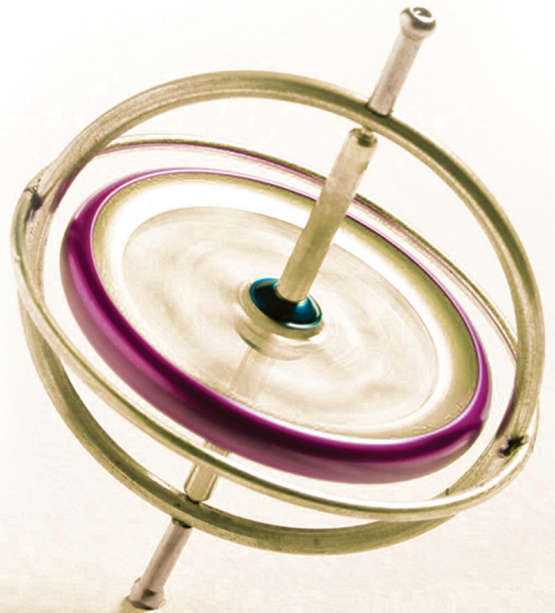


Managing Without Profit

Leadership, governance and management
of civil society organisations

Mike Hudson

Fourth edition



‘This book manages to combine a comprehensive overview of leadership and management in the voluntary sector with wisdom and insight about how to navigate its inherent ambiguity.’

Michael Adamson

Chief Executive, British Red Cross

‘*Managing Without Profit* contains much wise counsel, born of extensive experience with civil society organisations and acute insight into how managers manage and leaders lead.’

Dawn Austwick

Chief Executive, Big Lottery Fund

‘Whether you’re new to the not-for-profit world or an old hand, if you care about the effectiveness of charities and want to build trust in the sector, read this. Then follow its practical and insightful lessons.’

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Chair, Breast Cancer Now

‘I would highly recommend this book to every charity chief executive. It’s a nice blend of leadership theory and practical tools based on years of experience and insight. I like the way you can dip in and out of different sub-sections. I will use it to help build a high-performance mindset between my top team and my board. Thank you!’

Juliet Bouverie

Chief Executive Officer, Stroke Association

‘If you want clear, practical advice on how to lead or manage a non-profit organisation, this is the book. It’s been completely updated for these challenging and turbulent times. Mike Hudson knows more than is decent about good governance. But there’s nothing preachy or ideological here: instead you get helpful nuggets of wisdom and spot-on case studies, all in a highly readable style.’

Martin Dinham, CBE

Chair of Sightsavers and Chair of the International HIV/AIDS Alliance

‘I have spent 20 years as a chief executive, the last 15 in voluntary and public sector organisations. *Managing without Profit* is the most informative and common-sense guide I have come across in that time. I have no hesitation in recommending it to others.’

Sir Michael Dixon

Director, Natural History Museum

‘Mike’s latest insights are invaluable to me as a new CEO. In a fast-changing field this latest edition is a useful summary of what is most important and how the best leaders are achieving long-term results.’

Sue Freeth

Chief Executive, Combat Stress

‘Mike Hudson stands out from the crowd: he understands not only the frameworks of governance and management in the not-for-profit sector but also the nuances and implications of behaviours within those frameworks. His book is a masterly combination of both elements. I refer to his work regularly and will continue to do so with this latest book.’

David Gregson

Chair, Lawn Tennis Association

‘An informative step-by-step guide which will suit experts and beginners alike. It covers everything on governance from board composition and recruitment to full-scale mergers. I read it in one sitting.’

Sir Tony Hawkhead, CBE

Chief Executive, Action for Children

‘When I first became a manager in a charity I constantly referred to Mike’s excellent book for helpful insights. Over 15 years later I am still referring to it. This book remains essential reading for leaders involved in managing voluntary sector organisations and driving social change.’

Matt Hyde

Chief Executive, The Scout Association

‘Mike Hudson has the insight required to transform charities from well-meaning groups to high-impact organisations better able to achieve their mission. As CEO of an international charity I know that whether it’s structuring staff teams, strengthening boards or working in strategic alliances, this book is an invaluable volume that I keep coming back to.’

Philip Lymbery

Chief Executive, Compassion in World Farming

‘Drawing upon his thirty plus years of grounded reflective experience, and as one of the leading management consultants to the sector, Mike has updated his seminal book with new sections dealing with the leadership and recruitment of the chair and other board members. It is an essential read for any manager or trustee in the sector.’

