

# Topical tips

## Trade Association Boards



# A toolkit for good governance

Every organisation needs to be supported by a sound governance structure in order to deliver an effective service, in an efficient manner.

This toolkit aims to help the board of an association meet best governance practice by setting out six key benchmarks for good governance and providing a checklist of questions for each, to match against your own association's operations.

In addition the toolkit includes practical templates on various board matters.

### Introduction

Every organisation needs to be supported by a sound governance structure in order to deliver an effective service, in an efficient manner.

For associations, there is an added consideration in that the board members, who are ultimately responsible for the strategic vision, direction and service delivery of the association, are often remote from the day to day management activity carried out by the executive team. Nevertheless, the board has ultimate responsibility for the governance of the association.

It is important that board members are fully aware of their responsibilities and understand the steps they need to take to ensure that their association is properly governed. This is particularly relevant in times of change and with the financial constraints and uncertainties that many associations face.

**This toolkit sets out six key benchmarks for good governance and provides a checklist of questions for each, to match against your own association's operations.**

**Throughout this guidance we introduce example templates which you may find useful in developing your own governance practices. The templates referred to throughout can be found at the end of the toolkit.**

## Six benchmarks of effective governance for the board

1. Sound leadership and control
2. Clearly defined roles and responsibilities
3. Clear focus and direction
4. Acting with integrity and objectivity
5. Being open and accountable
6. Financially sound and prudent

Use the six benchmarks set out below as an opportunity to identify areas of strength and weakness in governance practice and act on this to generate positive change for your own association and your stakeholders.

### 1. Sound leadership and control

A strong board should take collective responsibility for proactive decisions at a strategic level.

#### Is the board the right size for its purpose?

The board should be not so large that it inhibits effective decision-making but not too small to lack a complement of skills. Trade associations are representative bodies, so sometimes it is necessary to have a board that is on the large side so as to ensure that all members feel that they are represented. The optimum size range is 8 – 12. If the board is any larger than about 15 members then a smaller executive committee will also be needed.

#### Does the board have the right people?

For most boards the question is whether there is the right balance of skills, knowledge and experience. For trade associations it is more important that the board largely comprises recognised industry leaders from all sections of the industry. Such a board is unlikely to emerge from a traditional democratic process, but rather requires the use of nominations by members, groups of members or a formal nominations committee charged with putting forward suitable candidates.

It is also necessary to have a mechanism to ensure that only people active in the industry remain on the board.

#### Is the board properly inducted, trained and developed?

Prior to a new board member joining, the organisation should provide:

- A full information pack which includes as a minimum – the current governing document; strategic and shorter term plans; recent annual accounts and current management accounts; recent board minutes; CVs of current board members; an organisation chart/organogram; general background information.
- An opportunity to meet the association's chairman and chief executive.
- A clear explanation of the board member's expected role, responsibilities and legal obligations, input to the board and time commitment.

After appointment, ensure that new board members are given an opportunity to discuss matters and raise questions outside of the formal board meeting.

#### Does the board make strategic decisions and leave the operational implementation and tasks to the executive management?

The board should concentrate on major issues such as the strategy and finance of the association and the key policy priorities, and should not seek to micro-manage the association, for example through getting involved in the detail of conferences or, worse still, social events.

Delegate areas of focus to permanent sub committees or time-limited working groups, but ensure responsibility remains with the full board.

### 2. Clearly defined roles and responsibilities

#### Does the board comply with its governing document?

Where the association is a company limited by guarantee and the board members are also directors of the company it is important to ensure that the requirements of the governing document are complied with. This is generally easier when the board of the association is different from the board of the company.

A clear strategy for recruitment and retention of board members will help to ensure that the board retains key contributors... but remember to plan also for succession, so that the loss of key board members is anticipated and any adverse impact minimised.

#### Does each board member have a clear understanding of their role and responsibilities?

Key officers such as the Chairman, Deputy Chairman and Treasurer, if there is one, will have specific functions which need to be clearly documented and understood. Executive staff also need to understand their responsibilities and lines of authority, communication and reporting with the board.

Where tasks are delegated there must be a clear process for monitoring of outcomes and accountability.

Our **template A board roles and responsibilities** will help you set out the roles of your key officers.

#### Does the board monitor its own performance as well as that of the organisation?

The board should evaluate its effectiveness annually. Normally this can be done in-house, but occasionally, particularly where there are major issues, it makes sense to use outside help.

It is increasingly common in other types of organisation for the effectiveness of individual members of the board to be evaluated. In practice, given their nature as representative bodies, it is difficult to do this in trade associations. However, there does need to be a mechanism for handling board members who either are poor attenders or whose behaviour is unreasonable, for example speaking at excessive length or seeking to further particular commercial interests. The chairman has to take responsibility for dealing with such issues.

