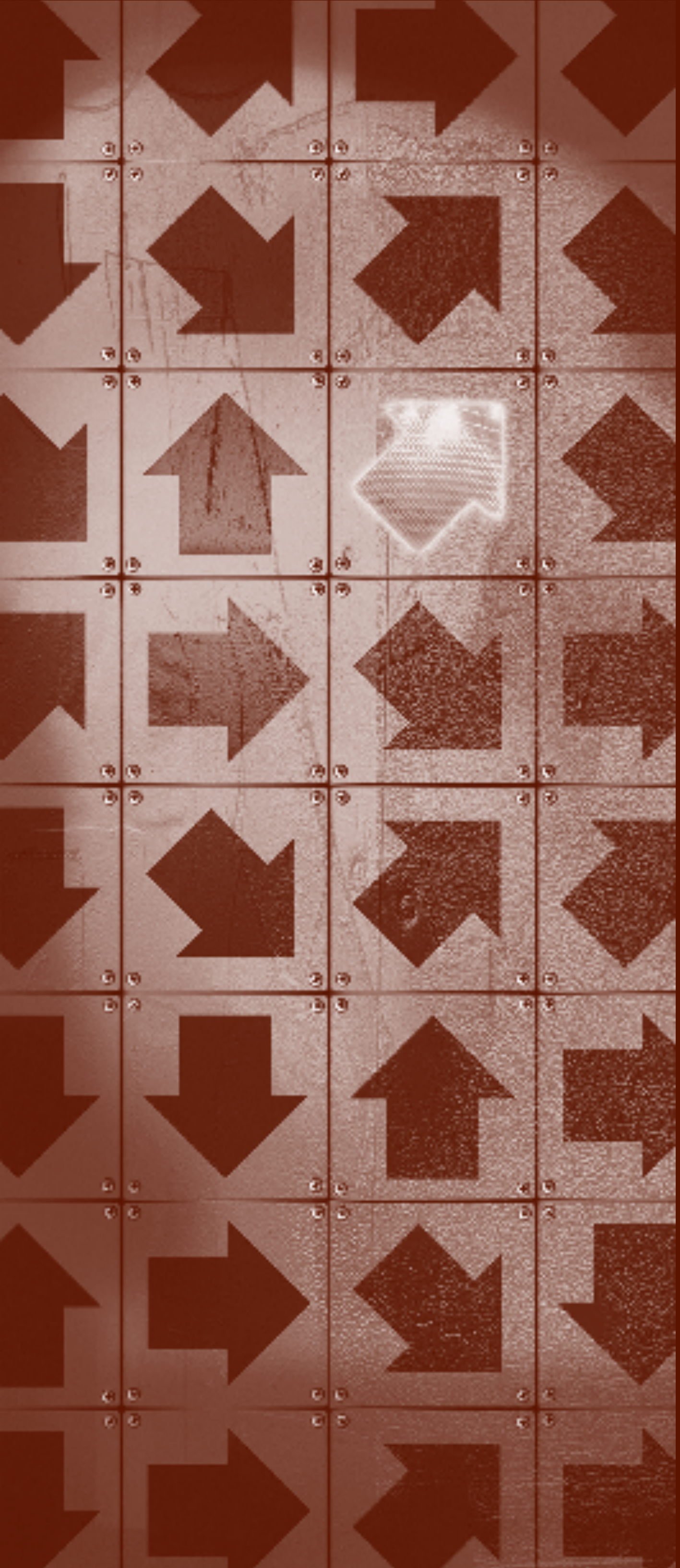

20 Questions

Directors of Not-for-profit Organizations Should Ask about Governance

Hugh Lindsay, FCA, CIP

Chartered Accountants of Canada

How to use this document

Each "20 Questions" publication is designed to be a concise, easy-to-read introduction to an issue of importance to directors. The question format reflects the oversight role of directors which includes asking a lot of questions. For each question there is a brief explanatory background and some recommended practices.

The questions, except for those about salaried employees, are intended to be relevant to all not-for-profit organizations. The "answers" or comments that accompany the questions summarize current thinking on the issues and practices of not-for-profit governance. If your organization has a different approach, you are encouraged to test it by asking if it provides a valid answer to the question.

After the comments there are personal checklists that directors can use to assess their understanding of their organization and to prompt further questions if they are not fully satisfied with the answers. They represent aspirations, not absolute standards that must be met immediately. It will often take time to get there.

The fact that an organization does not have good answers to all the questions need not stop a prospective director from joining its board. Not-for-profit organizations frequently need directors who can contribute experience and expertise to the board. It is, however, important that the organization recognizes any weaknesses and demonstrates a commitment to continuously improve its governance.

If you come from a for-profit business you will find that your experience, although often helpful, will not always provide the best answers in the not-for-profit environment. The material in this document should help you decide what might be appropriate. Appendix 3 compares and contrasts corporate and not-for-profit governance.

Readers who want more details on specific topics may refer to the section on "Where to Find More Information."

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INSTITUTE OF CORPORATE DIRECTORS

20 Questions

Directors of Not-for-profit Organizations Should Ask about Governance

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Preface

The Risk Management and Governance Board of the Canadian Institute of Chartered Accountants (RMGB) has developed this briefing to help members — and prospective members — of not-for-profit boards to understand their organizations and their roles and responsibilities as directors. It is intended primarily to help individual directors but boards may also wish to use it for orientation and discussion. This overview document is the first of a series of briefings for directors on specific aspects of not-for-profit governance.

Not-for-profit organizations are very diverse and their expectations of directors can vary widely. In most cases, directors of not-for-profits are volunteers who serve without compensation. They deserve respect and appreciation for their services and governance practices that encourage them to contribute effectively and with confidence. It is important that organizations find the right people to serve on their boards, and that individuals find organizations that are right for them.

This briefing identifies and briefly discusses the key areas of governance in a not-for-profit organization. As such it can be useful, not only to prospective, new and experienced directors, but also to nominating committees and the organizers of director orientation and training sessions. We hope that individual directors, boards, nominating committees and Executive Directors will find it useful in developing effective, knowledgeable boards.

This document includes references to other CICA publications for directors most of which were written for business boards but are applicable to not-for-profits.

The Risk Management and Governance Board acknowledges and thanks the members of the Non-Profit Organizations Working Committee (NPO Committee) for their invaluable advice, Altruvest, Imagine Canada, the United Way of Greater Toronto, and William Harper, CA for their support, Hugh Lindsay, FCA, who wrote this briefing under their guidance and the CICA staff who provided support to the project.

Thomas Peddie, FCA
Chair, Risk Management and Governance Board

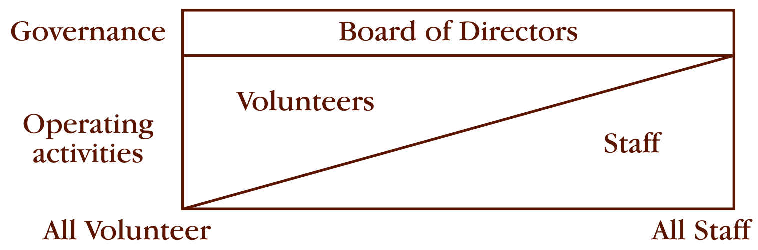
What are my responsibilities as a director of a not-for-profit organization?

As a member of a board of directors you share overall responsibility for everything the organization does. As a general rule, you should look after the organization and its resources and liabilities at least as carefully as if they were your own. That's "stewardship" — management on behalf of others. As a director you are required to maintain a system of "governance" that will support your stewardship responsibilities. Governance includes the oversight of the organization's "operations" and deciding whether the organization will be run by paid staff, volunteers or a combination of the two.

Governance, in the non-profit sector, refers to the actions of the volunteer board of directors of an organization with respect to establishing and monitoring the long-term direction of that organization.[1]

Operating activities or **Operations** are what the organization's staff and volunteers do to run the organization and achieve its long-term direction or "strategy".

To understand the relationship of the board, staff and volunteers to governance and operating activities it can be helpful to think of organizations as being at a point on a continuum or range The point is determined by such factors as what the organization does, how long it has been in operation, and the extent to which it employs staff.



At one end of the range are "all-volunteer" organizations with no paid staff and a board of directors who are active participants in the organization's operating activities. At the other end of the range are "all-staff" organizations with an Executive Director or Chief Executive Officer and a board of directors that acts more like the board of a business. Between these extremes are many possible combinations of staff and volunteer resources — and of board involvement in the day-to-day activities of the organization which can change with the organization's needs.

Whenever board members are personally involved in operating activities they are likely to find themselves wearing two "hats"[2] — a "governance hat" and a "volunteer hat" — and switching hats during board meetings. For example: board members will temporarily wear a "volunteer hat" when they report to the board on the activities of a volunteer committee or group on which they serve. The rest of the board will wear their "governance hats" as they receive, ask questions and debate motions on the volunteer's report and recommendations.

A common challenge for individual directors of not-for-profit organizations is in knowing when it is appropriate to wear their governance hat and when to wear their volunteer or operating hat — and recognizing that when they have their volunteer hat on, they cannot neglect their governance hat.

This document addresses the major areas of governance responsibility that are common to all boards and directors:[3]

- The Organization — Reviewing and approving (and sometimes creating) the organization's strategy, ethical values and structure that support the achievement of its legal purpose.
- The Board — Selecting and maintaining an effective board.
- Senior Management — Appointing and overseeing the performance and succession of the Executive Director (where appropriate).
- Operations — Overseeing the organization's operations.
- Communication — Overseeing the organization's communication with its members and external stakeholders.

