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The Governance
Institute

Cultural markers

Assessing, measuring and improving
culture in the charitable sector

Institute of Chartered Secretaries
and Administrators

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Cultural markers

Introduction

The operating environment for charities has become less benign in recent years. Changes in state funding for charities, the need for more diverse and creative income generation and concerns about executive pay, fundraising practices and the governance of some high-profile charities have all led to a perception that public trust in the sector is in decline. While individual donor engagement remains buoyant, front page headlines and stories in the media detailing apparently unsavoury charity behaviour and culture have highlighted a lack of public confidence. A small number of charities have contributed to this perceived decline in public trust, making operations more difficult for the majority of charities, which quietly go about business helping their beneficiaries.

While only a small number of charities have directly contributed to this unfortunate environment, the sector generally has been complicit. Few charities explain well what they do and how and why they do it. Thus, harsh media attention can make the internal culture of some charities appear decidedly uncharitable in the impact they have on the lives of beneficiaries, donors and supporters.

ICSA: The Governance Institute held a roundtable discussion on 25 November 2016 to discuss some of these issues with a view to identifying behaviours and practices that may indicate a poor organisational culture that does not match the stated values of the charity. People from a range of disciplines – governance, senior management, trustees and regulators – discussed how to help trustees and senior managers understand the importance of organisational culture. This report aims to provide charity leaders with tools to think about their culture and to provide practical insights into how culture can be assessed, measured and improved.

This paper does not seek to set out a template for the ideal charity culture. Furthermore, it is not about simply transferring the lessons from the corporate or any other sector to charitable organisations. All sectors are different, although recent events are a reminder that every type of organisation, regardless of the sector in which it operates, can suffer from crisis and poor organisational culture.

Executive summary

In recent years, both the corporate and charity sectors have been rocked by a number of governance stories that do not show them in the best light. Whether Volkswagen, Tesco, British Home Stores, FIFA, the International Olympic Committee or Kids Company, public trust in the way organisations are run and governed has been challenged and cynicism is increasing.

Initial reactions to such scandals have been to look at the regulatory environment, with the charity sector choosing to improve its fundraising regulations and the Government augmenting the Charity Commission's powers in order to improve the sector's culture and practices. Regulators, policymakers and sector commentators, however, have come to appreciate that a rules-based approach can only influence the behaviour of some within the sector. This is because behaviour is determined not only by rules, but also by the culture of the entity concerned – and in the worse cases, of course, that culture can be one of wilfully ignoring and seeking to bypass rules.

The modern operating environment for charities, and the public's understanding of the sector, plays an important role in establishing and maintaining a culture that matches the expectations of those that support and fund charities. Traditional values, where charities might have been entirely volunteer-led and run, have been replaced by a more professional and business-like approach in some major organisations. This can lead to a disconnect between different charity stakeholders and, in the worse cases, between operations within the charity. A charity that claims to stand for one thing, but whose behaviour does not support that claim, will tarnish the view of all who come into contact with it, and contaminate the wider sector too. If words and actions do not match, there is a danger that declining public trust will erode the potential positive impact of the sector on wider society, leading to a reduction in funds, support and commitment. That is why culture is a board responsibility and should be regularly reviewed.

Cultural markers

What is culture and why is it important?

When referring to the culture of an organisation we generally mean 'the way things are done around here'. This concerns the customs, values and beliefs of an entity evident in those working in and on behalf of it, and its activities. Culture can be shaped in both negative and positive ways. If a charity is to inspire trust amongst its users and supporters, the desired and stated culture must be evident. Trust can quickly be eroded when words and actions do not match.

Charities work hard to deliver the best outcomes. Despite the level of commitment to the cause, poor or ill-thought-through decisions can be made. Charity employees and contractors can face intense pressures when they are working to deliver big projects on time and on budget. In agreeing stretching and ambitious targets and activities, sometimes behaviours can be adopted that achieve the stated goal, but in a way that appears reckless, thoughtless or at odds with the objects, values and aims of the charity.

The culture of a charity goes beyond mere compliance with legal and regulatory demands. Charity governance is most effective when it provides assurances not just that legal requirements are met, but that the behaviour of people working for the charity, and those who come into contact with it, is proper and ethical. Culture, alongside good governance, can be pivotal to whether a charity achieves its stated objects.

If the chair, fellow trustees, senior managers and others fully understand their roles, this encourages a culture that befits the charity and its principles. Recruiting key personnel, and using third parties that have an affinity with the stated values of the charity should help to reinforce the desired behaviours. Codes of conduct and business standards that cover trustees, staff, volunteers and third party contractors also encourage an appropriate culture.

