FOUNDATIONS FOR BOARD GOVERNANCE

Looking ahead with clear vision

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Contents

FOREWORD 3

PART ONE GOOD FOUNDATIONS

1 WHAT IS OUR PURPOSE AND FOR WHOM ARE WE HERE? 4

2 EXPECTATIONS OF BOARD MEMBERS 8

3 THE BUSINESS OF THE BOARD 14

4 ORGANIZING FOR GOOD GOVERNANCE 20

PART TWO THRIVING AND EXCELLING

5 A THRIVING ORGANIZATION AND BOARD 26

6 PROBLEM SOLVING VERSUS SOLUTION BUILDING 30

7 BOARD DYNAMICS 34

8 THE TWO CRITICAL ROLES—THE CHAIRPERSON AND CHIEF EXECUTIVE 38

9 COMING TOGETHER 42

FURTHER READING 46

WHAT'S NEXT? 47

CONTRIBUTORS 48

Foreword

Good governance has always been crucial in all industries. In the corporate world, events such as the Enron scandal are still seen as admonitions against having cracks in the good governance model. However, nowhere is governance more important than in the nonprofit sector. Those with ultimate responsibility in nonprofit organizations usually give their time voluntarily, but this does not absolve them from blame if things go wrong. Therefore, the systems and structures within which they operate have to be especially clear and robust. A whole industry has grown up around effective governance and managing risks. Training and guidance exist in abundance, much of it excellent. But things don't stand still, and best practices evolve. There seems to be an especially high focus on good (or bad) governance currently, following some high-profile nonprofit missteps. Attention has moved beyond those in the sector bubble into the mainstream media. Resolution is vital if lessons are to be learned.

But improving governance is not just about guarding against failure. It should not just be a check-the-box exercise following which board members can sit comfortably and abdicate further responsibility. It is about being as effective as possible. Raising average to good to outstanding, to enable a rise in the standards of delivery and outcomes, is essential.

In addition to constructive internal analysis, there is a role for professional advisors, be it your auditor, lawyer or a consultant. This can come with a cost, but realistically remunerated sound and robust advice can in the long term be cheaper than that which is free. The independent assessment and insight of a committed and knowledgeable outsider, with the experience of knowing many other similar organizations, can offer a fresh view. And talk to your peers. Learn from what others have done well—and poorly.

RSM US LLP has vast experience looking at nonprofit organizations with an independent, understanding, but critical eye. This guide uses that wealth of knowledge to not only provide a handy overview of the main issues and areas of debate, but also to frame them both individually and as a cohesive whole. It draws on that experience to highlight common problems and suggest practical solutions, remembering all the time that good governance is not set in stone once reviewed, and improved, but is a fluid process that evolves within a robust structure.

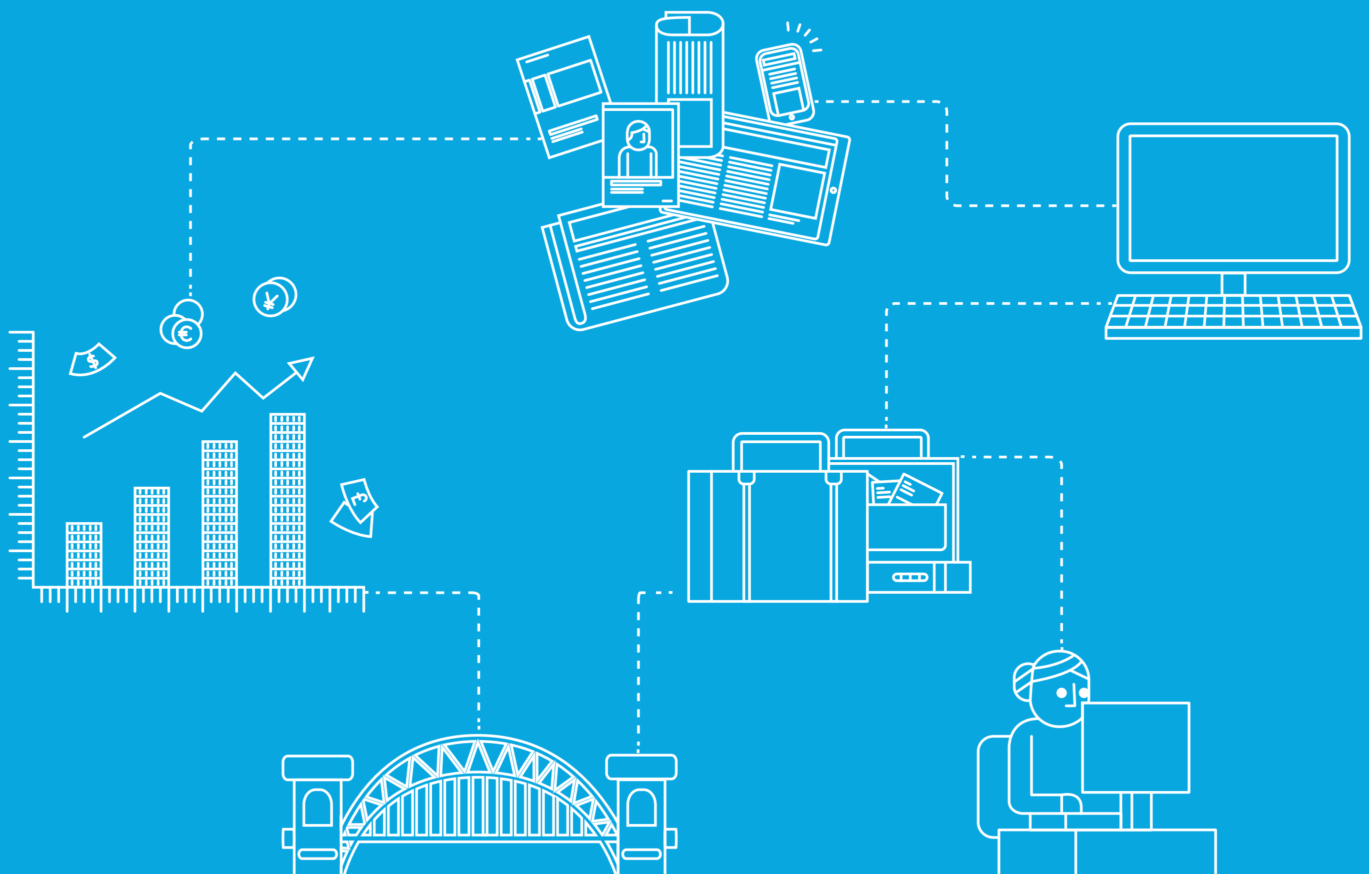
Not everything that follows will be for everyone, but most will be for all. There is no one-size-fits-all model, and some organizations have individual restrictions (e.g., membership organizations may have special restrictions). But subject to the specific requirements imposed by a nonprofit's own policies and procedures, there are several guiding principles that apply across the board to all boards. If these are at least considered and where appropriate, adopted, adhered to and developed, they should help realize good, if not, great governance.

1 WHAT IS OUR PURPOSE AND FOR WHOM ARE WE HERE?

Framing the issue

Two important questions that are seldom considered by board members are what is our purpose and for whom are we here? Some board members seem to never quite get to the core of their organization's purpose. The level of detail in the responsibility of stewardship can be all-consuming, meaning that the fundamental questions of why the organization exists and who it is for are given insufficient consideration. But boards do not exist to micromanage an organization; instead, they should complement management by asking a different set of questions—this is true governance.

Accountability is important. Financial oversight is critical and board members will always have ultimate fiduciary responsibility. Without an ongoing cash inflow, the organization cannot be sustained in perpetuity. But they need to be aligned with the organization's core purpose. Board governance is about setting the agenda, challenging assumptions about the organization and identifying the underlying values that drive strategy to determine "what exactly are we trying to accomplish?"



What is a board member?

Every board member shares the responsibility for having general control and management over the administration of the organization that they serve. But what does it mean in practice? Even the names used to describe board members are varied in the nonprofit sector: trustees, governors, committee members and directors. However, in the context of the drive to achieve high standards of governance, the job descriptions are, in practice, interchangeable and largely inconsequential. For the purposes of this guide, the term board member will be used.

Whatever job title a board member is given in a particular nonprofit, they are the people who lead the organization and decide how it is run. Being a board member means making decisions that will affect beneficiaries, and with this responsibility comes accountability. In some ways, this is no different from the role in a commercial organization. However, it is worth noting the main differences between a company director and a nonprofit board member.

Both have similar duties to act in the best interests of the organization: to exercise care and to avoid conflicts of interest. The biggest difference is that board members must ensure their organization acts within its charitable purposes and provides a public benefit; board members must also demonstrate they have taken account of public benefit statutory guidance.

Accountability

The ultimate responsibility rests with the board to direct the affairs of an organization, ensuring that it is solvent, well-run and delivering outcomes for the benefit of the public for which it has been set up.

Along with this, there are many other recognized important duties for board members, including:

- Complying with tax-exempt law and the requirements of regulators
- Complying with the organization's founding documents and remaining true to the original charitable purpose and objectives
- Avoiding conflicts of interest, including the misuse of funds or assets
- Remaining solvent and using funds and assets to advance the organization's mission
- Not unduly jeopardizing the organization's endowment, funds, assets or reputation
- Being careful when investing or borrowing funds
- Making full use of board members' personal skills and experience
- Obtaining external professional advice on all matters where there may be significant risk to the organization, or when board members may not be able to accomplish their duties

All of these are extremely important fiduciary responsibilities, but are only part of what might be defined as effective governance. For example, to be consistent with its nonprofit purpose, a board member of an organization established to reduce poverty may consider wider social responsibilities such as paying its staff a living wage rather than the legal minimum. This may also extend to employing ethical supply chains and having investments governed by a set of ethical values and policies. Expectations of the standards required for board members have continued to increase and become more complex and in the future are unlikely to be reduced. But before knowing what is required by an individual board member, it is important to know what the organization is trying to accomplish. The first step in effective board governance, therefore, should be to focus on the mission statement: the charitable objectives and the reason for the nonprofit's existence.

Mission statement

Most board members are serving as unpaid volunteers being drawn from all areas of society bound by the same desire to serve their organization and make decisions that will positively affect the organization's beneficiaries. It is therefore, essential that board members understand the purpose behind their organization and that this is consistently adopted. A strong, yet concise mission statement based upon a nonprofit's values can help achieve this.

A corporate entity will measure its success or otherwise by its profit and loss statement, but this is not the main purpose of a nonprofit. Instead, a mission statement can be used as a framework to facilitate consistent decisions by board members who can also be clearly communicated to stakeholders such as employees and funders. The best mission statements include a clear description of an organization's future objectives to achieve the needs of its beneficiaries and are often developed from the organization's own objects clause in its constitution or governing document. An effective mission statement is concise and unforgettable for board members to articulate when asked by stakeholders. An ineffective mission statement relies on sound bites that may lack depth and complexity.

Being a board member means making decisions that will affect beneficiaries, and with this responsibility comes accountability.

EXAMPLES OF MISSION STATEMENTS

"Uniting all Americans to ensure wildlife thrive in a rapidly changing world."

"To inspire breakthroughs in the way the world treats children and to achieve immediate and lasting change in their lives."

"To work with communities to end world hunger and poverty and to care for the Earth."

"Growing the movement of leaders who work to ensure that kids growing up in poverty get an excellent education."

"Prevents and alleviates human suffering in the face of emergencies by mobilizing the power of volunteers and the generosity of donors."

Fostering innovation and engaging beneficiaries

A strong mission statement will be developed in line with an organization's strategic plan, having taken account of the views of board members, beneficiaries, management, employees, funders and many other interested stakeholders in the community it serves. However, a mission statement can only reflect a given point in time. A board should set time aside from fulfilling its fiduciary duties to consider exactly what it is trying to accomplish. Often, new ideas will come from recently appointed board members and should be welcomed. A "but we have always done it this way" attitude can stifle innovation.

Societal changes and technological developments will require the organization to constantly adapt and become more innovative, both in its own operation, and in how it identifies and addresses the changing needs of beneficiaries.

When—hopefully—the organization's original purpose is fulfilled, the mission statement will again require review. Therefore, a board member should be anticipating the need to review the organization's mission statement on a regular basis.

Leveraging innovation and encouraging continuous improvement

A continuous improvement mindset and embrace of innovation are key differentiators for successful organizations. Boards must always be thinking about how to enhance the organization and those efforts might require thinking outside the box and considering what for-profit businesses do that nonprofits may not have done before.