1 enVision.ca

2 With acknowledgements to Edward de Bono who created the concept of "Six Thinking Hats".

3 These areas of responsibility are adapted from CICA's *Guidance for Directors — Governance Processes for Control*.

Directors have an overall responsibility for the organization and the strategy for achieving its legal purpose. As a director, you need to understand why the organization exists, how it is legally structured, the interests of its stakeholders and how it manages the risks it faces. You should also expect to be involved in the approval of, and at times the development of, the strategic plan.

1. What is the legal structure of our organization?

"Legal structure" and "incorporation" seem both dry and intimidating but they can be vital to the success and survival of a not-for-profit organization. An incorporated organization has a legal status that is reassuring to people and organizations that become involved with it. Incorporation is a key to such basic activities as opening bank accounts, entering into contracts and applying for grants and donations. It also provides protection to the members and directors by limiting their legal liability, although not mitigating it entirely. If your organization is not incorporated in some way you, and other members of the organization, may be potentially liable for actions taken by the organization.

Options include:

- Incorporated society under a provincial or federal corporations or society act;
- Incorporated by special statute or charter, e.g., the Canadian Red Cross;
- Chapter or branch of an incorporated body — e.g., The Vancouver Chapter of Financial Executives International Canada;
- Government agency;
- Charitable or non-charitable trust.

The legal structure is probably already in place when you join an organization as a director. You can usually find out what it is by asking for a copy of the incorporation documents. The organization's legal status establishes the standard of care that a director must meet and certain duties that he or she is required to fulfill. It may also limit the powers, responsibilities and liability of the board if the organization is a chapter or branch of a regional, national or international organization. Regardless of the legal structure, directors should always act carefully and responsibly and be mindful of the best interests of the organization in their decisions.

Incorporating an organization with charitable objectives does not automatically allow the charity to issue tax receipts for donations. It must apply to the Canada Revenue Agency for charitable registration, file an annual return and meet certain regulatory obligations to maintain its status and right to issue receipts. It must also obtain approval from the Canada Revenue Agency for any changes to its purpose.

➨ I understand, in general terms, how the organization is legally structured.
➨ I know if the organization is registered as a charity and authorized to issue tax receipts for donations.
➨ I am satisfied that the organization has filed its annual returns and is in good standing.

2. What is the purpose of our organization?

The directors are responsible for ensuring that the organization operates in conformity with its "legal purpose" — the reason it exists — which must be compatible with the government regulations for not-for-profit and (if applicable) charitable status, and acceptable to the appropriate government agencies.

If you are setting up a new not-for-profit, it's a good idea to phrase the purpose in fairly broad terms that will not need revisions (which must be filed with the government agencies) unless the organization decides to make a major change in direction.

Most organizations bring their legal purpose to life by expanding and expressing it as part of their "strategy" which involves:

1) *the determination of long term goals (i.e., mission, vision and values) and objectives which reflect:*
    a) *the relationship that the organization wishes to have with its different stakeholder groups and,*

b) *in particular, how the organization intends to address important stakeholder needs; and*

2) *the identification of the scope of the activities or programs through which those goals and objectives are to be achieved.*[4]

While other definitions of strategy exist, this approach is one that answers the essential questions of strategy with which every not-for-profit board member should be concerned.

You can find more on strategy in *20 Questions Not-for-profit Directors Should Ask about Strategy*.

Unlike the legal purpose, which often requires changes to be approved by a membership vote, the strategy is usually approved by the board of directors only and should be reviewed at least annually. Even where it does not radically change, the process of revisiting the strategy can help to reenergize, refocus and renew the organization.

- ➨ I have read and understood the organization's legal purpose(s) as stated in the incorporation documents.
- ➨ I understand why the organization exists.
- ➨ I am satisfied that the current strategy is compatible with the legal purpose.
- ➨ The board regularly reviews and approves the strategy.
- ➨ I am clear about what the organization is trying to do.
- ➨ I am satisfied that the organization is doing what it is legally authorized to do.

3. What are our values?

Shared ethical values influence everything the organization does, its relationships with its stakeholders, and its reputation. They include the standards of openness and honesty that are practiced by the board and followed by staff and volunteers throughout the organization. In addition to standards of ethics and conduct applicable to all citizens, not-for-profit organizations typically articulate and follow additional values arising from the organization's strategy. For example: an organization whose strategy includes helping persons with disabilities to obtain employment might actively lead by accommodating those with disabilities in its human resource policies and the design of its facilities.

A code of conduct can be a valuable way to describe, clarify and communicate values. Organizations should adopt a code of conduct appropriate to their strategy. Many professions and industries have existing codes — e.g., accountancy, law, education, medicine, sports, museums, libraries, etc. These can be helpful starting points for developing or adapting a code to fit the specific needs of your organization. Whichever approach you take, it is important to regularly review, communicate and reinforce the code.

See CICA's *20 Questions Directors Should Ask about Codes of Conduct.*

> A Code of Conduct (Code), championed by those in leadership positions, is a key vehicle for:
>
> - Setting the boundaries of acceptable behaviour;
> - Reducing the risk and associated costs of fraud, conflicts of interest and other ethical lapses;
> - Helping introduce new employees and volunteers to the organization's standards;
> - Attracting and retaining high calibre employees, volunteers and business partners;
> - Providing employees, volunteers and others subject to the Code with comfort that they will not inadvertently stray offside;
> - Informing contractors, suppliers and others doing business with the organization of its expectations regarding acceptable behaviour;
> - Providing the basis for sanctions against those who deviate from the Code.
>
> *20 Questions Directors Should Ask about Codes of Conduct*
> (The word "volunteers" has been added where appropriate.)

Board members should demonstrate leadership by monitoring the organization's processes for assessing the integrity and ethical behaviour of its people, and for measuring compliance with the

[4] Adapted from: "Lasting inspiration", *CA Magazine*, May, 2000, pp. 49-50.

organization's values in its operating activities. The board Chair can effectively lead in this regard by formally and regularly considering what he or she sees in a 'values' context.

- ➨ I know what the organization's ethical values are.
- ➨ I personally support them.
- ➨ The board and senior management show leadership in supporting and following the values and communicating them to staff and volunteers.
- ➨ I am satisfied that the organization operates in accordance with its values.

4. Who are our stakeholders and what do they expect from us?

Who are we trying to serve? Who provides our funding? Who works with us or for us?

A lot of people and organizations ("stakeholders") can be involved in not-for-profit organizations. These can include:

- The clients or customers who benefit from the activities;
- The members — the "owners" or supporters of the organization;
- The executive director, general manager or chief executive officer;
- Employees;
- Volunteers;
- Partners;
- Funding agencies — including government and private foundations;
- Donors;
- Business sponsors;
- The community in which the organization operates;
- And many more.

The success of a not-for-profit organization often depends on having good relationships with its stakeholders and meeting their expectations. This can be challenging when the expectations vary among stakeholders or are not compatible with the interests of the organization. Boards must be sure that their organization understands and respects stakeholder expectations but does not let them override its values and strategy. For example: an organization may find it necessary to decline a generous offer of a donation from a long-time supporter if the money would come with conditions that are incompatible with the organization's values.

- ➨ I know who the key stakeholders are.
- ➨ The strategy is consistent with and addresses stakeholder needs.
- ➨ I am satisfied that the organization operates in a way that respects. stakeholders and seeks to meet their expectations — without letting them override the organization's values.
- ➨ The organization monitors stakeholder satisfaction on a regular basis.

5. Do we have a strategic plan?

A strategic plan is the formal written document which describes the strategy of the organization — including a description of the route you want to take from where you are now towards where you want to be in accordance with the approved strategy; including the organization's vision, mission and values.

The board's governance responsibilities include approving strategy and the strategic plan. In organizations with professional staff, the Executive Director and senior staff will usually be responsible for providing background material and for developing the written strategic plan for board approval. The board should be actively involved in discussing, reviewing and ultimately approving the plan. The directors can be a valuable resource to the strategic planning process by providing a fresh perspective and asking questions to satisfy themselves that the plan is well thought out, realistic and compatible with the organization's values and strategy.

In organizations with few or no staff the board may develop the strategic plan itself or appoint a board committee that will provide the board with the material it needs to discuss and approve the plan.

Strategy is described in greater detail in a companion document, *20 Questions Directors of Not-for-Profits Should Ask about Strategy*.

The following is a summary of the key steps in the strategic planning process.

- Review the organization's internal strengths and weaknesses and the opportunities and threats in the external environment (SWOT analysis);
- Define the planning assumptions;
- Identify the current strategy (as defined above) and the time frame for achieving it;
- Consider strategic alternatives and record the reasons for accepting or rejecting them;
- Select and describe the rationale for any proposed changes in strategy;
- Develop an implementation plan that aligns activities with the strategy and assigns accountabilities for all strategic initiatives;
- Develop performance objectives (quantitative and qualitative) that will be used to monitor strategic progress;
- Create a system for progress review and schedule regular reviews of performance and of the plan itself.

The strategic plan is the basis for the annual operating plan and budget which are discussed in Question 17.

➨ The board participates constructively in the development of the strategy.
➨ I understand the thinking behind the strategy and how it aligns with our legal purpose.
➨ The board approves a strategic plan that expresses in writing the thinking and choices of the board and management with respect to the strategy.
➨ The plan includes measurable objectives that can be monitored.
➨ I agree with and support the strategic plan.

6. What risks does our organization face?

Risk is a fact of life. Effective organizations recognize that they must take advantage of opportunities to improve service to stakeholders and they also understand their "risk tolerance" — the amount and types of risk they are comfortable in assuming. Boards of directors must make sure that their organizations "optimize" risk by balancing risk and opportunity in accordance with risk tolerance levels approved by the board. They are also responsible for monitoring the organization's processes for managing risk which should include:

- Promoting an awareness of the need to manage risk;
- Identifying and assessing the risks that could affect the achievement of their strategy;
- Developing and implementing methods and procedures for managing risk;
- Learning from their experiences with risk.

