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# GOVERNANCE *for* GOOD

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A showcase of top UK social enterprises achieving  
maximum social impact and a competitive edge  
through excellent governance

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## *An E3M publication*

E3M was developed by Social Business International (SBI) with support from Bates Wells Braithwaite, The University of Northampton, Unity Trust Bank and Baker Tilly. E3M supports a group of the UK's most successful social enterprise leaders and their peers to share insights, best practice and thought-leadership around working in public service markets. At the heart of E3M is a Social Enterprise Leaders Club with a programme of activities for members and a series of knowledge sharing events open to non-members.

## WHY GOOD GOVERNANCE MATTERS

### Foreword by Jonathan Bland, founder of E3M

Good governance is the key to success. Get it right and it allows healthy growth, new contracts, happy stakeholders.

With the right people, attitudes, systems and relationships in place, your organisation is likely to flourish. Without them there can be bad decision making, failure and lack of growth. Poor governance can keep a social enterprise in an 'uncommercial' risk-averse mindset and prevent it from flourishing and creating the deep, lasting social change it was set up to achieve.

With the workings of the Cooperative Group under scrutiny these last few years, governance is a topical issue. For those delivering public services perhaps even more so. Following some of the recent outsourcing scandals involving large companies failing to deliver on promises, robust and transparent governance is not just good practice, but can also be a competitive advantage for social enterprises. The fact that social investors are placing an ever-increasing spotlight on how social organisations

operate behind the scenes, and, changes to profit distribution rules for Community Interest Companies are also putting a renewed focus on governance.

### Governance and CIC changes

As of October 2014, changes to Community Interest Company (CIC) regulation mean investors in community interest companies can now potentially receive more of a return on their shares (see more on the changes here: [gov.uk/government/news/new-dividend-and-performance-related-interest-caps-now-in-place](http://gov.uk/government/news/new-dividend-and-performance-related-interest-caps-now-in-place)).

The CIC regulator hopes this will bring in more of the growth capital urgently needed by CICs to keep creating change in their communities.

With the 10th anniversary of the CIC model in 2015, more CICs are reaching the stage of being ready for investment. At the same time, the Social Investment Tax Relief (SITR) option has now become available to social investors. So, changes are afoot and it means the UK's 10,000 CICs need to re-examine their governance and systems as changes happen inside and outside and they look to move on to the next stage of growth.

### *The reason we've created this publication*

Social enterprises emerge from different routes - traditional charities, public sector spinouts and brand new start-ups. Each route comes with its cultural and organisational challenges, but as these businesses mature and develop they all have to address some common governance issues for growth. These include:

- Creating the right leadership and governance culture, having the right people in place, and doing the right things in the right way
- Engaging and empowering stakeholders
- How to balance achieving maximum impact with appropriate risk
- Understanding governance as a changing and dynamic process

The E3M round table and seminar in 2014 showed that good governance is an ever-evolving subject where there is always something new to learn.

We think the best way of learning is to share stories, experiences and best practice with each other. At E3M events some of the most experienced and successful social enterprise leaders come together to discuss how they're doing things, so that everyone can grow their knowledge together.

This publication is not a guide, there are many guides already available. It is our way of showcasing those illuminating, real experiences, from our members to demonstrate how the UK's top social enterprises are developing brilliant governance at the heart of their businesses.

## WHAT IS GOOD GOVERNANCE?

**By Julian Blake, partner and joint head of social enterprise and charity at Bates Wells Braithwaite**

There is an illusion around good governance - that once you deal with the basics, the job is done. But excellent governance is not just a way of working, it's dynamic and needs to be regularly reviewed and refreshed as the world inside and outside of the social enterprise changes.

There are three essential elements that can make all the difference to the governance of an organisation: the people; the procedures and processes; and, the structure. Together they create the operating governance culture. For a healthy governance culture these elements need to be in balance.

Getting a mix of good quality people on board who bring a diversity of perspectives, skills and experiences is crucial. They should be able to challenge orthodoxy and avoid 'deathly group-think'. They need to be engaged, committed, have fun, be prepared for constructive disagreement, and bring an attitude toward development that is open to reasonable risk rather than safely maintaining the status quo.