Whilst the voluntary capacity in which board members act can lead to some resistance in managing performance, nevertheless such a review should be seen as a positive means of identifying strengths and overall effectiveness. Without clear expectations there is a greater chance that the board will drift along rather than looking for ways to innovate and change.

Our **template B board performance and appraisal** will help you evaluate the board's operational strengths and weaknesses.

## 3. Clear focus and direction

### Does the board know its stakeholders and have a clear strategy to meet their needs?

Make sure you identify the interests of all your stakeholders in addition to members. These can include other trade associations, professional bodies, regulators, government departments and other parts of the supply chain. Be aware of any conflicting demands between stakeholders and consider how these can be managed.

Be clear about how your association has the required strengths and skills to deliver what is needed, and work hard to understand your limitations.

### Does the board have a clear vision which is translated into practical action?

Translate your objects into a clear and understandable vision and mission. Identify specific shorter term objectives that will deliver the mission in practical terms.

Know what you want to achieve and how you will measure your performance against this.

### Does the board have the structure and policies in place to deliver effectively?

Ensure that throughout the organisation there is an understanding of individual roles, responsibilities and lines of communication and reporting.

Make sure that there are formal written policies in place covering key aspects of the association's operations. Areas to consider should include: internal financial procedures, accounting, reserves, investment; staffing and HR matters; data protection; environmental matters; media, communication and confidentiality; disaster recovery; risk management; conflicts of interest; brands and intellectual property.

## 4. Acting with integrity and objectivity

### Does the board always act within the law and in the best interests of the members?

Board members have a duty to ensure that the association always acts within the objects laid down in its governing document and to consider the interests of the association as opposed to the interest of the member. Trade associations have particular complications here. The board is intended to be representative of the members, but the board members cannot take a sectional view but rather must act in the interests of the whole membership.

Ensure the board understands the consequences and the extent of their liabilities in law for wrongful acts.

There is a distinction between the liability of board members of unincorporated associations, who can be held personally liable for unlawful acts, and those of companies limited by guarantee.

The second group benefits from the limited liability provisions under Company Law and where redress in law is generally against the association itself, unless there is wilful negligence by an individual board member.

### Does the board recognise and deal with potential conflicts of interest?

Given the nature of trade associations, conflicts of interest are ever present. Normally, board members are well aware of the interests of other board members and there is no need for members to keep declaring who they work for.

However, it is not uncommon in trade associations for board members to provide certain services to the association or for board members to have an interest in an organisation that has a relationship with the association (for example a board member might also be president of the professional body or chairman of the trading arm of the association).

Such interests should be maintained in a register of interests and actual/potential interests should be declared at the start of each board meeting.

### Does the board protect the association's reputation?

Consider how the long and short term outcomes of planned actions might impact on the reputation of the association both internally amongst its staff as well as externally. This is particularly important to consider when engaging in partnership working where there may be influences which are outside the association's direct control.



## 5. Being open and accountable

### Does the board engage in regular and open communication about its achievements and its work?

Engage with your stakeholders in a positive way to ensure your message is delivered effectively and that you demonstrate the public benefit of your work.

Make sure documents are accessible taking account of specific stakeholder needs. Provide an opportunity for stakeholder feedback, for example through forums and website access.

### Does the board set clear and achievable targets and measurement indicators?

Make sure targets are clear and achievable and that you can identify, measure and learn from your successes and failures. Demonstrate how you look for ways to improve.

Use an annual report to members to explain the impact and outcomes of the year's work, linking this to targets set at the start of the year and your future plans.

## 6. Financially sound and prudent

### Does the board properly control and manage its finances?

Ensure the board is fully involved in setting and approving forward plans and financial budgets and targets.

Ensure regular and clear reports are received on the association's current financial position and its future sustainability.

Provide the level of detail that is necessary for the board to understand the impact of the current position, and to make sound decisions, for example through a 'traffic light' reporting system.

Trade associations' finances tend to be unevenly spread during the year, which can lead to nasty surprises at the end of the year. A good discipline for management is to provide at each board meeting a simple table showing budget, year to date figures and estimated outturn.

### Does the board properly safeguard the assets and undertaking of the association?

The ultimate responsibility for safeguarding the assets of the association rests with the board members.

As a minimum the board must set and understand the policies in place for managing the association's cash balances and investments, if any, and for setting a reserve target.

### Does the board adequately assess and manage risk including financial risk?

Risk management should form an integral part of strategic planning. Risks need to be assessed in the light of the association's ability to absorb and manage them. This may be affected by internal circumstances such as staff skills and available financial resources or by external factors such as the impact of changing government policy or changes in the structure of the industry.

Use 'risk mapping' to analyse specific risks in terms of likely occurrence and severity of impact.

