BUILDING AN EFFECTIVE PARTNERSHIP
BETWEEN THE VOLUNTEER BOARD AND STAFF

THE COMPLEMENTARY MODEL OF BOARD GOVERNANCE

A CLEAR, COOPERATIVE, AND COMPREHENSIVE WAY TO
GOVERN AND MANAGE YOUR NOT-FOR-PROFIT ORGANIZATION

TOM ABBOTT

Association Management Consultants Inc.

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To my sister Gail

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INTRODUCING THE COMPLEMENTARY MODEL OF BOARD GOVERNANCE

In 1999, I first started thinking and writing about the need for a new model of governance within the not-for-profit community. At the time, volunteer boards of directors had essentially two alternative models for governing and managing their not-for-profit organizations (NPOs).

The first was the "traditional" model of governance, which had been in use for decades within the NPO sector and had developed essentially on a trial and error basis. Under the guise of a "model," the directors would assign themselves whatever role they thought workable in their NPO and assign to the executive director whatever role was necessary to support the work of the NPO's board of directors and committees. If the assignment of roles did not work at any particular point in time for that particular group, then another, ad hoc variation would be tried. The only governance principle of the traditional model was: "The board sets policy and the staff implements policy." There were three major deficiencies with this model:

- There was no set of comprehensive, guiding principles underlying the model.
- There was no agreement on a definition of the word "policy."
- The word "staff" was sometimes taken to mean the collective group of paid employees, and at other times to mean only the most senior paid staff person.

Experience showed that, more accurately, the traditional model could be best described as the "muddling through model."

The second form of governance that was being used by volunteer boards of directors was based upon the model commonly used by corporate or for-profit boards. This model had the benefit of being based upon a defined set of guiding principles; it articulated that the chief executive officer, or CEO, was the one and only person meant by the word "staff"; and it defined the board's role as governing through a set of policies developed by the board and which were expected to control the CEO's actions.

While this model offered volunteer boards of directors significant benefits over the traditional model, there were a number of serious weaknesses inherent in it:

- It allowed the board of directors to set policies in any area it wished – both governance policies and administrative policies.
- It prohibited the board from having a meaningful role in the creation of the NPO's strategic plan.
- It could permit the board to delegate financial responsibility to the point where the board was incapable of meeting its fiduciary financial responsibilities.
- It required a sizable staff structure.
- It required the board to take a step back from the actual operations of the NPO.
- It perpetuated a basically adversarial relationship between the board of directors and the CEO, whom the board sought to control through a set of "executive limitations."

For these reasons, I concluded that a new governance model was required for the NPO sector. Consequently, I began working on the creation of a new model and in the spring of 2001, gave my first training seminar on the *Complementary Model™ of Board Governance*. The name for the model came from an article by Peter F. Drucker in

which he described exactly the type of relationship I envisaged in the NPO. He wrote, essentially, that

> nonprofits waste uncounted hours debating who is superior and who is subordinate – the board or the executive officer. The answer is they must be colleagues. Each has a different part, but together they share the play. Their tasks are complementary. The two have to work as one team of equals.[1]

Hence the name: the Complementary Model of Board Governance.

Since that first training session, literally hundreds of CEOs and volunteers have attended our seminars on the Complementary Model and implemented it within their own organizations. According to the findings of a major annual survey of NPOs in British Columbia, it is now the most common model used in the NPO sector in BC.[2]

I hope that, as you read the following pages, you will come to the conclusion, like so many others have, that this model is exactly suited to meet the needs of your NPO. And as you read more about the model, it will become clear the fundamental proposition underlying the model is not new at all and is, after all, quite simple:

The board *establishes governance policies and monitors the organization's performance.* ***The chief executive officer*** *implements the governance policies, manages the organization's resources, and also monitors the organization's performance. It's as simple as that!*[3]

I am confident that the implementation of the Complementary Model of Board Governance will allow your board and CEO to work together as a team, to benefit from your NPO initiatives, and at the same time, accomplish the goal of improving the life experience of all your stakeholders.

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1 Adapted from Peter F. Drucker, *Managing for the Future: The 1990s and Beyond* (New York: Truman Talley Books/Dutton), 221.
2 *Confidential Compensation and Operations Report of Association Executives Employed in British Columbia* (Vancouver, BC: Association Management Consultants Inc., annual).
3 See also "A Personal Note" at the end of this book.

Chapter One

A RESOURCE FOR THE VOLUNTEER DIRECTOR

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Each year, across the cities, towns, and communities of North America (and indeed elsewhere worldwide), millions of individuals regularly volunteer their time for the activities of not-for-profit and charitable organizations (NPOs). Volunteerism is part of our culture. A 2007 government survey found that almost 12.5 million Canadians volunteered for these organizations – about 46% of the population aged 15 and over. This represented a contribution of over 2 billion volunteer hours, equivalent to about a million full-time jobs.[1] Clearly, there is no way these organizations could ever have funded even a small proportion of that many jobs. The numbers are similar in the United States, though the proportion is not as high (about 26%).[2] In the Canadian survey, about a third of the volunteers reported serving on a board of directors or a committee.

With so many people engaged as volunteers and a large number of them specifically as volunteer directors, how can so many of them get it wrong? The simple fact is that we see far too many cases of volunteer directors – well-meaning, dedicated individuals – collectively making a mess of it! The reason they encounter problems is because there is often no clear consensus as to what they should be doing as volunteer directors. Furthermore, even where there may be a consensus as to what the directors should be doing, very often there

1 Statistics Canada, *Canada Survey of Giving, Volunteering and Participating, 2007.* http://www.statcan.gc.ca/pub/71-542-x/2009001/chap/ch2-eng.htm.
2 U.S. Department of Labor, Bureau of Labor Statistics, *Volunteering in the United States, 2010.* http://www.bls.gov/news.release/volun.nr0.htm.

is no documentation describing their role or providing day-to-day guidance as to what their role is. So, as directors leave and new ones arrive, they must once again, through trial and error, define what it is they should be doing as volunteer directors.

The purpose of this book is to describe a contemporary model of not-for-profit governance and management that can be easily implemented by any volunteer board and its staff. If your NPO has no paid staff whatsoever, you can still use the Complementary Model. You just need to define staff responsibilities and assign those responsibilities to "unpaid" staff – that is to say, to volunteers. Whatever the size of your organization and its budget, the model can be readily and successfully adapted to your circumstances and quickly implemented in your NPO.

The book is intended to be a short, self-contained guide for NPO success – a resource of significant value to volunteer directors who serve on the organization's board. It explains a model that is already in current and successful use by a wide spectrum of not-for-profit organizations – including charities, trade associations, colleges, co-operatives and professional organizations. It will also be of benefit to the chief executive officer and staff members of any not-for-profit organization.

Common NPO Terminology

For ease of reference in this book, the term organization will generally be used to mean the NPO or charity. The word association or society is used in some places where this better indicates the organization being discussed. The term CEO or chief executive officer means the senior staff officer responsible to the board for overall management of the organization (common alternative titles being executive director, managing director, executive officer, executive vice-president, or president). The board of directors will generally be abbreviated to board, and the chair of the board (the senior elected volunteer officer

who normally presides at board meetings) will be referred to as the board chair or simply chair. These and other terms used in the book are defined in Exhibit 1.1.[3]

[3] The definitions are consistent with those in my book *A Practical Guide to Governing Your Volunteer Organization* (Victoria, B.C.: Trafford, 2006).

Exhibit 1.1 Common NPO terminology

Not-for-profit organization (NPO)	An organization governed by a volunteer board of directors, with no shareholders, for which the generation of profit is not the prime objective. May be called a nonprofit organization. In practice, the terms not-for-profit organization, association, society, and charity are often used interchangeably though this is not technically correct.
Charity	An organization governed by a volunteer board and established for charitable purposes as defined by legislation.
Mission statement	A clear, concise, inspiring statement that specifies the purpose and direction of the organization, what it does, for whom, and where.
Vision statement	A concise picture of an ideal, desired future for the organization.
Values statement	A statement of how the organization should act to reach its vision.
Strategic goals	What is to be accomplished long-term to achieve the mission.
Objectives	Specifically how the strategic goals are to be reached. The shorter-term targets that will move the organization measurably towards meeting its longer-term strategic goals.
Constitution	A short document stating the name of the organization and its general aims. The original constitution and changes to it must be approved by both the membership and the government.
Bylaws	A longer document stating the general operational rules of the organization; e.g., categories of membership, rules for board and member meetings including the annual general meeting (AGM), and general duties of officers and directors. Original bylaws and changes to them must be approved by membership and filed with government.

Membership	The group from whom all power and authority in the organization flows.
Board	The group to whom the membership grants powers to act on its behalf. May be called board of directors, board of governors, or council.
Chair of the Board	The senior elected officer, who presides at meetings of the board.
Chief Executive Officer (CEO)	The senior staff officer with overall management responsibility for an organization. The CEO is appointed by and reports directly to the board. The CEO hires and manages staff in order to implement the policies and programs approved by the board. In some organizations may be called the executive director.
Board committee	An ongoing committee established by the board and reporting to it. Also referred to as a board statutory (or standing) committee. It frequently deals with responsibilities outlined in the bylaws or enabling legislation of the organization, e.g., the nominations committee, audit committee, or discipline/ethics committee.
Policy task force	A special type of committee established by the board, allocated a specific task dealing with a policy issue and reporting to the board within a specific timeframe; for example, governance task force, membership classification task force, or unification task force.
CEO committee	A committee established by and reporting to the CEO. Sometimes called a CEO working committee. It deals with operational or management matters such as publishing and distributing the organization's newsletter, putting on the organization's annual conference, or maintaining computer systems.

Chapter Two

GOVERNING AND MANAGING YOUR ORGANIZATION

Chapter Two

GOVERNING AND MANAGING YOUR ORGANIZATION

Running any organization, whether it is a for-profit proprietorship, partnership, or corporation, or a not-for-profit agency, charity, association, foundation, or society, entails many business-related tasks. Such tasks may include forecasting revenues, acquiring operating funds, hiring staff, purchasing office supplies and equipment, purchasing raw materials, producing products or services for sale, advertising products or services, tracking sales volumes and production costs, to mention only a few. These activities can be grouped into one of three general responsibility areas:

Planning: e.g., forecasting sales, acquiring operating funds, deciding staff requirements;

Implementing: e.g., hiring staff, purchasing office supplies and equipment, purchasing raw materials, developing products or services for sale, advertising products or services;

Monitoring: e.g., tracking sales volumes and production costs, reviewing financial statements.

Board Involvement in Corporate or for-Profit Organizations

In corporate or for-profit organizations, the board of directors is normally not involved to any significant degree in any of these three responsibility areas. If the board is involved at all, it will generally be engaged only at a macro-level, and its participation will be limited.

For example, in the area of *planning*, the corporate or for-profit board might be involved in approving long-term, high-impact planning decisions, such as approving major expansion plans or mergers.

These boards virtually never become involved in the *implementing* activities of the organization: for example, the production, marketing, distribution, and sales of its goods or services. Such responsibilities are assigned to paid staff.

When it comes to *monitoring* business activities, performance, or "success," the corporate or for-profit board will also generally be engaged only in a limited way: at a macro-level, for example, by reviewing the auditor's report, reviewing and approving the audited financial statements, monitoring share prices and trends, as well as receiving interim financial reports produced by the paid managers of the organization.

