

# Nine Steps to Effective Governance

**Building High Performance Organisations** 

Second Edition





## Minister's foreword

In late 2004 I was present at the launch of SPARC's Leadership and Governance programme.

Building good governance is crucial to the achievement of SPARC's goals, and to the sport and recreation sector in general. The Graham Report was clear in its view that the organisation of the sector needed change and that delivery systems at national and regional level required urgent attention. The report also stated that Government had a role in providing direction and resources to facilitate this change.



We invest heavily in our high-performance athletes and provide them with a range of resources to enhance their potential for achievement. SPARC directs resources to the leadership of the sector and expects performance in the boardroom and within management teams to match the performance of our athletes.

Since the launch of the programme 14 months ago, SPARC has begun work with 25 organisations on reviewing and building governance capability. This 'Nine Steps to Effective Governance' toolkit will further assist in lifting the governance performance of the sector.

Sport and recreation is a vibrant and constantly changing sector. Only responsive organisations that are focused on the future will prosper in the coming decade.

I know you are all committed to developing strong leadership and outward-looking organisations. I urge you to use this toolkit, and the other resources offered by SPARC, to help you deal with the challenges ahead.

**Hon Trevor Mallard** 

Minister for Sport and Recreation

## A note from SPARC

This governance resource is the culmination of 14 months work by SPARC and Boardworks International with 28 organisations across New Zealand in 2003/4.

There are vast quantities of material available on governance theory and application. This guide does not attempt to be exhaustive in its coverage, and nor does it have all the answers to what can be complex issues.

The research undertaken through the SPARC leadership and governance programme clearly indicates wide opportunity for improvement in boardroom performance. This guide is crafted as a relatively concise and usable tool to begin the process of effective governance.

Some organisations may already be utilising many of the techniques and policies outlined. Some may be just beginning. Whatever size organisation and whatever stage your development is at, we trust you will find this a useful tool.

There are further references available. These are referred to throughout the document and in the Nine Steps to Effective Governance Resources volume.

To support this resource SPARC offers a programme of board training together with online assessment tools. The evaluation tools dovetail into this guide.

High quality governance is the key to effectiveness in a changing future. We urge all chairs, directors and chief executives to use this guide, where relevant, to improve their board's performance.

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## Introduction

#### The need for leadership and effective governance

Sport and recreation organisations operate in complex, demanding and changing environments. New Zealanders appreciate the value of sport and recreation as they enhance our quality of life and affirm our national identity. Increasingly, diverse and high-quality sport and recreation initiatives compete for support from the public, patrons, sponsors and Government alike. This support is limited by available finance and people's capacity to participate and organise sport and recreation initiatives.

Governance excellence isn't achieved easily. In sport and recreation organisations the challenges are arguably greater than most. Attention is focused on the sporting and recreational activity itself. It is often difficult to attract committed members with the time and skills needed to serve on boards.

The sector experiences common challenges that hold back effective governance in other sectors. There are inherent difficulties for part-time board members, no matter how motivated, in establishing positive and effective governance teamwork, and melding the disparate functions of their organisations. This means, for thousands of volunteers, board service can be stressful, frustrating and unrewarding.

In spite of the challenges, poor governance performance is neither inevitable nor acceptable. Those who agree to serve on boards don't set out to govern poorly. What became apparent in the field research undertaken for this guide is that many organisations are seeking new and better ways to govern. This is heartening.

Concepts of best practice change over time. Good governance in any sector is a work-in-progress. Many organisations find that structures and processes that have worked in the past are now redundant. There are also many factors beyond the control of sport and recreation organisations that have created major strategic challenges. Changes in the economic and social climate, shifting demographics affecting participation, and the evolution of professionalism all bring new pressures.

This isn't a 'recipe book' for good governance – there are no perfect or universal prescriptions. It is hoped, however, that by exploring and presenting governance challenges, and outlining basic governance principles, organisations will be able to improve their capability.

#### Typical governance challenges

Some of the most common governance challenges are illustrated below. Few, if any, are unique to the sector.

#### Complex/confusing structures

Many organisations have complex governance structures, reflecting the different needs and expectations of various stakeholder groups. These structures often fail to gel and accountabilities become confused. The structures can be historic in nature and poorly positioned to respond to a changing environment.

#### Lack of a systematic and coherent approach to the board's job

Many boards understand their role is primarily to direct and exercise control over their organisation. They also know they should do this via a policy framework. Some boards,

however, never quite get around to it. Others eschew what they consider an *unjustified* formality. Subsequently, many boards work hard, but on the wrong things.

#### No training or preparation

Few directors in the sport and recreation sector receive governance training.

#### A short-term and retrospective bias

Boards should have a long-term focus. Unfortunately, many focus on matters of relatively historic, operational significance. A board cannot change the past but it can influence the future.

#### The 'urgent' crowds out the 'important'

What is important and what is merely urgent? Without knowing which is which sees major policy and directional issues going unresolved and small (usually operational) details debated at length.

#### Being reactive rather than proactive

Many boards become distracted by external 'noise' or staff initiatives which lack a governance dimension.

#### Reviewing, re-hashing and re-doing

Being unclear about their own unique 'added value', many boards spend significant time reviewing work that committees or staff have already done (or should have done).

#### 'Leaky' or unclear accountability

Having appointed a chief executive as their interface with the organisation, boards or board members continue to relate officially to other staff, giving them directions and/or judging their performance. Boards nominally hold their chief executive accountable for organisational performance but often fail to define clearly what they expect from them.

#### Confusion between ends and means

Many boards fail to define clearly the results they expect their organisation to achieve ('the ends'), allowing themselves to be drawn extensively into operational matters ('the means'). The board's focus tends to be diverted to measures of activity or busyness at the expense of securing appropriate results and outcomes.

#### Confusion between governance and operational responsibilities

Many organisations rely on the efforts of unpaid board members who are expected to fulfil operational as opposed to governance roles. Consequently, major policy and directional issues go unresolved or even undebated as boards conscientiously grapple with matters which are (or should be) the responsibility of chief executives and their staff.

#### Recruitment of the wrong types of expertise

Many board appointments (especially in small organisations) are thinly veiled attempts to secure free advice and services, or to access potential funds. This can result in directors doing the *work* of the organisation rather than applying the effort needed for governance direction and leadership.

#### A conformance-performance imbalance

Many boards spend time checking the organisation has complied with statutory requirements to the exclusion of focusing on organisational performance.

#### **Diffuse authority**

It's rare to find a board/chief executive partnership in which the authority and responsibilities of each party have been defined clearly. When in doubt, the safe executive response is to delegate upwards to the board. An unclear division of authority between a separate council and the board or between a separate president and a board chair can create problems.

#### Low performance standards

Most boards state that they expect the highest standards of performance and achievement from their chief executive and staff. Few boards, however, can demonstrate that they hold themselves to comparable performance standards – "we're just volunteers" being the common default position in this regard.

#### Inadequate/inappropriate skills and experience

Without a clear sense of its own job and responsibilities the board may fail to recruit members who can contribute effectively to the organisation's *governance* (as opposed to *work*). Often neither the owners (e.g. member organisations) nor the board have clearly stated expectations of the contribution to be made by the board as a whole, or its individual members.

#### Chief executive/board strength imbalance

Board members are often concerned that their chief executive dominates the board, determining its agenda and the information available to it. In other situations, boards or individual members intrude so as to prevent their chief executive from doing their job. Outstanding organisational performance demands a complementary and balanced partnership between the board and chief executive with both parties performing to their best.

#### **Board expectation/management resource imbalance**

Few organisations have the luxury of large management resources, with staff often performing multiple roles. This lack of resource often creates tension between a board's expectations and the staff's ability to deliver. Boards must prioritise what is most important and chief executives must negotiate what is realistically achievable with their boards.

#### A passive or ineffective approach to succession

Many organisations become overly reliant on the vision and commitment of an energetic and long-serving board member (often the chairman), or a particularly talented chief executive. This can make organisations vulnerable. Boards must commit to succession planning before it's too late.

#### **Inadequate prescriptions**

Some boards are well aware of the issues highlighted above, however their responses are often ad hoc, with solutions based on anecdotal rather than systematic evidence. Ad hoc, short-term remedies often become problems in their own right.

### There is no question that most board members are well-motivated with good intentions.

They would like to see their boards functioning more effectively and their personal contribution enhanced. Governance failures are more often a problem with process rather than with people. Many boards lack a clear framework for determining what they should focus on and what processes they should apply to be successful.

#### **Caveat**

The application of this report's concepts and the use of the tools, techniques and other resources outlined are no guarantee of success. Ultimately, a governing board must think and do for itself. Good governance is characterised by the quality of a board's relationships, the clarity of its communications, and the wisdom of its judgements.

Step 1
Prepare the job description

# Leadership

should be born out of the understanding of the needs of those who would be affected by it.

Marian Anderson

# Step 1 Prepare the job description

#### In this section...

- 1.1 The role of the governing board
  - 1.1.1 What is governance?
  - 1.1.2 Components of effective governance
- 1.2 Governance structures and the legal and accountability framework
  - 1.2.1 Clear accountability
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- 1.3 Policy leadership
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- 1.6 Appendix: the structure of the board charter

#### 1.1 The role of the governing board

#### 1.1.1 What is governance?

The process by which the board...

- sets strategic direction and priorities;
- sets policies and management performance expectations;
- characterises and manages risk; and
- monitors and evaluates organisational achievements;

...in order to exercise its accountability to the organisation and its owners.

There is no universally agreed definition of governance. The definition above identifies the key elements of governance, reinforcing the principle that the board's job is an active one. It also implies a separation of roles between the board and management and highlights aspects of the relationship between these two roles.

Different boards face different circumstances, for example, in:

- operating environment;
- stakeholder needs and expectations;
- organisational complexity and performance;
- organisational evolution; and
- personalities, experience and capability of board members and chief executive.

These differences are likely to affect the board's role and the approach it will take to its work programme.

"At the heart of a board's challenge is the same basic requirement: to act on behalf of owners to translate their wishes into organisational performance."

#### Governance as servant leadership

Acting on behalf of another group (owners) in this way – to achieve *performance* – requires more than merely exercising its fiduciary duties. Unless there's a threat to the organisation's survival the board can be passive in exercising its fiduciary duties.

Robert Greenleaf summarises the need for 'servant' leadership to an organisation's members and society in general as:

"...an insistent force...that **obliges** the institution to move toward distinction as servant."

The idea of pursuing distinction should fit easily with the vision of most sport and recreation organisations.

#### **Holding in trust**

A governing board is in a position of trust. It holds in trust not only the organisation's physical and intellectual assets but also the efforts of those who have gone before. It preserves and grows these things for the current and future generations. Its stewardship will protect the organisation from harm and steer it towards positive achievement (desired organisational *performance*).

#### **Governance is not management**

The board's job is to govern the organisation, not manage it, i.e. to see that the organisation is well managed, without doing the 'managing' itself.

It should simply be called a board, not a board of management or executive. This simple title clarifies the board's proper role to govern without confusing references to management.

The board is responsible to the organisation, not to individual stakeholders.

The board's job is to advance and protect the long-term interests of the organisation as a whole, which it holds it trust.

Board members are required to act in the best interests of the organisation as a whole, notwithstanding any obligation they may feel to represent particular interest groups. This may see boards required to make decisions that contradict the wishes of stakeholders. This doesn't mean, however, that the board shouldn't listen to, or follow the advice and direction of, its current stakeholders. It is simply that the board should always be guided by what it believes is in the organisation's best long-term interests.

#### Who are the 'owners'?

While sport and recreation organisations rarely have shareholders, the concept of ownership is still valid. The organisation exists to meet the needs of this group. Owners are a pre-eminent class of stakeholders who have special responsibilities and duties. It's important the board is clear about who its owners are as it is primarily accountable to this group. The board should consider two sets of owners – legal and moral.

#### **Legal owners**

Legal owners can exercise control over the board through an Annual General Meeting (AGM) or Special General Meeting (SGM) or even an Extraordinary General Meeting (EGM). In incorporated societies, these owners are usually known as the 'members' or the 'member organisations'.

#### **Moral owners**

There may be other groups – moral owners – who cannot exercise direct control but who are nonetheless essential for the organisation's survival. The benefit the organisation provides moral owners is arguably as significant as that which it provides to its legal owners.

Moral owners may be those who benefit from your services but are not formal members.

#### Service suppliers are not owners

Business relationships exist, for example, with staff, funders, sponsors and service suppliers. The board should take these relationships into account in developing a stakeholder strategy (see Step 4) but shouldn't put these interests ahead of owners.

#### 1.1.2 Components of effective governance

The board's job is to govern – providing direction and control... the chief executive's job is to manage operations.

While the chief executive leads staff, the board leads the organisation as a whole.

The following points highlight key components of effective governance and will be elaborated on further in this guide:

- defining, within the organisation's legal and constitutional framework, the organisation's purpose, direction and priorities, ensuring that these are valued and worthwhile (Step 1);
- developing a governance policy 'umbrella' which guides (or, as appropriate, constrains) all operational activities (Step 1);
- specifying key outcomes or results, and approving the availability of resources to achieve those results (Step 4);
- appointing and supporting the chief executive, evaluating his or her performance and rewarding it appropriately; replacing the chief executive, if necessary (Step 5);
- establishing a framework for balancing risks and rewards and the management (control and mitigation) of risk (Step 6);
- regularly scanning the environment beyond the organisation to ensure that what it's attempting to achieve remains relevant and achievable (Step 6);
- communicating with the organisation's 'owners' and other stakeholders to
  ensure they have input into determining direction and goals, that they are
  kept informed about organisational performance and that they are able to
  fulfil their ultimate accountability for the performance of the organisation
  (Step 4);
- ensuring the board complies with statutory and contractual requirements and with the board's own policies (Step 1);
- setting standards for, and evaluating, the board's own governance performance (Step 7); and
- ensuring there's appropriate succession planning to ensure a balance between replenishment and continuity on the board and revitalisation of energy and commitment (Step 8).

## 1.2 Governance structures and the legal and accountability framework

#### Introduction

A variety of governance *structures* have evolved among sport and recreation organisations to meet their different needs, ages and operating styles. Some work better than others.

While there's no single right way to structure an organisation from a governance perspective, the following principles are good touchstones.

#### 1.2.1 Clear accountability

Principle: The governance structure should distinguish the responsibilities of different roles in the organisation with clear lines of accountability between each role.

This is particularly important in sport and recreation organisations where, for example, there is a council as well as a governing board, or where there is a president who is not the same person as the board's chair. Many National Sports Organisations (NSOs) have a federal structure in which various parts (e.g. member organisations, centres, districts, regions, etc.) have separate legal status and a relatively high degree of autonomy.

If federal governance structures are to work effectively and efficiently, and not be diverted by internal power struggles between the national body and districts, for example, attention must be paid to the design and management of the relationship between these parts. It must be clear whether the national body is a 'head office' that can command and control, or a 'centre' that advises and coordinates.

It's common for board members to simultaneously wear different hats. For example, board members often contribute to the organisation's operations. When this happens they effectively become a voluntary staff member. It's important that everyone understands when these different roles are being played because the accountabilities are fundamentally different. For example, an individual board member has no individual status or authority unless it's delegated by the board or derived from the organisation's constitution. They are part of the board's collective responsibility to the membership as a whole.

If a board member is simultaneously a volunteer working in the organisation they are effectively an unpaid staff member accountable to the chief executive.

#### Who is accountable to the board?

Principle: There should be clarity and simplicity in staff member accountability to the board.

A board should consider whether it wishes to hold the chief executive accountable for the organisation's performance or whether it is prepared to split this accountability between several positions (e.g. chief executive/national coach) each reporting independently to the board.

There are implications for accountability and board work whichever approach is adopted. Single accountability places great responsibility and reliance on one individual. Multiple accountabilities carry the risk that differences between key staff members will be escalated to the board for resolution, pulling the board into an inappropriate operational decision-making role.

The single chief executive model implies a degree of hierarchy and separation of the board from decisions it feels are important. However, there is nothing to prevent high-level collaboration between the board, chief executive and key staff. Indeed, it is essential. The board cannot do everything alone. It needs a good chief executive and staff. And vice versa – the chief executive and staff need a good board.

To this end, roles and expectations must be well-defined, and responsibilities respected and discharged to the highest possible standard. Any hint of 'them and us' thinking highlights the need to review and align expectations.

Just because an important decision must be made by the organisation does not necessarily make it a board decision.

#### 1.2.2 Board member responsibilities

Principle: Board members have both collective and individual responsibilities.

Board members are fiduciaries who share common legal and moral responsibilities. *Fiduciary* responsibility of directors refers to the responsibility of *trusteeship* placed upon directors, reminding them they are on the board to act in the best interest of others, i.e. they hold a position of trust. Fiduciary responsibility requires that:

- the standard of care is that which an 'ordinary' person might expect to take on their own behalf;
- a director isn't required to exercise a greater skill than may reasonably be expected from a person with their knowledge and experience;
- a director isn't bound to give continuous attention to the affairs of an organisation recognising the intermittent nature of board meetings and the director's duty to attend such meetings. At the same time it's commonly accepted that directors must take all positive steps to ensure they are properly informed about the organisation's business and that they can satisfy themselves
  - it is being run properly; and
- in the absence of grounds for suspicion, a director is justified in trusting and expecting other directors and officers to perform their duties diligently and honestly.

The broad concept of fiduciary responsibilities requires a director to:

- exercise a duty of care;
- act honestly;
- avoid using their positions for personal advantage;
- comply with all relevant legislative and constitutional requirements such as employment, trading, occupational health and safety;
- be aware of the scope and general content of such legislation and its relevance; and
- act in the best interests of the organisation as a whole.

#### Liabilities

As trustees exercising a stewardship responsibility on behalf of others (usually members of an incorporated society or beneficiaries of a charitable trust) the board is responsible for:

- the achievement of appropriate outcomes;
- the financial security of the organisation; and
- the expression of a moral and social responsibility.

Joint liability – all directors are equally liable for actions and decisions taken by the board. Non-attendance at a meeting at which a decision is made doesn't absent a director from shared responsibility, accountability or liability.

Directors' indemnity – under certain circumstances, directors can be deemed liable for the organisation's financial failure or its failure to meet certain legal requirements. A director's and officer's liability insurance policy protects the personal liability of board members, however it's only valid where the director/s concerned acted with honest intent. Personal liability insurance usually includes various exclusions to this end.

Each board should seek direct legal advice to ensure it has a clear understanding of its legal and constitutional responsibilities and liabilities.

#### 1.2.3 The role of the chair

#### The chair is not 'the boss'

The chair is not the board's boss. While holding special responsibilities, the chair is primarily a first among equals. The concept of 'servant leadership' is a useful way to think about the role.

The chair's primary role is to provide assurance of the board's governance integrity via the effective management of governance processes. At a secondary level the chair may also publicly represent the board and its policies.

The chair is bound by a range of formal authorities granted by:

- the organisation's constitution;
- the board's governance process policies and/or its charter; or
- informal authorities granted by fellow directors.

The chair has no authority to unilaterally alter, amend or ignore the board's policies. While the chair may delegate certain aspects of their authority, they remain accountable for it.

Nor is the chair the chief executive's boss. Any close working relationship between the chair and the chief executive should not usurp the board's collective responsibility as the chief executive's employer.

How the chair carries out their role goes to the heart of the board's success. A board can stall with an unassertive chair but a domineering chair may run roughshod over participation. The point is that the chair should be capable of melding a group of individuals into an effective leadership team.

#### Different dimensions of the chair's role

In carrying out their duties, the chair should:

- ensure the board's behaviour is consistent with its own rules and those legitimately imposed upon it from outside the organisation;
- chair meetings with the commonly accepted power of the position;
- ensure meeting discussion focuses on those issues which, according to board policy, clearly belong to the board as opposed to the chief executive;
- ensure board discussions are timely, fair, orderly, thorough, efficient, limited to time, and kept to the point;
- observe a recognised 'rules of order' process for board discussion; and
- ensure the board manual is maintained and updated.

In carrying out their duties outside of board meetings, the chair should:

- act consistently with agreed governance policies and processes;
- avoid making independent operational decisions which are the prerogative of the chief executive; and
- not directly supervise or direct the chief executive other than to provide support or a sounding board within board policy.

#### Things the chair should know

The role of board chair carries a high degree of responsibility seldom appreciated by other directors. In one way or another, each of the following represents an element of leadership, or competency, that any chair should demonstrate.

#### 1. The board's policies and delegations

The chair should be familiar with the board's policies or charter, and the board's written delegations to the chief executive. They should ensure the board acts with integrity. While all directors *should* know the board's policies and delegations, the reality is many won't. The chief executive will often look to the chair to interpret a board policy or for protection from intrusion by directors. Directors, too, will look to their chair to provide structural or procedural leadership. While the chair may not need to know the policies or charter by rote, they should at least be aware of relevant policy, be able to access it quickly and provide a ruling or guidance.

#### 2. The standard rules governing meeting management

There will be occasions, e.g. the AGM, when formal rules need to be used. The chair should be familiar with these rules so that they are applied appropriately and fairly.

#### 3. How to get the best out of the boardroom team

The chair is the equivalent of the boardroom team captain. They must lead by example while drawing on the skills of all team members. To achieve this, the chair must know the strengths and weaknesses of all directors.

#### 4. Their own strengths and weaknesses

Directors have high expectations of whoever is in the chairing role. Humility born of self-knowledge is a powerful leadership competency. All chairs should develop the ability to self-assess their performance and be open to changing their behaviour to capitalise on their strengths and overcome or compensate for weaknesses.

#### 5. Where the organisation is, or should be, heading

Regardless of how the organisation's future direction is developed and articulated, the chair must be its champion. Every board chair must be able to explain where the organisation is heading and why.

### 6. What is on the agenda and what outcome is sought from each item?

Managing the board meeting is the chair's most visible role. Less visible, but no less critical for meeting success, is the pre-meeting planning.

The chair should know exactly what issues are to be discussed at the meeting, in what order and what outcomes are sought from each item.

Some chairs will try to anticipate where the board's discussion might go. This is to help ensure that potential conflicts don't throw the meeting. At the start of the meeting the chair might also quickly walk the board through the agenda, checking that their preplanning assumptions are consistent with those held by other directors and as a way of warming up the board for the business to follow.

#### 7. How to deal with conflicting views and perspectives

While the board should work as a team, directors are expected to exercise independent views and perspectives. Many board members are strong-willed individuals who bring passionately held views to the boardroom. It is almost inevitable there will be conflict. A skilled chair will know how to manage such conflict to the board's advantage.

#### 8. When to draw a discussion to closure

Knowing when a boardroom discussion has run its course and should be wrapped up is one of the arts of good chairmanship. This may involve denying board members the opportunity to further advocate their position. This can be difficult to manage. On one hand, board members expect the opportunity to air their views, but on the other they expect the chair to manage the process to avoid the discussion becoming unnecessarily drawn out.

#### 9. How to handle a maverick board member

Ideally, a board should not comprise completely like-minded directors. Diversity is vital. However, diversity can also bring its challenges to the chair. The presence, for example, of feisty, strong-minded individuals who differ from the board's general thinking and behavioural norms can be disruptive. Individual directors, prepared to break the team mould, can be seen as mavericks. One of the great challenges of group management is knowing how to harness the creative potential of someone who is 'different' while, at the same time, managing potential damage to team cohesion. The chair is often asked to walk a fine line that typically needs to be informed by experience and strong intuitive skills.

#### The chief executive's strengths and weaknesses and how to provide mentoring

An exclusive and close working relationship between the chair and chief executive can detract from the full board's relationship and responsibilities. Nevertheless, most boards benefit from a strong working partnership between the two leaders. When this exists, the chair can provide considerable support to the chief executive at times when

the support of other senior managers is inappropriate. The chair should appreciate the chief executive's strengths and weaknesses and be able to offer appropriate counsel.

Boards and directors ask a lot of their chair. They expect the role will be carried out fairly and with integrity even though at times the chair is required to overrule them. The role typically demands a much greater commitment of time than that expected of other directors. The role is more than merely procedural or ceremonial. The chair is the board's leader and consequently bears the sometimes uncomfortable and lonely burdens of leadership.

