

# The Governance Paradox

Debating the tension of the current trend towards risk averse governance vs the quest for more creative, strategic, and engaged boards



# Introduction

In November 2017 Peridot Partners hosted a breakfast debate during Trustees Week on “The Governance Paradox”. The intention was to enable a discussion on the perceived trend of charity boards moving towards a more risk averse approach to governance, whilst at the same time equally seeking to construct more creative and strategic boards to enable them to become more effective, efficient and innovative.

Bringing together chairs, trustees, chief executives, and governance experts from the charity sector and students’ unions, we chaired a round-table discussion to explore different forms of governance. Attendees came from all parts of the sector – from national charities with over £100m turnover, and included those delivering significant public-sector contracts, as well as a new charity who has just developed their governance structure.

This short report is the result of that discussion, and is intended as a starting point to provoke and stimulate further sector debate on governance. It should be noted that the discussion is likely to be most relevant to those charities where trustees do not take on executive duties (about 80% of charities are so small that trustees play both a governance and an executive role).

# The premise

We recognise that we are experiencing an unprecedented period of change in all sectors and in all areas of our lives, change which charities need to respond to. It feels to us that the charity sector isn't evolving as rapidly as circumstances demand, and there are opportunities for greater impact, if only charities were to fully embrace the tools and resources available in this modern age.

The growth in trustee recruitment which we have noticed over recent times feels like a response to this changing environment – an attempt by charities to find new people who can bring new skills and different stimulus to boards; skills more relevant to the world we live in today (digital, organisational development, commercial and entrepreneurial) and more relevant to the challenges and opportunities ahead.

For some this is about strengthening governance as the first building block of a charity; but an alternative view would be that governance should be there to underpin the vision, ambition and impact of a charity – and a generative approach should be the focus of an effective trustee board. Sadly, too often, governance structures stifle charities and their potential impact, by creating unnecessary bureaucracy and shifting the focus from achieving the mission to managing risk.

So, what's the role of trustees and the board in the future of our sector? We know that trustees must safeguard and scrutinise, and given the public profile of charities and the income they generate, so they should. But trustees should also be leaders, ambassadors, advocates, and in some cases innovators. They should model the values and behaviours of a charity, and most of all enable the ambition of the charity. There is a prevalent attitude in the charity sector that puts risk management ahead of strategic and entrepreneurial input, and creates the very real risk of stifling charities' abilities to be bold, different and break new ground.

## The context

Governance has been a hot topic in recent years; the scandal over the demise of Kids Company and the failings of its board is well documented. At the same time there has been a great deal of negative press around fundraising governance. In turn there has been a fall in public confidence in the charity sector. Consequently, some of the sector has hunkered down and become defensive, and many boards have become more risk averse, focusing on their statutory duties, sometimes to the detriment of the more generative side of their roles.

The charity sector is not alone in assessing the quality of its boards, and whether they are fit for our uncertain times. In *“Old Game, New Rules – How boards of today are preparing for tomorrow”* (The Harvey Nash/Alumni Board Report 2017/18 in Partnership with London Business School’s Leadership Institute)\*, the uncertainty that all sectors are facing, and how companies’ governing boards are responding to this, is the topic of discussion. The key finding is that there is an increased focus on tightening risk management procedures, and managing corporate governance in response to increased public scrutiny and an uncertain geopolitical landscape, so even commercial boards, whose focus has traditionally been less risk-orientated than the charity sector, are following a similar trend.

The effect on governance of the lack of diversity on charity trustee boards has also been a matter of frequent discussion, and the Charity Commission’s recent report *“Taken on Trust”*\*, highlighted this uniformity, finding that 64% of trustees were male, 92% of which are white, 51% retired, and 75% were richer than average. It also explored the recruitment of trustees, which in most cases is done through trustees recruiting through their own networks, clearly enhancing the propensity to recruit more of the same. There was also a view amongst the trustees surveyed that they lack the necessary skills around areas such as digital and fundraising, which would clearly suggest that actively sourcing new trustees with specific skills and experience is important for the future growth and impact of the charity sector.

# How to meet these challenges: Key themes and provocations from the debate

**Is the current model of charity governance the best one available?** We had a wide ranging discussion starting with “*What would a charity look like with no trustee board*”? This, we felt, would give us a starting point to reassess the true value of trustees. However, less controversially we also posed the question whether charities could consider moving towards a two-tier model, with one tier (the trustees) focused on regulatory and fiduciary requirements; and another advisory board type tier, focused on strategic and generative issues?

One participant spoke of their successful work in separating out the strategy from the fiduciary. One of the national boards represented at the debate has, as far as possible, moved its fiduciary and basic decision making discussions onto WhatsApp, ensuring that plenty of space is kept on the board meeting agenda to allow strategic and generative discussions to flourish, without the fiduciary distractions.

