Addressing the Challenges
Sharing the Successes

NON-PROFIT GOVERNANCE

STRONGER COMMUNITIES

through

STRONGER ORGANISATIONS
PART I: TRENDS & CHALLENGES

Today, non-profit corporations are saddled with a relentless pace of change impacting the governance environment that has generated discussion, regulatory changes and brings with it a need to examine current board practices and structure. Change is not, in itself, anything new; it is the increasing pace of change that is significant in our time, requiring that leaders recognise ‘change’ as central to a leaders role. As a result, non-profit boards are under pressure to become more effective and efficient in their governance role, requiring them to learn and innovate to keep up. The ability to cope with uncertainty and change requires development focussed on strategies to manage change, as well as strategies to manage self and governance. The way non-profit organisations and their boards respond are critical to the health and sustainability of the organisation.

How Leaders Need to Respond

1. A new type of leadership

There is a growing need for a new type of leadership, which incorporates the skills and qualities that leaders will need in order to respond to the trends and challenges outlined in the table below, improve public service and ensure sustainability. Models of governance and leadership need to be updated to reflect the trends and resulting challenges faced by non-profit organisations today and in the future. There is an evolving need for a fully inclusive and engaging form of leadership, to account for the increasingly active role citizens are playing in the provider-user relationship and in response to challenges. It builds on the foundation needed for sustainability of todays and tomorrows non-profit organisations.

2. Building relationships and trust

Building relationships requires the ability to build and sustain trust in the leadership of the organisation, and therefore in the organisation itself. There is a growing need for leaders to be more visible, approachable and communicating internally and externally with everyone (funders, donors, stakeholders, members, volunteers, clients and the public at large). They need to be transparent, open and clear about their purpose and visibly act this out. Organisations need to reach out and be able to blend different groups into a sense of shared community and to deliver measurable outcomes for their community. This combines community leadership and active citizenship, involving dialogue, collaboration and consensus.

3. Innovators and entrepreneurs

In order to develop, improve and sustain the public service and non-profit organisations, boards need to attract and support innovators and entrepreneurs. ‘Soft Skills’ which include innovation, entrepreneurship, communication, teamwork and adaptability have been found to have a profound effect upon motivation to change, willingness to engage and enthusiasm for learning. Innovation and entrepreneurship and the drive for social enterprise in the non-profit sector, however, raises additional issues compared to innovation in the private sector, particularly around managing risk. Learning to better assess and manage risk becomes a critical element for enhanced success.

Among the qualities we should seek and reward in board members are critical thought, discernment, and a questioning attitude.
# Key Trends & Challenges Facing Non-Profit Leaders