For example, successful innovation and improvement strategies should:

- Include innovation in strategic and operational plans—always have at least one or two major new initiatives to foster continuous improvement and growth of the organization
- Continue to change with the times, considering constituents served and donor desires and requirements
- Utilize for-profit tactics to grow the business—for example, mergers and acquisitions aren't commonly thought of in the nonprofit world, but they should be
- Leverage board members who are skilled subject matter experts from diverse areas and who can bring fresh ideas
- Support partnerships and collaborations with other organizations for growth and new ideas
- Encourage out of the box thinking for identifying new funding sources

What does success look like?

Having a clearly defined mission statement will assist in determining whether there are relevant and measurable benefits arising as a result of the organization's activities. This is becoming increasingly important to funders who expect to see a social as well as financial return on their investment. For example, in the evolving area of social investment or payment-by-results initiatives, measurable benefits can mean the difference between being funded and not.

A board member who is achieving effective governance will have several well-defined measures to assess the organization's performance and the impact on its beneficiaries. As with the mission statement, performance measures will need to be reviewed regularly to determine if they still serve the purpose of ultimately providing an informed view of performance against the mission statement.

GOOD GOVERNANCE INDICATORS

1 Focus on the big picture. In addition to fiduciary duties, board members set aside time to consider what exactly they are trying to accomplish.

2 Existence of a mission statement that complements the organization's vision and strategic plan. Even if no mission statement exists, then every board member should be able to articulate the rationale for the activities being undertaken and how performance is being measured. For example, can they identify the organization's three most important objectives, and whether they are achieving them?

3 Sufficient involvement of stakeholders in developing the organization's strategy and confirming its underlying values. Board members engage and where appropriate, consult with beneficiaries and other interested parties.

4 Focus on results. An organization that is able to consider and measure the impact that it has on its beneficiaries has good governance.

5 Planning ahead. Board members are able to horizon-scan, and recognize an external perspective and wider context within which their organization operates.

2 EXPECTATIONS OF BOARD MEMBERS

Framing the issue

A board member at one for-profit entity faces a different set of circumstances requiring a different set of decisions to be made than their counterpart at another business, despite both companies being from the same industry sector. The two can have a dissimilar customer base, differing resource constraints and different profitability. Similarly, nonprofits have different beneficiaries, funders and mission statements. Therefore, it is essential for the board member to have an in-depth understanding of his or her organization that will include an appreciation of where funding comes from and how it is spent. As a result, a board member must be prepared to invest sufficient time in understanding the organization to provide a platform for effective decision-making.

A non-executive director of the entity is a member of the board of directors and does not form part of the executive management team. Board members are not employees of those companies and are in many ways are similar to the board member of a nonprofit providing strategic oversight rather than day-to-day management. While they may have experience in areas of relevance to the work of a nonprofit, be it in social care or animal welfare, for example, the expectation is that they also apply their skills and experience to the bigger picture rather than the minutiae. The absence of daily involvement is no excuse for a lack of engagement and commitment. The phrase "left their brains in the briefcase" is used to illustrate situations where board members do not apply their knowledge and experience from the outside world to their nonprofit roles. Board governance is about board members having an in-depth understanding of the organization to be able to provide sufficient oversight but not management interference.

In our experience

Understanding the organization

Before becoming board members, most people try to learn as much as possible about the prospective nonprofit and the required commitment. This can involve reading the latest annual reports and financial statements, scrutinizing strategic and operational plans, and obtaining and reading policies, as well as meeting with existing board members, management, staff and sometimes beneficiaries. It is vital for a board member to obtain a copy of the organization's policies and procedures document, paying particular attention to the charitable aspects as they direct and govern key facets of the nonprofit's work, as well as what, if any, restrictions they place upon an organization. This research provides a good indicator of the current state of the organization, and the new board members will also have an appreciation of the organization's reputation. It can also help to develop the incoming board member's ideas and plans for influencing the nonprofit's future. If practical, a formal induction session outlining the basics of a board member's responsibilities can also be valuable.

This process should not cease upon appointment. Instead, an effective board member will continue to develop a deeper understanding of the organization. This will include developing and protecting the nonprofit's brand over time. Failure to do this and the subsequent reputational risk frequently score highest in negative impact with charity watchdog organizations. As the board member's term of office progresses, this understanding will include an appreciation of the funding position and consideration of the sources of income. The effective board member will contribute to developing a strategy to raise the funds required by the organization and diversifying sources of income, where possible. Gaining a good understanding of the core income streams is vital, as is an appreciation of the costs of charitable activities being undertaken. Board governance encourages knowledge about where the money comes from and how is it spent, as well as enables an understanding of the reasons why expectations may not be met.

Only a lack of cash will cause an organization to fail financially

Every nonprofit requires funding to survive; ultimately, only a lack of cash will close an organization. If establishing the charitable purpose is the first priority, then implementing a financial strategy is a close second. An effective board member is aware of the financial risks involved for each significant income stream and also considers the potential for new ventures and new streams of funding, with diversification and sustainability in mind.

There are also risks associated with loss, inefficiencies and fraud. To mitigate these risks, robust financial controls and procedures must be in place. The failure to have proper controls in place often leads directly to serious financial mismanagement or abuse. There have been numerous examples where organizations have ignored the very basics of good practice, resulting in board members routinely signing blank checks, single individuals having responsibility for counting cash donations, staff members signing off on one another's expenses claims. Naïveté is often involved when nonprofits fail to put controls in place, and while a certain degree of mutual trust between board members and staff members is vital to the smooth running of an organization, it must always be underpinned with effective systems and processes that protect the organization.

Most nonprofits are undertaking multiple activities; being able to understand the income and costs associated with each is paramount. It is these activities (specific programs and services) that provide the outputs (services being delivered) which lead to the outcomes (changes for beneficiaries) and ultimately the impact (benefits to society) made by the organization. Activities are important because of their link to the ultimate mission, but these must be underpinned by being financially sound and sustainable.

Evidencing that the activities are sustainable is achieved through the annual financial budget process, and considering this in advance of the year ahead is an important duty. Every board member must appreciate the resource requirement for the activities being proposed as well as understanding the resultant surplus or deficit. This should not be confined to an annual exercise, as financial sustainability requires ongoing management of cash flows, monitoring and reviewing financial performance throughout the year on a timely basis. This then allows for timely corrective action where needed. The annual financial budget should not be a standalone feature of financial governance as financial planning should be integrated with wider organizational planning and management to ensure resources are used in the most effective way.

Every board member must appreciate the resource requirement for the activities being proposed.

LEADERSHIP

Oversight	Management
Set mission, policy and statement	Develop policy and strategy
Appoint and oversee CEO	Appoint managers and staff
Manage governance process	Support governance process
Provide insight, wisdom and judgment	Implement board decisions
Determine services	Deliver services
Monitor performance	Measure performance

Financial effectiveness

Effectively managing finances is critical to successfully pursuing a nonprofit organization's mission. To that end, the board should have timely visibility into the financial picture in order to monitor financial progress and forecasts aligned to mission goals. In addition, the board should have an understanding of the organization's history, as well as the vision for moving forward. Financial reporting should be distributed to the board on an appropriate, regular basis; this generally means at least quarterly, if not monthly.

Financial transparency is also an important element for the board to focus on, as more visibility into the numbers inspires confidence from donors and constituents. Financial resources must be leveraged as much as possible, thereby maximizing their impact for the organization's core mission. The board must set and communicate how much money goes to the mission itself.

A well-considered reserves policy

Annual budgets should not be considered in isolation; of relevance are any uncertainties over future income or the risk of unexpected calls on the nonprofit's funds. In looking at future plans, projects or other spending, needs may be identified that cannot be met from the income of a single year's budget alone. The identification of these factors illustrates the importance in having a well-considered reserves policy. Reserves are that part of a nonprofit's unrestricted funds that are freely available to spend on any of the organization's purposes (excluding restricted income funds and endowment funds and also normally excluding tangible fixed assets held for the nonprofit's use and amounts designated for essential future spending). Therefore, it may be entirely appropriate for an organization to approve a single-year deficit budget in the context of a longer-term reserves policy.

Using the users

The perspective of what strategy is required for the nonprofit can be different when viewed from the position of a beneficiary (a user board member). The responsibilities of user board members go beyond advising on issues of service delivery and include speaking on behalf of all users generally. However, user board members have equal standing with all other board members and should see their role not just in terms of contributing to improvements in services but also of maintaining high standards of governance—there should be no such thing as a single-interest board member. While the unique perspective of user board members will be invaluable, they need to be clear that they are still board members and as such have a responsibility to act in the interest of the organization. Drawing up robust user involvement policies can avoid the lines becoming blurred.

Board members are not managers...but should be motivated and committed

Board members are expected to use their personal skills and be prepared for board meetings. In many cases, the expectation of board members is generally to volunteer time. The time commitment for an organization varies depending on the activities of the nonprofit and its size. As a guide, many board members of larger charities devote one day per month to their role, for example, preparing for and attending board and subcommittee meetings, plus perhaps project visits. Some organizations openly report attendance records by individual board members in their annual reports.

In the United States, it is commonplace for board members to be given a financial expectation for fundraising whether through personal contacts, pledges or personal donations. As another example, in the U.K., board members are able to contribute through a proactive involvement of board members in the fundraising process. Board members are able to source and introduce prospective donors and help cultivate high net worth individuals through meetings or at the nonprofit's own events.

Board governance versus leadership team management

Different organizations need very different things from their board of directors. These needs can vary dramatically based on the maturity of the organization, capabilities of the management team and challenges facing the organization.

Generally, a board should attempt to operate at a governance policy and direction-setting level and not at a management decision-making level. Clear delineation on board versus management team responsibilities is important to ensure both important roles are accomplished and that the board and management team work well together.

In special situations, the division between board governance and management team management may become fuzzy, but generally, a leading practice is to clearly establish appropriate governance and management responsibilities for both groups and maintain appropriate boundaries.

Some sample responsibilities of an effective governance-level board include:

- Determine, review and revise the organization's current mission and future vision
- Select, support and evaluate the chief executive officer (chief executive)
- Monitor and evaluate the effectiveness of programs and services
- Ensure adequate financial resources
- Provide financial, legal, ethical and reputation oversight

Oversight, not management

The degree of oversight rather than management that is required will be largely dependent on the size of the nonprofit. A board member of a smaller organization might take on most of the work of running the organization in the absence of paid staff, whereas in larger nonprofits, board members are able to delegate operational activities to staff. Most of a board member's contribution will be made at formal meetings rather than through involvement with staff.

Ultimately, the board and its members are accountable for the organization's affairs and this must always include the basics such as compliance with regulatory deadlines, internal controls and budget monitoring. A well-governed board will ask for evidence that management has implemented these basics. For example, the board should request confirmation from management that the nonprofit's annual return has been filed with the Internal Revenue Service.

Sample profiles of board positions

Members of the board of directors fill several key roles, providing strategic direction for an organization's day-to-day operations and strategic mission efforts. The following are descriptions of several integral positions on a nonprofit organization's board:

Board chair	Oversees board and executive committee meetings, leads the search for new chief executives, and works with the chief executive to prepare board agendas, ensure board resolutions are followed and develop board committees.
Board chair elect	The board member who has been identified to take the board chair position when the current term ends. This individual shadows the current board chair and usually attends the executive committee and regular board meetings.
Immediate past board chair	Immediate prior board chair who stays on the board and executive committee to ensure continuity, transfer of decisions and their rationale and general board knowledge.
Board treasurer	Leads the board finance committee and helps guide the board's financial responsibilities.
Board secretary	Ensures the accuracy of board minutes and acts as a steward of the minutes and other board materials.
Board committee chairs	The leader of a board committee—i.e., executive, finance, fundraising, etc.
Board members	Attend board meetings, staying abreast of the nonprofit's activities, provide general input and serve on committees.