The division of responsibilities, therefore, between the corporate board of directors and staff is relatively uncomplicated, with the CEO and staff playing the dominate role in all three responsibility areas of planning, implementing, and monitoring and, furthermore, an exclusive role in implementing.

Board Involvement in Not-for-Profit Organizations

For an NPO to be successful, each of the three responsibility areas of planning, implementing, and monitoring must be properly managed. However, a significant challenge arises in many NPOs. The challenge presents itself because in the NPO sector, boards of directors are typically more engaged, more active (and more proactive) in the organization's affairs than their counterparts in the for-profit sector. The volunteer directors are often strongly committed to the mission of the NPO and frequently, particularly in charities, have a very personal stake in the success of the organization. Consequently, they have a heightened desire to play a more active role. The directors often, for example, participate in planning sessions that define strategic goals, objectives, and activities. And they often demand reports that are intended to provide information measuring the NPO's success in achieving those goals, objectives, and activities.

In addition, particularly on smaller NPO boards, individual directors will often "volunteer" their own services in order to help minimize the staff costs in the organization. So, for example, the NPO may invite a professional accountant to serve on its board of directors with the understanding that that person will also serve as an unpaid staff accountant. In the latter role, the accountant/director may not only oversee the financial function of the NPO but also prepare budgets and financial reports and report to the general membership on the financial health of the organization.

The same issue of staffing costs may require for example, that another director be responsible for fundraising activities, and yet another, for developing and implementing the NPO's advocacy programs. Often, these "administrative" responsibilities are assigned to volunteer directors simply because the NPO does not have the funds to hire professional staff to do this work.

Consequently, there may be two variables influencing the level of involvement of individual directors on an NPO board: one, the

desire of members of the not-for-profit board to be more involved, and two, the financial need for board members to take on these extra responsibilities.

What is the proper role for a not-for-profit director in each of the three important areas of planning, implementing the approved plans, and monitoring the implementation of the plans? This is the pivotal question that creates so much controversy, confusion, and friction in the NPO sector. It is the question that has dominated the discussion of NPO governance and management since the first association hired its first staff member.

It is important that we answer this question at the outset. Only after doing so can we design a governance and management framework that will allow the directors and the staff to fulfil their proper assignments, permit the organization to function successfully, and allow the NPO to effectively pursue its mission.

The *Complementary Model of Board Governance* answers the question in a consistent manner so the model can be used in large or small NPOs, equally well in both financially challenged or financially secure NPOs. It is a governance model that continually demonstrates across the NPO spectrum its power to enable volunteer boards to flourish in their *governance role* and equally to allow the CEOs of those organizations to succeed in their *management role*. The end result is the creation of an NPO governance and management environment where there is neither confusion nor friction about the accepted role of the board and the accepted role of the CEO. As a result, much can be accomplished by both the volunteers and the staff as they do the tasks they are supposed to do, rather than debate and argue about their areas of responsibility.

Overview of the Complementary Model

The Complementary Model makes a clear distinction between strategic leadership and operational management. The board and the CEO each have specific responsibilities in together advancing the mission of the NPO, and their roles are complementary to each other.

The board provides the overall leadership and strategic direction for the organization. It then delegates authority and responsibility to the CEO; this is done in a deliberate manner that provides the CEO with a broad degree of freedom to exercise creativity and judgment to achieve the organization's strategic goals. The board ensures that the goals are clear, the parameters of the job and the approval points are established, and the evaluation criteria are clearly articulated and mutually understood.

Role of the board of directors

The board of directors is trained and encouraged to provide progressive, collective leadership and direction to the organization. All directors are entrusted to direct the activities of the organization as a whole rather than in their own interest or that of any other specific group. They are also entrusted to act in the best interest of the organization.

The board is ultimately accountable for all aspects of the organization's activities. However, it distinguishes between those aspects of the NPO's processes for which it is directly responsible and those aspects which it delegates to the CEO. The board meets its leadership responsibilities in these five ways:

1. Approving the strategic direction of the organization
It is the board's responsibility to determine the vision and mission as well as the strategic goals and priorities of the organization, based upon input and feedback from directors, staff, and other stakeholders. While staff and others will undertake the preparatory work in the

planning process, it is the board's responsibility to make the actual decisions on goals and priorities.

2. Setting the governing policies of the organization

The board establishes the governing policies that guide the organization in the fulfilment of its mission. These policies reflect the values and guiding principles that determine the organization's strategic goals, objectives, and activities. They provide the appropriate point of departure for the CEO to implement programs and services and/or to develop *subsidiary policies*.

3. Providing financial and legal stewardship

The board approves the annual budget that allocates financial resources in a manner consistent with the strategic plan, goals, and priorities. This is part of the board's responsibility for ensuring the stability and endurance of the organization. The board is also responsible for ensuring that all legal requirements are met.

4. Monitoring and evaluating organizational effectiveness

As the board must answer for the performance of the organization, it needs to monitor the results that are achieved and evaluate the NPO's performance in terms of the strategic direction approved by the board. Monitoring provides an opportunity for redirection if it is required in order to achieve the goals identified. Monitoring is accomplished through four types of reports (all addressed to the board for review):

- Regular CEO reports
- Board committee and task force reports
- Commissioned reports from independent, external third parties
- Financial reports to the board

5. Hiring and evaluating the CEO

The board is responsible for the engagement, direction, and evaluation of the CEO as well as all decisions on the CEO's employment with the organization.

Policy areas governed by the board

The board is responsible for articulating its policies regarding the following areas:

The strategic goals of the organization
What is the organization set up to achieve and for whom? What are the short-term and long-term goals and what resources are committed to them?

The board's governance processes
What are the processes by which the board will fulfil its leadership responsibilities? What is the board's approach to delegation and its understanding of the roles and expectations of directors, committees, task forces, and staff?

Ethics
How does the board define a code of conduct for directors and the CEO, addressing such issues as ethical behaviour and conflict of interest?

Levels of policy

In each of the three areas – strategic goals, governance processes, and ethics – the board moves consistently, to the extent it feels necessary, from the most general policy statements to the more detailed and specific. There is no constraint on how specific the board may choose to be on any particular policy. It should be as explicit as necessary in order to be sure that those who implement the policy will adequately appreciate the board's expectations. The board does not, however, engage in developing policies that are administrative in nature; the *administrative* policies are the responsibility of the CEO.

Authority of the board and individual directors

The board of directors exercises its authority as a whole. No individual director, committee or task force can act with the authority of the board unless specifically delegated to do so by the board. When the board authorizes a director, committee, or task force to act on its behalf, they must do so in a manner consistent with the board's policies.

Responsibilities of the directors

The responsibilities of the directors include the following:

Communication

Individual directors need to be aware of the issues facing the organization so that they can participate in board discussions on a basis consistent with their role. Directors are expected to represent the organization to members and third parties by being able to provide information on the organization's strategic goals and accomplishments. They are also expected to contribute to the NPO in ways other than serving on the board.

Board meetings

Directors have a responsibility to be adequately prepared, to express their views and ideas, to actively listen, and to give due consideration to the views of their board colleagues.

Support for board decisions

To provide leadership to the organization, the board must speak as one, with a consistent voice. Each director is responsible for participating fully in the board's discussion and decision-making process and then supporting the decisions made. This support should be clear in any communications with others (for example, with staff, members, other stakeholders, and the public.)

Board committees

When directors serve on a board committee, they assist the organization in meeting its responsibilities under its constitution and bylaws. They participate on the board committee on the same basis as any other volunteer: that is, they have no special authority to act on behalf of the organization beyond the limits of the terms of reference of the committee.

Board task forces

When directors serve on a task force, they assist the organization by developing policy alternatives and recommendations for the board's consideration. Along with other volunteers, they have no special authority to act on behalf of the organization beyond the limits of the terms of reference of the task force. When created, each task force is given a termination date for its activities.

CEO working committees

When directors serve on a CEO working committee, they assist the CEO in meeting the CEO's administrative responsibilities within the organization. CEO working committees receive their terms of reference from the CEO, and directors who serve on those committees report to the CEO for that purpose.

Board discussions

Discussions at the board of directors are designed to ensure the following:

- All directors participate fully.
- Minority or dissenting views are respected and reflected in discussion of issues.
- Different perspectives on issues are recognized and considered.
- The potential impact of proposed actions is considered prior to decisions being taken.

The chair is expected to serve the board by facilitating this kind of dialogue and prompting the board if some of these aspects are being overlooked in a particular discussion. All directors are expected to be responsible for the quality of the board's discussions, provide support to the chair during the meetings, and make any recommendations for improvement for the board's consideration.

Board decision making

Decisions are made on the basis of a majority vote on a formal motion except as otherwise provided in the bylaws. After a decision has been made, each director is expected to respect and support the decision.

Role of the chair

The chair of the board provides leadership in maintaining unity of purpose within the organization's governance structure and provides a holistic and comprehensive view in overseeing the affairs of the organization. The chair does not represent a particular sector, region or a personal position, but rather adopts an inclusive perspective on issues or policies under consideration. The chair also takes particular concern for the unity of the board, is attentive to its processes and its functioning as a leadership team in which all directors are actively engaged.

The chair is responsible for ensuring that meetings of the board are designed and conducted in a manner that facilitates the kind of comprehensive and inclusive dialogue and effective decision-making required to fulfil the board's responsibilities and the achievement of the organization's mission.

Role of the CEO

It is the responsibility of the CEO to oversee the implementation of the board's policies. Every effort is made to ensure that these policies are as clear as possible, but it is recognized that judgment is required in the implementation of policy within specific situations. In the event that the CEO is unclear regarding the application of any of the board's policies, the CEO should raise the issue for clarification by the board.

The CEO is also responsible for the effective and efficient management of the organization in accordance with the policies and the budget established by the board. This responsibility encompasses delegation of full authority over the organization's operating activities and resources, responsibility for achievement of the organization's strategic goals, and accountability for the organization's results.

The CEO is responsible for ensuring that timely, accurate and concise information is provided to the board so that it can fulfil its leadership responsibilities.

The CEO's responsibilities should be detailed in a *Job Description* and *Annual Workplan* approved by the board. These documents should clearly articulate the board's expectations.

The CEO is accountable to the entire board of directors. Individual directors do not provide direction to the CEO or to other staff. Staff below the CEO level report to the CEO.

CEO's performance evaluation

The board approves the *process* for the evaluation of the performance of the CEO. This process may include input from the directors but is primarily driven by the chair. The chair provides the board with a summary report of the results of the process.

Role of other staff

Staff provide support to the board, its committees, and its task forces. Staff members are expected to implement the board's policies and directions to the best of their abilities within the parameters of the strategic plan and annual budget and in a manner consistent with all policies of the board.

Chapter Three

TEN PRINCIPLES OF COMPLEMENTARY GOVERNANCE

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The Complementary Model of Board Governance is built upon a defined set of ten principles. These principles lay out the fundamental conventions within which the organizational structure, the duties, roles, and responsibilities of the directors and the staff, and the operation of the NPO will function. It is my experience that the governing board must have a clear understanding of the ten principles and must accept them completely in order for the governance model to be successful.

