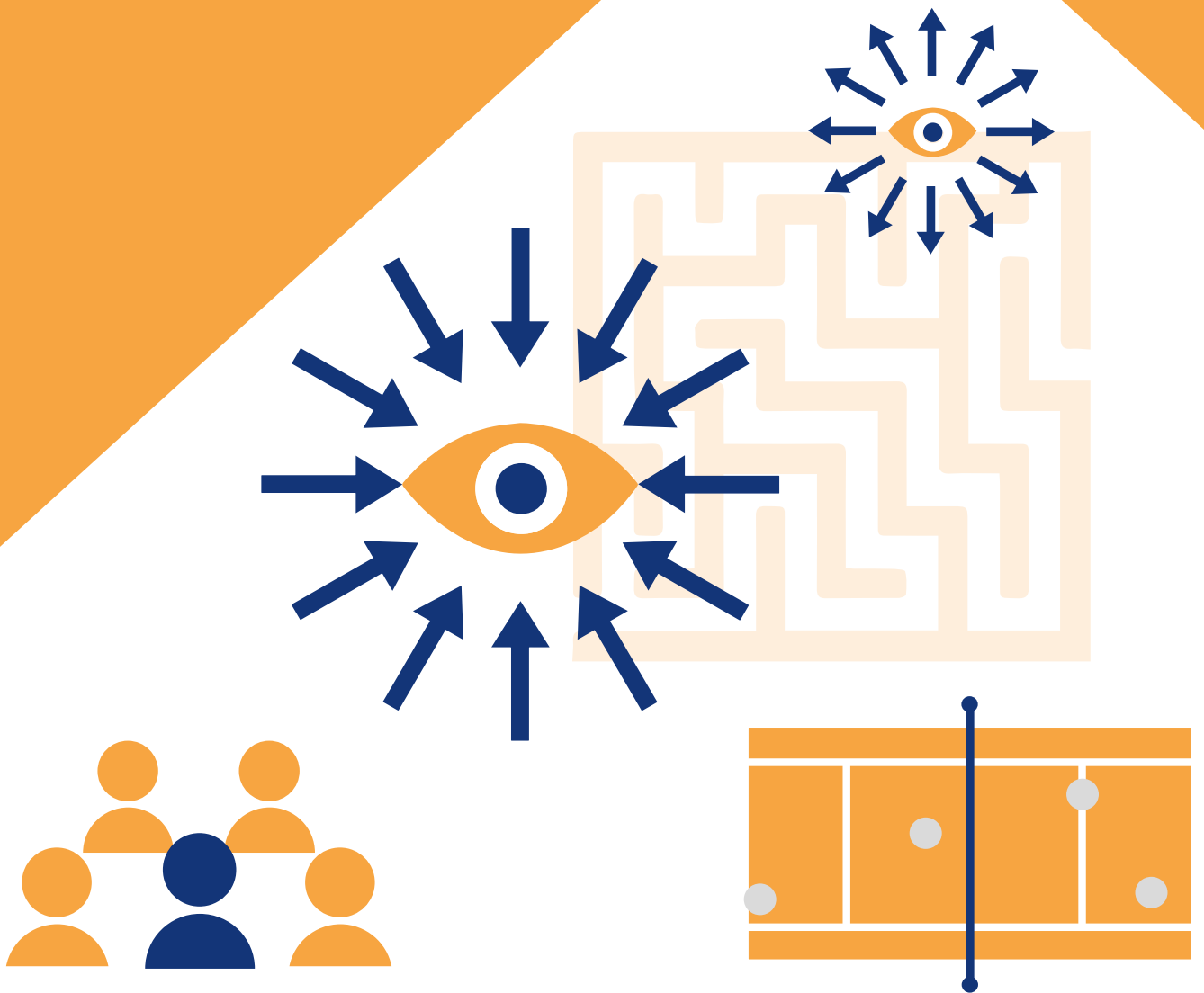# Governing with intent

An inquiry into trustee board effectiveness

Foreword   Tesse Akpeki, Onboard consultant

Trustees of charity sector organisations have a challenging role. The vast majority are volunteers, they have day jobs to contend with and the trustee board may only have time to meet five or six times a year. Nonetheless, they are ultimately responsible for the affairs of their organisation – ensuring it is well-run and abides by the law and regulations.

