New Philanthropy Capital

Stories from the boardroom

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Summary

These are tough times for charities. Public spending cuts are kicking in, there is increasing competition for private funding, and 39% of charities say they have seen an increase in demand for their services as a result of the recession.

As charities feel the squeeze, it will be more important than ever that trustees are there to lead and support them. Trustees need to help charities plan ahead and respond to the changing environment. But they also need to maintain a strong focus on their charity's mission and review how they can provide the best possible support to beneficiaries.

NPC and The Clothworkers' Company ran a series of seminars for trustees in Spring 2011, designed to give trustees an opportunity to hear from experts and to debate the issues that are high on their agenda, including how to support charities through challenging times; how to review board performance; and how to collaborate with other organisations. This report highlights the key themes discussed during these seminars and explores some of the topics in more depth through case studies from charities ranging from large national organisations such as Macmillan Cancer Support, the National Trust, Crime Reduction Initiatives and Tomorrow's People, through to smaller charities including Mind in Bradford and The Broomhouse Centre in Edinburgh.

Key themes

The seminar discussions and case studies covered many aspects of good governance, but four key themes emerged:

- building an effective board;
- reviewing and renewing your board;
- coping with challenges; and
- managing collaboration and mergers.

Underlying many of these discussions was the question of whether the board has evolved to meet its charity's changing needs. So, for example, is the board size and governance structure still effective and do trustees have a mix of skills, perspectives and experience that are suitable to the charity in its current state? If not, how can the board address these issues? Trustees explained how they had made difficult but important changes to improve their governance and ensure the board keeps pace with their charity's development.

Trustees emphasised that particular issues need special attention in challenging times. They felt that it was more important than ever to:

- **Know your business.** The economic downturn means that trustees need to be really clear about the financial model their charity works on and what this means for their strategy and risks. Kate Sayer from Sayer Vincent, a specialist firm of consultants and auditors working with charities and social enterprises, urged trustees to question the reliability of their charity's income and the flexibility of their cost base and to plan accordingly. In some cases, a reduction in funding may mean that trustees have to re-examine the sustainability of particular services or invest more in their fundraising efforts.
- **Keep up-to-date.** This is a fast-moving environment and trustees need to make sure that they are up to speed with any significant developments—it is not enough simply to wait until the next board meeting. The relationship between the chair and chief executive is crucial. Getting the right level of information in the board papers is often a challenge, particularly in large charities. Rachael Bayley, a trustee of Barnardo's, described how developing a 'dashboard' to summarise key information has helped its trustees keep a handle on everything going on in the charity, which has an annual income of £234m and

runs 415 projects across the UK. Thanks to analysis from their dashboard, they have been able to review and improve the efficiency of their charity shops and refine their fundraising efforts.

- **Think flexibly and respond rapidly**. Kate Sayer emphasised the importance of not putting off difficult decisions until it is too late. As some seminar participants put it, maybe the key message in challenging times should be '*be prepared to change'*.

- **Ask challenging questions**. The board also needs to make sure that it keeps focused on the bigger picture and does not shy away from challenging questions. With increasing competition for funding, seminar participants noted that trustees need to help their charities be very clear about what makes them distinctive—what is their 'unique selling point'? Participants also emphasised that trustees should be thinking about collaboration as well as competition, and consider whether they might maximise impact for their beneficiaries by working with other charities. And, as part of the board's role is to 'think the unthinkable', in some cases this may include considering the potential for merger.

- **Provide strong and supportive leadership.** Boards need to make sure that they are taking responsibility for tough decisions and prioritising people management. Seminar participants noted that issues like closing services or losing staff can be incredibly stressful for the executive team. Trustees should take responsibility for difficult decisions—for instance it may be more palatable for announcements about redundancies to come from the board, given that it is more distanced from day-to-day life at the charity. During times of change, charities should also think carefully about how they communicate developments to staff, volunteers, beneficiaries and funders, to manage morale and respond to concerns. In particular, speakers emphasised that the human dimension should never be underestimated—fears about loss of power, jobs or identity can be the biggest stumbling block in building a partnership with another organisation and trustees need to prepare carefully for this.

Background to this report

Stories from the boardroom forms part of NPC's larger body of work on trusteeship, which includes the reports *Board matters, Trusteeship 2010* and *Talking to trustees* (which discussed the main themes from NPC's 2010 seminar series for trustees). This work has been generously supported by The Clothworkers' Company.

Readers should note that the purpose of this paper is to share interesting ideas and experiences discussed during the Spring 2011 seminar series. It is not designed to provide a comprehensive record of proceedings. Two of the case studies in this report were developed from presentations made at the seminars; the others are the results of interviews with chairs and chief executives of charities that were identified as case studies through research and recommendation.

Contents

Introduction

What is the purpose of this report?

This report is written for trustees and about trustees. It shares the views and experiences of participants at a series of seminars that NPC organised with The Clothworkers' Company in Spring 2011. The seminars were attended by over 100 trustees from charities of all shapes and sizes, and gave participants an opportunity to hear from experts and debate topical issues with their peers.

These issues are also explored through case studies that illustrate how charities have made interesting changes in order to respond to challenging situations and improve the effectiveness of their boards. For each case study, we asked the chair and/or chief executive to reflect on any lessons or recommendations that might be useful to other charities grappling with similar challenges.

The trustees' stories we discuss can be grouped into four broad themes, which form the structure for this report:

- building an effective board;
- reviewing and renewing your board;
- coping with challenges; and
- managing collaboration and mergers.

However, as the economic downturn affects each of these themes in one way or the other, we will turn first to the current environment and what it means for trustees.

Setting the scene

The economic backdrop

We all know that these are tough times for charities. The Coalition Government is cutting public services by between 25% and 40% so, in our October 2010 *Preparing for cuts* paper, we estimated that the sector's income will drop by between £3.2bn and £5.1bn. Updated figures are not yet available, but, anecdotally, we hear from charities that the cuts are hitting hard. At the time of writing, Voluntary Sector Cuts, a project that asks charities to submit data about cuts to their statutory funding, has reported 492 cuts, worth just over £76m.[1]

This growing gap in funding is simply too large for trusts and foundations, which provide £2.7bn of funding to charities per year, to fill. Funding from the public and philanthropists (£13bn in 2008/2009) cannot help either, as most donors appear unwilling to plug gaps left by government cuts.[2]

So, in a nutshell, the public sector is shrinking and there is more competition for voluntary funding. Some charities will be squeezed from the other direction too: as state services are scaled back, there is likely to be a growing need for the types of social welfare support that

[1] Voluntary Sector Cuts is a collaboration between a group of 25 voluntary and community organisations. Charities and other voluntary organisations can submit data about cuts to their statutory funding through the Voluntary Sector Cuts website: http://voluntarysectorcuts.org.uk

[2] Joy, I. (2010) *Preparing for cuts: How funders should support charities in a world of government cuts and changing funding structures*, New Philanthropy Capital.

many charities offer. Indeed, a survey in August 2010 found that 39% of charities have seen an increase in demand for their services as a result of the recession.[1]

What does this mean for trustees?

This all has serious implications for charity trustees. It is their responsibility to guide their charities through these challenges and, where necessary, to make difficult decisions about closing services or losing staff. It is, therefore, more important than ever that trustees keep on top of developments and support executive teams. Chief executives and senior managers will have more than enough on their plates dealing with the detail of day-to-day operations, so trustees need to keep their heads above water and ensure their charities remain focused on what they are trying to achieve for the people they support.

Given this backdrop, it is hardly surprising that trustees and executive teams are feeling the pressure. Speaking at a conference in May 2011, Peter Kyle, acting chief executive of the Association of Chief Executives of Voluntary Organisations (ACEVO) said: *'In 2009, our 'Chief Executive in Crisis Helpline' got nine calls. Last week, we got seven calls … The root cause of most of these calls was ultimately an issue with governance.'*[2]

However, at the very time when boards are facing growing pressures, changes in government funding may also affect the support available for trustees. For instance, the Charity Commission, which has actively promoted good governance over the last few years, is facing cuts of one-third over the next four years and reviewing the scope of its work.[3] The National Council for Voluntary Organisations (NCVO), which has taken a leading role in championing good governance, is also going through a restructure that may affect the range of services it can offer for trustees.

That said, there are ongoing governance initiatives that can provide valuable support for trustees. In particular, a full, revised edition of *Good Governance: A Code for the Voluntary and Community Sector* was published in October 2010.[4] This outlines the key principles that trustees should follow and provides clear and practical guidance on issues that trustees need to consider. The revised version reflects feedback on the original code (which was published in 2005); new thinking about governance resulting from the economic downturn; and the growing interest in issues like proportionate governance and behavioural governance. It is designed to be accessible to a range of boards and the Governance Code Steering Group is currently adapting it for smaller charities that have no paid staff, as it recognises that they often face different governance challenges.

The second Trustees' Week, which will be held from 31 October to 6 November 2011, should also provide an opportunity to shine the spotlight on trusteeship and highlight its benefits both to charities and individuals.[5] Designed as 'a celebration of trusteeship', last year 30 events were held across the country during the first Trustees' Week and its website had over 21,000 page views. This year's Trustees' Week will include a mix of events, training and awareness-raising initiatives.

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[1] Charity Finance Directors' Group, the Institute of Fundraising, and PricewaterhouseCoopers, (August 2010 survey results) *Managing in a Downturn: Responding to life after the Comprehensive Spending Review.* The survey was conducted among the members of both CFDG and IoF.
[2] Vibeka Mair, 'Charity governance needs debate, warns Peter Kyle' in Civil Society (23 May 2011).
[3] Charity Commission Strategic Review: Written Submissions: http://www.charitycommission.gov.uk/Library/Strategic_review_written.pdf
[4] The revised edition was produced by the Governance Code Steering Group, which includes ACEVO, the Small Charities Coalition/Charity Trustee Networks, the Institute of Chartered Secretaries and Administrators, and the NCVO. It is also supported by the Charity Commission. http://www.goodgovernancecode.org.uk/
[5] The partners for Trustees' Week 2011 are: the Charity Commission, the Small Charities Coalition/Charity Trustee Networks; Getting on Board; *Governance* magazine; The Institute of Chartered Accountants in England and Wales; the NCVO; the National Union of Students; and Reach Volunteering. http://www.trusteesweek.org.uk/

1. Building an effective board

All three trustee seminars this Spring touched on the issue of what makes an effective board. Harvey McGrath, who chaired the seminar on 'Guiding your charity through challenging times', opened discussions by outlining five key drivers for effective boards (see Box 1). These emphasise the critical role of the chair and the influence that the competence and character of trustees has on how well a board works.

In this section we highlight the key points that speakers and participants raised by posing a series of questions that they felt boards should ask themselves.

Box 1: Five drivers of an effective board

Harvey McGrath, a trustee of New Philanthropy Capital, cited a paper by MWM Consulting (an international executive search and board advisory consulting firm) that identified key behavioural drivers for boards. The paper was focused on corporate boards, but Harvey highlighted five insights that are particularly relevant for charity boards:

- **The chair is probably the single biggest influence on effectiveness**. They set the focus and the tone, and lead the composition of the board.
- It is critical that the **business is led by a chief executive who sees the trustees as a valuable resource**, rather than as an encumbrance.
- **Balance is important**. The relationship between the chair and the chief executive, and between the chair and the rest of the trustees, needs to be managed dynamically.
- **Being a good trustee is 'as much about character as competence'.** Trustees need to have the right motivation and commitment, they need to put in time and be engaged, they need to show independence of mind and courage, and have a constructive style.
- **The board needs to be 'designed and managed as a high-performing team'**. It is for the chair to foster this and build a team with a common purpose and mutual respect and commitment. Again, this requires careful and dynamic management.

Source: MWM Consulting, *The behavioural drivers of board effectiveness: a practitioners' perspective.* http://www.mwmconsulting.com/downloadables/Board-Behaviour-Summary-Research-Findings.pdf#zoom=75

Do you have a suitable governance structure?

Seminar participants recognised that the size and structure of a charity's board has a huge influence on its effectiveness.

Of course, the appropriate size and structure for a board depends on the type of charity it governs. However, a number of people commented that there can be an optimum size of board for efficient discussions. Mike Hudson, founder of the specialist management consultancy Compass Partnership, chaired one of the seminars, and said that he has noticed that while larger charities used to have big boards most have now reduced their numbers to between 12-15 trustees. Barnardo's, for example, has reduced its board from 22 trustees (over 10 years ago) to 14 trustees and aims to have a board around that size. However, as five trustees are due to retire in about 18 months' time, they are currently planning a staged recruitment process, including a review of the range of skills on the board, to prepare for this.

Mike suspects that this trend may go even further and board sizes may fall to the region of nine to twelve trustees.

Similarly, the National Trust now has 12 trustees. Its deputy chair, Sir Laurie Magnus, said he would not wish its board to be any larger. He felt it would be difficult to have a productive discussion with any more trustees, given that most board meetings are likely to include some members of the senior management team, bringing the number of people in the room up to 15 or more. However, in the past, the National Trust has had to cope with a much larger trustee body and its experience offers an interesting case study of reviewing and changing a charity's governance structure to improve effectiveness.

