

**Governance within the
UK Charity Sector:
Case Study evidence from
three Charities**

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ABSTRACT

In 2001, charities in the UK celebrated the 400th anniversary of their legal birth. They now wield considerable economic influence in their contribution to the economy as changes made to the welfare state over the last 20 years have transferred the delivery of some essential public services to the sector. However, the research problem (and hence pressing challenge facing charities) is whether their governance systems and processes are keeping pace with their growing role in Britain today. The objectives and purpose of this study become, therefore, to examine, describe and evaluate the various elements of charity governance from an 'insider-trustee' perspective and from there to build both theoretical understanding of, and insight into effective charity governance, such as to bridge identified gaps in the literature. This has become necessary because, 'for the first time in history, charities are...now receiving more cash from the state than private donors' (Brindle, 2010, p. 1), and need, therefore, to demonstrate accountability to the UK taxpayer.

Three research questions have guided this study: (i) What constitutes effective charity governance?; (ii) How does the Charity Board contribute to effective charity governance?; and (iii) Who are the stakeholders in charities, and does their recognition and engagement contribute to effective charity governance? The study adopts a descriptive, comparative, cross-sectional and multiple case study approach in order to explore the experiences, procedures and systems of third sector governance in three UK charities. This research design is considered suitable because it offers a robust, scientific methodology to investigate and understand the emic nature of the research problem. A conceptual framework developed on the three main themes of: (i) organisation structure and strategy, (ii) internal governance mechanisms, and (iii) external governance mechanisms, is used to provide the intra-and cross-case analysis presented. Participatory observation of governance meetings provides both an insider and direct access, insight into and understanding of, governance in the object charities. Document analysis is also employed to collect relevant data. However, the main data collection method employed is in-depth, face-to-face, open-ended interviews with trustees, Management Committee members, directors and Chief Officers of the object charities.

The findings from the study reveal that although there are various elements of best practice governance in the object charities, significant room remains for improvement in organisation structure and both internal and external governance mechanisms in order to achieve effective charity governance.

The study has made contributions to theory, practice and policy in several areas. In the area of theory, this research presents the first comparison of the development of corporate and charity governance in Britain. The study offers suggestions on how corporate governance codes can be 'flexed' for charities. In the area of practice, specific governance recommendations are made to transform the practices of the three charities. Training courses for trustees, chief officers and other executive directors have been developed from the empirical data and the literature. In the area of policy, changes in regulations are suggested.

Finally, the empirical findings and literature provide a model which can be used by charity trustees and chief officers to assess the effectiveness of their governance arrangements. This model has been classified as the emergent principles of effective charity governance being: (i) optimal, responsive organisation structure; (ii) clear direction of travel based on defined goals and objectives; (iii) committed and focused governing body; (iv) sound financial and risk management; and (v) open, ethical and accountable stakeholder engagement.

DEDICATION

I dedicate both this research and the knowledge, skills and experience I have gained during my doctoral journey to Jesus Christ, my Lord and Saviour, who provided the strength, patience and resources for me to complete this thesis. I know deep within myself I would not have succeeded without His help. I am forever grateful, indebted and overwhelmed by His constant love, daily protection and generous support.

"For I can do everything through Christ who gives me strength." Philippians 4:13 (The Bible - New Living Translation).

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LIST OF ABBREVIATIONS

<u>Abbreviation</u>	<u>Full description</u>
ACEVO	Association of Chief Executives of Voluntary Organisations
AGM	Annual General Meeting
BERR	Department for Business, Enterprise and Regulatory Reform
CASS CCE	The Cass Centre for Charity Effectiveness
CBI	Confederation of Business Industry
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CG	Corporate Governance
CIPFA	Chartered Institute of Public Finance and Accountancy
CIPD	Chartered Institute of Personnel and Development
CSR	Corporate social responsibility
DBIS	Department for Business, Innovation and Skills
DCLG	Department for Communities and Local Government
EGM	Extraordinary general meeting
ESRC	Economic and Social Research Council
EThOS	The British Library Electronic Theses Online Service
EU	European Union
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GDP	Gross domestic product
HMT	Her Majesty's Treasury
ICAEW	Institute of Chartered Accountants in England and Wales
ICSA	Institute of Chartered Administrators and Secretaries
IFA	International Finance Corporation
IoF	Institute of Fundraising
KPMG	Klynveld Peat Marwick Goerdeler (Accounting firm)
LSE	London Stock Exchange
M&A	Memorandum and articles of association
NCVO	National Council for Voluntary Organisations
NED	Non-executive director
NGO	Non-governmental organisation
NHS	National Health Service
NICVA	Northern Ireland Council for Voluntary Action
OECD	Organisation for Economic Co-operation and Development
Ofsted	Office for Standards in Education
ONS	Office of National Statistics
OSCR	Office of the Scottish Charity Regulator
OPM	Office of Public Management
PCaW	Public Concern at Work
PLC	Public limited company
Q&A	Questions and answers
REACH	Skilled volunteering charity based in London
SCVO	Scottish Council for Voluntary Organisations
SORP	Statement of recommended practice
SME	Small and medium sized enterprises
UK	United Kingdom
USA	United States of America

CHAPTER 1: INTRODUCTION

1.1 Introduction

An examination of the structure and ownership of organisations in most industrialised and emerging economies reveals striking differences in the way human beings have organised themselves for economic, social and political action (Salamon and Anheier, 1998). Across the economic landscape of these economies are multinationals; large national companies; small- and medium-sized commercial enterprises (collectively usually classified as the market, business or private sector); central and local government departments, ministries, authorities and agencies (normally referred to as the public or state sector). Positioned between these two sectors is a variety of organisations usually classified as the third sector (Salamon and Anheier, 1997; Powell and Steinberg, 2006).

Third sector organisations have historically been associated with active citizens who organise themselves to meet specific societal needs (O'Hagan, 2001). In structural and operational terms, these organisations are a community of social economy institutions of various forms and sizes involved in a wide range of activities (Appendix A). The John Hopkins University's Comparative Non-profit Sector Unit formulated five key features that are common to these organisations (Lyons, 2001):

- (i) **Formality** – They are institutionalised to some extent. This does not necessarily mean formal registration with regulatory agencies, but they have some degree of stability and formality which includes organisational identity with specific goals and clear boundaries.
- (ii) **Centrality of values** - The mission and vision of these institutions are usually driven by the values of the people who started them. These may include: religious beliefs; relief of, or cure for, illnesses; economic empowerment of the disadvantaged; concern for the environment; the promotion of equality in society or some other cause.
- (iii) **Voluntary** - There is a degree of voluntary participation that embodies the concept of philanthropy to a significant extent. Volunteers are engaged in operational areas such as governance, fundraising and publicity, investment advice and human resources.
- (iv) **Non-profit distribution** - Financial surpluses generated from activities are not distributed but are ploughed back to achieve the objectives of the organisation.

- (v) Private and independent - These organisations are institutionally and constitutionally separate from both government and private sectors and have mechanisms for self rule.

Third sector organisations in the UK include housing associations, trades unions, co-operatives, charities, independent schools, faith groups, social enterprises and clubs. The largest group that has received most attention in recent years is, however, charities (Cornforth, 2003, Cabinet Office and HM Treasury, 2006). This can be attributed to the multiple societal functions they carry out in the development and maintenance of the 'new' welfare state and the promotion of responsible civil society (O'Hagan, 2001; DCLG, 2011).

1.1.1 Historical background of UK charities

In 2001, charities in the UK celebrated the 400th anniversary of their legal birth (O'Hagan, 2001). Thus, they were first established in the late 16th century when the Tudors became deeply concerned with the possibility of social upheaval as a result of an agricultural crisis and an increasing urban migration to major cities such as Leeds, London, Liverpool and Manchester (Owen, 1964). In the 18th and 19th centuries, Britain experienced massive social change as a result of the Industrial Revolution. The wealth gained and consequent opulence both enjoyed and displayed by land owners and the middle class, caused massive social unrest (Alvey, 1995). Philanthropy was then actively encouraged amongst the country's aristocracy and burgeoning merchant classes so as to forestall communal strife and disturbance. It was during this period that some of the largest and most prestigious UK charities were formed. These included Barnado's, the National Society for the Prevention of Cruelty to Children, the Royal Society for the Prevention of Cruelty to Animals, the Salvation Army and the Shaftesbury Society. These organisations, supported by humanitarians, scientists, entrepreneurs and various religious adherents, became so successful that the income generated by some of the London-based charities was greater than that of several European governments of the day (O'Hagan, 2001). Middle-class Britain became preoccupied with charity that ultimately led to the development of a thriving charity sector (Owen, 1964; Alvey, 1995; O'Hagan, 2001).

1.1.2 The modern UK charity sector

From its humble origins in the 16th century as a medium to prevent the ‘working poor’ from engaging in civil unrest against perceived societal inequities (O’Hagan, 2001), modern UK charities have become major philanthropic third sector organisations with billions of pounds in assets, thereby assisting a variety of service users both across the country and around the world. Over the last three decades the range of services they provide, and their socio-economic effect(s) on society, have substantially increased as successive UK governments have restructured the welfare state and outsourced delivery of some public services (Lyons, 2001; Cornforth 2005).

In a constantly changing political, social and economic environment charities have become complex and dynamic organisations meeting the needs of British society in strengthening community cohesion (Anheier, 2005). Table 1.1 presented below shows a rise of over 30% in staff employment and individual volunteer involvement, a 75% increase in the value of volunteers’ time, an 80% rise in contribution to GDP and a 50% increase in total investment.

Table 1.1
Growth of UK Charities 1995 to 2009

Year ending March	Registered charities	Employment (headcount)	Volunteers (headcount in millions)	Volunteers time value £bn	Contributions to GDP £bn	Total investment £bn
1995	131,000	478,000	9.4	12.1	17.3	48.2
2000	159,000	563,000	12.3	15.6	20.4	53.9
2005	167,000	611,000	15.9	17.8	24.9	65.6
2009	171,000	634,000	17.1	21.2	31.2	72.3

Source: The UK Civil Society Almanac 2010 and Facts and Figures published by the Charity Commission 2010

These statistics demonstrate the sector is growing at a rapid rate as a provider of essential services in the modern welfare state and has increasingly become a partner of choice for government in public service delivery, heritage conservation and economic regeneration (Pearce, 2003; DCLG, 2011). In 2004 the Chancellor of the Exchequer acknowledged the contributions being made by charities to the national economy and set up a fund to enable them to expand operations in their delivery of services (Newton, 2004). In May 2006, the

sector received further recognition of its increasingly important role in society, the economy and environment when the government established The Office of the Third Sector in the Cabinet Office, being the department that coordinates strategy and policy across the various branches of government (Cabinet Office and HM Treasury, 2006).

1.1.3 The economic impact of UK charities

With such vast income streams emanating from their fundraising activities, delivery of public services and investments in capital markets, charities wield considerable economic influence. The latest economic activity figures available for charities (NCVO, 2010) show that the sector in 2007-08 had:

- An income of £30.2 billion, derived 36% (£12 billion) from statutory sources, including £586 million from the National Lottery;
- An operating expenditure of £29.6 billion; and
- Total assets of £91.3 billion. and
- Employed 620,000 people.

If the current pattern of growth, (as shown in Table 1.1) and public policy to reform the welfare state continues, charities will continue to have considerable effect on the UK economy and wield considerable influence on society. With such an optimistic outlook, charities need to evaluate and consolidate the favourable position they have gained over recent years and prepare for the opportunities and challenges from present and future economic, technological, socio-cultural, legal and political changes in society. One pressing challenge facing the charity sector is whether its governance systems and processes are keeping pace with its growing and changing role in Britain today (Cornforth, 2005; NCVO, 2005a^a).

1.2 Inspiration for the study

Although an original interest in corporate governance was ignited by major corporate failures such as Enron and Arthur Anderson (in 2001 and 2002 respectively), the researcher's professional contacts and experience as a former employee, management consultant and both current and former trustee of several charities in London and the Home Counties,

provided the inspiration and impetus for this study. During this period of active engagement with the charity sector (1990 to 2011), it was apparent that after successive governments had devolved some essential public services to the voluntary sector, an environment had developed in which certain sections of society were now more dependent on the services offered by charities (O'Hagan, 2001; Cornforth, 2005). These services range from health care and the regeneration of communities to the provision of 'public goods' and the fostering of an entrepreneurial spirit (Dunn and Riley, 2004). Within this background, various financial scandals adversely affected public trust and confidence in charities (Frew, 2003; Swanson, 2004; Carter, 2005). This erosion of confidence added to the widespread public debate on poor corporate governance (Plummer, 2003). Restoring confidence in the charity sector is thus a high priority for everyone interested in, and committed to, the longevity, success and effectiveness of charities. An environment of effective governance is not only likely to help in assisting funding from individuals and organisations, but will contribute to organisational and sector efficacy (Cornforth, 2005). As a trustee and supporter of many charities, the researcher wishes to research from an 'insider' perspective and contribute to the current body of knowledge in effective charity governance, since a review of literature in the UK shows a paucity of empirical evidence in this subject area. The extent of the researcher's interference will be discussed in the Methodology chapter (section 3.4.10).

1.3 Statement of the problem

The traditional sector boundaries in the public, private and voluntary sectors are disappearing (Blair, 2006) and *'for the first time in history, charities are almost certainly now receiving more cash from the state than private donors'* (Brindle, 2010, p. 1). However, set against this background the governance of third sector organisations has long been regarded as problematic (Palmer and Hoe, 1997; Cornforth, 2001). Middleton (1987) and Harris (2001) noted that staff in voluntary organisations are seldom satisfied with their boards that are accused of either meddling in the affairs of day-to-day management or not being involved enough. Scandals from serious breakdowns in business governance systems in the early 2000s such as Enron, Adelphi and Parmalat plus media coverage of charity poor management in the same period have raised concerns and heightened interest in boards of

directors and trustees (Swanson, 2004; Frew, 2003). In the USA, both Feed the Children and the American Cancer Society have been involved in improper management and financial conduct whilst Breast Cancer Research (Scotland) and the children's charity, Moonbeams, have suffered from poor governance and management practices in the UK (Swanson, 2004). As a result, public trust and confidence in trustees and the management of charities needs to be restored (Fries, 2003). Rugman (2001, p. 6), wrote that 'NGOs [including charities] are influential. Nonetheless, in the future, their lack of accountability...will curtail or at least, restraint their influence capabilities.' It is, therefore, necessary for charities to work towards the achievement of effective governance. Such an environment will build public confidence and trust that are essential ingredients for charities to foster a vibrant and successful sector.

1.4 The objectives of the study

With the aforementioned issues and problems in mind, the aims of the research are disaggregated into the following objectives. The study intends to:

- (i) Examine, describe and evaluate the various elements of governance processes and structures from a sample of UK charities, and from there build theoretical understanding of, and insight into, charity governance from an 'insider-trustee' perspective;
- (ii) Provide a typology of recognition and levels of engagement of the key stakeholders of charities; and
- (iii) Use the empirical data from the research, as supported by the literature, to devise general principles of effective charity governance.

1.5 The research questions

The study of the objectives outlined above will be guided by the following questions:

- (i) What constitutes effective charity governance?
- (ii) How does the charity's Board contribute to effective governance?
- (iii) Who are the stakeholders in charities and does their recognition and engagement promote effective governance?

1.6 The research strategy

A descriptive, multi-case study strategy was designed to explore and understand the phenomenon of charity governance. This strategy excels at bringing out understanding of complex issues and can extend experience or add strength to what is already known from previous research (Soy, 1996). The quintessential characteristic of case studies is that they strive towards a holistic understanding of cultural systems of action (Feagin *et al.*, 1991), these being sets of interrelated activities engaged in by actors in a social situation. Yin (2003^a, p. 13) stated that this strategy allows the researcher to 'investigate a contemporary phenomenon within its real life context, especially when the boundaries between the phenomenon and context are not clearly evident.' Academic and practitioner literature confirms that governance practices are complex phenomena in a real-life environment with many dimensions ranging from interactions and relationships of the board with stakeholders, to balancing economic and social interest to achieve corporate objectives (Zahid and Zahid, 2008; Yoshikawa and Rasheed, 2009).

The research design uses techniques consistent with scholarly case study research. An extensive literature review was conducted on related topics including corporate and charity governance in the UK, organisation and stakeholder theories. In-depth interviews were conducted with trustees, directors and chief officers of three charities. Additional data was collected through participant observation of governance-related meetings and from historical and current documents. Interview transcripts and documents were analysed and interpreted to provide a basis for examining and understanding the complexities of charity governance.

1.7 Significance of the study

The review of the literature for this thesis revealed only a small number exploratory studies in charity governance have been conducted in the UK. They range from leadership and management of the modern hospice movement (Johnson, 1999) and co-operatives and mutual funds (Cornforth, 2004) to the relationships between voluntary sector board structures and processes and efficiency (Cornforth, 2001), to the public funding and 'pass-through efficiency' in large UK charities (Jobome, 2006). These studies have contributed to the corpus

of literature in third sector governance but empirical charity governance research has been relatively narrow and limited, and based mostly on a quantitative, survey based research methodology.

Practitioner literature has been criticized for sometimes oversimplifying the complexity of governance, underestimating competing and conflicting demands and pressures that trustees face and prescribing simplified solutions that are unrealistic, impractical or difficult to implement across a landscape as diverse as charities (Middleton, 1987; Herman, 1994). 'These shortcomings point to the need for a greater understanding of the way boards work...grounded in empirical studies' (Cornforth, 2003, p. 1).

The significance of this study is that it contributes to a small pool of research that employs qualitative methodologies aimed at understanding charity governance from an insider, participant-observer inquiry. This direct access provides a unique opportunity for the researcher to go beyond the usually closed doors of boardrooms to investigate, analyse and interpret how governance works in practice and gain an understanding from 'the top to the bottom' through a holistic and contextualised study. The study was conducted in three UK registered charities over a period of three years, as will be discussed in detail in Chapters Four, Five and Six. The phenomena of effective charity governance, board contributions, dynamics and relationships were simultaneously considered looking at three UK charities. The findings reveal the charities suffer from various gaps and breakdowns in their governance arrangements. Although one of the charities, Charity X, has made considerable strides towards effective governance, the empirical evidence shows that the governing bodies of the three charities have to implement some urgent recommendations to improve their governance arrangements. The findings also provide emergent principles to enable trustees, CEOs and other policy makers to benchmark and design better governance systems and procedures.

The study is expected to make the following contributions to theory, practice and policy:

- (i) In terms of theory, this study provides the first comparative analysis of corporate and charity governance and highlights how corporate codes can help charities. The

- research builds upon and extends the governance literature beyond boardroom activities and develop a set of principles of effective charity governance;
- (ii) In terms of practice, specific governance recommendations from the empirical findings are provided to the three charities studied to improve their overall governance arrangements. The principles of effective charity governance will be offered to other charities as an annual 'governance health check' to assess systems, practices and arrangements. The empirical analysis of trustees' duties and responsibilities provided the basis for developing an induction course and interactive seminar for key charity governance participants;
 - (iii) In terms of policy, gaps in charity governance policy development and implementation will be highlighted from the empirical findings for policy makers in the regulatory and advocacy agencies to consider and act upon.

1.8 Definition of terms

There are terms in social science for which there are a variety of definitions. This section defines two key terms used in this research, being 'charity' and 'effectiveness.' The other terms are defined in the text as they appear.

The Finance Act 2010 (Section 30, Schedule 6) defines a charity as 'a body of persons or trust, which: (i) is established for charitable purposes, (ii) meets the jurisdiction condition, (iii) the registration condition, and (iv) the management condition.' A 'body of persons' includes companies, unincorporated associations and other groups. Such a body should be set up for charitable purposes (see Appendix B) and must be established in an EU member state and must be subject to the control of a court to satisfy the jurisdiction condition (in England, Wales and Northern Ireland, this is the High Court and, in Scotland, the Court of Session). In order to meet the registration condition, the body is required to register with a charity regulator under the law of the territory in which it is established (for example, an organisation in England, Wales and Northern Ireland is required to register with the Charity Commission in the respective territory. In Scotland, registration is with the Office of the Scottish Charity Regulator). The management condition is concerned with the propriety of persons who have

control (trustees) and management (senior managers) of the organisation. Propriety covers issues such as honesty and competence to act as a company director under law (without unspent convictions).

Drucker (1963, p. 54), who conducted many seminal studies in corporate and charity management over a 50-year period, defined 'efficiency as doing things right and effectiveness as doing the right things.' For the purposes of this study the 'right things' in governance are considered to be the statutory and regulatory requirements and sector best practice codes.

1.9 Organisation of the thesis

This thesis is organised into eight chapters. Chapter One introduces the reader to the background of, inspiration for, the aims and objectives, research questions, findings, significance and contributions of the study. Chapter Two presents a review of related literature in (i) UK corporate governance and its development; (ii) UK charity governance and its development; (iii) organisation theory and effectiveness and (iv) stakeholder theory and engagement. The rationale for, and conceptual framework developed to aid analysis in, this study are discussed here. Chapter Three delineates the research methodology which covers the philosophical orientation, research design, methods of data collection and analysis and the ethical and pragmatic issues considered in the study. Chapters Four, Five and Six present the intra-case analysis of each charity's governance practices, processes and systems. Chapter Seven discusses the results of the cross-case analysis and presents five lessons learnt from the research study that have been called 'the emergent principles of effective charity governance.' Finally, Chapter Eight summarises the thesis, discusses the research questions, and relates the contributions of the study to theory, practice and policy. The chapter concludes with an explanation of the limited scope of the inquiry and offers directions for future research.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The previous chapter provided an introductory overview of the thesis. The primary purpose of this chapter is to evaluate the current body of knowledge which is relevant to this study; gain an understanding of the various concepts; and ground the research questions in the literature. A review of key papers and principal references of corporate and charity governance in five academic e-resource databases (ABI/INFORM, Ebsco, Emerald, ProQuest and EThOS) was undertaken. From this review of literature three core areas emerged as the foundational body of knowledge to develop understanding of the various concepts examined in this research: (i) corporate and charity governance; (ii) organisation theory and (iii) stakeholder theory.

The first body of knowledge identified focuses on corporate and charity governance. Governance has been identified as a central factor in the success of private, public or third sector organisations (Cadbury, 1992; Wheeler and Sillanpaa, 1997; The Governance Hub, 2010). In the last 20 years extensive academic and practitioner studies have been conducted in business governance across the UK. This has led to a major overhaul of the systems and practice of governance in the corporate sector. However, despite their vibrancy and economic influence, charities have only received intermittent attention from policy makers, whilst scholars have only contributed to a limited body of empirical research (Cornforth and Simpson, 2002; McGregor-Lowndes and O'Halloran, 2010).

The second body of knowledge covers the main elements of organisation theory and effectiveness because corporate governance (CG hereafter) issues arise in organisations (D'Aunno, 1992; Murray and Tassie, 1994; Herman and Denz, 1999). The fundamental constructs explained in organisation literature are, therefore, explored to understand the phenomena of structures, effectiveness, ecologies, economic ownership, control of organisations, their relationships and contributions to effective governance. Organisation effectiveness is especially important to UK charities because regulatory agencies insist on the effective use of resources as a requirement for their continued registration (Charity Commission, 2003).

The third and final body of knowledge relates to stakeholder theory. The Hampel Report (1998) which led to the first Combined Code of Governance in the UK strongly recommended an open dialogue between directors and other stakeholders to foster consensus on the general direction of the company [or charity] (The Committee on Corporate Governance, 1998). Stakeholder theory provides an analytical framework to identify key stakeholders, their interests, concerns and claims. These issues are examined and evaluated in the thesis to develop a contemporary typology of the levels of recognition and engagement of stakeholders. Recognition and engagement are essential features of effective charity governance as they define and bring clarity to governance reporting structures (Barrett, 2001; Cordery and Baskerville-Morley, 2005).

This chapter has, therefore, been structured into the following main sections, based on the corpus of knowledge listed above: (i) corporate governance; (ii) charity governance; (iii) organisation theory and effectiveness; and (iv) stakeholder theory and engagement. This has been done to achieve clarity in setting the foundation and justification for the thesis. The chapter concludes with the identification of gaps in the literature, provides a rationale for the study and establishes a conceptual framework.

2.2 Corporate Governance

2.2.1 Need for governance

Smith (1776), in his seminal work *The Wealth of Nations*, wrote about an agency problem that may arise as a result of the separation of ownership from control of joint stock companies:

'The directors of such companies...being the managers of other people's money than their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private 'copartnery' frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. It is upon this account that joint stock companies for foreign trade have seldom been able to maintain the competition against private adventurers.' (*The Wealth of Nations* 1776, Chapter 1, Part 3, Art. 1)

The owners (principals) of the modern public company are usually widely dispersed while day-to-day management rests in the hands of a few managers (agents). Pike and Neal (2006)

attribute interest in this contemporary phenomenon to the works of scholars such as Berle and Means (1932), Jensen and Meckling (1976) and Fama and Jensen (1983), who wrote extensively about the rise of the modern corporation. According to Jensen and Meckling (1976), who developed the theory of the firm under agency arrangements, potential conflict of interest arises when there is a separation of ownership from control. Jensen and Meckling (1976, p. 5) define 'an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.' The 'essence of the agency problem is that agents (management) behave in opportunistic ways that serve their own interests at the expense of shareholders' (Anderson *et al.*, 2007, p. 780). When management adopts such 'satisficing' behaviour (doing just enough to prevent shareholders from asking awkward questions about their performance) an agency problem arises, as articulated by Fama and Jensen (1983). Building on arguments advanced by Tricker (1984), Keasey and Wright (1993) propose governance as one of the frameworks of systems, procedures and protocols that deals with this problem of fiduciary responsibility and accountability. The practical relevance of agency theory to charities becomes apparent when stakeholders such as members or beneficiaries and management have different interests or goals. In such a context '...agency theory suggests the trustees' main role is to monitor management and make sure it acts in the best interest of the owners' (Cornforth, 2005, p. 15). However, one difficulty prevalent in third sector organisations is that there is much more ambiguity, with no clear classification of who its 'owners' are (Dawson and Dunn, 2006).

In the last 20 years the governance of businesses has received extensive coverage and close scrutiny (Child and Rodriguez, 2003; Carter, 2005). This has been attributed to a plethora of reasons including the financial collapse of organisations such as Ferranti, Coloroll and British and Commonwealth, sensational corporate frauds such as Polly Peck and Barlow Clowes, and plummeting public confidence in directors and management and the financial reports they produce (Barnes *et al.*, 2004; Kochan, 2003). Across the world Enron, Adelphi, WorldCom and Parmalat have become international names synonymous with maladministration and governance breakdown. In the UK there was public outrage at the plundering of pension

funds by Robert Maxwell, the failure of external auditors to expose the imminent bankruptcy of the Bank of Credit and Commerce International, and the undeserved high pay raises received by senior business and public executives (Boyd, 1996). The charity sectors in the UK and USA have also experienced instances of poor governance and financial management, which has led to media enquiries and investigations by regulators (Plummer, 2003). The children's charity, Moonbeams, Paisley-based Breast Cancer Research (Scotland), The American Red Cross, The United Way (USA) and The Nature Conservancy (USA), are examples of high-profile charities which have suffered from financial scandals and poor governance practices, leading to revelations published by an ever-vigilant sector watchdog - the media (Frew, 2003; Swanson, 2004; Horton, 2006; MSNBC, 2007).

2.2.2 Definitions of corporate governance

As definitions of CG per se are not found in the third sector literature (Stone and Ostrower, 2007) business sector descriptions are used below. Definitions vary widely as the concept has been conceptualised in different ways because scholars and practitioners view it from different perspectives (Turnbull, 1997). However, governance arrangements specify the distribution of rights and responsibilities among different participants such as the board, management and other stakeholders and set out the rules, mechanisms and procedures for making decisions on corporate affairs (Keasey and Wright, 1993).

Definitions of CG can be divided into two main categories. The first set of definitions relates to behavioural patterns, such as measures of performance, efficiency and treatment of stakeholders; the second group of definitions relates to the legal and regulatory systems and the financial markets. Adopting a behavioural approach, Cadbury defined the concept as, 'the system by which companies are directed and controlled' (Cadbury, 1992, p. 14). Although this definition is widely cited in the literature (Canyon *et al.*, 1995; Short *et al.*, 1999; Lannoo, 1999; Minkes *et al.*, 1999; Liljeblom and Löflund, 2006; Parker, 2007), it is basic and fails to cover normative issues. This shortcoming is addressed by Blair (1995, p. 26), who defines governance as 'the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how

the risks and return from the activities they undertake are allocated.' Economists Shleifer and Vishny (1997, p. 737), however, adopt a narrow, economic approach within a normative framework by defining CG as 'the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment'. Monks and Minow (2008, p. 67), on the other hand, provide a succinct definition of governance within the behavioural paradigm as, 'the relationship among various participants in determining the direction and performance of corporations.' Finally, John and Senbet (1998, p. 372) offer both a behavioural and normative description: 'the mechanisms by which stakeholders of a corporation exercise control over insiders and management so that their interests are protected.'

Although viewed from different perspectives the definitions presented above have two common elements;

- (i) The need to reduce or eliminate agency problems associated with the separation of ownership from control; and
- (ii) Encouragement for management to perform in the best interest of all stakeholders with an interest in the corporation.

It should be noted that the words 'corporation' and 'companies' used in the definitions cover all sectors of the economy including charities, which can also register as incorporated bodies.

2.2.3 The organisational elements of corporate governance

Five key elements have been cited as supporting the delivery of governance in organisations: the board of directors, senior management, audit committee, and internal and external auditors (Brown, 1996; Liljeblom and Löflund, 2006).

The board is considered the pivotal constituent of CG because it sets out the strategic direction of the charity and agrees the scope of governance activities (Nicholson and Kiel, 2004). The majority of business and third sector CG literature has focused on board structures, processes and activities but CG extends beyond the confines of the boardroom. The other areas affected by CG will be analysed in the intra- and cross-case studies.

Senior management, under the leadership of a chief executive officer, implements the strategic objectives set by the board. These managers have responsibility for the day-to-day running of the organisation. In medium and large charities, executive directors have responsibilities for functional areas such as operations, strategy, fundraising, governance, finance and human resources. Effective execution of the various tasks in these functions within a corporate plan can contribute to effective governance (Monks and Minow, 2008).

The audit committee (a sub-committee of the board) is responsible for reviewing financial reporting, promoting effective controls and managing risks (Chambers, 2005). When composed of Non-executive directors (NEDs) and a financial expert, the committee can facilitate a reporting structure which advances financial reporting integrity (Menon and Williams, 1994). Although there is no legal requirement to establish an audit committee, many large charities have set them up to improve their CG (SayerVincent, 2006). Medium and smaller charities have finance committees that carry out similar functions (Cornforth, 2001).

The internal auditor, usually an employee of the organisation, is appointed by the board to independently appraise operations, assess risks, evaluate effectiveness of controls and ensure organisation-wide compliance with corporate policies and procedures (Solomon, 2007). Unless the reporting line is directly to the board and free from operational duties and pressure, the independence of the internal audit function can be compromised by managerial interference. Except for large charities that require this function, internal audit duties are usually delegated to a finance professional sitting on the board (Palmer, 1997).

External auditors, however, are independent professionals who examine and provide assurance to stakeholders that published financial reports are free from material misstatements and comply with legislation and relevant accounting and auditing standards (Audit Practices Board, 2003). In the case of registered charities, an independent examination is required if income falls between £10,000 and £500,000. An external audit becomes necessary when income exceeds £500,000 (Charity Commission, 2008). An audit may also be required if total assets exceed £2.8m and income is more than £100,000 (Charity

Commission, 2008). Independent examination and audit of financial reports are important statutory mechanisms to promote accountability (Palmer, 1997).

2.3 The evolution of corporate governance in the UK

2.3.1 The rationale for the overhaul of governance

The UK economy enjoyed a sustained period of economic stability and growth from 1981 to 1989. However, towards the end of the 1980s the economy showed signs of overheating, with sharp growth in GDP and asset prices (Jones and Pollitt, 2004). In September 1990 inflation rocketed to 10.9% from 3% in 1986 and the once buoyant economy started experiencing negative growth (OECD, 1991). This impressive economic growth was followed by equally spectacular, well publicised business failures including major corporate collapses such as Polly Peck, Maxwell Communications Corporation and Bank of Credit and Commerce International. These failures were characterised by a set of similarities: unqualified audit reports on over-optimistic financial reporting; lack of effective controls of businesses with power vested in flamboyant and dominant CEOs and/or chairmen; failure by non-executive directors to curb corporate excesses; and cursory involvement in the affairs of companies by institutional investors (Cheffins, 2001; Burrows, 2005).

These business failures caused widespread public panic and anxiety as pension funds and other major investors suffered substantial losses on their investments. The need to deal with the resultant CG breakdown became the impulsion to stabilise the corporate sector and maintain the prosperity of the nation (Cadbury, 1992). The development of codes of 'best practices' became necessary and was supported by interested parties such as the government, regulatory agencies, investment community and finance professional bodies who collectively initiated a series of investigations and reviews into the way companies were governed and managed, seeking to find how CG practices could be improved. One of the major players in these enquiries was the Financial Reporting Council (FRC), the independent regulator responsible for promoting confidence in financial reporting and governance. It was initially established in 1990 to promote good financial reporting. A summary of the main developments of CG in the UK between 1992 and 2010 is presented below in Table 2.1.

Table 2.1
Major Developments in UK Corporate Governance 1992 - 2010

Sponsors	Report	Contribution
Financial Reporting Council, London Stock Exchange, Consultative Committee on Accounting Bodies	Cadbury Report (1992)	Chair and CEO posts to be separate and independent NEDs on boards. Raising standards in financial reporting and auditing
London Stock Exchange, Consultative Committee on Accounting Bodies	Rutteman Report (1994)	Improvement of internal control and financial reporting
Government	Seven Principles of Standards in Public Life (1995)	Improvement of standards in public life across all public bodies
Confederation of British Industries, Institute of Directors	Greenbury Report (1995)	Promote transparency in boardroom pay via detailed disclosure in accounts
Financial Reporting Council, London Stock Exchange, Institute of Directors, National Association of Pension Funds	Hampel Report (1998)	First UK Combined Code (1998) embracing Cadbury, Greenbury and Hampel reports
London Stock Exchange, Institute of Chartered Accountants in England and Wales	Turnbull Report (1999)	Promote risk management and improve the effectiveness of internal controls
HM Treasury	Myners Review (2001)	Making institutional investors proactive
United States Senate and House of Representatives	Sarbanes-Oxley Act 2002	Require CEO and CFO to confirm financial statements fairly present financial decisions
HM Treasury, Department for Trade and Industry	Higgs Report (2003)	Raise effectiveness of NEDs
Financial Reporting Council	Smith Report (2003)	Improve roles and responsibilities of audit committees
HM Treasury, Department of Trade and Industry	Tyson Report (2003)	Improve recruitment and development of NEDs
Financial Reporting Council	Combined Code 2003	Incorporates Higgs, Smith and other governance recommendations
Office of Public Management, Chartered Institute of Public Finance and Accountancy with the Joseph Rowntree Foundation	The Good Governance Standard for Public Services (2004)	The Standard provides six principles of good governance that are common to all public organisations
Financial Reporting Council	Combined Code 2006	Updates 2003 Code. Promotes partnership, trust and mutual understanding between shareholders and directors
Government	Companies Act 2006	Duty of directors to promote success of the company: shareholders can sue directors for breach of duty and trust; and simplifies the administrative burden on small companies
The European Union	The European Commission on Company Law (2007)	Proposals to simplify regulations and law governing European businesses to ensure that company law, accounting and auditing relates to business current needs
Financial Reporting Council	Combined Code 2008	Update 2006 Combined Code and extend company chairmen activities
HM Treasury, Department for Business, Enterprise and Regulatory Reform	Walker Review (2009)	Improve the governance of financial institutions with regard to risk management
Financial Reporting Council	UK Corporate Governance Code 2010	Supersedes 2008 Code. Recommends annual re-election of directors and diversity in relation to the composition of the board
Financial Reporting Council	UK Stewardship Code 2010	Enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders

2.3.2 The Cadbury Report (1992)

In May 1991, following many business failures (e.g. Maxwell Communications, Polly Peck, Coloroll), the government appointed the CEO of Cadbury Schweppes, Sir Adrian Cadbury, as chair of the Committee on the Financial Aspects of Corporate Governance. The Committee, which comprised senior industry executives, financial specialists and academics, was given a broad mandate to examine the performance and rewards of board of directors.

The cornerstone of the Cadbury Report published in December 1992 centred on the following:

- (i) Boards of publicly quoted UK companies should include at least three NEDs with no automatic reappointment;
- (ii) Contracts of executive directors should not exceed three years without shareholders' approval; and
- (i) The position of chair of the board and the CEO should be held by different individuals.

The underlying presumptions were that the presence of NEDs would lead to enhanced board independence and the separation of the roles of chairman and CEO would curtail the power of a single top executive. The comments below show that the presumptions were not realised.

Although the recommendations became landmark thinking on CG (Jones and Pollitt, 2004) and were accepted as part of the Listing Rules of the London Stock Exchange (LSE, 1992), much criticism has been directed at the voluntary nature of the codes. Keasey and Wright (1993, p. 291) stated that 'although the report has much to commend it, there are a number of dimensions of corporate accountability and governance that have not been addressed. In particular, consideration is needed of alternative means of regulating companies which involve stakeholders being more active in monitoring managers.' Finch (1992) and Osman (1992) even accused the Committee of yielding to industry pressure and avoided imposing discipline on board behaviour. However, one of the fiercest criticisms came from Cassidy (1992, p. 11) who described the report as 'well-meaning, reasonable, intelligent but worthless because capitalists are not mild-mannered animals capable of learning good behaviour but predators who render benefits to society through a process that is creative and destructive.'

Despite these criticisms the recommendations in the Cadbury Report provided a benchmark of CG best practice for many organisations across the English-speaking world.

2.3.3 The Rutteman Report (1994)

Although the Cadbury Report discussed the need for effective internal control this was not its main focus. It delegated review to its successor committee, The Rutteman Working Group, led by Sir Simon Rutteman, to provide guidance on internal control to companies.

In December 1994 the group published a report with recommendations that an internal control statement should be embedded in the CG statement of companies and should contain:

- (i) A declaration from directors that they are responsible for systems of internal control;
- (ii) A description of the internal control procedures that have been established by the directors and an assessment of their effectiveness; and
- (ii) A clear statement that such systems can provide reasonable assurance against material misstatements or loss.

Although the above statement puts the onus on directors to check corporate controls, the report received 'limited coverage and was not perceived as having closed the matter on internal-control systems in UK corporate governance' (Jones and Pollitt, 2004, p. 28).

2.3.4 Committee on Standards in Public Life (1995)

In the early 1990s the public sector suffered its own ignominy when two members of parliament, Neil Hamilton and Tim Smith, were accused of improper conduct by asking questions in the House of Commons for money. Both were eventually forced to resign their positions. In response, the government constituted in October 1994 a standing body, the Committee on Standards in Public Life, with Lord Nolan as its first chairman, to examine concerns about standards of conduct in public life. In 1997 the government extended the Committee's terms of reference to include, 'review issues in relation to the funding of political parties, and to make recommendations as to any changes in present arrangements' (Cabinet Office, 1997, p. 44).

The Committee published its first report in May 1995, which set out 'Seven Principles of Standards in Public Life' that apply to members of parliament, ministers and civil servants, officers of non-departmental public bodies, the NHS and other public servants (see Appendix C). The general reaction from the public and media to these standards was positive (PCaW, 1996; CIPFA, 2006; Denton, 2006).

2.3.5 The Greenbury Report (1995)

In response to shareholders' and media outcry on rising directors' pay and benefits without corresponding improvement in performance, especially in the privatised utilities, a group was set up in January 1995, on the initiative of the CBI, to examine issues on directors' remuneration. This group was made up of investors and industrialists under the chairmanship of Sir Richard Greenbury, former CEO of Marks & Spencer PLC.

After consultation a report was published in July 1995 with four main recommendations:

- (i) Conflicts of interest can be avoided by setting up a remuneration committee of NEDs to determine executive remuneration, pensions and other compensation rights;
- (ii) Transparency can be achieved by an adequate level of disclosure on directors' remuneration in statutory corporate reporting;
- (iii) A balanced approach to incentive and bonus schemes should be adopted which should be subject to shareholders' approval; and
- (iv) Service contracts for directors must be limited to one year with a robust line taken when performance is considered unsatisfactory.

Although the provisions of these recommendations were prepared with large, listed companies in mind, it was proposed that the underlying principles would also be applied to SMEs. Unlike the Cadbury Code, which provided detailed information to support each of its recommendations, some business leaders felt the Greenbury recommendations did not sufficiently deal with the issue of linking directors' pay to company performance (Manifest, 2004). Grant (2005) argued that after ten years the report had had little influence on the remuneration policies and practices of UK companies.

2.3.6 The Hampel Report (1998)

Cadbury (1992, p. 18) recommended a 'review of the implementation and compliance with its codes of practice.' Therefore, in November 1995 Sir Ronald Hampel, chairman of Imperial Chemicals, was asked to chair a committee to review the effectiveness and success of the Cadbury and Greenbury reports and the scope of their implementation (Hampel, 1998).

In January 1998, after extensive discussion with business leaders, regulatory agencies and scholars a final report was published. The Committee stressed in its report that governance should be considered a 'force' to aid business prosperity and must not become a mechanistic completion of checklists (Hampel, 1998). Also published was the first Combined Code, which included the following recommendations:

- (i) Every listed company should be headed by an effective board, which should lead and control it;
- (ii) Institutional investors should actively exercise their voting rights and boards should engage in dialogue with stakeholders;
- (iii) A balance should be struck between executive directors and NEDs on the board with no single group dominating; and
- (iv) AGMs should be made more meaningful with presentations made especially to inform private shareholders.

Although the Report sought to restrict the regulatory burden on companies, the main criticism of it was the endorsement of, and failure to advance, the debate started by Cadbury and Greenbury (Short *et al.*, 1999). Another criticism raised by Webb *et al.* (2003) is the viability of institutional investors taking a more active role in monitoring and enforcing 'good' governance practices in the UK. They argued that this could create anomalies in the efficient operation of the capital markets, increase costs and create 'free rider' problems.

2.3.7 The Turnbull Report (1999)

The London Stock Exchange and the Institute of Chartered Accountants in England and Wales commissioned a Working Group chaired by Nigel Turnbull, finance director of Rank

Group PLC and non-executive director of some prestigious companies, to draw up guidance for directors of listed companies in the implementation of the provisions of the Combined Code with regard to internal control. The group published its report in September 1999 which covered operational and financial controls based on high-level principles of CG rather than detailed checklists. The main recommendations of the working group included:

- (i) Boards should make an annual statement on the effectiveness of internal controls;
- (ii) Boards, not managers, should be responsible for risk management and internal controls; and
- (iii) Internal controls must cover not only financial but also operational activities.

This Report received a positive response from businesses as it presented good practice in the fundamental aspects of internal controls (Carey, 2000). However, one major weakness was that it lacked the force of compliance available in statute.

2.3.8 The Myners Review (2001)

To address growing public dissatisfaction with poor investments decision making made by institutional investors in underperforming companies, Paul Myners, chairman of Guardian Media Group, was appointed in March 2000 by the Chancellor of the Exchequer, 'to conduct a review of institutional investment' (HM Treasury, 2001, p. 2). 'Government was concerned that there may be factors encouraging institutional investors to follow industry investment patterns that focus overwhelmingly on quoted equities and avoid investing in SMEs' (HM Treasury, 2001, p. 6). The focus of the review was to, 'consider factors distorting the investment decision making of institutions' (HM Treasury, 2001, p. 7).

The Myners Review released in March 2001 reported that the structures used by institutional investors, such as insurance companies and pension funds to make decisions, lacked flexibility and efficiency which meant that funds were not being invested in a way to maximise savers' interests. The report recommended that pension fund trustees voluntarily adopt a series of principles codifying best practice for investment decision making. The main principles were:

- (i) Trustees should set out an overall investment objective for the fund;
- (ii) Attention devoted to asset allocation decisions should fully reflect the contribution they can make to achieving the fund's investment objective; and
- (iii) Decision makers should consider a full range of investment opportunities.

The principles in this review were widely accepted as a benchmark of best practice in investment decision making. Investors' activism soared after the report, targeting issues such as executives' pay and directors' contracts (Snyder, 2005). However, failure by Myners to address how boards could deal with the shortage of relevant investment knowledge and expertise was cited as a weakness (Shuttleworth, 2002).

2.3.9 The Sarbanes-Oxley Act 2002

This Act was enacted in the USA in response to the high profile Enron and WorldCom financial scandals, to protect shareholders and the general public from accounting errors and fraudulent practices (CIPD, 2006). It requires the company's CEO and the CFO to confirm that their financial statements fairly represent financial decisions. They are also required to test, document and make a statement on the effectiveness of internal controls. British companies which are listed on US stock exchanges have to comply with the provisions of the Act. This, therefore, led to an indirect influence and impact on UK governance.

Supporters of the law argued it strengthens legal protections and imposes criminal penalties including the incarceration of directors up to 25 years for the destruction, alteration or falsification of documents (Mayer Brown, 2002). Critics, however, lamented the burdens of administrative compliance thrust on SMEs who were offered no exemptions (CIPD, 2006).

2.3.10 The Higgs Report (2003)

After the collapse of Enron in 2001, the US government introduced the Sarbanes-Oxley legislation in 2002 to strengthen company law and CG. In Europe, various codes were adopted in the early 2000s. Thus whilst Germany introduced the Cromme Code to make CG practices transparent, France implemented the provisions of the Bouton Report to improve their CG practices. The UK, however, issued a White Paper after a fundamental review of

company law which started 1999. Building on the work of the Myners Review (2001), HM Treasury and the Department of Trade and Industry launched a short-life review of the role and effectiveness of NEDs in public companies in April 2002. The review was commissioned under the chairmanship of Sir Derek Higgs, the former chairman of Warburgs and Prudential Portfolio. The purpose of the review group was to:

- (i) Build and publish an accurate picture of the status quo;
- (ii) Lead a debate on the role and effectiveness of NEDs; and
- (iii) Make recommendations to government on how to enhance board effectiveness.

In January 2003 the Higgs Report was published with a proposal for a revised Combined Code. A summary of the key recommendations is presented in Appendix D.

Although the Higgs group consulted widely, their report received a barrage of criticisms from many boardrooms. The main concerns revolved around three board requirements: (i) the identification of a senior independent NED; (ii) having NEDs to constitute at least half the board; and (iii) the CEO not occupying the post of chairman (Johnson, 2003; Freshfields Bruckhaus Deringer, 2003). The CBI added further pressure for the wording of the report to be toned down (Tran, 2003) and 'Sir Stanley Kalms, former chairman of Dixons, branded the report ludicrous and a new high in lows' (Dewing and Russell, 2003, p. 314).

NEDs, a theme upheld by the Higgs Report, have been argued as a factor that brings independence and objectivity (Boone *et al.*, 2007). However, Westphal (2002) pointed out that after three decades of research (Zahra and Pearce, 1989; Shleifer and Vishny, 1997; Daily *et al.*, 2003) there is little evidence of any relationship between board independence and organisational effectiveness and some evidence even suggests a negative correlation. Empirical evidence appears to challenge conventional wisdom that having NEDs on boards produces better performance (Bhagat and Black, 1997; 2002). Arguably, improvements in independence recommended by practitioner literature (Cadbury, 1992; Boardroom Centre, 1998; Greenbury, 1995) have not produced the significant improvements promised. As with other attributes of the board, several factors must co-exist for boards to be considered

effective especially in the charity sector where boards are wholly made up of NEDs. Scholarly research is yet to examine whether this has any impact on charities.

2.3.11 The Smith Report (2003)

The compromised position of the external auditors of Enron, Arthur Andersen, and their subsequent demise, were the drivers that led the FRC to set up an independent group led by Sir Robert Smith, chairman of the Weir Company, in January 2003. The aim of this group was to clarify the role and responsibilities of audit committees (FRC, 2003).

A report and supporting guidance published in July 2003 covered issues affecting the composition and role of audit committees:

- (i) Audit committees should consist of at least three members who must be NEDs;
- (ii) One member should have significant, recent and relevant financial experience;
- (iii) Suitable training should be provided to committee members; and
- (iv) The committee should monitor the integrity of the financial statements of the company, review internal financial control and risk management systems; and review the effectiveness of the internal audit function.

Many practitioners expressed concerns about the availability of a ready pool of qualified persons with financial experience to enable full implementation of the recommendations in the Report (Walker, 2004). KPMG surveyed members of the audit committees of FTSE 350 companies which, while revealing broad support for the Smith Report proposals, showed, inter alia, that (i) 65% of respondents believed the enhanced duties of audit committee members would discourage individuals from taking on such positions, and (ii) 57% believed companies would experience practical difficulties in finding audit committee members with recent and relevant financial experience (Dewing and Russell, 2003). Nonetheless recent studies conducted by Chambers (2005) and Chan and Li (2008) identify audit committees as important mechanisms for improving governance.

2.3.12 The Tyson Report (2003)

Following recommendations in Chapter Ten of the Higgs Review, a short-life task force was commissioned in January 2003 by the DTI under the leadership of Professor Laura Tyson, an economist and Dean of London Business School, to review the recruitment and development of NEDs in the UK. In June 2003 a report was published with the following proposals:

- (i) Broaden sources of NEDs talent beyond traditional routes to include non-commercial sectors;
- (ii) Introduce an annual census to measure the diversity of boards to encourage development of unrepresented groups; and
- (iii) A transparent and rigorous NED selection process must be established.

This non-controversial report received wide support because of its common-sense proposals and the benefits companies expect to receive from widening their search for NED talent and adopting rigorous recruitment procedures (Balachandran, 2007).

Erhardt *et al.* (2003) defined 'diversity' as variety in board composition and grouped elements of the concept under two categories: (i) observable - that is, the readily detectable attributes of such as gender, age, culture and ethnic background; and (ii) the less visible features - such as academic and professional qualifications, occupational background and industry experience. Carter *et al.* (2003) examining the relationship between board diversity and firm value of *Fortune* 1000 firms narrowly defined board diversity as the percentage of women, African-Americans, Asians, and Hispanics on the board of directors. The definition provided is inadequate as diversity transcends gender and ethnicity. This research, however, found significant positive relationships between the fraction of women or minorities on the board, improved governance practice and firm value. Nonetheless results from some other studies (Houle, 1990; Porter and Kramer, 2002) show that diversity does not influence the board's ability to perform its control function nor has any significant impact on operational efficiency. In two recent studies conducted by Arfken *et al.* (2004) and Kang *et al.* (2007), data and other evidence demonstrate that a board with a diversity of directors can promote better understanding of the market place and increased creativity and innovation.

2.3.13 The Combined Code on Corporate Governance (2003)

An updated Combined Code incorporating developments in CG from Cadbury to Tyson was published in July 2003 by the FRC. It superseded and replaced the earlier version issued by the Hampel Committee in June 1998. Although it applied to listed companies, other businesses have adopted its provisions in whole or in part on a voluntary basis (FRC, 2003).

Although the provisions of the 2003 Code have had a broadly positive impact on business practice and leadership, the ACCA (2005) highlighted specific concerns such as: (i) the independence requirement for NEDs, which is challenging for small companies to meet; (ii) CG being viewed as a compliance exercise and hence not relevant to strategy and performance; and (iii) the failure of companies to report how they have applied principles of the Code. In 2005 the FRC conducted a review of the progress made by companies in implementing the Code and discovered a continuing misconception that the successive codes were perceived as a rigid set of rules and not the 'comply or explain' guidance they were intended to be (FRC, 2006).

2.3.14 The Good Governance Standards for Public Services (2004)

The Office of Public Management, the Chartered Institute of Public Finance and Accountancy and the Joseph Rowntree Foundation established an Independent Commission on Good Governance in the Public Services in early 2004. The role of the Commission, led by Sir Alan Langlands, vice chancellor of Dundee University, was to develop a common code and set of principles for good governance in the public services (OPM and CIPFA, 2004).

Supported by extensive research and grounded in evidence collected from two rounds of consultation, a standard was published in the autumn of 2004 (OPM and CIPFA, 2004). The Standard presented six core principles that should underpin the governance arrangements of all public bodies: (i) well-defined functions and responsibilities; (ii) an appropriate corporate culture; (iii) transparent decisions making; (iv) a strong governance team; (v) development of capacity and capability of the governing body; and (vi) real accountability to stakeholders (OPM and CIPFA, 2004). As the Standard was partly promulgated by CIPFA, the regulatory

agency for accountants in local and health authorities, it was well received by Metropolitan, Shire and London Councils and NHS trusts (Audit Commission, 2007; Halligan, 2006).

2.3.15 The Combined Code on Corporate Governance (2006)

Following an extended review conducted in 2005 by the FRC on the implementation, scope and contents of the 2003 Code, amendments were made and an updated Combined Code was prepared and published in June 2006. The main proposals are listed in Appendix E:

In 2007 the FRC reviewed the impact and implementation of the updated Code and discovered that its main principles had received relatively good support, with commendation made on the flexible governance environment which facilitates entrepreneurial success and the management of risk (Marks and Spencer, 2008). However, concerns raised included: (i) the amount of disclosure required in annual financial reporting is time-consuming and costly; (ii) the arbitrary restriction of board chairpersons to just one FTSE100 company; and (iii) the Code itself will not generate or initiate better board performance without commitment from the Board and management (FRC, 2007).

2.3.16 Companies Act 2006

The main provisions in the Companies Act 2006 affecting CG are:

- (i) New duties incumbent on directors to promote the interests of the company;
- (ii) The right of shareholders to sue directors for negligence, breach of duty and trust; and
- (iii) A new offence for directors who recklessly or knowingly include misleading, false or deceptive matters in the directors' report.

The law incorporates provisions of existing common law, 'which is a radical departure in articulating the connection between what is good for a company and what is good for society at large' (Hodge, 2007, p.3). One of the intensely debated areas of the Act was the extension of directors' duties, which were already considered to be extensive (Deloitte, 2007).

2.3.17 The European Commission on Company Law (2007)

The EU significantly influences CG arrangements in the UK. In July 2007 it published a communication which set out recommendations to reduce needless administrative burdens upon companies in areas such as company law, accounting and auditing (CIPD, 2007). This was expected to harmonise regulation and simplify company law and rules in accounting and

auditing across member states, including the UK (The Law Society, 2007). The general consensus of the EU communication was that the proposed actions would restrict flexibility of member states and hindered regulatory competition (Hannigan and Prentice, 2007).

2.3.18 The Combined Code on Corporate Governance (2008)

The FRC carried out a review of the 2006 Combined Code in 2007 and published an updated version in June 2008. The two main changes made to the 2006 Code are:

- (i) Removal of the provision limiting persons to chair no more than one FTSE100 company; and
- (ii) Provision to allow a company chair to be a member of, but not chair of, the audit committee provided the person is considered 'independent' on appointment.

The reaction from most companies was captured by the LSE, which lauded the success of the principles-based, 'comply or explain' approach in the Code but encouraged the FRC to conduct the next review within a broader market context (CIPD, 2008).

2.3.19 The Walker Review (2009)

In February 2009 the Chancellor of the Exchequer, the Secretary of State for Business, Enterprise and Regulatory Reform and the Financial Services Secretary to the Treasury, 'announced a review to recommend measures to improve the governance of UK banks and other financial institutions, particularly with regard to risk management' (ICEAW, 2009, p. 15). The review was chaired by Sir David Walker, a former chairman of the Securities and Investments Board and Morgan Stanley International.

The proposals published by the Walker Review are 'designed to improve the professionalism and diligence of bank boards, increasing the importance of 'challenge' in the board environment. If this means that boards operate in a somewhat less collegial way than in the past that will be a small price to pay for better governance' (HM Treasury, 2009, p. 17).

2.3.20 The UK Corporate Governance Code (2010)

In March 2009, the FRC launched a review of the 2008 Combined Code and consulted interested parties on their experience of implementing them. After a short consultation the FRC published the UK Corporate Governance Code in May 2010, which sets out standards of good practice in relation to board leadership and effectiveness, accountability and relations with shareholders. Four new principles were introduced addressing: (i) the chairperson's responsibility for leading the board; (ii) the need for directors to devote sufficient time to their responsibilities; (iii) the requirement for NEDs to constructively challenge the policies and strategies of executive directors; and (iv) the need for the board to have a balance of skills and experience. One key change to the new Code is the recommendation for the annual re-election of directors.

The IoD (2010) supported the revisions made to this Code, which was substantially in response to the global financial crisis that started in 2007, but Shutkever *et al.* (2010, p. 10), were ambivalent and said: 'A lot of the changes in the [2010] Code are...of tone and emphasis, but together they do not amount to a significant shift in the behaviour expected of boards.' Even so, the Code can be seen as another attempt by regulators and other interested parties to promote effective governance.

2.3.21 The UK Stewardship Code (2010)

The UK Stewardship Code was issued in June 2010 as a complementary guidance to the UK Corporate Governance Code (FRC, 2010). The aim of the Stewardship Code is (i) to enhance the quality of engagement between institutional investors and companies; (ii) to help improve long-term returns to shareholders; and (iii) to set out good practice on engagement with investee companies. The FRC is encouraging institutional investors to publish on their websites the extent of compliance with this code to promote accountability and openness (FRC, 2010). This code has one main advantage: it is not a rigid set of rules but, rather, provides general guidance to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success for organisations.

2.3.22 Mixed messages on the impact of the UK governance revolution

Although the revolution in CG discussed in sections 2.3.2 to 2.3.21 has profoundly changed British boardroom functions over the last two decades, the impact of the recommendations from the various investigations commissioned give mixed messages. While Hortiu (2004) and Parum (2006) proclaimed UK governance as an international benchmark, fostering a transparent management culture, Swinson (2003), a business commentator, and Day and Woodward (2005), academic researchers who used survey data from FTSE 100 financial reports, claimed governance excesses continue and the quality of disclosures in financial statements remains inadequate. Dewing and Russell (2000) provided a succinct overview, which criticised the development of CG on two grounds: (i) to a large extent the codes have been prepared on an ad hoc basis rather than through a planned framework; and (ii) the mechanisms for monitoring and enforcement are at best weak and at worst non-existent.

Woolf (2004, p. 91), another business commentator, went even further to suggest that, 'successive codes have been consistent failures to cleanse corporate life of its demon.' Hanney (2005) concluded from his survey research that 72% of FTSE companies complain they are spending too much time on CG at the expense of wealth generation. This was definitely not the culture envisaged at the time the Codes were developed and promulgated. Over recent years tighter regulations have provided a safety net to shareholders, although Meynell (2006) suggested this has not led to an improvement in board behaviour and corporate performance. Grant Thornton (2004, p. 2) reported after an extensive examination of financial reports that, 'more than half of the FTSE 350 companies are not fully complying with the Combined Code and only provide a brief explanation when they are not compliant.' The environment created by these Codes is a 'comply with the codes or explain why you do not' setting. This environment allows organisations to tailor CG practices to meet their specific requirements. Whilst this flexibility encourage organisations to adopt the 'spirit' as well as the 'letter' of the codes the disadvantage, however, is the failure of directors to justify the reasons for specific 'opt-outs' or provide adequate explanation of non-compliance (as in the Grant Thornton cases cited above). On the other hand, the model adopted in the USA makes CG compliance compulsory and is written into law (The Sarbanes-Oxley Act, 2002). Serious

infringements are considered criminal offences with the possibility of incarceration of directors. UK regulators can develop a hybrid UK/USA model to increase the level of compliance, a problem highlighted by the commentators above.