Yet day-to-day operations are the responsibility of the chief executive and senior management. The board must not interfere unnecessarily but provide support where it is needed and desired and guide the direction and strategy of the organisation. It is a delicate balance which requires thought and reflection.

Our research delved into the opinions, perceptions and experiences of board members, chief executives and senior staff around the effectiveness of governance. One hundred board members (just under half of whom sat on more than one board) responded to a questionnaire and 88 chief executives completed a similar survey which asked for their perspective. Twenty board members were interviewed and group discussions took place with 30 more. There were, additionally, one-to-one interviews with 20 chief executives as well as chairs, heads of governance and company secretaries. Seventy people attended an Onboard Governance Summit in July 2014 and shared their insights.

Overall, 320 people – board members, chairs, chief executives and senior managers – contributed to the project. In addition, we received responses from 30 non-charitable organisations. They show that the observations and reflections in this inquiry as regards charities reflect similar trends in the social enterprise sector. The broad range of responses enriched the process of taking the temperature of governance. There were slightly more responses from men than from women. Around 54% of board member responders were male and 46% female. Of the chief executives and senior managers who volunteered their insights, 41% were female and 59% were male. Of the board members who took part, 39% had been in the role for between one and three years. Of the CEOs who responded, 41% were between 51 and 61 years old and 29% headed organisations that had between £1 million and £5 million in annual income.

The picture of governance revealed by the results is much improved compared with that disclosed by the seminal Charity Commission and NCVO ontrust report, published more than 20 years ago. But there are more steps to take if governance is to be made truly effective and responsive to the needs of today's charity sector. Recommendations for how we believe governance can be improved – how voluntary groups can govern with intent – are spelled out in the report's final part.

No project is successful without the input of numerous people. Please forgive me if I have inadvertently left you off my appreciation list. I would like to thank the chairs, chief executives, board members, company secretaries and senior staff who took part in this process. The participants of the Onboard Governance Summit were instrumental in ensuring that there was a strong sounding from chief executives and the executive team as well as board members and chairs. My thanks goes specifically to Philip Kirkpatrick, joint head of BWB's Charity and Social Enterprise team who was such an encourager and wise counsel during the process.

Our analysis would not have been so rich without the generous time offered by Chris Theobold, senior strategic and financial project manager and Carla Ross, senior manager of the BWB Impact team. Further appreciation goes to Mathew Little, our editor who painstakingly worked through the detail, Lindsay Driscoll, Dorothy Dolton, Linda Laurance, Carol Weisman, Mike Daigneault, Alessandra Daigneault, Marta Maretich and Anne Moynihan for their supportive guidance. I would also like to acknowledge Mike Hudson, William Ryan, Sir Stuart Etherington, Baroness Diana Warwick, Rosamund McCarthy, Stephanie Biden, Lawrence Simanowitz, Thea Longley, Alice Faure Walker, Christine Rigby, Sandy Adirondack, Neal Green and Luke Fletcher for their insights.

Executive summary

PERCEPTIONS

Less than half of charity board members and chief executives think that trustee boards concentrate on strategic issues and the external environment.

Two-thirds of charity chief executives believe that trustee boards do not clarify expectations for new members.

Only 15% of charity chief executives, and 37% of board members, think that trustee boards take risks.

Almost a fifth of trustee board members do not think there is candour in the relationship between the chief executive and the board.

More than a fifth of chief executives believe that trustee boards are risk averse. Given the growth in social investment, the need to diversify income and the added value healthy governance can bring, this is an area that needs further exploration.