Maintain a risk register which ranks risk, identifies the step taken to mitigate each risk and monitors the residual remaining risk. The register needs to be regularly reviewed in the light of changing circumstances and influences.

## Conclusion

A strong focus on implementing good governance practice will provide several significant benefits to any association.

- It brings an understanding of the risks and opportunities that face the association, both now and into the future, which in turn ensures that opportunities can be taken advantage of, within defined operating constraints.
- It ensures that robust decisions will be made, based on sound and meaningful information, in order to deliver the association's mission.
- Outputs and outcomes will be clearly measured and used as a means of improving future performance and in meeting the needs of beneficiaries.
- There should be a positive impact on reputation and relationships both within the charity and with external stakeholders.

## Practical templates

**To accompany this toolkit, you can use our example templates to support the following governance processes:**

**A - Board roles and responsibilities**

**B - Board performance and appraisal**

These do need to be adapted to fit the size and structure of each entity.

# Template A

## Roles and responsibilities of the Board, Individual Board members, the Chairman and Treasurer

### The collective role of the Board is to:

1. Ensure that the organisation complies with its Articles of Association or other governing document, and any other relevant legislation or regulations
2. Further the objects of the organisation
3. Ensure that the policy and practices of the organisation are in keeping with its objects
4. Formulate and regularly review the strategic objectives of the organisation, in collaboration with the CEO
5. Take legal and financial responsibility to safeguard the assets and the continuity of the organisation
6. Be satisfied that financial information is accurate and that controls and systems of risk management are robust and defensible
7. Act always in the interests of the organisation
8. Safeguard the wellbeing of the employees
9. Take appropriate professional advice in matters where there may be a significant risk to the organisation or where the association could be in breach of their duties
10. Ensure proper procedures are undertaken in the appointment and performance monitoring of the CEO (and possibly other members of the senior management team)

### In carrying out the collective responsibilities of the Board the individual board member should:

1. Be properly inducted and continue to obtain ongoing briefing to ensure he/she remains aware of their duties and responsibilities and wider sector developments

2. Declare conflicts of interest, and exercise independent judgement at all times
3. Be an active advocate for the organisation
4. Represent the Board/organisation at meetings and events, and act as spokesperson when requested by the CEO
5. Contribute to the development of business strategy through constructive challenge and contributing ideas
6. Scrutinise performance of management in meeting agreed goals and objectives, and monitor the reporting of performance
7. Regularly attend Board meetings

### The role of the Chair is to:

1. Provide leadership for the Board in fulfilling its governance duties
2. Ensure provision of accurate, timely and clear information to board members
3. Liaise with, and provide support to, the CEO with regard to the organisation's affairs overall
4. Plan the annual cycle of Board meetings and chair them
5. Ensure that decisions taken at Board meetings are implemented and that the organisation is run in accordance with the decisions made by the board
6. Ensure overall Board effectiveness
7. Set and conduct the annual appraisal of the CEO and support performance (with board support)
8. Maintain the focus and commitment of the board, including renewal and succession planning
9. Ensure the performance of the board as a whole and for individual board members is reviewed at least annually
10. When necessary, lead the process of recruiting the Chief Executive (and possibly other members of the senior management team)

### The role of the Treasurer is to:

[In most associations the specific role of Treasurer is unnecessary as the finances are very simple. In more complex associations, particularly those with significant trading activities, it may make sense for a board member to have the responsibility also of being Treasurer.]

The role of the Treasurer is to help the Board carry out its duty to provide financial oversight by:

1. Liaising with the relevant executive who is responsible for the association's finances
2. Ensuring board members are supplied with financial information by staff in a form that enables them to understand the financial position and the outlook for the organisation
3. Acting as an interpreter in financial matters to board members who have limited understanding of finance
4. Ensuring the maintenance of accounting standards by the organisation and sound internal controls
5. Taking the lead in developing policies relating to finances, reserves and investments
6. Providing strategic advice to the Board on financial matters
7. Considering the financial implications of strategic plans, annual budgets and financial management reports
8. Liaising with external auditors and taking the lead in their appointment.

# Template B

## Board performance and appraisal

### The outcome of a positive approach to board appraisal should be an improvement in performance and effectiveness and a willingness to embrace positive change.

Below are examples of questions that should help the board address key areas of working.

Providing an opportunity for informal discussions around performance will often be the first step in the assessment process. It may be sufficient to select particular aspects for review on an annual basis, or as an allotted session during an away day.

Once the idea of review has been introduced and accepted the association could consider introducing a more formal checklist of questions to be ranked according to how well each respondent feels the board is meeting particular expectations, actions or outcomes.