2.3.23 Summary

Sections 3.3.1 to 3.3.21 provided a historical survey but also demonstrated a comprehensive, methodical (although sometimes ad hoc) review of CG in the UK over the last two decades. This extensive work by government, regulators and corporate leaders identified and recommended drivers for 'good' governance in the profit sector (Filatochev *et al.*, 2007). On the other hand, despite their vibrancy and economic influence, third sector organisations, especially charities, have not received such an extensive, systematic development of governance systems and practices. The next section outlines and discusses contemporary charity governance practices and the main developments in them over the last 20 years.

2.4 Corporate governance in UK charities

2.4.1 Traditional charity governance mechanisms

The extent of regulatory reform that has occurred in the business and public sectors has not been felt by charities. Instead, traditional mechanisms have been in use in the sector for many years. Jobome's (2006) research confirmed this position after an examination of empirical datasets compiled by Caritas Data (a firm which provides UK charity and non-profit governance data) that charities have two dimensions of governance, internal and external.

Internal governance covers, to a large extent, 'hands-on' activities and processes of trustees' interaction with each other, the chief executive officer, executive directors and other stakeholders such as employees, volunteers, beneficiaries, donors and members (Jobome, 2006). The external mechanisms are, in the main, 'arms length' activities focusing on external reporting and regulatory monitoring that defines the boundaries within which charities operate.

Table 2.2 lists the main governance mechanisms in two dimensions, internal and external.

Table 2.2
Charity Governance Mechanisms

Internal governance mechanisms	External governance mechanisms
<u>The governing document</u> This lays down what the charity's objectives are and how it is to be run. It could be a trust deed, constitution, memorandum and articles of association, Royal charter, rules, etc.	<u>Laws</u> Compliance with the Charities Act, Companies Act and other laws and regulations governing the charity and its subsidiaries
<u>Traditional trustee boards</u> Non-executive trustee boards traditionally provide policy or strategic guidance and general oversight of charities	<u>General reporting</u> (a) General reporting, including annual reports that comply with current SORP. (b) Periodic reporting to the Charity Commission, and monitoring (e.g. review visits/letters/inspections)
<u>Separation of chair of trustee board from chief executive</u> By being separate from the executive function, the chair of the board is expected to bring some objectivity and independence to strategy and control functions	<u>Compact funding requirements</u> (a) Specific reporting requirements and public funding under contracts. (b) Specific monitoring arising under funding contracts. (c) Programme-tied funding.
<u>Traditional board committees</u> (a) Executive committee (b) Investment committee (c) Trading and/or fundraising committee	<u>Donor interest and scrutiny</u> Private voluntary donors are likely to be actively interested in the operations of the charity and could voice their opinions, either to the trustee boards, or through the media.
<u>Other traditional governance mechanism</u> (a) The restriction of fund use by donors. (b) The role of members in information provision, (re)election of trustees or monitoring of the charity's decisions and activities (for example, at AGMs)	<u>Other external governance sources</u> (a) Users' and beneficiaries pressure (b) Media reporting and analysis (c) General public interest
<u>Business-type corporate governance codes</u> (a) Audit committee (b) Remuneration committee (c) Nomination committee	

Source: Jobome (2006, p. 46)

2.4.2 The development of UK charity governance codes

The charity sector has emerged as an economic force but suffered for many years from: (i) a lack of recognition from government; (ii) an only tentative development of governance codes; and (iii) a stakeholder grouping lacking consistency (Anheier, 2001). Table 2.3 outlines a tentative, unsystematic development of charity governance between 1988 and 2010.

Table 2.3
Major Developments in Charity Governance 1988 - 2010

Sponsors	Project	Contributions
Home Secretary and the Economic Secretary to the Treasury	The Efficiency and Scrutiny of Charities report by Sir Philip Woodfield (1988)	Extends (i) the number of charities required to register with regulators, (ii) annual report and (iii) audited accounts to be filed
The Charity Commission and National Council for Voluntary Organisations	The Working Party on Trustee Training (1992)	Report entitled <i>On Trust</i> published with recommendations to improve quality of governance with a Trustees Services
Government	Charities Act 1992	Amends Charities Act 1960 and regulate fund-raising activities
Government	Charities Act 1993	Consolidates previous legislation and updates charity law.
The Home Office and The National Council for Voluntary Organisations	The Deakin Commission on the Future of the Voluntary Sector in England and Wales(1994) and The Kemp Commission in Scotland (1995)	Report recognised legitimacy of the sector's diverse roles and proposed a 'concordat' laying down basic principles for relations with government agencies and business.
The Strategy Unit of the Cabinet Office	The Review of Law and Regulatory Structure of the Charity Sector (2002)	Recommendations to modernise legislation, encourage growth, improve performance and strengthen regulation.
Her Majesty's Treasury	The Hampton Review (2005) on reducing administrative burdens of regulatory standards and promoting effective inspection and enforcement	Recommendations to dispense with unnecessary inspections, simplify design and reduce the number of forms and returns and coordination of regulation between regulators
The Governance Hub	The Good Governance Code for Voluntary and Community Sector (2005)	Improves corporate governance in the voluntary and community sector and set best practices for boards to adopt
The National Council for Voluntary Organisations	The Trustee and Management Committee National Occupational Standards (2006)	Standard of competence and outcomes relevant to the role of trustees and committee members
Government	Charities Act 2006	Modernises and overhauls the way Charities operates
Department for Business Enterprise and Regulatory Reform	The Regulators' Compliance Code (2007)	Recommendations for a risk-based, proportionate approach to regulatory inspection and enforcement
The Governance Hub	Review of Code of Good Governance (2008)	Evaluated the influence of the Code and proposed plans for the Code in the longer term
The Governance Hub	The Good Governance Code for the Voluntary and Community Sector (2010)	Updates the 2005 Code and from review and consultation sets out six principles of good governance

2.4.3 The Efficiency and Scrutiny of Charities report (1988)

Although proven cases of maladministration and abuse in the mid 1980s were rare, the regulation of the sector performed by the Charity Commission was not considered adequate (Palmer, 1997). So in 1987 the Home Office and HM Treasury commissioned Sir Philip Woodfield and a small team to review the wider issues of efficiency and scrutiny of charities (Connolly and Hyndman, 2001). In March 1988 a report was published which revealed that: (i)

few charities submitted accounts to the Charity Commission; (ii) even fewer were reviewed by the Commission; and (iii) only a minority of charity accounts were professionally audited (Woodfield, 1987). These criticisms of the Charity Commission and the nature of its regulation were widely reported in much of the practitioner press, whilst subsequent media investigations uncovered that the Commission was, 'so short of funds that it cannot afford to pay the postage to send out reminders to all registered charities' (Irvine, 1988, p. 92). The alarm raised by these reports, the accounting profession's unease about charity financial reporting, and a conviction that proper supervision and accountability was needed for charities all led government to consider and update the relevant legislation (Palmer, 1997) in what became the Charities Act 1992.

Recommendations from Sir Philip Woodfield included improving management effectiveness, the timely submission of accounts from charities, monitoring potential causes for concern, and strengthening the support and investigation of charities. They were widely welcomed by charities and their advocacy agencies (Palmer and Finlayson, 1989).

2.4.4 The Working Party on Trustee Training (1992)

In response to public interest in the scrutiny of charities the Charity Commission and the National Council for Voluntary Organisations (NCVO) established a working party to review the effectiveness of Charity Trustees and Management Committees in 1991 (NCVO/Charity Commission, 1992). A year later the working party produced a report, *On Trust*, which set out recommendations to improve the quality of governance in charities and other voluntary organisations. A survey accompanying the report revealed, 'startling evidence that only one in three trustees surveyed knew that they were trustees' (Cornforth and Simpson, 2002, p. 5). As a result, a Trustees Services Unit was established by the NCVO in 1993 to provide advice, support, training and a handbook which is regularly updated (Kirkland, 1994; Nunan, 1999).

2.4.5 Charities Act 1992

Prior to Charities Act 1992 the charity sector became aware that some unscrupulous companies and fundraisers were implying that their promotions and/or collections were being

carried out in the name of certain charities when in fact only small sums of money were being passed to them (Charity Law Association, 1996). By requiring those companies and professional fundraising organisations to state the basis on which they were being paid, this legislation was framed to outlaw this practice (Charity Commission, 1992). The Act, which received Royal assent on 16 March 1992, dealt primarily with fundraising activities but also updated existing charities legislation, by making the following governance provisions:

- (i) The Charity Commission should continue to keep a register of charities and be granted powers to supervise, control and act to protect these charities; and
- (ii) The Commission was given power to approve/dissolve trustees set up as corporate bodies.

According to the Charity Law Association (1996), the provisions of the Act did not work exactly as planned as the legislation created a number of problems via vague statements, which proved unhelpful. The wording of the Act allowed companies and professional fundraising organisations to make statements which were within the letter of the Law (setting out in general terms the basis of their remuneration), but which were not particularly helpful or meaningful to potential donors (Charity Law Association, 1996).

2.4.6 Charities Act 1993

This act received royal assent on 27 May 1993. It consolidated the Charitable Trustees Incorporation Act 1872 and Charities Act 1960 and Part I of the Charities Act 1992. Its main governance provisions covered the following:

- (i) It increased the regulatory agencies' information powers to institute inquiries and call for documents and search records;
- (ii) Provided new enforcement orders; and
- (iii) Indicated definitions of ecclesiastical, parochial, local and exempt charities.

Over time this act became dated with some of its provisions making it difficult for charities to alter outmoded objectives in their constitution, M&A or trust deeds. Some charities had to shoehorn their activities into their existing purposes, thus limiting their potential; others

strayed into activities outside their objects, exposing themselves to the risk of their assets being applied in breach of trust (Watts, 2007).

2.4.7 The Deakin Commission on the Future of the Voluntary Sector (1994)

The Deakin Commission was established in 1994 by the NCVO under the chairmanship of Professor Nicholas Deakin. Its main objective was to provide a ten-year vision of the role of voluntary and community sector organisations in England and Wales. An equivalent inquiry, The Kemp Commission, was set up in 1995 by the Scottish Council for Voluntary Organisations to conduct an independent inquiry into the future of the voluntary sector in Scotland. The overall theme of the Deakin Report, published in July 1996 (and Kemp Report in 1997), was that 'regulation of the sector should develop on inclusive terms and that organisations in the sector should be allowed to be an innovative force in society' (Dunn, 2000, p. 147). Three of the key recommendations of the Deakin Commission set as agenda items for action were:

- (i) The sector should be governed by six basic principles:
 - (a) Public policy needs to recognise the unique qualities of voluntary action;
 - (b) Partnership must be on an equal basis;
 - (c) The role of users is crucial to the sector;
 - (d) Voluntary bodies must always be free to act as advocates;
 - (e) Professional management without deflecting from the sector's purposes and aims; and
 - (f) Diversity of funding sources is one of the best guarantees of independence.
- (ii) The development of partnerships between the state and the sector, specifically partnerships, which are freely negotiated between equals and based on collaboration (Deakin Report, 1998); and
- (iii) A proposal for a 'concordat' between government and the voluntary sector, setting out a framework for their relationship (Charity Commission, 1995).

The main recommendations of the Kemp Report included:

- (i) The creation of a Scottish Charity Registrar;

- (ii) The creation of a new legal definition of charity based on the concept of public benefit;
- (iii) The creation of a new legal identity for charities;
- (iv) The harmonisation of the statutory framework governing the legal status, taxation and accountancy obligations of charities and the liabilities of trustees; and
- (v) The creation of a Scottish Charity Review Tribunal to hear appeals.

In response to the Deakin and Kemp reports, the Local Government Association developed a code of conduct on engagement between local authorities and the third sector which included a Compact. This document gave guidance on setting up mutually-beneficial partnerships between third sector organisations and other statutory sector organisations. A number of partnerships were formed, covering a range of initiatives with local authorities such as local strategic partnerships, crime and disorder partnerships (The Charity Commission, 1995).

2.4.8 The Review of Law and Regulatory Structure of the Charitable Sector (2002)

In May 2001 the Strategy Unit of the Cabinet Office set up a working party to review the law and regulatory structure governing the charity sector. A report with 61 recommendations was released in September 2002 designed 'to modernise the law, encourage growth in the sector, improve performance and strengthen government regulation' (Fremont-Smith, 2004, p. 36).

The main recommendations included:

- (i) Strengthening the powers of the Charity Commission and a proposal to change the agency's name to the Charity Regulation Authority;
- (ii) Registration requirements for a large number of excepted charities while raising the threshold for registering smaller charities;
- (iii) Adoption of the Nolan Committee's standards of behaviour in public life;
- (iv) Conducting and publishing performance reviews of different subsectors; and
- (v) The enlargement of the Charity Commission to reflect a wide range of stakeholders.

The report received strong support from the Prime Minister (Fremont-Smith, 2004) and sector advisory agencies such as the NCVO and the Charity Commission (NCVO, 2005^a; The Charity Commission, 2004).

2.4.9 The Hampton Review (2005)

In the 2004 budget the Chancellor of the Exchequer asked Sir Philip Hampton, chair of Sainsbury plc, to consider the scope for reducing administrative burdens by promoting more efficient approaches to regulatory inspection and enforcement, although without compromising regulatory standards or outcomes. After an extensive review, Sir Philip completed his review and submitted his report in March 2005.

The report recommended that:

- (i) Comprehensive risk assessment should be the foundation of all regulators' enforcement programmes;
- (ii) There should be no inspections without a reason, and data requirements for less risky businesses should be lower than for riskier businesses;
- (iii) Resources released from unnecessary inspections should be redirected towards advice to improve compliance;
- (iv) There should be fewer, simpler forms;
- (v) Data requirements, including the design of forms, should be coordinated across regulators;
- (vi) When new regulations are being developed enforcement should be as efficient as possible, and
- (vii) Thirty-one national regulators should be reduced to seven thematic bodies.

As concerns about the burden of charity regulation are hardly new, the general response was positive. The creation of The Better Regulation Executive (as recommended by the report to take over the responsibilities of the Better Regulation Task Force and the Cabinet Office's Regulatory Impact Unit) was widely applauded. However, concern was raised about proposed 'super-regulators' which may, over time, grow out of touch, become expensive to operate and employ front-line staff unfamiliar with current registered members and new entrants to the extended regulatory remit (Krieger, 2006).

2.4.10 The Good Governance Code for Voluntary and Community Sector 2005

After the business and public sectors developed a set of governance codes in the 1990s and early 2000s, pressure increased on the third sector to publish its own guidance for boards of directors to assist their decision making and accountability (Trustee Wales, 2006). Housing associations and co-operatives were among the first groups to issue good governance guides (NCVO, 2005^b). In June 2005 the NCVO, the Association of Chief Executive of Voluntary Organisations, the Charity Trustee Network and Institute of Chartered Secretaries and Administrators on behalf of the National Hub of Expertise in Governance published the first set of codes aimed at the voluntary and community sector. These are practical and easy-to-use guidelines to help, amongst others, charities' boards develop and maintain good governance practice. They are based on seven key principles that apply to any charity:

- (i) Board leadership. Every organisation should be led and controlled by an effective board of trustees to collectively ensure the delivery of its objectives, set the strategic direction and uphold its values;
- (ii) The board in control. The trustees as a board must collectively be responsible and accountable for ensuring and monitoring that the organisation is performing well, is solvent and complies with all its obligations;
- (iii) The high performance Board. The board should have clear responsibilities and functions and must compose and organise itself to discharge them effectively;
- (iv) Board review and renewal. It should periodically review its own and the organisation effectiveness and take necessary steps to ensure both work well;
- (v) Board delegation. It should set out the broad strategy and delegates to sub committees and executive management functions and monitor their performance;
- (vi) Board and trustee integrity. It must act with honesty and honour; and
- (vii) Board openness. It must be transparent, responsive, open and accountable to the various users, beneficiaries, members and partners (The Governance Hub, 2005).

'Underlying each of these principles is the additional principle of equality – that of ensuring diversity and fairness of treatment for all sections of the community, which is fundamental to the work of all voluntary and community sector organisations' (The Governance Hub, 2005, p.

17). The general feedback from practitioners and advisory agencies was that, 'adopting the principles of the Code of Good Governance or working towards it is one way in which charities can demonstrate commitment in running their organisations' (NCVO, 2006^b, p. 26). Empirical work is needed to assess the reception and impact of this code across the sector and this study is expected to start the process to explore impact and provide some insights.

2.4.11 Trustee and Management Committee National Occupational Standards (2006)

In April 2006 the Governance Hub promulgated a set of competency standard which are designed to assist individual trustees to serve modern, effective boards of voluntary and community organisations (The Governance Hub, 2006). These competencies specify the standards of performance everyone with a governance role should seek to achieve and describe the knowledge and skills necessary for this to occur (The Governance Hub, 2006).

The responses from trustees and managers were positive since the standards have been used flexibly and creatively in a variety of organisational settings as a basis for dialogue and learning and not as a rigid framework to be applied mechanistically (Charity Times, 2007).

2.4.12 The Charities Act 2006

The main provisions of the Charities Act 2006 in the context of CG include:

- (i) A clear definition of 'charity' with an emphasis on public benefit;
- (ii) Assistance to be given to charities to administer themselves more efficiently;
- (iii) Upholding voluntary trusteeship as a key principle of charity;
- (iv) Provision of better protection for whistleblowers who identify abuse and significant breach of trust (including auditors);
- (v) Opportunity for charities to register as charitable incorporated organisations;
- (vi) Provision for the Charity Commission to direct trustees, honorary officers and employees to take specific actions to protect a charity during an inquiry; and
- (vii) Modernisation of the Charity Commission as a regulator, increasing its accountability and preserving its independence from ministers of government.

The Office of the Third Sector and the Charity Commission held a series of regional events in 2007 to raise awareness of the implementation of the Act. These events were organised primarily for senior management, legal, financial and other charity professional advisers (Cabinet Office and HM Treasury, 2007).

Feedback from advocacy groups and professional advisers such as lawyers and fundraisers on the implementation of the Act has been positive (Watts, 2007). With the threshold for charities to have formal audits doubled to £500,000, administration costs for many small and medium sized charities have been reduced (Pepperill, 2007). Data collected from a client poll by the law firm, Rollits, revealed that more than 70% of charities are planning to convert to charitable incorporated organisations (Filou, 2007). This new provision has proved particularly popular with unincorporated charities that want to limit trustees' liability (Watts, 2007).

2.4.13 Regulators Compliance Code (2007)

The Regulators Compliance Code was created in response to the Hampton Review 2005. It is a central part of the government's 'Better Regulation Initiative' led by the Department for Business Enterprise and Regulatory Reform (DBERR). The Code was issued in December 2007 by DBERR following a wide and lengthy consultation process with the private, public and voluntary sectors. Its recommendations came into force in April 2008.

The main thrust of the Code is for regulators to adopt a positive and proactive approach towards ensuring compliance by:

- (i) Helping and encouraging regulated entities to meet regulatory requirements; and
- (ii) Responding proportionately to regulatory breaches.

Based on the premise that effective regulation of charities is essential in promoting confidence in the community and attracting donors to their causes, the Code has been embraced by various voluntary organisations (NCVO, 2007).

2.4.14 Review of Code of Good Governance (2008)

The Governance Hub conducted a review of the 2005 Good Governance Code in 2008. The review, conducted through consultation events, surveys and interviews, identified potential improvements and priorities that would encourage and enable more organisations to use the Code. In June 2008 the Hub published its review report into the awareness, impact and success of the first edition of the Code. The main recommendation was to update and publish a second edition of the 2005 Code which will incorporate mechanisms for assessment and reporting and explore the potential for meshing principles in the Code with other standards so as to relieve the administrative burden of compliance (The Governance Hub, 2009).

2.4.15 The Good Governance Code for the Voluntary and Community Sector (2010)

From the recommendations in the review of the 2005 Code a second, updated edition of the Code which sets out six principles of 'good' governance was published in October 2010. The principles state that an effective board will provide good governance and leadership by:

- (i) Understanding its role;
- (ii) Ensuring delivery of organisational purpose;
- (iii) Working effectively both as individuals and as a team;
- (iv) Exercising effective control;
- (v) Behaving with integrity; and
- (vi) Being open and accountable.

2.4.16 The application of business governance codes to charities

Although the recommendations in CG codes developed from the Cadbury Report in 1991 to the UK Stewardship Code 2010 were specifically directed at businesses there is implicit understanding that the advice regarding board independence, composition, characteristics, committees and processes can be flexed to fit charities. There is also tacit assumption that the principles in business sector governance codes published by Cadbury (no dominant CEO or chairman of the board and separation of the two roles); Rutteman (transparency in the boardroom and robust internal controls); Greenbury (fair directors' remuneration); Hampel (AGMs to be made more meaningful to inform shareholders [charity members]); Turnbull

(effective risk management); Myners (sound investment decisions); Higgs (effectiveness of NEDs); Smith (setting up effective audit committees); Tyson (a balance of skill and experience on the board); Combined Codes of 2003, 2006 and 2008 (care, skill and diligence of directors and the promotion of partnership between directors and stakeholders); The UK Corporate Governance Code 2010 (need for directors to devote sufficient time to their work); and The Stewardship Code (managing conflicts of interest), can be extended to charities. Equally applicable to charities are the seven principles of Standards in Public Life (Appendix C) and the six Good Governance Standards for Public Services (section 2.3.14).

The Combined Code (2006) prescribes every company to be headed and directed by an effective board, which is collectively responsible for the success of that business (FRC, 2006). In the same way, boards of charities are expected to steer their organisations successfully to achieve objectives set in their governing documents and operational plans. Although the aims and objectives of charities are fundamentally different from those of businesses, they still require effective management practices and sound systems of accountability in the form of robust CG practices and systems (NCVO, 2005^a). Businesses and charities are very similar in many aspects of their governance practices these days (Plummer, 2003) and as Vinten (1997, p. 23) stated, 'the differences between the commercial and the voluntary [third] sectors tend to be overstated.'

2.4.17 Distinctive features of charity and corporate governance

Businesses and charities share many similar features in their governance practices, procedures and other arrangements. These include: (i) operating within the provisions of a governing document such as a Memorandum and Articles of Association (incorporated charities); (ii) board members demonstrating a duty of care and loyalty which involves ethical and responsible decision making; (iii) safeguarding the integrity of financial reporting; (iv) recognising and managing risks; (v) encouraging enhanced performance. However, there are also some fundamental differences that make charity governance dissimilar from corporate governance. Table 2.5 lists some of the key distinctive, diverse features.

Table 2.4
Distinctive Features of Charity and Corporate Governance

	Charity Governance	Corporate Governance
The governing body	The board is entirely composed of unpaid volunteers	The board is constituted of executive directors and NEDs who receive remuneration
Executive and managerial functions	Trustees (executives) do not perform managerial duties	Executive directors perform managerial functions
Funding streams	Voluntary contributions (donations) form a significant proportion of operational income	Share and debenture holders provide equity and loans
Sustainability	Responsible practice actively encouraged by regulators to meet expectations of donors, beneficiaries and the public	Voluntary adoption of CSR and other sustainability practices
Stakeholders	Stakeholders are not easily identifiable	Clear line of accountability to easily identifiable stakeholders

These features will now be discussed.

One of the distinctive, fundamental principles of charities is the willingness of those who run them to give up their time freely for the benefit of others and not for their own financial reward (Charity Commission, 2002). This principle helps to sustain public trust and confidence in charities and any departure requires permission from the local regulator. On the other hand, the governing document of companies usually provide for directors to receive remuneration.

Trustees usually set out the strategy and key policies of their charities and delegate day-to-day implementation and operation to the CEO and other employed staff. In businesses functional directors also perform managerial duties.

Another distinctive difference between charity and corporate governance is the voluntary nature of contributions (donations and legacies) in charities. Businesses are normally funded by share and debenture holders.

Charities are now actively encouraged by their regulators to develop and implement sustainability policies and practices (Charity Commission, 2008^b). Some have even been set up to champion and promote sustainability in society and the environment. In the business sector, however, adoption of sustainability practice and reporting is voluntary not mandatory.

Unlike the corporate sector where stakeholders are easily identifiable there is no generally acceptable model of stakeholders in the charity sector. One of the research questions of this study is to identify and recognise this group from empirical evidence collected.

2.4.18 Summary

The review of governance literature in section 2.2, 2.3 and 2.4 covered the theoretical underpinning and the development of what constitutes contemporary corporate, public and charity governance and how the respective boards can contribute to the effectiveness of governance in the UK. However, a comparison of Tables 2.1 and 2.3 demonstrates that although there has been extensive and systematic review of business governance, the charity sector has lagged behind. With this theoretical background and the intra- and cross-case analysis in Chapters Four, Five, Six and Seven, this thesis builds on the literature and makes a contribution to the understanding of effective charity governance within the UK third sector. Although critics have highlighted the difficulty of assessing governance in a non-homogeneous, third sector environment (Cornforth, 2001; Anheier, 2005), key areas in organisation theory (reviewed in the next section) will provide empirical and theoretical insights and understanding that can contribute to effective charity governance.

2.5 Organisation theory

2.5.1 Introduction

The importance of organisations today cannot be overstated as most people in developed societies find it practically impossible to escape them during their lifetime. They are born into them, go to school in them, marry in them, pay taxes to them and may probably die in one of them. They have become the dominant structure of institutions in society today and pervade all aspects of contemporary life (Robbins, 1990). They range from complex businesses that transcend political and geographical boundaries to public institutions such as central and local government agencies, schools and hospitals and third sector organisations such as charities, social enterprises, cooperatives and mutuals. It is therefore not unreasonable for scholars to investigate and understand how organisations operate. Organisation theory, therefore, has developed as a systematic study by scholars over the last 100 years to investigate, analyse

and understand the structural design, environment, culture and processes of organisations (Taylor, 1911; Burns and Stalker, 1961; Lawrence and Lorsch, 1967; Mintzberg, 1993; Hart, 2006). The analysis offered present suggestions from theoretical reasoning on how organisations can be constituted to achieve their objectives (Daft, 2004).

2.5.2 Organisations

Organisation behaviour experts Buchanan and Huczynski (1997, p. 16), provide a narrow description of organisations as, 'social arrangements for achieving controlled performance in pursuit of a collection of goals.' However, Robbins (1990, p. 4) defines the concept as 'a consciously co-ordinated social entity, with a relatively identifiable boundary, that functions on a relatively continuous basis to achieve a common goal or set of goals.' Covering similar social aspects as Robbins although like Buchanan and Huczynski ignoring the environment dimension, Hunsicker (2003, p. 153) describe an organisation as, 'essentially a separate and distinct group of people brought together and consciously co-ordinated towards accomplishing a common objective.' In synthesising the various definitions of organisations cited over the years Daft (2004) provides four elements that make organisations - private, public or third sector - different from other groups such as families and a circle of friends:

- (i) Social entities. This means they are made up of people or groups of people;
- (ii) Goal-oriented. These people or groups exist to achieve an objective;
- (iii) Deliberate structure and co-ordination. This implies management and control; and
- (iv) Relatively identifiable boundary. This indicates internal and external environment.

The organisation literature highlights several other factors that make organisations distinctive (Robbins, 1990; Kotter, 1997; Hatch, 2006). They vary in size and scale of operation (small, shops, SMEs, national charities, international charities and businesses); operate in different structures (flat, hierarchical, pyramids, matrix); different sectors of operation (first, second and third); their legal constitution (sole trader, partnerships, trusts, co-operatives, private and public companies) as can ownership (the public, shareholders, members, beneficiaries). These can be considered as the key factors boards and management need to consider when designing or remodelling their organisations to deliver effective governance.

2.5.3 Organisation structure

One of the key elements in the definitions provided above is the need for formal co-ordination and interaction mechanisms to achieve organisational goals. Some theorists (Ford and Schellenberg, 1982; Robbins, 1990; Daft, 2004) view these mechanisms as structure - the framework through which a desired goal can be achieved. They consist of clearly defined tasks and responsibilities that are assigned to individual or group members, setting out reporting relationships in a variety of systems to ensure effective communication, co-ordination and integration of efforts across the whole organisation including executive, non-executive and functional management (Robbins, 1990). Although organisations, including charities, vary in size and complexity their operations are based on a structure that is supported by (i) division of labour; (ii) enforcement of rules and procedures; and (iii) distribution of power. These components, which are considered as contributory to effectiveness (Peters and Waterman, 1984; Robbins, 1990), have been reclassified by modern organisation theorists (Daft, 2004, Walsh *et al.*, 2006; Hatch 2006) as comprising complexity, formalisation and centralisation.

Empirical studies in organisation structure have not, however, provided conclusive evidence of the contributory nature of these components. Mullins (2005) argued that these components of organisation structure are not definitive and identified other issues such as strategy, technology and the environment as contributing to effectiveness. Results from another study using longitudinal data from over 6,000 stores within one of the biggest U.S. restaurant chains from 1991 to 1997, reveal that organisations will act in fit-enhancing ways by pursuing strategies that are more congruent with their governance structure (Yin and Zajac, 2004). Yin and Zajac argue that firms, with flexible and decentralized structures, will more likely pursue strategies that emphasise flexibility and adaptation, whereas others will tend to pursue strategies that emphasise predictability and control. The evidence from these studies suggests that organisation structure is a consequence fit between factors such as the environment, structure, strategy, system, style and culture.

2.5.4 Organisation effectiveness

Major scholars who have influenced organisational thinking (Peters and Waterman, 1984; Drucker, 1993; Handy, 1995) have argued that although efficiency may lead to effectiveness, it does not naturally follow that efficient organisations are effective. The challenge to conceptualise what are those 'right things' Drucker (1963) referred to; establish how they can be accomplished; and to determine when they have been achieved. In the early 1950s organisation effectiveness was simply perceived as the ability of an organisation to realise its goals (Robbins, 1990). After a proliferation of organisation effectiveness studies over the last 40 years and the recognition of the complexity of the modern organisation, theorists (Robbins, 1990; Drucker, 1993; Hart, 2006) have described the concept as an organisation achieving its stated objectives through a combination of sound management, effective governance and a continuous assessment of desired results. Many writers (including Swansburg and Swansburg, 2002; Swayne *et al.*, 2006; Patterson and Radtke, 2009; Burke and Friedman, 2010) argue that mission, vision and values statements can be the framework for strategic planning and assist organisations to articulate, communicate and achieve their stated objectives. In essence, these statements sum up what the organisation stands for, define its long-term future and set out core organisational beliefs and principles. Critics such as Penttila (2002) and Bohlander and Snell (2010) contend these statements can be vague, creative writing exercises that are forgotten once completed rather than actively used as tools for organisational guidance. This criticism, however, fails to recognise that when these statements are incorporated into strategic and operational planning they can help directors and managers to focus and steer their organisation to the achievement of stated objectives.

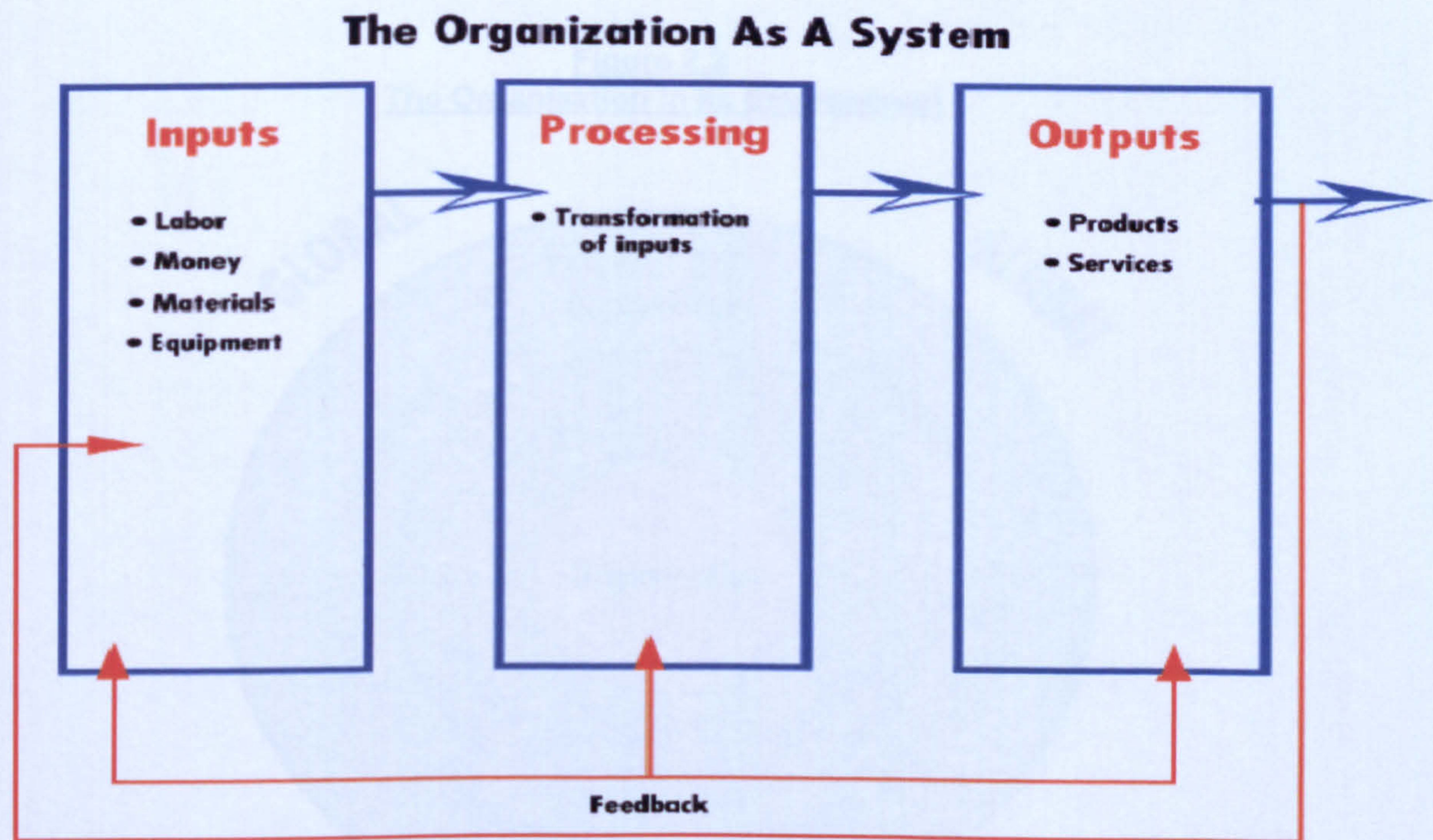
In a seminal study of effectiveness in third sector organisations, Herman and Renz (2004) argued that organisational effectiveness is multidimensional and spans issues such as the outcomes of operations, growth, revenues and programmes. In earlier research, Kushner and Poole (1996) presented a model of third sector effectiveness which recommended five dimensions of organisational effectiveness; (i) satisfying constituents [stakeholders], (ii) mobilizing resources, (iii) using these resources efficiently, (iv) setting and attaining goals, and (v) adapting to environmental change. In both studies the multidimensional factors of

organisational effectiveness highlighted are some of the critical elements of effective governance which will be examined and explored later in this thesis (Chapters Four, Five, Six and Seven).

2.5.5 The organisation environment

Organisation theorist Daft (2004, p. 136), described the environment as, ‘all elements that exist outside the boundary of the organisation and have the potential to affect all or part of the organisation.’ This concept is also described in economic terms as a set of specific and general forces surrounding an organisation that have the potential to affect the way it operates and its access to resources (Lindberg and Berger, 1997). As figure 2.1 illustrates, through this interaction the principle of open systems is demonstrated as inputs are received by the organisation and processed to produce specific outputs. These outputs are products and services for public benefit, the *raison d’être* of charities.

Figure 2.1
The Organisation as a System



Source: Allen, 1998 (p. 15)

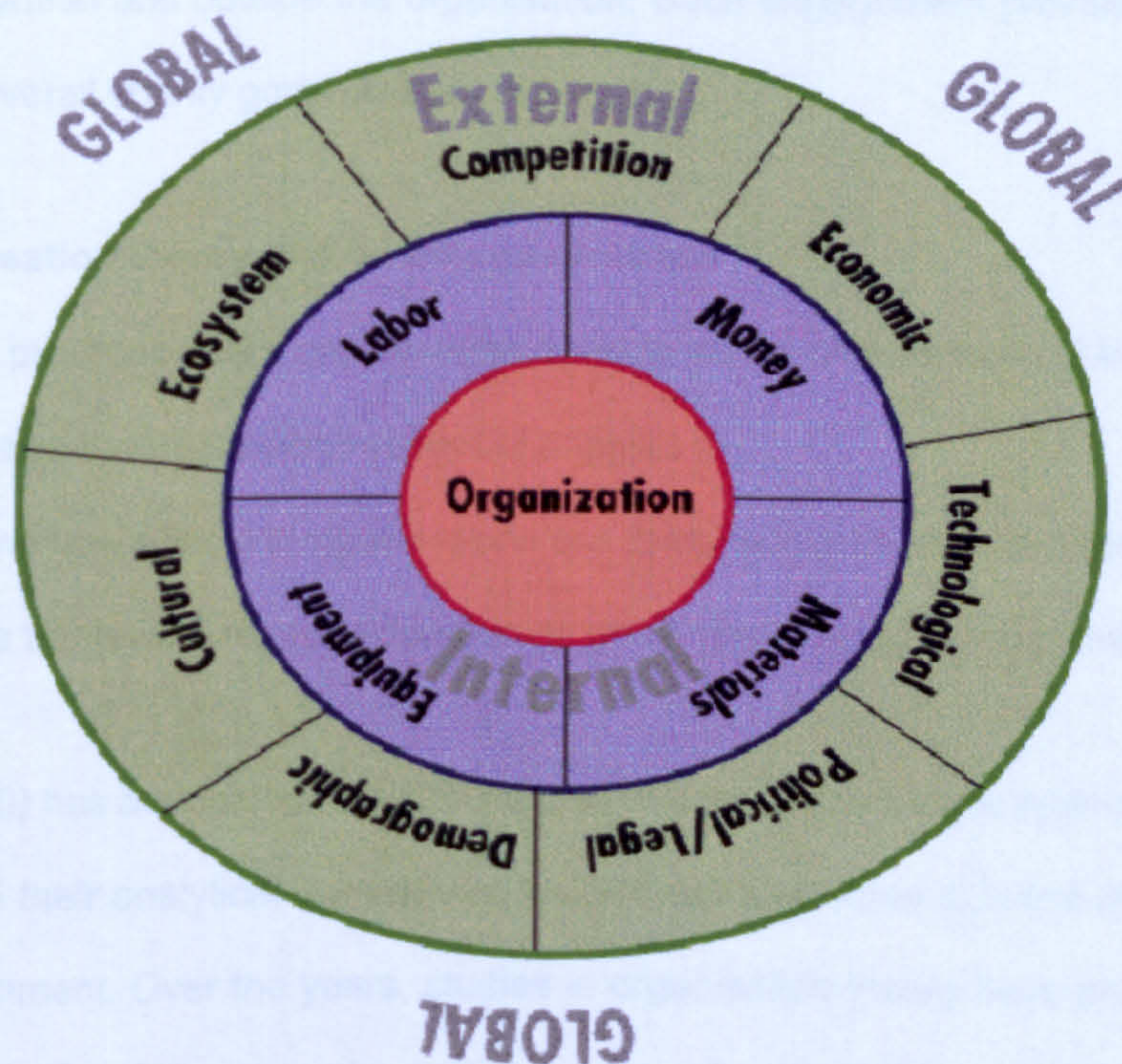
Other scholars (Mintzberg, 1993; Hart, 2006) have categorised factors affecting the organisation on two levels; the internal and external environment. Figure 2.2 below shows how the organisation fits within the two dimensions of its environment.

The internal environment

This consists of elements within an organisation. As systems theory describes, the organisation is a resource conversion system that takes inputs from the external world and converts them into useable products and services, which are made available to consumers, members or beneficiaries as outputs. In charities the main elements include:

- (i) Employees and volunteers - This cadre covers the number of paid and volunteer staff. They are the main resources who work towards achieving stated organisational goals.
- (ii) Trustees and management - They usually have the requisite skill, experience and knowledge to lead the charity for it to prosper in a complex and changing world.
- (iii) Funding, premises and equipment – These are used by employees and volunteers to produce products and services for beneficiaries. (Duncan, 1972; Allen, 1998).

Figure 2.2
The Organisation in Its Environment



Source: Allen, 1998 (p. 16)

The external environment

This dimension covers all external institutions and forces that have actual or potential impact on the organisation's ability to achieve its aims and objectives. They include competitors and technological, political, economic and legal factors. Competitors include other organisations operating in the same industry. They usually share the same customer or member group and can affect the organisation in several areas:

- (i) Technology has become an essential factor for success in charities. It brings efficiency and effectiveness to operations in most areas and improves overall performance.
- (ii) Political and economic factors have repercussions. Governments can stimulate growth in the economy, encourage creativity and innovation or dampen enterprise.
- (iii) Legal factors link the legislative and regulatory framework with the operation of organisations, which includes an important element - governance.
- (iv) In order to be successful, organisations need to know their market and this includes the competition. Thorough market analysis to achieve a leading edge can lead to better performance and improved governance practices (Duncan, 1972; Allen, 1998).

The insights gained from an understanding of both internal and external environments provide knowledge for trustees and managers to engage effectively with the various elements and resources within and outside the organisation. Such engagement provides a setting that may enhance overall charity governance.

2.5.6 Organisation theory and charity governance

As governance practices occur and systems operate within organisations (Monks and Minow 2008), organisation theory provides essential analysis to:

- (i) Understand how effective organisations are designed, controlled and directed; and thus
- (ii) Develop a framework for consideration of 'good' governance (Frishammar, 2006).

O'Sullivan (2000) has advocated that CG theories should incorporate a systematic analysis of organisations in their analytical frameworks to deal with and come to terms with the modern, complex environment. Over the years, studies in organisation theory have provided empirical evidence and insights into a broader understanding of organisations and presented a good

platform to deal effectively with problems faced in its rapidly-changing charity setting (Crowther and Green, 2004). Although reviews of the evidence (Tsui, 1990; Njoh, 1994; Pfeffer, 1997; Porter and Kramer, 2002) indicate that results of the investigations into variables such as structure, environment, leadership and behaviour of organisations are not conclusive, the cumulative knowledge gained points researchers and practitioners to essential elements which promote better performance, leading to effective charity governance (Anheier and Seibel, 1990; Anheier and Ben-Ner, 2003; Powell and Steinberg, 2006). These insights will contribute to the development of a conceptual framework to analyse the three charities that are covered in this study.

2.5.7 Summary

The principal facets of organisation theory and conclusions from the studies considered above introduced a set of propositions that attempt to explain organisational fit - the ability to achieve its goals (Daft, 2004) and how groups and individuals behave in differing organisational arrangements. These propositions included key factors that can influence and underpin the development and maintenance of effective governance of charities. The purpose of some theories, including those already discussed, is to explain the phenomena being investigated (the environment of charitable organisations and success factors) and allows the researcher to deduce logical explanations (Robbins, 1990) to inform the study.

Organisation theory and research provide an empirically-based framework to analyse and understand group and individual behaviour and attitudes within charity governance and thus avoid entropy (potential disturbance and chaos within and outside its organisational boundary). An important requirement for any charity governing body is its governance responsibility to maintain organisational stability to achieve its goals (Anheier, 2000; 2001). In summary, organisation theory equips the researcher with theoretical scope and empirical focus to conduct this study. In addition to the contributions of the organisation to effective charity governance, stakeholder theory, which will be discussed in the next section, adds clarity to the identification and engagement of individuals or groups with interests in the success or failure of the organisation, to improve governance relations and practices.

2.6 Stakeholder theory

2.6.1 Introduction

The term 'stakeholder' is generally accepted to have first appeared in an economic sense in business and management literature from a report prepared at the Long Range Planning Service Centre of Stanford University Research Institute in 1962 (Freeman, 1984). It was applied to, 'groups or individuals that can affect or are affected by the achievement of the organisation's objectives' (Freeman 1984, p. 46). In the theory of finance championed by Friedman (1962), it is assumed that the primary objective and 'social responsibility' of business is to maximise the profits and value of a company. Simply put, it means increasing profit in the short and long term and thus the wealth of the shareholders. Stakeholder theory, however, recognises that companies (and by implication, other organisations such as charities) have a multi-fiduciary responsibility - that is, a wider range of interests and objectives than mere shareholders' concerns, which mainly centre on profit and increasing the value of their investment. Stakeholder theorists (Pearce, 1982; Armitage, 1997; Plender, 1997; Sadler, 2002) articulate the notion that there are many groups to which corporations are responsible and that deserve or require director and management attention. In the case of charities, organisational objectives may include the achievement of sector leadership in their area of operations, diversification of income streams, raising media profile to increase awareness of activities, or attracting new members, donors and volunteers.

According to Freeman (1984), stakeholder theory identifies the groups which are stakeholders of an economic unit, and both describes and recommends methods by which directors and management can give due regard to these interests of those groups. This theory also falls within a framework of analysing and evaluating corporate social performance and has been articulated in a number of ways, but in whatever way it is presented it is a business ethics approach to governance and management, which represents a broader constituency for organisational responsibility beyond shareholders (Clarkson, 1995). Most discussions of stakeholder theory examine contrasting views on whether a corporation's responsibility is primarily (or only) to deliver profits to shareholders or to respond to the interests of a wider community of people who have a stake in the organisation (Pearce, 1982; Freeman, 1984;

Carroll, 1996). In the charity sector this takes added significance as there is no clear, definitive analysis of stakeholders, whereas accountability to various constituencies is vital for continued existence and survival (Cordery and Morley, 2005).

Business stakeholders normally include share and debenture holders, the board of directors, employees, creditors, customers, suppliers and regulatory agencies (Low, 2006). They have rights and obligations that are protected in business and company legislation. In contrast, as stated above stakeholders in charities and other third sector organisations are not easily defined (Dawson and Dunn, 2006). According to Anheier (2005), one major disadvantage faced by third sector stakeholders is that they do not have similar legal privileges in governance as their business sector counterparts. Stakeholders in charities who wish to influence organisational policies and direction have no direct recourse to law if the board of trustees and management decide to overlook or ignore their lobbying. Unless regulatory agencies intervene or the media takes up their cause, there is little likelihood they will achieve the desired changes. As articulated in the third research question (section 1.5), this study explores the identity of charity stakeholders and recommend a typology for engagement that will lead to effective governance.

2.6.2 Definitions of stakeholders in the literature

Freeman and Reed (1983, p. 91) provide two of the most widely referenced definitions of stakeholders: (i) a wider concept as, 'any identifiable group or individual who can affect or are affected by the achievement of an organisation's objectives'; and (ii) a narrower view, 'as any identifiable group or individual on which the organisation are dependent for its continued survival and success.' Carroll (1996, p. 74) described the concept along similar lines as, 'individuals and groups that can affect or are affected by the actions, decisions, policies, practices and goals of the corporation.' Pearce (1982), however, defined stakeholders in a wider context as any group of constituents who have a legitimate claim on a firm; while Clarkson (1995, p. 2), portrays stakeholders as, 'those persons who have an interest, to gain or lose as a result of its (the corporation's) activities.' Using a fairly constricted legal lens,

Slinger (1999, p. 136) defines stakeholders as, 'those to whom it has contractual effects for which in principle society would prefer that contracts were drawn up.'

The underlying principle in these definitions is that organisations - public, private or third sector - need to respond to the interests and influences of those affected by their policies, activities and operations and reach an appropriate balance of these interests in their decision-making process. While each scholar defines the concept somewhat differently, a key feature stands out - namely that organisations must consider a wider constituency of stakeholders who have legitimate but different interests. Typical stakeholders which have been cited in business and management literature include board of directors, management, customers, suppliers, communities, employees, unions and trade associations, competitors, government agencies, share and debenture holders (Freeman and Reed, 1983; Freeman, 1984; Plender 1997; The Royal Society of Arts, 1995).

2.6.3 The ethical justification for stakeholder theory

While certain aspects of organisations can bring positive outcomes such as employment, provision of necessary products and services and economic development, there are also adverse results that follow the operation of these institutions. These results come in the form of pollution or emissions which can affect the quality of life in society. Social contract theorists (Zucker, 1987; Carroll, 1996; Deegan, 2002) argue that the basis of the organisation's existence can be explained by the implicit boundary of social expectation. Legitimacy is engrained within the theoretical notions of social contract between the organisation and society (Hoque, 2006). Members of society thus expect certain ethical behaviour and effective use of resources from the organisation, especially the charities they support, and such expectation must be given due consideration for continued operation within that society. Congruency between social expectation and organisation performance must be achieved to maintain social legitimacy (Powell and Steinberg, 2006). For organisations such as charities, this legitimacy as advocated by Powell and Steinberg is critical for longevity as they exist mostly on public goodwill and benevolence. The ethical dimension of stakeholder theory that

advocates the recognition and engagement of various individuals and groups provide a framework to achieve desired congruency, legitimacy and ultimately effective governance.

2.6.4 The role of the stakeholder

Freeman (1984) and Mallin (2007) have identified the roles of the main stakeholders of an organisation. They argued that owners, share and debenture holders (members and beneficiaries within a charity context) have a financial stake in the entity and expect a return on their investments (products and/or services for charities). Employees in the entity have their jobs to consider and usually have their quality of life and livelihood at stake. Suppliers provide raw materials and other consumables for a consideration and regard the longevity of the corporation as vital to their own success. Customers (service users and beneficiaries) exchange resources (annual membership subscriptions and donations) for quality products and services and in return receive benefits from these products and services they procured. They have a stake in stable businesses from which they can obtain what they want. Local communities regularly grant businesses and other organisations the right to build facilities in their areas and in return they benefit from the 'tax base,' social and economic contributions made by the entities. Management looks after the health of the organisation and balances the conflicting claims of stakeholders. In return, they receive a remuneration package, sometimes including performance benefits. Trustees and volunteers in charities give their time and other resources and in return see the positive change effected in society. Two additions can be made to the Freeman and Mallin list regarding third sector organisations - government and regulatory agencies which have a stake in the continued existence of the organisation in terms of the public service delivery and compliance with legislation, regulation and best practice codes. This clear identification of the roles of stakeholders offers trustees a model to engage the stakeholders listed above and steer the organisation towards the achievement of key objectives including effective governance.

2.6.5 Perspectives on engaging stakeholders

Donaldson and Preston (1995) have argued that there are two perspectives to this concept of engaging stakeholders, being the normative and the instrumental. From a normative

viewpoint organisations should engage their stakeholders because it is intrinsically desirable in building consensus in determining policy and direction. Normative stakeholder theory is based on ethical principles, which sometimes take the form of a code of ethics (Cadbury, 1998; Greenbury, 1995, Combined Codes 2003 and 2006). This can be contrasted with the instrumental view, which argues it is good business for organisation to engage with, and be responsive to, their stakeholders. McMillan and Downing (1999) use this premise to argue that the bulk of the value of modern companies (and by implication other organisations such as charities), is goodwill. Expressed another way, the value of an organisation is usually determined by the quality of its relationships in various areas of its operations (Kaplan and Norton, 1993).

A widely adopted measure to assess stakeholder satisfaction is to compare stakeholder perceptions of the actions of the organisation in achieving its mission via the Balance Scorecard (Kaplan and Norton, 1993). This is used in all sectors and can provide qualitative and quantitative measurement of progress measuring whether the activities of a company are meeting its objectives in terms of vision and strategy. The scorecard is 'balanced' because the approach advocated involves internal and external stakeholders in setting and measuring performance standards. It can also be considered balanced because it measures short, medium and long-term perspectives and is constructed from financial, non-financial, quantifiable and non-quantifiable measures. The perspectives considered in this model include customers (beneficiaries for charities), financial, internal-business and learning and growth dimensions. They can be further broken down to include measures such as return on investment, members' satisfaction and service quality improvements (for charities).

In 1995 the Royal Society of Arts (RSA) commissioned a study, chaired by Sir Anthony Cleaver, to investigate the role of organisations in a changing world. The study focused on successful UK companies, such as IBM UK, Marks and Spencer, BT, BP, Cadbury Schweppes and The John Lewis Partnership, and provided substantial evidence of competitive advantage through taking a stakeholder approach (RSA, 1995). The authors of the study concluded from the evidence collected that the 'inclusive organisation' is one that

moves towards partnerships and shared values, and focuses less exclusively on one group of stakeholders but, rather, embraces a broader range of interests and measurements. Although the study highlighted the merits of adopting a stakeholder mode of operation, one identified limitation was its failure to explore and provide recommendations for boards which have to resolve multiple (and sometimes dissident) stakeholders' interests. In the third sector, regulatory agencies advise that the main objects of the organisation should override any conflicting interests of parties (NCVO, 2005^a).

2.6.6 Stakeholder theory and the third sector

Stakeholder theory in the third sector has been developed by Ben-Ner and Van Hoomissen (1991, p. 421) who used stakeholder concepts to theorise that 'third sector organisations are founded and controlled primarily by 'demand-side and supply-side stakeholders' interested in the provision of services for themselves as consumers and/or for the benefit of others as donors or sponsors.' This contrasts with commercial entities, which are founded and controlled by providers of capital who are mostly interested in the return to their investment rather than in the product or service produced. Ben-Ner and Van Hoomissen acknowledge the contribution of Hansmann's trust argument as the basis for their own position. Hansmann (1996) posited that a variety of problems might make it difficult for the consumers of a particular commodity, product or service, to police the conduct of producers by normal contractual or market mechanisms. This, he argued, may result in contract or market failure. According to his reasoning, third sector organisations exist because of demand for some 'trust' goods or services, the supplies of which are not usually met by businesses or the public sector.

In a recent case study using interviews and survey instruments, Hsieh (2010) looked at the relationship between stakeholder engagement and organisational performance in ten non-profit organisations in three metropolitan areas of North-western USA. He found that the delivery of services satisfied both individual and societal needs, generally indicating a positive relationship between stakeholder engagement and organisational performance. He further noted results of the study suggest that sustainability of an organisation depends on its

capability to align strategic behaviour with stakeholders' interests. Earlier studies (Bernstein, 1980; Analytica, 1992; Porter, 1992) also confirm the Hsieh results. However, the relative importance of various stakeholders to the organisations was not taken in account in the Hsieh study as they can sometimes be contradictory. It is up to the organisation to prioritise them.

Another study in USA was conducted by the Sloan Project (Logsdon *et al.*, 2000). This concentrated on the development of stakeholder theory as a way to address many of the questions arising from efforts to redefine the third sector. The researchers used various methodologies including large-scale surveys, case study methods and quantitative analysis of secondary data. The results revealed that when managers espouse stakeholders' values and goals, the managers become better aware of and understand their internal and external environment and manage more effectively within the nexus of relationships that exist. The importance of community involvement, which is essential for successful charity operation, makes this study relevant. Evidence from the research supports corporate social responsibility frameworks, which assert that responsibility to the community as a stakeholder is driven by morals and values. The main argument against this position is that it is morally and values driven, without consideration being given to its economic impact (Mitchell *et al.*, 1997). However, for charities such as Greenpeace and Amnesty International, this is the ideological objective for which they were formed.

2.6.7 Summary

Stakeholder theory describes a complex picture of relationships with regard to the organisation. However, it has been critiqued by some scholars for being vacuous in treating each stakeholder as equal (Stenberg, 1997; Henderson, 2001); offering an unrealistic view of how organisations operate by suggesting accountability to every constituency that influences it (Key, 1999); oversimplifying the issues by presenting a picture that portrays the problem of today as having known and agreed solutions; and failing to provide suitable criteria to balance various stakeholders' interests (Goodpaster and Atkinson, 1992). Nonetheless, the central theses of ethics, relevance of the theoretical frameworks and empirical studies presented above show how charities can consistently

manage relationships which in turn can contribute to effective charity governance – the objective of this investigation.

Stakeholder analysis also provides a sound foundation to explore the third research question (section 1.5), analyse harmonious or dysfunctional relationships in the study and look at how charities can engage their constituency to achieve organisational goals and objectives. The Cass CCE (2009) argues that when the charity board and management team understands, engages and responds to its stakeholders, the less likely it is to find itself under siege from disgruntled members and beneficiaries, demotivated staff and volunteers, disillusioned donors or concerned regulatory agencies. This statement highlights the importance of recognising the interests, concerns and claims of stakeholders in all processes and decisions to enable charities to achieve better performance and effectiveness. The next section consolidates and identifies gaps in the various strands of literature already covered and presents a *raison d'être* for this investigation.

2.7 The rationale for this study

Boards of directors in business, public and third sector organisations have attracted much attention in recent years, as evidenced by the extensive coverage in academic and practitioner literature and most sections of the media. The issues affecting governance have risen up the economic and political agenda and have become one of the central topics of discussion in the quest for the competitiveness and success of the British economy (Hortiu 2004, Parum, 2006). As highlighted in section 2.2.22, the reforms that followed the scandals of corporate maladministration and poor governance have been both lauded and criticised by scholars, practitioners and commentators. The literature review also highlighted a growing but small number of quantitative, survey-based, 'outsider' research projects into third sector governance in the UK. Evidence of rigorous, scholarly, 'insider-trustee' research study is limited, sometimes due to confidentiality and the difficulties of access to boardrooms and key governance participants.

2.7.1 Research Justification

The limited scope of research in the UK charity sector, and governance in particular, reveal gaps in academic endeavour in the following areas:

- (i) Even if growing, but nevertheless limited scope and mostly survey-based suite of quantitative and quasi-qualitative studies of charity governance in: (a) Palmer and Hoe (1997) - good practices in the management of the voluntary sector; (b) Cornforth and Edwards (1999) - the success of public and non-profit boards depends on the complex interplay of regulation, sectoral traditions and norms of governance; (c) Palmer and Randall (2002) - financial management best practices in the voluntary sector; (d) Cornforth and Simpson (2002) - charity board size impacts performance; and (e) Cornforth (2005) - exploratory studies in the accountability and performance of public and non-profit boards), and thus a need for a broad, qualitative inquiry into the non-quantifiable 'hard' elements (audit, regulation) and 'soft' attributes (commitment, renewal) of charity governance;
- (ii) The absence of a definitive classification of stakeholders in the charity sector (Weir *et al.*, 2002; Cornforth, 2005; Powell and Steinberg, 2006) and thus the need to develop a typology of charity stakeholders to improve engagement and governance reporting;
- (iii) Limited coverage of internal and external governance mechanisms (Jobome, 2006) and thus the need to explore and understand the multi-faceted dimensions of those governance mechanisms necessary to achieve effective charity governance.

2.7.2 Research objectives

This study, therefore, has three primary aims and objectives (section 1.4), being to:

- (i) Examine, describe and evaluate the various elements of governance processes and structures from a sample of UK charities, and from there build theoretical understanding of, and insight into, charity governance from an 'insider-trustee' perspective;
- (ii) Provide a typology of recognition and levels of engagement of the key stakeholders of charities; and

- (iii) Use the empirical data from the research, as supported by the literature, to devise general principles of effective charity governance.

