

Improving the quality of Board decision making

Rodney Buse

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1. There is a healthy debate raging on what might constitute the ideal makeup of a charity board. Some see the need for representation, while others voice the strong desire for skills based boards. Few ask the question ‘what is the principle purpose of a charity board and to whom is it truly accountable?’ In law it is accountable to the Charity Commission, but this in practice is to ensure it acts legally, not that it makes the best decisions it can on behalf of beneficiaries and interested stakeholders. If charities are to improve the quality of Board decision making, then they must demonstrate their effectiveness and accountability to a broad range of interest groups. In determining the skills and competencies required for a highly effective Board it must first be recognised that its principle role is to govern. Governance, in this context might best be described as the effective oversight of all decisions made throughout a charity. In short; ensuring that the best decisions are made consistent with stakeholder interests and the governing documents. Giving interested stakeholders a meaningful voice and influence is therefore critical and is an essential part of the checks and balances that should exist to avoid complacency or the misuse of power by a charity Board.

2. If aiming for a competency based board, skills required are likely to include one or more of the following areas: finance, law, marketing, business, human resources, organisational, fundraising, philanthropic experience, networking skills. These types of skills are important to good board governance but individuals need not have the depth of expertise that can be drawn upon through ‘expert’ advisory committees and project groups. Ideally, these groups would report to the board through the CEO. Following this structure creates ownership by the CEO and management team appointed for their professional skills can be held appropriately accountable by the board. One of the biggest dangers for a board of trustees can be when they are unable to, or fail to occupy the oversight function.

3. Much has been written about how to achieve optimum board size and classic wisdom is that for a meeting to be effective in its responsibilities it should ideally number perhaps no more than twelve. If there are more than twelve, the attendance can be irregular and a feeling of being one of many potentially reduces the sense of accountability and involvement. But other pressures mean that it is not at all unusual for size to be determined by the need to accommodate a range of stakeholders: boards expand as one case after another to include a representative of a stakeholder community is made. The additional danger of a large board is that group dynamics lead to a smaller sub-committee of the board forming an 'inner cabinet': and this is wrong because the board collectively carries the 'ultimate accountability' card and some trustees will be left with ultimate accountability having not been party to the oversight of decision making. Board evaluation processes are now increasingly designed to address this issue.

4. Board skills audits are becoming more common in an attempt to increase the effectiveness of the board. But there are often other pressures: for example, in the social housing sector it is not uncommon to find 5 tenants, 3 independents and 3 other representatives on a board. As trustees are collectively responsible for effective governance, the wisdom of this structure is questioned as it seems primarily focused on individual stakeholder interest rather than the skills and competencies that encourage the best decision making. If we are aiming for good governance we should aim for the right 'mix' of attributes that will make for a highly effective board? These may be best described as 'profiles'.

5. A list put together recently by Julia Unwin (see appendix) for her presentation on '*Building boards that work*' offers a valuable insight into other qualities needed for a board to work effectively.