Many boards tend to operate quite informally. While excessive formality isn't necessarily desirable, I believe it's important to keep some of the important procedures and processes in place ie, making sure what's important gets prioritised and that stakeholders have their say in a timely and organised fashion. Perhaps above all, it is vitally important that there is active engagement between the chair and CEO - within discussion, this may include constructive

*"I remember at a Chartered Institute of Public Finance conference, Eric Pickles told delegates that local government had spent 30 years obsessing about governance when they should have been 'focusing on the issues'. It's such a false dichotomy. You can't focus on the issues if you don't get your governance right"*

**Jessica Crowe**

The Centre for Public Scrutiny

### *Bates Wells Braithwaite (BWB)*

Bates Wells Braithwaite (BWB) is a commercial law firm widely regarded as the leading law firm for charity and social enterprise (including by principal directories: Chambers and Legal 500). It has a large specialist social enterprise team.



Julian Blake leads a specialist team of 30 lawyers at BWB. Since 1991 he has mainly applied commercial disciplines in establishing, developing and working with social purpose clients. This includes giving operational, commercial and regulatory advice, and working with social franchises and funding schemes among others.

disagreement and should include maintaining communication and a healthy working relationship.

Governance matures with the organisation to reflect the different stages of its growth. The business changes over time, the environment its working in changes and the value that individuals provide changes. A regular review is paramount to keep everything on track and excelling.

Sometimes people don't think about structure and processes until something goes wrong. The best thing to do then is take a step back and work out what you should have put in place at the beginning to prevent such a thing happening and work from there.



All aboard: HCT bus travellers demonstrate that good governance means happy customers (Image by Jonathan Cole Photography)

# THE PURPOSE OF SOCIAL ENTERPRISE GOVERNANCE

*Is your social organisation using its governance to achieve the social good it is capable of?  
Is there a healthy attitude to growth and new opportunities, or is over-cautiousness holding the business back?*

## MAXIMUM GOOD WITH APPROPRIATE RISK: AN INTERVIEW WITH DAI POWELL OF HCT GROUP

“Most social organisations are failing because of poor governance. And, there’s one simple reason: most of the guidance you see on governance focuses on mitigating risk, and says very little about a social enterprise maximising the good it does,” says Powell.

Social enterprises are there to do good and ideally to increase the amount of good they do, but often a risk averse attitude means they aren’t truly achieving their potential, he believes.

“For example, I saw a trustee role advertised on the NCVO (National Council for Voluntary Action) website and it was heavily focused on avoiding undue risk - doing the annual report on time, making sure nothing went wrong, that kind of thing. There was one single line about a responsibility to ensuring the organisation achieves its goals.

“When do you ever see boards saying ‘what’s the greatest thing we can do for the success of this social enterprise?’ I’ve been on lots of boards and you rarely see them challenging the status quo.

“I think we should call for social enterprises to have a legal duty to maximise good, within legal, decent parameters, in the same way a private company has a legal duty to maximise profit.”

You need the right people to fulfil your potential, he says.

*“If you’re planning for growth, it will usually mean increased risk, at least in the short term”*

**Gordon Muir**  
Social Investment Business

*“The four questions I always ask a board looking at risk are, what’s worst thing that can happen now, what’s your greatest fear, biggest challenge and biggest opportunity? I encourage organisations to look at risk in terms of what opportunities they could lose out on”*

**Matthew Humphrey**  
Baker Tilly

“Make sure you refresh the board regularly and maximise people’s skills. We only have people on board if they want to make a positive impact, not just maintain the status quo or stop us doing something.”

Boldness and calculated risks from board members has paid off, he says.

“In the early days, some of the big contracts we went for represented up to 50% of our turnover, which obviously presents a big risk.

“We also took on social finance early on, which is unusual, and in the last few years have taken on a large contract in the Channel Islands, which was a big operational, as well as revenue risk. But, they’ve all paid off.

“Certain things are of course too risky,” he adds, “but it’s about having a board who can spot a calculated risk and see the opportunity. Some risks haven’t paid off, like our investment in a furniture recycling arm, which we sold after five years, but it can still be worth taking a chance.”

## HCT Group

**Business activities:** Community and commercial transport, driver education and training

**Founded:** 1982

**Location:** London, Yorkshire, Humberside, South West of England, Jersey

**Turnover:** £43 million

**Employees:** 930

**Legal Structure:** Company Limited by Guarantee and charity with smaller CICs within the group

[www.hctgroup.org](http://www.hctgroup.org)



Dai Powell has been chief executive of HCT since 1993, leading the organisation as it's grown by more than a hundred-fold - from a small community transport provider into an award-winning national social enterprise. In 2006 he was awarded an OBE for services to disabled people.

