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***'How good governance can be achieved and maintained within third sector organisations.'***

I'd like to start today with a question. How many of you have ever volunteered to take part in an event for charity, such as a fun run or a marathon for example?

And now keep your hand in the air if you have ever volunteered to be a trustee of a charity.

A reasonably big difference, though it is good to see so many people are trustees.

This little test might seem a bit trivial, but there is a serious motive behind asking. By the time you go home today I want to get more people rethinking the way they interact with charities.

Which is why in my speech I'm not only going to be talking to you about how good governance can be achieved and maintained within charities.

I also want to try and inspire you to become part of the solution by becoming trustees.

People don't normally pay much attention to governance until something goes wrong. And in reality poor governance is something that organisations can get by with for long periods without apparent cost, so long as they have good staff. But having poor governance is a bit like building a house on sand rather than rock. When the rains come the structure can't survive. The failures in the financial sector are evidence of this, and we have seen a number of examples of how governance has fallen short in major institutions in recent years.

But we are not here today to talk about lessons from the financial sector. At my organisation, NPC, we are largely concerned with thinking about charities.

One of the main things we do at NPC is charity analysis, where we assess a charity from top to bottom, from the ground staff at the roots of the organisation to the trustees at the head. And in this spirit, last year we produced a report reviewing charity trusteeship in the UK, called *Board matters*. For those interested in having a read, it is free to download on our website at [www.philanthropycapital.org](http://www.philanthropycapital.org).

There are a number of lessons in *Board matters* about what we think are the barriers to building effective charity trustee boards. Our findings are based on discussions with experts, from government to foundations, charities and voluntary sector bodies. All of these experts agreed on one thing—most boards had room for improvement.

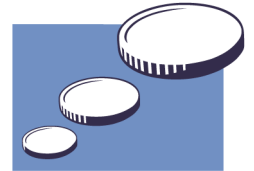
As one foundation head put it:

"If we insisted on good standards of governance, then we wouldn't give many grants."

Before I start sharing these lessons I just want to say that people should not be sitting here today thinking that the charity sector has the answer, the silver bullet if you wish, to good governance. We don't.

In fact at a recent conference on trusteeship in the third sector, attendees at the end of a long day of sessions were asked if they believed their sector was beset with similar problems which have afflicted banks and caused such problems. Sixty per cent said yes.

Worryingly, many within the charity sector do not appear to be facing up to the problems of poor governance. When the same audience at the conference was asked if the consequences of bad governance practices would be as bad in the third sector as in the financial sector, the majority thought not.



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Why those in the third sector seem relatively unconcerned about the impacts of poor governance is both a mystery and a concern to me. Maybe it is because boards in the charity sector are largely voluntary and people therefore believe we should have lower expectations of those sitting on them?

Maybe it is because people have lower expectations of the third sector itself, and hold the misguided view that charities can't do that much harm anyway—a dangerous view to hold.

Whatever the reason, it is fair to say that in the charity sector, governance, while vitally important, is sometimes neglected. This is despite a number of high profile cases demonstrating the consequences of poor governance.

Let me give you two examples of this, the first being the case of Age Concern and Heyday, the second The Smith Institute.

Age Concern, one of the two leading charities in the country focused on helping old people, set up Heyday, a membership scheme, back in 2006. It had the aim of recruiting three million members. Three years on, and £22 million later, the scheme folded after recruiting only 40,000 people.

A report into the fiasco by the regulator, the Charity Commission, highlighted clear failings in governance, control and planning.

So what were the problems with the governance structure of Age Concern that contributed to the problems with the scheme?

Well the trustees clearly didn't plan carefully enough, examine the risks or consider investing more cautiously in the project. But the main problems stemmed from the fact there were 34 trustees on the board. Yes, 34.

No literature or practical experience of good governance suggests this is sensible. It is way too high for sensible discussion, responsibility and decision-making.

The Smith Institute is a think tank set up in honour of the former Labour leader, John Smith. It fell into trouble when it was accused of having links with the Labour Party and Gordon Brown and therefore breaching the rules which govern the non-political status of charities.

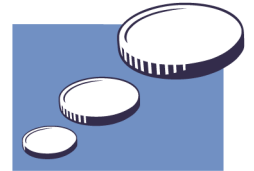
The Institute was criticised by the Charity Commission for veering too far away from its charitable purpose of educational value to the wider public. The Commission's report into the Smith Institute found that its trustees were:

"[not] sufficiently engaged to ensure the proper supervision of the charity, given the nature of its activities, work programme and the political environment in which it operates."

In the case of the Smith Institute the Commission decided to dictate changes in the way the charity was governed, requiring the organisation to carry out a governance review and report back to the commission six months later on progress. There have now been changes in management and board.

