The Governance Institute

Good governance: Balancing the mechanics with dynamics

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The story so far: History of the code

- **2003 Higgs Review**
- **2005 first version of code**
- **2010 second version**
- **2011 code for ‘small’ charities**
- **2017 third version of code**

What happened between 2010 and 2017?

Governance code steering group

acevo
Charity Leaders Network

Association of Chairs

icsa
The Governance Institute

NCVO

Small Charities Coalition
Informing | Supporting | Connecting

Cyngor Gweithredu Gwirfoddol Cymru
wcva
Wales Council for Voluntary Action

Observer:

CHARITY COMMISSION
FOR ENGLAND AND WALES

New format

- **Foundation principle**
- **7 principles**
- **Each principle:**
  - **What the principle is**
  - **Rationale**
  - **Key outcomes**
  - **Recommended practice to meet**

Charity Governance Code

https://www.charitygovernancecode.org/en

What's different?

- **Universal principles and outcomes.**
- **Different recommended practice for £1m plus charities**
- **'Apply or explain'**
  - **Anticipate how the Code is used will develop and mature**
  - **Apply recommended practice or explain what's been done instead**
- **Publish statement in annual report**
  - **Recognise sector-specific codes**

Organisational purpose
Leadership
Integrity
Decision making, risk and control
Diversity
Board effectiveness
Openess and accountablity
Foundation principle

Consultation process

- **Online survey with both open and closed questions as well as email comments**
- **201 responses in total, inc. Charity Law Association**
- **Regional feedback events: London, Cambridge, Leeds, Cardiff**

Foundation principle

- **Committed to the cause**
- **Understand role and legal responsibilities – CC3**
- **Commit to good governance**

Principle 1: Organisational purpose

The board is clear about the charity's aims and ensures that these are being delivered effectively and sustainably.

Charities exist to fulfil their charitable purposes.

Trustees have a responsibility to understand the environment in which the charity is operating and to lead the charity in fulfilling its purposes as effectively as possible with the resources available. To do otherwise would be failing beneficiaries, funders and supporters.

The board's core role is a focus on strategy, performance and assurance.

Principle 1: Organisational purpose – outcomes

- **The board has a shared understanding of and commitment to the charity's purposes and can articulate these clearly.**
- **The board can demonstrate that the charity is effective in achieving its charitable purposes and agreed outcomes.**

Principle 1: practice tips

- **Site visits for trustees**
- **Bringing the frontline to the boardroom**
- **Environmental scanning**
- **Board discussions about impact**
- **Offering additional training and development activities**
- **Consider whether partnership, collaboration or merger would deliver m for beneficiaries.**

Principle 2: Leadership

Every charity is headed by an effective board that provides strategic leadership in line with the charity's aims and values.

Strong and effective leadership helps the charity adopt an appropriate strategy for effectively delivering its aims. It also sets the tone for the charity, including its vision, values and reputation.

Principle 2: Leadership – outcomes

- **The board, as a whole, and trustees individually, accept collective responsibility for ensuring that the charity has a clear and relevant set of aims and an appropriate strategy for achieving them.**
- **The board agrees to the charity's vision, values and reputation and leads by example, requiring anyone representing the charity reflects its values positively.**
- **The board makes sure that the charity's values are reflected in all of its work, and that the ethos and culture of the organisation underpin the delivery of all activities.**

Principle 2: practice tips

- **Introduce ethical discussions to board agendas**
- **Regularly discussing vision, values and culture**
- **Regularly reviewing governance documents**
- **Creating a corporate calendar**

Principle 3: Integrity

The board acts with integrity, adopting values and creating a culture which helps achieve the organisation's charitable purposes. The board is aware of the importance of the public's confidence and trust in charities, and trustees undertake their duties accordingly.

Trustees, and the board members collectively, have ultimate responsibility for the charity's funds and assets, including its reputation. Trustees should maintain the respect of beneficiaries, other stakeholders and the public by behaving with integrity, even where difficult or unpopular decisions are required. Not doing this risks bringing the charity and its work into disrepute.