#### 1.3 Policy leadership

#### 1.3.1 The need for effective 'policy'

Many organisations rely on their constitutions almost exclusively for guidance on governance responsibilities and processes. This is an important starting point but doesn't constitute governance policy. Any constitution needs to be interpreted and made operational. It's this process – and taking into account the board's legal and other responsibilities – that gives rise to the board's policy-making function.

It is recommended that every board develop a coherent 'charter' or set of governance policies. The board's policy framework provides it with the means to exercise effective 'remote control' over the organisation and to ensure that important matters are handled effectively without them necessarily being directly involved in all decisions.

#### A policy is an agreed basis for action, made ahead of time.

The development and adoption of a board charter and/or explicit governance policies requires a board to:

- develop a sense of its values;
- understand effective governance-level leadership;
- establish expectations of its collective and individual performance;
- focus on its unique contribution to the organisation's success;
- undertake regular evaluation;
- plan for continuity, as board members change;
- facilitate the induction of new members; and
- ensure there is a productive relationship with the chief executive.

Organisations sometimes reject governance-level policy leadership out of the mistaken notion that governance policy would be an inappropriate restriction on what the board might be able to do.

Most high-performing boards have at least made a rudimentary attempt to document the board's role, responsibilities and key processes.

With a coherent policy framework it's possible for a board to govern based on pre-determined values and agreements rather than on the basis of *ad hoc* or reactive decisions.

It's generally accepted that the role of any governing board is to determine and monitor policy. It's management's job to implement that policy. This convention appears to be neither well understood, nor effectively applied in many organisations. Consequently, there can be tension within boards, and between boards and their chief executives over what is 'governance'. This is reflected in the way some technical committees and individual board members remain engaged in 'operational activities' delegated to staff. This reflects an incomplete transition process as committee-driven sports, initially viable through the Herculean efforts of hands-on volunteers, evolve into professionally managed organisations.

## There is possibly even greater value having a clear governance job description in under-resourced organisations.

This would help board members and staff to understand when board members were changing hats from director to unpaid staff member. These two roles should be clearly differentiated because the lines of accountability are distinct.

Governance structures and processes must be designed to meet changing leadership challenges. Every board should have at least a basic understanding of where it is (and needs to be) on the continuum from hands-on working board/committee to a comparatively hands-off governing board exercising remote control through policy-setting and monitoring compliance with that policy.

This flows into the performance management of chief executives, an area where many boards fall short. If a board doesn't have a clear idea of its governance responsibilities and functions, and the nature of the relationship it needs to have with staff, this problem will inevitably compound through the organisation.

"The fish rots from the head."

– Governance expert, Bob Garratt

Simply put, if the board isn't fully effective, don't expect the rest of the organisation to be so either.

#### What are policies and how are they made?

What many organisations think of as *policy* is really *protocol* and *procedure*. It's useful to think of policies as a principles-based *framework* or set of guidelines within which action takes place. By comparison, protocols and procedures are usually *prescriptions* for *how* something should be done.

The policy-making process should be proactive and conducted ahead of need. Unfortunately, in many organisations, policy-making is reactive. This is seldom as effective as policy made in advance.

When developing governance-level policy a board should start by identifying and defining the highest, broadest or most abstract level of an issue requiring policy-direction. Policy-making should start with an overarching policy statement. This becomes the umbrella policy under which its expectations can be spelled out in progressively greater detail. Many of the sample policies in this guide follow this pattern. See examples at the end of this section.

The board shouldn't conclude its policy-making until it's confident someone else (usually the chief executive) can interpret and implement it. The board's objective must be to see that the desired *outcome* is achieved. The board can then be certain that it's willing to support the chief executive's actions arising from the policy.

Occasionally the board's policies will be explicit and not provide the chief executive any latitude for interpretation. For example, when the board says, "the chief executive shall ensure that all Government filings and returns are completed on time and to specification", the board means just that. On the other hand, when the board says, "staff will be treated fairly and with respect", there is room for the chief executive to determine the boundaries of 'respect' and 'fairness' unless these are further defined by more detailed policy.

The board is obliged to support the chief executive's interpretation of policy, provided it's a reasonable interpretation.

#### Speaking with 'one voice'

The policy development process gives all board members the opportunity to consider what's required to give effective direction and to express their point of view. The board's policies embody the sum of its members' values and perspectives.

It's not always possible to reach unanimity. Governance is a collective decision-making process and a board must be able to make a decision and allow it to be implemented even when there has been disagreement on the decision taken. Provided a board's decisions are properly taken it can speak with one voice, regardless of a dissenting minority.

#### 1.3.2 Types of governance policies

Internationally, many boards have developed governance policy frameworks based on John Carver's work on 'Policy Governance'. Carver's work is a sound starting point for any sport and recreation board wanting to address their primary responsibilities. Carver's framework has four policy categories that summarise the board's core job:

#### 1. Governance process policies

These define the scope of the board's job and design its operating processes and practices. Topics may include:

- Board Terms of Reference;
- Board Code of Conduct:
- Policy-making;
- Chairperson Role Description;
- New Director Induction;
- Conflict of Interests;
- Meeting Protocols;
- Board Committees; and
- Cost of Governance.

#### 2. Board/chief executive linkage policies

These define the nature of the board-chief executive relationship, specifying the details and extent of the board's delegation to the chief executive and the methods to be applied in determining their effectiveness. The topics such a policy category might cover include:

- Board Delegation to the Chief Executive Policy; and
- Chief Executive Performance Evaluation Policy.

#### 3. Executive limitation policies

These define the limits the board places on the chief executive (and by implication, other staff and volunteers). Typical topics include:

- Financial Management;
- Budgeting;
- Protection of Assets;
- Investments;
- Reserves;
- Reporting to the Board;
- Compliance with Legislation, e.g. Occupational Health and Safety, Employment Law, Organisation Law etc.;
- Treatment of Staff and Volunteers;
- Remuneration and Benefits;
- Public Affairs/Relations: and
- Protection of Intellectual Property/Privacy.

While it's common to write policies *prescriptively* (e.g. telling the chief executive what they can or should do), the proscriptive or limitations approach paradoxically gives the board greater control while offering the chief executive more empowerment An example of a 'limitations' policy is at the end of this section.

#### 4. Ends policies/results to be achieved

These policies address the organisation's fundamental reason for being and set the outcomes to be achieved. They also address the cost, value or relative worth of the outcomes. The policies would likely cover:

- Vision;
- Mission;
- Values; and
- Key Result Areas.

Ends policies primarily address the organisation's external environment and the impact the organisation seeks to make on it. The other three policy categories deal with matters of good housekeeping relating, for example, to the organisation's internal environment.

#### 1.3.3 The board charter

The development of a board charter is an alternative approach. Covering similar content to the framework above, a charter is unlikely to be as extensive. Some boards prefer what is seen as a simpler, more familiar approach. A suggested board charter can be found at the end of this section. A charter could cover the following:

- Principles of Governance;
- Defining Governance Roles;
- Guidelines for Board Process;
- Key Board Functions; and
- Continuing Improvement.

#### The chief executive's own operational policies

Once the board has established its governance policies the chief executive should develop *operational* policies necessary to achieve and manage the results and risks respectively.

#### The board shouldn't adopt or approve operational policies.

This removes the chief executive's ability to make operational policy changes when needed, without reference back to the board. The chief executive shouldn't need to seek board approval for matters that should have been delegated. Conversely, the board shouldn't have to do the chief executive's job as well as its own.

This doesn't mean the chief executive may not seek assistance from board members about operational matters. When, however, assistance is provided, board members put aside their governance responsibilities and are accountable to the chief executive.

#### Developing, adopting and reviewing governance policies

- Governance policies can be initiated, altered or deleted by a board as required.
- Committees or working parties may contribute but the board as a *whole* must adopt policy.
- Don't mindlessly draw sample policies from a third party.
- The chief executive and key staff should participate in the process.
- Policies must be realistic, achievable and have staff buy-in.
- If the underlying principle of any policy is unclear, it shouldn't be adopted.
- Record why a policy is being adopted and its expected consequences.
   That forms the basis for evaluation and revision.
- All board members are bound by governance policies once they're adopted.
- Once a policy is made, it's the board's policy regardless of the views of individual members.
- Review all governance policies regularly via a policy schedule which outlines when and how.

#### Make sure the policies are workable

Effective leadership policies are:

#### 1. Explicit and literal

Everyone has a shared understanding of what the policy is.

#### 2. Brief

'Too long' and 'too many' are the enemies of good leadership.

#### 3. Rigorously followed

If a policy doesn't work it must be either amended or deleted. Staff must believe that the board is holding them accountable for each and every policy.

#### 4. Developed with monitoring in mind

The wording should be written in results/outcome terminology so that both the board and staff can clearly recognise if the policy is not being followed.

#### 1.4 Questions

#### The role of the governing board

- Is your board performing the key functions of a governing board?
- Does it have a clear understanding of the distinctions between governance and management?
- Does your present legal framework align with the achievement of the organisation's purpose and its current and future aspirations?

#### Governing structures and the legal and accountability framework

- Does your governance structure ensure there is clear accountability?
- Do board members understand and accept their fiduciary duties?
- Does your board have a current Conflict of Interests policy?

#### **Policy leadership**

- Has your board developed its own governance policies and are these in good shape?
- Is there a clear distinction between governance and operational policy?
- Is there life in your governance policies (are they understood by all board members and used actively by the board to provide leverage over organisational performance)?

#### 1.5 References and further information

References used in the development of Step One:

Bob Garratt. The Fish Rots From The Head. 1995.

John Carver. *Boards That Lead*. San Francisco: Jossey-Bass. 1990.

For further discussion of the management of rogue board members see "Dealing with 'Maverick' Board Members".

Good Governance #16. July-August, 2000.

John Carver's work on the development of 'model-consistent' policies is recommended:

John Carver and Miriam Mayhew Carver. Reinventing Your Board.

San Francisco: Jossey-Bass. 1997.

John Carver with Caroline Oliver. Corporate Boards That Create Value:

Governing Organisation Performance from the Boardroom.

San Francisco: Jossey-Bass. 2002.

Caroline Oliver (Ed). The Policy Governance Fieldbook:

Practical Lessons, Tips and Tools from the Experiences of Real-World Boards. San Francisco: Jossey-Bass. 1999.

Draft board policies for not-for-profit organisations can also be sourced from the US-based BoardSource organisation **www.boardsource.org**. See particularly:

Kathleen Fletcher. *The Policy Sampler: A Resource for Non-profit Boards*. Washington: BoardSource. 2000.

Sample board policies suited to the New Zealand sport and recreation setting can be found in the Nine Steps to Effective Governance Resources volume.

#### 1.6 Appendix: the structure of a board charter

#### Section 1

#### Principles of governance

- Leadership
- Appointments
- Strategy and values
- Organisational performance
- Compliance
- Accountability to members and other stakeholders
- Relationship with stakeholders
- Balance of power
- Internal procedures
- Board performance assessment
- Management appointments and development.
- Infrastructure
- Risk management

#### Section 2

#### Defining governance roles

- The role of the board
- The role of individual board members (including conflicts of interest)
- Role of the chair

#### Section 3

#### Guidelines for board process

- Board meetings
- Conduct of meetings
- Board minutes

#### Section 4

#### Key board functions

- Delegation of authority
- Public representation
- Execution of documents
- Cheque signing
- Supporting the chief executive
- Chief executive evaluation

#### Section 5

#### Continuing improvement

- Board evaluation
- Board member development
- Board members remuneration and other expenses

Step 2 Develop the work plan

# Dreaming

is not only permissible for leaders — it is obligatory.

John Carver

# Step 2 Develop the work plan

#### In this section...

- 2.1 The need to plan
- 2.2 Annual work plan
- 2.3 Sample work plan
- 2.4 Questions
- 2.5 References and further information
- 2.6 Appendix: Individual meeting structure

# 2.1 The need to plan

# The board should control the shape of its meetings

Elaboration of an annual schedule of board meetings, board retreats, etc. into an annual agenda ensures that the board focuses on all matters of importance to the organisation. It also prevents the board from meandering from one meeting to the next, conducting its business reactively. The annual agenda needs to be defined well ahead of time.

# 2.2 Annual work plan

In developing an annual agenda a board might consider all its significant events and duties for the coming year, allocating a date for each of these to be addressed. Typical items might include:

- preparation for the AGM;
- the chief executive's performance appraisal cycle and key dates;
- board performance review;
- financial reporting;
- an annual review of organisational strategy;
- an annual retreat;
- dates for retirement/selection of new members;
- designated discussion on particular strategic issues;
- consultation with key stakeholders;
- meeting with the external auditor;
- committee reporting dates, e.g. the audit committee;
- signing off the annual report; and
- a schedule for policy review.

It would also include scheduling dates for significant events.

The allocation of time over a year should balance the need to ensure the organisation is complying with its statutory and contractual obligations and the improvement of organisational *performance*.

The annual agenda also ensures the board controls its own business and is committed to addressing essential governance matters. Scheduling ahead of time doesn't prevent including issues on a month-by-month, as-required, basis.

It is recommended that the board schedule an in-depth discussion during the year against each of the ends policies. This ensures that ends policies are examined by the board at least annually. This serves as an in-depth analysis of the chief executive's achievements while strengthening board members' knowledge about the organisation's ends policies.

A sample set of meeting agendas incorporating the first three months of an annual agenda follows at the end of this section.

# 2.3 Sample work plan

# Annual Work Planner<sup>1</sup>

January	February	March
	Bi-monthly review – policies (CEO)	*Risk and audit committee meet (annual budget, environmental scan, external board effectiveness evaluation etc)
April	May	June
(Saturday/Sunday)  Bi-monthly review – policies	*Judicial, Legal, Constitution committee meet (BOARD)	Bi-monthly review – policies (CEO)
(CEO) Six-monthly – provincial/	*CEO remuneration and performance management	Annual review – board performance (BOARD)
associate	committee meeting with CEO – 12-month performance review (BOARD)	Annual review – board member succession (BOARD)
Member stakeholder committee (CEO)	(bo) iiib)	Annual approval – strategic plan(CEO)
*Annual review – regulatory compliance (CEO)		Annual review – goas and KPIs (adopt business plan) (CEO)
*Annual review – delegated authority (CEO)		Annual review – CEO's
Annual review – strategic planning review (CEO)		performance (BOARD) Annual review – annual budget
Annual review – draft annual budget (CEO)		(sign-off) (CEO)
Annual review – environmental scan (CEO)		
Annual review – risk mgt plan (CEO)		
July	August	September
	Bi-monthly review – policies (CEO)	AGM

 $<sup>^{1}\,</sup>$  Kindly reprinted with the permission of a New Zealand national sport organisation.

October	November	December
(Friday/Saturday)	*Judicial, legal, constitution committee meet (BOARD)	Bi-monthly review – policies (CEO)
Bi-monthly review – policies (CEO)	*Risk and audit committee	Six-monthly – CEO performance
Six-monthly – provincial/	meet (progress against budget, stakeholder mgmt review etc) (BOARD)	review (BOARD)
associate members stakeholder committee (CEO)		Annual review – stakeholder mgmt review (CEO)
Annual – new board member induction (Fri) (BOARD)		*CEO remuneration and performance management
Annual review – conflicts of interest (BOARD)		committee meeting with CEO – six month performance review (BOARD)
*Annual review – strategic alliance (CEO)		
*Annual review – board contractual obligations (CEO)		
Annual review – board training (plan) (BOARD)		
Annual review – future leadership roles (BOARD)		

# 2.4 Question

Do we have an annual plan that allows the board to address all necessary issues throughout the year?

# 2.5 References and further information

References used in the development of Step Two:

Good Governance #11 Sept-Oct 1999

# 2.6 Appendix: individual meeting structure

The sample agendas that follow illustrate a possible structure for a series of three board meetings of approximately three hours duration. Each of these agendas is perhaps more detailed than most boards would initially construct in developing an annual agenda into individual meeting agendas.

# MANUKA DISTRICT HEALTH SERVICE

# **ANNUAL BOARD AGENDA\***

# JULY 2004-JUNE 2005

Month	Agenda item	Issues – resources	Time allocation
July	Apologies.		
	Declaration of interests.		
	Confirmation of minutes.		
	Matters arising.		10mins
	Strategic and other issues		
	Clinical governance policy review point 7, Involvement of clients in quality related processes. Review of policy and indicators.	CEO to report	30 mins
	Review of key strategic outcomes.	Chair to lead	40 mins
	Men's health programme. Future directions, statistical data, link to 'ends' policies, performance against strategic objectives.	CEO and/or senior staff member	20 mins
	Preparation for strategic directions workshop.		30 mins
	CEO report		20mins
	Compliance monitoring		
	Financial report.	CEO to report	10mins
	Monitoring financial planning limitations policy.	CEO to report	10mins
	Meeting review		5 mins
	Preview next month's meeting		5 mins

- 1. Proactive management by the board of its own agenda.
- 2. Order of items.
- 3. Time allocation at least as much or more to strategic issues.
- 4. Coverage of the three elements of the board's job:
  - strategic direction (e.g. strategic and other issues);
  - risk management (e.g. compliance monitoring); and
  - effective self management (e.g. declaration of interests; meeting review).
- 5. These are relatively detailed agendas. Many boards' annual agendas will initially be far less detailed.

Month	Agenda item	Issues – resources	Time allocation
August	Apologies.		
	Declaration of interests.		10mins
	Confirmation of minutes.		
	Matters arising.		
	Strategic and other issues		
	Preparation for strategic direction workshop.	Chair	30 mins
	<ul> <li>Clinical governance policy points 2 &amp; 6.</li> <li>Professional development – clinical incident</li> </ul>		
	reporting. Review of policy and indicators.	CEO to report	35 mins
	<ul> <li>Counselling service – report on activities, statistics, outcomes and future directions.</li> </ul>	CEO and/or	
	Performance against strategic objectives.	senior staff	
		member	35 mins
	CEO report		20mins
	Governance matters		
	Review of induction process for new directors.	Committee	
		Convenor	20mins
	Compliance Monitoring		
	Financial report.	CEO to report	10mins
	Monitoring financial condition policy.		
		CEO to report	10mins
	Meeting review		5 mins
	Preview next month's meeting		5 mins

Month	Agenda item	Issues – resources	Time allocation
Sept.	Apologies.		
	Declaration of interests.		
	Confirmation of minutes.		
	Matters arising.		10mins
	Strategic and other issues		
	Clinical governance policy review. Point 1 caring/clinical risk management systems. Review of policy and indicators.	CEO	20 mins
	Audit and finance committee presents work plan for the year.	Convenor	10 mins
	Clinical audit committee presents work plan for the year.	Convenor	10 mins
	CEO performance management committee presents CEO performance indicators for the year and the review process.	Convenor	10 mins
	'Chroming' – early intervention programme. Future directions, statistical data, performance against strategic objectives.	CEO or senior staff member to report	30 mins
	Review of strategic direction workshop. Dialogue continues. Invited guest – a senior staff member from human services to discuss best practice in community health and the		
	government's vision for the sector.		40 mins
	CEO report		20mins
	Compliance monitoring		
	• Financial report.	CEO to report	10mins
	Monitoring financial planning limitations policy.	CEO to report	10mins
	Meeting review		5 mins
	Preview next month's meeting		5 mins



# Step 3

# Review the structure and content of the standard

# board meeting

# In this section...

- 3.1.1 Introduction
- 3.1.2 Meeting frequency and duration
- 3.1.3 Type and place of meeting
- 3.1.4 Board meeting focus and structure
- 3.1.5 Board agendas
- 3.1.6 Board meeting participation and satisfaction
- 3.2 Common pitfalls in agenda design and meeting content
- 3.3 Board meeting roles and responsibilities
- 3.4 Board committees
  - 3.4.1 Issues to do with the use of board committees
  - 3.4.2 Committees should help the board do board work
  - 3.4.3 Clarifying the respective roles of staff and board members in relation to committees
  - 3.4.4 Should the board meet alone?
- 3.5 Questions

# 3.1 Board meetings

# 3.1.1 Introduction

A board's productivity and effectiveness is based on its understanding and implementation of theory and practice. These items most obviously meet in the boardroom.

A board meeting should be stimulating, challenging and, ultimately, satisfying. It should focus on two core elements:

- desired strategic achievements and understanding of the environment and issues impacting on the organisation's ability to achieve its goals; and
- the risk factors that could impede or disrupt the organisation's ability to achieve the desired results (including the necessary monitoring of chief executive and organisational compliance with board expectations, policies and statutes, by-laws, etc.).

# 3.1.2 Meeting frequency and duration

The board should meet as often – and for as long – as it needs to carry out its governance duties.

The less often boards meet, the more difficult it is to develop and maintain continuity of thought. Infrequent meetings may force either the chief executive or the chair (or both) to exercise a higher level of initiative and autonomy than the board is comfortable with.

Monthly meetings place pressure on staff, particularly in small organisations.

A board that meets for less than two hours is unlikely to have time to give effective direction. By the same token, there's a lot of truth in the adage that 'work expands to fill the time available'. The longer the meeting the more likely the board will become embroiled in unnecessary detail.

# 3.1.3 Type and place of meeting

Teleconferencing shouldn't be relied on as the principal method of meeting. Only face-to-face meetings allow full communication and understanding.

All boards should consider whether their usual meeting room provides an appropriate environment. Factors to consider include seating comfort, acoustics, lighting, temperature control and equipment. Effective deliberation can be impeded if any of these are deficient.

# 3.1.4 Board meeting focus and structure

The time available for a board to meet is arguably its scarcest resource.

Boards typically get 'bogged down' in shorter-term day-to-day operational and management matters at the expense of paying adequate attention to governance-level policy and strategic issues with longer-term significance.

A balance is needed between reviewing past performance and dealing with the future through deliberations on policy and strategy. While it's important to observe trends and to understand what lessons can be learned from past efforts the board has no ability to influence what has already happened.

# Boards shouldn't try to steer the organisation looking in the rear-vision mirror.

Boards may benefit from an occasional review of their time-use, allocating different topics into one or other of the cells in the following matrix.

Important and Urgent	Important and Not Urgent
Not Important and Urgent	Not Important and Not Urgent

This analysis alone will encourage debate about what *is* an important use of board time. Over time, the board should aim to spend an increasing proportion of time on matters that are important but not urgent. Environmental monitoring, strategic thinking, policy-making, relationship-building, risk characterisation, performance review and development, etc. would typically be in the former category.

These can be scheduled into an annual agenda as outlined in Step 2.

# 3.1.5 Board agendas

The development of board agendas shouldn't be delegated to the chief executive. The board meeting is a governance forum, not a management one. It's almost inevitable that when the chief executive and other managers plan the board's meeting, they'll do so with their own roles in mind, rather than with a sole focus of the board's governance task.

The structure and sequence of items within a meeting is important. Many boards have benefited from an agenda that tackles more demanding strategic issues early in the meeting. Such boards leave monitoring and other compliance-type topics until later in their meeting. At that stage, it matters less if the board is tiring or some members have to leave before the agenda is completed.

Another tactic is to schedule separate meetings for strategic thinking. Such retreat-style meetings can be worthwhile so long as it's not then assumed that strategic thinking is something to be undertaken periodically rather than as a matter of course.

Achieving the desired focus on important rather than urgent matters is helped by:

- effective meeting planning and strong meeting management;
- appropriate, concise board papers which get to the heart of the matters on which the board must deliberate;
- prior exploration of the issues by board committees or taskforces helping to gather relevant information and to frame issues;
- good preparation by each board member;
- the ability of board members to ask probing questions;
- self-discipline and concentration by meeting participants; and
- proactive policy that prevents the board from needing to consider everything in an ad hoc manner.

# 3.1.6 Board meeting participation and satisfaction

Because a board meeting should encourage in-depth discussion about critical strategic issues, it should include the full board, chief executive and, where relevant, other staff and external parties. There can be particular value in engaging external parties who bring different perspectives and who will challenge the board's thinking.

Given that most board members accept a governance role 'for love rather than money', it's important they enjoy it. They need to be satisfied that meeting time has been well spent. Frustrated or disenchanted board members aren't likely to be constructive or effective contributors. At best, such members are likely to passively 'opt out'. At worst, they're likely to be disruptive.

