

# THE BOOK OF THE BOARD

Third edition



# THE BOOK OF THE BOARD

## Effective Governance for Non-profit Organisations

Third edition

**David Fishel**

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*To the memory of Christopher Holt,  
co-Founder and leader of The Federation Press,  
without whom this book – and many others  
– would not have been published.*



## About the Author

David Fishel is co-Director of the consulting firm Positive Solutions. He has been a board member of several cultural and educational organisations and Chair of three, including, most recently, Brisbane Writers Festival. In 2010, David founded BoardConnect, a non-profit firm dedicated to providing support and advice to the board members of non-profit organisations, and the CEOs who serve them.

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Nearly two dozen interviews with experienced board members and CEOs took place in preparation for this edition. Four of these interviews have been included in more or less complete form; many of the other interviews are reflected in short quotes and observations; and all of the interviews informed my thinking for this edition. I am grateful to all the interviewees, a list of whom will be found at p 231.

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Judith has worked in the cultural sector since the 1970s, working for organisations large and small. Judith headed the marketing departments of Royal Opera House, Covent Garden, Royal National Theatre and Melbourne Theatre Company and of Opera Australia while the incumbent was on sabbatical. She has also provided planning (with a strong emphasis on marketing) for a range of ensembles and organisations, including Events Queensland, Creative Industries Precinct QUT, Mornington Island Gulf Festival, Topology and The Australian Ballet.

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Gavin is an experienced director, governance researcher and board consultant. He has published extensively in his field and has provided advice on corporate governance and strategy to large public companies, government-owned corporations, statutory authorities, not-for-profit organisations and local government. Gavin is currently an Associate Professor at the Queensland University of Technology Business School.

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Leigh has worked as a teacher, university administrator, and public servant. She has been an advisor to both State and federal governments in Australia on higher education policy and funding, and on arts and culture. She has led policy reforms on quality assurance in higher education, and on access and equity for disadvantaged groups, including women. In arts and culture, she was head of a State arts funding agency for seven years and was responsible for major new policy initiatives, for organisational reforms and significant cultural infrastructure developments.

# Introduction

## **The More Things Change, the More They Stay the Same?**

Every year, thousands of Australians are invited to join the board or management committee of a non-profit organisation. For many, it is a first-time experience. For some, it is in a field they care about deeply, but where they are not professionals or specialists. For all, a level of knowledge and skill is required to fulfil the role effectively. This book is a guide to doing the best you can as the board member of a non-profit organisation.

Many of those who join a non-profit board have some previous board experience. For them, the book provides the opportunity to reflect on experience so far, to consider the perspectives of other board members and enjoy a sense of shared experience, while taking time out to consider different ways of doing things in the future. In particular, the book reflects on the pivotal role of the Chair, and the commitment and leadership which this calls for and, in some cases, what differences exist between the boards of for-profit and non-profit organisations.

It is more than ten years since the first edition of this book was published, which prompts the question of what has changed in that time. Experienced board interviewees referred to an increasing professionalism in the boardroom, rising expectations from government, a more competitive market and an increasingly complex legislative and regulatory framework. But several also said the fundamentals have not changed. Good governance is good governance.

## **The Non-profit Organisation**

Non-profit organisations share common characteristics of being driven by their vision, mission and values, and reinvesting financial surpluses to further social, environmental or cultural objectives. A number of their qualities present the board member with specific challenges:

- ▷ In an organisation which is not primarily driven by the financial bottom-line, it is easy to have objectives that are perceived to be vague and too diverse. Consequently, performance can be harder to monitor than in commercial environments.
- ▷ The customer or beneficiary is often not paying the full cost of the service provided. The organisation, therefore, can lack the direct feedback which commercial organisations receive from their customers.
- ▷ Non-profit organisations are often accountable to many stakeholders – members, users, government, sponsors, as well as to staff.
- ▷ Management structures may be complex, especially where State or federal organisations have board structures or consultative procedures which reflect the range of constituencies they are intended to serve.

- ▷ Voluntarism remains an essential ingredient in many non-profit organisations. The day-to-day business of managing and motivating volunteers falls to the CEO and other staff, but the dependence upon a partially volunteer workforce has strategic implications.
- ▷ Many non-profit board members are themselves time-poor volunteers. Because most are unpaid it can be tempting to put board service to the bottom of the 'to do' pile.
- ▷ Values cement the organisation together. Most non-profits were launched by people who shared beliefs or aspirations (religious, social, environmental, cultural) and continue to be sustained by like-minded people. However, differing interpretations of how the values should be expressed can generate conflict over direction and priorities, and produce resistance to change.
- ▷ The relationship between board and CEO is more subtle than in many for-profit or public sector organisations – with a volunteer board overseeing the work of a professional CEO.

