The Importance of Governance to Voluntary and Community Organisations in the UK

Written by Karl George MBE (KgISS)

Background

The voluntary and community sectors have 190,000 registered charities[1] and another 100,000[2] estimated other regulated charitable organisations. The sector employs some 608,000 people[3] and has an annual turnover of approximately £39 billion[4]. It is fair to say that this third sector is a significant and important segment of the UK economy. Accountants play a key role in this sector. The ACCA have a number of members working in the sector and or auditing this growing part of the economy.

The environment in which voluntary and community organisation's operate is changing. There is an ever increasing onus on trustees and boards to ensure a robust system self governance. SORP 2005 stresses the growing importance of effective trustees training inductions and the Charity Act 2006 places more and more emphasis on governance. The Companies Act 2006 removes the special provisions concerning small company charities which may suggest changes could be made to the governing document. These are just a few examples of where changes in regulation are placing more of a weighting on good governance.

Moreover the UK government foresees an increase in the role and reliability on this sector to deliver the services demanded by our communities.

So how does governance serve to improve organisations in this sector? I suggest that supervision, regulation and control is important however there is much more to governance.

The vision

Every organisation must have a clear vision of where it is going. The leadership of an organisation has the responsibility of delivering the stated aims and objectives. In the midst of regulation, political bureaucracy and maintaining operational outputs all of this does not excuse the need for commitment to achieving the original vision of the organisation.

The need for effective leadership is a large and important aspect of governance. Leadership however is really only about three things. First and foremost is defining the vision and communicating it well. The board is required not only to set strategy but communicate it effectively to all relevant stakeholders in particular for the benefit of the employees who implement the strategy.

The second critical area of leadership is motivating the employees towards that vision. The workings of the board of trustees and the relationship with the chief executive are crucial. How a board motivates the executives to execute the stated objectives is again a crucial leadership requirement.

Finally the board must be trustworthy and confident. An open and transparent process of running the organisation with integrity that comes from the top is paramount. Leadership is about leading from the front and practising what you preach. The Board must not only authorise policy and procedure but also abide by its own laws. These areas underpin the key leadership requirements of an effective Board and fall under the remit of good corporate governance.

Regulation

Corporate governance has been influenced by the initial requirements for directors which evolve from the Companies Act and the Directors Disqualification Acts. Trustees are aware of their responsibility for the safeguarding of the assets of the organisations that they control. In the private sector the various corporate scandals and controversial issues of Executive Pay have led to a number of reviews and recommendations in regards to the disclosure and reporting requirements of these companies.

Table 1. highlights some of the legislation that is currently regulating the private and voluntary and community sectors. Recent reviews have examined various areas including the role of the chair and chief executive, risk assessment and internal control, executive pay and the role of non-executive directors. The table highlights the key legislation affecting the private sector, some of which may be reflected in an organisation's governing structure. Within the voluntary and community sector, the different sub-sectors each possess a code of governance that they should employ as best practise within their organisations.

The Voluntary and community sector has been influenced by the regime that has been created by the private sector and its own governance guidelines have been updated.

Table 1. Legislation in the UK Private and Voluntary/ Community Sector

PRIVATE SECTOR	VOLUNTARY & COMMUNITY SECTOR
• Company & Directors Disqualification Act • 1992 Cadbury Report • Greenbury Report 1995 • Hampel Report 1998 • Turnbull Report 1999 • Higgs Review 2003 • Combined Code 2003	• Housing Associations • Co-Operatives • Public Sector • Voluntary Sector

Governance Defined

So what is Governance? The three definitions below will help to illustrate three fundamental principles of good governance.

Definition One

*The appropriate board **structures, processes and values** to cope with the rapidly changing demands of both shareholders and stakeholders in and around their enterprises.*

Bob Garratt Thin on Top How to Measure and Improve Board Performance

It is an important principle of good governance that the Board is aware of the rapidly changing environment and is in the position to make the appropriate response. I have worked with voluntary and community organisations over the years that are now no longer in existence because of their inability to foresee and respond to the changes in the funding environment for example, core funding of services has moved towards service level agreements.

Social Enterprise is now an important vehicle in developing community cohesion and sustainability. Boards have allowed the political regime to change around them without adapting the way they operate and as a result have not developed. The Board then should ensure that its processes and structures are kept up to date and serve the organisation well. The Board should be in a position to easily locate all key documentation, policy and resources to perform its role well.

Definition Two

*Good governance is found where there is an **empowered competent board** who understand and implement their key roles of accountability, transparency and trustworthy to lead and control an organisation effectively.*

Karl George

I am a board member of a company that was set up several years ago as a response to the skills shortages forecast in professional and financial services in the region. The process of putting the organisation together began with the recruitment of the chair, someone with the right profile, the relevant experience and good contacts. The process of deciding appropriate mix of other board members to complement this position was then determined. I give this example because the organisation that was developed in this way is a thriving example of a social enterprise – even successfully attracting funding from an agency that had frozen funding for all other organisations. The key to their success was and still is the collective competence of the Board.

Definition Three

Corporate governance is one key element in improving ***economic efficiency and growth*** *as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.*

(OECD Principles, 2004, Preamble)

I am working currently with two organisations that have merged their operations. The merger was carried out not because one was failing, or some financial irregularity but for the purpose, of economy, efficiency and effectiveness. The regulator was also interested in ensuring that the forecast efficiencies are indeed achievable and will be monitored. This accountability is another example of where governance is more than statutory compliance but aids corporate efficiency.

Three Key Principles of Governance

Behind good governance must lie principles which can help in decision-making, accountability and clearly defining the work of the board. The three definitions of governance identified can be used to develop three key principles which provide guidance to better governance and are outlined below:

Principle 1.