GOOD GOVERNANCE INDICATORS

1. A financially sustainable strategy that reconciles to the nonprofit's mission statement
2. A nonprofit that provides sufficient information to prospective and newly appointed board members
3. An annual financial budget that is approved in advance of the start of a new financial year
4. An annual financial budget that reconciles to the targets in the organization's reserves policy
5. Consideration as to whether and how beneficiaries or users could be represented within a nonprofit's governance structure
6. Monitoring of the attendance of board members at meetings and their contribution each year

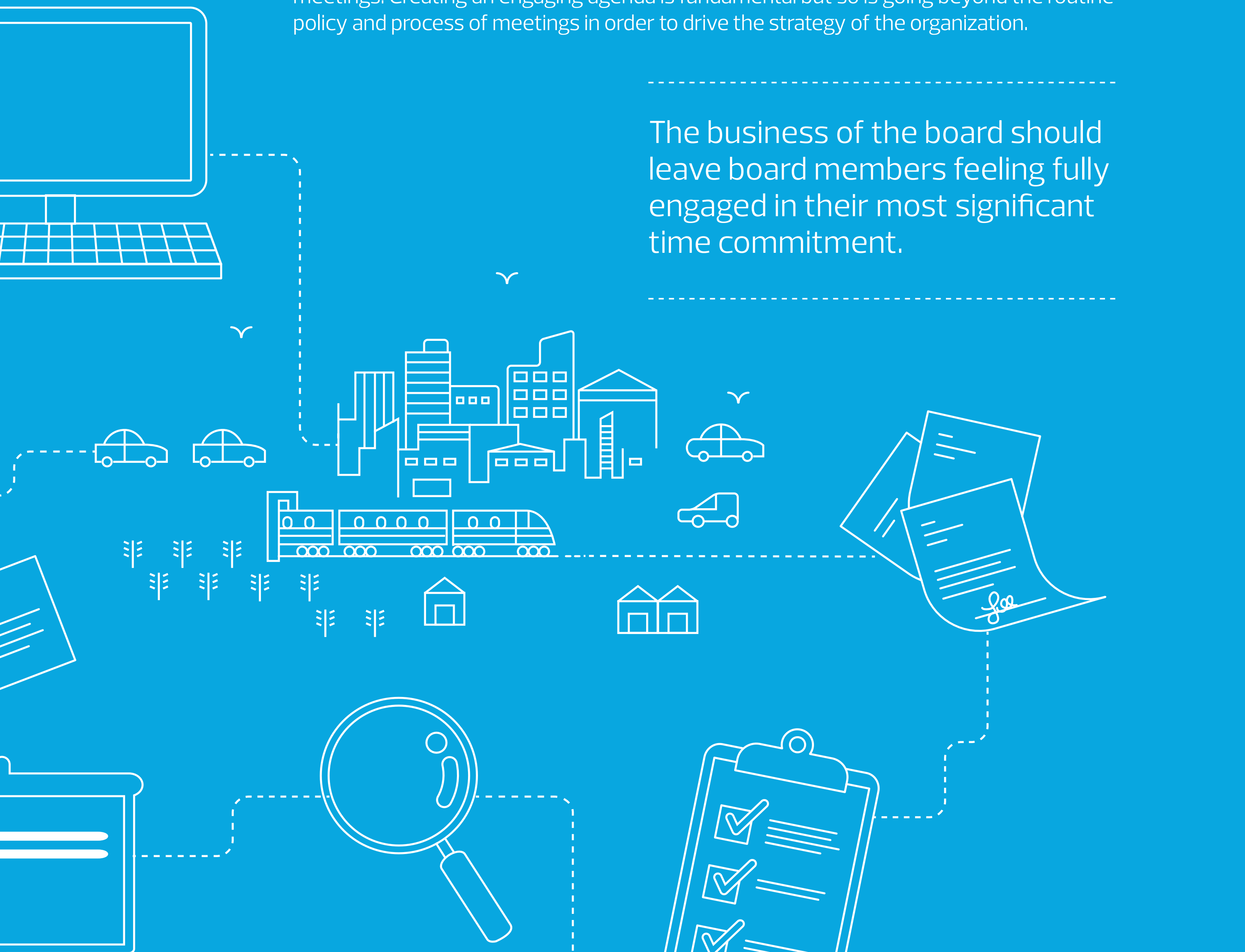
3 THE BUSINESS OF THE BOARD

Framing the issue

For a board member, time is a scarce resource, and a significant proportion of it will be spent in board meetings. Therefore, it is critical that they are well-timed, effective and focused on the critical issues in order for time spent on a nonprofit's affairs to be used to its greatest effectiveness.

Far too often, a board can attract highly skilled and experienced individuals, but a bland or ill-thought out agenda, or poor chairing of the meeting itself, does not fully utilize those qualities. The way in which board meetings are run is a common complaint by board members about their own organizations. Board governance and the business of the board should leave board members feeling fully engaged in their most significant time commitment—the meetings. Creating an engaging agenda is fundamental but so is going beyond the routine policy and process of meetings in order to drive the strategy of the organization.

> The business of the board should leave board members feeling fully engaged in their most significant time commitment.



What's on your agenda?

Board members are typically busy people and providing sufficient notice of meetings contributes to achieving a good attendance record. A well-run board will have a rolling program of meetings at least 12 months ahead. Consideration also needs to be given to the frequency of board meetings, which can occur from as infrequently as twice a year to as often as monthly; it will be dependent on the size and complexity of the organization, as well as whether additional work is conducted through committees.

The best time of day to hold meetings will also need to be carefully considered. This can be a challenge as the preference for nonprofit staff to meet during normal office hours can often contrast with board members who may themselves be employed elsewhere. Start times can vary from meeting to meeting if a compromise is needed or, alternatively, technology such as video or telephone conferencing can be utilized. Such technology can be useful if timely decisions are required or to reduce the costs and time of travel. However, caution should be exercised as meetings can only be held in this manner if permitted by the organization's policies and procedures manual.

Running out of time for the real work of the board

Determining the suitable amount of time required to complete each meeting is a sound governance principle. New board members can successfully be introduced to other board members immediately prior to a board meeting (with refreshments or at an alternative social gathering). This has the benefit in getting the new board member to integrate quickly and for the group to work better as a team during their precious meeting time.

The agenda itself should be informative to provide board members with the insight they require to be effective decision-makers. Many organizations benefit from employing a consent agenda, which combines routine committee reports, minutes and other noncontroversial items as one agenda item on the assumption that they do not require discussion or independent action. These items are presented to the board in a single motion allowing any board member to request that a specific item be moved to the full agenda for individual attention. The majority of the meeting can then be devoted to strategic thought, decision-making and actions. Organizing meetings in this way is beneficial because it streamlines them and allows the focus to be on strategic and leadership issues. In order to operate a consent agenda, effective documentation must be provided in good time prior to any meeting to allow board members to give sufficient care and attention to the information.

Although a basic consideration, each nonprofit will need to consider the practicalities in providing board papers electronically or printing and posting. If going down the electronic route, there needs to be 100 percent commitment to adopting if the benefits, such as reduced costs, are likely to be realized. The use of electronic formats should always be when there can be no confusion as to which elements of the electronic documents form part of the official papers. Many board meetings have suffered time-wasting issues with board papers being printed (usually at home) in black and white when, in fact, color was required in order to provide a full understanding, or because spreadsheets with multiple worksheets have not been completely printed.

In principle, the chairperson should have a general plan in terms of the time allowed for each item on the agenda while maintaining some flexibility. The board should devote substantial time in board participation and only a minority of time on presentations and briefings.

CREATING MORE EFFECTIVE AGENDAS

Have you considered timed agendas?

Are agenda items varied?

Are the papers you circulate too long for effective decision-making?

Do you selectively use presentations, brainstorming or scenario planning to break up meetings?

An ineffective board vs. an effective board

An ineffective board

- Meetings are routine and follow a similar pattern
- Agenda provides large volumes of information
- There is listening
- There is no forward annual plan
- The meetings are dominated by a few individuals

An effective board

- Meetings are varied
- Meetings are focused on strategy
- There is debate
- There is a seasonal plan with themes for each meeting
- All members are fully engaged

Not forgetting policies and procedures...

The governing documents or bylaws should detail how and when to organize meetings and how to vote on decisions; these requirements must be followed to avoid invalidating any of them. Typically, the policies and procedures manual will explain the minimum number of board members that must attend a meeting so that decisions can be properly made (the quorum) and how to deal with conflicts of interest. It is good practice to have a standing item on any formal agenda for declarations of interest to be made or allow for confirmation that there are none. Capturing this in accurate minutes of meetings is vital evidence of a well-run board. Minutes should be a record of the key decisions taken and points of discussion without turning into a transcript of the meeting. Preferably, the minute-taker should not be a board member, but if this is not possible, then steps should be taken to ensure appropriate involvement in the meeting of the relevant board member.

As a result of careful planning and the use of consent agendas, board meetings can become nonroutine. Instead of rubber-stamping affairs, they can be more debate-centric with members engaged in the fundamental strategic question, "What are we trying to achieve?"

Managing conflicts of interest

Issues can arise where board members are benefiting from the organization, for example, by providing paid services to the nonprofit or indeed being directly compensated for their work as board members. Even when such benefits are authorized, board members must manage the conflict, including identifying and recording it and ensuring that the conflicted board member is not involved in discussions or decisions about the benefit in question. Being able to explain clearly how the conflicts are being managed is especially important where they relate to complex legal and financial structures such as private companies linked to the board members.

Sometimes board members' personal benefits are unauthorized by the organization's policies and procedures manual. This does not always result from an intention to exploit a nonprofit, as often the benefit works in the organization's favor—for example, when a board member's company is providing services to the organization at a discount on market rates. But, if a benefit is not authorized, the board member in question may need to account for any profit and repay the sums involved. There is also a reputational risk if board members are seen to act outside their powers or take advantage of their position in a nonprofit in granting themselves personal benefits.

Beyond the policy and process of meetings: Strategic thinking

Assuming that the board has been able to move away from being a formal seal-of-approval-making body, then producing weighty written business and strategic plans will become less of a process-driven exercise. Instead, board members (and management) will be able to devote more time to generating ideas and affirming the key strategic priorities for the organization. This is likely to be around three or four key priorities rather than a dozen. Accordingly, board meetings will have more time available for structured and nonstructured strategic thinking about the way forward for the organization.

Measuring the strategy

Having identified the strategic direction of the organization, the board should then consider how the organization will monitor its performance. There are many metrics available such as the balanced scorecard or using key performance indicators (KPIs), where an organization defines a minimum a number of KPIs (usually half a dozen or so).

Obtaining accurate data is critical to organizational performance measurement and boards will need to be mindful of the methods required to achieve this.

EXAMPLES OF KPIS FROM A MEDICAL INFORMATION AND SUPPORT ORGANIZATION

- Number of care professionals in charity network
- Number of people supported through face-to-face services
- Patient information resources downloaded and distributed
- Number of Twitter followers and Facebook likes
- Unique visitors to website
- Members of the public reached through awareness programs
- Helpline calls answered

GOOD GOVERNANCE INDICATORS

1. Meetings are run in accordance with the requirements of the nonprofit's policies and procedures manual, particularly in having a quorum and complying with voting rules.
2. Consideration has been given to the optimal timing and frequency of meetings.
3. Sufficient advance notice is given for meetings and consent agendas are employed.
4. Sufficient time is allowed in meetings for debate not simply following a repetitive agenda.
5. Conflicts of interest are considered at every board meeting.
6. Minutes of meetings are circulated to attendees on a timely basis.