The financing arrangements of non-profits result in the organisation having to address both funder needs and customer or service recipient needs. The board and management need to focus on the donor value proposition and the recipient value proposition. This has been described by Clara Miller, former Director of the Non-profit Finance Fund in the United States, as the non-profit being in two 'businesses' – one related to their program activities and the other related to raising charitable 'subsides'.<sup>1</sup>

## Government's Role and the Non-profit Organisation

For several decades, government has adopted the role of supplier in relation to the delivery of social, educational, health and other services. This has included the creation of government-owned 'non-profit' entities such as national and State cultural institutions. More recently it has involved a shift from government as direct provider to government as enabler, contracting out the delivery of services to third parties – often non-profit organisations. Government's role in this is contract specification, managing a tendering process, monitoring performance of the successful tenderer. It is an environment in which non-profits find themselves competing with other non-profits, and sometimes with for-profit organisations.

This world of procurement has some significant implications. Increasingly, larger organisations are put at an advantage. They can cover a wider range of elements of service delivery and marshal a wider skill set. They may have a stronger balance sheet, giving government reassurance that they can weather the ups and downs of a multi-year service delivery agreement. They can afford time to devote to the tendering and client liaison process. Moreover, government officers will prefer to manage a small number of large contracts than a large number of smaller contracts – it will be seen as a better use of their time.

Smaller non-profits may struggle in this environment, which will have a major impact within some sectors. The shift may hold dangers for the medium and larger non-profits too. It can focus them firmly on the process of pitching for government contracts – but at the expense of neglecting the maturing of other dimensions of their organisation, such as

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1 William Landes Foster, Peter Kim and Barbara Christiansen, 'Ten Non-profit Funding Models' (Spring, 2009) 7(2) *Stanford Social Innovation Review* 36. At <[http://www.ssireview.org/articles/entry/ten\\_nonprofit\\_funding\\_models](http://www.ssireview.org/articles/entry/ten_nonprofit_funding_models)>.

developing philanthropic support. Increasingly, they may look, feel and think like for-profit organisations – but in some cases with the vulnerability of being highly dependent upon one customer, the government.

The government's impact will be felt through other mechanisms also. Recent changes in Workplace Health and Safety legislation have led to heightened responsibility and risk exposure for senior management and boards. The roll-out of the National Disability Insurance Scheme during the next few years may lead to much greater choice on the part of the individual client/customer – and a consequent loosening of the ties that bind that individual to provision of services by one or two agencies and which have enabled those agencies to plan future service provision with a high degree of certainty. In common with 'school vouchers' and other customer-led or demand-led funding proposals, non-profits operating in relevant health services and other fields will have to become highly effective communicators and marketers, as well as maintaining competitive standards of client care. It remains to be seen whether there will be a significant shift, with new market entrants providing competition, or whether there will be some very selective cherry-picking of lucrative services areas, with much of the disability services sector left relatively unchanged.

In light of these shifts, a number of non-profits may choose to become for-profit, or to significantly expand their for-profit operations, retaining non-profit status for specific aspects of their work. The demutualisation of the Building Society sector in the United Kingdom in the 1980s and 1990s saw many of those non-profits become for-profit following deregulation of the banking sector. Advantages of scale, the ability to raise capital, the need for swift decision-making encouraged many household-name building societies to adopt a different business model, becoming commercial banks.

In Australia, it is not unreasonable to expect a period of consolidation in the non-profit sector during the next few years, with a number of alliances and mergers between non-profit organisations, and the closure or significant reorientation of smaller non-profits in those sectors most affected by structural market shifts.

A combination of the maturing of government's contracting out of services and a reduction in the number of contractors dealing with government could generate a beneficial spin-off – a move towards more partnership-based and less adversarial and transactional working. If government were managing relationships with a smaller number of providers over longer periods of time, it might be possible for greater cooperation to emerge – just as some more enlightened commercial retailers work cooperatively and supportively with their supply-chain, knowing the health of their suppliers is in their own long-term interests.<sup>2</sup>

Even sectors not subject to structural alteration will experience changes. In community-based sport, and in arts and culture, there is already plenty of competition for limited government resources, but organisations are rarely in a position to enter into direct competition as suppliers. New rugby clubs and theatre companies cannot be created at will – they evolve over a long period of time or are established through a confluence of driving forces. But, while such organisations are unlikely to find themselves in direct competition as suppliers, they are vulnerable to economic cycles and government's associated budget fortunes. This, too, is compounded by professionalisation of the non-profit sector. When budgets are tight the client (government) will select the better-managed, the more efficient, the stronger-looking team. And the performance bar is undoubtedly higher now than it was 20 or 30 years ago.

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2 At the time of writing, a notable exception appears to be the fractious relationship between the major supermarkets and their farmer-suppliers.



## **New Models, New Money**

It is not only the role of governments that is changing but also the level of funding that will be available from the public sector for organisations and enterprises seeking to deliver public value. This is encouraging many non-profits to look more seriously at the effectiveness and professionalism of their fundraising activities, especially the resources they commit to securing philanthropic giving. Beyond this, there is the rise of the term 'social enterprise' to describe those non-profits and businesses who trade to fulfil their social, cultural or environment mission. There are the changing behaviours (and age profiles) of individual donors which includes the use of technology such as crowdfunding platforms and the emergence of peer-to-peer lending. There are changes within the larger foundations, more focused approaches, and recognition, if not yet much action, of the possibilities of using the corpus of a fund for mission-related investment.