Principle 3: Integrity – outcomes

- **The board acts in the best interests of the charity and its beneficiaries. The board is not unduly influenced by those who may have special interests and places the interests of the charity before any personal interest. This applies whether trustees are elected, nominated, or appointed. Collectively, the board is independent in its decision making.**
- **The board safeguards and promotes the charity's reputation and, by extension, promotes public confidence in the wider sector.**
- **Members of the board and those working in or representing the organisation are seen to be acting with integrity, and in line with the values of the charity.**

Principle 3: practice tips

- **Implementing a code of conduct and introducing a set of trustee standards**
- **Improving the board's understanding of conflicts of interests and loyalties**
- **Introducing reports to the board that highlight the key themes of comments, concerns, complaints and compliments received, with a view to better understanding how the charity is viewed by those outside it**

Principle 4: Decision-making, risk and control

The board makes sure that its decision-making processes are informed, rigorous and timely, and that effective delegation, control and risk-assessment, and management systems are set up and monitored.

The board is ultimately responsible for the decisions and actions of the charity but it cannot and should not do everything. The board may be required by statute or the charity's governing document to make certain decisions but, beyond this, it needs to decide which other matters it will make decisions about and which it can and will delegate.

Trustees delegate authority but not ultimate responsibility, so the board needs to implement suitable financial and related controls and reporting arrangements to make sure it oversees these delegated matters. Trustees must also identify and assess risks and opportunities for the organisation and decide how best to deal with them, including assessing whether they are manageable or worth taking.

Principle 4: Decision-making, risk and control – outcomes

- **The board is clear that its main focus is on strategy, performance and assurance, rather than operational matters, and reflects this in what it delegates.**
- **The board has a sound decision-making and monitoring framework which helps the organisation deliver its charitable purposes. It is aware of the range of financial and non-financial risks it needs to monitor and manage.**
- **The board promotes a culture of sound management of resources but also understands that being over-cautious and risk averse can itself be a risk and hinder innovation.**
- **Where aspects of the board's role are delegated to committees, staff, volunteers or contractors, the board keeps responsibility and over**

Principle 4: practice tips

- **Board agendas and papers that focus discussions on strategy, performance and assurance rather than operational matters**
- **• Introducing a board assurance framework (BAF)**
- **A discussion on the charity's risk appetite, and assessment of its risk register and risk management arrangements**
- **Ensuring that a thorough debate of all KPIs**
- **Placing the auditor's management letter at the top of a board agenda**

Principle 5: Board effectiveness

The board works as an effective team, using the appropriate balance of skills, experience, backgrounds and knowledge to make informed decisions.

The board has a key impact on whether a charity thrives. The tone the board sets through its leadership, behaviour, culture and overall performance is critical to the charity's success. It is important to have a rigorous approach to trustee recruitment, performance and development, and to the board's conduct. In an effective team, board members feel it is safe to suggest, question and challenge ideas and address, rather than avoid, difficult topics.

Principle 5: Board effectiveness – outcomes

- **The board's culture, behaviours and processes help it to be effective; this includes accepting and resolving challenges or different views.**
- **All trustees have appropriate skills and knowledge of the charity and can give enough time to be effective in their role.**
- **The chair enables the board to work as an effective team by developing strong working relationships between members of the board and creates a culture where differences are aired and resolved.**
- **The board takes decisions collectively and confidently. Once decisions a made the board unites behind them and accepts them as binding.**

Principle 5: practice tips

- **Review rigour and effectiveness of current trustee recruitment, induction and retention practices, with a view to improving them**
- **Review the governing document**
- **Update the skills audit**
- **Table a discussion about the competence of the board**
- **Undertake a board review**

Principle 6: Diversity

The board's approach to diversity supports its effectiveness, leadership and decision making.

Diversity, in the widest sense, is essential for boards to stay informed and responsive and to navigate the fast-paced and complex changes facing the voluntary sector. Boards whose trustees have different backgrounds and experience are more likely to encourage debate and to make better decisions.

The term 'diversity' includes the nine protected characteristics of the Equality Act 2010 as well as different backgrounds, life experiences, career paths and diversity of thought. Boards should try to recruit people who think in different ways, as well as those who have different backgrounds.