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## LEADERSHIP AND CULTURE: THE RIGHT PEOPLE, THE RIGHT ATTITUDE

*Great social enterprises are deeply concerned with creating a fertile environment for strong leadership and a positive, empowering culture for staff, service users and stakeholders. Making sure everyone at the business and on the board is on message with their role and responsibilities and achieving their potential, plays a key part in this. In this section we look in more depth at a social enterprise which has spun out of a local authority to find out how it's going about creating the right leadership, board and culture.*

### Sarah Sharlott, CEO of Realise Futures CIC

It was liberating to spin out in 2012 and finally be able to give clients the voice we felt they needed, as well as recruit the positions needed to expand our offering.

On our own, we were more easily able to set up new projects like our cafes, sign and print business and fulfilment business, alongside our employment and training services.

As a small founding team of directors with predominantly public sector leadership and management expertise, we wanted a set of non-executive directors/ board members who would understand our business model, challenge us, be

commercially minded, be good advocates for us when attending public events / meeting potential funders, and, understand the workings of the government and public agencies with whom we had contracts.

They needed to be hands-on and focused on furthering the business rather than their own careers, and be prepared to take collective leadership responsibility for the company along with its executive directors.

Ultimately, the overarching aim was to give members/ service users a stronger voice in how their service works. Members are very active at AGMs and keen to give input. We needed board members who would always give a strong voice to service users.



## Recruiting board members

We felt that staff directors would not be appropriate especially at such an early stage of the organisation. We began looking for people whose values aligned with the organisation, but would bring challenges to directors and managers.

Adverts were placed with Chamber of Commerce, the Institute of Directors and Social Enterprise UK and on our own website. An interesting range of people applied and we did a sort of 'speed dating' session.

We were mainly looking for a good attitude, but as a group, we knew there was a need for certain skills on the board in the areas of HR, IT, finance and marketing. We brought in:

- A qualified accountant and former director of business and finance at the local authority
- Director of a local IT company who worked with the IOD regionally and locally
- Former area relationships manager for the Skills Funding Agency, who also had good connections with the armed forces (an area of business growth for us).

From then, we were able to get a good balance on the board with people whose affection would not cloud their judgment.

*“Boards need to engage and challenge ideas. They need to be more than just the ‘parsley on the fish’. They need to avoid ‘chaining their brains to the railings outside’ and take their ideas and skills into the meeting. They should not be purely aiming to leave the organisation in the same condition as it was when they joined it. They should not be averse to taking risks but open to real conversation”*

**The late Stephen Lloyd**  
Bates Wells Braithwaite

## The Personal Boardroom

Drawing inspiration from the concept of The Personal Boardroom\* at this stage of our governance, we tried to ensure that both execs and particularly non-exec:

- Would give the customers a voice
- Have sector expertise in specific areas
- Were able to help guide us as we navigated away from the council
- Could champion our cause with local businesses
- Could create important new connections
- Would challenge some of our actions and strategies

We also needed a 'steel injector' (partly my role) to offer the encouragement and support we needed in order to make tough decisions, or for when we lost a major contract which was seen as an anchor for the business.

It is important to us, also, that directors demonstrate many of the Nolan Principles. (The 'Seven Principles of Public Life' or 'Nolan Principles' have been set out by the Public Standards Committee as desirable attributes for people working in the public service. They are selflessness; integrity; objectivity; accountability; openness; honesty and leadership).

\* www.thepersonalboardroom was devised by leadership consultants. It is the principle of choosing a range of 6 - 12 different people in different roles to surround yourself with a view to furthering your career/ organisation



Daily smiles: strong governance at Realise Futures supports successful services like the organic box scheme

## Does it feel right?

We set out these standards of behaviour with the aim of creating a happy and supported environment for staff and service users.

Staff and others involved in the organisation live by the values we've tried to enshrine and this becomes clearly evident in the way they regularly rally support for vulnerable service users or staff. To us, this is good workplace culture and good governance is behind it.

## Staff voice

Staff voice is important to us, but we wanted to develop a board whose goal would be to grow the wider impact of the business for service users and wider stakeholders across the board, first and foremost.

A staff consultation group that addresses staff related issues, while keeping those issues off the board agenda - to ensure the best use of board time - can be a useful option for ensuring staff input. At Realise Futures, we alternatively chose to have a staff director and a client director on the board, which brings some perspective.