Then there is the growth of impact investing, the most widely used term to cover a range of new approaches and products to finance these organisations, where investors receive more than just a financial return. Organisations which have already benefited from impact investing include community centres, an artists' cooperative, non-profits committed to providing affordable housing, social enterprises and non-profits accessing lending for business development. Often the investment is linked to capacity-building or new streams of income generation, rather than the payment for services and outputs which typify traditional non-profit funding.

## **Blurring of For-Profit and Non-profit**

'Non-profit' is an unsatisfactory term. First, it covers such a wide range of organisations by scale and sector that it is far from being useful as a descriptor. Universities and hospitals, junior soccer clubs and arts organisations, as well as thousands of organisations delivering direct social services, are nearly all non-profit organisations. Some employ thousands of staff and others employ one, or none. Secondly, within industry sectors, there are for-profit organisations delivering the same services as non-profit organisations. In the health services field there are commercial entities working alongside – and sometimes in competition with – non-profits. In the arts and entertainment sector there are commercial producers working alongside – and sometimes in collaboration with – non-profits. They are not in different 'sectors'. Thirdly, non-profit carries overtones of indifference to efficiency and businesslike practice – but there are plenty of inefficient commercial businesses, and plenty of highly efficient non-profit organisations.

Technically, the difference is that for-profit organisations can distribute their profits in the form of dividends to their shareholders, while non-profits retain their surpluses for the future pursuit of the organisation's mission. But this leads to a third limitation to the terminology. For decades, non-profits have established commercial subsidiary companies, distributing surpluses to the non-profit as shareholder. So they are accustomed to operating in, or in some cases dabbling in, a for-profit mode.

Many medium- and larger-scale for-profit companies now have a heightened appreciation of their social and environmental responsibilities. There has been widespread adoption of triple-bottom-line accountability, with companies reporting internally and externally on the company's economic, social and environmental or ecological impacts. There is more variation in governance within a sector (business or non-profit) than there is between sectors.



A director of a large public company would feel more at home on the board of a large non-profit than on the board of a small, start-up business.<sup>3</sup>

A growing suite of legislation in workplace health and safety and environmental protection, and increased reporting requirements, have contributed to this trend, and to board members' sensitivities around reputational risk and personal liability. Of course, legislation is often sector-indifferent. Non-profits are bound by the same legislation. But this is the point. Increasingly, profit-driven entities are having to behave with the same concern for social impact as non-profits. For the latter, social impact may be their core purpose. For the former, social impact may be an implied condition of their licence to operate. But it affects the behaviours and choices of both, blurring the line between for-profit and non-profit organisations. The blurring of these roles and motivations is most evident in the rise of 'social enterprises' described above (and in Cathy Hunt's section on Impact Investment, p 174).

## Where Next?

For a range of reasons, expectations placed on senior staff and boards seem set to continue rising. Where this might lead is a matter of speculation.

Ten years ago, when the first edition of *The Book of the Board* was published, it was reasonable to describe three distinct sectors, with some organisations that overlap all three – the public sector, private sector and non-profit (or 'third') sector. The three sectors still exist, but the boundaries between them have further blurred. So, are there still distinguishing characteristics of non-profits that are significant from a board's perspective?

The most fundamental distinction still exists. The board of a for-profit company has an over-riding duty to the owners of the company, the shareholders. The board of a non-profit, on the other hand, has an over-riding duty to the mission of the non-profit. Beyond this, most non-profit boards are still unpaid. This is likely to continue for many years – but there has been a shift in sentiment during the interviews for this edition of the book. Almost none of the interviewees for the first edition felt that non-profit boards should be remunerated, but a significant proportion of interviewees for the current edition felt that board members should be paid – albeit at a modest level – and many admitted that this was different from the view they held some years ago.

Another continuing basic distinction lies in the means of resourcing the organisation. For-profits can raise capital, privately or through public listing, and pay dividends to their investors. Non-profits do not have this ability, although internationally there has been some exploration of new models (new forms of legal entity) which may open up quasi-commercial routes to funding for non-profits. Meanwhile, non-profits continue to have the opportunity to secure philanthropic support and – in Australia, as elsewhere – this has become an increasingly sophisticated professional discipline, and one which boards need to understand.

The key services of a non-profit may be loss-makers, with other activities, or government or philanthropy, cross-subsidising these services. It is normal for non-profits. It is a slippery road downhill for commercial organisations – committing to long-term persistence with the 'dogs', to use old marketing jargon, rather than focusing on the 'stars' or the 'cash cows'.

While there has been some blurring of the boundaries, the continuing distinctions between for-profit and non-profit organisations which have the most direct impacts on the board might be summarised as follows:

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3 Hugh Lindsay, *20 Questions Directors of Non-profit Organisations Should Ask about Risk*, (Chartered Accountants of Canada, Canada, 2009), p 27.

