

## Special Feature: Governance

# Your Board Can Be Your Best Asset at a Time of Recession

Does having a carefully selected board of directors and a good governance protocol really make a difference to the performance of a social enterprise? Karl George, MBE, founder of the Governance Forum, believes it does. SE asked him to explain.

In the current economic climate, good governance and an effective board is crucial to the survival of a social enterprise. This may not be immediately apparent, particularly where a social enterprise has been operating successfully for a number of years without any real attention to good governance.

Does any of the following sound familiar?

Question	Comment
<b>Isn't the board just a necessary evil?</b>	<p><i>"Having a board is like an insurance policy, in case things go wrong. You can say we do have a board which meets regularly."</i></p> <p><i>"Our board doesn't really contribute, but we know it is good practice to have a board."</i></p>
<b>Isn't it merely a distraction for the executive?</b>	<p><i>"The executive is set tasks just to satisfy the board without any real consideration of why the task is being performed."</i></p> <p><i>"The executive can't get on with their job because they spend so much time just satisfying the board."</i></p>
<b>Doesn't the board become a hindrance to the organisation?</b>	<p><i>"Projects can't be instigated because the board does not agree."</i></p> <p><i>"Opportunities are missed because of the timing of board meetings or the timescale for getting agreement from the collective board."</i></p>

You may think that non-executives are the domain of the big private sector companies who need protection from over zealous directors. (Although they didn't help the banks much!)

And you may think that as the risks involved in running a social enterprise do not compare with the complex regimes of the large private sector corporations, detailed governance arrangements should not be thrust on them.

It may seem to you that, given a choice, social enterprises would be better off keeping their boards 'mean and lean' and leaving that governance 'stuff' to the big boys. After all, most have enough short term issues to deal with, without finding additional 'nice to have' ideas thrust upon them from a group of people who are looking into the future and advising about what might happen.

However, the truth is that boards can be an asset – if you choose them well. And in the current economic climate, having a group of people outside of the day to day concerns looking at the bigger picture is even more important than in times of economic growth. Forward planning is now essential to ensure the flow of working capital and cash needed to stay in business.

## From Survival to Optimisation

I would argue that an effective board can make all the difference when determining the survival of a social enterprise. The right board can keep you in the game ready to fight again when the climate changes. If an organisation has been fortunate enough to have elevated itself from the survival phase of business to the existence phase - existence being just about able to pay the bills each month without use of any meaningful level of reserves or contingency - then a good board can ensure that this position is consolidated and can prepare the organisation for developing reserves. Some enterprises have been able to accumulate good reserves and the board has helped them to consider growth strategies and eventually optimisation strategies.

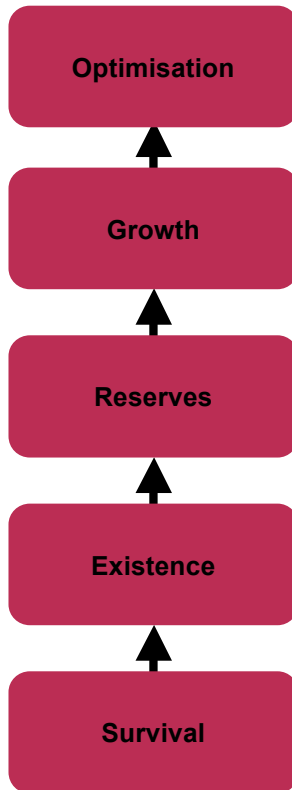


Diagram 1 From Survival to Optimisation

## Role of the Board

It is important to understand that most people perceive governance to be concerned with addressing the compliance aspects of an organisation, eg monitoring, supervising and stewardship. This tends to be a backward looking approach, whereas the success of an organisation is actually reliant on forward thinking. In cases where the board considers performance issues, eg strategy, planning and policy making, this maximises operational effectiveness, development of reserves and long-term sustainability.

The following diagram demonstrates the differing roles of the board and highlights the need to move from conformance to performance.

