

# High Performing Boards

## *Meeting the Challenges of Accountability & Stewardship*

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Much has been discussed and focused upon in Governance over the past decade, whether we are looking at political governing bodies, corporate boards, or governors of not-for-profit organizations.

As a citizenry, we are concerned with our political governance structures being transparent, delivering on election promises, and acting in a truly democratic manner - both here at home and in the many transitional countries around the world. We have little tolerance for kickbacks or favoritism to those who helped get the politicians elected, and the world democracies in general will no longer recognize corrupt leaders and governments.

In the corporate arena, governance issues have often been dominated by the majority shareholder and the CEO, with other shareholders often feeling left in the dark about important concerns until things went too far. We have seen stories in the newspapers about well known individuals as board members being completely unaware of worsening financial situations, even money laundering for the Russian mob! As a result, the issues in corporate governance today usually center around: increased transparency, the assurance of independent directors on each board that will not collude with senior managers, and the provision of objective audits, due diligence, appropriate expertise and clear communications in major issues such as mergers, take-overs, and international expansion. Large institutional investors and mutual fund managers are doing a lot to keep the pressure up for improved governance practice in this sector.

Governance in the not-for-profit sector has been characterized quite differently. Issues in this sector have focused on concerns about board members consistently second guessing management (and thus keeping them away from doing their job effectively), or becoming too involved in day-to-day operational discussions instead of doing the important governance work. There are often issues of poor board-CEO relations and trust, ineffective strategic planning, ineffective government relations, and incomplete relationships to the communities served by these not-for-profits. Also, concerns often revolve around board members not reading their briefing materials in advance, and making decisions for the organization without a sufficient understanding of the 'business' or the community they serve. Indeed, significant issues focus on whether the members of the board are knowledgeable enough of the 'business' of the organizations, and have the time/attention to competently function as decision-makers.

To these elements we add the fact that the privilege of *governing* on behalf of a community is balanced by the expectation of both accountability and stewardship actions that engender trust.

Finally, I would submit that there are two over-arching concerns for those who serve as directors of boards of organizations:

- 1. Ensuring *sustainability* of the organization, and**
- 2. Ensuring the *relevancy* of the organization to a community it serves.**





# Emerging Standards in Governance:

## Checking In – a quick QUIZ on your Governance Practices!

Let's turn for a moment to the practices of the governing body in which the reader might serve. Based on the board meetings and discussions of the past year, answer the following questions with a simple yes or no. These 10 questions cover the key areas important as agenda items for boards to address.

Have you had significant discussion and decision-making processes focused upon:

- |   |   |   |
|---|---|---|
| 1. The sustainability of the organization (i.e. the likely ability of the organization to continue doing what it does into the future)  | Y | N |
| 2. The relevancy of the organization's products, programs or services to a clearly defined community or target market                   | Y | N |
| 3. The achievement of specific and measurable outcomes of its work  | Y | N |
| 4. Standards of practice, care, service, quality in the organization (i.e. Does your CEO reach for 'excellence' or 'acceptability')     | Y | N |
| 5. Standards of care and fiduciary/trustee duty on the board itself   | Y | N |
| 6. Financial and 'business' stewardship, oversight, policy approval   | Y | N |
| 7. Strategy and direction planning for the future   | Y | N |
| 8. Environmental stewardship – natural environment pollution, hazardous waste, greenhouse gas emissions, regulatory compliance          | Y | N |
| 9. Human asset stewardship – internal environment of the organization including employee morale, development, recruitment, talent pools | Y | N |
| 10. Communications and relationship with the communities you serve and operate within   | Y | N |

Score: # of Y's & N's \_\_\_\_\_

This quick quiz should help you or your governance committee identify some areas of improvement, or changes to your annual agenda setting! (Or it may reinforce that you have good governance practices.)

In corporate Canada, the Toronto Stock Exchange commissioned Peter Dey to chair a committee to explore the issues of governance in publicly traded companies and make recommendations. The 'Dey Report' entitled "Where Were the Directors" of 1994 became a seminal document in the Canadian corporate governance world. This was followed recently by a second document "Five Years to the Dey" published in 1999, which looked at the effect of Mr. Dey's committee recommendations on regular governance-related practices of Canadian corporations. In 2002, the impact of such events as the Enron scandal, the 'dot.bomb', and concerns about various reported CEO compensation arrangements and golden parachute packages, has raised the ante significantly in the expectations of directors of boards. However, after all these studies and commentary, few regulatory bodies have actually stepped forward with specific requirements for their members around governance practice. Instead, they have decided to make only recommendations, and left it to shareholders and other market accountability mechanisms to force the adoption of good governance practices.