Satisfaction with meetings is likely to be greatest where:

- meetings are well planned and support effective preparation;
- they are well chaired, balancing effectiveness and efficiency;
- board members work well together and the meeting process allows everyone to participate fully;
- board members are disciplined (e.g., they stick to the issue; they do not dominate discussion, they listen actively to others, they do not become parochial);
- respect is given to different points of view (and there is a diversity of viewpoints);
- the board's deliberations are based on dialogue (collaborative discourse) rather than debate (competitive discourse); and
- there is a sense of having dealt deliberately and satisfactorily with important issues.

# 3.2 Common pitfalls in agenda design and meeting content

A number of traditional practices create inefficient and unproductive meetings. These include:

### Confirmation of the minutes

This should not be an opportunity to revisit or relitigate earlier decisions. Keep these aspects of the meeting as brief and as formal as possible.

# Correspondence

Generally, only correspondence that has direct policy implications should come before the board.

There is no justification for correspondence being an item in its own right.

# Staff reports about operational matters

Reports not targeted to governance responsibilities detract from effective board performance. The principle is simple – the board meets to do board business. Reports should be placed in a governance context. Every agenda item and board report should link to an appropriate board policy or performance measure. If such a reference cannot be defined, the item or report is of questionable relevance.

### 'For information' material

Distributing background information material (as part of the board meeting papers) that requires no board action or deliberation invites the board to be distracted at the expense of time spent on substantive issues.

# Non-policy-related matters

Matters that don't relate to policy shouldn't be on the agenda. If discussion on these matters is necessary, another forum can be organised.

# **Requests for permission**

Operational decision-making is the chief executive's responsibility. This isn't to say that the experience of individual directors should not be available to the chief executive. But the board meeting is neither the time nor the place for the chief executive to take soundings about issues. This indicates a flaw in delegation policies.

# **Unnecessary financial reports and approvals**

Approving prior payments or reviewing the cheque schedule is not the board's business. Financial reports detailing forecast versus actual results should be provided. Other financial data can be made available to individual directors outside the board meeting if required.

# Presentations irrelevant to governance

As interesting as some directors may find it to listen to staff or external presentations, if there is no direct policy or broader governance relevance, such presentations shouldn't take up meeting time.

# 3.3 Board meeting roles and responsibilities

Running effective board meetings is a key means for carrying out the board's job.

Much of the meeting is verbal so there must be a disciplined approach to *what* is talked about, *how* it occurs, and *when* it is done. It is not acceptable for directors to talk about *any* issue that comes up. They must address the *right issues*, at the *right time* and in the *right form*.

# Before the meeting – the chair's special tasks

The key to a successful meeting is pre-meeting preparation, i.e. screening issues and planning the agenda. This allows the board to focus on key issues.

# The board chair's role at the meeting

The chair should test all agenda items and discussion for their policy relevance. Only policy matters should be on the agenda and subsequently discussed. The chair is then responsible for monitoring and directing the meeting and pre-meeting processes so that:

- meeting discussion is only on those issues which, according to board policy, clearly belong with the board, not the chief executive; and
- board discussion is timely, fair, orderly and thorough, efficient, limited on time and kept relevant.

Part of the chair's role is to exercise leadership by:

- keeping discussions on topic;
- managing discussion time;
- eliciting information;
- watching for lost attention;
- modelling supportive behaviour;
- managing conflict; and
- summarising accomplishments.

The chair must maintain a balance between encouraging diverse opinions and facilitating consensus decision-making.

### Consensus

The board's goal is to reach policy decisions which best reflect the thinking of all directors.

Three conditions must exist for consensus to occur. Each director must:

- feel they've been heard and understood by the rest of the board;
- be able to live with the decision or solution; and
- be willing to commit their support to the policy decision even though it may not have been their first choice.

### Focus on the board's business, not hidden agendas

Board members must be open and honest. All discussion should focus on how to support the mission, not on *who is right*. Focusing on the mission can depersonalise issues.

Part of the chair's role is to ensure that any hidden agendas are outed and addressed. A climate in which all directors feel comfortable expressing their opinions should be developed.

### Clear and concise communication

Openness and honesty set the stage for clarity. This is the basis for clear policy, reflecting mutual agreement, and the foundation for all future interactions.

# **Acceptance and support**

The differences between the roles of the board and the chief executive must be understood and valued.

The chief executive is running a business. The board wants what is best for the organisation's membership at large.

### **Conflict resolution**

The strategies used to resolve conflicts are important to the health of an organisation and its chief executive and board. Problems will be exacerbated if conflicts are resolved negatively. Conflicts should be resolved to create a positive climate.

# Attendance and contribution

There should be an expectation that board members will attend all meetings and events when the board is required. This is a basic requirement of directorship and should be spelled out in the board's Code of Conduct. A sample Code of Conduct is included at the end of this section.

Attendance alone isn't sufficient. Individual board members add value to the board's performance. Individual directors must feel confident that their contribution will be heard and valued as an essential ingredient in the overall mix of opinions.

# Non-performing board members

Many boards have non-performing members. It's the chair's job to provide counsel and support for members struggling to contribute. If this fails then the board as a whole may have to agree that a non-performing director be asked to resign, making way for a replacement who can do the job.

As discussed in Step 7, boards are increasingly using structured peer feedback processes to manage their own and their peers' governance performance.

Volunteer status shouldn't stand in the way of setting and monitoring high standards of governance.

# The chief executive's role at board meetings

The board meeting is the board's forum, not the chief executive's.

The discussion is about governance issues, not management matters. The chief executive's role is as the board's primary consultant.

Prior to the board meeting the chief executive provides the board with reports. These might include:

- financial information;
- reports on achievement of, or progress towards, the achievement of strategic goals;
- information about changes in the operating environment as these affect the results sought; and
- information about the impact of the board's policies on the chief executive's ability to do their job.

It's recommended that the board develop a policy that makes clear to its chief executive what should be reported, when and how. Reports should be provided in a clear, concise manner. There should be an opportunity for directors to ask questions on detail before the meeting, not at it.

# 3.4 Board committees

# 3.4.1 Issues to do with the use of board committees

The role and contribution of board committees is an important issue. Boards commonly establish committees to help with their work. There's often an underlying sense that "there is so much work we need committees to get through it".

Board committees can be a mixed blessing. Committee work can fragment board members' sense of their overall responsibility by concentrating attention on narrow issues. There is also a constant temptation to delve into the detail in order to justify the committee's existence. It's easy for a committee to undermine the authority that a full board has delegated to its chief executive.

Directors who aren't members of a particular committee can also feel excluded. This can mean a committee's work is reviewed extensively when its recommendations are brought back to the full board. To avoid the inevitable duplication, boards largely feel obliged to accept ('rubber stamp') committee recommendations. This increases the risks faced by the board as decisions aren't really board decisions, but committee decisions. Perhaps worse, directors will have a diminished sense of responsibility for the conclusions of committees of which they're not a member.

# 3.4.2 Committees should help the board do board work

In establishing committees the basic assumption is that the board needs help to get its work done, but does it really? The sense many boards of sports and recreation organisations have of the overwhelming amount of work *they* have to get done is because they are thinking about the organisation as a whole, and the limited staffing resources available to do the work. For this reason, the board's *own* job description should be articulated before any committee responsibilities are defined. A board shouldn't automatically assume there's a need for *any* committee. Committees that have been thought to be vitally important in the past may be redundant (or become so) and even detrimental.

This doesn't mean there's no role for board committees. Two examples of committees that *do* help a board do *its* work are:

- one that deals with audit and risk management; and
- one that has responsibility to ensure that the board has the membership it needs.

A judgement about the establishment of 'operational' or project committees should be left with the chief executive who may well set up committees of their own.

These could, and often should, involve board members who have special knowledge or who, in addition to their governance role, are willing to work on the organisation's operational side. In a number of sport and recreation organisations, however, these two hats (and the accompanying accountabilities) have become confused.

Board committees shouldn't get involved in tasks that are properly the domain of the chief executive or staff.

All board committees should have:

- clear terms of reference defining their roles;
- expected outputs;
- boundaries of authority;
- reporting requirements;
- membership particulars; and
- a sunset clause limiting their lifespan to force a regular review of their value and existence.

Even better than a board's traditional 'standing' (i.e. permanent) committees are specially created task forces or working parties set up to help the board explore particular issues. When their work is done they can be thanked for their efforts and wound up.

In summary, the board should only establish committees (or task forces) that are essential to doing its *own* work. Unless specifically authorised or requested, board committees should not:

- speak or act for the board;
- be designed to oversee specific functions or operations;
- provide advice or assistance to the chief executive; or
- exercise authority over staff.

# 3.4.3 Clarifying the respective roles of staff and board members in relation to committees

There are some further steps a board can take to avoid confusion of roles and responsibilities. Staff should not be appointed members of a board committee. From time to time, and at the board's request, the chief executive may, however, assign staff to work with board committees. When serving such committees, staff members represent and remain accountable to the chief executive. Their role is to provide the committee with advice and support.

Sometimes a board member, because of their expertise or affiliation, may be asked by the chief executive to serve on a 'staff' committee. The board member's role here is primarily to complement the staff's expertise and experience. When serving in this capacity the individual serves not as a board member but as a 'volunteer' advising staff. It's important both parties understand this.

The following guidelines should apply to the role:

- Staff members have no more obligation to take the advice offered by a board member on a staff committee than they do one of their own colleagues.
- The board member does not have the authority or responsibility to provide the board with reports or feedback on this activity.

These are difficult principles for many board members to grasp, but are essential if the relationship and boundaries between the chief executive and the board are to be respected and the integrity of the accountability framework preserved.

An example of a board policy that could be adopted to support the principles referred to can be found in the Nine Steps to Effective Governance Resources volume.

# 3.4.4 Should the board meet alone?

The board has the right to meet without the chief executive present. Circumstances which might justify their exclusion are most likely to be those where his or her presence may be inappropriate, inhibiting, or embarrassing. Most commonly this would relate to the following:

- regular chief executive performance evaluation;
- ad hoc concerns about the chief executive's conduct;
- chief executive remuneration;
- board performance evaluation;
- board member conflicts or relationship matters;
- conflicts of interest involving either the chief executive or individual board members;
- concerns about the relationship between the board and chief executive;
- scheduled meetings with the external auditor; and
- ad hoc meetings with board-commissioned independent reviewers of board or chief executive performance-related matters.

Not surprisingly, many chief executives resist the idea that a board should meet on its own.

Given the importance of the partnership between the board and the chief executive, a board should be aware of this natural anxiety. A board-only session should, as far as possible, be signalled in advance and be instituted in accordance with pre-established expectations. If a board-only session is *routine* it may be less threatening for the chief executive and less likely to signal that the board is plotting.

Views vary on the status of board-only sessions. Some authorities argue that board-only sessions should not make decisions; that they should be essentially informal discussions subject to more formal procedure later, if required.

There are various ways sessions can be held informally. For example, some boards have off-site meetings over a meal before a formal meeting is held. Another option is to meet in the boardroom before the regular meeting is scheduled to begin.

On the other hand, topics for board-only consideration may justify, even require, greater formality. If that is the case the normal disciplines of notice, agenda, minutes etc., should be observed. To retain confidentiality – if that is the purpose of the board-only session – minutes of such a discussion should be kept and confirmed in a further closed session. Having dealt with the matter the board may consider 'declassification' by briefing interested parties who were not present or by reporting its deliberations more generally.

Such sessions should ideally be held before the board meeting proper gets underway. This allows appropriate action to follow during the 'open' meeting. It also avoids the inevitable awkwardness when the chief executive and others are asked to leave a meeting in progress.

Board-only sessions aren't recommended when business-as-usual matters are under consideration. To exclude the chief executive and staff from these deliberations simply denies them the chance to do their job. Board-only sessions, handled poorly, can undermine vital relationships.

Board-only sessions are a legitimate component of the governance process but a functioning board shouldn't need them often.

# 3.5 Questions

# Board meetings, agenda design and meeting content

- Is our agenda structured so that we prioritise strategic and long-term issues?
- At the end of each board meeting have directors answer the question

   'did we make the best possible use of our time together today?' Use their answers to plan your next meeting and continuously improve your teamwork.
- Are we receiving relevant information in a useable format?

# Board meeting roles and responsibilities and committees

- Do our committees have clear terms of reference are their responsibilities clear?
- Are these up to date?
- Do we know how to judge whether the committees are doing a good job?
- Are our committees really helping the board with its work or are they helping the chief executive?
- Are lines of accountability clear?
- Do we have more committees than we really need at this time?

# 3.6 Appendix 1: Sample board committee policy

# Policy type – governance processes

The board will establish committees and task forces only to support it in its own work, never to conflict with the chief executive's delegated responsibilities.

- 1. Committees and task forces shall have terms of reference or role definitions clearly defining their role, life span, procedures and functions, and the boundaries of their authority, reviewed annually.
- 2. A decision of a board committee or task force exercising delegated authority is a decision of the board and should be treated by the chief executive accordingly.
- 3. Committees and task forces may co-opt outside members from time to time in order to bring additional skills, experience or networks.
- 4. Committees and task forces cannot exercise authority over staff nor shall they delegate tasks to any staff unless the chief executive has specifically agreed to such delegations.
- 5. Unless explicitly empowered by the full board, committees or task forces cannot make binding board decisions or speak for the board. For the most part the function of committees and task forces, in fulfilling their role, is to make recommendations to the board.
- 6. Board committees and task forces will not mirror operational divisions, departments or staff functions.

# 3.7 Appendix 2: Sample code of conduct

# Policy type – governance processes

# **Principles**

- The board is responsible for moral leadership, and setting the ethical and legal framework for the foundation, defining and nurturing the organisation's fundamental values.
- Sound board systems provide protection for the organisation, its stakeholders, the board and its members against fraud, illegal practices and poor performance.

# **Policy**

The board is committed to the adoption of ethical and legal conduct in all areas of its responsibilities and authority.

### **Directors shall:**

- 1. Act honestly and in good faith at all times.
- 2. Avoid knowingly entering into any arrangement that may create a conflict of interest between the director and the organisation.
- 3. Declare all interests that could result in a conflict between personal and organisational priorities or create the appearance of a conflict which could bring the organisation into disrepute (refer Conflict of Interest policy).
- 4. Be diligent, attend board meetings and devote sufficient time to preparation for board meetings to allow for full and appropriate participation in the board's decision making.
- 5. Ensure scrupulous avoidance of deception, unethical practice or any other behaviour that is, or might be construed as, less than honourable in the pursuit of the organisation's business.
- 6. Not disclose to any other person confidential information other than as agreed by the board or as required under law.
- 7. Act in accordance with their fiduciary duties, complying with the spirit as well as the letter of the law, recognising both the legal and moral duties of the role
- 8. Abide by board decisions once reached notwithstanding a director's right to pursue a review or reversal of a board decision.
- 9. Not do anything that in any way denigrates the organisation or harms its public image.

### The board shall:

- 1. Ensure that there is an appropriate definition and separation of duties and responsibilities between itself and the chief executive.
- 2. Make every reasonable effort to ensure that the organisation does not raise stakeholder or community expectations that cannot be fulfilled.
- 3. Meet its responsibility to ensure that all staff employed by the organisation are treated with due respect and are provided with a working environment and working conditions that meet all reasonable standards of employment as defined in relevant workplace legislation.

- 4. Regularly review its own performance as the basis for its own development and quality assurance.
- 5. Carry out its meetings in such a manner as to ensure full and fair participation of all directors.
- 6. Ensure that the organisation's assets are protected via a suitable risk management strategy.



# Step 4 Recast the strategic plan

# In this section...

- 4.1 Strategic leadership
  - 4.1.1 Define the main strategic challenges
  - 4.1.2 Determining the organisation's strategic direction
  - 4.1.3 Defining outcomes
  - 4.1.4 The structure of the board's statement of 'strategic intent'
- 4.2 Stakeholder relations
  - 4.2.1 Does the board know who it's working for?
  - 4.2.2 Stakeholder analysis
- 4.3 Strategic risk management
- 4.4 Questions
- 4.4 References and further information

# 4.1 Strategic leadership

One of the board's major roles is *strategic governance*, setting strategic direction, helping to plot the organisation's path through an uncertain future, and ensuring the organisation achieves what it should.

"...most of what boards do either does not need to be done or is a waste of time when the board does it. Conversely, most of what boards need to do for strategic leadership is not done."

– John Carver

There are many reasons why boards aren't more effective in their direction-giving role.

Typically, they include:

- the board doesn't appreciate the importance of its leadership role and responsibilities – in particular its ultimate accountability for organisational performance;
- the board reacts in an *ad hoc* way to the immediate issues. It is diverted from the more important longer-term challenges;
- setting a clear future direction for the organisation would force the board to confront either fundamental philosophical differences between directors or to challenge one or more dominant individuals who are either antiplanning or who have 'bullied' the board into a particular stance with regard to the future;
- there is active resistance to looking forward because:
  - "if it ain't broke don't fix it"; or
  - "survival is the name of the game";
- the board does not know how to start;
- individual directors are genuinely more interested in how the organisation goes about its work (the means) rather than what it must achieve and why (the ends). They are more comfortable dealing with matters which are specific to their personal interests and experience;
- directors have been disillusioned by the nature and results of past strategic planning in which they felt they were ignored;
- a critical mass of board members are task-oriented and become impatient at having to deal with time-consuming discussion and analysis of issues, the answers to which they feel are obvious; and
- the board is held back by the attitude and/or inexperience of its chief executive and staff.

A board which provides effective direction will have:

- a process for ensuring the organisation's purpose, desired strategic outcomes and values are constantly kept 'in the frame' and relevant;
- a positive vision of the future which channels energy and resources and motivates directors and staff;
- a process which can engage all directors regardless of their level of experience or expertise in, the organisation's operational activities;
- an orientation towards the future that reduces commitment to the status quo and encourages a broader view;
- the commitment and confidence of key stakeholders on whom the organisation depends, be they members, donors, funders or the like;

- a basis for effective governance by keeping both board and staff focused on what's important;
- a process for identifying and reconciling conflicting expectations; and
- a framework for monitoring and assuring performance accountability.

# 4.1.1 Define the main strategic challenges

The board and the executive team should periodically brainstorm what are the main strategic challenges facing the organisation. Bring the two lists together to seek a shared understanding and develop a consensus on major issues. This assists with the planning of an annual agenda (see Step 2).

It's also interesting to ask what is considered 'strategic'. Its connotations include those of:

- a plan a direction, a guide or course of action into the future, a path to get from here to there;
- a pattern ensuring consistency in behaviour over time;
- a position the deliberate determination of particular services or products in particular markets; and
- a perspective an organisation's way of doing things.

Most boards use the word 'strategic' to mean 'of *relative consequence*'. A board is likely to consider a matter 'strategic' if it:

- goes to the heart of why the organisation exists;
- concerns major barriers standing in the way of the organisation achieving its aims;
- involves a significant commitment of resources;
- might move the organisation into a whole new realm of activity;
- could produce a significant change in relationships with a key stakeholder;
- is likely to have a lasting impact on the organisation;
- will be a long time before the outcome of an important decision is likely to be known; and
- cannot easily be dealt with within the normal business and operational planning and budgeting processes.

# 4.1.2 Determining the organisation's strategic direction

# The need for boards to give direction

Before the board can hold its chief executive (and the chief executive can, in turn, hold staff, volunteers, and contractors, etc.) accountable for organisational performance, the board must have done its own job of specifying what must be achieved.

The board, in conjunction with the chief executive and senior staff, should regularly address such questions as:

- What's our purpose, our reason for being?
- If this organisation didn't already exist why would we create it?
- What's our vision?
- Is it still relevant?

- Who are we doing this for? Who should benefit?
- What's the 'essence', ethos or spirit of this organisation?
- What's important to us?
- What do we stand for?
- Where is the organisation at present?
- Where do we want to get to?
- What do we want to become?
- How do we want to interact with each other and the outside world?
- Have we fulfilled our purpose is it time for us to close the doors and move on?

The next step is to convert or translate these answers into more specific outcomes or key results to be achieved. Until there are answers to these questions the effective monitoring and evaluation of performance is, at best, difficult.

# 4.1.3 Defining outcomes

Traditional strategic plans are often replete with high-sounding vision or mission statements. Frequently, these and plan goals largely reflect wishful thinking. Strategic plans, traditionally, tend to direct attention inwardly rather than outwardly specifying the results to be achieved.

A board should ensure that its strategic intentions are expressed in the form of outcome statements specifying the *results* to be achieved and the recipient of the benefit – i.e. statements of ends, not means. Here are some practical tips to help do this:

- Avoid descriptions of the activity that is to be undertaken it helps to remove active verbs, e.g. 'producing', 'enhancing', 'facilitating', 'coordinating', etc.
- Focus on the benefit and who is to receive it.
- Ensure the statement looks outward, beyond the 'walls' of the organisation, i.e. this isn't about what we will do but how someone else will be better off.
- Avoid wishful thinking and relativities.
- Write as if the result has been achieved.

"We will provide services that meet the specific needs of people who are artichoke-dependent."

"A balanced diet is consumed by people who are artichoke-dependent."

This makes it clear what the result is and who the target to receive the benefit is.

This style of presentation specifics the *ends* (the board's role) but not the *means* (the management's role).

### Who does what?

The board's high-level purpose and outcome statements should generally have a longer-term focus, creating a framework within which the chief executive can prepare shorter-term (e.g. one- to three-year) business plans.

Strategic thinking comes before strategic planning.

The board should involve not only its chief executive and senior staff, but also key internal (e.g. regional sports organisations, clubs, and individual members) and external stakeholders should also be engaged as appropriate. Given the relatively small size of most organisations, it is recommended that *all* staff be engaged in strategic thinking at some point. If these discussions are effective, they build commitment and ownership throughout the organisation and lead to better decision-making.

# 4.1.4 The structure of the board's statement of 'strategic intent'

The language of strategic thinking and strategic planning is surrounded by jargon. It's good to keep the strategic direction framework as simple as possible. The following framework is consistent with commonly accepted definitions of key terms.

- 1. **Vision** statement much of the strategic management literature advocates the adoption of an inspirational vision of some Nirvana-like future. Can be useful as a statement of the ultimate that the board wishes the organisation to achieve.
- 2. Purpose statement the most powerful single statement a board can make. The purpose statement describes the organisation's primary reason for being in terms of the benefit to be achieved and the beneficiary(s). A good starting question is, "If this organisation did not already exist why would we create it?"
- 3. Values cherished beliefs and principles that are intended to inspire effort, and guide behaviour, encouraging some actions and activities and constraining others. There's an important ethical dimension to this. A good starting question for a discussion on values is to complete the sentence "We believe in/that..."
- 4. Strategic outcomes the organisation's high-level, longer-term deliverables. Stated as if they've been achieved, these allow you to understand the difference the organisation will make to its world if it's successful.
- **5. Key results** the organisation's short-term achievements on a year-to-year basis. Each key result is a subset of a larger strategic outcome.
- 6. Performance measures measurements or milestones that the board must monitor to be sure about achieving key results and ensuring the organisation is on track. The chief executive should be invited to present these to the board. The onus should be on the chief executive to convince the board that key results are being achieved. In reality, many key performance indicators will be operational performance measures.
- 7. Resource allocation resources should be allocated for each of the key results. This ensures the results are achievable and that the strategic framework is realistic and the specified results achievable (rather than simply an inventory of wishful thinking).

# 4.2 Stakeholder relations

# 4.2.1 Does the board know who it's working for?

No organisation exists solely for its own sake.

The main value added by a commercial board is the translation of owners' wishes into organisation performance.

– John Carver and Caroline Oliver

This concept is applicable to a non-commercial context albeit the focus is on members, trust beneficiaries, or other stakeholders with an equivalent ownership interest. In a sports and recreation context, this includes participants even though not all are feepaying club members.

There is also a broader concept of stakeholders – not just owners, but all those who benefit in some material way from the existence of the organisation or whose lives are affected by it.

Important questions for any board relate to identifying the most important stakeholders: "What do we do for them?" and "What do they expect/need from us?" being two examples. Good governance demands that stakeholder interests are identified and appropriate relationships are established. Those whom the board considers it's *primarily* accountable to should attract the most attention. Boards should involve stakeholders when planning direction and priorities.