Realise Futures - governance essentials:

- Everyone has a clear understanding of their roles
- The board is prepared to challenge and debate what is right for the company
- Staff and the board model the vision, values and company culture

*“Non-executive directors need to feel as though they add to what the executives offer. A board needs to use their skill sets. If they are given nothing to do, the good ones will leave”*

**Dai Powell**  
HCT Group

## Realise Futures CIC

**Business activities:** Careers advice, community learning, skills development, employment training, work placement, therapeutic work opportunities

**Founded:** 2012

**Location:** East of England

**Turnover:** £16.7 million

**Employees:** 370

**Legal Structure:** Community Interest Company (CIC)

[www.realisefutures.org](http://www.realisefutures.org)



Sarah Sharlott, CEO of Realise Futures, has a background in local authority services. In a career spanning 30 years, she has

established and led the delivery of services ranging from home care and meals-on-wheels, to community hospitals and employment advice and skills.

In 2005, she led a European Social Fund supported project to evaluate the possibility of transforming Suffolk day care services into viable social enterprises.



All hear: The voice of staff, customers and service users plays a crucial role in Realise Futures' governance



## STAKEHOLDER ENGAGEMENT

*One of the qualities that makes social enterprises distinct is the value they place on involving and empowering the wide range of people who benefit from, or contribute to, the activities of the business.*

*While private companies are generally focused on maximising the power and wealth of the few, social enterprises are focused on social benefit achieved through justice and democracy, ultimately maximising the wealth of the many.*

*Read on to find out how two E3M members are working hard to bring in the stakeholder, and particularly the user/customer voice.*

### A CALL FOR MEMBER ENGAGEMENT: AN INTERVIEW WITH VIVIAN WOODELL FOUNDER AND CEO OF THE PHONE CO-OP

Vivian Woodell has been a member of a number of co-ops in his life, and has seen how members, staff and customers can have a very positive impact on organisations, helping them to create healthy, sustainable growth.

When Woodell set up The Phone Co-op in 1998 he was absolutely set on bringing in customer and stakeholder views, opinions and ideas.

“It isn’t easy or simple to give lots of people a say, but it’s essential if you want to have a genuinely successful and fair business,” he believes. “Don’t fall into the trap of trying it once and thinking it doesn’t work. Persevere.”

The business has 27,000 customers, 10,000 of whom have chosen to be members (taking a more active role in the coop).

“There can be a tension between having an entrepreneurial CEO who may want to act quickly, and having a strong democratic process,” he admits. “But a social entrepreneur can still have some freedom to do what they’re good at if there is a strong trust between the board” (including members) and management. I respect that we have a democratic structure for a reason.

“My advice is to nail your purpose to the wall and use it as an anchor to turn to when there are disagreements.”

### Engaging members and staff at The Phone Co-op

- There are two members meetings a year: the AGM which attracts about 100 people and a half yearly meeting. Members can ‘attend’ interactively via phone for both, to ensure wider reach. There are also interactive member workshops which feed in.
- Customers and members are surveyed on various proposals and ideas. For example, when the coop was looking to expand outside the UK. The Phone Co-op has an average return rate of 40% on surveys.



Good connections: A strong relationship with customers, underpinned by excellent governance, has seen The Phone Co-op go from strength to strength

- About 30% of members turn out for board elections (around the same as local authority elections in the UK).
- The coop has been running employee councils, elected by employees, for 10 years. These are not part of the formal governance structure, but they feed into business strategy.”It’s not always easy to get people to stand because of the time and effort involved,” says Woodell.

### Creating a democratic board and governance at The Phone Co-op:

- Seven board members, elected by customer members. Seats are heavily contested and there is regular change of board members.
- Staff are allowed to be on the board, but so far none have been elected. The maximum number of staff allowed on the board is two, to ensure members have the strongest voice.
- Each board member is paid around £1200 a year, with the chair receiving 50% more.
- Three year re-election cycle for board members, but no limit to how long someone can be on the board. “It can take a couple of years for board members to really understand a business and be able to influence it, particularly at a big co-op,” says Woodell.
- The chair is elected or re-elected on a yearly basis and can serve in the position for a maximum of nine years.
- There is an ethical policy committee feeding into the board which looks at wider community environment and strategy issues. Staff and customers can be on the committee.
- There are some long standing board members, which means that people outside of the staff have institutional knowledge of the business.
- It’s vital to have a strong board secretary to empower members. It’s important to make sure the board genuinely feels they can challenge the CEO and be awkward if needed.