4 ORGANIZING FOR GOOD GOVERNANCE

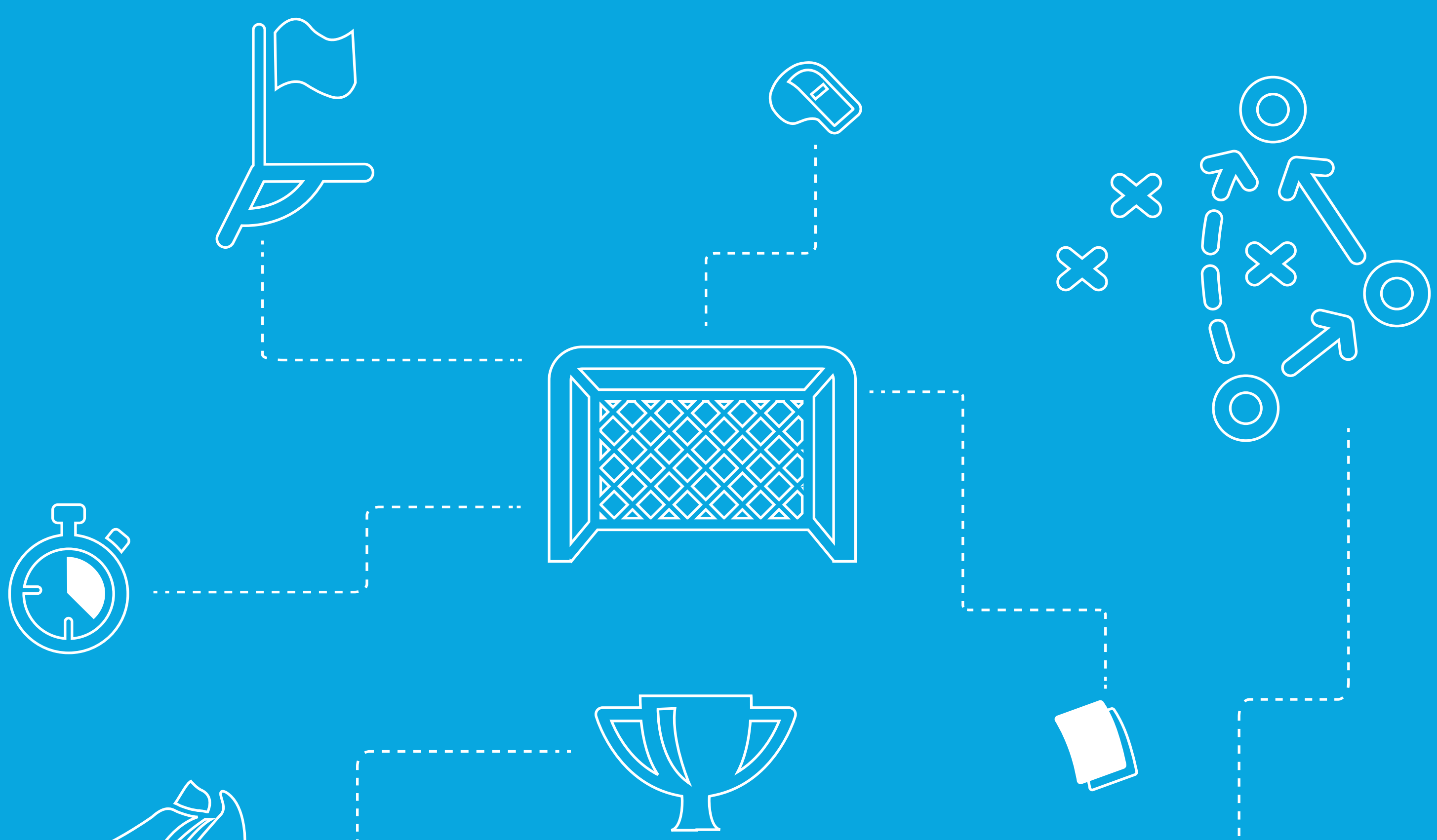
Framing the issue

Consider the following football scenarios:

- A team with 11 quarterbacks
- A team that puts its best coaching staff in charge of its second string
- A team with eight players rather than 11
- A coaching staff that does not have any specialists in defense
- An organization that fails to identify the weaknesses in its team and the players from opposing teams who could be added to the team to fill those gaps

In each of these situations, performance is most likely to be at a lower standard than could otherwise be achieved. Furthermore, in each of the given situations, the way in which the scenario was structured or organized was to the detriment of the outcome. Similarly, organizations need to be structured for good governance in order to optimize performance.

A nonprofit is not about choosing quarterbacks or linebackers, but it does need to strive for the best and most efficient structures, board members, functional committees and task forces.



It is about maintaining a balance between continuity, and skills and fresh thinking.

In our experience

Board composition

Fundamentally, the number of board members permitted in an organization will be dictated by its policies and procedures manual or constitution. At the outset, a board member needs to recognize this important rule as the terms of the founding documents often specify a maximum or minimum number of board members. Provided the correct procedures are followed, it is, of course, possible to amend these parameters through the correct legal process if they are no longer suitable for modern day governance. More recently, nonprofits have sought to reduce the maximum number of board members in order to make decision-making more effective. While there is no magic number, as a generalization, in our experience, it is considered that a decision-making body is not as effective once it requires the input of 15 or more people. However, it may vary with the requirements of a specific organization and the specific skill sets needed in certain areas. Additionally, some membership organizations have a specified number of reserved places allocated. The number of people on the board need not be static or fixed. For example, it can be useful for board members that are at the retiring stage to stay on a little longer if there is a large influx of new board members to pass on knowledge about the organization. It is about maintaining a balance between continuity and refreshed skills and fresh thinking.

Using committees

Another determinant of the size of the main board will be the use of committees. These may allow for a smaller number of people on the main board, but a key consideration will be the amount of reporting from each committee to the board as this can become cumbersome and inefficient with duplication being the main concern. It should be clear for all committees that there are defined terms of reference (from the board) with a mechanism for reporting to the board. Similar considerations also apply to the number of committee members as with the main board, although it is commonplace to allow experts or specialists in the area of activity of the committee to form part of the committee itself, even if they are not themselves board members. Consideration may need to be given to having independent members on an audit committee as good practice, as well as the role of users on service committees where appropriate.

Sample board committee structure and responsibilities

A strong board of directors is critical for the sustained success of a nonprofit organization, providing strategic guidance for effective decision-making and developing ethical, financial and governance policies. The list below provides a sampling of potential board roles and responsibilities that can support and enhance an organization's mission efforts.

Executive committee	Oversees general operations of the board and committees, monitors board effectiveness, advises the chief executive on topics raised and performs chief executive performance management activities.
Finance committee	Oversees development of budgets; ensures accurate tracking, monitoring and accountability for funds; and ensures adequate financial controls.
Fundraising committee	Oversees development and implementation of fundraising plans, identifies and solicits funds from external sources of support, and plans and coordinates major fundraising events.
Program evaluation committee	Ensures sound evaluation of programs, services and products, including goals, data analysis, outcomes and resulting improvements.
Program development committee	Guides evaluation of possible new programs, services and products. Monitors the development of new programs, services and products and their delivery mechanisms.
Audit committee	Plans, supports and approves the financial audit activities of the organization. May also coordinate other major audits over functions like operations, programs, etc.
Nominations committee	Identifies needed board member skills, suggests potential members and orients new members.
Personnel committee	Guides development, review and authorization of personnel policies and procedures. Sometimes also assists the chief executive with leadership and management team matters.
Marketing committee	Oversees development and implementation of marketing plans, including identifying potential markets, determining how to promote and sell the programs, and considering how to grow the organization's scale of operations.
Public relations committee	Represents the organization to the community, enhances the organization's image and communicates with the press when needed.
Ethics committee	Develops and applies guidelines for ensuring ethical behavior and resolving ethical conflicts.

Board efficiency and technology-based communication

Boards should consider leveraging technology to encourage more effective and efficient communications between members and the organization as a whole. For example, some progressive organizations have introduced mobile apps for smartphones, creating a comprehensive platform that can enhance workflow and reporting in today's mobile world.

With several emerging communication options, boards need to develop strategies that make more effective use of volunteer board members' time. Technology-based communications can create more ease of use and understanding of key information by board members. Many platforms can efficiently provide board meeting information in advance, provide interactive content during board meetings and store information for future reference.

In addition to mobile platforms, boards can leverage several other forms of technology to increase efficiency and enhance communications, including Microsoft SharePoint, comprehensive integrated communication software and email platforms.

Working parties, project groups and task forces

Working parties, project groups and task forces are often extremely effective in addressing important nonrecurring issues. The work required in these groups can be relatively short-term and quite intensive in terms of time commitment from their members. Being able to make expedient decisions is a feature of such groups as well as enlisting and utilizing specialist skills. Once the group has resolved the issue for which it was created, then it can be disbanded.

Attendance

Assuming that the board has organized its meetings well in advance, then the attendance record of individual board members is something that should really only need to be considered in exceptional circumstances. However, many boards do struggle with the attendance of certain individuals from time to time. To properly fulfill their responsibilities as board members, individuals need to be in regular attendance unless medical or other valid reasons exist. For this reason, there has been a trend for annual reports to include individual attendance records for board members.

This is one area where technology can be put to good use. If physical attendance by a board member is not possible, then it may be possible to hold a telephone or video conference. Statutes can also now generally provide (if permitted by the organization's policies and procedures manual and constitution) for decision-making by electronic means. Therefore, for specific items that may require timely decisions, this can often be executed by board members' agreement via email.

It's a team game

Like the football analogy earlier, a board and its members should be selected to provide a balance of skills, experience and behaviors. In some popular research, Dr. R. M. Belbin developed nine team roles to identify people's behavioral strengths and weaknesses with the objective of aiding recruitment processes and developing team performance. The theory is equally applicable to a nonprofit board, where each person should be chosen to ensure that the correct balance of skill is achieved.

The theory does not suggest that nine is the optimum number for a board (although it is in the optimum range), as not all roles are required and some persons can play more than one role in each team. The Belbin roles measure behavior rather than personality, and the nine roles are described as plant, monitor evaluator, coordinator, resource investigator, implementer, completer finisher, team worker, shaper and specialist. Each role has a detailed description; for example, a completer finisher is one who works effectively at the end of a task to polish and scrutinize the work for errors, subjecting it to the highest standards of quality control, whereas a team worker helps the team to gel, using versatility to identify the work required and complete it on behalf of the team. At the heart of the theory is that having balance in a board is essential.

Recruiting new board members

Board members should be aware of the ongoing need to add new skills and recruit new board members at the appropriate times. It can be helpful for a board to conduct a skills audit to assess how the skills of the board may be affected by retiring board members or new challenges the nonprofit is facing. A successful skills audit will capture the current skills of the board and highlight possible gaps where new board member skills or professional guidance may be required.

With transparency being important for nonprofits, it is key that any recruitment is in the best interests of the organization and an open process wherever possible. In some cases, it is an explicit requirement in the organization's rules. Being clear on what is required of new board members can assist in setting expectations on commitment at the start as well as being able to explain the immediate and longer-term objectives and strategy of the organization. Some prospective board members may be unaware of the board member role, but this should not preclude them provided that their duties and responsibilities as board members are sufficiently explained, for example, through a formal induction session.

Many board members are recruited from existing contacts of members of the board or word of mouth, although this is not necessarily the best means of sourcing a good mix of skills, diversity and balance. Some nonprofits are able to expand their pool of potential applicants through advertising (organization's own website, community publications and noticeboards, or even national press for larger nonprofits) and board member brokerage services.

Diversity

Belbin argues that an effective board will encompass a diversity of thought and backgrounds. There are many pools of potential candidates for board member roles that can also extend to volunteers, users, beneficiaries and people with learning difficulties or with mental health issues. A diverse board is more likely to contain a broader range of skills, knowledge and experience than one which is more narrowly based. In the for-profit sector, there have been calls and initiatives to increase the number of minority directors, as well as female directors on company boards, and this has filtered across to the nonprofit sector.