Managing risk is an ongoing responsibility of management who must follow board-approved policy and keep the board informed. The board can ensure that it includes risk on its agenda by including a discussion of risk and opportunity in strategic planning sessions and by requiring the Executive Director to raise current risk issues at board meetings. Organizations with an Audit Committee can instruct the committee to review financial and other risk issues and report on them to the board.

A good way to identify risks is to use published risk management guidelines or policies that may be generic or specific to the field in which you operate. These can be customized using the experience of the people in the organization. Regardless of the approach, it is important to assess the risks by considering:

- What could happen to us?
- How likely is it?
- What would be the consequences?
- How can the likelihood and consequences be mitigated?

See CICA's *20 Questions Directors Should Ask about Risk.*

Managing Risk

There are, essentially, four ways to manage risk:

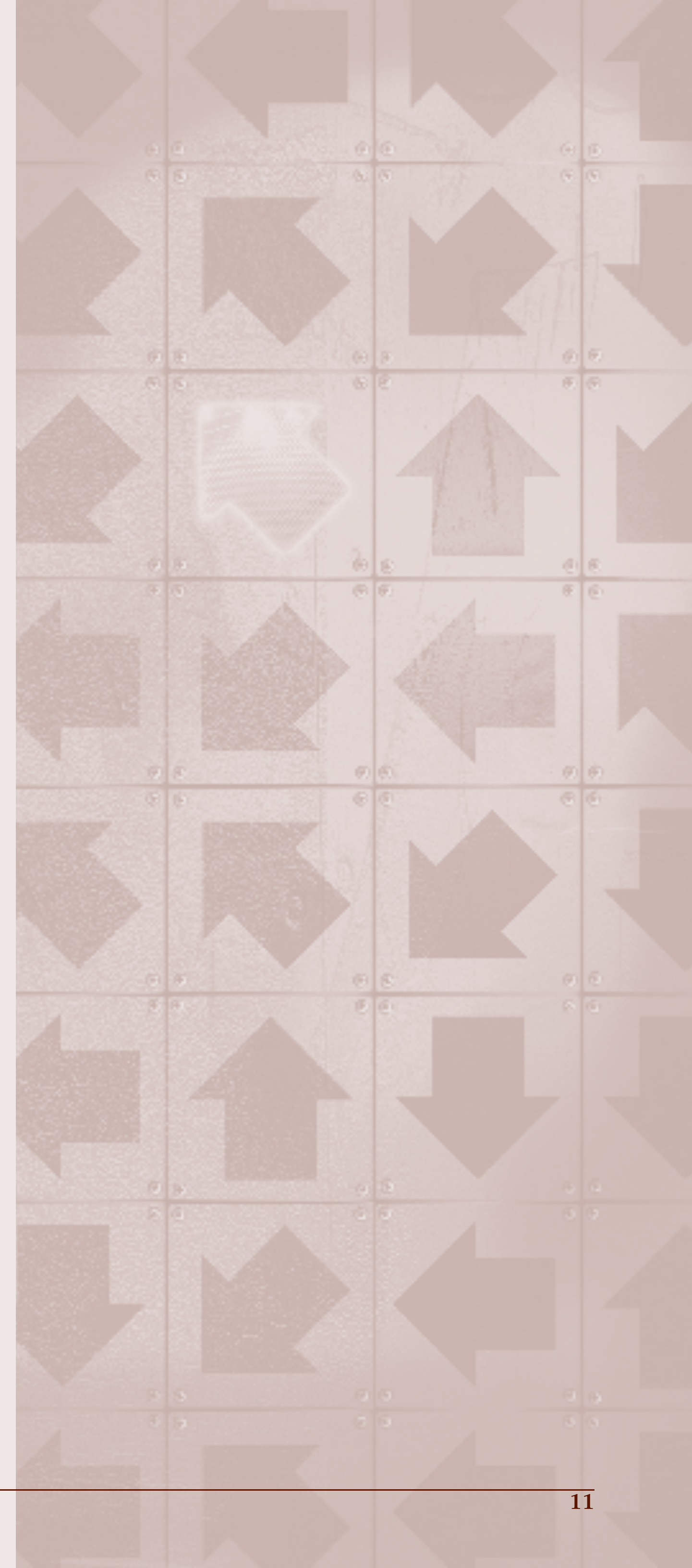
Avoiding risk — Just don't do something that seems too risky. This can be a legitimate strategy but it can stop good things from happening if people are too cautious and "risk averse". Avoiding risk may seem like a conservative or safe approach but can result in missed opportunities and poor results for the organization. Before abandoning a promising idea it makes sense to weigh the potential risks and benefits and explore ways to manage the risks.

Transferring risk — Share the risk with someone else. Buying an insurance policy is one way to do this, especially for perils like fire, theft and liability.[5] Another way to transfer risk is to form partnerships with other organizations that have the expertise and resources to handle specialized issues.

Mitigating risk — Develop procedures with checks and balances to detect and reduce the effect of risks. High-risk fields like medicine have sophisticated processes to protect patients and staff. Accountants use internal controls to protect assets and keep accurate financial records. Arts groups balance artistic merit with potential box office success in creating programs that will attract and retain audiences.

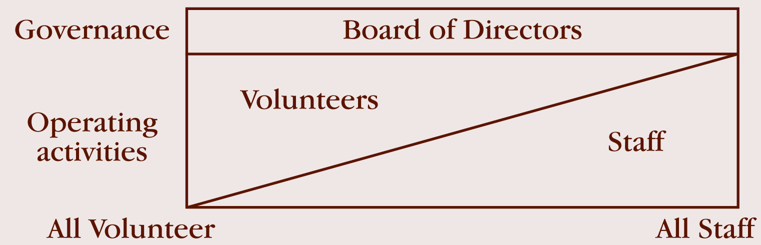
Accepting risk — Provided that the risk is unlikely or would not cause serious harm to the organization, it may make more sense to accept it. An annual outdoor event might be less successful if it rains or snows. However, the organizers believe that many participants will feel it is so important to them that they prefer to show up and get wet rather than have it cancelled.

- ➨ Management and the board consider risks when developing the strategic and operating plans.
- ➨ The organization has policies and procedures for managing risk.
- ➨ The board and management demonstrate leadership in risk management.
- ➨ The board makes time in its agenda to discuss risk.
- ➨ I am satisfied that the organization takes risks seriously and manages them well.



[5] The personal risks of board members, and the protection available to them through Directors and Officers Insurance are discussed in Question 11.

Organizations need boards that are appropriate to their size, structure and activities. Directors should be selected for their potential contribution and receive training and development to help them be effective in their governance role. As a board member it is important for you to know what it means to be a director, what boards do and what makes a good board. Because boards differ in their approach to governance, it's also important to understand what your organization expects from you as a director.



7. What is my role as a director of a not-for-profit organization?

Every organization should make sure that its board members know and understand what it expects from them as not-for-profit directors. It is not enough to put people on a board and expect them to do the right thing. Even if they have previous board experience, they need to know how things are done in this particular organization and the extent to which they will be expected to participate in operating activities in addition to their governance role.

Although all boards have the same underlying governance responsibility — establishing and monitoring the long-term direction of the organization — there can be considerable variety in the structuring of board activities and the actual jobs that directors of not-for-profit organizations are expected to perform. A key factor in this is the mix of volunteers and paid staff. In organizations with professional staff and management, directors generally spend most or all of their time on governance. In many cases, however, directors may also be expected to participate in fundraising and other operating activities. In smaller organizations, particularly those that are "all-volunteer" the directors may be actively involved as volunteers in operations (often as chairs of working committees) and board meetings can involve considerable time on operational matters. Governance is just one of many things that the board of a not-for-profit organization handles.

To make sure that directors know and understand their roles it is valuable to hold orientation sessions at which new board members learn about the organization and their role in governing it. This should include education on what "governance" involves and how it is practiced in the organization.[6] In situations where the new directors have been involved with the organization for some time and know it and its people well, orientation may only be a review of their governance responsibilities and any other additional information they need to begin work on the board. Where directors are less familiar with the organization, the orientation may include tours of facilities, introductions to key staff, and presentations from the Executive Director, other board members and staff. New directors should receive copies of key documents (incorporation document, bylaws, board mandate, director job description, committee terms of reference, code of conduct, etc.) along with the strategic plan, annual report and other relevant material.

In addition it may be valuable to set aside time at board meetings to provide the directors with regular updates on topical developments that affect the organization.

Director orientation and training that are provided by a not-for-profit organization are important but they tend to describe how things are done at the organization. Directors are in a better position to oversee and evaluate the organization if they get some of their

[6] Some organizations find it helpful to use governance models in their orientation and training. *Governing for Results: A Director's Guide to Good Governance* by Mel Gill provides a useful summary of commonly-used models.

information from other sources. Self-learning can include reading material on governance, not-for-profit administration and the field in which the organization provides services. Conferences, seminars and networking with others in the not-for-profit sector are also valuable ways to broaden a board member's perspective and understanding.

➨ I am satisfied that our organization has:
- A board mandate that describes the board's terms of reference and procedures;
- Clearly defined the expectations the organization has of directors, chairs of the board and committees, and the Executive Director;
- A code of conduct;
- Board committee terms of reference (see Question 10);
- Orientation sessions for new directors.

➨ I am satisfied that board members clearly understand and discharge their governance roles and legal responsibilities.

8. How are directors selected?

A board should be made up of directors who individually support the strategy of the organization and collectively have the skills, knowledge and experience it needs. Finding the right people is usually the job of the Nominating or Governance Committee which proposes a slate of candidates for election, although some candidates may be nominated by supporters. In other cases directors may be appointed by a government, political or other organization. However it is done, the objectives should be to select qualified individuals who will serve the organization well and to achieve continuity through a smooth transfer of board membership that balances new ideas and energy with experience and "institutional memory". Ideally the board will have a collective synergy that is greater than the sum of the parts.