Clarity of your **structures, processes and tools** to ensure the Board can organise itself effectively to discharge its functions. From a practical perspective this information may be contained in a fully comprehensive manual which is accessible to all board members, the chief executive and appointed staff. Its purpose will be to promote clarity to the board with respect to the overall strategic direction of the organisation, board roles and responsibilities and areas of accountability. Content may range from specific details such as to the frequency of board meetings, the quorum etc to details of the organisation's constitution and current strategic plan all in one location. Such a manual acts as an effective tool to encourage information sharing amongst board members and develop organization transparency, especially to important stakeholders.

Principle 2.

Board Competence – the collective Board should have the right range of skills and experiences to set the strategic direction and uphold values and objectives. The board should be well-versed on compliance issues, internal controls, policy and procedures. It is important then that good governance involves effective induction and training programmes. Also the board should have a strategy for its own review and renewal to create a diverse and effective board that will be equipped to help the organisation meet its objectives.

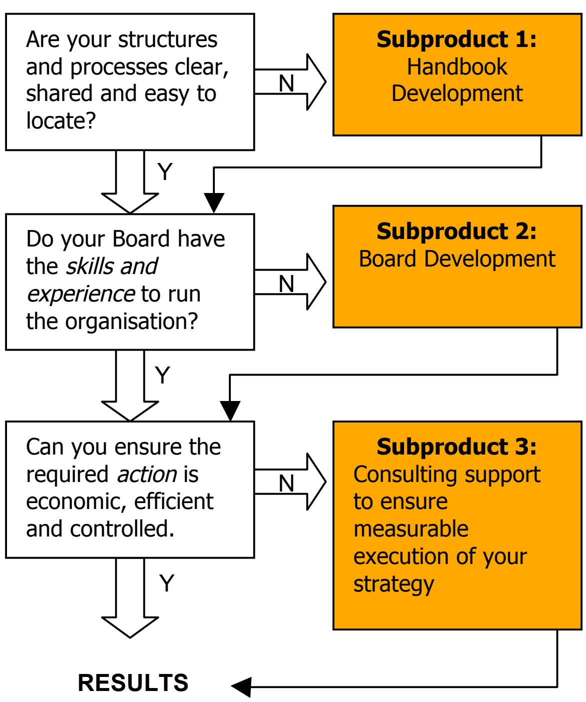
Overall the board must act prudently to protect the organisation's assets, using them efficiently and at all times seeking to effectively manage any risks that would jeopardize the organisation's ability to function effectively and meet its objectives.

Principle 3.

Execution of your board's strategy in a joined-up way – making sure the required efficiencies and performance targets are achieved and the board is open, responsive and accountable. Board delegation is an important factor here. The board should clearly define the functions of sub-committees, the chief executive and other staff and create measures which effectively monitor their performance.

From a practical perspective these key principles have been used to formulate a strategic approach to better governance which can be implemented in the following stages as detailed in diagram 1.

Diagram 1. A Strategic Approach to Governance



As the diagram shows, there are three key aspects to address. The model provides an easy to follow approach to help focus the organization resources. The model is clear and easy to apply and ensures that the major areas of importance of being addressed.

In summary

Good governance will mean different things to different sizes of organisations and at different times in their development. Getting things in place and implementing the right policies and procedures may be the objective for one type of organization whereas a more mature or larger organisation may be focusing on the relationship between board and staff or even how to drive best practice and improve efficiency and effectiveness. The point is being made here is that governance is more than compliance, it is more than survival, it is really about organisational development.

The following list of Seven Practical tools for Good Governance may serve as a reminder of effective governance systems that I have found to work well in some of the more successful organisations that I have worked with.

Seven Practical Tools for Good Governance

1. Directoral Dash Board – A traffic light system of key indicators and early warning signals to manage, monitor and improve the organization.

2. Annual Calendars – A schedule of matters for board discussion over the course of the annual calendar of Board meetings.

3. Board Champions – Specific Board members take on the responsibility for significant and important areas of the organization.

4. Sub-Committees – Project based and expertise based committees are set up with clear terms of reference to deal with specific items.

5. Personal Development Plans for Board Members – Having developed through self and external appraisal the skills and experiences of each board member individual plans are formulated to ensure continuing development.

6. Risk Assessment Matrix – A pro-forma that identifies the potential risks that the organization faces in all areas and actions that are required to minimize or act on the potential risks.

7. Away Days – A regular or at least annual event to consider the strategy of the organisation and whether the board is ‘on track’ in achieving its goals.

Personal Profile

Karl George MBE is a high-profile award winning businessman, motivational speaker, writer and dedicated charity worker. Karl has worked extensively in the public and not for profit sector over the last 20 years having set up and chaired many community based organisations. He also sits on a variety of boards on a local, national and international basis. Karl has many case studies of successful projects he has delivered in improving business performance and governance in this sector.

As well as running, **KgISS** Karl George works as a consultant to Bloomer Heaven Chartered Accountants. He is also a visiting professor at the University of Central England, and author and a practitioner of Neuro-Linguistic Programming (NLP).

Article References

[1] "Facts and Figures", www*.charitycommission.gov.uk/registeredcharities/factfigures*

[2] Charity Commission Annual Report August 2000
www.charitycommission.gov.uk/spr/annualreport

[3] The Voluntary Sector Almanac", www.ncvo-vol.org.uk/research

[4] Leading Angles: "Fears for the Future" Media Release 23rd January 2007,
www.volunteering.org.uk

OECD Principles, 2004, Preamble

"Thin on Top: Why Corporate Governance Matters and How to Measure and Improve Board Performance" Bob Garratt

"New Research Raises Doubt About Government's Increased Role in Charities", Press Release June 2007, *www.ncvo-vol.org.uk*