1. The board is responsible for both the governance and the management of the NPO.

Common law has long held that volunteer boards of directors are responsible not only for the governance of their organization but also, in a comprehensive way, for the effectiveness of the management of the organization. Many statutes and government regulations, such as those dealing with labour standards, sales taxes, and unpaid employee wages, hold volunteer directors liable for management failures in these areas. Therefore, to suggest that NPO volunteer directors should work exclusively at the policy level can leave those directors exposed both legally and financially. Directors need to acknowledge and accept their overall responsibility for both governance *and* management.

2. The senior staff person is designated the chief executive officer (CEO) of the organization and is accountable to the board for the management of the organization.

During the 25 years that I have worked and consulted in the NPO community, no single question has been answered with so much hesitation or uneasiness as the query: "Who is the chief executive officer of your organization?" Sometimes the response is that the senior volunteer is the CEO; others consider the senior staff person as the CEO; while many others simply decline to address the issue. The Complementary Model requires that the fundamental issue be dealt with once and for all – and that the senior staff person be given the title CEO. When this action is taken, significant benefits ensue for both the volunteer board and the senior staff person.

However, before listing the benefits, let's look at the rationale for the principle. The *Dictionary of Business Terms* defines "Chief Executive Officer" as follows:

> *The Chief Executive Officer (CEO) is the officer who has ultimate management responsibility for an organization. The CEO reports directly to the board of directors [and] appoints other managers … to assist in carrying out the responsibilities of the organization.*[1]

This definition, in fact, describes the role of the senior staff person of an NPO with pinpoint accuracy. Once there is agreement that the senior staff person is, indeed, the CEO of the organization, it allows the board of directors to hold that individual solely and completely responsible for managing every aspect of the operation of the NPO. Also, because titles convey authority as well as descriptive meaning, experience has demonstrated time and again that the senior staff person will grow into the responsibility of the new position title and rise to meet the demands of that role.

1 *Dictionary of Business Terms*, accessed at http://www.allbusiness.com/glossaries/chief-executive-officer-ceo/4957142-1.html.

3. The senior elected volunteer is the chair of the board.
As chair of the board of directors, the senior elected volunteer is entrusted with all the responsibilities inherent in that position, including meeting and agenda preparation and meeting management. In addition, the chair is responsible for co-ordinating the activities of the board in developing the association's strategic plan, approving the annual budget, monitoring the performance of the organization, and determining the compensation of the CEO.

4. The board is responsible for determining all governing policies of the organization; the CEO is responsible for determining all administrative policies of the organization.
The mantra that "boards make policy and the executive officer executes it" has been accepted within the NPO community for decades. However, as Drucker writes, "The trouble with this elegant answer is that no one knows (or has ever known) what policy is, let alone where its boundaries lie. As a result, there is constant wrangling, constant turf battles, constant friction."[2]

This principle brings clarity to the policy-setting role of both the board and the CEO, and it sets the boundaries for them both. The board's responsibility is to debate and decide upon policies related to governing matters of the NPO, such as the model of governance to be adopted, the mission and strategic goals of the organization, and how the board will monitor organizational effectiveness.

However, policies that are purely administrative in nature, such as office hours, banking arrangements, human resources, and payroll administration, are established by the CEO. So, while the board has significant responsible for policy determination, that responsibility does not extend to defining administrative policies. Policy matters that are purely administrative should not be on the agenda for discussion at board meetings.

[2] Drucker, 222.

5. The board defines and approves a Code of Conduct for the directors and a separate Code of Conduct for the CEO.
When a board of directors articulates its expectations of directors by establishing a *Directors' Code of Conduct*, three positive outcomes follow. First, directors are not subsequently surprised by the requirements of their position because they have been advised in advance what is expected of them. Second, directors can be held accountable for their volunteer performance. Third, there is a greater probability that their performance will rise to meet the expectations that have been established.

Similarly, when boards of directors communicate their expectations of the CEO by establishing a *CEO Code of Conduct*, the same benefits result. In my experience, too often there is a gap between the expectations of a volunteer board and the performance of the directors or between the expectations of a CEO and the CEO's actual performance simply because the board has not clearly articulated its expectations. The definition of separate codes of conduct avoids such misunderstandings.

6. Three types of committees or task forces may be used.
The Complementary Model identifies three alternative organizational components for assisting in the governance and the management of the organization:

- Board statutory committees (also known as board committees or standing committees)
- Policy task forces
- CEO working committees

Board statutory committees
Board statutory committees are established by the board of directors, and the chairs of those committees regularly report on their activities to the board. They are mandated to deal with responsibilities that are outlined in the bylaws or enabling legislation of the organization, for example, member discipline, member ethics, board nominations, or the audit of the NPO. These committees are always chaired by a board

director and can be comprised of both directors and non-directors. They are ongoing and provide written reports at each board of directors' meeting. (See sample terms of reference in Chapter 8.)

Policy task forces

Policy task forces are established by the board of directors and regularly report on their activities to the board. They are always chaired by a board director, are comprised of members of the board itself, and are mandated to examine and develop recommendations on board policy matters. These task forces have a limited time horizon, a defined "sunset" clause in their mandate, and are required to provide written reports for each board of directors' meeting until their task is completed. (See sample terms of reference in Chapter 8).

CEO working committees

CEO working committees are established by the CEO and report to the CEO. They are mandated to deal with operational or management matters, such as administration of the organization's conferences, professional development programs, or fundraising. The chair of a CEO working committee is appointed by the CEO and may be either a staff member or a volunteer. The committee can comprise staff, directors, and/or non-directors. Its composition is entirely at the discretion of the CEO. It is important for directors serving on CEO working committees to recognize that in this committee capacity they are not serving primarily as directors of the organization, but serving at the request of the CEO. Reports on the activities of CEO working committees are provided at each board meeting through the CEO Report. (See sample terms of reference in Chapter 8).

7. Four monitoring options are available to the board.

One of the most important responsibilities of the board of directors is monitoring the performance of the organization – and taking the appropriate corrective action if things are not progressing as the board had planned. The Complementary Model establishes four methods for the board to use in meeting this responsibility:

- The CEO report
- Task force reports and board statutory committee reports
- External reports
- Financial reports

The CEO report

In preparation for each meeting of the board of directors, the CEO provides a written report outlining the status of the projects for which the CEO is responsible, the activities of the CEO working committees, instances where the CEO has breached the CEO Code of Conduct or Conflict of Interest policy, and any other matters for which the board has requested updated information. Importantly, this report is in writing and is distributed prior to the meeting – verbal reports are not permitted. The report is not read at the meeting, but the CEO does respond to questions from the directors about its contents.

CEO reports provide an excellent "paper trail" for the board and allow the directors to monitor how administrative matters and board policy matters affecting the CEO are functioning.

Task force and board statutory committee reports

In preparation for each meeting of the board of directors, the chairs of the various task forces and board statutory committees provide the CEO with a written status report on the activities of their groups. These reports, too, are in writing and distributed prior to the board meeting – verbal reports are not permitted. They are not read at the meeting, but the task force/committee chairs do respond to questions from the directors about their contents. In addition, if necessary, the task force/committee chair can request the board's assistance or direction on particular issues.

External reports

The board of directors may, at any time, engage an independent third party "expert" to review a management or policy issue or area of the organization. This person or firm will be hired by the board (or task force acting on its behalf), will receive terms of reference from the board, and will report directly to the board. For example, if the board

had a concern that government remittances were not being properly handled, an independent accountant could be engaged to review this financial administration area and report findings to the board. Or, if the board had a concern that human resource policies were inconsistent with community norms or legislation, it could engage an independent third party specialist to review these administration areas and likewise report. At no time, however, would individual directors be permitted to conduct such a review on behalf of the board.

Financial reports

The directors will review periodic financial reports prepared by staff and submitted to the board. While it is important to acknowledge that the financial skills of individual directors may vary considerably, it must also be recognized that all directors have a responsibility for the financial health of the organization. Consequently, directors have every right to require from the CEO financial reports that permit them to meet their custodial responsibility.

Unfortunately, traditional statements such as the organization's balance sheet, income statement, and cash flow statement, often do not enable directors who have neither bookkeeping nor accounting experience to determine the financial status of the organization. A far superior report for the board to review and monitor is a variance report that compares actual revenues and expenses to the approved budget of the organization. This type of statement should highlight divergences from the organizational budget that was approved by the board and provide directors with sufficient information to monitor the financial health of the NPO. (See sample financial report, Chapter 7.)

8. The board makes an annual written appraisal of the CEO.

A major cause of confusion and misdirection within NPOs is a sheer lack of documentation. Committee terms of reference may not be clearly spelled out; job descriptions may not exist for directors; there may be no written strategic plan. Similarly, there may be no written

set of strategic goals or a workplan for the CEO and subsequently, no written appraisal of the performance of the CEO.

However, two important questions for the CEO are: "How am I performing?" and "How can I do a better job in my role as CEO?" A board of directors is doing no one any benefit by avoiding these questions. Consequently, the Complementary Model requires this type of feedback to be provided to the CEO every year.

Completing an annual written appraisal of the CEO does not have to be a tortuous event, full of unexpected surprises. It should, in fact, be a summary of the CEO's successes over the past year, as well as a review of goals that were missed or only partially met. All of this information is reviewed, comprehensively, annually, so that the expectations are clear for the ensuing year. It is important for the board to realize that the process of completing the CEO's appraisal for any year actually began the previous year when the strategic plan for the NPO was approved by the board.

9. The governance committee coordinates written appraisals of all volunteer directors on the board.

"How are we performing?" and "How can we do a better job in our volunteer role?" are two equally important questions for NPO directors. Drucker writes, "Many of these ... volunteers insist on having their performance reviewed against preset objectives at least once a year. And increasingly, they expect their organizations to remove nonperformers."[3] Just because volunteer directors may not be paid for their board service does not mean that the NPO should have no performance standards for them. If the organization wants them to do a good job, then the volunteers need feedback on their performance as much as anyone else. Hence the place of this principle of the Complementary Model and the need for performance feedback to directors at least annually. The trend is clearly in this direction. According to an annual survey conducted by Association Management Consultants Inc. in 2004,

[3] Drucker, 213.

only 8% of NPOs completed volunteer appraisals;[4] in the 2010 survey that had increased to 29%.[5]

Responsibility for completing this work should be included in the terms of reference of a *governance committee*. An effective volunteer appraisal system will help that committee identify candidates for future, more senior roles on the board. In addition, the evaluations can identify training needs for the board members. For example, if most directors respond that they have difficulty understanding the financial reports provided by staff to the board, the solution to this problem may well be to arrange for a seminar for the entire board on that subject.

Your board may prefer to begin the process of introducing volunteer appraisals by first implementing an evaluation system for the board as a whole rather than for individual directors. Then later, after they become familiar with the process and benefits of volunteer appraisals, they may be more confident in expanding the scope to the board members.

In Chapter 7, we provide sample templates that your organization can use to help get your organization started on the road to performance appraisal.

10. Board training is a priority, budgeted item.

Drucker writes of this issue:

> What do these unpaid staff people [volunteers] themselves demand? What makes them stay – and, of course, they can leave at any time. The first and most important demand is that the nonprofit have a clear mission, one that drives the organization…. The second thing this new breed [of

[4] *2004 Confidential Compensation and Operations Report of Association Executives Employed in British Columbia* (Vancouver, BC: AMC, 2004).
[5] *2010 Confidential Compensation and Operations Report of Association Executives Employed in British Columbia* (Vancouver, BC: AMC, 2010).