See CICA's *20 Questions Directors Should Ask about Building a Board.*

The size of the board is a big factor in its effectiveness. As the number of directors increases over about 10, it becomes harder to involve everyone in debates that lead to sound decisions. It is usually best to keep the board at a manageable size.

Building an effective board starts with a review of the composition of the board and the needs of the organization for specific skills, knowledge and experience. From this the organization can develop profiles of the positions it needs and begin recruiting to fill them. A useful approach to identifying potential board nominees is to develop a matrix which matches the needs to the profiles of current directors and identifies the "gaps" to be filled. Appendix 1 is an example of a director background and experience matrix. It may be valuable to go outside the organization to recruit directors with expertise and experience that cannot be provided from the current membership.

The skill requirements will vary with the size, complexity and maturity of the organization. In organizations that are mostly run by volunteers there is often a need for practical, hard-working, hands-on people who are actively involved in the organization's activities. However, it is also important that the directors understand, or are willing to learn about governance and their role in looking at the bigger picture and in guiding the organization's strategy.

Directors should also have personal qualities and behavioural skills that make them effective and constructive members of the board. See Appendix 2.

Boards constantly need to be renewed as directors complete their terms or leave for other reasons. The job is much easier if there is a succession plan that anticipates the board's needs by identifying and developing suitable potential directors. Many smaller organizations select directors from among the members who have demonstrated their interest and commitment by becoming volunteers and serving on committees. This provides an opportunity for the organization to assess the individual and for the candidate to assess the organization.

Once on the board, selected members, who are willing to do so, may be encouraged to progress through a series of offices to become Chair of the board or equivalent. (In some organizations the Chair holds the title of President.)

It is important that all existing or potential directors understand why they want to be a member of the board of a particular organization, and why that board wants them. When the Nominating Committee approaches prospective directors it should be prepared to describe to them the organization's expectations of board members — particularly if they are expected to make donations at a certain level, or participate in fundraising or other non-governance activities.

People who are prepared to make substantial donations or to be active in fundraising do not always want to have the responsibilities and legal exposure of being directors. Adding board members who do not want to govern is poor governance practice. It generally makes more sense to coordinate their involvement through a fundraising committee with a title that reflects their status and the value of their contribution.

A challenging issue for boards can be finding directors who reflect the diversity of the community in which the organization operates. Boards benefit from having members with a variety of experiences and outlooks. They may encounter problems, however, if individual directors see themselves only as representatives of specific communities or interest groups. Representation that gives rise to the formation of camps or factions on the board can be a barrier to effective goal-setting and decision-making. All board members should act in the best interests of the organization, even though they may have been selected for their knowledge of specific stakeholder groups.

The overarching consideration in board membership must be the skills and experience needed for effective organizational governance and board decision-making, and an ability to decide or act in the best interest of the organization as a whole. Sacrificing needed skills in favour of other criteria or allowing a parochial perspective to dominate board business will undermine the board's ability to move the organization forward.

➨ I am satisfied that our organization has an organized approach to selecting directors that includes:
- Identifying the needs for specific skills, knowledge and experience;
- Recognizing the value of diversity;
- Selecting directors with the qualities that can make them valuable contributors to the board;
- Selecting directors who consider stakeholder needs as a whole and act in the best interests of the organization;
- Providing prospective directors with a clear statement of expectations.

➨ I know why the organization wants me on its board.
➨ I know why I want to be a member of this board.

9. How does the board work?

The board of directors is at the top of an organization's structure. The directors oversee, and often coordinate, the activities of the organization through committees and staff members. Boards also have work of their own — maintaining the governance structure and complying with their legal obligations. The directors may delegate operating responsibility to staff but must never allow the board to become a "rubber stamp" for management decisions.

The board is led by the Chair who is selected from among the directors — often through a succession process and recommendations from the Nominating Committee. One of the most important jobs of the Chair is to lead board meetings that are focused, efficient and effective. This includes having:
- A well thought-out agenda which, with any preparatory reading, is sent to directors with sufficient time for them to prepare for the meeting;
- Presentations and discussions that stay on topic and, where appropriate, lead to clear decisions;
- Minutes that accurately record information, decisions and the key points of debate, and that are promptly distributed to board members and others who need them;
- Regular in-camera sessions in which the board members meet without the Executive Director or other staff. This provides an opportunity for board members to get to know each other better and to discuss sensitive issues that the board may need to address.

Many successful boards use an "agenda calendar" that assigns important, recurring governance matters to pre-designated meetings. This reduces the risk of overlooking important issues or allowing "urgent" issues to bump them off the agenda. An organization would build its agendas around such activities as strategic planning, budget approval, Executive Director performance review, financial statement review and approval, committee reports, policy review, etc. The frequency of meetings can range from a few times a year to monthly — sometimes with extra "special purpose" meetings. It really depends on the organization and the circumstances with which it deals.

Meetings, motions and decisions

Good meetings usually have enough (but not too much) structure and formality to handle the agenda effectively and lead to sound collective decisions within the allotted time. This calls for some form of rules of order or parliamentary procedures that are appropriate and acceptable to the board members. Rules provide a way to get results in a way that involves all the participants in the meeting, respects their rights to be heard, treats them with fairness and dignity, and preserves order, decorum and clarity. The degree of formality will depend on the size of the group and the complexity and sensitivity of the issues it must address. It is particularly important that decisions are clearly articulated at the meeting and not left to the secretary to interpret for the minutes. In many cases a group can develop or revise the wording of a motion in the course of discussion and ask the secretary to read the final version before the vote. Contentious or complex motions should ideally be developed prior to the meeting and included in the agenda package. If changes are needed, or if the motion is developed at the meeting, it can be useful to follow more formal rules of order to avoid risking a superficial and time wasting debate and a less than satisfactory decision.

Accurate minutes that record the motion, the key points of the discussion, and the decision, are essential in not-for-profit governance. They provide an authoritative record that a board can use to confirm that its decisions have been carried out as the directors intended.

Through the conduct of its meetings and its relationship with senior staff and volunteers the board can play a valuable role in reinforcing the organization's shared values and sense of direction.

Our board:

- ➨ Has an effective chair who keeps the board on topic, allows for the raising of other important information, and helps it reach clear decisions;
- ➨ Has well thought out, comprehensive agendas with appropriate preparatory reading materials;
- ➨ Has members who regularly attend meetings, clearly come prepared, having read the materials and fully participate in discussions;
- ➨ Meets regularly in camera;
- ➨ Has minutes that accurately record information, decisions, and the key points of discussion;
- ➨ Distributes material such as agendas and minutes on a timely basis.

10. What committees does the board have?

The work of boards often includes issues that are best delegated to committees of the board that perform detailed work and report back to the board with their recommendations. These issues can include:

- The way in which the board operates, including the selection and assessment of directors, and compliance with governance regulations. — Governance or Nominating Committee. (See Questions 8, 9 and 12.)
- The selection, compensation and succession of the Executive Director and senior staff. — Compensation, Human Resources or Governance Committee. (See Questions 14 and 15.)
- Oversight of the controls over the organization's assets, the preparation of the financial statements and (where appropriate) the audit of the financial statements and strategic planning. — Finance, Audit or Risk Committee. (See Question 17.)

Boards may also establish task forces or ad-hoc committees to address specific topics such as special studies and policy development on behalf of the board. Such committees need to have a clear mandate and time limits to make sure they do their job efficiently — and then close down.

Executive Committees

Note: Some organizations have an Executive Committee to handle important board matters, often because the board is too large to deal with them effectively and efficiently on short notice. There are risks in this because it can divide the board into "in" and "out" groups. The non-executive committee directors may be held liable for the decisions and actions of the Executive Committee over which they have little influence or control. Directors should always be kept apprised of, and be involved in key matters on an ongoing basis. In the corporate world, having an Executive Committee is no longer considered good governance practice for the above reasons which are equally valid in the not-for-profit sector. However, if members of a not-for-profit board agree that they need one, the committee's role and power to deal with confidential or sensitive issues should be limited.

Working committees

Most not-for-profit organizations also have "working" committees that contribute to operations by coordinating the efforts of volunteers and staff responsible for specific activities. They are, effectively, part of the organizational structure and should be set up in such a way that their activities can be measured and monitored by the Executive Director and the board. They may be standing committees, task forces or ad-hoc committees. As discussed in the Introduction, there can be a conflict between oversight and volunteer roles when directors also serve as volunteer chairs or members of working committees. This tends to be less of a problem in larger organizations where working committees are more likely to be integrated with staff activities and to have their performance reported to the board through the Executive Director. This may include fundraising unless there is a high-level fundraising "board" or committee that reports directly to the board.

For organizations, in which much of the work is done by volunteers, the board needs a way to oversee the activities of working committees without becoming too involved in details and losing its perspective. Directors must recognize that individual board members who chair working committees are wearing their "volunteer hats" when they report to the board on the committee's activities, while the rest of the board members wear "governance hats". An alternative approach is to assign responsibility for several working committees to one or more vice presidents or other board members who act as liaisons between the committees and the board.

The keys to good committees are clear terms of reference and good chairs. The terms of reference — the mission statements for the committee — establish the purpose of the committee, its powers, responsibilities and limitations. This is particularly important in more complex organizations and those with employees. For example: a committee of volunteers may be responsible for an activity and get support from staff. Alternatively, a staff person may be responsible and involve volunteers as an advisory committee or working group.

- ➨ The board has committees with clear terms of reference and effective chairs.
- ➨ The responsibilities of committee chairs include reporting to the Board of Directors.
- ➨ The board has effective ways to oversee the activities of working committees.