FIVE QUESTIONS TO CONSIDER IN ORGANIZING A GOOD FOUNDATION FOR BOARD GOVERNANCE

1 Do you have the right number of people on your board?

2 Do you have any skill gaps on your board?

3 Are all board members really contributing?

4 Would the organization benefit from having committees or specialist project groups?

5 Is diversity an issue for your board?

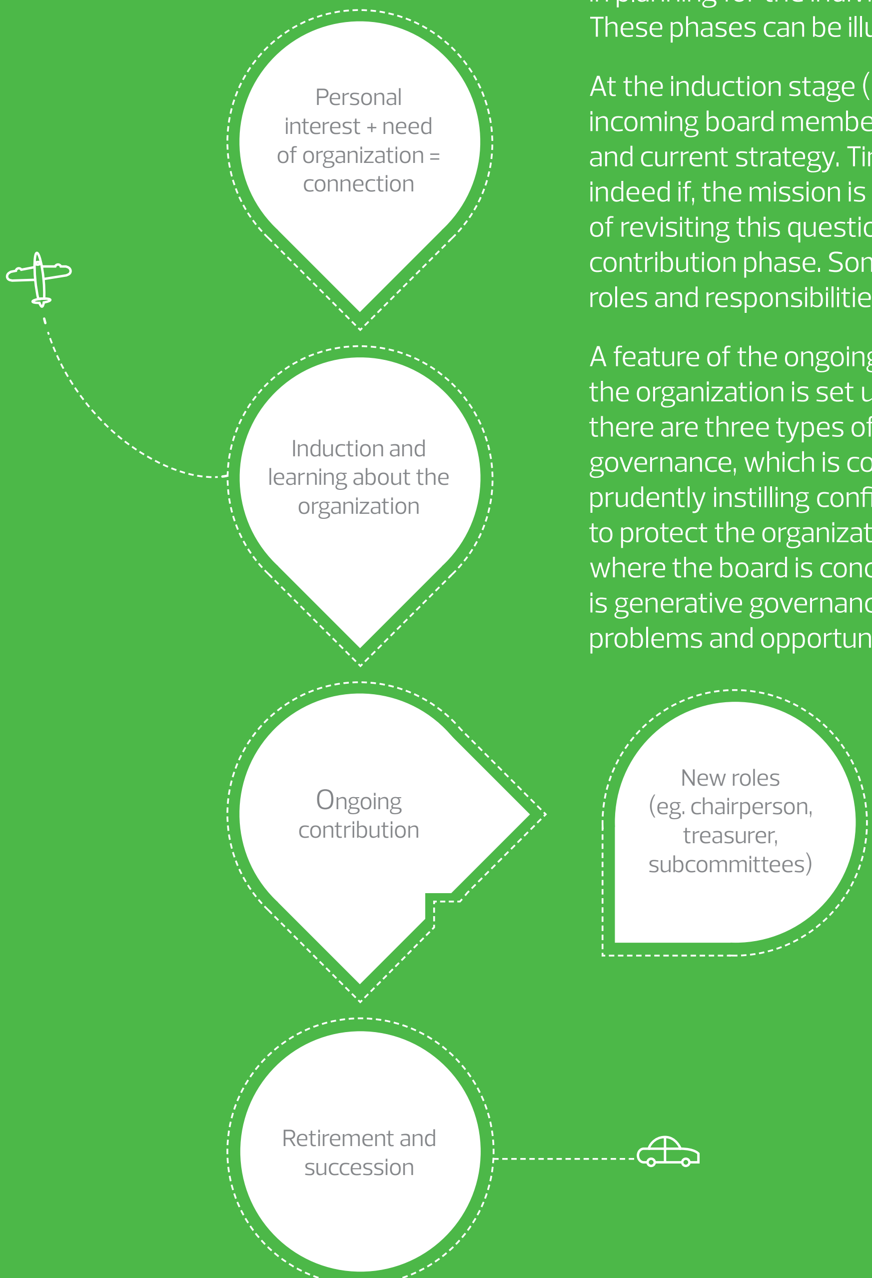
5 A THRIVING ORGANIZATION AND BOARD

Framing the issue

The journey of a board member tends to follow a typical route. It begins by exploring whether the individual has motivation and personal interest in the objects of the organization. This can be a two-way process, as a nonprofit will need to demonstrate that it can offer what the individual is looking for. It moves on to whether the individual has sufficient expertise and experience, and following appointment and fulfilling the terms of the role, culminates in planning for the individual's retirement from the board and succession. These phases can be illustrated as follows:

At the induction stage (including learning about the organization) an incoming board member will spend time in understanding the mission and current strategy. Time should also be spent understanding how, and indeed if, the mission is meeting the needs of beneficiaries. The importance of revisiting this question regularly continues through the ongoing contribution phase. Some board members will then undertake additional roles and responsibilities such as treasurer or chairperson.

A feature of the ongoing contribution phase will be the way in which the organization is set up to thrive and excel. It has been suggested that there are three types of governance in an organization. Firstly, fiduciary governance, which is core to many organizations and is concerned with prudently instilling confidence and trust in the legal and financial processes to protect the organization's good name. Second is strategic governance, where the board is concerned with performance of the organization. Third is generative governance where the board provides leadership and defines problems and opportunities.



The litmus test for any board member is being able to discuss the organization's purpose and why it exists.

In our experience

Matching personal interest with the needs of the organization

Fundamentally, a board member will have considered the purpose and mission of the organization before joining the board. It needs to fit—or at least fit with the vision of—the individual's own beliefs. Blended with the appropriate time commitment given by the individual, this should be a good starting point to motivate that person to provide an ongoing contribution. There are also many other areas to consider at the outset, including determining potential conflicts of interest, cultural fit of the individual and the required expertise and experience. The organization should also confirm that it requires the skills and experience of the individual concerned. This may not necessarily be an immediate need, but it could be part of a wider succession plan for an existing board member. Some organizations ask people to initially become members of a subcommittee to the board so that both sides can get to know each other.

Learning about the organization and ongoing contribution

The most fundamental task for a new board member is to understand the legal objects of the organization, which identifies the charitable cause and beneficiaries. Alongside this is developing an appreciation of the organization's current strategy and how it is performing against its stated objectives.

At the outset, it is not unusual for a new member of the board to ask questions that may be perceived as rudimentary: is the mission statement clearly defined? Is there an understanding of the performance targets of the organization? Sometimes these questions may be ones that have not been considered recently by the existing board as decision-making and strategy have drifted over time.

The litmus test for any board member is being able to discuss the organization's purpose and why it exists. A board member should be able to provide examples of how the organization has performed by reference to actual case studies and real-life examples. Explaining how the organization is funded and the priorities for the future are also indicative behaviors of a well-informed member of the board, as is a keen awareness of the key risks the organization faces.

A part of the ongoing contribution made by a board member will include a regular review of those key questions that were first asked when joining the board to ensure that the organization remains on track.

Looking overseas

In the same way in which local nonprofits can benefit from seeing what their counterparts are doing in neighboring counties, towns and cities, so too can board members benefit from looking at what is happening in terms of governance outside of the United States. Many of the world's leading academic institutions have their own faculties for the study of civil society and nonprofit organizations. These seek to promote education and advance critical thinking about civil society, its leaders and institutions. As a result, new ideas and policies can be developed to enhance the sector and society generally. Many offer executive programs promoting new ideas on leadership, philanthropic practices, effective chief executive management, and the role of emerging economies such as China and international nongovernmental organizations (NGOs).

Generative governance

All effective boards will have the basics of fiduciary governance covered—the stewardship of the organization's assets (not just financial but also intangibles such as people) will be under control. Fewer boards will have successfully implemented a partnership with management to achieve strategic direction. Fewer still will have the additional characteristics of a generative thinking board thereby providing a critical source of leadership for the organization.

Generative governance is about taking a fresh look at an issue or opportunity; starting with a clean sheet of paper without suggestions from the executive team can foster true innovation. It embraces the issues that are critical success factors for an organization and can motivate the board to become true leaders. Examples include dealing with the recruitment of a new CEO, a fundraising campaign for a capital project or identifying a new strategic direction for the organization. Such issues are far more likely to engage and excite a board than dealing with more trivial issues that can be undertaken by any competent management team. The work of the board that is working generatively can be categorized into four key areas.

1. Dealing with the do-or-die issues that define the organization's success
2. Having results that are monitored within a defined timetable
3. Establishing clear measures of success
4. Engaging with those both inside and outside the organization

One of the best ways of illustrating the different types of governance is considering the key question under each mode. The key question for a board concentrating on fiduciary matters is "what's wrong?" whereas a strategic-focused board will

be asking, "what's the plan?" Generative boards will be asking, "what's the question?" and will therefore spend time discerning problems and framing the key issues. The benefits of the latter approach are that it can empower the board to do meaningful work prompting members to frame the key issues demanding management's attention. Board members are then able to add real value by employing their skills and experience. The value placed on the board's contribution is also increased under a generative approach—it no longer is just a ratifying body for the detailed plans and results presented by management.

New roles

Over time, some board members may take on new roles within the governance structure of the organization. This may be to take on a formal role such as chairing a committee or leading a project team. This is part of the evolution of the board and can help to reinvigorate the board member's motivation that may have waned since joining the organization.

Retirement and succession

After a suitable period of time—which is hard to define unless required by the organization's constitution—it may be that the organization is best served by a board member retiring. This action may be driven by the chairperson, a nominations committee or similar or the individual themselves. The actual length of time can also be influenced by where the organization is in its life cycle. Any plans for succession will then need to be developed.

Some board members will have a clearly defined term of office typically outlined in the organization's constitution or as required by a nominations committee. An example would be a person being permitted to serve as a board member for an initial period of three years with the possibility of extending the period once or twice (e.g., an additional three to six years). Another example would be for the chairperson to serve for a fixed term of five years. Such fixed terms ensure that there is no ambiguity in what the organization is expecting, as well as going a long way to set a mechanism whereby the board must consider the issue of succession for all members. Organizations that successfully consider board succession will map retirement dates for their board members and start the process of recruitment well in advance. Sometimes organizations are faced with a high proportion of the board retiring at similar times and this can be unavoidable if individual board members' circumstances change—for example, ill health forcing an early retirement. For organizations that have fixed terms of office, this can be a problem that will recur at regular intervals in the future.

5 ACTIONS TO ACHIEVING GENERATIVE GOVERNANCE

1. Ensure that the board sets time aside for exploring new ideas and possibilities.

2. Ask the CEO to identify the key issues and facilitate the board's input to collectively agree upon the priorities (sometimes achieved by during a board retreat). Be clear about what needs to be measured. Typically, an organization would not have any more than a dozen indicators of success.

3. Structure and establish committees and working parties to address the key issues identified and ensure that there is a timely report back to the board.

4. Ensure that key stakeholders are involved—including regular feedback from beneficiaries, when applicable.

5. Involve external advisors and expertise to enhance board knowledge or understanding.

6 PROBLEM SOLVING VERSUS SOLUTION BUILDING

Framing the issue

Perhaps the most prevalent way in which an organization's decision-making process works is when management approaches a board with a number of problems that have been identified and asks the board to collectively determine a series of actions to those problems. In other words, a problem-solving approach. A feature of this is for the board members to spend time making an assessment of the facts and then reasoning, which results in an action or series of actions to intervene and eradicate the problem. The focus is on problems and is not necessarily an inspirational way of operating. In applying the widely recognized SWOT analysis (to determine strengths, weaknesses, opportunities and threats) the problem-solving approach concentrates on weaknesses and threats and preventing trouble rather than promoting success. Sometimes fundamental questions are missed.

An alternative, solution-building approach is one whereby management is empowered by board members and focuses on an organization's existing strengths but also considers opportunities. In this way of working, an organization's board would set the parameters and management would have the ability to act. Such an approach avoids excessive attention to detail by a board and concentrates on the fundamental questions facing an organization with microgoverning avoided. In more successful organizations, this is embedded in their approach to risk and as such, the framework is clearly set by a board and management is allowed a degree of freedom to provide solutions.

Framing issues and debating

Many boards are prone to operating in a repetitive fashion—meeting at regular intervals and dealing with similar, routine business. With the limiting factor of available time, this can be to the detriment of healthy constructive debate in the boardroom where opposing points of view can be shared prior to decisions being made. Without debate and the opportunity to frame issues, board meetings can become dull affairs, even having an adverse effect on attendance and the ability to attract board members in the longer term. As such, it is important to ensure that board members are mindful of the initial motivations for joining the organization: to support the beneficiaries' cause.

Vision, scenario planning and the dangers of microgoverning

Having established a vision for the organization, one tool that can be useful for board members is scenario planning: developing a range of possible outcomes that identify the sequence of events that would lead to them. Boards that follow strict routines and do not allow time to frame issues can incorrectly assume that the future will replicate the past with only gradual changes. Scenario planning considers the impact of events which could quickly become much better or worse and, as a result, an organization is generally better prepared for any possibilities that may unfold.

Scenario planning can also be an aid to debate and assist both the board and management to advance beyond the status quo. Similarly, an organization that is microgoverning pays excessive attention to detail and risks missing the bigger picture. As a result, it also risks being put in a position where the fundamental issues are not addressed. Scenario planning provides a method to map alternatives and challenge existing strategies.

Risk appetite

Strategic risk can be defined as those risks that, if realized, could fundamentally affect the way in which an organization exists or provides its services in the next one to five years. These risks will have a detrimental effect on the organization's achievement of its key business objectives. The risk realization will lead to material failure, loss or lost opportunity.

To identify the strategic risks, there has to be a starting point. In all cases, this should be the organization's strategic objectives; after all, this is what the organization is looking to achieve. However, this is often the first difficulty, as in many cases they are not commonly known, or they do not exist at all.

Strategic risk identification should involve all members of the board, both executives and management, but does not need to be limited to these individuals. That said, beyond the boardroom, the strategic focus can become diluted. However, it is often appropriate to make use of an independent external facilitator who can provide objective challenge to the thoughts in the boardroom. Furthermore, be aware: it may take a few sessions to get to a point that the organization is satisfied that it has captured its set of strategic risks and suitably articulated these with appropriate cause and effect analyses.

With the set of strategic risks identified, boards are encouraged to determine the correlation between the risks and each strategic priority, enabling them to understand which risk will have the most detrimental effect. This will start to form a strategic risk appetite. A further step, dependent on the size of the organization, is to link operational risks to strategic risks. By their very nature, the strategic risks will take some time to materialize, unlike the operational risks, which can present themselves more quickly and be used as early warning indicators. What the board will have eventually is a risk management methodology that is focused on the achievement of its strategic objectives.

Other risks with striving to drive highly measurable mission impact

Achieving mission success is important, but boards must be careful not to create additional vulnerabilities to risks through their organization's activities and processes. Remember to under promise and over deliver; set reasonable stretch goals, but not ones that the daily infrastructure and capabilities can't possibly meet.