> volunteers] requires, indeed demands, is training, training, and more training.[6]

Most NPO directors agree that a clear mission is vital for the organization (see Chapter 5), and many boards spend considerable time, effort, and money ensuring that this is accomplished. Far fewer NPOs, however, appreciate the correlation between volunteer training and volunteer performance. The linkage between effective board training and effective board performance should not come as a surprise. If your directors are not told what their role in the organization is, and if they are not provided with the training and other support necessary to fulfil that role, why should anyone be surprised if they are not successful and happy directors? Attention must, therefore, be paid to this principle.

The most effective training program will be built on the foundation provided by a *Directors' Manual*. More information about the contents of this document appears in Chapter 9.

[6] Drucker, 213.

Chapter Four

OPERATING UNDER THE COMPLEMENTARY MODEL

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OPERATING UNDER THE COMPLEMENTARY MODEL

When an NPO implements the Complementary Model, what do the operations of the organization look like to those inside and outside the NPO?

To the casual observer from outside of the organization, the changes in the operating features of the NPO, while numerous, may seem individually trivial. However, when taken as a whole, whether the NPO is a charity, a trade association, a professional association or college or a common interest group, the new governance model will permit the organization to operate more effectively and more efficiently. Even beyond these benefits, it will create a more pleasant environment in which the board and the CEO carry out their duties.

There are ten operational features that together characterize the way an NPO conducts its business under the Complementary Model.

1. The board sets governing policies; the CEO implements them; both monitor organizational effectiveness.

About 30 years ago, I attended my first volunteer orientation session as the chair of an association chapter. (At the time, regardless of gender, we were all called chairmen). At the beginning of the evening, the executive director of the association stood in front of the new volunteers and announced for us all to clearly hear, understand, and unquestionably accept: "Boards set policy – staff implements policy."

Oh, if it were only so simple! In truth, boards and CEOs get into far too many "turf" battles over policy creation. The Complementary Model helps sort this out by recognizing that there are two fundamentally different types of policies – *governance policies* and *administrative policies*. This realization adds clarity to the role of the board and the CEO when it comes to policy development. Under the model, the board creates, discusses, and approves only governance policies (for example, setting the criteria for categories of membership, standards of practice, and ethics). So, for example, a board of directors might establish a Code of Ethics that would apply to all members in the association, or on another occasion a Code of Conduct for directors or staff.

2. The CEO establishes administrative policies.

The board does not, however, engage in discussions or make decisions related to administrative policies. For example, policies related to office hours of operation, overtime, and holiday entitlements would be established by the CEO, within the parameters of applicable legislation. Where such administrative matters are not specifically covered by legislation (and in most jurisdictions there are prevailing minimum legislated standards), it is the responsibility of the CEO to determine what the NPO's policies should be. If there are minimum legislated standards, it is the responsibility of the CEO to determine if those minimum standards should be exceeded in the association, and if so, to what degree.

3. The board approves the strategic plan.

One of the board's key responsibilities is to set the strategic direction for the organization. This role can only be fulfilled if the board is included in the actual strategic planning process. How deeply involved the board will become in the creation of the strategic plan will likely vary from one NPO to another, but the directors must always be participants in the process. It is even more essential that they have the final say on approving (or rejecting) the developed strategic plan. The development of the plan is discussed in Chapter 5.

4. The board approves the annual financial budget.
After the strategic plan has been approved by the board of directors, it is the staff's role to define what programs and activities the NPO will undertake to successfully implement the plan – and how much the implementation phase will cost. Having done so, it is the board's responsibility to review and approve the budget submitted by the CEO.

5. An executive committee's mandate is limited.
Many NPOs still believe there is a need in their governance structure for an *executive committee*. For many years, it was assumed that with the increased ability of directors to communicate with one another and with the growing use of "virtual meeting" software, the need for an executive committee would decline. That has not happened. The Complementary Model accepts this reality but does require that if an NPO chooses to have an executive committee, its mandate must be very clear and limited to specified tasks.

6. With fewer committees, board meetings become shorter.
Under the traditional model of board governance, many board committees would find themselves actually engaged in administrative work. Under the Complementary Model, however, such work will more properly be done by CEO committees reporting to the CEO (see Chapters 3 and 4). This arrangement results in two significant benefits. First there are fewer committees required to report on activities to the board of directors. Second, and as a consequence, board meetings become shorter. This twofold reduction in the demand on volunteer time is a universally welcomed operational feature of the Complementary Model.

7. There are separate manuals for board members and staff.
The Complementary Model requires a clear differentiation between governance policies and administrative policies. To make this happen, an NPO would be encouraged to create two distinct policy manuals. The first is a *Directors' Manual*, designed for members of the board; it will be generally consistent in its message and contents across the

NPO spectrum. The second is a *Staff Manual*, a "how-to" manual designed for the staff of the NPO; it may vary greatly in content and other aspects from one NPO to another. The content of the *Directors' Manual* is described in detail in Chapter 9.

8. The chair develops the meeting agenda.
As with most models of governance, the Complementary Model assigns responsibility for developing the board meeting agenda to the chair. This does not mean that the CEO cannot have input into crafting the agenda. However, it does mean that the chair, and not the CEO, has the authority and responsibility for deciding what will be discussed at the board meeting. At the meeting itself, consistent with common "Rules of Order," all directors have an opportunity at the beginning of the meeting to add to or otherwise change the meeting agenda.

9. The secretary is *not* responsible for drafting the minutes.
There are two attributes of minute-taking that justify assigning this task to staff, rather than to a director, or as was common under the traditional model, to the secretary of the organization.

First, there is nothing "policy-oriented" about taking the minutes of a board of directors' meeting. It is an important task, to be sure, but is not a policy development activity. Therefore, it is logical for the minutes to be taken by a staff person, rather than having a director spend their board participation time on this operational task.

Second, minute-taking is a skill that is not equally possessed by everyone. As a consequence, the NPO is better served if a staff member is trained to fulfil this important role. The result will be for the board to have a consistent and higher standard of recording the business of the board of directors from one meeting to the next.

10. The treasurer is *not* responsible for presenting financial reports to the board of directors.

Similarly, the preparation and presentation of financial reports is an important operational function. However, as with the taking of minutes, there is nothing "policy-oriented" about the preparation and presentation of the actual financial reports. Consequently, it again makes sense for this administrative task to be completed by a staff person, not by the treasurer of the organization.

Viewed overall in terms of these ten operational features, the Complementary Model of Board Governance does not represent a revolutionary change in how directors function within their NPO. But it does result in a practical and logical evolution in the procedures followed by the board; and it enables directors to continue to meet their fiduciary and legal responsibilities while providing them with broader opportunities to participate more effectively in the governance of the organization.

Chapter Five

STRATEGIC PLANNING: IT BEGINS HERE

Chapter Five

STRATEGIC PLANNING: IT BEGINS HERE

The goal was set by U.S. President John F. Kennedy on May 25, 1961:

> I believe we possess all of the resources and talents necessary. But … we have never specified long-range goals on an urgent time schedule, or managed our resources and our time so as to insure their fulfilment ….
>
> I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the earth.

This goal was articulated by Kennedy only 20 days after America had put its first astronaut into space, for a suborbital journey lasting a mere fifteen minutes and travelling to an altitude of 116 miles and a distance of 303 miles. To quote another U.S. President, Barack Obama, it truly was "the audacity of hope." Nonetheless, what was accomplished was profound.

The result: the Lunar Landing: August 20, 1969.

Apollo 11 touched down on the Sea of Tranquility landing site on the moon. After eight years of planning, implementation, and monitoring progress, and a final journey of 240,250 miles, Apollo 11 settled on the surface of the moon with less than 30 seconds of fuel remaining in its descent engines.

It had all begun with the articulation of a "simple" goal.

Strategic Planning

Your organization's goal may not be as lofty as going to the moon (though some days it might feel as likely). However, adequate planning is just as important. Before describing how an NPO should complete this vital exercise, let us once again set out some definitions:

Exhibit 5.1 Common strategic planning definitions

Strategic planning	The leadership function of articulating why an organization exists; setting strategic goals that will enable the organization to move towards fulfilling its reasons for existence; establishing time-phased plans that identify measurable results for meeting those strategic goals; and identifying who is responsible for meeting the strategic goals.
Mission statement	A clear, concise, inspiring statement that states what the organization is; what type of organization it is; and what it does, for whom, and where.
Vision statement	A concise picture of an ideal, desired future for the organization.
Values statement	A statement of how the organization should act to reach its vision.
Strategic goals	What is to be accomplished long-term to achieve the mission.
Objectives	Specifically how the strategic goals are to be reached. The shorter-term targets that will move the organization measurably towards meeting its longer-term strategic goals.
Time-phased plan	A plan with a deadline.
Measurable results	The information used to quantify the success of the organization in achieving its objectives and goals.

Why Strategic Planning is Important

One of the most significant differences between for-profit and not-for-profit organizations is in how each measures organizational achievement.

In the corporate world, the organization's stakeholders often measure success by looking at the "profit" generated. For publicly-traded companies, the measurement of success is frequently tied to the share price of the firm's stock. While many would point to serious flaws with both methods of measuring performance, they both continue to be used widely in the corporate world.

In NPOs, however, where there is no share price, and "profit" (also known as "surplus") is not the purpose of the organization, the measurement methods common in the corporate environment are both unusable and even inappropriate. This is why strategic planning is such a vital part of governing, managing, and monitoring an NPO's performance.

How the Strategic Plan is Created

There are many books that describe how to complete an NPO strategic plan, and consultants may readily be found to assist in creating the plan. Nevertheless, whatever method you use to complete the strategic planning process, the roles of the board directors and the staff are generally constant.

The role of the board of directors

1. Making the time available for a face-to-face planning session or sessions.
2. Defining and formally approving the mission statement.
3. Defining and formally approving the strategic goals.

4. As time permits at the face-to-face planning meeting(s), providing input to staff regarding NPO shorter-term objectives that will support the longer-term strategic goals.
5. Approving the strategic plan developed by staff and presented to the board.

The role of the CEO and senior staff

1. Handling all logistics of the face-to-face planning meeting(s).
2. Completing any advance research work required for the planning meeting(s), including obtaining membership input via surveys, focus groups, or the internet.
3. Joining as full participants in the discussions of mission and strategic goals at the meeting(s).
4. Defining objectives and programs necessary to support the mission and strategic goals.
5. Drafting a strategic plan document for the review and approval of the board of directors.

What is achieved through the planning process

A successful and comprehensive strategic planning process will, among other outcomes:

1. Re-affirm the mission of the NPO.
2. Establish strategic goals that are consistent with the mission.
3. Identify major objectives that support the strategic goals.
4. Identify who is responsible for the completion of those strategic goals and objectives.
5. Establish timelines for the accomplishment of the strategic goals and objectives.
6. Establish a monitoring system for overseeing the work on the strategic goals.

In my experience as a consultant, the major shortcoming in the strategic planning process at many NPO strategic planning exercises is a lack of discipline in completing Steps 4, 5, and 6 in the preceding list. Too often, these steps are not adequately completed and no one in the NPO is held accountable. The result is that when the NPO reviews, at its next planning session, what has been accomplished since the last one, there is widespread disappointment.

The successful creation of the strategic plan also requires that Steps 1 and 2 be completed by the board of directors at a face-to-face planning meeting or meetings attended by both directors and senior staff. Also, if time permits at the meeting(s), there may also be an opportunity for the directors to provide input to staff regarding the identification of the major objectives required to complete Step 3.