11. What are my duties as a director and how can I manage my risk of director liability?

Directors have a fiduciary duty to the organization, which requires them to exercise their powers in the best interest of the organization. This duty has two parts: the duty of care, and the duty of loyalty.[7]

The duty of care involves the exercise of prudence and diligence, as well as competence or skill. The standard of care which directors must meet may be higher for board members with professional training, such as lawyers or accountants. It will also be higher for directors of a charitable corporation. The duty of loyalty involves good faith, trust, and special confidence. Directors may not delegate their responsibility for governing the corporation, and must avoid conflicts of interest between their duty to the organization and their own self-interest or duties owed by them to another organization.

To discharge these duties, directors should:

- act reasonably, prudently, and in good faith, with a focus on the best interests of the organization
- prepare for and participate in board meetings
- inform themselves about the organization, its goals and its activities
- avoid and declare potential conflicts of interest.

Directors are at risk of liability should they fail in their fiduciary duty to the organization. They may also face liability arising from a number

[7] Much of this discussion of director liability is taken from Chapter 2 of Industry Canada's *Primer for Directors of Not-for-Profit Corporations*, listed in "Other Publications".

of other sources which are beyond the scope of this document.[8] To minimize sources of liability, directors should satisfy themselves that the board regularly reviews the status of the organization's policies and procedures that require directors, staff and volunteers to:

- act within the scope of the governing policies of the organization;
- comply with the laws, rules and regulations that apply to the organization;
- protect the assets of the organization;
- provide a reliable accounting of the organization's financial condition;
- take steps to protect third parties from harm or damage caused by the organization's activities.

It is important to check that your organization has Directors' and Officers' (D&O) insurance and to understand the extent to which it protects you. D&O insurance should address both the costs of defense against legal action as well as covering legal judgments.

Director liability is a complex area and D&O policies have a number of exclusions. If directors have any questions or concerns they would be wise to get advice from legal counsel.

I am satisfied that we minimize our risks as directors by:

➨ following good board practices and documenting them in minutes, policies and procedures;
➨ taking steps to ensure that the organization's activities do not go beyond its legal purpose;
➨ taking steps to ensure that the organization's remains in compliance with all relevant legislation and regulation;
➨ obtaining insurance coverage under the organization's D&O insurance policy.

12. How do we assess the performance of the board and individual directors?

Boards are usually responsible for assessing the quality of their own performance but have traditionally been reluctant to do this in a formal manner. Directors serve because they believe in the organization, not because they are paid. They may feel that an assessment is unnecessary and an implied criticism. They may not be comfortable with the prospect of being assessed or of assessing their fellow directors. They may become discouraged if they feel that their performance and contribution are not appreciated. For these and other reasons, assessments can be harmful to the morale of the board and of individual directors if inappropriately implemented. However, experience shows that, properly and sensitively handled, assessments of the board, committees and individual directors can be valuable and rewarding.

See CICA's *20 Questions Directors Should Ask about Governance Assessments.*

Assessment of the board and committees is usually a good way to start. One method is to ask members to complete questionnaires which are summarized and used as the basis for a discussion of performance and ways to improve. The questionnaires should be based on the board's responsibility for direction-setting, operational oversight, risk management, and assessment.

Because the performance of the board and committees is, in part, a reflection of the contribution of the chair, some organizations prefer to have a member of the Nominating Committee or an independent individual act as coordinator and facilitator of the evaluation process.

Assessment of individual members of the board and committees can be more challenging. Like employee evaluations it can be based on one or more approaches:

- Assessment of individuals by the chair;
- Self-assessment by each individual;
- Peer-assessment, in which each individual assesses the performance of the others.

Individual board members should receive regular performance assessments which may cover committee membership, meeting preparation and attendance, ability to participate collegially in board meetings, and contribution of specialized skills and expertise. Fundraising participation is also frequently a part of board members'

8 For a full discussion of sources of liability for directors of not-for-profit organizations, see Chapter 3 of Industry Canada's *Primer for Directors of Not-for-Profit Corporations*.

responsibilities, but care should be exercised to treat this and other operational roles separately from their governance responsibilities. It is important that these responsibilities be made clear at the time a prospective board member considers undertaking the role.

Evaluations provide important information to the Nominating Committee (if one exists) that can be used to decide whether to re-nominate directors and what skills need to be added to the board. It is generally better not to wait until nomination time but to conduct regular evaluations to help directors improve their contributions earlier rather than later in their terms. In most cases, committed volunteer directors will take feedback to heart and improve their performance. The occasional dysfunctional board member cannot be allowed to disrupt an otherwise effective board, and must be dealt with efficiently and effectively. This is an important, though sometimes difficult, role — particularly when the individual is loyal and passionately dedicated to the organization — which the chair of the board should perform in consultation with other board members.

➨ The board has processes for assessing its own performance and that of committees.
➨ The board has processes for assessing the performance and contribution of individual directors and the chairs of committees that report to the board.
➨ I understand and support the processes.

In organizations with an Executive Director the board is able to delegate most or all of its responsibility for planning and day-to-day operations. This can work very well provided that the board selects a motivated, competent and experienced individual, clearly defines its expectations, and monitors the Executive Director's performance. The relationship between the board and the Executive Director and a clear understanding of the Executive Director's authority are vitally important and require careful attention.

13. How do the board and directors relate to the Executive Director and staff?

Boards are responsible for hiring, firing and evaluating the employees who report directly to them. Organizations whose operations are largely under the direction of one individual (Executive Director, General Manager or Chief Executive Officer) need to clearly define the individual's role, responsibilities and relationship with the board. This is usually done in a job description which may be based on:

- A list of all the specific duties and responsibilities and authority of the position; or
- A statement that the position is responsible for managing all aspects of the organization, except those specifically excluded, and has the authority to make decisions within limits set by the board.

Matters beyond the authority of the Executive Director must be referred to the board for approval.

Effective relationships between the board and staff require mutual trust and openness. When a board delegates authority to staff members it should feel confident to let them manage without interference. In return, staff must respect the organization's values as it carries out the strategies approved by the board, and keep the board informed of progress and problems.

A critical aspect of board/staff relations is the authority of directors to give instructions and orders to staff members. Generally a board will deal directly only with the Executive Director. Other employees should receive direction from their supervisors or managers. Individual board members may only direct staff with the express permission of the board or, if appropriate, with the agreement of the Executive Director.

Although the board should let staff manage, there is often value in providing opportunities for directors and staff members to become better acquainted and to share information and experiences. Strategic planning retreats and social events help develop trust and openness. This can be reinforced by inviting staff to make presentations at board meetings and encouraging them to be appropriately frank in their comments and answers.

- ➨ I have read the position description of the Executive Director and understand his or her role, responsibility and authority.
- ➨ I understand the relationship between the board and the Executive Director.
- ➨ I understand how and under what circumstances directors may request information and assistance from staff members.

14. How do we assess the performance and plan the succession of our Executive Director?

The board's stewardship responsibilities include appraising (at least annually) the performance of the Executive Director and any other employees who report directly to the board. This may be done in a number of ways:

- The Chair of the board, conducts the appraisal on behalf of the board;
- The board appoints a committee of one or more directors to conduct the appraisal;
- The board conducts the appraisal as a committee of the whole.

The appraisal process can be uncomfortable, particularly in an informal culture where there are friendships between the individual and members of the board. The best approaches begin with establishing a clear understanding between the board and the employee of the requirements of the position and the basis on which performance will be evaluated. This can include: meeting measurable targets, conforming to the organization's ethical standards, treating others with respect, and maintaining good community relationships. It may be appropriate to obtain input from employees and other stakeholders. Care must be taken to keep the appraisal process objective and free from personal likes and dislikes.

A closely related and key issue is succession planning. The board must make sure that the organization is prepared to keep operating when key staff members leave or are away for extended periods and has a list of potential successors to the Executive Director. The Executive Director's job description should include identifying, developing and training internal prospects for key responsibilities. In organizations that have too few employees to provide backup and succession the board should work with staff to develop lists of essential responsibilities and plans for handling them in the event of terminations and absences.

Procedures should be established to ensure that copies of critical records or information — such as an Executive Director's evaluation or sensitive succession planning materials — are kept elsewhere, i.e., other than in the organization's regular internal files. For example, the board chair may maintain his or her own files to be passed on to the next chair or the organization may have a secure filing cabinet to which only the board has access.

I am satisfied that:

- ➨ The board has an effective and appropriate process for appraising the performance of the Executive Director.
- ➨ The organization is prepared and able to continue operations in the event of the sudden departure or prolonged absence of the Executive Director or other key personnel.

15. How do we compensate our senior management?

The compensation (salaries and benefits) of the Executive Director and other senior management is a sensitive area for boards because it is complex and personal. The compensation must be sufficient to attract and retain good people in an increasingly competitive job market. However, funding agencies, members and other stakeholders may protest if they consider the compensation as being too high. Generally, the board will set the compensation of the Executive Director and approve guidelines for the Executive Director to use in compensating senior staff.

Boards may delegate the details of the compensation of the Executive Director to the Compensation or Governance Committee with the authority to act within limits approved by the board. The committee should try to find out the current compensation levels and practices in comparable organizations. Where practical, it should consider the appropriateness and amount of any incentive programs that reward outstanding performance that goes beyond expectations such as exceeding major fundraising targets or turning around a troubled organization. The committee should also be receptive to providing benefits that are important to the executive's lifestyle and personal needs such as extended vacations, sabbaticals, insurance plans, etc. In larger organizations it may be appropriate to use outside consultants who have marketplace information on NFP compensation and can suggest other operating statistics and benchmarks.

- ➨ I am satisfied that the organization compensates the Executive Director and senior management appropriately.
- ➨ I am satisfied that the organization's compensation practices provide appropriate incentives to the Executive Director and senior management to maintain their interest, motivation and continued commitment to organizational improvement.