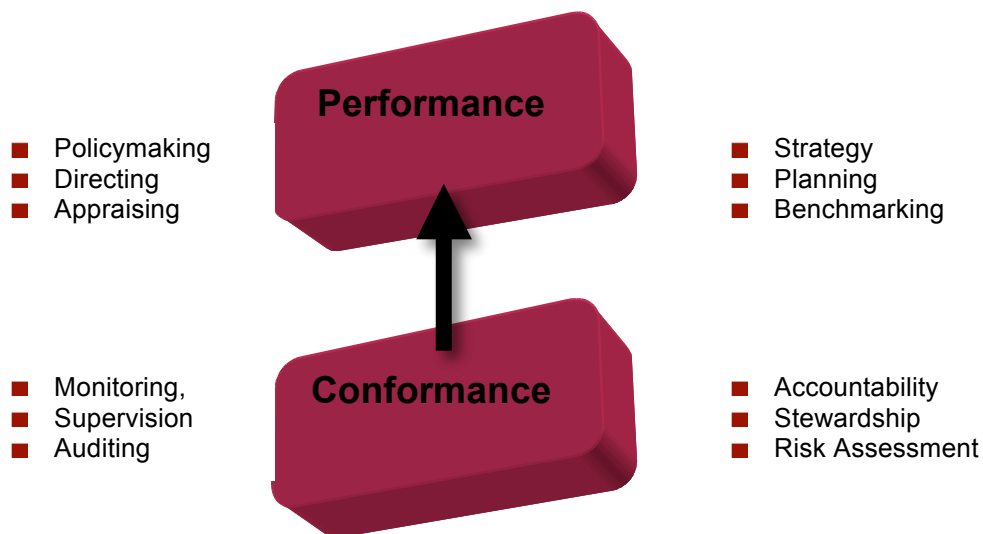


Diagram 2 From Conformance to Performance

## What Makes a Good Board?

Having established the role of the board, you need to consider what makes it good.

**Ambassadorial** – A good board will not exist in a vacuum, just conducting meetings, but will use its contacts and networks to support the organisation. This may lead to raising the enterprise's profile, making introductions that lead to more business, or even attracting key staff through networks.

**Basic** – If the operations of the organisation are so complex that the board cannot understand them, then they are normally wrong. Strategies and plans should be clear and concise and the board has the responsibility to ensure that.

**Competent** – A good board will have a competent base line of skills and expertise across the fundamental business functions. This will ensure that all board members are able to contribute effectively. The board will also have a higher level of expertise, with individual board members having knowledge of specific topics to ensure a high level of expertise across a range of areas by the board as a whole. The board will have knowledge of the basic business structure, the financials and the business model.

**Diverse** – A board of directors from the same background, similar ages and same gender will tend to come up with similar ideas. A diverse board will challenge more appropriately and be able to think outside the box, bringing different experiences to the organisation.

**Engaged** – It is crucial for the board to be actively involved in the workings of the organisation, understanding the day to day operations but not getting involved. In order to make critical strategic

decisions they will have to take time to understand the business and what makes it tick. This cannot be done remotely and passively as this attribute is as much an attitude as it is a practical application.

**Focused** – Staying on track and remaining focused is a pre-requisite for success for any organisation. It is the role of the board to ensure the enterprise stays true to its mission

### **Why Develop the Board?**

Let's explore, briefly, why it is advantageous for social enterprises to develop their boards.

The chief executive of a small or medium sized enterprise is in a lonely position without the support of an effective board. More importantly, a good chair can make all the difference to the operations.

Funders and other stakeholders will be more inclined to listen to the views of an influential board or chair when the 'going gets tough'. Or, in cases where there are significant developments in the enterprise, a well versed board can help to convince a bank manager or potential partner more easily than the executive.

Good boards come into their own when they are able to spend time considering strategic and environmental frameworks, without getting bogged down in the day to day detail. The executive can then get on with the management and have a tier of leadership that can monitor and supervise activity.

The point I am making is that governance is more than just compliance. If the role of directors were simply to attend the occasional meeting, ask some supportive questions and get a free lunch, they would be of little benefit. A board has a much broader remit.

Boards can find themselves becoming a necessary evil, a distraction or even a hindrance. However, this will only come about if the paradigm for governance is skewed towards compliance. If the board has been brought together to encompass the key competencies described, this can be avoided.

### **Good Governance Ensures Good Management**

Bob Tricker, Essential Director, summarises the point well. "The way companies are governed has become more important than the way they are managed – after all good governance should ensure good management whereas poor governance allows poor management."

In the current climate it is critically important to ensure that your enterprise is being directed well and that the executive is managed well. Surely then, good governance and an effective board is not an option - it is imperative.

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