sophistication, with measurement frameworks and metrics provided. But the regulator could require even trustees at small charities to provide updates on what the charity has achieved in a given year, how this compares with their expectations at the beginning of the year, and what plans are in place to ensure further impact going forward. The more charities see their peers reporting on these 'soft' topics, the more will these topics be valued.

Some charities may breach such extended SORP requirements. NPC believes the Charity Commission should have the power to sanction organisations that repeatedly refuse to engage with reporting on impact and improved governance. These powers should be used proportionately to the size of the charity or the vulnerability of the people directly helped.

NPC recommendations:

- The Charity Commission should extend the SORP to include information on charities' impact.
- The Office for Civil Society and Innovation should consider whether the Charity Commission should have the power to sanction charities that repeatedly breach these extended SORP requirements.

¹⁵ NPC first outlined this vision in our 2015 manifesto: [A vision for change](#)

Summary recommendations

These recommendations will not solve all of the charity sector's governance challenges, but they may make the sector more robust. We would of course want to consult with others on our recommendations in order to make them workable. We especially want to ensure that our recommendations are proportionate, and do not put excessive and impractical burdens on smaller charities. Evaluation of the more ambitious initiatives that aim to improve governance will help us determine what works, and what does not, when trying to attract, inform and motivate trustees. Otherwise we could waste time and money on initiatives that do not improve governance.

Charities, especially large ones, should:

- Review their own governance practices and consider what improvements could be made.

The Charity Commission should:

- Extend the SORP to require disclosure of key governance activities.
- Extend the SORP to require information about impact.
- Amend guidance on paying trustees and on allowing senior staff to sit on boards, to avoid disincentivising charities from exploring this where they have a reasonable case.
- Build and use its email database of charity trustees to disseminate core guidance and updates.
- Consider hosting a portal for information on recruitment, training and resources.

Major funders such as government and Big Lottery should:

- Consider whether governance is due significant investment to build governance capacity and the market to support this.

Employers should:

- Encourage employees to volunteer at board level, recognising that such activity will enhance skills and motivation.

Recent events have shown that good governance is vital to the health of both individual charities and the sector as a whole. With enough dedication, as well as the right guidance and support, NPC is confident that charity trustees can continue and, more importantly, improve the brilliant work their organisations do.

If you have any comments or questions, or would like to discuss any of the issues and recommendations set out here, please do get in touch with Iona Joy, Head of NPC's Charities Team: Iona.Joy@thinkNPC.org or Patrick Murray, Head of Policy and External Affairs: Patrick.Murray@thinkNPC.org.

TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

Increasing the impact of funders: NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

Strengthening the partnership between charities and funders: NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

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