A board needs to develop a stakeholder relationship because the interests and expectations of key stakeholders sometimes conflict and trade-offs have to be made. Some stakeholder expectations may conflict with what's in the best interests of the organisation. Similarly, boards may need to do what they know is right, even when it goes against the wishes of stakeholders.

Complex stakeholder environments are the norm for many sports and recreational organisations.

Few boards employ processes to manage the challenges posed by different stakeholders. Very few develop a clear sense of the relative significance of each stakeholder category and of the type of relationship the board should expect to see developed. More often, stakeholder relations receive reactive attention – usually when they're negative.

It follows that strategic direction-setting should involve key stakeholders. While stakeholders should neither determine its overall strategy nor drive a board's decision-making, the board has a moral responsibility to consult with stakeholders about their expectations and requirements.

# 4.2.2 Stakeholder analysis

A board should analyse and regularly review its stakeholders. The table below outlines a simple structure and process for starting this review.

The point of a stakeholder analysis is to distinguish the most important relationships (positive or negative). Analysis should be undertaken at least annually.

Step One	Step Two	Step Three
List of stakeholders (compile by	Assess degree of	Assess nature of each
'brainstorming' with meeting	influence each	stakeholder's influence
participants)	stakeholder has (high,	(from very positive to
	medium or low)	very negative)
Stakeholder 1	High	Positive
Stakeholder 2	Medium	Very positive
Stakeholder 3	High	Very negative
Stakeholder 4	Low	Negative
Etc.		

**Step Four** – Plot each stakeholder on a grid to get a visual picture. In this example the board's attention should be focused on Stakeholders 1 and 3.

High Influence

# Stakeholder 3 Stakeholder 1 Stakeholder 2 Very Negative Very Positive Low Influence

**Step Five** – Develop appropriate strategies to address relationships that are not consistent with the board's expectations and to maintain those that are.

# 4.3 Strategic risk management

This section introduces the concept of strategic risk. For a more detailed consideration, together with explicit tools, please refer to the recently released standard **Guidelines** for Risk Management in Sport and Recreation SNZ HB 8669:2004. This has been developed with SPARC input and is available through SPARC or directly from Standards New Zealand.

# Does the board have the right type of focus on risk?

Achieving a strategic direction doesn't happen by chance. Even the clear expression of strategic intentions doesn't guarantee success. The board must have an effective system in place to help it identify potential barriers to success. A board should regularly review the main strategic and operational risks facing the organisation.

Often the principal focus of board-level risk analysis tends to be on their organisation's financial position. Logically, however, this is a 'cart before the horse' approach as an organisation's financial position is often a consequence of more fundamental performance-related issues.

# What is risk?

Risks are uncertain future events that could impact on the organisation's ability to achieve its objectives.

Generally, a risk encompasses threats of losses *and* opportunities for gain. The challenge is to determine if the gains will outweigh the losses.

Although there is a natural tendency to think of risk as protecting the organisation from something 'bad' – such as loss of reputation – a risk-averse board can damage an organisation just as easily as a board that's over-lenient or reckless.

Risk management is the process by which the board and chief executive ensure that the organisation deals with uncertainty to its best advantage.

# Strategic risk management

Strategic risk management embraces both possible gains and losses from risk. It seeks to counter all losses, whether from accidents or poor judgement calls, and seize opportunities for gains through innovation and growth.

Effective strategic risk management is vital.

What a board expects in the future and how it prepares for it greatly affects the amount of risk confronting their organisation. Strategic risk management is about visualising futures and having a Plan B, C and even D in place to respond accordingly. A board prepared for a broad range of potential future outcomes faces less uncertainty and less risk.

There are at least four good reasons why a board needs to ensure its organisation takes a strategic approach to risk management and that it can handle risk effectively:

- 1. to counter losses;
- 2. to reduce uncertainty;
- 3. to take advantage of opportunities; and
- 4. to fulfil a worthwhile purpose.

# **Countering losses**

Countering accidental losses typically involves reducing their probability, magnitude or unpredictability. Reducing accidental losses usually involves either avoiding or modifying the activities that may generate them in the first place.

# **Reducing uncertainty**

Access to salient data can reduce uncertainty.

Reducing uncertainty removes doubts and makes boards and managers more confident in moving forward, and more optimistic in making needed changes. Good strategic risk management enables boards and managers to avoid the worst and capture the best.

# Taking advantage of opportunities

Organisational success is often characterised by innovation and the ability to see possibilities others have overlooked. Strategic risk management helps identify opportunities while better positioning an organisation to seize them.

# Clarifying the board's responsibility for risk

Because of their public funding and profile, sports and recreation boards have a duty to observe the highest standards of corporate stewardship. They must ensure their organisation has sound internal management systems and controls, delivering value for the resources entrusted to it. Because the board is ultimately accountable for organisational performance, it must be clear how much risk is acceptable in achieving its goals.

Among the various dimensions of the board's risk management role is the need to:

- characterise risk ensuring it knows the key risks facing the organisation and that it has a good understanding of their probability and potential impact; and
- set the tone and influence the risk management culture within the organisation. The challenge has been neatly summed up in the following quotation:

The board's key role is to ensure that corporate management is continuously and effectively striving for above average performance, taking account of risks.

For example, is it a risk-taking or a risk-averse organisation? Which types of risk are acceptable and which are not? What are the board's expectations of staff with respect to conduct and probity? Is there a clear policy that describes the desired risk culture, defines scope and responsibilities for managing risk, assesses resources and defines performance measures?

The board should also:

- participate in major decisions affecting the organisation's risk profile or exposure, ensuring that important questions such as, "Should the risk be spread by working with another organisation or transferred through the use of funder/sponsor underwriting or insurance?" are addressed;
- monitor the management of significant risks to reduce the likelihood of unwelcome surprises by, for example, receiving regular reports from management focusing on key performance and risk indicators, supplemented by audit and other internal and external reports;
- satisfy itself that less significant risks are being actively managed, possibly by encouraging a wider adoption of risk management processes and techniques; and
- report annually to key stakeholders on the organisation's approach to risk management, with a description of the key elements of its processes and procedures.

The board's expectations regarding risk management and the delegation of its authority to management should be formally documented in policy. This creates accountability and an explicit framework for performance monitoring.

# 4.4 Questions

# Strategic leadership

- Is your board effective in giving direction?
- Has it clearly articulated its expectations about the outcomes or results the organisation should deliver?
- Is the vision a widely shared one that is sustainable by future boards or is it dependent largely on the thinking and energy of one person (e.g. the founder)?
- In what type of deliberations is your board primarily engaged those that relate to designing the future or those that relate to minding the shop?
- Does it have a simple, brief document that sets out the board's sense of strategic direction, priorities, etc.?

# **Stakeholder relations**

- Who are your 'owners' and how does the board express its accountability to them?
- Have you defined the organisation's other key stakeholders and how the board expects the organisation to relate to them?
- Does the board treat all stakeholder issues in the same way or does it have a clear sense of which issues and which relationships are really important?

# Strategic risk management

- Does the board regularly (at least annually) and systematically review the risks facing the organisation?
- Has it clearly agreed and communicated the level of risk it is prepared to tolerate in relation to critical organisational performance factors?
- Does it have clear policies in place that define boundaries within which the chief executive can operate without further reference to the board?
- Is the board satisfied there are contingency plans in place to deal with risks that cannot be controlled or mitigated?

# 4.5 References and further information

References used in the development of Step Four:

"What is the Board's Role in Strategic Planning Anyway?". Good Governance #8. March—April, 1999.

John Carver and Caroline Oliver. Corporate Boards That Create Value.

San Francisco: Jossey-Bass. 2002, p 8.

Frederick G Hilmer. Strictly Boardroom: Improving Governance to Enhance

Company Performance.

Melbourne: The Business Library. 1993.

Guidelines for Risk Management in Sport and Recreation SNZ HB 8669:2004

# Step 5

The chief executive – recruitment, performance measures and evaluation

You can't build a strong corporation with a lot of committees and a board that has to be consulted every turn.

You have to be able to make 

decisions on your own.

Rupert Murdoch

# Step 5 The chief executive – recruitment, performance measures and evaluation

### In this section...

- 5.1 Chief executive/board relationships
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- 5.5 Delegating to the chief executive
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### 5.1 Chief executive/board relationships

The relationship between a board and chief executive should be approached as a partnership in which each respects the other's roles, responsibilities and prerogatives.

Sport and recreation organisations are generally small, making the likelihood of developing chief executive candidates internally relatively low. This forces external recruitment.

Many chief executives recruited into sport and recreation organisations have had comparatively little general management experience nor experience working with a governing board. To ensure there is an effective partnership between boards and chief executives requires considerable support and professional development.

Various dimensions of this relationship are explored in this section to help boards and their chief executives secure a strong working relationship.

### 5.2 Does the board really want a 'chief executive'?

### Assessing the board's stage of development

Some boards need to clarify whether they want (or need) a chief executive or an administrator. Many organisations are at different stages of development.

In many small organisations, the board is more like a working committee. This is appropriate for many sport and recreation organisations, even to a national level, *when they are young*. The board is not yet ready or able to delegate significant aspects of the organisation's activities to paid staff members.

Some boards find that growing governance and operational demands are beyond them and recruit a chief executive.

They then struggle to let go of the operational reins.

The board has nominally recruited someone to take control but then signals it does not fully trust the chief executive to do their job. The resultant mismatch between apparent intention and reality can cause major problems, e.g. board members taking the lead in matters that would normally be the chief executive's role and/or a plethora of committees with operational responsibilities.

### Getting the sequence of tasks right

The board's primary job is to define the ends to which the means are directed. It is then the chief executive's primary job to carry out the organisation's operational means.

Once the organisation's outcomes have been agreed, the board should ensure there are policies or protocols that guide the chief executive's approach to the job, charging them with achieving the desired results, while making it clear they can appoint appropriate staff to do the job. In some situations the best person may be a board member – perhaps even the chair.

### Resisting the temptation to help

The board should resist establishing a committee structure that inserts board members deeply into the organisation's operations. Committees can serve a useful purpose provided they are aligned around the job of the board, not that of the chief executive.

Whether the chief executive uses board members or external parties, responsibility for achieving operational objectives should remain with the chief executive.

A board must separate its governance role from the chief executive's management role and assign responsibilities accordingly. Downstream problems are created when accountabilities are blurred by *ad hoc* arrangements designed to address a chief executive's perceived shortcomings.

### **Unity of control**

Some sports organisations unwittingly fragment control of their organisations via the board's involvement in appointing more than one staff member or having more than one staff member reporting directly to it (commonly a national coach, for example, as well as the chief executive). A board should encourage unity of control and accountability by having one direct employee – usually the chief executive.

The chief executive, or equivalent, should employ all staff and be acknowledged as responsible for the work of volunteers (even if this group includes board members).

### 5.3 Finding the right chief executive

### Good chief executives are tough to find (and tougher to keep)

Good chief executives are in high demand and susceptible to being attracted to new, more demanding and better-rewarded positions. Just when things are going well, a board may face the need to replace an effective chief executive.

Just to survive, let alone thrive, an organisation and its leadership need to be dynamic and adaptive. Many boards have to face the fact that even a chief executive who has served an organisation well historically is not necessarily the best person to take the organisation forward.

### Every care should be taken

When appointing its chief executive, the board should ensure it has canvassed the field to attract the best person for the position. Affordability is often an issue, resulting in the appointment of chief executives who are relatively young and inexperienced in general management. The board must recruit with its eyes open, remaining conscious of the trade-offs it may need to make.

All candidates should be assessed for appropriate skills and experience, organisational cultural compatibility, and an understanding of, and empathy with, the organisation's core purpose, strategic aims and general business. An ability to develop an effective partnership with the board and key staff and stakeholders is vital.

"Boards have no one to blame but themselves if their chief executives disappoint them."

— Bennis and O'Toole

"Real leaders move the human heart."

– Bennis and O'Toole

Therein lies the board's challenge – the ability to move the human heart is nebulous and tough to quantify. Even boards that value such leadership abilities tend to shy

away from assessing these soft elements, looking instead for hard facts, e.g. evidence of a big decrease in operating costs or staffing levels and proof of technical skills.

### Important considerations in selecting a chief executive

Boards are more likely to hire the right chief executive if they adopt the following guidelines based on those suggested by Bennis and O'Toole:

- Come to a shared definition of leadership a board should generate a shared definition of what leadership means in the context of current organisational challenges.
- Resolve strategic and political conflicts board members often have hidden agendas, differing world-views and unspoken disagreements about corporate purpose and strategy. It is important that a new chief executive does not walk into a situation where they are expected to lead the organisation in a fresh direction, but unlikely to obtain adequate support for whatever direction they chart. A board should not assume that a new chief executive can put the board's own house in order.
- Actively measure the soft qualities in chief executive candidates factors such as integrity, the ability to provide meaning, and talent for creating other leaders should be measured. There are techniques and approaches for assessing such qualities.
- Beware of candidates who act like chief executives many boards have been taken in by candidates who are articulate, glamorous and charismatic, but little more. Appearances are often deceiving. One sure way to spot a leader is by the presence of willing followers. A board should find out whether a candidate has a track record of creating followers and other leaders.
- Recognise that real leaders are threatening sports organisations can be inherently conservative. Real leaders are threatening to those intent on preserving the status quo. A leader who can motivate people to make changes is, by definition, a destabilising force.
- Know that insider heirs usually aren't apparent ideally, no
  one should inherit a chief executive position. Few sport and recreation
  organisations have the depth to grow their own line of succession. Having
  said that, organisations should be meritocracies, not monarchies. Boards
  should give all candidates the same vetting treatment. Particular scrutiny
  should be given to internal candidates if they are to follow highly successful
  predecessors.
- Don't rush to judgement along with picking too quickly, boards can sometimes mistakenly select a candidate who comes with a detailed plan to 'turn things around'. Such candidates are seductive but potentially dangerous. Boards should be looking for someone with a broad (and long-term) perspective, a set of convictions about the sport and the organisation's strategic direction, a clearly thought out managerial philosophy and an understanding of how to galvanise the entire organisation towards change.

### Suggested process steps

In seeking a new chief executive a board should consider adopting a process that includes, or at least considers, the following main steps:

Developing an agreed description of the qualities of the preferred candidate – a clear and agreed description of the type of person it feels will provide effective leadership to the organisation over the next three to five years.

There are four important sources of information for this purpose, of which three are internal – namely staff, volunteers and board members.

Staff/volunteer perspectives – these provide the board with valuable insights into the type of leadership these two key groups require. It also gives the board a snapshot of the organisation's internal health. This process should be designed to increase these key stakeholders' sense of 'ownership' and support for the appointee. Facilitated focus group discussion involving representatives of staff and volunteers is one way to approach this.

District/regional associations'/member organisations' perspectives – given the federal structure of many sport and recreation organisations the selection of the chief executive is a critical decision. They play a vital link role and must be able to influence other parts of the organisation without any direct authority. This requires relationship management skills and emotional maturity.

**Board perspective** – it is important that the whole board takes an active part in the recruitment process. A thorough discussion defining the desired qualities sought in the new appointee should be had at the outset. Again, a facilitated workshop is worthwhile.

Delegating the recruitment process to a committee is recommended, providing effective liaison if recruitment consultants are used.

*External stakeholder perspective* – overall success is dependent on the development and maintenance of successful relationships with other agencies. The chief executive is *the* crucial link with these parties. There is value in gaining input from these stakeholders. This can be revealing for the board, highlighting the current state of the relationship between the organisations.

### 1. Searching and short-listing

Which is the more expensive option – a thorough and professional recruitment process, or years of organisational underperformance and/or a messy and expensive termination?

Within an agreed budget, an external recruitment consultant could be tasked with advertising and/or searching to produce a shortlist of candidates for more detailed scrutiny by the committee. Typically, this process would involve documenting the attributes of short-listed candidates including psychometric test results.

- Simulation testing if resources permit, short-listed candidates should experience an intensive, tailored simulation of the types of pressure they will face. Specialist firms provide this type of testing for senior executive appointments.
- Interviews interviews should seek evidence of understanding, ability
  and track record. A range of interviewers should be involved in this
  process to cross-check impressions and ensure that gut feelings are
  explored and tested.

From these steps it should be possible for the committee to recommend a preferred candidate (or perhaps two) to the full board for final consideration.

Most hiring decisions are made primarily on the basis of easily identifiable or recognisable characteristics. Subsequent 'firing' decisions are almost always made on the basis of attitudes and aptitudes.

A recruitment process should go beyond the easily distinguishable.

### 2. Full board consideration and final decision

- it is vital that the whole board participates in and owns the outcome of the selection process.
  - *Final selection process* the whole board should meet the leading candidate(s). At this point it may simply be a question of the board assessing the relative degree of fit.
  - Appointment the final step could again revert to the committee
    to oversee reference checking and confirm the new chief executive's
    employment contract within terms agreed to by the board. The contract
    and performance expectations should reflect the board's expectations.

It is recommended that specialist advice be taken on both the employment contract and any performance agreement aspects of the appointment.

### 3. Induction

The new chief executive – particularly if appointed from outside the organisation – should be well briefed and prepared via a thorough induction.

# 5.4 Important elements in an effective board/ chief executive relationship

### What sort of relationship is required?

The key decision many boards make is the decision to appoint and work with their chief executive.

A board therefore has a huge stake in their chief executive being successful.

The board/chief executive relationship is full of inherent contradictions. The chief executive is usually a full-time professional employed by part-timers who are mostly amateurs in the operations of the business being governed. That brings special challenges. The chief executive controls operations, including the information necessary for the board to make its governance decisions, yet the board carries ultimate accountability for these decisions. The chief executive is expected to provide leadership to the organisation and, at times, to the board. Yet the board is the ultimate leadership body. In short, it depends on the chief executive to make things happen, but the chief executive's only authority is granted by the board.

These contradictions can only be resolved when the board and chief executive work as a team – partners and colleagues working together. Some directors and chief executives find this difficult to accept.

### Key elements in a successful relationship

### 1. Role clarity

Role clarity is an essential starting point for an effective organisational relationship. It is vital that the directors and chief executive understand and respect each other's role and responsibilities, that they understand the difference between governing and managing, and support each other.

### 2. Mutual expectations must be explicit and realistic

Undeclared expectations and untested assumptions will impede any relationship – personal or organisational. The board should detail what it expects of its chief executive and the chief executive should make clear what they expect of their board. Ideally, these should be documented, and reviewed regularly.

A list of director expectations of the chief executive would likely include:

- the achievement of desired results:
- loyalty;
- respect for the experience, independence and wisdom of directors;
- honesty and openness;
- assistance with strategic and other board-level thinking;
- to be treated as a collective group, not singled out and set against each other;
- to be told what a governing board requires to know in order to meet its duty of care obligations;
- to be kept abreast of critical strategic issues and events that could impact on the organisation's ability to achieve its desired results; and
- to feel proud of their association with the board and the organisation.

A list of chief executive expectations of their board would likely include:

- clearly stated outcomes to be delivered;
- clearly defined boundaries of authority;
- that the board speak with one consistent voice;
- to be allowed to manage, free from interference by the board or individual directors;
- to be given support for worthy effort;
- recognition for achievement and the occasional thank you;
- honesty and openness;
- the availability of directors' wisdom and advice, and a sounding board when requested;
- a genuine commitment to the organisation and an honest effort to understand the business and its issues;
- thorough pre-meeting preparation and attendance at meetings and workshops;
- regular honest performance feedback; and
- teamwork, partnership and a sense of common purpose.

### 3. Reporting and information requirements

Directors need to clarify exactly what information they require, in what form, about which issues and when. No chief executive should be left to guess their board's

information needs. Provided the board's interests, requirements and strategic priorities are clear, a smart chief executive can anticipate the need for certain information and provide this without needing to be asked.

# 4. A fair and ethical process for chief executive performance management

The chief executive has a right to expect the board to provide regular performance feedback against agreed performance expectations.

### 5. The chief executive/chair relationship

Most directors and chief executives benefit from the chief executive having a sound working relationship with the chair.

### 6. The chief executive's role at board meetings

Chief executives must be clear that board meetings are for board business, not a management forum. Chief executives commonly stack the agenda with matters of importance to them, rather than focusing on what the board needs to do its job.

The chief executive has two primary roles at board meetings:

- helping the board understand and address the future providing advice and support to the board's dialogue and decision-making; and
- helping the board analyse and understand the past and providing evidence that the organisation is doing what it should.

# 7. Helping the board understand the risks faced by the organisation

The board needs to be regularly appraised about the nature of organisational risks and the planned response. A chief executive can help the board fulfil its duty of care by developing risk mitigation strategies and promptly reporting key issues.

### 5.5 Delegating to the chief executive

### Making the delegation clear

The board's operating assumption should be that the chief executive is capable of managing and overseeing all operational matters.

The board should formally record the extent of its delegation to the chief executive. Unfortunately, most boards don't make their delegation clear.

It is common for directors to assert that a board should not have to spell out its expectations of its chief executive – that any chief executive worth his or her salt should not need to be told what they can and cannot do. Chief executives generally express the opposite view. The lack of an explicit delegation creates the risk that the board (or any individual board member including the chair) starts directing the chief executive, or worse, other staff, as to how something should be done. When this occurs the board takes over part of the chief executive's role and they can no longer be held accountable for the results.

Chief executives don't want to continually seek their board's endorsement for operational initiatives. Commonly, however, there is uncertainty about exactly what is to be 'got on with' and what limits the board might wish to place on these activities.

### The ends do not justify the means

No board should offer its chief executive an unbounded delegation. The risks are too great for all parties. Documenting allows the board to assert appropriate levels of control over the risks associated with its delegation and is an important safeguard for the chief executive. It requires the board to clarify its expectations and 'speak with one voice'.

### Defining the delegation to the chief executive

While there is no one right way to define the board's delegation of authority to its chief executive, certain approaches are clearer than others. Four alternative approaches to writing delegation policy are illustrated below. Some basic principles apply to this process and underpin whichever approach is used.

- A reasonable level of control over management is necessary to meet their duty of care. A reasonable level of freedom for the chief executive is necessary to ensure the organisation's outcomes are achieved.
- The chief executive can reasonably expect that the agreed delegation is the basis for all managerial responsibility and accountability.
- The delegation documentation should be comprehensive and clear about expectations.
- The delegation should clearly state the outcomes to be achieved and any limits to the chief executive's authority.

### 1. The prescriptive approach

This is the most commonly used approach to policy. A prescriptive board policy for operational financial management might look something like this:

### POLICY

The chief executive is responsible for the organisation's day-to-day financial management. In carrying out this duty helshe must ensure that all financial actions and circumstances are designed to protect the organisation's financial integrity. Accordingly the chief executive must:

- 1. ensure that organisational funds, contracts and other liabilities are incurred only for the furtherance of board-approved purposes and priorities;
- expend no more funds than have been received in the financial year unless offset by approved borrowings or approved withdrawals from reserves; and
- 3. pay all undisputed invoices from suppliers of goods and services within trade credit terms agreed with those suppliers;

and so on.

This approach has two major shortcomings. Firstly, while the board has established a list of 'must do' or 'could do' actions, there are many other ways the chief executive could satisfy the essence of the delegation. The chief executive is left having to make a judgement call and risk breaching the board's unstated policy.

Understandably, the alternative is to play safe - go to the board and seek permission to take an action that is not on the board's list. This wastes time and encourages an ineffective chief executive to delegate to the board many of the decisions he or she should be making.

The second shortcoming is the opposite problem, i.e. a prescriptive list can be neverending. A chief executive can take an almost unquantifiable array of actions to achieve the board's outcomes. This leaves little room for the chief executive to exercise their judgement. The job is likely to be over-prescribed.

### 2. The limitations approach

This approach requires the board to define what must be achieved (ends, outcomes, results) and then set *limits* to the chief executive's freedom to choose the means to achieve those ends.

Most boards can identify the key risks facing their organisation, from which risk boundaries can be established for their chief executives. The chief executive is deemed to have complete operational freedom within these boundaries. This is more empowering for a chief executive than prescriptive policy. With the board outlining what is unacceptable or unallowable, the chief executive can manage with the assurance that all other actions are permitted.