Principle 6: Diversity – outcomes

- **The board is more effective if it includes a variety of perspectives, experiences and skills.**
- **The board ensures that the charity follows principles of equality and diversity, going beyond the legal minimum where appropriate.**

Principle 6: practice tips

- **Introducing board training and development on diversity matters**
- **Assessing the diversity of staff, volunteers, trustees and services users to identify any obstacles particular groups may face and how to overcome them**
- **Using a range of methods to recruit trustees, targeting particular groups with specific messages to help generate broader interest in the role**
- **Adopting diversity targets, which are then monitored and reported against regularly.**

Principle 7: Openness and accountability

The board leads the organisation in being transparent and accountable. The charity is open in its work, unless there is good reason for it not to be.

The public's trust that a charity is delivering public benefit is fundamental to its reputation and success, and by extension, the success of the wider sector. Making accountability real, through genuine and open two-way communication that celebrates successes and demonstrates willingness to learn from mistakes, helps to build this trust and confidence and earn legitimacy.

Principle 7: Openness and accountability – outcomes

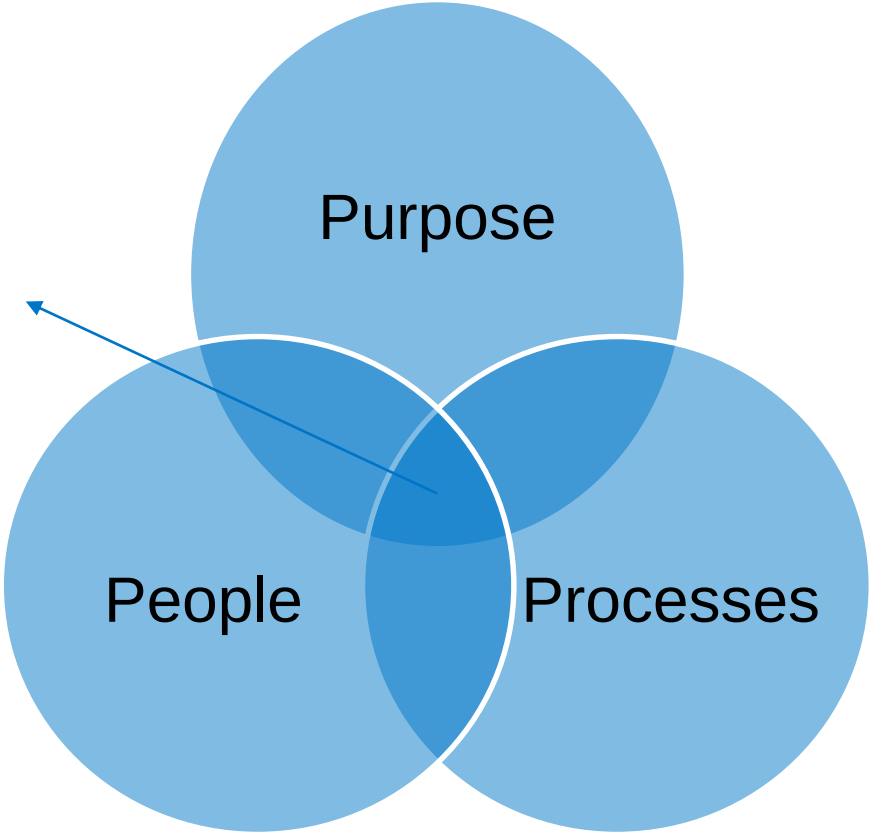
- **The organisation's work and impact are appreciated by all its stakeholders.**
- **The board ensures that the charity's performance and interaction with its stakeholders are guided by the values, ethics and culture put in place by the board. Trustees make sure that the charity collaborates with stakeholders to promote ethical conduct.**
- **The charity takes seriously its responsibility for building public trust and confidence in its work.**
- **The charity is seen to have legitimacy in representing its beneficiaries stakeholders.**

Principle 7: practice tips

- **Introducing a disclosure policy for the charity**
- **Encouraging trustees to engage with stakeholders**
- **Ensuring key information is kept up to date on the charity's website**
- **A widely promoted compliments and complaints policy**

Three 'P's of good governance

Good governance



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CYCLING

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TESCO

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Athletics

UNITED AIRLINES

The Co-operative Group
The co-operative good for everyone

FIFA

KIDS
COMPANY

Difficult times for charities

- Changes in state funding
- Executive pay
- Fundraising practices
- Perception of loss of confidence/trust in the sector
- Weak governance practices?
- Increasing demand/expectations

" I SEE NO SHIPS! "

Charities and the public: is there a disconnect?