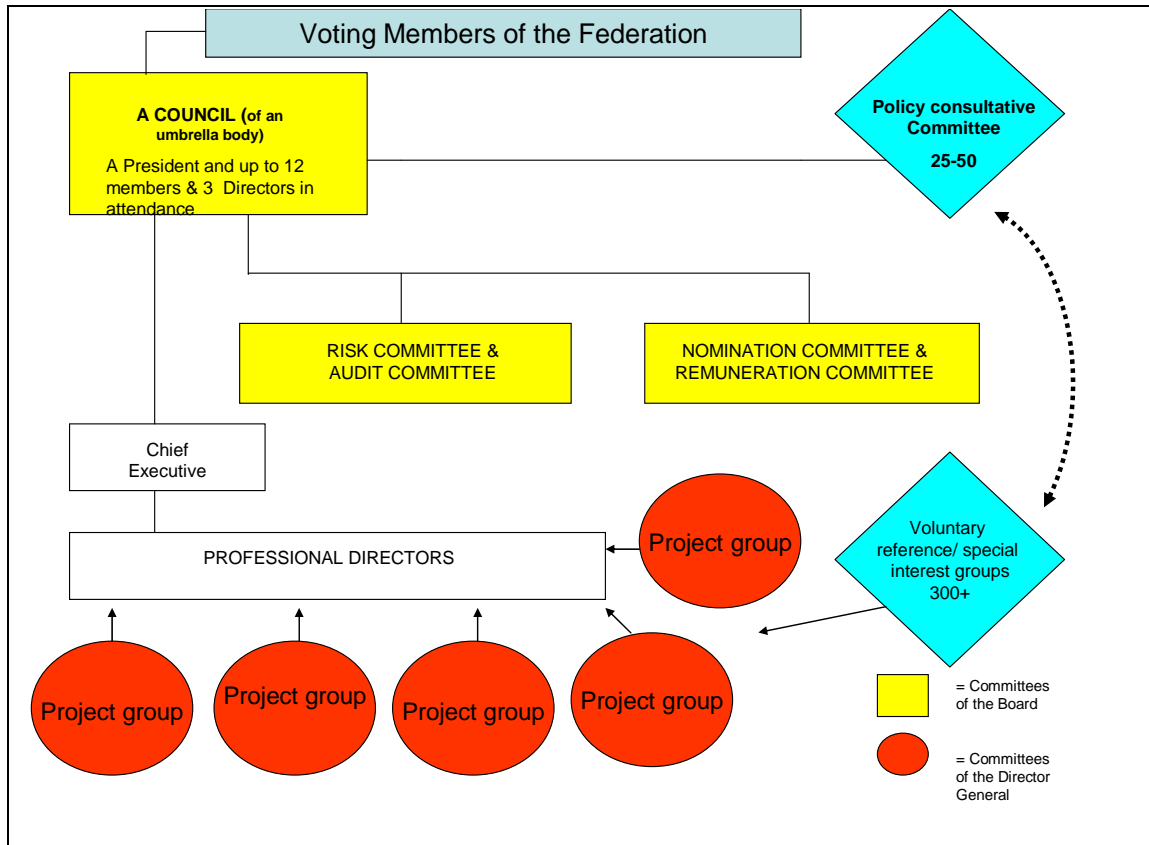
Peacemaker

Challenger

History holder
Compliance king or queen
Passionate advocate
Data champion
Wise counsel
Inspiring leader
Fixer
Risk taker
Strategist
Championing the user

6. These are crucial behavioural aspects of board development, and if insufficient emphasis is placed on addressing them, it will be to the detriment of the effectiveness of the entire organisation.

7. The diagram below acknowledges that there will be expert groups in appropriate subject areas, importantly reporting to/ through the Chief Executive if the size of the organisation allows. I would argue that this should be true even if trustees either chair, or attend expert group meetings. It must be remembered that in these circumstances it is the board that carries the responsibility for collective decision making and that individual trustees have no such power unless specifically delegated. In these circumstances such delegation is best made to the expert group on which members of the management will have a seat. On occasion, trustees may like to attend these meeting as part of the 'eyes and ears' of the organisation and to act in part as the checks and balances on the management team charged with these responsibilities.



8. The organisation chart identifies four discrete areas of activity. The first two are common to many organisations; the Board in its role of good governance, the professional team for their operational and strategic effectiveness. Project group/committees are used by a number of organisations to augment skills in specialist subject areas. The fourth area, illustrates activities that an increasing number of charities are identifying ways to ensure that the voice of special interest groups is properly heard and represented. There are a number of ways and opportunities in which accommodate the need for membership and stakeholders' involvement and engagement. They may be influential in the running of an organisation without the necessity of carrying the accountability card. This is increased if there are appropriate check and balances in place that ensure that key voices are heard and decision are demonstrably taken with the benefit of this input.

9. I argue that for the most part it will be better for the voice of the stakeholders is best heard through a number of these mechanisms rather than the board. Where

representatives do occupy such positions they should have qualities and competencies suited to the task. To do otherwise will always be a compromise that could endanger the effectiveness of the whole organisation.

10. There are a number of options that need be explored if the governance role of boards is to be carried out responsibly and with increasing effectiveness. It is not uncommon for organisations to conduct governance reviews from time to time. These frequently focus on the role and effectiveness of the board and its committees and address the size, skills and attributes of a board. Perhaps a better starting position is to answer the question: how do we make sure stakeholders have a genuinely effective voice and are demonstrably consulted and listened to before key decisions are taken? In my experience, the desire for stakeholders/ representatives to sit on an accountable board will be significantly reduced if this question is addressed first. It has led to many an able representative stepping down from the board in favour of a more rewarding and valuable role.