Not-for-profit organizations must usually pursue their strategies with limited and uncertain resources and often depend heavily on volunteers. As a director, you need to understand what is required to maintain the organization and to make sure it has the right people (staff and volunteers) and the money and other resources they need to do their jobs. You should also be prepared to take an active interest in budgeting, investing and human resource management.

16. How do we organize our human resources to achieve our defined success?

Organizations get things done through people. The Executive Director's job includes making sure that the organization has the people it needs to do the work and that everyone knows who does what. This means having some form of organizational structure, job descriptions, policy manuals, training and supervision for everyone — both employees and volunteers. Smaller organizations can be quite informal in this although some written guidelines are valuable — especially when people leave and must be replaced. It is particularly important to establish what is done by staff and what by volunteers, who is accountable, and how much authority each person has to make decisions and get things done.

Maintaining service to clients, members and others means always having enough of the right people. All prospective volunteers and employees — particularly those in vital and sensitive roles — should be appropriately screened before they are engaged and evaluated regularly on their performance. There should be policies and procedures for dealing promptly and appropriately with employees and volunteers whose behaviour could be harmful to people with whom they have contact in their work for the organization. Where possible there should be a succession plan and cross-functional training for both employees and key volunteers to reduce the risk of interruptions in service.

Volunteers are a valuable, often essential, resource for many not-for-profits. They donate their time to the organization for one or more of a variety of reasons: they support the strategy of the organization; they enjoy the work; they like the social aspects of working with others; or they want the work experience. The fulfillment of these expectations is the "pay" they get for their contribution. Organizations should provide volunteers with the opportunities and support they need to deliver dependable service over time. An effective volunteer coordination process (the volunteer equivalent of human resource administration) matches volunteers to activities that interest them, organizes training and provides recognition. This helps build volunteer loyalty and commitment and reduces the cost of high turnover and unreliable or inconsistent performance.

Staff can be employed as the primary human resource of a not-for-profit or to perform specific tasks that volunteers are less equipped to perform. The employees of not-for-profit organizations are often passionate about the organization's purpose and strategy. The board should make sure that their dedication and commitment are recognized with appropriate compensation and working conditions.

I am satisfied that:

- The organization carefully screens prospective volunteers and staff who will be in positions of trust (e.g., handling funds, working with children and other vulnerable people).
- There are clearly understood job descriptions that are regularly reviewed for appropriateness.
- Volunteers and staff receive appropriate orientation, supervision and training.
- Staff and volunteers in critical positions receive annual evaluations of their performance based on agreed goals.
- The organization's Human Resource policies and procedures treat staff and volunteers with respect.

17. How do we manage our money?

The sustainability of a not-for-profit organization — its ability to fund its activities year after year — is a major responsibility of the board. Ideally one or more directors should understand accounting and financial statements, but boards should not rely totally on such "financially literate" members. As a director you need to know and understand:

- The sources of the organization's funds;
- How the funds are used; and
- The operating and capital budgets.

Sources of funds

Funding typically comes from a variety of sources most of which require some cost and effort to secure. These include:

- Grants;
- Donations;
- Sponsorships;
- Membership dues;
- Earned revenues — fees and charges for services, sales of merchandise, etc.

Keeping accurate accounting records and assigning responsibility and targets for each category of funding and providing the budget to raise them are essential aspects of planning, budgeting and managing funds.

Funding may be restricted or unrestricted. Some donors, sponsors and granting agencies provide funds for specific purposes and place restrictions on how and when the money must be spent. They may also require reports that account for the use of the funds. Not-for-profits must be careful to honour restrictions and other requirements to avoid the risk of losing the confidence of the funding sources or of being asked to return unspent or inappropriately spent funds. Unrestricted funds may be used for any purpose. However, some organizations create their own internal restrictions by matching receipts from certain sources to expenditures on specific activities or projects. This is one way to manage around uncertainties in revenues.

Uses of funds

One of the biggest differences between for-profit and not-for-profit organizations is their view of costs. Success for a business is defined as making a profit by maximizing revenues and minimizing costs. Not-for-profits see revenues as a way to support spending as much as possible on providing services. Their costs fall into two categories:

- Operating — the annual cost of running the organization which includes:
  - — Core (or fixed) costs such as the salaries of key employees and the cost of the resources they need to keep the organization functioning at a basic level.
  - — Program (or variable) costs which are related to the level of services that the organization delivers.
- Capital — the costs of buying buildings, equipment, vehicles and information technology (capital assets) whose use is spread over several years.

The board must make sure that the organization protects its funds by having controls over its income, expenditures, assets and liabilities. The board should take steps to confirm that expenditures are approved, appropriate and correctly recorded. Organizations that have an annual audit may consider asking the auditor about expanding the audit engagement to include a report on any control weaknesses to the board or to the Audit Committee.

Registered charities that are authorized to issue income tax receipts for donations must comply with Canada Revenue Agency rules which include deadlines by when donated money must be spent and the treatment of gifts-in-kind.

Budgets

Budgeting starts from a narrative operational plan that describes what will be done in the coming year (or years) to implement the strategic plan and continue ongoing operations. The budget includes estimates of the costs and revenues. A good budget reflects the risk that revenues can be more or less than anticipated, recognizes the need to fund core costs and has the flexibility to adjust program expenditures to available funding.

Capital budgeting projects the planned purchases of capital assets and matches fundraising and/or borrowing to the timing of expenditures. Like business planning, not-for-profit capital budgeting looks for long-term benefits, compares the relative merits of proposed capital projects and considers alternatives such as leasing. It usually looks for improved program delivery rather than a pay-back in profit. The costs of using and maintaining the assets should be included in the operating budget. These include the expertise needed to keep the information and accounting systems and other assets working properly without interruptions that could affect service delivery.

Budgeting should include cash flow projections that show projected receipts, payments and bank balances. Any shortfalls may require borrowing and surpluses should be invested to earn interest. Managing cash flow and investing surpluses and endowments require the attention of the board which may appoint an investment committee to approve investment policy and to work with staff and (when appropriate) with outside investment advisors.

The Executive Director or Treasurer should regularly compare the actual financial results to the budgets and provide reports to the board. This is particularly important when things don't come in on budget and it is necessary to decide how to deal with any shortfall or surplus.

- ➨ I know the principal sources of the organization's revenues and capital funding.
- ➨ I am satisfied that the organization has good controls over its revenues and expenditures.
- ➨ I am satisfied that the funds are appropriately used.
- ➨ I support the board's approval of the operating and capital budgets.
- ➨ The board receives regular reports that compare actual financial results to budget.
- ➨ I am satisfied, when actual amounts vary from budget, that I understand the reasons and agree with any proposed responses.

18. How do we measure and monitor performance?

"What gets measured gets done" is an often-used phrase simply because it is true. Measures of success — objectives — often end up defining success, and the proper determination of a measure is vital to achieving the strategy.

> Examples of measurable targets:
> - Increase membership by 10% this year;
> - Win 25 medals in the next Winter Olympic Games;
> - Stage five plays each year;
> - Cut waiting times for specific medical procedures to Provincial standards;
> - Achieve a 90% satisfaction rating from the users of our services.

Good strategic and operational planning include measurable objectives that reflect and build on actual results and achievements. This is not always easy for not-for-profits whose legal purpose is often expressed in terms of meeting a social need. There are, essentially, two types of measurement: quantitative and qualitative.

Quantitative measures record activities and other things that can be counted such as the number of people who attended an event, the number of services provided, etc. They include financial results. As such they can be measures of the organization's efficiency in getting things done. Funding agencies often ask for quantitative information in their grant application forms.

Qualitative measures deal with opinions and feelings — very important considerations for not-for-profits — and thus with the organization's effectiveness in delivering the appropriate quality of service. Qualitative measures can be expressed in numbers by using such techniques as surveying people and recording the results. You can't count a smile, but you can ask people to rate their satisfaction on a scale of 1 to 5.

> “You get what you measure. Measure the wrong thing and you get the wrong behaviors.”
>
> John T. Lingle

Expressing objectives as ratios and percentages can be a valuable technique for presenting and comparing results. To say that 90% of donations were used to provide services adds valuable information to the actual amount spent. Adding words and pictures to the numbers is also an effective way to convey information on achievements.

There is an old concept that a good thing carried to an extreme becomes a bad thing. This can be very true for performance measurements, particularly when an organization places undue emphasis on meeting targets and recognizing achievements. For example: if volume of results is overemphasized, quality may suffer, and vice-versa. Objectives must be clearly thought out and balanced to avoid unintended consequences.

Some organizations find it helpful to develop a sequence of targets that begins with the activities of its staff and volunteers, continues with the response of the community and builds towards the desired results. Cause and effect are hard to measure and prove, particularly in the short run. For this reason, although activities can be usefully measured as short-term targets, results and their trends are better evaluated over a longer term.

Example of a sequence of targets

A program to save lives by reducing drinking and driving included a high-school program that recruited and trained students to organize events within their school with particular emphasis on graduation. The program measurements included:

Activities

- The organization’s success as measured by the number of schools signed up and students trained;
- Each school’s success as measured by the number of events and participants.

Results

The overall program results as measured by changes in the number of drinking-driving incidents.

The board must support a culture of openness and honesty, while maintaining proper accountability. In effect, the board must give the staff permission to take appropriate risks and to make mistakes. A culture that does not punish, but takes a forward-looking approach to improving performance and effectiveness, promotes honest, open reporting, and a focus on learning and doing better.

Within this overall framework, it is useful to keep in mind that “less is more”. A thorough focus on, and discussion of, two or three important measures, can be far more effective than plowing through multiple pages of operational detail.