**Table 1: Differences between non-profit and for-profit boards**

<b>Non-profit</b>	<b>For-profit</b>
No shareholders, no profit distribution	Board guided by interests of, and financial returns to, shareholders
Mission and values are primary drivers	Profitability and long-term sustainability are primary drivers (though values/principles are contributors to this)
Social, cultural, educational, religious impacts are the most important measure of success	Financial results are the most important measure of success
Board may be elected by membership, nominated by stakeholders, or co-opted by existing board members	Board elected by shareholders – with major shareholders having a strong influence
Most board members are unpaid	Board members are paid directors' fees
Typically, accountable to multiple stakeholders	Accountable primarily to shareholders
Beneficiaries or customers do not pay the full cost of service	Costs must be fully recouped from the customer
Financial resourcing excludes equity	Equity (and borrowings) are major sources of financing start-up and expansion
Eligible for tax concessions, dependent upon specific form of the legal entity	No tax benefits

## The Effective Board

If the fundamentals of good governance have not changed in recent years – despite changes in the non-profit environment – it is reasonable to sketch a picture of what a 'good board' looks like. There is a wide range of descriptive and prescriptive literature which provides such commentary:

A good board that truly adds value is not just a group of high performing individuals but a balanced team with complementary skill sets and a culture that allows them to work together to make the most effective decisions for an organisation. While the leadership from the chair is crucial, the participation of every board member is also essential for effectiveness.<sup>4</sup>

Institute of Directors New Zealand

- ▷ Focus on, and passion for, the mission, and a commitment to setting and achieving vision. Board members realise that one of their most important jobs is to verify that their non-profit is indeed meeting the community need that the non-profit was formed to meet.

<sup>4</sup> Institute of Directors New Zealand <<https://www.iod.org.nz/FirstBoardsFirstDirectors/FirstDirectors/Whatmakesagoodboard.aspx>>.

- ▷ Desire of board members to work together, listen to diverse views and build consensus.
- ▷ Flexible structure that changes to fit the organisation's life cycle and priorities.
- ▷ An understanding of, and ability to shape, the organisation's culture.
- ▷ Commitment to self-reflection and evaluation, with clear expectations and each member's accountability to meet them.<sup>5</sup>

Mim Carlson and Margaret Donohoe

The effective board also has to wrestle with several paradoxes: the need to be engaged while remaining non-executive (and therefore hands-off, as far as possible); the need to challenge management and each other while remaining supportive and collegiate; the need to be independent while remaining firm advocates. Each of these requires a degree of sophistication and emotional intelligence, and each benefits from cumulative experience of board work. Board membership may not be for everyone.

## Governance

Governance may be defined as the arrangements for overall control and direction of the organisation, normally in the form of authority conferred by the membership (or key stakeholders) on a board or committee. For many, the term 'governance' has stronger connotations of monitoring, control and legal compliance than its connotations of vision, direction-setting and leadership. This is unfortunate, because it can give rise to a negative reaction, on the basis that governance is all about constraints and bureaucratic box-ticking – more or less a waste of time. It is true that there is an element of bureaucratic structure in any monitoring or control mechanism – but such systems are there to protect the organisation, its assets, and its future. Good governance is much more than this. It is also about taking full responsibility for the future and success of the organisation, including blue sky thinking, exploration of opportunities, and the development of robust strategy.

Other terms used in this book include:

*Non-profit:* Independently constituted organisations that do not distribute profits to shareholders, even though they may generate surpluses to create tomorrow's working capital or judicious reserves. Many are incorporated associations or limited companies in Australia, although they may also be Aboriginal corporations or other legal entities. The sector is variously referred to as the non-profit sector, voluntary sector or third sector.

*Board:* The governing body of the organisation, the group of people who have ultimate accountability for and authority over the organisation, subject to the will of the members. Sometimes called the Board of Management or Management Committee. Here the term 'board' refers to the governing body, regardless of the nature of the legal entity.

*CEO:* The most senior paid officer in the organisation, appointed by the board to take overall day-to-day control. The title is often not Chief Executive Officer but General Manager or Executive Officer. Exceptionally, some organisations appoint

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5 Mim Carlson and Margaret Donohoe, *The Executive Director's Survival Guide*, (John Wiley and Sons, San Francisco, 2005), p 95.

two senior officers, an Artistic Director and a General Manager, for example. Where this is the case, the term CEO refers to the joint responsibilities of those two posts, however they may be allocated.

*Stakeholders:* Organisations and individuals who have an interest in the success and services of the non-profit organisation – ranging from staff and volunteers to customers, users, funding bodies, sponsors and allies.

# The Job of the Board

## The Case for the Board

At one level, the reason organisations have a board is because they have to. The law requires that an identifiable group will be accountable for the actions of the organisation. Regardless of how they are appointed or elected, the board members have this responsibility, and are afforded considerable freedom in determining how they will execute it.

There are several more positive reasons why the board plays a productive role in the life of an organisation, some of which may have been anticipated by the legal requirement. They include the wisdom of crowds, the checks and balances of a good political system, and the importance of separating overseeing from implementation (or ‘governance’ from ‘management’).<sup>1</sup>

It does not always feel like it, but in the long run, groups of people make better decisions than individuals. Good decisions benefit from the pooled experience and skills any group can bring to bear on consideration of the issues influencing the decision. More knowledge, more perspectives, higher quality decisions. Of course there are risks and limitations – group think, procrastination, personality-based rather than merit-based decisions. And there are frustrations. It is so much quicker and easier to make an individual decision than to have to work through a group process and arrive at a consensus view. Hence, in the corporate world, the firm hand on the tiller exercised by powerful CEOs.