The findings from this study are expected to be of interest to current and potential trustees and senior managers of charities, policy analysts in government agencies, local and health authorities, advocacy groups, think tanks and researchers in charity governance. In the next section the conceptual framework for this study is presented and discussed.

2.8 Conceptual framework

The conceptual framework for this study has been developed from the literature (Tables 2.4, 2.5 and 2.6). At the end of the literature review elements of the framework had evolved but trustees' responses to the interview questions enriched and provided further categories in each of the three mega themes that emerged: organisation structure and strategy, and both internal and external governance mechanisms. This led to an integrated theoretical and practical framework encompassing the various facets of effective charity governance.

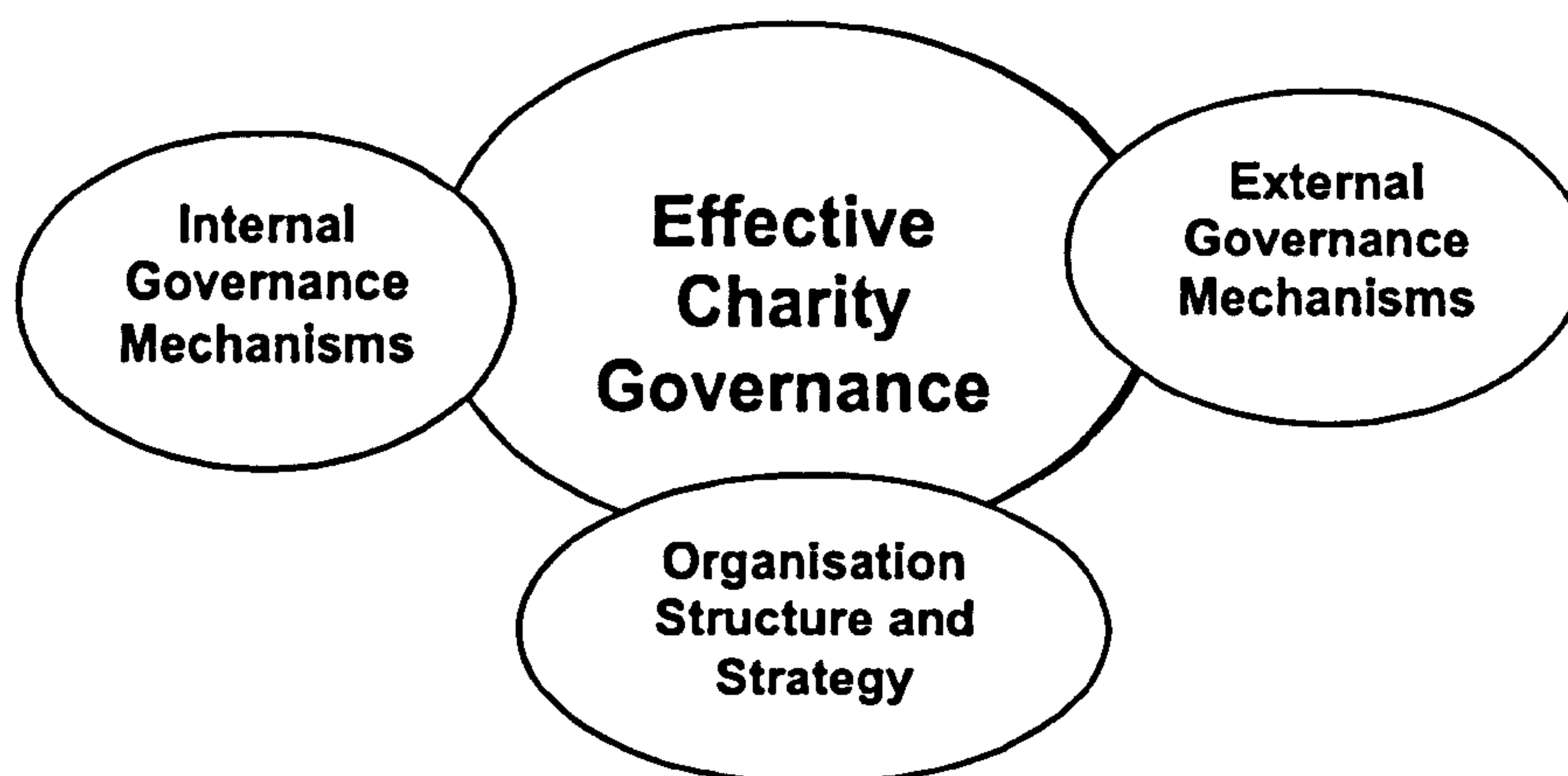
These overlapping themes and categories make up the framework. The themes are presented diagrammatically in Figure 2.2. Together they complement each other to form an expansive model for exploration which is expected to provide an understanding of charity governance by linking the discursive material to social science concepts.

The themes and categories also provide the structure of analysis later used in the intra- and cross-cases analysis presented in Chapters Four, Five, Six and Seven. The number and range of categories are intended to make them broad in scope and robust so as to contribute to a better understanding of effective charity governance.

2.8.1 The themes

The themes of the conceptual framework as illustrated in Figure 2.3 are organisation structure, internal governance mechanisms and external governance mechanisms.

Figure 2.3
The Themes of the Study



The themes and categories are listed and discussed in Tables 2.4, 2.5 and 2.6.

2.8.2 Organisation structure and strategy

Organisations are systems that consist of a structure with people, tasks and procedures in rational co-ordination working towards the achievement of common objectives (Daft, 2004). In the charity sector broad organisational objectives are stated in the M&A. The mission, vision and values statements have become the inspiration by which organisations set their strategic compasses. Table 2.4 lists the nine categories which emerged in the area of organisation structure and strategy with cross references.

Table 2.5
Categories In Organisation Structure and Strategy

Theme	Code	Meaning	Source
Organisation Structure and Strategy	VIS	Vision	Section 2.5.4
	MIS	Mission	Section 2.5.4
	VAL	Values	Section 2.5.4
	OBJ	Objectives	Sections 2.4.1; 2.4.10; 2.4.14
	LST	History/legal structure	Sections 2.5.3; 4.2.2; 5.2.2; 6.2.2
	AGE	Age	Sections 4.2.5; 5.2.5; 6.2.5
	SIZ	Size	Sections 2.5.2; 4.2.5; 5.2.5; 6.2.5
	WOR	Staff/Volunteers	Sections 4.2.6; 5.2.6
	GSC	Geographic scope	Sections 2.5.2; 5.2.7; 6.2.7

2.8.3 Internal governance mechanisms

These are the controls within the organisation that have been developed by the board and management to promote internal effective governance. The board is considered the main

category and central mechanism within this theme (John and Senbet, 1998; Cornforth, 2005).

Table 2.5 outlines the ten categories that make up this theme with cross references.

Table 2.6
Categories in Internal Governance Mechanisms

Theme	Code	Meaning	Source
Internal governance mechanisms	DOC	Governance document	Section 2.4.1
	BMT	Board/Management Committee	Sections 2.2.3; 2.4.1
	BCT	Sub-committees of the board	Section 2.4.1
	COM	Chief Officer/Management Team	Section 2.2.3
	MTG	Statutory/Regular meetings	Sections 2.3.6; 2.4.15
	RMT	Risk management/Internal control	Sections 2.3.3; 2.4.15
	FIN	Financial management	Sections 2.2.3; 2.3.15
	MEA	Performance targets/measures	Sections 2.1.13; 2.1.15
	STA	Engaging stakeholders	Sections 2.2.2; 2.6
	RAR	Review and renewal	Sections 2.4.10; 2.4.11

2.8.4 External governance mechanisms

Table 2.6 presents ten categories under the external mechanisms theme with references.

These are control mechanisms which promote accountability and transparency.

Table 2.7
Categories in External Governance Mechanisms

Theme	Code	Meaning	Source
External governance mechanisms	LEG	Legislation	Sections 2.4.1; 2.4.12
	REG	Regulation/Inspection	Sections 2.4.1; 2.4.12
	REP	Annual report/ accounts	Tables 2.2; 2.3
	PRA	Sector best practices/codes	Sections 2.4.1; 2.4.3
	AUD	External audit	Section 2.4.12
	SER	Service user pressure	Sections 2.4.7; 2.6.4
	DON	Donor interest/scrutiny	Section 2.4.1
	MED	Media reporting and analysis	Section 2.4.1
	SOC	Social responsibility	Sections 2.6.1; 4.4.9
	GEN	General public interest	Sections 2.4.1; 2.4.4

The preceding sections of this chapter provided a discussion and an outline of the literature for the research questions presented in the section 1.5, summarised the rationale for the study and presented the conceptual framework developed from the empirical data and the literature. The next chapter discusses and outlines the research design and methodology that will be used to investigate the phenomenon of effective charity governance to achieve the aims and objectives of the study and answer the research questions stated in sections 1.4 and 1.5.

2.9 Summary and conclusion

One of the purposes of the literature review is to ensure no duplication of scholarship but the enduring benefit of the review in this chapter can be simply stated as learning and understanding corporate and charity governance in the UK. This chapter, therefore, explored and provided a fairly-detailed evaluation of the current body of knowledge relevant to the study - corporate and charity governance, organisation theory and stakeholder theory; identified gaps in UK literature; and presented a rationale for a scholarly research into charity governance. The chapter is concluded with the development of a comprehensive conceptual framework from the literature which will enable intra-and cross-case analysis.

The review of literature related to corporate and charity governance provided the foundational knowledge to examine and understand effective charity governance. Secondly as governance issues arise in organisations, the review of literature related to organisation theory richly provided explanations of how structure, strategy, ecology and control can contribute to effective charity governance. Finally, stakeholder theory provides an analytical framework to effectively engage key stakeholder and develop effective governance arrangements.

As the literature shows British scholars and researchers such as Cornforth (2001, 2003, 2004 and 2005); Cornforth and Edwards (1999); Cornforth and Simpson (2002); Palmer and Harrow (2005); Palmer and Hoe (1997) and Palmer and Randall (2002) have investigated charity governance from mostly an external, survey-based, principally-quantitative perspective. However, the issues discussed and presented in this chapter and the personal experience of the researcher as a management consultant in the charity sector have the potential to be analysed and synthesised to create new understanding of effective charity governance. The participant, insider, direct-observational approach employed in this study is expected to provide new dimension in understanding charity governance.

The following chapter will present and justify the research philosophy, methodology and pragmatic considerations employed in this study.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

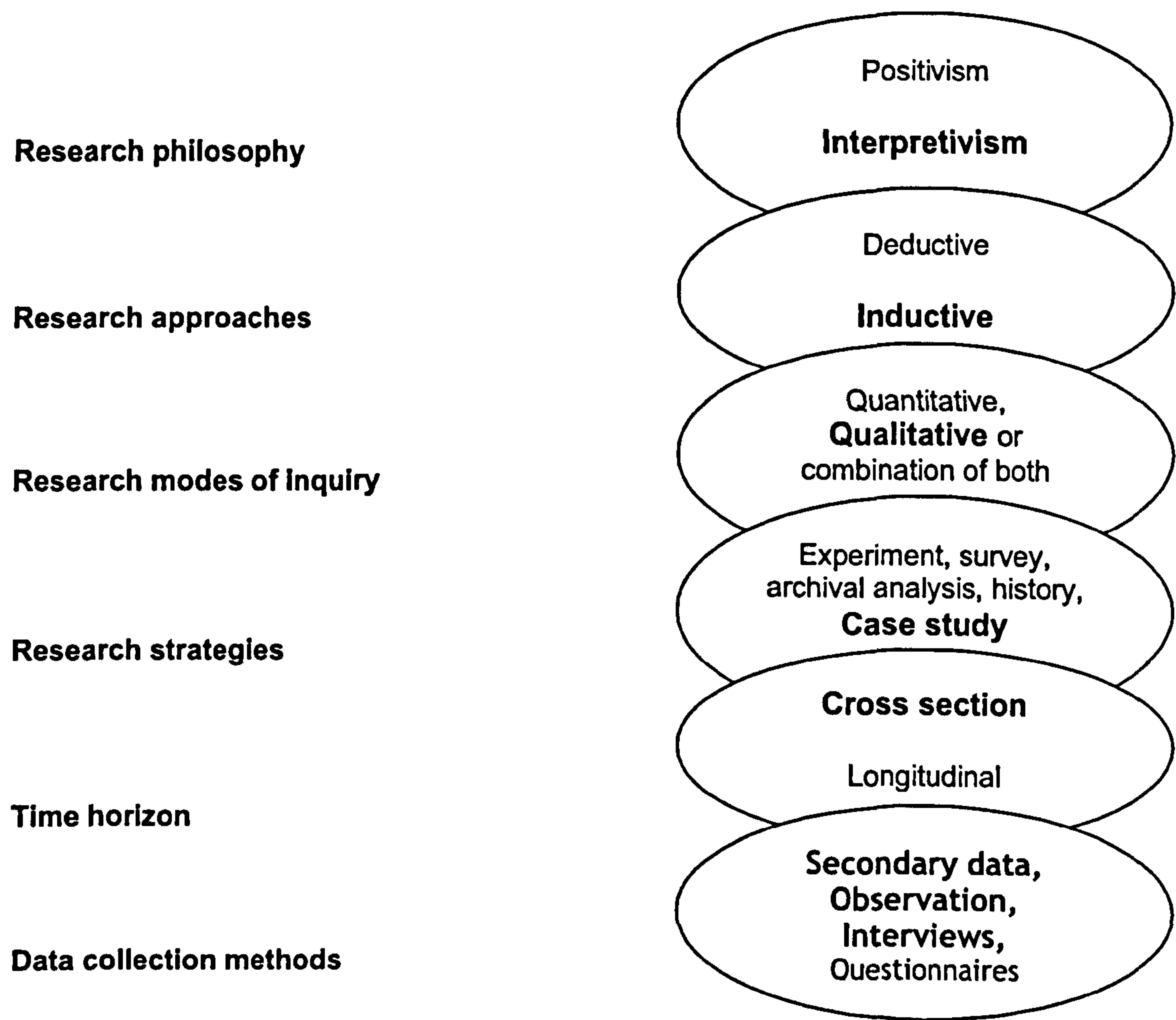
The previous chapter reviewed literature relevant to the research, outlined the research gap and set out the conceptual framework for intra-and cross-case analysis presented in Chapter Four, Five, Six and Seven. The purpose of this chapter is to propose, outline and justify the investigative research methodology that will be used to address the three research questions listed in section 1.5. This includes: (a) a discussion of the research processes - philosophies, approaches, modes of inquiry, strategies, time horizons, data collection and analysis methods; (b) the chosen research processes, justification of these processes - why they are preferred and appropriate; and (c) identification of the ethical and pragmatic considerations taken into account to ensure this project complies with the best practices of social research as recommended by The Economic and Social Research Council (ESRC, 2010).

The chapter has, therefore, been divided into eight sections. This section outlines the purpose of the chapter and how the other sections integrate to present the research methodology. Section 3.2 presents the research process used in social science. In section 3.3 the philosophical underpinning of reality and knowledge is discussed and the preferred philosophical perspective for the study presented. The research design and methodology are delineated in section 3.4, with a justification for using such a strategy. Section 3.5 evaluates and presents various methods for data collection and outlines the chosen methods used for this study. In section 3.6 the data analysis strategies and techniques employed are examined and presented. Finally, the ethical and other pragmatic considerations adopted in the study are discussed in section 3.7 and a summary of the chapter is presented in section 3.8.

3.2 The research process

Figure 3.1 presents an overview of the research process, which is an 'ordered set of activities focused on the systematic collection of information using accepted principles and methods of analysis as a basis for drawing conclusions and making recommendations' (IAR, 2010, p.3). The essential purpose of these activities is to produce new knowledge, and the sections of this chapter integrate and present the principles and methods employed.

Figure 3.1
The Research Process



Source: Saunders *et al.*, (2003, p. 83)

3.3 The philosophical orientation

From Plato’s *Theaetetus* dialogue (Plato, 360 BC) the question of what is reality and what constitutes knowledge has been a major area of philosophical debate (Summer and Tribe, 2004). Hughes (1994, p. 11) asked: ‘...what is it about philosophy that gives it this seemingly vital role in human intellectual affairs? Is this simply a contingent fact of our intellectual history, or is there something distinctive about philosophy itself which gives it this authoritative place?’ In answer to this question it could be argued that it is the nature of philosophical questions that best demonstrates the value of understanding philosophy (Crossan, 2003). It is the ‘uncomplicated’ style and ‘innocent’ way of questioning that produces confusion and instability in our assumptions and ideas about the world, which makes the study of philosophy of special benefit (Smith, 1998). The indirectness and circular nature of philosophical

questioning in itself is helpful, as it often encourages in-depth thinking, and generates further questions in relation to any subject under consideration.

Easterby-Smith *et al.* (2002) identify three reasons why the exploration of philosophy can be helpful when considering a methodology that will achieve satisfactory outcomes:

- (i) It helps the researcher to refine and specify the research methods to be used in a study and clarify the overall research strategy that can be used. This would include the type of data evidence collected, its origin, the way in which such evidence is interpreted and how it helps to answer the research questions posed;
- (ii) It enables and assists the researcher to assess different methodologies and avoid inappropriate use and unnecessary work by identifying the advantages and limitations of different approaches at an early stage of the research process; and
- (iii) It assists the researcher to be creative in either selection or adaptation of research methods that may previously have been outside the researcher's experience.

Theoretical viewpoints on the philosophy of research have been split into two main world views (Table 3.1); positivism and interpretivism (Alvesson and Sköldberg, 2004).

Table 3.1
Positivism and Interpretivism

Assumptions about	Positivism	Interpretivism
Ontology	Researcher and reality are separate.	Researcher and reality are inseparable.
Epistemology	Objective reality exists beyond the human mind.	Knowledge of the world is intentionally constituted through a person's experience.
Research Object	Research object has inherent qualities that exist independently of the researcher.	Research object is interpreted in light of meaning structure of researcher's lived experience.
Method	Statistics, content analysis.	Hermeneutics, phenomenology, case study, action research, etc.
Theory of Truth	Correspondence theory of truth: one-to-one mapping between research statements and reality.	Truth as intentional fulfilment: interpretations of research object match lived experience of object.
Validity	Certainty: data truly measures reality.	Defensible knowledge claims.
Reliability	Replicability: research results can be reproduced.	Interpretive awareness: researchers recognise and address implications of their subjectivity.

Source: Alvesson and Sköldberg (2004, p. 4)

3.3.1 Positivism

As developed by the French philosopher, Auguste Comte, there is a general assumption within this tradition that reality is objectively given and can be described by measurable properties which are independent of the researcher and instruments used (Myers, 1997). Grix (2002) states that proponents who embrace this worldview argue that objectivity is uninfluenced by values and opinions and not distorted by different interpretations. The paradigm is built on the methods of the natural sciences and seeks knowledge based on systematic observation and experiment, with the aim of discovering social laws analogous to the natural laws uncovered by the methods of natural science (Angus, 1986). Positivist analysis seeks to hypothesize and then evaluate causal inferences about social phenomena that will be generalisable beyond the specific data analysed (Shankman, 1984).

3.3.2 Interpretivism

This tradition is identified with the works of its founding father, Clifford Geertz. Myers (1997, p. 3) states that, 'interpretive researchers start out with the assumption that access to reality (given or socially constructed) is only through social constructions such as language, consciousness and shared meanings.' The paradigm generally attempts to understand phenomena through the meanings that people assign to them (Walsham, 1993) and its design does not predefine dependent and independent variables but focuses, rather, on the full complexity of social phenomena allowing the situation to emerge (Kaplan and Maxwell, 1994). Interpretivists believe that social research is subjective; insight is gained and influenced by values, interpretations and meanings.

3.3.3 The research approach

The two approaches to research that dominate social science inquiry are (i) deductive and (ii) inductive (Saunders *et al.*, 2003). In deductive studies the researcher develops a theory and hypothesis (or hypotheses) and designs a research strategy to test the hypothesis (or hypotheses). In contrast, data in inductive investigation is collected to develop theory as a result of data analysis. Other differences include a highly structured approach in deduction and a more flexible structure in induction; collection of quantitative data in deductive studies

as opposed to qualitative data in inductive investigations and the need to generalise conclusions in deduction compared with less need to generalise inferences in induction. Table 3.2 provides a summary of the significant differences.

Table 3.2
Deductive and Inductive Approaches to Research

Deduction emphasises:	Induction emphasises:
Scientific principles – ‘top down’	Scientific principles – ‘bottom up’
Moving from theory to data	Moving from data to theory
The need to explain causal relationships between variables	A close understanding of the research context to gaining understanding of the meaning humans attach to the phenomenon
The collection of quantitative data	The collection of qualitative data
The application of controls to ensure validity and reliability of data	Various strategies have developed controls to ensure validity and reliability of data
A highly structured approach	A more flexible structure to permit changes of research emphasis as the study progresses
Researcher independence of what is being researched	A realisation that a researcher is part of the research process
The necessity to select samples of sufficient size in order to generalise conclusions	Less concern with a need to generalise

Source: Saunders *et al.*, (2003, p. 89)

3.3.4 The chosen philosophical orientation and research approach

As the research questions (section 1.5) are directed at an inductive identification, ‘insider’ understanding of the processes, influences, patterns, behaviour and attitudes of effective charity governance, an interpretative philosophical orientation of inquiry is considered appropriate and will be adopted based on the discussion and arguments presented in sections 3.3.1, 3.3.2 and 3.3.3. The social world of business and management is unique on the one hand yet too complex on the other to be reduced to the series of law-like generalisations that positivism promotes. However, one of the strongest arguments in favour of this research approach is to look beyond ‘the details of the situation, to understand the reality or perhaps a reality working behind them [effective charity governance]...’ (Remenyi *et al.*, 1998, p. 35). In order to answer the research questions it is imperative, therefore, to understand the phenomenon of charity governance in its organisational, social and economic context, both within and outside its boardrooms through the meanings that key governance players and stakeholders such as trustees, committee members, directors, chief executive officers assign to them.

3.4 Research design

3.4.1 The modes of inquiry

The study of the social sciences has been subjected to much controversy and debate over the years as to what can be considered appropriate or superior to study its various disciplines within an academic context (Gill and Johnson, 2002). To some extent this can be explained by the existence of the two major modes of inquiry, quantitative and qualitative research (Bryman and Bell, 2003). Much of the debate is characterised by ‘either-or thinking.’ Some advocate that only quantitative modes should be used to study human behaviour; others have been just as emphatic and suggested that only qualitative approaches are appropriate (Punch, 1998). Table 3.3 summarises the main differences between two modes of inquiry.

Table 3.3
Quantitative and Qualitative Research

		Quantitative	Qualitative
1	Roles	Fact-finding through validation	Fact-finding through inquiry
2	Relationship between researcher and participants	Distant, detachment and impartiality	Close, personal involvement and partiality
3	Scope of findings	Homothetic	Idiographic
4	Relationship between theory and research	Testing/confirmation	Emergent/development
5	Nature of data	Hard and reliable	Rich and deep
6	Principal orientation	Deductive; testing of theory	Inductive; generation of theory
7	Assumptions	Social facts have an objective reality Primacy of method Variables can be identified and relationships measured Etic (outsider's point of view)	Reality is socially constructed; Primacy of subject matter Variables are complex, interwoven, and difficult to measure Emic (insider's point of view)
8	Purpose	Generalizability Prediction Causal explanations	Contextualization Interpretation Understanding actors' perspectives
9	Approach	Begins with hypotheses and theories Manipulation and control Uses formal instruments Experimentation Deductive Component analysis Seeks consensus, the norm Reduces data to numerical indices	Ends with hypotheses and grounded theory Emergence and portrayal Researcher as instrument Naturalistic Inductive Searches for patterns Seeks pluralism, complexity Makes minor use of numerical indices

Source: Adapted from Bryman and Bell (2003, p.25)

Quantitative research, originally developed in the natural sciences to study natural phenomena, is a systematic scientific investigation of the quantitative properties of phenomena and their relationships (Burton, 2000; Sekaran, 2003). This mode of research generates numerical data or data that can be converted into numbers, including survey methods, laboratory experiments, formal methods (e.g. econometrics) and numerical methods such as mathematical modelling (Myers, 1997).

Qualitative research methods were developed in the social sciences as another mode of inquiry to enable researchers to study social and cultural phenomena and understand people's beliefs, experiences, attitudes, behaviour and interactions. This mode of inquiry produces findings not arrived at by statistical procedures or other means of quantification (Ritchie and Lewis, 2003). Examples of this strategy include action research, case study research and ethnography (Burton, 2000; Bryman and Bell, 2003). Qualitative data sources include observation and participant observation, interviews and questionnaires, documents and text analysis, and the researcher's impressions and reactions (Myers, 1997).

Advocates for each mode sometimes critique the other as being 'inadequate' or 'inferior' to capture the reality and knowledge of the phenomenon being studied. Researchers who promote and use the quantitative mode of study criticise the qualitative mode as being value-ridden (not objective) and lacking the possibility of producing generalisations which can lead to prediction, explanation, and understanding (Sandelowski, 1986). Other objections that have been raised include the nature of 'multiple realities' inherent in qualitative studies and the flexible approaches to research championed by qualitative practitioners (Evans and Pearson, 2001).

Qualitative researchers, however, argue that one cannot understand human behaviour without understanding the framework within which subjects interpret their thoughts, feelings, and actions (Ritchie and Lewis, 2003). They also contend that human behaviour is significantly influenced by the setting in which it occurs; thus one must study that behaviour in such locations to fully understand the phenomenon (Ritchie and Lewis, 2003). These authors

further argue that quantitative scientists may destroy valuable data while coding and standardising data because notions of norms, traditions, roles, and values which are crucial contextual elements of the phenomenon cannot be easily quantified.

3.4.2 Research strategies

A research strategy has been defined as ‘a plan of action that gives direction to the efforts of a researcher, enabling him/her to answer the research questions systematically (not haphazardly) in the process of the research’ (Bryman and Bell, 2003, p.25). There are a variety of strategies employed in qualitative mode of investigations. Yin (2003^a) recommends five research strategies (Table 3.4); experiment, survey, archival analysis, history and case study.

Table 3.4
Relevant Situations for Different Research Strategies

Strategy	Form of research question	Requires control over behavioural events?	Focuses on contemporary events?
Experiment	how, why	Yes	Yes
Survey	how, why, where, how many, how much	No	Yes
Archival analysis	how, why, where, how many, how much	No	Yes/No
History	how, why	No	No
Case study	how, why	No	Yes

Source: Adapted from Yin (2003^a, p.7)

Experiment is a classical form of research used mostly in the natural sciences although it also features strongly in social research. It typically involves definition of theoretical hypothesis, selection of samples from known populations, allocation of samples to different experimental conditions, an introduction of planned changes on one or more of the variables, and measurement and control of a number of the variables (Saunders *et al.*, 2003).

Surveys are a popular, easily understood, common research strategy which allow the collection of a large amount of data, by questionnaire, observation or interviews, from a sizeable population in sometimes highly economic way (Bryman and Bell, 2003). The use of

surveys also offers controls over the research process but requires much time in designing and piloting the questionnaire.

Archival analysis refers to a form of the observational method where the researcher examines accumulated documents or archives of reports - business plans, board minutes, annual accounts, M&A, newsletters and corporate statistical analysis (Sekaran, 2003). The main disadvantage of this strategy is that available data do not always fit the research questions.

The historical method consists of techniques and guidelines used by historians to research phenomena and write them in the form of accounts of the past. 'The study of history has traditionally been regarded as valuable because of its intrinsic interest in unique historical phenomena' (McDowell, 2002, p.16). Historical researchers employ generalisations to assist the understanding of specific past events whereas social scientists use them to explain mainly current events and then offer (hopefully) reliable indicators about future events (Hall and Bryant, 2005).

A case study comes from sociology and has been defined as 'an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used' (Yin, 2003^a, p. 13). Case studies can be single or multiple-case designs, where a multiple design must follow replication, rather than sampling, logic (Yin, 2003^b).

3.4.3 The chosen research design

In this section a justification for the research design adopted is provided. As the review of literature demonstrated the components of CG are complex, interwoven and sometimes difficult to measure. The nature of the research questions (section 1.5) confirms that this study is a fact-finding inquiry (rather than a validation of hypotheses). The researcher, who is also trustee, is involved in the governance processes to gain an insider perspective of three charities. This has resulted in the selection of a qualitative mode of inquiry and a case study strategy based on the arguments presented in section 3.4.1. A quantitative approach is not considered appropriate or satisfactory because of the contextualisation of phenomena within

its naturalistic setting and the nature of the investigation, which is through inquiry. Much of the empirical studies already conducted in this area have been survey-based, 'looking in from the outside' as it were. This study will contribute to a small and growing pool of 'insider' studies employing qualitative methodologies directed at understanding the process and influences of CG in charities. This study involves working closely with trustees and chief officers of three charities who are involved in their routine governance processes. This is necessary because the research is expected to provide accurate descriptions, decoding and interpretation of the meanings of the phenomena recognising complexity and context. The nature of the data collected to explain effective charity governance is comprehensive and rich which, make a qualitative methodology an appropriate model. This methodology allows the researcher to gain a complete picture of the nuances and idiosyncrasies in each charity governance setting.

The research strategy adopted for this inquiry is a descriptive, comparative, multiple case study approach based on two central reasons:

- (i) The objective of the study (section 1.4) is to examine, understand and describe the contemporary phenomenon of effective governance and this will be done within a real life context with multiple sources of evidence; and
- (ii) The emic nature of the study as presented in the research problem and questions makes the identified strategy appropriate for the study. The case studies will be in-depth, intense examinations of the features of effective charity governance, which will offer insights and understanding addressing the research questions.

3.4.4 Establishing validity and reliability

The blueprint to achieve validity and reliability in this study is Yin's 'best practice tests and tactics of qualitative study.' Yin's (2003^a, p.33) recommendations state 'because a research design is supposed to represent a logical set of statements, you also can judge the quality of any given design according to certain logic tests.' The four tests and ten tactics Yin prescribed have been incorporated in the data collection and analysis of this study. Table 3.5 lists these tests and tactics and how they were incorporated into the study.

Table 3.5
Case Study Tactics: Achieving Validity and Reliability

Tests	Case Study Tactic	Phase of research tactic occurs	Tactics used in this study
Construct validity	Use multiple sources of evidence Establish chain of evidence Have key informants review drafts of case study reports	Data collection Data collection Composition	Observation, interviews, analysis Case study protocol (Appendix F) Trustees, chairs of the boards and CEOs review case study reports
Internal validity	Do pattern matching Do explanation building Use logic models	Data analysis Data analysis Data analysis	Pattern matching main themes and categories. Analyse data collected using conceptual model
External validity	Use theory in single case studies Use replication logic in multiple case studies	Research design Research design	Not applicable 'Enhancers' and 'constraints' are identified and reported
Reliability	Use case study protocol Develop case study database	Data collection Data collection	Case study protocol Case study database

Source: Adapted Yin (2003^a, p.34)

3.4.5 Construct validity

Saunders *et al.* (2003) described validity as the extent to which data collection methods accurately measure what they were intended to measure. Yin (2003^a, p.36) recommends three tactics within this test to strengthen validity when undertaking case studies. The first of these is the use of multiple sources of evidence, in a manner encouraging convergent lines of inquiry and triangulation of data. In this study data has been collected from three main sources: observation of various governance meetings; interviews of trustees and chief officers and document analysis of governance records. This triangulation of data facilitates validation of data through cross verification. The second tactic is maintenance of a chain of evidence – tracing and cross-referencing evidence to support conclusions. In the present study this tactic has been employed by the use of verbatim interview transcripts and field notes cited to participants using codes to preserve anonymity (as later discussed in Chapter Fours, Five and Six). Finally, the third tactic is having the draft case study report reviewed by the chair of the Board and Chief Officers of the charities. Transcripts of interviews and a summary of research findings were also sent to trustees and chief officers for review so that they could confirm or challenge inferences made from them.

3.4.6 Internal validity

This test encompasses the extent to which causal relationships in the results of a research study can be accurately interpreted (Stake, 1995). Internal validity helps to determine whether certain conditions or events lead to other conditions and events and which should enable the researcher to avoid spurious deductions (Yin, 2003^a; 2003^b). As this study is descriptive in nature - with one of the stated objectives being the development of a descriptive model of effective charity governance, - only two tactics have been used:

- (i) The categories stated in the conceptual framework are used to match patterns emerging; and
- (ii) From these patterns explanations are built.

3.4.7 External validity

The third test of validity is to establish whether the findings from a particular study are generalisable beyond its immediate context to the population at large. Single case studies are not usually generalisable outside their boundaries (Yin, 2003^a; Stake, 1995). However, multiple case studies increase the scope of application to a wider population. Generalisation, in the conventional academic sense, is not usually a stated objective of case studies, but rather concerned with achieving analytical generalisation (generalising theories). The generalisation and application of theories – effective charity governance principles - is expected to be one of the main by-products of this thesis. Enhancers of and constraints to effective charity governance are identified in the analysis process with explanations provided within the three case studies.

3.4.8 Reliability

This is an important test for any robust scholarly inquiry as it demonstrates that other researchers can conduct the same study using the same data collection methods and analysis and arrive at similar findings and conclusions. In short it can be repeated with the same results. A case study protocol incorporating an interview guide (Appendix F) and case study database were used, as recommended by Yin (2003^a), to achieve reliability in the study. Using the case study protocol ensured the researcher consistently applied agreed procedures

and rules in the data collection process. The interview guide also enabled the researcher to conduct all of the interviews in a consistent way by asking the same bank of interview questions. All the data collected are kept in a case study database (Microsoft Office folder for electronic data and six Lever-arch files for manual documents), a one-stop gateway, used to organise and colour-link the information which facilitate consistent analysis.

3.4.9 Selection of cases

Access to five charity boardrooms with the possibility of interviewing trustees and observing their meetings for a study in effective governance was explored at the preparatory phase of the study. However, it became apparent that elements of confidentiality for a variety of private reasons prevented follow-up in two of the five charities. The researcher took advantage of access opportunities in the three remaining charities where the researcher serves as a trustee. The three charities, Charities X, Y and Z, are different and information-rich, with easy access to information on their website and governance data and financial statements on the online register of the Charity Commission. Each charity will be explored and analysed in detail in Chapters Four, Five and Six. Table 3.6 presents a profile of the case study charities.

Table 3.6
Profile of Case Study Charities

Name of organisations	Charity X	Charity Y	Charity Z
Year established	Mid 1980s	Mid 1980s	Late 1960s
Geographical area of operation	UK and Ireland	Greater London	Greater London and northern home counties
Services provided	Advocacy, advice/information government lobbying, funding research	Drop-in centre, crèche, play group, advocacy, housing and social service advice and information	Psychotherapy services to people with emotional and psychological difficulties
Number of trustees	11	9	7
Number of paid staff and sessional workers	5	21	7
Approximate number of volunteers excluding trustees	65	25	3
Beneficiary group	People with a skin condition and their parents/guardians	Children, young people and families	Adults with emotional and psychological difficulties
Income (2009/10)	150,000	345,000	95,000
Expenditure (2009/10)	116,000	318,000	92,000

All the trustees, Committee members and directors of the three charities and the Chief Officers are interviewed for the study to provide insights and understanding of the various issues of effective charity governance in the three contextual environments involved.

3.4.10 Extent of researcher Interference

The researcher serves as a trustee and has close working relationship with other trustees and the Chief Officers of the three charities. Therefore, attention was given and care taken during the data selection, collection, analysis and thesis drafting stages to avoid threats to quality and a balanced view to achieve an authentic and credible account of effective charity governance. In order to achieve and maintain this objective the researcher constantly reflected on his independence during each research activity. In addition to this self reflection the researcher took the following actions to strike a balance between 'going native' (totally embracing other trustees' views of charity governance thereby potentially producing superficial misinterpretations) and being an independent, objective researcher:

- (i) Role detachment (disengage from role as a trustee and view the governance processes, systems and procedures impartially as a researcher);
- (ii) Role immersion (engage trustees and chief officers as a professional researcher during every phase of research activity); and
- (iii) Data and method triangulation (triangulation and corroboration of data collected from internal and external sources and through various methods – observation, interviews and document reviews - to ensure interpretations are reliable and valid).

3.4.11 Unit of analysis

A further consideration advocated by Bryman and Bell (2003, p. 60) in research design relates to the level of analysis. In other words, 'what is the primary unit of measurement and analysis?' The unit of measurement and analysis for the three case studies has been derived from the scope specified in the conceptual framework (section 2.8) and is set at case level.

3.4.12 Time horizon

A cross-sectional study was conducted for this thesis to capture a panorama of governance practices and systems across the three charities at organisational level, as opposed to a longitudinal study with multiple instances of data collection. The decision to use this time horizon was based on two reasons: (i) the nature of the primary research question - what constitutes effective charity governance (this was not expected to significantly change over time); and (ii) the limited time available to observe and interview a cadre of predominantly busy, professional persons serving as trustees and chief officers. The interviews were conducted towards the end of the study to corroborate or reject data already collected through participatory observation and review of governance records and documents.

3.5 Data collection

3.5.1 Sources of data

Data for this study has been collected from three main sources: observation, interviews and document analysis. Table 3.7 presents four of Yin's six primary sources of evidence used for data collection.

Table 3.7
Three Sources of Evidence: Strength and Weaknesses

Type of Evidence	Strength	Weaknesses	Description	Amount
(i) Direct observation and (ii) Participant observation	Reality (covers events in the real world). Context (covers context of events). Insightful into interpersonal behaviour and motives.	Time consuming. Selectivity (unless broad coverage). Reflexivity (events may proceed differently due to their observation). Costs (hours needed by human observers)	Board and other governance meetings. Data on corporate websites, service user interaction with staff and trustees.	About 150 hours over a 15-month period.
(iii) Face-to-face, semi-structured, open-ended interviews with trustees and chief officers	Targeted (focused directly on case study). Insightful (provides perceived causal inferences).	Bias due to poorly constructed questions. Response bias. Inaccuracies due to poor recall. Reflexivity (interviewee gives what the interviewer wants to hear).	Information-rich interviewees: trustees, Committee members, directors and CEO, transcripts prepared from audio recording and notes taken during the interviews and field visits respectively.	Charity X: All trustees (10) and the CEO; Charity Y: All trustees (8) and the CEO; Charity Z: All trustees (6) and the CEO.
(iv) Document review	Stable (can be viewed repeatedly). Unobtrusive (not created by case study).	Retrievability (can be low). Bias selectivity (if collection is	Board reports, CEO's reports, M&A; emails, current and past business plans;	Over 7,000 pages of external and internal,

	Exact (contains details of the event). Broad coverage (long span of time, events and settings). Insightful into cultural features and technical operations.	incomplete). Reporting bias (reflects bias of author). Access (may be deliberately blocked).	annual reports, charts, statistical analysis of website hits, newsletters, minutes of management meetings, AGM and EGM papers	confidential reports and documents.
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Source: Adapted from Yin (2003^a, p.86)

3.5.2 Direct and participatory observation

Although direct observation is time consuming, this data collection method was considered suitable and appropriate as it offered opportunities to witness: trustee-trustee; trustee(s)-chief officer; and chair of board- trustee(s)-chief officer, interaction and team dynamics including, the dominance of governance participants, non-verbal activities and ‘evaluate board processes and actions in real time within a contextual environment’ (Yin, 2003^a, p. 13). Although the regular trustees’ meetings were the main focus of observation, those relating to strategy, and sub-committees, plus AGMs and EGMs also provided ‘study’ opportunities in all three charities. Over 38 meetings in the three charities were observed amounting to about 150 hours in total. Microsoft Word copies of the minutes and field notes from these meetings were coded and added to the case study database for intra- and cross-case analysis.

3.5.3 Face-to-face interviews

The primary data collection method used in this research is a number of face-to-face, semi-structured, open-ended interviews with trustees, chair of boards and chief officers (Table 3.6). This in line with Yin (2003, p. 89) who stated that, ‘one of the most important sources of case study information is the interview.’ Bassey (1999, p. 174) also argued that interviews are helpful in gathering the ‘descriptions of the life-world of the interviewee with respect to the interpretation of the meaning of the described phenomena.’

A consent statement, explaining the rationale for the research, the recording of responses and the way data collected would be treated, was signed by each participant prior to the interview (Appendix G). A list of interview questions was developed to elicit conversational type response that covered the research questions (Appendix F). Supplementary, follow-up

questions were asked, whenever applicable, to develop or explore interviewee responses. This method was designed to triangulate information already collected from observation and document analysis and is an approach supported by Saunders *et al.*, (2003, p. 248), who recommend semi-structured, in-depth interviews to ‘find out what is happening and seek new insights.’ As a fellow trustee the researcher was able to quickly develop rapport with the interviewees which facilitated the interview process. Twenty-seven recorded interviews were transcribed into Microsoft Office Word texts by an independent third party and coded by the researcher for analysis, based on the conceptual framework. Table 3.8 presents the processing sequence of the interviews conducted in 2009.

Table 3.8
Research Study Interviews

Interviews	Conducted In	Number of Interviewees	Transcribed In	Coded and added to database
Charity X	May 2009	11	June 2009	June 2009
Charity Y	July 2009	9	September 2009	September 2009
Charity Z	October 2009	7	November 2009	January 2010

Table 3.9 tabulates the number of times trustee and CEO-interviewee quotations were used in the intra- and cross-case analyses. This shows the spread and intensity of usage in the analyses. Codes have been assigned to each interviewee to preserve anonymity and aid analysis. This coding structure is discussed in sections 4.1, 5.1 and 6.1.

Table 3.9
Number of times interviewee quotations are used in analysis chapters

Charity X intra-case analysis (Chapter 4)		Charity Y intra-case analysis (Chapter 5)		Charity Z intra-case analysis (Chapter 6)		Charities XYZ cross-case analysis (Chapter 7)	
XTF1 (Treasurer)	4	YTF1	4	ZTF1 (Treasurer)	6	XTF2 (Chair)	1
XTF2 (Chair)	7	YTF2 (Treasurer)	6	ZTF2 (Chair)	4	XTM1 (Secretary)	1
XTF3	1	YTF3	1	ZTF3	1	XTM2	1
						XTG2 (Vice-chair)	1
						XCEO	2
XTM1 (Secretary)	3	YTM1 (Chair)	14	ZTM1	3	YTF2 (Treasurer)	1
XTM2	4	YTM2 (Secretary)	3	ZTM2 (Secretary)	6	YTM1 (Chair)	2
XTM3	4	YTM3	4	ZTM3	2	YCEO	3
				ZTM4	1		
XTG1	3	YTG1	3				
XTG2 (Vice-chair)	3	YTG2 (Vice-chair)	2				
XTG3	3	YTG3	0				
XCEO	17	YCEO		ZCEO	10		

3.5.4 Document reviews

Operational plans, strategy and governance documents, organisational charts, annual reports and the websites were reviewed to gain better knowledge and understanding of the purpose of the charity, and its governance practices, systems and structures, executive/trustee configuration, framework of accountability, and the main stakeholders to which considered accountable. Documents such as emails and diaries provided valuable information and saved time and resources in corroborating other data collected. Yin (2003^a; 2003^b) recommends analysis of corporate documents since they provide useful sources in corroborating and augmenting other findings, thus relevant documents such as minutes of meetings, annual reports, and business plans, were coded and added to the database for subsequent analysis.

3.6 Data analysis

3.6.1 Qualitative data analysis

Bogdan and Biklen (1998, p. 145) described qualitative data analysis as 'working with data, organising it, breaking it into manageable units, synthesising it, searching for patterns, discovering what is important, what is to be learned, and deciding what you will tell others.' This type of analysis requires creativity, for the challenge is to: place large amounts of raw data into logical, meaningful categories; examine them in a holistic fashion; and find a way to communicate this interpretation to others (Hoepfl, 1997; Stake 2006).

The analysis of this study has been undertaken in a systematic and rigorous manner using computer and manual operations to detect patterns and develop explanations from the extensive amount of data collected. Prior to data collection a case study database of evidence to store all data (section 3.4.8). The case study database, i.e. an organised collection of evidence, is expected to strengthen the repeatability of this research and increase the transparency of the findings and interpretations made. Yin (2003^a) recommended the use of a case study database to increase the reliability of research outcomes (see Table 3.5).

The digital/manual database brought structure to the documents. Two digital sub-folders, Microsoft Word and Excel, were repositories for all computer data. This enabled important

analytical processes such as searching, sorting and categorisation to be easily preformed. The 'find facility' in Word and Excel was used to search for key words and phrases on transcribed interview scripts, field notes and minutes of various governance meetings. Data was then coded, sorted and categorised to present emerging uniqueness, commonality and patterns. Logical chains of facts were clustered, and relationships between key words that helped to make sense of the data, were noted. A colour coding was used to link the logical chain of facts regarding organisation structure and strategy, internal governance mechanisms, and external governance mechanisms. This colour scheme and arrangement visually enable the researcher to speedily locate and view similarly coded passages and from there identify: (i) similarities, (ii) differences; and (iii) relationships in categories and themes.

The various documents and reports in the lever-arch files (manual database) were read and margin notes were made on the relevant pages by the researcher using key words in the conceptual framework to categorise and organise the data into themes (Tables 2.4; 2.5 and 2.6). Clusters of similar categories were then cross-referenced and grouped to create a chain of facts. The colour scheme for the three themes used in the computer database was also applied on the paper documents and reports to enable speedy location and visual association of the categories and themes. These procedures and techniques were deployed in two stages: (i) intra-case and (ii) cross-case analysis.

3.6.2 Intra-case analysis

The first stage of data analysis is the 'within case analysis' of each bounded case charity being studied. Corporate documentation, minutes of governance meetings, field study notes and interview transcripts for each separate case were examined (as described in 3.6.1). Consideration in the analysis included (i) the identification of key words in context; and (ii) frequency and intensity of comments (counting and content analysis) to identify unique patterns or characteristics within the data for each case study (Ritchie and Lewis, 2003). The researcher then prepared detailed case study write-ups after categorizing themes. A draft copy of each case study report was sent by email to the chair of the board and the CEO for

review before the report was finalised. The final within-case reports are presented in Chapters Four, Five and Six.

3.6.3 Cross-case analysis

The cross-case analysis is the second stage of the inquiry flowing directly from the 'within case analysis' of the three charities. Similarities and differences across the cases are compared, contrasted and presented (Saunders *et al.*, 2003). As the cross-analysis progressed, uniqueness and commonalities emerged and issues within each of the categories developed in the conceptual framework agree or are in conflict. In areas where conflict is detected, the researcher investigated the divergence to verify or reject (after final review) the data in determining relationships which answer the research questions. Emergent principles of effective charity governance that emerge from the analysis process are also highlighted. The categories, themes, patterns, and characteristics across the three charities and emergent principles of effective governance that emerge are discussed and presented in Chapter 7.

3.7 Ethical and pragmatic considerations

This section outlines the ethical and pragmatic considerations that have been taken in account to ensure that individuals and organisations that have participated in this study are protected from harm, risk and adverse consequences. Research ethics is defined by the ESRC (2010, p. 40) in its *Research Ethics Framework*, being the main guideline for this study, as 'the moral principles guiding research, from its inception through to completion and publication of results and beyond – for example, the curation of data and physical samples after the research has been published.' 'Pragmatic' is defined in the *Cambridge Advanced Learner's Dictionary* (2008, p.1087) as, 'solving problems in a realistic way which suits the present conditions rather than obeying fixed theories, ideas or rules.' All research activities in conducting this study comply with the Data Protection Act 1998; Human Rights Act 1998; and other relevant UK legislation. Like other social science studies involving human subjects, care has been taken into consideration in the planning, conducting and recording of this study to ensure it is conducted in a non-intrusive way that conforms to Kingston University's (i) Ethical Guidance and Procedures for undertaking research involving human subjects (Kingston

University, 2006) and (ii) Code of Good Research Practice (Kingston University, 2004). Appendix H provides the email clearance received from each of the three governing bodies.

3.7.1 Research Integrity and quality

The present study has been designed with integrity, a duty of care, beneficence, confidentiality and respect for participants. A research protocol, similar to a short manual of work instructions (Appendix G), which was agreed with the researcher's supervisory team, guided every activity across every phase of the research. At the completion of each interview copies of the transcripts were sent to each interviewee for verification. All participants will be given copies of the principles of effective charity governance that emerged from this study.

3.7.2 Voluntary participation of respondents

All participants observed and interviewed were approached before the study and one of the key principles of the research explained - voluntary participation. They were told during the field visits and interviews that they had the option to withdraw from any activity with which they were not comfortable.

3.7.3 Informed consent of participants

Prior to the introductory meeting a research summary outlining the purpose, method and intended use of the study was sent to all of the chairs, trustees and chief officers. They were encouraged to write down queries which were then to be discussed at the introductory meeting. A consent form (Appendix G) was read, discussed and signed by all interviewees on the day of interview.

3.7.4 Privacy, confidentiality and anonymity

The researcher has protected the privacy and anonymity of participants by using confidentiality safeguards. The three safeguards applied were:

- (i) Assigning each participant a code number and using that number on all data about the subject instead of actual names;
- (ii) Information collected was stored in secured electronic and paper-based files; and
- (iii) All research notes and working papers will be shredded on completion of the thesis.

3.7.5 Honesty, trust and conflict of interest

This study has been conducted always whilst preserving the professional integrity of its design, the generation and analysis of data, and the publication of results. All direct and indirect contributions made by the research supervisory team, colleagues in the researcher's cohort, staff of various libraries and others, are all clearly referenced and acknowledged. In addition, there is no undeclared conflict of interest (personal, professional, academic or commercial) in relation to the collection, publication and the subsequent use of the research data presented.

3.8 Summary and conclusion

This chapter has outlined the research design and methodology adopted in this research. The various research paradigms, approaches, strategies, modes of inquiry, data collection sources and methods and data analysis techniques, have been discussed and a descriptive, multi- case study design and methodology justified for the thesis. The chapter concluded with consideration of the ethical and practical issues taken into account before, during and after the research study.

The following three chapters present the intra-case analysis of Charities X, Y and Z respectively, being a combination of both the participants' and the researcher's constructions of understanding the phenomenon of charity governance.

CHAPTER 4: CHARITY X – INTRA-CASE ANALYSIS

4.1 Introduction

This chapter presents the first intra-case analysis of the three case studies examined for this thesis. Each case study is structured in line with the conceptual framework discussed in section 2.8. This approach is designed to address the research questions. The case study focuses on data collected from participatory observation of various governance meetings, review of internal and third-party documents and 11 open-ended, semi-structured interviews with ten trustees and the CEO. Charity X is a national organisation helping people to live positively with a common skin disfigurement that can cause anxiety, arouse public curiosity and unkind comments and, in the worst cases, lead to discrimination and social stigma.

This opening section outlines the structure of the chapter and introduces the concept of charity governance as understood and practised by the trustees and the Chief Officer. As already discussed in the Methodology (section 3.7.4) this has been done to enhance anonymity and aid analysis and interpretation:

XTF – Trustees with business and management qualifications, knowledge and experience;

XTM – Trustees with medical qualifications, knowledge and experience;

XTG – Trustees with no formal academic or vocational qualifications or experience; and

XCEO – The Chief Officer is also known as the General Manager. Although she attends most meetings she has no vote in decisions.

In section 4.2 the organisation structure and features of the charity are examined. Sections 4.3 and 4.4 present a discussion and interpretation of the internal and external governance mechanisms *in situ* and compares them with best practice models discussed in the literature review. In sections 4.5 and 4.6 recent governance achievements and challenges are discussed. Finally in section 4.7 a summary of governance practice in Charity X is presented.

4.1.1 Conceptualisation of governance

During an interview session Trustee XTF2 made the following statements to outline the purpose of and how he supports the governance process:

'There are a few essential elements of good governance every trustee must promote. The ones I consider probably most fundamental are giving direction and guidance to the charity and effective decision making. It is about identifying where you want to be in terms of where you see the charity moving forward, and putting in place or ensuring, that you are constantly moving in that direction to achieve the objectives.'

Financial governance is another critical aspect as it enables you to have an auditable, scrutinised financial position enabling the charity to be in a healthy financial state. Trustees have to consider risk and make sure that what you do is never taking excessive risks or spending money inappropriately. It is making sure that where you do spend money supports what you are trying to achieve as a charity and you have got a solid foundation in which to do that. Decision-making should be based on weighing the major alternatives and focusing on the bigger picture presented in the business plans we have agreed. Other intangibles such as working as a team and supporting the general manager are essential. I cannot leave out compliance with the law and working within our Memorandum and Articles of Association.'

Another trustee, XTM2, stated that:

'...the whole process of governance is to establish direction and vision for the charity. As trustees we align employed staff and volunteers with our mission and motivate and inspire them to achieve the charity's business plan.'

XTG3, a third trustee, believed that governance was about:

'...trustees working together to make sure that the charity is well-run to achieve its purposes, whether by advice or hands-on things. I am a beneficiary of the services the charity provides and it is from that background that I hope to help its work and in the process influence policy and strategy direction.'

From an executive management viewpoint XCEO described governance as:

'...a set of processes and policies to administer and control the charity.'

These quotations illustrate alternate perspectives of governance by the trustees and CEO in Charity X in their respective operational roles. For XTB1 the perspective and consideration is strategic, legal compliance and financial. His emphasis is on strategy development and implementation, financial procedures such as treasury and risk management and compliance with legislation and regulation. On the other hand, XTM2's perspective of governance is social and organisational. The emphasis he presents is on the achievement of the vision and mission of the charity which will ultimately lead to the eradication of the illness. The perspective of XTG3 is a rational, coherent approach. Her viewpoint is governance is a common-sense concept to run the charity well. Finally, for the XCEO governance is viewed purely as administrative and control mechanisms.

Although the comments made by these key governance participants in Charity X are narrow in conception and may have been influenced by individual experience, they nevertheless do demonstrate the diversity and richness in the perception and practice of the principles of governance. This diversity in perspectives has sometimes led to confusion in applying governance principles as will be discussed later in the perceived differences between trustees presented in sections 4.3.2 and 4.6.3. Nonetheless, the positions articulated above, although viewed with different lenses, are fundamentally analogous to the definition provided by Cadbury (1992, p. 14), of governance being: 'the system by which companies [*charities*] are directed and controlled.'

4.2 Charity X - Organisation structure and strategy

4.2.1 Organisation structure

The basic structure of an organisation is important for many reasons. For a charity it enables trustees and managers to plan, direct, organise and control its activities. The chair of the board, XTF1, described the purpose of the structure and how trustees fit in:

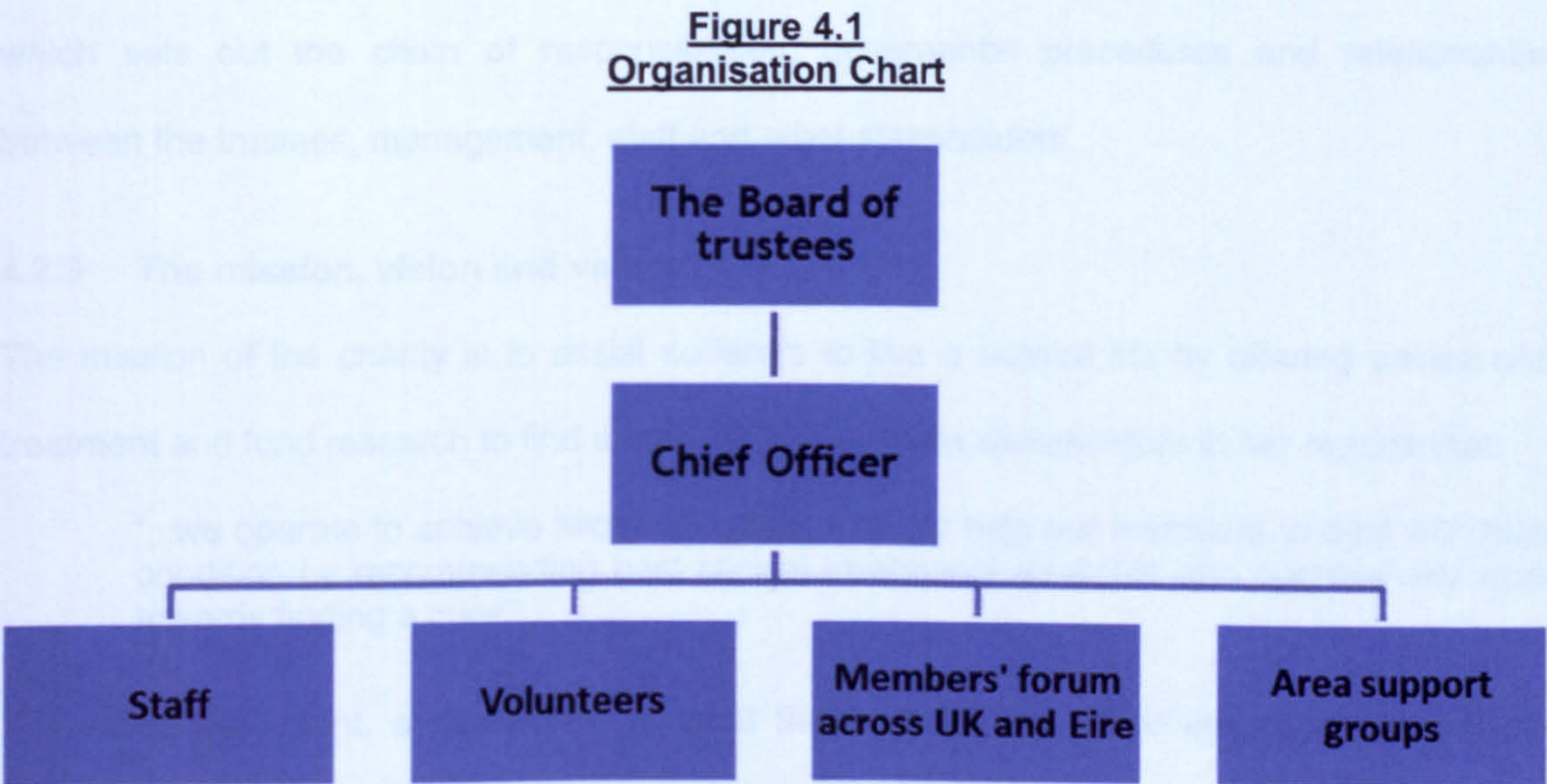
'...the purpose of the structure is to allocate work and responsibilities in order to achieve the objectives of the charity... As the trustees are non-executive directors removed from everyday operations, the structure - a simple, flat hierarchy, serves an extremely useful purpose in setting the way the charity is governed and managed. Trustees decide and set the 'direction of travel' but allow the general manager and her team to manage the daily processes.'

The term 'direction of travel' is used extensively in the public and third sectors and is defined as '...the strategic route taken to improve achievement of public service delivery' (Audit Commission, 2008 p. 7). XTF1's comments highlight the features of the charity: its flat structure, high formalisation and centralisation. Hart (2006) suggests flat structures allow greater internal communication, leading to less bureaucracy and easier decision making. High formalisation and centralisation, however, put decision-making in the hands of the Board. This has led to conflict and tension between head office staff and area support group leaders. This was demonstrated during a recent AGM when a frustrated support group leader said:

'...we know the needs of sufferers in our county better and expect the Chief Officer and her staff to delegate planning of activities to us... We appreciate the support that comes from head office but we should be responsible for the local area...'