These cases show how serious poor or misguided governance can be in charities, and the consequences that can follow. They also show how, in a mirror of the financial sector, things are often only picked up late.

Let me return to the lessons NPC has drawn from our own research into governance in the charity sector. In short, we found that there are three main barriers to building strong, effective trustee boards.



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The first is around recruitment.

According to one review, half of charities say they have vacancies on their boards. This is perhaps unsurprising when you realise that, according to the same source, only 5% of the general public are even aware that being a trustee is one way they could support a charity.

Charity boards are absolutely crying out for new members, and specifically for people like those in this room today. People with a business head on their shoulders who can act as a charity's critical friend.

Well-meaning trustees are good, but the ones who really build strong charity boards are the ones who realise that charities must operate as efficiently as businesses if they are to succeed (the best businesses, mind).

I'd recommend you have a read of NPC's recently launched guide to charity analysis, *The little blue book*, which you can buy or download for free from our website, if you want a better understanding of what an effective charity looks like. You might be surprised to see how heavily we focus on 'business-type' attributes, such as results and ambition and leadership, as well as on the problem the charity exists to tackle, and its activities.

Boards don't only suffer because of a lack of members. They also struggle to attract diverse members. Despite the existence of some tools to search for trustee vacancies, and some specialist recruitment agencies, finding a trustee position if you are Joe Public is not easy. Four fifths of trustee recruitment still happens by word of mouth, with—guess what—the result that board members typically all look and think the same.

For example, currently nearly half of trustees are aged 60 or over. This lack of diversity means boards miss out from having people with different backgrounds, experiences and outlooks working together. In some cases this lack of diversity can undermine a charity's mission if that charity seeks, say, to promote social mobility or diversity. Most importantly, homogenous boards run the risk of getting stuck in their ways, with no members challenging the status quo or calling for change.

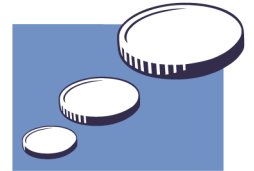
The second challenge we identified to building and maintaining a strong trustee board is around training.

Being a good trustee is about fulfilling statutory responsibilities but it is also about challenging the management and helping them to achieve more. Each of the experts our analysts consulted during their research were concerned that many trustees do not understand their full role and responsibilities. Too few trustees are given good inductions and then trained well.

One of the analysts at NPC told me that she once attended a trustee training day and watched jaws drop around her as the trainer started talking about employment law and other legal duties. Many trustees were simply in the dark about their responsibilities.

Without proper training and induction, it is hard to see that trustees can deliver good performance, whatever sector they work in. There have been criticisms of the compositions of bank boards in recent years, such as the fact that a theatre impresario sat on the board of Lehman Brothers, and the need for independent members to be properly trained and briefed. One could aim similar comments at many charity boards.

A quote from one young trustee I know summed up the importance of induction for me: she said,



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“What people seem to forget is that being a trustee is a bit like having another job. But in a job you go in day after day to learn the ropes. When you’re a trustee you only meet up a few times a year and yet you’re responsible for running that charity.”

So what could improve induction within charity trustee boards? There is certainly no shortage of literature on good governance. The problem however is that it isn’t all put in one place. A central information point for all this information would certainly be helpful. But for now, it is something that current trustees must take upon themselves to share with new recruits. One charity mentioned in our trusteeship report, Edinburgh Cyrenians, a homelessness charity, does this by including in its welcome pack a summary of the Good Governance Code by the Charity Commission, and links to other sources of information.

Finally, the third challenge to good boards highlighted in our report is around evaluation.

Many charity boards (and I imagine many boards in the private sector) do not even think about evaluating their performance. This could be because trustees often find the idea of being appraised unappealing when they are giving up their time for free.

However a review of the board, looking at what’s working, and where improvements might be made can be valuable, helping trustees learn how they can become better and how they can help the charity achieve more.

For example, following a review, the board of one charity NPC works with was able to identify a number of areas where they could take action to improve, including reviewing the charity’s levels of involvement with service users and doing skills audits of itself.

A review can also be helpful for highlighting relationship issues within a board and for helping trustees understand if the decisions they are taking are the right ones. All important lessons I’m sure you would agree for boards working in the private sector, as well as those working in the charity sector.

A review doesn’t have to be particularly complicated. In our report, we include a short self assessment tool which charity boards can use to give themselves a bit of a health check. This is available on our website. The Charity Commission also recently published similar guidance, called “The Big Board Talk”, including questions charity boards can ask themselves during the recession.

While these problems were highlighted when carrying out research into governance within the charity sector, I think it is fair to say they could all be equally applied to company boards as well.