RECOMMENDATIONS

Trustee boards have made progress in the way they use social media and digital technologies but much more needs to be done in order to communicate effectively with the public and make governance smarter.

Boards need to formulate policies and guidance around digital communication in order to guard against security and reputational risks.

Boards need continually to consider how to macro-govern rather than micro-manage, balancing oversight of the internal environment with reading the external environment and wider social trends.

Board chairs and chief executives need to ensure their relationship is marked by honesty and candour, building a bridge between management and governance in the organisation.

Strong induction programmes and ongoing governance training are needed to clarify the expectations of board membership, chairing and the role of the chief executive.

While paying attention to the internal environment is, in some ways, essential, it can lead to trustees neglecting to look outward as well.
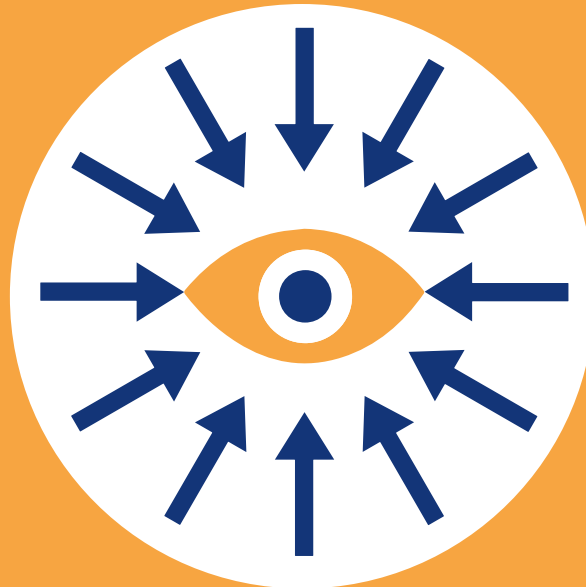
The performance of the board

The trustee board has many roles and responsibilities. The board is charged with guarding the mission of the charity, and developing, in conjunction with the chief executive, its long-term strategy. The board must ensure compliance with regulatory bodies and maintain fiscal oversight. While it reviews the performance of the chief executive, the board must keep an eye on its own performance and ensure it works productively and to the highest ethical standards.

Our research, encouragingly, found an effective and amicable board climate. Over half of board members thought that all voices were heard in the boardroom, with board members communicating openly and candidly. They believed a diversity of opinions were expressed and contributions were acknowledged and valued.

When boards displayed these characteristics, trust was stronger and more than half of board members felt valued. This sense of feeling valued is a crucial element in building and sustaining an effective board.

Governing not managing

But good governance rests as much on what the board doesn't do as on what it does. Trustees need to respect the role of senior management in managing the organisation and not drift into overseeing the charity's day-to-day operations.

Within the framework of a positive atmosphere, there is evidence that charity boards are not always performing as well as they could. Board members and chief executives were united in the opinion that boards need to focus more on strategic planning and less on administering their organisations.

While 33% of the board members polled felt that their boards concentrated on strategic issues, the general response, apparent from both the interviews and the questionnaire, was that this focus could be enhanced if board members held themselves to account more effectively. A significant 31% of board members felt that their board focused on the internal environment, such as the organisation's financial systems and risk management. While paying attention to the internal environment is, in some ways, essential, it can lead to trustees neglecting to look outward as well. Among chief executives, 41% felt their charity's board focused on the internal environment and an identical proportion on strategic issues. A lower 36% believed it focused on the external environment very frequently, and 16% 'almost always'.

These findings confirm the long-held perception that board members pay more attention than they should to what is happening in their organisations and can subtly be drawn into micro-managing, rather than macro-governing.