This frustration is likely to affect the smooth operation of the charity and its governance arrangements. The Chair has, therefore, set up a group to review the situation and submit proposals to reduce or eliminate conflict in this area.

The charity is governed by a Board of Trustees, (eleven unpaid volunteers), managed by a Chief Officer designated as General Manager (Figure 4.1). A small team of four part-time staff and a cadre of volunteers across the UK help to run the organisation. A members' forum which facilitates discussion on the illness is hosted on the corporate website and moderated by volunteer medical professionals. Seven support groups operate in geographical hubs across the UK plus one in Dublin, Ireland. These groups are administered by local volunteers who are sufferers, close relatives of sufferers or health service professionals.



The organisation structure presented above has the locus of power residing with the Board of Trustees. Even though the structure has been designed to minimise bureaucracy (as stated above by XTF1), the central planning of activities to manage the quality of services across the UK and Ireland has to be flexible and responsive to local area requirements.

4.2.2 History and legal structure

Charity X was set-up in the mid-1980s to provide advice and support to local people suffering from a skin disfigurement. From small beginnings the charity has grown, over the years, to

become a national patient support group with a membership of 7,500 patients, their families and guardians in the UK, Ireland and abroad.

The charity is funded from annual membership subscriptions, donations, legacies and income from investments. It is a registered UK charity with annual income in the region of £100,000 and is also incorporated as a company limited by guarantee. The liability of its members is to pay a nominal sum of £1 to creditors in the event of the charity being wound up. This legal structure is the most commonly used configuration for community and voluntary organisations in the UK, since it allows charities to have a separate legal identity, thus reducing financial risk to members (Hayes and Reason, 2009). The trustees of the charity, for the purposes of the Charities Act 2006, are also directors of the company for the purposes of the Companies Act 2006. They operate within the provisions of the charity's governing document, the M&A, which sets out the chain of responsibilities, governance procedures and relationships between the trustees, management, staff and other stakeholders.

4.2.3 The mission, vision and values

The mission of the charity is to assist sufferers to live a normal life by offering advice and treatment and fund research to find a cure. XCEO reminds stakeholders in her reports that:

'...we operate to achieve two main goals; actively help our members to deal with their condition by recommending best clinical treatments available and aggressively work towards finding a cure.'

The vision statement, a description of what the organisation would like to accomplish, is stated in its 2007-2012 Strategy Paper (p. 2), as being 'to influence research and find a cure for the skin condition.' A long-standing trustee, XTG1, who also suffers from the skin condition, wrote the following on the members' forum discussion board:

'...we look forward to a day in the not-too-distant future when science and technology will solve the mystery of this illness...help us lead normal lives like the rest of society.'

Swayne *et al.* (2006, p. 205) define a values statement as, 'an expression of a company's core beliefs. In the voluntary sector 'value' is critical and has enhanced status because charities rely on public goodwill and financial support for their continued existence. In the 2009 strategy meeting the trustees reviewed the charity's values statement and adopted the

following principles to underpin governance and operation: dignity, compassion, respect, integrity and effectiveness. XTF2 concluded the strategy meeting by saying Charity X:

‘...will show dignity, compassion and respect to our members and service users and run the organisation effectively with integrity.’

The adoption of these statements would demonstrate commitment to improving the quality of the lives of its members and the wider community suffering from the condition.

4.2.4 The objective of operations

Charity X has four main charitable objectives listed in the 2005 version of its M&A (p. 1), which are linked to its mission, vision and values. These are ‘(i) The relief of distress and suffering of persons who have the skin condition; (ii) The promotion of research into the cause of the condition and the most effective means of treating this condition; (iii) The dissemination of the results of such research for the benefit of the public; and (iv) The advancement of public education about the condition.’

The activities to achieve these objectives were presented in an answer provided by XCEO to a request for clarification on a comment she made during a Trustees’ meeting:

‘the charity main activities includes (i) campaigning for a better understanding among the medical profession and the general public of how it feels to live with this disfiguring condition; (ii) gathering and distributing up-to-date research, other clinical information and treatment about the condition; (iii) offering support and information on how to cope with the condition.’

Apart from being legal requirements for continued registration with regulatory agencies, the objectives set out what the organisation was established to do. However, from observation of trustees’ meetings over a period of two years it is apparent that these objectives have never been ranked to determine relative importance in strategy development and implementation. This ranking may focus the mind of the Board to formulate or refine strategy.

4.2.5 Age and size

The charity was formed in the mid-1980s in central London as a small group to support local members. It has been in continuous operation for over 20 years helping sufferers who self-refer themselves and patients introduced by medical and health practitioners.

Using the Companies Act 2006 and Charities Acts 2006 benchmarks of annual turnover, net assets and number of staff, Charity X can be categorised as a small organisation (Table 4.1).

Table 4.1
Comparative Size of Charity X

Factors to be considered as a small organisation	Companies Act 2006 thresholds	Charities Act 2006 thresholds	Charity X 2008/09 Outturns
Gross annual income	£2.8m or less	£500,000	Under £150,000
Gross assets	£1.4m or less	£2.8	Under £100,000
Number of employees (full-time equivalent)	50 or fewer	-	5

XCEO confirmed the age and size of the charity in comments made in the 2009 annual subscription letter to members:

‘...since our inception almost 25 years ago we have supported members and assisted them to lead as normal a life as possible... We have stayed small in order for you to participate in the decision-making to meet your needs...’

These comments confirm a decision taken by the charity to stay small. However, smallness has governance limitations and liabilities and Cornforth (2005, p.124) lists several of these liabilities, which include ‘the difficulty of recruiting and retaining board members’ commitment... the limited ability of small boards to carry out all the functions ascribed to a voluntary agency...’ The review and renewal process discussed later in section 4.3.10 will, however, demonstrate that this does not apply to Charity X.

4.2.6 Staff and volunteers

XCEO described how the charity is resourced to meet its objectives:

‘We run the business of the charity with a very small workforce, four staff – one full-time, three part-time. Although we are proud of the incredible contributions they make the charity relies heavily on the generosity, financial and time commitment of our volunteers in London and across the country. We cannot achieve our corporate objectives without the close partnership of staff and our loyal volunteers in dealing with telephone, email and forum enquires; supporting members on a day-to-day basis; organising and staffing events and activities the charity sponsors and ensuring we comply with the multi-dimensional requirements of the Charity Commission, the 2006 Charities Act and Companies House.’

In 2003 the Board took a decision to reorganise the charity and ‘downsize’ its workforce from six full-time to one full-time and four part-time staff. The reason for this action was to reduce

administration costs which were significantly increasing year-on-year. The savings made were re-employed in front-line services. XTF3 reminisced about the decision when it was taken at a Trustees meeting:

'...the decision was taken to forestall investigation as the charity was spending 22% on administration expenditure... The Treasurer at the time advised that this level was indefensible after the auditors expressed concerns and unease...The chair accepted the proposal and the change to reduce staff was voted.'

After a period of staff consultation the vote was taken with majority support from subscribing members of the charity. This happened in 2006, a period of transition, before the new Chair and Treasurer were appointed. It demonstrated how important it is for the leadership to have trustees with relevant governance and finance knowledge and experience. Although some level of administration costs is necessary for charities to deliver their services and comply with reporting requirements a 22% expenditure on administration cost is excessive, the recommended sector median being between 7-10% (Kähler and Sargeant, 2002).

The change in staffing, however, means over reliance on volunteers. This makes the charity vulnerable and potentially unable to deliver its services without volunteers' input as expressed by XTM1, who also administers a support group:

'...the charity will not be able to carry out its objectives without the continued support of volunteers.'

This dependence on volunteer support is not unusual for small charities in the UK and USA (Cornforth and Simpson, 2002). The generous British public has always risen to the challenge when needs arise. However, Charity X fails to fully harness and deploy the potential of its volunteer force to deliver additional services.

4.2.7 Geographic scope

Under its M&A the charity is established to operate nationwide. As there are no equivalent charities supporting sufferers in Ireland, it offers its services to Irish nationals. Its publications claim it is a national charity but it only has a 'token' presence in Dublin with operation thinly spread in other areas of the UK. The concentration of its services is in southern England where most of the registered members and six of its ten support groups are based.

4.3 Internal governance mechanisms

The mechanisms of CG have traditionally been divided into internal and external governance mechanisms (Jobome, 2006). Figure 4.2 presents the internal governance mechanisms in Charity X and will be discussed subsequently.

Figure 4.2
Internal Governance Mechanisms



4.3.1 The governance document

The Charity Commission requires that all registered charities prepare and operate within a ‘Governing Document.’ For unincorporated entities a constitution is recommended, and in the case of incorporated and trust charities, Memorandum and Articles of Association and trust deed are advised, respectively (Charity Commission, 2008). Charity X has a M&A, which contain the following information:

- (i) Objects (the activities it has been established to perform);

- (ii) Powers (how the charity will perform these activities);
- (iii) Trustees (the persons who will govern the organisation);
- (iv) Amendment provisions (administrative provisions to guide trustees when changes are made to the document);
- (v) Dissolution (what should happen when the charity wishes to close down);
- (vi) Governance procedures (how the charity will be run); and
- (vii) Internal arrangement (procedures on how various meetings are conducted, voting is made, financial record are kept).

The Chair of the Board, XTF2, offered a simple description of the M&A to a member in a Q&A session at the end of a recent AGM:

‘This document is just a set of rules for the charity and a trustee user manual, drawn-up by our legal advisors when the charity was set up. Over the years it has been updated to bring it in line with changes in charity law and other regulations. It is considered by the board to be an important reference document regularly consulted by trustees and the Chief Officer to ensure we are running the charity in the correct, legal way.’

XCEO, who has managed the charity for the last five years, also made the following comments in a recent induction programme:

‘...the M&A is very important because it guides and sets out a broad outline of the procedures, roles and responsibilities of trustees to enable them to govern the organisation effectively.’

In line with similar incorporated organisations in the voluntary sector, the M&A is the governing document required by the charity and company law. It thus sets out guidelines on how the charity should interact with internal and external stakeholders to achieve effective governance. However the current version of the M&A needs updating to comply with recent legislation in these areas:

- (i) Inclusion of a clause to highlight trustees’ duty to avoid situations of direct or indirect conflict of interest (section 175, subsection 3 of the Companies Act 2006);
- (ii) Inclusion of the powers to purchase trustee indemnity insurance without having to seek the consent of the Charity Commission (section 39 of the Charities Act 2006); and
- (iii) Inclusion of powers of trustees to suspend or remove a trustee from membership of the charity (section 19 of Charities Act 2006).

4.3.2 The Board of Trustees

In Charity X the Board consists of four honorary officers: Chair, Vice-Chair, Secretary and Treasurer, plus six other general trustees, all of whom are volunteers. They come from various backgrounds in society, and some have formal business, management, accountancy, public relations, research or medical qualifications and experience.

This diverse mix of knowledge, skills and experience provides a wide pool of expertise to lead the charity. The downside that has come to light, however, is the limited time some of these professionals can commit to effectively running the affairs of the organisation. In order to address this problem the chair encourages participation in the discussions and contributions from all trustees attending the various meetings. The annual review in January identifies less committed trustees. The chair usually discusses non attendance with a view to finding a resolution or asks defaulting trustees to stand down if they miss three consecutive meetings.

The role of the board

The responsibility of the Board is to direct and control the affairs of the charity. Under the provisions of the charity's Articles of Association they have the following responsibilities:

- (i) General oversight of the strategic direction and control of the charity
- (ii) Compliance with all current legislation and regulations of the Charity Commission
- (iii) The use of charitable funds and assets in the furtherance of the charity's objects.

A survey conducted in January 2009, after the research interview with the Chair of the Board, revealed that trustees' awareness of these responsibilities, plus their knowledge and understanding of recent legislation and best practice regulations that directly affect the charity, were low or non-existent. This is a weakness in governance as such lack of knowledge of sector pronouncements can affect compliance in some critical areas. The Board has voted to circulate extracts from sector magazines and periodicals to raise knowledge and awareness of contemporary issues affecting charities.

The Chair (XTF2)

In addition to being a trustee, the chair of the board has additional, special responsibilities. They range from providing effective leadership and direction and representing the charity at public engagements, to chairing general, extraordinary and annual meetings. She ensures that members are briefed on the terms of their appointment, duties and responsibilities and supports the Chief Officer in implementing decisions taken by the Board. In a blog on the members' forum XCEO wrote the following:

'... I am responsible for articulating and driving forward the long-range vision of the charity... I am also responsible for providing leadership to the board and that includes legal and financial oversight. Throughout the year I attend many public events on your behalf and in several instances I have become the most visible spokesperson and public face of the charity ...'

The enthusiasm of the chair is demonstrated by the number of governance and other policy initiatives that she has launched that are expected to effect change across the organisation. As a retiree she has time to review both the performance and state of the charity.

The Vice-Chair (XTG2)

The Vice-Chair leads meetings of the Board when the Chair is unable to attend. He also represents the charity and deputises for the Chair at external engagements. For a period time between 2007 and 2009 the Board had no Vice-Chair. The minutes of a board meeting reveal that none of the trustees was willing to step in and occupy the position. XCEO, explained:

'...This was a period of change and the trustees who were not already officers of the Board were reluctant to take on additional responsibilities. The immediate past chair was frustrated but when dealing with volunteers you can only push so far...'

The reluctance to accept additional responsibilities and a lack of commitment by some trustees in the past did affect governance. Problems included failure to get a quorum at meetings and sub-committees which could thus not convene. XTM2 said:

'For a period of time before current trustees were elected the former group were not even aware of their legal responsibility to serve as a trustee of a registered charity. This failure has now been reversed with the introduction of a screening, recruitment and appointment process. Potential trustees have to attend three board meetings during which they will be assessed for suitability.'

The Treasurer (XTF1)

The Board has appointed a treasurer who sets annual and medium-term budgets. He provides support and advice to the Board in areas of financial management. His other duties include: the maintenance of proper books of account, compliance with accounting and auditing regulations and developing financial strategy. He is a chartered accountant with many years experience of charity financial management. XCEO described him as:

'...one of the best appointments the Board has made in recent years. He has worked for one of the top four accounting firms in the UK and is an ex-Treasurer of a large, international charity...'

This type of knowledge and experience in charity financial management is likely expected to improve the financial governance of Charity X.

The Secretary (XTG1)

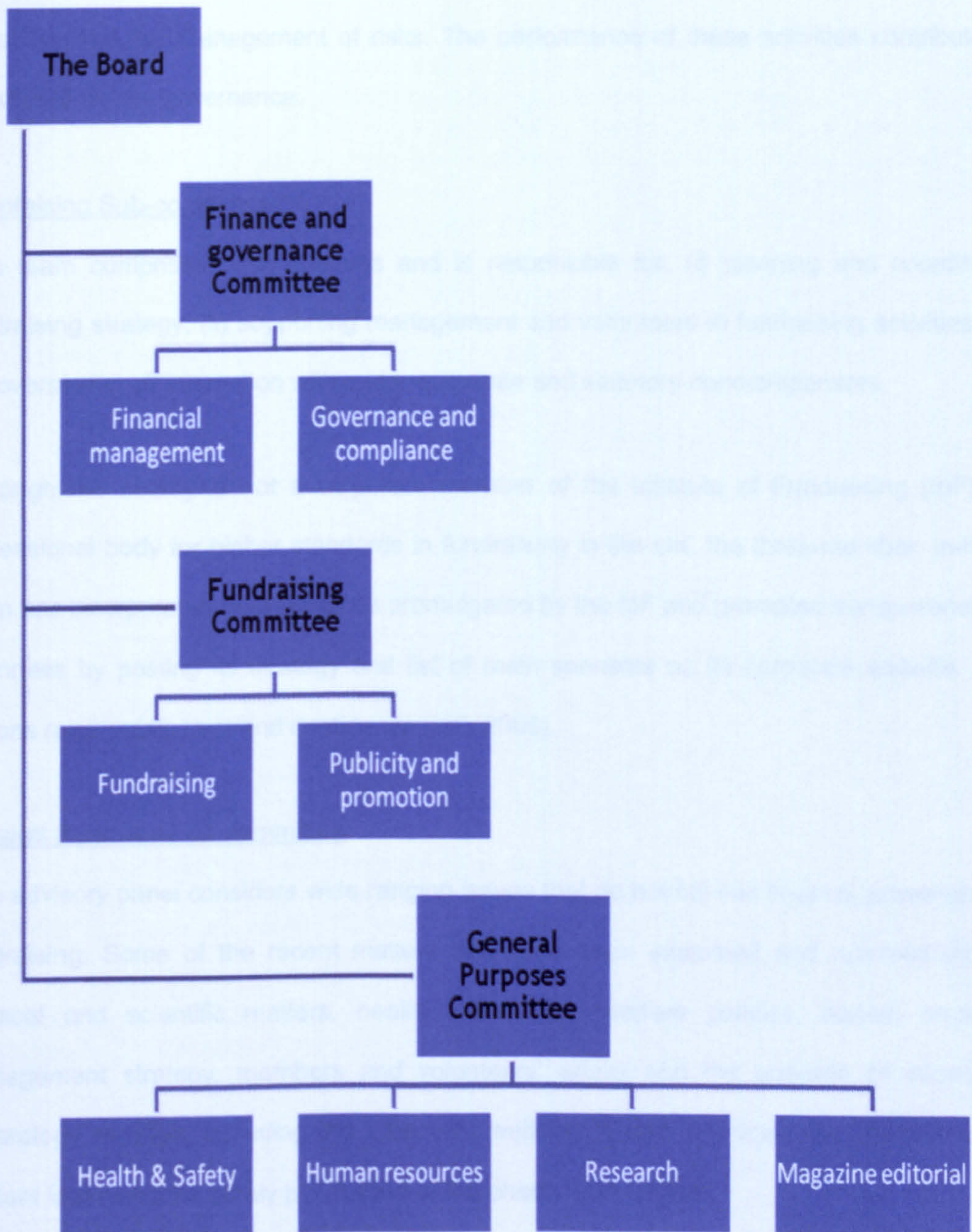
The charity has a retired office manager who assists the charity to comply with statutory annual disclosure requirements. To meet these responsibilities he maintains a register of trustees, ensures resolutions from meetings and statutory documents are filed with regulatory authorities and provides members with notices of meetings such as AGMs and EGMs. These records are held at the head office in central London and are available for inspection.

Although the Secretary had been in post for over ten years, the lack of governance knowledge discussed above demonstrates weakness in his pivotal role to help the Chair and co-ordinate various governance compliance issues. It appears that for a period of time governance processes in Charity X had become an 'off-line', tick-box exercise instead of an embedded set of activities to enable trustees to effectively direct and control the charity.

4.3.3 The sub-committees

The Good Governance Code (2010) recommends that an effective board should organise its work to make the most effective use of its time. It encourages the board to set up sub-committees, 'having clear, written terms of reference...which provide sufficient delegated authority and clear boundaries...to discharge their duty effectively...' The charity has delegated detailed working of functional areas to its sub-committees (see Figure 4.3).

Figure 4.3
Standing Committees of the Board



The configuration of these committees, introduced in 2008, demonstrates the charity's commitment to operate within the 'letter and spirit' of the 2005 Charity Code. XCEO stated:

'...in clarifying and defining these roles, duties and responsibilities the business of the organisation can be efficiently and accountably carried out.'

Finance and Governance Sub-committee

This working group convenes under the chairmanship of the Treasurer, and is constituted of two other trustees. The charity's M&A requires at least one member of the group has financial

management experience. Their remit of the group is to oversee all financial matters and policies. Detailed workings involve monitoring the charity's financial health, its operational capability and the management of risks. The performance of these activities contributes to effective financial governance.

Fundraising Sub-committee

This team comprises three trustees and is responsible for: (i) planning and coordinating fundraising strategy; (ii) supporting management and volunteers in fundraising activities; and (iii) overseeing all interaction with major corporate and statutory donors/sponsors.

Although the charity is not a corporate member of the Institute of Fundraising (IoF), the professional body for higher standards in fundraising in the UK, the three-member, in-house team has incorporated best practices promulgated by the IoF and promoted transparency and openness by posting its strategy and list of main sponsors on its corporate website. Such actions raise public trust and confidence (IoF, 2006).

General Purposes Sub-committee

This advisory panel considers wide-ranging issues that do not fall into finance, governance or fundraising. Some of the recent matters that have been examined and resolved include: medical and scientific matters, health, safety and welfare policies, human resources management strategy, members and volunteers' affairs and the upgrade of information technology facilities, including the corporate website. It also oversees the development of content ideas and the timely publication of the charity's newsletter.

Non-standing Committee

In situations where there is a short-life project or a one-off event, the Board sets up an ad hoc committee. The team is usually composed of trustees with skills to assist in the project. They consider the project assigned, make recommendations and dissolve on completion. Recent ad hoc projects include: (i) 25th anniversary celebrations; (ii) contributions to the 'Dermatology' medical journal; and (iii) increased publicity of the charity.

XTG3, who has sat on the General Purposes and Fundraising Sub-committees, made the following statement explaining why he so serves:

'I initially joined the charity with a view to overseeing publicity and advertising and we have had moderate success in this area. I wrote a feature article about the charity in *The Times* newspaper which had a favourable response - a massive increase in the number of hits on our website. I have also appeared on television to raise the profile of the charity... I decided recently to serve on these two committees because I want to use my skills to help the charity.another reason is because policy and strategy development, which I am interested in, start from sub-committee level.'

Table 4.3 summarises the duties of the sub-committees and provides the number and calendar of meeting dates scheduled for each year. XCEO advised trustees in a memo that:

'These dates have been scheduled over the year to get the business of the charity done in a planned and orderly manner. However they are subject to change when urgent issues require early consideration and resolution.'

Table 4.2
Responsibilities of Sub-committees

Sub-committee	Responsibility	Meetings per year	Meeting Dates
Finance and Governance	Set the budget for the new financial year within the long-range finance strategy; Review internal control, risk management Review quarterly and year-end financial reports; and Consider and review governance issues	3	Mid January Mid April Early September
Fundraising	Review fundraising strategy and projects	3	Mid February Mid June Mid October
General Purposes	Deal with general matters as delegated by the Board	4	Mid March Mid June Mid September Mid December
Ad hoc	Deal with specific, short-term matters as delegated by the Board	Per terms of reference	As directed by the Board or amended by Chair based on relevant terms of reference

These governance structure and arrangements are in line with the recommendations of The Governance Hub 2005 (p. 19), which stipulates that the '...Board should make proper arrangements to achieve high standards of governance...' The procedures and activities should give the various stakeholders of the charity reasonable expectations that the Board understands its responsibilities and has systems in place to exercise them properly. Comments made by XTG3 and XCEO confirm that the Board actively controls of the affairs of the charity and delegates projects to its sub committees to get its work done effectively.

4.3.4 The Chief Officer and management team

The Chief Officer is the senior executive officer of the charity. As figure 4.1 previously demonstrated there is no complex management structure because of the size of the team. XCEO holds supervision sessions with her small team and regular volunteers working at the head office, fortnightly. During these sessions she discusses the launch and/or review of projects and activities. This hands-on approach enables her to have detailed operational knowledge at all times and facilitates easy consultation, immediate discussion and speedy decision-making. XCEO said the following during a fieldwork visit:

'Three of my four staff are part-time employees who work on different days of the week. Whenever one of them is ill or other is on holiday its all hands on deck, coping with constant telephone queries and doing other work can be challenging. We pull together so that we serve the members as best as we can.'

This statement demonstrates that despite the challenges of leading a small organisation with limited staff capacity, XCEO demonstrates personal commitment to achieving organisational objectives. Her role is critical in the governance process as she has to manage the sometimes competing demands of internal and external stakeholders, support and service the Board and oversee day-to-day operation of the charity.

4.3.5 Statutory and regular meetings

Three main types of governance meetings are held in Charity X:

(i) Regular board meetings

The Board meets on a six-weekly basis to consider the operations report of the XCEO, review financial performance and other day-to-day activities. The Secretary keeps minutes of the proceedings at each meeting. These minutes are regarded as official records of the meeting and are posted to the charity's website, which members can access with a password. This enables the Board to demonstrate openness and accountability to members. Apart from these regular board meetings, the charity convenes two other statutory meetings, hence both Ordinary Annual and Extraordinary General Meetings (AGM and EGM respectively) are held.

(ii) AGM

The purpose of the AGM is, 'to provide the charity trustees and/or officers the opportunity to explain their management of the charity to the members and...also to provide the members of

the charity with an opportunity to ask questions...' Charity Commission (2003, p. 29). The main items on the agenda usually include:

- (a) A presentation of the achievements and work of the charity and an opportunity for members to ask questions on any management or governance issue;
- (b) Appointment or removal of honorary officers and members of the board;
- (c) Approval of the annual financial statements;
- (d) Appointment of an independent examiner of the financial reports; and
- (e) Voting to amend section of the M&A.

(iii) EGMs

EGMs are 'held for the consideration of non-recurring business that requires approval by members between AGMs,' Charity Commission (2003, p. 36). 'Non-recurring business' includes the speedy amendment of parts of the charity's governing document to effect smooth operation, or to comply with legislation or the authorisation of a financial activity, such as change in use of restricted or designated funds.

These meetings are a vital feature of effective governance as decisions taken determine the shape and direction of Charity X. However, minutes of the meetings held in 2006 show that it was usually the same, minority, group of trustees who prepared for and actively participated in the discussions (Table 4.4). The minutes of trustees' meetings held in 2009 show participation from a wider constituency of Board members.

Table 4.3
Number of Trustees Participating in Meetings

Six-weekly meeting held in	Total trustees on the Board 2006	Trustees attending 2006	Trustees participating 2006	Total trustees on the Board 2009	Trustees attending 2009	Trustees participating 2009
January	8	7	3	11	9	9
February	8	6	3	11	9	9
April	8	6	3	11	9	9
May	8	7	4	11	9	9
July	8	6	4	11	9	9
October	8	6	3	11	9	9

Resolutions and voting

During AGMs and EGMs trustees and members who are eligible to vote can put forward resolutions. These are recommendations and proposals about operational matters relating to the organisation. Resolutions are proposed and seconded by voting members before they are open to discussion from the floor of the meeting. Decisions are made when resolutions receive a two-thirds majority vote of trustees and members present or as represented by proxy votes. Section 9 of Charity X's M&A requires the Company Secretary to give 21 days' notice to trustees and members before calling an AGM or EGM.

Although voting for resolutions proposed by trustees gives registered members of the charity a say in its decision processes, poor attendance at AGMs and EGMs over the years has left them not exercising this right. In situation like this, 'inclusive governance' is not achieved.

4.3.6 Risk management

The Statement of Recommended Practice (2005) for charities requires all registered charities to make a statement in their Annual Report confirming that major risks to which the charity is exposed have been reviewed and systems have been established to manage them. Major risks are defined as those risks which, 'have a high likelihood of occurring and would, if they occurred, have a severe impact on operational performance, achievement of aims and objectives or could damage the reputation of the charity, changing the way trustees, supporters or beneficiaries might deal with the charity,' (Charity Commission, 2007, p. 3).

The following statement made by XTF1 captures the essence of managing risks:

'... Risk management is not a threatening or negative activity. It is, instead, an opportunity for all of us to identify risks across the charity and take reasonable steps to eliminate, reduce or manage them. Success in managing our risks will enable us to effectively manage the charity and avoid having to answer awkward questions from members or Charity Commission officials.'

This statement evidently demonstrates a good understanding of the elements of risk management. The document used to manage risks is its risk register, which lists all major risks, the implication, significance and likelihood of occurrence, a risk score, mitigating

strategies adopted and contingency plans in place. The register, compiled and updated by the Treasurer and Chief Officer, is reviewed by trustees at their June and December meetings.

The Board has also established internal controls such as segregation of duties, authorisation and approval and monthly budgetary reporting, to prevent and detect fraud and to promote compliance with financial regulations. Staff and volunteers who are exposed to these risks receive extracts of the register outlining what they are expected to do. The Finance Officer, who keeps the accounts, told a new trustee during their induction programme that:

‘Cheques to pay all expenditure have to be signed or counter-signed by the Treasurer, chair or nominated trustees as stipulated in the bank mandate. We also have a petty cash float to pay for items below £50.00...’

Although the measures listed above demonstrate commitment, the method used to evaluate risks and threats in Charity X has been mechanistic rather than organic and proactive. Only the obvious risks listed on the risk register are reviewed by the Board on a biannual basis. Potential threats to the charity such as the economic downturn and its possible adverse effects on income and investments were neither recorded nor assessed nor mitigating strategies hence recommended. A broader environmental scanning of probable and possible internal and external risks is necessary for effective risk management and governance.

4.3.7 Financial management

Charity advocacy agency, NCVO, counsels charities to treat financial management as being key to effective governance and sustainability across activities which have a financial impact.

In a mid-year financial report to trustees, XTF1 wrote the following:

‘Effective management of financial resources provides direction, determines and clarifies accountability, evaluates resources and delivers information that can be used in planning, assessing impact and reporting to our stakeholders. This enables us to live up to our legal obligations...’

As financial management impacts most decisions made by the Board, it has been integrated into the framework of the charity’s operations. It covers from managing annual and long-term budgets to gathering data and information for strategic decision making. XTF3 said that:

‘The vast majority of charity failures in the UK happen as a direct result of weak governance from trustees or poor financial management. It is important for us to demonstrate to various stakeholders we deserve the trust they have in us and we take our responsibilities seriously...’

The Board has, therefore, introduced procedures and systems to enable its smooth operation.

The three main instruments introduced in 2006 were:

- (i) Financial planning – the Board and the Chief Officer ensure that enough funding is available to meet the stated objectives ;
- (ii) Financial control – the Board sets annually, and every six weeks, monitors budgets to ensure that the charity is meeting its stated objectives;
- (iii) Financial decision-making – the Board discusses all options, sometimes at sub-committee level, before taking decisions to meet the specified overall strategy.

Over the years, several policies have been adopted as guiding principles to promote best practice and achieve effective stewardship. The main policies are:

Grant Policy

The charity invites applications for funding of projects through advertising in specialist medical and scientific media. The trustees make awards after rigorous scientific and value for money reviews by the charity's Medical and Scientific Advisory Panel.

Reserves Policy

The trustees have agreed that it is prudent to build the charity's reserves to a sum equivalent to three months' operating expenditure, currently projected to be £50,000. This is to ensure the charity has sufficient funds to meet its day-to-day contractual obligations.

Risk Policy

The Board maintains a risk register and carries out bi-annual reviews of the major risks to which the charity is exposed. The 2008-09 Trustees Annual Report to members and regulatory agencies states that trustees have 'established robust and fit-for-purpose systems and procedures to manage all risks in the register.'

The systems, policies and procedures in operation in Charity X, which have been listed above, appear to have worked well. This is demonstrated by there having been no reported

case of financial impropriety or breakdown in financial governance. However, two areas have been identified during the field study for this thesis as showing weaknesses:

- (i) The charity has not been successful in full cost recovery of projects with partner organisations because of lack of expertise; and
- (ii) The lack of a fundamental review of funding proposals sent to foundations to increase chances of success.

These financial control issues have been brought to the attention of the new Treasurer, who has the expertise to effect improvements in these areas.

4.3.8 Performance targets and measures

There is minimal awareness of, and apathy towards, the Charity Code (p. 10), which stipulates that 'the board should periodically review its own and the organisation's effectiveness, and take...necessary steps to ensure that both continue to work well.' Achieving these two goals could lead to effective governance. However, trustee XTM3, in answer to an interview question about the 2005 Good Governance Code, said:

'I did not know such a code existed and I would probably be too busy to read it anyway even if someone gave me a copy unless I was bored on the train home.'

This example of inaction and apathy captures the indifference displayed by some of the trustees and can only be described as a complete dereliction of their statutory duties. Such lack of interest and concern has been a major obstacle in achieving effective governance in Charity X. Trustees who voluntarily put themselves forward to help and support the charities of their choice have to step down when their ability to serve reduces. The contempt expressed in XTM3's statement above is unacceptable. These barriers to achieving the full potential of the charity will be further explored below under section 5.6, which will cover the challenges facing by the charity.

The Chair, who is aware of indifference being shown by some members of the Board, has introduced an organisation renewal system during the 2009-10 financial year, which is expected to incorporate performance management. Trustee XTF2 summarises some aspects of the new integrated practice of performance management to be introduced in this statement:

'...our draft service plan was drawn up from comments, suggestions and feedback received from staff and volunteers at our Annual Strategy Day. Performance targets will be set across five areas within a framework of performance management (services, finance, research, members' satisfaction and campaign activity). It will be done deliberately in this way to foster an environment of consensus and co-operation between trustees and staff. I will have responsibility for tracking and evaluating performance on a quarterly basis and reporting to the board...This process will hopefully promote a culture of continuous improvement as each group - trustees, staff and volunteers strive to improve on last year's performance.'

4.3.9 Engaging stakeholders

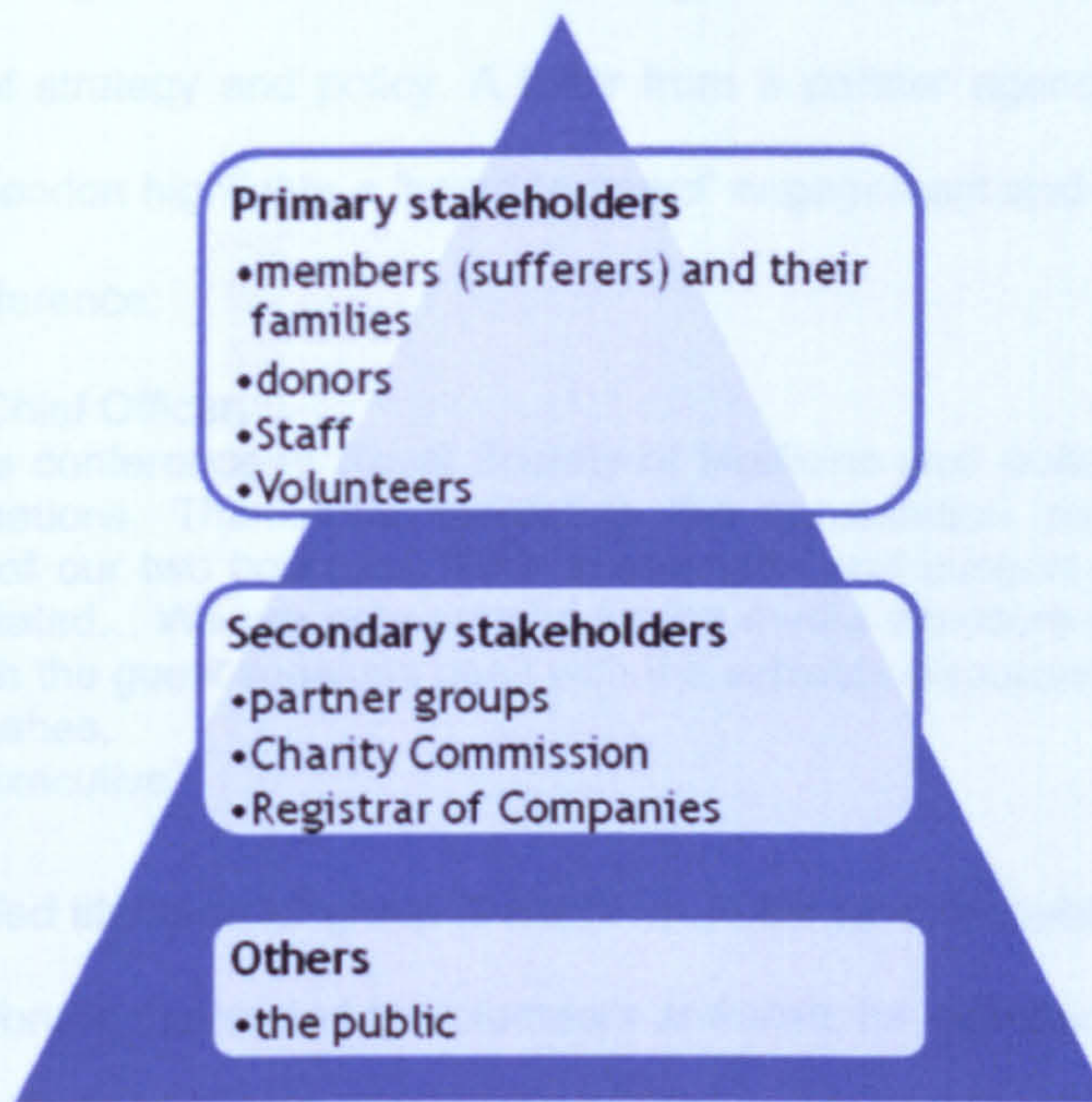
In the area of board openness the Good Governance Code 2005, recommends that charities, 'should identify those with legitimate interest in its work (stakeholders) and ensure that there is a strategy for regular communication with them about the organisation's achievements and work...should be accountable to stakeholders...should encourage and enable the engagement of key stakeholders...in the organisation's planning and decision making.'

Trustee XTG2, who is also a registered member of the charity, informed other trustees that:

'...members in my hub wanted me to pass on to colleagues on the board that they are happy with the level of consultation we [*the Board and Chief Officer*] engage in the delivery of services. Long may it continue...'

This affirmation of 'the level of consultation' from one of the area support groups can be seen as one of the successes of the charity in involving members in determining its strategic direction. Governance in the voluntary sector can be regarded as effective when its objectives meet the needs of its service users. After the research interview with XTM3 (who serves in the Governance Sub-committee) in 2008 proposed development of a classification with a view to improve stakeholders' relations. Figure 4.4 presents the Board's conceptualisation of the hierarchy of stakeholders that categorised stakeholders into three groups; primary, secondary and 'others.' This categorisation offers trustees, staff and volunteers an improved method of engagement, communication and consultation with stakeholders.

Figure 4.4
Primary, Secondary and Other Stakeholders



Primary stakeholders are considered the key constituency with which the charity should engage. XCEO described this group to a prospective trustee by saying:

‘...they are the category of people who directly support us... and make sure the charity has the financial and other resources to continue in operation.’

This group comprises paid-up, registered members suffering from the skin condition and/or their families, donors, staff and volunteers. This group has direct access to the Board and Chief Officer through emails, letters, telephone and messages on the members’ forum. They are encouraged to participate in surveys and given opportunity to express their views and preferences on the range of service the charity provides. The followings are extracts from, and blog posted on the forum site by, members:

‘...we received copies of the newsletter and annual report last week and we were impressed that you incorporated the suggestions my son made into your service plan last year. We have completed the on-line donation form in addition to our subscriptions. Thanks for the good work!’

‘I am very happy to have been selected to complete the annual survey. It demonstrated to my husband that you do value input from members around the country on the way charity develops and grows.’

The secondary stakeholder group is made up of partner and regulatory agencies. This group has varying degree of access to the Board and has little direct influence on its decisions and plans. Charity X operates in an environment where it has engaged in several collaborative

activities with partner agencies. The Board and Chief Officer consider views and suggestions in the planning stages of these services, although partner agencies have no influence on the development of strategy and policy. A letter from a partner agency to the charity after an event held in London highlights a 'board-to-board' engagement and consultation that led to a successful conference:

'Dear Chief Officer,
Today's conference at Royal Society of Medicine was quite an achievement for our organisations. Thanks for facilitating the consultation and engagement between chairs of our two boards.... Your intervention and support at the planning phase is appreciated... We are very grateful for the media exposure and the professional way in which the guest speakers dealt with the subjects discussed.
Best wishes,
Chief executive'

The last identified stakeholder group is made up of the general public. The charity's website offers a public forum, moderated by volunteers and staff, for members of the public to express their views about the charity via compliments, complaints or suggestions. Although 'traffic' on this area of the website is not huge, two comments recently posted on the public discussion board read:

'I was browsing your site... My friend suffers from this disfigurement... The information on treatment options is very useful...I will print out a copy for my friend... Can you provide an address of a support group that is close to Norwich?'

'I am very impressed with the sensitive way in which you deal with the skin condition... I manage a medical practice that covers Caterham, Chaldon, Woldingham and Whyteleafe and will arrange to link your website to ours...'

The typology of stakeholders in Figure 4.4 provides a normative framework for trustees, management and volunteers to engage with individuals, groups and organisations connected with the charity. This initiative takes governance in the direction of effective communication and engagement, which should improve overall governance. However, such a scheme should be regularly reviewed to ensure its objectives are being met, or modified as appropriate, to deal with changing internal and external environmental circumstances.

4.3.10 Review and renewal

The Governance Hub 2005 (p. 20) states:

'The board should regularly review and assess its own performance, that of individual trustees and of sub-committees...'

The concept of review and renewal is new to Charity X. It was introduced in 2007 by the interim Chair of the Board to 'weed out' inactive trustees. Some trustees resigned when it was voted that every trustee including the Chair would be assessed against certain benchmarks developed from the Charity Commission's *Essential Trustee Guide 2007*. XTG2, who opposed the decision at the time, but has now conceded to the merits of the scheme, said:

'We are all volunteers and busy professionals. I do not know of another charity who is conducting appraisals of its trustees. This procedure may be appropriate in business or large charities but we are a small outfit which has struggled over the years to maintain desired level of participation and attendance at trustee meetings...'

However, after two reviews the concept of board renewal is gradually being accepted - albeit grudgingly by a minority which has realised its potential to effect change management and effective governance. This is confirmation, if any is needed, for the Board to introduce best practice to improve governance arrangements. XTG1 made the following observation:

'I was hesitant at the beginning but we can see evidence that annual review works. Trustees now send apologies for absence; the level of absenteeism has reduced...'

This statement validates the reason why the scheme was introduced. XCEO believes:

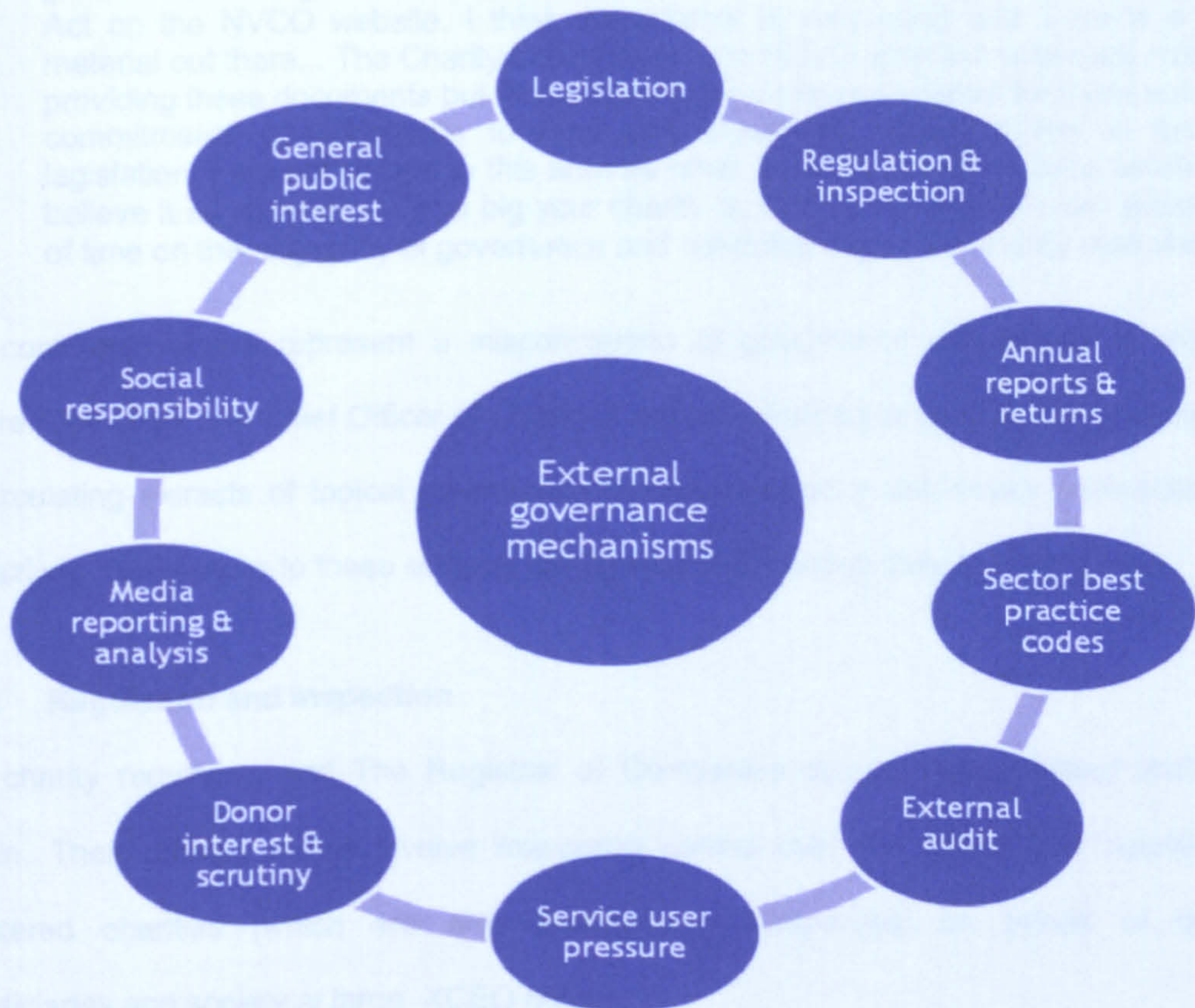
'...the most important by-product that came from this evaluation process was the introduction of a succession plan for honorary Board officers and the Chief Officer. I feel vindicated after all the animosity that resulted from the consultation process... I must thank colleagues and the consultants who have facilitated the process since its inception. We have also seen a two-fold increase in board attendance...'

The above comments demonstrate the courage and tenacity of the Board to effect changes that will drive the improvement of governance. Although the scheme is in its infancy, early feedback and comments from trustees and volunteers have been complimentary based on tangible improvements such as increased Board attendance and active and sustained trustee participation in the affairs of the charity.

4.4 External governance mechanisms

The second dimension to the governance process is a group of external mechanisms presented in Figure 4.5. These arise from a nexus of relationships with regulatory and other external organisations.

Figure 4.5
External Governance Mechanisms



These mechanisms will now be discussed.

4.4.1 Legislation

Charity X has not been hugely impacted by The Charities Act 2006 and Companies Acts 2006 as its M&A are regularly updated to comply with current legislation. The organisation also has policies and procedures that are in line with best practice codes, as promulgated by regulatory and advocacy agencies. XCEO stated the following in a trustee induction session:

'...our M&A have seven charitable purpose and will be updated to incorporate the 'public benefit' clause... our trustee induction procedure was taken from the Charity Commission website... our financial reporting complies with the Charity SORP... most of our internal control procedures are taken from the Charity Commission's publication, *The Hallmarks of an Effective Charity*... The Trustees' Code of Conduct is a memorandum taken from the NCVO's *Good Trustee Guide*...'

However, during the field study it became apparent that whilst most of the trustees knew of the introduction of the Charities Act 2006 and Companies Act 2006, they were not aware of how the main provisions affected them. The following response from XTM1 is illuminating:

'I only came across the new legislation quite recently as I was setting up another charity in Hampshire and being the chair it dawned on me it will have impact on governance arrangements in the charities I serve. I went online and saw a copy of the Act on the NVCO website. I think the internet is very good and there is a lot of material out there... The Charity Commission and NCVO sites are extremely helpful in providing these documents but the amount of time I have available for these voluntary commitments is inadequate to read and digest the salient points in the new legislation. I am not unique in this area as other trustees are in a similar situation... I believe it all depends on how big your charity is, I think, because we can waste a lot of time on the nitty-gritty of governance and not doing any of the charity work itself.'

The comments above represent a misconception of governance and portray a worrying picture. The Chair and Chief Officer of Charity X are now working to change such perceptions by circulating extracts of topical governance articles covered in the sector periodicals and magazines. References to these extracts during meetings confirm they are being read.

4.4.2 Regulation and inspection

The charity regulators and The Registrar of Companies oversee incorporated entities in Britain. Their primary duties involve exercising control over the affairs and operation of registered charities (which are also incorporated companies) on behalf of donors, beneficiaries and society at large. XCEO noted:

'Since its establishment in the mid-1980s Charity X has not been inspected by any of the regulatory agencies.'

XTF1, who has dealt with regulatory agencies in a previous appointment, confirmed the Chief Officer's statement and said:

'...the Charity Commission's intervention and enforcement regime is based on its Risk and Proportionality Framework...it only visits large charities or those experiencing financial, operational, management and governance problems...'

This clarification by Treasurer of the statement made by XCEO is very pertinent because it explains the framework that now determines the visitation of the regulators. As a company incorporated by guarantee, Charity X is also regulated by the Registrar of Companies.

4.4.3 Annual reports and returns

This charity submits its annual report to its two regulatory agencies online. These returns are statutory requirements of registration. The information they provided are use for statistical and regulatory purposes (Charity Commission, 2007) and reviewed to ensure that terms of

operation correspond with registered information. Table 4.5 provides a summary of returns required by the Charity Commission.

Table 4.4
Charity Commission List of Annual Return
2010 Summary of Requirements

Income in the financial period reported upon	Annual Update/ Part A (online/ paper form)	Annual Return/ Part A (online/ paper form)	Reporting Serious Incidents - Declaration (online & paper form)	Financial Information/ Part B (online/ paper form)	Summary Information Return (online & paper form)	Trustees' Annual Report & Accounts
£10,000 or less	✓					
>£10,000 - £25,000		✓	✓			✓
>£25,000 - £500,000		✓	✓			✓
>£500,000 - £1,000,000		✓	✓	✓		✓
>£1,000,000		✓	✓	✓	✓	✓

Charity Commission, 2008 (p. 27)

As Charity X's average income is just above £100,000 it falls into the third category. Three returns are submitted in January every year: (i) Annual Return (part a); (ii) Serious Incident Declaration; and (iii) the Annual Trustees' Report and Accounts. XCEO confirmed that:

'No serious incident declaration has ever been made by the charity since its registration.'

The above statement above is factually correct; five years' records of meetings examined for this thesis reveal no maladministration that should have been reported to regulatory agencies.

4.4.4 Sector best practice codes

Although advocacy groups and regulatory agencies such as The Charity Commission, the NCVO and the Charity Hub have prepared and promulgated guidelines for trustees and management in the 1990s and early 2000s, the Charity Code, published in July 2005, was the first comprehensive set of principles underpinning good governance for charities in the UK. Research conducted by the NCVO in 2007 shows high levels of awareness of the Code in large, multi-national charities with a dedicated governance department or section. However,

for small- and medium-sized charities, awareness and adoption of the Code has been patchy at best. This dichotomy is explained by a comment made by XTG1:

'...large charities usually have people, systems and procedural resources in a governance department to drive through best practices organisation-wide... For smaller charities it is up to the Chair, Chief Officer or a trustee with governance expertise... We have not been fortunate to have these people in the recent past...'

This statement captures the essence of the disparity in resources between large and small charities. Without a dedicated group of trustees and a knowledgeable chair or chief officer, smaller charities find themselves in an unfavourable governance position. A statement made by XTG3 typifies responses made by other trustees:

'I do know about the Code but I have not read or used it. I remember when I first signed up as a trustee in 2001 I was given a trustee guide which I think was prepared and published by the Charity Commission Guide for new trustees.'

Although the Charity Code was widely publicised in the charity sector media in late 2005 and 2006, it is apparent from this representative response that the trustees of Charity X do not regularly read the sector press or seek to update their knowledge on governance issues. Following the introduction of the review and renewal scheme, trustees have voted to subscribe to two charity periodicals, *Governance for Charities* and *Charity Finance*. Extracts of articles relevant to the charity are copied and circulated at monthly trustees meetings.

4.4.5 External audit

With its total income below the threshold set by the Companies Act, Charity X has opted for an independent examination of its annual accounts. This decision was taken by the Board to reduce overall administration costs so that a greater part of the charity's resources could be deployed in front line services. XTF1, justifying the decision taken by the Board, said:

'...the quality of the accounts and report has not suffered as there are only two main differences between independent examination and statutory audit (i) the person who can act and (ii) the nature of the report presented to trustees. In both cases close scrutiny of the accounts is required.... An independent examination is a third of what a statutory audit would cost...'

The independent examination of the charity's financial statements and supporting records has focused the minds of the trustees on effective financial management - as demonstrated by the policies and procedures discussed in section 4.3.7. Any adverse comments or qualification of

the accounts can be interpreted as ineffective financial governance by donors and supporters. This can severely affect the reputation of the charity and their ability to fundraise. Financial reports for the years from March 2001 to 2009 do not show unfavourable comments.

4.4.6 Service user pressure

For charities, the personal interest of service users, both in their operation and lobbying to influence decisions and outcomes, is a key external governance mechanism. Many inspections carried out by the Charity Commission are based on beneficiaries' and service users' complaints (Charity Commission, 2003). As the board of Charity X is largely composed of registered members or their families (75% in 2009), members' interests are well served.

The downside of this type of board configuration, however, is the 'tunnel-vision' and insular approach to strategy development and business planning it generates. As most trustees are narrowly focused on relieving suffering from the object skin condition, compliance issues such as governance and the health and safety of employees and volunteers, and hence treated as secondary matters. Like other voluntary sector organisations balancing pressures on the charity from various stakeholders continues to be a challenge for the Board and the charity's management.

4.4.7 Donor Interest and scrutiny

The IoF, in its code of fundraising practice, advises charities that it in its interests to establish long-lasting relationships with donors, whether individual or corporate. These relationships, it is recommended, can lead to continued interest in, and support of, their work.

As with most third-sector organisations, Charity X sends donors a copy of its non-qualified, audited annual accounts to demonstrate effective financial governance.

4.4.8 Media reporting and analysis

Charity newspapers, journals and magazines wield substantial influence across the sector because of their extensive readership by policy makers in central and local government, private sector funding organisations and charities themselves. These social media groups

publish regular investigative articles on inept boards, management committees and executive teams. Their impact is even more pervasive on governance with the advent of social networking tools such as blogs, which can potentially 'make or break' a charity by the comments made.

Media coverage of the charity is regularly monitored by the Secretary of the Board to keep track of what is being said of the organisation. Charity X has only been occasionally featured in national and local television and print media. The Chief Officer maintains a file of press cuttings and this file shows that all media comments made so far have been positive.

4.4.9 Social responsibility

Although well established in the business sector under various labels such as corporate citizenship, corporate accountability or corporate ethics, it was not until 2001 that social responsibility became topical within the third sector (Armstrong, 2004). A long-term trustee, XTM3, explained when CSR was introduced to Charity X:

'...the charity adopted a Social Responsibility policy in 2004. The decision to adopt this policy was based on a recommendation from a consultant who wanted to help to improve the image of the charity for a sustained fundraising project in the mid-2000s.'

However, the identified policy was not actualised because the consultant mentioned wanted to charge a fee which the charity could not afford. The then Chair was criticised in a letter signed by other trustees for his failure to discuss terms of engagement with the consultant.

In an updated document written by the new chair and posted on the charity's website in 2009 the trustees, Chief Officer, employees and volunteers are indicated as being:

'...committed to corporate social and environmental principles into its business planning, core strategy development and to take responsibility for the impact of its operation on members, employees, stakeholders, the community and environment...'

However, this statement has not been backed up by any action from the Board. When questioned by the researcher, XTF2 explained:

'...this policy is aspirational. We are busy with many other pressing matters... Most organisations operate on compliance rather than conviction CSR...'

This is another demonstration of Charity X taking on many worthy projects meanwhile lacking the infrastructure or resources to 'deliver' successful outcomes. As in many organisational setting CSR agenda continues to be an aspirational issue that has not been integrated into strategic decision making and operations. As expressed by the Chief Officer (above) unless directors and trustees see a tangible or potential benefit accruing from such actions there is disinclination to pursue such a policy. Sadly, this constitutes good governance practice that many voluntary sector organisations have failed to use to boost their credentials as good corporate leaders and citizens.

4.4.10 General public interest

The Office of Public Sector Information 2009 defines 'public interest' on its corporate website as 'common well-being' or the 'general welfare' of society. In order to gauge and assess public interest feedback on its activities, services and mode of operation, Charity X has developed a dedicated section on its corporate website that invites comments directly from the public. Various individuals and public interest groups (ranging from community health groups to children wellbeing agencies) have posted comments and observations on the site. Below is a selection of recently-posted comments:

'...your website is littered with many medical terms and too cumbersome to navigate. Can you reorganise the information on themes...'

'Our GP does not seem to know much about the skin problem my child is suffering from... Can you provide answers to some of the questions raised in the blogs in your Q&A section? ...the article on psychological aspects of the condition was excellent...'

A small group of trustees and volunteers who moderate this section of the website compiles a list of action points from the comments received. These are fed into a plan of action and passed on to the main Board or the relevant Sub-committee. The Chair and Chief Officer regularly review progress being made on this list of action plans.

4.5 Governance opportunities and achievements

4.5.1 New corporate website

The charity upgraded and launched a new interactive website as part of an on-going campaign to be present in the digital age and increase positive public awareness of the skin

condition. Recent statistics compiled by the office administrator show a 120% increase in Internet 'traffic' and time spent on the site. The new features introduced include 'Members' and 'Medical Practitioners' forums, with the opportunity for new members to register, existing members to renew their subscriptions online, a discussion board on treatments, and life experience with both members and with medical professionals. A popular TV psychologist made this comment to the editor of Charity X's newsletter after the launch of the site:

'...the website looks wonderful! It is so positive and informative ... I am sure it will make a big difference to a lot of people...'

Embracing the 'top-end' of modern technology in promoting the work of the charity on the corporate website has had positive impact on governance processes. This includes improved communication with members through fast and inexpensive Internet facilities. The website also gives the charity an opportunity to increase transparency and accountability as minutes of all governance meetings are posted to a secure members' section.

4.5.2 New chair of the board

After 18 months with a *pro tem* chair, the charity was finally able to appoint a new Chair of the Board in 2009. She was recommended by the leader of one of the charity's support groups operating in one of the southern Home Counties. Describing the new chair with reference to the person specification for the position, XTF2 said:

'...she is a woman of exemplary integrity...with 25 years' management consultancy experience in the private and voluntary sectors...she is dedicated to excellence...confident and enthusiastic...forward looking and dynamic...'

Some of these qualities have been demonstrated by the speed with which the new Chair has engaged with members, the staff, fellow trustees and volunteers in meetings and video conferences in London and across the UK. Within weeks of taking office she commissioned a re-write of the charity's M&A to comply with the 2006 Charities Act and convened a strategy meeting (even on a Saturday!) to review performance, Board's decisions, and the processes and long term stability, of the charity. In her first meeting as Chair she promised:

'...effectiveness in working towards achieving the mission, using our people, material and financial resources to maximum effect and upholding our core ethos and values... Effective governance will be one of my priorities...'