In the not-for-profit sector in Canada, a panel led by Hon. Ed Broadbent, held cross-Canada explorations and published the 1999 document "Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector." Since that report, the voluntary sector roundtable, various members of the voluntary sector itself, organizations like The United Way, a joint publication of Health Canada and ALS Society of Canada, The Canadian Society of Association Executives, and Banff Executive Leadership, have all identified practices for good governance for this sector. Clearly however, the 'Broadbent Report' has emerged as the document with the most comprehensive summary of expectations for governance practice and should be on the bookshelf of every board member serving in the voluntary sector.



## Ensuring Accountability & Capacity for Good Governance

As mentioned earlier, there are many references available today that provide guideposts for good governance. Indeed, more and more books on the subject are appearing on the business bookshelves of your local bookstore. Whether corporate in nature or targeted for those in the not-for-profit sector, many of the elements are very similar. In choosing one to reference for this article, the *'Broadbent Report'* is particularly thought provoking for any board member.

This report significantly focuses on two aspects: **accountability** and **capacity**.

### **Under accountability, this report identifies:**

'The requirement to explain and accept responsibility for carrying out an assigned mandate, in light of agreed upon expectations.' How good is your board at explaining to it's stakeholders the organization's mandate and outcomes expectations?

### **Under the realm of capacity, the report identifies:**

the requirements for improvement of sector governance in such areas as:

- to act as a 'governor for the good of the whole' vs. representative of a constituency
- to understand the operational model of the organization/sector & various partner professionals, agencies, organizations
- to fulfill a 'contract' with government
- to exert prudent fiduciary duty
- to support research & training in governance, plus Management development

Finally, the report summarizes a **Code of Good Governance Practices** which includes:

- ensuring the board understands its responsibilities and avoids conflicts of interest
- undertakes strategic planning aimed at carrying out the mission
- is 'transparent' - including communication to members, stakeholders & public, responding appropriately to requests for information
- develops appropriate structures for the organization
- maintains fiscal responsibility
- ensures that an effective management team is in place & providing oversight of human resources/org. design
- implements assessment & control systems
- plans for succession and diversity of board

While for some experienced boards and board members this report probably doesn't reflect highly unique material, it is interesting to note that the TSE reports recommend essentially the same

## Ensuring Sustainability

**Generally speaking, sustainability means ensuring your organization has the appropriate assets in place and that they are being stewarded well.**

**As a board you should annually assess such elements as:**

- **Human Assets** – Do you have the human resources, with appropriate knowledge, experience, networks, etc. that you need? What are the turnover/attraction/ retention/succession issues? What training, quality, and case review processes are in place? What knowledge management and innovation strategies are required?
- **Structural Assets** – These include buildings, equipment, technology, systems and processes. Are they being depreciated, maintained, replaced appropriately?
- **Relational Capital** – How are the relationships between your organization and its various stakeholders: clients, funding bodies, staff, aligned professionals, community groups, other agencies, suppliers, the public you serve? Do these stakeholders really understand what you do, appreciate your value, and know how to access your services?
- **Social Capital** – (particularly important for community/health/education/ nonprofit organizations) Are you achieving the outcomes and providing the impact or benefit that the community expects?
- **Financial Capital** – investments, debt/equity, cash flow, depreciation, profits, margins, returns on investment
- **Environmental Capital** – environmental practices, waste liabilities, internal safety practices, safety of home-care workers, etc.

**Often, boards assume that inspecting the operational financials, approving a budget, and monitoring major expenditures fulfills their main sustainability responsibility. But there is significantly more to think about, strategize and ask management about.**

## Ensuring Relevancy

**As a Board, you should (along with the CEO), address the key question of 'How does our organization provide value to your community?' A key part of long-range planning these days, you should also ask: 'How will our organization continuously position itself to provide services or products of value to our community over the long term?'**

This 'value positioning' is becoming an important characteristic of progressive strategic planning. Few strategic plans can state with certainty what we can specifically do, or which initiative to undertake, nine, 12, 18, or 24 months from now. Instead, senior leadership of organizations must answer the above questions and then, on a more near-term basis, flex its provision of programs and services to maintain the 'value positioning' it has created in the minds of the community it serves. In the not-for-profit sector it has become quite important to consider whether or not your services duplicate those of other community agencies.



elements. My personal observation is that many, many organizations in both the corporate and not-for-profit sectors still do not meet even these minimum standards of board effectiveness.

In my experience of working with boards, there is often a challenge in finding good board members who understand the governance role (versus a management or operational one), understand the 'business' of the organization, and have the capacity to contribute in a meaningful way to do governance work in the 2-3 days per month or quarter that they dedicate to this responsibility. As such, boards should work on finding good people and providing more effective training and orientation to ensure good governance is achieved.

## Board Agenda Setting

The average board member spends two days or less per month thinking about or dealing with issues related to the organization of which they are a director. Many boards get caught spending most of their meeting time looking at operational reports, addressing correspondence, fire-fighting issues, etc. The real question the board must answer: "What is the best use of our time for governance of the organization?"

One of the best ways to focus on governance and work toward a higher performing board is to establish an *Annual Board Agenda* at the start of each fiscal year or appointment term. This should start with the Board identifying five or six key governance goals for the year.

