

## What is a trustee board and why is it important?

A board is the governing body of your business and is there to provide you with strategic direction and ensure compliance with the law. In practical terms, this means that there is a group of people who are legally responsible for the activities of the social enterprise. As the governing body, they make sure that everything that happens within the enterprise:

- Is well run and solvent. They are ultimately responsible for the management of the organisation and ensuring that its funds are not misused or placed at undue risk.
- Complies with all legal regulations (e.g. prepares its accounts properly, has policies in place about staff that fit with employment law, etc).
- Remains true to its purpose. The board stops 'mission creep,' which occurs when an enterprise is proposed that does not directly fit in with the original social aims.
- Acts with integrity and stops conflicts of interest.
- Has a clear strategy, i.e. objectives and direction, identifies risks.

There are also many optional responsibilities of the board including:

- Appointing key people (like senior managers) and making sure that there are clear roles and responsibilities for all staff.
- Making sure the board improves its governing skills and stays up-to-date with the work of the social enterprise.

The group of people who are appointed on the governing body of a non-profit organisation - which may be a charity, a non-profit company (Ltd by Guarantee ) or a community organisation - can be called trustees, directors, board members, governors or committee members. The duties of the board are legally defined according to what each member does, rather than from their actual job title.

A board of trustees and a board of directors is the same thing. Throughout this document, 'board of trustees' can be used synonymously with the term 'board of directors'.

## Is a board of trustees a legal requirement for social enterprises?

A trustee board is generally not a legal requirement for running a social enterprise.\* However, it is useful to ask yourself if you might benefit from having a board in place as it is often seen as evidence of having a good governance system. This is particularly true if you are applying for or will rely on grant funding.

Your stakeholders may also feel more comfortable knowing that there is a board looking after their best interests. The other major consideration is that having a board will allow you to bring in people (generally volunteers) with additional skills, experience and business contacts.

Depending on the legal structure of your social enterprise, you as the entrepreneur may or may not be a board member. If you choose a non-profit legal structure for your social enterprise, you are also transferring your ultimate decision-making power to the board. This is because you will have equal power to the other board members/trustees. You need to think about this when deciding which legal structure your social enterprise will adopt (see our guide on legal structures for further information).

**\* Charities have boards of trustees as a requirement of the various Charities Acts. So a charity undertaking trading activities, or behaving as a social enterprise, will be controlled by its trustee board.**

## What is the difference between the board and the management?

There are clear differences between the board and the management:

- The management deals with the day-to-day running of the social enterprise. They are responsible for implementing the policies decided by the board.
- The board has more legal responsibilities than the management. They have to ensure that the business complies with the legal constitution and memorandum of the social enterprise.

It is important is that there is a separation between governance issues and other management, operational or day-to-day issues.

Remember that you as the entrepreneur are the key person – you will be developing and driving the board and, at the end of the day, it is you who will be implementing the ideas. The board is there to make sure that everything you do is legal and productive.

## How do you put together a board?

There is no clearly defined model for a small social enterprise board.

The most effective board of directors/trustees are generally a group of people who bring a mix of relevant skills, experience, interests and contacts to your enterprise. They should provide strategic leadership and critical oversight and be a sounding board for the management. As your social enterprise grows and changes, you may need to adjust the mix of talents on the board.

The board may consist of:

- members /employees of your social enterprise
- people from the local community
- successful local business people
- a local government councillor
- your accountant / lawyer, or both

It is always useful to have someone from local business on the board as they will bring solid business experience and will be well connected locally. In addition, it is sometimes useful to appoint someone from a well-established social enterprise, as they will bring a great deal of practical knowledge.

It can also be useful to do a skills audit of your management team and create a chart of the necessary skills your enterprise needs to grow. Note any gaps in skills and use your board to help fill these gaps. For example, if you are weak on accountancy skills then appoint your accountant onto the board.

Directors/trustees of a social enterprise must be able to offer practical skills and advice and more importantly, they must share your passion and vision. It is also important that you can trust and rely on them so think carefully before making your choice.

It is likely that most of your board members will be volunteers and it is important that everyone is clear about their roles and responsibilities. Most board members will appreciate this clarity. Your memorandum should define not only how the board is run but also how many people will be on it. If you need to make changes to the memorandum and articles of association, you will need to speak to your solicitor.

Boards should not be too large because decision-making can get difficult. However, if they are too small, there may be too much for the directors to do. The right size of board depends on the size of your organisation and its stage in development. The larger and more developed your social enterprise, the larger the board. Generally, you should aim for between three and nine directors on your board.

## How should you guide the board?

Make sure that your board understands:

- the enterprise's vision, mission and values
- the board's role and responsibilities
- each individual board member's responsibilities
- the importance of confidentiality regarding the enterprise's activities

You will also need to decide:

- how often you should hold board meetings
- when and where they should be held
- who should be Chairman
- who should be Secretary and how/when the minutes will be distributed

## What are the legal implications for members of the board?

It is important that everyone is aware of their legal position from the beginning so that you avoid any dispute further on.

Directors are required by law to carry out certain duties and, if they are in breach of their duties or act improperly, they can be made personally liable in both civil and criminal law. However, as the Charity Commission says, '*a conscientious and committed trustee need have few worries about personal liability.*' Provided that the trustees have 'acted reasonably,' it is unlikely that you will be held liable.

This does not mean, however, that you can authorise a loan that the organisation cannot pay back or be in breach of trust. If you were to do this you could then be held collectively and personally responsible. The Charity Commission offers information and advice on both legal requirements and best practice to help you operate as effectively as possible and to prevent problems arising.

The potential liabilities of the board are lower for trustees of charities that are also incorporated as companies limited by guarantee. Board members can also take out trustee indemnity insurance.

## Things to look out for regarding boards and governance

Many charities establish social enterprises to generate additional income streams and charity trustees are often asked to join the board of social enterprises.

However, care needs to be taken in doing this. A trustee that has the right skills and experience for the charity may not necessarily have the right skills and experience for managing a for-profit enterprise. There may also be issues where being on both boards can cause a conflict of interest.

Social enterprises planning to apply for public funding should also be aware that funders pay attention to how the board is made up and will expect to see at least three people on it. The actual number of board members required will depend on the size of the organisation. It is very rare that non-profit organisations with only one or two directors will be eligible for, or will get, public funding.

## Further information

**Read our guide to legal structures:**

<http://www.blondon.com/SocialEnterprise/LegalStructures/SELegalStructures.aspx>

**Read further information on Charity Trustees from the Charity Trustee Network website:**

[www.trusteenetworks.org.uk](http://www.trusteenetworks.org.uk)

**Read further details on the Association of Chief Executives of Voluntary Organisation website:**

[www.acevo.org.uk](http://www.acevo.org.uk)

**Visit the National Hub of Expertise in Governance website:**

[www.governancehub.org.uk](http://www.governancehub.org.uk)

**Further details from the Charity Commission:**

[www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

**Read further details on the social enterprise section of DIY Committee Guide:**

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