

# The role of the non-executive director in not-for-profit organisations

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**This article looks at governance and the role of non-executive directors in not-for-profit organisations; the links with strategy, resource management and organisational effectiveness and behaviour and how governance goes beyond compliance. It seeks to examine the way in which the current recessionary economic climate impacts on not-for-profit organisations. It also highlights the key role HR can play in enhancing board and organisational performance.**

The leadership provided by people in executive and non-executive roles in the not-for-profit sector is, as in all organisations, key to their success. This article uses the term “non-executive directors” to denote directors and/or trustees who are ultimately responsible for the direction of the organisation, but are not part of its executive management. Most serve on an unpaid basis. So the mindset required and the role itself is slightly different from that required of non-executives in the private sector. It is in the nature of small charities in particular, that non-executive directors may also be involved in more day-to-day matters. However, the role of director is legally distinct from any management role.

Leadership is about identifying the right strategy, making the right resource decisions, and getting governance right. This requires both clarity of purpose and vision. There must be a focus on tomorrow as well as today, the ability to both scan the horizon, as well as to get infrastructure and capacity right. This must be based on a clear understanding of customers, clients and stakeholders. It requires a commitment to integrity and effective relationships which is both personal and sets the values for the organisation. A long list and a tall order.

## What is governance?

A formal definition of governance is “the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organisation”. For me, governance is about formal and informal decision-making that makes for a healthy, well run organisation that is seen to be so by all stakeholders.

Governance is as much an art as it is a science — which is why it is a mistake to focus simply on the compliance angle. It is about board room behaviour, and the interplay between the board and those at the most senior levels of the organisation, and how that makes for a healthy organisation. It is about an enterprise risk management approach which understands what is key to achieving the organisation’s objectives, and what might overturn those ambitions: whether its reputation, income streams, value of investments and pension funds, cash flow, or available people (paid and volunteers) with the right skills to deliver. It is about

creating a culture where decisions can be made to move the organisation forward quickly and effectively and in a way in which is communicated effectively to stakeholders.

A number of governance standards for the not-for-profit sector have been established following the corporate sector Cadbury, Turnbull, and Higgs reports and the 2003 Combined Code of Corporate Governance. The most significant are the Good Governance Code and the Charity Commission’s Hallmarks of an Effective Charity (according to a recent survey 78% of charities use one or both). Other key codes include the Nolan Committee Standards in Public Life, National Occupational Standards for Trustees, 2006 Companies Act Directors Duties and those specific to the healthcare sector such as Trust, Assurance and Safety. In addition charity legislation sets out impact and other reporting requirements, including evidence for the “for the public benefit” outward-facing inclusive personality of charities.

All these codes, place an emphasis on the need for effective board performance and development, both collective and individual and also in terms of board working practices. In other words a heightened focus on the board’s ability to deliver what the organisation needs to secure its future.

## The role of the board

To understand this more clearly we need to explore the role of the board, working with executive management. “Context is king” so this should be considered in the context of the organisation’s purpose and external environment.

The illustration below draws on work by Professor Bob Garrett. It emphasises the importance of considering the long term and the short term, the external and the internal, strategic review and governance matters. The inner circle underlines the need for the board and the Executive Management team to work effectively together. The arrows illustrate the interplay between the various aspects of the role and the potential tension between those responsibilities. A key task for the board is to ensure that the organisation pays sufficient attention to all four aspects.

This is particularly important in the current context where the board must also be aware of its own behavioural characteristics, and of the diversity of characteristics amongst board members, its ability to blend a focus on risk with a focus on strategy and its awareness of people capability and capacity issues alongside financial expertise.

A typical set of board competencies should therefore cover:

**Strategic direction** — the ability to contribute to setting the organisation’s vision, values and purpose: ensuring it has the resources (people and financial) to achieve its goals.

**Business judgment** — the ability to weigh evidence and analyse

# Responsibilities of the (not-for-profit) Board



ideas, including an understanding of financial information at a complex business level.