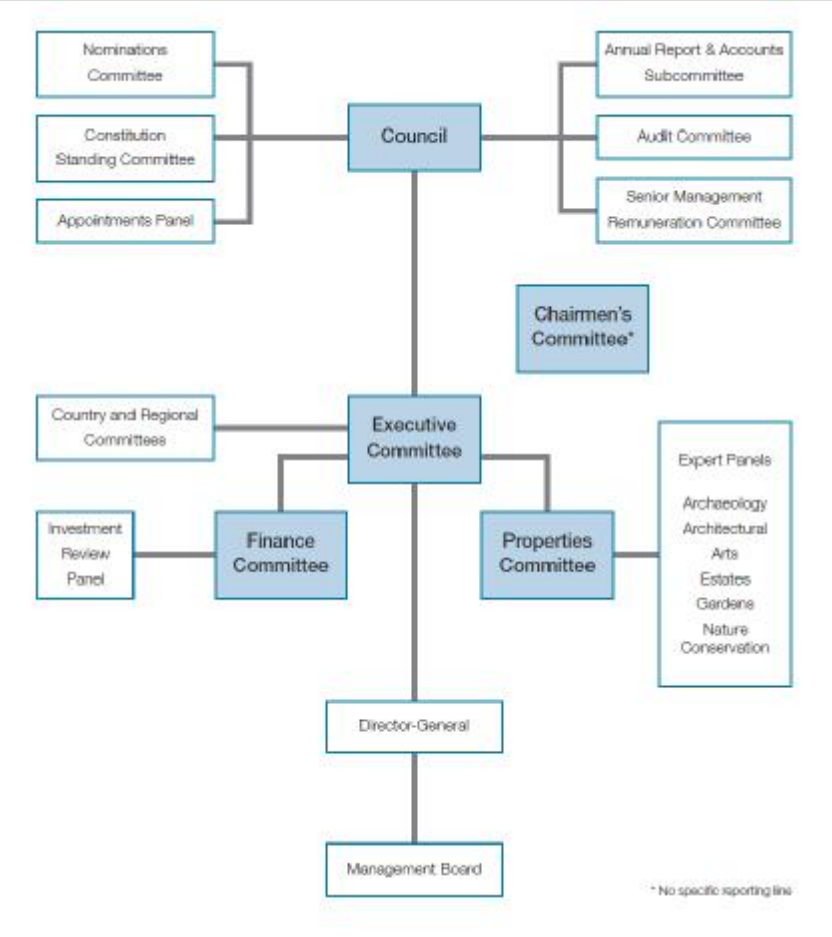
Case study: Restructuring governance at the National Trust

The National Trust is one of Britain's largest and best-known charities, with an annual income of over £406m and a membership of 3.8 million people. At the seminar on 'How well is your board working?', the charity's deputy chair, Sir Laurie Magnus, explained how the National Trust has overhauled its governance structure to improve its effectiveness and accountability.

What was the issue?

Given the size of the charity, it is hardly surprising that the National Trust's governance arrangements are more complicated than those of most charities. It was founded in 1895 and over the years its governance has evolved into the multi-layered structure depicted in Figure 1.

Figure 1: The governance structure of the National Trust until 2005[1]



[1] *Report on the Governance of The National Trust: Report of the Governance Review Group to the Council of the National Trust* (April 2003). http://www.nationaltrust.org.uk/main/w-blakenham-report-april03.pdf

Under this structure, the National Trust's trustee body comprised a council of 52 people. Half of the council were (and continue to be) elected by the members, and half were (and continue to be) appointed by organisations whose interests coincided in some way with those of the National Trust, such as the Confederation of British Industry, the Women's Institute, the Ramblers Association, the Royal Horticultural Society and the Open Spaces Society.

There were also a variety of other committees and panels. Six sub-committees reported to the council, and the council appointed an executive committee of 26 people. This, in turn, had various sub-committees, including the properties committee and the finance committee. On top of this, 11 separate country and regional committees and various expert panels, covering areas such as archaeology and architecture, reported into the executive committee.

This structure had developed as the National Trust grew in scale and membership, evolving in response to active engagement by members and a need to draw on specialist expertise. Unlike many charities, the National Trust has at times had to address serious divisions of opinion amongst its members, of which fox hunting aroused the most controversy in recent years.

The National Trust recognised that its governance structure was increasingly unsuited for handling its challenges. Although around 200 senior volunteers were involved in governance, most decisions were actually taken by the chairmen's committee, which consisted of the chairs of the three key committees—finance, properties and executive—two of whom were, respectively, chair and deputy chair of the Trust. Although this might have encouraged efficient decision-making, Sir Laurie admitted that *'there was a lack of transparency about how decisions were made and it was not clear who was accountable for what'*. As a result, the governance structure faced increasing criticism, including in relation to the transparency and fairness of processes for making appointments. A further complication was that much of the structure was proscribed by a special Act of Parliament.

How did the National Trust address this?

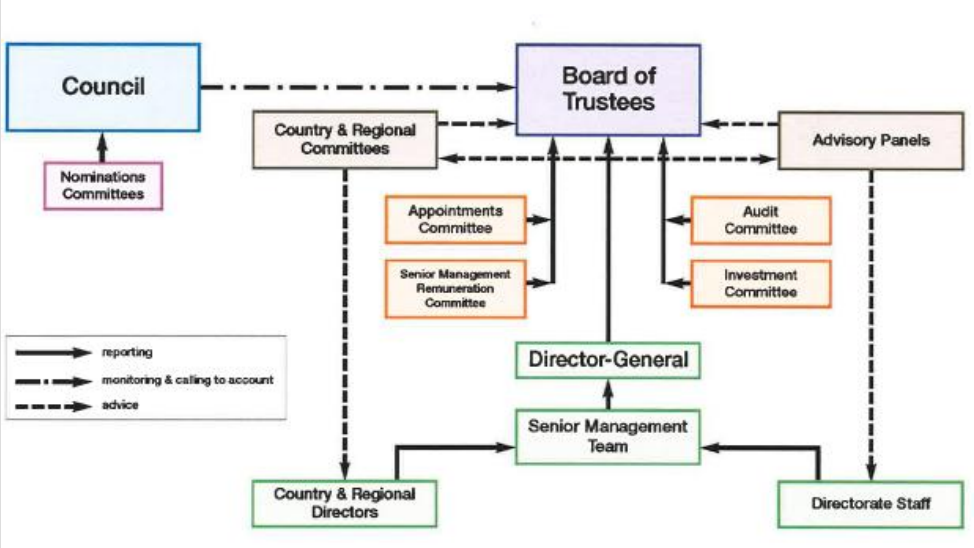
In 2003, the National Trust decided to bring in two external experts—the recently retired chair of Pearson plc (the leading education, publishing and media group) and a leading City of London lawyer—to review the charity's governance and recommend how it could be improved.

After a long consultation process, the two advisers proposed a new governance structure that was introduced in 2005. Under this new structure, the council of the National Trust remains a body of 52 people, elected in the same way as before, with 26 people elected by members and 26 appointed by organisations whose interests coincide with those of the National Trust. However, the council ceased to be the trustee body and instead became what is sometimes described as the 'parliament' of the Trust and a 'conscience body', with responsibility for appointing the board and holding it to account, but with no broader governance powers.

The board that is now appointed by the council consists of 12 trustees, which Sir Laurie thinks is *'the top number for an effective board'*. The trustees are selected for their experience and skills, and the majority are council members. The board still has multiple committees, shown in Figure 2, to ensure that regional interests are represented and that the National Trust is able to consult independent experts for advice.

The transition to the new governance structure involved a process of extensive consultation. Although there was a general consensus that the existing arrangements were flawed and opaque, it was not easy to persuade all members of the council that it should not remain the trustee body. There were concerns that the smaller board would fail to take account of geographic issues and ignore specialist concerns. Ultimately, however, the changes were approved by the council, by members and by a special parliamentary order. The leadership and commitment to the changes shown by the Trust's Director General and members of the chairmen's committee were vital in keeping up the momentum and building support for the change.

Figure 2: The new governance structure for the National Trust[1]



What lessons would the National Trust share with other charities?

According to Sir Laurie, the restructuring process was a 'bruising' one. Charities making major changes to their governance are likely to encounter a certain level of resistance from existing trustees, and trustees should not underestimate how long the changes may take to bed down. He also noted that it took a long time to think through the full implications of the new structure and, in particular, how all the committees fitted together.

The National Trust found that codifying all the governance process was very valuable. They set up a Governance Handbook Working Group to produce a concise summary of the governance rules and supporting practice notes to assist implementation.[2] Sir Laurie commented: *'Our handbook has been invaluable to us as a repository of both the rules and best practice drawn from experience to date. It is recognised that it will never be exhaustive and that it may need to be updated as circumstances and the National Trust's requirements from its governance volunteers change.'*

Sir Laurie also noted that this is not the end of the process for the National Trust—there are ongoing developments. For example, the appointments committee, which Sir Laurie now chairs, is currently reviewing procedures for the appointment of members to the various bodies, to ensure that the charity is open to individuals from every background. The National Trust seeks to mirror the open and transparent processes of a public sector appointments process, with independent assessors being formally involved to provide an important 'sense check'. Sir Laurie feels that the key to success is working out how to find really good people and how to use them.

[1] *The National Trust Handbook* (third edition, 2009). http://www.nationaltrust.org.uk/main/w-governance-_handbook-aug09.pdf
[2] *Ibid.*

Do you have a high-performing team?

As we have seen, the size and structure of the board is crucial. But so is the mix of people you have on the board and the way the trustees work together. Harvey McGrath summed it up as, *'You can have absolute conformity with best practice in terms of process and conduct, but those characteristics, while valuable, are not sufficient on their own. It is the behaviour of the board that is crucial.'*

Pat Chapman-Pincher, who has been on the board of the Friends of the Earth Trust since 2006, recommended that trustees should ask themselves a series of questions to assess whether they have a good balance on their board:

1. **Do your trustees have a broad mix of skills?**
2. **Are they challenging?**
3. **Are they knowledgeable?**
4. **Are they engaged?**
5. **Do they have time?**
6. **Do they work together as a team?**

Below, we explore in a bit more detail what these questions mean for charity boards.

Do you have the right mix of skills and personalities?

As Pat Chapman-Pincher noted, boards should make sure that their trustees have a broad mix of skills, appropriate to the needs of their organisations. They also need to look beyond skills to consider trustees' personalities, motivations and the time they have available, and how this will affect the board's level of commitment and engagement, and its ability to work together as a team.

During the seminars and conversations with trustees, we came across various examples of charities that undertake skills audits. Some do so on a formal basis, perhaps as part of their regular board review process or when they need to recruit new trustees, and others review skills more informally.

The Broomhouse Centre, a community organisation in Edinburgh, is a good example of a charity that identified a skills gap and worked hard over many years to address it. As the case study below explains, Broomhouse was originally a small informal association run entirely by the local residents who had founded it. However, the manager realised that if the charity was to grow and professionalise, its board needed a broader range of experience which would mean recruiting some trustees from business backgrounds.

As well as looking at professional skills, charities also need to consider the mix of personalities on their board. Harvey McGrath noted that they need people who can show *'courage and independence of mind'* and have a *'constructive style'*. This aspect of good governance is harder to unpick and many boards will look at competence and character in an informal and intuitive way through their trustee recruitment process. However, it has been interesting to hear that some boards are tackling this issue more explicitly. At Friends of the Earth Trust, for example, they now look beyond educational and professional backgrounds to broader skills when selecting new trustees. Similarly, the board of Tomorrow's People, which is discussed as a case study in the section on 'Coping with challenges', has developed personal profiles to assess whether it has a suitable mix of personalities.

A focus on diversity can help to ensure that boards include a good mix of skills and personalities, and a healthy range of perspectives. Pat Chapman-Pincher told participants that she thinks trustees have *'to fight to get diversity on a board'*. Ensuring age diversity can be a particular challenge, she said. Many boards end up being dominated by retired people, so

charities need to make a conscious effort to involve younger people. Another seminar participant observed that board processes themselves can have a huge impact on diversity. For instance, holding board meetings at particular times of day or in particular locations may make it difficult for some, such as mothers of young children, to attend on a regular basis.

The mix of skills and personalities on the board should evolve with the charity and respond to its changing needs, so reviewing skills and diversity should not be a one-off process. This will be discussed further in the section on 'Reviewing and renewing your board'.

Case study: Bringing business expertise onto the board at The Broomhouse Centre

The Broomhouse Centre is a community organisation that supports disadvantaged people living in and around the Broomhouse Estate in south-west Edinburgh. It runs education, training, community care and health projects for people of all ages, including adults with learning difficulties, single parents, prisoners, people with mental health problems and older people who have dementia.

Today, the charity has 12 trustees, five with local knowledge and five with business expertise, plus one local councillor and the local minister. The chair, Lorna Vickers, and the centre manager, Marie Anderson, told us that it has had to work hard over a long period to build a balanced board with the right mix of skills and experience. Like many charities, it started as an informal association of local people. However, as the organisation developed, the board need to professionalise—a process that led to tension between the charity's founders and its funders.