Although in small organisations trustees can be drawn into day-to-day management because there simply aren't enough, if any, paid staff, when the organisation reaches a certain size, they should refrain. Boards need to strike a balance between delegation to staff and providing the assurance they are not ignoring the internal environment. Making sure systems and processes are set in the right direction but not overseeing. The majority of time should be spent examining wider trends affecting the organisation: issues such as opportunities and threats; the funding climate; social or demographic changes; or shifts in values or beliefs. It is this horizon scanning that is often neglected by boards and which chief executives wish they did not have to carry out alone. "A board that adds value is one that takes a longer-term view," was a common sentiment among the CEOs.

One of the keys to good governance is, therefore, improved clarity about the purpose of the board. Nearly a third (31%) of board members thought that the board did not clarify expectations. And only 33% of chief executives thought that the board clarified expectations. Clear terms of reference, mentoring, induction and ongoing training can help to clarify the role trustees have. Their role needs, in many cases, to be restated.

Board self-assessment

One of the ways in which governance can be enhanced is through board self-assessment. More than 55% of boards assessed their performance and only a quarter assessed the performance of the chair. Board members were more likely to formally assess the chief executive than to turn the spotlight on themselves. Around six out of 10 boards assessed chief executive performance.

Although board assessment is still an emerging practice, chief executives markedly feel that increased self-awareness among boards is the route to better governance. "The introduction of a formalised effectiveness review process would take governance to another level. Self-evaluation of performances is an absolute must," asserted one chief executive. There was the strong perception, among chief executives, that rigorous board appraisal, linked to a plan for board development, would lead to multiple benefits – among them increased diversity, a greater understanding among board members of their role in strategic planning and

risk management and a climate where the voices of all board members are heard and acknowledged.

Dealing with conflict

Although most boards reported a candid and honest climate that facilitated transparency, there was a perception that they were not always comfortable dealing with conflict. Senior executives were sometimes unsure how strongly to weigh the views of individual trustees. "The board needs to be better at dealing with internal disputes," said one chief executive. At the same time, some board members reported a pressure not to speak out: when they expressed a contrary opinion, they felt they were labelled a trouble maker. These board members felt that the chair was not always exercising the requisite authority to allow robust discussion to take place and allow both quiet and dominant voices to be heard.

Risk averse

Nearly half – 45% – of board members felt that their board was risk aware. But the higher the level of risk awareness, the more reluctant the board was to take risks. Around 37% of board members believed their board did take risks. But among chief executives, the perception was very different. A much higher proportion – 74% – said their board was aware of risks, and, of this segment, nearly a third (31%) said the board was risk averse. A mere 15% of chief executives felt that their board took risks. In the interviews, chief executives said their boards were sometimes too slow in taking opportunities and, that by the time they took the plunge, the opportunity had passed. In general, chief executives thought their boards should be less risk averse.

Among board members, exactly half said their board applied codes of conduct. Nearly half (48%) of chief executives said this was the case. Of boards that had codes of conduct, 54% used them to address inappropriate behaviour, such as bullying or confidentiality breaches. However, less than half of all chief executives thought inappropriate behaviour was addressed by codes of conduct.

Sharing good practice so that others can benefit is an important element of effective governance. Six out of 10 board members felt the board captured and shared good practice. Among chief executives, 54% felt the same.

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The relationship between the board and the chief executive

The role of the chair and the relationship between the chief executive and the board are integral ingredients in the success or failure of organisations. A dysfunctional relationship can cause serious damage. In our interviews with chief executives and chairs, they often likened the relationship to doubles in tennis. Success is dependent on both players cooperating with and helping each other. "The board cannot govern effectively without the chief executive and the chief executive cannot lead the organisation to its full potential without the board's support," remarked one chair.

The chief executive, chair and the board

The results of the survey showed a strong correlation between effective chairing and the successful performance of the board. Just over three-quarters of board members felt the chair effectively manages board meetings.

More than eight out of 10 board members believed their chair(s) to be effective overall. Nearly three-quarters (74%) of board members, and 72% of chief executives, thought chairs created a safe climate in which issues were openly discussed. And 65% of board members thought the chair played a strong role in boosting the confidence of board members and strengthening morale. The 82% of board members who thought the chair was effective believed they took action, were good listeners and achieved balance.