**Governance** — the ability to ensure the organisation is managed with integrity and probity; bringing those qualities and independence of mind to the role.

**Relationships** — the ability to build team cohesiveness with fellow board members and executive management colleagues, whilst constructively challenging and adding value to the strategic direction, decision making and performance of the organisation.

## The current economic context

The current economic climate heightens the demands on, and need for the not-for-profit board to turn in a peak performance.

This analysis focuses on charities. Other not-for-profit organisations such as NHS trusts and professional institutes will have similar and additional factors to consider, not only financial but in terms of service delivery, labour market and skills requirements, public policy and economic issues. Understanding the particular challenges for each sector and individual organisation is a key task for the board.

Clearly a key challenge for charities in the current economic climate is the negative impact on income streams: individual giving; the level of reserves (hit by the value of investments); the impact on income caused by decline in investment income; levels

of legacy income related to the reduction in property values; the impact on grants; all compounded by the impact on pension schemes related to actuarial calculations linked to investment fund values.

At the same time many charities are experiencing an increased demand for services, including those services supported by public funding, for example those whose purpose is to support the unemployed, or homeless, or provide advice services. Reduced income streams and a general need to balance the books, both now and to ensure the charity meets going concern requirements, have inevitably increased the level of redundancies and restructuring in the sector.

Associated with all of this is a greater focus on risk management, with an emphasis on enterprise risk; that is, understanding and managing those risks which threaten the future of the organisation and its objectives. It is not enough to simply focus on financial risks. It is essential to pay attention to managing, monitoring and mitigating all risks (for example reputational and people risks) including relationships with external partners, suppliers and others. For example, the behaviours of staff and external partners will be altered by the pressures and changes in priorities created by the current economic context.

Some charities have also discovered that this is an opportune time to make acquisitions, including acquiring affordable property assets. Mergers and partnerships are being pursued to provide more effective operating arrangements, maximising

the use of funds spent on direct charitable purposes. A recent survey showed that 50% of charities expected that the current economic climate would have a significant impact with further collaborations and mergers taking place and possibly a small number of closures. At the same time as substantial restructuring (and redundancy) programmes are taking place there is investment in business development and fundraising.

In considering mergers and similar changes the challenges include: integrating different cultures; the “due diligence” entailed in any merger and acquisition; the financial implications e.g. of different pension schemes; the changes entailed in office relocations. There are volunteer people management issues to consider as well as those in respect of paid staff. As with any major organisational change communication is key. In the not-for-profit sector stakeholder management adds an extra strand. Reputation matters and maintaining the confidence of major partners is essential.

Recent surveys and media comments suggest that one of the biggest challenges facing charities on the HRM front will be pensions. This is key for two reasons, one being cost, the other relating to the need to retain competitive remuneration packages in the sector where in some cases the pension provision is a key element of the package (particularly so where there are equivalent roles in the public sector).

This places a heightened emphasis on a strategic approach to people management, including attention to organisation development and change management. It also means ensuring that the organisation achieves a balance between planning for, and managing, immediate, medium and long term issues.

### Board performance evaluation and individual evaluation

With the current scale of challenges in mind, ensuring top class board performance and effectiveness is an essential, not a luxury. But how do you assess how well a board is performing on all these fronts? A typical board performance evaluation will be wide ranging and reflect on clarity of purpose and mission, its contribution to the development of strategy and effective risk management; Board composition and working relationships; on whether it is considering the right issues and has the information to do so; whether it is up to date with the regulatory context and market developments; and also on the effectiveness of the committee and delegation structure.

At an individual level, board members need to reflect on their own performance, most usefully in discussion with the chairman. This is critical if re-election is being considered and there should be some process (for the benefit of the organisation) preventing a “non-performing” non-executive director from going forward for re-election. It will also be important for the board to consider the skill and expertise gaps and to take opportunities as they arise to ensure the board has those that are needed to deliver on the organisation’s mission and strategy.