### *The Phone Co-op*

**Business activities:** Fixed and mobile telecoms, broadband and business data services, social enterprise investment, telephone conferencing, solar PV investment for electricity generation

**Founded:** 1998

**Location:** UK (HQ in Oxfordshire)

**Turnover:** £11 million

**Employees:** 70

**Legal Structure:** Industrial and Provident Society

[www.thephone.coop](http://www.thephone.coop)



Vivian Woodell is the founder and CEO of The Phone Co-op, one of the UK’s most innovative and most successful new co-operative enterprises. Vivian is also an elected director of The Midcounties Co-operative, one of the UK’s largest independent retail co-operatives, where he also served as president for eight years and a board member of Co-operatives UK.

*“The role of the board should be to hold management to account. It should not be the board who is coming up with the strategy but they should agree on the strategy and make sure that it is carried through. However, the social enterprise sector needs to be realistic. How do you manage a social entrepreneur? How does the chair manage a CEO? It is the responsibility of the CEOs themselves to build in their own checks and balances and involve the board to do this”*

**Dai Powell**  
HCT Group

## **KEVIN BOND, CHIEF EXECUTIVE OF NAVIGO ON HOW THE HEALTH AND SOCIAL CARE CIC EMPOWERS STAFF AND SERVICE USERS**

### **Why is it so important to you to involve staff and service users in the business?**

Genuinely giving staff and service users and carers real powers and involving them in many activities stops us reverting to what I'd say are the more defensive, less productive elements of public service culture. Working in this way means we have been able to set up numerous unique successful initiatives, smoothly.

In 2014 we were voted one of the top 10 places to work in the health sector by the Health Service Journal, and in 2011 we won the Guardian's top public service award.

Our governance approach ensures we think about things that matter to people, not just the latest NHS or social care vogue. It also gets commitment, ownership and high quality, unique services.

For example, we set up a specialist eating disorder service; it was very high risk stuff and there's nothing else around like it. The people we work with on this are close to brink of death. It took us three months to agree we were going to do it and three months to set it up. In the NHS, it would have taken five years to get it going, if at all.

### **How does your governance structure bring in staff and member views?**

An important feature in this is the membership board, which involves:

- Four elected staff reps (at least two of whom must be below management level)
- Four elected community reps which can be service users – carers, and people in local community
- Senior operational managers

It's what you might call an operational board which feeds into the main CIC board (which also has one community rep and one staff rep). Its purpose is to actively involve stakeholders and keep them well

informed. It's open to everyone, however community members on the board cannot exceed the number of staff on the membership board.

### **What role/power does the membership have?**

All 700 members have equal voting rights and have voted on areas such as: the chair's appointment; on which surplus schemes should get funding; my re-approval as CEO. That gives me confidence to act decisively.

### **How often does the membership board refresh?**

It's a three year cycle for members and staff and they're allowed a maximum of six years on the board.

### **In what other ways do you involve stakeholders?**

We have very active AGMs. More than 200 people come to vote on all sorts of issues. We also use confidential survey to gauge views.

### **Are staff and members involved in the entire business at every level?**

Yes, although staff and members are not elected to run the day-to-day business, they are elected to help set a general direction and connect with each other through the member board. The executive runs the day-to-day business with oversight from the main CIC board.

### **Why two separate boards?**

You need to get a balance. Members and staff can vote on and discuss meaningful things and we ensure people are well-informed enough to have a proper say. But membership and representatives cannot run the service on a day-to-day basis as they are not experienced or qualified to do so - this is down to the CIC board and executive.

When having a membership board, you can run the risk of handing over decisions to people who might not have as much knowledge about the business as the CEO or senior staff. But we have decided to work this way in the interest of fairness.

## NAVIGO

**Business activities:** Mental health services, social care services, training, employment

**Founded:** 2003 (independent since 2011)

**Location:** North East Lincolnshire

**Turnover:** £25 million

**Employees:** 530

**Legal Structure:** Community Interest Company (CIC)

[www.navigocare.co.uk](http://www.navigocare.co.uk)



Kevin Bond, CEO of NAVIGO has led the transformation of mental health services in North East Lincolnshire by moving services from a large mental health trust into a PCT, then a Care Trust Plus and ultimately into a successful social enterprise.