### The board

1. Is the size of the board appropriate for the work we need to accomplish?
2. Are the skills of the board adequate and complementary? Where do you see that the board is lacking in skills or expertise?
3. Do board members understand their individual and collective roles and responsibilities?
4. Does the board plan sufficiently far ahead to effectively replace or renew board membership?
5. Are meetings held sufficiently frequently?
6. Do board members attend meetings regularly? If not, how is this addressed?
7. Are meetings too long/ short?
8. Are board papers fit for purpose?

9. Is the board effectively led? If not, how could this situation be improved?
10. Does the board work and communicate well together?
11. Does the board work and communicate well with the chief executive and the senior management team?
12. Does the board understand the distinction between board and management responsibilities?
13. Where the board delegates roles or functions are these monitored and reported upon regularly?
14. Are there proper terms of reference for designated board roles and subcommittees? Are these persons/ committees fulfilling their role effectively? If not, how can this be improved?
15. Do board members give sufficient time to the organisation and contribute in areas outside of board meetings?

### Strategy and direction

16. Does the board understand who the key stakeholders are?
17. Does the board communicate well with its stakeholders and the general public?
18. Does the board understand how its objects are translated into its vision and mission?
19. Does the board provide clear strategic direction?
20. Does the board set clear targets for the short and longer term?
21. Does the board have a clear understanding of how it will measure performance against targets and how this will be reported (key performance indicators)?
22. Is the board clear that its strategic objectives are reflected in operational plans and budgets?

23. Does the board discuss and approve budgets and obtain regular financial updates during the year of actual performance against budget? If not, how could this be improved upon?
24. Does the board receive regular and timely reports in order to support its decisions? If not, how could this be improved upon?
25. Does the board discuss sector developments and issues that might impact upon the association?

### Governance

26. Does the board understand and keep up to date with its legal responsibilities?
27. Does the board have clearly defined policies and practices?
28. Does the board ensure adequate systems of internal control are in operation?
29. Does the board have an adequate process for assessing and managing risk?
30. Does the board ensure that assets of the association are adequately safeguarded?
31. Does the board ensure that employees' interests and needs are supported whilst meeting legal requirements?
32. Does the board avoid potential or actual conflicts of interest?
33. Does the board properly set the chief executive's performance objectives and review against these at least annually?

# How Kingston Smith's trade association team can help

We have a multi-disciplinary, specialist trade associations' team headed by four partners. With over 70 trade association clients we have in-depth experience of the issues trade associations face. This knowledge enables us to offer practical advice and share areas of best practice to help our trade association clients succeed in meeting their core objectives.

We offer a comprehensive range of highly specialised services tailored to your needs that deliver real value. These include:

- Governance and strategic planning advice
- Tax planning advice
- Financial and accounting support
- Assurance services
- HR issues
- IT advisory services
- Professional management services
- Membership and IT outsourcing
- Income streams and marketing advice



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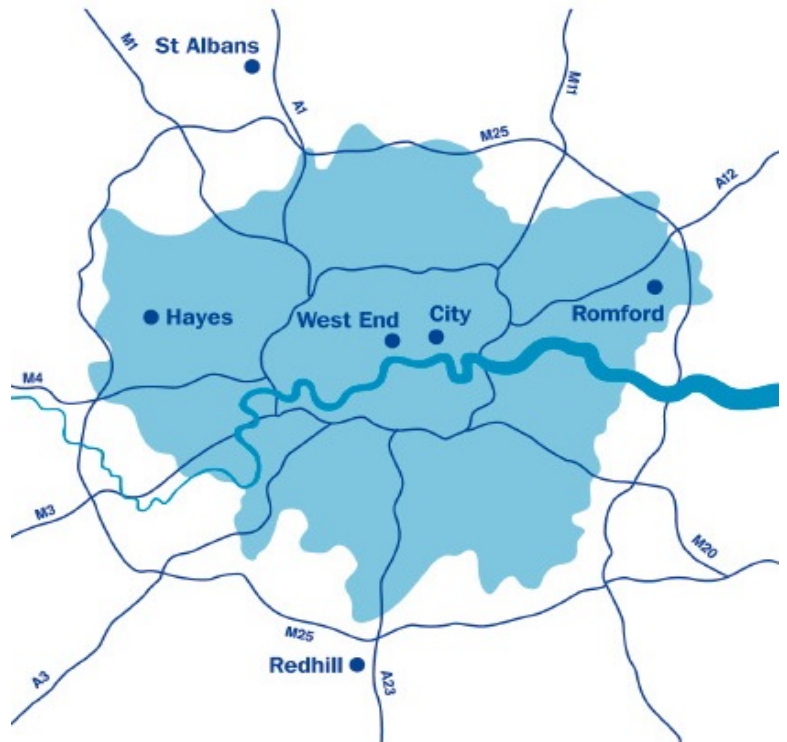
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