

## **Top Governance Issues and Trends in NFPs**

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Looking back at the end of this first decade of the century, and especially after some very public cases of corporate malfeasance in the private sector, we can see how directors of boards have been thrust into the spotlight. The question now is “are directors of organizations fulfilling their functions properly?”

How did this attention to governance come to be and where are we now? And, where are we going and how do you ensure your board stays current with best practices?

As well as effect of a spill-over of heightened vigilance and oversight resulting from the corporate scandals, for not-for-profit organizations, other factors contributed to the rise in their concern for good governance. Recall that through the 90s, there were cuts in federal grants and contributions to non-profit and voluntary organizations. The voluntary sector found itself operating in a new landscape. An independent Panel on Accountability and Governance in the Voluntary Sector, chaired by Ed Broadbent, was created to inform federal regulation of the sector and explore how the sector could improve its accountability. The Panel released its report in 1999. With its recommendations, the agenda was set, the bar raised for good governance and accountability. Even if that Report did not cross your association’s board table, it modernized the norms and expectations of boards in all not for profit organizations.

As well, in the past ten years, a professionalization of the sector has been underway. The work of organizations is increasingly specialized, focused, and informed. This has earned the sector an elevated regard in general. Associations, charities, think tanks, councils, marketing boards, professional colleges, etc. are seen as important and legitimate voices, service providers, thought leaders, innovators, protectors, and contributors to Canadian society. Boards of directors have been both leading and following this ascent. Boards are ensuring the new directors that join them and follow in their footsteps are qualified and able to lead what are now significant enterprises. Being a director always was an important responsibility, now it is judged as one.

So a number of things came together: the media attention on governance issues, increased stakeholder awareness and vigilance, not-for-profits having to prove their accountability, and newly-alert directors ensuring that their organizations would be governed well “on their watch.”

Fast forward to today. Top trends in governance have their roots in the developments above and they are also anticipating what is expected around the bend in the road ahead. What is next, and will your association be part of leading the charge?

In no particular order, here are the top trends:

## **Robust Risk Management**

Boards have increased the time they spend on risk issues. Risk is now defined as not just financial but strategic, reputational, intellectual, and so on. Tightened controls have been a result and may have a chilling effect on innovation, however this remains to be seen. What is clear is that concerns for organizational risk will not go away. Good governance now means board attention to business risks. In Ontario for example, after media attention throughout 2009 to the staff and consultant expenses in certain government agencies, many boards are taking a proactive look at their organization's policies and compliance to them.

## **Pro-active Accountability and Transparency**

Boards are quietly, or not so quietly, observed by employees, volunteers, members, and outside others. In a connected future, the wrong side of judgments will be much more damaging. Media stories have already focused boards on accountability. Accountability involves obligations to demonstrate, review, and take responsibility for performance. Members, funders and donors are expecting organizations to share decisions, performance data and governance information as a matter of transparency. Boards are asking themselves "will the actions we take be judged as fair and sound if or more likely when they are known?" Boards are "opening up their kimonos" to share governance policy (conflict of interest policies, nominating processes, commitment to self-evaluation, etc.), to open parts of their board meetings to the public, to post minutes and performance data of the organization and many chairs are opining on tough issues in letters to stakeholders or, more recently, blogs. This "no-secrets" approach is intended to bolster confidence and to signal that the board is "awake" and accountable.

## **Standard for Good Governance**

As part of accountability, boards are paying attention to their policy work and developing and articulating standards for good governance. Boards are selecting and deciding on their governance principles and then describing them into policy. The board needs a disciplined way to do its business and there has to be an agreement on how to parse things. The challenge is to lead authentically, constructively, and appropriately without diminishing strong and effective management teams. A decade ago, the term "governance model" was a concept – now it's a quest for the best approach to fit an organization.

## **More Rigorous Director Selection Processes**

As transparency increases, how directors are chosen, the integrity of that process, and whether the board does self-evaluation will matter. Ideal profiles of skills and competencies now guide the recruitment and selection of directors to serve on boards. In the past ten years, organizations have changed their by-laws to eliminate what often were "russian roulette" nominating processes at annual general meetings resulting in directors who had single-focus agendas or little knowledge of the full range of their legal obligations. Rather, deliberate nominating and selection processes have become the norm. Recruitment is to a board director profile and new directors are sought within the context of filling gaps in

competencies on the current board. Many nominating committees go further and interview nominees recommending only those individuals that qualify. Future concerns will be around responding to issues of non-performing current directors, diversity and making sure appropriate perspectives are being voiced at the board. As well, as our over-50 leaders retire, there will be a push to ensure younger people are coming onto boards.

### **Scorecards for Oversight**

How does the board know that the organization is performing? Organizational scorecards summarize organizational performance information and are increasingly a key tool for oversight. In this coming decade, expect that scorecards and dashboards become as regular a feature of board meetings as the financial report. After board review, this information will be uploaded and communicated – on the website and available to members, donors and funders. For these scorecards to be effective, a board has to identify what information it needs to assess organizational performance and the achievement of the strategic plan. This information will be increasingly balanced across perspectives rather on traditional, historical measures. Scorecards allow a board to focus its discussion – recognizing what is on track, exploring why results are not being achieved and what action is -- or should be – underway, and discerning when a revision in strategy or target is called for.