After the planning meeting(s) has been completed, the CEO and staff will take the approved mission statement, the strategic goals, and the input that was provided regarding the major objectives and draft the strategic plan. The plan will then be formally presented a full board meeting for review and formal approval.

After the strategic plan has then been costed out by the staff, the recommended budget will be brought back to the board for approval.

The end of the strategic *planning* process (represented by the formal approval of the strategic plan and the budget by the board) becomes the starting point for (a) the *implementation* work of the staff and (b) the *monitoring* work of the board. This board oversight work must include approving effective monitoring systems and procedures for both the performance of the CEO and the performance of the board and board committees (see Chapter 7).

The end of the strategic planning work by the board of directors does not mean the end of the work of the board. However, it does mark a shift in the board's role from one vital function to another – from responsibility for *setting* the *strategic* direction of the organization to responsibility for *monitoring the performance* of the organization.

Chapter Six

SETTING THE ETHICAL STANDARDS

Chapter Six

SETTING THE ETHICAL STANDARDS

At this point, I have defined the strategic plan of the organization and the responsibilities of the players with regard to the strategic plan. An equally important board responsibility is to set the ethical standards that are expected of those who will work at accomplishing the mission of the organization.

The board does this by developing and approving a *Directors' Code of Conduct*, a *CEO Code of Conduct*, and a *Conflict of Interest Policy*. By doing so, the board advises both the directors and staff as to what is expected from them in terms of behaviour.

In the following pages, I present samples of these three important documents. I do not suggest that your NPO board adopt these particular documents, word-for-word as they appear, but instead you may use them as a foundation for developing material that will be uniquely applicable to your NPO.

Directors' Code of Conduct

Some readers will find the code set out in Exhibit 6.1 is entirely appropriate to their organization and could be adopted with little modification. In other organizations, there could be much debate about some of the wording, for example, item 6 on board solidarity, or item 15 on communication with the media or general public.

The important point is not whether your organization agrees with the wording that appears here. The task is for your board to agree on a code and to ensure that directors know what it sets out, and how they are required to observe and adhere to it. That will result in predictability in the behaviour of the directors and less confusion as to what constitutes acceptable performance.

Exhibit 6.1 Directors' Code of Conduct
(for a society)

1. Directors shall at all times use their best efforts to provide progressive, collective leadership and direction to the Society in support of its mission.

2. Directors shall adhere to the Society's governance policies.

3. Directors shall adhere to the Society's Conflict of Interest Policy; avoid, in fact and perception, conflicts of interest; and immediately disclose possible conflicts to the board.

4. Directors shall endeavour to direct the activities of the organization as a whole rather than in their own interest or that of any specific group.

5. Directors shall maintain the confidentiality of the details and dynamics of board discussions, as well as those items designated as confidential.

6. Regardless of their personal viewpoint, directors shall not speak against, or in any way undermine board solidarity once a board decision has been made.

7. Directors are expected to attend all board meetings and be prepared for the meetings, having read pre-circulated material in advance.

8. Directors' contributions to discussions and decision making shall be positive and constructive and directors' interactions in meetings shall be courteous, respectful, and free of animosity.

9. Directors shall be prepared to commit sufficient time and energy to attend to Society business.

10. Directors shall participate in the Society in ways other than attending board meetings.

11. Directors shall adhere to the principle that the CEO is responsible to the entire board of directors and consequently that no single director or committee has authority over the CEO.

12. Directors shall adhere to the principle that the chair of the board of directors is the communications link between the board and the CEO.

13. Directors shall ensure that there is a current Position Description and annual Work Plan for the CEO and that there is a process for the CEO's annual evaluation.

14. Directors shall not attempt to exercise individual authority or undue influence over the Society.

15. The official spokespersons for the Society are the chair of the board of directors and the CEO; consequently, all public requests for comment on Society policies shall be referred to them.

16. The chair may make public statements on policy matters that are within the scope of a policy approved by the board, or a reasonable extension of a policy.

_____ Director's signature and date

CEO's Code of Conduct

For similar reasons, the board of directors should develop and approve a CEO's Code of Conduct. Exhibit 6.2 provides a sample document that can be used as a guide.

Exhibit 6.2 CEO's Code of Conduct (for a society)

1. The CEO shall at all times use his/her best efforts to efficiently and effectively manage the operations of the Society in support of its mission.

2. The CEO shall adhere to the Society's governance policies.

3. The CEO shall adhere to the Society's Conflict of Interest Policy; avoid, in fact and perception, conflicts of interest; and immediately disclose possible conflicts to the board.

4. The CEO shall keep the board apprised of relevant trends, anticipated adverse media coverage, and any other material external and internal changes that could impact on the Society.

5. The CEO shall advise the board of any staffing changes at the senior level.

6. The CEO shall advise the board of any complaints related to quality of service that have not been resolved to the complainant's satisfaction through normal staff processes.

7. The CEO shall at all times treat staff and volunteers in a courteous, fair, and dignified manner.

8. The CEO shall not change his/her own compensation, benefits, or holidays.

9. The CEO shall maintain the confidentiality of the details and dynamics of board discussions, as well as those items designated as confidential.

10. Regardless of his/her personal viewpoint, the CEO shall not speak against, or in any way undermine board decisions, board-approved policies or programs or their implementation.

11. The CEO may make public statements on policy matters that are within the scope of a policy approved by the board, or a reasonable extension of a policy.

12. The CEO shall attend all board and other designated meetings unless granted leave by the chair.

13. The CEO shall advise the chair, in advance, of any extended absences, for business or personal reasons.

14. The CEO shall submit travel expense claims to the chair of the finance committee for approval.

15. The CEO shall ensure that agenda materials and supporting documents are circulated at least one week in advance of board meetings.

16. The CEO shall ensure all government filing requirements and tax payments are made in a timely manner.

_____ CEOs signature and date

Conflict of Interest Policy

The third policy tool to establish for setting effective standards for personal performance is a Conflict of Interest Policy that applies both to the directors and the CEO. The sample document in Exhibit 6.3 is based on a publication produced by a not-for-profit legal society in Canada. It is entitled *Draft Model Conduct Guidelines*[1] and is as relevant today as it was when first published.

Monitoring the Standards

With appropriate versions of these three personal performance policies, an NPO board of directors will have successfully articulated the ethical standards it expects from its directors and its CEO. The performance of these individuals can be monitored and compared to these standards.

[1] *Draft Model Conduct Guidelines,* Law Reform Commission of BC, 1993.

Exhibit 6.3 Board of Directors and CEO Conflict of Interest Policy

Contents

Para 1	Definition
Para 2	General duties
Para 3	More about avoiding a conflict of interest
Para 4	Using Society property and Society information
Para 5	Rules about gifts

Definition

1.1 A "conflict of interest" is any situation where

(a) Your personal interests, or

(b) Those of a close friend, family member, business associate, corporation, or partnership in which you hold a significant interest, or a person to whom you owe an obligation *could* influence your decisions and impair your ability to

(i) Act in the Society's best interests, or

(ii) Represent the Society fairly, impartially and without bias.

It is important to note that a "conflict of interest" exists if the decision *could* be influenced - *it is not necessary that influence takes place.*

General duties

2.1 Unless authorized to do so by the board, or by a person the board designates, you may not

(a) Act on behalf of the Society, or deal with the Society, in any matter where you are in a conflict of interest or appear to be in a conflict of interest, nor

(b) Use your position, office or affiliation with the Society to pursue or advance your personal interests or those of a person described in paragraph 1.1(b).

2.2 The "appearance of a conflict of interest" occurs when a reasonably well informed person properly could have a reasonable perception that you are making decisions on behalf of the Society that promote your personal interests or those of a person described in paragraph 1.1(b).

2.3 You must immediately disclose a conflict of interest to the board of directors either in writing or as minuted at a board of directors' meeting. It is important to make the disclosure when the conflict first becomes known. If you do not become aware of the conflict until after a matter is concluded, nevertheless you must still make the disclosure immediately.

2.4 If you are in doubt about whether you are or may be in a conflict of interest, you must request the advice of the board of directors or a person the board designates.

2.5 Unless otherwise directed, you must immediately take steps to resolve the conflict or remove the suspicion that it exists, by

- Promptly declaring to the board of directors any conflict of interest as defined by this policy and asking that such declaration be recorded in the minutes
- Excusing yourself from the portion of the meeting where the matter giving rise to the conflict of interest is being discussed
- Refraining from all discussion of the matter giving rise to the conflict of interest, at any meeting of the board of directors, or elsewhere
- Refraining from voting on the matter giving rise to the conflict of interest, at any meeting of the board of directors.

More about avoiding a conflict of interest

3.1 You must not

(a) Use your relationship with the Society to confer a benefit on a person described in paragraph 1.1(b). This duty does not prevent you or anyone else from conducting business with other people connected with the Society

(b) Personally benefit from any business activity involving the Society except in unique situations, authorized by the board

(c) Indirectly benefit from any business activity involving the Society except in unique situations, authorized by the board.

3.2 An "indirect benefit" is

(a) A benefit derived by a close friend, family member, business associate, or a corporation or partnership in which you hold a significant interest, or

(b) A benefit which advances or protects your interests although it may not be measurable in money.

Using Society property and Society information

4.1 You must have authorization from the board, or from a person the board designates,

(a) To use, for personal purposes, property owned by the Society, or

(b) To purchase Society property unless it is through channels of disposition equally available to the public. Even then you may not purchase the property without authorization if you are involved in some aspect of the sale.

4.2 You may not take personal advantage of an opportunity available to the Society unless

(a) It is clear that the Society has irrevocably decided against pursuing the opportunity, and

(b) The opportunity is equally available to members of the public.

4.3 You may not use your position with the Society to solicit any Society stakeholder for a personal business or one operated by a close friend, family member, business associate or a corporation or partnership in which you hold a significant interest. This duty does not prevent you or anyone else from transacting business with other people connected with the Society.

4.4 "Society information" is information that is acquired solely by reason of involvement with the Society and which the Society is under an obligation to keep confidential.

4.5 You may use Society information only for Society purposes.

4.6 You must not use Society information for your personal benefit.

4.7 You must protect Society information from improper disclosure.

4.8 You must report to the board, or to a person the board designates, any incident of abuse of Society information.

4.9 You may divulge Society information if

(a) You are authorized by the board or by a person designated by the board to release it, and

(b) It is to a person who has a lawful right to the information.

4.10 If you are in doubt about whether Society information may be released, you must request advice from the board or from a person the board designates.

Rules about gifts

5.1 You may accept a gift made to you because of your involvement in the Society in the following circumstances:

(a) The gift has no more than token value

(b) It is the normal exchange of hospitality or a customary gesture of courtesy between persons doing business together

(c) The exchange is lawful and in accordance with local ethical practice and standards, and

(d) The gift could not be construed by an impartial observer as a bribe, pay off or improper or illegal payment.

5.2 You may not use Society property to make a gift, charitable donation, or political contribution to anyone on behalf of the Society. Any gift must have the authorization of the board of directors or a person the board designates.

5.3 Even if you are not a director, if you are in a position to influence decisions made on behalf of the society, the board must treat you as if you are a director.

