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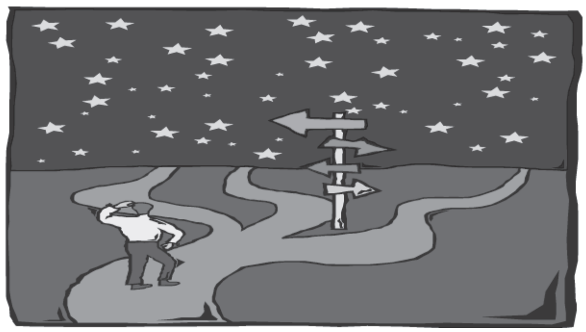
Governing for Results



If you don't know where you are, and
You don't know where you're going,
Any road will get you there!
But how will you know 'if'
Or 'when' you've arrived
Or made any progress at all?

GOVERNING FOR RESULTS

A Director's Guide to Good Governance

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Acknowledgements

This book is dedicated to the memory of my father, Henry Gill, who was always my best friend, and my mother, Edna Gill, who repeatedly prodded me with the question: "Is your book finished yet?" Well, here it is Mom!

My friends and former colleagues Helen Pigeon and Raymond Lemay, regularly encouraged me to complete the manuscript and offered excellent early advice on the structure and contents of the manuscript. My brother, Royce Gill, made valuable observations on an early draft and reminded me that the most important job of a board is to recruit, support and evaluate a competent CEO. My wife, Judith, repeatedly encouraged me to finish this book so that we could get on with other aspects of our lives.

Other colleagues made much appreciated suggestions for improvement of the manuscript and offered cover commentary. Those comments are noted on the first inside page and the back cover of this book. The many others whose work is cited in this book established the solid research and theoretical foundation upon which this director's guide is based. Thanks also to those who participated in the case studies and other research cited in the book.

Thanks also to Norah McClintock for her valuable assistance in editing the final manuscript.

Preface

"What's the role of the board?"
"What is expected of me as a director?"
"What personal liabilities might I risk by serving on this board?"
"What difference do governing boards really make to organizations?"
"What is governance anyway?"
"How can a board 'add value' to an organization's efforts to achieve its goals?"
"How can we evaluate the performance of the board?"
"What's the right 'governance model' for my organization?
In fact, what is a governance model and what models are there?"
"What about Carver's policy governance model?"

These are some of the questions I have repeatedly heard from board members, senior managers, funders and other stakeholders during the past ten to fifteen years.

Numerous scandals in high-profile nonprofit and business corporations in North America over the past several decades have been attributed to failed board oversight and have spurred demands for more effective and accountable governance. Aggressive promotion of the policy governance model prompted many boards and executives to attempt to implement it. Many who tried it found that it was simply not a comfortable fit for their organization. As a result, they 'mixed and matched' it with other models and practices without any systematic rationale.

My own research, management and consulting experience has led me to conclude that the essentials of good governance are generally not well understood and that what is understood is not well communicated to the millions of volunteers who serve as directors of boards. My research also revealed that many board members share common concerns about their roles and allowed me to identify some clear indicators of boards in trouble.

A note on terminology:

- Executive director and chief executive officer (CEO) are used interchangeably in this book to refer to the most senior management person in the organization, regardless of title.
- Although the correct legal term for a member of the board of a corporation is 'director', the terms director and board member are used interchangeably in this book. Some organizations may use other terms such as trustees, commissioners or governors.

Common concerns of board members

According to a recent study on the governance of 20 Canadian nonprofit organizations,[1] board members commonly express concerns in four areas: the functioning of the board itself; the relationship between the board and staff; planning; and finances. The concerns identified most often are listed below.

Concerns about the board itself include how to:

- limit personal liability of directors;
- shift governance practices from an 'operational' to a 'policy' focus;
- add value (i.e., how to fully exploit the talents of board members);
- evaluate the effectiveness of governance and services;
- deal with board members who are not ‘pulling their weight’;
- improve succession planning for both board and staff;
- deal with community criticism; this is a particular concern for directors of organizations with statutory mandates in the areas of health, education, police services, child protection, etc.;
- increase the board’s involvement in advocacy; and
- deal with volunteer fatigue and staff burnout.

Concerns about the relationship between board and staff include how to:

- develop clarity between the respective roles of board and staff;
- increase the board’s focus on *‘results’* rather than on operational detail; and
- reduce excessive demands on the executive director.

Concerns about planning include how to:

- improve long-term planning;
- ensure that mandates remain responsive to changes in community demographics and infrastructure;
- respond to increased pressure for community service integration and the development of integrated service delivery models;
- build stronger relationships and communicate more effectively with key internal and external stakeholders;
- and whether to, collaborate with organizations that may be in competition for the same scarce project funds; and
- achieve a balance between broad-based input and efficient decision-making.

Concerns about finances include how to:

- remain financially viable (i.e., how to strengthen, stabilize, and broaden the funding base);
- respond to increasing demands for service with shrinking financial resources;
- survive the withdrawal or absence of core or sustaining funding;
- ensure that board members have a working understanding of financial statements;
- adopt and adapt business-like and entrepreneurial practices to ensure efficiency and diversify revenues and how to do so without alienating staff (who may have a human services values set) or jeopardizing nonprofit status; and
- provide services economically in an increasingly unionized environment.