<table>
<thead>
<tr>
<th>Trends</th>
<th>Challenges</th>
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| **Changing Workforce** | ▪ Understanding and engaging the “new” volunteer  
▪ Planning for succession: developing a workforce plan for board members, volunteers, & staff  
▪ Selecting, building, retaining and developing qualified people at all levels  
▪ Establishing sufficient diversity at the board level  
▪ Removing problem directors  
▪ Developing crisis management skills |
| ▪ Increase in demand for services  
▪ Aging workforce & increasing turnover of staff & volunteers  
▪ Diversity of population  
▪ Different workforce philosophies and work ethics  
▪ Increased demand for highly professional board members with business acumen and specific skill sets  
▪ Lack of resources (human & financial) | |
| **Changing Environment** | ▪ Ensuring financial viability and sustainability of the organization  
▪ Stewarding funds and donors  
▪ Resisting mission drift in order to attract funds  
▪ Higher levels of analysis required at multiple levels  
▪ Understanding how global challenges have a direct bearing on local leaders and leadership  
▪ Achieving the appropriate mix of fundraisers and governors on the board and defining the role of philanthropy for board members |
| ▪ Economic challenges & impact of globalisation  
▪ Increased emphasis on international business perspective for public services  
▪ Greater demands for transparency, reporting and accountability  
▪ Shift from corporate philanthropy to sponsorship  
▪ Shift from operating funds to program and project-based funding  
▪ Tight economic environment affecting fundraising targets | |
| **Changing Governance & Service Models** | ▪ Developing skills at the board level to assess opportunities  
▪ Obtaining branding and marketing skills and becoming technology savvy  
▪ Exploring Social Enterprise as added revenue source.  
▪ Improving the effectiveness of the board, meetings & decision making process  
▪ Understanding the board’s role in strategic planning and vision fulfillment  
▪ Business mindedness |
| ▪ Back office integration initiatives  
▪ Cross-sector collaborations, networks and partnerships  
▪ Social Enterprise  
▪ Client lead models of service  
▪ e-Governance, e-Governance, e-Services and e-Services | |
| **Technological Developments** | ▪ Understanding and leveraging the different forms of communication, dialogue and identity.  
▪ Establish consistent and effective training policies to keep abreast of latest technologies and innovations  
▪ Learning new ways to engaging with society  
▪ Understanding the impact on how public services are organised and delivered |
| ▪ Information and communications technologies (ICT’s)  
▪ Different ways of interacting with society and engaging employees  
▪ ICT as an instrument of change and enabler  
▪ Networked society driving greater collaboration with clients | |
### Increasing Pace of Change
- Keeping abreast of new legislation & accounting standards
- Increasing expectations by funders and stakeholders
- An increased need for effective board models and culture and supporting policies and processes
- Increase in board’s information needs and developing appropriate information mediums.
- Understanding the new Non-Profit Corporations Acts (CNCA & ONCA) and impact on operations
- Keeping abreast of looming proposed changes to IFRS for NPO’s
- Implementing the necessary changes for compliance with the new acts
- Ensuring compliant financial management practices
- Gaining consensus for governance review
- Improving the board’s knowledge around governance
- Developing change management skills

### Changing Public Expectations & Behaviours
- Increased monitoring of society & social services by media
- Increasing public profile of leaders
- Public perception of leaders and services evolving
- Shift from ‘passive consumer’ to ‘private consumer’ of public services
- Demand for tailored services and options that are virtual
- Increase in citizens’ active role in identifying community issues and potential solutions
- Informed citizens and increased empowerment
- Reduction of opacity and enhancement of transparency in governance
- Reduced leader’s privacy
- Public profiles and increased liabilities contributing to talent crisis
- Understanding the complex and diverse populations with growing and shifting expectations
- Fostering a culture of engagement and constructive debate (internal and external)
- Tailoring services and programs to meet increased need for personalisation
- Developing social networking and interactive websites and associated costs
- Engaging the public in what services are offered and how they are offered.

### Performance Measurement
- Increased emphasis on measuring effectiveness of boards
- Increased use of board self-assessments
- Increased emphasis on measuring organisational performance
- Setting appropriate objectives for the organisation, the board, and the CEO/ED
- Determining effective ways to measure all their performances
- Developing and implementing performance metrics such as KPI’s, scorecards, benchmarks, financial ratios and program evaluations.

### Risk Management
- Increased compliance risks
- Increased liability risks
- Increasing financial risks
- Increasing skilled workforce risks
- Increasing demands for services
- Mitigating risks associated with non-compliance and loss of status
- Developing board member competence in risk management and assessment
- Developing a risk averse culture and risk management processes

“Good governance is first and foremost mission-based governance”
PART II: INSPIRATIONAL LEADERSHIP

“[To lead is to travel with people on a journey. Journeys are not short trips. There needs to be a destination or vision of where you might end up. A plan on how to get there and people need to be kept motivated along the way.]”

(Raymond Nashar)

Leadership is a dynamic, vibrant and inspiring process. Great leaders inspire action – after all people follow those who lead not for them, but for themselves; people follow not because they have to, but because they want to and people don’t buy into what you do, but why you do it. Therefore, the goal of an inspirational leader is not to promote the organisation to people who need what you have, but to people who believe what you believe – your purpose, your cause, the reason why you exist – your vision and mission!

Balancing Hard and Soft

In every organisation, there are really two organisations at work: the formal and the informal. The formal organisation is the default governing structure of most organisations founded in the past century. People recognise the formal organisation as that rational construct that runs on rules, operates through hierarchies and programs, and evaluates performance by the numbers and you have probably learned to operate naturally in the formal domain, deploying tangible factors like job descriptions, organisation charts, developing and implementing policies, and performance management.