Having a strong culture protects people and teams from making bad choices when the going gets tough. Culture is therefore a core task for boards, not just a public relations add-on. Boards need to understand and shape the forces that drive the behaviour of people throughout their charities. This cannot be done in isolation and, where senior managers are in place, there needs to be a strong understanding and respect for the roles of each in ensuring that an appropriate culture is evident and supported by corresponding values and ethics in every facet of the charity's operations.

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A flawed culture may develop incrementally, over a sustained period. As the Public Administration and Constitutional Affaris Committee reports detailed, the warning signs about Kids Company were evident long before its final, sad demise. The answer to such scandals – and the consequent loss of trust in the charity sector – is not necessarily to add more regulation. Rather it should be to identify weaknesses in the sector's, and individual charity's, culture and seek to address them before disaster strikes. The important questions are: why did these scandals happen and how do we prevent them from happening again?

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Within any sector there are a range of characteristics and behaviours that could signal a red flag in terms of an unhelpful or unwholesome culture. Taken individually, one red flag could be seen as desirable, but a cluster may hint at a potential problem. Positive cultural indicators should be evident at every level of the charity. Those characteristics that appear to be embedded only at board level, for instance, might indicate that the desired culture is not disseminated sufficiently widely and, therefore, that the organisational culture is not the one planned or intended. Conversely, charismatic and committed front line staff may display cultural aspects that are positive and professional, but which aren't replicated in other areas of the charity's hierarchy.

The following points provide a spectrum of markers that could indicate a healthy culture, with others being a potential red flag. Once a potentially unhelpful characteristic has been identified, further assessment should be undertaken to ascertain whether it is indeed a red flag warning of an unintended and unwanted culture.

Spectrum of cultural markers

- **Considered and reflective board discussions about culture, values and ethics**
  A board and senior management team that reviews and reflects on their organisational culture is likely to be more attuned to any deviation from agreed standards. Furthermore, a leadership team that embodies and displays the agreed culture, values and behaviours of the organisation is more likely to lead staff that adopt the same mindset. Where a code of conduct, for staff and volunteers alike, is actively upheld and monitored, and is partnered by a regular discussion of the ethical impact of decisions at board level, there is the double reinforcement that doing business in a considered manner is important to the longevity of the charity and its ability to achieve its charitable purposes.

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Conversely, a board that obsesses over cultural aspects at the expense of the quality of services or financial sustainability will be doing the charity a disservice as leadership and oversight should cover all organisational areas, not just one.

- **Ensuring that doing things right leads to doing the right things**
  As charities are required to deliver a public benefit, there can be an assumption that whatever the charity does must be inherently good, otherwise it would not be a charity. Some decisions, however, might be both legal and in the interests of the charity and its beneficiaries, but could still be deemed unacceptable by users, supporters and the public.

  Board discussions that consider not just the legal aspects, but the ethical considerations of a decision are likely to lead to a better organisational appreciation of the wider impact of their work and how they operate. Explaining any ethical or moral dilemmas in decision making may also enable interested parties to understand the reasoning, even if they do not accept the final decision.

- **A strong commitment to good governance**
  A charity that adopts proportionate and effective governance arrangements, and regularly reviews them, is better positioned to spot behaviours and activities that undermine the culture of the charity and is more aware of the potential impact this will have on public trust and confidence. Such charities will also be more willing and able to articulate the need for good governance, the value it adds and why using charitable resources to train and support trustees is actually in the best interests of those the charity seeks to serve.

  Where the need for good governance is not acknowledged, a culture may develop that rewards mavericks or those that act independently of the charity's standards. This makes it more difficult to demonstrate consistency in decision making and the appropriate use of resources in delivering the charity's purposes.

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- **The value of delivering public benefit**
  As charities are required to deliver public benefit, there can be a tendency to assume the 'moral superiority' of the sector. However, recent media stories should disabuse assumptions that an inherently good cause is unable to cause harm. There are numerous examples of good intentions not always leading to good outcomes.
  The central importance of delivering public benefit does, however, predispose the sector to being more able to articulate and demonstrate the positive impact it delivers. A charity that can tell that story well and provide the evidence to support it will be aware of the dangers of hubris, will take its ethics, values and behaviours seriously and will protect them to the same degree as other assets.

- **Strong, ethical and considered leadership**
  Strong leadership should come from every level of the charity and in any situation. A charity that empowers all staff and volunteers to be leaders, aligned to the agreed standards of the organisation, is better able to demonstrate and live the values it espouses and deliver the culture it desires. Leadership, however, requires training, which should be undertaken at every level from front line service provider to trustee, whether paid or not.