In addition, the board must demonstrate and communicate the effect the nonprofit is having on those it serves. To accomplish this goal, the board must measure the outcomes and demonstrate the services that were provided to quantify how the organization is helping constituents.

ADDRESSING STRATEGIC RISK

1. What is occurring internally at the organization that could present strategic risk or challenge?

2. What is occurring externally, either locally, nationally or internationally, that could present strategic risk or challenge?

3. What has happened in the past that led to the realization of a strategic risk, and could it happen again?

4. What is happening elsewhere (e.g., with other providers and in other sectors)?

5. What are beneficiaries, regulators, partners, the public and other stakeholders telling you about the organization?

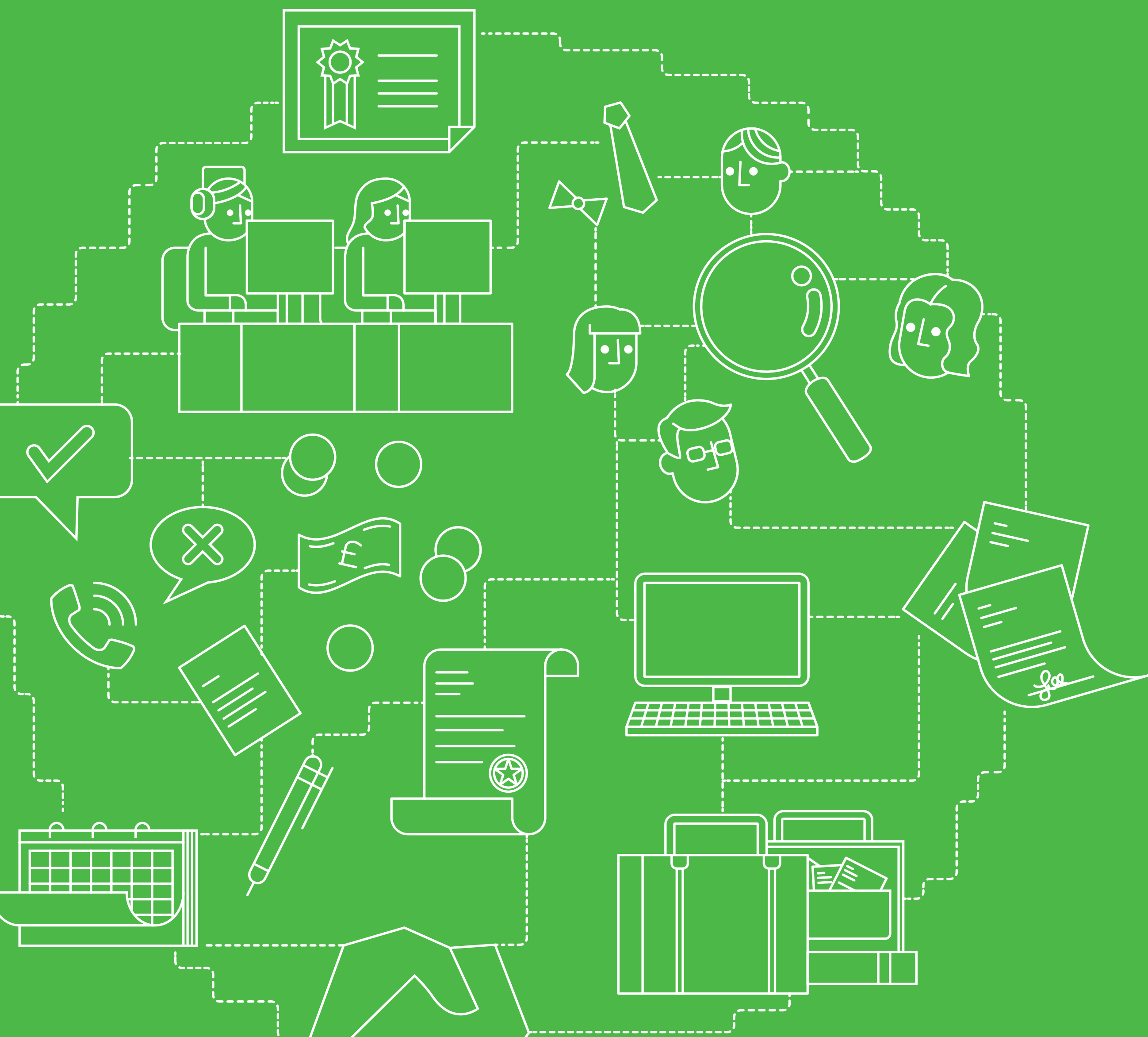
6. What does the organization want to look like in five years? How different is that from now? What will the organization face in getting there?

7 BOARD DYNAMICS

Framing the issue

The best performing boards are more than the sum of their parts: the members of the board ideally share a common goal in the organization's mission, and work well together to achieve this. But a good starting point in establishing the board is to create a balance in terms of skills and expertise, as well as a diversity of backgrounds and thinking.

Recruitment of new board members should not be a random process; instead, gaps in skills and expertise should be identified and filled through a considered and planned process. One such way is to carry out a skills audit of existing board members to determine where gaps may exist. Once recruitment needs have been addressed and board members are well-established, ongoing consideration should be given to board dynamics. The crew of a ship that is harmonious and agrees on the destination will work more effectively than one that squabbles and cannot agree on the final port of call.



Boards behaving badly?

The ways in which board members interact with each other, and a board operates collectively, is arguably more of an aid to success than governance processes or organizational structures. While board members may have specific skills and expertise, their background and experience can also help:

- Bring different points of view to a discussion
- Give insight into beneficiaries' needs and experience
- Make contacts in the community
- Think of new ways of doing things

Best practice boardroom behavior may be characterized by:

- A clear understanding of the role of the board
- The appropriate deployment of knowledge, skills, experience and judgment
- Independent thinking
- The questioning of assumptions and established orthodoxy
- Challenge which is constructive, confident, principled and proportionate
- Rigorous debate
- A supportive decision-making environment
- A common vision
- An achievement of closure on individual items of board business

Any board that is evaluating its own performance would benefit from considering how it measures against these traits. Any shortcomings may suggest that the board is not working at an optimum level.

Skills assessment

One of the consequences of the 2008 economic downturn was a measurable increase in board members' awareness of their own roles and responsibilities. However, this improved awareness has not always been supported by organizations formally implementing procedures and controls that good governance suggests are vital.

Obtaining the right mix of skills, experience and qualities is a key ingredient in building an effective board. The starting point in determining whether the board has the requisite expertise to make it effective is to review the attributes of existing board members. This is important because existing board members may possess a range of skills or knowledge that has not been identified or called upon. One such process that can be employed to help identify existing skills, knowledge or experience is a skills audit.

Once the board has agreed that a skills audit is in the best interest of the organization, it is good practice for an individual (the chairperson, a board member or member of the management team) to be nominated to coordinate the process. Alternatively, it can be through a formal or informal group (such as a governance working party, committee or nominations committee). Before initiating the skills audit, it is advisable to review the exact requirements of the organization's governing document. This is an important consideration, particularly if the skills audit is to result in a recruitment initiative, as there may be restrictions on board numbers and (in some cases) the ability to appoint new board members may rest with third parties.

It is customary for skills audits to take the form of a questionnaire that can be sent to all existing board members to complete. Carrying out the audit would involve the nominated person sending out these questionnaires with an explanatory note as to the purpose of the exercise. The questionnaire can be used electronically but if traditional mail is preferred, it is usually a good idea to provide a self-addressed envelope to aid timely completion. One advantage of electronic questionnaires, such as Survey Monkey, is that the results are collated automatically. Providing a deadline for board members to return the documentation can also help the process to run smoothly.

Typically, the most significant part of the questionnaire is a list of (almost) every desirable area of expertise that could possibly be expected of a board member.

As well as skills, a well-composed board should consider attributes such as the ability to work as a team or respect the views of others, though these can be less tangible. There is also a greater expectation on larger charities to appoint board members with demonstrable board experience.

At this stage, the board should also be mindful of the strategic direction of the organization and in that context, ensure that any future skills needs are incorporated into the questionnaire. It may also be appropriate to have an appreciation of the need for board diversity and any required stakeholder representation, such as input from beneficiaries and users (although these may not ultimately become full board members). Issues to consider on board diversity include gender, geographic location, ethnicity and disability. There is now an increased focus on recognizing the voice of younger board members, which is important both in the different perspectives they may offer, if not the experience, but also in terms of their possible long-term engagement with the nonprofit and sector generally.

Board members should then be asked to score whether they possess each individual area of expertise. Once all board members have returned the questionnaires, the results should be collated and analyzed, while considering the potential different scoring approaches undertaken by different people. One of the best ways to do this is to use a spreadsheet and enter all of the possible skills from the specimen questionnaire in the first column and then map the scores for each board member in subsequent columns. Such a basic level of analysis is, however, likely to be insufficient. This is because it is not necessarily the average score that is important. For instance, it

THE RANGE OF SKILLS THAT A TYPICAL BOARD MIGHT CONSIDER

- Administration
- Campaigning
- Change management
- Conflict resolution
- Consultancy
- Customer care
- Disability
- Equal opportunities
- Financial
- Fundraising
- General strategic planning and training
- Governance
- History of the sector
- Human resources and training
- Information technology
- International experience
- Knowledge of the community
- Legal
- Management—general
- Management—restructuring
- Marketing
- Media and PR
- Networks and alliances
- Organizational development
- Policy implementation
- Property
- Research
- Retail
- Specialties specific to type of nonprofit (e.g., clinical and medical, social care, research)

is important to recognize the highest score recorded by any board member for each area of expertise. This is because it is essential that most areas of expertise can be demonstrated even if that particular area of expertise rests with just one person. In some areas, such as finance, it is important that all board members have at least a basic understanding of the issues, rather than deferring to a few lone experts, or else they will not be able to sufficiently and confidently question any concerns. Training is available, for example, on basic financial skills for board members.

By now, it should be possible to identify whether there are any areas of weakness or concern in terms of a lack of expertise in one or more areas. One obvious action to take would be to recruit prospective board members to remedy any known weaknesses in the expertise of the board as a whole. Prospective new board members can then be enrolled on the basis of what they can bring to the board, complementing and enhancing what is already there and increasing the diversity of both skills and perspectives.

Identifying whether there are going to be board member retirements in the near future is an important factor. Sometimes these cannot be avoided, for example, if rotation of board members is required by the governing document. If so, then it would be wise to consider the skills audit, excluding the results of board members who are about to retire. This will make it easier to identify whether short-term retirements from the board are likely to take away any key areas of expertise.

Carrying out the skills audit also presents a good opportunity to ask other questions to collate information that is useful to the organization. Examples of additional questions include those aimed at identifying areas where board members may be able to become more involved, as well as helping to understand the motivations behind individuals becoming board members (which can aid future recruitment).

Once the results have been analyzed and recommendations determined, these should be reported to the board (and the relevant committee(s)). It may be appropriate to report the results of the skills audit to the board on an anonymous basis. For that reason, they are sometimes carried out by an independent third party.