This proscriptive approach creates a 'win-win' situation: a board more in control and a chief executive more empowered.

Using this approach the policy might look something like:

### **POLICY**

The chief executive is responsible for the organisation's day-to-day financial management. In carrying out this duty he/she must ensure that nothing is done, or authorised to be done, that could in any way cause financial harm or threaten the organisation's financial integrity.

In managing the financial affairs of the organisation the chief executive must not:

- 1 use any organisational funds, enter into any contracts or incur liabilities other than for the furtherance of board-approved purposes and priorities;
- 2 expend more funds than have been received in the financial year unless offset by approved borrowings or approved withdrawals from reserves; or
- 3 allow undisputed invoices from suppliers of goods and services to remain unpaid beyond trade credit terms agreed with those suppliers;

and so on.

The main advantages of this approach are that:

- the board has better focus, clarity and more effective overall control;
- lay board members are better able to contribute because this approach
  does not require them to try and tell the chief executive how to do their
  job;
- the provision of clear boundaries confirms expectations of the chief executive:
- there is increased empowerment for the chief executive;
- there is increased likelihood of innovation in the 'means' chosen because operational approaches are not prescribed by the board; and
- board agendas become less cluttered by the chief executive seeking permission to do their job.

### 3. Using other language to determine the limitations

There are two other ways the delegation might be expressed if the negative and at times awkward language in the limitations approach is an issue.

(a) Constraints placed on the chief executive's prerogatives approach

### **POLICY**

The chief executive is responsible for the organisation's day-to-day financial management. In carrying out this duty he/she must ensure that nothing is done, or authorised to be done, that could in any way cause financial harm or threaten the organisation's financial integrity. While recognising the necessity for maximising the chief executive's decision-making parameters, the board's delegation imposes the following constraints on the chief executive's decision-making prerogatives. The chief executive's prerogatives do not extend to:

1. use of organisational funds, the entry into contracts or acceptance of liabilities, other than for the furtherance of board-approved purposes and priorities;

and so on.

This approach retains the limitations principles while replacing the overtly negative language. While largely semantic, this small change in style might promote wider acceptance of the approach.

This approach is commonly used in commercial enterprises. It is based on the idea that certain powers belong with the board and as such the chief executive does not have decision-making prerogatives in any of these matters. The financial policy example using this approach might look something like this:

### **POLICY**

The chief executive is responsible for the day-to-day financial management of the organisation. In carrying out this duty he/she must ensure that nothing is done, or authorised to be done, that could in any way cause financial harm or threaten the organisation's financial integrity. While recognising the necessity for maximising the chief executive's decision-making parameters, the following powers are reserved to the board:

 authority to use organisational funds, to enter into contracts or accept liabilities other than for the furtherance of board-approved purposes and priorities;

and so on.

This approach also avoids the negative language used in a limitations policy. To ensure the absence of doubt the board has explicitly retained the authority to make certain decisions, asserting control by denying the chief executive the right to make certain decisions. The principle that unless the board has said "No", the answer is "Yes", still applies. The chief executive's freedoms exist outside the powers that the board has retained.

### What might be in the chief executive's delegation?

This section examines what might be included in delegation documents. If your board already has a statement of delegation, the following checklist might serve as a benchmark. Alternatively, the list may be used to formulate a written instrument of delegation.

### Begin with a cover-all statement

The delegation should begin with an overarching, cover-all statement.

- This should make clear that whatever prerogatives the chief executive might exercise, they must not:
- breach any statute, regulation or externally imposed local by-law; or

 act in a way that, by any reasonable standard, could be considered unethical, or take any action that could reasonably be considered unprofessional or imprudent.

It may also state that the board expects its chief executive will:

• act in accordance with 'normal' business practices and standards.

The overarching statement provides at least a modicum of policy guidance from the board to the chief executive, whether or not more detail follows.

### Topics for detailed delegation statements

If there were more detailed content in the delegation it might include:

- 1. Statements covering the **chief executive's financial delegation**. These might include the following:
  - expenditure/cheque signing authority limits placed on the chief executive;
  - authority to enter into contracts on behalf of the board or the organisation;
  - expectations regarding payments to creditors and collection of debts owed;
  - compliance with national accounting standards;
  - financial reporting to the board, content, presentation, frequency and standards;
  - relationship with the audit committee and external auditor;
  - use of funds for purposes other than for the benefit of the organisation;
  - budgeting processes and principles;
  - maintenance of financial ratios and performance benchmarks;
  - permission to buy, sell or encumber land and buildings; and
  - handling of cash.
- 2. Statements covering the chief executive's personnel management delegation. These might include:
  - compliance with workplace legislation;
  - providing a safe and respectful workplace;
  - expectations re performance management processes, professional development, etc.;
  - grievance processes including whether or not, and under what circumstances,

     the entity of the processes including whether or not, and under what circumstances,
    - the staff might have recourse to the board;
  - remuneration and benefits principles, salary caps, employment contract principles; and
  - the chief executive's acceptance of secondary employment.
- 3. Statements addressing the board's expectations of the chief executive in regard to **the management of the enterprise's assets**, both physical and intellectual. These might include:
  - risk assessment and response (e.g. insurance coverage);
  - office/building/other asset (e.g. plant and equipment) security;
  - protection of intellectual property; and
  - vehicle usage and management.

- 4. Statements about the board's expectations regarding support for the board and its processes and requirements. These might include:
  - reporting frequency, content and quality;
  - alerting the board to certain incidents or circumstances that, in the board's opinion, it should be kept appraised of;
  - support for the board's strategic thinking and direction-setting tasks; and
  - support for the board's governance performance and integrity.
- 5. Statements about the **board's expectations in regard to the enterprise's public affairs and public relations**. These might include:
  - protocols regarding speaking to news media;
  - protocols when interacting with politicians at all levels; and
  - expectations when representing the enterprise in public settings.

### Codified as policy

Many organisations have chosen to document their delegation to their chief executive as policy. Examples of how such policies might be framed were outlined earlier in this section. Sample CE/Board linkage policies can be found in Nine Steps to Effective Governance Resources Volume.

Whatever method is chosen (and they are not mutually exclusive), delegations made by the board should be documented and used when assigning accountability, and when monitoring performance.

There can be no disagreement about what is or is not delegated and what it is intended to achieve.

### 5.6 The chair/chief executive relationship

### Is there over-reliance on the chair?

While it is important that the chair and chief executive have an effective working relationship, this should not be at the expense of the wider board/chief executive relationship.

### Should there be a special relationship?

Board members often claim the chief executive should communicate with the board via the chair, however it can be argued there should be no independent relationship between these two key figures. The latter view holds that the chief executive is employed by the board as a whole, not by the chair alone, and therefore accountability should be expressed to the entire body.

### For what purpose?

Chairs and chief executives often meet outside the boardroom to keep the former up-to-date with key issues in the organisation. Many boards expect their chair to be more familiar with details of the organisation's strategic actions and activities than other board members. While this expectation is common it is not a maxim to be applied to all boards under normal circumstances. There may be abnormal circumstances that require the chair and chief executive to 'sing the same song' in public. Then, it is essential that the two leaders be consistent.

It is common for a chair and the chief executive to meet prior to a board meeting to coordinate and discuss the agenda. This is an ideal time to share perspectives, discuss issues and for the chief executive to sound out any issues.

### How often?

It is common for chief executives and their chairs to meet weekly or more. Under *normal* circumstances, however, this should not be necessary. A competent chief executive, properly empowered via sound delegation policies, should not need to meet with any member of the board on a regular basis in order to carry out their role.

There is no rule applying to the frequency of chief executive/chair meetings. Circumstances and commonsense should prevail. Care should be taken to ensure that these meetings do not become mini-board meetings.

A chief executive must not assume that telling the chair about a board issue means the board has automatically been advised. In turn, the chair must ensure they do not become a filter or gatekeeper for information that should be received by the full board.

### **Document the desired relationship**

Where there is board agreement that the chief executive and chair should meet outside of scheduled board meetings, there is value in having a written protocol that governs this relationship. Boards with such a charter could consider including a provision as follows:

With the approval of the board the chair may establish a regular communication arrangement with the chief executive in which there is an exchange of information for various purposes related to the more effective functioning of the board and to enhance the board/chief executive partnership. This might include an opportunity for the chief executive to use such sessions as a sounding board for proposed actions or to check interpretations of board policy.

### However:

- The chair will recognise that such sessions are not to be used to 'personally' supervise or direct the chief executive.
- The chair will not inhibit the free flow of information to the board necessary for sound governance. Therefore the chair will never come between the board and its formal links with the chief executive.

### 5.7 Evaluating the chief executive's performance

### A desirable approach

Effective chief executive performance management by a board is critical.

A chief executive should be evaluated against objective and agreed criteria. The chief executive should also be evaluated against matters for which they have been delegated operational authority. The chief executive should not be accountable for the performance of personnel they did not personally select or have full managerial authority over.

If a board has an effective policy framework it need make no substantive distinction between the chief executive's achievements and those of the organisation as a whole. The only exception to this general rule is if the chief executive does not control the resources necessary to achieve the stated results, or has not been delegated that authority.

Boards should be careful what information is used when conducting chief executive performance evaluations. Only information relevant to considering whether, for example, the chief executive has complied with board-specified expectations should be considered. It is inevitable that stakeholders (including staff) will offer opinions about their chief executive's performance. Often such opinions will have little to do with the board's expressed expectations. They may relate, for example, to the chief executive's personality rather than to whether or not they have achieved the results expected, within the boundaries set. These opinions shouldn't influence an evaluation unless they accurately reflect actual performance or relate to valid criteria for evaluating the chief executive's effectiveness.

While the initial assessment of effectiveness might be delegated to a board sub-committee, the final responsibility for the performance assessment, therefore, belongs with the board *as a whole*.

If the process is used primarily to find fault with the chief executive's performance, it will become discredited quickly, particularly in the eyes of the chief executive, and may put the organisation at risk in respect of any employment dispute.

The performance review process should provide an opportunity for the board and chief executive to identify and agree on future initiatives that will help the chief executive to succeed.

## A checklist of key elements in chief executive performance management

### 1. Planning

There is no substitute for effective advance planning in relation to the board's responsibilities. The following principles and questions should assist:

Keep it simple

The board should clearly express the desired and unambiguous results for the year and nominate priorities and (if necessary) weightings. Measurements should be tied to the desired outcome, not to the input or activity.

What is to be achieved?

Results, like profitability or return on capital, can be clearer and more coherent and easily measured in a commercial environment. Behaviour (or processes) like stakeholder management may, in non-commercial environments, be just as important.

Base document

The board should draw up an annual statement of performance expectations that states succinctly the key results the board wants the chief executive to focus on achieving during the year. This should be derived from the existing plans and include strategic outcomes and KPIs (Key Performance Indicators).

### 2. Performance monitoring

The board should avoid rushed, and late, annual reviews. These are heavily influenced by recency. Continuous informal feedback is best. It should be affirmative as well as identifying any concerns.

The chief executive's regular reporting to the board is also part of the performance review process. When the chief executive reports to the board on *organisational* achievement the whole board can be involved in a timely review process. Such reports should be in accordance with a board-approved monitoring schedule (see Step 2).

Additionally, more formal 'stocktakes' should take place every three to four months (see Step 2). These focus more particularly on the chief executive's performance. They also provide a chance to reset expectations before it is too late.

There should also be a final, formal, end-of-year 'wrap-up' review.

### 3. Who should do it?

The board should not leave the chief executive's performance review solely to the chair because the chief executive is accountable to the whole board. The board should adopt a process whereby all members contribute to reviewing the chief executive's performance.

The chief executive can help trigger the board's thinking by preparing a self-assessment.

Staff and stakeholders will provide useful feedback for the board and chief executive. Some chief executives worry that staff feedback is risky because they may not be popular, however anecdotal evidence, as opposed to formal feedback, is arguably more damaging. The use of 360° surveys should be considered.

### 4. Reset expectations

Performance expectations should remain as current as possible. Formal statements of performance expectations should be changed as and when necessary.

### 5. Review remuneration

Depending on the nature of the chief executive's employment contract there may be two key elements in a remuneration review: market relativity and recognition of performance.

The 'relativity' consideration is whether or not – over time – the chief executive's remuneration is kept similar to those in comparable positions. To the extent that the remuneration is inconsistent with acceptable benchmarks the board will either have a dissatisfied chief executive (below the market rate) or dissatisfied stakeholders (above market).

While superficially attractive to both parties, many approaches to rewarding performance are fundamentally flawed and encourage inappropriate behaviour. Any performance-related remuneration component should be measurable.

Remuneration reviews should focus on ensuring the board has relevant information available to it, allowing it to make sound judgements about market rates and its position relative to that rate. There are various proprietary salary surveys available to this end.

### 5.8 Should the chief executive be on the board?

It is common practice in many national sports organisations for the chief executive to be a board member. This practice shouldn't be adopted without careful thought.

The basic issue is of role clarity and accountability. Undoubtedly, the chief executive is a vital element in any organisation's success. They are the board's main adviser and consultant.

A chief executive is an agent or servant of the board (i.e. the board's employee).

Except where the role is defined in statute, their powers flow from the board's delegation. When a chief executive is also a board member, they are compelled to act as employer and employee concurrently. This overlapping of roles should be avoided.

The roles and responsibilities of governance and management are distinctly different. They deserve to be done well by people concentrating wholly on their own role.

An effective chief executive, with the full respect of their board, is already in a strong position of influence and does not need to be a board member.

### Conflict between the chief executive and the board

When the chief executive conflicts with the board it is usually the chief executive who loses. If not handled well, this conflict can factionalise the board, creating intraboard conflict as well. It can also be expensive – financially, in loss of organisational momentum, increased staff turnover, strained relationships, damaged careers and reputations (both individual and organisational). Board members should remember that the chief executive has more to lose than they do – their career, perhaps even their livelihood.

Such conflict is usually preceded by small conflicts that are poorly handled. Once these take root it can be difficult to resolve them. Prevention is the best cure. Often this lies in clear role definitions and performance expectations, regular performance evaluations, and good policy, e.g. a disputes resolution policy.

Boards should avoid a battle of wills and wiles. Unbiased, external assistance is often the best option.

### 5.9 Questions

### Does the board really want a chief executive?

- Where is the board in terms of its lifespan?
- Does the board really want a chief executive or will an office manager do?
- Faced with the need to find a new chief executive, is the board really clear what it is looking for?

### Finding the right chief executive

- Has the board designed a recruitment and selection process that will find and appoint the best-qualified candidate the board can afford?
- Will the process the board follows do all it can to ensure the person appointed will be successful?

# Important elements in an effective board/ chief executive relationship

- Does the board have a clear sense of the type of relationship it wants with the chief executive?
- Has the board discussed that with the chief executive?
- Does the board have a clear understanding of what the chief executive's expectations are?

### Delegating to the chief executive

• Is the board doing anything that may be preventing the chief executive from doing their job?

### The chair/ chief executive relationship

- Is the board/chief executive relationship in good shape? How does the board know?
- Does the board have a clear set of delegations?
- Are they up-to-date, for example, addressing the current board's up-todate assessment of risk?
- Do the delegations both give the board sufficient control and empower the chief executive?
- Does the board have a shared view on the ideal relationship between the chair and chief executive?
- Is that ideal documented so that it can be used as a reference point as needed?

### Evaluating the chief executive's performance

- Do board decisions and behaviour reinforce the principle that the chief executive is accountable to the board as a whole?
- Does the board have soundly-based documentation in place regarding its employment relationship with its chief executive (employment contract, etc.)?
- Does it regularly (at least annually) document its expectations regarding the performance of the chief executive?

- Does it actively monitor and provide regular constructive feedback on chief executive performance?
- Does it have a policy framework in place that clearly expresses the organisational ends or outcomes to be achieved and the situations and circumstances to be avoided?

### 5.10 References and further information

References used in the development of Step Five:

See "Selecting the Right Chief Executive – Questioning the Candidates". *Good Governance* #18. November/December, 2000.

For assistance in formulating questions see "Selecting the Right Chief Executive – Questioning the Candidates".

Good Governance #18. November-December, 2000.

John Carver. *On Board Leadership*. Jossey-Bass: San Francisco. 2002, p. 178.

See also companion Nine Steps to Effective Governance Resources volume.

# Step 6 Enhance the board's monitoring effectiveness

is going to be, not where it has been.

Wayne Gretzky

# Step 6 Enhance the board's monitoring effectiveness

### In this section...

- 6.1 Monitoring and evaluation
- 6.2 Performance measures
- 6.3 Scanning the environment
- 6.4 Tools for strategic thinking
- 6.5 Questions
- 6.6 Reference and further information
- 6.7 Appendix: Sample limitations policy

### 6.1 Monitoring and evaluation

### Staying 'on track'

A key aspect of the board's stewardship responsibilities is to ensure the organisation's performance is scrutinised and kept on track. Two principles apply to the board's monitoring activities:

The board must monitor against pre-established criteria

"If the board hasn't said how it ought to be done, it shouldn't ask how it is."

The board should establish criteria for what it wants achieved. If this principle is not followed, monitoring is likely to be disorganised, uninformed, and unfair – all of which lead to lost time, staff confusion, inefficiency and an adversarial board/chief executive relationship.

Monitoring should focus on outcomes or results, rather than on how the outcomes are going to be achieved.

### **Monitoring versus evaluation**

It is important to distinguish between monitoring and the process of evaluation.

### **Monitoring**

Monitoring involves observing, recording and reporting information. It is retrospective. While it is an essential element in the board's role, it has the potential to distract the board from focusing on the future.

Board meetings should primarily be used to create the future, not rehash or review the past.

### **Evaluation**

Evaluation is making a judgement, primarily to improve future performance. This is best discussed at the board meeting. Evaluation consists of comparing actual versus planned results and determining if changes are required, or if there are performance or resource issues to be discussed with the chief executive.

### 6.2 Performance measures

Many boards struggle to set performance expectations and, subsequently, many organisational and executive performance problems stem from this fundamental shortcoming.

Clear expectations need to precede performance measures.

Poorly expressed expectations will foster poor performance measures. There are two main elements in establishing performance expectations:

- desired outcomes results to be achieved; and
- planned actions ways in which results will be achieved.

The board's job is to specify what the organisation is to achieve. The chief executive determines the actions required.

Defining how achievements are measured can be difficult, even with well-expressed expectations. Ideally the design of performance measures should be tasked to the chief executive. The board can help by challenging the chief executive to think through how they will show the board its expectations have been met.

### Some common errors

Boards and executive teams regularly fall into similar traps when writing performance expectations and measures. These occur when there is:

- Reliance on feelings. Assessment should be based on demonstrated evidence or emotions.
- 2. Misuse of adjectives. When words like 'appropriate' and 'excellent' are used to outline performance expectations (e.g. "facilitate an appropriate relationship with the XYZ organisation"), it consigns assessment to subjectivity. Completing a sentence like "We will know that the relationship with XYZ is appropriate when..." helps clarify exactly what the board wants.
- 3. Misuse of verbs like 'promote', 'coordinate', 'facilitate', etc. directs attention to the action instead of the intended outcome. This sees the related performance measures focusing on activity levels. 'Busy-ness' is no substitute for effectiveness.
- 4. Comparative words like 'increase', 'improve', 'more', should be avoided unless a baseline or reference point is included. For example, "achieve a 15% increase in funding" should be "achieve a 15% increase in funding compared to the 2003/04 base-year".
- 5. A failure to be exact. It is even better if there is more specificity: for example, "achieve a 15% increase in funding from non-governmental sources compared to the 2003/04 base year".
- **6.** An unreasonable expectation. A typical example is the "ensure that the Government increases funding to the organisation" line. The organisation has no control over Government so cannot expect this to eventuate.

### 6.3 Scanning the environment

### Looking forward and outward

Many boards are inclined to focus inward and backwards instead of forward and outward. Being strategic is not something that an effective board is, or does, occasionally. Strategic thinking must be continuous because the external operating environment is always changing. A board should monitor issues and trends in its external environment that might affect the organisation's performance.

When external issues are considered, many boards rely on anecdotal data shared by other board members. This tends to be somewhat hit and miss. It also makes boards overly reliant on their chief executives to table information regarding the external operating environment. There is a danger of information filtering when relying solely on the chief executive, or even particular board members.

Another danger is that boards procrastinate on matters that may be threatening or unpalatable. Because boards consist largely of volunteers who serve for short terms, and most boards meet relatively infrequently, there is a high risk that a board will avoid issues that could threaten an organisation's future. Every board should satisfy itself that it is facing and addressing critical organisation-wide issues in a timely way. Asking whether the board is facing up to reality is a good starting point.

To address these risks a board should:

Periodically: Kick the tyres.

Define the main strategic challenges.

Regularly: Check the radar screen.

### Kick the tyres (get out of the car)

While boards usually have considerable experience of the activities they are governing, it is not always current, nor broadly based. It makes good sense to explore what is happening away from head office. It is also worth linking directly with the boards of other kindred organisations.

### Check the radar screen

Boards must work to understand their organisation's operating environment. The environment is dynamic and scanning must be continuous. It is not possible to develop future-focused strategies until the board has a view on what the future could hold. Identifying the emerging needs and preferences of the organisation's stakeholders is also critical here.

Environmental scanning should feature as a regular agenda item for board-wide consideration.

### 6.4 Tools for strategic thinking

### Introduction

The following tools will assist boards' environmental scanning and strategic thinking processes. While this guide is directed at board members, the skills are also relevant for chief executives and staff.

### **SWOT** analysis

The systematic review of Strengths, Weaknesses, Opportunities and Threats is one of the most basic and powerful strategic thinking tools available. It should be used regularly by the board when analysing its operating environment and the continuing relevance of its purpose, strategic outcomes and key results. Having identified the strengths, weaknesses, opportunities and threats, the board and management should work to build on the strengths and opportunities and either eliminate the weaknesses or turn them into strengths. Strategies to address the threats should also be developed.

### The STTEPP analysis

The STTEPP analysis (and variations on it) is an adjunct to the SWOT analysis, focusing on particular elements of the external environment. STTEPP is an acronym for Social, Technological, Trade, Economic, Physical and Political. These are the six features of the external environment within which most organisations operate. Directors explore each of these as they have an impact on the organisation's future operations, helping to determine its future viability. The board has to look constantly to the future and be prepared for known or anticipated changes.

### Where are we on the curve?

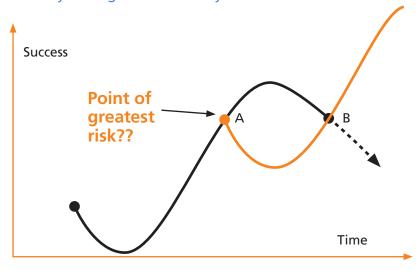
Social philosopher and organisational behaviour expert Charles Handy has described how organisations have a natural 'wax and wane' cycle. Handy uses the 'Sigmoid Curve' (pictured below) to show how organisations develop and then decline if they do not reinvent themselves. In his view, organisations are never at greater risk than when they are performing reasonably well.

Point A is where Handy advocates that an organisation should be looking to launch a new curve. At Point A, while it is doing well, it has the resources and the energy to get the new curve through its initial explorations and floundering, *before the first curve starts to dip.* Unfortunately, all the signals coming into the organisation at that point are that everything is going fine, that it would be folly to change a proven formula. It is only at Point B on the first curve, when disaster is looming, that there is real energy for change. And at Point B it may be too late – resources are depleted, energy is low, existing leaders are discredited.

The best organisations recognise the inherent logic of the Sigmoid Curve and are continually self-critical and oriented to actively seek out self-improvement opportunities.

From time to time your board should be asking: "Where are we on the curve?"

### Where is your organisation today?



### The demand-capability matrix

The vertical axis of the demand-capability matrix represents *demand* for the organisation's offerings. The horizontal axis represents its *capability* to respond to demand. Several criteria for capability can be used, including resource capability, alignment to mission and values, etc. Each programme or service is first placed on the vertical axis, marking the point on the axis where there is agreement about demand. The same process is followed using the capability criteria for the horizontal axis. Where the two marks intersect represents where the programme or service is currently placed on the matrix.