But the relationship between the chair and the chief executive is clearly perceived as much more pivotal by chief executives than by the board as a whole. Of chief executives, 87%, compared with a noticeably lower 74% of board members, believed the chief executive's performance was enhanced by the role of the chair.

Chief executives thus appeared more conscious of the importance of their relationship with the chair and how a significant element of their own success hinged on the quality of this relationship. Fewer board members than chief executives felt the chair had a substantial role in this regard. But, given the importance of this partnership, and that the chair is acting on behalf of the board, it is crucial that greater numbers of board members appreciate its significance.

Just over eight out of 10 board members felt there was candour in the relationship between the chief executive and the board. But 19% – nearly one in five – did not. Given the central role of candour and openness in fostering effective governance, this is a worryingly high number.

The CEO view

Chief executives felt that more communication outside of board meetings would improve overall governance. "Board members should be willing to engage when requested on issues of importance," said one.

In their view, board discussions should be more strategic and less operational. Greater time at board meetings should be given over to reflect on strategic issues, many chief executives felt, and board members could demonstrate more engagement with the issues affecting the organisation. There was a recurrent feeling that boards should not leave the chief executive 'to do the thinking for them', and they welcomed board interventions on pushing forward strategic objectives that were proving difficult to achieve.

A trend that came across quite strongly from the research was that much of the impetus to improve governance came from chief executives. Even in cases where there was an undeniable need for board reviews, boards, it seems, were resistant to accepting external support. "This is a new board and I brought in an external facilitator for the first meeting, but the board did not want to sustain this link," reflected one chief executive. Chief executives welcome the role of the

board in setting the organisation's strategy. Boards need to respond positively to such desires, not resist them.

Chief executives, generally, wanted to see more regular attendance at board meetings by trustees and for trustees to take the time to visit the charity's services. They often felt that board numbers should be slimmed down, although some took the opposite view. There was a common feeling among chief executives that some trustees stayed on the board too long and they were unable to grapple with a rapidly-changing commissioning environment. They no longer provided a meaningful contribution to the organisation.

Nonetheless, our board survey showed that only 9% of board members had served for more than 10 years. It may be that the introduction of terms of office,

limiting the time that can be served on the board, has encouraged board refreshment.