During that time Kevin has empowered service users to aspire to better quality care and provided the leadership to create innovative services. He trained as a mental health nurse and has a strong focus on empowerment and service user engagement in care services.

## GOVERNANCE AS A DYNAMIC PROCESS

*All the experience from E3M members illustrates that good governance is dynamic and involves active relationships. The businesses are constantly developing and shaping their governance to meet need and to be able to grow and adapt. In this section, we hear about the dynamic governance at Bryson Charitable Group and how three chairs have transformed the business every step of the way.*

### THE TALE OF THREE CHAIRS

**By John McMullan, CEO of Bryson Charitable Group**

In the last 15 years, Bryson has grown into one of Northern Ireland's top 100 SMEs, turning over £36 million.

Before the year 2000, like a typical charity, we had an executive committee and a management committee. But each had a different view of the organisation and what it was there to do, which stunted growth.

Developing an appropriate governance structure has been a challenge. But it's a journey worth sharing.

A governance review 15 years ago marked a new era in Bryson's governance with three chairs re-shaping and modernising the businesses since then.

### Secure foundations

The first of three reforming chairs - the 'spook' - was a retired senior Northern Ireland Office security official. He understood the organisation needed fundamental structural change to support the growth to date and to promote further growth.

*"The stages of development of an organisation are important for accessing investment. There needs to be the initial campaigning skills required to start up the organisation. There then needs to be the capital development skill sets and then there needs to be the skill set to successfully grow and run the business"*

**Caroline Forster**  
Social Investment Business



He refreshed the board to bring in new skills and challenge the Bryson Group structure, which comprised an umbrella charity and seven wholly-owned social enterprise subsidiaries. He also put limits on the time people were allowed on the board.

### Shaping strategy

The second chair - the honourable administrator - was a retired senior civil servant. He focused on building a strong governance structure to complement the professional executive team now in place.

Embedding strong governance with the necessary skills and experience, he created a platform to shape the strategic direction, hold the executive to account and support their work. He developed new terms of reference, relationships between boards, reserve matters and decision thresholds. This included adding an independent internal audit function; robust risk management and employing a part-time company secretary, independent of the executive and accountable to the group board.

In addition, skills profiles for the various board members were put together, along with performance evaluation mechanisms for members and a series of standing committees including: remuneration; governance and nominations; investments; and, audit and risk.

### A chair to invest in growth

The third and current chair is a recently retired managing partner of a major global consultancy firm, referred to as 'the market gardener'. He is focusing on growth: growth metrics, investing for growth and investing in staff through a succession planning programme.

He has developed a new tendering and process building structure, peer review, and challenge and engagement with boards into the process, while setting the group up for significant growth within and beyond local markets.

The relationship between the CEO and the chairs has been crucial. There needs to be confidence and trust and they need to be able to learn from each other.

Our longevity has been underpinned by our ability to adjust and reshape to remain relevant. You're not going to be there for long if you're not evolving.

*"An organisation needs to engage with governance as it develops. As a start-up the organisation may be a group of individuals enthusiastically getting things going with a powerful single vision. As it matures it needs to consider a more scientific and precise approach to the governance. It needs to have an awareness of the skills that are and are not around the boardroom and look for a variety of visions"*

**The late Stephen Lloyd**  
Bates Wells Braithwaite

### Bryson Charitable Group

**Business activities:** Social care, recycling, energy, training, sports, multicultural resource centre

**Founded:** 1906

**Location:** Northern Ireland, Donegal (Rep. of Ireland), London, Wales

**Turnover:** £36 million

**Employees:** 680

**Legal Structure:** Charity and Company Limited by Guarantee

[www.brysongroup.org](http://www.brysongroup.org)



John McMullan has worked at Bryson since 1985, following 10 years in manufacturing. He led the repositioning of the Bryson brand and has overseen the significant growth of the group.

John has been invited to advise governments on both sides of the border on fuel poverty and was Social Enterprise UK's Social Enterprise Leader of the Year 2011.



### *Bryson Group – Governance essentials*

- The levels of responsibility or authority and the relationship between the board executive management should be clear and fully understood by all stakeholders.
- Effective boards are independent of management - built upon a complementary and relevant skill profile with fixed term appointments to refresh membership.
- High functioning boards agree reserve matters; set up appropriate subcommittees; provide both support and challenge to the CEO and annually evaluate their individual and collective performance.