### **Demand-capability matrix**

	Most Capable	Least Capable
High Demand	Good Fit     Exploit these offerings while the demand and the suitability are	Dilemma Gather data in support of further development or initiation of these
	aligned	Prepare to say "No" or to expand resource base in order to accommodate these
Low Demand	Comfortable Fit     Continue to provide these so long as they don't impinge on other more important works	Painful Fit Eliminate from your organisation's list of priorities Say "No" to establishing one of these
	<ul> <li>Question priority status in terms of other demands</li> </ul>	
	<ul> <li>Exploit for public relations/ membership benefits</li> </ul>	

**Capability** = Ability to resource for effective outcomes

**Demand** = Stakeholder demands

This tool helps board members appreciate strengths and weaknesses in the organisation's offering(s).

The discussion that flows from using this tool should not be used to instruct the chief executive *how* to manage the various programmes and services. However, the board may recommend that the chief executive examine a programme's ongoing viability if it's shown to be weak.

### **Scenarios**

The supreme act of warfare is to subdue the enemy without fighting ... use strategy to bend others without coming into conflict. He who can look into the future and discern conditions that are not yet manifest will invariably win. He who sees the obvious wins battles with difficulty; he who looks below the surface of things wins with ease.

- Sun Tzu, Chinese philosopher and strategist

Scenario thinking is perhaps the most advanced and most demanding of all the strategic thinking tools.

By developing scenarios, the board creates possible combinations of future events against which its thinking can be tested. While each scenario should be markedly different, it should also be feasible. The environmental factors should be both within and beyond the organisation's control. Although various board members will argue about 'reasonable likelihood', the debate around this question is essential in itself.

The whole board, an individual member, or a small group with executive support, constructs a description of possible external conditions and events to form a picture of the future. A second scenario can then be created, painting a different future. It is useful to describe a third scenario representing a straight-line projection of how things are now.

These scenarios should avoid taking a best case/worst case approach. This limits the board's thinking and often biases the result towards the best case result. Each scenario should be equally plausible before it is tested. Testing is essentially just asking the question, "What if ...?" The board and chief executive analyse each scenario, testing the organisation's responses and capability against each.

The advantage of board involvement in scenario planning is their external perspective.

### **Brainstorming**

Brainstorming is so widely used that it is often assumed everyone knows how to do it. There is some value in briefly restating some of the key rules for the process. These are designed to ensure that the brainstorming process is effective:

- Accept all ideas offered by participants.
- Don't analyse ideas as they arise.
- Stop the brainstorm when the ideas dry up.
- Check that everyone understands what is meant by the phrases on the flipchart.
- Arrange the ideas into logical groupings.
- Debate their significance.
- Rank in order of significance.
- Decide what action to take.

### 6.5 Questions

### Monitoring and evaluation

• Does your board have its finger on the pulse – is it satisfied it is monitoring organisational and chief executive performance effectively?

### **Performance measures**

Are performance expectations and performance measures well expressed?

### **Scanning the environment**

- Are you tracking activity or results?
- Do you consider your board is 'wide awake'?
- Does it systematically review what is happening in its wider environment?

### **Tools for strategic thinking**

- Does it have a clear sense of the matters it should consider strategic?
- Does your board know how to actively use a range of strategic thinking tools to remain focused on the future?

### 6.6 Reference and further information

References used in the development of Step Six:

"Avoid the Usual Traps in Setting Performance Expectations". *Good Governance #40*. July-August, 2004.

Charles Handy. The Empty Raincoat. Arrow Books Ltd. 1994. Chapter 3.

Garratt. 1996.

### 6.7 Appendix: Sample limitations policy

### Policy type – executive limitations

### **Principle**

- Neither the board nor the chief executive can realise their potential contributions to organisational performance unless there is a high level of communication and they provide effective and support to each other.
- In terms of their working relationship there should be no surprises on either side.

### **Policy**

The chief executive shall not permit the board to remain uninformed about issues and concerns essential to the discharge of its duty of care, to its owners and key stakeholders. Therefore, the chief executive must not:

- 1. Neglect to provide support and information in a timely, accurate and understandable fashion addressing the various issues to be monitored by the board.
- 2. Neglect to provide clear and understandable financial reports containing:
  - a. significant trends
  - b. data relevant to agreed benchmarks and board-agreed measures; and
  - c. further board financial data as determined by the board from time-to-time.
- Fail to inform the board of significant external environmental trends, achievement of, or progress towards the achievement of, the board's strategic results policies or changes in the basic assumptions upon which the board's policies (both strategic results and executive limitation) are based.
- 4. Fail to inform trustees when for any reason there is actual or anticipated non-compliance with a board policy.
- 5. Fail to inform the board of any breach, or impending breach, of any externally imposed compliance requirement.
- 6. Neglect to inform the board of any serious legal conflict or dispute or potential serious legal conflict or dispute that has arisen or might arise in relation to matters affecting the organisation.
- 7. Fail to ensure that the board is provided with the necessarily wide range of views and perspectives in support of effective decision-making.
- 8. Fail to bring to the board's notice such occasions when it is in breach of its board process policies particularly when this relates to the chief executive's ability to carry out his/her responsibilities.
- Fail to deal with the board as a whole except when responding to individual requests for information or requests from board committees or task forces.

For a full set of CEO limitation policies see the Nine Steps to Effective Governance Resources volume.

Step 7
Regularly review the board's performance

One of the tests of

leadership
is the ability to
recognise a problem
before it becomes an emergency.

Arnold Glasgow

# Step 7 Regularly review the board's performance

### In this section...

- 7.1 Board performance evaluation
- 7.2 Ideally, evaluation of the board is based on its own policies
- 7.3 Board tenure how long should board members serve?
- 7.4 Board conflict
- 7.5 Questions
- 7.6 References and further information

#### 7.1 Board performance evaluation

#### The board should set standards for its own performance

Every board should conduct regular self-assessment against performance standards. Self-assessment helps:

- to identify board-wide performance improvements;
- aid succession planning;
- to help individual directors;
- to identify areas where their personal contribution could be enhanced; and
- as an expression of accountability to stakeholders.

#### Typical reasons for resistance to board evaluation

The concept of self-assessment, or that boards and individual board members should be held accountable for the effectiveness of their contribution, is new to many organisations. While some boards undertake self-assessment, others actively reject it. There are many reasons or excuses for this resistance.

#### We are subject to re-election

In other words, members will determine whether a board is doing a good job. In a broad sense this is true, however, members are not inside the boardroom and cannot typically provide the performance feedback a self-assessment would generate.

#### We have our hands full just surviving

Boards of struggling organisations often find themselves continually under pressure because of ineffective governance and leadership. A review process would allow them to step back and reflect.

#### It will undermine teamwork

Asking directors to review their performance introduces an element of competition that could undermine efforts to build cooperation and collaboration among directors. Similarly, the process will invite critical comments that will create tension. As any sports team knows, however, ignoring performance shortcomings is far more divisive.

#### An evaluation process is not appropriate for volunteers

Because they are volunteers, giving freely of their time, directors should not be expected to perform to the same standards as paid counterparts in other types of organisations. In other words, given theirs is a voluntary contribution it should be accepted without judgement or assessment. To accept this contention is to undermine the board's position of trust.

#### Performance evaluation is not appropriate for 'eminent' directors

A board comprising eminent sports, professional and business people should not be subject to review because it implies they could be doing a better job. The mere suggestion of a review is somewhat insulting and disrespectful.

#### Eminence in other fields is no guarantee of governance effectiveness.

The benefits of an effective review process should put any concerns into perspective.

## Boards in all sectors are increasingly recognising the need to review their own effectiveness.

After all, they evaluate their chief executive's performance (or should) and will almost certainly expect the chief executive to evaluate staff. So why shouldn't they reflect periodically on their own effectiveness? The answer, of course, is that they should.

#### **Self-review**

Most current board evaluation processes are based on a process of self-assessment. Commonly, directors will complete a board review questionnaire. The results of this are collated, analysed, compiled and used as the basis for a collective discussion.

Ideally, the annual evaluation process should be conducted on behalf of the board by an independent and external third party. They would collate the information and feed it back to the board, facilitating a discussion of the board's strengths and weaknesses and helping the board develop a programme for improving its effectiveness.

An increasing number of boards also ensure there is an individual director review component. To achieve this, each director assesses their own effectiveness and that of their fellow board members against agreed performance criteria. The standards to which directors in the sport and recreation sector are expected to perform should not be affected by the fact that most are volunteers.

Not only should the board add value to the organisation but individual directors should 'pull their weight', and be valued members of the board.

An independent review is even more important where evaluation extends to individual members.

# 7.2 Ideally, evaluation of the board is based on its own policies

Evaluation should be based on the board's own *prior* agreements about its operating practices and values (Step 1). This is the same principle the board applies to evaluating its chief executive. While desired performance standards should be agreed prior to assessment, many boards that initiate a review before these have been set find it satisfactory in the interim to rely on best practice standards.

An online board evaluation tool is being developed by SPARC and will be available at the end of 2004.

While generic tools can be used to set initial benchmarks, directors should be aware there may be many elements of effective governance relating to their own board which they have to discuss and agree to. Ultimately, every board should have a clear job description and agreement on performance standards. It can then review its progress regularly – at least annually – and identify further opportunities for the board and individual members to improve their governance performance.

A governing-style policy can be useful when compiling appropriate performance expectations.

In its governance processes, the board will:

- 1. focus on the future, avoiding being unduly preoccupied with the past and the present;
- 2. look beyond the boundaries of the organisation, avoiding being preoccupied with internal concerns;
- 3. be proactive rather than reactive;
- 4. encourage the expression of diverse views and opinions;
- 5. ensure its time is spent on strategic leadership rather than on administrative detail:
- 6. cultivate a sense of group responsibility, making collective rather than individual decisions; and
- 7. ensure there is a clear distinction between governance (board) and operational (chief executive, artistic director, staff and volunteer) roles.

#### **Board development**

Professional development for boards and directors is closely linked to board evaluation. It is increasingly common for board members to receive training focusing on specific aspects of their job.

It is recommended that the board establish and manage its own training budget and that it develop and review a 'Cost of Governance' policy aimed at designing, costing and carrying out the board's annual work and professional development programme.

There are a number of SPARC initiatives for board development including training programmes and on line assessment. Contact the Business improvement team at SPARC or visit www.sparc.org.nz

# 7.3 Board tenure – how long should board members serve?

Many boards in the sector experience persistently high turnover of members and chairs, creating the potential for instability. Regular turnover makes it difficult for a board to gel as an effective group and to develop its thinking about strategic issues. It also impedes the development of an effective relationship between the board and its chief executive.

This turnover can be driven by constitutions which limit the tenure of the chair and board members alike.

Some boards experience the opposite problem – namely, the retention of long-serving members who have become dead-wood. Regardless of their past or even current contribution, a degree of institutionalisation and defensiveness invariably sets in over time. A board that seems antiquated or lacking comparable levels of professionalism expected in other parts of the organisation has a credibility problem.

Sports Trusts with no limit to board members' tenure and no electoral process are particularly vulnerable to this problem.

A balance is needed between those who have enough experience to provide institutional memory and continuity, versus those who bring fresh energy and new ideas. Boards should consider extending tenure or limiting it, as appropriate. An ideal basic term seems to be three years with, say, one or two further terms before a compulsory stand-down.

Ideally, the retirement and the recruitment of new members should be staggered. This prevents too much loss of institutional knowledge or an overly long break in the work programme to bring several new members up to speed.

Wherever possible, the chair should be elected by the board itself and retain that position for as long as they have the board's confidence.

#### 7.4 Board conflict

Most board members want to govern well. Occasionally, however, boards find they have a member (or members) with either questionable motives or who seem dedicated to making someone's life (often the chief executive's) miserable. Even if these members appear irredeemable, they are part and parcel of working with, or within, a board and must be managed.

Disagreement on a board can be productive or destructive. While disagreement can be uncomfortable for many, it can also encourage understanding, impetus, and integrity. Boards and chief executives must be able to disagree without being disagreeable. The ability to argue different points of view in the interests of the organisation and leave these differences behind at the end of such a discussion are vital attributes of competent board members.

In reality, there are many reasons why some boards are hamstrung by conflict:

- 1. **Diverse membership** diversity can offer great benefits but also increases potential for conflict because of differences in:
  - personal and communication styles;
  - viewpoints and levels of awareness or understanding;
  - expertise
  - personal beliefs and values;
  - professional backgrounds, values and language;
  - life experiences;
  - constituencies;
  - personal expectations;
  - commitment and loyalty to the organisation;
  - ego; and
  - attitude to risk.

#### 2. Role confusion and tension

- Management versus governance. The full-time professional management is accountable to a part-time less accountable, amateur board.
- Boards versus committees and other sub-groups.
- Chair and/or board versus chief executive.
- 3. Different agendas different visions/aspirations for the organisation. The challenge of establishing a unified vision.
- **4. Different expectations** e.g. about the amount of information required, topics that should be on the agenda, etc.

The board chair must take the lead in resolving conflict as it's the chair who:

- sets the agenda;
- manages board meetings;
- facilitates discussion and communication; and
- keeps protagonists focused on the issues not on the personalities.

Regardless of the type of conflict, unless the chief executive is directly involved, the chief executive should not take a visible lead because:

- it may give the appearance of taking sides;
- it may undermine the confidence individual directors have in the chief executive's objectivity; and
- the chief executive can support the chair but not do the chair's job.

#### **Dealing with troublesome board members**

When dealing with a troublesome board member it is important to distinguish between a director who is genuinely dysfunctional versus one who is merely 'difficult'. Healthy dissent should be valued. Dysfunctionality occurs when personal agendas, disruptive behaviour, or conflicts of interest prevent a director from contributing effectively. It alienates or inhibits other board members and prevents the board from leading effectively.

#### **Characteristics of troublesome board members**

Each of the following characteristics will force a board to alter its behaviour to accommodate or counteract this member, leading to loss of focus and performance. The performance of the chief executive can also be seriously affected.

- Aggressive personal behaviour at its extreme this is straightforward playground-style bullying.
- Misinformation only tells the convenient part of the story, mixes up facts, distorts or withholds information. May be intellectually dishonest.
- Mixed messages for example, board and staff are confused, set at crosspurposes, split into opposing camps, played off against each other.
- Obsessive discussion the board is distracted by the preoccupation this board member has with a particular topic or issue.
- Subterfuge board and/or staff alter their usual approach to accommodate or counteract this member.
- Crisis du jour the board and staff are diverted by whatever problem the board member brings with them.
- Ennui the board silently shrugs its shoulders and shuts down.

#### Possible prevention strategies

- Understand the cause of the problem.
- Select directors carefully.
- Induct effectively.
- Provide a trial period.
- Set term limits.
- Make performance expectations and criteria explicit.
- Establish clear job descriptions.
- Adopt a code of conduct/ethics.
- Reach explicit agreement on governing style.
- Ensure there is performance evaluation and feedback.
- Promote active chairmanship and directorship referee the boundary lines.
- Establish a conflict resolution process.
- 'Go with' the resistance.
- Call in an expert.
- Get tough and say good-bye.

#### 7.5 Questions

#### **Board performance evaluation**

- Does the board set standards for its own performance?
- Does it assess itself against those expectations at least annually?
- If not, has it at least articulated the reasons why not and considered those objectively?

#### **Policy-based evaluation**

- Does it translate the conclusions of its assessment into an explicit board performance development plan and professional development initiatives for individual directors?
- Does the board review the effectiveness of individual board members?
- If it does not, has the board considered why it would want to effectively deprive board members of the chance to understand how they might improve their contribution to the board?
- What leadership style is adopted by the chair?
- Does that get the best out of the board and the chief executive?
- Has the board explicitly set out its expectations of the chair?
- Does the board get a regular opportunity to provide feedback to the chair on their effectiveness?
- What would the board like to see more of from its chair?
- What does the board wish he/she would do differently?
- What actions does the board take that help or hinder the chair?
- Does the present composition of the board provide the range of competencies and experience needed to provide the standard of governance the organisation requires?

#### **Board tenure**

- Does the board consider the issue of succession planning in a systematic manner?
- Do the various constituencies that have an influence over board composition understand the challenges facing the board and the types of competencies it needs?
- Have some board members been there for too long?

#### **Board conflict**

Is conflict tolerated or not well handled?

#### 7.6 References and further information

References used in the development of Step Seven:

"Obstacles to Board Performance Review".

Good Governance #39. May-June, 2004.

Mark Bailey, The Troublesome Board Member.

Washington: National Center for Nonprofit Boards. 1996.

John Carver. Board Self-assessment.

CarverGuide No. 8. Jossey-Bass.

San Francisco. 1997.

Graeme Nahkies and Terry Kilmister. 'Reviewing the Board's Performance'.

Good Governance No. 7, January/February 1999.

Peter Szanton. Evaluation and the Nonprofit Board.

National Center for Non-profit Boards Governance Series No. 10.

Washington DC. 1998.

See also Nine Steps to Effective Governance Resources volume for sample policies in the areas of board development, evaluation and conflict of interest.

#### 7.7 SPARC On line board assessment tools

Contact the business improvement team at SPARC or visit www.sparc.org.nz



Leaders keep their

eyes on the horizon,

not just on the bottom line.

Warren G. Bennis

# Step 8

## Ensure active

# succession planning

#### In this section...

- 8.1 Board composition
  - 8.1.1 Standards and expectations of voluntary boards
  - 8.1.2 Getting the right people 'on board'
- 8.2 A board recruitment process
  - 8.2.1 Phase one: needs assessment (primarily applicable to appointments)
  - 8.2.2 Phase two: recruitment
  - 8.2.3 Phase three: succession planning
- 8.3 Questions
- 8.4 Reference and further information
- 8.5 Appendix 1: Boardroom core competencies
- 8.6 Appendix 2: Draft job description independent director

#### 8.1 Board composition

## 8.1.1 Standards and expectations of voluntary boards

Getting the 'right' people on the boards of sport and recreation organisations is a common challenge. Many board members feel obliged to volunteer for duty. Others have been loyal workers in the organisation and their election to national office is a way of recognising their service. Other members have their achievements on the sporting field recognised with a board appointment. Whatever the rationale, most boards in the sector are essentially staffed by volunteers who want to help their sport or organisation succeed.

Volunteer board members, while well motivated and well intentioned, inevitably have other calls on their time and attention.

Many directors consider themselves 'just' volunteers and are reluctant to accept high performance standards being tagged against their roles.

Regardless of the part-time and voluntary nature of their engagement, high standards of governance effectiveness are expected of board members in sport and recreation organisations – particularly at a national level.

The increased demand for accountability and effective performance from funders, sponsors and the community means that 'second best' in governance effectiveness is unacceptable.

Professionalism is an attitude, not a question of whether or not you are being paid.

#### Getting governance structures in good shape

Forming an effective board starts with the organisation's constitution (its rules, trust deed, etc.). This is what determines the board's size, how it is formed, and its likely composition. Historically, many organisations have evolved governance structures that encourage practices inconsistent with effective governance and leadership. This has consequently weakened their organisation's performance.

A particular challenge is the operation of federal and representative structures. Many organisations have a president's position separate to that of the board's chair. The basis for the chair's election (by members at large or by the board itself) may also be a significant factor in board performance. In some organisations, there is a council in addition to a board. Some boards are fully elected; others are a mix of elected and appointed. Some boards are effectively appointed.

No structure is perfect and each organisation should consider what its unique challenges are and ensure that its governance structure supports effective governance and leadership. The critical issue is to ensure that accountabilities are clear and that each organisation gives itself the best possible chance of electing or appointing (and retaining) people who can contribute to a high-performing board.

#### 8.1.2 Getting the right people 'on board'

Many boards acknowledge the growing expectations on them and that they are working to achieve higher standards of governance effectiveness. A key aspect of this is finding people who understand and can contribute effectively to the governance role.

Previous success in other fields or in other organisational roles is no guarantee of governance effectiveness.

Ideally, every organisation will have a process for ensuring its board has relevant skills and experience.

Because governance challenges are not always well understood, most boards need to proactively communicate these challenges to those who influence board selection. Otherwise, a board position may owe more to personal popularity and profile than to an ability to contribute effectively to the board's work.

There are various structural and procedural issues to be considered here. A common theme is the need to take a deliberate and structured approach to ensure a board has the people it needs.

#### **Succession planning**

A balance is needed between members with operational experience and those with the ability to operate at a conceptual level. Organisations naturally attract passionate people deeply schooled in the organisation's activities. There is also a critical need to attract board members who can stand back from the organisation and exercise a degree of detachment and objectivity.

Each board should develop a succession plan for the selection and replacement of elected and appointed board members, and for office holders such as the chair. This does not mean identifying individuals or lining up replacements as this may be contrary to the organisation's values and democratic processes. (It may even create distrust if there was a sense the board was being loaded with cronies and confidants.) Nevertheless, there are advantages if those appointing or electing new board members are advised of the board's strengths and weaknesses, the challenges it is facing, and the board's view on the skills and experience it requires.

Some organisations have found ways to engage well qualified people in the governance process who are unavailable for board selection. A 'Chair's Group' or advisory council may be convened once or twice a year to bring together potential future leaders of the organisation. The idea is to have these people contribute to the governance 'brains trust' while giving them a taste of the governance role. There are several variations on this theme, some of which have the added benefit of creating a training ground for potential board members.

#### **Independent directors**

Many organisations are moving toward having a number of independent directors. This is consistent with good commercial practice. Aside from the skills they often bring to the table they will bring an invaluable external perspective on the organisation. Too often, organisations struggle to act objectively as members' passion and commitment take over.

#### Relevant board selection criteria

Regardless of the appointment/election process, forming a capable board starts with clarity about what skills, experience, attributes and perspectives are needed.

Boards in the sport and recreation sector have traditionally sought to recruit people onto their boards with specialist skills (e.g. lawyers, accountants, marketing and business people, etc.). While it is important to access this type of expertise and advice, these are *functional* rather than *governance* skills. Personal attributes like independence, integrity and emotional intelligence are also important. A list of governance competencies can be found at the end of this section.

An expert *team* is needed around the board table, not a team of experts. Boards should avoid using the appointment process as a means of sourcing functional and hands-on skills. This ensures clear accountability between the board and staff and encourages the board to focus on *governance*. If an organisation cannot afford professional advice and must rely on volunteers in this regard, the board should specify the advisors' role, e.g. as members of an *advisory* board or panel of experts.

#### 8.2 A board recruitment process

It is important to adopt a systematic and deliberate process when addressing board formation. The main steps are outlined below. These can be adapted to either an electoral or an appointment process. With the exception of Step 8 (Appointment and Orientation) the Phase 2 (Recruitment) process is primarily applicable to positions that are filled by appointment. Times are indicative only.

The key steps can be divided into three phases:

#### 8.2.1 Phase one: Needs assessment

- 1. Confirm the number of director positions to be filled (Month 1)
- 2. Confirm the board's role, structure and work programme (Month 2/3)

The board should confirm the structure, role, and its focus before a recruitment process is started. In some cases, this may require consultation with members, funders, sponsors or other interested parties. High-calibre candidates will be interested in the expectations stakeholders have of the board and the extent to which the board will be empowered to govern.

The board should identify the key strategic challenges facing the organisation over the next three to five years (the realistic term of appointment of any new directors) and any other governance matters about which candidates should be aware (e.g. contingencies that may affect directors' liabilities) before accepting appointment.

#### 3. Create a 'needs matrix' (Month 2/3)

This process is identified as a separate step but may be run in conjunction with Step 2. Given a shared view about the challenges facing the organisation, existing directors are invited to comment on the skills, experience, and attributes they feel the board as a *whole* requires. They would next be invited to identify relative strengths and weaknesses by assessing the present board against those requirements. Provided there is a genuine commitment to openness and the board is comfortable with an honest approach, both tasks can be completed through general board

discussion. An independent survey to gauge views anonymously is useful where open discussion may be difficult. It may also be useful to invest in an independently facilitated discussion of the survey results.