What were the reasons for diversifying the board?

When Marie joined the organisation 20 years ago, it was an unincorporated association called the Broomhouse Neighbourhood Association, which was supported by two grants from Edinburgh City Council. It had been running for about five years and had a management committee of ten, made up of local people and a local councillor.

Marie's first few months at Broomhouse were very challenging. She recalls that: *'City of Edinburgh Council had closed the building for renovation, but when it was completed, the council decided not to give the building back to the local people because it had concerns about previous financial controls. So I had ten frustrated and angry local people on my hands.'* Instead, the council appointed Marie as the manager—an unpopular move with the association, which was keen to regain control of the building.

The management committee was not functioning well as a board. Its members led chaotic lifestyles and were not interested in thinking about the strategic development of the organisation. Marie noted that, *'If someone asked what had been discussed during a management committee meeting, the members probably wouldn't be able to tell you.'* The committee also acted as a law unto itself, with its members setting up policies but only observing them when it suited.

In the end, the situation became intractable. Marie realised that in order to develop the organisation, she would need to bring in new people, including those with business expertise. So she sought help from Edinburgh City Council, which decided that the association should be dissolved. Unsurprisingly, some members of the management committee left as a result. However, those who had the best interests of the organisation at heart stayed on.

What support did they receive during this process?

Broomhouse was supported by a consultant appointed by the Charities Aid Foundation (CAF), and a community education worker from the council, who helped them set up a new charity to replace the association.

The CAF consultant undertook a 'SWOT' (Strengths, Weaknesses, Opportunities and Threats) analysis of the current management committee. The committee's local knowledge and networks, and the fact that they were service users, was very valuable. However, he identified additional skills that needed to be brought onto the committee. The organisation had reached a point in its development where it needed HR and financial expertise to help it grow. He also noted that marketing and PR skills would help the organisation highlight its work and build a brand, while broader business acumen would be important for organisational development and business planning.

How did Broomhouse build a more balanced management committee?

Broomhouse tried a variety of approaches to recruit trustees with these skills. These included standard approaches, like advertising in the media and at the local volunteer centre and recruitment fairs, as well as using networks and word-of-mouth. However, they also tried more adventurous approaches, including 'speed recruiting', which its chair Lorna Vickers described as *'rather like speed dating but for recruiting volunteers'*—charities were given three minutes to pitch volunteer opportunities to a room full of business people.

Broomhouse also has a good track record of converting consultants who have worked with it into trustees. The CAF consultant stayed on as a member of the management committee, as did consultants from Scottish Business in the Community and the Scottish Chamber of Commerce's mentoring scheme, who had been brought in to provide consultancy at later stages in the centre's development.

The process of bringing on new trustees has been very gradual. One new trustee was appointed at a time and this helped to ensure that there was not a sense of 'us and them' between old and new trustees. They also held a team-building outdoor activity day early on in the process, which they felt really helped the management committee to gel—as Lorna remarked, *'being knee deep in mud certainly generates a sense of camaraderie*'.

What has been the impact of these changes?

Lorna and Marie feel that these governance changes have played an integral role in the professionalisation of the organisation. The management committee, which they now describe as a 'well-oiled machine', consists of ten trustees at present. Five are local people and the charity has a formal policy that all the office bearers—that is, the chair, treasurer and secretary—are local residents, so that it is still run for the community and by the community.

Another five trustees are business people whose experience spans HR, finance, marketing, business, local government, and PR. Marie believes that having them on board has helped the charity to be taken more seriously. She thinks that the local council and primary care trust feel that the organisation has more clout now that it has people with significant business experience on the board. Indeed, one of these trustees recently played an influential role in lobbying the council about cuts to Broomhouse's funding. And another trustee who runs her own HR company has been invaluable to the organisation, particularly recently when they have been dealing with lots of staff changes.

What lessons would Broomhouse share with other charities?

Broomhouse asks for a big time commitment from trustees, particularly in the current environment when they are being asked to help the charity manage challenges around finances and staffing. Marie has learnt that she needs to be clear about the time commitment upfront, during either the recruitment or induction process. Given that business people tend to lead very busy lives, in some cases she thinks it may be better to have a trustee who has recently retired.

Marie also noted that it has been important to ensure that trustees are kept up-to-date about the centre's work. So, for example, they make sure that the project managers of the centre's ten core projects take it in turn to give an update at the team meeting.

Lorna commented that, *'One of the biggest challenges is probably losing good people due to changes in personal circumstances.'* In contrast to some of the seminar participants, Lorna and Marie do not think that it is always helpful to have set terms of office. They are happy to have long-serving trustees—indeed Lorna has herself been on the committee for nine years. In their view, *'Why break something that works?'*; it is important to have continuity and there will always be an automatic level of turnover as a result of personal circumstances. The fact that trustees have to be voted in at the AGM also helps weed out those who are not committed to the charity.

We have often heard trustees, particularly those from smaller charities, express concerns about bringing in consultants. So it was interesting to hear Marie say that at Broomhouse, which has an annual income of less than £500,000, *'the best thing I ever did was to bring in a consultant to improve our governance'*.

Marie commented that: *'In order to survive in this climate, I would say that any small or medium-sized organisation needs to look at its governance. The model we use of having five local people and five business people on the board works really well. So apply for a consultant to come in, do a health check and SWOT analysis, identify where the skills gaps are and then have a robust recruitment process.'* She also emphasised the importance of having a clear vision and a strong business plan, as this helps to ensure that trustees, both old and new, are 'singing from the same hymn sheet'.

Are you prepared to invest time and energy in the charity?

As The Broomhouse Centre's experience suggests, having highly skilled trustees is little use if they cannot commit enough time to their role. Similarly, Harvey McGrath emphasised that boards need to ensure that trustees are prepared to invest time and energy in the charity, and to check that they have the right motivation and commitment.

Pat Chapman-Pincher said that she finds asking new or prospective trustees the question 'What legacy do you want to leave to this organisation?' can be a useful way of sorting the wheat from the chaff. If people look confused and say 'But I was just asked to join!', then this may be cause for concern. Like Harvey, she also emphasised that trustees need to be prepared *'to work and to think'*—and if they are not prepared to do that then they need to leave. In her experience, trustees should set aside between one and one and a half days per month in order to fulfil their role properly.

How well does your chair manage the team?

Much of the responsibility for getting the balance on the board right comes down to the chair. It is the chair, for example, who should ensure that the board reviews the mix of skills, perspectives and personalities, and who should make the expectations of trustees clear from the outset.

More broadly, the chair sets the tone, and should make sure that the board has a sense of common purpose and a culture of mutual respect and commitment. As Harvey McGrath highlighted, this may not just happen organically and is likely to require 'careful and dynamic management' on the part of the chair.

Do your board and executive team have a good relationship?

The chair also has a critical role in ensuring that the board and the executive team (in charities with paid staff) have a good relationship. As Sir Laurie Magnus put it, the ability of the chair and chief executive to have an open and honest dialogue has a major bearing on whether there is a good relationship between the board and the executive more broadly. And, if the charity does

not have an effective chair, or is led by a chief executive who sees the trustees as an encumbrance then there are likely to be problems.

It can also be helpful to think of the balance of skills and personalities between the chair and chief executive. David Stewart, chair of the charity Tomorrow's People, commented that every chair and chief executive pairing is going to differ and the key is *'to understand the strengths and weaknesses of the pairing, and how to handle them'*. For instance, David and the chief executive of Tomorrow's People, Debbie Scott, are very clear about their respective roles. Debbie is very good at building the charity's external profile, so David is happy to let her lead on that while he focuses on ensuring that the governance side of things runs properly. Other charities may have a high profile chair, while the chief executive works at a more operational level.

However, it is also important that the relationship between the board and the executive team should not be confined to the chair and chief executive. A productive relationship requires trustees to be clear about the roles and responsibilities of the two bodies, and the parameters between the two. They should be mindful of what Pat Chapman-Pincher described as *'the fine line between governance and interference'*. They also need to be conscious of how well they communicate with each other, both formally, through board papers and meetings, and informally, between meetings.

Are you clear who your board is accountable to?

The case studies of The Broomhouse Centre and the National Trust touched on the importance of balancing the need to have an effective trustee team with the need to represent, and be accountable to, the people who use the charity's services and who may, in some instances, be its members.

Boards should spend time defining who they are accountable to; in the corporate sector, the Companies Act makes it clear who company boards are accountable to, whereas charities' accountability changes over time. As Pat Chapman-Pincher told seminar participants, '*Clearly you are accountable to your cause, but that can be quite amorphous; you may also be accountable to supporters, funders, customers, local groups and others.'* She has experienced this directly at Friends of the Earth Trust. With the advent of social media, the charity's accountability has changed dramatically, moving from being accountable mainly to local campaigning groups in village halls across the country to being accountable to as many as 20,000 online campaigners.

Keeping accountability in sharp focus is far from straightforward, so it is not surprising that many charities feel they could do better on this front. Mike Hudson, chair of the seminar on 'How well is your board working?' said that of the 20 board self-assessments that Compass Partnership has carried out with charities, one of the three aspects of board performance that trustees consistently rate themselves lowest on is 'systematically taking account of stakeholder views'. Service users are the most important group of stakeholders, but most boards will need a broad range of skills and experience in order to be accountable and govern the charity effectively. Mind in Bradford, a Local Mind Association whose board was entirely composed of service users until a few years ago, provides an interesting case study of a charity that has had to grapple with tensions between accountability to service users and accountability to funders.

Case study: Diversifying the board at Mind in Bradford

Mind in Bradford is one of 180 Local Mind Associations in England and Wales. Like many, it is committed to being led by, and for, people with mental health problems. However, a bit like The Broomhouse Centre, the fact that the management committee consisted entirely of service users started to cause problems as the organisation evolved. Mind in Bradford had to find a balance between representing its beneficiaries, while also ensuring that it had robust and effective governance and was accountable to funders and other external stakeholders.

In contrast to The Broomhouse Centre, which was able to diversify its board gradually over a period of years, Mind in Bradford found itself in a situation where it had to overhaul its board in the space of three months due to pressure from funders. Pamela Coulson, the chief executive, told us how she managed this challenging process.

What was the problem?

By the time Pamela joined Mind in Bradford in 2008 things had really reached a crunch point. The charity had a management committee made up of 16 members, who were all service users, and two co-opted members, whose role was primarily advisory. While the committee's experience and understanding of mental health was clearly a valuable asset, the range of skills was quite limited. Members were elected at the charity's AGM, but this had become dominated by cliques of service users.

The committee's emotional attachment to the charity's services also affected its ability to focus on strategic issues. Committee members *'were very easily distracted into micro-management, the monthly committee meetings could go on for four or five hours and decisions would not get made'*. The committee focused almost exclusively on the day-to-day running of the charity's drop-in service and paid little attention to its telephone support service. There were personal conflicts between service users, and members had been calling the local commissioners and Mind's head office to complain about these issues.

On top of this, the management had conflicts of interest, with members of the committee being paid for other work they provided to the charity. Yet the charity was not a company limited by guarantee, so trustees' personal liability was a concern.

Ultimately, it was external pressures that forced the charity to act. In September 2008, commissioners from the local authority and the primary care trust announced that unless governance problems were addressed by the AGM in December, they would withdraw funding. This would mean that the charity would lose £165,000 per year. It also looked like Mind in Bradford might lose its affiliation to Mind, because it would no longer be able to meet the required quality standards.

The manager stepped down and in October 2008 Pamela was appointed as a replacement manager on an interim three-month basis. She was given just eight weeks to recruit a new management committee in time for the AGM in December. It was agreed that the new committee would be reduced to eight trustees, and that half would not be service users. As Pamela said, *'One of the biggest concerns of service users was that they would lose their service user-led status, so it was agreed that the chair would be one of the four members of the board who were service users, so that the casting vote would always be with a service user.'*

How did Mind in Bradford change its management committee?

Pamela had a daunting task ahead of her. She thinks that the fact that her appointment was initially just a three-month contract helped because she felt that she could 'plough on forward' in spite of the resistance that the changes would inevitably generate. However, she was also keen to frame the changes as positively as she could. Fortunately, everyone in the charity understood the seriousness of the situation; if Mind in Bradford lost its funding then its survival would be jeopardised. She tried to keep everyone as positive and focused on the future as

possible, emphasising that it was a 'new day' for the charity and that they had no choice but to start afresh.

The first step in the recruitment process was to draw up clear role descriptions for the chair, treasurer and other trustees. The charity then drew on its existing networks to find suitable candidates from outside the organisation. Pamela was determined to make sure that the selection process was as robust and independent as possible, so she put together an interview panel that included a representative from the local Voluntary Services Council (VSC), a representative from Leeds Mind, and a member of staff from Mind in Bradford.

The interview panel asked questions designed to test the candidates' strategic and business development skills. For instance, they asked where they saw Mind in Bradford in five years' time, and what they understood about business planning and financial controls. Finally, the shortlisted candidates went up for election at the AGM in December.