11. **Giving stakeholders an influential voice: Councils, Assemblies and sounding boards.** A new dimension in organisational governance is the variety of vehicles that have been developed to incorporate the stakeholder voice beyond being 'represented' on the trustee board. The health sector has seen flourishing and increasingly effective user groups of which patient groups are a good example. Organisations like NCVO have for a decade or more had a President's Advisory Council as an effective sounding board. Recently NCVO reduced the size of its board and in so doing established an 'Assembly' of 50 representatives and a full Council of all its 5000 membership.

12. The advent of new technology is also playing its part. Through the use of newsletters and electronic communications it is possible to be accountable to the membership at large on a regular and timely basis. Many PLC's now publish quarterly results and it will interesting to monitor whether voluntary organisations modify reporting to stakeholders to go further than the requirements in the annual report and to develop wider methods of accountability. Consultation methodology has made it

possibility more easily to undertake interactive consultation with a broad spectrum of interests before key decisions are made that will affect beneficiaries and stakeholders. Many of us are at the beginning of understanding the potential of online reference groups, blogs etc. As these method and structures develop with their accompanying checks and balances it is possible to see the need for representative trustees diminishing.

13. **Governance committees and expert groups** In normal practice boards would hold the Chief Executive and his/her team accountable for the quality of recommendations being presented for decision at the board. As the chart shows, the line of responsibility for the Audit and Risk Committee, and a Nominations and Remuneration process are governance activities and are the responsibility of the chair and the board of trustees: they are aligned to oversight and effective governance, and as such cannot be properly delegated to the Chief Executive

14. The Chief Executive will normally have at his/her disposal such expertise as is necessary to undertake key tasks. The use of expert committees and project groups can be invaluable and is to be recommended where circumstances allow. It can be an especially valuable mechanism where there are a wide range of views and interests to take into account. Care must be taken when trustees chair or sit on such advisory committees or project groups, as in this capacity trustees carry no line authority (unless specifically delegated with great caution) and it is their experience and skill that is being sought. Should trustees seek to impose authority on a committee or project group they risk absolving the Chief Executive and the management team from accountability, which may have serious consequences. This misunderstanding has the potential to get in the way of the checks and balances that would otherwise exist.

15. It is said that the board sets strategy and policy. Absolutely, but in reality operating in an oversight function to ensure best decisions are made such key tasks may normally be agreed on the recommendation of the Chief Executive. When a board chooses to go against the recommendation of a Chief Executive it should ask, where are

the check and balances that ensure we are making the right decision? Can we demonstrate that all interest group opinions have been properly heard and considered? The question that anyone, trustee, beneficiary or funder may asked is: If I believe a major process or decision is not being properly considered or addressed, what remedies do I have and who may I approach to hear, to champion and potentially resolve my concerns? The answer to this question addresses one the key fundamentals on the checks and balances of power: the need to distinguishing as it does between those with accountability and those with influence.

16. The governance committees: Audit and Risk, Nominations and Remuneration. There are many examples of how Audit and Risk, Nominations and Remuneration committees are becoming increasingly competent and effective. This subject is included here as these governance processes form one of the most important checks and balances to achieve the accountability of a Board and the CEO.

17. A relatively recent innovation has been the appointment of independent skilled professionals to these committees. This level of external validation of systems and processes can have a profound impact on organisations and their level of accountability both for law but also to external stakeholders. I would encourage this: it brings a welcomed level of 'peer review' to the major governance issues providing independent and external validation of effectiveness.

For example, this becomes more so if the terms of reference properly include the engagement of external stakeholders in risk assessment. It would show that such influence was being measured, recorded and acted upon where appropriate. To a membership organisation losing the confidence of major beneficiaries would be of real concern and accordingly is part of the risk assessment.

Conclusion

Perhaps the most important question a trustee board can ask is ‘how can we be sure we are making the best decisions?’ This is a much harder question than are we operating legally?

In trying to address this question many make a direct comparison between the governance structures of the voluntary sector with the public and private sectors and argue for greater competence and professional skills. However in both these other sectors there is clear accountability either to shareholders or to statutory authorities such as the Treasury, the National Audit Office and to the electorate for policy. In the private sector, for instance, the question that boards address is ‘is this decision in the best long term interest of shareholder value?’ Shareholders are then in a position to decide on results. If charities are to seek to imitate the best of the other models there needs to be greater thought on how charities are to remain properly accountable beyond their duty to the Charity Commission. Beneficiaries and interested stakeholders have a key role to play and we must be imaginative if this vital role of influence is to be properly included in future structures of organisational effectiveness. Only then can we begin to assess whether the best decisions have been made.