- ➨ We monitor a manageable number of quantitative and qualitative objectives that indicate the organization’s strategic progress.
- ➨ I agree that the organization’s objectives are appropriate for monitoring its performance.
- ➨ The board receives regular reports that compare actual performance results to targets.
- ➨ I am satisfied, when actual performance varies from target, that I understand the reasons and agree with any proposed responses.

Stewardship includes monitoring performance and communicating with stakeholders.

Because resources are often limited, directors must make sure they are well managed and used in a way that gets results. This is important, not only to the organization itself but also to the stakeholders who benefit from the organization's activities or provide support. The board's responsibilities include communicating the organization's activities and financial results to members, providers of funding, appropriate government agencies, and other stakeholders.

19. How do we account for our stewardship to our stakeholders?

Accountability includes telling stakeholders openly and honestly what the organization has achieved and how it has managed its resources.

An annual report to members that can be shared with other stakeholders is an effective way for directors to account for their stewardship, often at the Annual General Meeting (AGM). In smaller organizations the report is often based on the AGM agenda which usually consists of reports from the Chair of the board and chairs of committees, and a financial statement, all of which are presented to the members for approval. The reports, or highlights of the year, may be posted on the organization's website, included in the newsletter or published in a brochure that can be distributed to interested stakeholders. An attractive and informative annual report can be important to donors and funding agencies and is often a key component of fundraising.

The financial statements may need to be attached to the annual returns required under the incorporating legislation (Corporations or Society Act, etc.) and to the annual registered charities returns to the Canada Revenue Agency (Form 3010). Requirements vary widely as to the form and standards to which statements must be prepared, so care should be taken to ensure that the method of reporting is as prescribed by the regulatory body. An audit of the statements adds credibility and may be required under the by-laws, by providers of funding or under the legislation governing the organization. To be effective the audit should be performed by a qualified individual or firm. Professional accountants are subject to demanding standards and are seldom in a position to conduct audits without a fee for any but the smallest organizations.

If the organization has an audit, the board should consider appointing an audit committee with at least one member who understands financial statements to meet with the auditor to review the statements and the auditor's findings. If the organization has no auditor, the board should ask the preparer of the statements to explain them and provide evidence of the assets and liabilities.

In addition to the formal financial statements and reports to government agencies, not-for-profits may be required to report to funding agencies and other stakeholders on the results the organization achieved from the funding.

- ➨ The organization issues an annual report of its activities and achievements.
- ➨ The organization makes its financial statements freely available.
- ➨ I am satisfied that the annual report and financial statements fairly present the operations and financial condition of the organization.
- ➨ We have satisfied our accountability (if any) to other key providers of funding or stakeholders.
- ➨ Our tax and other government filings are up-to-date.

20. Who speaks for the organization?

Good communication can greatly enhance the effectiveness of any organization. Even small groups need to tell people about the work they do, the services they offer and their need for financial and volunteer support. They must also be prepared to answer questions from members, the media, the public and stakeholders.

All these communications contribute in some way to the public image and reputation of the organization. It's important that individual directors, volunteers and staff members know when it is appropriate for them to provide information and answer questions, and when they should leave, or refer the communicating to designated individuals.

Successful organizations are effective in balancing openness and caution in their communications policy. Generally, they encourage directors, volunteers and staff to promote the organization, its programs and upcoming events — information that is usually available in brochures, newsletters and the website. Fact sheets, and suggested answers can be valuable for anyone involved in communications.

For information that is more technical, complex or sensitive it is important to coordinate and clarify roles and responsibilities by defining who can speak and on what, and providing training for spokespersons. This is particularly vital in times of crisis. Crisis planning should identify a specific individual who will present information and handle questions from members, the public and the news media, and inform staff, volunteers and directors where questions can be referred.

- ➨ I know and support the organization's policies on communications to members, the news media, the public and other stakeholders.
- ➨ I know how to respond to requests for information about the organization and where to refer them if I am not authorized to do so.
- ➨ I am satisfied that we have effective plans for communications in times of crisis.

Conclusion

Serving on a not-for-profit board can be an exciting and rewarding opportunity to mobilize the energy, enthusiasm and passion of staff and volunteers (including board members) to achieve an organization's vision and mission.

Experienced directors and Executive Directors know that time invested in governance is time well spent. Board meetings with relevant agendas and an effective chair can be stimulating and productive. A clear sense of purpose, supported by intelligent planning, risk management and efficient operating practices can help the organization use its funds effectively to get the results people want with fewer crises. Good working relationships between the board, staff and volunteers provide stability and clarity of accountability with less risk of conflict. And open communication with members and external stakeholders help build support in good times and bad.

Individual organizations have their own unique styles. There is no one correct way to do governance. So, if your board and organization have answers to the questions in this document that make sense and work, there may be no need to change. Where you feel there is a need for improvement, look for ways that fit the organization's culture, and are likely to succeed. Above all, make sure that the board recognizes its governance responsibilities, understands the "two hats" challenge when board members are also volunteers, and makes time for governance in its agendas.

Appendix 1

Director Background and Experience Matrix[9]

Because of the variety of issues that most not-for-profit organizations must address, it is impossible for any one person, or even a small number of individuals, to be familiar with all of the issues that might come before a board. By building a board on the basis of the competencies and knowledge each individual brings, you create a board that as an entity represents the broad expertise needed to succeed. A matrix, like the following example, can help to focus the search effort and improve the balance of the board. It should be tailored to the specific needs of the organization. Other matrixes may be developed, as appropriate.

The matrix may use numbers instead of the names of individuals if confidentiality is a concern. The names and detailed resumés can be provided to selected individuals on a need-to-know basis. The following chart uses numbers for directors and prospects but names could be used if appropriate.

Background and Experience	Directors					Prospects		
	1	2	3	4	5	1	2	3
Advocacy								
Business experience								
Communications								
Environment								
Executive compensation								
Experience in the areas of the organization's activities								
Finance								
Fundraising								
Government								
Human resources								
Information technology								
Internal control								
Investment								
Law								
Management experience								
Marketing								
Not-for-profit governance								
Performance measurement								
Privacy								
Regulatory issues								
Risk management								
Strategic planning								
Taxation								
Technology								

[9] Adapted from CICA's *20 Questions Directors Should Ask about Building a Board*.

Appendix 2

Director Qualities[10]

In addition to their technical abilities and experience, good directors have personal qualities that can make them valuable contributors to the board. In selecting prospective board members the Nominating Committee should consider looking for individuals with such qualities as:

Integrity — they have personal integrity and insist that the organization behaves ethically.

Courage — they have the courage to ask tough questions and to voice their support of or opposition to proposals and actions. Their loyalty to the stakeholders' interests may demand that they express dissent and persist in demanding answers to their questions.

Good judgement — they focus on the important issues and base their decisions and actions on wisdom, sound business practice and common sense.

Perspective — they have broad knowledge and experience which they apply to discussions and decisions.

Commitment to learning — they are prepared to take the time to get to know their organization, know their job and stay up to date. They take responsibility for their own education in areas of their contribution to the board and participate in educational sessions offered by the organization.

The culture of a board is as important as the skills, experience and knowledge of its members. The directors should have the behavioural skills to function and work effectively together as a collegial team. These skills include:

Ability to present opinions — they are articulate and able to present their views clearly, frankly and constructively.

Willingness and ability to listen — they listen respectfully and make sure they understand what they have heard.

Ability to ask questions — they know how to ask questions in a way that contributes positively to debates.

Flexibility — they are open to new ideas and responsive to the possibility of change.

Dependability — they do their homework and attend and participate in meetings.

10 Adapted from CICA's *20 Questions Directors Should Ask about Building a Board*.

A comparison of corporate and not-for-profit governance

Corporate directors and others with business experience who become members of not-for-profit boards often experience culture shock in their new roles. Some of this is due to basic differences between the corporate and not-for-profit sectors — particularly the profit motive — but there are other significant factors including the size, sophistication and maturity of the organization and the field in which it operates. It would be nice to have a simple comparative chart that compares and contrasts governance in the two sectors. Unfortunately, things are not that straightforward. The following observations on governance and operations may help newcomers from the corporate world to adapt to their roles as members of not-for-profit boards.

Governance

Fundamentally, governance is governance — there is no substantive difference in good governance between the corporate and not-for-profit sectors. This document is modeled after one written for corporate directors[11] and their scope is essentially identical. Many not-for-profit organizations have governance practices that equal the best in the corporate sector.

There is more variation in governance within a sector (business or not-for-profit) than there is between sectors. A director of a large public company would probably feel more at home on the board of a large not-for-profit than on the board of a small, start up business.

The directors of not-for-profit organizations, unlike their corporate counterparts, are not paid for their services and may be expected to cover out-of-pocket expenses and make donations. Experience shows that volunteer board members are no less seriously committed to the vision, mission and goals of their organizations than corporate directors. They work hard, believe in what they are doing and make a large contribution to its success — just like their business counterparts.

The underlying principles for nominating directors are essentially the same for both corporations and not-for-profits. In both cases the nomination process involves identifying the organization's needs — especially the strategic ones — and matching them to the skills and experience of prospective candidates. In practice, not-for-profits tend to be more open to diversity and to accept promising nominees with limited or no board experience.

Corporate boards have been shrinking in size and frequently have fewer than 10 members. Boards of not-for-profits are often larger to accommodate representation from a range of stakeholders — but the value of this is being questioned.

Operations

Corporate directors are seldom expected to participate in operating activities — the "two hats" challenge for not-for-profit directors. They may, however, be expected to provide active assistance in their fields of expertise — particularly in raising capital — which could affect their governance objectivity.

[11] CICA's *Guidance for Directors: Governance Processes for Control*.