Rupert Murdoch has expressed doubt as to whether a strong governance function in an organisation bears any relationship to its profitability (for which, read ‘success’). He may be right.<sup>2</sup> But there are many for-profit organisations which have weathered financial storms and the challenges of change because their CEO has had an effective board to guide and support them, or to move them on if they are part of the problem. The CEO as solo performer is a model which works in good times. It is a significant weakness when times are tough – because the organisation quickly runs out of leadership options, or ideas. It is also a model which may be better attuned to an environment where profitability is the dominant measure of success. In the non-profit sector, this is not the case. Multiple measures of success, and multiple stakeholders, call for a diversity of perspectives in appropriately measuring the evidence and balancing views before arriving at key decisions. A complex environment, considered decisions – possibly not always the best recipe for maximising profitability, although there are plenty of examples of for-profits rushing in to new markets unwisely during economic growth cycles, and the shareholders paying for it dearly later.

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1 A more wide-ranging consideration of the role and rationales of boards is provided by Gavin Nicholson and Pieter-Jan Bezemer, *Why Have a Governing Body*, p 152.

2 Although stronger governance processes – and checks and balances – might have curtailed or avoided the egregious excesses of some of News International’s publications, exposed through United Kingdom parliamentary process and the Leveson Enquiry in 2012.

The checks and balances argument for the value of boards flows from this. The knowledge, power and biases of the CEO can be counter-balanced by the knowledge, power and scepticism of the board. This is not to imply an adversarial relationship. The CEO and board are fulfilling necessary and complementary roles. The CEO has day-to-day decision-making authority, within limits prescribed by the board. But some decisions are reserved to the board; and the wise CEO uses the board, and the Chair in particular, to sound out ideas and explore options. The checks built into the United States' executive-legislative structure are another example of this distribution of power in the interests of good process and decision-making. United States Presidents might have occasionally wished it otherwise.

The separation of overseeing from implementation is an extension of this. Because the board of a non-profit comprises non-executive directors, individuals who are not involved in the day-to-day operations, they are in a position to stand back from the organisation and take a more dispassionate view of progress and future directions. Moreover they are, as suggested above, allocated a distinct role from management – one of overall accountability, of stewarding the long-term health of the organisation, and of navigating through choppy waters – including the transition from one CEO to the next. As a collective entity, they provide the continuity and backstop which an individual cannot provide.

## Falling Short

If boards are capable of adding value in these ways, why do they sometimes get such bad press? Primarily, because of poor role clarity, poor communications and emotional static – each of which can hinder the effective working of the board or generate friction between board and CEO.

For the value of a board to be realised, there are a number of necessary ingredients:

- ▷ An understanding of the role of the board
- ▷ Personal competence
- ▷ Reliable and relevant information, provided in a timely fashion
- ▷ Humility and effective teamwork
- ▷ Coordination with the CEO
- ▷ Commitment to the overall interests of the organisation
- ▷ Willingness to devote time – to learning, assisting, decision-making
- ▷ As well as two very helpful lubricants:
  - ▷ A Chair who provides appropriate leadership
  - ▷ A CEO who wants an effective board

Each of these ingredients is explored further in later chapters. Of course, they are easier said than done – but experienced board members develop an understanding of the role and how they can best fulfil it. Being a good board member is a matter of practice.

If good board members and good Chairs are made, not born, there are some aptitudes which help the board member: a capacity to listen constructively and to accept team decisions; a willingness to adapt the role according to the changing circumstances of the organisation; a degree of personal confidence and assertiveness which enables the board member to be an active participant in discussion and decision-making. Some of these are personal qualities – a very shy, under-assertive board member may never make the contribution that

the others hope for – and may be better at fulfilling a different role than board member. Others require an ability to stand back and see the wood, not the trees. While the helicopter view and strategic thinking can be learned, an organisation under pressure cannot afford to have a boardroom full of people who lack this capability. Inflexible attitudes (from whatever cause) hinder teamwork and decision-making. So personal qualities, including innate qualities, can make a difference – an issue to which we will return when considering board recruitment processes. But behaviours can be changed, given role models, experience and leadership.

Successful CEOs support their board, harness their board and depend upon their board.

Poor **role clarity** may result from not spelling out the job of the board, or not articulating the delegations to the CEO. Both can be remedied through discussion and documentation. But a lot of grief is caused – perhaps especially in smaller organisations – when CEOs think the board or individual board members are micro-managing or getting involved in operational decisions. Frustration is caused when board members think the CEO is not bringing information or issues to the board which are their prerogative.

Poor **communications** are linked to the role clarity issues mentioned above – but may also occur if communication protocols have not been agreed between staff, CEO and board; or when the Chair and CEO are failing to maintain an adequate routine of phone and face-to-face meetings to harness each other's energies, and to work cooperatively in their provision of leadership to the organisation. It's fixable. But even better, it's avoidable, by periodically reviewing the way Chair and CEO interact.