#### 4. Finalise a recruitment profile for each available position (Month 3)

It should be possible at this point to agree on a profile against which the recruitment process can start. In some organisations the board can control the process throughout. In others, the following steps may be out of the board's hands. This may be the case where new directors are to be elected through a democratic process or if an electoral college (e.g. council) has a tendency to appoint without reference to the board. In these situations a board may view steps 1–3 as a waste of time. Even then, however, a board should be able to articulate its strengths and weaknesses.

Even in an electoral process the board must communicate the challenges and needs of the organisation clearly and in advance.

Electors often look for information to help them make an informed choice. This approach will be negated if there is any sense it is prompted by self-interest or a desire to stack the board.

# 8.2.2 Phase two: Recruitment (primarily applicable to appointments)

#### 5. Identify suitable candidates (Month 3/4)

In many organisations there are traditional avenues for obtaining new directors. However, these are increasingly viewed as relying on personal contacts and existing directors' affiliations than to a diligent process that will identify the best candidates for the job.

## Take as much care in appointing new directors as in recruiting a new chief executive.

The process may therefore involve advertising and possibly a professional search. Whichever approach is adopted, the aim is to attract a range of well-qualified candidates from which to produce a short-list for final selection.

#### 6. Short-listing of potential directors (Month 4)

A democratic election for new directors has its own dynamic. However, where a selection process is involved, applicants can be assessed against the recruitment profile and discussions held with both potential candidates and their referees as appropriate. The ideal is to reduce the list of possible contenders to a medium short-list from which a final group of candidates can be selected for interviewing. Responsibility for the various stages of this process, including short-listing, should be clearly defined early on. This is often allocated to an appropriate board committee (perhaps the board's Nominations or Corporate Governance Committee if it has one). It should also be expected that competent external candidates will undertake due diligence on the organisation and the board itself. This takes time but should be encouraged as it increases the likelihood of a successful appointment.

#### 7. Final selection (Month 5)

The selection panel interviews a final group of candidates to decide who should be offered a directorship. If this phase has been conducted by a committee to date, its mandate may not extend to a final decision and would require full board agreement. The timeline should take this into account.

#### 8. Appointment and orientation (Month 5)

The final stage is to ensure that appointees (or those elected) have clear role and performance expectations and terms of appointment. Typically, the chair handles this part of the process.

It is vital that candidates are clear about the organisational challenges and the contribution they are expected to make to the organisation.

A lack of clarity about expectations at this stage may lead to patchy performance among directors. It is better that someone makes it clear now rather than later that they cannot commit the time and energy.

This step would also define an orientation process to ensure each new director can contribute quickly.

Changing even one member changes the overall dynamic of a board. This can mean reworking how the board will work together going forward.

#### 8.2.3 Phase three: Succession planning

Successfully filling vacancies is not the end of the process. An effective board maintains a watch on its performance and composition. One never knows when a new appointment may become necessary. Three further steps can be identified, as follows.

#### 9. Review the board's performance and composition

An organisation's circumstances and needs change over time. Changes at a board level are often needed to reflect these changes. The board should consciously identify and track the need for board-level changes. This should include a regular review of the board's performance, both collectively and individually. Board performance evaluation is described further in Step 7.

#### 10. Maintain the needs matrix and a current director profile

The needs matrix must be updated regularly (at least annually, if not more frequently in rapidly changing environments). The ideal time is following or during a board and director performance assessment. As described in Step 3 it is important for existing directors to have shared views about the challenges facing the organisation and the skills, experience and attributes the board as —a whole requires. The board can then maintain an up-to-date assessment of how well its present composition fulfils emerging requirements and what new skills or experience are required should a new director be sought.

#### Maintain a list of prospective directors

With those needs in mind, the board can remain alert for individuals who might be a good match.

#### 8.3 Questions

#### **Board composition**

- Are directors clear about their expectations?
- Is the organisation clear about its key strategic challenges?

#### **Recruitment process**

- Has a 'needs matrix' identified skills and attributes needed at the board table?
- Has the wider organisation and its stakeholders been consulted?
- Have these challenges and attributes been communicated to those involved in decision making?
- Is there a process for active succession planning?

#### 8.4 Reference and further information

References used in the development of Step Eight:

"Thinking of Changing the Basis for Board Membership? What System Works Best?" Good Governance #39. May–June, 2004.

See also "Joining a Board – Special Issue". Good Governance #15. May–June, 2000.

See also Nine Steps to Effective Governance Resources volume for a sample policy in the areas of criteria for directors.

#### 8.5 Appendix 1: Boardroom core competencies

The following table lists a number of basic boardroom competencies. Use them to rate the present board's *collective* competencies and to assess the level of that competency needed for the future.

Com	Communications and relationships		
1	Oral communication skills	Board members are able to communicate concepts so that others can understand them easily, and use them in decision making.	
2	People skills	Board members have the capacity to develop effective relationships at all levels and across different disciplines, sectors and, where relevant, cultures.	
3	Ability to listen "meaningfully"	Board members are able to hear and understand the positions and values of others.	
4	Ability to influence others	Board members are able to develop value propositions based on an understanding of others' needs and to put them persuasively.	
5	Ability to understand and relate to stakeholders	Board members have the ability to understand and respond to the various positions of stakeholders in a sensitive, reasoned way.	
6	Good public presentation skills	Board members are credible and able to command respect on behalf of the organisation and board.	
7	Good sense of humour	Board members have an ability to stay positive and contribute to a positive and enjoyable team environment.	
8	Ability to establish quality relationships	Board members have the capacity to interact constructively and respectfully with others and work effectively with board peers and other internal and external stakeholders.	

Conc	eptual and analytical	
9	'Environmental' awareness and understanding	Board members have an ability to perceive and understand the broader economic, social and political factors that affect the success of the organisation.
10	Ability to think strategically	Board members have the capacity to look beyond operational issues and to develop a vision for the future of the organisation and to understand and embrace strategy that will attain that vision.
11	Analytical, reasoning and problem-solving skills	Board members have the ability to get beneath the surface of issues and the capacity to focus on, prioritise and resolve complex issues.
12	Basic financial literacy and analytical ability	Board members are able to comprehend spreadsheets, monthly finance reports, balance sheets, budget forecasts, annual reports, etc.
13	Ability to gain respect and act as a mentor to management	Board members have the capacity to develop effective relationships with management. Seen as trusted and positive contributors. Interested but non-interfering. Respectful of management's accountabilities but insistent upon the board's need to know.
Expe	rience/knowledge	
14	Corporate governance experience and competence	Board members understand the role of a board and the legal responsibilities associated with directorship.
15	General knowledge and understanding.	Board members have a strong grasp of the organisation and the industry within which it operates – understand what the key success factors are.
16	Knowledge of general legal issues	Board members can demonstrate a clear understanding of the relevant legislation and regulatory environment within which the organisation operates.
17	Education and broad business experience	Board members have substantial experience within the industry sector. Have experienced a wide range of business environments.
18	Knowledge of own limitations	Board members know when to seek information and/or professional advice on issues where the board lacks appropriate levels of knowledge.
Othe	r personal qualities	
19	Ethical, open, honest, trustworthy and transparent with high levels of integrity	Board members demonstrate a strong sense of integrity and business ethics.
20	Independence and inquisitiveness	Board members have an independent mind and inquisitive style. Have the courage to challenge the status quo. A preparedness to explore issues rigorously – to be able to 'disagree without being disagreeable'. Can work collaboratively while remaining forthright and decisive.
21	Preparedness to work hard and commit time and effort to do the job well	Board members read board papers, ask questions before board meetings and not solely at board meetings. Are happy to shoulder the responsibility attaching to a governance position. Are prepared to contribute their experience to the board and the organisation.
22	Embrace the objectives and aims of the organisation	Board members have a personal commitment to the aims and objectives of the business. Are good matches for the corporate culture of the organisation.
23	Outcomes-focused	Board members are committed to seeing that the organisation makes a difference – achieves real results.
24	Stewardship orientation	Board members are committed to serving the interests of the wider community. Understand that the board is a trustee body that serves others.

# 8.6 Appendix 2: Draft job description – independent director

Position	Independent director
Principal purpose	To bring an external commercial perspective to the board and contribute to building the level of governance performance needed to assist the board to achieve its strategic goals.
Scope of the position	The independent director is a fully accountable member of the board.
Appointment	The independent director is appointed annually in June by the board
Tenure	The position is for one year from 1 July until 30 June.
Primary duties	The provision of high level commercial advice and counsel to the board and the chief executive. A particular contribution is sought in the following three main areas:
	Provide high quality advice with a commercial and business development focus. The independent director must demonstrate understanding of, and empathy for, [the sector/code in which the organisation operates].
	Bring an independent and external perspective to the deliberations of the board. Contribute a principled approach to matters under discussion and provide advice consistent with an independent person displaying the highest standards of integrity and business ethics.
	Advise the board on structure, process and performance in respect of the governance of the organisation.
Conflicts of interest	The independent director should be free of conflicts of interest.
Time commitment	An estimated commitment of three days a month plus attendance at least two weekends a year.

#### Personal abilities and skills

The independent director should ideally also have the following abilities.

#### **General:**

- to see the big picture and the implications and impact on issues in the broader sense;
- to make sensible, astute recommendations and business decisions;
- to interpret both factual and conceptual information and make sound judgments based on that information;
- to contribute to the creation and not merely the preservation of shareholder value; and
- to be able to distinguish between the separate but complementary roles of governance and management.

#### **Strategic:**

- to understand the position of the organisation in its markets and its relationship to key stakeholders;
- to ensure that strategies and business plans are adopted that will deliver the organisation's vision and mission; and
- to look beyond the short-term and ensure that the board adopts a longer-term, stewardship approach.

#### **Analytic:**

- to interpret financial statements and statistical information and the significance and meaning of appropriate performance indicators:
- to question and probe information, assumptions and assertions in a quest for improved understanding and better decision making; and
- to remain objective and measured under pressure.

#### Social

- to participate actively and harmoniously, respecting and valuing the contributions of others and contributing to effective teamwork;
- to articulate a point of view in a coherent and persuasive manner without dominating the board's proceedings; and
- has strength of character to maintain an independent point of view when others disagree.

# Step 9 Effective induction process

You can't build a

reputation
on what you are going to do.
So take action.

Henry Ford

# Step 9 Effective induction process

#### In this section...

- 9.1 The importance of effective induction
- 9.2 Key elements in an effective induction process
- 9.3 Acknowledging and managing conflicts of interest
- 9.4 Questions
- 9.5 References and further information

#### 9.1 The importance of effective induction

All new board members should receive a formal induction into the board's governance role and the organisation's work as a whole. This is simply to ensure that new boards come up to speed and can contribute to the board's work as soon as possible.

Even experienced directors can find joining a new board challenging. No two boards are the same and the practices of one board cannot automatically be held to be true for another. Every board has its own history, culture, traditions and dynamics.

A single new board member can change the dynamic of the board, often making it necessary to actively rebuild the team spirit. It is only once people are comfortable with each other and have developed shared expectations on how the board will do its job that they will function well as a team. Almost all successful boards balance work and play to create a positive team.

Induction should begin before appointment, i.e. at the point when the new director accepts nomination or is first asked to accept appointment.

No director should accept a board position without prior knowledge of the organisation, the board, its members and its issues.

These insights should be gathered via the new director's due diligence process.

#### 9.2 Key elements in an effective induction process

#### **Board development workshop**

Board development workshops are a good way to facilitate an induction and encourage teamwork. Someone who understands group dynamics and who can help the board explore its governance role would be an ideal facilitator for this.

If resources permit, team profiling is a useful part of such a workshop.

#### The board manual

Having a board manual will help with induction. The manual should include key information about the organisation, its work, its policies and procedures, and provide a reference for board members throughout their term. A loose-leaf format allows it to be updated as appropriate.

Contents should include, but not be limited to, the following:

- constitution;
- information about the organisation, e.g. an organisational chart, contact details for fellow directors and key staff;
- current and recent meeting papers including the minutes and recent financial statements. The minutes are an official record of the board's decisions. Minutes should be kept to essential decisions. It is recommended that only motions, specific statements for the record and, perhaps, a brief reference to papers and key considerations in the decision be recorded;
- policies—because policies capture the board's decision-making in one place, it is important they be accessible and up-to-date;
- a glossary of definitions of terms used and acronyms;
- the current year's meeting schedule; and
- the board's annual agenda (work programme).

#### Meetings with the chair and chief executive

It is important for a new director to meet with the chair for a governance familiarisation. This is a time to discuss board protocols, ask questions about board processes and its history, and to discuss crucial issues such as potential conflicts of interest.

Time should be set aside for the new director to meet with the chief executive for an operational familiarisation.

#### The value of mentors

An increasing number of boards use formal or informal mentors to guide new directors. The mentor should be matched to the director (e.g. in terms of interests, age, common business affiliations and common background experience, etc.). They should sit alongside the director at board meetings, explaining board processes, translating jargon and filling in knowledge gaps where required.

## 9.3 Acknowledging and managing conflicts of interest

Principle: Conflicts of interest that have the potential to bring the board or

organisation into disrepute should be disclosed and managed so as to protect the integrity of the governance process.

Directors' conflicts of interest are a common issue for boards.

Duty of care obligations and duty of loyalty require that directors don't place their own interests ahead of the organisation's.

Equally, directors must not use their directorship to directly benefit themselves, their families or others with whom they are closely associated.

The board's expectations and actions set the moral tone for the organisation. How boards deal with conflicts of interest is a good test of this moral standing. Failure to manage board members' conflicts of interest undermines the moral authority of many boards. While conflicts of interest are often unavoidable it is usually the way they are handled and not the existence of a potential conflict itself that creates difficulties.

Good governance demands effective processes for acknowledging and managing conflicts of interest. Ideally, potential conflicts should be minimised at the point at which board members are appointed. Because this is not always possible, each board should have a Conflict of Interest policy describing the processes to be followed when conflicts are identified.

Every board should require its members to declare any conflicts of interest relating to their duties as board members.

Good directors are sensitive to possible conflicts and declare them without prompting. Processes for dealing with conflicts of interest should be robust, transparent and capable of dealing with actual or potential conflicts without creating embarrassment or impeding the board's work.

An example of a simple Conflict of Interests policy can be found at the end of this section.

The sample policy is clear about how a conflict of interest should be dealt with. Note that the board must determine whether the conflict is serious and whether or not the individual can remain in the room while it's being deliberated, or how much information they will receive about the matter under discussion.

While the law seldom requires that a Register of Interests be kept, an up-to-date register serves as an open record of the interests brought to the boardroom by various board members. This is one way for the board to demonstrate openness and transparency.

Every board should develop an appropriate policy.

There is no one right answer. Using the policy as a guide,
determine how your board would respond to different scenarios.

#### 9.4 Questions

#### **Effective induction**

- Does your board have an explicit induction process?
- Is the board actively involved in the induction of new members?
- Has the board reviewed with new members how effective they found the induction process?

#### 9.5 References and further information

References used in the development of Step Nine:

"Board Due Diligence Check List".

Good Governance #15. May–June, 2000.

Nine Steps to Effective Governance Resources volume. Sample policies on induction and conflict of interest.

#### 9.6 Appendix: Sample conflict of interests policy

#### Policy type – governance process

The board places great importance on making clear any existing or potential conflicts of interest for its members. All such conflicts of interest shall be declared and documented in the board's Conflicts of Interests register. Accordingly:

- 1. any business or personal matter which is, or could be, a conflict of interest involving the individual and their role and relationship with the organisation must be declared and registered in the Conflicts of Interest register;
- 2. all such entries shall be presented to the board and minuted at the first board meeting following entry in the register;
- 3. where a conflict of interest is identified and/or registered, the board member concerned shall not vote on that issue. Only with the unanimous agreement of all other members present may the member concerned participate in any board discussion on that topic. Failing such agreement being reached, the individual shall either refrain from participation or leave the room;
- 4. when the chair is aware of a real or potential conflict of interest involving one of more board members, the chair must take whatever steps are necessary to ensure that the conflict is managed in an appropriate manner according to this policy; and
- 5. individual board members, aware of a real or potential conflict of interest of another board member, have a responsibility to bring this to the notice of the board.

#### **Examples of conflicts of interest are:**

- when a board member, or their immediate family or business interests, stands to gain financially from any business dealings, programmes or services of the organisation;
- when a board member offers a professional service to the organisation;
   and
- when a board member stands to gain personally or professionally from any insider knowledge if that knowledge is used to their personal or professional advantage.



# Further resources

The following books, periodicals and websites are recommended starting points for anyone wishing to study governance in more depth.

#### **Books**

Bosch, Henry. *The Director at Risk: Accountability in the Boardroom.* Melbourne:

Pitman Publishing, 1995. ISBN 0-7299-0325-7

Bosch explores the demands on directors to apply more diligence and skill than was historically expected and suggests a variety of very practical ways in which this can be done.

Carter, Colin B. and Jay W. Lorsch. *Back to the Drawing Board:*Designing Corporate Boards for a Complex World.

Boston: Harvard Business School Press. 2004. ISBN 1-57851-776-1

The authors acknowledge that for the most part, directors are part-timers. The book's focus is on the human side of corporate governance, on the importance of interpersonal dynamics and the necessity to structure the board so that teamwork is not only possible, but becomes the heartbeat of the board.

Carver, John. Boards That Make a Difference.

San Francisco: Jossey-Bass Publishers, 1997. ISBN: 0787908118

The second edition of Carver's original exploration of board effectiveness issues and the description of his policy governance model. A good discussion of typical boardroom challenges.

Carver, John and Miriam Mayhew. Reinventing Your Board.

San Francisco: Jossey-Bass Publishers, 1997. ISBN 0-7879-0911-4

A practical, step-by-step guide for the implementation of John Carver's policy governance model.

Carver, John and Oliver, Caroline. *Corporate Boards That Create Value* Governing Company Performance From the Boardroom.

San Francisco: Jossey-Bass Publishers, 2002. ISBN 0-7879-6114-0

Carver's latest work focuses on the commercial sector. It is perhaps an even more useful book than *Reinventing Your Board* and some of the basic policy governance concepts are easier to follow.

Charan, Ram. Boards at Work: How Corporate Boards Create Competitive Advantage.

San Francisco: Jossey-Bass Publishers, 1998. ISBN 0-7879-1060-0

Do you want to change the way your board works? Packed with insights into the dynamics of how boards operate, the central theme of the book is an exploration of the question: "How can organisations unlock the intellectual power of the board?"

Collins, Jim. Good To Great.

New York: HarperCollins. 2001.

ISBN 0-06-662099-6

One of the best books available on explaining why some organisations succeed and others fail. Very stimulating and useful material to assist in thinking strategically.

Fletcher, Kathleen. The Policy Sampler:

A Resource for Nonprofit Boards. Washington: BoardSource, 2000.

This resource provides more than 70 sample board policies and job descriptions collected from a wide variety of US not-for-profit organisations. The user's guide provides a basic overview for each of the policies. A diskette contains the full selection of sample policies and job descriptions that can be easily customised to suit each organisation.

Garratt, Bob. The Fish Rots from the Head: The Crisis in Our Boardrooms: Developing the Crucial Skills of the Competent Director.

London: HarperCollinsBusiness, 1996. ISBN 0-00-255613-8

One of the original writers on the subject of the 'learning organisation', Garratt applies these concepts to the work of the board.

Garratt, Bob. Thin on Top; Why Corporate Governance Matters and How to Measure and Improve Board Performance.

London: Nicholas Brealey Publishing, 2003. ISBN 1-85788-319-5

A worthwhile sequel to *The Fish Rots from the Head.* Full of ideas on how a board can be more effective. Garratt is particularly interesting when he writes about the concept of the 'learning board'.

Handy, Charles. The Empty Raincoat.

Arrow Books Ltd, 1994. ISBN 0 09 9301253

Sub-titled 'Making Sense of the Future' this is a good book to stimulate thinking about the future. Charles Handy's books are generally good reading and an excellent catalyst for board discussions about the environmental context for their strategic thinking, organisational dynamics generally and important social trends.

Ingram, Richard T. Ten Basic Responsibilities of Nonprofit Boards.

3rd ed. Washington DC: BoardSource, 2003.

A newly revised edition explores what the author has specified as the 10 core areas of board responsibility including determining mission and purpose and ensuring effective planning. It has a US focus.

Leighton, David and Thain, Donald. *Making Boards Work: What Directors Must Do To Make Canadian Boards Work*.

Whitby, Ontario: McGraw-Hill Ryerson, 1997. ISBN 0-07-552834-7

This is a most comprehensive and thorough examination of critical features of effective governance. The combination of case studies and an exploration of the structures, systems and processes leading to best practice governance make this one of the best books currently available.

#### **Periodicals**

#### **Board Café**

This monthly electronic newsletter is available free from CompassPoint (formerly the Support Center for Nonprofit Management – see over). It generally features a main article on a topic of practical interest to not-for-profit boards.

#### **Board Leadership**

Edited by John Carver this United States oriented bi-monthly magazine focuses on the implementation of Carver's policy governance® model. US-oriented. Subscription details are available from Jossey-Bass Publishers, San Francisco or the Carver website (see over).

#### **Good Governance**

Published by BoardWorks International this bi-monthly subscription journal is designed to help governing boards in all sectors understand their governance role and provide practical guidance to help them develop their performance over time. This has a strong Australasian focus. Many of the issues referred to in this guide are explored in greater depth along with practical tools and techniques.

For a complimentary sample copy, details of the content of past issues and subscription details contact BoardWorks International's Wellington office (64 4 499 7054). The journal is also available via the BoardWorks International web site www.boardworksinternational.com

#### Websites

## BoardSource (formerly the National Center for Nonprofit Boards) www.boardsource.org

Although focused on the governance of not-for-profit organisations this US-based site has much to offer. Of particular value is the comprehensive and well-archived frequently asked questions (FAQs) section. From this section, for example, it is possible to pull down sample job descriptions for board officers that would be of immediate practical application.

BoardSource is a prolific publisher of hard copy support materials for boards and their senior executives. These can be purchased from the site's bookstore.

#### **BoardWorks International**

#### www.boardworksinternational.com

Closely associated with SPARC's governance initiative, BoardWorks International is a specialist governance effectiveness consulting group with offices in Wellington and Melbourne. This site includes a range of material for those interested in boardroom effectiveness.

CompassPoint (formerly the Support Center for Nonprofit Management)

#### www.compasspoint.org/sf

A good site for anyone interested in the governance of not-for-profit organisations. This site is particularly notable for its associated free electronic newsletter targeted to members of nonprofit boards.

#### Free Toolkit for Boards

#### www.mapnp.org/library/boards

This site provides links to various resources, often including articles and specific board effectiveness tools. It is a useful if incomplete inventory of resources focused on the not-for-profit sector.

#### **Policy Governance**

#### www.carvergovernance.com

John Carver's website advocates the use and application of his policy governance® model. It often has at least one substantive article on a governance performance issue which can be downloaded without charge. Of particular value is the opportunity to observe or even join in the debate on particular governance issues that have been raised by site visitors. The site also provides information on Carver's publications and the courses and seminars he runs on policy governance.

#### **SPARC** resources

Nine Steps to Effective Governance Resources volume.

#### People Management

On line assessment tools

- Whole of board
- Individual director
- Chairman

http://www.sparc.org.nz/sport/business-improvement

# Prepare the job description Step 1

# Governance is the process by which the board:

- sets strategic direction and priorities;
- sets policies and management performance expectations;
- characterises and manages risk; and
- monitors and evaluates organisational achievements.

"At the heart of a board's challenge is the same basic requirement – to act on behalf of 'owners' to translate their wishes into organisational performance<sup>1</sup>."

#### Governance is...

**Not management... rather,** to see that the organisation is well managed without doing the managing itself.

**Accountability to the organisation**, not to individual stakeholders.

#### The key tasks of the board are:

- defining the organisation's purpose, direction and priorities (Step 1);
- developing a governance policy 'umbrella' (Step 1);
- specifying key outcomes and approving the availability of resources (Step 4);
- appointing, supporting, evaluating and rewarding the chief executive (Step 5);
- establishing a framework for assessment and risk (Step 6);
- regularly scanning the environment beyond the organisation (Step 6);
- gaining the organisation's owners' and other stakeholders' input into determining direction and goals and maintaining communication with them (Step 6);
- ensuring the board complies with statutory and contractual requirements and with the board's own policies (Step 6);
- setting standards and evaluating the board's own performance (Step 7); and
- ensuring there's appropriate succession planning (Step 8).