Typical next stages then include one or all of the following:

- Arranging formal training for existing board members to cover any identified weaknesses
- Actively recruiting new board members to fill any gaps
- Outsourcing or hiring third parties to supplement any missing expertise
- Co-opting individuals with specific skills on to subcommittees
- Agreeing upon a date for a future review of skills if no weaknesses have been identified

Board appraisal

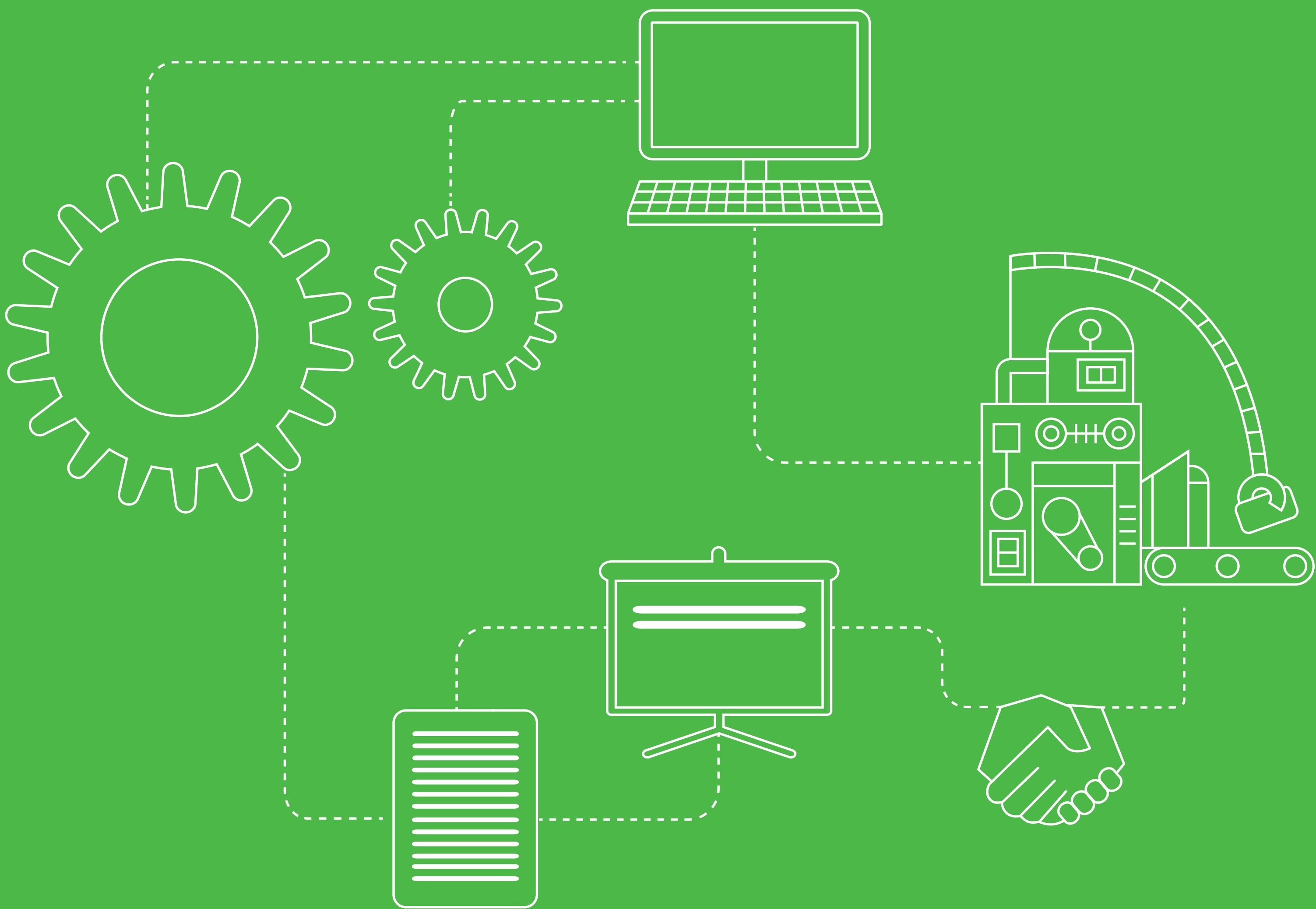
If an organization has a governance or nominations committee, then this is also well placed to consider the individual contribution of board members. Alternatively, this can be undertaken by a small working party or the chairperson. Continual appraisal of board members is considered to be an effective method of achieving engagement and ensuring that efforts are of a sufficient intensity. Some organizations implement a formal process to consider the contributions of board members, and this can also extend to a 360-degree review of the board itself, incorporating feedback from management and staff, as well as other stakeholders.

8 THE TWO CRITICAL ROLES—THE CHAIRPERSON AND CHIEF EXECUTIVE

Framing the issue

F. Warren McFarlan, Baker Foundation professor of the Social Enterprise Initiative at Harvard Business School, cites the recruitment of a chief executive as one of the most important tasks facing a nonprofit board. Similarly, having the right chairperson in place beforehand is critical to the future direction of an organization.

There are essential differences in the two roles; one carries the ultimate responsibility for the organization, is unpaid, part time and a leader in the background, whereas the other is responsible for the day-to-day operations, is remunerated and a more visible leader. While it is worth noting that there are some high-profile chairs who can play an important role in promoting and furthering an organization's work, this should be balanced with maintaining a clear distinction about who does what. These sometimes conflicting standpoints mean that it is imperative that the right individuals fill these two critical roles, and that they have the ability to work well together to achieve the organization's goals.



In our experience

The searches

When a vacancy, or potential vacancy, is arising in the position of the chairperson, it is important to initially involve all board members in the consideration of the required attributes of the ideal incoming person. Achieving a consensus on the attributes of a new chairperson will help to make the probationary phase easier once the appointment has been made. Potential candidates may arise from either the existing board or a new appointment from outside the organization. The use of headhunters has become more common, especially by larger charities. Another key person to have input in the process is the existing chief executive, given the pivotal relationship that these two individuals will have in the future. Once board members and the chief executive have been consulted, then it is usually appropriate to create a small working group with a view to creating a shortlist of candidates for the whole board to consider.

A key element of the chairperson's role is the amount of time required to properly carry out the required duties. Broadly, this can be as much as twice the time required for a typical board member. Having someone with the ability to be this flexible in the time that they are able to offer is important for any organization not least because many of the duties of a chairperson can be unplanned. For example, when a chief executive vacancy arises, it might be the chairperson who has to become more involved as a quasi-interim chief executive in order to keep the organization on track.

The chairperson must be motivated by the organization's longer-term aims, given the voluntary nature of the role. While a chief executive should also be motivated by the mission, the payment of a salary may introduce a slightly different dynamic. The selection of the chief executive is not solely the responsibility of the chairperson and, again, a small working party is an effective means in recruiting, and sometimes involving the expertise of search and selection agencies, as appropriate. As with recruiting a chairperson, the potential pool of candidates can come from both within and outside the organization. For an internal candidate who might go on to become the chief executive, competing against external candidates gives credibility to the appointment and shows existing staff that it was a robust process. Many of the principles for the recruitment of the chairperson similarly apply to the chief executive, including an initial assessment of the characteristics required and establishing a working party to oversee the process.

Relationship and culture

Ideally, the vision of the chairperson and chief executive will be aligned and there will be general agreement on the organization's needs and future direction. Both should have an appreciation and understanding of the others' strengths and weaknesses, usually so as to be complementary, but remembering that opposites can also be effective. The important aspect is both individuals having an understanding of where gaps may exist.

The relationship between chairperson and chief executive should be one that is sufficiently close, but not too cozy. Both should feel comfortable in challenging the other, and other board members should not feel alienated by the relationship. It is important to remember that these other board members carry more of the ultimate legal responsibility than the chief executive, on an equal footing with the chairperson.

Dominant figures

There is a need for effective, collective decision-making by members of the board. Too often, individuals, or small groups of individuals, control a nonprofit to the extent that decisions are not made properly by the board as a whole. When individuals are too overbearing, other board members often fail to fulfill their duty to consider issues before making decisions, perhaps because they are intimidated or obstructed by the dominant individuals, or because they are simply not included in decision-making in the first place.

Therefore, board members should consider whether their board is affected by dominant individuals, and reflect on their own performance as board members; do they always apply their skills and experience when contributing to board decision-making, or are they sometimes tempted to go with the flow and agree with majority feelings? Do they regularly challenge the organization's executive on proposals and its performance against targets? Do they switch off when certain issues arise in board meetings because they don't consider it to be their area of expertise or responsibility?

A key element of the chairperson's role is the amount of time required to properly carry out the required duties.

Chief executive and chair evaluation and appraisal

The chief executive must be accountable to the board and not a free agent. A formal assessment of the chief executive's performance should be undertaken on an annual basis, often carried out by the chairperson or governance, nominations or remuneration committees. As soon as the chief executive is in the new post, objectives should be set for a suitable time frame ahead. At the end of that period, the relevant body should then assess the chief executive's performance, providing appropriate feedback. Depending on the organization's financial model, this can be linked to remuneration and it is a good practice to confidentially share the outcome of any formal appraisal of the chief executive with the entire board. However, it is important that the board's involvement in routine and day-to-day staff matters stops at the chief executive. Board members should not interfere with the appraisal of other staff members, as this should rest with the chief executive. They should also consider appraising the performance of the chair.

The future—succession success

Periodically, both the chairperson and chief executive should consider their own positions. Many organizations have limited time periods for an individual to serve as chairperson. Some recent high-profile organization failures have been cited as being due to a lack of rotation of individuals in key roles. Chief executives may have a sense of how long they should remain in their post to deliver key objectives but without getting stale, or perceived as having checked out on the organization. Encouraging a competent but stale chief executive to move on is one of the most difficult challenges facing a chair, and a reason to guard against too much closeness in the relationship. In the absence of a defined term, it is suggested that at least the chairs considering their own ongoing role from time to time. As such, the following questions to consider have been developed from "Joining a Nonprofit Board: What You Need to Know", by Marc J. Epstein and F. Warren McFarlan.

AREAS THAT A CHAIRPERSON SHOULD REGULARLY REVIEW	AREAS THAT A CHIEF EXECUTIVE SHOULD REGULARLY REVIEW
Is the chief executive the visible leader of the organization, while I work behind the scenes?	Am I the right person for the job, given the organization's current state?
Do I have the confidence of the other board members?	Do I have the support of the board?
Do I keep myself up to date about changes affecting the sector in which the organization operates?	Am I perceived as an asset or liability to the organization?
Do I have sufficient insight of the organization?	Do I work well with the chairperson?
Have I considered succession planning?	Do I have the right management structure and team in place to support the board's objectives?
	Am I developing new talent within the organization?

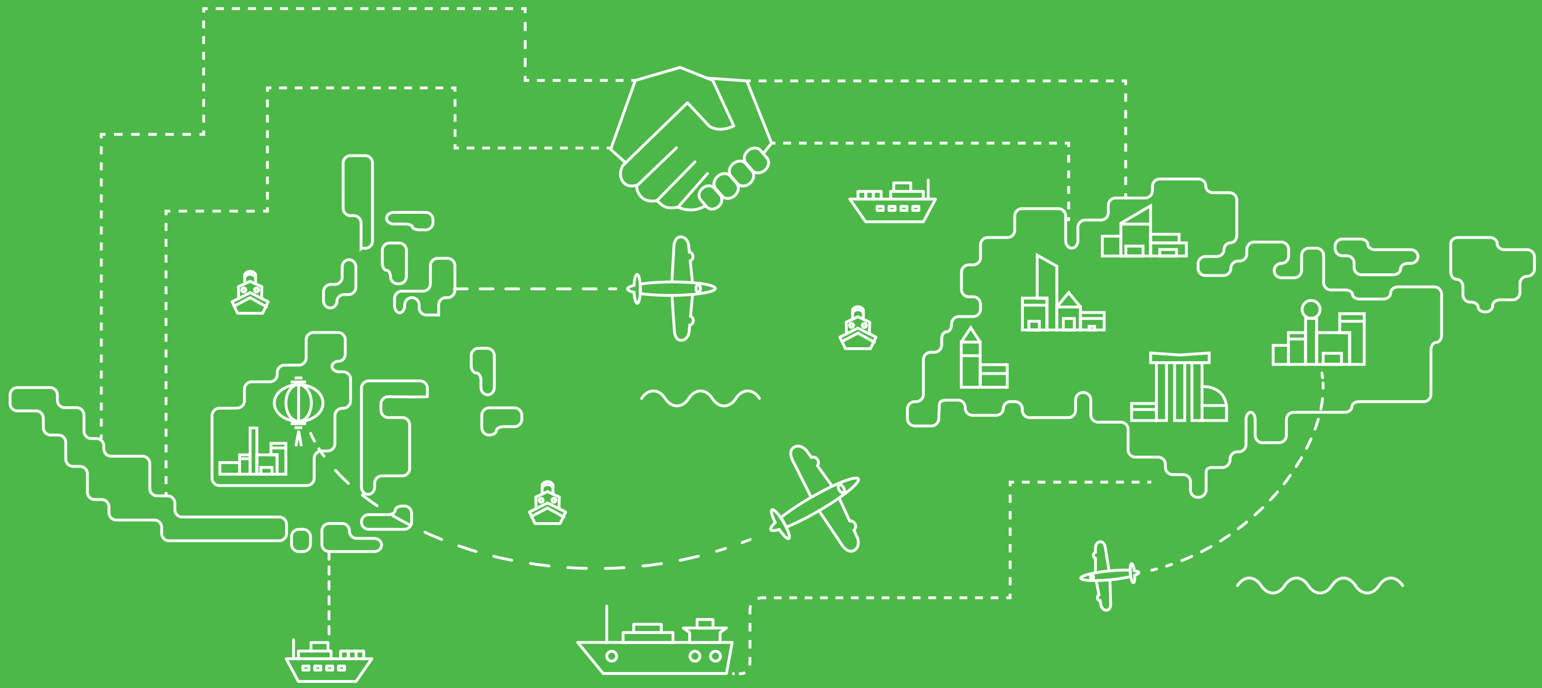
Honest answers to these questions should then identify when it is appropriate to think about succession for the chairperson and chief executive.