Professor Paul Palmer

Centre for Charity Effectiveness, Cass Business School

‘This book has always been required reading for those involved in management in the voluntary sector and this new and updated version with its focus on leadership and governance will be even more valuable. I warmly recommend it.’

Baroness Pitkeathley

House of Lords

‘I thought I was too busy to read the book but actually it has freed up more time! I have learnt new skills and re-evaluated how I lead so that I can be more efficient and work better with those around me. As Mike says in the book, “leadership... is the single most important determinant of the success of civil society organisations” but only if it is done well. This book is a must for anybody looking to lead well in a civil society organisation.’

Gudrun Ravetz

President (2016–17), British Veterinary Association

‘Thorough, pragmatic and approachable – this authoritative how-to guide is ideal for civil society organisations of all stripes and at every stage of their development, whether newly incorporated organisations laying down their foundations or long-established charities striving for modern best practice.’

Saleh Saeed, OBE

Chief Executive, Disasters Emergency Committee

‘I enjoyed reading the first edition of *Managing Without Profit*, but Mike Hudson has completely refashioned the book. I will keep the new edition handy to refer to regularly. What I really appreciate is the way that Mike’s writing is grounded in his practical experience of working with boards and organisations.’

Kate Sayer

Partner, Sayer Vincent

‘Mike Hudson is the real go-to guy on strategic leadership in the third sector. His knowledge, experience and sage advice jumps off each page of this insightful and stimulating new edition.’

Gail Scott-Spicer

Chief Executive, Carers Trust

‘This book has been the management bible of my team for years. The new edition promises to be even more indispensable.’

James Thornton

Chief Executive Officer, ClientEarth

‘As the CEO of a major charity, this is one of my bibles! It is really clear, I can dip in and out to refresh or renew my thinking, and see what others are doing. It’s a great balance of the practical and the theoretical.’

Jan Tregelles

Chief Executive, Royal Mencap Society

‘This book is so useful that it should be compulsory reading for every trustee, chief executive and senior manager. If everyone involved in management and governance read this book we’d have a more effective charity sector with far fewer problems.’

Amanda Witherall

Chief Executive, Association of NHS Charities

‘In these treacherous times, a good guide is key. Mike Hudson is a reliable, secure and encouraging mentor.’

Baroness Young of Old Scone

Chair, Woodland Trust

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Mike Hudson

Fourth edition



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About the author



Mike Hudson is the Director of Compass Partnership, a group of management consultants which works with civil society organisations on their leadership, governance and management. He studied Engineering Science at Durham University and then pursued his interest in protecting the environment by working for Friends of the Earth, latterly as Administrative Director. After graduating with an MBA from London Business School, he worked for an international firm of management consultants helping multinational firms in the UK and the USA to develop their strategy.

He has worked as a consultant to civil society organisations for over 30 years, leading teams that bring about major change in complex organisations. His clients include a wide range of organisations across the civil society sector including many concerned with social welfare, disability, health, housing, international development and education, as well as their government and foundation funders (details in Appendix 1). Overseas assignments have included work for organisations in Bangladesh, the Czech Republic, Nepal, Poland, South Africa, Switzerland, Uganda and Zimbabwe.

In addition to managing Compass, Mike has been a Visiting Fellow at Cass Business School, part of City University in London, since 2004 and has led major studies on the governance and management of UK charities.

Mike has been a member of the Board of the Leadership Foundation for Higher Education, Chair of its Audit Committee and a member of the Editorial Board of *Governance* magazine. He is currently Chair of the Farm Animal Welfare Forum.

He is married to Diana, has four children and lives near Marlow.

About the Directory of Social Change

The Directory of Social Change (DSC) has a vision of an independent voluntary sector at the heart of social change. The activities of independent charities, voluntary organisations and community groups are fundamental to achieving social change. We exist to help these organisations and the people who support them to achieve their goals.

We do this by:

- providing practical tools that organisations and activists need, including online and printed publications, training courses and conferences on a huge range of topics;
- acting as a ‘concerned citizen’ in public policy debates, often on behalf of smaller charities, voluntary organisations and community groups;
- leading campaigns and stimulating debate on key policy issues that affect those groups;
- carrying out research and providing information to influence policymakers.

DSC is the leading provider of information and training for the voluntary sector and publishes an extensive range of guides and handbooks covering subjects such as fundraising, management, communication, finance and law. We have a range of subscription-based websites containing a wealth of information on funding from grant-making charities, companies and government sources. We run more than 300 training courses each year, including bespoke in-house training provided at the client’s location. DSC conferences and fairs, many of which run on an annual basis, include the Management and Leadership Fair, the Charity Accountants’ Conference and the Charity Law Conference. DSC’s major annual event is Charityfair, which provides low-cost training on a wide variety of subjects.