Pamela was conscious of recruiting trustees with professional backgrounds in mental health, so that they understood the needs of service users and could support other trustees who were service users. The new trustees therefore included people who worked in mental health or related sectors, including the chief executive of a non-competitor mental health charity, and managers from a social care service and a supported housing organisation.

At the end of this process, only one member of the old management committee remained and he became the new chair. The rest decided to leave the charity altogether (though some returned at a later date) and Pamela set up a steering group to enable other members who stayed with the charity to retain an advisory role. The charity also continues to hold quarterly members meetings to ensure that members are consulted and have an opportunity to question the management committee.

What else did the governance restructure involve?

As well as restructuring the board, Pamela took the opportunity to improve Mind in Bradford's governance policies. For example, a new code of conduct and a conflicts of interest policy were developed, to guard against the types of issues that had proved so damaging to the board before. Mind in Bradford also changed the terms of office for the board. In the past, trustees had had to be re-elected annually. However, in order to develop as a board, the charity decided that they should have three-year terms of office.

Pamela wanted to ensure that the new board was clear about its roles and responsibilities, so she organised a couple of training days to focus on this, facilitated by the local Voluntary Services Council. Mind in Bradford also managed to secure £10,000 of funding to bring in a consultant to help them develop a strategic plan. Working with the consultant was in itself a useful form of induction and gave the trustees an opportunity to develop their knowledge of strategic planning. This process also involved consulting with staff and service users, which gave trustees another way of getting to know the charity, as well as ensuring that staff and service users were involved in setting the strategic direction.

What were the challenges?

Unsurprisingly, Pamela encountered considerable resistance as she went through these changes. She recalled that there were a couple of members' meetings where she felt she was 'in front of the Spanish Inquisition'. She said that she just had *'to keep on banging the drum with the same message—if we do not change we will lose our money'*. She told members, '*If you want to move forward and be at the forefront of mental health services in Bradford, then we need to make the change, though I know how difficult that will be.'*

Perhaps the greatest challenge was the urgency of the situation, which meant that the time available for consultation was quite limited. Although Pamela tried to take a consultative approach and had lots of conversations with members to try and 'win them round', she was aware that some people felt she should have put more time into consultation. However, Pamela also commented that *'perhaps we needed to take the pain in the form of a short sharp shock'*.

The appointment of a chair who had sat on the previous management committee was also important for preserving some degree of continuity and making clear the charity's commitment to remaining service-user led.

What has been the impact of these changes?

For Pamela, the main impact of the governance changes is that '*the organisation is still here!'* Two and a half years down the line, she feels that the charity is in a much healthier position. The local authority and primary care trust still fund Mind in Bradford, and the charity is still affiliated to Mind and has now attained Mind's Level 1 Quality Standards. It is also now a company limited by guarantee, which protects trustees and allows it to bid for other contracts.

From Pamela's perspective, the management committee is much more effective. Its role is clearer, it has two sub-committees with delegated authority for finance and HR, and for quality and policy, and the full board only meets every two months, in comparison to long monthly meetings in the past.

The charity has reached a point where Pamela can have an open and honest dialogue with the management committee, and they do not simply oppose or 'rubber stamp' her suggestions. They are having productive conversations about how they can improve governance further, for instance they are discussing whether they should increase the committee to 10 to 12 people and strengthen its financial expertise.

What lessons would Mind in Bradford share with other charities?

Pamela reflected, *'It is very important to have the support of whoever funds your services.'* In the case of Mind in Bradford, the commissioner was actually one of the driving forces behind the governance changes, which made the process more acceptable to members.

She also noted that it is difficult to be the person responsible for driving through uncomfortable changes, so it is important to have a support network around you. Pamela found that having independent help from the local VSC, who chaired the early consultation meetings, was very useful. In addition, she had external supervision from a local management consultancy, which was valuable in giving her a forum where she could speak bluntly about her concerns and gain an outside perspective.

Timing may have limited the consultation process at Mind in Bradford, but Pamela emphasised that consultation is key. In her experience, the most effective approach was using small focus groups. Some people would not feel confident enough to voice their opinion in a large meeting of the whole charity, but it is important that everyone has an opportunity to have their say.

Do you know your business?

One of Pat Chapman-Pincher's six questions about trustees, outlined at the beginning of this section, was 'Are they knowledgeable?'. Part of the answer is to have some trustees with relevant experience in the field in which the charity works, something that Pamela was very conscious of when she was recruiting new trustees for Mind in Bradford. However, not all trustees will have background knowledge, so it is crucial that charities offer a good induction. If trustees are to make sound decisions, they also need to ensure that they stay up-to-date with developments, particularly in the current climate of fast-moving policy and funding changes.

Do you provide a good induction?

A good induction is a valuable way of getting new trustees up to speed with the charity they are joining, as several seminar speakers emphasised. As we have discussed in previous trusteeship reports, inductions should cover both the roles and responsibilities of a trustee, and introduce them to the organisation. Lots of charities will give trustees introductory reading

materials and arrange project visits to give them a real flavour of their charity's work. When a number of new trustees join at the same time, a more in-depth induction and integration plan may be required, as we discuss in the next section of this report in the Crime Reduction Initiatives case study.

Are there opportunities for continuing education?

Boards should also provide trustees with opportunities for 'continuing education' in the form of 'refresher inductions', so that they are kept involved and engaged, as Sir Laurie Magnus noted. This is particularly important in the charity sector, due to the divide between the executive and non-executive functions on charity boards. However, Mike Hudson's experience of board self-assessments at Compass Partnership suggests that charity boards are not particularly good at this. Along with not systematically taking account of stakeholder views, the boards he has worked with rate themselves very poorly on their process for developing trustees' skills.

Does the board review the right information?

As well as supporting continuing education, seminar participants noted the importance of having a good flow of information between the board and the executive team. One commented that boards should carefully consider the information they need and have '*a robust discussion with their executive about this'*.

Boards need to make sure that they ask for the right level of information. Pat Chapman-Pincher observed that if the board is drowning in paper, then trustees are probably asking for the wrong level of information and should review that. She also cautioned trustees against being over-enthusiastic in their requests for information—when a trustee asks a question, organisations often scurry around and gather lots of information in response, so requests need to be useful and proportionate.

Deciding what level of information is useful for the board can be challenging, particularly in large and complex charities. Rachael Bayley, trustee of Barnardo's, said that the size and complexity of Barnardo's—which has income of over £234m and runs 415 projects across the UK—makes it hard to keep a handle on everything that is going on. In the last 12–18 months Barnardo's has therefore decided to introduce a 'dashboard' to summarise key information. The dashboard is basically a series of graphic displays of management information that cover the three main areas that the board wants to monitor:

1. **Children's services**: The board monitors indicators such as the number of service users, levels of statutory income and business won and lost. It compares data over time—year-on-year and quarter-on-quarter—and also compares the performance of different regions and area teams. As a result of analysis through the dashboard, the board has reviewed the charity's family placement services, including looking at unit costs, which has led to some adjustments in the way they are run.
2. **Fundraising**: The board has focused on looking at three aspects of fundraising: retail; legacy; and net fundraising (excluding retail and legacy). Again, the trustees look at this data on a quarterly basis and in more detail than can be gleaned from the accounts. This allows them to identify trends and differences. The visual way in which the data is presented through the dashboard can also help those with no background in finance engage with the information.
3. **People**: The dashboard looks at headcount, average sickness days and staff ratios compared to income ratios (for example, in children's services).

Barnardo's has refined the use of this dashboard over the course of its board meetings and the idea is that it should be used as an interactive tool.

The importance of having good management information about finances was also emphasised by Kate Sayer, because without it you cannot develop a robust financial strategy. She urged trustees to think about the key drivers in their organisation. For instance, if you are on the

board of a training charity, you should make sure you receive information about bookings so that you can see the early warning signs if things are not going well.

As well as reviewing management information at board meetings, trustees need to make sure that they are alerted to any significant developments that take place between meetings. Again, the relationship between the chair and chief executive, and also between the treasurer and finance director (or equivalent) should provide the channel for exchanges of information between board meetings.

2. Reviewing and renewing your board

The discussion so far has focused on building an effective board. But effective boards cannot be static. They need to review their performance on a regular basis and refresh their membership periodically.

At the seminar on 'How well is your board working?', Pat Chapman-Pincher suggested that boards should regularly ask themselves a variation of this question—'How well *should* your board be working?'. Comparing answers to these two questions and identifying the gaps between where a board is and where it would like to be can be very telling.

Discussions during the seminars focused on the most valuable and practical approaches to board review and renewal.

How can you review board performance?

Seminar speakers discussed various ways of managing board reviews that they had found useful:

- At Barnardo's, Rachael Bayley explained that trustees have an annual appraisal with the chair, which includes opportunities for two-way feedback. They are asked to assess themselves against a self-assessment grid and to critique the board as a whole. Rachael felt that this self-assessment grid has been very important in opening up discussion. These appraisals then feed into the board's action plan and broader questions such as trustees' terms of office.
- Sir Laurie Magnus noted that he conducted a board evaluation of the National Trust earlier this year, which included interviewing each of the trustees plus the executive director. He emphasised the importance of having an open discussion and making it clear that criticisms and suggestions are welcome, as well as positive feedback. Mike Hudson also noted the importance of praising boards for aspects of governance that are working well.
- Sir Laurie also commented that, in his experience, some form of external facilitation can be 'incredibly helpful' and that charities can learn a huge amount from the practices of others. Although, as Pat Chapman-Pincher remarked, involving an external consultant in board reviews can be difficult if you have a large board with high turnover.
- As a lighter touch approach, Friends of the Earth Trust asks trustees to appraise themselves and others through an online appraisal questionnaire. This happens every two years and then a meeting is held to discuss the findings. Pat also believes that the board should ask the executive to review its performance, as well as reviewing it itself as any gaps in perception may be very informative. This practice should also help to encourage open and honest dialogue between the board and the executive.

All the charities mentioned above are large organisations with significant resources at their disposal, so it was interesting to hear about the experience of trustees from smaller charities. Seminar participants had mixed views and some concerns about board reviews. The three main points they raised were:

- **Sensitivities can be a stumbling block.** A number of participants said that in their experience trustees can be wary of individual appraisal. One felt the connotations of the word 'appraisal' might be problematic—as volunteers, trustees may be resistant to the idea of being appraised like paid staff, but may be open to reviewing their contribution if it is framed in a different way. Another participant commented that resistance to appraisal might relate to trustees' differing expectations of what their role requires, or concerns about upsetting other people. Again, the chair plays a critical role in setting out what the board expects of trustees and what level of commitment is required. As David Gregson, chair of Crime Reduction Initiatives, said, it can be fine for the chair to ask a lot of trustees

if they are also clear about what trustees can gain from their role, for instance in terms of building experience or expertise in a particular area.

- **What if your chair is the problem?** The chair is often the person in charge of the board review process. However, the chair is also usually the single biggest influence on board effectiveness, so it is important that he or she should also be held to account as part of the review. In difficult cases, independent evaluation or external facilitation can be valuable in helping to flush out issues with the chair, but sometimes it can be a struggle to find the resources to fund this, or to get the chair to agree to this.

- **Could peer evaluation be a lower cost solution?** A number of seminar participants expressed concerns about the cost of independent evaluations. Some thought that 'buddying up' with other charities to undertake peer evaluation could be a valuable exercise. One participant gave an example from her own experience of a situation where three charities of similar sizes working in the same area, but on different issues, undertook peer reviews of each others' boards. The charities in question are now considering going even further and swapping trustees, which may also help them find another board to move on to when their current term of office comes to an end. Another participant suggested that in some cases a retired trustee of the charity might be an appropriate person to carry out the appraisal process.[1]

Mike Hudson, who chaired the seminar on 'How well is your board working?', also emphasised that understanding how well your board is working is not simply a case of reviewing performance once a year and then putting the review on a shelf to gather dust until the following year. It requires 'ongoing commitment and continuous vigilance', a point that was also reflected in the comments from participants shown in Box 2.

Box 2: **Four key points about board evaluation**

At the seminar on 'How well is your board working?', participants put forward four recommendations about board evaluation:

1. It needs to be **regular**—ideally there should be a fixed date for evaluation.
2. It must be a **transparent process**—either as a result of involving an independent reviewer, or as a result of the chair being clear about the internal process.
3. There must be **transparency about the results** of the review process.
4. There should be a **standing agenda item** for reviewing board performance.

How can you keep the board fresh?

Trustees were also concerned about how they can keep their board fresh and ensure that it evolves to meet the changing needs of their charity. As Pat Chapman-Pincher put it, there is value in regenerating the board and periodically bringing in 'new blood' to ensure that there are a range of views and perspectives. But it is important to remember that no one is indispensable on a board, not even the founders or those who have been there for years.

[1] Readers interested in peer evaluation may like to note that the Charity Commission announced in May 2011 that it is planning to launch a peer review service for charities: David Ainsworth on *Third Sector Online*, 13 May 2011, 'Charity Commission plans peer-review service': http://www.thirdsector.co.uk/news/Article/1069861/Charity-Commission-plans-peer-review-service/

What terms of office are most effective?