  Training only one specific type of employee in leadership skills and not any other will create an imbalance that could erode the overall culture of the organisation, especially if the individuals held up as worthy of leadership training are seen as separate from the everyday workers and volunteers.

- **Origins**
  A charity that has evolved from a particular religious or philosophical perspective is more likely to espouse the original intention with greater fervour than some other types of organisation.

  Of course, as society changes it may be that some aspects of that original cultural premise need to be amended to adapt to contemporary values.

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- **Membership charities**
  A charity with an engaged membership may demonstrate a stronger culture where the opinions of its members are valued. This will require a trustee board that understands its legal powers and duties and appreciates and respects the powers of the membership. A charity culture that has effective dialogue with its members may be more able to cultivate a healthy culture, especially where there are appropriate procedures in place by which the members can hold the trustees' 'feet to the fire' when contentious decisions are being considered.

  Conversely, the rights of members must be balanced with the legal duties of trustees. Ultimately, the trustees are the ones responsible for the direction and control of a charity, and while they should listen to the opinions of their members, they must act independently in their decision making.

- **Role of funders**
  Where a charity is receiving considerable funds from a large funder, that funder's approach to good governance and promoting a healthy charity culture could have an effect.

  The reverse of the argument is that some funders may make unreasonable demands on the charity that actually run counter to the organisation's values and ethos, or even undermine its independence. A board that understands its role and the importance of independent decision making should be alert to the dangers of undue external influence.

- **Existential stress**
  A charity that is unable to develop and/or deliver a sustainable plan for its ongoing viability demonstrates poor governance that could lead to a weak organisational culture. For instance, a charity that lurches from one crisis to another, with little or no time for reflection and proper planning, may inadvertently communicate mixed messages as one emergency overtakes another with different responses required in order to resolve the matter in the immediate term. A lack of consistency and a 'sticking plaster' approach to major challenges does not engender an environment where a positive culture can be seen as necessary to the survival of the organisation, or the quality of the services offered.

  Boards that have adopted methods to challenge and stress-test strategic proposals may be better able to respond to crises in a planned and considered manner. Understanding that there's a 'Plan B' and an agreed approach, even in principle, to a given circumstance will enable the charity to make the best of the situation in the interests of its beneficiaries.

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- **Remuneration practices**
  Remuneration at every level in the charity can play an important role in the choices people make. This is especially true in the area of fundraising practices and the use of third parties to deliver ambitious income targets, where financial incentives or bonuses may be agreed. Pay packages that balance the expectations of the public and supporters with the skills required to run a modern charity can be a difficult proposition. However, transparency (as advocated in The National Council for Voluntary Organisation's report on executive pay) and a commitment to ongoing dialogue as to why remuneration packages are deemed reasonable and necessary should help counter some of the potential dangers.

  Where incentives are linked to performance, due consideration should be given to their impact. Poorly designed key performance indicators might result in behaviours that undermine the culture of the charity. Additionally, poor pay policies may generate a number of behaviours that at best may be neglectful of the charity's interests and at worst may be criminal.

- **The power of personality**
  Charismatic leaders, at board and senior manager level, can be a mixed blessing. A visionary with charm and warmth may well be able to inspire funders, staff, influencers and volunteers to support the charity in its aims.

  Similarly, a strong personality may be able to unduly influence and overpower the better instincts of those around them and while they may believe that they are acting in the best interests of the charity, may actually be weakening its values and culture.

- **Competing cultures**
  As charities grow and new staff members and departments become involved, there can be a propensity for different cultures to develop, or for the established culture to fracture. This can be especially so where staff and volunteers operate in different locations, particularly in territories where the culture of the charity is hard to maintain in relation to local customs and practices. It may be appropriate to be flexible in the maintenance of the charity's culture, but there are dangers that, as news that different behaviours are being tolerated spreads, so the agreed culture may become corrupted.

  Trustees need to ensure that any agreed performance indicators for one department do not run contrary to those agreed for another. For example, any efforts to retain volunteer levels may be undermined by challenging fundraising targets that focus on existing donors, who may also be volunteers.

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- **Pressure to increase funds to support the cause**
  Those involved in the work of a charity will usually believe that the cause is a valid one. Thus, there may be an overarching desire to generate as much income as possible to achieve the charity's purposes and resolve the problem the charity was created to help. This single-minded focus can lead to decisions and actions that might otherwise be deemed questionable.

  A board that takes decisions in the round, with a holistic approach to intended and unintended consequences, is more likely to contribute to a culture that is considered and attuned to its stated values and ethics.