A recent survey suggests that more charities now undertake reviews with 75% carrying out a review in the last three years



compared to 53% in 2007. In 74% of cases this was carried out internally, while 25% used an external consultant (many alternate their approach). However, over 80% do not as yet review the performance of individual trustees.

### The contribution of strategic human resource management

So, where can Human Resource Management make a strategic contribution?

As we have seen, some of the specific challenges currently facing boards such as pensions; mergers; restructurings and redundancies; a heightened attention to risk governance; the need to ensure a focus on the long term and vision and purpose as well as capacity and financial viability, all call for HR skills and knowledge. HR professionals with expertise in areas such as organisational development, talent management, leadership and staff development, employee engagement and employee relations, have the potential to contribute both directly and indirectly to boards. Where HR, working alongside senior colleagues, will need to make a strategic contribution to not-for-profit organisations includes the following.

- Enhancing the ability of the board and executive management to work effectively together to secure the long term future of the organisation.
- Pensions — In terms of financial impact, and from a regulatory perspective in a merger context, and as an important element of the remuneration package.
- Ensuring the capacity and capability of the organisation, particularly its people resources (staff and volunteer), gains in effectiveness despite the current recessionary period.
- Employee relations and engagement.
- Board effectiveness, performance and appointments.
- Mergers, acquisitions and restructuring.

This must be set within a comprehensive understanding of the overall organisation strategy and a matrix of accountabilities (including an acceptance of personal accountability) for delivering that strategy. At the same time HR professionals need a developed understanding of the financial drivers, for example in respect of pensions, which will be critical for strategic planning going forward.

HR has a key role to play in improving organisational performance through enabling good governance. Effective governance change is often iterative and incremental, and as much about cultural change as about structural change. To achieve maximum value an effective working relationship between the management team and non-executive board members is fundamental, recognised by emphasising effective working relationships as a key competency.

Experience suggests that gaining maximum benefit from complementary roles requires executive management as much as non-executives to raise their game. Much energy has been diverted to the challenges of where the different roles are in tension: “How can they understand how the business works when they are not involved day-to-day?”, “Don’t they understand that our role is to test out the thinking and that we carry an ultimate responsibility?” The need, especially now, is to draw maximum benefit from the complementary nature of the roles. HR has the potential to play a valuable organisational development/organisational effectiveness role.

## Conclusion

In summary, high performing boards are needed now more than ever.

Governance can be perceived as something distant, compliance driven and with uncertain added value. The role of non-executives is not always understood. The challenges facing boards in the current adverse economic climate, in particular those challenges with a strategic HRM aspect, will require those with executive management responsibilities to work effectively with board members, across the full range of team accountabilities and by so doing make a significant contribution to the effective long term performance and future of their organisations. In this way they will ensure that not-for-profit organisations meet their aspirations to be more robust when they exit the recession than at the start of it.

## Further reading

(covers not-for-profit and private sector):

Burke-Litwin Model — article on “Bridging the gap between the operational and strategic effectiveness of HR”, *Developing HR Strategy*, July 2006

Holbeche L and Garrow V, *The Rise of the Non-Executive Director*, Roffey Park

Bain N, *The Effective Director*, Institute of Directors

“Delivering on the Promise of Non-profits” *Harvard Business Review*, December 2008

CIPD website, Non-executive directors resource, [www.cipd.co.uk/nedresource](http://www.cipd.co.uk/nedresource)

DTI *Building Better Boards*, December 2004 (available on BERR website: [www.berr.gov.uk](http://www.berr.gov.uk))

Garrett R, (2003), *The Fish Rots from the Head*, Profile Books.

## Point to ponder

- How do the challenges for those on not-for-profit boards contrast with private sector boards (bear in mind many people serve on both)?
- What business, financial and organisational development skills are now at a premium in not-for-profits?
- What insights can strategic HRM contribute to managing stakeholder and partner relationships? How might economic pressures impact on individuals and organisational behaviour?

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