The most obvious way to ensure that a board stays fresh is to limit the terms of office, which was an issue that generated some heated debate during our seminars. When trustees have been at a charity for a very long time, there is a risk that they may become too attached to the charity as an organisation, and lose sight of the needs of beneficiaries. Some therefore felt that it is important to set a maximum length of office for trustees. One participant had found that a maximum tenure of three three-year terms of office, or four two-year terms of office can work well. If terms of office are any shorter than that, she felt staff may be tempted not to confront issues but to 'sit things out' and wait until trustees move on.

Another participant had been involved in a charity that had a policy of just having one three-year term of office, which she did not feel worked well. Mike Hudson agreed and noted that, in his experience, it takes a year for a trustee to 'settle in' to a charity, so three two-year terms of office might be too short.

Sir Laurie Magnus also commented on the importance of valuing 'institutional memory' in charities. This may particularly apply to charities that were set up by an individual, or in memory of someone, as one participant noted. Sir Laurie said that, in his opinion, there does not need to be a hard and fast rule on trustee tenure—it can be productive to have a board that combines trustees who have had long tenure with newer trustees. He was clear, however, that all trustees should have defined terms of office and a formal process of appraisal before any term was renewed.

How can you integrate new trustees?

When setting terms of office, some charities are careful to try and ensure that a number of trustees do not come to the end of their tenure at the same time. However, there will always be cases where, for one reason or another, charities find that they have a significant number of new trustees joining at the same time.

The challenge is to make sure that new trustees are integrated effectively into the existing board so that it coalesces as a team and there is not a sense of 'them and us'. This issue is explored in the case study of Crime Reduction Initiatives below, which recently found itself in a position where it had to replace almost half its board with new trustees in the space of a year or so. Crime Reduction Initiatives' experience also suggests that bringing on new trustees can provide a good opportunity to review how well the board meets the charity's changing needs, and offer a refresher for existing trustees and make sure that they all still have a sense of common purpose.

Case study: How Crime Reduction Initiatives has renewed its board

Crime Reduction Initiatives (CRI) is a large national charity that supports individuals, families and communities across England and Wales who are affected by drugs, alcohol, crime, homelessness, domestic abuse, and antisocial behaviour.

Over the last couple of years, there have been significant changes to CRI's board, including the appointment of a new chair and five other new trustees. The chair, David Gregson, told us how CRI has managed this process of board renewal and ensured that new trustees are integrated into the team.

What were the reasons for the changes to CRI's board?

In 2009, the chair of CRI retired and David Gregson was appointed as his replacement. Soon after he joined the board in January 2010, two of the existing trustees stepped down due to personal circumstances. As another two trustees were due to retire shortly, the board of ten would drop to a board of six, which David felt was too few for a charity whose income had

already passed the £50m mark. So it was clear that one of his first tasks would be to recruit a number of new trustees.

David and the charity's chief executive, David Royce, also felt that this was a good opportunity to ensure that the range of skills on the board matched the changing needs of the charity. Under the previous chair, CRI had grown from a charity with an income of about £1m and 20 employees, to one with an income of £50m and almost 2,000 employees. And this trend seemed set to continue; since David Gregson joined the charity its income had increased yet again, this time by almost £30m. So, as David put it, *'The challenge has been for the board to keep pace with the incredible growth of the organisation.'*

How did CRI go about recruiting new trustees?

CRI decided to commission a specialist executive search company, Saxton Bampfylde, to help it undertake a skills audit and find new trustees within a three-month period. Like most charities, David noted they were careful to weigh up the costs and benefits of using consultants. He recalls that he was keen to recruit a headhunter because *'… when it came to the internal networks, the hopper of prospective trustees was a bit limited. Also, if you're trying to recruit five trustees simultaneously, the logistics could be an enormous task and I simply didn't think we'd ever get it done'.*

For the skills audit, each trustee was asked to assess his or her relative skills, experience and potential contribution to the board. This was then compared to the changing needs of the organisation, and CRI and Saxton Bampfylde came to the conclusion that the board would benefit from additional expertise in clinical governance, HR, branding and profile-raising, and impact measurement. David also noted that, given the rapid development of the charity, it was important to have trustees who were challenging—and to ensure that the management were happy to be challenged.

How has CRI integrated the new trustees?

By the end of last year, CRI had recruited five new trustees, so almost half the board were new to the charity. David knew from past experience that it can be difficult to integrate an influx of new trustees simply through *'osmosis and a few board dinners'*. He commented that: *'If you're bringing five new trustees onto a board of six, taking it up to 11, then that's almost like having a new board, so you need to respond accordingly… New trustees are most likely to flourish if induction is complete, if skills are drawn on and blended, if views are welcomed, and if we get to know each other.'* He and David Royce therefore decided to do three things to help the new trustees get up to speed and ensure that the board continued to work as an effective team.

First, they made sure that all the new trustees had clear role descriptions and a good induction, including one-to-one meetings with David Gregson, David Royce and deputy chief executive David Biddle. New trustees were also given relevant information about CRI and their roles and responsibilities, and were asked to go on project visits to CRI's services and to attend an off-site meeting and a board dinner to get to know each other better.

Secondly, CRI commissioned the specialist consultancy Compass Partnership to facilitate a board review and team-building process. A consultant from Compass conducted individual telephone interviews with all the trustees, during which he asked them what they thought constituted a good or bad board, how they felt CRI matched up to those characteristics, and what they thought they brought to the board.

The results informed a workshop run by Compass. David noted that early on in the workshop Compass reported the anonymous feedback from the telephone interviews. This created 'a framework for openness and honesty' which the trustees valued, and which paved the way for constructive conversations about the strengths and weaknesses of CRI's board. The workshop also provided an overview of different models of governance, drew out distinctions between governance and management, and covered issues specific to CRI's work, such as clinical risk, which served as a useful induction or refresher for trustees.

Another aim of the workshop was to build stronger relationships between board members and senior managers. During break-out sessions, trustees were asked to discuss: what board members should expect of management; what management should expect of the board; and what actions they should take to ensure that they are an outstanding board. Building on these discussions, the full board agreed on the three main ingredients for an outstanding board and drew up 19 action points to address, which will form the basis for CRI's board effectiveness review in 2012. David thinks that the workshop, in combination with the induction process, means that the board is *'up and running—it has fast-forwarded the integration process by about 12 months'*. He suspects that one of the reasons why the workshop worked so well was that it was *'affirming as well as challenging'* and helped the trustees *'build a common sense of what they value, what is improving, and what could be improved further'.*

Thirdly, David Gregson and David Royce set up five 'executive-led workstreams' which are focusing on priority areas for the charity: talent management; identifying CRI's brand proposition; reviewing care quality standards; reviewing financing over the next four years; and improving impact measurement. Each workstream is led by a member of CRI's executive and supported by three to four trustees, who are a mixture of old and new trustees. David said, *'because we're operating in such a rapidly changing world, it seems like a useful way of harnessing the trustees' expertise for the good of the charity'*, while also assisting with their induction and giving them an opportunity to 'show their mettle'. However, he has been careful to have discussions upfront about how far the trustees should become involved with operational issues and how to avoid 'meddling' or 'over-burdening' staff.

What lessons would CRI share with other charities?

David Gregson would urge other charities who want to recruit new, high calibre trustees to think carefully about what their unique selling points are. David, whose background is in the financial world, thinks there are many people in the commercial sector who would like to give their time to charities as a trustee. However, if you cannot articulate a clear vision and explain what makes your organisation distinctive, you will struggle to recruit top quality trustees. More broadly, he highlighted the importance of giving the board opportunities to *'find common ground and to set expectations and ambitions for the next few years'*, particularly when there has been an influx of new trustees.

Finally, David emphasised the importance of setting expectations. For instance, soon after he joined, he had a conversation with the executive team about expectations and checked whether they were happy to have a more challenging dialogue with the board. Similarly, he emphasised that you need to be straightforward about the give and take between a charity and its trustees: *'I have no qualms about saying that we are grateful for people putting time into being a trustee. But they are also doing it because they want to learn something from the charity, and it is a fundamental part of my role as chair to make sure that they get what they want from their involvement. But, by the same token, I make no bones about the fact that they are on the board so that the charity can get something out of them. If you have these conversations upfront then expectations are clear and issues about whether trustees should be appraised when they are volunteers fall away.'*

Reflecting on recent months, David noted that it is still early days for the new board. He thinks that the biggest challenge is still ahead—*'expectations are rather high and the challenge will be meeting them.'*

3. Coping with challenges

At the moment, many charities are facing specific challenges relating to the loss of government funding, so we felt that it would be useful to give trustees an opportunity to discuss how this affects their role in our seminar on 'Guiding your charity through challenging times'. Inevitably, finances were high on the agenda, but participants also made interesting comments on what financial challenges mean for the board's leadership and approach to decision-making.

Are you providing strong and supportive leadership?

Are you taking responsibility for tough decisions?

Boards should look at how they can support executive teams during challenging times, particularly if the executive is having to make stressful decisions about scaling back services and making redundancies. In response to the question, 'What can boards do to support management teams during stressful times?', seminar participants commented that when the news is bad, the board should take responsibility—for instance, some suggested that cost-cutting decisions would probably come more easily from the board.

Are you able to think creatively and respond rapidly?

Sometimes there is a risk that boards may not respond rapidly enough to challenges—either because they are not used to working flexibly and making decisions outside board meetings, or because they are avoiding difficult decisions. Pat Chapman-Pincher emphasised that strategic planning needs to be quick and flexible, particularly in the current environment. There is sometimes a risk that a charity can spend months and months producing a five-year plan that is 'not worth the paper it is written on' by the time it is published.

Kate Sayer advised boards to avoid putting off important decisions. If the board of a struggling charity does not think about a merger in sufficient time, for example, then it might miss the boat altogether or find it more difficult to preserve its charity's identity. She urged trustees to be clear about their purpose and strategy and about how they can take their charity forward. Otherwise, she warned, *'you may end up firefighting rather than setting out your stall about what you can do'.*

She also emphasised the importance of boards thinking creatively and avoiding the trap of focusing on the 'same old same old' just because it is what they have always done. Seminar participants seemed to agree—one group summed up the main message from its discussions as 'be prepared to change', while another talked about the need for trustees to be 'fleet-footed' in their decision-making. They also said that a key role of the board is 'to keep the corporate head' and help charities manage uncertainty, for instance through scenario planning and risk-testing.

Are you prioritising people management?

Rachael Bayley from Barnardo's highlighted that people management becomes particularly important when an organisation is under pressure. In times of uncertainty, when charities may be facing changes to contracts and potential redundancies, boards should make sure they have access to good HR advice. Rachael recommended that charities should look after their HR officers and check that they have enough support and adequate training to enable them to deal with challenging circumstances. In cases where charities do not have sufficient HR expertise in-house, they may need to bring in consultants to help with this.

Are you keeping a sharp enough focus on your finances?

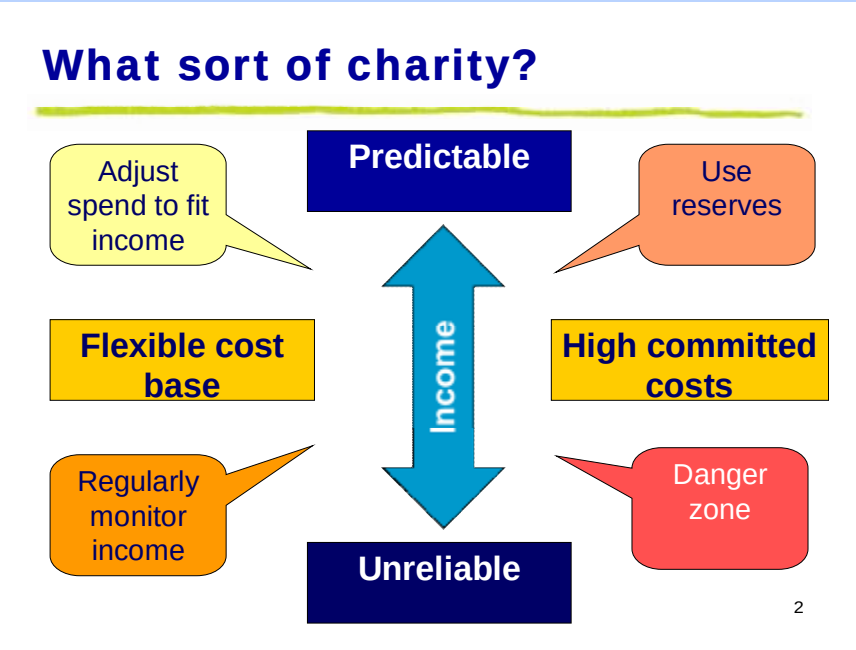
It goes without saying that boards need to keep a close eye on their charity's finances when times are tight. During our seminar on 'Guiding your charity through challenging times', Kate Sayer discussed what this should involve, and explained why trustees need to step back and consider their current financial situation within the broader context of their purpose and business model.

Are you clear about what type of charity you are?

In order to develop a robust financial strategy, Kate emphasised that boards need to be clear about what financial model their charities work on—for instance, in terms of the reliability and flexibility of their income and cost base. By identifying where their charities fit on the diagram in Box 3, boards can better anticipate their risks and assess how much room for manoeuvre they might have.

