Good Governance

What is governance and why is it important?

Governance is simply the systems and processes which decide the overall direction, supervision and accountability of an organisation.

Good governance practices demonstrate that your organisation is willing and able to act in the best interests of the organisation. Good governance practices are effective, open and ethical, which adhere to the law and allow you to stand up to scrutiny. These help to grow public trust and confidence, encouraging people to support your organisation.

- Governance processes are set out primarily in an organisation's governing document, and are supplemented by any additional policies or secondary rules.
- Governance is different from the day-to-day running of an organisation, as it deals with overall systems and processes, rather than smaller details.
- For example, governance is not about paying wages or bills, but is about ensuring that systems are in place to guarantee that wages and bills are paid on time.

Good governance is important to balance the needs and aspirations of your organisation, and a range of stakeholders, including your staff, customers, supporters and volunteers. Stakeholders include all of the people who your potential plans will have an impact on or connection to, such as local residents, businesses or community leaders.

It is important to be inclusive of all of the views in your local community, and understanding different stakeholder motivations will help you to identify potential support or conflict that may arise.

See the ViSEnet Stakeholder Engagement resource, for more information about how to identify, understand and engage with stakeholders.

https://www.ruralsehub.net/stakeholder-engagement/

Who is responsible for good governance?

Governance can be simpler in top-down leadership styles, where one person assumes responsibility for all decisions. In collective leadership styles, which are often used by social enterprises and community enterprises, there are a number of people who assume responsibility for decision making, and therefore governance is spread throughout the organisation.

All organisations have a governing body (usually called a Board or a Committee), which has a legal responsibility to oversee the governance of the organisation. The Board or Committee is made up of elected people who are called trustees, directors, board members or committee members – these names all mean the same thing.

The governing body is responsible for ensuring that the correct governance systems, processes and policies are in place.

This includes providing strategic direction, setting organisational aims, checking that sound legal and financial decisions are made, and ensuring that the organisation remains true to its purpose.

Who is on the governing body?

Board or Committee members are elected because they have relevant or additional skills and experience to provide guidance and strategic direction for your organisation.

When selecting board members, you should look for people who are:

- Genuinely interested in what you are doing
- From a range of backgrounds and expertise
- Supportive of your organisation and goals
- Objective and able to provide fresh perspectives
- Willing to give you access to their expertise, contacts and wisdom
- Able to critique and challenge you in a constructive way

If possible, you should try to achieve a good gender balance in your board, but avoid sacrificing on skills and experience just to achieve a 50:50 gender balance.

Considering the rural element...

You may find that you have to look further than your local community for board members who offer relevant skills, experience, and different perspectives.

This is fine, but means that you may have to pay their travel expenses for annual board meetings, or offer training so that they can use digital tools to contribute remotely.

How many people should be on the governing body?

Generally speaking, less than 3 or more than 12 members is bad governance. With less than 3 members, the governing body can only give a narrow breadth of advice or different perspectives, and will have limited scope to be truly effective.

Similarly, if the board has more than 12 members, then there may be too many competing perspectives and voices for them all to be heard and considered. On larger boards, contributions can lose their value because members don't have the same depth of input as members of a smaller board can have.

Many people believe the sweet spot for the number of board members is between 5 and 9, with 7 being ideal. The governing body should ideally have an odd number of members, in case of a vote – you don't want a tie.

The size of your board also depends on the size of your organisation – the bigger your organisation, the more board members you should have. However, more board members ultimately gives you better access to expertise, connections and advice, so smaller organisations should aim for the sweet spot too.

Rules for Building Your Governing Body

- Less than 3 is bad governance, more than 12 is also bad governance.
- Boards should have an odd number of members, in case of a vote (you don't want a tie).
- An average board will have 7 or 9 members.
- Board members should have a wide breadth of experience and perspectives.
- If possible, try to have a good gender balance, and include a diverse range of people.

For more information on how to establish a social enterprise board, see advice from the School for Social Entrepreneurs.

Types of Governing Body

However, governing bodies can be have different names and forms, depending on the type of organisation they represent. This is shown in the table below:

Organisation's Legal Form	Most common name for governing body	Members of governing body
Unincorporated Association	Committee	Committee members
Development Trust	Board of Trustees	Trustees
Limited Company (including CIC)	Board of Directors	Directors
Society	Committee of management OR Board of Directors	Committee members OR Directors

The duties and responsibilities of all of these governing bodies are similar, but organisation types and their relative governing bodies can differ from country to country, so it is best to check the advice in your own country. The resources below give a general guide.

Cooperatives UK have published 'Simply Governance', a comprehensive guide to understanding the governance systems and processes required to run a community or social enterprise. The guide covers:

- Different types of legal forms and organisational types
- Governing documents and bodies
- Membership and meetings
- Policies, hiring, and firing
- Ownership, assets, and decision-making
- Common governance problems and FAQs

The UK National Council for Voluntary Organisations (NCVO) have a wide range of resources related to governance. These cover basic definitions, right up to improving your governance practices. Here is a good place to start.