**Emotional static.** Pride, fear, ignorance and rivalry can sometimes, even momentarily, supplant cooperation, trust and humility. In the non-profit boardroom, when the chemistry is not right, it can be difficult to assume the burden of making it so. Board membership is still overwhelmingly an unpaid role, so why should board members commit the time and nervous energy to putting things right when they already have busy lives, work issues, family commitments? Most board members take on the role out of goodwill to the organisation and to the wider community. Accordingly, many board members expect that others will have done so in the same spirit. They may feel: If we are good people trying to do good work together, why does it sometimes feel so bad?

The short answer is that board members can focus too much on the business and the short-term issues, without attending to the relationships and systems which enable them to work well together. Because they have all agreed to join the board of an organisation it's often easy for them to assume that they're all on the same page, and that they see their work and the organisation's work in the same way. A modest amount of time attending to processes can remove some of the misalignment that causes problems. Beyond this, periodic discussion of the mission, the vision, the rationale for the organisation's work can reinforce the sense of common purpose, and the understanding that the satisfaction they gain – and it can be considerable – from their involvement flows from the success of the organisation and the effectiveness of their work as a group.



## The Tasks in Hand

An overall purpose of the board could be summarised as 'to optimise organisational performance while ensuring compliance with the law'. This includes setting direction, monitoring performance, and driving improvements on the one hand, with ensuring policies and procedures, training and internal checks are in place on the other.

If we expand this to a list of functions or duties, it might include:

- ▷ Articulate the organisation's mission and values
- ▷ Provide strategic direction
- ▷ Confirm and monitor the organisation's programs and services
- ▷ Maintain financial viability
- ▷ Select the CEO
- ▷ Support the CEO and review his or her performance
- ▷ Ensure that adequate resources are available
- ▷ Enhance the organisation's public image
- ▷ Resolve conflicting priorities
- ▷ Ensure compliance with the law
- ▷ Assess the board's own performance

### *Mission and Values*

The determination of mission and values lies not with the board alone. Beneficiaries, members, funders and founders all have an influence on the current perception of what the organisation's purpose is and on its underpinning philosophy. But it is the board's job to ensure that the mission and values are clearly articulated, and formally approve them. They are the stewards.

### *Strategic Direction, Programs and Services*

In many non-profits, proposals for future directions will come from the professional staff and especially from the CEO. They have the expertise and are immersed in the industry, while some of the board will be drawn from other sectors, and may feel they lack the necessary level of detailed knowledge. But, again, it is the board's prerogative to approve them. If it isn't board approved, it isn't organisational policy or strategy. Similarly, program and service proposals will almost always be submitted by the senior staff, but it is the board's right and responsibility to formally approve them, or require amendments to be made. In particular, the board's job is to make sure such proposals are consistent with the mission, with the strategic plan (or policies), and are affordable. The concept of 'affordability' is, of course, a somewhat elastic term, linked to degrees of uncertainty in the budget and to the board's appetite for risk.

### *Maintaining Financial Viability*

Sound financial planning and review of timely and accurate financial reports are ways in which the board builds the financial health of the organisation or, at the least, avoids nasty surprises. While levels of financial acumen will vary around the boardroom, all board members need to be financially literate to the point where they understand the financial material placed in front



of them, and can engage in discussion and informed decision-making. For less experienced board members, this can call for special induction sessions or other interventions.

### *Selecting and Supporting the CEO*

Appointing the CEO is one of the most significant choices a board makes. It is possible for an organisation to perform well with an excellent CEO and an ordinary board – although it will never fulfil its full potential, and may be highly vulnerable to an over-confident or unconstrained CEO. However, it is more or less impossible for an organisation to perform well with an incompetent CEO. A capable board will comprise individuals who have many other personal and professional commitments – but they can't compensate for a CEO's weaknesses by running the organisation, other than for a very short period in unusual circumstances. The best possible CEO, properly supported, mentored and guided, is a key ingredient for sustained success.

### *Resourcing and Advocacy*

In the United States, there is a view that the board's job is not only to make sure the resources are there, but to be significant donors themselves ('give, get or get off'). While many Australian board members may not accept personal giving as a basic responsibility, they will more readily agree that opening doors for the CEO (or Development Officer), and representing the interests of the organisation to external stakeholders through advocacy or negotiation, are legitimate and practical ways of expressing their support.

There will be times when the organisation faces difficult choices over the allocation of limited resources, between project areas, new markets, new programs. Often such choices have longer-term, strategic significance. It is the board's job to make these choices, and resolve conflicting priorities.

### *Legal Compliance*

The board is responsible for ensuring legal compliance. However, this raises the question of how to fulfil this responsibility in an increasingly complex, and sometimes litigious, environment. How does the board member know the company (or association) is complying? Chapter 3 addresses this issue.