Box 3: What sort of charity are you?

Kate Sayer challenged charities to ask themselves where they fitted into the diagram below and to respond accordingly.



Predictable income—This might be fundraising income from direct debits or membership subscriptions. Contract funding probably does not fit in this category.

Unreliable income—Lots of charities have unpredictable income, which prevents them from being able to see very far ahead.

Flexible cost base—Grant-making trusts are some of the only charities that have a flexible cost base, as they can decide how much money to distribute in grants on a yearly basis.

High committed costs—This would include charities such as Barnardo's that have regulated activities and high staff costs due to the requirement to retain a certain number of staff per service. These types of charities can only cut costs if they close down or scale back activities.

Source: Sayer, K. (ed.) (2009) *A practical guide to managing in a downturn: staying solvent and surviving well.* Directory of Social Change.

Kate noted that the safest place is to be in the top left quadrant of the diagram, with predictable income and a flexible cost base, which means that you can adjust spending to fit income. However, sadly only grant-making trusts are likely to be in this position. If you are in the bottom left hand quadrant, with a flexible cost base but unreliable income, then you will need to monitor income regularly. Typical charities in this position might be campaigning organisations.

On the other side of the diagram, charities with predictable income but high committed costs might draw on their reserves to tide them over during difficult times—as long as they have some. Charities in this position might be those providing residential care, for instance for people with learning disabilities.

Finally, in the bottom right hand quadrant are the charities that have high committed costs and unreliable income; this is what Kate referred to as the 'danger zone'. Many charities will fall into this quadrant. For example, a charity like Barnardo's will have regulated activities that require a certain number of staff per service, leading to high staff costs. When income is uncertain, these charities can only cut costs by scaling back activities. Boards could choose to draw on their reserves, but they should think carefully about whether they want to use them all up. Kate recommended that charities in this quadrant should develop an action plan for how to increase income and make it more sustainable over the long term. She also observed that it is charities in this quadrant that are most likely to end up looking at collaboration and merger as a way of gaining greater financial stability.

Kate also recommended that trustees pay careful attention to the levels of restricted and unrestricted income that their charity receives. Trustees need to be aware that they cannot borrow from their restricted income, otherwise they are already technically insolvent. Trustees should make sure that their restricted funding covers as many costs as possible, and noted that there are training and tools available to help bid writers ensure that they cover their full costs.[1]

Do you have the information you need, and are you using it wisely?

Trustees cannot make sound financial decisions unless they are up-to-date with their charity's finances. During the seminar, participants commented on the risk of management information provided to the board becoming static and boards becoming complacent about the information they receive. They felt that asking for more predictive financial information can help to prevent this. As we have already noted, seminar participants also commented that the relationship between the treasurer and the finance director (or equivalent) is critical in ensuring that the board is alerted to significant financial developments between board meetings.

Management accounts on their own may not be enough to give trustees a meaningful picture of their charity's finances. For example, Rachael Bayley noted that at Barnardo's the board has found that additional information about metrics such as unit costs and bids won and lost has helped it track developments and focus on different sources of income.

There is also value in making comparisons. Barnardo's board has looked at similar organisations in both the charity and private sectors, compared its costs with theirs, and tried to answer the question, 'What is unique about Barnardo's services?' This has, again, led to adjustments in some of their services and in the way they run their charity shops; reviewing the staff to volunteer ratio in charity shops and trying new styles of shops in new locations has helped to boost income.

It is also important that financial information is analysed alongside outcomes. After all, a more expensive service can be justified if it achieves better results for the people it supports. Increasingly, charities need to be able to communicate both costs and benefits to funders, particularly given the introduction of outcomes-based commissioning and 'payment by results'.

[1] NPC and ACEVO have developed a guide and toolkit on cost allocation called *Full cost recovery*, which can be downloaded free of charge from NPC's website:
http://www.philanthropycapital.org/publications/improving_the_sector/improving_charities/full_cost_recovery.aspx

This is illustrated well by the case of Tomorrow's People (see below), which, in the face of changes to government funding, has reviewed each of its programmes, the outcomes these programmes achieve, and their financial sustainability in the absence of government contracts, and changed its strategy accordingly.

Have you reviewed your fundraising strategy?

As we all know, many charities are seeing a reduction in their traditional funding streams as government funding is cut and competition for other forms of funding increases. So it is hardly surprising that seminar participants raised the question of whether boards should review their approach to fundraising.

When Harvey McGrath asked whether any of the trustees at the seminar had considered spending more on fundraising in the current climate, a number of hands went up. One participant said that in the past his charity had only looked at fundraising from legacies and trusts in its spare time, but they have now invested in developing their fundraising capacity. They have made legacies and trusts a specific focus for development and, a year on, are beginning to see the returns coming through.

The board can also have a more direct role in fundraising than simply reviewing strategic priorities. For instance, some participants felt the board should take responsibility for reviewing and maintaining relationships with funders, particularly as trustees are the main fundraisers for some charities. In the case of Tomorrow's People, discussed below, particular trustees have also been tasked with investigating new sources of funding, such as social investment.

Going back to earlier comments, being clear about what makes a charity unique, and where it achieves the most positive outcomes, will also help the board prioritise its fundraising efforts and help it make a stronger case for support to funders.

Case study: How Tomorrow's People is managing changes to government funding

Tomorrow's People is a national employment charity that helps excluded and disadvantaged people, including ex-offenders and the long-term unemployed, to get and keep a job.

For the last few years, the majority of its income has come from government. However, changes to statutory funding mean that the charity cannot count on this income in future. The chair of Tomorrow's People, David Stewart, told us how the board is responding to these uncertainties and reviewing how the charity can sustain its work and maximise its impact.

What challenges is Tomorrow's People facing?

Tomorrow's People currently receives about 80% of its income from national and local government contracts for its Welfare to Work programme, which supports adults over the age of 25 who are long-term unemployed. This funding has been an important source of income for the charity and has also helped raise its external profile.

However, the government's funding for welfare-to-work services is changing and it is uncertain whether Tomorrow's People will be able to sustain this programme through government contracts. The government is moving from funding welfare-to-work services through many small contracts to administering large contracts of up to £50m across 11 regions through a single programme called the Work Programme. Each contract will have a 'super prime contractor', a very large company that may then sub-contract employment programmes to smaller organisations such as Tomorrow's People.

While Tomorrow's People has a strong reputation and seems well-placed to be commissioned as a sub-contractor, it is unclear what will happen. And, even if it does win a sub-contract, David fears that the super prime contractors *'may not want to let much of their margin go on sub-contractors like Tomorrow's People'* and may prefer to take over the operation rather than

sub-contracting. So, there is a real risk that the charity's government contracts could come to an end. The board is adamant that it will not accept contracts that will threaten the charity's sustainability or the quality of its work, even if this means that its services shrink. Consequently, the charity is likely to become more reliant on private funding.

How is Tomorrow's People addressing those challenges?

In light of these uncertainties, the board of Tomorrow's People decided to undertake a strategic review to reassess which services to prioritise and how to bring in new income. So, last summer, they commissioned PricewaterhouseCoopers (PwC) to help them review each of their programmes, the outcomes they achieve and their financial sustainability in the absence of government funding.

As a result of this process, Tomorrow's People has decided to reduce the focus on its government-funded Welfare to Work programme, and to grow its other programmes, such as its support for: young people not in education, employment or training; families; and ex-offenders. These programmes support the development of skills more broadly, which should help people find and retain employment over the long term, and have the advantage of being supported by voluntary grants and donations.

Thanks to the strategic review, David thinks: *'We are now pretty clear as a charity on what we can do and where we can make a difference. So I would say that our main challenge at the moment is getting the finance in to enable us to do it.'* David emphasised that this funding needs to be sustainable, as most of the charity's programmes run for a two- to three-year period. However, the board is well aware that fundraising is not easy in the current environment. Tomorrow's People is therefore looking beyond traditional fundraising sources, and has established a specialist sub-committee of trustees with financial expertise who are investigating alternative financing, including forms of social investment and partnerships with venture philanthropy organisations.

The current uncertainties and changes clearly have a significant impact for the staff at Tomorrow's People. So, the board has looked at how trustees can take responsibility for supporting the management during this time. For example, two or three trustees with relevant experience have made themselves available to attend important funding meetings with the chief executive, while a couple of others advise on complex contractual negotiations. More broadly, there are serious issues around staff contracts and Tomorrow's People is already in consultation with a number of staff. He commented that *'the morale issue is a very difficult one—it is hard work and something that we need to prioritise'*.

How has this fitted into the broader board review process?

Alongside these strategic changes, Tomorrow's People also went through a board review in 2010, which David feels was a challenging but constructive process. The board has evolved significantly over the last few years. Tomorrow's People was a subsidiary of Diageo until 2006, when it spun off as an independent charity. At that point the board was restructured to ensure that it had the right skills to support the charity, rather than just consisting of 'the great and the good'. Four years on, David thought it was important to undertake a review to ensure that the board did not become 'too cosy'. There were mixed feelings about this initially. Tomorrow's People, like many charities, had been wary of appraising trustees because they are volunteers. However, both trustees and senior managers were happy to be involved in the process and felt that they learnt more about their strengths and areas for development as a result.

The process included a thorough competency review that examined the range of professional skills and experience on the board. Interestingly, it also included a review of the mix of personalities and working styles of trustees. Using the approach developed by Team Management Systems, a company that provides work-based assessment systems, a team management profile was prepared. This suggested that, while the board includes lots of 'organiser/thruster' types of people, it could benefit from more trustees whose strengths lie in running and completing projects. David commented: *'I must confess that I've always been a bit*

sceptical about these types of exercises, but actually it has proved very helpful. It illustrated that as a board we were not fully balanced in terms of our competencies, so going forward now in terms of our recruitment, we're looking to do something about that. It's not just about skills, it's not just about experience, these competencies come to bear as well.'

Some other key decisions have been made as a result of the board review. The board has introduced a two-yearly trustee appraisal process and are also considering whether they might undertake a peer evaluation of the board, where they might ask a trustee from another charity to act as an independent observer. They have also decided to set a maximum length of tenure for trustees of nine years (three terms of three years) and would like, in due course, to reduce the board from 11 to nine people. Ideally, David hopes that they will be able to recruit one new trustee a year to keep the board fresh, without increasing the board size. In due course, he would also like to recruit younger people as trustees and is looking at how they could work with young people in the City whose financial expertise could be invaluable as the charity explores alternative funding models.

What lessons would Tomorrow's People share with other charities?

David recommends that charities going through tough changes should look very hard at their boards. They should check that they have people with the right skills and attitudes, and that those people have sufficient time available to invest in helping the charity. David has found that he and other trustees have had to spend more time on their roles over the last year and he has been careful not to take on too many other commitments beyond Tomorrow's People. He emphasises, *'If your charity is going through a period of change, then it is probably going to require a greater input of time and expertise.'*

David felt that bringing in external consultants was valuable. '*I think that PwC covered for the competencies that we didn't have and we were much more disciplined and organised in our approach to the review than we would have been had we not used them. I suspect that would apply to many charities to be honest—few boards have the sum of skills you need. My view is that when you are undergoing a major review of this sort that is not just on the periphery of what the charity's doing, but goes to the heart of why the charity even exists, you do need external help. And, if you can't get it for free, hopefully you will be able to find some special arrangement, though some cash outlay is almost inevitable I think.'* David also noted that, *'Because you're paying for it and asking for value for money, everyone takes the project more seriously.'*

4. Managing collaboration and merger

Like money, collaboration and mergers are hot topics in the charity sector at the moment and formed the focus of another of the seminars. Broadly speaking, charities seem more open to considering collaboration and merger than they might have been in the past. As Stephen Lloyd, senior partner at Bates Wells & Braithwaite, and one of the speakers at our seminar, noted, it was striking that in response to the latest *Managing in a Downturn* survey, 33% of respondents that receive statutory income said they would address a shortfall in public spending by working collaboratively, and 6.6% through merger.[1] The last few months have also seen a few high profile mergers, including the one between The Prince's Trust and Fairbridge.

However, as became clear during our seminars, collaboration and merger have very different implications for different charities. The terms should not be used interchangeably and charities need to think very carefully about what form of partnership or merger is suitable for them.

What is the board's role?

Trustees play a crucial role in deciding whether charities should collaborate or merge. At a strategic level, part of the board's role is, in Pat Chapman-Pincher's words, to *'think the unthinkable'* and challenge management. If trustees are to maintain their focus on what is best for beneficiaries, they should regularly ask themselves how they can maximise their charities' impact, and this may involve working with organisations.[2] Management on its own is less likely to challenge itself to think the unthinkable—after all, as Pat remarked, *'turkeys don't vote for Christmas'*.

Ultimately, it is trustees that carry the responsibility for collaboration or merger. As NPC's head of research Belinda Vernon said, in the commercial world mergers are undertaken to enhance shareholder value, so shareholders get to vote on them. But in the charity world, a charity's beneficiaries cannot vote on a merger, and it is up to trustees to decide whether or not their charity should merge.