Chapter Seven

MONITORING ORGANIZATIONAL PERFORMANCE

Chapter Seven

MONITORING ORGANIZATIONAL PERFORMANCE

Approving the strategic direction of the organization is one of the most important functions of the NPO board of directors. As described in Chapter 5, the completion of the strategic plan by the board leads to the equally important board role of monitoring the performance of the organization. In the Complementary Model this is accomplished via a number of different mechanisms.

1. CEO Report

The Complementary Model requires that for each board of directors meeting the CEO prepare a written report that covers three subject areas:

- The CEO's conformance with the CEO Code of Conduct
- The status of the implementation of the strategic plan
- The status of the activities of the CEO committees

The CEO Report is a *written* report provided for each board meeting. The CEO does not read the report to the meeting but responds to questions about its content. The CEO must report any breaches of the Code of Conduct. The report addresses the activities of the CEO working committees in relation their pre-set objectives outlined in each committee's terms of reference (see Chapter 8).

2. Board Committee and Task Force Reports

Written reports from each board committee and task force are provided for each board of directors meeting. The chairs of these groups do not read the reports to the meeting but respond to questions about their content. The pre-set objectives of these groups are represented by their terms of reference which have been created and approved by the board of directors (see Chapter 8).

3. External Report

The board may at any time engage an independent third party to review any management or policy area of the NPO. The independent third party would prepare a report on its findings and deliver the report directly to the board chair.

4. Financial Report

Most boards of directors receive periodic financial reports from their CEO. In practice, however, many board members have found most of these financial reports to be virtually incomprehensible and of little use to them. Directors have a right to demand from the CEO information that will help them monitor the financial performance of their organization. Unfortunately, traditional statements such as the balance sheet and income statement often do not effectively allow directors to meet that requirement. While these statements are important and legally required in most jurisdictions, they are not *governance* reports.

To meet its fiduciary responsibility, therefore, the board requires a different type of statement – a simple and brief financial report that allows directors to compare how revenues that are being generated and expenses being incurred by the organization compare to what they approved. In other words, directors need to see how things are progressing compared to the annual budget they previously approved. So the financial report they receive should be designed to highlight variances from the approved budget.

Exhibit 7.1 shows the format I recommend. The important things to note are these:

- The statement is titled "Annual Budget and Financial Report for the period [date, 20XX] to (date, 20XX)."
- The left-most column lists, under Revenues or Expenses, the various budget categories previously approved by the board.
- The first financial column lists for each category the annual budget approved by the board.
- The second financial column presents the actual revenue and expense data to the month-end indicated (before the board meeting)
- The third financial column presents the free balance of unspent funds remaining in each budget category.
- The final column provides, for each category, the percentage of the budget that has been received or spent as of the period end.
- Below the Expense categories, the Surplus line shows the surplus that was budgeted and the actual surplus at the period end.
- The "% of Year Passed" (in this example, 42%) is the percentage in time of the budget year covered by the report.
- The box at the bottom of the report presents selected balance sheet data that the board (in this case) wishes to monitor more closely: in this example: cash in bank, term deposits, accounts payable, and accounts receivable.

In most NPOs, directors find that most of the major expenditure items are linear. That is, salaries and lease costs and other large expense items are relatively consistent month after month. The same is true, to a lesser extent, with revenues. Even if this pattern does not exist, the report is still a highly effective tool for directors. By comparing the "% of Year Passed" with the NPO's actual financial data, directors can ask about the anomalies, or items that do not seem logical or make sense. For example, in this case, when the organization is 42% through the year:

- Why is the Publications budget already 73% spent?
- Why is the Public Relations Committee budget only 2% spent?
- Why is the Education Committee budget overspent by 11%?

Receiving adequate responses to these questions and deciding what to do in light of the responses is at the core of sound financial management, and this type of report can help directors meet their fiduciary responsibilities.

Exhibit 7.1 Annual Budget and Financial Report

for the period Jan. 1, 20XX – May 31, 20XX

	20xx Budget	*Total to 05/31/20xx*	*Free Balance*	*% Rec'd/ spent*
Revenues				
Membership dues	$3,760,000	$3,340,615		89%
Dinner meetings	34,488	15,552		45%
Education sessions	2,600,000	1,066,205		41%
Interest	15,750	2,583		16%
Total	$6,410,238	$4,424,955		69%
Expenses				
Publications	$6,200	$4,500	$1,700	73%
Dinner meetings	30,600	11,200	19,400	37%
BoD meetings	84,200	35,829	48,371	43%
Printing	91,250	48,300	42,950	53%
Salaries	3,150,000	1,291,500	1,858,500	41%
Education sessions	2,300,000	897,000	1,403,000	39%
Public Relations Cte.	80,000	1,983	78,017	2%
Research Committee	60,000	20,000	40,000	33%
Education Committee	23,000	25,600	(2,600)	111%
Awards Committee	35,000	30,239	4,761	86%
Total	$5,860,250	$2,366,151	$3,494,099	40%
Surplus	$549,988	$2,058,804		

% of Year Passed	42%

Cash in Bank	$648,000
Term Deposits	$3,800,000
Accounts Payable	$53,256
Accounts Receivable	$14,500

Monitoring the Performance of the Board

Monitoring the performance of the board and the CEO is an important role of the board of directors, and more NPOs are assigning a higher priority to this role than in past years. AMC surveys of NPOs (Exhibit 7.2) have shown fairly consistent growth in the use of written appraisals of board members (from 11% in 2005 to 30% in 2011), with written appraisals of the CEO being conducted by an average of 70% of NPOs over the same period.[1]

Exhibit 7.2 Percentage of NPOs conducting written annual appraisals of board and CEO

Year	Appraisals of Board Members	Appraisals of the CEO
2005	11	68
2006	16	65
2007	22	73
2008	19	77
2009	30	95
2010	29	77
2011	30	70

While the AMC surveys of NPOs clearly show that the monitoring of board and volunteer performance is becoming more accepted, there are still a good many NPOs that find it too much of a leap. For those organizations, I recommend that, as a first step towards a comprehensive system, they introduce a *Board Performance Self-Evaluation.*

[1] *Confidential Compensation and Operations Report of Association Executives Employed in British Columbia* (Vancouver, BC: Association Management Consultants, 2011).

This type of self-evaluation could be undertaken, for example, after the board has met several times, and then again towards the end of the operational year. A summary of results should flow back to a *governance committee* which could then use the information to identify training opportunities to work towards improved board performance in certain areas. The governance committee is a board committee that is assigned the responsibilities normally given to a nominations committee, plus responsibility for overseeing volunteer appraisals, board appraisals, succession planning, recruiting new directors, and identifying board training opportunities.

Exhibit 7.3 presents an example of a structured board performance self-evaluation.

Exhibit 7.3 Board Performance Self-Evaluation

(To be completed by each director and submitted to the governance committee)

Directions: For each item, please circle a number from 1 (strongly disagree) to 4 (strongly agree)

1.	The board, as a whole, has a good understanding of its governance philosophy, including its role and its overall responsibilities.	1 2 3 4
2.	The board knows the organization's mission statement and major goals.	1 2 3 4
3.	The board considers strategic issues that may affect the organization.	1 2 3 4
4.	The board knows the operating structure (board, officers, committees and staff) of the organization.	1 2 3 4
5.	The board has worked with staff to develop the strategic plan.	1 2 3 4
6.	The board deals primarily with policy-related issues.	1 2 3 4
7.	The board avoids micro-managing the organization.	1 2 3 4
8.	The board monitors the staff's progress in implementing the strategic plan.	1 2 3 4
9.	The board monitors the staff's progress in achieving strategic goals.	1 2 3 4
10.	The board approves the annual financial budget of the organization.	1 2 3 4
11.	The board receives regular reports on financial performance of the organization.	1 2 3 4
12.	The board receives understandable reports on financial performance.	1 2 3 4
13.	The board receives regular reports on the program performance of the organization.	1 2 3 4
14.	The board receives understandable reports on the program performance.	1 2 3 4
15.	The board helps set fundraising goals of the organization.	1 2 3 4
16.	The board is successful in fundraising.	1 2 3 4

17.	The board's agenda is circulated before meetings in adequate time for review.	1 2 3 4
18.	Board members come to the board meetings adequately prepared, having read pre-circulated materials.	1 2 3 4
19.	The board meetings are orderly.	1 2 3 4
20.	Board discussions focus on the debate of issues and policies.	1 2 3 4
21.	Board discussions are conducted in a non-threatening environment.	1 2 3 4
22.	Interactions at board meetings are courteous and professional.	1 2 3 4
23.	Individuals' comments at board meetings are treated as confidential.	1 2 3 4
24.	The chair ensures that ample time is provided at board meetings for all interested parties to be heard.	1 2 3 4
25.	The chair ensures that no single individual or group dominates the discussions at board meetings.	1 2 3 4
26.	The chair ensures that board work is appropriately distributed among the board members.	1 2 3 4
27.	The board objectively assesses the work and the recommendations of its committees and task forces.	1 2 3 4
28.	When a board decision is made, the entire board supports its successful implementation.	1 2 3 4
29.	The diversity of the members and/or stakeholders is represented on the board.	1 2 3 4
30.	The board regularly monitors the performance of the CEO by utilizing a documented evaluation process.	1 2 3 4
31.	The board regularly monitors the performance of individual directors by utilizing a documented evaluation process.	1 2 3 4
32.	The board monitors the ongoing effectiveness of policies in a regular manner.	1 2 3 4
33.	The board effectively represents the organization to the community.	1 2 3 4
34.	The board effectively represents the organization to its members and/or stakeholders.	1 2 3 4
35.	The board undertakes board training on a regular basis.	1 2 3 4

Monitoring the Performance of Directors

When the board is at a point where it wants to implement an evaluation system for individual directors, this should be designed specifically for its own organizational needs.

Exhibit 7.4 presents an example of a self-evaluation that can be modified accordingly.

This type of volunteer self-evaluation could be undertaken, for example, halfway though the operational year and then again toward the end of it. The responses should flow back to a governance committee which would use the information to determine training opportunities for board members as well as identifying members who may be ready to take on more responsibility in the organization.

Exhibit 7.4 Individual Board Member's Performance Self-Evaluation

1. I understand and support the following Board Code of Conduct:

The board shall conduct itself in accordance with the ethical and accepted standards of the Society. In addition, the members of the board specifically agree to adhere to the following principles:

- Directors shall at all times use their best efforts to provide progressive, collective leadership and direction to the organization in support of its vision, mission and mandate.
- Directors shall adhere to the organization's governance policies.
- Directors shall adhere to the organization's Conflict of Interest Policy; avoid, in fact and perception, conflicts of interest; and immediately disclose possible conflicts to the board.
- Directors shall endeavour to direct the activities of the organization as a whole rather than in their own interest or that of any specific group.
- Directors shall maintain the confidentiality of the details and dynamics of board discussions, as well as those items designated as confidential.
- Regardless of their personal viewpoint, directors shall not speak against, or in any way undermine board solidarity once a board decision has been made.
- Directors are expected to attend all board meetings. Directors shall be prepared to commit sufficient time and energy to attend to organization business.
- Directors' contributions to discussions and decision making shall be positive and constructive and Directors' interactions in meetings shall be courteous, respectful and free of animosity.
- Directors shall be prepared for meetings, having read pre-circulated material in advance of the meeting.