Corporations tend to be more hierarchical than not-for-profits — although this is not universal. Companies in newer industries such as those with high-tech campuses are often less respectful of traditional authority. The not-for-profit world also has a range of management styles but generally favours policies and procedures and consultation over a command and control model.

There is almost as much variation in the pay and working conditions of employees of the not-for-profit sector as there is in corporations. Some not-for-profits have highly-paid professional staff and incentive-based compensation; others provide minimal pay and benefits — just as in the business world.

Many not-for-profits are quite entrepreneurial — this is increasingly the case as government support is reduced or matched to funds raised or earned by the organizations. Like companies, they use business techniques to improve their marketing, service delivery and customer service. On the other hand, businesses are becoming aware of the importance of stakeholders other than shareholders and recognizing the value of practicing social responsibility.

The accounting rules for not-for-profits are, for the most part, similar to those for businesses. The differences are mostly related to the treatment of restricted and unrestricted funds which correspond to surplus in corporations. Any organization needs to have access to financially literate individuals who understand the specific accounting requirements of the field in which they operate.

All organizations need ways to measure success. Although only corporations use measures related to shareholder value (earnings per share, return on investment, dividend yield, share price, etc.), both they and not-for-profits use many other measurements — both financial and non-financial.

Where to find more information

CICA publications on governance

The 20 Questions Series

20 Questions Directors Should Ask about Building a Board
20 Questions Directors Should Ask about Codes of Conduct
20 Questions Directors Should Ask about Director Compensation
20 Questions Directors Should Ask about Executive Compensation
20 Questions Directors Should Ask about Governance Assessments
20 Questions Directors Should Ask about Internal Audit
20 Questions Directors Should Ask about IT
20 Questions Directors Should Ask about Management's Discussion and Analysis
20 Questions Directors Should Ask about Risk
20 Questions Directors Should Ask about Strategy
20 Questions Directors Should Ask about their Role in Pension Governance

The 20 Questions for Not-for-Profits Series

20 Questions Directors of Not-for-profit Organizations Should Ask about Governance
20 Questions Directors of Not-for-profit Organizations Should Ask about Strategy

Other CICA publications

Crisis Management for Directors
Guidance for Directors: Governance Processes for Control
CAmagazine: "Plugging the holes" by Hugh Lindsay, December 1997, p. 43.

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Websites

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www.allianceonline.org

Altruvest — BoardMatch
www.altruvest.org — or — www.Boardmatch.org

Canadian Society of Association Executives
www.csae.com

Charity Village
www.charityvillage.ca

enVision.ca Virtual Resource Centre
www.enVision.ca

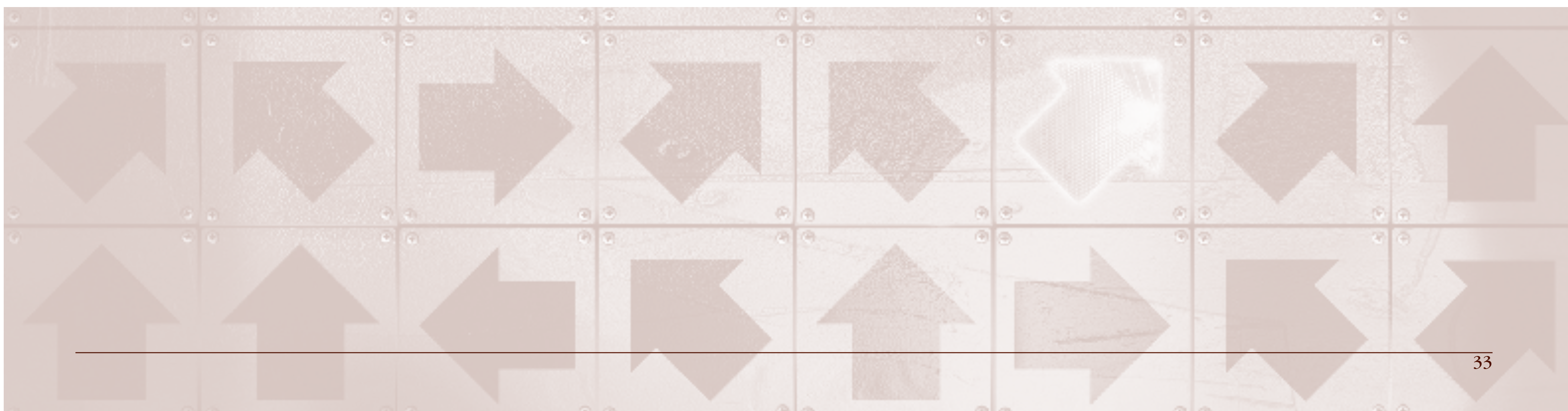
Imagine Canada
www.imaginecanada.ca

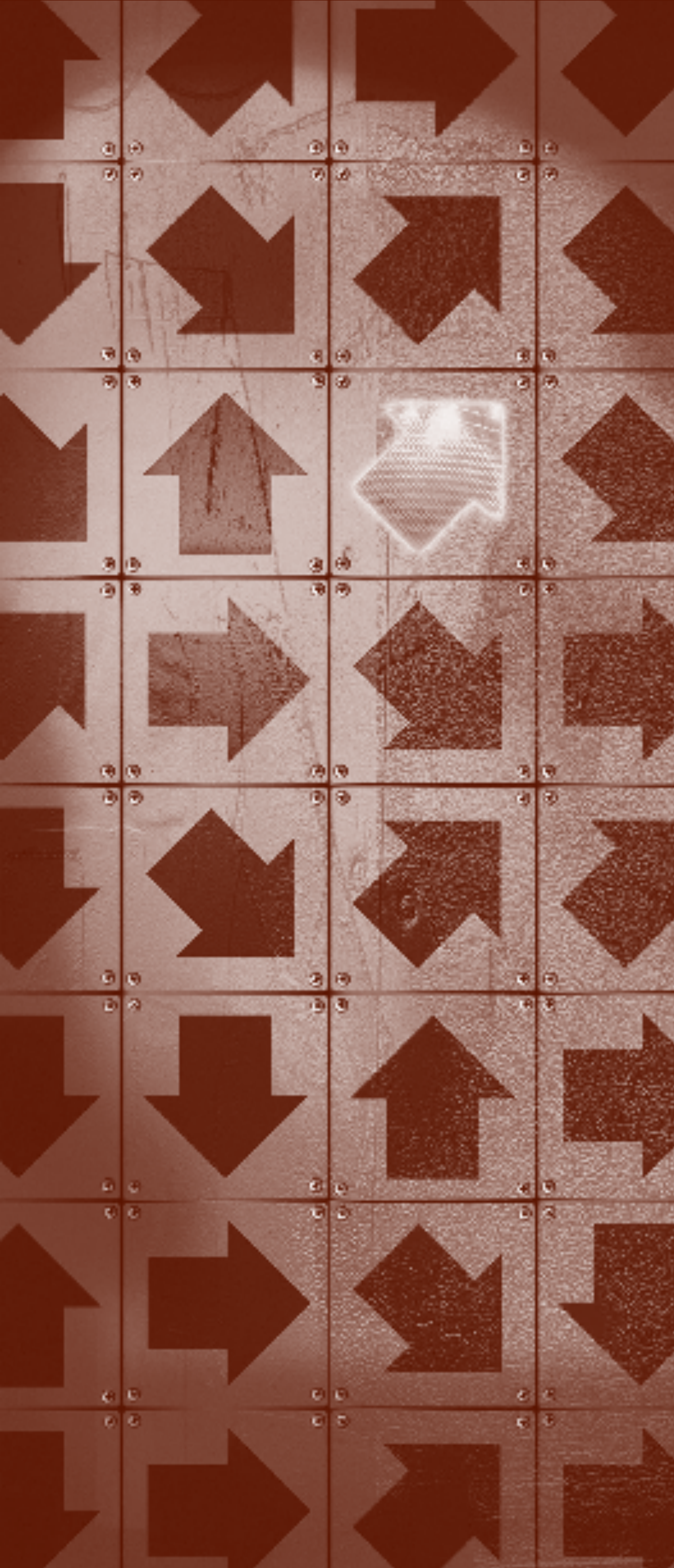
Insurance Bureau of Canada. *Directors and Officers Liability Insurance*
www.ibc.ca/bc_risk_d-o.asp

nonprofitscan.ca: Canada's Nonprofit Information Service
www.nonprofitscan.ca

United Way of Canada: Board Development
www.boarddevelopment.org

Volunteer Canada
www.volunteer.ca





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Hugh Lindsay is a founder and president of FMG Financial Mentors Group Inc. He specializes in writing, training and consulting in corporate governance, risk management and strategic planning. In addition to being a Chartered Accountant, he is a Chartered Insurance Professional and a member of Financial Executives International. Prior to entering full-time consulting in 1992, he held senior financial and internal audit positions with a university and a major insurance company.

Hugh has served on the boards of a number of not-for-profit organizations including the Insurance Institute of British Columbia, the Institute of Chartered Accountants of BC, the Vancouver Little Theatre Association and the Vancouver Museum. His current board memberships include Community Mediation Services Society, the Canadian Academy of Independent Scholars and the Vancouver Chapter of FEI Canada. He was a member of the Criteria of Control Board of the Canadian Institute of Chartered Accountants and is now a writer and editor for their Risk Management and Governance Board. His publications for CICA include: *Managing Risk in the New Economy*; *Crisis Management for Directors*; *20 Questions Directors Should Ask about Building a Board*; *20 Questions Directors Should Ask about Internal Audit* (with John Fraser), *20 Questions Directors Should Ask about Risk*; *Financial Aspects of Governance: What Boards Should Expect from CFOs*; *Risk Management: What Boards Should Expect from CFOs*; and *Strategic Planning: What Boards Should Expect from CFOs*.

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20 Questions

Directors of Not-for-profit Organizations Should Ask about Governance

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