On their own, these markers of culture are not sufficient to predict either a positive or negative impact, but they can act as a catalyst for further review. While a strong culture based on openness and respect can mitigate conduct risk, it does not guarantee strong performance. Other values may be needed to achieve this, but charity values still need to be in place. Thus, a focus on innovation or quality services may be positive, whereas a focus on increasing user numbers without due regard for their experiences is not.

Linking culture with the values needed to deliver performance brings the discussion back to the business model. How the charity generates income will always reflect the core values of those in charge, but is a different question from that of what the charity does. A first requirement may be to encourage charities to be more articulate in describing their business models. Then, as the underlying values become apparent, a judgement can be made on the culture and sustainability of the charity and also on its prospects for performance.

A focus on a sustainable culture should not mean that charities can forget the need to deliver a positive impact for their beneficiaries. There will sometimes be tension between the expectations of short-term impact and the long-term sustainability that is delivered by healthy values and culture. This is especially true when charities are operating in crowded areas. A positive culture could be one aspect that delineates a charity as being best in class, compared with those operating in the same environment.

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Assessing your charity's culture

The following is a list of questions to help trustees and senior managers establish and identify those areas of the charity's culture that might not be as healthy as imagined or desired. The responses to the questions do not necessarily equate to a good or poor culture, but could be useful as an indicator of areas that require greater attention.

- How frequently is organisational culture (values) discussed as part of the formal board agenda? Never, every three years (alongside the strategic plan), once a year, more than once a year?

- Do staff/customer satisfaction survey results mirror the agreed culture of the charity?

- Have members challenged the authority of the board in the last 12–18 months? What was the issue under challenge?

- Does the board/senior management team behave in accordance with the agreed values of the organisation?

- Is there an agreed code of conduct in place that helps to build the desired culture of the organisation?

- Are constitutional changes made against material opposition from members, staff, service users or funders?

- Are ethical dilemmas discussed at board meetings? Are such ethical decisions reviewed?

- Have key performance indicators led to any inappropriate behaviours in the charity?

- How are incidents of inappropriate behaviours or unwanted culture recorded, monitored and dealt with?

What delivers a wholesome culture and what can corrupt it?

While the culture of charities was the focus of the roundtable discussion, it was suggested that external factors may also have had an impact on the sector and the response to those factors may have been unhelpful. For example, the rise of populism and cynicism may be influencing charities to alter their operations and behaviours; the sector's drive towards employing professional managers from business and other sectors may have stretched the sector's traditional values and tested the principles of both those that work in charities and those that support them; and a herd mentality may have hindered the ability of the sector to challenge some misconceptions about how modern charities operate. These may have some bearing on the cultural factors at play within some, but not all, charities, and they all serve to demonstrate that the sector as a whole needs to consider its own values and behaviours, but cannot do so in isolation from the wider environment.

We cannot measure culture, but as detailed above, we can look for markers in a number of areas. The Institute of Business Ethics identified seven categories of cultural indicators within the corporate sector,[1] which could be translated to the charity sector, as:

1   Staff relations
2   Service user/beneficiary relations
3   Donor/supporter and general public relations
4   Third party and supplier relations
5   Regulator and government relations
6   Related charity collaboration and partnership
7   Ethics.

Some of these can be easily evidenced in hard data, for example: customer/client/user complaints; high staff turnover; employee satisfaction;[2] poor member and wider stakeholder relations leading to adverse votes at annual meetings; and regulatory infringements.

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1   See: *Living Up To Our Values*, IBE, 2006
2   See *Employee Satisfaction, Labour Market Flexibility, and Stock Returns Around The World*, Edmans et al 2015. This paper argues that employee satisfaction is associated with superior long-run returns, valuation ratios, and profitability in countries with high labour market flexibility, such as the US and UK, but not low labour market flexibility such as Germany. In regulated labour markets, legislation already provides minimum standards for worker welfare and so additional expenditure may exhibit diminishing returns.

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Cultural indicators

The list of indicators below highlight aspects of a charity's actions that might lead to, or signify, a poor organisational culture. Taken alone the individual indicators will not be alarming, but a considerable number may give the trustees and senior managers pause for reflection and review.