- Directors shall participate in the organization in ways other than attending board meetings.
- Directors shall adhere to the principle that the CEO is responsible to the entire board of directors and consequently that no single director or committee has authority over the CEO.
- Directors shall adhere to the principle that the chair of the board of directors is the communications link between the board and the CEO.
- Directors shall ensure that there is a current Position Description and annual work plan for the CEO and that there is a process for his/her annual evaluation.
- Directors shall not attempt to exercise individual authority or undue influence over the organization.
- The official spokespersons for the organization are the chair of the board of directors and the CEO and consequently, all public requests for comment on organization policies shall be referred to them.
- The chair may make public statements on policy matters that are within the scope of a policy approved by the board, or a reasonable extension of a policy.

Now, please complete the form on the next page. For each numbered statement, circle a number from 1 to 4, where 1= strongly disagree and 4 = strongly agree.

Exhibit 7.4 Individual Board Member's Performance Self-Evaluation (Continued)

1.	I understand and support the Board Code of Conduct.	1 2 3 4
2.	I understand the organization's mission and priorities.	1 2 3 4
3.	I support the organization's mission and priorities.	1 2 3 4
4.	I have good working relations with board members.	1 2 3 4
5.	I have a good working relationship with the CEO.	1 2 3 4
6.	I am knowledgeable about the organization's major programs and services.	1 2 3 4
7.	I read and understand the organization's financial management statements.	1 2 3 4
8.	I focus on longer-term and significant policy issues rather than short-term administrative matters.	1 2 3 4
9.	I recommend qualified individuals with relevant skills and experience as possible nominees for committees.	1 2 3 4
10.	I prepare for and participate at board and committee meetings.	1 2 3 4
11.	I complete all assignments given me in a responsible and timely manner.	1 2 3 4
12.	I enhance the organization's public image by periodically speaking to leaders in the community and members about the work of the organization.	1 2 3 4
13.	I speak for the board or the organization only when authorized and only within limits set by the board.	1 2 3 4
14.	I suggest agenda items for future organization meetings.	1 2 3 4
15.	I avoid burdening staff with requests for special favours.	1 2 3 4
16.	I ensure my communications with staff below CEO level do not undermine CEO-staff relationships.	1 2 3 4
17.	I actively support consensus-building at board meetings.	1 2 3 4
18.	I work with the other directors and the CEO as a team.	1 2 3 4
19.	My views are considered at board meetings.	1 2 3 4
20.	Being on the board is a satisfying, rewarding experience.	1 2 3 4

_____ Director's Signature and Date

Monitoring the Performance of the CEO

A further critical task of the board of directors is to monitor the performance of the CEO. This may be accomplished, in part, by reviewing the CEO reports prepared for each board meeting; reviewing financial reports prepared for each board meeting; commissioning external reports (when deemed necessary by the board), and finally, completing an *annual written appraisal of the CEO*.

Our experience in working with NPOs is that, unfortunately, many boards are reluctant to undertake this last task. However, as noted in Chapter 3, under Principle 8, the written appraisal in most cases should not be a daunting challenge at all. It should summarize the CEO's successes over the past year, as well as review any goals that were either unattained or only partly accomplished.

Among the resources available to help the board in this process are consulting firms that can assist both in designing the process and facilitating the review. Whichever route is followed, there are four important matters for the board to take into account when designing and conducting the CEO performance review:

- The board will need to decide whether it intends to implement a standard employer/employee appraisal process, or a more comprehensive system such as a 360-degree review process. The latter system, because it will seek input not only from the directors but also from the CEO's peers, subordinates, and some of the organization's stakeholders, will consequently require more time for planning and execution.

- The performance appraisal process actually begins at least a year before the "face-to-face" performance review meeting takes place, because it is at the beginning of the process that the goals and measurements of success are determined and agreed upon by the CEO and the board.

- The board will have to determine early in the process, whether it will plan, coordinate, conduct the review itself, or seek the assistance of a third party to provide advice and facilitate the process. If a third party is to be used, it should be involved as early as possible.

- The report drafted at the end of the process should identify not only areas for improvement, but also the CEO's successes, the CEO's goals for the subsequent year, and the professional development plans for the CEO for the next year.

Finally, it should be noted that the board's responsibility is to evaluate only the CEO's performance. Employee evaluations below the CEO-level are the responsibility of the CEO and/or other managers in the organization.

Chapter Eight

USING COMMITTEES AND TASK FORCES

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USING COMMITTEES AND TASK FORCES

The successful implementation of the strategic plan will require the work of many in the organization – both volunteers and staff. Communication is an important element in helping to ensure that everyone knows what their role is in implementing the plan. The basis of communication should include a volunteer and staff organization comprised of three different types of committees.

1. Board statutory (or standing) committees

These committees are established by the board and report back to the board. They deal with responsibilities outlined in the bylaws or enabling legislation. For example, a *governance committee* would be responsible for board nominations, elections, board evaluation and training; an *audit committee* would be responsible for recommending the appointment of the auditor and for resolving issues raised by the audit.

2. Policy task forces

These are committees established by and reporting to the board of directors for special purposes. A task force examines and develops recommendations on specific board policy matters: for example, investment policy, conference or ethics. Policy task forces have a limited time horizon, a defined "sunset" clause in their mandate, and they provide written reports to each board meeting.

3. CEO working committees (if needed by CEO)

It is the CEO rather than the board of directors that establishes such committees. They report to the CEO. They deal with operational or management matters (not board policy matters) such as the organization's newsletter, the annual conference, and the AGM.

Directors and others who serve on CEO working committees report to the CEO on matters relating to the committee. Reports on CEO working committees may, at the discretion of the CEO, be included in the CEO Report.

The question sometimes arises: How does the NPO determine whether a matter should be allocated to a statutory committee or a CEO committee? A simple way to determine this is to ask the question, "If my organization had ample funding, would we likely hire someone to do the work of this committee?" If the answer to this question is "yes," then the work should be allocated to a CEO working committee.

For example, in most large NPOs, the organization will hire someone to be responsible for organizing and managing the conference and AGM meeting, and that person will report to the CEO because there is nothing "governance-related" in organizing and managing the conference and AGM. In smaller NPOs, where funds are not available to hire such staff, the organizing and managing of the conference and AGM is assigned to a volunteer CEO working committee. The manner of completing the work is different (in one case, hired staff do the work; in the other case, a volunteer committee does the work) but the line of responsibility is the same – so the committee is designated a CEO working committee and reports to the CEO. And if the CEO is going to be accountable for the work of this committee, then it follows that the CEO must be able to select the committee members, assign the committee various responsibilities, and monitor its work.

Regardless of what type of committee or task force you are setting up, the *Terms of Reference* for the group should clearly define the following:

- Purpose
- Chair and membership
- Responsibilities
- Meetings and time commitment
- Staff contact
- Budget

Exhibits 8.1, 8.2, and 8.3 present sample terms of reference for, respectively, a board statutory committee, a board task force, and a CEO working committee.

Exhibit 8.1 Sample terms of reference for a board statutory (or standing) committee

Ethics Committee: Terms of Reference

Purpose of the Ethics Committee

The Ethics Committee will regulate the conduct of members in accordance with the bylaws of the Association.

Chair and membership

The Ethics Committee consists of a chair and four members of the Association appointed by the board of directors:

Responsibilities

- Receive complaints from the public regarding the conduct of members.
- Investigate complaints and possible infractions.
- Resolve complaints with dispatch, fairness, and due regard to the trust granted the Association.
- Advise the board, the members, and the public of its findings.

Meetings and time commitment

Committee meetings are held on the first Thursday of each month from 6 p.m. until 9 p.m. It is expected that, each month, members of the committee will be required to spend approximately six hours on committee work, over and above attending the monthly meetings.

Staff contact

The staff contact for the committee is the Director of Member Services, who attends each committee meeting and takes the minutes.

Budget

The committee has a total budget of $_____including a meeting budget of $_____. No expenditures or commitments against that budget may be made without the authorization of the Chair of the Ethics Committee.

Exhibit 8.2 Sample terms of reference for a board task force

Conference Task Force: Terms of Reference[1]

Purpose of the Conference Task Force

The Task Force will develop a recommended board policy on the organization's annual conference, including recommendations on:

- Frequency of the conference
- Appropriate participation of suppliers at the conference
- Venue selection criteria
- Regulation of supplier hospitality suites
- Expense reimbursement for directors

Chair and membership

The Conference Task Force consists of a chair appointed by the board and four members of the Association from around the province. The chair may recommend the appointment of members to the Task Force.

Responsibilities

- Review alternatives for board policy on the conference.
- Evaluate the pros and cons of the various options.
- Develop recommendations for the board's consideration.
- Submit a report to the board with policy recommendations.

Meetings and time commitment

The Task Force will meet monthly by teleconference and submit its report and recommendations to the board by December 1, 20XX.

Staff contact

The staff contact is the Conference Coordinator, who will attend Task Force meetings and take minutes.

Budget

The Task Force has a budget of $_____. No expenditures or commitments against that budget may be made without the authorization of the Task Force chair.

[1] While this task force is to deal with the framework of the conference, its task is not to manage the actual conference (a responsibility of the CEO). Instead, it is to review policy issues related to the conference (a responsibility of the board).

Exhibit 8.3 Sample terms of reference for a CEO working committee

Newsletter Committee: Terms of Reference

Purpose of the Newsletter Committee

The Newsletter Committee oversees the production of the Association's quarterly newsletter.

Chair and membership

The Newsletter Committee consists of a chair appointed by the CEO and at least two members of the Association who have knowledge or expertise in the publications field.

Responsibilities

- Maintain approved standards for the newsletter.
- Establish and use the input from an editorial board.
- Ensure proper budget management for the newsletter.
- Solicit advertising for the newsletter.
- Organize and oversee the production of the newsletter.
- Report monthly to the CEO

Meetings and time commitment

Committee meetings are held on the first Tuesday of each month from 6 p.m. to 9 p.m. It is expected that, each month, members of the committee will be required to spend approximately five hours on committee work, over and above attending the monthly meetings.

Staff contact

The staff contact for the committee is the Director of Communications, who chairs committee meetings and takes the minutes.

Budget

The committee has a publication budget of $_____ and a meeting budget of $_____. No expenditures or commitments against that budget may be made without the authorization of the committee chair.

Final Word on Terms of Reference

Volunteers change. Committee composition changes as a result. This constant renewal is part of the strength of the NPO sector. People come on board, they contribute, and then they leave.

This continuing renewal, however, can become a weakness unless the organization takes steps to mitigate the negative consequences of continually changing volunteers. In the next chapter, I will delve further into this challenge.

Chapter Nine

DIRECTORS' MANUAL AND STAFF MANUAL

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DIRECTORS' MANUAL AND STAFF MANUAL

If an NPO does not provide information to directors about their proper role in the organization, why should anyone be surprised if board members subsequently do unexpected or improper things? We should not be surprised at what are really predictable outcomes from lack of information.

One of the common, distinguishing characteristics of well-run NPOs that I have observed over the years is that they do provide excellent written resources to their volunteer directors so that they can quickly learn about their role and responsibilities as governors of the organization. One such resource is a good Directors' Manual.

Establishing and maintaining a successful NPO requires that the organization establish both an effective governance structure and effective administrative structure that supports the directors and effectively implements their plans. An important tool to assist in creating and maintaining effective systems and procedures, in addition to such documents as codes of conduct, monitoring processes, and committee terms of reference is a comprehensive manual for the volunteer directors on the board.