### **Shift from Constituency-Representational to Fiduciary-minded, Strategic Boards**

Although a large board can be made to work, boards generally are becoming smaller in size with their focus more strategic. This has often meant the elimination of the executive committee as an unnecessary inner group. It has also meant, in many cases, the shift from constituency-representative boards to directors being seen to govern with interests of all stakeholders in mind. Awareness of the centrality of the fiduciary responsibility shot up this past decade. This is about the board's often delicate balancing of competing interests and priorities as it focuses on decisions that serve the long term sustainability of the organization. Transitioning from constituency mind-sets (real or perceived) has been a challenge particularly for multi-level organizations with inter-locking boards. Many boards which have shifted to smaller boards have had to put in place other mechanisms to inform the board of constituency views. These solutions are not without their pitfalls as it is important for boards to be vitally in touch with, and mindful of, the real environments and impacts of their decisions.

### **Board Evaluation**

Over the past ten years, it has become best practice for the board to assess its own performance. Most boards start with evaluation of the board as a whole (its functioning, processes and performance) however some not-for-profit organizations are now moving to provide for individual director evaluations as well. Board evaluations of both types are a trend that will grow and there will be increased interest in benchmarking, i.e. finding out how well your organization is doing vis a vis others.

## **Agenda Redesign**

There is an earnest desire amongst directors and senior staff to use board time well. Board agendas are changing. Consent agendas are being used more routinely so as to free time for important conversations. Many organizations now ensure their boards allocate quality time to strategic questions and what are called “generative” discussions so that directors are not merely reactive but leading the organization and framing the future. For these progressive boards, future agendas are not only a matter of discussion between the chair and chief staff officer a few weeks in advance of a meeting. Rather, at the close of one board meeting, the board discusses its next agenda. Proactive boards know “it’s our agenda, not management’s.” Disciplined by their governance model, boards are increasingly in charge of the focus of their attention.

## **Board Education**

The time and effort put into board education has vastly increased in the past ten years. This is so that directors are knowledgeable about their organizations and learning about their governance responsibilities. Board education may take place at regular meetings through speakers or presentation by staff, or attendance at conferences, the focus of board retreats, etc. This trend will continue for the board as a whole. Education will probably be more targeted to individual members going forward (especially poor performers) and to board and committee chairs helping them be effective in their roles.

## **Stakeholder Engagement**

We are starting to see boards pay more attention to member and stakeholder engagement. After the needed swing this past decade to better separate policy and operations, in the future boards will have to develop new ways to discover what members and stakeholders think and value from the organization. A stakeholder engagement strategy will be a required element in every annual plan. And when stakeholders merit continued influence, informal advisory groups and stakeholder events will provide regular dotted-line input to boards.

## **Board portals**

Governance work involves 24/7 access for directors to much information. This includes current organizational information, contact lists, past minutes, committee work, policies and procedures, board meeting materials, position papers and so on. In this increasingly environmentally- conscious society, there will be increasing reluctance to print out reams of information. Consider too the time that is consumed by staff at organizations in photocopying meeting packages. A board portal is collaborative software allowing directors to securely access board documents and collaborate with other directors electronically. A board portal can be an in-house application, a commercial application, a subscription-based service or a custom-design. Email, discussion boards and calendar synchronization are also common features. Some sites allow directors to vote on routine agenda items before meetings. Board portals will likely become standard over the next

decade. And yes, open computers in front of directors at meetings so they can access their documents. This practice will become acceptable.

### **Last but not Least -- Smart Strategy and Values**

The coming decade will hold unprecedented challenges for not for profits to respond creatively and resourcefully to challenges. As Canadians we have enjoyed one of the world's highest standards of living. However pressures in some critical areas are increasing – in health care, the environment, in the pattern of our demographics and our aging population, in public infrastructure, all in the face of resource constraints. Our organizations are part of this mix and potentially part of solutions.

For not-for-profits to respond to the challenges of the 21st century, good governance will not be a matter of checklist practices (the list above as an example) but ensuring organizations don't stand still, that they remain relevant.

The prime directive of governors is to ensure that the organization is relevant and sustainable. Business-minded directors will have increasing influence and context to ask tough questions such as around the efficiency of revenue generation and comparison with peer organizations, administration costs relative to others, how complex are offerings and how does that complexity cost, where can the most improvement be made in processes, how are the leading organizations making money and what is their approach, etc.

The re-think that is likely to take place over the next ten years in our business models will require straight talk from boards to their constituencies and smart strategies and actions to transition to what is required. It has been said that boards are responsible for the "life" of an organization. The best legacy of boards in this next decade will be to forge sustainable strategies (value propositions, economic models for the organization that make sense, new partnerships, etc.) *and* to help organizations transition.

While this may mean not-for-profits becoming even more business-minded, the seemingly soft matter of values will matter more. Values will be a key branding element. Leaders will be judged as much on their ability to communicate values as to get results. Today some boards look at values as a "motherhood" step in strategic planning. Tomorrow, all boards will see it as their job to ensure values are demonstrably lived.

Welcome to the next decade!