The informal organisation, by contrast, is an agglomeration of all the human aspects of the organisation: the values, emotions, behaviors, myths, cultural norms, and uncharted networks. The power of the informal is visible in every organisation every day — it is an undeniable, emotionally resonant force. Even the most rational managers recognise that the informal organisation within an organisation can create effects that seem like magic, especially in situations of change or transformation. Unexpected leaders emerge from the ranks; passion swells up and pushes work forward; units and operations swiftly transform themselves. BUT there are also less positive effects: unexpected opposition lurks in the shadows, anxiety and fear hold work back, and critical operational improvements are derailed.

Organisations that sustain high performance over time have learned how to mobilise their informal organisations while maintaining and adding formal structures, each in sync with the other. An inspirational leader is neither “all hard” nor “all soft.” Instead, they take the best of both the formal and informal organisations and integrate them to energise people to fulfill a shared performance purpose.

Judgement, not formulas: from model-based to ‘mission-based’ governance

“One size does not fit all!” Inspired leadership is not about a “canned” approach to governance or a model to emulate. It is about relying on experience and judgement; it is about board and executive work being complimentary to that of staff, not supplementary; it is about knowing your destination. Leaders have positions of power and authority, but those who truly lead start with WHY? and use this knowledge to inspire others. Give some thought to

1. WHY? – your purpose, your cause, your belief or why do you exist.
2. HOW? – your value proposition, what differentiates you or how do you fulfill your why.
3. WHAT? – your programs, services or products.

“People don’t buy into what you do, but why you do it”
“Good governance is not just about doing work better; it’s about ensuring your organization does better work.”

Bill Ryan, Harvard

Boards need to focus on three key areas for good governance: fiduciary, strategic and inspirational. Most boards are familiar with and operate in the fiduciary and somewhat in the strategic zones. Very few operate in the inspirational zone.

**Fiduciary** zone is all about the stewardship of tangible assets, the overseeing of operations, ensuring appropriate use of resources and ensuring legal compliance and fiscal accountability.

**Strategic** zone is about setting priorities for your organisation, developing and improving various strategies, and then monitoring their performance.

**Inspirational** zone is a larger, more cognitive process that involves looking outside the usual framework of overall operations and getting at the heart of an organisation’s raison d’etre, its purpose, it’s WHY. It helps boards to better understand the paradigm shifts that can impact an organisation’s success over the long haul. It is about deciding on what to decide, probing assumptions about the organisation, and identifying the underlying values that should be driving strategy and moving the organisation towards its Vision – it is about building sustainability!

**What, then, is the role of the board?**

It's perhaps easiest to understand if the board's job is described in terms of tasks, in the old fashioned way:

1. Building consensus and a sense of shared purpose.
2. Communicating or advocating effectively.
3. Being good governors, fundraisers and philanthropists.
4. Ensuring the existence of a sound governance framework.
5. Developing and updating a longer-term plan.
6. Ensuring the organisation's financial health.
7. Ensuring sound relationships.
Make It Happen: Translating Inspired Leadership into Action

The Drexler/Sibbet Team Performance Model

FREEDOM

Orientation
Why am I here?
- Disorientation
- Uncertainty
- Fear

Trust Building
Who are you?
- Mutual Regard
- Forthrightness
- Reliability

Goal Clarification
What are we doing?
- Apathy
- Skepticism
- Irrelevant Competition

Implement
Who does what, when and where?
- Dependence/Counterdependence
- Untapped resistance

Commitment
Will we do it?
- Assigned Roles
- Allocated Resources
- Decisions Made

High Performance
Wow!
- Conflict/Confusion
- Nonalignment
- Missed Deadlines

Renewal
Why continue?
- Recognition and Celebration
- Change Mastery
- Staying Power