9 COMING TOGETHER

Framing the issue

Many charities do untiring work for little reward, but the recent high-profile collapses of some national charities have sounded alarm bells throughout the sector. It has been said that the fear of failure or takeover is what keeps corporate entities effective and, for too long, charities have been sheltered from such outcomes on the basis of their honorable objectives or the desire to have a diverse range of organizations. More positively, strategic boards and those who are thinking creatively about future options actively pursue collaborations, mergers and amalgamations.

The need for the sector to be seen as modern and focused on the requirements of beneficiaries rather than the organization itself is apparent more than ever before. If there are two organizations that would benefit from working together, either collaboratively or in a formal merger arrangement, then a board will always be open to exploring the opportunities that may exist with others.



Thinking about the future

An effective board will anticipate changes in the sector in which its organization operates, as well as other factors such as environmental or financial developments in order to ensure that its services to beneficiaries continue to be appropriate and relevant. Any organization will have its own strengths and gaps in what it is able to deliver. Some shortcomings may not be paramount to the success of the organization, but the possibility of working with other organizations is one way in which the more significant shortcomings can be overcome. Benefits in working together can include increased range of services, economies of scale, improved access to funding, improved financial resources, increased public profile and improved learning within the organization.

It is therefore, important that a board devotes sufficient time to consider collaborative working and merger opportunities with other organizations. In our experience, boards do not regularly consider the potential of working with other organizations and do not provide the opportunity for strategic debate about this idea to board members.

Considering other organizations

Sometimes it is obvious which potential partner organization may be appropriate. This could originate from a general awareness of the sector in which the organization operates, or known competitors. Potential partners can be found from websites and specialists in finding partner organizations, but lawyers and auditors can similarly have a good awareness of the general marketplace. Umbrella and trade bodies will also have relevant information about other organizations that could prove useful.

The fundamental reason for a partnership needs to be for the good of the beneficiaries. However, there are many more factors which need to be considered and all stakeholders will have a view on the appropriateness of a potential partnership. Many of the questions that arise may be answered from an initial review of the last annual reports and financial statements of the target partner organization. Such an initial review will provide a preliminary conclusion as to the possibilities. As the discussions proceed, the following factors may be relevant:

- Legal objections—considerations of compatibility
- Financial viability of the proposed arrangement
- The impact on fundraising and existing or potential donors
- The ability of board members and management to work together or integrate
- The culture of the two organizations
- Availability of resources to be able to make the arrangement work
- Identification of any risks in the arrangement

Before entering into any arrangement, both organizations should undertake a cost–benefit analysis of the likely outcomes.

Collaborative working

Organizations can work together informally or at the other extreme, this can extend to working together under a formal legal agreement as part of service delivery.

A collaborative working arrangement also may not only be concerned with service delivery, and can instead include sharing back office services, fundraising, other administrative arrangements or joint contracts of employment for shared employees. Such arrangements can continue indefinitely, while others lead to a more formal merger or sometimes occur just for a fixed period.

A feature of collaboration is that each organization will retain its own identity and legal structure and continue to be independent. Occasionally, the collaboration may have a joint name for branding purposes, for example, a retail operation. Some collaborations involve more than two organizations, and in any collaboration, it may be agreed upon by the various organizations that one is appointed as the lead party (this usually occurs when the collaboration is to obtain funding, although this can assign the risks to that organization as well).

Any collaborative arrangement should generally be supported by a formal agreement that sets protocols for decisions and legal and financial arrangements to mitigate problems as the arrangement progresses. Typically, when back office arrangements are collaborated, new entities can be set up, which has the advantage of delineating financial risks and liabilities.

Federations and affiliations

Federations and affiliations typically exist when a separate identity is given to the arrangement, but a degree of autonomy (not always total) resides with the partners. Some national

It is therefore, important that a board devotes sufficient time to consider collaborative working and merger opportunities with other organizations.

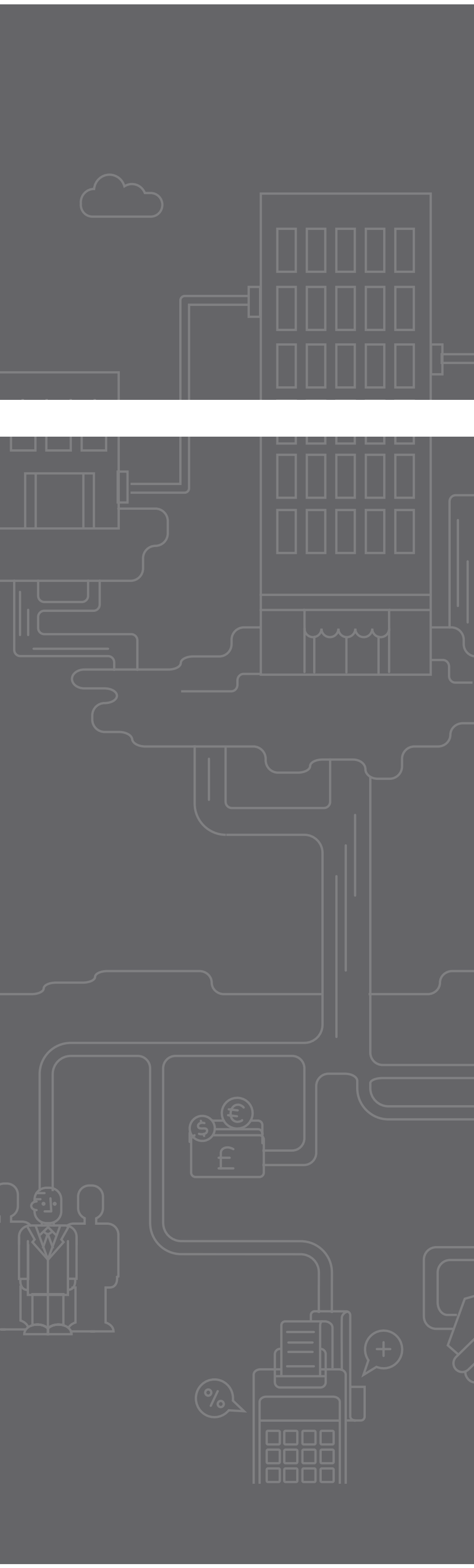
charities are organized in this way, where the national name of the umbrella organization can be used in a local context with local decision-making. Sometimes the national element of such an arrangement is only to provide expertise or administrative support to the member parties.

Mergers

A merger of organizations means two or more separate entities coming together to form one legal entity. In order to facilitate this, a new organization can be established to take over the work and assets of the combining entities or one organization can take control of the other.

As with collaborative arrangements, the same principles apply. In other words, consideration of the costs and benefits and compatibility of the two organizations is still required, but in a merger arrangement, the work must be more considered and detailed. Financial viability is important, and before any arrangement is finalized, a combined budget should be set to fully understand the opportunities and problems that may face the merged entity. Although economies of scale can quickly be identified, a significant merger of two entities can bring one-off costs in the short-term and potentially slow both organizations in terms of missed opportunities. As well as legal and financial considerations, it is worth noting that the success of a merger can come down to a cultural or soft skills fit. In any merger, there is the issue of two boards becoming one, which may mean some board members having to step aside, as well as the challenge of two chairs who may both want to remain as chair of the post-merger organization.

Both organizations should also look to carry out appropriate due diligence, having assessed the risks involved. In some situations, this may only need to be a brief review, but in more significant mergers, this can be extensive. Under any scenario, the risks associated with commercial, legal and financial arrangements need to be considered. As with any significant project, the organization would typically be best served by a working party or subcommittee to oversee the arrangements. An important step in the process can also be regulatory approval depending on the area of operation of the entity (e.g., education).



STRATEGIC QUESTIONS EVERY BOARD SHOULD CONSIDER

1. Do we periodically consider the emerging trends of the sector which we serve and the needs our beneficiaries will have for the next several years?

2. Are we the only organization that is capable of delivering the services we provide and want to provide?

3. What is happening in our sector generally? Are there benefits in staying the same size or are we at odds with the general trends?

4. Which other organizations do we admire or might benefit from working with us?

5. Can we open discussions with those other organizations to see if we may be able to collaborate to the advantage of our beneficiaries?

Further reading

- *A marriage made in heaven? The relationship between chairs and chief executives.*, Penelope Gibbs 2010, Clore Social Leadership
- *Boards that work: A guide for charity trustees,* David Fishel
- *Governance as leadership, reframing the work of nonprofit boards,* Richard P. Chait, William P. Ryan and Barbara E. Taylor
- *Joining a Nonprofit Board: What you need to know,* Marc J. Epstein, F. Warren McFarlan
- *Team roles,* Dr. R. M. Belbin, www.belbin.com
- *Balanced scorecard (The): Translating strategy into action,* Robert S. Kaplan, David P. Norton
- *Current and Future State of Charities 2015,* Nick Sladden and Karen Spears
- *New work of the nonprofit Board (The),* Barbara E. Taylor, Richard P. Chait and Thomas P. Holland

What's next?

So how do you embed the thinking contained on the preceding pages? For a start, you will need an assessment of how far down the road your nonprofit already is. This can be an informal appraisal of governance policies and processes and of board members, or a full-blown governance review. Don't try and change everything at once. Identify some easy fixes to help achieve buy-in, especially from any more conservative-minded board members. Sometimes the biggest barriers can be those board members who are unaware of, or unwilling to recognize, issues or areas where improvements could be made. And remember that risk aversion doesn't just mean inaction. Often there is a greater risk in not doing something, as long as doing something is managed properly after due consideration.

Change can seem daunting, and there is a natural tendency to remain in the comfort zone, to stick with the devil we know over the devil we don't, or to perpetuate a mentality of "if it isn't (noticeably) broke, don't fix it." Your nonprofit may well already be operating at what you perceive to be an effective level, and meeting its KPIs. But is it as effective as it could be? Does it pass the "media interest" test? For example, do board members have oversight of fundraising? Is your organization well run? Do you clearly explain what you are doing and why? Can anything be improved? Are the KPIs the right ones or challenging enough?

Nonprofits cannot always influence, let alone control, the wider environment within which they operate. Situations can change rapidly. The closer you are to having these foundations in place for your board, the better equipped you will be to deal with, as well as exploit, the unexpected situations that may offer benefits.

Moving toward putting these foundations in place should be seen as an opportunity for the board, not a threat. A challenge, yes, but then what are nonprofits there for if not to meet such challenges, and overcome barriers, to make a difference?

RSM US LLP

Contributors

Foundations for Board Governance was developed by RSM US LLP based on Charity Governance 2020, a guide developed by RSM UK Group LLP.

Nick Sladden

Nick Sladden is head of charities for RSM UK and a client partner responsible for a portfolio of RSM UK's largest charity clients, including a number of top 250 charities. Nick has also worked with charity clients internationally, including projects in France, Germany, Ireland and Romania with RSM International. He is also a recognized specialist in charity accounting, law and regulation, management and governance, having produced many papers on changes in sector legislation.

Rosie Chapman

Rosie has a governance and regulatory background, including 10 years as director of policy and effectiveness at the Charity Commission for England and Wales, and senior roles with the English Housing Regulator. She now works as a governance and regulatory advisor to UK charities, and has recently been appointed as chair of the steering group overseeing the development of the UK voluntary and community sector Code of Governance. A qualified chartered secretary, Rosie is a fellow of the Institute of Chartered Secretaries and Administrators.

Ian Allsop

Ian is a freelance journalist and editor specializing in nonprofit management and financial issues. He was editor of Charity Finance between 2004 and 2009 and has worked in and around the voluntary sector for almost 20 years. Before becoming a journalist, he worked in the dedicated charity unit at a major accountancy firm, where he was involved with a number of governance reviews.

Steve Mermelstein

Steve is a director in RSM US' technology and management consulting practice and leads the Central region's public sector practice focusing on nonprofits, higher education and government entities. Steve provides advice and coaching to boards and management executives on a variety of strategic, operational and organizational topics to drive innovation and improvement. Prior to joining RSM, Steve worked for IBM Global Services as a senior business transformation consultant.

Scott Hauser

Scott is a senior director in RSM US' management consulting practice with areas of focus, including business planning, organizational advancement, acquisition due diligence and integration, decision analysis, process improvement, and project management. Scott has actively served on many boards directly and worked with client boards with governance-related activities. Scott maintains a relationship-based advisory approach that includes obtaining a complete understanding of the client's current situation and assembling the optimal team to assist with developing high-value solutions.

+1 800 274 3978
rsmus.com

br_nt_all-nfp-0816_rsm-charity-governance-guide

RSM