*“Don’t just blindly follow your original strategy and make sure everyone understands the strategy”*

**Steve Cronin**  
Unity Trust Bank



Fresh faces: Dynamic governance and strong chairs have given Bryson Group a big presence and well-known face in N Ireland and beyond

## THE CONNECTION BETWEEN GOVERNANCE AND SOCIAL INVESTMENT

*Good governance is one of the secrets for getting investment. Increasingly, social investors want to be on the boards of social enterprises and will make a number of demands around governance as they see fit – including the removal of the CEO if they think this is better for the growth and stability of the business. Here, two team members at the Social Investment Business (SIB) share their experiences of working with social enterprise and offer some important advice.*

### **BY CAROLINE FORSTER, GROUP DIRECTOR OF INVESTMENTS AT SOCIAL INVESTMENT BUSINESS**

We have learned over time that good governance is crucial to the success of the business. Investors’ due diligence has an increasingly strong focus on governance and potential investors can often ask for observer status on boards.

We look at a board’s track record, skills mix and framework as well the board pack, papers, minutes and in particular, at how the board makes decisions and engages with issues.

SIB sees that governance problems can be a route to issues at the business. Investors can therefore attach conditions around governance and leadership in exchange for funding.

For example, we have previously granted funding on the condition of improvements in governance and leadership, which has included the removal of a CEO. It took two years to get through the process.

### Extra tips

- Boards often need help to understand finances. There can be an over-reliance on one person to look at the finances which can be a bad thing as accountants on boards sometimes don't act as they would in their day job and do not interrogate the information fully.
- There's a golden triangle of governance: CEO, chair, clerk. Although you are no longer required to use a company secretary/ clerk, someone external should be charged with the governance responsibility.

### GORDON MUIR, HEAD OF INVESTMENT PERFORMANCE AT SOCIAL INVESTMENT BUSINESS

Investors will look at whether there is a clear vision with a realistic business plan - including targets and a supporting financial plan. In validating the vision and plan, questions we will pose include:

**Is the vision realistic?** Is there an appropriate balance in delivery of social and commercial objectives? Many struggle with this.

**Have all the board and stakeholders - including management, staff and purchasers - bought into the vision?** Don't assume you know what people think. I have worked with one organisation whose board was completely split on the future vision of the business. Managing the split diverted the time of the board and the CEO at a point when the organisation faced a significant cash and trading challenge.

*"The CEO should set the strategy and it's up to the board to hold him or her to account. But how often do you hear of a CEO being fired because they haven't stuck to the strategy? You don't"*

Dai Powell  
HCT Group

**Does the organisation really know what potential purchasers think of its plans?** Ask stakeholders what they think - you might be surprised. We have experience with a number of organisations that have committed to a service or product believing it's a 'must buy', often anticipating prioritised public funding, only to find that it is not what is wanted or cannot be afforded. Those organisations are now either in insolvency or receiving intensive support.

**Reviewing and challenging is key.** We find that too often when people do have a full business plan, they still don't review how it's going. Is there a clear set of actions and have the right people been briefed? Are you assessing whether you are actually achieving what you say you're aiming to do? And, if it's going wrong, are you doing anything about it - is there a Plan B?

**Does the organisation genuinely have the capacity to deliver its plan?** I have seen a number of enterprises develop robust plans that failed because those staff identified to deliver on them were already fully committed on other tasks.

### Finances: what the board needs to check

- Is there a clear financial plan which links to mission and business plan?
- Are plans and budgets optimistic or realistic? Are you tracking your income pipeline?
- Is there a regular review of financial performance? Are you reviewing the realism of your business assumptions? Things change.
- Where have the figures come from and what are they telling us? We often get figures through and the social enterprise can't explain the content.
- Does the financial plan reflect the business cycle? We see seasonal businesses who spread their budget equally over 12 months of the year.

### Other useful checks:

#### Does the organisation have a risk register?

This should be a dynamic tool, not just a piece of paper. If you're planning for growth, it will usually mean increased risk, at least in the short term.

#### Can you get an independent external view?

Don't be afraid to get a fresh set of eyes to look at the business and at governance.

