

## Guidance note

# Board Evaluation in the Charity Sector

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# Board evaluation in the charity sector

## Introduction

Good governance is an essential factor in successful charities. It builds upon convincing foundations of legal and regulatory compliance by adding strong and robust accountability, transparency and ethical behaviour. Organisations that take governance seriously will also invest in supporting the continuous improvement of their board in order to lead the charity in delivering its charitable objects and public benefit in an effective and sustainable manner. One aspect of a board committed to learning and improving will be the undertaking of a regular board evaluation.

# Board evaluation in the charity sector

## What is a board evaluation?

A board evaluation is a process whereby the performance of the board is assessed in order to ascertain its capacity for providing good governance with a view to delivering the long-term objectives of the charity.

A board evaluation can encompass one or more of the following activities:

- desk top research of the current governance systems and how effective they are
- questionnaires which provide a first cut of information that will feed into any other activities
- open face-to-face interviews
- board observations
- 360 degree feedback within the boardroom
- input from senior and middle managers
- peer practices
- skills audits.

These activities can be facilitated by an appropriate member of staff, such as the charity's governance professional, or an independent external consultant. There are strengths and weaknesses inherent within either approach, and these will be discussed later in this document.

# Board evaluation in the charity sector

## Why evaluate?

Board members should bring a wide range of skills, experience, expertise, diversity of perspective, backgrounds and enthusiasm to their role. Expectations of the role of trustee boards have developed rapidly in recent years, and new demands are regularly placed on charity leaders. A board committed to achieving the organisation's charitable objects will want to be kept up-to-date on all those factors likely to impact on the charity's success, and to fulfil their legal, regulatory and ethical duties with professionalism and confidence. A board evaluation is one way to provide boards with a snapshot of their collective strengths, and a mechanism to address any areas that require attention.

Every governance code, encompassing many parts of the UK economy and beyond, states the importance of the effectiveness of the board and the role that board evaluations play in effecting good governance and sound decision making for the success of the organisation and the people it seeks to serve. The charity sector is no different in this respect, and there is a growing expectation from regulators, funders, donors, staff and, most importantly, beneficiaries that charity boards will adopt similar standards.

Evaluating performance is critical to running an effective board, and can help avoid or resolve many related problems that attract criticism, such as: board renewal; removal of poor contributors; independence and 'group think'; increasing the diversity of the pool of trustees; multiple trusteeships; and tenure.

Boards continually need to monitor and improve their performance. Board evaluation provides a powerful and valuable feedback mechanism for improving board effectiveness, maximising strengths and highlighting areas for further development. The evaluation process should aim to be objective and rigorous.

# Board evaluation in the charity sector

If a board is to be evaluated it is worth reminding the board of what it is there to do:

- develop strategy and make timely strategic decisions
- ensure operations are in line with agreed strategy, and monitor the senior management team's performance against agreed goals or key performance indicators (KPIs)
- provide help and advice, and act as a sounding board for the senior management team
- ensure the integrity of financial information and the robustness of financial and other controls
- oversee the management of risk and review the effectiveness of risk management processes
- ensure that the right people are in place and in the pipeline, both within the board and the wider operations of the charity.

# Board evaluation in the charity sector

## Scope and timing

When considering a board evaluation, there are key questions the board must address.

Timing:

Within other sectors of the UK economy it is not uncommon for internally facilitated exercises to be performed each year, with every third year having the evaluation externally facilitated.

Some boards might wish to undertake a board evaluation towards the end of the financial year so that the results can be included in the annual report and any other documents aimed at stakeholders to demonstrate that the board is committed to good governance practices. For others, this may not be opportune and a quieter period may be more conducive to honest reflection and learning. This is a conversation the chair, chief executive and governance professional should have before any other decisions are made.

Methods:

Whether internally or externally facilitated, a key decision will focus on what methods the evaluation should include. There may be some merit in running the same questionnaire over several years in order to develop a baseline against which to measure progress. Varying the questions, and the overall approach will, however, militate against trustees gaming the exercise. Keeping the experience fresh with new approaches may provide profound insights that might otherwise be missed.

What to cover:

Depending on how comfortable the board is with board evaluations, it might be decided to focus on the board as a collective, the board and individual performance or the board, individual trustees and committees. Where there has been a re-organisation of committees, or new trustees have just been appointed it may be decided just to focus on the board's performance until the new arrangements have had time to settle in.

# Board evaluation in the charity sector

Internal or external facilitator:

There may be benefits to having an internally-led exercise. For example: better understanding of the charity and the way it operates, greater familiarity with the personalities of the board; insight into the challenges facing the charity and the wider sector.

There is a further decision to be made about how involved any third party would be in the process – will they design and deliver or just support an essentially internally-led approach?

Factors impacting on these decisions are likely to be cost, the confidence of the board, and the objectivity and experience of any external facilitator.

Externally facilitated board evaluations may be most useful for:

- a new chair who wants to gain a better insight into the strengths and weaknesses of the board
- 'old' boards who may be competent, but less aware of the new challenges facing the charity and therefore require a catalyst to reinvigorate and refocus thinking and leadership
- when the tenure of certain trustees is being challenged
- gaining an independent perspective on the board's performance
- when there is a known problem requiring tactful, impartial handling.