**Does this distinction work?** Should more charities also develop advisory committees, which particularly draw upon the talent of beneficiaries, or those with less experience of operating on formal boards? Such committees could provide opportunities for succession planning to full trustee roles. This could reduce the time commitment needed to effectively commit to a board (by dividing responsibilities and being more focused), and provide a way of engaging with charities, for those who have less time, or who have little interest in the drier activities that a board undertakes (thus diversifying the pool of trustees). This model is more akin to the private sector at the moment, and Peridot Partners have also deployed this model successfully in our start-up phase. Alternatively, Kent Union, the students’ union for University of Kent, is a wonderful example of appointing very specialist External Committee Members to join their board sub-committees, bringing a wealth of experience and advice at no cost to bolster the skills of the trustee board without the need to create a separate advisory board. This format is working well for them.

**Innovation is difficult without good governance**, but the two don't have to be, and shouldn't be, in opposition; it is about finding the balance and ensuring that governance is sufficiently effective that it doesn't detract time from allowing boards to think creatively.

**The sector needs to build its confidence and celebrate its successes**, not bow down under recent critical media coverage.

**The sector needs to be bold enough to innovate and 'disrupt' from within** as many charities have talented people on their boards already; do they just need to better utilise them? They should not always seek to rely on bringing 'commercial' experience onto the board. People with 'commercial' skills from the private sector are not necessarily better, or the 'solution' to break new ground. For example, in the parts of the charity sector which deliver commissioned services, many charities are more innovative, fleet of foot and effective than their competitors in the private sector.

**If we are going to reach out and expand our pool of trustees to include those who work, manage families and full time caring duties, then technology needs to be better utilised** to make meetings more accessible to those with busy lives – using electronic papers, Skype, video or telephone conferencing where possible and appropriate.

**The relationship between the executive team and trustees needs to be built on trust.** Board meetings can be burdensome for the executive and trustees alike. Executives can feel like they are a machine serving the board, producing papers which aren't always properly considered before a meeting, while trustees can feel like they are wading through endless paperwork. This can stifle innovation before meetings even begin and create negative and unnecessary tension.

**Trusteeship needs to be promoted as a “noble profession”**, with potential trustees given a better understanding of the role and responsibilities prior to joining, and then given effective induction and regular training and development. It should be a position within any charity that is understood by all and appreciated as ‘one of the team’ and the skills and experience of all trustees utilised effectively. How we refer to governance should also be a consideration.

**Diversity on boards is poor.** The recent figures are staggering in highlighting the lack of diversity, but nevertheless expected. For some charities there is clearly an issue in terms of attracting diverse trustees to the boards – but there are other boards who have no difficulties in attracting ‘atypical trustees’. How have these charities succeeded, where so many others struggle? Is it around the approach taken to finding trustees, or is about the accessibility of meetings, the time commitment required, the perception that “this isn’t the sort of thing that someone like me does”? **Either way, more effort needs to be made to develop a pipeline of talented diverse individuals who could be future trustees.**

## Next steps – a call to action

Our view at Peridot Partners is that boards are a rich source of skills, experience, ideas, and networks that can not only safeguard a charity, but help them to thrive in this fast-changing world. However, it is also rare to find a charity that truly values, and makes the most of the opportunity it has, to recruit the best and most diverse trustees available; to support trustees in a way that enables them all to make a significant contribution; and to be bold in how they operate. Furthermore, to organise the board's work in such a way to enable generative discussions to outstrip the fiduciary focus. Boards and trustees require time and investment; and like in any organisation, if you invest in the right people and support them to thrive the returns can be extraordinary. We help organisations to enable their boards to make positive change, and ultimately want to do more.

The Charity Commission report, *Taken on Trust*, calls for a national campaign to promote trusteeship.

For our part, following the breakfast debate, we think it's important to start a conversation: **“How do we do governance better?”** We are intrigued by the idea of a two-tier board, which we see working well at places such as Kent Union and Nacro, and at least increasing the use of advisory boards and advisory committees to ensure that the fiduciary focus is balanced, with room for creativity and innovation, and we would like to explore this further. We therefore intend to create a radical network of people who are committed to improving governance and willing to engage in asking challenging questions which will move the sector on.

Just as there is a risk around changing how governance is done, there is a greater risk related to doing nothing...

**If you would like to be a part of our next discussion and potentially be a founding partner in the formation of our radical new network on rethinking “how do we do governance better”, then please contact Grant Taylor by emailing [grant@peridotpartners.co.uk](mailto:grant@peridotpartners.co.uk)**

## Footnotes:

Old Game, New Rules – How boards of today are preparing for tomorrow (The Harvey Nash/Alumni Board Report 2017/18 in Partnership with London Business School's Leadership Institute)

Taken on Trust: The awareness and effectiveness of charity trustees in England & Wales (Charity Commission)



## Peridot Partners

We spend most of our time recruiting people for leadership roles, both executive and non-executive. We also help boards of trustees / non-executive directors to become more effective by undertaking diagnostic reviews and then delivering modern solutions such as fresh induction and development programmes.

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