The view from the boardroom

On the board side, trustees believed poor performance ensued when chief executives 'kept them in the dark' and informed them of developments which had a high impact on the organisation, only after they had occurred. Nonetheless, a clear majority – 65% – of board members thought the chief executive supported the board to govern effectively. However, a significant minority – 35% – of board members did not think the chief executive did this. In general, the board members interviewed said that the nature of support offered by chief executives improved the overall quality of governance.
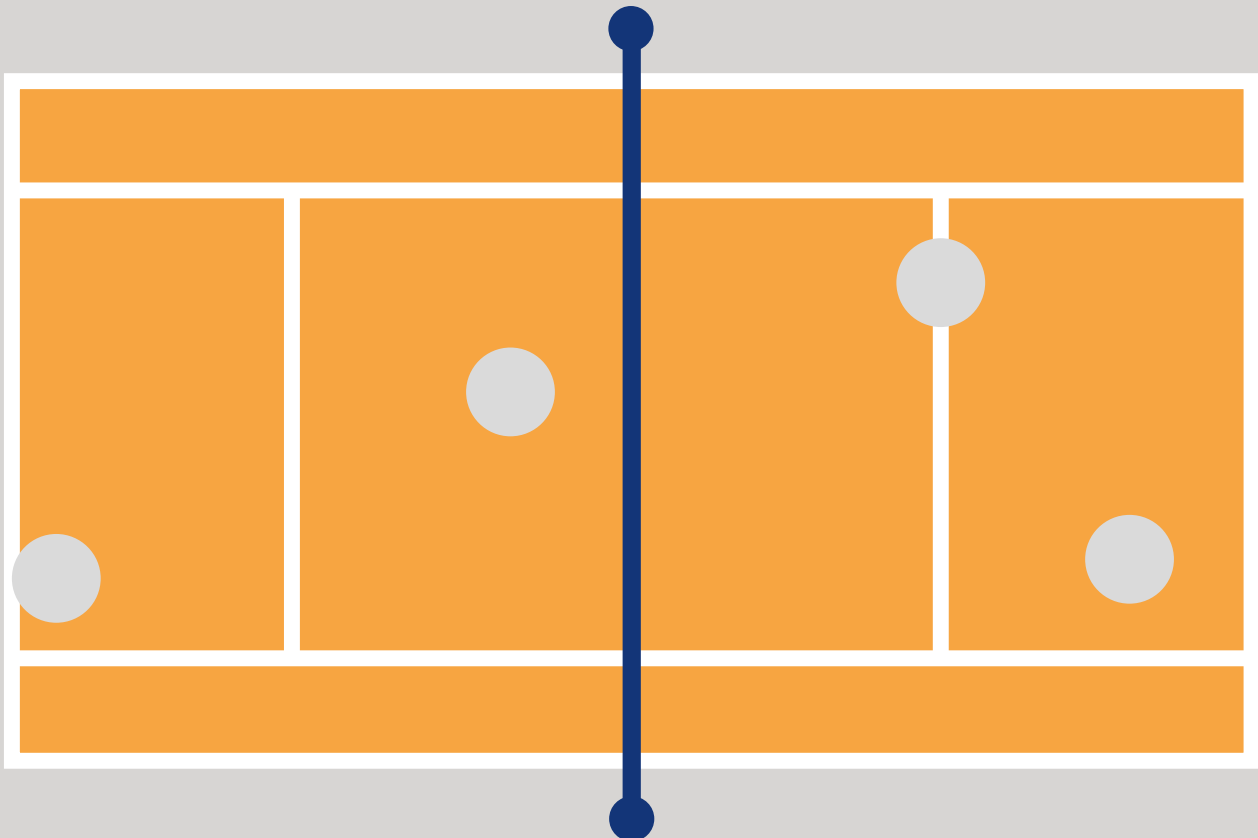
New technologies and the board

A recent report on the voluntary sector's skills and leadership concluded that the sector had to become more 'digitally fluent' to avoid drifting into irrelevance. While this research has found that trustee boards are growing in confidence in the use of social media, we concur that trustees need to be more connected to the digital agenda. They are lagging behind charity managers in their attitude to digital technology and the ways it can transform their work. They are not placing the new technologies at the forefront of their thinking.

A 2014 study by the Institute of Chartered Secretaries and Administrators found that 31% of company boards thought that the new technologies were unimportant and 38% were neutral about them. This is undoubtedly a parallel with not-for-profit trustee boards. Board members need to become better at seeing social media as an essential tool in enhancing an organisation's governance and its wider mission.

How social media can improve governance

The responses received through the survey and interviews indicate that social media is offering up a range of ways to increase engagement between board members, chairs, the chief executive, staff, volunteers and other stakeholders. There have been huge leaps in the ways social media has been used to enhance communications, networking and building relationships, as detected by Onboard's Wired to Govern 2014 survey. For example, LinkedIn groups are being set up for board members to communicate between board meetings. Chief executives are blogging to service users and members and LinkedIn, Facebook and Google groups are being used for consultations and gauge how the charity is perceived.

Chairs and trustees are including their charitable roles in their LinkedIn and Twitter profiles and respondents told us that they shared stories about the charity, made observations and gleaned feedback through these popular social media channels. According to our questionnaire, 90% of board members and CEOs surveyed use Facebook, 80% use LinkedIn and 60% Twitter.