## REGULATION AND SELF-REGULATION: TRANSPARENCY AND SCRUTINY

*“How transparent are you willing to be?”*

*Commissioners are really starting to think about how they commission services differently. Yes, some of it is about saving money, but some is about getting better at delivering services. They recognise that to keep doing things in the same way isn't enough.*

*Making complex processes as transparent as possible is what people increasingly want to see.*

*Having a governance process that's open to democratic scrutiny benefits us all. The best councils will not act as gatekeepers, but will bring in a range of views and raise any concerns, not just for current stakeholders, but for those that aren't yet born, because they'll be the ones most affected by decisions made now. So, social enterprises will perhaps be thinking about what they can bring to the table as new service providers who want to do things in different ways. How transparent are you willing to be and how can you get more transparency into these processes and keep pushing that agenda? How can you get more trust?”*

Jessica Crowe  
Centre for Public Scrutiny

### **“WE HAD 12 COMPETITORS, BUT OUR PROMISE OF TRANSPARENCY AND OPEN BOOK ACCOUNTING WON THE DEAL”**

#### **Dai Powell, CEO of HCT Group on why transparency really works:**

As social enterprises, we naturally know that being transparent and accountable is the right thing to do. But, actually it's also the right thing to do because it works. It works as a competitive advantage because organisations that we're competing with can't do it.

When you get it right, you move beyond partnership to the point that you and the client, the commissioning body or authority, are almost working as one.

The reason why transparency works so well for those who want to grow further into the public sector delivery market, is that it builds a level of trust. Don't underestimate the value of that trust, ever, because if you have it, you can do so, so much more. We have seen, first hand, many times, that being fully open and transparent with clients works fantastically well for all involved. It also holds a mirror up the organisation, so you can see how you're doing and how far you still need to go.

In our 10 year contract with Jersey council, we run all the buses on the island. We had 12 competitors from all around the world for the contract. We weren't quite the cheapest and the bidding process took two years, but in the end, our promise of open book accounting and a transparent way of doing business won the deal.

We bid for Jersey because we wanted to see how it would look to put a bus service in place in a defined area and give ownership to local people. It's hard to do in mainland Britain because of competition rules.

We told the council that, above the profit margin we were asking for, we would split profits and share half with them. We thought this was fair because, for us to increase bus usage and bring in a profit on contracts like this, a client often has to invest their time and money too. For example, putting in more bus lanes and shelters and taking out car parking spaces and increasing parking charges to encourage bus use.

An open book policy is important because it means all can see the monthly basic costs, fares, margins and so on. It is a complex thing to do initially and involves linking in to each other's accounting and auditing systems.

But after 18 months, things are working well and we are starting to bring in a profit. Passenger numbers are up by around 10%, which is unheard of in the transport sector.

The council will get a return of about £150,000 this year (2014), which they're very excited about. They are looking at more measures, such as giving buses priority at junctions.

We are also reinvesting some of the profit back into a volunteer driven service in areas of Jersey where it is not commercially viable to run our normal service. The commercial sector would never provide such a thing.

When we align the interests of all stakeholders in an accountable way, that is good governance. And, it means the public services delivery market should open up in a huge way, giving social enterprises a substantial opportunity to grow and do more good.

*"CICs have to be accountable and transparent and they share their direction and strategy with the community. Yes, there are considerations around confidentiality, but CICs are about being open. There's still probably a lot more that they can do in this area in terms of posting public documents and showing their workings"*

**Sara Burgess**

CIC regulator on transparency

## What is E3M?

E3M is an initiative that supports a group of leaders from the largest and most successful UK social enterprises that trade in public service markets. E3M is supported by partners to provide expertise and to share knowledge about the key ingredients for successful social enterprise growth.

E3M aims to be a catalyst for change, in particular developing thought-leadership on key issues for social enterprise growth where there are gaps in current thinking.

The work of E3M focuses on three Ms: Markets, Money and Models. When the interactions between these are right it can make all the difference to the success of a social enterprise. Each of these key elements is underpinned by another M: Measurement.

Many of the E3M activities have a European dimension (the "E" in E3M), in particular the new opportunities emerging at European level for social business. These range from the new EU policies on social enterprise, social investment and social innovation to pan-European trade and exchange of knowledge.

At the heart of E3M is a Social Enterprise Leaders Club with a programme of activities for members and a series of knowledge sharing events open to non-members.

E3M was developed by Social Business International (SBI) with support from four Core Partners: Bates Wells Braithwaite, The University of Northampton, Unity Trust Bank and Baker Tilly.



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