For details of all our activities and to order publications and book courses, go to www.dsc.org.uk, call 08450 777707 or email publications@dsc.org.uk.

Foreword

Anyone who has worked for civil society organisations will have noticed that the environment in which they operate has changed significantly since the previous edition of this book was published. While the sector can still count on an enormous number of dedicated staff and volunteers, leaders are having to find innovative ways of reconciling the increasing expectations placed on their organisations with a rise in external pressures.

Managing these organisations is a constant balancing act. Ever greater public focus on how they are operating has come at the same time as increasing demand and uncertain political and economic conditions. They add up to even greater pressure on leaders.

But, if nothing else, civil society organisations are adaptable. Sometimes it seems that when the obstacles are greatest, organisations and their leaders are most able to realise their potential and truly come into their own.

As leaders chart new territory in adapting to the challenges of the day while simultaneously striving to increase their organisations' impact, effective leadership, governance and management are all the more important: leadership, because new ideas and a focus on the big picture are crucial to achieving outstanding results in the long term; governance, because the sector must live up to its own values when it comes to such matters as accountability and transparency; and management, because without effective administration, even the best ideas stand no chance of succeeding.

It is only fitting, then, that in this completely updated edition of *Managing Without Profit*, readers will find even more detailed, practical advice around management and governance, and a particular emphasis on strong leadership, including welcome new sections on managing risk and developing leadership teams.

It is with good reason that many leaders have for years turned to Mike Hudson's book. With its helpful guidance and its focus on strategy, it is a must-read for chief executives, senior managers, board members, and anyone wishing to take a leading role within an organisation.

Sir Stuart Etherington, Chief Executive, NCVO

Vicky Browning, Chief Executive, ACEVO

Preface

This book is based on over 30 years' experience working and doing consultancy with civil society organisations and academic research that I and many others have undertaken. It also benefits from hundreds of comments on previous editions from colleagues and people from all corners of civil society, from business and from the public sector. Each edition has evolved substantially as my understanding of leadership, governance and management has improved and as external demands on these organisations have grown.

Much has changed since the third edition of this book was published in 2009:

- A number of high-profile charities have collapsed.
- Public concern over senior salaries has grown.
- The excesses of some fundraising activities have led to the establishment of the Fundraising Regulator and to much higher expectations of governance.
- The desire for better information about the difference civil society organisations make continues to grow. Standards of reporting have improved, but there is still considerable room for better articulation of the impact organisations are having.
- The recession led to a fall in income from government that hit smaller organisations particularly hard at the same time that demand for their services was increasing.
- The Charities Act 2016 increased powers for the Charity Commission to intervene in cases of misconduct, abuse and extremism. It can now issue public warnings to charities and disqualify a wider range of people from being trustees, chief executives and chief finance officers.
- The act also made it easier for charities to use their assets to make investments that have a positive social or environmental purpose.
- New sources of funding have become available, including social impact bonds, launched in 2010.
- There is much more focus on conflicts of interest and risk management.

Alongside these changes, a sharper understanding of what is most important and what works best in leadership, governance and management has emerged. As a result, significant revisions of this book were needed:

- The book has been reorganised into three parts, one each for leadership, governance and management, to emphasise the critical importance of clear and effective leadership.

- I've written a new chapter on the overall leadership of civil society organisations (chapter 2 'Leadership of civil society organisations'), because leadership from chairs, boards, chief executives and senior managers is a crucial determinant of success.
- I've set out a clearer articulation of the fundamental structures of governance (chapter 9 'Establishing appropriate governance structures').
- Chapter 12 ('Managing governance meetings and behaviours') is also new, and covers governance meetings and behaviours.
- I've updated every chapter and distilled the whole book to make it shorter and more accessible.
- There are now over 50 case studies – both named and anonymous – several of them entirely new.

The fundamental objective remains unchanged – to give busy leaders, managers and board members easily accessible advice that can be either read from cover to cover or dipped into when a fresh perspective or new ideas are needed.

The book is called *Managing Without Profit*, which in practice means managing without distributing profits to shareholders. The title should not imply that these organisations should only aim to break even. They should strive to maximise financial surpluses where they can so that they can subsidise important services which can never be financially viable, create funds to invest in new activities and innovation, and provide working capital and reserves.

To guide you around the book, you'll find the chapter titles at the top of each left-hand page and the section titles at the top of each right-hand page. Boxes with a white background illustrate key points and provide additional information; those with a grey background are case studies.