### *Board Processes and Health*

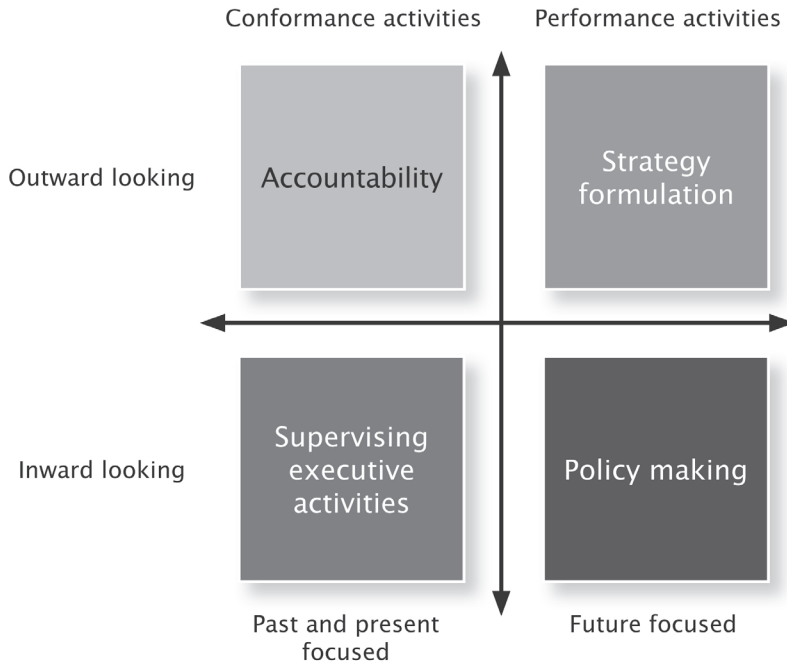
Finally, for the board to remain effective, it needs to attend to its own condition – through evaluating its performance and targeting specific areas of improvement, in relation to composition, meetings, decision-making processes.

Bob Tricker provides a helpful overview of the different dimensions of board activity and responsibilities (see Figure 1 *over page*):<sup>3</sup>

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<sup>3</sup> This diagram was adapted from: R Tricker, *International Corporate Governance: Text Readings and Cases*, (Prentice Hall, New York, 1994), p 149. A further evolution of Bob Tricker's diagram is provided by Bob Garratt in *The Fish Rots from the Head: The Crisis in our Boardrooms: Developing the Crucial Skills of the Competent Director* (Harper Collins Business, London, 1997), p 47.

**Figure 1: Dimensions of board activity and responsibilities**



## Situational Leadership

You need to have insight and you need to have foresight. The role emphasis depends on where you are in the lifecycle of the organisation, but also on how the industry is going – you need to be aware of the market around you.

Mike Gilmour, Chair, Open Minds

Some context is really important; you can't just come in with your kit-bag of leadership tricks and apply them exactly to every non-profit board

Carolyn Barker, CEO, Endeavour Learning Group

The job of the board is to take overall responsibility for the success of the organisation – that is to accept ultimate accountability for and authority over the organisation. Whatever needs to be done to keep the organisation healthy, purposeful, effective is, finally, the job of the board – within parameters established by the law and guided by the values of the organisation.

In a reaction to some boards micro-managing their organisations, there has been an emphasis on the need to clearly separate board and staff business. Boards set strategy and staff implement it. The spirit of this is understandable and unexceptional. However, the rigid application of this division of roles is unrealistic and undesirable. The dividing line between

strategy monitoring and operations implementation (or 'governance' and 'management') is blurred or shifted, not only by the scale of operation, but also by pressures and crises, by the nature of the non-profit's work, and by the organisation's stage of evolution.

In the life of an organisation there are short-term and longer-term cycles which affect the implementation of the board's work. Short-term cyclical changes include transition from one CEO to the next, varying financial fortunes of the organisation, significant changes in the external environment – whether policy/political, competitive or technological, and changes in the organisation's internal capabilities. Each of these calls for alertness on the part of the board, and often an adjustment to the board's routines.

In the case of a new CEO, this may involve some temporary adjustments:

- ▷ Re-statement of the board's expectations (information needs, the nature of board reports, business reserved to the board).
- ▷ Effective induction to the business of the organisation and contextual issues.
- ▷ More frequent meetings between Chair and CEO during a settling-in period.
- ▷ One or more board members working with, or otherwise advising the CEO, in specific functional or topic areas.

In the case of financial challenges or, at an extreme, the risk of insolvency, the board may need more frequent meetings, a task force or temporary sub-committee to monitor and plan alongside the CEO, or greater input from the organisation's external accountants. In the case of significant external changes, the board of a larger non-profit may ask for briefing and discussion papers from the CEO and their staff, and these might be dealt with during the normal course of board business, or may require a special series of strategy meetings. In the case of a small non-profit, the board may need to roll up its sleeves and do some of the research itself.

Size matters. Limited resources affect the nature of the board's engagement. In very small organisations, the Treasurer may be book-keeper and internal accountant. In larger organisations, there will be a Finance Manager or Department, and possibly a Finance Sub-Committee.