Early signs show that Charity X is likely to be transformed into efficient and effective organisation if its Chair gains support from trustees and other stakeholders. Trustees who do not share the new vision are being encouraged to step down. After a review of the charity's structure by the Chair and Chief Officer in 2009, a consultation paper, '*Changing the Current Structure*,' was presented to the Board in mid 2010. The intent of the paper is to redesign the structure of the charity and make it fit for purpose. The job description of the Chief Officer has been reviewed by the Chair with a view of making the position more managerial dealing with head office duties rather than being responsible for regional activities which will be delegated to local volunteers. There is widespread Board acceptance of these changes.

4.5.3 Review and renewal scheme

The introduction of an annual appraisal scheme for trustees and the Chief Officer has resulted in positive changes. The changes include regular attendance and active participation at trustees' meetings, the adoption of a succession planning strategy, the allocation of each trustee to a sub-committee and a convivial atmosphere where colleagues are more willing to help than turn down requests for assistance. XTM2 recently said to a colleague:

'...I look forward to Board meeting these days. ...the atmosphere has become more congenial...'

However, for the review and renewal system to produce sustained, long-term benefits for the charity, the Board will need an injection of new members in the next few years as most of the experienced members are retired volunteers in their late 60s/early 70s who may need to step down. Speaking at the AGM trustee XTF3 said:

'...this appraisal system has highlighted the need for us to regularly review the composition of the board in respects of skills, gender, age and race. This should inform our workforce plan and help us to reflect the diverse membership we serve...'

This scheme helps the charity to annually review and renew the governance participants, systems and procedures so that improvements can be made to achieve effective charity governance.

4.6 Current governance challenges

4.6.1 Financial pressure

Although the charity has achieved modest financial stability, it is struggling to maintain a sustainable level of donations and investment income in the current economic downturn.

Effective financial governance requires trustees to put the charity on a firmer financial footing.

The Finance committee has, therefore, recommended the following plan of action:

- (i) Diversifying income by increasing revenues from organic growth in membership; and
- (ii) Expanding the base of grants, donations and sponsorships to a wider base in order to expand service provision in major UK cities not currently covered.

This plan of action is likely to be challenging in the short-term until the UK economy recovers.

4.6.2 Professional staffing for the new helpline

There is growing pressure from members and health professionals to increase activity volumes and deliver more services within the charity's limited resource base. One example that has been highlighted in many of the blogs posted on the website is the new helpline. It requires dedicated, trained staff and volunteers to deal with the increasing volumes of calls outside office hours and weekends. Below are extracts from some of the blogs posted:

'...we go to work during the day and cannot call the helpline during office hours. Is it possible to have it open in the evenings?'

'... I was on the helpline for half an hour but could not get through to an adviser. It is so frustrating...'

'...I am a health care practitioner who referred a patient to your helpline. It has been unobtainable last week. '

Unless the Board and Chief Officer find volunteers to staff the helpline, the problems indicated above will persist. This helpline was initially the vision of an ex-trustee who wanted the charity to engage with its primary stakeholders – registered members and other beneficiaries - to achieve inclusive decision-making which promotes effective governance (Cornforth, 2004).

4.6.3 The apathy of some trustees

The voluntary nature of trustees' contract of service has been cited in section 4.3.10 as a pressing problem preventing the charity from achieving its full potential. XTM2 stated:

'Some trustees we have had do not stay long enough to contribute the business of the charity... I believe they join for the wrong reason. I am going to be candid about this. I think most of them do it as something to put on their CVs. They are not serious about getting involved with the charity, finding out how it is run, they are not very ambitious for the charity...they come to two or three of the eight meetings held a year. Even when they attend they do not really know what the chair is talking about and cannot contribute to the group discussion. In some cases they oppose any moves to expand the charity because that will mean they have more work.'

The above statement is serious indictment on the commitment of some of the trustees in Charity X. Members of the public who accept appointment to become trustees usually do so to make a positive change in society (Fries, 2003). However, the attitude demonstrated above is in variance with the duty of prudence and care the Charity Commission requires trustees to exhibit in office. If personal negligence in the operation of a charity is proven, legal proceedings can be instituted against defaulting trustees, thereby resulting in personal liability (Wilson, 2008). Apathy, as described above, can adversely affect both the quality of governance and reputation of the individual trustees involved.

4.7 Key recommendations to improve effective governance

The following is a summary of key recommendations to improve the governance practices, systems and arrangements of Charity X:

Organisation structure and strategy

- Update volunteers' policy; and
- Increase the number of volunteers at Area Support Groups to extend charity operation to un-entered areas

Internal governance mechanisms

- Revise M&A to bring governing document in line with current legislation;
- Review delegated responsibilities of sub committees;
- Diversify income streams to avoid reliance on single funding agency; and
- Establish succession planning for key governance players.

External governance mechanisms

- Extend usage of Good Governance code 2010;

- Review stakeholder engagement policy and processes; and
- Implement aspirational corporate responsibility policy and procedures.

4.8 Summary and conclusion

This features and issues discussed above contextualise Charity X's distinctive organisation structure and internal and external mechanisms of governance. Although the charity demonstrated 'good practice' in many internal processes, the information presented highlights some critical governance weaknesses such as: lack of awareness of new legislation and sector governance best practices; apathy towards governance changes; and failure to devote time to the business of governing the charity. Appendix I summarises the key recommendations to improve governance in the three charities. Although Charity X has plans to develop the Board, the voluntary, unpaid nature of the contract of services for trustees can be criticised as being unworkable. The argument here is asking professional people to lead an organisation and deal with complex problems without remuneration. The paradox, however, is that trustees have signed up to do just that. XTG2 summarised the situation:

'I want to contribute meaningfully to the meetings but do not have time to prepare and read the board papers sent out to me...'

This statement epitomises the problems faced by busy professionals who run charities on a pro-bono basis. However, XTG2 will have to make the necessary time if he considers the work of the charity important - or step down. The initiatives launched by the Chair and endorsed by the Board are expected to provide solutions to some of the challenges already identified. The evidence presented suggests the view that the charity is in transition, working to improve governance and management.

The themes and patterns highlighted in this and the next two chapters will be cross-analysed in Chapter Seven to highlight similarities and differences in the three case studies.

CHAPTER 5: CHARITY Y – INTRA-CASE ANALYSIS

5.1 Introduction

This chapter presents the second intra-case analysis of the three case studies. This case study is structured in line with the conceptual framework discussed in section 2.8. This approach is designed to address the research questions presented in section 1.5. The case study focuses on data collected from participatory observation of governance committees and management team meetings, examination of internal and third-party documents and records and nine open-ended, semi-structured interviews with eight members of the management committee and the CEO. Charity Y is an inner-city agency which offers homeless families and families in crisis a wide range of social, housing, educational, financial and legal services and support until they are settled in permanent social housing or commercial rented property.

This first section outlines how the chapter has been organised and describes the concept of charity corporate governance as understood and practised by the three main groups of the management committee. As discussed in the Methodology (section 3.7.4), an alphanumeric code has been assigned to these groups of committee members to enhance anonymity and aid analysis and interpretation:

YTF – Members with management and finance qualifications, knowledge and experience;

YTM – Members with social services and housing qualifications, knowledge and experience;

YTG – Members who have been nominated by service users to represent them on the committee and those who have used the services of the charity in the past; and

YCEO – The Chief Officer attends various meetings in her official capacity but does not have a vote in the decision-making process.

In section 5.2 the historical background, legal and organisation structure, context and ethos of operation are discussed. Sections 5.3 and 5.4 analyse the internal and external governance mechanisms deployed in the charity and compare them with best practice models as covered in the literature review. In section 5.5 recent developments are examined. Section 5.6 describes the governance pressure, constraints and challenges faced by the charity. Finally in section 5.7 a closing review of the charity's overall governance position is provided.

5.1.1 Conceptualisation of governance

Below are provided extracts from the transcripts of the interview sessions with three trustees and the Chief Officer, one from each of the groups listed above. In these extracts they describe their perception of the governance processes and how they fit into and support it.

For YTF2 charity governance is about:

'...the overall leadership of the charity. It is the systems, practices and processes that enable us to comply with laws and bylaws... My colleagues and I who sit on the Management Committee advise on and oversee policy implementation... direct the charity ...assist the charity to make better decisions and avoid waste... support the achievement of the charity's mission and goals...

We are accountable to the Charity Commission, the various donors including the three Councils who have supported us for many years... and the parents, children and young adults who use our services...'

YTM2 paints the following picture of governance in Charity Y:

'There are many aspects of governance we deal with on a routine basis...we set the policy and goals of the charity... we develop strategic plans and monitor the progress of these plans in relationship to agreed goals and budgets...

Our team ensures that the charity operates in a legal, ethical and professional manner... we assist in fundraising activities to support operation... We provide overall leadership of the charity and direct resource allocation... this enables us to closely evaluate the various services and programmes against the objectives...'

Trustee YTG1 describes governance as:

'...supervising the management of Charity Y so that the charity is run competently and with integrity and with due regard to the interests of all...including the service users... supporting the work of the Chief Officer...'

YCEO said:

'Governance is made up of the structures and processes that ensure the charity is complying with law and meet its objectives... The Management Committee sets the broad agenda... My team and I plan and implement the various programmes.'

The four quotations provided capture how three committee members and the Chief Officer understand their fiduciary and employment responsibilities and the overall functioning of the governing body. Although the perceptions on governance presented vary, there is synthesis in orientation. Thus, for YTF3 the perception of governance hovers around the strategic and legal roles the Management Committee plays. She emphasises the provision of leadership by members to achieve the organisation's mission which has been recognised as the key facet of the concept (Monks and Minow, 2008). Another perception introduced by this member is

the collective input of the Management Committee 'to make better decision and avoid waste.' Similarly YTM4 sees the practice of governance as the oversight responsibility of the governing body to set out the route for the achievement of the goals of the charity. YTG1 provides a succinct description of governance practiced in Charity Y and introduces the concepts of competence and integrity in leading the charity. This member also covers accountability and the responsive elements of the Committee to various stakeholders. These elements are essential to build trust with people who have a stake in the charity. YCEO compared her executive duties with the governance role of the charity's Management Committee. This role recognition in governance arrangements is necessary as it helps the various governance players to focus on their individual duties and avoid role conflict (Barney and Griffin, 1992).

The overarching features of governance presented in the four quotations falls into:

- (i) Leadership – the provision of strategic direction and control by the Management Committee to achieve the charity's objectives; and
- (ii) Accountability – assuming collective responsibility for decisions taken in the charity.

5.2 Organisation structure and strategy

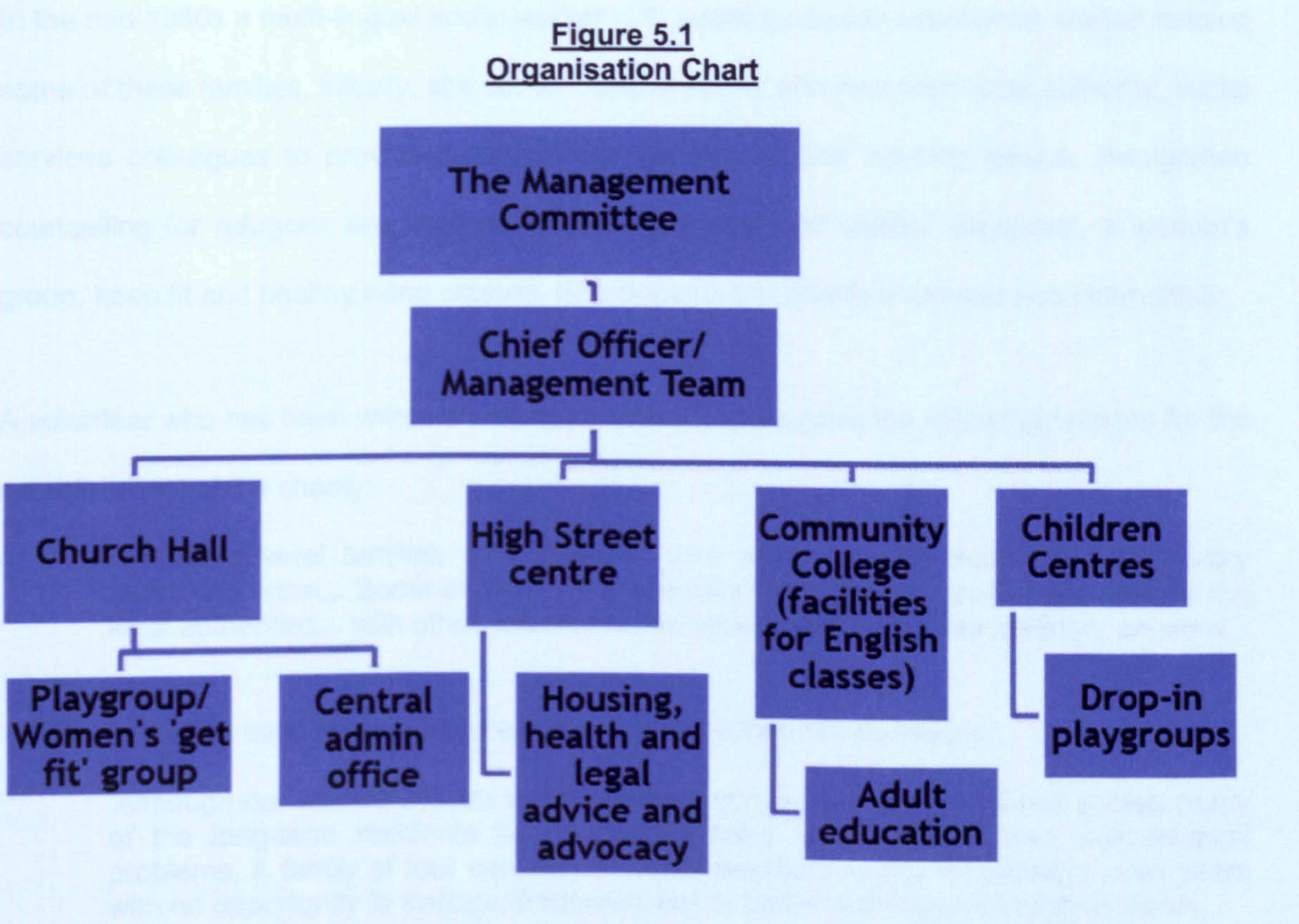
5.2.1 Organisation structure

Charity Y has evolved over the years into a hybrid, functional organisation structure. In this configuration the Management Committee (hereafter called 'the Committee') governs and the Chief Officer manages the day-to-day operation of the organisation. The structure consists of a divisional sub-structure that brings together staff and volunteers involved in related-type services such as playgroups, adult education, housing, social service and legal advice and homelessness advocacy.

At the top of the organisation chart is the Committee (Figure 5.1). Its most important role is to lead and set the long-term direction of the charity. The details of its governance functions and duties are presented and discussed in section 5.3.2. Next in the hierarchy is the position of the Chief Officer, called Project Manager in Charity Y, who is responsible for running the daily

business of the charity. Her role within the governance framework is examined in section 5.3.4. The work of the charity has been organised into the three main areas of the front-line services provided to the public:

- (i) Daytime childcare facilities;
- (ii) Life skills including adult literacy and numeracy;
- (iii) Legal, social, health and housing services advice; and
- (iv) Head office administration and advocacy work for homeless families.



During several field visits the above structure appeared to be needlessly complex, cumbersome and expensive to operate. It is complex because of the duplication of positions in the hierarchy. The Chief Officer has to directly manage 12 front-line supervisors, central office administrators and volunteers. Drucker (2007) recommends no more than six subordinates for effective supervision and management. The configuration is also cumbersome because of unnecessary, repeated deployment of resources and duplication of the same services. An example is the provision of the same childcare services in many sites which are in close proximity to each other, without a rationale. This duplication consumes

resources, making the arrangement expensive. An overhaul of the current structure is necessary to achieve efficient use of staff, volunteers and financial resources.

5.2.2 History and legal structure

The charity was set up in 1985 in response to a growing need for housing, social services, legal and family advice and support in a community where many hostels were located. These hostels were cramped facilities offering basic services.

In the mid-1980s a multi-lingual social worker with social exclusion experience started helping some of these families. Initially, she set up basic systems with help from local authority, social services colleagues to provide services such as benefit and housing advice, immigration counselling for refugees and asylum seekers, a parent and toddler playgroup, a woman's group, keep fit and healthy living classes. She became the charity's founder and chief officer.

A volunteer who has been with the charity for over 20 years gave the following reasons for the establishment of the charity:

'I knew several families with children, who were living in deplorable, temporary accommodation... Some of them were unaware of the social services provided by the local authorities... with other volunteers we helped them to access statutory services.'

YCEO painted an even bleaker picture of the existing economic conditions:

'Although our welfare system is an important component of our civilised society many of the long-term residents in the hostels have vulnerable children with medical problems. A family of four can stay in a one-bedroom facility for months, even years with no opportunity to engage in recreational or social activities with other children...

...there were a certain number of 'at-risk' children in these hostels at any one time... traumatised children who are entitled to a safe place to play while they wait to be dispersed to permanent accommodation...'

The images painted describe desperate conditions of deprivation needing urgent intervention by statutory and voluntary sector agencies. The annual reports of the first few years of establishment showed Charity Y had helped to tackle some of the problems highlighted above within its catchment area. However, at its inception the charity struggled to navigate legal and governance issues due to the relative inexperience of the founder/chief officer in these areas. Documents examined confirm that a formal committee was not set up until 17 months after

formation. The implication of this delay was minor as an advocacy agency had to intervene and nominate the first committee to ensure returns to regulators were submitted on time.

5.2.3 The mission, vision and values

In its 2009 Annual Review (p. 1) Charity Y stated the following as its mission statement:

'...to improve the quality of life of homeless families living in temporary accommodation in London.'

YTM1 described the mission statement in his address to the 2009 AGM as the following:

'...we help people who are often in the most difficult circumstances... we give them an opportunity to live as normal a family life as possible. Our projects give children and their parents some respite and comfort from their day-to-day conditions, providing companionship... a safe environment in which they can enjoy being together...'

The vision statement as stated in the charity's Annual Review 2008-09 (p.2) reads:

'...our vision is to empower homeless families in London to improve their quality of life and to become independent and productive members of their communities...and exercise their basic right to equality, justice, security, respect and recognition.'

YTM1 explained to the guest speaker at the 2009 AGM that:

'...this vision is the framework that guides our strategic planning.'

The vision statement which the Chair describes as defining strategy and direction to empower service users, complies with the charity's M&A. Such a clear definition of future orientation provides Committee members, staff and volunteers with a guide path to achieve effective governance. However - as with the mission statement - this objective can only be realised via collaborative working with other public and third sector agencies who share a common vision.

The charity adopted the following core beliefs in 1998 to guide day-to-day operation:

- (i) Social justice (promotion and support of equality in society);
- (ii) Service driven (strategy will be responsive to service users);
- (iii) Recognise and respect service users(a culture of care and responsibility);
- (iv) Professionalism and excellence (high quality standards in operation); and
- (v) Transparency (commitment to accountability and openness).

YTF1 described these core beliefs as:

'...the defining characteristics that guide us in making decisions, determining priorities, setting goals and objectives, allocating financial and volunteer resources, offering services and carrying out activities and programmes.'

The mission, vision and values statements presented define (and review of the minutes of the Committee supports) the form the framework for decision making and strategy. However, with the recent economic downturn and resultant pressure on local council funding of social services, Charity Y faces a challenging future. Unless the organisation is effectively governed and managed these expressed aspirations, though well meaning, may be difficult to deliver.

5.2.4 The objectives of operation

Every year thousands of families in the UK become homeless. 85,000 families were officially recognised as newly homeless by local authorities across England in 2008 (Department for Communities and Local Government, 2009). The majority (72%) of them were registered in London. Most of these families were headed by a lone woman parent (65%) with one or two children. These families become homeless for a variety of reasons including unemployment, debt, domestic violence, relationship breakdown, death of spouse, drug addiction and mental illness (Shelter, 2009). YTF2 describes the situation:

'Some of these families wander around a bewildering maze of obstacles for social, legal and housing services...'

YTM1 made the following statement in the charity's 2008-09 Annual Review publication:

'...the three boroughs in which we operate are classified as the most deprived in the UK and rank in the top ten in terms of barriers to housing and health in the country.'

Working in this environment the following activities have been listed in its M&A as the objectives of the charity: (i) the relief of poverty; (ii) the advancement of education; (iii) community empowerment; and (iv) the provision of childcare and family leisure facilities, all of these, for homeless families living in London, with the aim of improving their quality of life.

5.2.5 Age and size

The welcome section on its website describes the organisation as:

'...a medium-sized charity helping homeless families to improve their quality of life since 1985.'

Over the years, Charity Y has grown from a small agency helping six or seven families daily (in 1990) to a medium-sized charity dealing with an average of sixty-five families every day (in 2010) in various areas of its work. This may be explained by the long service of the founder/chief officer who had the vision and has been in post since the charity was set up.

5.2.6 Staff and volunteers

The charity employs ten full-time project staff, two part-time administration and finance workers, three full-time sessional workers and two part-time playscheme workers. This establishment of employed staff is supported by over 34 volunteers who are either Committee members or front-line workers who help with mentoring, adult education, child care services, health care access, women's groups, advice and central office administration.

YCEO described the staff and volunteer workforce as:

'...16 paid staff plus one [me] employed by the charity. We work in seven sites across three boroughs. Every fortnight we have a team meeting attended by supervisors from each site. We review various activities and performance targets. The Chair of the Management Committee attends one of these meetings every quarter...

We cannot provide all of the services without the dedicated contributions of our volunteers. During the summer months when schools are on holidays the number of children using our play groups and schemes rise by 75%. Various age-appropriate activities are organised and run by volunteers... The women's group and get-fit classes are run by a volunteer counsellor and fitness trainer.'

A review of the charity's front-line workload between staff and volunteers was undertaken to determine the scope of volunteer input and its effects. The reviews revealed 70% of the cases assigned in the year ended 31 March 2010 were carried out by staff, and 30% by volunteer personnel. Despite this significant input, the charity has no volunteers' policy. The researcher has recommended that one be written which the Committee has voted to do. In mid-2010 a draft was produced which has been discussed, modified and is being implemented.

5.2.7 Geographic scope of operation

Although the organisation is registered to operate in England and Wales its operations are limited to three densely populated boroughs in north London. This was confirmed by YCEO:

'...we cover homeless families living in temporary accommodation in three boroughs in north London. We have received several requests in the last few years to help in

adjacent boroughs but only offer assistance if there is a family contact within our catchment area. We refer families we cannot help to other third-sector agencies ...'

The limited financial and human resources have restricted the scope of the work undertaken on behalf of homeless families to three local government areas in north London. Much more can be done with the current, dedicated cadre of staff and volunteers in the charity.

5.3 Internal governance mechanisms

In Charity Y the internal governance mechanisms include the M&A; the Management Committee and statutory meetings. The various elements of internal governance mechanisms presented in Figure 5.2 will be discussed subsequently.

Figure 5.2
Internal Governance Mechanisms



5.3.1 The governing document

As a registered charity and limited company incorporated by guarantee, Charity Y operates under its M&A. YTF2 describes the document as:

'...as a two-part set of by-laws. One section, the articles, sets out the internal systems, processes and arrangements which we use to regulate/govern and manage the charity... They include powers of the Management Committee, regulation for voting and procedures at the AGMs. The other section, the memorandum, contains details of the charity regarding its official name, location of its registered office, the extent of liability, its core purposes and external relationships.'

We will not be able to carry out our duties properly without such a comprehensive guidance. The Chief Officer has a copy of the document at every Management Committee meeting as a reference manual...'

These comments demonstrate the importance given to this governing document by the Committee. However, Charity Y has to update the current version of this document since last reviewed only in 2000. Areas that require modification to bring in line with the Charities Act 2006 are:

- (i) The adoption of section 175 of the Act, which specifies that directors have a specific duty to avoid a situation in which they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the charity;
- (ii) Making the register of members available to members of the charity and the public under section 116 of the Act;
- (iii) The inclusion of a statement setting out the rights of members to appoint a proxy at a meeting under section 325 of the Act;
- (iv) The inclusion of a disqualification clause for Committee members when they are convicted of offences such as deception, fraud or bankruptcy under the Act;
- (v) The inclusion in the M&A of the possibility of holding meetings by electronic means when this is agreed by the Committee if each member is able to communicate with other persons attending the meetings;
- (vi) Sending documents relating to statutory meetings in electronic form under section 308 and 309 of the Act; and
- (vii) The imposition of duty on Committee members to declare an interest in any transaction of the charity and to absent themselves from any discussion where there may be conflict between their personal interests and those of the charity.

YTM1 confirmed the above when he stated the following:

'...the governance committee will be meeting next month to discuss and update our M&A so that we comply with both the [2006] Charities and Companies Acts.'

The comments above and a review of the 2009/10 business plan which builds on the objectives of the charity, demonstrate commitment to the M&A. This standard of commitment can contribute to effective governance as the charity work towards achievement of its plans.

5.3.2 The Management Committee

The individuals who govern charities use various names and labels such as directors, trustees, governors, management committee and executive council. This group is called the Committee in Charity Y. The members, acting jointly as the governing body, are responsible for the governance of the charity. They meet every six weeks except during the months of July and August when most members are on vacation. The governing body is entirely composed of volunteers with various experience, knowledge and qualifications.

Composition of the Committee

The Committee of the charity, as defined by the M&A, should consist of no less than eight and no more than twenty members, who serve for three years and may be re-elected. However, as at October 2010 membership stood at seven comprising of four honorary officers (chair, a vice chair, a secretary and treasurer) and three ordinary members. The current profile of Committee members includes: a retired chief pharmacist; a retired senior civil servant; a chartered management accountant; a practising family dentist; a delivery driver for a well-known high street retailer; a local authority housing advisor; a former client-user of the charity who is studying in a further education college; and a Head of Communications for a central government department. YTM1 stated:

‘We are lucky to have such a diversity of skill and experience on the Committee. We have observable diversity in age, gender and ethnic background to reflect the clientele we serve and less visible diversity in educational and occupational backgrounds to bolster our understanding of the market place in which we operate...’

The diversity in skills and experience indicated should provide the charity with leadership, creativity and innovation and put the organisation on course to achieve its objectives. However this is dependent on the chair of the Management Committee and the CEO who can deploy and employ these skills to develop the charity and effectively deal with any challenges that may arise.

The role of the Committee

As the primary purpose of the charity is to relieve hardship and distress suffered by homeless families in adverse housing conditions the Committee is tasked to lead, control and monitor performance in achieving objectives set in its business plans. Section 5.3.8 outlines the framework of performance measures.

The powers of the Management Committee

The M&A lists the following powers to:

- (i) Establish sub-committees to carry out detailed work for the Committee;
- (ii) Enter into contracts for the provision of goods and services to the charity;
- (iii) Interview, hire and monitor the performance of the Chief Officer;
- (iv) Manage and direct the business of the organisation;
- (v) Advocate and represent the charity in order to promote its objectives;
- (vi) Settle bona fide expenditure incurred in the business of the charity; and
- (vii) Monitor compliance with charity and company legislation and other regulations.

When Committee members exercise powers outside the delegated authority granted in the M&A, they have to justify such actions to the Chair that they have acted in good faith and with care and skill. If the Chair is not convinced, the matter is discussed by the Committee, with sanctions taken to censure the Committee member(s) in extreme situations.

Recruitment and induction

Members are recruited or proposed for consideration by personal recommendation from other members or through advertisement made on websites of sector advocacy organisations such as the NCVO and REACH Volunteers. When a suitable candidate is found, the chair and a Committee member discuss with the prospective member the objectives and activities of the charity. If the candidate fits the role a recommendation for co-option is made to the Committee. An induction pack is sent to the candidate before the induction session is conducted. YCEO explains:

‘The induction pack contains a copy of the Charity Commission publication, The Essential Trustee, the M&A, annual report and accounts of the previous three years,

job description and person specification of the position and strategy papers... On the day of the induction the Committee member is introduced to staff at the head office and signs a copy of Charity Y's code of conduct for Committee members.'

The processes and activities covered in the recruitment and induction programme for new Committee members stated comply with best practice and legal obligations given in the Charity Commission's publication, *Trustee Recruitment, Selection and Induction*.

The Chair (YTM1)

The chair is a senior civil servant with expertise in communications. YTM3 said in 2009:

'We are privileged to have G as the chair. He occupies an important position in the charity as leader...he directs and oversees the operation and affairs of the Committee and plans the annual cycle of meetings. He is a good chair, facilitator and team leader...he encourages discussion and participation from members at meetings. He gives direction to policy-making which ultimately determines the charity's vision and mission... He sets the pace for current operations and future development of the organisation. He is the charity's leading ambassador...representing the charity at social and municipal functions...'

YTM2 describes the role and responsibilities of the Chair:

'...the chair's overarching responsibility is to ensure the Committee is effectively functioning... He is responsible for the governance, the development and the effective performance of the charity... He works closely with the Chief Officer to develop the charity's vision, strategic agenda, and business plan. He sets the agenda and is regarded by colleagues as the key spokesperson sometimes the face of the charity...'

These comments from peers who sit on the Committee affirm the positive role and contributions being made by the Chair in leading the charity to achieve its objectives. Effective governance becomes achievable with a capable chair directing the affairs of the organisation.

The Vice-Chair (YTG2)

In addition to deputising for the Chair, the current postholder, who has a legal qualification, has been assigned the responsibility of looking after all corporate legal issues.

The Treasurer (YTF2)

The officer who occupies the position has no financial management experience but is supported by a finance staff and recently a committee member with accountancy experience.

The responsibilities for this office include:

- (i) Setting the budget and monitoring financial performance throughout the year;

- (ii) Supervising the part-time finance worker who keeps the books of accounts;
- (iii) Ensuring that the charity complies with current sector best practice;
- (i) Co-ordinating and implementing financial management policies; and
- (ii) Advising the Committee on financial matters.

According to YTM1:

'...the lack of accountancy experience has been a weakness on the Committee. A treasurer requires some level of competency to make effective decisions in such a critical area. We are fortunate to have recently recruited a qualified accountant with charity experience. This will improve confidence in our financial governance.'

The Secretary (YTM2)

YTM1 explains the crucial role of the Secretary:

'The Secretary provides critical support that enables me to effectively chair meetings... He will check what the M&A says on controversial items on the agenda and provide me with a steer before meetings. He ensures accurate and sufficient documentation exists to meet our legal obligations and keeps an accurate record of meetings with lists of action points that enable completion of delegated committee tasks...'

The role of the Secretary, described above by the Chair above, is pivotal in various governance compliance requirements such as maintenance of statutory registers and filing of annual returns. Therefore having someone with a legal qualification plus relevant experience puts the charity in a good position to fulfil these important obligations.

5.3.3 The sub-committees

The governing body of charity organisations does not usually have the time to discuss or debate in detail all the issues affecting it. Therefore, there are provisions in most M&As to delegate detailed consideration of projects or specialist areas of operation to a sub-committee. Also known as standing committees, these working groups can look into issues such as governance, finance and human resources, and present a report to the governing body. Each sub committee established in is given clear terms of reference, reviewed annually by the Committee to ensure its relevance. Charity Y has three sub-committees (Table 5.1).

Table 5.1
Responsibilities of Sub-committees

Names of Sub-committees	Responsibilities	Number of meetings per year	Meeting dates
Strategic Planning	Produce the charity's 3- or 5-year strategic plan	Once a year	In late January every year
Finance	Review, make recommendations and provide guidance on financial matters	As and when required	Various times in the financial year
Fundraising	Enhance accountability and achieve the highest standards of fundraising practice	As and when required	No set meeting dates

Strategic planning committee

Members of this group assist the Committee to achieve the charity's mission, vision and strategic direction. YTM3 explains the detailed work and contributions of their group:

'We identify the critical strategic issues facing the charity, analyse strategic options that will enable us to achieve its mission and vision and makes recommendations to the Committee. In short, our sub-committee is charged to determine where the charity is going in the short, medium and long term, how it's going to get there and how we will know if we got there or not...'

Finance committee

The role of this committee is to oversee the financial affairs of the charity, to review and make recommendations regarding its financial affairs and policies to the Committee. YTF1 describes its composition and responsibilities:

'Our group consists of three members including the Treasurer. We meet at least four times a year. Additional meetings are arranged to consider any additional matters delegated by the Committee...

Our main task is to review the financial direction of the charity... we also check the income and expenditure statements and review other matters related to continued solvency. In late February or early March we review operational plans for the coming year and prepare the annual budgets and estimates... These are submitted to the Committee for approval. We also have responsibility for arranging the annual audit and discussing any issues raised in the management letter...'

Fundraising committee

This committee is responsible for planning, coordinating, and implementing all fundraising activities in support of the activities of the charity. They are also responsible for identifying potential donors and sponsors. YTM3, who chairs this working group, describes their work:

'In 2008 we developed a strategy for fundraising... From this strategy we have identified and maintained a list of actual and potential sponsors...we also solicit

sponsors for specific annual events or activities of the charity. In June 2009 we received a sizeable donation from Arsenal Football Club charitable trust...

We continue to build positive relationships with donors...we invite them to our AGMs thanking them in person or by writing letters acknowledging their contributions.'

5.3.4 The Chief Officer and management team

The names given to CEOs in the third sector vary widely. They range from 'director' and 'chief officer' to 'project' or 'unit manager.' In Charity Y the Chief Officer is called the Project Manager. YTM1 provides background to, and description of, this position:

'We are very fortunate to have the founder of the charity in the key position of chief officer and project manager. It means the same passion, commitment and energy with which the organisation was founded continue to steer the leadership...

She provides day-to-day management and operational direction for the charity... coordinates all of the services to achieve the goals and objectives stated in our plans and objectives... She ensures regularity, propriety and probity in the provision of services to our clients and in the administration of the charity...'

However, the charity suffers from 'founder's syndrome,' – this occurs when an organisation operates according to the personality of its founder, rather than according to its overall mission. This was observed during many heated debates between the Chief Officer and the Committee on several governance compliance issues. This will be discussed in section 5.6.1.

5.3.5 Statutory and regular meetings

In compliance with section 5-12 of its M&A Charity Y convenes three types of meetings to discuss issues relating to the charity; regular committee meetings, AGMs and EGMs.

Management Committee meeting

These meetings are held at six-weekly intervals to consider the day-to-day operational issues and are presided by the Chair of the Committee. YTG2 explains:

'This is when we consider the nuts and bolts of running the charity... We review the Chief Officer's report and consider whether her team is meeting performance targets; receive recommendations from sub-committees, examine budget reports to ensure we operate within our means...and consider upcoming projects and activities. Action points from discussions and decisions taken are recorded by the Secretary...'

Annual General Meeting

Under its M&A the charity is required to hold an AGM once every year.

Extraordinary General Meeting

These meetings are usually called by the Committee to consider urgent business that cannot wait until the next AGM.

Notice of General Meeting

The meetings indicated can only be convened when notice containing the necessary information has been given to all persons entitled to attend. For Charity Y all notices must be issued at least 21 days prior to the date of the meeting.

Proxy

Every notice calling a meeting of the charity contains a statement that a Committee member or connected person entitled to attend and vote is entitled to appoint a proxy who is a person connected with the charity.

Quorum

Meetings without the minimum quorum are considered invalid and decisions taken at such meetings are not binding. The M&A provides for a quorum of five members at Committee meetings; seven Committee members entitled to attend to be present (not by proxy) in the case of an AGM or EGM. YTM2 comments on these procedures:

‘As a legal entity we are required to comply with our M&A and existing legislations... The advantage in having these detailed procedures is to help us fulfil our statutory responsibilities within the Charity and Companies Acts...’

The above procedures and comments in conducting effective meetings highlight the importance of compliance given by the charity to legislation and its M&A. The commitment described above by the Chair and the comprehensive procedures followed for effective meetings demonstrate a desire to follow processes to achieve effective governance.

5.3.6 Risk management

Risk management is a process that methodically assesses risks and takes steps to either eliminate or reduce them by introducing control measures (Woods, 2010).

YTF1, who leads the charity's efforts to manage risks, describes the system adopted in 2007 on the recommendation of a consultant:

'We provide face-to-face services to clients and have unique sets of hazards. Our risk management procedures enable us to identify and plan for operational, financial, compliance and reputational risks that may affect the delivery of our services...and develop effective strategies to manage them.

...the charity has adopted a five point procedure recommended by the ICEAW for SMEs in the UK: (i) we identify the risks; (ii) list, rank and quantify them; (iii) formulate strategies to contain them; (iv) implement the strategies; and (v) continuously monitor the containment of the risks. This system helps the Committee to improve planning and prioritisation...allocate resources more efficiently, allows us to anticipate what may go wrong, minimising the amount of fire-fighting we have to do or...in a worst-case scenario, preventing a disaster or serious financial loss. The processes significantly improve the probability that we will be able to deliver our business plan on time and to budget...'

These comments also show the procedures are in the centre of governance processes and embedded in business planning.

YTF2 listed the following benefits that have accrued from this system:

'...we have experienced fewer shocks and unwelcome surprises across the charity, improvement of the charity's ability to meet objectives, staff and volunteers reassurance that the charity has a back-up plan, and robust contingency planning.'

However, all of these benefits are contingent on how widely the principles are embraced by management, staff and volunteers who routinely deal with operational and other risks.

5.3.7 Financial management

The Charity SORP (2005) published by the Charity Commission, have been designed for the charity sector to improve the quality of its financial reporting (Palmer and Randall, 2002). To meet the recommended best practice, Charity Y has a financial system with a set of policies and procedures to ensure transactions are treated in a consistent, accountable and transparent way. YTF2 describes their responsibility in regard to financial management:

'As we pursue achievement of the charity's objectives the Committee has a duty to effectively manage of the resources, financial and others, to achieve the long-term goals of the charity... The charity employs a qualified finance worker who maintains the accounts and prepares budgetary analysis report for us to review...'

The acknowledgment by the Treasurer of the importance of effective financial governance to the achievement of the charity's long-term goals and objectives is critical if overall effective governance is to be achieved.

Figure 5.3 shows a trend analysis of financial performance over a five-year period.

Figure 5.3
Financial Performance

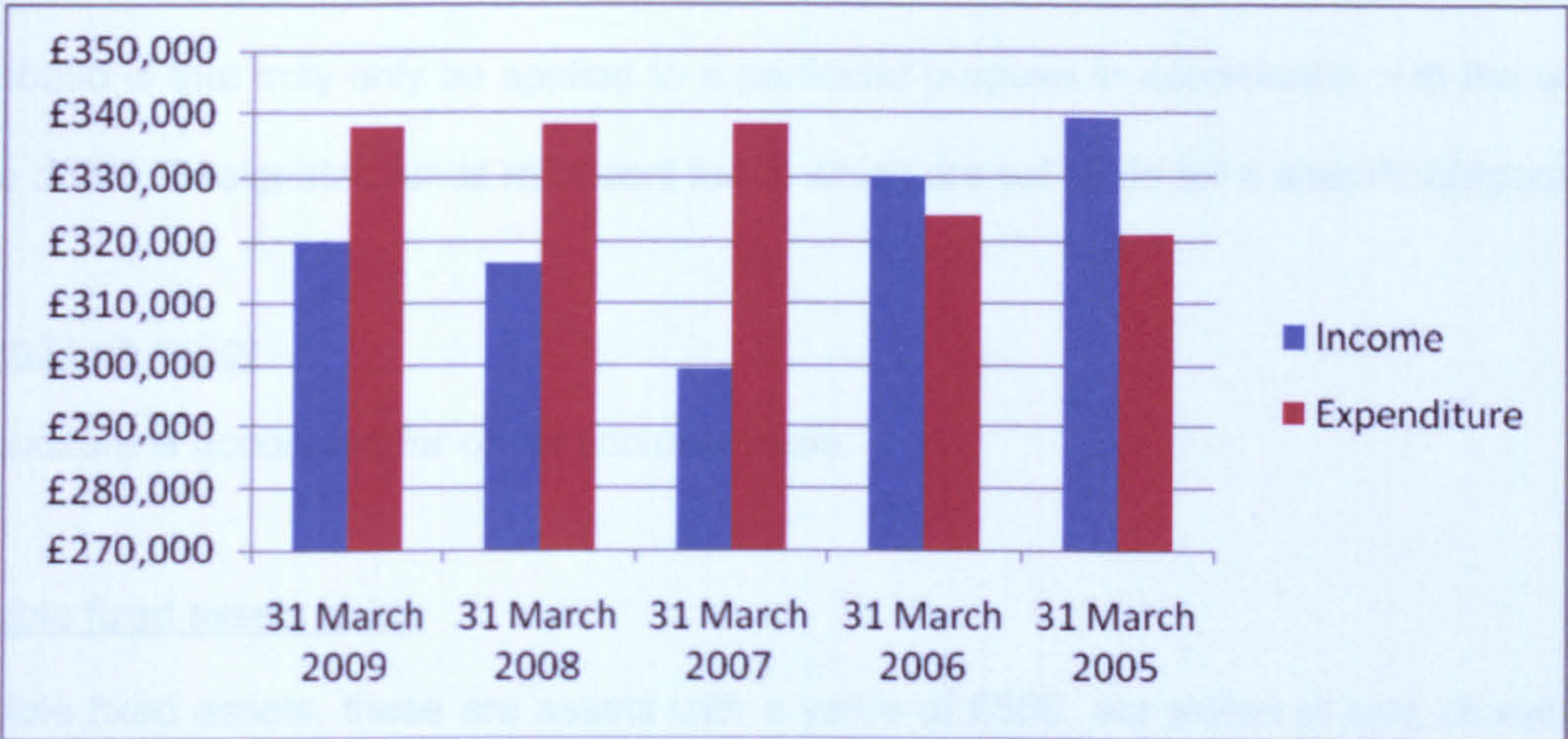


Table 5.2 captures income, expenditure, assets and liabilities data which the Committee has used to evaluate the financial position and health of the charity.

Table 5.2
Financial Summary 2004/05 to 2009/10

Financial year end	Income (£)	Expenditure (£)	Total Assets (£)	Total Liabilities (£)
31 March 2010	330,650	341,558	85,170	6,123
31 March 2009	320,115	337,885	83,451	5,623
31 March 2008	316,306	338,232	71,747	4,267
31 March 2007	298,594	298,232	81,428	2,644
31 March 2006	330,030	323,885	74,552	3,549
31 March 2005	339,400	320,993	76,873	4,863

The charity has been funded by a range of public sector organisations, foundations and individual donors. However the principal funding bodies for over the last five years have been London Councils (average 15%), Boroughs H and I (average 45%) and the Big Lottery Fund (average 10%). As shown in Table 5.2, the charity has had three years of deficit spending (2007/08 to 2009/10), which have been funded from reserves. The Committee is working to reverse this state of affairs to secure long-term viability.

The three primary financial policies which guide decisions and operations are listed below.

Fund accounting policy

The funds of Charity Y consist of unrestricted and restricted amounts. Whilst the Management Committee may use unrestricted amounts at its discretion, restricted funds represent income contributions that may only be applied to a particular purpose in accordance with the wishes of the donor. Designated funds represent funds which are set aside for a specific purpose.

Expenditure policy

Expenditure is accounted for on an accruals basis.

Tangible fixed assets policy

Tangible fixed assets, these are assets with a value of £500, are stated at cost or valuation when acquired and are depreciated over their estimated useful life on a straight-line basis:

- (i) Freehold property depreciated over useful years, 50 years in this case;
- (ii) Leasehold improvements over the life of the lease;
- (iii) Fixtures, fittings and office equipment 25% per annum; and
- (iv) Computer equipment and software 33⅓% per annum.

The systems deployed, policies and comments indicated ensure compliance with best practices in financial management despite the fact the Treasurer is without financial qualification or prior experience. The researcher discovered that this level of compliance was achieved with advice provided by the external auditors. The finance worker regularly contacts the auditors on routine issues ranging from payroll issues to treatment of the different funds received. This type of relationship not only compromises auditor independence but may have conflict of interest implications. The recent recruitment of a Committee member with accountancy qualification and experience will not only save the charity consultancy fees but enable the Committee to deal internally with issues of financial governance effectively.

5.3.8 Performance targets and measures

A framework of performance measures has been adopted in Charity Y to drive improvement and deliver required results. YTF1 explains:

'We have a dashboard of measures, performance indicators, in key activities which monitor how well the charity is delivering on its strategic objectives... When underperformance is detected we discuss available options to close the gap. These measures help us to look at retrospective performance and plan for the present and future... In recent years the charity has made significant strides in improving overall performance. The number of clients has risen year-on-year by over 10%...'

The retrospective and prospective nature of the performance measurement system used in Charity Y makes the dashboard of targets and measures useful in tracking the achievement of objectives and setting concrete plans for the future.

Table 5.3 lists key indicators over a four-year period.

Table 5.3
Key Performance Indicators

Main indicators	Year to March 2007	Year to March 2008	Year to March 2009	Year to March 2010
Total number of family clients accessing services	1,169	1,213	1,259	1,276
Total number of families helped into permanent accommodation	211	247	309	312
Total number of children using crèche and playgroups facilities	568	622	656	667
Total number of women accessing various services	953	1,098	1,110	1,310

The table shows a sample of a simple framework of measures which provide basic information for the Committee and management to evaluate outcomes and performance. The weakness in the processes, however, is the absence of a mechanism to plan for and cope with periods of high demand.

5.3.9 Engaging stakeholders

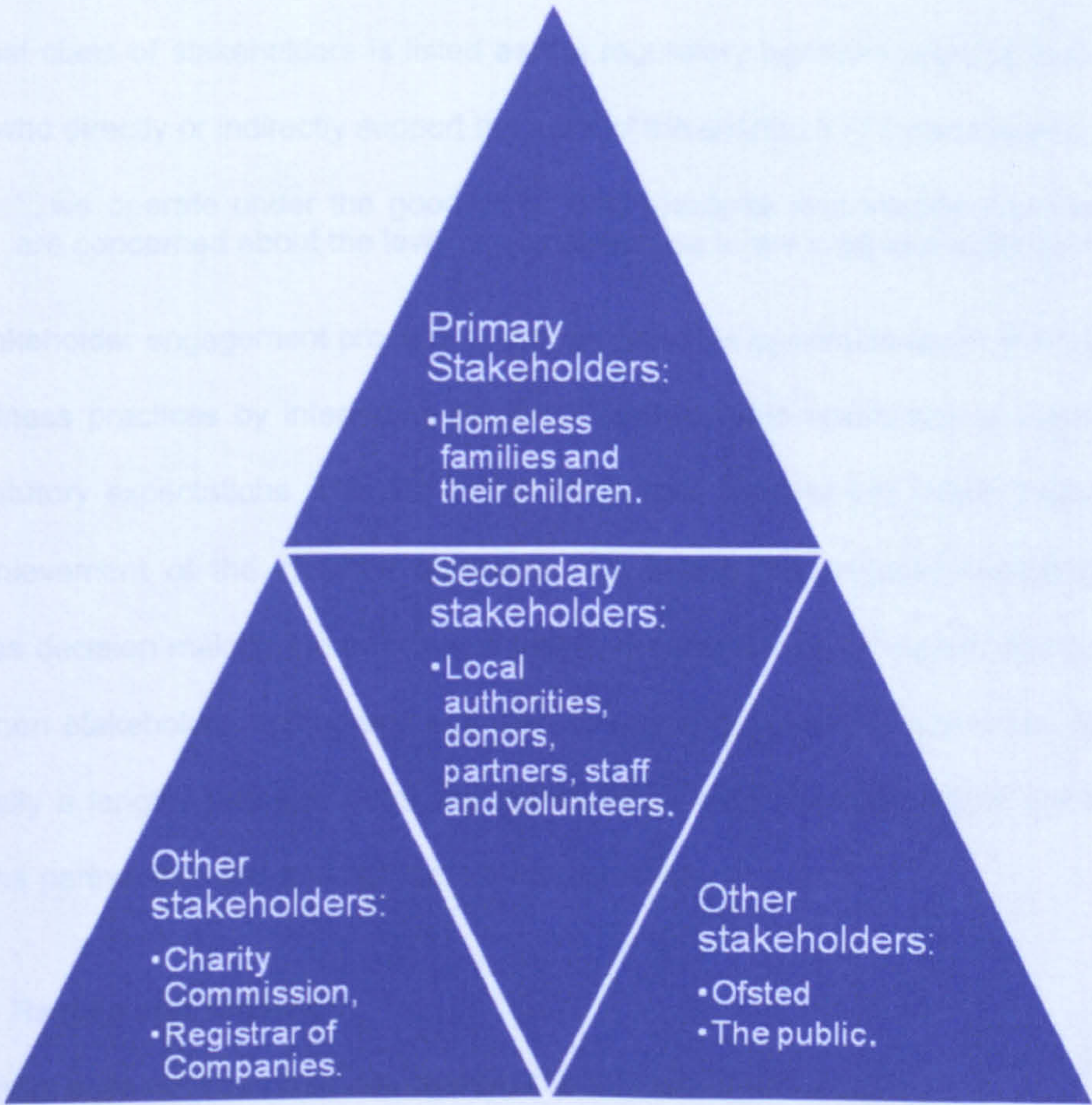
In its publication, *The Hallmarks of an Effective Charity*, the Charity Commission (2007, p. 11) recommends various methods of engagement including the recommendation that: 'every charity must have an effective and timely procedures for dealing with complaints about the charity and its activities...[and] can show how it involves beneficiaries and service users in the development and improvement of its services... has a communications plan which ensures that accurate and timely information is given to everyone with an interest in the work of the charity, including the media, donors and beneficiaries.'

Charity Y has piloted a range of methods to engage stakeholders. YTM1 explains:

‘It is a high priority for us to develop community confidence in our work. Building that confidence on an honest and open engagement... One that is responsive and deals with issues important to our stakeholders... We bring together diverse perspectives; clients, funders, regulatory agencies and others. To achieve this goal, we engage stakeholders through: (i) Communication - our newsletters and annual reports; (ii) Consultation - open meetings to discuss policy and operational issues; and (iii) Involvement - co-opting clients to advisory groups or the Committee... We have had reasonable levels of success in communication and consultation. However the transitory nature of our clients sometimes prevents them from direct participation in Committee meetings...’

Based on a service user survey conducted in 2006 after a period of rising complaints on the time it took the project team to ‘house’ families, the charity developed a policy in 2008 to engage all stakeholder groups. The model developed by the Committee split stakeholders into three groups; primary, secondary and others. Figure 5.4 is the researcher’s conceptualisation of the engagement model after talking with the Chair and the Chief Officer.

Figure 5.4
Primary, Secondary and Other Stakeholders



Primary stakeholders

The consensus reached at Committee level is that the primary stakeholders are the homeless families and children served by the charity. YTM3 said:

'All stakeholders are important, but on issues and factors such as influence on and relationship with the charity, their proximity with achieving organisational objectives determine how we deal with their interests. We seek to maintain an inclusive governance environment. First and foremost, the reason for our existence is to help the homeless families... The strategy adopted every year is to continue the work of relieving homelessness... They are our primary stakeholders...'

Secondary stakeholders

This group is made up of a broad constituency of partners whose individual contact and influence is considered secondary to that of homeless families. They included local authorities who provide some of the funding for services, staff and volunteers and various other partners of the charity. YCEO said:

'The funds received from our donors provide the lifeblood that enables us to operate... However it is our staff and volunteers who must be commended for the difference they make in the lives of children and their families...'

Other stakeholders

The final class of stakeholders is listed as the regulatory agencies working and the general public who directly or indirectly support the work of the charity. YTF3 commented:

'...we operate under the goodwill of local residents and members of the public who are concerned about the level of homelessness in the local and wider community.'

The stakeholder engagement process described provides opportunities for the charity to align its business practices by integrating feedback received into operations to meet operational and statutory expectations. The comments made also suggest this model helps to promote the achievement of the charity's objectives. By linking the engagement process to core business decision making the principle of inclusive governance, as highlighted by YTM3, can strengthen stakeholder democracy and lead to mutually beneficial outcomes. Although it is potentially a lengthy process, engaging stakeholders must be encouraged and facilitated to make the partnership real and not just a token exercise.

5.3.10 Review and renewal

The charity does not have a review system in place and YTM1 explains:

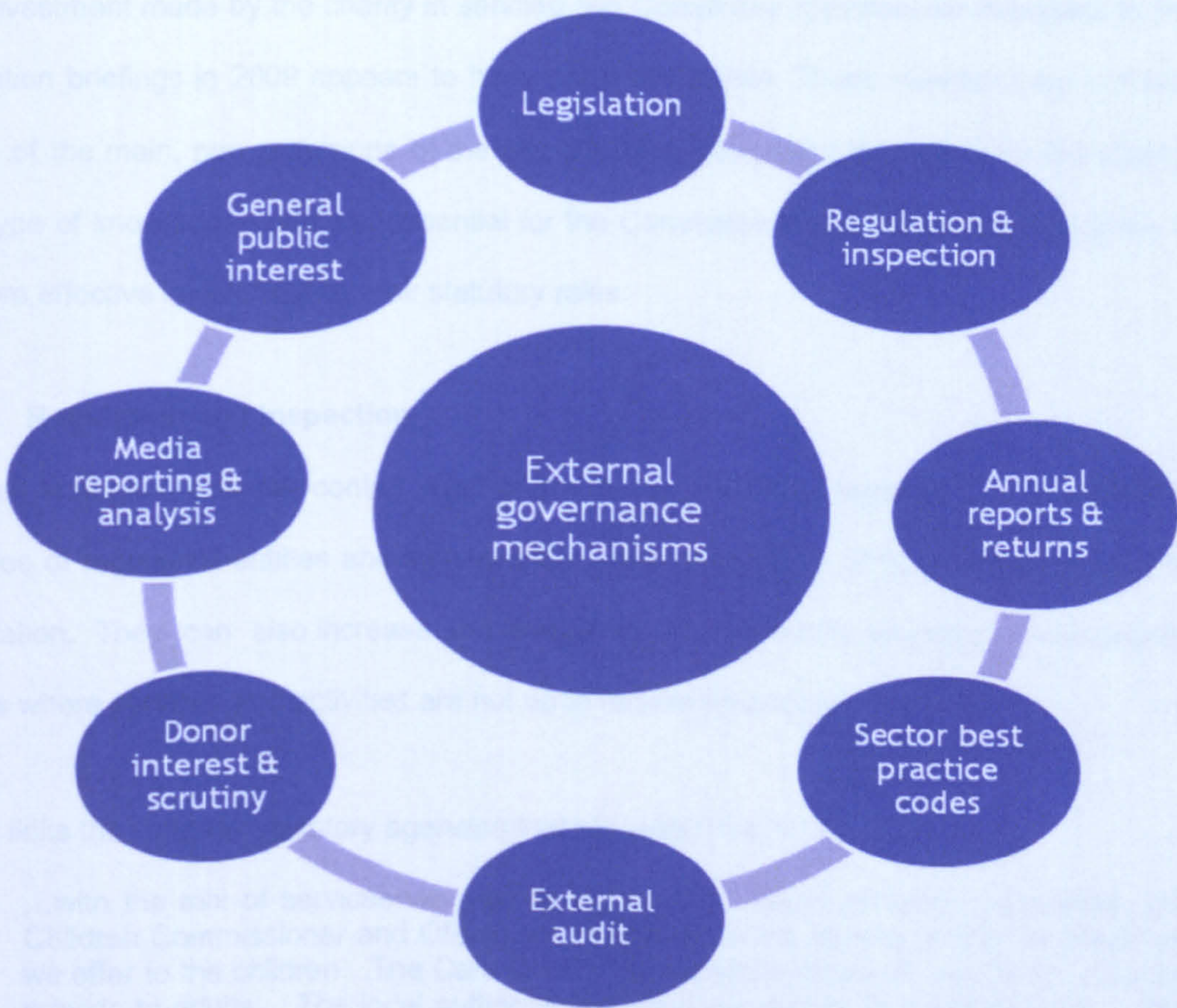
‘Over the last few years most of the Committee members have expressed strong reservations against what they termed an employee-style appraisal process. They regard themselves as volunteers who give up their time to govern the charity...are not remunerated and cannot be appraised as staff... They believe the charity is well run and has operated for 25 years without major governance problems...

I will continue to put forward my case for renewal and expect to, someday, introduce and implement a set of procedures to make this possible...’

5.4 External governance controls

In addition to the group of internal governance mechanisms discussed in section 5.3 there is another group of checks that exists outside the boundary of the charity to promote effective governance. Figure 5.5 presents these mechanisms.

Figure 5.5
External Governance Mechanisms



The identified elements will now be discussed in sequence.

5.4.1 Legislation

YTM1, after attending an advocacy agency briefing on the new legislation in mid-2008, said:

'The Charities Act 2006 exempts charities – in particular smaller ones like ours – from too much bureaucracy... However it requires us to demonstrate every year how the work of our charity benefits the public. That one is easy... The new law also benefits Committee members - we can now seek relief from personal liability from the Charity Commission as well as the courts...these powers can be written into our M&A to enable us to buy trustee indemnity insurance... The Act allows for members of the Committee to be paid for providing goods or services to the charity if certain conditions are satisfied...this is not payment for being a Committee member.

On the other side of the equation the Act gives the Charity Commission new powers to enter premises of charities to search and seize documents and information...'

YTG1 who also attended the briefing session in 2009 stated:

'...The Act is deregulatory in spirit – less red tape – it allows charities to modernise and gives us, Committee members, greater flexibility to work towards fulfilling the charity's purposes more effectively. We are now to: (i) Speed-up the process of changing parts of the charity's M&A without prior Commission approval... (ii) Spend endowment funds; (iii) Modernise administrative procedures including meetings using modern technology...'

The investment made by the charity in sending two Committee members as delegates to the legislation briefings in 2009 appears to have been worthwhile. These members are not only aware of the main, new provisions of the law but have interpreted its impact on the charity. This type of knowledge update is essential for the Committee members as it enable them to be more effective in discharging their statutory roles.

5.4.2 Regulation and Inspection

Another important external control mechanism is the power of regulators to monitor the activities of registered entities and inspect them when they fail to comply with conditions of registration. They can also increase the frequency of inspection, including unannounced checks where services and activities are not up to required standard.

YCEO links the various regulatory agencies that regulate Charity Y:

...with the mix of services we provide we have to report to various agencies. The Children Commissioner and Ofsted are interested in the quality of care and learning we offer to the children...The Care Quality Commission keeps an eye on the care we provide to adults... The local authorities monitor our standards in social work... This means we have a duty to maintain our standards to keep all of them happy... It can be difficult sometimes working under constant pressures from these agencies but as a team we have done just that... I am proud of the accomplishments we have made.'

Analysis of third-party correspondence and Committee meeting reports show that the charity is closely being monitored on a regular basis by these agencies. A recent assessment by

Ofsted is discussed in section 5.5.2 below. Overall, the scrutiny framework under the regulatory and inspection regime described above ensures standards are maintained, which ultimately leads to the objectives of the charity being met.

5.4.3 Annual reports and returns

YTM1 explains why and how they meet the annual return requirements:

'In order for us [*the charity*] to continue enjoying the privilege and benefits of registration that enable us and our staff to change the lives of so many vulnerable families the law requires we file a performance statement of the charity every year... We are a dual status organisation – charity and incorporated company – so we report both to the Charity Commission and Registrar of Companies on an annual basis how we have govern the charity...this is a legal requirement. Failure to file the returns on time carries severe financial penalties and sanctions such as closure of charity.