What measures should be in place to ensure good governance is carried out?

Community enterprises, whilst more sustainable due to their community ownership – are more prone to governance problems relating to the breakdown of relationships between members and the governing body, and a lack of clarity around roles and responsibilities. This is not a reason to be less democratic or collective, but a challenge to be accountable and practice good governance.

In the page below, we have outlined what measures should be in place to assist good governance, and direct you to page numbers in the UK Cooperatives 'Simply Governance' guide for more information.

A Governing Document

The governing document is a record of the governance arrangements of an organisation. It details the purpose of the organisations, what it intends to do, and how it will do it. Not all organisations are required to have a governing document, but it is generally seen as good practice to do so.

- See page 18 for more.

Secondary Rules

Secondary rules typically contain clauses relating to the conduct of meetings, membership rights and responsibilities, and the amount of any membership fees or subscriptions and when due.

- See page 55 for more.

Membership Descriptions and Agreements

This may be a separate and more detailed document relating to the roles and responsibilities of membership For example, a membership document may specify any amount of subscription and when it is payable; any commitment expected from the member; and any benefits the member can expect in return from the organisation.

- See page 55 for more.

Standing Orders

These are secondary rules which relate exclusively to conduct of meetings, and will specify arrangements like: who can speak and when, when to vote by show of hands or secret ballot; tellers and the counting of votes; the rights of the chair to adjourn or closet the meeting.

- See page 55 for more.

Policies and Procedures

Policies are a set of principles which guide decision-making, whereas procedures are a set of steps in order to accomplish something. All organisations will have policies in place for health and safety, equality and diversity, and recruitment, for example. Similarly, most organisations will have procedures in place for grievance and disciplinary action, or for risk management.

- See page 56 for Policies, and page 59 for Procedures.

Board or Committee Responsibilities

A social enterprise Board or committee has responsibility for the strategy and management of the social enterprise in line with the aims and objectives. As such, members have responsibility:

- To develop and agree the strategy and policies of the social enterprise
- To agree the financial plan and monitor performance, ensuring good financial management
- To ensure that the social enterprise is run properly, responsibly, in accordance with the law, in the interests of its members and in accordance with the governing documents
- To ensure that activities are in line with the aims and objectives of the organisations
- To ensure that the social enterprise operates honestly, openly, transparently, and accountably
- To ensure good financial guard against the liabilities of the charity exceeding its assets
- To appoint, support, and manage key staff for the social enterprise, such as Business Manager

- To ensure the governing body receives accurate and timely information in line with requirements
- To ensure the wider community, or community of interest is informed of the work, impact, and overview of the social enterprise (at least annually)
- To report accurately and promptly to the governing body (for example, Companies House, or the Office of Charity Regulator in the UK and Scotland)

The board or committee can establish sub-groups and involve wider representatives with specific skills however it is good practice to ensure at least one member of the board or committee is involved and reports back to the main group.

Conclusion

Having clearly defined governance roles to show who is responsible for what is particularly important, especially since community enterprises may favour a collective leadership approach, rather than top-down leadership.

In collective leadership styles, one person is not responsible for everything, and therefore governance is spread throughout the organisation. Therefore, people's individual and group responsibilities for specific actions and roles must be clearly defined in order to avoid confusion.

Good Governance Resources

1) **Supporting Communities**

Supporting Communities is a member of the Developing Governance Group, a group of charity sector support organisations, dedicated to supporting good governance practices.

- The Code of Good Governance is available, which sets out the principles and key elements of good governance for the boards of voluntary and community organisations in Northern Ireland. This provides a valuable and practical resources for charitable organisations large and small.
  http://www.diycommitteeguide.org/introducing-code

- The Governance Health Check is a free self-assessment tool which has been created by the Developing Governance Group as a practical resource to help committees/boards and other governing groups to adhere to the principles of the Code. This can help governing bodies of any size to demonstrate their good governance practices to stakeholders, beneficiaries, and funders.
  http://www.diycommitteeguide.org/download/governance-health-check

Scotland-specific Resources

2) OSCR Website Resources:

OSCR is the Scottish Charity Regulator, and they provide a range of advice and resources to support charitable organisations, including social and community enterprises.

- Guidance and good practice for Charity Trustees sets out the legal requirements that charities must consider to ensureg that their charities adhere to good governance practices and avoid problems.

- (WEBPAGE) https://www.oscr.org.uk/guidance-and-forms/guidance-and-good-practice-for-charity-trustees/
- (PDF) https://www.oscr.org.uk/media/3621/v10_guidance-and-good-practice-for-charity-trustees.pdf

- The Good Governance Section gives info and case studies for the 12 governance elements, which are: Collective responsibility, Governing document, Remuneration, Conflict of interest, Trustee duties, Financial controls, Dominant trustee, Management and control, Meetings, Disputes, Publicising your organisation, Trustee introduction.

- (Webpage) https://www.oscr.org.uk/managing-a- charity/trustee-duties/good-governance/