The three types of indicator are:

- Measurable

- Evidential

- Judgemental

Measurable indicators could include:

- Staff and customer surveys (benchmarked over time)

- Staff turnover, planned and unplanned

- Complaints and praise received

- Incidents of whistleblowing and their themes

- Board turnover

- Board attendance and activity

- Diversity of the board – in its widest sense

- Late returns to the regulator

- Regulatory involvement with the charity (from advice to intervention)

- Health and safety records

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- Data protection, including Information Commissioner's Office communication

- The public commitment to agreed values and culture for the charity

- Audit reports and letters

Evidential indicators (e.g. are the right processes and policies in place and followed) might include:

- Staff exit interviews – report of trends to boards

- Whistleblowing procedures, which are being used and reported to the board

- Impact assessments as to how the charity is achieving its charitable purposes

- The board adhering to the provisions of the governing document, or making planned changes to assist the board in delivering charitable purposes

- Learning from 'near miss' events and putting appropriate remedial practices in place

- Transparency supported by a publicly available disclosure policy

- Risk register and risk discussions at the board, evidence that the risk register is a 'living' document

- A regular board discussion of the charity's vision, values, ethos and culture informed by a range of stakeholder input

- Quality of financial discipline – reserves policy, annual returns, audit letters (discussed by the board), internal audit, financial competence of the board and senior management team

- How the board handles conflict

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- Conflict of interest policy, adhered to and reported

- A code of conduct for staff, trustees and volunteers

- Clarity around accountability and decision making

- A comprehensive induction programme for trustees, staff and volunteers that covers all aspects of the charity's operations

Judgemental indicators (e.g. a dominant leader) could cover:

- Ensuring the needs of beneficiaries are overarching and not subservient to the needs of the organisation (board or senior managers)

- Governance reviews and board assessments

- A board's performance, in the short, medium and long term

- A dominant leader

- Board and organisational reaction to minor breaches of policies and procedures

- A complacency regarding the public benefit the charity provides, without supporting evidence

- The balance between doing things right and doing the right thing

- Moral reaction to any unintended impacts of agreed key performance indicators and decisions

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Another way of looking at the issue is to ask: what are the features of a positive culture? Five elements may be identified: reliability, honesty, openness, integrity and respect. As previously mentioned, many indicators can be pointers to a positive culture as well as a poor one. Obviously the tone from the top sends an important signal, which is usually fairly visible to both employees and other stakeholders. There are also some questions that can help to indicate a positive culture. These include:

- Has the board set out a clear set of values for the charity and are these reflected in its business model?

- Do trustees consistently place the interests of the charity, in fulfilling its charitable objects, above their own?

- Has the charity proactively considered its approach to corporate partnerships in general, and identified any ethical 'non-negotiables' that support the culture and values of the organisation?

- Do trustees have personal knowledge of how the charity operates and the impact it has on its intended beneficiaries (and wider society)?

Good governance is necessary for any organisation to succeed. Some, unfortunately, see governance as rules and regulations that hinder innovation and creativity. The banking crisis, and more recent governance failures across the UK economy and beyond, have brought home the significance of looking at governance in terms of the importance and interplay of:

- the purpose the organisation was set up to achieve

- the processes required to ensure the organisation achieves its stated aims, effectively, efficiently, legally and ethically

- the people involved in leading and directing the organisation, working with those on the front line delivering the stated aims.

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If governance involves the balance of appropriate behaviours, rules and regulations, it is apparent that culture will also be crucial to the ongoing success of an organisation. Whether it is the motor manufacturing industry, international sport, charity fundraising techniques, or the way financial statements are prepared and presented, at some point along the way one, or more, individual(s) has taken a decision that, in the wider public environment, has been deemed to be morally dubious. This raises the question as to whether the individual is a 'rogue outlier' within the organisation, or symptomatic of its overall culture – one which may very well be at odds with the charity's objects, publicly stated values and ethics.

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Conclusions

Initial reactions to recent charity scandals have been to look at the regulatory environment, with the Government choosing to augment the Charity Commission's powers in order to improve the culture and practices of the sector, and the sector seeking to implement new approaches to fundraising practice and regulation via its own Etherington Review. Regulators and policymakers, however, have come to appreciate that a rules-based compliance approach will not, on its own, deliver healthy organisational behaviour. This is because behaviour is determined not only by rules but also by the culture of the entity concerned – and in the worse cases, of course, the culture can be one of wilfully ignoring and seeking to bypass rules.

Any discussion about charity culture cannot be limited to the regulatory perspective alone; the impact of culture stretches beyond the remit, scope and abilities of the Charity Commission. Each charity stakeholder will have an opinion as to what a 'good' charity culture looks like, and the general public will also have a view, thanks to the media spotlight that has illuminated some practices. In some instances, the organisational culture may have had a profound impact on the decisions trustees made, and the resultant public outcry that followed.

A small number of charities may have exhibited a belief that the end justifies the means; that commercial methods are the only way to get results; or that giving staff and volunteers sufficient support and attention is unnecessary. These isolated examples have undermined, and continue to weaken, the sector's reputation and ability to make the positive impact it so desperately wants to make. This is also why culture is so important to charities.

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