In many small non-profits the board finds itself adjusting to, and compensating for, the staffing levels and capabilities of the organisation. This can range from providing advice and support to undertaking work which in another organisation would be carried out by staff. In one sense this is not 'board' work, at least it is not the implementation of the board's governance function. Indeed, it can cloud and interfere with effective governance, because it is easy for board members to become too close to the operations and stop seeing, or spending time discussing, strategic and longer-perspective matters. But, in another sense, it is part of the deal of being a board member of a small non-profit. The board signed up for looking after the health of the organisation, and such staffing constraints are the common condition of many non-profits. Handling this dilemma calls for clarity and a degree of sophistication – an ability to separate out work done as a helper or volunteer and work done as board business.

Longer-term cycles which affect the board relate more to the maturity of the organisation – whether it is in a start-up phase, a growth-spurt phase, a transition from founder-CEO to their first successor, a consolidation phase, a rejuvenation phase following a period of stability (or complacency).<sup>4</sup> These developmental phases each imply a different mode of operation

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<sup>4</sup> For further comment on life cycles of a board, see Mike Hudson, *Managing without Profit: Leadership, Management and Governance of Third Sector Organisations in Australia*, (UNSW Press, Sydney, 2009), pp 49-51.

for the board in relation to composition, focus of the agenda, formalisation of procedures and structures, relationship to the CEO and possibly frequency of meetings. Moreover, the progress is not necessarily always linear. A rejuvenation phase may lead aspects of the organisation back to 'start-up' mode, if new markets or programs are initiated. Also, the appointment of a first successor to the founder CEO calls for closer engagement by the board, as described above for CEO succession.

None of the above commentary on changing circumstances or cycles alters the role and responsibilities of the board. But it highlights the need to adjust board processes in light of the current situation – and therefore to be alert to situational changes, and to reflect on the implications of these for board operations. Habit and fear of change can sometimes dull the board's responsiveness – but sleep-walking is a dangerous alternative.

### *Values and Standards*

A further responsibility of the board is the shaping and preserving of the culture of the organisation. In particular, it is the board which sets standards of behaviour, not only around the boardroom table but throughout the organisation. This is partly captured by the notion of the board being stewards of the organisation's values.

It is 20 years since the United Kingdom's Nolan Committee's report 'Standards in Public Life' was charged with investigating and making recommendations on appropriate behaviour for politicians. But their 1995 report came to be regarded as setting a benchmark for 'all who serve the public in any way'.<sup>5</sup> Nolan's advice was distilled into seven principles, and they are pertinent to the leadership of non-profits – although there might be some healthy debate around the boundaries between transparency and the confidentiality of board business.

The board can articulate values both in writing and through example. The written expression is often placed at the front and centre of the organisation's strategic planning material, and is communicated in other ways to staff and volunteers. The exemplary expression is, of course, visible in how the board listens, conducts its business, makes decisions and communicates.

A clear illustration of written values is provided by the United Kingdom's Guide Dogs for the Blind:<sup>6</sup>

#### **Our values**

The beliefs that guide the entire organisation:

- ▷ Dedicated to superior quality
- ▷ Always trustworthy
- ▷ Inclusive and embracing
- ▷ Customer focused
- ▷ Maximising impact
- ▷ Passionate and determined

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5 Lord Nolan, Chairman, *Standards in Public Life*, First Report of the Committee on Standards in Public Life, May 1995.

6 See <<http://www.guidedogs.org.uk/aboutus/guide-dogs-organisation/facts/vision-purpose-and-values#.VAp0NEgke9c>>.

## **The Seven Principles of Public Life**

### *Selflessness*

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

### *Integrity*

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

### *Objectivity*

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

### *Accountability*

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

### *Openness*

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

### *Honesty*

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

### *Leadership*

Holders of public office should promote and support these principles by leadership and example.

## *Evidence of How We Bring Our Values to Life*

- ▷ We are determined to set the global standard in mobility solutions; to design and consistently deliver superior products and services.
- ▷ Beyond a shadow of a doubt I believe that Guide Dogs will always deliver on its promises.
- ▷ We all work together with compassion and care. People of different backgrounds and with different skills must want to engage with us to work, volunteer, donate and use our services.
- ▷ Guide Dogs is a great ambassador for the blind and partially sighted community. It understands me, my challenges and helps me get to where I want to be in life.
- ▷ The more efficiently we manage our resources, the greater overall impact we can have. Guide Dogs is a lean organisation where everyone is personally accountable for delivering value for money.

- ▷ We believe everyone has the right to get out and about safely and we work tirelessly to improve mobility and access for people who are blind and partially sighted.

Or, with admirable succinctness, from Lifeline New Zealand:<sup>7</sup>

Being there with integrity and compassion, in sustainable ways.

Whatever the behaviours and standards which the board expects of itself and others, these can be translated into codes of conduct for board and staff, as well as being communicated through the organisation's performance management system, including the CEO appraisal process. A sample Code of Conduct is included in Chapter 3 on Compliance. Many others can be sourced online.

Further consideration of board standards is provided in Chapter 9 on monitoring and developing the performance of the board, and in Myles McGregor-Lowndes' overview of the recently established Australian Charities and Non-profit Commission (ACNC) governance standards (p 179).

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<sup>7</sup> See <[http://www.lifeline.org.nz/Mission-Vision-and-Values\\_2049.aspx](http://www.lifeline.org.nz/Mission-Vision-and-Values_2049.aspx)>.