Unresolved
- Boredom
- Burnout

Unresolved
- Overload
- Disharmony

Unresolved
- Caution
- Mistrust
- Facade

Resolved
- Purpose
- Team Identity
- Membership

Resolved
- Clear, Integrated
- Shared Vision

Resolved
- Dependence/Counterdependence
- Untapped resistance

Resolved
- Clear Process
- Alignment
- Disciplined Execution

CONSTRAINT

Resolved
- Mutual Regard
- Forthrightness
- Reliability

Resolved
- Assigned Roles
- Allocated Resources
- Decisions Made

Resolved
- Dependence/Counterdependence
- Untapped resistance

Resolved
- Clear Process
- Alignment
- Disciplined Execution

Resolved
- Purpose
- Team Identity
- Membership

Resolved
- Clear, Integrated
- Shared Vision
PART III: GOVERNANCE MODELS & STRUCTURES

“Good governance has certain principles that are common across the public, private, and non-profit sectors. These are transparency, clear allocation of roles and responsibilities, financial probity, accountability, and looking at outcomes. Recognize that the principles of good governance apply to all organizations regardless of their size. The structure will have to be tailored to the institution depending on its size, but the principles remain the same.”

(The Honourable Bob Rae)

The economic environment remains a challenge and there is no going back to business as usual for the non-profit sector. Going forward requires us to envision a different future for our organisations. But only those boards that are willing to transform themselves will succeed in transforming their organisations. However, Boards need to be cognisant that structure alone does not ensure a good board. As demands for Board effectiveness and accountability continue to grow, research and discussions about how Boards might operate differently also continue to grow, including a variety of new ideas for Board models. Regardless of industry trends, Boards must focus on their communities and needs.

Boards must make decisions about their structure based on some basics questions, such as:

1. What is our mission? WHY do we exist?
2. How does the board ensure that the organisation is mission driven?
3. What are the basic responsibilities of the board and the legal duties of board members?
4. What role does the board and board chair play?
5. How much involvement does the board want to have or need to have in the operations of the organization?
6. How do we get board members and stakeholders engaged for our cause?
7. How do we keep the board communicating effectively?

The four traditional basic board models:

- **Policy Governance Board**: The term Policy Governance refers to the specific model of board governance developed by John Carver. This model provides a template for governance that focuses the board’s attention on organizational outcomes (ends) and executive relationship (means) through governing policies. Board oversight of staff activity is accomplished solely through the determination and monitoring of “executive limitations” (a specific policy).

- **Policy Board**: This is probably the term that most boards of directors would use to describe themselves and refers to a group of people who are ultimately accountable for providing the leadership and oversight of a legally incorporated organization. The board of directors, by setting “policy”, direct and control how the organization operates. The board sets policy and staff members implement it. A key issue for policy boards is how deep or detailed do they need to get in specifying how they want the organization to operate?

- **Working or Administrative Board**: People use this term when describing boards of directors that are involved in setting policy and the day-to-day running of their organizations. Another term that could be used is a “management or hands-on” board. They not only provide leadership but often are the “hands and legs” of the organization. The connotation associated with the term “working board” is that the board’s role is more than a deliberative or decision-making one.
• **Collective Board**: A collective is a group of like-minded people working towards a specific goal. The individuals within the collective have a responsibility to define and support the basic philosophy of working as a collective. Governance and operational decisions can be made by both the board and staff - they operate as a single entity, which is acceptable provided that they share common values as members of a collective should.

The four new emerging board models:

• **Community Driven Boards**: Community-Driven Governance defines a Board’s primary purpose as leadership towards making a significant, visionary difference in the community the organization serves. The Board’s work centers around strategic and annual plans that aim first and foremost at the difference the organization will make in the community. The plan then addresses the organizational infrastructure needed to implement the plans. The approach is intended to be simple enough for any Board to put into practice, while comprehensively addressing first the ends, and then the means for which a Board will hold itself accountable. The approach also aims to avoid a typical problem in Boards when they attend primarily to internal operations, rather than truly representing the needs of stakeholders.