# Board evaluation in the charity sector

The benefits of a professional external provider are:

- independence and confidentiality
- a commitment to avoid any conflicts of interest, particularly around the selling of other services in addition to the evaluation
- tact and diplomacy throughout the process
- the board is provided with an agenda for improvement
- comparative experience of similar exercises in organisations of a similar size or complexity
- sound analysis skills
- the opportunity for trustees to be more open and honest, ensuring a frank discussion of the issues affecting the board's work
- increased rigour and independence in the process should equate to greater trust in the exercise
- greater credibility
- that greater impetus should be added to any changes to the work and composition of the board.

# Board evaluation in the charity sector

The disadvantages of an external facilitator can be:

- cost/value for money
- lack of understanding of the charity's governance arrangements, requiring additional time to inform the third party of organisation-specific arrangements and needs
- time, complexity and bureaucracy
- board scepticism – intrusion and interference, a perception that the facilitator needs to find a problem to justify fees
- the board needs to own the process – not the external facilitator
- cross-selling and conflicts of interest – a suspicion that the provider needs to find issues to justify their fee or to conjure up additional work.

Externally-led board evaluations are not cheap. However, internal costs tend to be borne by the governance professional as the process can take 8-10 days each year: designing, administering and evaluating the findings, and delivering a report and recommendations to the board.

# Board evaluation in the charity sector

Role of the chair:

For any board evaluation to be successful, it is essential that the chair is fully supportive. Any half-hearted support is likely to be transmitted to fellow trustees, who in turn may not be as fully engaged and candid as the process requires.

The chair must know and understand the process of the evaluation, if only in outline, so that s/he can speak authoritatively in support of the evaluation and be able to convince fellow board members that the exercise is not a 'witch hunt' to root out individual trustees.

The chair has a key role in presenting a narrative that focuses the board's attention on what the process will do to improve the work and effectiveness of the charity for its beneficiaries.

It is therefore likely that the chair will have discussed with the chief executive and the governance professional what the evaluation needs to achieve: is it a radical overhaul of the board's skills and competencies; a health check; to address a specific problem; or to help guard against any complacency or inertia in the boardroom?

There has to be clear 'buy-in' from participants if they are to get the most from the exercise. Otherwise any board evaluation is likely to be a waste of money.

# Board evaluation in the charity sector

## What should be assessed?

Whether facilitated internally or externally, evaluations should explore:

- the mix of skills, experience, knowledge and diversity of the board, in the context of the challenges facing the charity
- the clarity of the leadership in attaining the charitable objects, strategic goals and values of the organisation
- succession and development plans
- how the board works together as a unit, and the tone set by the chair and chief executive
- key board relationships, particularly the chair/chief executive, chair/vice chair, chair/governance professional, and trustees/senior managers
- the effectiveness of individual trustees
- the effectiveness of board committees and how their work is connected with the main board
- the quality of the general information provided on the organisation and its performance
- the quality of papers and presentations to the board
- the quality of discussions around individual proposals
- the process the chair uses to ensure sufficient debate for major decisions or contentious issues
- the effectiveness of the governance professional
- the clarity of the decision-making process and use of delegated and reserved authorities
- the processes for identifying and reviewing risks
- how the board communicates with, and listens and responds to, members, staff, volunteers, beneficiaries and other stakeholders.

# Board evaluation in the charity sector

## The impact of board evaluations

Research into board evaluations in FTSE listed companies has found that the most impactful questions focus on:

- the board's role in setting and testing strategy
- board time and agenda management
- overall organisational performance – open ended questions
- succession planning/visibility of management
- quality of board papers.

Most boards deem evaluations to have a positive impact. In particular they have:

- helped to surface issues
- generally improved board performance - better dynamics and individual performance
- improved board processes - improved strategic agendas; more time for discussion and debate; better board papers; time and frequency of meetings; more interaction between trustees and senior managers and the next management level down
- strengthened board cohesion
- improved board composition
- identified training needs
- identified board succession priorities
- improved focus and clarity of purpose
- provided a clear action plan derived from the report to the board.

It should be noted that a strong chair and/or governance professional will pick up on things before the review. The process should therefore act as a sense check to the chair. In general, the benefits tend to be seen at the group level rather than the individual level.

# Board evaluation in the charity sector

## Using the results

The outcome of a board evaluation should be shared with the whole board and fed in to the board's work on composition, diversity plans, skills audits, induction design and development programmes. It may be useful for the charity to have a review loop to consider how effective the board evaluation process has been.

Some charities may provide details of the exercise and its results in the annual report, or some other publicly available medium. Good governance practice would include a precis of the activity agreed to be undertaken to address the issues raised.

It is likely that future board evaluations will incorporate the learnings and actions from previous exercises to demonstrate that progress has been made, or to flag up those activities and aspects of board development that have been more successful than others.

Any temptation to park the findings of the evaluation on a shelf and ignore the conclusions will be a waste of opportunity for the board to improve and, more shamefully, a waste of charity resources.





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