I hope that this edition will help your organisation to support your service users even more effectively, and I urge you to continue writing to me (mhudson@compassnet.co.uk) with your comments and suggestions for future editions.

Mike Hudson
March 2017

Acknowledgements

This fourth edition of *Managing Without Profit* is the result of a continuing collaboration with a large number of people who have provided me with immense support and guidance.

I repeat my thanks to all the trustees, chief executives and managers who assisted with the first three editions. You laid the foundations upon which this fourth edition has been built and I continue to be deeply grateful for your contributions. I would also like to express my gratitude to past and present colleagues at Compass Partnership. Your ideas, opinions and wisdom have all contributed to the content of this book.

Particular thanks are due to all the clients of Compass Partnership who have invited my colleagues and me into their organisations and provided the crucial practical experience without which it would not have been possible to write a book that attempts to combine theory and practice.

Readers of previous editions found the case studies to be among the most instructive parts of the book. Special thanks therefore go to the following organisations for updating case studies or allowing me to use their organisations as new case studies for this edition: Arthritis Care, Arthritis Research UK, Carers Trust Network, Disasters Emergency Committee, Foundation for Young Australians, Girlguiding, Girls' Day School Trust, Governance Hub, International Livestock Research Institute, Lawn Tennis Association, Leonard Cheshire Disability, National Society for the Prevention of Cruelty to Children (NSPCC), National Trust, Royal British Legion, St John Ambulance, St Mungo's, Scout Association, Sense, Shelter, Sightsavers, Stroke Association, Swan Housing Group, Trussell Trust, Turning Point, United Kingdom National External Quality Assessment Service (UK NEQAS), Woodland Trust and YWCA Canberra.

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The whole team at the Directory of Social Change, including John Martin and Lucy Muir-Smith, deserve grateful thanks for going the extra mile with this book.

I am also most grateful to Hazel Bird from Wordstitch Editorial, who gave the book a very thorough edit, making it clearer and more enjoyable to read, Gabriele Zagnoje who carried out additional research, liaised with copyright holders and compiled the references sections, Martin Cooper from Marlinzo who

typeset the entire book and created the figures, Martin Bates who proofread it all for final consistency and Lynette Davidson who meticulously revised her index.

Debbie Emerson, Business Manager of Compass Partnership, once again deserves particular thanks. She has provided the highest possible quality of administrative support for the creation of all four editions of this book.

Finally, my most grateful thanks are due to my wife, Diana, who once again backed me throughout this venture, and to our children, Jennifer, Timothy, Jessica and Katherine who are all now directly or indirectly involved with civil society organisations.



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Introduction

Civil society organisations exist throughout the world.

They prosper in industrialised economies and they are also a central part of the social fabric in developing economies. They thrive in free democratic societies and they play a vital role in less democratic regimes. They flourish in urban areas and are equally important in rural areas. Civil society organisations exist everywhere because of a human quality that brings people together to provide services for themselves and others and to campaign against abuse of fellow human beings, animals and the environment. People want health, welfare, educational, humanitarian, environmental and cultural services to improve the world we live in. They expect the organisations that provide them to be ‘non-profit’ because all depend, to some extent, on voluntary donations of money and time.

This book is about leading, governing, managing and improving the performance of all of these types of organisation.

DEFINING CIVIL SOCIETY

The term ‘civil society’ describes a varied group of organisations whose primary objectives are social or environmental rather than economic. The core of the sector includes charities, voluntary organisations, social enterprise, quasi-government organisations, religious organisations, arts organisations, sports organisations, community organisations, campaigning organisations and trade unions.

These organisations are distinct from the private sector and the public sector. The ethos that all these organisations share is that they are driven by a cause. They are established and managed by people who are inspired to provide services for other people and to campaign for change. These organisations share two common characteristics. Unlike private sector organisations, they do not distribute profits to their owners, and, unlike public sector organisations, they are not subject to direct political control. They have the independence to determine their own futures.

Civil society can be divided into a core of what are sometimes called ‘third sector’ organisations – such as voluntary, community, arts and religious bodies – and a range of organisations that sit on the boundaries with the public and private sectors. Sitting close to the public sector, there are semi-independent organisations such as universities, colleges, foundation hospitals, housing associations, academy schools and non-departmental public bodies. Adjacent to and sometimes overlapping with the private sector are organisations including co-operatives, community benefit societies, and professional and trade associations. Together the organisations at the core and periphery of the third sector are known as ‘civil society organisations’ and are analysed more fully in section 1.2 ‘Significance of the civil society sector’.

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