NPOs that adopt the Complementary Model will establish two different manuals for their organization:

- *A Directors' Manual*
- *A Staff Manual*

Why two manuals? The answer to this question is simply that there are many things that the directors of the NPO are required to do that the administrators need not concern themselves with; and there are many things that the administrators are required to do that the governors need not concern themselves with. Two separate manuals also will help reinforce the distinction between the functions of governance and administration. The final, and important benefit for directors is that "their" manual will be a manageable document in terms of its size as it will deal primarily with matters of immediate interest and importance to them in their governance role. Consequently, each director will be able to read it thoroughly and use it day-to-day as a governance tool.

What should be contained in each of these important manuals and who should be responsible for their contents?

Directors' Manual[1]

This manual is crafted, approved, and used by the board of directors. Responsibility for its creation and maintenance rests with the board.

The manual is used by the board to help directors meet their responsibilities as governors of the NPO. It includes policies related to how the board manages itself and how it governs the organization for which it is responsible. Given that these responsibilities are generally similar across the NPO spectrum, the content and structure of the Director's Manual is remarkably similar from one organization to another. The manual will generally contain a number of sections, such as the following:.

1. History of the organization

The purpose of this section is to provide directors, particularly newcomers to the board, with an historical perspective of the organization: When

[1] It may also be called, e.g., a Board Manual, a Board Member's Manual, a Policy Manual or a Governance Manual.

was it formed? Who were the founders? What have been the challenges faced in the past by the organization? What have been its successes? This kind of information will help directors understand why the organization is where it is in its development.

2. Mission statement, current issues, and strategic plan
Building on the historical overview, this section provides guidance to directors about issues the organization is presently facing and what the organization's plans are for the future. It is common for a summary of current issues to be provided here, together with the most recently approved strategic plan.

3. Governance and management philosophy
This is a vital part of the manual because it begins the explanation of how the organization has structured the governance and management functions in the organization. This section describes, in particular:

- The authority, vision, and mission of the organization
- The complementary roles of the board and the chief executive officer
- The role of the board of directors in
  - approving the strategic direction of the organization
  - setting the governance policies of the organization
  - providing financial and legal stewardship
  - monitoring and evaluating organizational effectiveness
  - hiring and evaluating the CEO

4. Board policies
This section contains all board-approved policies of the organization related to the directors and the CEO: for example, board and CEO conflict of interest guidelines, board and CEO codes of conduct, and other policy matters such as finance, fundraising, public relations, media contact, and board performance evaluations.

5. Committee operations
This section contains all board-approved policies of the organization related to the operations of board committees and board task forces, including committee/task force conflict of interest guidelines.

6. Legal documents
Provided here are the formal constitution and bylaws of the organization, plus legal documents related to any for-profit businesses, foundations, or other sub-organizations for which the board has responsibility.

7. Volunteer organization chart and contact list
This section provides an overview of the volunteer organization and an updated contact list. It includes a list of the chairs and members of the board committees and task forces

8. Staff organization chart and contact list
This section provides an overview of the staff organization and an updated contact list.

9. Terms of reference of board committees and task forces
Provided here are the terms of reference for all board-approved committees and task forces. It also lists the chairs and members of the board committees and task forces.

10. Board minutes
The Directors' Manual concludes with a compilation of the minutes of recent board meetings. This section generally includes a year or two of meeting minutes, and directors can add to these as the year progresses.

Seen as a unit, this manual not only contains core information about the organization but also pulls together a great deal of vital historical and current information that will enable new directors to quickly begin functioning as valuable contributors to the organization.

Staff Manual[2]

This is a manual designed and used by the CEO and staff. Responsibility for its creation and maintenance rests with the CEO. The Staff Manual describes in detail how the various tasks in the organization are accomplished. In addition, it presents the approved policies that must be understood and applied by staff.

The Staff Manual may include two distinct sections related to policy:

Board Policies. This list would replicate word-for-word the policies approved by the board and listed in the *Directors' Manual.* The staff does have to be aware of these policies in order to develop appropriate staff policies and administrative procedures, all of which have to be created within the scope of policies defined by the board.

Staff Policies and *Procedures*. This section would contain, for example, detailed information about:

- Hours of work, lunch and coffee breaks
- Dress code
- Staff conflict of interest policy
- How to process a membership application
- How and when to do bank deposits
- How to tender a contract for the provision of services or supplies to the NPO
- Staff benefit policies, e.g., maternity, paternity, bereavement leave; sick leave
- Annual vacation entitlements
- Overtime
- Staff travel
- Staff internet and email use

[2] May also be called, for example, an Operations Manual or a Policy and Procedures Manual.

The Staff Manual may contain many other policies and procedures that are relevant to the staff in the NPO. The board of directors does not review or approve the content of any part of this manual, except that it may direct the CEO to create policies in specific areas, such as staff conflict of interest or staff internet and email use. The contents and arrangement of the Staff Manual will vary considerably from one organization to another, but should contain the necessary operational instructions and guidelines for staff to meet their responsibilities.

How a Board Policy Might Appear in Both Manuals

Here is a brief example of how a board policy may be treated in each of the two manuals.

Suppose the board just passed a new policy relating to employee compensation and benefits. After being approved and documented in the minutes, it would appear in the Policies section of the *Directors' Manual* along these lines:

> The CEO shall develop an employee compensation and benefits package that, as a minimum, meets legislated employment standards and that is also competitive within the local community in which the Association office is located.

In the *Staff Manual*, the identical wording would appear in the Board Policies section as an approved board policy. Then, in the sections of the Staff Manual dealing with staff compensation and benefits, any subsidiary staff policies or administrative staff procedures (as established by the CEO) would be detailed. These, for example, might include the definition of qualified vacation time and the method of processing leave applications.

Chapter Ten

IMPLEMENTING GOVERNANCE CHANGE

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If your NPO has examined different governance models and has decided to implement the Complementary Model, how long will it take to complete the transition and what needs to be done?

Experience has shown that it typically takes approximately three to five months to successfully make the changes that are necessary to implement the new model. The length of time will vary depending upon such factors as these:

- The degree of documentation that already exists in the organization
- The staff or consulting resources available to create new documentation
- The frequency of board meetings at which important documents will be reviewed and approved
- The timing of member meetings to approve required bylaw changes

After the organization has decided to adopt the model, it is wise to establish a Governance Task Force (with the CEO as the staff support) to oversee the transition process. The steps that need to be completed will be virtually the same, regardless of the type of organization. The key steps are the following:

1. Separation of board/administration policies; the creation of two manuals

2. Separation of committees into three types: board committees, task forces, and CEO committees
3. Development of terms of reference for committees and task forces
4. Preparation of codes of conduct, conflict of interest guidelines, and self-evaluation tools
5. Review of the organization's bylaws
6. Training of the board chair on agenda development and meeting management
7. Training of directors on how to work with their new governance model

Step 3 (terms of reference) can take considerable time if existing documentation is sparse or non-existent. As part of this step, new committee terms of reference will also need to be approved by the board of directors.

Material created for Step 4 will also need to be approved by the board of directors.

The bylaw review (Step 5) is required in order to ensure that the changes being planned are permitted by the bylaws of the organization. For example, if new committees can only be established with the approval of the general membership of the NPO, then the timing and methodology for doing so will have to be factored into the process.

Reaping the Benefits of Change

As a management consultant to NPOs for over twenty years, I have noticed that many boards of directors are reticent about breaking with past practices. While some directors may be reluctant to embrace the types of changes required to transition to the Complementary Model of Board Governance, the benefits of making the change are immediate and significant.

Directors will find a new clarity in their new role. Board meetings will become shorter, more focused, and more productive. The effectiveness of the board will skyrocket as directors pull back from implementation issues and focus on the broader picture of planning where their organization should be going and what their organization is accomplishing. And directors will once again feel connected to the organization in a way that might have been missing for some time.

The final and most important benefit to the directors will be that serving on the board of directors will once again become a truly enjoyable and fulfilling experience. More than that, I cannot promise you.

A PERSONAL STORY: HOW PARKINSON'S HELPED FRAME THIS BOOK

In 2007, I was diagnosed with Parkinson's disease. Both my neurologist and family doctor suggested I contact the Parkinson Society immediately and join a support group – which I did. What I learned from these contacts and my reading was how important it was for people with Parkinson's to avoid anxiety and stress and how meditation could help enormously in reducing these problems – and, thereby, help cope with the disease and reduce its progression. I knew about meditation – but not much, so where to begin? I came across a book entitled *Meditation for Dummies*, by Stephan Bodian. A great book, I reasoned, since it was in its second edition and it came with a CD.

So I began reading. When I was about halfway through the 360-page "guidebook," I decided the topic was so important, and the book contained so much helpful information, I would read it cover-to-cover twice. Which I did. And then I turned back to the introduction. That's where I found the three sentences, the 33 words, that began the real change I was seeking. This is what I read:

> *The truth is, you can learn the basics of meditation in five minutes. Just sit in a comfortable position, straighten your back, breathe deeply, and follow your breath. It's as simple as that!*

Thank you, Stephan Bodian! You had taken a profound, life-enhancing practice and encapsulated it in a mere 33 words. So now, after another

deep breath, here again, repeated from the Introduction, are my own 33 words about governance in the not-for-profit organization:

> *The board* establishes governance policies and monitors the organization's performance. *The chief executive officer* implements the governance policies, manages the organization's resources, and also monitors the organization's performance. It's as simple as that!

T. C. Abbott

Vancouver BC, January 2012

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the group of social service agencies in Atlantic Canada, which was sufficiently impressed with the model that they designated a staff person specifically to help federation members adopting and implementing it.

At the same time, I personally accept responsibility for any errors, omissions, or lack of clarity in this publication.

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Tom Abbott is President of Association Management Consultants Inc. (AMC). In addition to having a Bachelor of Commerce degree, he is a Certified Association Executive (CAE) and a Certified General Accountant (CGA) and has been involved in associations as a volunteer, a senior staff person, and a consultant for over two decades. His firm has worked with over 450 different not-for-profit organizations (NPOs).

AMC works only with NPOs – it has no corporate clients. The firm's consulting work includes governance and organizational reviews, governance training and implementation, executive recruitment, developing and delivering volunteer orientation programs, strategic planning, volunteer and staff training seminars, and staff compensation reviews. AMC has also developed a comprehensive review program called *INPAC* (*I*mprovement in *N*on-profit *P*ractices *A*nd *C*ontrols) which is designed to review and evaluate all key areas of the organization's management and governance and provide an independent report on the strengths of the organization as well as areas for improvement.

Tom has written articles for the Canadian Society of Association Executives (CSAE) magazine *Association* and for the American Society of Association Executives magazine *Associations Now*, including "Successful Committees Build Successful Not-For-Profits," "It's Time for a Paradigm Shift in NPO Financial Management," "Managing Board Risk," "Board Policy Manuals: Key to Effective Governance," and "How To Avoid Volunteer Mistakes and What To Do When They Happen." He is also a contributing author to the CSAE publication *Canadian Association Management* and wrote the chapter entitled *Governance Structure and Policy*. Tom is a recipient of the CSAE-BC *Dalton N. Murphy*, *CAE Award* "in recognition of both outstanding and sustained contributions to the association community."

Tom lives in Vancouver, BC with his wife, Joan.