Every year around November after the audit the Honorary Secretary and Chief Officer start putting together the paperwork...I check the contents and sign the documents in early January to meet the end of January deadline...'

The requirement for the charity to present a public statement in the form of an annual report, which is audited by a recognised external party, demonstrate effective financial governance focuses the minds of the Committee members of their statutory responsibilities. Penalties and charges are levied for late filing.

5.4.4 Sector best practice codes

Although Committee members know about the 2005 Good Governance Code they consider it more applicable to larger charities. YTM1 explains the position of the Committee:

'When the code was published I was interested in what it had to say... After reviewing the main recommendations anyone can see it was written for the larger charities with complex governance issues...employing a dedicated team of employees who specialise in company law and corporate governance...

We are a smaller outfit...with a less-complicated governance structure and basic procedure and policies to support it. In 2007 my colleagues on the Committee agreed with me that we will adopt a pick and mix approach – select and apply the core principles from the Code which are appropriate to our situation... '

The voluntary sector is not a homogenous community so this 'one size fits all' Code has been criticised for trying to offer governance solutions to organisation of varying size, structure, history and financial resources. However, the approach adopted by the Committee of Charity Y to deploy the core principle of the Code to improve its standards of governance moves the organisation in the right direction. Nonetheless, this 'mixed' approach has resulted in the

abandonment of Committee renewal as discussed in section 5.3.10. Effective governance cannot be achieved by random application of the principles of the Code. A comprehensive review can be undertaken by a governance sub-committee to determine and recommend for implementation the other principles of the Code which are applicable to Charity Y.

5.4.5 External audit

YTF2 explains the purpose and importance of the audit process and how the Committee monitor the systems and procedures:

'We receive grants from public and private institutions and donations from members of the public. They expect these funds to be used for the purposes for which they were raised... The audit process is the statutory scrutiny procedure of our stewardship of the financial resources of the charity...

The Chief Officer and finance worker present budgetary control and funding reports at every committee meeting. We ask them appropriate questions to give us confidence that proper books of accounts are kept. Every year the Chair spends a couple of days at the head office reviewing financial practices and records before the audit...

The Committee and the Chief Officer treat the audit process as a crucial annual verification exercise because any adverse opinion expressed by the auditors on the financial report would have an unfavourable impact on the charity's profile and its fundraising ability. The Charity Commission may even launch an investigation...'

The importance of the audit requirements in fostering an environment of effective financial governance appears to have been recognised by the Committee. Audit is accepted as a rigorous governance tool in promoting best practice in financial stewardship. Rather than having the Chair of the Committee examine the financial records and procedures, the finance sub-committee should be given this responsibility, which coincides with their delegated responsibility of overseeing the proper management of the charity's finances. The Chair can then sign off the financial reports based on recommendations of this sub-committee.

5.4.6 Service user pressure

In the business world emphasis is put on responding to customer demands and pressure. Craven (2005) describes the customer as king and recommends that company directors positively respond to his/her demands and deal with pressure from this group to maximise profit and gain or maintain competitive advantage. Although there is no profit element in charities, the equivalent group of stakeholders in the voluntary sector that governing bodies

need to listen to may be classified as beneficiaries, service users and clients (Cornforth, 2004; 2005). They are regarded as one of the important groups of charity stakeholders (Powell and Steinberg, 2006). When they lobby for specific services, activities and policy changes charity trustees and Committee members come under pressure to either:

- (i) Accede to the expressed wishes of service users; or
- (ii) Demonstrate in a transparent, accountable manner why their decisions were not in favour of the requests made (Powell and Steinberg, 2006).

YTM1 provides an example of a turnaround in May 2008 because of lobbying parents:

'It has always been my view that the charity must get the basics right if we are to meet the needs of our clients who are, by and large, our priority... A short-term plan was agreed at the 2007-08 strategy meeting...to increase the number of crèche facilities and adult education placements to meet demands. However in January 2008 a group made of six families approached the Chief Officer and requested a meeting with the Committee.

In the meeting they made a case for play schemes rather than crèche and education facilities. The spokeswoman for the group was so convincing that the Committee agreed and voted to change the short-term plan... The project workers were equally supportive of the change of plan. That is what I call service user power...'

It is significant to note that the Committee not only listened to the requests of the parents but consulted with front-line staff before voting changes in plans. This exemplifies a committee that is willing to engage with, and listen to, stakeholders. This is confirmation that the objective of Charity Y is to meet the needs of the client group it was set up to serve. The mention of 'service-user power' by the Chair also demonstrates what can be achieved when service users lobby for services. Evidence of effective governance is demonstrated when organisations meet their objectives, mission, vision and values (Chait *et al.*, 1996).

5.4.7 Donor interests and scrutiny

The major supporters of Charity Y, two north London Boroughs and the Big Lottery Fund, use funding questionnaires and analytic review techniques to assess how well funds have been utilised. Additional information in the form of returns supported by audited, annual accounts requested by donors also informs them how donations have been applied by the charity. The finance officer, supported by the Chief Officer, is responsible for collating data and submitting the various returns and questionnaires.

It is surprising from the attendance at AGMs and EGMs that donors do not appear to be showing intense interest and scrutiny of their donations. However, there is a growing argument for independent scrutiny of charities as an agenda that will drive forward effective governance, which many charity commentators believe is well overdue (Brookes, 2010).

5.4.8 Media reporting and analysis

Housing and social care issues become national newspaper headlines when things go disastrously wrong, as in the case of Victoria Climbié and Baby P (Batty, 2003; Pile 2009). Specialist charity media organisations such as Society Guardian, Charity Times, The Third Sector and Civil Society monitor and analyse charities' activities and cover topical matters such as finance, fundraising, governance, management, strategy and IT. Some of them regard themselves as watchdogs for the public, whilst others like Charity Finance keep the sector up to date with best practices. Charity Y has not received any media interest or analysis until recently, when it enjoyed positive media coverage when Arsenal football club raised funds to support its work.

5.4.9 General public interest

The Public Interest Disclosure Act 1998 (part 4a) has a special provision for members of the public to make 'disclosures' to 'prescribed persons.' The types of disclosures can include: (i) criminal offences; (ii) breach of a legal obligation; (iii) a miscarriage of justice; (iv) danger to the health and safety of individuals; (v) damage to the environment; or (vi) deliberate concealment of information relating to any of the above matters. The Charity Commission is described in the Act as a prescribed agency to whom members of the public can make disclosures on matters relating to the improper administration of charities and funds given, or held, for charitable purposes. The legislation provides legal protection from reprisals and anonymity for individuals who disclose such information in the public interest to expose malpractice and matters of similar concern. This opportunity for the public to whistle-blow wrongdoing is a powerful deterrent and important control to promote effective governance. YTM1 said:

'...we have ethical obligations under our fiduciary responsibilities to act in the best interest of the charity. We cannot enjoy the confidence and trust of the public without associated responsibilities...'

This statement by YTM1 shows an excellent understanding of duty of care of care, honesty and loyalty which current charity legislation imposes on trustees.

5.5 Governance opportunities and achievements

5.5.1 Silver Jubilee celebrations

The charity celebrated its silver jubilee in 2009. It formulated a development strategy to take the charity forward to another 25 years of successful operation. The strategy is to build upon governance achievements made in the mid-2000s and to upgrade its services in four specific areas by 2012:

- (i) Crèche facilities – increase provision for 30 more children to 70;
- (ii) Family support – employ one more support worker with expertise in social housing;
- (iii) Playgroups – increase capacity by 50% to 120 children places;
- (iv) Health access – utilise the offer of a physiotherapist by Arsenal Football club.

YTM1 describes the journey planned and financial governance to achieve these services:

'Resources have been earmarked and will be deployed to achieve stated objectives. These projects will be monitored and evaluated to ensure we get value for money.'

5.5.2 Outstanding grade in Ofsted report

Ofsted introduced in 2007 provisions for a new legislative framework for early learning and childcare in the Childcare Act 2006. In 2010 the charity's childcare services successfully went through a rigorous inspection by the regulator. The inspectors were impressed with the quality of governance and value of services offered to children and awarded the charity an excellent report on child care; education; and the learning and development skills services provided to its clients. YCEO commented on the contributions of the Board and her staff:

'I am so proud of the Committee and my staff and the things we do as a team to improve the life chances of the children who come through our doors...'

5.5.3 Funding for medium-term core activities secured

The charity has been able to secure a number of small, short-term sources of funding for its core activities. This initiative was led by the finance committee as part of its remit. These

funds are expected to stabilise general, unrestricted funding and enable the charity to serve more families. The Management Team has also been boosted with the appointment of an experienced fundraiser to support the Board in its corporate bid applications.

5.6 Current governance challenges

5.6.1 Founder's syndrome effect

A syndrome can be described as 'signs' and 'symptoms' that together are characteristic of a particular disorder. Within an organisational setting 'founder's syndrome' sometimes manifest itself when 'a charismatic, visionary and inspiring individual responsible for setting up an organisation displays patterns of negative or undesirable behaviour, unknowingly or deliberately, to thwart its orderly running [and governance] of the organisation' (McNamara, 2009, p. 2).

Charity Y has suffered from this syndrome, as YTG2 explains:

'...the Chief Officer means well but her dismissive language and attitude regarding procedures, rules and systems can be most unhelpful and insensitive... I am frustrated by her defensive posture and lack of enthusiasm when decisions by the Committee go against her recommendations. The Chair is aware of this issue but has not asserted his position to deal with it decisively...'

This is a serious governance problem which can be addressed and resolved over time by:

- (i) The Chair reminding the Chief Officer of the statutory roles and obligations of the Committee as stated in legislation and the charity's M&A; and
- (ii) The resoluteness of Committee members to politely but firmly challenge any negative behaviour.

5.6.2 Finance expert as treasurer

It is considered good practice to have someone with some amount of finance experience and/or qualification on the board of publicly accountable organisations (KPMG Audit Committee Institute, 2010). One of the purposes of this requirement is to help directors, staff and other stakeholders understand the economic, business and financial implications of all decisions taken. With income levels expected to reach £0.5m in 2012, confidence of funding

agencies and philanthropic foundations that support Charity Y will be boosted by the appointment of a finance expert as treasurer.

5.6.3 The liability of smallness

The charity is restricted by the 'liability of smallness.' The size of the charity makes it heavily dependent on the work of a small number of key employees such as the Chief Officer, supervisors and finance officer. Although high levels of personal commitment has been demonstrated by this small group of staff over a number of years, this current arrangement is not sustainable in the medium term as the retirement plans of some of these key staff draw close. Collaborative working with partner agencies can increase capacity in these key areas.

5.6.4 Failure to engage service users in the governance processes

There is consensus in the Third Sector 'that charities, which provide services or campaign for improvements in services or policy should involve their intended users in decisions about those services and campaigns' (Palmer and Harrow, 2005, p. 71). User engagement and involvement in governance and strategy development demonstrate accountability and are considered essential in Charity Y's inclusive governance policy. YTM1 explains:

'The transitory nature of clients has made our Inclusive Governance policy practically difficult to achieve as families move on to permanent accommodation away from the local area where we operate...or work commitments prevent involvement and participation in the development of the charity's services.'

5.6.5 A complex, cumbersome and expensive structure

As highlighted in section 5.2, the current structure is unduly expensive and not appropriate for the Chief Officer to effectively manage her staff. The researcher has recommended a configuration for the Board to consider; a functional structure that will allow work and activities to be divided into areas of specialisation with activities grouped together for effectiveness and efficiency.

5.7 Key recommendations to improve effective governance

The following is a summary of key recommendations to improve the governance practices, systems and arrangements of Charity Y:

Organisation structure and strategy

- Review mission, vision and values of the charity;
- Re-design organisation structure to make it responsive to the needs of the charity;
- Develop and implement volunteers' policy.

Internal governance mechanisms

- Revise M&A to bring governing document in line with current legislation;
- Resolve decisively the problems which have arisen from 'founder's syndrome';
- Recruit finance or business professional as Treasurer;
- Review current performance targets and measures;
- Review stakeholders engagement policy and procedures;
- Introduce and implement review and renewal policy and procedures;
- Establish succession planning for key governance players.

External governance mechanisms

- Implement main recommendations of Good Governance code 2010;
- Review stakeholder engagement policy and processes; and
- Introduce and implement corporate responsibility policy and procedures.

5.8 Summary and conclusion

Despite the challenging issues discussed Charity Y has developed a distinctive set of systems and procedures and is on the way to achieving some degree of effective governance. The enthusiasm and commitment of the Committee put the charity in good stead towards achieving its aims and objectives. However, the Committee needs to consider collaborative working with partner agencies to deal with the huge problem of social deprivation and homelessness in London, to ensure long-term viability and success in reducing children and family homelessness. Although its mission statement (section 5.2.2) appears impressive, reduction in homelessness cannot be achieved by a single agency with limited resources. Appendix I lists the key recommendations made to the three charities. The themes and patterns which have emerged in Chapters Four, Five and Six will be cross-analysed in Chapter Seven to highlight similarities and differences in the three charities.

CHAPTER 6: CHARITY Z – INTRA-CASE ANALYSIS

6.1 Introduction

This chapter presents the third and final intra-case analysis examined for this thesis. The case study is structured in line with the conceptual framework discussed in section 2.8, this approach being designed to address the research questions presented in section 1.5. The case study focuses on data collected from participatory observation of directors' meetings, review of internal and external documents and seven open-ended, semi-structured interviews with six directors and the CEO. Charity Z is a community mental health agency that provides a free or low-cost, confidential, individual or group psychotherapy service to residents and staff of businesses with psychological difficulties in London and the northern Home Counties.

This first section outlines how the chapter has been organised and describes the concept of charity corporate governance as understood and practised by the directors and Chief Officer. As discussed in section 3.7.4 an alphanumeric code has been assigned to enhance anonymity and aid analysis and interpretation:

ZTF – Directors with business or management qualifications, knowledge and experience; and
ZTM – Directors with general medical practitioner, mental nursing or psychotherapy counselling qualifications, knowledge and experience.

ZCEO – The Chief Officer, (also called the unit manager), attends Board meeting but does not have a vote in the decision-making processes.

There is no representation of service users or staff on the Board. Staff representatives are invited to meetings when agenda items such as pay or health, safety and welfare matters directly affect them.

In section 6.2 the historical background, legal and organisation structure are discussed. Sections 6.3 and 6.4 analyse and interpret the internal and external governance mechanisms that exist in the charity and compare them with best practice models covered in the literature review. In section 6.5 recent achievements and governance opportunities for growth are outlined. Section 6.6 discusses the threats and challenges that affect governance arrangements. Finally in section 6.7 a closing review of the charity is presented.

6.1.1 Conceptualisation of governance

There follow quotations from three directors and the Chief Officer. In these extracts these individuals describe their understanding of the governance process in Charity Z and how they fit into and support the Board of Directors (hereafter called the Board).

ZTF2, Chair of the Board, made the following statements about governance:

'I think it is a mixed bag of responsibilities... Clearly the first lot are the statutory responsibilities that we have to make certain we carry out: direct and review the affairs of the charity on a regular basis... deliver outcomes that meet the needs of our service users... use charity funds reasonably and ensure the organisation is solvent... There are also the responsibilities we have to regulators, Charity Commission and Registrar of Companies – duty of care and prudence...we will be held responsible for careless actions and behaviour. These recommendations are not mandatory and are more flexible than those stated in law...nevertheless we have to do what the Charity Commission expects of us. We adhere to the best practice codes and regularly check if we are doing things right.

Then there are the more informal requirements of governance. We have a responsibility, in my view, to ensure that the morale of the staff is as high as it could be...the staff are cared for, know that the trustees are conscious of the problems at work; the work load and that they generally have a feeling of inclusion...staff must feel included. That does not mean to say that they have very close contact with the trustees, because I do not believe in that as such practices can breed confusion. Only a board with no clear sense of its role in the organisation will be involved in micro-management. It is the Chief Officer who manages them, not us. She has an essential role as a conduit between staff and the trustee board to ensure we know about staff morale. We have a HR policy and strategy plan to improve staff morale. It is very important that staff know that we have a vision for the future, that we have finances to deliver our plans, because it is their jobs and if they lose their jobs it is serious.

Then it is also important for trustees to have some contact with the users of our services... I am a great believer in user forums and user groups. We have invited them to trustee meetings but they have not taken up the offer. We also invite staff and I am a great believer in staff representation in trustees' meetings, but at the same time I am conscious of confidentiality...certain aspects of the agenda. Staff representatives only attend the half of our meetings, usually every quarter...'

The paternalistic approach and interpretation of governance described above is a feature of the practices and processes in Charity Z. The Chair balances the statutory requirements of leading the charity to achieve its objectives with the care and involvement of users they serve and the staff who serve them. Using his experience and background in business and local government politics he has managed to establish this distinctive, charismatic type of leadership in co-operation and with the consensus and support of the Board. The Chair has concentrated on governance - strategic direction, leadership and control - and not on managerial processes such as planning, organising and staffing, which are the operational

duties of the Chief Officer. Later sections will outline and discuss the degree of success the Chair has managed to achieve in effective charity governance.

ZTM1 describes governance as:

'...the provision of a structure... that is our systems and processes that enable the day to day work of the charity to be carried out within the framework of its operations... It is also about compliance with charity law and Charity Commission guidance. So those are the three things I would say we are responsible for: service delivery and the framework to achieve our objectives, complying with whatever regulations we are required to comply with and remaining true to our original mission in a way that is relevant for whatever changing circumstances we are operating in...'

Although the concept is illustrated in a simplistic way, it follows the Chair's earlier description of leading the charity to achieve objectives. For ZTM2 governance is seen as:

'...the supervision of the management of the charity and control of its risk so that business of Charity Z is conducted competently, with integrity and with due regard to the interests of all of our stakeholders... As a Board we are responsible jointly to ensure that the charity is run in accordance with the requirements of the Charity Commission and Charity law... We also monitor the financial systems and its reports to ensure that the funding we receive from the local authority is properly used within the service level agreements signed by the Chair and Chief Officer with the Council...'

This is another description closely in line with the Chair's portrayal of governance – managing the managers. The added dimension of financial probity to meet the financial regulations of the charity's main sponsor enhances the explanation provided. This implies a good understanding of trustees' key roles and duties and the importance of the governing document in setting out the structure, purpose and operating parameters of Charity Z.

ZCEO defined governance as:

'...a system that ensures that our charity is led by competent people who are working to the charity's aims and objectives as stated in our Memorandum and Articles of Association... they are ultimately accountable to our donors and supporters for the funds they provide...the Charity Commission for legal stewardship. Governance is also a system of checks and balances to monitor the services we offer our ...

As Chief Officer my main duty is the day to day management of the charity. I also support the directors who are appointed to lead and govern our charity... They support me and my senior colleagues in our routine management tasks. The Chair, Treasurer and other directors are just one phone call or email message away... '

The complementary roles of the directors and Chief Officer (and her staff) in the charity's governance arrangements highlighted by XCEO are critical as only co-operation between these two main groups can lead to effective charity governance. By making themselves easily

available to the Chief Officer and the team of senior psychotherapists, the directors demonstrate the essence of partnership working in governance and other routine operations.

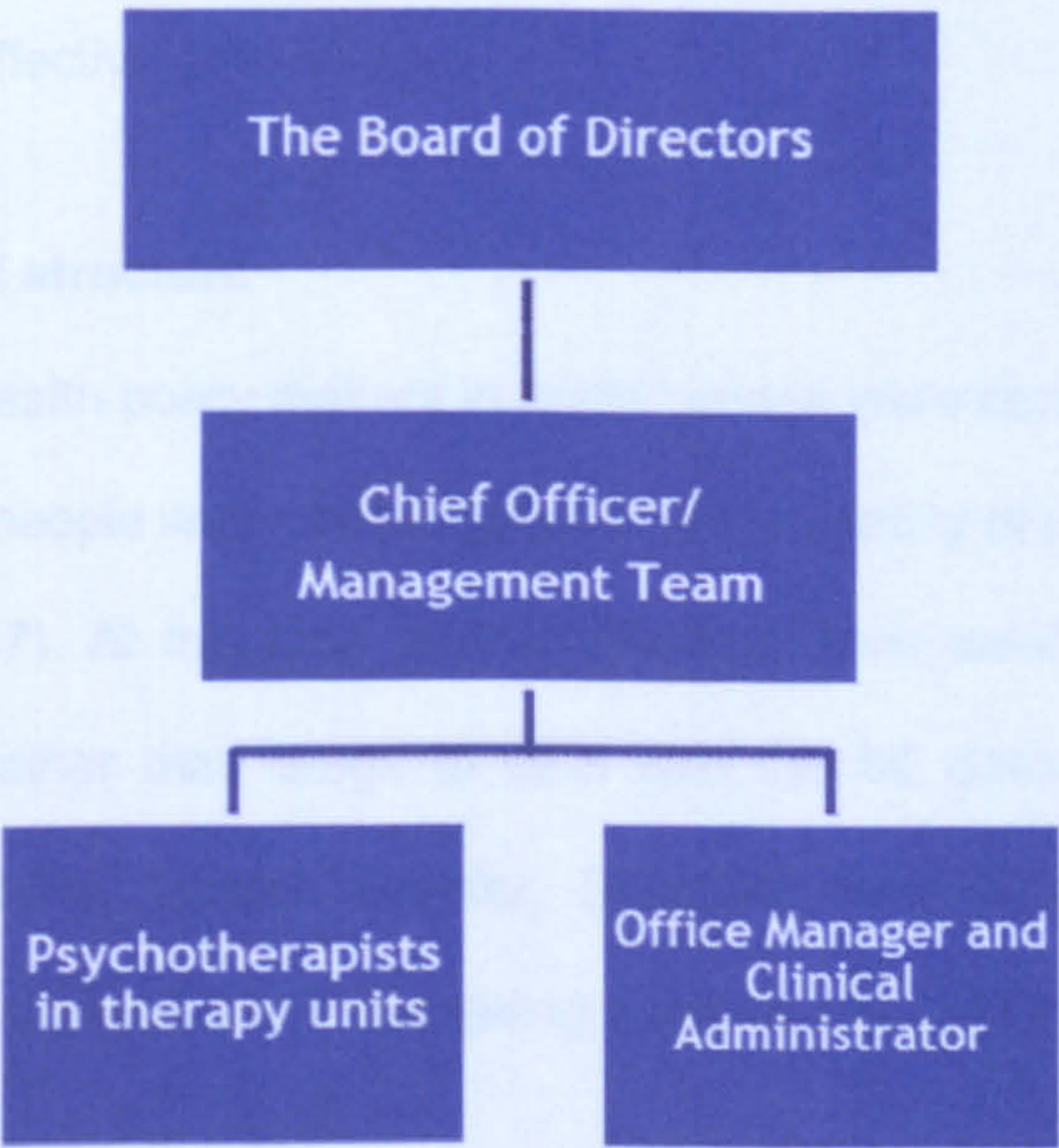
The responses presented emphasise the dividing line between governance and management articulated by the Chair. This factor is a recurring and overarching theme in the four quotations, thus demonstrating its relative importance in Charity Z. A clear division of responsibilities usually help to minimise interpersonal conflict when roles are defined.

6.2 Organisation structure and strategy

6.2.1 Organisation structure

As a small organisation Charity Z has opted for a simple structure with centralised decision making being placed in the hands of the directors and Chief Officer. Figure 6.1 shows how Charity Z has been structured organisationally.

Figure 6.1
Organisation Chart



At the apex of the organisation is the Board. This group will be discussed in detailed in section 6.3.2. Below this tier are the Chief Officer and the Management Team. These positions in the governance processes are examined and discussed later in section 6.3.3.

ZCEO described the merits of such a simple structure to a new trustee:

'...after consultation with the Board I can make all major decisions directly and closely monitor the follow-on activities of the charity. The structure we have is flexible, easy to operate and inexpensive to maintain, appropriate for our size and has a clear framework of accountability between trustees and management...'

The roles of staff and volunteer therapists are standardised to ensure consistent working practices that comply with standards of practice issued by the professional associations that regulate them. Administration workers are supervised by the Chief Officer to perform a variety of office duties to support the work of the charity.

Despite the simplicity and flexibility of flat structures highlighted above by the Chief Officer this types of configuration has two main drawbacks:

- (i) Reliance on one central person (the Chief Officer) who is responsible for overall operation. This arrangement is risky especially when this person is unavailable; and
- (ii) A small number of management layers (one tier and one manager in this charity) may hinder or limit opportunities for organisational growth.

These are limitations that can adversely affect performance across the organisation and thus unfavourably impinge on effective governance.

6.2.2 Historical and legal structure

In the mid-1960s mental health policy makers in north London were concerned about a sharp increase in the number of people with mental illness and the paucity of psychotherapy service provision (Symington, 2007). At this time clinical evidence from research was weighted in favour of using therapy rather than drugs to deal with mental distress such as extreme anxiety, depression, irritability, bipolar disorder, Schizoid Personality Disorder, anorexia, bulimia, bereavement, and compulsive or risk taking behaviour (Symington, 2007).

In response to these needs, Charity Z was started in 1969 to provide professional therapeutic sessions to the residents of a north London borough. An officer of a local authority said:

'Over the last 40 years Charity Z has established itself as a specialist service in the provision of psychoanalytic psychotherapy for adults and has maintained a high reputation in communities across London...amongst referring agencies, particularly GPs, and within the professional world of psychotherapy.'

The organisation was incorporated as a company limited by guarantee in 1999 and registered as an independent charity in 2006. In line with many other established charities incorporated as companies, Charity Z's liability is limited to £10.00 per director in the event of liquidation.

6.2.3 The mission, vision and values

The charity has not adopted any formal set of words to encapsulate and describe its mission, vision and values. ZCEO explains:

'...the objectives of the charity are set in our M&A. ...mission and vision statements are just fashionable words for what organisations do... We consider our objectives as our mission and vision...

Although we have not codified our values into a statement our professional institutions expects all practitioners to comply with an Ethical Code of Practice. This includes the preservation of the confidentiality of all information provided by clients; have utmost respect for the dignity, worth and welfare of the patients; practice within the limits of competence...'

Although the M&A states the objectives of the charity, the mission and vision statements cannot be dismissed as 'fashionable' words. These statements are usually inspiring words chosen by the leadership to convey clearly and concisely the direction of their organisations. They are succinct, easily understood descriptions and declarations of the *raison d'être* and aspirations for the existence of the organisation. By crafting clear mission, vision and values statements, the charity is making authoritative statements that: (i) communicate its intentions; and (ii) motivate and energise staff and volunteers to actualise a common vision of the future. These statements are more likely to be used by management to boost staff morale and read by stakeholders and others interested in the charity rather than a wordy, lengthy, legal document such as the M&A (Patterson and Radtke, 2009).

6.2.4 The objectives of operation

The charity, under its M&A, sets out the following activities as its objects:

- (i) To promote a charitable purpose for the benefit of people through promoting mental health; and
- (ii) To advance the education, protection of health and the relief of sickness and distress.

ZTM2, Secretary to the Board, made the following statement on the ethos of operations in his annual report to stakeholders:

'...the provision of a user-friendly, respectful and confidential service to peoples of all socio-economic, cultural and ethnic backgrounds. The charity also provides multi-lingual services in English, Hebrew, Gujarati, Urdu, Punjabi, Polish, Czech and Spanish. A survey of comments and feedback conducted in 2007 by the charity from referring agencies and individuals shows very low re-referral rates (2%)...'

ZTF2 summarised the objectives and ethos of the charity this way when talking to a member of a local council who was interested in its work:

'...our charity has a commitment to operate within the professional guidelines of the UK and British Councils of Psychotherapy and Counselling... with the principal aim and objective of treating people with a range of psychological problems... to help to lead more fulfilling lives...

We acknowledge the nature of mental distress and our understanding is based on shared experience... we do not provide a *one size fits all* approach to treatment but a range of treatment types which are tailored to patients' needs...'

These statements by two key officers demonstrate commitment and the work being undertaken by the charity towards the achievement of its objectives. This is a critical component of effective governance. The coverage of non-English speaking residents (immigrants from Eastern Europe and the Indian sub-continent) confirms leadership and management's aspiration to cater for a diverse London community.

6.2.5 Age and size

The longest serving director, ZTM1, provides insight into the age and size of the charity:

'...our organisation was set up in 1969 by Z, our founder/first director, together with local council colleagues working in various areas of mental health. It was set up intentionally as a small group of psychotherapists to address growing local needs... a desperate lack of non-drug intervention to help residents in the borough who were suffering from mental illness and other social problems such as alcohol abuse, phobias, sexual, eating and sleeping disorders, schizophrenia, depression, anxiety, panic and mood disorders...

...although we have stayed small we now serve residents in many of the boroughs in north London and northern Home Counties.'

With the current workload, a review of the organisation structure and its size is necessary to determine an optimum configuration that will effectively cater for the charity's clients. Increases in the waiting list of vulnerable people urgently needing support, healing and the opportunity to consider choices, all demonstrate an urgent need to reduce the list.

6.2.6 Staff and volunteers

The charity is staffed by a team of 13 part-time psychotherapists, an office manager and clinical administration worker. The therapists are qualified members or trainees registered with the British Psychoanalytic Council British or Association of Counselling and Psychotherapy, leading professional bodies for counsellors and psychotherapists in the UK.

Unlike other voluntary organisations with an army of volunteers, Charity Z has comparatively few. Table 6.1 presents the number of volunteers in Charity Z and three comparable charities.

Table 6.1
Volunteers in Charity Z and Three Comparable Charities

Type of volunteers	Number of volunteers in Charity Z	Number of volunteers in a media charity	Number of volunteers in a housing charity	Number of volunteers in a think tank charity
Trustees	7	12	8	10
Other	3	30	65	25

The table demonstrates that Charity Z has not recruited its fair share of volunteers. The recruitment of volunteer therapists would help to avoid staff ‘burnout’ and reduce the growing waiting list problem already highlighted above in section 6.2.4.

6.2.7 Geographic scope

Charity Z is registered by the Charity Commission and Registrar of Companies to operate in England and Wales. In a report to directors, one of the senior therapists presented a more precise picture of operations:

‘...our clients come from 19 of the 32 boroughs in London and we serve some patients residing in southern Hertfordshire, eastern Buckinghamshire and southern Bedfordshire.’

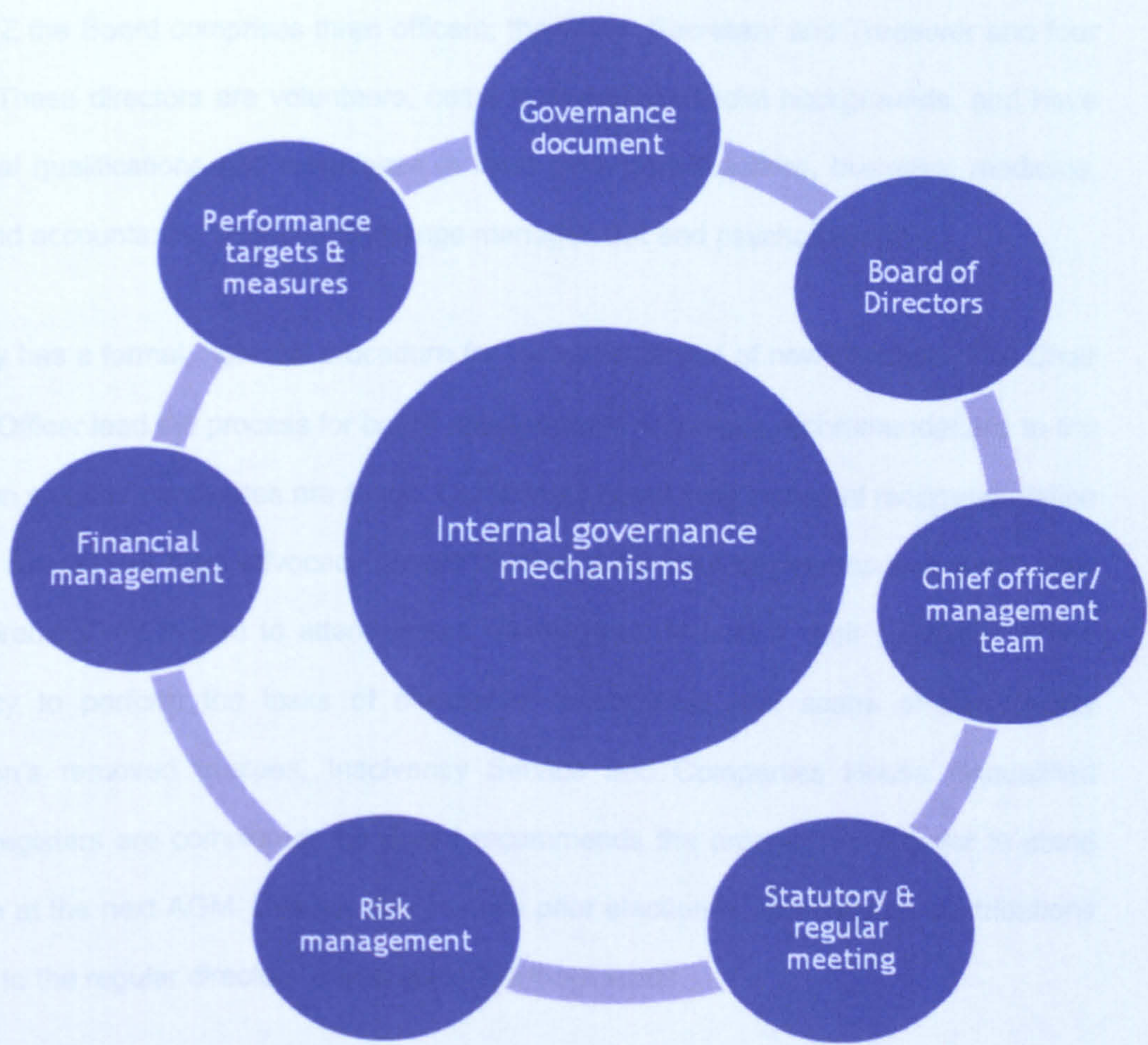
6.3 Internal governance mechanisms

An effective system of governance has both internal and external controls that have to be sufficiently responsive to the organisation, its stakeholders and environment if its governance is to be effective (Naciri, 2009). The internal governance controls of Charity Z include: (i) Its

M&A; (ii) a Board of directors (iii) risk and financial management systems; and (iv) a performance measurement framework to assess overall performance.

Figure 6.2 below lists the seven internal governance mechanisms in operation within the charity.

Figure 6.2
Internal Governance Mechanisms



These mechanisms will now be discussed.

6.3.1 The governance document

ZTM2 described the M&A as:

‘...setting out the purposes for which Charity Z was set up and the articles of association lists the rules by which we are internally governed; for example the duties and responsibilities of the Chair and other officers, their appointment, retirement, disqualification and notices of and proceedings at various meetings...’

ZTM4 also presents the governing document as:

'...a list of what charity was established to do, a summary of rules and procedures for controlling and managing the charity and detailed guidance on how directors can comply with Charity law in regards to governance, finances and operations.'

The quotations presented demonstrate the importance of the M&A in providing advice and direction to the leadership in carrying out and achieving effective governance.

6.3.2 The Board of Directors

In Charity Z the Board comprises three officers; the Chair, Secretary and Treasurer and four directors. These directors are volunteers, come from various social backgrounds, and have professional qualifications and experience in local government politics, business, medicine, auditing and accountancy, project and change management and psychotherapy.

The charity has a formal, rigorous procedure for the appointment of new directors. The Chair and Chief Officer lead the process for board appointments and make recommendations to the Board when suitable candidates are found. Candidates come from personal recommendation of existing directors or from advocacy groups' trustee databanks of persons willing to serve. Aspiring directors are invited to attend Board meetings to determine their suitability. When competency to perform the tasks of director is established, and scans of the Charity Commission's removed trustees, Insolvency Service and Companies House disqualified directors' registers are completed, the Board recommends the prospective director to stand for election at the next AGM. Director competency prior election is assessed by contributions they make to the regular directors' meetings in five main areas:

- (i) Empathy with, and commitment to, the objects of the charity;
- (ii) Willingness to devote the necessary time and effort;
- (iii) Good independent judgement and ability to think creatively;
- (iv) Ability to work effectively as a member of a team and good understanding of the legal duties, responsibilities and liabilities of trusteeship; and
- (v) Willingness to 'speak their mind', objectivity, accountability, openness, honesty and leadership.

ZCEO explained the composition and tenure of the directors:

'...we have directors with fitting skill-set, knowledge and experience to effectively lead our charity...two retired medical practitioners, a retired business-man, a chartered accountant, a management consultant and a psychotherapist.

Most of our directors have been in post for over ten years... ...During the last 12 years of my employment as Chief Officer we have only lost two directors who resigned because they migrated to Yorkshire and Cornwall. We have not done badly...'

If the chair and CEO deploy the skills set described above it should provide a broad range of competency to effectively lead and direct the charity. The rigorous recruitment procedure for directors and the comments made above by the Chief Officer portray good practices being employed to attract suitable persons to serve a stable Board, which has led the charity for years. The wide knowledge and experience base also offers the charity a foundation to deal with pressures and challenges. The stability of tenure of the directors allows the Board to make plans and monitor their implementation in the long-term. The disadvantage, however, is the possibility of reduced innovation and creativity to strategic planning if the Board accepts and operates within the status quo. Participatory observation of discussions in directors' meetings and review of Board minutes over a 30-month period (June 2007 to November 2009) do not show any modernisation of policies, procedures and practices.

The role of the Board of Directors

ZTM2 explained the role of the Board as:

'...being responsible for supervision of the overall affairs of the charity. The directors set the tone at the top and give strategic direction, determining and controlling the broad policies and objectives. My team and I work to deliver the objectives...'

These responsibilities as outlined by the Chief Officer are critical in the governance process to achieve the objectives of the charity. However, what this person failed to highlight is that these duties are set in the M&A and must comply with both charity and company legislation.

The Chair (ZTF2)

The Chair is a retired entrepreneur and former local government politician. His responsibilities as chair are defined in the M&A as 'the provision of leadership to the charity and working to

achieve effectiveness.' His primary role is to ensure that the Board is effective in its tasks of setting and implementing the company's direction and strategy.

ZTM2 describes the key leadership position in the governance process as:

'Ensuring that the Board functions properly... His strategic role is to take forward the agenda of the organisation. ...he maintains a close relationship with the Chief Officer and supports her role and functions to ensure the charity is delivering the short, medium and long-range outcomes... He is excellent in the routine tasks of allocating responsibilities and encouraging all directors to fully participate at meetings, making sure all relevant matters on the agenda are discussed and that effective decisions are made and carried out...'

This graphic description of the Chair provides an apt picture of his central role to the successful operation and effective governance of the charity.

The Treasurer (ZTF1)

The charity has not employed a finance worker so the treasurer, ZTF1, maintains the books of account on Sage accounting software. He is a retired psychotherapist with an interest and basic competency in accounting. ZTM1 described him as:

'...the board's watchdog over all aspects of financial management.'

His duties include the preparation of annual budgets and estimates for approval by the Board; production of quarterly financial progress reports and the annual accounts of the charity. He also helps the Chief Officer to prepare statistical reports for the local authority. The vulnerability in his role, however, is the non-separation of duties as required by internal control best practice. There is potential for compromise of governance and the likelihood of errors and irregularities increases when there is no segregation of duties in related operations. Although the potential for compromise has been brought to the attention of the Board by the auditors, it was not considered significant a risk compared with the savings being made from not employing a finance officer.

The Secretary (ZTM2)

ZTF2 made the following comments on the work of the Secretary:

'M has a key role in ensuring that board procedures are both followed as per the M&A. I will look to him for support in running the various meetings... He is a valued

resource to the Board and Chief Officer... The AGM is one event he organises but gets little recognition from his peers and others for the amount of work that must be completed on the day...'

The work of the Secretary is onerous and critical to the smooth operation of certain governance processes such as the maintenance of directors' and members' registers and timely completion and submission of statutory returns to regulators. Failure to submit returns on time can result in fines or in persistent cases cancellation of registration.

The Board does not consider the business of Charity Z large or complex enough to delegate any part of its agenda to sub-committees. ZTF2 explained the position:

'...we have a small board in which all directors participate in the decisions that affect the charity and do not require the legwork of sub-committees. The business items listed on the agenda are covered within the 90 minutes we allocate for regular directors' meetings.'

Although the charity is small and the nature of its business is not complex the minutes of the directors' meetings show projects that needed extensive debate with specialist input were only briefly discussed and superficial conclusions made. Such projects included the change of current its lease and subsequent move to new accommodation. The technical issues in these projects could have been assigned to a sub- or ad-hoc committee for detailed discussion. If a standing committee is considered unnecessary an ad-hoc group can be convened to address such matters. Three major benefits can accrue from using ad-hoc committees in Charity Z:

- (i) A thorough discussion and consideration of issues on the charity's agenda is facilitated;
- (ii) Non-board members with interest and expertise in a particular issue affecting the charity can be invited to contribute to such meeting; and
- (iii) More time is available to allow better dialogue between directors and staff and community members on the specific topic.

6.3.3 The Chief Officer and management team

As shown in figure 6.1 the Chief Officer reports to the Board and her role is the key link between directors, staff and volunteers. She has over 30 years' clinical experience in psychoanalytic psychotherapy in the UK, France and Germany. Her primary responsibilities are to carry out the strategic plans established by the Board and manage the daily operations

of the charity. She is assisted in clinical matters by the Senior Psychotherapist who provides cover during her absence. The Administration Manager provides essential non-clinical support in running the office. ZTF1 describes the key role of the Chief Officer:

'...Z has been with us for 18 years and is often seen as the symbol of the charity by service users. ...she is the second person to occupy the position of chief officer. The charity will not have been as successful without her extensive clinical experience, excellent communication and influential management skills.

Directors rely on her support, wise counsels and ability to balance internal and external pressures to enable us make critical decisions... She motivates and gets the respect of her staff. ...her experience in psychotherapy across western Europe commands the respect of her peers in mental nursing...'

According to ZTF1 the Chief Officer has the requisite clinical experience, directors' support and administrative infrastructure to successfully lead the charity. Helping hundreds of mentally-ill people over the years confirms this statement.

6.3.4 Statutory and regular meetings

The M&A prescribes three types of governance meetings.

Regular directors' meetings

The directors' meetings are held six times every year; February, April, June, August, October and December. Four directors and the Chief Officer or her nominated representative must be present for the meeting to be quorate. The review of routine operational issues such as clinical work, risks, fundraising, financial performance and strategy development makes up the main agenda items. The Chief Officer and Treasurer prepare performance and budgetary control reports to each meeting. These reports are sent to directors before the meeting to enable them to review the various papers so that issues identified can be properly discussed.

ZCEO described these meetings as:

'...sometimes humdrum but central to our governance process because it is where directors discuss the day-to-day issues of running the charity and decide on the best course of action to achieve our goals.'

The Annual General Meeting

In Charity Z the AGM is treated as a celebration of a year's continued delivery of services to its clients. ZTF1 describes the purposes of the AGM:

'At each AGM we celebrate team effort ... It is an opportunity to acknowledge the various contributions from staff, the Board and the funding agencies. Although serious business has to be dealt with... such as the approval of the Annual Report and Accounts ...we create a celebratory atmosphere to which former and current users of our services, partner agencies are invited...'

The Extraordinary General Meeting

ZTM3, who has served the charity for close to 20 years, commented:

'...Charity Z has never had an EGM. Our governance arrangements are simple and straight-forward with all issues dealt with at the AGM...'

EGMs are held for the consideration of non-recurring business that requires approval by the Board and members between AGMs. A typical, non-recurring business would be effecting alterations to a charity's M&A. The non-convening of an EGM, as highlighted by ZTF1, further confirms the simplicity of Charity Z's activities and procedures.

6.3.5 Risk management

The directors in Charity Z focus on identifying what could go wrong, evaluating which risks are significant and should be dealt with and implementing strategies to deal with them. The procedure used to manage risks in Charity Z is its corporate risk register. The Chief Officer prepares a comprehensive list of risks sub-divided into operational (associated with the charity's operational and administrative procedures) and financial (associated with income and expenditure structure, procedures and systems). A draft register is checked by the Chair before it is presented to the Board for approval. ZTF3 gives an overview of the processes:

'In February, just before the start of the new financial year, the Chief Officer prepares the first draft of risks for directors to consider. The Chair checks for completeness before they are presented to the Board... A register is then prepared by the Treasurer which is then examined every year...'

Although a risk register is prepared and reviewed every year, participatory observation of the processes during two meetings when the register was tabled as an agenda item in 2008 and 2009 reveal a perfunctory, cursory examination by the Board. Directors appear to rely on the Chair to conduct a more detailed assessment of the risks. This action is indefensible in view of The Good Governance Code (2005, p. 10) which requires:

'The trustees to be individually and collectively responsible and accountable for ensuring and monitoring that the organisation is performing well, is solvent, and complies with all its obligations.'

6.3.6 Financial management

ZTF1 describes some aspects of the financial management processes in Charity Z:

‘...we keep the accounts on Sage Line 50. Every month I prepare actual to budget report for the Chief Officer every month and a bi-monthly budgetary control report for the Board. These reports are extracted from the ledger accounts in Sage... I produce a draft annual budget for the charity in February which is discussed and approved by the board. This budget is based on number of services we hope to deliver in the new financial year. We use the Charity Commission publication, *Internal Financial Controls for Charities*, which sets out how to achieve effective internal controls. These processes protect against fraud, negligence, violation of financial rules and losses of assets or money...’

Table 6.2 highlights some of the financial controls in situ within Charity Z.

Table 6.2
Some Financial Controls - Income and Expenditure

Area	Main controls on:	Detailed tasks
Income	Postal receipts	Post being opened at the earliest opportunity and in the presence of two responsible people.
	Gift Aid schemes	Regular checks against records to ensure that expected funds have been received and all reclaimable tax obtained from HM Revenue and Customs.
	Banking and custody	Incoming receipts banked day received and bank reconciliation done every month.
Expenditure	Purchases	Invoices checked against orders.
	Payment by cheque	Every cheque is signed by two approved signatories and regular spot checks conducted of expenditure against primary documents such as bills and invoices.
	Payment by petty cash	Payments made from cash float for expenditure under £20.00.
	Wages and salaries	Directors ensure that employees have a proper contract of employment and that individuals are not incorrectly classified as self-employed. Salaries paid by BACS transfer to a bank account.

These controls outlined by the Treasurer demonstrated good practice with basic internal controls in place. However, there are a few drawbacks: no segregation of duties in the budget preparation process; the maintenance of books of account and the payment of expenditure. These tasks are being done by the Treasurer which is open to errors and possible abuse. The directors are aware of this anomaly although rationalise that the Chief Officer has access to, and works on, the various finance files whilst bank statements are addressed both to the Chair and Secretary of the Board who conduct spot check on bank transactions listed.

6.3.7 Performance targets and measures

Charity Z has developed various performance metrics to assess performance in key areas of operation and financial governance. Table 6.3 presents some of the measures deployed.

Table 6.3
The Main Performance Measures

	Main area:	Measures	Details
Acquiring resources	Voluntary income	Budget set and level of variance	Actual % achieved
	Grant income	Service level agreement and variance of referrals	Actual % achieved. Variance levels
	Investment income	Budget set	Actual % achieved
Mobilising resources to achieve desired outcomes	Charitable activities undertaken	Service users helped. Repeat sessions	Numbers helped %. of repeat sessions
	Fundraising expenditure	Budget set and level of variance	Actual % achieved. Variance levels
	Administration costs	Budget set and level of variance	Actual % achieved. Variance levels

ZCEO said:

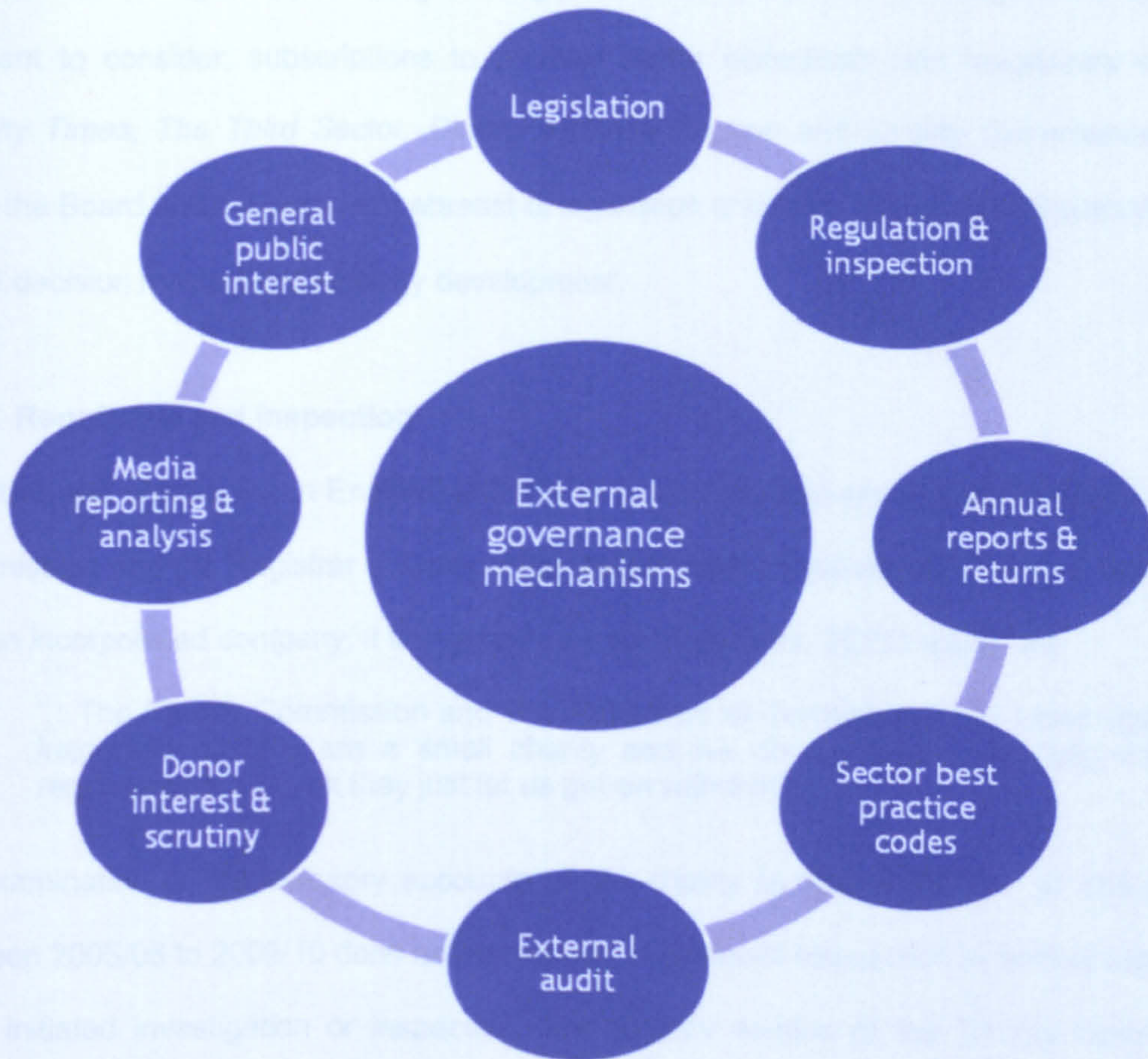
‘...we have kept our measures simple and meaningful as experience has taught me that complexity in performance management systems in small and medium sized organisations can stymie enthusiasm and hold up progress... The directors and I have cultivated a performance culture... I discuss service outturns and issues of underperformance in supervision meetings with psychotherapists and administrators.’

The table of measures and comments presented show that the Board and Chief Officer want to know whether targets and budgets are being met. The limitation of this system, however, is its failure to look at the non-financial elements of operations and the link of measures with the charity’s objectives. Proponents of effective governance recommended an integrated approach to performance management (Vinten, 1997; Garratt, 2003; Cornforth, 2005).

6.4 External mechanisms

In addition to the internal mechanisms discussed in section 6.3 is another group of governance controls, the external mechanisms. They are exercised by external stakeholders to bring their interests and the aims and objectives of the charity into congruence. Figure 6.3 presents the relevant configuration in Charity Z.

Figure 6.3
External Governance Mechanisms



This mechanisms will now be discussed.

6.4.1 Legislation

Charity Z started receiving quarterly press release and bulletins from their auditor's legal branch in 2006. These bulletins summarise, among other things, recent legislation that impact the sector. These press releases and bulletins are circulated to directors by the Chief Officer to raise awareness of various legal developments in fundraising, operations and governance.

ZCEO explains the impact of the press releases and bulletins:

'...the directors and I find the coverage of news and issues affecting the voluntary sector a window into what is happening in the charity world. The issues discussed sometimes influence our planning...topics in functional areas such as fundraising, communications and management interest me. The directors also find governance topics useful as they are presented in bite-sized chunks. ...the Chair highlights significant issues raised in the bulletins during the AOB spot in the meetings...'

Raising awareness of contemporary issues in the charity sector by the Board is essential for effective governance. Nonetheless, after scanning the press releases and bulletins over a

two-year period, it was observed that the topics are narrowly covered and, moreover, geared towards advertising and promoting the legal services of the firm. Although there is a cost element to consider, subscriptions to premier sector periodicals and magazines such as *Charity Times*, *The Third Sector*, *Charity Finance Engage* and *Charity Governance* would keep the Board and management abreast of legislation and other governance issues that may affect decision making and strategy development.

6.4.2 Regulation and Inspection

Charities and companies in England and Wales are supervised and regulated by the Charity Commission and the Registrar of Companies, respectively. However, as Charity Z is a charity and an incorporated company, it is regulated by both agencies. ZCEO explained:

‘...The Charity Commission and The Registrars of Companies have never visited nor inspected us. We are a small charity and we do our best to comply with their requirements...I think they just let us get on with things...’

An examination of the statutory accounts of the charity by the researcher for the periods between 2005/06 to 2009/10 does not reveal any exceptional transaction or activity that would have initiated investigation or inspection. The registry section of the Charity Commission website also confirms annual returns and accounts from Charity Z were consistently filed on time. The timely filing of returns corroborates assertions made by the Chief Officer regarding compliance with regulatory guidelines to avoid fines and sanctions levied for late submission of statutory documents.

6.4.3 Annual reports and returns

All registered charities are required to prepare the Trustees' Annual Report and those with a gross income exceeding £10,000 must file this report with the respective charity regulator in their geographical area. The basic contents of the annual report are mandatory, though smaller charities which are not subject to statutory audit are not required to provide as much information as larger charities which are legally required to have an audit.

Charities are contacted by the Commission shortly after the end of their financial year and invited - depending on their income - to complete either the Annual Update form or Annual

Return. Charities with a total income exceeding £10,000 are required to complete and surrender the Annual Return and those below that threshold file a simpler return called an Annual update. The Board is under a legal duty to complete and file the Annual Return to the regulators to enable them to review the documents and maintain up-to-date information on the Register of Charities.

However, Chapman (2010, p. 2), a senior official from the Charity Commission, offers a reality check on the capacity of the English and Welsh charity regulator:

'We could spend all our time looking at charity accounts, but this wouldn't be the best use of our resources. In the first instance it's the responsibility of charity trustees to prepare accounts and an annual report which explains to their beneficiaries, and the public more generally, how they have spent their money. By publishing these accounts and information about public benefit on our website, we encourage the public to question, challenge and make choices about the charities they support. We do, of course, scrutinise accounts if we have concerns about a charity and we can follow up any issues that people bring to our attention...

Making information about charities accessible to the public on our register is vital, and yes, that will expose the bad and the ugly of the sector as well as the good... This is how open and transparent regulation works, and this increased exposure of information will, we feel, encourage better practice across the board.'

The above is an honest confession that regulators cannot do everything to foster effective governance. It is up to stakeholders of the charity to closely monitor, analyse and evaluate performance and activities of the Board, management, staff and volunteers. Apart from the local authority, a major funder that requests regular performance statistics, the other stakeholders in Charity Z hardly ever exercise their right to scrutinise operations.

6.4.4 Sector best practices codes

Best practice codes are usually issued by an official body setting out guidelines to help members of this body operate efficiently and effectively. In the first-ever comprehensive set of standards published in the UK for voluntary and community organisations, Peacock (2005, p. 6), Chair of the Charity Commission, made the following comments:

'Charities exist to create a better society. They operate for a vast range of purposes, and in many different ways, but each is united by a commitment to voluntary action and a desire to make the world a better place...

One of our jobs as regulator to the sector is to encourage charities to adopt good practice in governance. Adopting good practice can help charities keep pace with changes and make them more effective where it really counts – in helping the people they were set up to benefit. We have worked with our voluntary sector partners to

develop this code of governance. It has been produced by the sector, from the sector and for the sector. The code provides a flexible...framework for charities; ...common standards to which all charities should aspire, with higher expectations...'

The Good Governance Code (2005) prescribes key seven principles of good governance (sections 2.4.10 and 2.4.15). Although it was widely publicised when published in the UK in the mid-2000s the leadership of Charity Z has never used this document to strengthen governance processes. ZTM2 and ZTM3 said the following respectively:

'I am not aware of the existence of The Good Governance Code for charities... The Chair has never made reference to it in any of our meetings.'

'...I have been caught out here. I should know about this but honestly have never heard of this standard... but will ask the Chief Officer for a copy...'

This lack of knowledge and non usage of the Code is not unique to the directors of Charity Z as was seen in the other two charities. The directors have only given cursory attention to critical elements of governance as demonstrated in their review of topics covered in the press releases and bulletins (see section 6.4.1). This is a sad indictment on the part of the directors but equally appalling to the regulators and advocacy agencies who published the Code!

6.4.5 External audit

Even though it has annual income below £500,000 (see Table 6.4) Charity Z has opted for an audit. This decision is justified by comments made by ZTF1:

'At the last negotiation of the Service Level Agreement in 2002 our primary funders, the Mental Healthcare Team, requested we opted for a full audit rather than an independent examination of our accounts... All organisations receiving funding from Social Services are required to submit audited accounts with a grant application...'

Table 6.4
Income Generated between 2005/06 and 2009/10

Year ended:	Income generated:
31 March 2006	£112,000
31 March 2007	£107,000
31 March 2008	£120,000
31 March 2009	£115,000
31 March 2010	£118,000

A review of the charity's audit reports between 2005/06 and 2009/10 shows that the financial statements were prepared in line with the Charity SORP (2005) and did not receive any qualification. However, in 2006 the management letter, (a document listing areas of concern

prepared by the auditors after an audit) listed the lack of segregation in the duties of the Treasurer as a systemic weakness in the charity's financial processes.