Why collaborate with other charities?

According to Stephen Lloyd, charities generally see collaboration as more desirable than merger. In his opinion, it can have three key benefits: allowing charities to get to know another organisation better; improving impact; and reducing their costs.

Stephen highlighted 3SC as a successful example of collaboration. 3SC was formed in 2009 as a consortium to enable smaller charities and nonprofit organisations, which often have valuable expertise but lack opportunities to secure large public sector contracts, to do just that. It employs the expertise of its members and partners from the contracting process through to the delivery stage. There are now nearly 1,300 organisations collaborating under the 3SC umbrella, including some big names like the Eden Project and the National Youth Agency. 3SC has also managed to win some substantial contracts: by the end of 2009, it had been awarded contracts worth £36m in employment service provision.

The issue of competition versus collaboration was also a topic raised by trustees at the seminar on 'Guiding your charity through challenging times'. One participant said that in an environment of increased competition for funding, it is a natural reaction for charities to 'get the claws out'. However, it may be more productive to look at ways of collaborating. She gave the example of

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[1] Charity Finance Directors' Group, Institute of Fundraising, PricewaterhouseCoopers (2010) *Managing in a Downturn: Responding to life after the Comprehensive Spending Review; August 2010 survey results.* http://www.cfdg.org.uk/Policy/have-your-say/surveys/closed-surveys/2010/december/~/media/Files/Policy/Have%20your%20Say/Policy_cfdg_MIAD_Dec102.ashx

[2] Trustees may find the Charity Commission's *The economic downturn: 15 questions trustees need to ask* a useful tool. Question 14 is all about collaboration. http://www.charity-commission.gov.uk/About_us/About_the_Commission/ccnews29check.aspx

several international development charities which, before the 2010 Comprehensive Spending Review, decided it would be more effective to get together and reiterate the importance of international development, rather than simply competing for a slice of a smaller pie.

What are the different ways of working with other organisations?

Stephen Lloyd identified four main ways in which charities can work together:

- joint working on issues and projects (which he described as the lightest touch and easiest approach to collaboration);
- sharing knowledge;
- sharing services or organising secondments; and
- merging.

In practice, he said that charities tend to achieve collaboration in two main ways:

- **Through a contract**. In these cases, charities might decide to appoint a lead organisation. However, they may find that the lead organisation has to take on risks and liabilities for 'non-performance by others'. This means that the lead organisation needs to be very careful about getting to know its partners before entering a contract.
- **By setting up a new entity**. Stephen suggested that it is often safer to set up a new entity that has limited liability. If charities take this approach, he recommended that trustees should consider a number of questions, such as deciding on the brand of the new entity, how it will be governed, and who will be on the board. They will need to consider the risks and indemnities, and work out whether the trustees of the existing boards of the two organisations have the right skills mix, or whether they need to bring in new skills.

In practice, it can often be helpful to try out collaboration on a small scale first. One participant gave a practical example of this: a trustee of a national charity, her organisation had trialled a partnership with another national charity working on similar issues. They started on a small scale, at a local level, through a shared parliamentary officer post. This gave the two organisations time to get to know each other and as the arrangement worked well, they are now looking at collaborating more broadly at a national level.

When is merger appropriate?

Merger is rather a dirty word in the charity sector. Julia Palca, chair of Macmillan Cancer Support, and the other speaker at our seminar on collaboration and merger, noted that the very word tends to conjure up images of predatory and profit-seeking behaviour. However, she emphasised that, in her experience (described in the case study below), there is only one legitimate reason for merging: to increase impact for beneficiaries.

This should obviously be the primary reason for merging. But, underneath this broad goal, there can be a number of other factors that drive mergers, some of which are illustrated by the examples in Box 4. These may include problems finding enough good trustees, duplication of services with another charity, a desire to offer more joined-up services, and financial issues. In Stephen's experience, the main reasons why charities merge are for:

- **Strategic rationalisation**—to take a proactive response to cuts and find efficiencies.
- **Administrative rationalisation**—to achieve savings and economies of scale.
- **Consolidation**—to consolidate services.
- **Preservation—**to rescue a valuable service that might otherwise have to close.

Box 4: Examples of famous mergers

During the seminar on 'What do trustees need to know about collaboration and mergers?', Stephen Lloyd gave examples of two well-known mergers.

The British Red Cross

The British Red Cross merger was primarily for the purposes of consolidation and administrative rationalisation. The process of merging 120 organisations into one charity took two years of roadshows and explanations to local branches. Stephen suggested that they managed to achieve the merger by virtue of the fact that they made sure they had 'hearts and minds on side'.

Age Concern and Help the Aged

In the case of Age Concern and Help the Aged, a new organisation was set up: Age UK. Creating a new organisation can seem more like a real merger and less like a takeover. However, this process is very expensive and costs more than just merging one organisation into another. The organisations must therefore be able to justify the cost of setting up a new organisation rather than merging one into the other.

How do you go about a merger?

The first step in the merger process is, of course, to find a suitable partner. During the seminar discussions, participants debated how boards can make sure that they can spot opportunities for merger. As one participant noted, the chief executive is often in the best position to spot opportunities. However, as they may make themselves redundant in the process, they may not be the most suitable person to take responsibility for that.

Participants therefore emphasised the importance of boards working closely with the chief executive to spot opportunities, and being open to using independent consultants where appropriate. For instance, one participant came from a charity that had commissioned research into opportunities for merger, and another was bringing in expert advice on the process that they were going through. Stephen Lloyd also commented that an organisation called Eastside Consulting offers an end-to-end service that aims to match charities and social enterprises where there is a 'mutual advantage'.

Before proceeding with a merger, trustees should make sure that the charitable objects of the partners are aligned. Stephen outlined a three-step process leading up to a merger:

1. **Agree a common vision**. It is important to recognise the reasons for merging on each side; identify the benefits the merger will bring for beneficiaries; and relate this to the charitable objects and policies.
2. **Define a method to achieve that vision**. The charities involved should identify the individuals or group who should drive the merger process, obtain legal advice, and work out how they will consult funders and other stakeholders. It can be useful to have a small group to drive through the merger. Many mergers fail because chief executives are left to push them through on top of their day jobs, which can be distracting and difficult, particularly if they stand to lose their position as a result.
3. **Consider your options**. However, funding cuts may mean that some charities have to make a pragmatic choice.

Complete disclosure or 'open book due diligence' on all sides is an incredibly important part of the merger process, as Stephen stressed. Otherwise you may run into major problems. For example, if there is a breach of warranties, then the trustees of a charity can be sued. Or if you

are the 'acquiring charity' taking over a 'target charity' that has a pension deficit, there may be a question as to whether the merger is still reasonable. Stephen noted that the merger process tends to be easier if both charities are companies limited by guarantee. He also recommended that both parties should instruct a single firm of accountants.

Stephen explained that one 'quick and cheapish' way of going about a form of merger is to use a subsidiary structure because:

- If you do not transfer the staff then you do not trigger pension deficit demands.
- It provides you with an exit route if the relationship does not work.
- You may not be completely convinced that you have identified all the risks and liabilities, so it allows you to ring-fence the risk (corporates do this all the time).

After two years you could then decide to integrate the two organisations more fully. This also allows you to maintain the separate brands while merging the back office functions. However, generally speaking, Stephen urged trustees to act with caution and warned against merging quickly and cheaply as it is far better to manage the merger process slowly and carefully.

What are common problems with mergers?

Seminar participants agreed that neglecting the human dimension to mergers can cause major problems. As Harvey McGrath commented, the major problems are rarely financial or legal questions—those issues can be worked out. It tends to be personal and cultural differences between the two charities and fears about loss of power, jobs or identity that are the major stumbling blocks. Similarly, Stephen Lloyd remarked that culture clashes and concerns about who should be the chair of the new or merged organisation have sometimes 'torpedoed' mergers in the past.

So, what can be done to overcome these issues? Harvey McGrath emphasised that trustees need to put time and effort into getting on and should tackle culture clashes and concerns upfront. He felt that a good way to get started is to try out something together on a small scale, as one participant put it, *'collaboration is a good way to start a courtship'*.

During one of the table discussions, participants emphasised the importance of sharing information between the boards. They felt that holding open board meetings could be a useful approach, and said that the chief executive should be involved in every stage of the merger process and that changes should be communicated with staff and volunteers. Julia Palca, who told the seminar about the merger of Macmillan Cancer Support and Cancerbackup (see case study below), also highlighted the importance of thinking about people more widely. It is crucial to communicate any changes to the charity's staff, volunteers, beneficiaries, funders and other stakeholders, and trustees should not underestimate people's emotional investment in issues such as a charity's brand or location.

Anticipating all the issues that will arise during a merger is very difficult. Stephen noted that all sorts of unexpected issues can come up during the merger process, such as fees for registering the change of ownership for care homes, Land Registry requirements, and issues with landlords, funders and contractors. Trustees should 'do lots of homework' and plan for all eventualities, but they should be aware that other issues may crop up.

What happens after the merger?

It would be easy to think that once the legal process of a merger has been completed all the hard graft has been done. But the work certainly does not end there. Trustees cannot afford to take their eye off the ball when it comes to integrating the merged organisations and should not underestimate the time it takes for changes to bed down. The importance of managing integration carefully is explored in the following case study.

Case study: The merger of Macmillan and Cancerbackup

In 2008, two leading cancer charities—Macmillan Cancer Support and Cancerbackup—merged. At our seminar on collaboration and mergers, Julia Palca, chair of Macmillan, spoke about the reasons for the merger, the importance of having a shared vision and a cultural fit, and the challenges of the merger process.

Why did the two charities merge?

Prior to the merger, Macmillan and Cancerbackup were very different in their size and scope of work, as Table 1 shows.

Table 1: Macmillan and Cancerbackup key statistics (2008)

	Macmillan	Cancerbackup
Income	£124m	£5.5m
Charitable expenditure	£80m	£4m
Staff	730 across the UK	90 in London and Glasgow
Primary goal	To reach and improve the lives of everyone living with cancer	To give people with cancer and their families the up-to-date information, practical advice and support they need to reduce the fear and uncertainty of cancer
Focus	Healthcare, life-care, information	Information

However, there were also clear synergies between the two organisations, which enabled them to establish a number of good reasons to merge.

- **Shared vision—**both charities were ultimately aiming to improve the lives of people affected by cancer.
- **Complementary objectives—**Macmillan knew that it had a gap in services around the provision of information and direct advice/counselling through telephone helplines, and was keen to invest in information and specialist personal advice. Cancerbackup, on the other hand, already had high quality information and advisory services.
- **Finance—**Cancerbackup was looking for greater financial security.
- **Reach—**both charities were keen to extend the reach of their services, both geographically and in terms of reaching a broader demographic.

What should you think about before a merger?

Before you begin merger discussions, Julia emphasised that you need to make sure you have buy-in from the chief executive and board of trustees of both organisations. Trustees need to consider the merger's likely impact on donors, staff, volunteers and service users. In Julia's experience, donors and volunteers in particular do not tend to be very enthusiastic about change. So, *'the more time you can devote to explaining the rationale and motivation behind the merger the better—this process is time-consuming but important.'*

More broadly, you need to understand the cultures and backgrounds of the two organisations. Cancerbackup could have chosen to merge with another charity, but it opted for Macmillan because it felt there was a shared vision of providing direct services to support people with

cancer. From Macmillan's perspective the rationale was also clear: merging with Cancerbackup would allow it, at a stroke, to improve its provision of information and deliver high-quality, well-respected information services to beneficiaries, enabling it to meet one of its three key objectives.

How did you manage the merger process?

Julia noted that charities going through this process will need to set up a negotiation team to agree the terms of the merger. In the case of Macmillan and Cancerbackup, they had a team of three trustees from each charity, and the chief executives managed the more detailed negotiations. In addition, it is crucial to have input from legal and HR experts; the degree to which charities will need external input from lawyers and advisors will depend on the expertise they have in-house.

Having a designated project manager is also important, and he or she should be involved from the beginning and for a good six months afterwards. Absorbing 90 staff from another organisation was a very time-consuming process and, in retrospect, Julia thinks this should have been a full-time, rather than a part-time, role.

What lessons would you share with other charities?

According to Julia, there are a number of key questions that charities should ask themselves when considering a merger. These include:

- **Who would lead the merged organisation?** What would happen to the other leader?
- **What will happen to the chairs of the two charities and to other trustees?** If there would end up being too many trustees, how would they manage the process of reducing the board?
- **Where should the new office be located?** In the case of Cancerbackup, the charity's premises had been donated by the founder's family, so they needed to be very sensitive to that.
- **What will happen to staff, for example, regarding the harmonisation of employment terms, pensions and redundancy?** You need to look at retention incentives for people you particularly want to keep, which (it being the charity sector) may not be financial.
- **What will happen to the brand?** This was the only area where Macmillan had any difficulties after the merger, because they had left nebulous wording in the heads of agreement which led to a few difficulties afterwards.
- **What does this mean for the charities' reputations and how will the changes be communicated to stakeholders and the public more broadly?** Both charities should involve key supporters, including founders, donors, beneficiaries and others who have an emotional investment in the organisation.
- **What will happen to the charities' assets?**
- **How can you merge the charities' IT systems?** This is vital both for the public face and for internal communications.