<sup>&</sup>lt;sup>1</sup> Derived from a definition developed by Carver and Oliver (2002,8).

# Governing structures and the legal and accountability framework

A variety of structures can provide good governance but they all have the same key principles, namely:

- clear accountability the responsibilities of different roles in the organisation are defined with clear lines of accountability. This is especially important if directors also act in other capacities;
- clarity in staff accountability to the board; and
- board members have both collective and individual responsibilities.

#### The role of the chair

The chair is not 'the boss'

The chair's primary role is to provide assurance of the board's governance integrity via the effective management of governance processes. In particular, the chair's role is to:

- ensure consistency with internal and external rules and applicable law;
- chair meetings with the commonly accepted power of the position;
- ensure meeting discussion focuses on those issues which clearly belong to the board;
- ensure board discussions are timely, fair, orderly, thorough, efficient and to the point;
- observe a recognised 'rules of order' process for board discussion;
- ensure the board manual is maintained and updated;
- act consistently with agreed governance policies and processes;
- avoid making independent operational decisions which are the prerogative of the chief executive; and
- not directly supervise or direct the chief executive other than to provide support.

The chair should know exactly what issues are to be discussed at the meeting, in what order and what outcomes are sought from each item.

#### Policy leadership

A policy is an agreed basis for action, made ahead of time.

#### THE FOUR AREAS OF POLICY BASED ON THE WORK OF GOVERNANCE THEORIST JOHN CARVER ARE:

**Governance process policies** – define the scope of the board's job and design its operating processes.

**Board/chief executive linkage policies** – the board's delegation to the chief executive and the methods to be applied in determining their effectiveness.

**Executive limitation policies** – the limits the board places on the chief executive (and by implication other staff and volunteers).

**Ends policies/results to be achieved** – the organisation's fundamental reason for being and setting the outcomes to be achieved.

# Develop the work plan Step 2

#### Developing an annual agenda

The purpose of the annual agenda is to ensure the board takes control of its own business and plans to address those matters that are essential for effective governance rather than leaving these to chance or in the hands of the chief executive.

Boards in the commercial and not-for-profit sectors are developing annual or 12-month agendas as the basis for an annual governance work plan. To develop such an agenda a board might brainstorm all its significant events and duties to be attended to in the coming year, allocating a date for each of these to be addressed. Typical items include:

- preparation for the AGM;
- the chief executive's performance appraisal cycle and key dates;
- board performance review;
- · financial reporting;
- an annual review of organisational strategy;
- an annual retreat;
- dates for retirement/selection of new members;
- dialogue on particular strategic issues;
- consultation with key stakeholders;
- meeting with the external auditor;
- committee reporting dates, e.g. the audit committee;
- signing off the annual report; and
- a schedule for policy review.

It should include dates for meetings and other significant events specific to the organisation.

The annual agenda also ensures the board controls its own business and that it is committed to addressing matters that are essential for effective governance.

Scheduling ahead of time doesn't prevent including matters on a month-by-month, as-required, basis.

It is recommended that the board schedule an in-depth discussion against each of the ends policies to ensure they are examined by the board at least annually. This serves as a detailed analysis of the chief executive's achievements and strengthens board members' knowledge of the organisation's ends policies.

## Annual work planner

JANUARY	FEBRUARY	MARCH	
	Bi-monthly review – policies (CEO)	*Risk and audit committee meet (annual budget, environmental scan, external board effectiveness evaluation etc)	
APRIL	MAY	JUNE	
(Saturday/Sunday)  Bi-monthly review – policies (CEO)  Six-monthly – provincial/associate  Member stakeholder committee (CEO)  *Annual review – regulatory compliance (CEO)  *Annual review – delegated authority (CEO)  Annual review – strategic planning review (CEO)  Annual review – draft annual budget (CEO)  Annual review – environmental scan (CEO)  Annual review – risk mgt plan (CEO)	*Judicial, Legal, Constitution committee meet (BOARD)  *CEO remuneration and performance management committee meeting with CEO – 12-month performance review (BOARD)	Bi-monthly review – policies (CEO) Annual review – board performance (BOARD) Annual review – board member succession (BOARD) Annual approval – strategic plan(CEO) Annual review – goas and KPIs (adopt business plan) (CEO) Annual review – CEO's performance (BOARD) Annual review – annual budget (sign-off) (CEO)	
JULY	AUGUST	SEPTEMBER	
	<b>Bi-monthly review</b> – policies (CEO)	AGM	
OCTOBER	NOVEMBER	DECEMBER	
(Friday/Saturday)  Bi-monthly review – policies (CEO)  Six-monthly – provincial/associate members stakeholder committee (CEO)  Annual – new board member induction (Fri) (BOARD)  Annual review – conflicts of interest (BOARD)  *Annual review – strategic alliance (CEO)  *Annual review – board contractual obligations (CEO)  Annual review – board training (plan) (BOARD)  Annual review – future leadership roles (BOARD)	*Judicial, legal, constitution committee meet (BOARD)  *Risk and audit committee meet (progress against budget, stakeholder mgmt review etc) (BOARD)	Bi-monthly review – policies (CEO) Six-monthly – CEO performance review (BOARD) Annual review – stakeholder mgmt review (CEO) *CEO remuneration and performance management committee meeting with CEO – six month performance review (BOARD)	

<sup>&</sup>lt;sup>1</sup>Kindly reprinted with the permission of a New Zealand national sports organisation.

# Review the structure and content of the standard board meeting Step 3

# Review the structure and content of the board meeting

A board's productivity and effectiveness is based on its understanding and implementation of theory and practice. These things most overtly meet in the boardroom.

### **Board meetings**

Boards shouldn't try to steer the organisation looking in the rear-vision mirror.

A board has no ability to influence what has already happened. Boards typically get 'bogged down' in shorter-term day-to-day operational and management matters at the expense of paying adequate attention to governance-level policy and strategic issues with longer-term significance.

The board needs to spend an increasing proportion of time on matters that are important but not urgent, e.g. environmental monitoring, strategic thinking, policy-making, relationship-building, risk characterisation, performance review and development.

Board members are expected to attend all meetings and events when the board is required. This is a basic requirement of directorship and should be spelled out in the board's Code of Conduct.

### **Agendas**

The development of board agendas should not be delegated to the chief executive. The board meeting is a governance as opposed to a management forum.

Boards benefit from an agenda that tackles strategic issues early in the meeting, leaving monitoring and other compliance-type topics until later.

#### A strong focus on important issues is aided by:

- effective meeting planning and strong meeting management;
- appropriate, concise board papers which get to the heart of matters;
- prior exploration of the issues by board committees or taskforces;
- good preparation by each board member;
- the ability of board members to ask probing questions;
- self-discipline and concentration by meeting participants; and
- proactive policy that prevents the board from needing to consider everything in an *ad hoc* manner.

#### A BOARD MEETING SHOULD BE STIMULATING, CHALLENGING AND, ULTIMATELY, SATISFYING.

It should focus on two core elements:

- desired strategic achievements and understanding of the environment and issues impacting on the organisation's ability to achieve its goals; and
- the risk factors that could impede or disrupt the organisation's ability to achieve the desired results.

#### Common pitfalls in meeting content are:

- revisiting earlier decisions through the minutes or matters arising;
- tabling unnecessary correspondence;
- staff reports not placed in a governance context and purposeless 'information backgrounders';
- requests for permission (flawed delegation);
- unnecessary financial reports and approvals; and
- presentations irrelevant to governance.

#### The chair's role is to:

- prepare well, screen issues and plan the agenda;
- keep discussion on topic and focused on governance issues;
- manage the time of the meeting;
- ensure the discussion is timely, fair, orderly and thorough; and
- manage conflict and summarise accomplishments.

#### The chief executive should provide timely reports on:

- financial information;
- achievement of, or progress towards, the achievement of strategic goals;
- changes in the operating environment as these affect the results sought; and
- the impact of the board's policies on their ability to do their job.

The board should develop a policy that makes clear to its chief executive what needs to be reported.

The board discussion is about governance issues, not management, making the chief executive's role that of the board's primary consultant.

### Committees

Two common and useful committees that help a board do work are:

- audit and risk management; and
- board membership and succession.

#### All board committees require:

- clear terms of reference defining their roles;
- expected outputs;
- boundaries of authority;
- reporting requirements;
- membership particulars; and
- a sunset clause limiting their lifespan.

## Board committees

shouldn't get involved in tasks that are properly in the chief executive's or staff's domain.

# Recast the strategic plan Step 4

### Strategic planning

"Most of what boards do either does not need to be done or is a waste of time when the board does it. Conversely, most of what boards need to do for strategic leadership is not done."

John Carver

## A board which provides effective direction will be able to determine:

- relevant and current organisational purpose, strategic outcomes and values;
- a positive vision of the future;
- a process which can engage all directors;
- a focus on the future;
- how to engage the commitment and confidence of key stakeholders;
- a basis for effective governance by keeping both board and staff focused on what's important;
- a process for identifying and reconciling conflicting expectations;
   and
- a framework for monitoring and assuring performance accountability.

## The board, in conjunction with the chief executive and senior staff, should regularly address such questions as:

- What is our purpose, our reason for being?
- If this organisation didn't already exist, why would we create it?
- What's our vision?
- Is it still relevant?
- Who are we doing this for? Who should benefit?
- What's the 'essence', ethos or spirit of this organisation?
- What's important to us?
- What do we stand for?
- Where is the organisation at present?
- Where do we want to get to?
- What do we want to become?
- How do we want to interact with each other and the outside world?
- Have we fulfilled our purpose is it time for us to close the doors and move on?

ANSWERS TO THESE
QUESTIONS ARE CONVERTED
INTO MORE SPECIFIC
OUTCOMES OR KEY RESULTS
TO BE ACHIEVED,
SPECIFYING THE RESULTS TO
BE ACHIEVED AND THE
RECIPIENT OF THE BENEFIT.

NOT:

"We will provide services that meet the specific needs of people who are artichoke-dependent."

BUT:

"People who are artichoke-dependent will consume a balanced diet."

#### Stakeholder relations

"The main value added by a [commercial] board is the translation of owners' wishes into organisation performance."

John Carver and Caroline Oliver

Good governance demands that stakeholder interests are identified and appropriate relationships are established. Those whom the board considers it is *primarily* accountable to should attract the most attention. Boards should involve stakeholders when planning direction and priorities.

Strategic direction-setting should involve key stakeholders. While stakeholders should neither determine its overall strategy nor drive a board's decision-making, the board has a moral responsibility to consult with stakeholders about their expectations and requirements.

## Strategic risk management

Risk management is the process by which the board and chief executive ensure that the organisation deals with uncertainty to its best advantage.

Strategic risk management embraces both possible gains and losses from risk. It seeks to counter all losses, whether from accidents or poor judgements, and to seize opportunities for gains through innovation and growth.

Strategic risk management is about visualising futures and having a Plan B, C and even D in place to respond accordingly. A board prepared for a broad range of potential future outcomes faces less uncertainty and less risk.

The board's expectations regarding risk management and the delegation of its authority to management should be documented formally in policy. This creates accountability and an explicit framework for performance monitoring.

# THE STRUCTURE OF THE BOARD'S STATEMENT OF STRATEGIC INTENT

The following framework key terms are consistent with commonly accepted definitions.

- Vision statement an inspirational vision of an ideal future.
- Purpose statement the most powerful single statement a board can make describing the organisation's primary reason for being.
- 3. Values cherished beliefs and principles that are intended to inspire effort and guide behaviour.
- 4. Strategic outcomes the organisation's high-level, longer-term deliverables.
- 5. Key results the organisation's short-term achievements on a year-to-year basis. Each key result is a subset of a larger strategic outcome.
- Performance measures –
  measurements or milestones
  that the board must monitor
  to be sure about achieving
  key outcomes.
- 7. Resource allocation resources should be allocated for each of the key results.

# The chief executive – recruitment, performance measures and evaluation

# Step 5

Some boards recruit a chief executive when they find that growing governance and operational demands are beyond them. They then struggle to let go of the operational reins.

Ensure the board really wants a chief executive and is prepared to genuinely relinquish operational control.

#### To find the right chief executive, boards should:

- come to a shared definition of leadership;
- resolve strategic and political conflicts;
- actively measure the *soft* qualities in chief executive candidates;
- beware of candidates who act like chief executives;
- · recognise that real leaders are threatening;
- know that insider heirs usually aren't apparent; and
- not rush to judgement.

Most hiring decisions are made primarily on the basis of easily identifiable or recognisable characteristics. Subsequent firing decisions are almost always made on the basis of attitudes and aptitudes.

### **Process steps**

Develop an agreed description of the qualities of the preferred candidate. There are four important sources of this information: staff, volunteers, board members and external stakeholders.

#### Searching and short-listing

Which is the more expensive option – a thorough and professional recruitment process, or years of organisational underperformance and/or a messy and expensive termination?

If possible, an external recruitment agency should be used. Interviews and testing against agreed criteria will produce a short-list for consideration by a board sub-committee.

#### Full board consideration

The full board meets the leading candidates and makes the final decision.

#### Induction

The new chief executive should be well-briefed and prepared via a formal induction process.

## Delegating to the chief executive

The board's operating assumption should be that the chief executive is capable of managing and overseeing all operational matters and should formally record the extent of its delegation to the chief executive.

The contemporary approach defining the chief executive's delegation is via a **limitations approach**.

This requires the board to define what must be achieved (ends, outcomes, results) and then set limits to the chief executive's freedom to choose the means to achieve those ends.

This is more empowering for a chief executive than prescriptive policy. With the board outlining what is unacceptable or unallowable, the chief executive can manage with the assurance that all other actions are permitted.

Preceding categories in the delegation such as finance, marketing, public relations, membership etc. should be overarching statements that set the delegation's wider boundaries. These might include that the chief executive must not:

- breach any statute, regulation or by-law;
- act in an unethical, unprofessional or imprudent manner; or
- act in ways that go against normal business practices and standards.

Whatever method of delegation is chosen there should be no room for disagreement about what is or is not delegated and what it is intended to achieve.

## **EVALUATING THE CHIEF EXECUTIVE'S PERFORMANCE**

The final responsibility for performance assessment belongs with the board as a whole. If the purpose appears to be to find fault with the chief executive's performance, it will become discredited quickly, particularly in the eyes of the chief executive.

The performance review process should provide an opportunity for the board and chief executive to identify and agree on future initiatives that will help the chief executive succeed.

- The board should clearly express desired and unambiguous results for the year and nominate priorities.
- Continuous informal feedback is best with an endof-year 'wrap-up' discussion.
- Staff and stakeholders can provide useful feedback.
   Consider the use of 360° surveys.

## Enhance the board's monitoring effectiveness

# Step 6

## Staying on track

A key aspect of the board's stewardship responsibilities is to ensure the organisation's performance is scrutinised and kept on track.

The board must monitor against pre-established criteria.

"If the board hasn't said how it ought to be done, it shouldn't ask how it is."

The board should establish criteria for what it wants achieved. If this principle is not followed, monitoring is likely to be disorganised, uninformed and unfair – all of which lead to lost time, staff confusion, inefficiency and an adversarial board/chief executive relationship.

Monitoring should focus on outcomes or results, rather than on how the outcomes are going to be achieved.

## Monitoring versus evaluation

It is important to distinguish between monitoring and the process of evaluation.

#### Monitoring

Monitoring involves observing, recording and reporting information. It is retrospective.

#### **Evaluation**

Evaluation is making a judgement, primarily to improve future performance.

Board meetings should be used primarily to create the future, not to rehash or review the past.

#### Performance measures

Clear expectations need to precede performance measures.

Poorly expressed expectations will foster poor performance measures. There are two main elements in establishing performance expectations:

- Desired outcomes results to be achieved.
- Planned actions ways in which results will be achieved.

The board's job is to specify what the organisation is to achieve.
The chief executive determines the actions required.

# COMMON ERRORS IN CREATING PERFORMANCE AGREEMENTS:

- Reliance on feelings.
   Use demonstrated evidence, not emotions.
- 2. Misuse of adjectives. Words like 'appropriate' and 'excellent' are imprecise.
- Misuse of verbs like 'promote', 'coordinate', 'facilitate', etc. directs attention to the action instead of the intended outcome.
- 4. Comparative words like 'increase', 'improve', 'more' need a fixed reference point.
- 5. A failure to be exact.
- 6. An unreasonable expectation, e.g. "ensure that the Government increases funding to the organisation".

## Scanning the environment

Many boards are inclined to focus inward and backwards instead of forward and outward.

Being strategic is not something that an effective board is or does occasionally. The external operating environment is constantly changing and the board needs to keep focused on the future.

#### Every board should periodically:

- kick the tyres check the organisation from the outside;
- check the radar see what's on the horizon; and
- re-define the main strategic challenges.

## TOOLS FOR STRATEGIC THINKING

**SWOT** – the familiar Strengths, Weaknesses, Opportunities and Threats analysis.

**STTEPP** – an adjunct to SWOT focusing on the external environment – Social, Technology, Trade, Economic, Physical and Political.

Sigmoid curve – Charles Handy's thoughtful device that challenges organisations to take the 'next step' from a position of strength and well before organisational decline becomes apparent.

**Demand capability matrix** – measures demand for a given product or service against capability.

**Scenarios** – using a series of possible futures to test thinking against.

**Brainstorming** – widely used but needs guidelines to be effective.

# Regularly review the board's performance Step 7

# The board should set standards for its own performance

Every board should conduct regular self-assessment against its own performance standards.

# Typical reasons for resistance to board evaluation

The concept of self-assessment, or that boards and individual board members should be held accountable for their effectiveness, is new to many organisations. Common responses are:

- we are subject to re-election;
- we have our hands full just surviving;
- it will undermine teamwork;
- an evaluation process is not appropriate for volunteers;
- performance evaluation is not appropriate for 'eminent' directors.

Eminence in other fields is no guarantee of governance effectiveness.

Boards in all sectors are increasingly recognising the need to review their own effectiveness.

Not only should the board add value to the organisation but individual directors should 'pull their weight', and be valued members of the board.

# Evaluation of the board is based on its own policies

Evaluation should be based on the board's own prior agreements about its operating practices and values (Step 1). This is the same principle the board applies to evaluating its chief executive.

A governing-style policy can be useful when compiling appropriate performance expectations.

Every board should have a clear job description and agreement on performance standards.

An online board evaluation tool is being developed by SPARC and will be available at the end of 2004.

#### SELF-ASSESSMENT HELPS:

- identify board-wide performance improvements;
- aid succession planning to help individual directors;
- identify areas where their personal contribution could be enhanced; and
- express accountability to stakeholders.

# Ensure active succession planning Step 8

# Standards and expectations of voluntary boards

Getting the right people on the boards of sport and recreation organisations is a common challenge.

Many directors consider themselves 'just' volunteers and are reluctant to accept high performance standards being tagged against their roles.

However...

The increased demand for accountability and effective performance from funders, sponsors and the community means that second best in governance effectiveness is unacceptable.

Professionalism is an attitude, not a question of whether or not you are being paid.

# Getting governance structures in good shape

Many organisations have evolved governance structures that encourage practices inconsistent with effective governance and leadership. This has consequently weakened their organisation's performance.

No structure is perfect and each organisation should consider what its unique challenges are and ensure that its governance structure supports effective governance and leadership.

The critical issue is to ensure that accountabilities are clear and that each organisation gives itself the best possible chance of electing or appointing (and retaining) people who can contribute to a high-performing board.

#### **GETTING THE RIGHT PEOPLE**

Many boards acknowledge the growing expectations on them and that they are working to achieve higher standards. A key aspect of governance effectiveness is finding people who understand and can contribute effectively to the role.

Ideally, every organisation will have a process for ensuring its board has relevant skills and experience.

Previous success in other fields or in other organisational roles is no guarantee of governance effectiveness.

#### Succession and recruitment

A balance is needed between members with operational experience and those with the ability to operate at a conceptual level. Organisations naturally attract passionate people deeply schooled in the organisation's activities. There is also a critical need to attract board members who can stand back from the organisation and exercise a degree of detachment and objectivity.

Phase One: Needs assessment

- 1. Confirm the number of director positions to be filled.
- 2. Confirm the board's role, structure and work programme. This may require consultation with members, funders, sponsors or other interested parties. The board should identify the key strategic challenges facing the organisation over the next 3–5 years.
- 3. Create a 'needs matrix'. Existing directors are invited to comment on the skills, experience and attributes they feel the board as a whole requires.
- 4. Finalise a recruitment profile for each available position.

Even in an electoral process the board must clearly communicate the challenges and needs of the organisation in advance.

Electors often look for information to help them make an informed choice. This approach will be negated if there is any sense it is prompted by self-interest or a desire to stack the board.

Phase Two: Recruitment

- 5. Identify suitable candidates.
- 6. Short-listing of potential directors.
- 7. Final selection.
- 8. Appointment and orientation.

It is vital that candidates are clear about the organisational challenges and the contribution they are expected to make.

A lack of clarity about expectations at this stage may lead to patchy performance among directors. It is better that someone makes it clear now rather than later that they cannot commit the time and energy.

Phase Three: Succession planning

- 9. Review the board's performance and composition.
- 10. Maintain the needs matrix and a current director profile.
- 11. Maintain a list of prospective directors.

Informal chairs' groups or advisory boards are a good way of drawing potential directors closer to the organisation.

Each board should develop a succession plan for the selection and replacement of elected and appointed board members, and for office holders such as the chair.

Take as much care in appointing new directors as in recruiting a new chief executive.

The process may involve advertising and possibly a professional search.

# Effective induction process Step 9

# The importance of effective induction

All new board members should receive a formal induction into the board's governance role and the organisation's work as a whole. This is simply to ensure that new boards come up to speed and can contribute to the board's work as soon as possible.

No director should accept a board position without prior knowledge of the organisation, the board, its members and its issues.

# Key elements in an effective induction process

#### The board manual

The manual should include key information about the organisation, its work, its policies and procedures, and provide a reference for board members throughout their term.

Contents should include, but not be limited to, the following:

- · constitution;
- information about the organisation, e.g. an organisational chart, contact details for fellow directors and key staff;
- current and recent meeting papers including the minutes and recent financial statements;
- policies;
- a glossary of definitions of terms used and acronyms;
- the current year's meeting schedule; and
- the board's annual agenda (work programme).

#### Meetings with the chair and chief executive

It is important for a new director to meet with the chair for a governance familiarisation. This is a time to discuss board protocols, ask questions about board processes and its history and to discuss crucial issues such as potential conflicts of interest.

Time should also be set aside for the new director to meet with the chief executive for an operational familiarisation.

#### **Mentors**

An increasing number of boards use formal or informal mentors to guide new directors. The mentor should be matched to the director, i.e. in terms of interests, age, common business affiliations and common background experience, etc.

## BOARD DEVELOPMENT WORKSHOP

Board development workshops are a good way to facilitate an induction and encourage teamwork. An outside facilitator is a good idea. If resources permit, team profiling is a useful part of such a workshop.

# Acknowledging and managing conflicts of interest

Conflicts of interest that have the potential to bring the board or organisation into disrepute should be disclosed and managed so as to protect the integrity of the governance process.

Directors' conflicts of interest are a common issue for boards.

Duty of care obligations and duty of loyalty require that directors don't place their own interests ahead of the organisation's.

Equally, directors must not use their directorship to directly benefit themselves, their families or others with whom they are closely associated.

While conflicts of interest are often unavoidable, it is usually the way they are handled and not the existence of a potential conflict itself that creates difficulties.

Boards should have a Conflict of Interest policy describing the processes to be followed when conflicts are identified.

Every board should require its members to declare any conflicts of interest relating to their duties as board members.

Good directors are sensitive to possible conflicts and declare them without prompting. Processes for dealing with conflicts of interest should be robust, transparent and capable of dealing with actual or potential conflicts without creating embarrassment or impeding the board's work.

A basic Conflict of Interest policy is included at the end of Step 9.

An up-to-date Register of Interests serves as an open record of the interests brought to the boardroom by various board members. This is one way for the board to demonstrate openness and transparency.





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