6.4.6 Donor interest and scrutiny

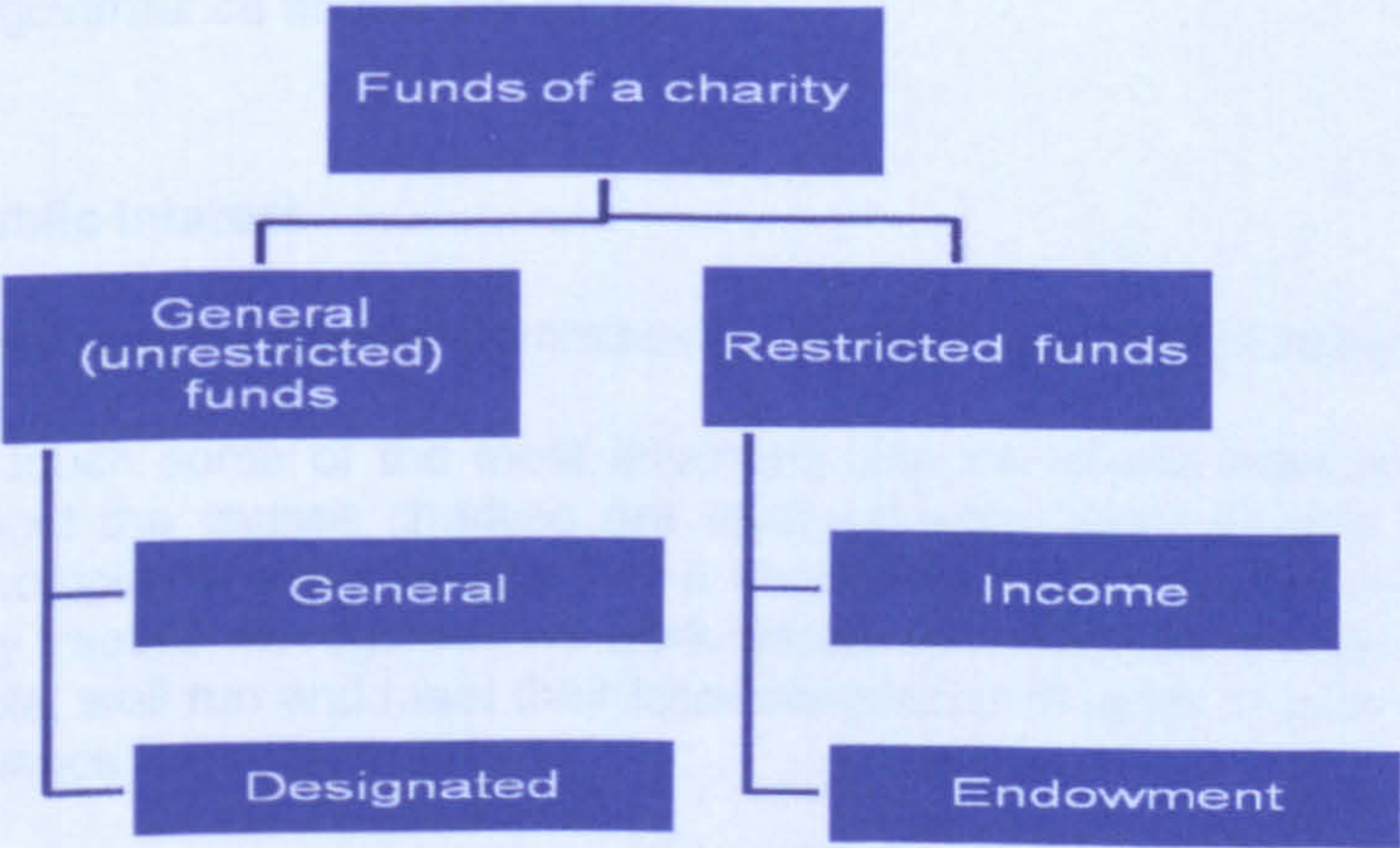
Donors who give to charities expect their moneys to be spent properly. Unfortunately, this does not always occur according to Walker (2004, p. 4), who speaking on the topic said:

‘Correcting and preventing bad practice is down to good governance, with a responsibility on auditors as well as trustees to ensure this happens...’

Donors can play a critical scrutiny role in ensuring that funds are used for the purposes for which they were received. The SORP 2005 (p. 10) accounting guidelines recommends, ‘charities to (i) account for proper administration of funds under their control; and (ii) provide a summary differentiating in particular between the unrestricted income funds, restricted income funds and endowment funds in accordance with the terms stipulated by the donors.’

The funds of charities (Figure 6.4) fall into two categories; general and restricted funds depending on donors' expressed terms. Unrestricted funds (also called general funds) can be spent on any of the objects listed in the governing document. These funds can be sub-divided into general and designated funds (earmarked for a particular purpose in the future). Restricted funds, however, can only be used for specific purposes. There are two forms of restricted income; endowments (the capital fund are held in perpetuity but income from it can be spent) and income for specific projects, services or activities of the charity

Figure 6.4
Types of Charity Funds



Adapted from SORP 2005 (p. 11)

The primary source of income generated by Charity Z is grants from local authorities which, represent restricted funds to finance provision of clinical mental health services and administration. Over the period reviewed for this thesis (2005/06 to 2009/10) the restricted funds on the balance sheet of the charity were between 90% and 95%.

ZTF1 explains treatment of restricted funds:

'We are under obligation to use this fund specifically for the purposes and terms it was received. Our auditors perform checks to verify correct treatment...'

The comments above confirm that the Board strives to comply with donors' wishes which demonstrate effective financial governance.

6.4.7 Media reporting and analysis

The executive editor of *The Guardian* made the following comments in the company's 2009 Sustainability Vision statement:

'The Guardian has a clear purpose...the pursuit of social justice. We will therefore build on our position as a recognised leader in the reporting of environmental and social justice issues...coverage of...social inequality.

These topics will be explored from the social, economic, political and scientific perspectives, both nationally and globally. We will promote public debate and harness the power of our readers and users by creating online tools and projects that give them the opportunity to share knowledge and ideas, as well as encouraging them to make a difference, both as individuals and within their communities... Social justice has always been at the heart of our journalism and we will consistently give a voice to ...communities around the world ...'

The above statement from a reputable media organisation suggests that the work of charities and other social enterprises will continue to be analysed and reported which can only serve to promote effective governance across the sector.

6.4.8 General public Interest

The complaints section of the Charity Commission's website state the following:

'Charities touch some of the most important aspects of our lives and people care deeply about the causes charities are involved with. This can give rise to a wide range of complaints when people feel a charity is acting wrongly, or feel they have been badly treated. As regulator we work closely with charities to ensure that they are accountable, well run and meet their legal obligations in order to promote public trust and confidence.'

ZTF2 explains the position of the charity regarding the public interest:

'...we operate under the goodwill of the public and owe our very existence to the continued support of the generous British society. The complaints policy and procedure introduced in 2007 give the public an opportunity to let us exactly what they think about the work we do and the way we do it...'

The charity complaints system, discussed below in section 6.5.1, gives the charity an opportunity to put right mistakes made. This can lead to better governance. However, in extreme cases when the complaints system fails, sanctions are available for regulators to penalise defaulting charities for serious misconduct ranging from referring criminal offenses committed by directors and managers to the police for investigation and possible prosecution, to closure of the charity.

6.5 Governance opportunities and achievements

6.5.1 Publication of complaints policy and procedure

After several delays and cancellations the charity has finally published a complaints policy and procedure to engage unhappy service users. ZCEO explains the process:

'...there are three stages that you can go through to try and resolve a problem:

- (i) Stage 1 - Informal.
Service user to speak to the staff or volunteer concerned or their line manager and try to resolve the complaint locally and informally;
- (ii) Stage 2 - Formally registering a complaint.
If service user is not satisfied with the response he/she have received at stage 1 he/she can then use stage two of the procedure by sending a letter, fax, email or audio-device to the Chief Officer;
- (iii) Stage 3 – Appeal
If he/she are still not satisfied with the response to your complaint then complainant can outline the reasons for dissatisfaction by letter, fax, email, or audio device within seven working days of receiving it to the Chair of the Board...'

This process is expected to improve engagement with unsatisfied clients as it gives the complainants the ultimate option of resolving grievances with the Board. ZCEO said in May 2010:

'Since we introduced the complaints procedure in March 2009 we have only received three letters of dissatisfaction from clients who were not happy with the number of weeks they have to wait for the first appointment and between therapy sessions ...'

This procedure provides a mechanism which handles complaints constructively and impartially to improve governance relations with stakeholders. However, the Board must work to minimise the number of complaints from its clients by meeting the needs.

6.5.2 Collaboration with partner agencies

The Board decided in 2007 in its Partnership Governance Framework to share the charity's clinical expertise in psychotherapy with partner agencies in London. The first output of this project has been the recording of a DVD on mental health subsequently circulated to health professionals, local politicians and policy makers. It received critical acclaim from professional organisations and increased the profile of the charity. A mental health nurse said:

'The consultant psychiatrist used your DVD in a training session for mental health nurses... My colleagues and I (veteran professionals) are very impressed with the issues discussed, practical solutions offered to the everyday problems we face. We will support your charity and promote the DVD at our national conference next week.'

The Chief Officer also chaired a mental health group which has developed a pan-London policy to lobby and influence central government departments on mental health issues. The dividend from this participation was the recruitment of a director who will steer the charity's fundraising activities. ZCEO explains:

'Working with partner agencies has raised the profile and prestige of the charity... One of the delegates who attended the group meeting I chaired was interested in our work and introduced her friend to me. The friend has worked for an international charity in Italy and has extensive fundraising experience...'

6.5.3 Embedding principles of recent legislation

For governance to be effective charities must operate within specific legislation in their area of operation. In 2009 Charity Z completed full introduction and embedding of good practices proposed in the Mental Capacity Act 2005 and the Mental Health Act 2007. This covered:

- (i) Protection of vulnerable people who are not able to make their own decisions; and
- (ii) Extending the powers of an attorney to make decisions on a client's health and welfare.

ZCEO described the completed project with relief when she said:

'It was a massive piece of work but we now comply 100% with the Mental Capacity and Mental Health Acts... Only a few charities in the UK so far have completed this project.'

6.6 Current governance challenges

6.6.1 Compromise in financial governance

In Charity Z the failure to segregate the duties of the Treasurer presents a material weakness in internal controls. Although it is a small charity with a limited number of people with financial

management experience, one director should not be able to produce financial policies and set budgets, implement and monitor them and report on the effectiveness of the various systems.

Basic segregation of duties is one of the most powerful controls in organisations since it ensures that errors or irregularities can be prevented or detected in the normal course of operation. The separation of responsibilities can also prevent fraud because it requires collusion with another person to perpetrate a fraudulent act. Therefore, some of the tasks currently undertaken by the Treasurer: authorisation, custody, record-keeping and reconciliation as discussed section 6.3.2 can be shared by someone like the administration manager to avoid systemic control risks. The small saving in expenditure does not warrant exposing the charity to such a risk.

6.6.2 No board review and renewal

As discussed in section 6.3.10, the updated Good Governance Code 2010 (p. 10) requires:

‘The board to periodically review their performance both as individuals and as a team and take necessary steps to ensure that they continue to work well...’

The Board has failed in this critical area of responsible governance. The economic and regulatory environment is fast changing and the charity has a responsibility to regularly evaluate its way of working and consider if it can be done better. The board is expected to reshape the organisation to cope with its external and the internal environment. Therefore, the introduction of a review and renew strategy and policy in Charity Z can lead to a rejuvenated and innovative environment. The renewal and review processes can help the charity to:

- (i) Assess its strengths and weaknesses and identify skills gaps and weaknesses;
- (ii) Uncover performance problems with an individual director;
- (iii) Understand where it is making a difference;
- (iv) Align objectives with strategic direction;
- (v) Identify synergies and dysfunctional relationships;
- (vi) Strengthen present board and management capacity to meet future challenges by having and reviewing a succession planning strategy and policy; and
- (vii) Ensure that it is fulfilling its role and concentrating on the right issues.

6.6.3 Failure to use technology to drive governance and clinical processes

Charity Z has not ventured into the electronic age nor utilised modern technology to realise productivity and efficiencies in its governance, clinical and administration processes. Its web presence on the Internet is very basic and does not offer any interactive opportunity to engage clients and other stakeholders to improve governance and operations.

Although there are cost implications, Charity Z needs to plan for and implement computer technology to improve its predominantly manual administrative processes and systems. Presence on the Internet with information on financial and operation performance such as the annual reports published online can foster a transparent and accountable environment.

6.6.4 Reliance on a single, major funding agency

Although the main funding body is a public sector agency, stability of tenure for the charity being reliant on one funder for over 80% of its annual income is not sustainable in the long-term. Severe cuts in local authority funding from central government is expected as the government reduces the public deficit after a hard-hitting recession. Any fall in local government funding plus caps on council tax will impact their ability to maintain the same levels of financing voluntary and community organisations such as charities. As public sector cuts take effect in the UK Charity Z has to adopt a strategy to diversify its income streams away from reliance on one major public sponsor. This will not be easy and will take some time to realise through proper planning. Failure to execute such a plan to deal with the current fiscal realities may affect the longevity of the charity.

6.6.5 The liability of smallness

Charity Z suffers from the following limitations by virtue of its structure and size:

- (i) Limited resources (finances are insufficient to achieve all of its goals and objectives);
- (ii) Lack of a varied set of skills on the Board. Although the Board has a varied 'skills set,' the charity has suffered from the absence of a director with fundraising experience;
- (iii) Underdeveloped staff potential. Continuing personal and professional development receives low priority in the allocation of funds when budgets are set;

- (iv) The Chief Officer has to plan and implement these plans in addition to her role as a practising psychotherapist. This leaves her with little time to consider other operational issues affecting the charity which may directly affect governance processes;
- (v) Lack of succession planning. The Chief Officer has been with the charity for over 18 years and the Chair has been in post for close to 15 years. Both are in their 60s but the charity has not developed a succession planning policy or procedure. This situation will become critical in a few years and needs attention as it can affect overall governance.

6.7 Key recommendations to improve effective governance

The following is a summary of key recommendations to improve the governance practices, systems and arrangements of Charity Z:

Organisation structure and strategy

- Codify and communicate mission, vision and values of the charity;
- Develop long-term strategy to ensure 'going-concern' status of the charity;
- Develop and implement volunteers' policy; and
- Increase the number of volunteers to reduce waiting list.

Internal governance mechanisms

- Revise M&A to bring governing document in line with current legislation;
- Streamline duties of Treasurer so that internal controls are not compromised;
- Diversify income streams to avoid reliance on a single funding agency;
- Introduce and implement review and renewal policy and procedures;
- Establish succession planning for key governance players.

External governance mechanisms

- Implement main recommendations of Good Governance code 2010;
- Identify, recognise and engage stakeholders; and
- Introduce and implement corporate responsibility policy and procedures.

6.8 Summary and conclusion

Despite having a stable Board with an avuncular Chair there are only a few instances of internal governance best practice in Charity Z. Even with regular press releases and bulletins on charity governance and operational matters, the staid attitude of directors and the Chief Officer have prevented them keep from keeping abreast with provisions of the Good Governance Codes of 2005 and 2010. The directors must treat effective governance as a partner in competent management to provide able leadership to the charity. Governance in the charity has to be refined, improved and adjusted to meet internal and external organisational needs. As highlighted in section 6.6.4, the financial dependence on a local authority which has had its budget severely cut recently, the absence of routine policies and processes, and the failure to embrace modern technology pose many challenges and threats which should be swiftly considered, analysed and resolved to avert a crisis. Discussions at several board meetings immediately after the interview phase of this research suggest that the interview questions challenged the directors' view of the charity's current condition. The Chair and Chief Officer have received the approval of the board to use these recommendations to help them improve governance practices.

The themes and patterns highlighted in this and the previous two chapters will be cross-analysed in next chapter to highlight similarities and differences in the three charities investigated.

CHAPTER 7 – CROSS-CASE ANALYSIS

7.1 Introduction

This study seeks an increased understanding of effective charity governance by investigating three UK registered charities. Two forms of understanding, intra-case and cross-case analysis, have been used to present the substantial findings from the cases. These findings provide insights and greater understanding of the factors and mechanisms that can contribute to effective governance in charities. In the preceding three chapters the intra-case analysis of the governance arrangements of each charity were presented. This chapter now presents a cross-case, composite portrayal, analysis and synthesis of the themes and categories of the governance phenomena identified across the three charities. The primary aims are to:

- (i) Compare and contrast the various governance mechanisms employed within each charity; and
- (ii) Identify the similarities, differences and emergent principles that give further insights to the intra-case analysis in Chapters Four, Five and Six.

The cross-case comparison is expected to give further confidence to the initial insights generated from the intra-case analysis. When patterns emerge in one charity and are supported by processes and arrangements in another, the findings increase confidence in their validity. For the comparison to be as comprehensive as possible the analysis are based on the conceptual framework developed and described in Chapter Two (section 2.8).

This chapter has, therefore, been structured as follows. This first section introduces the concept of cross-case analysis, discusses its purpose and outlines the structure of the chapter. Section 7.2 presents a cross-examination of the elements of organisation structure and strategy. In sections 7.3 and 7.4 the categories and patterns that emerge within internal and external governance mechanisms across the three charities are analysed and synthesised to highlight their key similarities and differences. Finally, in section 7.5 a concluding summary of the charities is presented with recommendations, and five emergent principles of effective charity governance developed from empirical evidence presented in Chapters Four, Five, Six and Seven and the literature in Chapter Two..

7.2 Organisation structure and strategy

An appropriate alignment between strategy and structure is needed to enhance organisation effectiveness (Dressler, 2004). Table 7.1 compares the elements of organisation structure and strategy in the three charities.

Table 7.1
Elements of Organisation Structure and Strategy

	Charity X	Charity Y	Charity Z
Vision statement	Inspirational, realistic and understandable.	Practical description of desired future state of housing and social services in London.	No vision statement crafted. The vision of the charity is taken as the objectives in the M&A.
Mission statement	Brief, lucid statement covering the substance of who they are, what they do, whom they serve and how they serve.	Clear description of the fundamental purpose for existence.	No mission statement crafted. Objectives in M&A are considered as the mission of the charity.
Values statement	Vivid articulation of core priorities in the charity's culture which is reflected in its services/activities.	Declaration of central principles within which charity conducts itself to achieve vision.	No values statement codified.
Objectives	Relief of distress and suffering of persons with a skin condition	Supporting families through their crisis of homelessness until they are settled in a permanent home	Psychotherapy treatment to bring relief to people with emotional and psychological difficulties
Legal structure	Registered charity and incorporated company limited by guarantee	Registered charity and incorporated company limited by guarantee	Registered charity and incorporated company limited by guarantee
Age	25 years	25 years	Over 45 years
Size (based on DBIS thresholds)	Small organisation	Small organisation	Small organisation
Staff and volunteers	4 part-time, 1 full-time staff and 76 volunteers	21 full-time staff and 34 volunteers	7 part-time staff and 10 volunteers
Geographic scope	England, Wales, Scotland and Republic of Ireland	Greater London	Greater London and northern Home counties

The next sections will compare and contrast each aspect presented in Table 7.1.

7.2.1 Vision, mission and values statements

Charities X and Y have established a strategic framework by articulating their vision, mission and values statements (sections 4.2.3; 5.2.3). On the other hand, the Board of Charity Z does not consider these statements necessary. One of the directors, YTF2, said:

‘We do not consider these statements necessary for a small charity like ours...’

However, the absence of a strategic plan during the documents review phase of the study suggests that this failure to capture the charity's *raison d'être* and a vision of its future has resulted in lack of focus on direction. This was also demonstrated during directors' meetings by the absence of short-, medium- or long-term business plans preventing the exploration of strategy alternatives. This exposes the short termism which may lead to inability of the Board to deal with 'financial downturn' in the economy. For several years Charity Z has operated on a year-to-year basis without a specific strategy. When vision is articulated and communicated, mission agreed by stakeholders and the values that underpin operations set out (Fishel, 2008) - as in the case of Charities X and Y - there is usually clarity of focus and direction on which effective governance to be anchored. In essence, when the Board is focused on 'where they are going' – the mission statement and 'how and when they will get there' – the values and vision statements respectively – the charity is more likely to achieve its objectives set in its M&A, the governance processes can be considered effective (O'Gorman and Doran, 1999). The Vice-Chair of Charity X, XTG2, captured the essence of strategic planning when he said in at a meeting:

'Developing a business plan has enabled us to identify and take control of operational problems, consider various opportunities and deal with potential bottlenecks...'

Charities X and Y are well positioned to achieve their objectives although Charity Z needs to map out a short-to-medium term strategy to avoid both mission and vision 'drift,' which may cause possible breakdown in governance. However, it is essential to note that the 'direction of travel' must be operational otherwise it becomes just good intentions (Drucker, 1992).

7.2.2 Historical and legal structure, objectives, staff and volunteers

Charities X, Y and Z have the same legal structure as incorporated companies limited by guarantee. Most charities have opted for this legal formation as limiting the liability of directors/trustees and members in the event of insolvency. This protection under law encourages potential trustees to put themselves forward with the peace of mind that they will not be held personally liable for debts of the charities they offer to serve.

Although the three charities operate in diverse areas of the third sector, the objectives set in their M&As meet the public benefit criteria required by the Charity Commission and fall within the 12 charitable purposes of the Charities Act 2006 (Appendix B). Nonetheless, the M&As of the three charities, which were prepared before the Charities Act 2006 Act and Companies Act 2006 became law, require updating to bring them in line with current legislation.

As Table 7.1 shows, there is a wide disparity in the number of staff employed and volunteers recruited across the three charities. The small establishment of staff has adversely affected effective operation and may explain why Charity Z continues to suffer from a year-on-year rise in its clients' waiting list. A workforce plan can be prepared to determine staff and volunteer requirements to ensure effective working arrangements.

7.2.3 Age, size and geographic scope of operation

Although Charities X and Y have only been in operation for 25 years, Charity Z has operated for over 40 years. Despite this longevity, Charity Z has relied on a single funding agency and operates on a 'subsistence' basis making it vulnerable in the medium-to-long term. Although the other two charities have had financial and governance problems they have consolidated their positions over the years and can be regarded as going concerns. As Table 7.2 shows, the three charities can be classified as small enterprises based on gross turnover, gross assets and number of employees under the Companies Act 2006. However, figures on gross annual turnover and number of employees show Charity Y is the biggest of the three.

Table 7.2
Comparative Size of Charities X, Y and Z

	Companies Act 2006 threshold	Medium or small enterprise	Charity X 2009/10 Out-turns	Charity Y 2009/10 Out-turns	Charity Z 2009/10 Out-turns
Gross annual turnover	£25.9m or less	Medium	£150,000	£345,000	£95,000
	£6.5m or less	Small			
Gross assets	£12.9m or less	Medium	£120,000	£110,000	£100,000
	£3.26m or less	Small			
Number of employees	51-250	Medium	5	21	7
	50 or fewer	Small			

Adapted from DBIS (2010)

Unlike Charities Y and Z which operate in south-east England, Charity X is a national organisation with an Area Support Group based in Dublin to cater for Irish members and sufferers. Apart from Charity Y (section 5.2) the other two charities have appropriate structures to operate efficiently and effectively across their geographical boundaries.

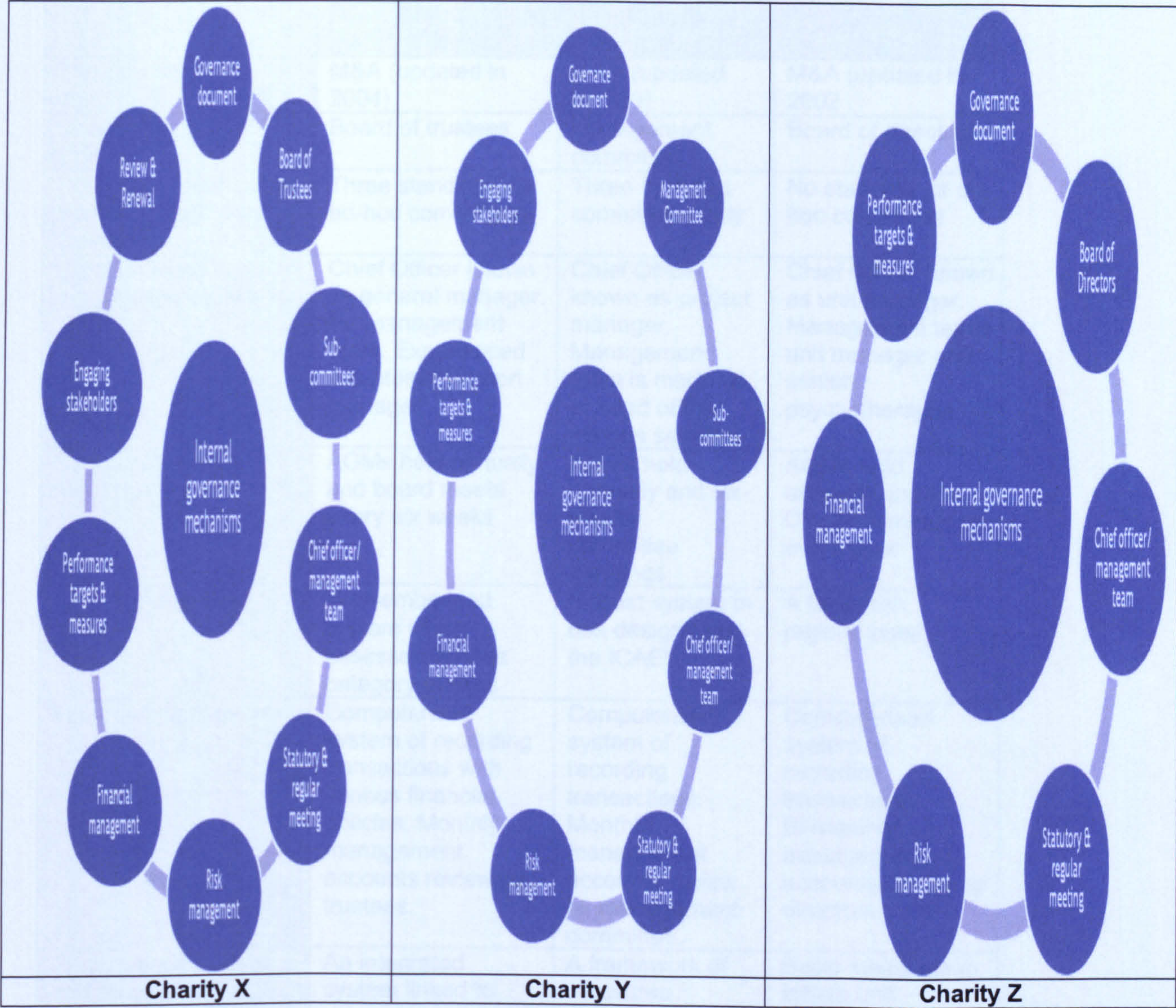
7.2.4 Summary

Although Charity Z is the oldest of the three organisations it lacks a clear definition of its 'direction of travel.' This confirms the 'on-going' short-sightedness of its Board. The M&As of the three charities have served their useful lives and need to be updated in line with current legislation. Failure to do so may lead to breakdown in the compliance and affect governance effectiveness. As mentioned in section 5.2.1, the expensive, onerous structure of Charity Y needs to be reviewed and redesigned to enable the Chief Officer to better manage her staff and volunteers, be effective, and achieve the objectives set in the charity's business plans. In comparison, Charities X and Z have simple structures. The discussion in sections 7.2.1 to 7.2.3 demonstrates Charity X has an adequate organisation structure and strategy to achieve effective governance but Charities Y and Z need to address several issues around organisation structure and strategy which have been discussed in sections 5.2 and 6.2 and summarised in Appendix I.

7.3 The internal governance mechanisms

Across the three charities internal governance mechanisms are critical control devices that assist charities and other third sector organisations to achieve this dimension of effective governance. Figure 7.1 presents a cross-case comparison of the various internal governance mechanisms deployed in Charities X, Y and Z.

Figure 7.1
Cross-Case Comparison of Internal Governance Mechanisms



In Charity X, ten internal governance mechanisms have been deployed. However, Charity Y has only nine in operation. Finally Charity Z has seven in place. The various modes of deployment and impact of these mechanisms are listed and discussed below. Table 7.3 highlights elements of similarities and differences across the three charities.

Table 7.3
Elements of Internal Governance Mechanisms

	Charity X	Charity Y	Charity Z
The governing document	M&A (updated in 2004)	M&A (updated in 1999)	M&A (updated in 2002)
Board/Management Committee	Board of trustees	Management committee	Board of directors
Sub-committees of the Board/Management Committee	Three standing/one ad-hoc committees	Three standing committees only	No standing or ad-hoc committee
Chief Officer/management team	Chief Officer known as general manager. No management team. Experienced volunteers support manager	Chief Officer known as project manager. Management team is made up of head of the various services	Chief Officer known as unit manager. Management team: unit manager and senior psychotherapist
Statutory/Regular meetings	AGMs held annually and board meets every six weeks	AGMs held annually and six-weekly committee meetings	AGMs held annually and six Directors meetings every year
Risk management	Well-embedded system which assesses various category of risks	Robust system in use designed by the ICAEW	A basic risk register used
Financial management	Computerised system of recording transactions with various financial policies. Monthly management accounts review by trustees.	Computerised system of recording transactions. Monthly management accounts review by management committee.	Computerised system of recording transactions. Bi-monthly management accounts review by directors.
Performance targets and measures	An integrated system linked to strategic planning	A framework of measures	Basic measures to inform unit manager and directors
Engaging stakeholders	Robust processes based on stakeholder classification as primary, secondary and others	A formal complaints process with service users with formal classification of stakeholders for engagement	No classification or engagement of stakeholders.
Review and renewal of the governing body	New system and procedures introduced in 2007	No system in place	No system in place

The next sections will compare and contrast each aspect presented in Table 7.3.

7.3.1 The governing document

All three organisations are registered charities and operate as private companies limited by guarantee. As companies all internal and external relationships of the charities are governed by the respective M&As. The M&As in each case charity have to be revised to incorporate key changes in legislation. Five common changes to the M&As will bring each case charity in line with current legislation: (i) avoidance of conflict of interest situations; (ii) powers to purchase indemnity insurance for trustees; (iii) powers to suspend or remove a board member; (iv) unanimous vote not needed to change M&A; and (v) written resolutions requires a simple majority for an ordinary resolution and 75% of eligible votes for special resolutions. These changes will improve governance arrangements and lead to an environment of effective systems, practices and procedures.

7.3.2 The Board/Management Committee and sub-committees

Charities X, Y and Z are governed by a board of trustees, management committee and board of directors respectively. Although the names of the governing bodies vary, the roles, duties and responsibilities are similar (sections 4.3.2; 5.3.2; 6.3.2). Table 7.4 highlights the main similarities and differences identified in the two boards and management committee.

Table 7.4
Elements of the Governing Bodies

	Charity X	Charity Y	Charity Z
Number of trustees, members and directors	11	9	7
Diversity of governing body	Men: 7 Women: 4	Men: 4 Women: 5	Men: 4 Women: 3
Skills, experience and professional vocational background of trustees, members and directors	HR director, gardener, chartered accountants, medical doctors, retired academic, shipping executive, retired CEO, media analyst	Senior civil servants, chartered accountant, family dentist, local authority housing specialist, driver, pharmacist	Retired medical doctor, retired entrepreneur, chartered accountant, local authority councillor, retired psychotherapist, project manager

Although Charity Y has the highest turnover in financial terms (Table 7.2), it is Charity X that has the largest board. This is due to on-going recruitment and board turnover problems suffered by Charity Y (section 5.6.1). Charity Z has the smallest board due to its simple

structure, less-onerous agendas and uncomplicated governance arrangements. It is, however, critical that governing body should be big enough to provide the necessary skills, knowledge and experience to lead the organisation, but not too large that decision making becomes unmanageable. A major similarity that stands out in each of the charities is the wide variety of skills, knowledge and experience on their governing bodies. These broad skill and knowledge sets enable trustees to debate issues from a variety of perspectives before decisions are made. The Chair of Charity Y, YTM1, said:

'We are fortunate to have committee members from many professions. We debate the various issues of running the project from a variety of perspectives which enable us to take well-thought-out decisions. This must be good for governance!'

The secretary of Charity X, XTG1, expressed a similar view:

'The trustees on our board are professional experts with many years of experience... They are medical doctors, chartered accountants, HR expert, media analyst... During our six-weekly meetings they discuss and propose solutions to operational and governance problems or know someone who can help us on a *pro-bono* basis.'

In spite of this diversity of skills, knowledge and experience, there is still expertise missing in key functional areas such as marketing, fundraising, information technology and law in Charities Y and Z. By 2009 Charity X had a 'balanced' board with requisite experience and skills to guide governance and meet the charity's objectives. However as at September 2010 only Charities Y and Z had managed to achieve an almost equitable gender schema on their Board. Gender disparity in organisations can deprive them of the unique perspectives and contributions women bring to successful outcomes in governance (Terjesen *et al.*, 2009).

The Governance Hub (2005, p. 11) encourage charity boards '...to delegate parts of its work to others in a clear and practical manner.' Delegations can be made to sub-committees that match board skills to operational and governance priorities. Such delegation allows the workload to be shared and enables trustees with professional expertise to deal with technical issues and recommend to the board options for the charity to achieve effective governance. Charities X and Y have set up sub-committees (sections 4.3.3; 5.3.3) but the work of Charity Z is not considered complex enough to merit delegation to committees. ZTF2 said:

'Committees should only be established if they bring value to the organisation... We can deal with all issues on the agenda during our regular directors' meeting.'

7.3.3 The Chief Officer and management team

Although the Chief Officers have been given different job titles at each charity (sections 4.3.4; 5.3.4; 6.3.3), the post holders perform similar tasks and have comparable responsibilities. The various names assigned to the Chief Officers are not regarded as important so long as operational and governance responsibilities of the office are performed efficiently and effectively. It is worth noting that in all three cases the CEOs are women. The researcher who is a management consultant in the sector has also observed the predominance of women CEOs in charities. The caring disposition of most women may explain this high proportion.

In the case of Charities Y and Z, small management teams support the work of the Chief Officers. Their support covers delivery of the corporate objectives and budgets which can contribute to effective governance and day-to-day running of the charities. However, in Charity X the structure allows the delegation of duties for arranging activities and functions to leaders in local area groups so the Chief Officer does not require a management team.

7.3.4 Risk, financial and performance management

Charities X and Z use basic risk registers to manage risks (sections 4.3.6; 6.3.5). However, Charity Y has adopted a comprehensive risk matrix system (section 5.3.6) which includes: risk identification, ranking of likelihood and effect of impact; strategy formulation for containment; strategy implementation; and continuous monitoring of strategy. In addition to the risk registers and matrix system, operational and financial controls are deployed to achieve effective financial governance across the three charities in areas such as: child safety (Charity Y) and income, payments, assets and investments (Charities X, Y and Z).

Table 7.5 lists the main elements of the risk and financial management frameworks *in situ*.

Table 7.5
Elements of Risk and Financial Management

	Charity X	Charity Y	Charity Z
Systems, procedures and policies	Robust procedures and systems in place. Records are kept on Sun accounts software	Adequate procedure and systems that meet charity needs. Computerised records kept on Sage Line 50	Basic procedures and systems. Records maintained on Sage Line 50 software
Financial strategy	Strategy developed in 2008 to assess financial needs required to meet objectives and fulfil mission and objectives	Basic strategy agreed at the start of every financial year which guides operations	The Chair and Chief Officer raise funds from institutions and others to meet budgeted expenditure
Internal control and risk management	Controls procedures for cash receipts and disbursements, payroll, grants and assets. Risks are managed by annual review of risk register	Five-point risk matrix developed by ICAEW is deployed to provide assurance goals and objectives are being met	Operational and finance risks are managed through the corporate risk register. Review by directors annually
Statutory audit or independent examination	Trustees have opted for independent examination rather than statutory audits	External scrutiny of financial reports is by statutory audit to meet the requirements of public sector funders	Audit of financial reports undertaken by a firm of accountants as required by a funders
Best practices adopted	The principles of the Charity Statement of Recommended Practice (2005) provides framework for policies and annual reporting	A budgetary control system provides monthly performance reports to the management committee	A set of protocols and procedures has evolved based on recommendations made by the auditors

All of the charities operate integrated and flexible computerised accounting systems. Sage Accounts is used in Charities Y and Z and Sun Systems in Charity X. These systems offer opportunities for users to automate financial processes to achieve efficiency in managing their financial resources. However, Charities Y and Z only use the basic functions of their systems whilst in Charity X the general ledger, purchase, inventory, debt management, fixed asset and member-invoicing utilities are fully deployed. Full utilisation of the functions of the systems can lead to better internal controls, instant access to information to make important decisions, greater control of finances and ultimately effective financial governance. YCEO said:

‘Sage accounts give us greater control over our finances. The system generates credit control report every month which enables the finance worker to chase debtors... I can view the income and expenditure position of the charity and compare them with budgets at anytime... This real-time access is helpful when I get queries from the Chair of the management committee or from the funding agencies...’

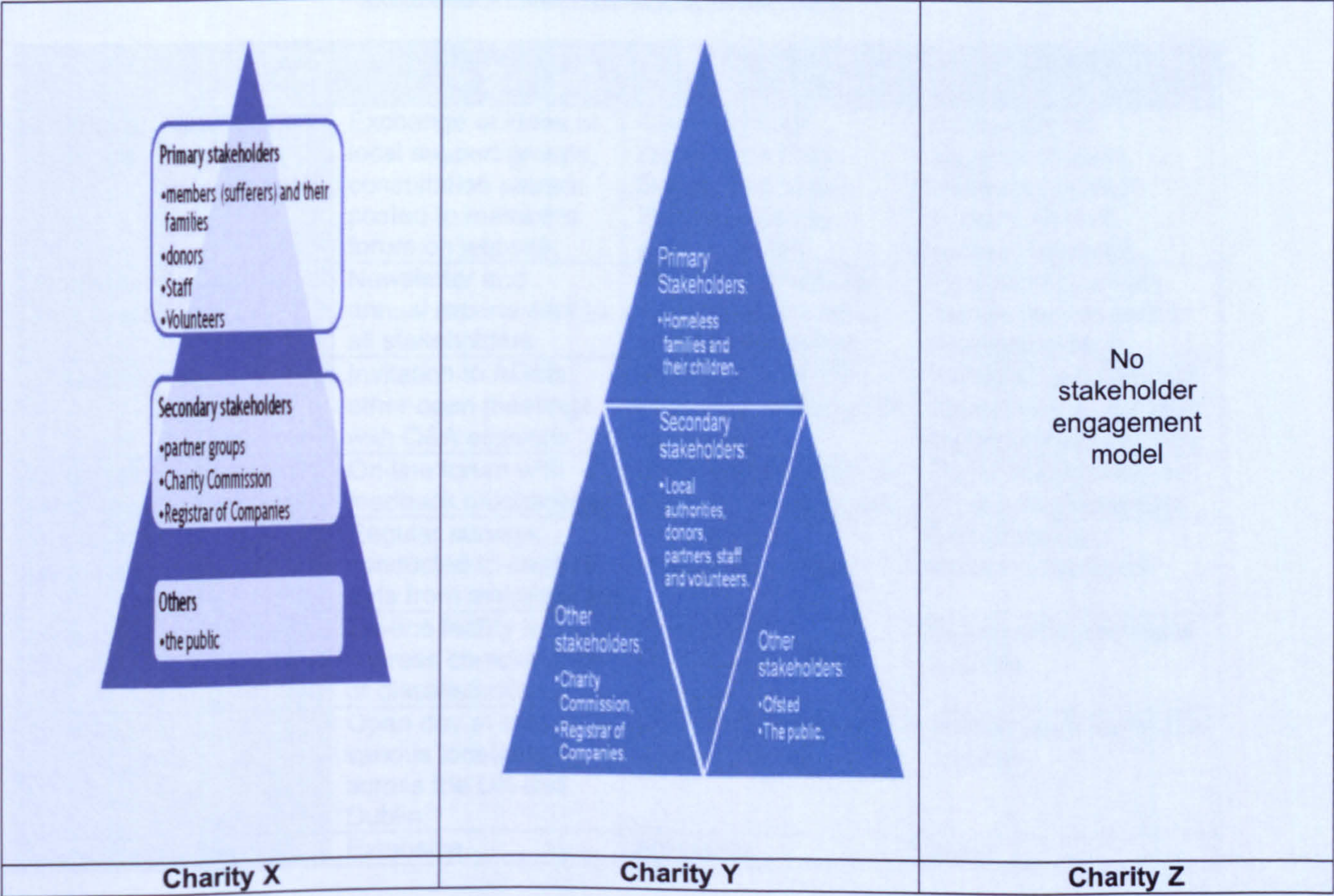
Charities X and Y have developed and implemented more comprehensive financial and internal control procedures and policies than Charity Z, which operates on the basis of rudimentary procedures (sections 4.3.7; 5.3.7 and 6.3.6). With such a mixed background it is important to highlight that in findings from a public attitude survey conducted by the Charity

Commission (2003), donors expressed preference for charities with clearly defined financial procedures and policies as they promote transparency and encourage accountability.

7.3.5 Engaging stakeholders

Charities X and Y have classified their stakeholders as primary, secondary and others (sections 4.3.9; 5.3.9). Service users are categorised in both charities as primary stakeholders as the group most vital to their organisations and whose continuing participation the charity cannot survive without. This typology is important in their respective governance arrangements since service users are highlighted in the ‘objects’ section of the two M&As as the primary reason for the formation of the charity. These classifications have enabled respective boards to improve governance relationships. Charity Z has not developed their own model because the directors and the Chief Officer do not consider it necessary. This may explain the present, poor stakeholder relations. Figure 7.2 presents the two models developed to engage stakeholders.

Figure 7.2
Key Features of Stakeholder Engagement Models



This difference in categorisation was explored with the two chairs. They justified their position in the following statements. XTF2 said:

‘The Commission is one of our important, active stakeholders... We operate under their auspices. Although we do not regularly communicate with them we value the advice they provide when we get stuck in gray areas and use the guidance and research reports they publish in our day-to-day operation...’

YTM1described the relationship as follows:

‘The type of the services we provide, adult and children social services, education, housing, immigration and other legal advice, means we hardly ever deal directly with the Charity Commission... Nonetheless we are aware of the fact they are the supervisory body for charities. The Management Committee has, therefore, grouped them with other regulatory agencies such as Ofsted and Company House...’

Another significant difference is the classification of donors. In Charity X they are regarded as primary stakeholders whilst Charity Y categorises them as secondary. This is because the majority of donors in Charity X are registered members (some of them sit on the Board) and the various donors in Charity Y who are third party supporters of the organisation. Table 7.6 lists elements of stakeholder engagement used by the three charities.

Table 7.6
Elements of Stakeholder Engagement

	Charity X	Charity Y	Charity Z
Formal and informal dialogue	Exchange of ideas at local support groups, consultation papers posted to members forum on website.	Completion of registration form. Suggestion boxes. Exit interview by project worker.	Completion of registration form. Feedback during therapy. End of session feedback.
Published documents sent to stakeholders	Newsletter and annual reports sent to all stakeholders	Operation brochure. Annual reports sent to all stakeholders	Operation brochure. Annual reports sent to all stakeholders
Structured meetings	Invitation to AGMs other open meetings with Q&A sessions	Invitation to AGMs and other meetings to air issues.	Invitation to AGMs with opportunity to question the Board/Chief Officer
Corporate website and other use of technology	On-line forum with feedback mechanism	Basic website with no feedback mechanism	Basic website with no feedback mechanism
Surveys and questionnaires	Regular surveys conducted to capture data from stakeholders	Exit surveys. Suggestion boxes	End of therapy sessions feedback
Feedback on services provided	On-line facility to express compliments or dissatisfaction	Complaints procedure in place	Complaints procedure in place
Events	Open day events in various locations across the UK and Dublin	Open day seminars and workshops	Annual open day in the summer
Level of engagement	Extensive	Moderate	Basic

There are many similarities in the way stakeholders are engaged across the three charities. Charities X, Y and Z use statutory meetings such as the AGM and any EGM, the trustee report, newsletters and open-day events, to communicate, discuss and get feedback on important operational and governance decisions and plans. Although the statutory meetings are open to the public it was observed that stakeholder attendance at Charities X and Z meetings (formal, legal events) was usually lower than at Charity Y which convened a celebratory event of another year's operation completed. YCEO said:

'We celebrate the achievements of the charity at the AGMs and invite our clients and their families. We go all-out to create a celebratory, informal environment. Staff and clients are encouraged to discuss with committee members any issues of concern...'

The main differences in the engagement processes employed is that Charity X uses the multimedia features of modern technology in areas such as members' forums, surveys, questionnaires, and an Internet feedback system whilst the other charities employ traditional methods. The advantage of modern technology is that after set-up costs the day-to-day expenses are minimal, feedback time quicker in comparison to traditional means such as postage and courier. It is well overdue for Charities Y and Z to exploit the technological potential available in their respective organisations in their quest for effective governance.

7.3.6 Review and renewal

Charity X is the only organisation of the three with a board and CEO review and renewal process (section 4.3.10). Having been introduced in 2007, indicators such as board attendance and the number of contributions during a meeting suggest improving internal governance practices. In the case of Charity Y, although the Chair recognises the need for committee rejuvenation and development, members' opposition to a review system they consider only appropriate for employed staff has prevented opportunities to introduce effective governance arrangements. In Charity Z, review and renewal does not exist nor even contemplated in the short- or medium-term as the Chair does not consider it appropriate or necessary. The adoption of an evaluation and regeneration process in Charity X demonstrates the organisation's acceptance of the need for revitalisation of its board and the subsequent appointment of a new chair and the introduction of several operational policies can steer the organisation towards effective governance.

7.3.8 Summary

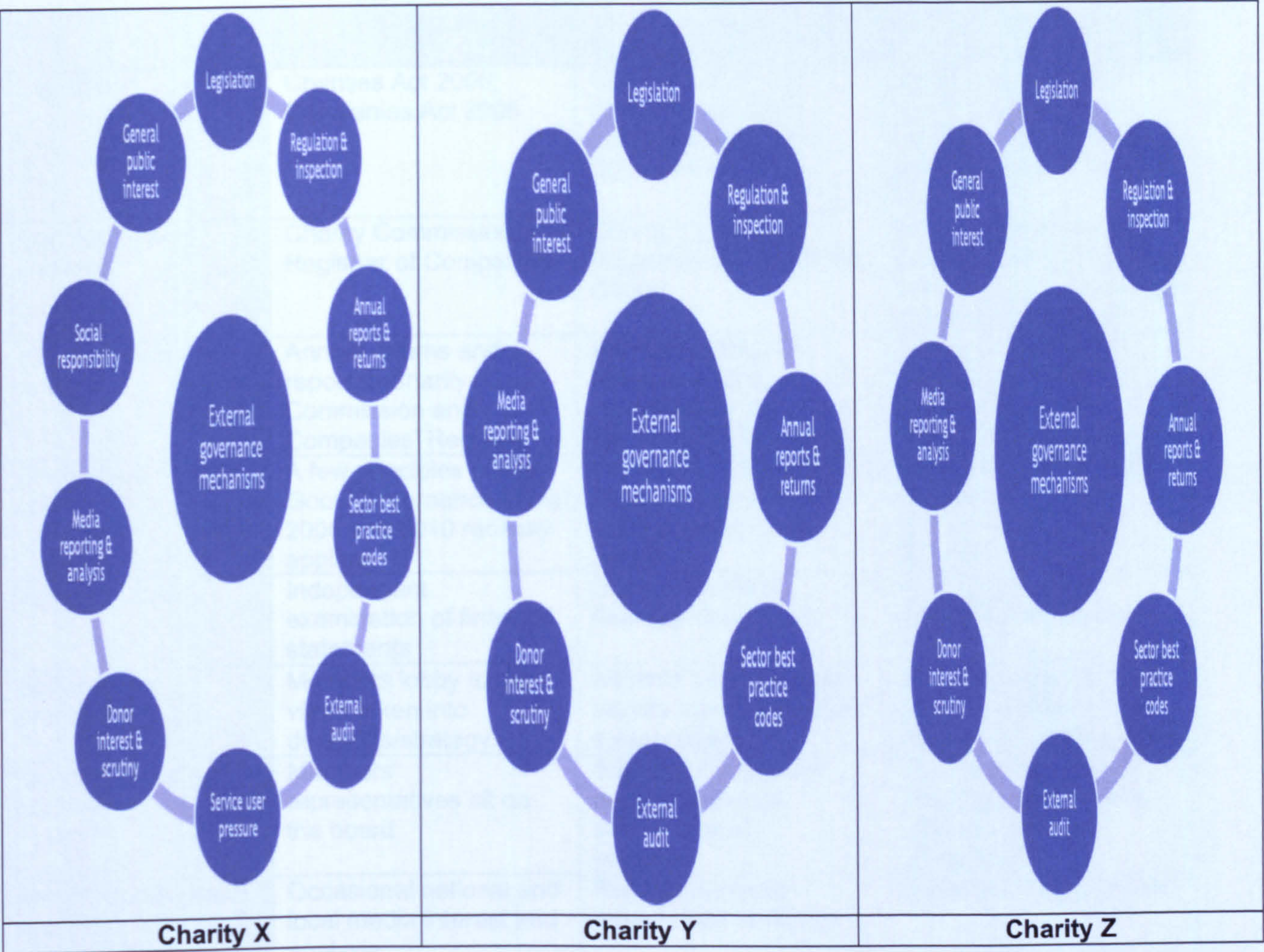
From the analysis presented in sections 4.3, 5.3, 6.3 and 7.3 internal governance is the dimension of effective charity governance in which all three charities have performed relatively well. Although their M&As need revision to bring them in line with the Charities Act 2006 and Companies Act 2006 Charities X, Y and Z, as discussed in sections 7.3.1 to 7.3.7, have deployed internal mechanisms commensurate to their size, structure and complexity to enable their internal affairs to comply with legislation, regulation and best practice. However, Charity Z needs to develop a framework that will enable its Board to improve stakeholder engagement. The governing bodies of Charities Y and Z also need to consider opportunities to review and renew their Management Committee and Board respectively. It must be noted that the opportunity charities have regarding their internal governance mechanisms is that they can flex them to meet existing procedures and practices, which may inhibit effective management and governance.

7.4 The external governance mechanisms

Internal and external governance mechanisms are dimensions which are complementary in achieving effective governance (Weir *et al.*, 2002).

Figure 7.3 presents a cross-case comparison of the external governance mechanisms in Charities X, Y and Z.

Figure 7.3
Cross-Case Comparison of External Governance Mechanisms



As with the internal governance mechanisms already considered, the charities share many similarities in their external governance mechanisms. However, a few differences stand out. Table 7.7 compares a framework of external mechanisms that were originally established, or has evolved, to promote governance and management effectiveness.

Table 7.7
Elements of External Governance Mechanisms

	Charity X	Charity Y	Charity Z
Legislation	Charities Act 2006; Companies Act 2006	Children's Act 2004; Charities Act 2006; Companies Act 2006; Childcare Act 2006	Mental Capacity Act 2005; Charities Act 2006; Companies Act 2006; Mental Health Act 2007
Regulation and inspection	Charity Commission, Registrar of Companies	Charity Commission, Registrar of Companies, Ofsted	Charity Commission, Registrar of Companies, supervisory agencies of UK physiotherapists
Annual report and returns	Annual returns and report to Charity Commission and Companies' Registrar	Annual returns and report to Charity Commission and Companies' Registrar	Annual returns and report to Charity Commission and Companies' Registrar
Sector best practice codes	A few principles of the Good Governance Code 2005 and 2010 recently applied	Principles of the Good Governance Codes 2005 and 2010 not applied	Principles of the Good Governance Codes 2005 and 2010 not applied
External audit	Independent examination of financial statements	Statutory audit of financial statements	Statutory audit of financial statements
Service user pressure	Members lobby to get views taken into decisions/strategy	Minimal pressure from service users and other stakeholders	No observable or other kinds of pressure from clients and stakeholders
Donor interest and scrutiny	Members' representatives sit on the board	Some of the funders request financial statements and statistics	Main funding agency stipulates compliance with service level agreement
Media reporting and analysis	Occasional national and local media interest and analysis	Rare local media interest and analysis	No media interest noted
Social responsibility	An aspirational policy which has not been implemented	No CSR policy	No CSR policy
General public interest	Some amount of public interest in operations	Some amount of public interest in operations	Some amount of public interest in operations

The next sections will compare and contrast each aspect in Table 7.7.

7.4.1 Legislation, regulation, annual reports and returns

Two legislation and two regulators are common to the three charities because of their legal form and structure, being the Charity Act 2006 and Companies Act 2006 and the Charity Commission and Registrar of Companies. However, because of the specialist areas they operate, children's welfare and mental health respectively, Charities Y and Z have to work within additional legislation relevant. They, therefore, have additional regulation from Ofsted (Charity Y) and the professional organisations which supervise psychotherapists (Charity Z).

The leadership of the three charities have demonstrated commitment to operate within current legislation and regulation by regular attendance at sector workshops and events that cover governance topics and by sending their annual returns on time. The Chair of Charity Y, YTF2, captured the essence of such commitment when he said:

'As committee members we have responsibility to comply with the Charities Act 2006 and Companies Act 2006... We are accountable for the smooth running of the projects and have to know and apply the requirements of the law... Completing several annual returns and disclosure statements is one of the prices we pay for many benefits of charitable status...'

From such a background the Chief Officer of Charity X, XCEO, said:

'Our regulators seek to protect donors, funders and general public interest and promote confidence in charities. People who choose to make donations or fund causes seek assurance that their donations and funds will reach the end cause... There has been the occasional media revelation of high-profile scams and Charity Commission investigations. Fortunately trust and confidence in charities continues to be high compared to other organisations; third behind only doctors and the police...'

Charities are regulated for a number of reasons. Some are analogous to the reasons for regulating the business sector – to ensure that sufficient information is provided to stakeholders, that accounts are kept, that governance is conducted properly and that the interests of stakeholders are considered. Compliance with legislation and working within the parameters of best practice is conducive to the achievement of effective charity governance.

7.4.2 Sector best practice codes

Issuing governance codes for the voluntary organisations in 2005 and 2010 have become landmark events in the UK. The Chair of the Charity Commission (Leather 2010, p. 3) said:

'...The crisis which beset our financial system has highlighted how dangerous a tick-box approach can be. Truly good governance has to be lived. Each and every trustee and board member needs to embrace its values, and apply them to the particular needs and circumstances of their organisation...'

However, the 2005 code was never used by the three object charities until after the interview phase of the present study in 2008 (sections 4.4.4; 5.4.4). The 2010 code was published after the fieldwork was completed but has been brought to the attention of the boards and the CEO in late 2010. Charity X is working to incorporate elements of both codes into its governance practices; Charities Y and Z have sent copies to all board members. Non usage of these codes may explain why best practices such as review and renewal (Charities Y and Z),

stakeholder engagement (Charity Z) and the collective responsibility of the board (Charities X, Y and Z) were not introduced into routine governance processes and procedures. Failure to incorporate these guidelines may explain the patchy environment of effective governance observed. YCEO even admits to the researcher:

'Your interview questions have made it apparent that we have a lot of work to do in implementing best practices as recommended in the Code...'

7.4.3 External audit

All charities with gross income over than £25,000 are required to have their financial statements examined by an independent person. Larger charities require a full external audit. Two of the three organisations, Charities Y and Z, have opted for full audits to meet funding requirements (sections 5.4.5; 6.4.5) whilst Charity X's scrutiny is conducted by an independent examiner (section 4.4.5). Apart from being the cheaper option, the independent examination is a simpler form of scrutiny than an audit. Nonetheless, it provides stakeholders with the assurance that the accounts of the charity have been reviewed by an independent person (Charity Commission, 2009). The audit requirement is not simply about compliance with financial standards, but is rather recognised as possessing real and symbolic elements of corporate integrity and legitimacy (Scott, 2000). The external examiners' reports of the charities have been unqualified thereby suggesting 'going-concern status' in each case, with no material hurdle preventing effective financial governance. Nonetheless, it must be stated that these reports are snap-shots in time and do not capture every facet of financial health as stated by XTM2:

'Although we experienced serious financial problems between 2004 and 2006 that threatened the very existence of the charity, our auditors never qualified the financial statements nor expressed any adverse view on our financial capability...'

This above statement highlights weaknesses in UK accounting and auditing standards. It is a serious lapse in accountability that stakeholders who read the financial statements of Charity X during the financial difficulties were not made aware of serious financial problems.

7.4.4 Donor, media and public interest, analysis and scrutiny

Across the three charities, donors' interests are relatively high in comparison with sporadic media and public interest in the work of the respective organisations. The chronic skin

disorder, which Charity X helps sufferers to deal with, is usually dismissed as a cosmetic skin condition possessing minor interest, reporting and scrutiny in the press. The work of Charity Y in what has been called the 'Cinderella' section of the third sector may explain the low, and sometimes, casual interest. Mental health issues covered by Charity Z only make headline news when tragedy strikes. In spite of low interest and scrutiny in these charities, the respective governing bodies are aware of the consequences to their reputation and funding in the event of negative publicity. XCEO said to a volunteer:

'We stand to lose material support from the public if we attract negative publicity...'

This interest, analysis and scrutiny can serve a major deterrent to weak management practices and poor governance arrangements.

7.4.5 Social responsibility

Charity X is the only case organisation out of the three which has adopted, and is showing commitment to, a CSR policy (section 4.4.9). Nonetheless, this commitment is merely aspirational and not operational. Charities X, Y and Z are yet to reap the benefits of being 'good corporate citizens' by adopting 'CSR-friendly' recruitment and retention policies, plus practices that support the environment and 'brand differentiation' built on ethical values. Charities can view CSR as a 'good' governance practice rather than an expense.

7.4.6 Summary

This study found varying degrees of deployment of external governance mechanisms in the three charities. Although Charity X operates under the ten mechanisms listed in Table 7.7, Charities Y and Z are working with nine and eight of the ten external mechanisms, respectively. Unlike internal governance mechanisms that can be written, designed or re-written by their boards to meet their current *modus operandi*, the external mechanisms are set by outside agencies. The study shows that the three charities have not fared satisfactorily in the domain of external governance mechanisms. Effective governance can only be achieved when internal and external mechanisms are comprehensively applied and regularly reviewed to ensure they are working across the organisation. The

‘mixed bag’ of external governance mechanisms deployed in the charities demonstrates a ‘patchwork’ approach to governance and highlights significant gaps in some areas of practice.

7.5 Summary and recommendations

7.5.1 Overall summary

Although Charities X, Y and Z have implemented, and currently operate, a collage of governance systems, procedures and protocols, they still fall short of a comprehensive framework of controls that will lead to effective charity governance in each case charity. Inherent problems in governance practices have been delineated in previous discussion and summarised in sections 7.2.4 (organisation structure and strategy); 7.3.8 (internal governance mechanisms) and 7.4.6 (external governance mechanisms). Based on the analysis provided in Chapters Four, Five, Six and sections 7.2 to 7.4, a summary of key threats and challenges to these charities’ effective governance is presented in Table 7.8.