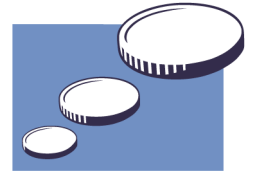
Are the boards of the companies represented here today more diverse than those within the charity sector?

Is the induction of new board members better?

And do company boards thoroughly evaluate their performance, more so than in the third sector?

I doubt the answers to these questions are uniformly positive.

The good news however, for both charity and private sector boards, is that these things can all be fixed.



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I have come across some fantastic boards within the charity sector. The board of Thames Reach for example, a homelessness charity in London, stands out among the charities NPC has analysed for its commitment to good governance. Its chair, Ken Olisa has a corporate background—he was a founder of a technology merchant bank and sits on the boards of two FTSE 100 companies—and he works closely with the charity's chief executive, Jeremy Swain.

As chair, Olisa is passionate about ensuring the charity has the right governance systems in place so that the staff can achieve the most for the homeless people they help.

As he puts it:

“Governance is my Mastermind topic.”

The success of the board does not only come however from the strong relationship between the chair and chief executive. The board members have also appointed one member as a ‘senior independent director’, to oversee relationships between the board members, and with the senior staff.

This member carries out appraisals of the chair every other year, and also oversees the process of board members’ appraisals. The board also takes evaluation of its own performance seriously and gets assessed by an external consultant to learn in which areas it could make improvements.

Another example of a board which has taken governance seriously is Cancer Research UK. Cancer Research UK, as you may know is the largest fundraising charity in the UK and was formed by the merger of the Cancer Research Campaign and the Imperial Cancer Research Fund in 2002.

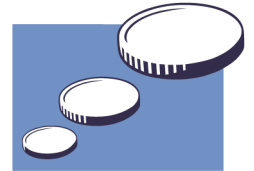
In 2007, on the recommendation of its chair, David Newbigging, the board initiated a review of the charity's governance policies and practices, with a particular focus on the structure and responsibilities of the board and its committees.

One early conclusion of this was that the board should be reduced from 20 to 12 trustees, while still retaining an equal balance between scientists and non-scientists. Some of the retiring scientific trustees were able to continue to contribute to the work of the charity by joining the Research Strategy Committee, which is (as you might imagine) responsible for the charity's science strategy.

The charity also decided that, to ensure a healthy turnover and a mix of experiences, trustees should have a term limit of three years, with the expectation of a second three-year term and the possibility of a third. Each trustee is formally appraised once in each three-year term, which feeds into decisions about whether they should be reappointed. Trustees who attend fewer than two thirds of board and relevant committee meetings in a year, are also required to meet with the chair to discuss their attendance record and overall commitment.

These case studies provide great examples of good governance for those working in the charity sector. But they are also exemplars for the private sector. They show what can be achieved if boards put more effort into recruitment, training and evaluation.

I hope that my talk today has helped to draw your attention to problems which may be facing your own boards as well as those in the charity sector. And I hope that the case studies I have given have provided food for thought as to what good governance can look like.



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Good boards within the charity sector are however still few and far between. This is a concern. Charity chief executives continue to dedicate too much head space to worrying about the trustee board of their charity. Boards should be a help, not a hindrance, leaving chief execs to focus on more important things like the strategic direction and management of a charity.

Talking about charity trusteeships can seem a little arid. But charities are some of the most dynamic and interesting organisations in a modern economy, certainly worth a closer look.

They have rather peculiar business models, which can require ingenuity and entrepreneurship to keep afloat and successful.

They are tackling many of the most pressing and fascinating problems faced by society today. Whether it is eating disorders, poor housing, education, drug addiction, youth offending, domestic violence, the list goes on—charities are at the sharp end.

Charities are the crucible of social innovation. Some of the newest ideas about fixing problems begin in charities.

They are homes to talented, fascinating and sometimes idiosyncratic characters. The Treasury hosted an event last year at which the head of one of NPC's favourite charities, Chance UK (which mentors young people) spoke about her organisation. The Treasury economists and civil servants were stunned by how eloquently, passionately and confidently she spoke. A few remarked that she could teach even the most senior civil servants a thing or two about presenting and public speaking.

And charities are full of people acting with a public and generous spirit.

For all these reasons, they are great places to hang out and use your skills.

A new injection of smart, committed, high quality professionals from the private sector could help charities achieve even more.

Of course the private sector doesn't have all the answers—after eight years of working in the charity sector I know I don't have a monopoly on knowledge simply because I have a background in the private sector.

But everyone in this room could bring useful skills as a trustee of a charity. I'd encourage you to think about getting involved. You might be surprised by the difference you could make, as well as by how enjoyable and challenging is the experience.

Thank you.

***Martin Brookes was speaking at the Trade Association Forum Annual Conference 2010  
4 March 2010***