- Are we doing enough to explain what we do, why, how and for what benefit?
- Do we “live” our stated values, ethics and culture at every level?
- How we know the culture we have is the one we want?
- Do we have regular board discussions about ethics and culture?

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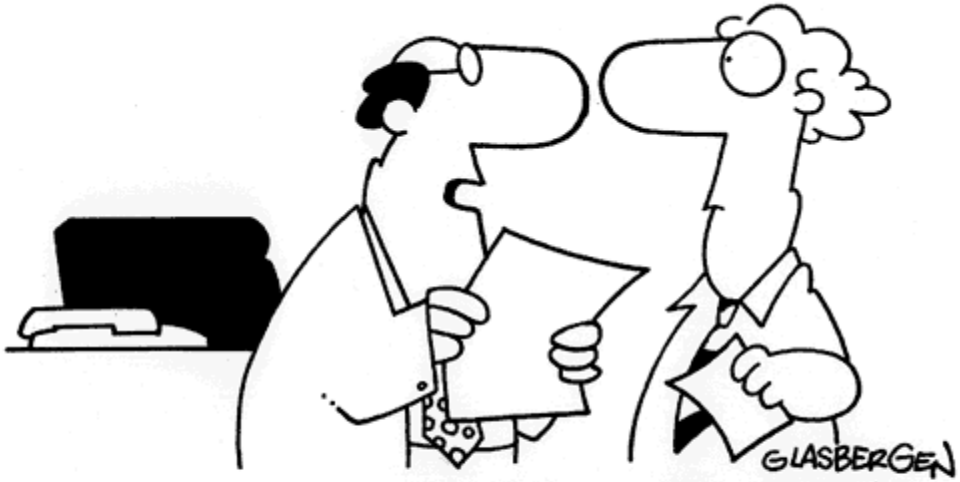

"I want the public to think of us as 'The Company With A Heart'. But I want *you* to think of us as the company that will chew you up, spit you out and smear you into the carpet if you screw up."

Regulation can influence culture to a degree

Behaviour is determined not only by rules, but also by the culture of the entity concerned – and in the worse cases, that culture can be one of wilfully ignoring and seeking to bypass rules….

What is 'culture'?

'The way things are done around here'

- Customs, values and beliefs evident in:
  - those working in or on behalf of the charity – proper and ethical behaviour
  - the charity's activities
- Goes beyond legal and regulatory compliance
- Prevents people from making bad choices in difficult times

Cultural markers

- Considered and reflective board discussions about culture, values and ethics
- Ensuring doing things right leads to doing the right thing
- Strong commitment to good governance
- Value of delivering public benefit
- Strong, ethical and considered leadership
- Membership charities
- Role of funders
- Existential stress
- Power of personality
- Competing values

Creating a wholesome culture

- Staff relations
- Service user/beneficiary relations
- Donor/supporter and general public relations
- Third party and supplier relations
- Regulator and government relations
- Related charity collaboration and partnership
- Ethics

Three types of indicator

Measurable

Evidential

Judgemental

Assessing your charity's culture

Measurable

- Staff & customer surveys (benchmarked over time)
- Staff/trustee turnover
- Board attendance and activity
- Board diversity
- Late returns to the regulator
- Regulatory involvement with the charity

Assessing your charity's culture

Evidential

- Regular board discussion of charity's vision, values and ethos
- Staff exit interviews
- Near misses
- Transparency – disclosure policy
- Code of conduct
- Conflict of interest policy
- Financial discipline

Assessing your charity's culture

Judgemental

- Governance reviews and board assessments
- Dominant leader
- Organisational response to minor breaches of policies and procedures
- Complacency towards public benefit provided
- Response to unintended consequences – of decisions, KPIs, policies

Questions for a positive culture

- Has the board clearly set out the charity's values?
- Do trustees place the interests of the charity above their own?
- Has the charity considered its approach to corporate partnerships and identified non-negotiables?
- Do trustees have personal knowledge of
  - How the charity operates?
  - The impact on its beneficiaries and wider society?

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Culture eats strategy for breakfast – Peter Drucker

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Thank you

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