Table 7.8
Key Governance Threats and Challenges

	Charity X	Charity Y	Charity Z
Organisation structure	Bureaucratic, centralised configuration	Functional centralised configuration with repetition of effort at project level	Centralised, inflexible configuration
Financial solvency/stability	Working towards stability after a period of financial difficulty	Diversification of funding makes charity stable in the medium-to-long term	Vulnerable financial position. Reliance on one public agency
The liability of ‘smallness’	Managing operations with limited resources	Heavily dependent on the work/commitment of small number of key individuals	Restricted range of expertise and skills to deploy at board level
Stability and skill set of governing body	Succession planning recently introduced. Minor skills imbalance on the board	No succession planning. Absence of skills on the board in functional areas	No succession planning. Absence of skills on the board in functional areas
Founder’s syndrome	Not applicable	Founder/Chief Officer exhibits this syndrome	Not applicable

Organisation structure

The structure of an organisation is important to its governance as it determines the manner of, and extent to which, roles, power, and responsibilities are delegated, controlled, and coordinated to achieve relevant goals and outcomes (Daft, 2004). Here there is a similarity in

all three cases, this being a centralised organisation structure in which decision-making is concentrated in the hands of the governing body and chief officer (sections 4.2.1; 5.2.1; 6.2.1). This has led to a problematic situation where staff and volunteers feel alienated (section 4.2.1) - and even isolated - from decision-making. This lack of connection with head office staff can undermine worker and volunteer satisfaction and affect effective human resource governance as in Charity Y (sections 5.2.1; 5.6.5). In Charity X the problem is the physical distance between head office and local support groups dispersed across the UK. Local autonomy is needed to meet local needs, but with which the centre may not be familiar (section 4.2.1). Centralisation, however, has yielded benefits for Charity Z via its efficient use of resources thereby reduced operating costs and enabling quicker consultation and implementation of policies and procedures.

Financial solvency and stability

Charities need sufficient funding to operate and achieve the objectives delineated in their governing document (Charity Commission, 2010^b). 'It is not enough for voluntary organisations to be doing good work... To ensure such work continues and beneficiary needs are met, voluntary sector organisations need to consider how they will fund their activities, and keep on funding them into the future...' (NCVO, 2006^b, p. 5). The three charities share another important feature; lack of medium-to-long term financial security. A review of relevant balance sheets revealed that only Charity Y has sufficient unrestricted reserves in the short term to achieve its goals and objectives. However, Charities X and Z do not have adequate general or designated reserves or capacity to manage unforeseen financial difficulties. Unless improvement programmes to increase their funding and finance are speedily implemented, auditors may find it difficult to declare the two object charities as going concerns.

Liability of smallness, stability, skills set and founders syndrome

Another challenge that is common to all of the case charities is the liability of smallness. A cross-case analysis of the common characteristics of smallness in the three charities reveals attributes that may both threaten their effective governance and continuity of their operations. These features include lack of capacity and expertise at executive management level to deal

with multi-disciplinary issues such legal encumbrances and industrial relations (Charity Z); increasing cost of regulatory compliance in an environment where administration expenditure is capped (Charity X); and loss of a key individual (the Chief Officer) with its impact on the future viability of the organisation (Charity Y). Another problem in Charity Y is 'founder's syndrome' which led to a high Committee member turnover in the mid-2000s. No one, trustee - CEO or staff - should consider himself or herself indispensable and think he or she possesses the wisdom to do what is best indefinitely, not even the founder of the charity. Argenti (1976) advised against absolute power vested in the hands of one person, not even the Chief Officer. This has led to corporate collapse in the case of Maxwell Communications Corporation plc. Charities X and Z do not suffer from founder's syndrome.

7.5.2 Recommendations

In spite of the criticisms of prescriptive governance models in the literature (which tend to offer quick fixes to governance problems), many critical success factors have been identified in the 'best practice guidance' they offer. The argument this thesis makes for achieving effective governance is to move from the old, traditional model of 'prescriptive' practices to a framework of 'principle-based governance' for charities. The principles generated from this study have been called 'the five lessons learnt' stemming from the literature review in Chapters Two and the intra-and cross-case analysis of this research study in Chapters Four, Five, Six and Seven. These do not represent detailed rules intended to pre-empt all possible eventualities, but, rather as guides to help charities in their routine tasks, activities and decisions employed so as to achieve effective charity governance.

7.6 The five lessons learnt

Although the literature examined in Chapter Two provided foundational knowledge of effective charity governance, the empirical evidence from the three charities has offered additional insight and understanding of the phenomenon. These have been called the *Five Lessons Learnt*, which are subsequently discussed as the emergent principles of effective charity governance. They are presented in Figure 7.4: as (i) optimal, responsive organisation structure; (ii) clear 'direction of travel' based on defined goals and objectives; (iii) committed

and focused governing body; (iv) sound financial and risk oversight; and (v) open, ethical and accountable stakeholder engagement.

Figure 7.4
Principles of Effective Charity Governance



7.6.1 Optimal, responsive organisation structure

Mullins (1993) and Mabey *et al.*, (2001) describe the structure of an organisation as the patterns and relationships between roles in an organisation and its parts. These patterns and relationships allocate resources to accomplish goals and objectives (sections 2.5.3). In simple terms, McMillan (2006, p. 2) defined the organisation structure as ‘the architecture and configuration which connects and weaves together all aspects of an organisation’s activities so that it functions as a complete dynamic entity.’ The description presented suggests that these patterns, relationships and architecture support decision making and other (governance) processes as contributory factors to the effectiveness of the organisation (Drucker, 1963; Mintzberg, 1993; Handy, 1995). As the Chair of Charity X stated in section 4.2.1 and as confirmed by the Chief Officer of Charity Z in section 6.2.1, an optimal structure allocates work and responsibilities to effectively govern each charity and avoid tension and conflict (as was also seen in section 4.2.1). The synergy of the various parts of the structure is

also critical and can be achieved when these parts are responsive to each other. Empirical evidence in the literature has supported the view that structure not only affects the strategy and performance of the organisation, but also that of individuals and subunits within, between and outside its boundary (Goold and Campbell, 2002; Kaplan and Norton, 2006; Blenko *et al.*, 2010).

Emergent principle:

The first principle for effective charity governance, therefore, is the determination, design or modification of an 'optimal, responsive organisation structure' which will deliver the objectives of the charity. The determination and design can be viewed through two dimensions; structure and effectiveness. These issues were discussed in sections 2.6.4 and 2.6.5 but become imperative for Charity Y (section 5.6.5) to achieve effective governance.

7.6.2 Clear direction of travel based on defined goals and objectives

Direction of travel is defined as '...the strategic route taken to improve achievement of public service delivery' (Audit Commission, 2008 p. 7). Governing a charity requires purposeful activity. All purposeful activity, in turn, requires clearly defined goals and objectives as stated in the object sections of the three M&As. The organisation (as Parsons, 1960, p. 63) argued, is an entity whose 'defining characteristic is the attainment of specific goals or purposes.' These 'goals' according to Barney and Griffin (1992), serve four basic functions: (i) provide guidance and direction; (ii) facilitate planning; (iii) motivate and inspire directors and staff; and (iv) help organisations evaluate and their control performance. The M&As of Charities X, Y and Z are not only legal prerequisites for both charity and company registration, but are also documents that provide coherent guidance and direction on what the charity is set up to do (its objects), how the charity will do those things (its powers) and who will run it (its trustees). In addition to the governing documents, Charities X and Y have integrated their mission, vision and values into 'strategic route' statements. These statements have assisted the Boards, Chief Officers, staff and volunteers to focus on the goals and objectives of the charity (sections 4.2.3 and 5.2.3).

Emergent principle:

The second principle for effective governance is a clear 'direction of travel' based on defined goals and objectives. The planning process of a charity must begin with setting the organisational goals and objectives, defining policies and strategies to achieve them, and developing detailed business and other plans to make sure that the strategies are implemented so as to achieve the organisation's short-, medium- and long-term mission, vision and values. Although Charities X and Y have established processes to achieve clear 'direction of travel,' the Board of Charity Z needs to develop similar processes that will enable the organisation achieve effective charity governance.

7.6.3 Committed and focused governing body

The Business Roundtable (2005, p. 5), an association of top CEOs in the USA, believes that 'effective governance requires a proactive, focused state of mind on the part of the board, the Chief Officer and senior management, all of whom must be committed to the success of the organisation through the maintenance of the highest standards of responsibility and ethics...' This view was acknowledged by the Chief Officer and Vice-Chair of Charity X in section 4.3.2 when the charity lacked strong leadership and was afflicted by severe governance problems and trustees were reluctant and less motivated to discharge their duties. On the other hand, the paternalistic leadership of the Chair (section 6.1.1) and commitment and team effort of a small group of directors (section 6.3.2) have steered Charity Z despite the absence of a strategic business plan.

Emergent principle:

The third principle is a committed and focused governing body that: (i) understands their internal and external roles collectively and individually; (ii) ensures the delivery of organisational purposes and aims; (iii) works effectively as a team with a range of appropriate policies and procedures, knowledge, attitudes and behaviours; and (iv) acts with loyalty and high-ethical standards to safeguard and promote the reputation of the charity. The governing bodies of Charities X, Y and Z have to continue providing strong leadership and support to achieve organisational goals and objectives (sections 4.3.2; 5.3.2; 6.3.2).

7.6.4 Sound financial and risk oversight

All charity trustees have a fundamental, statutory duty to protect the assets of their charities and to use them to further the purposes of the charity for the public benefit (Charity Commission, 2007). Therefore, Charity X has developed robust financial (sections 4.3.7; 4.4.5) and Charity Y has deployed a comprehensive set of risk management policies and systems (section 5.3.6) that provides oversight and contribute to effective governance. Financial management is important not only for monitoring performance in terms of efficiency and effectiveness in resource allocation and usage to achieve objectives but also for reporting oversight information to stakeholders. Proactive risk analysis and management is also as a critical system of 'internal control which has as its principal aim the management of risks that are significant to the fulfilment of charitable objectives...' (NCVO, 2007, p. 2).

Emergent principle:

The fourth principle is sound financial and risk oversight – a key component of the oversight responsibilities of the Board and management - that is a catalyst for effective charity governance. Without sound financial and risk management systems organisations can quickly collapse. Trustees and senior management of Charities X, Y and Z must share the responsibility for assuring stakeholders that their organisations have adequate financial resources to achieve its objectives plus organisational risks have been reduced or mitigated.

7.6.5 Open, ethical and accountable stakeholder engagement

In charities there are no clear owners such as the shareholders of businesses. Consequently, there is no clear principal-agent relationship but, rather, connections with several groups who have a legitimate interest in the outcomes, impacts and services or products of the organisation (Purtschert and Schauer, 2008). Stakeholder analysis identifies stakeholders, makes an assessment of their key interests; analyse the ways in which these interests may affect the ethics, strategy, policy, decisions and activities of the organisation. Charities X and Y have established two distinctive strategies to classify and engage their key stakeholders based on their primary beneficiaries and the frequency of interactions (sections 4.3.9; 5.3.9).

In Charity X, a patient-support agency, 98% of the members and trustees are sufferers of a skin disfigurement or relatives of such sufferers. In a bid to fully engage with this key group a distinctive model has been developed in which members and their families (the beneficiaries, main donors and volunteers) and staff who interact directly with the charity on a regular basis are recognised as primary stakeholders. Partner groups and regulatory agencies that have infrequent dealings with the charity are classified as secondary stakeholders. All others are considered other stakeholders. However in Charity Y, which is an inner-city homeless agency, homeless families – the only beneficiary group – are engaged as primary stakeholders. The local authorities in this catchment area, staff, volunteers and partner agencies who support the work of the charity are regarded as secondary stakeholders. All others are classified as other stakeholders. These strategies have enabled both charities to connect with key stakeholder groups and improve their reporting and governance processes.

Emergent principle:

The fifth and final principle is to have an open, ethical and transparent stakeholder engagement process which help charities to: (i) identify opportunities for engagement with key stakeholders, operate with integrity and ensure a level of engagement proportionate to the nature of the relationships; (ii) adopt a variety of engagement methods including; communication, consultation and negotiation; (iii) interact regularly to be better informed regarding emerging and current issues and changing stakeholders' expectations to improve governance practices.

7.6.6 Summary

Although a few seminal charity governance studies have been conducted in the UK, the five principles delineated above present additional findings from the empirical evidence of this study to build upon and extend studies such as:

- (i) Palmer and Hoe (1997). This study guide, published to accompany the BBC2 Learning Zone series, presented an overview of voluntary sector management and offers advice in key charity governance areas such as: (i) fundraising and campaigning; (ii) law and administration; (iii) finance and accounting; (iv) planning and marketing; and (v)

trustees and staff. The five emergent principles have extended the fundamental issues raised by Palmer and Hoe (1997) by recommending a comprehensive holistic, approach to financial and risk management. Trustees and managers need to have a sound financial and risk oversight of their charities to achieve effective governance.

- (ii) Cornforth and Edwards (1999). These researchers conducted a narrow empirical study of the role of boards and their relations with senior managers in four public and non-profit organisations. Their results indicate that the strategic contribution of boards varies widely and depends on a complex interplay of factors such as: (a) the system of regulation, (b) sectoral traditions; and (c) norms of governance. The empirical evidence of this study extends the findings of the Cornforth and Edwards (1999) study and argues for a more committed, focused board to achieve effective governance. Although elements of regulation, norms and traditions are important, the commitment and concentration by the governing body on the goals and objectives of the charity or the lack thereof as demonstrated in Charities X, Y and Z is vital if effective charity governance is to be achieved.
- (iii) Palmer and Randal (2002). From dissatisfaction of purely descriptive and technical literature in charity financial management, these researchers provided critical, analytical and thematic illustrations within an organisational perspective that goes beyond calculation and description to accountability. The fourth principle of effective charity governance (section 7.6.4) recognises the distinctiveness of charity accounting, financial and risk management and the contributions of Palmer and Randall (2002). However the empirical evidence discussed in chapters four, five, six and seven of this thesis articulates sound judgement and technical financial competence of trustees and management as catalysts of effective charity governance.
- (iv) Cornforth and Simpson (2002). This was a postal survey of charities in England and Wales which examined how boards were improving their performance. The findings suggest that charities will improve if they: (a) clearly define the respective roles of board members and staff; (b) ensure that boards have an appropriate balance of

members skill and experience; (c) do not become too large; and (d) have adequate recruitment and induction procedures. The evidence in sections 4.3.2, 4.3.3, 4.3.4, 5.3.2, 5.3.3, 5.3.4, 6.3.2 and 6.3.3 of this study builds upon but extend the Cornforth and Simpson (2002) recommendations by arguing for: (1) an optimal, responsive organisation structure; (2) a clear direction of travel based on defined goals and objectives; (3) committed and focused governing body; (4) sound financial and risk oversight; and (5) an open, ethical and accountable stakeholder engagement process.

- (v) Cornforth (2005). The studies in this project start on the premise and acknowledgement of the scarcity of scholarly investigation and gap in knowledge of UK non-profit boards. Its contribution was to bring together recent empirical studies in public and non-profit boards. Cornforth (2005) advocates for a multi-paradigm perspective (power, accountability, strategy and stakeholders) to deal with the paradoxical and situation nature of governance in these two sectors. However, the Cornforth (2005) study emphasised just one aspect of governance, the governing body. Although this element is pivotal, the empirical evidence supporting the five principles of effective charity governance move the debate of charity governance beyond the perimeter of governing body to include all areas that affect charities governance: organisation structure, internal and external governance mechanisms.

The evidence, analysis and principles discussed above build on established literature and provide the foundation for an emergent, alternative theory of effective charity governance.

7.7 Summary and conclusion

The cross-case analysis covered in this chapter has highlighted the similarities and differences in the governance arrangements of the three object charities and has revealed areas of strength and weaknesses in systems, practices and protocols. The comparative issues discussed and the five principles of effective charity governance presented argue that charities which are effective will conduct their governance arrangements methodically to achieve overall organisational objectives. The governance principles delineated can be flexed

to take account of the variety of internal and external environmental issues in the diversity of charities in the UK and abroad.

In conclusion these principles require a positive relationship of the Board with:

- Beneficiaries and customers to be characterised by dedication and commitment to relieve their situation or condition;
- Staff and volunteers to be characterised by mutual and demonstrable respect, appreciation and fairness;
- External stakeholders to be characterised by ethical conduct, accountability and transparent communication;
- Regulatory agencies not to be characterised by a sterile, 'tick-box' approach but aspiration and continued commitment to work within the 'letter' and the 'spirit' of legislation, regulation and best practice codes; and
- The local communities in which they operate and the general public to be characterised by sustainability programs and good corporate citizenship.

In the next chapter a summary of the eight chapters of this research project, discussion of the research questions, contributions of the thesis are presented to conclude the study.

CHAPTER 8: SUMMARY, DISCUSSION AND CONCLUSIONS

8.1 Summary

The purpose of this thesis is to address the research aim and objectives (section 1.4), as guided by three specified research questions (section 1.5), and in the process to investigate effective charity governance both from the literature and empirical evidence gained from three UK third sector organisations, being Charities X, Y and Z.

Chapter One provided an introduction to the study - its inspiration, the research problem, aim and objectives of the study, the research questions, research methodology, contributions to theory, practice and policy, and the findings and significance of the study. The chapter concluded with the structure of this thesis.

Chapter Two presented a review of the literature in three areas of knowledge: (i) corporate and charity governance; (ii) organisation theory; and (iii) stakeholder theory. The chapter is concluded with the identification of gaps in the literature, a rationale for the study and the development of a conceptual framework from the literature to enable intra- and cross-case analysis in Chapters Four, Five, Six and Seven.

Chapter Three presented and justified the research methodology adopted to carry out the study. The chapter concluded with a discussion of ethical and pragmatic issues to ensure the study complied with Kingston University regulations and advice from the ESRC.

Chapters Four, Five and Six presented three stand-alone intra-case analysis using the conceptual framework to provide contextualised meaning, understanding and insight. Each chapter is concluded with a summary of individual governance challenges and recommendations to help the object charity improve its current governance arrangements.

Chapter Seven presented a cross-case analysis and synthesis of the themes and patterns, similarities and differences identified using the conceptual framework. From the empirical evidence and literature further insights from the analysis provided the emergent principles to promote effective charity governance.

The purpose of this final chapter is to summarise the thesis, answer the research questions and conclude the study. It has been presented in six sections. After this section, answers to the research questions are presented in section 8.2. This is followed by the contributions of the research to theory, practice and policy in section 8.3. The limitations of the study are examined in section 8.4 with recommendations for further research the being listed in section 8.5. In section 8.6, closing statements are made to conclude the chapter and the thesis.

8.2 Discussion of research questions

This section summarises the body of evidence that emerged from the research study in relation to each of the research questions posed in section 1.5.

Research question 1: What constitutes effective charity governance?

Although the literature highlighted two components of effective charity governance (internal governance mechanisms and external governance mechanisms - Table 2.2), three recurring elements emerge as constituents of effective governance in each of the three case studies. Thus, the empirical data presented the third component - organisation structure and strategy. Together, they form the architecture and nexus of interactions, arrangements, procedures, systems and protocols whose primary functions are to ensure that a charity is effectively 'led and controlled' (Cadbury, 1992) to deliver organisational goals and objectives. These components are individually distinct, equally important and overlap with each other to deliver an effective way in which charities can be governed.

The internal governance mechanisms consist of operational and accountability controls that regulate the relationships of the governing body, the Chief Officer and other internal stakeholders such as staff, volunteers, service users and members with each other and with external stakeholders (sections 2.5.5; 4.3; 5.3; 6.3; 7.3). The two principal mechanisms that guide internal relationships in the three charities are their M&A and their governing body. A well-written M&A sets out the objectives and provides a blueprint for the various parts of the charity to achieve synergy. A focused and committed board oversees operations at a macro level, adopts strategies to achieve the objectives and delegates the routine operation of the

charity to the CEO. When all of these control mechanisms work as designed, effective internal governance can be achieved. The empirical evidence shows that only Charity X is using all of the controls listed in the model. Charities Y and Z are, respectively, using nine and seven of the ten mechanisms identified.

The external mechanisms are the statutory, regulatory reporting and monitoring devices and standards that charities are subject to and that define the boundaries of their operations (Cornforth, 2003; Jobome, 2006). The sector's rising profile in the delivery of public services via public funding has heightened calls for charities to be more accountable with rigorous external scrutiny thereby in place. Charities X, Y and Z are subjected to current legislation (The Charities Act 2006 and Companies Acts 2006), the regulatory framework of the Charity Commission in England and Wales, external audit, best practice codes, and media and public scrutiny (sections 2.5.5; 4.4; 5.4; 6.4; 7.4). These mechanisms have been designed to promote public trust in the governance and management of charities and to ensure that charities act within the provisions under which they are registered. The three charities have not performed well under these mechanisms, not being aware of current governance best practice codes, nor have they implemented CSR practices to demonstrate good corporate citizenship. Compliance with both the 'word' and 'spirit' of existing legislation, regulatory guidance and sector best practice Codes promotes effective external governance.

Organisation structure and strategy is the third, critical dimension of effective charity governance. The organisation literature suggests that a charity can be seen as a collection of people, plans, procedures and systems put together for organising, controlling and correcting operations to achieve its objectives (Drucker, 1990). This purposeful collaboration is needed to effectively govern and manage any organisation (section 2.5.4). Charities, like most organisations, requires an optimal and responsive structure to assist the Board and managers to govern and manage, whilst facilitating working effective relationships among trustees, staff, volunteers, service users and other stakeholders (sections 2.5.3; 2.5.4; 4.2; 5.2; 6.2). Although Charities X and Z have fitting structures to support their operation and governance, Charity Y suffers from a needlessly complex and expensive organisation arrangement

(section 5.2.1). Unless this structure is modified to meet the needs of the charity, effective governance cannot be achieved.

In conclusion, when the internal and external governance mechanisms are configured with an optimal and responsive organisation structure, a clear direction of travel, a committed and focused board actively managing finance and risks, and engaging stakeholders, the charity is expected to achieve effective governance.

Research question 2: How does the charity's Board contribute to effective governance?

Four main processes of the board emerged from the literature discussed in Chapter 2 and the analysis of Chapters Four, Five, Six and Seven as constituting the duties and responsibilities that can contribute to effective charity governance. They are: setting the direction; marshalling resources; controlling and reporting activities; and evaluating outcomes and enhancing effectiveness (sections 2.2.3; 4.3.2; 5.3.2; 6.3.2; 7.3.2).

Unless a clear direction is set by the board and communicated to the rest of the people who work to achieve the objectives of the charity, there is a possible risk of various interpretations of strategies and lack of unity to obtain the what (the mission), where (the vision) and why (the values) of the organisation (Drucker, 1990). In the case of Charities X and Y the trustees have contributed to effective governance by clearly mapping out the overall the direction of their charities (sections 4.3.4; 5.3.4; 6.3.3; 7.2.1). This process is also known as 'planning.' These two charities have well-defined corporate and functional plans developed from the objectives in their M&As and anchored in clear mission, vision and values statements. These statements are examples of tools used to determine the direction of the charities (Sawhill and Williamson, 2001).

After the planning process it is a critical duty for the charity board to consider the allocation of its finite resources and capabilities to 'get things done.' This process has also been described as 'organising' (Peverelli and Verduyn, 2010). No matter how worthy and noble its cause unless resources are acquired and effectively allocated to achieve the charity's aims and

objectives charity governance cannot be regarded as effective (section 2.5.4). Board and senior management duties involve the synchronisation and combination of human, physical and financial resources to achieve desired results. The waiting list of Charity Z has increased year-on-year because the management team has not been able to plan for growth in demand for its services (section 6.2.6). Workforce, financial and business planning and budgetary control fall under the prevue of marshalling and allocating resources (Watson, 2006).

Controlling and reporting activities comprise the third set of duties of a board in pursuit of effective governance. Successful organisations are concerned with influencing and channelling human and other resources towards attainment of organisational goals. Charities X, Y and Z use a combination of techniques such as personal supervision, standard rules and procedures, job descriptions, budgets and performance appraisal systems to provide assurance that the charity is on course to achieve pre-determined plans, targets and objectives. The aim of a control system in a charity is to maximise the likelihood that trustees, staff and volunteers will support each other and use resources in ways congruent to the charity's objectives. As no system can guarantee to deliver this pattern of behaviour, the board can motivate and influence staff and volunteers [including 'delinquent' trustees in Charity Y] to behave in the desired way (Anthony and Govindarajan, 2006).

'The ultimate intention of non-profit evaluation is to strengthen an organisation by improving its board, management, staff and volunteers' (Board Source, 2010, p. 274). The board of Charity X is the only governing body of the three charities that conducts a review and renewal process to evaluate its strengths and weaknesses and discover ways for their improvement. This opportunity for board reflection can help the trustees of Charities Y and Z to clarify expectations and outline priorities for their own organisations. Cutt and Murray (2000) recommend three levels of evaluation for non-profits to attain effective governance; individual, programme and organisational:

- Individual evaluation covers the performance of trustees, the Chief Officer, staff and volunteers against strategic objectives in a workforce plan.

- Programme evaluation focuses on elements within the charity such as planned activities and services (sections 4.3.8; 5.3.8; 5.3.7). The purpose of this level is to assess success of these individual elements.
- Organisational level evaluation focuses on the achievement of the overall performance the charity.

Research question 3: Who are the stakeholders in charities and does their recognition and engagement promote effective governance?

The stakeholders of a charity can be described as anyone involved in, or having an interest in, its operation, activities or services. In the business sector (where lines of stakeholder accountability are more easily identifiable), the foregoing description of charity stakeholders highlights the difficulty academics and practitioners have had in agreeing a relevant typology of charity stakeholders in literature (Cornforth, 2005). Issues emerging from this difficulty have been demonstrated in the two models of stakeholder engagement developed by Charities X and Y (sections 7.3.5). The issues involved range from understanding and striking the right balance between the perception of the individual charity and what various stakeholders require of them. Many problems that charities [such as Charity Z] encounter come from the need to build working relationships with key stakeholders that will lead to an understanding their needs and expectations (Brammer and Willington, 2004). When a charity identifies, recognises and effectively engages its stakeholders, the less likely it is to find itself under siege from demoralised staff, disappointed beneficiaries and members, disillusioned volunteers, frustrated supporters and unhappy donors. The stakeholder engagement process developed by Charities X and Y has helped them to build and maintain positive relationships that have increased transparency, trust and service-user satisfaction and has aligned business practices with societal needs and expectations and thus enhanced effective governance.

The empirical evidence from the intra-and cross-case analysis of Charities X and Y (sections 4.3.9; 5.3.9; 7.3.5) has deepened the understanding of stakeholder identification, engagement and involvement, in charities. This body of evidence suggests that a categorisation of

stakeholders based on actual and perceived connections with the charity is more likely to improve the relationships and provide useful feedback to improve governance practices. The data generated from the analysis presented in Figure 7.2 and Table 7.6 has provided a benchmark typology of key stakeholders. This benchmark can be used to identify and categorise the various levels of engagement required for charities to achieve effective communication and reporting and, ultimately, their effective governance. The stakeholders in this model can be modified to take account of unique attributes and dynamics of any charity.

Table 8.1 outlines the various stakeholders and the level of engagement that will lead to improvement in charity governance.

Table 8.1
Benchmark Typology of Key Charity Stakeholders
and the Level of Engagement Required

	Stakeholders	Level of engagement to improve governance
Primary stakeholders	Beneficiaries, Service users, Clients, Customers, Donors, Funding agencies, Governing body, Staff, Volunteers	Frequent and extensive
Secondary stakeholders	Charity Commission, Registrar of Companies, Other regulatory agencies, Advocacy agencies, Partner groups	Regular and moderate
Other stakeholders	Local authorities, sector media agencies, the public	As and when required and basic

The empirical data from Charities X and Y (sections 4.3.9 and 5.3.9) confirms that a charity which identifies, engages and involves its key stakeholders can:

- (i) Obtain an inclusive/consensual, mutually beneficial decision-making process;
- (ii) Identify early and then minimise actual and potential risks and threats;
- (iii) Encourage openness, transparency and accountability in its systems and processes;
- (iv) Uncover new perspectives to strengthen and build its capacity to deal with problems;
- (v) Achieve better communication by making this a two-way process;
- (vi) Align the interests of various interested parties to achieve the charity’s goals; and

- (vii) Pursue social responsibility initiatives which can present competitive advantage.

Achievement of these objectives may contribute to effective governance. However, the interests and claims of the various groups may sometimes clash and the Board would have to deal deftly with these differences in order to benefit from the engagement process.

8.3 Contributions to theory, practice and policy

The significant findings from this research were presented in Chapters Four, Five, Six and Seven within the context of the research problem and three research questions outlined in sections 1.3 and 1.5 respectively. The contributions of this research study to theory, practice and policy are discussed below.

8.3.1 Contributions to theory

This study has made four key contributions to the theory of charity governance:

- (i) The study extends the literature and presents the first documented, insider-trustee, scientific study that provides a detailed description of how governance works in small UK charities. Consequently, the findings present new, deep insights and understanding of the nature, practice and complexity of charity governance (Chapters 4, 5 and 6), trustees' perception of their governance responsibilities (sections 4.1.1; 5.1.1; 6.1.1; 4.3.2; 5.3.2; 6.3.2); board relationships with Chief Officers (sections 5.3.4; 5.6.1; 6.3.3); and board members' sensitivity and responses to the review and renewal of their governing bodies (sections 4.3.10; 5.3.10).
- (ii) The literature review also provides the first documented comparison of the development of UK corporate and charity governance. This comparison enabled the researcher to highlight areas where corporate governance codes can be flexed to improve charity governance (sections 2.3.2 to 2.2.21; 2.4.3 to 2.4.14).
- (iii) The study highlights the fact that although academic and professional debates on governance have predominately centred on boardroom activities (Blair, 1995; Cornforth and Edwards, 1999; Cornforth, 2001; Cornforth and Simpson, 2002; Jobome, 2006), this study demonstrates that CG transcends the board. Theses which

have anchored CG entirely on boards and equated CG to just board practices and activities only show part of the governance picture. Although there is consensus that the board is the pivotal component of the entire governance process (section 2.4.1) there are many other factors that impact the effectiveness of the overall governance processes (section 7.5.3). Empirical evidence from the study has demonstrated that governance takes place not only in boards and sub-committees but outside the perimeters of the boardroom and sometimes outside the charity itself (section 7.5.8). The external mechanisms highlight several important factors occurring outside the boundary of the charity board (section 7.4). The conceptual framework used to analyse the three case studies also demonstrated that CG transcends the board (section 2.8).

- (iv) Charity governance must be an organisation-wide effort to be considered effective. The discussions throughout this thesis and emergent principles of effective charity governance (section 7.5.3) developed from the study have helped to present a holistic conception of the phenomenon. The macro and micro nature of the model starts with organisation structure but also covers issues that involve strategic planning, the board, financial and risk oversight and stakeholder engagement and other critical enablers of effective charity governance (Tables 7.3 and 7.7).

8.3.2 Contributions to practice

The study has/will make five major contributions to practice:

- (i) Charities X, Y and Z were rigorously investigated using traditional social science methodology to understand their governance arrangements and compare them with best practices in academic and practitioner literature. The governing bodies and sub-committees were observed over a period of 15 months and several corporate and third party documents were examined and analysed during the investigation. Finally, ten trustees and the Chief Officer in Charity X, eight Committee members and the Chief Officer in Charity Y and six directors and the Chief Officer in Charity Z were interviewed to gather information on current governance practices, procedures and protocols (Table 3.7). The data collected from the various sources was systematically

analysed to identify gaps in best practices. Draft copies of each case study with recommendations for improvement were sent to the Chair and Chief Officer of each charity for discussion and implementation. These recommendations are presented at the end of each intra-analysis chapter and summarised in Appendix I. In the case of Charity X, the researcher was appointed in May 2010 as Vice-Chair of the Board and Chair of the governance sub-committee with the primary responsibility of helping the Board to implement the recommendations from this study. In Charity Y, the researcher presented recommendations during a Management Committee away-day in early 2011. The Secretary has been asked by the governing body to work with the researcher to implement the recommendations. In Charity Z, the researcher is working with the Chair and the Chief Officer to bring the charity's M&A in line with the Charity Act 2006 and Companies Act 2006. Further collaborative work to assist the three charities in governance and financial management issue is expected after the completion of this thesis.

- (ii) The conceptual framework developed for this study enabled a comprehensive analysis of the internal and external governance mechanisms across the three charities (section 2.8). This framework provides better understanding of the governance processes and can be treated by governing bodies of the case study as well as other charities as a benchmark governance 'health check-up' to evaluate their systems, practice, procedures and protocols. In addition to the governance health check-up, a typology of key charity stakeholders (Table 9.1) was also developed to provide charity practitioners with a point of reference to engage stakeholders in their quest to achieve effective charity governance. Each case study charity has been advised to conduct a biennial governance 'health check' assessment in the three main areas in the framework (organisation structure and strategy, internal and external governance mechanisms) to ensure their systems, procedures and arrangements continue to work towards achieving effective charity governance. The directors of Charity Z have agreed to work with the researcher to develop an appropriate shareholder model to identify and effectively engage their stakeholders.

- (iii) The emergent principles of effective charity governance provide an alternative principles-based approach to advance current charity governance practices (section 7.5.3). These principles are not specific to any particular charity but have been developed as general guidance to help third sector organisations improve their current governance arrangements. Trustees of charities can use these principles to identify and achieve governance synergies and effectiveness.
- (iv) The theoretical frameworks and legislative changes in the literature and empirical data from the three case studies have been used to develop:
 - (a) A comprehensive induction course for new and existing trustees, and
 - (b) A training seminar for charity trustees and chief officers.

The researcher has already conducted six induction courses and two governance training seminars in Greater London and Hertfordshire. Opinions and comments on the feedback forms of these induction courses and seminars have been very positive. The researcher will continue to conduct induction courses and seminars for Board members and other key governance participants.

- (v) The researcher has contacted the editors of four practitioner-oriented, charity magazines - Charity Finance, Caritas, Third Sector and Charity Times - to publish articles on empirical findings and theoretical frameworks from the study. From these articles, it is anticipated that an article will be written for a peer-reviewed, academic journal. The researcher is also working with the administrator of the Centre for Charity Effectiveness at City University, London to present findings of this research study to a Leadership and Management development seminar at the completion of the thesis.

8.3.3 Contributions to policy

Finally the study has made three principal contributions to policy:

- (i) Although the Good Governance Codes (2005) and (2010) received much coverage in the established sector media (sections 2.4.10; 2.4.14), evidence from this research

reveal that none of the trustees and Chief Officers of Charities X, Y and Z were aware of the existence of these codes until after the interview phase of this study (sections 4.4.4; 5.4.4; 6.4.4). Unless the target community of key governance participants are reached, the desired impact and success of these Codes will not be fully realised. It is, therefore, suggested that in this technological environment where email addresses have become basic features of most, modern charities, electronic copies of the 2010 Good Governance codes can be sent to all registered entities by the Charity Commissions in England, Wales and Northern Ireland and the Registrar of Charities in Scotland or by advocacy agencies such as the NCVO or NICVO. For charities without email addresses, the 2010 Code can be sent with the annual return reminders by the respective regulatory agencies.

(ii) The empirical evidence from the three charities shows that although their annual turnover is above the thresholds set for small companies in the Companies Act 2006 (Tables 7.1; 8.2) trustees, CEOs and managers refer to their respective organisations as small charities (sections 4.2.5; 5.2.5; 6.2.5). Even the Small Charity Coalition, a network of small and minor charities that support each other by exchanging skills, experience and resource, has set a different threshold for membership at £1m turnover. This demonstrates that charities are a different type of organisations that do not fit easily into the traditional business mould. These interpretations by various charity governance participants in the study (sections 4.2.5, 5.2.5 and 6.2.5) mean that policy makers in the regulatory agencies should consult the wider charity community and consider either revising the current statutory thresholds to generally-acceptable sector levels or reduce the administrative burden of compliance for small and minor charities. Specific guidance in this area is now necessary to achieve consistency within the charity sector.

(iii) Thirdly, in March 2010 the Charity Commission published its risk-based regulatory publication, *Risk and Proportionality Framework for the Commission's services to Charities*. In it the Commission stated that in order to fulfil its statutory obligations, it is

proportionally targeting its limited resources to its 180,000 registered charities in an 'efficient, effective and economic way' to have the greatest impact. This meant increasing scrutiny in risk areas such as charities experiencing problems. Unfortunately this policy has not been well communicated as the Trustees and Chief Officers in the three charities believe the Commission has adopted a 'laissez-faire,' distant regulatory approach (sections 4.4.2; 6.4.2). It is incumbent on regulatory agencies to effectively communicate such an important policy to their stakeholders. Public perception of a casual, distant regulator will not promote a positive environment for fundraising.

8.4 Limitations of the study

Every approach to social inquiry has its strengths and limitations (Blaikie, 2007) so despite the merits of this research and its contribution to theory, practice and policy, this study has contain certain limitations. This section outlines and discusses two limitations that may have impacted this study.

The first constraint centres on the independence of the researcher as a trustee of the three charities. Although specific preventative actions described in section 3.4.11 were taken to preserve independence and objectivity of the researcher, the findings and results may have been influenced by constant interaction with colleagues on the Boards and the Chief Officers.

The second limitation was connected to the number and relative sizes of three cases chosen. Although Yin (2003^a) does not recommend an ideal number of cases to enhance research quality, validity and reliability, critics of case study believe a small number of cases offer no grounds for establishing generality of findings. This assertion may gain further credence with the selection of three smaller-sized charities for this study. However, the review of the case study reports by the Chair and Chief Officer of each charity will have increased research validity (section 3.5.3) and the development of a case study database and the use of a protocol improved the reliability of the findings (Table 3.5).

Although the above have been cited as limitations, considerable effort was made to ensure that the research strategy developed and employed was robust and rigorous to deal with the

research problem and questions. The limitations listed above did not prevent the research from providing valuable information and understanding about what constitutes effective charity governance and how stakeholders' engagement can improve overall governance arrangements. The study presents a rich source of empirical data on governance practices and procedures within and outside the boardrooms of the three UK charities studied.

8.5 Recommendations for future studies

The objective of this thesis was to gain new understanding and insights in the area of charity governance in the UK and examined the governance practices of three charities operating within this geographical area. The initial findings in this study can be considered as exploratory providing a foundation for further insider-trustee or outsider-researcher investigation. In order to obtain additional understanding of the issues that have emerged from this study, it will be necessary to conduct further research into the following five areas.

Firstly, the findings of this research have relied wholly on qualitative methodologies and analysis using a multi case-study strategy of three charities involving participant observation, interviews and document analysis. These findings could be given further validity and credibility by conducting a quantitative/qualitative or quantitative study involving a survey questionnaire and using statistical analysis.

Secondly, there is an opportunity to extend the research by examining registered and non-registered, incorporated and non-incorporated UK charities with or without governing documents or a variety of documents such as trust deeds, constitutions and other non-formal arrangements. The Charity Commission website suggests that many organisations across the UK are actively working within the 'public benefit' clause to change the lives of individuals and communities in Britain and Northern Ireland but do want to operate within the bureaucracy of regulators (O'Hagan, 2000). Such research would provide further empirical evidence – which will aid understanding - into charity governance operations and managerial activities that support these operations across the broad landscape of charities in the UK.

Thirdly, although there was much fanfare and publicity in the promulgation of the first and second editions of the Good Governance Code for Voluntary and Community Organisations (NCVO, 2005^a; NCVO, 2010), many small and medium sized charities do not appear to have heard of or are familiar with these best practice guidance. Researchers can investigate the reasons for this failure and lack of awareness to enable regulatory better communicate future best practice codes and engage with the various constituencies that make up this broad community of voluntary organisations.

Fourthly, research into the voluntary and unpaid nature of trustees' contracts and possible relationship with the apathy of some board members (section 5.3.10) as highlighted in Charity X can broaden understanding of board motivation for effective governance. Results from such a study can challenge the current principle that trustees are not entitled to receive any payment out of the charity's property other than 'reasonable' and necessary out-of-pocket expenses such as the cost of travel to attend meetings.

Finally, this research only covered three medium and small-sized UK charities operating mainly in and from the South-east of England. The problem of access to governance practices beyond boardroom doors in public, private and voluntary organisations has been a barrier to new entrants and non-established members of the research community. There is huge potential from research into the various sizes of charities, especially large, international entities, to further understand and gain better insight into charity governance in the UK.

8.6 Conclusion

In conclusion it must be said that the quest for effective governance by governing bodies, chief officers and other principal governance participants is a huge challenge as demonstrated by the empirical evidence of Charities X, Y and Z. The enormity of the challenge should not deter those directly or indirectly working to produce the life-changing benefits charities have brought to the British society over the years. Charities which achieve effective governance will be able to better respond to service users and other stakeholders and deliver the wide range of practical benefits for the Big Society as recently envisioned by

the UK Prime Minister, David Cameron (DCLG, 2011). The advice of Sir Winston Churchill would serve trustees, senior managers, staff and volunteers well: 'Every day you may make progress. Every step may be fruitful. Yet there will stretch out before you an ever-lengthening, ever-ascending, ever-improving path. You know you will never get to the end of the journey. But this, so far from discouraging, only adds to the joy and glory of the climb...' (Langworth, 2008, p. 568).

The implication for supporters and staff of Charities X, Y and Z and other aspiring charities striving to achieve effective charity governance is that it is not an impossible enterprise. It can be done! An integrated, synergistic collaboration of governance participants as set out in section 7.6 (the five emergent principles of effective charity governance) will help trustees and CEOs to achieve stated objectives and effective governance without stifling innovation and entrepreneurialism. These overarching principles and the strengths and opportunities of the modern, dynamic charity environment should outweigh the challenges and threats.

Finally, the sense of mission that led to the formation of so many charities in the UK that have changed the quality of life of generations must not be eroded. Effective governance cannot be viewed as a destination but a continuous process on a charity's journey towards achieving its goals and objectives. Every purposeful step towards adopting the emergent principles and other empirically-tested best practice Codes, along this journey should be regarded as being fruitful, making progress to a charity which is economically, efficiently and effectively led, controlled and managed.

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APPENDICES

APPENDIX A
THE INTERNATIONAL CLASSIFICATION OF NON-PROFIT ORGANISATIONS

Group 1:	Culture and recreation
Group 2:	Education and research
Group 3:	Health
Group 4:	Social services
Group 5:	Environment
Group 6:	Development and housing
Group 7:	Civil rights, advocacy and political
Group 8:	Philanthropic intermediaries and voluntarism promotion
Group 9:	International
Group 10:	Business, professional association and unions
Group 11:	Religion
Group 12:	General

Source: Salamon and Anheier (1997, p. 142)

APPENDIX B
CHARITABLE PURPOSES IN THE CHARITY ACT 2006

The Charity Act 2006 (part 1, section 2, subsection 2) defines charitable purposes as activities that fall within one or more of the following:

- (i) The prevention or relief of poverty;
- (ii) The advancement of education;
- (iii) The advancement of religion;
- (iv) The advancement of health or the saving of lives;
- (v) The advancement of citizenship or community development;
- (vi) The advancement of the arts, culture, heritage or science;
- (vii) The advancement of amateur sport;
- (viii) The advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity;
- (ix) The advancement of environmental protection or improvement;
- (x) The relief of those in need, by reason of youth, age, ill-health, disability, financial hardship or other disadvantage;
- (xi) The advancement of animal welfare;
- (xii) The promotion of the efficiency of the armed forces of the Crown, or of the efficiency of the police, fire and rescue service or ambulance services; and
- (xiii) Other purposes that may reasonably be regarded as analogous to, or within the spirit of charitable purpose.

APPENDIX C
SEVEN PRINCIPLES OF STANDARDS IN PUBLIC LIFE

The Committee believes that 'Seven Principles of Public Life' should apply to all in the public service. These are:

Selflessness

Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

Integrity

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

Objectivity

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership

Holders of public office should promote and support these principles by leadership and example.

Source: The Seven Principles of Public Life (The Nolan Principles) 1995

Ten further reports have been published since 1996:

- The Second Report 1996 covered Standards of governance, accountability and propriety in further and higher education bodies, grant-maintained schools, training and enterprise councils and registered housing associations.
- The Third Report (1997) covered Standards of conduct for local government in England, Scotland and Wales.

- The Fourth Report (1997) covered Standards of conduct in non-departmental public bodies, National Health Service Trusts and local public spending bodies.
- The Fifth Report (1998) covered Standards in Public Life The Funding of Political Parties in the United Kingdom
- The Sixth Report (2000) covered a review of the First Report of the Committee on Standards in Public Life.
- The Seventh Report (2000) covered Standards of Conduct in the House of Lords.
- The Eight Report (2002) covered Standards of Conduct in the House of Commons'.
- The Ninth Report (2005) covered Standard of Conduct for Ministers and Special Advisers.
- The Tenth Report (2005) covered issues around getting the balance right regarding Standards in public life.
- The Eleventh Report (2007) covered a review of The Electoral Commission.
- The Twelfth Report (2009) covered a review of MPs' expenses and allowances.

APPENDIX D
COMBINED CODE 2003

The Code's overall aim is to enhance board effectiveness and to improve investor confidence by raising standards of corporate governance. Its main features are:

- The Board: at least half the members, excluding the chairman, should be NEDs.
- The Chairman: the chief executive should not become the chairman of the board.
- NED: prior to appointment, potential new NEDs should carry out due diligence on the board and on the company to satisfy themselves that they have the knowledge, skills, experience and time to make a positive contribution to the board.
- Senior Independent Director: the role of the senior independent director is to be available to shareholders, if they have concerns that have not been resolved through the normal channels of contact with the chairman or chief executive.
- Recruitment/Appointment: there should be a nomination committee of the board made up of a majority of independent non-executive directors. It may include the chairman of the board, but should be chaired by an independent non-executive director. The role of the committee is to conduct the process for board appointments, make recommendations to the board, and support the board on succession planning.
- Development/Evaluation: resources should be provided for developing and refreshing the knowledge and skills of directors. The performance of the board, its committees and its individual members should be evaluated at least once a year.
- Tenure: a NED should serve two three-year terms. A full time executive director should not take on more than one non-executive directorship, nor become chairman of a major company. No individual should chair the board of more than one major company.
- Remuneration: compensation can include an annual fee, a meeting attendance fee, and an additional fee for chairmanship of committees. Compensation can be in the form of shares, but NEDs should not hold options in their company without shareholder approval. Any shares acquired by exercising options should be held until one year after the NEDs leaves the board.
- Shareholder relationship: to develop a deeper understanding of shareholders' issues and concerns, NEDs should attend AGMs, attend meetings with major investors, and be actively engaged with institutional shareholders

Source: CIPD, 2003

APPENDIX E
COMBINED CODE 2006
SUMMARY

- (i) A new statutory statement of directors duties which will replace existing duties set out in case law;
- (ii) The existing limited common law right for shareholders to sue directors for wrongs done to the company will be replaced by a new extended statutory right to sue directors on behalf of the company for negligence, breach of duty or breach of trust;
- (iii) Companies will still be allowed to have directors, but at least one director must be a natural person. Directors over 70 years of age will be allowed to remain as directors of public companies with specific shareholder approval and a minimum age for a director of 16 years will be introduced;
- (iv) Quoted companies will be required to include in their Business Review trends likely to affect future development, performance, environmental, social and community issues;
- (v) Shareholders will be allowed to agree to limit the auditor's liability to the company to what is fair and reasonable;
- (vi) The introduction of a new offence for recklessly or knowingly including misleading, false or deceptive matters in an audit report;
- (vii) The Panel on Takeovers and Mergers will be given the power to make rules within a statutory framework; and
- (viii) Greater use of electronic communications in companies which came into force in January 2007.

APPENDIX F

CASE STUDY PROTOCOL AND INTERVIEW GUIDE

A. PROJECT OBJECTIVES

This study, The Governance of the Third Sector: Case Studies in UK Charities, has three objectives:

- (i) Examine, describe and evaluate the various elements of effective governance structures and process in UK charities and build theoretical understanding and insight of charity governance from an 'insider-trustee' perspective;
- (ii) Identify and provide a taxonomy of recognition and the levels of engagement of the key stakeholders of charities; and
- (iii) Review literature and analyse empirical data and from them present general principles of effective governance incorporating organisational elements and attributes of stakeholder accountability.

B. FIELD PROCEDURES

Participatory-observation

- (a) **Board meetings**
To understand how charity are directed and controlled by observing real life contextual behaviour including topics being discussed.
- (b) **Sub-committee meetings**
To understand how charity are directed and controlled by observing real life contextual behaviour including topics being discussed.
- (c) **Annual and extraordinary general meeting**
To understand how charity are directed and controlled by observing real life contextual behaviour including topics being discussed.

Document analysis

Documents will include non-sensitive articles and memorandum of association, Trustees' annual reports, financial reports, letters, memoranda, agendas, administrative documents, information on corporate and Charity Commission websites and physical artefacts.

C. INTERVIEW GUIDE

Structured, open-ended interview guide & protocol

Formal introduction

- 1. Introduce myself and my interest in UK charities.
- 2. Present a brief overview of research project.
- 3. Establish identity/relationship of interviewee with the charity.
- 4. Assure interviewee that all information provided will be treated in strict confidence and will not be directly attributed.

Interview questions

- 1. **How would you define corporate governance in the charity sector?**
Probes: Is it different from what happens in the for-profit sector?
- 2. **What are your primary roles and responsibilities as a trustee?**
Probes: How do you carry out these responsibilities of trustee?
Have you used the Good Governance code for voluntary and community organisations published by Governance Hub?

3. **What is the role of the stakeholders in a charity? Who are stakeholders?**
Probes: Which of them do you consider to be your main stakeholders?
Do you believe they consider themselves as your main stakeholders?
How does your charity demonstrate accountability to its stakeholders?
What specific duties of accountability do you have as a trustee?
4. **Why is financial and risk management essential for your charity?**
5. **What governance principles and practices has your organisation adopted?**
Probes: How do they impact upon the way the organisation functions?

Formal conclusion

1. Thank participant for their time.
2. Tell participant a transcript of the interview will be sent by email so that he/she can check for completeness and accuracy.
3. Offer to provide a summary of research findings and emergent principles of effective charity governance.

APPENDIX G
INTERVIEW CONSENT FORM

You are invited to participate in a study of charity governance in the UK. You have been selected because you were identified as a trustee/director/management committee member of a registered charity. It is essential for you to read this form and ask any questions that you may have before agreeing to take part in this academic research.

This study is being conducted by Dennis Wilson-Cole, a doctoral candidate at the Business School of Kingston University, Kingston Hill, Kingston-upon-Thames, KT2 7LB.

Background and information: The purpose of this multiple case study is to gain a better understanding of governance in charities today and has the following objectives:

- (i) To develop insight from evidence collected and observations of effective charity governance;
- (ii) To develop a framework of emergent principles of effective governance and a taxonomy of stakeholders incorporating elements and attributes accountability.

Procedures: If you agree to participate in this study you will be asked to answer some governance-related questions during a semi-structured, open-ended interview which should take no longer than one hour. Your response will be audio-recorded to eliminate omissions and distortions in data collection. If at any time during the interview you feel unable or unwilling to continue, you may withdraw without giving any reasons. You will have the opportunity to review the interview transcripts for accuracy and completeness.

Confidentiality: The audio records will be kept private, secure and destroyed at the end of the study. In the thesis to be published the researcher will not include any information that will identify you or your charity. Only the researcher will have access to the information collected.

Compensation: No compensation will be given for participation in the study. However a copy of the findings from the study will be made available to all participants.

Voluntary nature of the study: Your participation in the study is wholly voluntary with the principal objective to provide insight and understanding to charity governance.

Contacts and questions: The researcher is Dennis Wilson-Cole. If you have any comments, concerns or questions about this study, you can contact the academic supervisory team of this project; Dr Therese Woodward (t.woodward@kingston.ac.uk); Dr Jill Collis (j.collis@kingston.ac.uk); and Professor Robin Jarvis (robin.jarvis@accaglobal.com).

I have read the above and agree to participate in this study. I understand that I can keep a copy of this consent form for my records.

Name of Participant	Date	Signature

Dennis Wilson-Cole		
Name of Researcher	Date	Signature

APPENDIX H
ETHICAL CLEARANCES FROM CHARITIES X, Y AND Z

CHARITY X

From: xxxx@blueyonder.co.uk
To: denwilco@msn.com
Subject: Re: Doctoral research in charity governance
Date: Tue, 17 Feb 2009 09:17:27 +0000

Hi Dennis

I can confirm that the trustees have given their consent and are happy for you to commence your research as soon as you are ready.

Best of luck in your studies.

J
xxxxxx xxx xxx

From: Wilson-Cole, Dennis
Sent: 22 December 2008 11:57
To: 'xxxx@blueyonder.co.uk'
Subject: Doctoral research in charity governance

Dear J

As we recently discussed I am a doctoral candidate at Kingston University researching charity governance. The purpose of my study is to gain a better understanding of governance in charities and build theoretical understanding for practitioners as well as scholars. One of the outputs from my thesis is expected to be the development of a model of effective charity governance that can be used to improve governance practices, systems and arrangements in your charity. This research is being supervised by three Kingston University academics: Dr Therese Woodward, Dr Jill Collis and Professor Robin Jarvis.

I will be grateful if you can give a formal consent on behalf of the Board for me to use your charity as one of the three subject charities in my study. This will involve: (i) examining governance documents and records; (ii) observing the proceedings of all governance-related meetings; and (iii) asking all directors to answer some governance-related questions during an interview which should take no longer than 45 minutes. The interview will be arranged at the convenience anytime in mid/late June or early July.

I look forward to hearing from you and many thanks for your kind support.

Kind regards,

Dennis Wilson-Cole
Home telephone: 020-8809-4996
Home email address: denwilco@msn.com
Mobile telephone: 07804-701-905

CHARITY Y

From: 'xxxxxx@btinternet.com'
To: denwilco@msn.com
Subject: Re: Doctoral study in charity governance
Date: Sun, 21 June 2009 21:47:01 +0000

Hello Dennis

The chair has asked me to convey the approval of the Management Committee for you to commence your study of our project. As a trustee we hope you will respect the confidential issues we discussed at our last meeting. R has been asked to provide you with the necessary support re documents and records you may require. You can organise the interviews with individual Committee members yourself. We look forward to eventually receiving your report and recommendations. .

Regards

B

From: Wilson-Cole, Dennis
Sent: 22 April 2009 11:57
To: 'xxxxxx@btinternet.com'
Subject: Doctoral research in charity governance

Dear B

As we recently discussed I am a doctoral candidate at Kingston University researching charity governance. The purpose of my study is to gain a better understanding of governance in charities and build theoretical understanding for practitioners as well as scholars. One of the outputs from my thesis is expected to be the development of a model of effective charity governance that can be used to improve governance practices, systems and arrangements in your charity. This research is being supervised by three Kingston University academics: Dr Therese Woodward, Dr Jill Collis and Professor Robin Jarvis.

I will be grateful if you can give a formal consent on behalf of the Board for me to use your charity as one of the three subject charities in my study. This will involve: (i) examining governance documents and records; (ii) observing the proceedings of all governance-related meetings; and (ii) asking all directors to answer some governance-related questions during an interview which should take no longer than 45 minutes. The interview will be arranged at the convenience anytime in mid/late June or early July.

I look forward to hearing from you and many thanks for your kind support.

Kind regards,

Dennis Wilson-Cole
Home telephone: 020-8809-4996
Home email address: denwilco@msn.com
Mobile telephone: 07804-701-905

CHARITY Z

Date: Mon, 28 Sep 2009 19:23:26 +0000
From: xxxxxxxx@yahoo.co.uk
Subject: Re: Doctoral research in charity governance
To: denwilco@msn.com

Hi Dennis

I am happy to advise you that the Board has discussed and approved your request to conduct your research using our charity as one of your subject charities. The project manager will offer you the assistance you require and do not hesitate to conduct me if you need any further assistance. Good luck with your study.

Regards,
G

From: Dennis Wilson-Cole <denwilco@msn.com>
To: xxxxxxxx@yahoo.co.uk
Sent: Friday, 24 July, 2009 7:21:00
Subject: Doctoral research in charity governance

Dear G

As we recently discussed I am a doctoral candidate at Kingston University researching charity governance. The purpose of my study is to gain a better understanding of governance in charities and build theoretical understanding for practitioners as well as scholars. One of the outputs from my thesis is expected to be the development of a model of effective charity governance that can be used to improve governance practices, systems and arrangements in your charity. This research is being supervised by three Kingston University academics: Dr Therese Woodward, Dr Jill Collis and Professor Robin Jarvis.

I will be grateful if you can give a formal consent on behalf of the Board for me to use your charity as one of the three subject charities in my study. This will involve: (i) examining governance documents and records; (ii) observing the proceedings of all governance-related meetings; and (iii) asking all directors to answer some governance-related questions during an interview which should take no longer than 45 minutes. The interview will be arranged at the convenience anytime in September or October 2009.

I look forward to hearing from you and many thanks for your kind support.

Kind regards,

Dennis Wilson-Cole
Home telephone: 020-8809-4996
Home email address: denwilco@msn.com
Mobile telephone: 07804-701-905

APPENDIX I
KEY GOVERNANCE IMPROVEMENT RECOMMENDATIONS

CHARITY X

Organisation structure and strategy

- (i) Update volunteers' policy; and
- (ii) Increase the number of volunteers at Areas Support Groups to extend charity operation to un-entered areas.

Internal governance mechanisms

- (i) Revise M&A to bring governing document in line with current legislation;
- (ii) Review delegated responsibilities of sub-committees;
- (iii) Diversify income streams to avoid reliance on single funding agency;
- (iv) Introduce and implement review and renewal policy and procedures; and
- (v) Establish succession planning for key governance players.

External governance mechanisms

- (i) Extend usage of Good Governance codes 2005 and 2010;
- (ii) Review stakeholders engagement policy and processes; and
- (iii) Implement aspirational corporate social responsibility policy and procedures.

CHARITY Y

Organisation structure and strategy

- (i) Review mission, vision and values of the charity;
- (ii) Modify or re-design organisation to make it more responsive to needs of charity; and
- (iii) Develop and implement volunteers' policy;

Internal governance mechanisms

- (i) Revise M&A to bring governing document in line with current legislation;
- (ii) Resolve decisively the problems which have arisen from 'founder's syndrome';
- (iii) Recruit finance or business professional as Treasurer;
- (iv) Review current performance targets and measures;
- (v) Review stakeholders engagement policy and procedures;
- (vi) Introduce and implement review and renewal policy and procedures; and
- (vii) Establish succession planning for key governance players.

External governance mechanisms

- (i) Implement main recommendations of Good Governance codes 2005 and 2010;
- (ii) Review stakeholders engagement policy and processes; and
- (iii) Introduce and implement corporate social responsibility policy and procedures.

CHARITY Z

Organisation structure and strategy

- (i) Codify and communicate mission, vision and values of the charity;
- (ii) Develop long-term strategy to ensure 'going-concern' status of charity;
- (iii) Develop and implement volunteers' policy; and
- (iv) Increase the number of volunteers to reduce waiting list.

Internal governance mechanisms

- (i) Revise M&A to bring governing document in line with current legislation;
- (ii) Streamline duties of the Treasurer so that internal controls are not compromised;
- (iii) Diversify income streams to avoid reliance on single funding agency;
- (iv) Introduce and implement review and renewal policy and procedures; and
- (v) Establish succession planning for key governance players.

External governance mechanisms

- (i) Implement main recommendations of Good Governance codes 2005 and 2010;
- (ii) Identify, recognise and engage stakeholders; and
- (iii) Introduce and implement corporate social responsibility policy and procedures.