Put those key priorities in front of you, then allocate them to various board meetings on your calendar. One health board I serve on focuses our meetings like this:

APRIL	MAY	JUNE	JULY
<ul style="list-style-type: none"> <li>• Year-End Review</li> <li>• Fundraising Plan</li> <li>• CEO Annual Review</li> <li>• Begin Board Recruitment</li> </ul>	<ul style="list-style-type: none"> <li>• Ethics Committee Report</li> <li>• Board Performance Review</li> </ul>	<ul style="list-style-type: none"> <li>• Approved Year-End Audited Financial Statements</li> </ul>	<ul style="list-style-type: none"> <li>• 1st Quarter Review</li> <li>• Annual Report to the Public</li> <li>• General Meeting</li> <li>• Board Member Appointment</li> </ul>
AUGUST	SEPTEMBER	OCTOBER	NOVEMBER
<ul style="list-style-type: none"> <li>• NO MEETING</li> </ul>	<ul style="list-style-type: none"> <li>• Board Policy Review</li> <li>• Strategic Plan - agree on a process for the Annual Review</li> </ul>	<ul style="list-style-type: none"> <li>• 2nd Quarter Review</li> <li>• Strat Plan/Business Plan process begins</li> <li>• Community consultation Meeting</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Report/Joint Conference Meetings of Medical Staff</li> <li>• Special Strategic Plan Retreat Meeting</li> </ul>
DECEMBER	JANUARY	FEBRUARY	MARCH
<ul style="list-style-type: none"> <li>• Finalize Strategic Plan/ Update Outcomes &amp; KPI's for next year</li> <li>• Fundraising Plan</li> <li>• Provide direction to CEO for Annual Business Plan</li> </ul>	<ul style="list-style-type: none"> <li>• 3rd Quarter Review</li> <li>• Annual Review of Privileges</li> </ul>	<ul style="list-style-type: none"> <li>• Business Plan Presentation</li> <li>• Draft Budget Presentation</li> </ul>	<ul style="list-style-type: none"> <li>• Approve Business Plan &amp; Budget</li> <li>• CEO presents Performance Management Plan for upcoming year</li> </ul>



**Important governance issues for the board to address should be scheduled as one of the first items on each meeting agenda.**

**The report from the CEO, financial reports, communications, etc., follow. If you run out of time, the operational/routine reports do not get discussed. Many boards build their board meeting agendas the other way around - getting caught up in the operational items - and often run out of time to address crucial governance issues.**

## Succession Planning for the Board

Finally, one of the more important responsibilities is to ensure the sustainability and relevancy of the future board itself. Just as many large Canadian companies, governments and not-for-profits are facing a significant succession issue in senior management; so too are boards in this country going to face a large transition towards a new generation of board members. Ensuring the future of good governance is an important responsibility of every current board, whether their future board members are elected or appointed.

As such here are some approaches to ensuring good people are being developed for future service to your organization.

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### Step One – Know what you want/what the organization needs in board member talent:

- current board develops clear job descriptions for board members, chair, etc.
- criteria for board member 'screening' be established and promoted by board:
  - background
  - knowledge
  - ability to govern for the whole vs. 'constituency' representation
- potential board members submit resume & application to be considered/ interviewed
- a list of those who meet the criteria is created from which the nomination committee, existing board, professional members or others involved will choose
- show the value of the organization to community and how it is achieving its mission/vision

Many organizations will need to tap into new networks, or non-traditional communities to find the types of individuals they will need for good governance in the future.

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### Step Two – Consider the development of a 'Farm Team' of future potentials which might include:

- outside 'experts' used with regularity
- facilitators of board development/retreats
- observers
- board committees or sub-committees which utilize non-board members to help do the work
- special project teams
- subsidiary/affiliate board members

The main objective here is to get to know one another, see each other under a variety of conditions, and of course build a relationship.

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### Step Three – Prepare for their integration into the organization:

- orientation by CEO/corporate secretary/VPs
- orientation committee of board/chair - retreats?
- mentor strategy with an existing board member
- case examples of key board decisions, discussions, issues from the past
- multi-media resources
- experience the organization 'at work'

## Good Governance is Becoming one of the Most Significant Leadership Issues of our Time!

The expectation for excellence in organizational leadership used to focus mainly at the CEO and senior management level. While this is important, society at large is starting to realize the crucial nature of the governing bodies of organizations, and the important leadership work required by this body. Indeed, more and more CEO's and senior managers are identifying the board as either the key block or key enhancer to their ability to create organizational success.

There are many ways to improve and create high performing organizations. However, ensuring the fundamentals of high performing boards described in this article are in place and in practice will help many organizations achieve a higher overall performance very quickly.

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Today, Banff Executive Leadership Inc. provides public & customized programs, strategic facilitation and coaching services to senior executives and boards across Canada and Internationally.

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