However, the pace of change is unrelenting and boards need to better exploit the ways that new technology can make governance smarter. Online portals, used

by charities such as Citizens Advice and the British Association for Counselling & Psychotherapy, enable board members to more easily access relevant information and thus feel more supported and tuned in to their organisation. If every board member has a tablet, they can access their board papers instantly. iPads have in-built apps to manage meetings, create libraries and store board papers, past and present. Embracing these new ways of paper-free working can also significantly reduce time and cost because copying and mailing board papers is no longer necessary.

But the promise of digital technology does not lie merely in improving the quality of meetings. Chairs and chief executives can embody a leadership role by using digital means to communicate more expansively about their organisation, with members or with the wider public. Digital technology is not just about enhancing meetings but also about how the charity or social enterprise connects and interacts with a broader audience.

## Why policies on digital communication are vital

One of the conclusions of this report is that boards need to concentrate more on strategic thinking than on managing their organisations. But digital technology is one area where a strong internal focus is required. All digital communication, while it eases communication, carries risk. These risks might take the form of data security breaches, which reveal the personal details of beneficiaries, or confidential information trustees disclose about their charity through social media.

Both the security of the charity and its reputation can be compromised digitally. It is essential, therefore,

that boards develop policies and guidance around digital communication. These policies need to set out how breaches of the policy will be addressed and what disciplinary measures may result. A social media policy is the responsibility of the trustee board and cannot be left to the charity to generate internally. Board members need to be aware of these policies and how they relate to their own activities on social media.

Social media provides opportunities both to ease communication and to gauge how a charity is perceived externally. It provides platforms for important conversations. While boards need to take advantage of those opportunities, they also need to manage the risks.
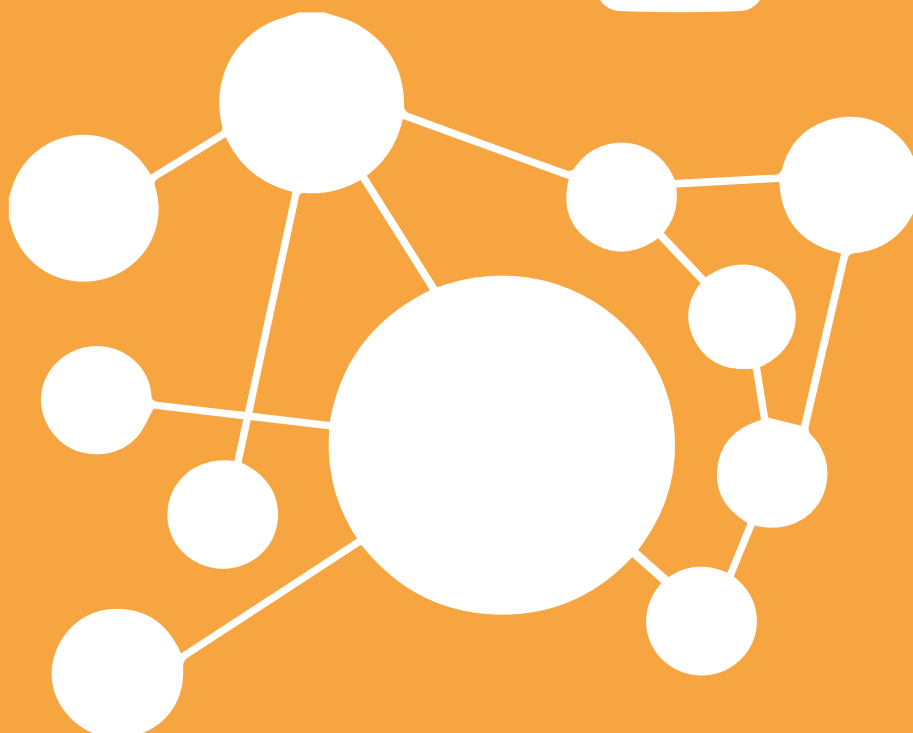
To achieve a healthy partnership
they need to work out how these roles
play out in practice so there is a strong bridge
between management and governance.