• **Nested Boards**: Nested Boards exist in associations or “umbrella” organizations that have members, or subgroups, that also are organizations. An example is a national organization that has chapters in various regions or states. Advantages to this arrangement are that the members benefit from the guidance and resources of the umbrella organization. The umbrella organization benefits from the structured involvement and representation of the various subgroups. Members of the organization’s Board are often members of the Boards of the various subgroups. There can be a continual tension in the arrangement. Subgroups want the autonomy to serve their local constituents, yet want the benefits of their affiliation with the umbrella organization. Likewise, the umbrella organization wants the dedicated participation and contributions of the subgroups, yet wants the subgroups to effectively manage their own operations in their own locales.

• **Relationship Boards**: This model, instead of having a rigid, top-down structure of roles and hierarchy of the traditional policy model, provides for Board and staff members to work together with great priority on generating relationships and value from those relationships. The CEO/ED and staff play an important role in bringing matters to the group (a group of Board members and staff) and their opinions are greatly valued. Board and staff share experiences together, for example, rituals and meals, to develop relationships. Board members are not expected to take part in activities outside Board meetings. They can be there to assist staff. Committees are not generally used but ad-hoc or project driven committees that comprise a mix of board members and staff can be used.

• **Networked Boards**: The effectiveness of governance could be enhanced when we realize that governance can include organizations and activities that go beyond the role of the Board in an organization. Nowadays, many non-profit services to a community are often delivered across a network of organizations and, thus, the distributed governance of that network is a key point in the effectiveness of those services. There are advantages of the perspective on networked governance and also difficult challenges inherent in that perspective, for example, how can individual non-profits and Boards influence the overall network and how can we ensure that individual Boards are doing their fiduciary responsibilities.
When determining which model would work best for a board, it is important to take relevant factors into consideration such as the existing present environments the Board finds itself in, the size and growth of the organisation, the organization’s culture and the personalities of key staff members and members of the board. The structure itself is only relevant insofar as it ensures that there are no gaps or overlaps in the work of the board. If working relations are posing difficulties, board members need to determine if it is the board structure that needs to be changed, or if it is the behaviours and assumptions of the people working within the structure that need to be addressed.

What Is Governance?

Simply put, the two primary roles are a) support and b) governance. In the role of supporters, board members seek to raise money, bring clout to the organisation, provide special skills, such as in law, accounting, fundraising, entrepreneurship and act as ambassadors to the community.

The governance role, in contrast, has a different and primary goal: protection of the public interest. Governance responsibilities for boards include selecting the top executive (the CEO/ED) and assessing his or her performance, reviewing and authorising plans and commitments, ensuring compliance with legal and contract requirements, evaluating the organisation’s performance and conducting regular governance assessments. Both of these board roles are distinguished from that of management, which is the responsibility of the CEO/ED.

When asked “What is your ideal board member?” most envision someone who contributes money, obtains contributions from others, helps the organisation get media coverage and political contacts, brings specialised expertise, and helps diversify the board’s composition. This ideal board member also identifies with the organisation, is liked and admired by staff and other board members, and “fits in.” These characteristics describe a board member who can help provide the critical support non-profit organisations need to succeed.

Strengthening Governance

1. **Accurate and Timely Information.**
   Access to independent, unbiased, reliable, accurate and timely information about the performance of the organization, is fundamental to good governance. Too often boards don’t realise that the organisation is having financial difficulties until too late, or that the organisation’s programs are not keeping up with changes in the world.

2. **Leadership and Program Evaluations.**
   Board assessments, executive performance management and service/program evaluations all combine to identify risks, challenges, opportunities and build sustainable organisations.

3. **Governing for What Matters.**
   If a board wants to aim its work at making a significant difference in its community – “mission-driven” governance – it needs to define what matters: the WHY, HOW and WHAT!

4. **Encourage dissent, debate, and questions.**
   Creative and regenerative thinking arises from informed debate and varying viewpoints.

5. **Recruit good governors.**
   Boards should seek members who are good governors as well as those who are good supporters: people who know clients as well as people who know philanthropists; people familiar with non-profit management as well as those familiar with business; operational volunteers as well as fundraising volunteers; people who ask critical questions as well as people who cheer. A diverse board such as this will keep the agency rooted in the world it serves as well as in the world in which it raises funds.

“We follow (or give time and money) not because we have to, but because we want to”