Signs of a board in trouble

One or more of the following warning signs almost always characterize boards and organizations that are heading for serious trouble. These warning signs were evident at some point during the recent history of one or more of the 20 Canadian nonprofit organizations in that same study.[2] These warning signs are listed below.

Human resources warning signs include:

- rapid turnover of CEOs (this was an unmistakable sign in several cases);
- frequent and substantial turnover of board members; and
- difficulty recruiting or retaining credible board members.

Financial and organizational performance warning signs include:

- chronic unplanned and/or unmanaged deficits;
- rapid depletion of reserve funds;
- a call for an outside audit or operational review by funders or other key stakeholders; and
- persistent failure to meet individual or organizational performance targets.

Meetings warning signs include:

- poor attendance at board and committee meetings;
- low level of participation in discussions at meetings; and
- poorly managed meetings, e.g., lack of focus, agendas circulated late, members unprepared.

Warning signs related to board culture include:

- underground communications, e.g., lots of ‘corridor talk’ and political maneuvering outside the meetings;
- unaddressed distrust among board members or between the board and CEO;
- poor communication between the CEO and the board chair or the full board;
- unresolved conflicts within the board;
- conflict of interest issues that are not confronted;
- board members feeling removed from ‘what’s going on in the organization’;
- board divided into ‘insiders’ (core decision-makers) and ‘outsiders’;
- board dividing into factions; and
- growing minority of disaffected board members.

Decision-making warning signs include:

- regular ‘rubber-stamping’ of CEO recommendations without meaningful debate;
- preoccupation with operational detail rather than ‘big picture’ issues;
- board interference in operational detail, particularly personnel and collective bargaining;
- poor communication with key stakeholders;
- board members ignoring or circumventing board policies and decisions;
- CEO ignoring or circumventing board policies and decisions; and
- decision deadlock or paralysis.

If you share any of these common concerns of board members, or if your board or organization is showing any of the common warning signs of a board headed for trouble, this book can help you. It is organized in a way that makes it easy to find advice and information on your most pressing issues without losing a sense of the overall context of board governance. Skip directly to Part 7 for an overview of the essential elements of governing for results. Skim the ’Quick Tips’ boxes (like the one below) and Case Illustrations[3] for the do’s and don’ts of effective governance. Start with these Quick Tips:

Quick Tips

- ♦ Screen prospective board members carefully to ensure that you get the best skills and motivation fit possible.
- ♦ Ensure that directors understand that their first responsibility is to your organization rather than to their ‘constituents’.
- ♦ Get your board focused on results, i.e., on effectiveness and efficiency measures.

- Organize committees around board rather than management responsibilities (except in the case of management or operational boards, as noted in Part 2.2 and Appendix A).
- Define as clearly as possible the respective roles of board and CEO within a full partnership.
- Manage the interface between roles flexibly, constructively, and with candor and good humor.
- Ensure that the board maintains sufficient independence from management to exercise its audit functions objectively.

Although this book is intended to fill a gap in the resources available to volunteer members of nonprofit boards of directors, much of its guidance will also be useful for directors of public and private sector corporations. The strong research base underpinning this work also makes it of interest to researchers, academics and consultants. It adds perspective to the debate about governance models and offers guidance to board members with respect to board structure, responsibilities, governance practices and problems that commonly afflict boards. It is designed as a user-friendly guide for busy directors and executives who want concise, compact and well-researched answers to perennially troubling questions about governance, the role of boards and their relationship to staff.

This book is also designed to help boards interpret the results of their responses to the Governance Self-Assessment Checklist, (GSAC) developed by the author. Its basic structure is similar to that of the Checklist and will support boards committed to strengthening their governance practices. For more information on the Governance Self-Assessment Checklist, please visit www.synergyassociates.ca.

A CD ROM, available with volume purchases of this book, contains a sample bylaw, a comprehensive set of governance policies and more detailed terms of reference for committees that may be readily adapted to any organization's needs. The sample governance policy includes detailed descriptions of the roles of board officers and the executive director. The CD ROM also contains board and director self-assessment instruments. See Appendix D for details.

3.6 Risk management

Risk is *the possibility that adverse consequences may flow from a decision, an action or a failure to act*. The potential for risk is present whenever a decision is made to pursue (or not pursue) new opportunities or confront new challenges. All organizations face the potential for risks to financial stability; un-funded liabilities; criminal or civil litigation related to staff or board malfeasance; injury to staff, volunteers or clients; losses on fundraising or entrepreneurial ventures; and loss of community credibility. A favorable community reputation can be easily squandered but is painstakingly recovered.

Case Illustrations: Squandered reputations and financial losses

Several years ago, ticket sales for a lottery organized by the Canadian Olympic Association fell short of projections. This forced the governing body for Canada's Olympic movement to dip into an endowment fund to cover losses.

More recently, the Canadian Diabetes Association ran a deficit after losing $7.1 million in a bungled lottery. The fiasco – the result of poor ticket sales – prompted top volunteers in Toronto to resign. It also resulted in the resignation of the association's executive director.