Recommendations on improving governance

Based on insights from the interviews and the questionnaire, we believe the following to be the major ways boards can be made more effective and governance improved:

- The chair and the chief executive have different and complementary roles. To achieve a healthy partnership they need to work out how these roles play out in practice so there is a strong bridge between management and governance. Trust and candour between the chief executive and the board need to be built and sustained in order to navigate the tensions that may occur.

- Assessing the performance of the chief executive, the board and the chair remains an approach that will strengthen governance. It is critical that these assessments are culturally appropriate to the organisation.

- Strong induction programmes and ongoing governance training are needed to clarify the expectations of board membership, chairing and the role of the chief executive. The maintenance of good governance is a board responsibility and should be led by the board. While the chief executive can encourage a governance review and other board development initiatives, the board needs to spearhead a development strategy if the overall process is to be sustainable and owned by board members.

- The board needs to continually figure out how to macro-govern rather than micro-manage. It needs to balance its focus on internal organisational matters (which are inward facing) with external perspectives, ensuring the board and the organisation are reading the external environment and considering impacting trends and patterns. It is through achieving this balance that the board can add greater value.

- Agendas, board papers and meetings should be designed to enable the board to focus on strategy, shape the strategic agenda and bring the board's collective experience, wisdom and perspective to bear on the organisation.

- Group dynamics will be enhanced by away days as well as by informal gatherings of board members and senior staff.

- The calibre of board members has an impact on governance. When recruiting, the board needs to consider the present and future needs of the organisation. An essential element is incorporating strategic diversity in reaching out to potential board members. Casting the net more widely and attracting the right board members to fill the right roles at the appropriate time of the organisation's history will yield dividends.

- The board needs to continually assess how the digital revolution is affecting governance and the running of the organisation. This includes how digital technology can enhance meetings, the time in between meetings and communication with stakeholders. Social media is here to stay and will have an impact on reputation, brand and the way the organisation connects with others. Any board that ignores this will do so at its peril.

- Membership organisations bring their own governance challenges. To strengthen governance in a membership organisation, the board has to work out its approach of connecting with members and ensure two-way, transparent communication and a meaningful engagement process.
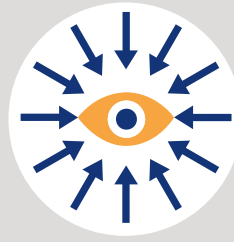
On the performance of the board

33%
of board members felt the board concentrated on strategic issues

41%
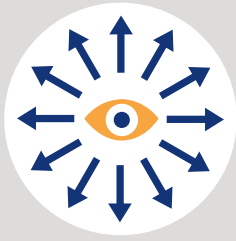of chief executives felt the board concentrated on strategic issues

31%
of board members felt the board focused on the internal environment

41%
of chief executives felt the board focused on the internal environment

28%
of board members felt the board focused on the external environment

16%
of chief executives felt the board focused on the external environment

31%
of board members thought that the board did not clarify expectations

67%
of chief executives thought that the board did not clarify expectations

55%
of boards formally assessed their performance

60%
of boards formally assessed chief executive performance

25%
of boards assessed the performance of their chair

Chief executives

31%
of chief executives thought the board was risk averse

74%
of chief executives thought the board was risk aware

15%
of chief executives thought the board took risks

Board members

21%
of board members thought the board was risk averse

45%
of board members thought the board was risk aware

37%
of board members thought the board took risks

On the relationship between the board and the chief executive

74%
of board members believed the chief executive's performance was enhanced by the role of the chair

87%
of chief executives believed the chief executive's performance was enhanced by the role of the chair

35%
of board members did not think the chief executive supported the board to govern effectively

19%
of board members did not think there was candour in the relationship between the chief executive and the board

65%
of board members thought the chief executive supported the board to govern effectively

81%
of board members thought there was candour in the relationship between the chief executive and the board

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