Julia also emphasised that understanding and managing differences in culture between the two organisations in a merger is crucial. The importance of culture changes and the length of time it takes to integrate two organisations should not be underestimated.

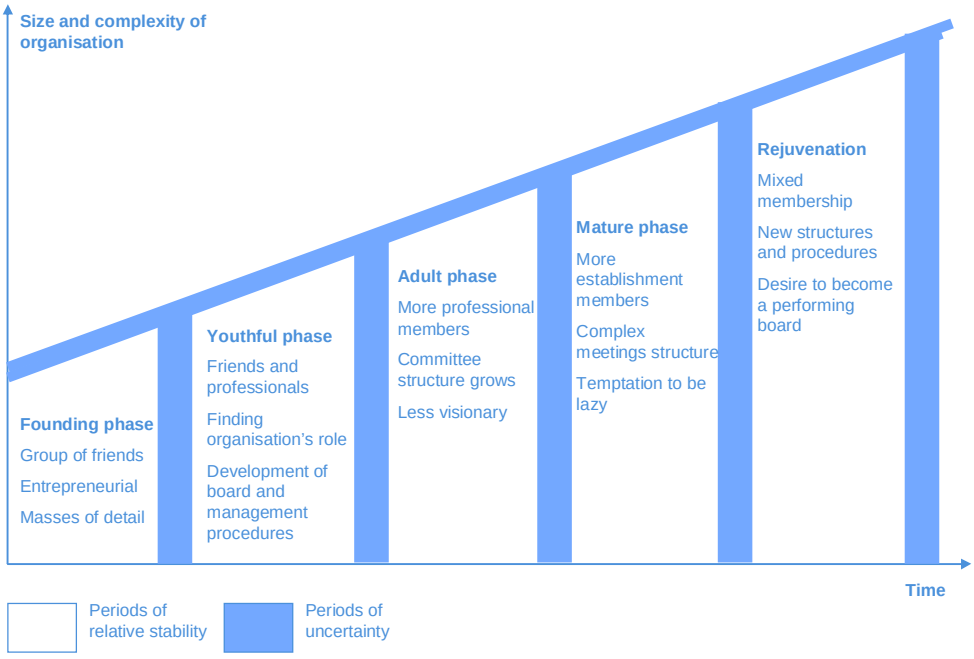
Final thoughts

Underlying many of the discussions in this report is the theme of board evolution—how boards can stay fresh, remain open to change and develop to meet the changing needs of their charities. Many of the issues debated during the seminars—such as reviewing board performance, setting terms of office and integrating new recruits—relate to this theme.

Board evolution was also a critical factor in almost all the case studies we have discussed. A board that has not kept pace can hold a charity back or even precipitate a crisis, as Mind in Bradford found out. In the cases of both Mind in Bradford and The Broomhouse Centre, the boards needed to be broadened out beyond the original base of founders and service users so that the charities could professionalise. With Tomorrow's People and Crime Reduction Initiatives—larger charities that have seen rapid growth in recent years—the range of skills needed to be updated to reflect changing needs and new areas of work. Meanwhile, the National Trust's governance had evolved over the course of more than a century into a complex multi-layered system, which needed to be reviewed in order to improve accountability and decision-making.

Trustees need to consider how their board has evolved and how well it meets the charity's current needs. Readers of this report may find it useful to review the evolution of their board in relation to Mike Hudson's chart of the lifecycle of a board, reproduced with his permission in Figure 3. This may provide interesting food for thought for boards that are keen to review their performance and consider the next stage in their development.

Figure 3: Stages in the lifecycle of a board[1]



The question of how well your board meets your charity's needs becomes even more pertinent during difficult times, when trustees are likely to find themselves carrying a heavier burden. Boards should think carefully about whether they have the right mix of people to deal with challenges. If they lack particular skills, what can they do to address this or how can they draw on these skills from elsewhere? Are trustees prepared to invest sufficient time and energy into their roles? Are they willing to be flexible and responsive? In Appendix A we have pulled out

[1] Hudson, M. (2009) *Managing without profit: The art of managing third-sector organisations*. Third edition.

five questions raised during the seminars and case study interviews that trustees might ask themselves during challenging times.

Finally, and on a more positive note, considering boards in the context of this broader evolution also highlights that many of the challenges that trustees are grappling with at the moment are not new. Boards have coped with these sorts of issues in the past and emerged stronger as a result. The important thing is that trustees have the energy and motivation to tackle challenges head on, to stay focused on their charity's mission and, where appropriate, to reassess the way they do things. As one of the seminar participants put it, perhaps *'Be prepared to change'* should be trustees' motto for the moment.

Appendix A: Key questions for challenging times

The trustees featured in this report raised a number of questions that boards should ask themselves during challenging times. In this appendix, we thought it would be useful to draw the key questions together. Trustees might like to incorporate them into their board review processes or, alternatively, NPC would be happy to facilitate discussion around these points.

These questions are not designed to be comprehensive. For a fuller checklist, trustees may like to refer to the Charity Commission's *The economic downturn—15 questions trustees need to ask*.[1] The Commission's questions cover strategy, financial health, governance and resource allocation, and go into detail about issues such as reserves, bank arrangements, contractual commitments, pensions, investments and property, as well as discussing broader aspects of effective trusteeship.

Five key questions

1. **Are we clear about our strategic priorities and unique selling points?**

   - Are we clear about our charity's strategic priorities and have we reviewed these in light of what we know about our impact and our changing financial situation?
   - Are we clear about our charity's 'unique selling points' and what sets us apart from other organisations providing similar services? Do we articulate this, both internally and externally?

2. **Are we providing strong and supportive leadership?**

   - Are we taking responsibility for tough decisions and supporting the executive team as they implement them?
   - Are we able to think creatively and respond rapidly, when necessary?
   - Are we prioritising people management in our charity? Are we careful in the way we communicate changes to staff, volunteers, beneficiaries, funders and other stakeholders?

3. **Are we keeping a sharp enough focus on our finances?**

   - Are we clear about our financial model, for instance in terms of the reliability and flexibility of our income and cost base? Does our financial strategy reflect this?
   - Do we have the financial information that we need: are management accounts sufficient or do we need additional information to keep on top of finances and identify areas for developing income?
   - Do we know how our costs compare to those of other organisations in the same field? If our services are more expensive, can we explain how they generate added value, in comparison to cheaper services offered elsewhere?
   - Do we need to review our fundraising priorities in light of changing circumstances? Do we need to invest more in fundraising than we have in the past?

[1] http://www.charity-commission.gov.uk/About_us/About_the_Commission/ccnews29check.aspx

- As trustees, how can we support fundraising efforts? (For example, can we support or improve the charity's relationships with funders? Can we help the charity investigate new sources of income?)

4. Do we have the right blend of people on our board for current circumstances?

- How have the charity's needs changed and what are the implications for the board?
- If the board does not have the right mix of skills and competencies to help the charity through challenging times, how can we address this in an appropriate timeframe? (For example, do we need to recruit new trustees or do we need to draw on external expertise?)
- Have we had an honest conversation with the executive team about how the board can best support the charity through challenging times? (For example, could some trustees increase their time commitment on a temporary basis?)

5. Are we prepared to ask ourselves challenging questions?

- Are we prepared to ask challenging questions of ourselves and the executive team? Do we shy away from difficult decisions?
- Have we asked ourselves whether we could maximise our impact for beneficiaries by working with another organisation?
- If so, have we thought strategically about which organisations we could work with and how we would do that?

Appendix B: Seminar information

Guiding your charity through challenging times, 7 February 2011

This seminar covered the issues that need to be on every board's agenda in these difficult times. Speakers and participants discussed strategies for managing risks and finances, examples of best practice and practical advice on recognising signs of trouble ahead.

Speakers

- **Harvey McGrath**, trustee of New Philanthropy Capital, chair of the London Development Agency and Prudential plc, and vice chair of the Mayor of London's Skills and Employment Board. Harvey is also a former chief executive and chairman of Man Group plc, London First and the East London Business Alliance, and is a trustee of The Royal Anniversary Trust, among others.
- **Rachael Bayley**, a trustee of Barnardo's, the UK's largest children's charity, and (at the time of the seminar) director of the Retired and Senior Volunteer Programme (RSVP) at Community Service Volunteers (CSV). Rachael was previously head of volunteering at Samaritans and director of services at Volunteer Reading Help and, since the seminar, has been appointed director of volunteering development at the Alzheimer's Society.
- **Kate Sayer**, a founding partner at Sayer Vincent, a specialist firm of consultants and auditors working with charities and social enterprises, a member of the Charity Commission's SORP Review Committee and the author of several books on charity finance, including *Managing in a Downturn: Staying Solvent and Surviving Well*. Kate is also a visiting lecturer at Cass Business School for the diploma in charity finance, and a non-executive director of Development Initiatives Poverty Research, a not-for-profit company that conducts research into the global funding of international aid, with the aim of improving the effectiveness of development aid.

What do trustees need to know about collaboration and mergers? 7 March 2011

This seminar explored how charities can work together to maximise their impact. Speakers with hands-on experience and expertise in collaboration and mergers discussed the options that boards could consider. As well as sharing examples of best practice, they explored dos and don'ts for boards considering a closer working arrangement with another charity.

Speakers

- **Belinda Vernon**, head of research at New Philanthropy Capital. Belinda led NPC's research into charity trusteeship in the UK, which was published in May 2009, and is leading NPC's research into numeracy. Belinda stood in for Anthony West, a former chair of The Clothworkers' Foundation and former master of The Clothworkers' Company, who was due to chair the seminar but was unable to attend due to illness.
- **Julia Palca**, chair of Macmillan Cancer Support, a UK charity dedicated to improving the lives of people affected by cancer, which merged with the charity Cancerbackup in April 2008. Julia was formerly a partner at law firm Olswang LLP where she concentrated on employment and partnership issues. She is now General Counsel to the firm, and is responsible, amongst other things, for the firm's client care. In addition, Julia is a part-time Employment Tribunal judge, chair of the Royal Free Charity and special adviser to the Prison Reform Trust.

- **Stephen Lloyd**, a senior partner at law firm Bates Wells & Braithwaite, who is ranked by the Chambers UK Legal Directory and the Legal 500 as a leader in the field of charity law. Stephen is an adviser to CAF's Venturesome Investment Fund, and holds a number of chairmanships, including of Trustees Unlimited LLP and the Centre for Innovation in Voluntary Action, and is a former chairman of the Charity Law Association. He is also a trustee of several charities including The Chelwood 2000 Settlement, The Lloyd Fund, CAF Common Investment Funds, Green Thing Trust, and Global Cool.

How well is your board working? 4 April 2011

This seminar explored different approaches to understanding and improving board performance. The panel discussed how to assess whether a board is maximising its impact and shared practical case studies of trustee appraisals, board evaluations and governance reviews.

Speakers

- **Mike Hudson**, a consultant who has been working with chairs and chief executives of non-profit organisations for over 25 years. He is the founder and director of specialist non-profit management consultancy Compass Partnership and the author of *Managing Without Profit*, which was first published in 1995, is now in its third edition, and has sold 20,000 copies. Mike is also a visiting fellow at Cass Business School in London, a member of the board of the Leadership Foundation for Higher Education, chair of its audit committee, and chair of the Farm Animal Welfare Forum. He is also a member of the editorial board of *Governance* magazine.

- **Pat Chapman-Pincher** has been on the board of the Friends of the Earth Trust since 2006. She chairs the trust's Organisational Excellence Committee, which monitors the resources needed for the trust to carry out its work, the performance of its boards, their committees and their members. Pat has 30 years' experience in the internet and telecoms sector, has participated in start-ups of small technology companies, and has board level experience in both large and small listed and private companies. Pat also works with several larger companies in a non-executive capacity, is a founding partner of the Cavell Group, an international business consultancy, and is also a trustee of GroundWork East London.

- **Sir Laurie Magnus**, deputy chair of the National Trust and an elected member of its council. He is also deputy chair of the Windsor Leadership Trust, a trustee and former chair of beat, the leading UK charity for people affected by eating disorders, and a trustee of the Landmark Trust and the Barbican Centre Trust. Sir Laurie has over 30 years' experience in corporate finance and holds a number of non-executive directorships.

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Individuals are listed under the primary organisation they are associated with in respect of this research; many are also trustees or staff of other organisations.

Barnardo's	Rachael Bayley*
Bates Wells & Braithwaite	Stephen Lloyd*
The Broomhouse Centre	Marie Anderson and Lorna Vickers
Compass Partnership	Mike Hudson*
Crime Reduction Initiatives	David Gregson
Friends of the Earth Trust	Pat Chapman-Pincher*
Macmillan Cancer Support	Julia Palca*
Mind in Bradford	Pamela Coulson
National Trust	Sir Laurie Magnus*
New Philanthropy Capital	Harvey McGrath*
Sayer Vincent	Kate Sayer*
The Clothworkers' Company	Andrew Blessley
Tomorrow's People	David Stewart

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